



Travis County Commissioners Court Agenda Request

Meeting Date: Tuesday, September 11, 2012
Prepared By/Phone Number: Deece Eckstein, 854-9754
Elected/Appointed Official/Dept. Head: Deece Eckstein, 854-9754
Commissioners Court Sponsor: Judge Biscoe

AGENDA LANGUAGE:

CONSIDER AND TAKE APPROPRIATE ACTION ON A LETTER TO BE SENT TO THE HOUSE PENSIONS, INVESTMENTS, AND FINANCIAL SERVICES COMMITTEE FOR ITS MEETING ON WEDNESDAY, SEPTEMBER 12, 2012, EXPRESSING THE COMMISSIONERS COURT'S SUPPORT FOR THE TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM.

BACKGROUND/SUMMARY OF REQUEST AND ATTACHMENTS: The Pensions, Investments and Financial Services Committee of the Texas House is meeting on Wednesday, September 12, to consider two interim charges related to public pension funds. They will be taking testimony on, among other things, the Texas County and District Retirement System (TCDRS) of which Travis County is a member.

TCDRS is well-managed, financially strong, and does not receive any funding from the State, but may be lumped in with other retirement systems. The purpose of the letter is to express the Court's support of the way TCERS operates.

STAFF RECOMMENDATIONS: IGR recommends that the Commissioners Court approve the draft letter and direct IGR to distribute it to the members of the committee and to the Travis County legislative delegation.

ISSUES AND OPPORTUNITIES: In recent years, there has been growing criticism of public pension funds in Texas. There are at least two themes to the criticism:

AGENDA REQUEST DEADLINE: All agenda requests and supporting materials must be submitted as a pdf to Cheryl Aker in the County Judge's office, Cheryl.Aker@co.travis.tx.us by Tuesdays at 5:00 p.m. for the next week's meeting.

- 1) Pension benefit levels are too high, and are unsustainable for state and local government entities in the long term; and,
- 2) Philosophically, individual defined-contribution plans – like 401(k)s – are preferable to defined-benefit plans, since they transfer the risk and responsibility of successfully investing pension contributions to the employee.

Last session, a couple bills were filed ([HB 2506](#) by Chisum and [HB 1974](#) by Sheets) to require the State’s pension systems – ERS and TRS – to transition to defined contribution plans for all new State employees hired after a certain date. The Sheets bill never got a hearing, but the Chisum bill did, and was left pending in committee after the LBB said the bill could cost the State more than \$3 billion a biennium.

Nevertheless, pressure will continue to build on legislators to look at other options for both state and local pension funds. See the *Austin American-Statesman* article from last year regarding the brewing battle.

Last October, the Speaker issued interim charges to all House committees, including the following charges to the Pensions, Investments and Financial Services Committee:

- 1) Review local retirement systems that are not a part of statewide systems, the administration of these retirement systems, and current liabilities. Study and make recommendations aimed at curbing rising pension costs to local governments.
- 2) Review the Texas County and District Retirement System and the Texas Municipal Retirement System and examine plan provisions offered to individual participating counties and cities.

Both charges will be considered at the hearing on Wednesday, September 12. (If necessary, the hearing will be continued into Thursday, September 13.) The hearing begins at 9:30 a.m. and we are advised that TCDRS will be the first agency discussed. Invited testimony from TCDRS leaders will be followed by public testimony. IGR recommends that the Court’s letter be read into the record during the public testimony.

The Conference of Urban Counties and the Texas Association of Counties have both identified pension “reform” as a priority issue for the next session. IGR is working closely with both organizations.

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FISCAL IMPACT AND SOURCE OF FUNDING: N/A

REQUIRED AUTHORIZATIONS: None.

NAMES, PHONE NUMBERS AND EMAIL ADDRESSES OF PERSONS WHO MIGHT BE AFFECTED BY OR BE INVOLVED WITH THIS REQUEST:

ATTACHMENTS:

1. DRAFT letter from the Commissioners Court to Representative Vicki Truitt, the members of her committee, and the Travis County legislative delegation, September 4, 2012.
2. Kate Alexander, "Battle Brewing Over Texas Public Pensions," *Austin American-Statesman*, August 29, 2011.

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TRAVIS COUNTY COMMISSIONERS COURT

RON DAVIS
Commissioner, Pct. 1

SAMUEL T. BISCOE
County Judge

SARAH ECKHARDT
Commissioner, Pct. 2

KAREN HUBER
Commissioner, Pct. 3

MARGARET J. GÓMEZ
Commissioner, Pct. 4

September 11, 2012

The Honorable Vicki Truitt, Chair
Pensions, Investments and Financial Services Committee
Texas House of Representatives
Capitol Building, Room E2.164
Austin, Texas

Dear Representative Truitt:

The Travis County Commissioners Court appreciates the opportunity to provide this information to you in connection with the Committee's hearing on September 12, 2012.

Travis County is a member of the Texas County and District Retirement System (TCDRS), through which it provides retirement, disability and survivor benefits for its active employees, retirees and their families.

