Texas Pension Review Board

Pension Basics Legislative Seminar

2025

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PENSION REVIEW BOARD

Agenda

- PRB Overview

- Landscape of Texas Plans

- Current Financial and Actuarial Condition of Texas Public Retirement Systems

- Actuarial Impact Statement Process

- Reporting Requirements for Texas Plans and Recent Agency Activities

- Resources

- Questions

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PRB Overview

Primary Duties

- Conduct a **continuing review** of all Texas public retirement systems

- Conduct **intensive studies** of potential or existing problems that threaten the actuarial soundness of public retirement systems

- Prepare **actuarial impact statements** for pending legislation

- Provide **information** and **technical assistance**

- Recommend **policies, practices, and legislation** to public retirement systems and governmental entities

- Develop and administer an **educational training program** for trustees and administrators of retirement systems

PRB Overview

Board Composition

Composed of **seven** governor-appointed members, including:

- three members with a background in securities investment, pension administration, or pension law
- one member who is an actuary
- one member who is an expert in governmental finance
- one active member of a public retirement system
- one retired member of a public retirement system

Staff

- **13 FTEs**, including technical experts

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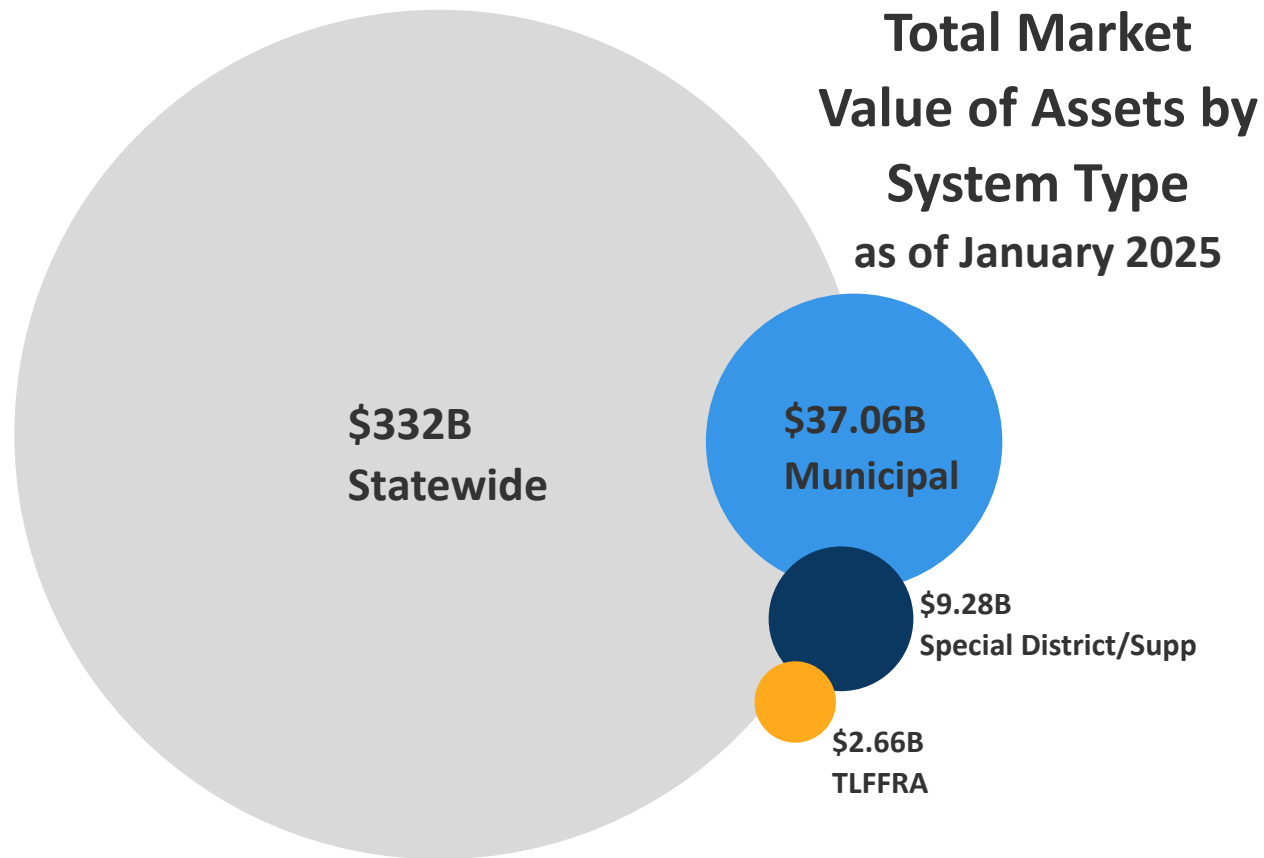
Landscape of Texas Plans

Basic Pension Terminology

- **Pension Financing Equation: C + I = B + E** Contributions (C) + Income (I) = Benefits (B) + Expenses (E).