Travis County, like other participants in TCDRS, designs and maintains its own customized plan of benefits. This gives Travis County the flexibility and local control to select and pay for benefits based on its needs and budget.

TCDRS offers a "cash balance plan" that is different from a traditional defined-benefit plan. It has several features that make it unique. The three primary differences include:

- 1) TCDRS is primarily a savings-based plan. Employees are saving for their own retirement over the length of their careers. The TCDRS annuity is based on the total final employee savings balance, employer matching and the life expectancy of the employee. This is contrary to a traditional pension plan where the benefit is based on the final salary and length of career. When a benefit is calculated based on final employee salary, benefit costs can jump beyond the employer's expectations if there is a late-career promotion or if excessive overtime occurs.
- 2) Benefits are responsibly funded. A key difference with TCDRS is that, every year, participating employers (counties and other governmental entities) must pay 100% of the contributions required for their plan to be actuarially sound. This ensures that the necessary funds will be available when needed.

The Honorable Vicki Truitt
Pensions, Investments and Financial Services Committee
September 11, 2012

- 3) Counties have flexibility and local control over benefits, and can choose benefit levels to meet their needs and budgets. This level of flexibility is not standard in most traditional retirement plans, making it difficult or impossible for counties to lower costs when needed.

TCDRS works well for Travis County, our employees and retirees. The flexibility we are given in plan design allows us to help them plan for their future while meeting the needs of the county. We also believe the TCDRS approach provides a superior level of benefits when compared to defined contribution plans like 401(k) plans.

TCDRS is a well-managed, financially and actuarially sound system that, at nearly 90% funded, is in the top 20% of public retirement systems in the country. TCDRS's return on investment has averaged 9.9% over the last 30 years. And, we note that TCDRS receives no funding from the State.

We appreciate the Committee's charge to "study and make recommendations aimed at curbing rising pension costs to local governments." We recognize that some public retirement systems are not as well managed as TCDRS. However, Travis County believes so strongly in TCDRS that we hope the Committee's recommendations will reflect TCDRS practices rather than proposals that diminish the effectiveness of TCDRS as a retirement administrator. We hope the Committee will recognize that the TCDRS performs a valuable service for its member employers and provides a dependable, trustworthy level of benefits to our retirees.

Sincerely,

SAMUEL T. BISCOE
COUNTY JUDGE

RON DAVIS
COMMISSIONER, PRECINCT 1

SARAH ECKHARDT
COMMISSIONER, PRECINCT 2

KAREN HUBER
COMMISSIONER, PRECINCT 3

MARGARET J. GÓMEZ
COMMISSIONER, PRECINCT 4

CC: Members, Pensions, Investments and Financial Services Committee
Members, Travis County legislative delegation

The Honorable Vicki Truitt
Pensions, Investments and Financial Services Committee
September 11, 2012

CC: Members, Pensions, Investments and Financial Services Committee
Members, Travis County legislative delegation

Battle brewing over Texas public pensions

By **Kate Alexander**

AMERICAN-STATESMAN STAFF

Updated: 8:40 a.m. Monday, Aug. 29, 2011

Published: 8:08 p.m. Sunday, Aug. 28, 2011

Texas could be gearing up for its own Wisconsin-style grudge match over public employee benefits.

A group of high-powered Houston business leaders is starting a statewide campaign to overhaul retirement for future teachers, firefighters, police officers, judges and other state and local government workers.

"I think the state needs to get the hell out of this (pension) business completely," said lawyer Bill King, who is forming Texans for Public Pension Reform with others from the Greater Houston Partnership, an über-chamber of commerce with business members representing \$1.5 trillion in assets.

Taxpayers bear too much risk on behalf of public employees by providing them a guaranteed retirement that most private sector workers don't get, King said.

But advocates of the public pension system say there are ways to eliminate or reduce risk without doing away with the program.

"They don't have to destroy a system that works," said Keith Brainard, research director of the National Association of State Retirement Administrators.

He said government pensions provide retirement security for millions of Texans in a cost-effective manner for taxpayers. Research by the Center for Retirement Research at Boston College shows that professionally managed pension funds produce better investment returns than 401(k)s and cost less to administer.

King said the campaign is in its infancy, and its specific goals are still being developed. It's not clear how the campaign will get involved in next year's elections or the 2013 legislative session, but King said he is confident the campaign will soon make pensions an issue for lawmakers.

King said he would support a constitutional amendment eliminating public pensions in the state and moving all government employees to retirement accounts akin to 401(k)s. Legislators would have to approve such an amendment on the ballot when they convene in 2013.

With a pension, also known as a "defined benefit" plan, the employee and employer both contribute to a professionally managed pooled investment fund. Upon retirement, the worker draws a monthly check until death. The average annual annuity in the Employees Retirement System of Texas is around \$17,500.

The alternative "defined contribution" plan puts the risk on the employee to invest the money. The account is portable for the worker, but there is no guarantee of income throughout the retiree's lifetime.

King, the son of a union pipefitter, said he was disappointed with the anti-worker tenor of the Wisconsin battle over collective bargaining rights. This campaign, he added, is not intended to bully public employees.