- In a **defined benefit (DB) plan**, actuarial methods are used to calculate and predict the benefits, expenses and income in the equation; actuaries then determine the recommended contributions for sound funding of the plan.

- In a **defined contribution (DC) plan**, the contributions and income determine the amount of benefit available, net of expenses.

- **Hybrid plans** utilize components of DB and DC. Benefits look like DC plan but are valued and funded like DB plan. The largest cash balance plans in Texas are TCDRS and TMRS. The 87th Legislature added a cash balance tier to ERS for new hires beginning state employment on/after September 1, 2022.

*More terms can be found on the PRB Actuarial Best Practices and Resources webpage.

Texas Pension Overview

- 351 public retirement systems

- 100 actuarily funded defined benefit plans with approx. $381B in assets and over three million members.

Total Market Value of Assets by System Type
as of January 2025

$332B
Statewide

$37.06B
Municipal

$9.28B
Special District/Supp

$2.66B
TLFFRA

Total: $381.01B

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Landscape of Texas Plans

- **The two hybrid/cash-balance** plans are **Texas Municipal Retirement System** (TMRS) and **Texas County and District Retirement System** (TCDRS).

  - **930** municipalities are participating in **TMRS**

  - **831** counties and districts are participating in **TCDRS**

- As of September 1, 2022, the Employees Retirement System of Texas (ERS) also has a cash-balance tier (Tier 4).

- **DC plans** are primarily offered as supplemental plans by school districts, housing authorities, municipal districts, COGs, and health facilities. Plan types include 401(a), 401(k), 403(b), and 457(b) plans.

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Landscape of Texas Plans

Of the **100** actuarially funded defined benefit plans in Texas:

- **7** are **statewide** retirement systems, governed by the Texas Government Code.

- **17** are **major municipal** retirement systems including 14 systems enabled by state statute (Article 6243, Vernon's Civil Statutes) and three retirement systems created by city ordinance or charter (Dallas Employees, Galveston Employees, El Paso City Employees).

- **42** are **paid/part-paid firefighter** systems across the state, created under the Texas Local Firefighters Retirement Act (TLFFRA), Article 6243(e) of Vernon's Civil Statutes.

- **34** are local retirement systems offered by **other political entities** such as water districts, appraisal districts, or other special purpose districts, authorized by Chapter 810 of the Texas Government Code.

Texas Constitution

Constitutional Authority to Create Pensions

- State and local retirement systems are enabled by **Article 16, Section 67 of the Texas Constitution** which grants authority to the Legislature to enact general laws establishing retirement systems for public employees and officers.

- The Constitution also provides that the financing of benefits must be based on **sound actuarial principles** and that the assets of a system are held in trust for the benefit of the members and may not be diverted.

- The **Teacher Retirement System** (TRS) and **Employees Retirement System** (ERS) are established in the Constitution with a floor and ceiling for state contributions to both funds at **6% and 10%**, respectively.

Constitutional Benefit Protection

- **Article 16, Section 66 of the Texas Constitution** provides **benefit protection** to certain local retirement systems by prohibiting the reduction or impairment of accrued benefit. (8 cities opted out of this provision: Denison, Galveston, Houston, Marshall, McAllen, Paris, Port Arthur, and Sweetwater)

- The benefit protection was tested in the courts in lawsuits related to Ft. Worth Employees' Retirement System and Dallas Police and Fire Pension System lawsuits. The courts determined that prospective benefit reductions do not violate this provision.

Defined Benefit Plan Governance

- **Decision-making authority** relating to **contribution levels** and **benefit provisions** varies considerably across Texas' diverse public retirement systems.

- **TRS** and **ERS** boards do not set the contribution or benefit policy; this is set in statute and can only be changed by the Legislature.

- Some **municipal retirement systems** must come before the Legislature to make contribution and/or benefit changes (San Antonio Fire and Police).

- Other **municipal and firefighter systems** are allowed to make certain contribution and/or benefit changes without legislative approval (Houston Municipal, Ft. Worth Employees', Dallas Police and Fire and local firefighters/TLFFRA plans).

- Retirement systems established under **Chapter 810** of the Government Code have complete authority to determine plan provisions locally.

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Governing Statutes

State Laws Governing Statewide Retirement Systems	
System or Issue Governed	Article/Section No.
Employees Retirement System of Texas	Title 8, Gov. Code, Subtitle B: Ch. 811-815 & 820
Teacher Retirement System of Texas	Title 8, Gov. Code, Subtitle C: Ch. 821-825
Judicial Retirement System of Texas, Plan Two	Title 8, Gov. Code, Subtitle E: Ch. 836-840
Texas County and District Retirement System	Title 8, Gov. Code, Subtitle F: Ch. 841-845
Texas Municipal Retirement System	Title 8, Gov. Code, Subtitle G: Ch. 851-855
Texas Emergency Services Retirement System	Title 8, Gov. Code, Subtitle H: Ch. 861-865

State Laws Governing Municipal, Fire Fighter and Police Officer Retirement Systems		
System or Issue Governed	Article/Section No.	Population Bracket
Dallas Police & Fire Pension System	V.T.C.S. 6243a-1	>1,180,000
El Paso Firemen & Policemen's Pension Fund	6243b	600,000-700,000
Texas Local Fire Fighters Retirement Act (TLFFRA)	6243e	Various
Austin Firefighters Retirement Fund	6243e.1	950,000-1,050,000
Houston Firefighters' Relief & Retirement Fund	6243e.2(1)	>2,000,000
Houston Police Officers' Pension System	6243g-4	>2,000,000
Houston Municipal Employees Pension System	6243h	>2,000,000
Fort Worth Employees' Retirement Fund	6243i	>500,000
Austin Employees' Retirement Fund	6243n	950,000-1,050,000
Austin Police Retirement System	6243n-1	950,000-1,050,000
San Antonio Fire & Police Pension Fund	6243o	1,400,000-1,700,000
Galveston Employees' Pension Plan for Police	6243p	50,000-400,000
Political Entities, including Municipalities & Other Special Purpose Districts	Title 8, Gov. Code §810	

Current Financial and Actuarial Condition of Texas Public Retirement Systems

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Key Actuarial Measures

- **Two measures** frequently used to assess a system's **financial health**: funded ratio and amortization/funding period.

  - **Funded ratio:** It is the proportion of a system's accrued liabilities that are covered by the assets. It is the ratio of the assets to the liabilities.

  - **Amortization/funding period:** The amortization period or funding period is the expected amount of time for a system to pay off its unfunded liability based on current contribution levels.

- Key economic assumption:

  - **Expected investment returns**: The rate of return assumption has an inverse correlation with the liability and short-term contribution requirements of a plan. A higher return assumption leads to a lower liability and contribution requirement and vice versa.

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Actuarial Terminology

Present Value of Future Benefits

■ Actuarial Accrued Liability ■ Present Value of Future Normal Costs
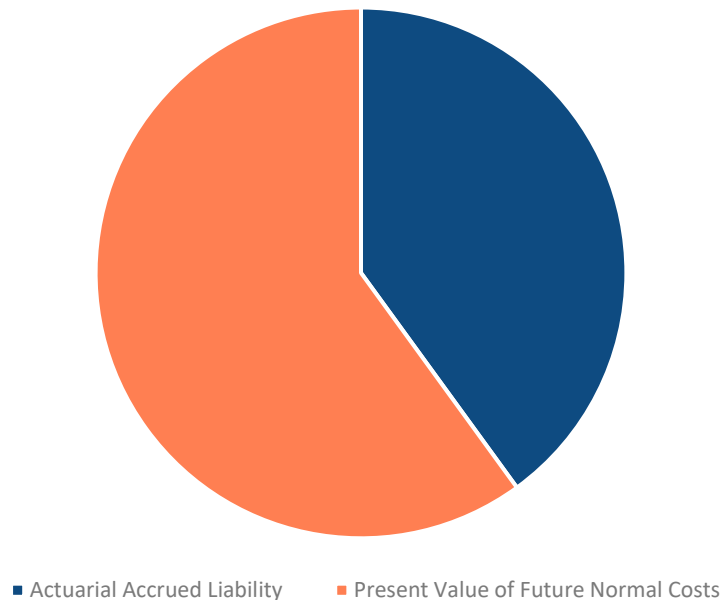
- **Example: Member with 10 years of service**
  - Expected to retire with 25 years of service
  - Present value of future benefits (PVFB) is the whole pie (25 years)
  - Actuarial accrued liability is the blue section of pie only (10 years)
  - The remainder of the PVFB will be recognized over 15 future years through normal cost