It's about being honest with the next generation of workers that, while current workers are legally assured of their pension, taxpayers will not be able to afford to continue such a rich benefit in the future, King said.

Pension fund leaders from across the state see no good intentions in the Houston initiative, and earlier this

month they created Texans for Secure Retirement to protect the guaranteed retirement benefit for public workers.

"When there are rumblings, you sit up and take notice," said Bill Miller, a prominent Austin political consultant and lobbyist representing the employee pension groups.

Miller said he doubts that pension reformers will be able to make it a major issue in next year's legislative elections. But if they do, he said there are 2 million public pension members in Texas who will stand up and take notice.

"I'm not picking a fight, but I'm not backing off from one, either," Miller said.

Talmadge Heflin, former House appropriations chairman, agreed that it is probably too late for the pension reform group to be a major force in the 2012 elections.

But they could make waves during the 2013 legislative session, said Heflin, who has advocated for similar reforms as director of the Texas Public Policy Foundation's Center for Fiscal Policy.

"It's about time that people around the state start paying attention," Heflin said.

Texans for Public Pension Reform developed from King's interest in the City of Houston's pension liabilities. He said he was shocked when he started looking at the city's books to prepare for a possible run for mayor in 2009.

He started writing about a series of public policy issues in a frequent op-ed column in the Houston Chronicle, casting a critical eye on the city's pensions in several pieces in January.

Houston's three pension plans "are gobbling up an ever larger share of the city's budget but continue to be underfunded by billions of dollars," King wrote.

Indeed, the city's obligation to the municipal worker pension fund, for example, ballooned from 10 percent of payroll in 2000 to 50 percent in 2004 in the wake of a flawed financial analysis that underestimated the cost of improved benefits.

The most recent analysis found the fund had 63 cents for every dollar needed to cover its long-term obligations. Houston taxpayers are responsible for those obligations if the fund can't pay the tab.

"One of the fundamental questions in the impending debate will be whether it is appropriate for the taxpayers to continue to assume these risks for public employees," King wrote in a January column.

At the Greater Houston Partnership, King found others who shared his concern about the implications of pension obligations to taxpayers.

Patrick Oxford, chairman of the law firm Bracewell & Giuliani LLP, and Jeff Moseley, the head of the Greater Houston Partnership, have joined forces with King to get Texans for Public Pension Reform off the ground.

Oxford served as a campaign chairman for U.S. Sen. Kay Bailey Hutchison's failed gubernatorial bid last year.

The campaign is separate from the official business group, but it grew out of their concerns over the Houston pension conditions, said Micah Hirschfield, vice president of communications for the Greater Houston Partnership.

"If it's a local issue in Houston, they ought to keep it a local issue in Houston," said Andy Homer, director of government relations for the Texas Public Employees Association, which has not been approached about joining the counter-effort.

The state pension funds should not be dragged into this fight because they're in good financial shape,

Homer said.

Both the Employee Retirement System of Texas and the Teacher Retirement System of Texas have more than 80 cents for every dollar needed to pay their long-term obligations, a level considered to be a benchmark of a strong fund. The state funds also have tight restrictions on contributions and benefits.

There are about 1,800 public retirement systems in Texas, the vast majority of which are small cities and counties that pool their resources for investment purposes. The big cities, however, have mostly set up shop on their own and have separate plans for police, firefighters and other municipal workers.

Given the large number of plans in Texas, Brainard said, the state "has been striking in the relative absence of abuse and pension problems."

Where there have been problems, Brainard said, they have been in the big-city pensions. Those plans have fewer constraints on increasing benefits than do the state systems.

The sentiment that pensions are unsustainable gained traction across the country after the 2008 financial market collapse sank the value of funds everywhere. State and local governments failed to cover \$660 billion of their \$2.94 trillion in pension liabilities last year, according to the Pew Center on the States.

In 2010, eight governors made pension reform a key campaign promise with the aim of cutting government spending and appealing to tea party supporters.

Yet not one has scrapped pensions this year in exchange for a 401(k)-style system, said Stephen Fehr, a researcher with the Pew Center on the States.

The problem is that states can't save money anytime soon by doing away with pensions.

In fact, it costs more in the midterm because taxpayers must contribute more to cover the benefits accrued by retirees and current workers because new workers would no longer be chipping in to the pension, Fehr said.

When a Texas Senate committee looked in 2008 at a similar pension conversion, the committee found no compelling reason to do so.

The state's Pension Review Board at the time estimated the combined contribution from the state and employees to the Employees Retirement System of Texas would have to rise from around 17 percent of payroll to as much as 30 percent if the pension were closed to new people.

In 30 years, the contribution rate would climb beyond 80 percent.

Nevertheless, King argues that finally wiping clean the public pension liabilities is worth the higher costs now.

"It will require sacrifices in city services and higher taxes than would otherwise be necessary," King wrote. "But at least the number will be finite, unlike in our current predicament."

kalexander@statesman.com; 445-3618

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<http://www.statesman.com/news/texas-politics/battle-brewing-over-texas-public-pensions-1802578.html>

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