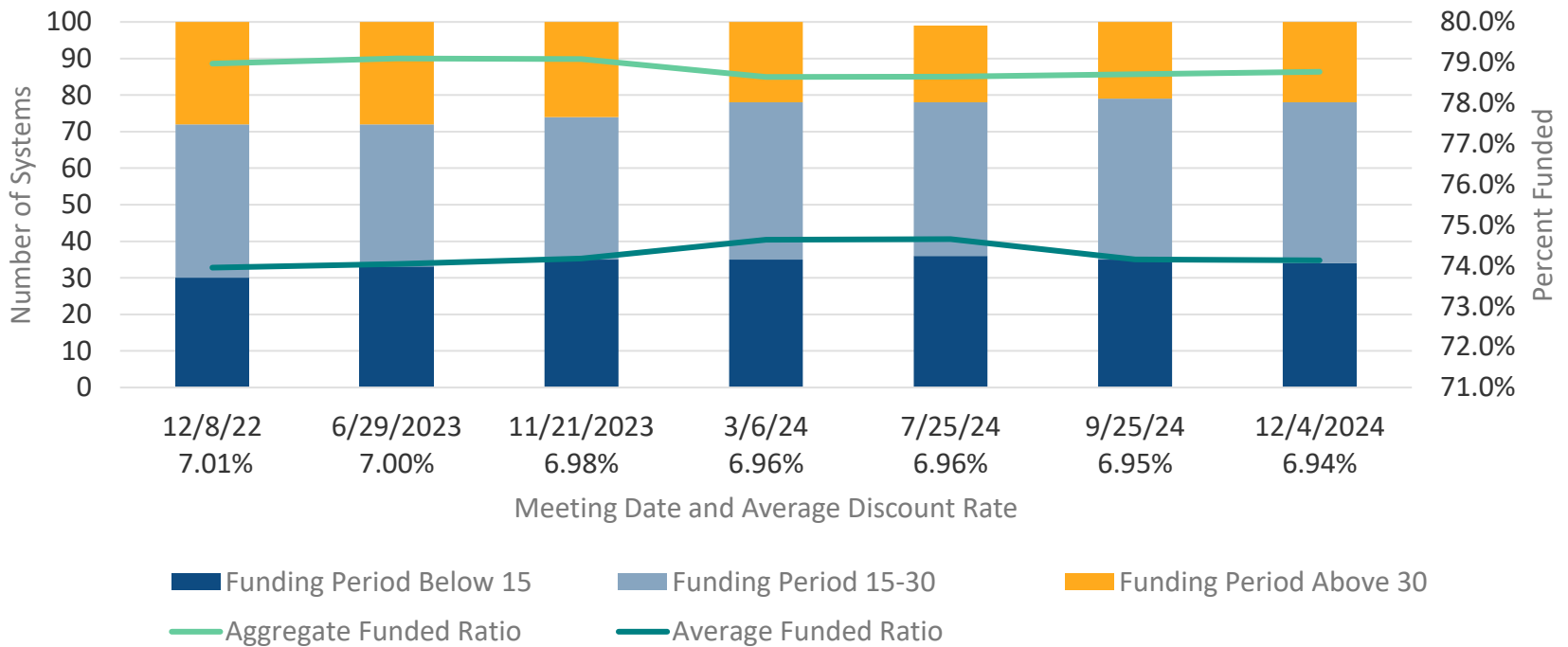# PRB Pension Funding Guidelines
(effective 7/25/24)

1. The funding of a pension plan should reflect all plan obligations and assets.

2. The normal cost portion of the contributions should be level or declining as a percentage of payroll over all generations of taxpayers and should be calculated under applicable actuarial standards.

3. Funding of the unfunded actuarial accrued liability should be level or declining as a percentage of payroll over the funding period. State law requires a funding policy to include a plan for achieving a 100 percent or greater funded ratio. Starting September 1, 2025, funded ratio will be a factor in the triggering mechanisms for the FSRP requirement.

4. Actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but **not to exceed 30 years**, in accordance with state law. For plans that use multiple amortization layers, the weighted average of all funding periods should not exceed 30 years. Once a system reaches 100 percent funded, at minimum, contributions should continue to cover the normal cost **until the funded ratio exceeds at least 120 percent**.

5. If the funding period has not decreased to 20 years or less by September 1, 2035, the funding policy should be updated to target a funding period of 15 years by September 1, 2040.

6. After September 1, 2040, benefit increases and contribution decreases should not be adopted if the proposed changes cause a material increase in the funding period and if the resulting funding period exceeds the greater of 15 and the average future working lifetime of the current active members.

7. Benefit decreases and contribution increases should not be adopted without studying how the resulting normal costs compare to the contribution rates of each tier, and board discussion of whether members in each tier will receive a benefit that is worth more than their contributions.

8. The choice of assumptions used by a system should be reasonable and should comply with applicable actuarial standards.

9. Public retirement systems should monitor, review, and report the impact of actual plan experience on actuarial assumptions at least once every five years.
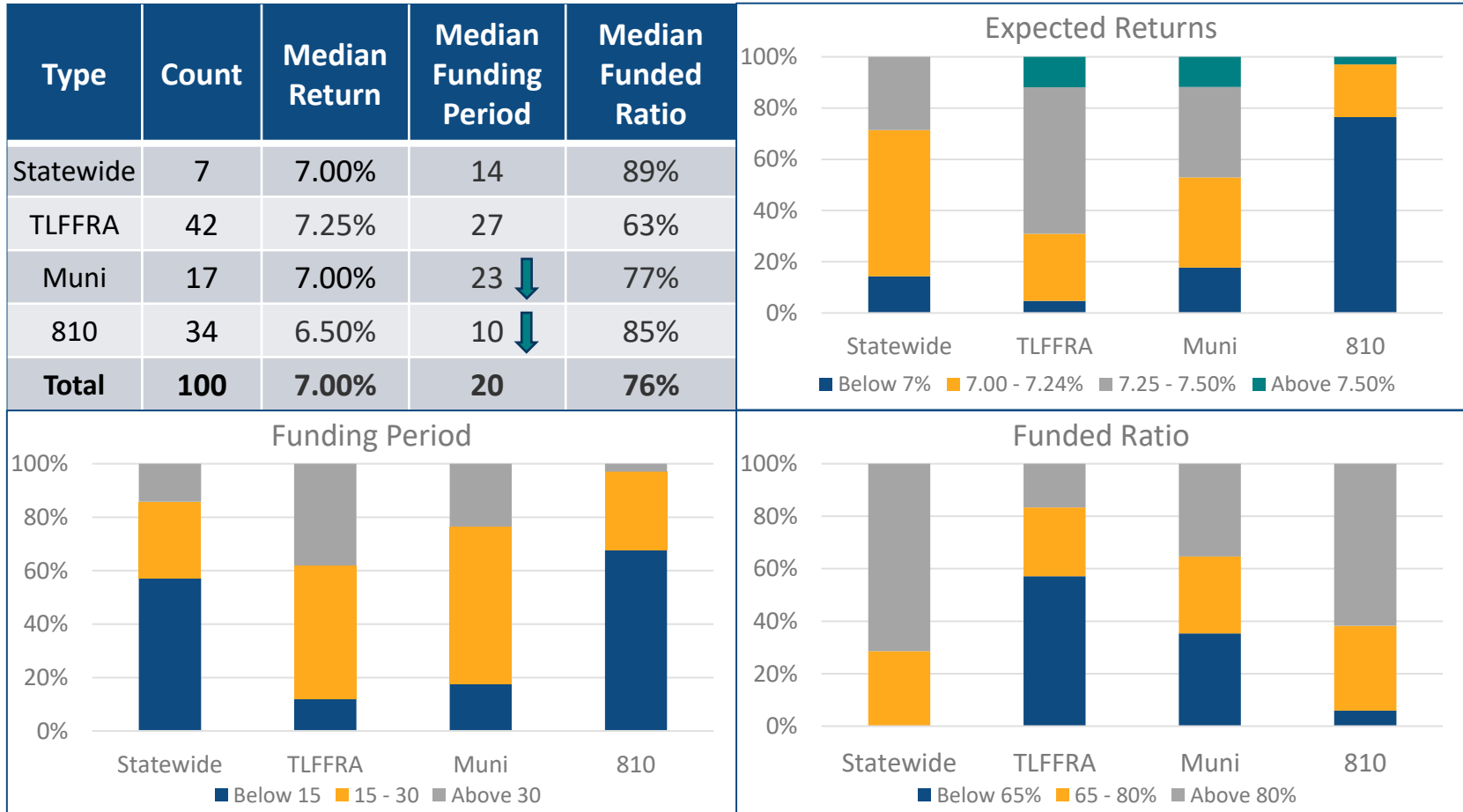
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Funding Progress 2022-2024

Funding Periods, Average Funded Ratios & Average Discount Rate Since December 2022

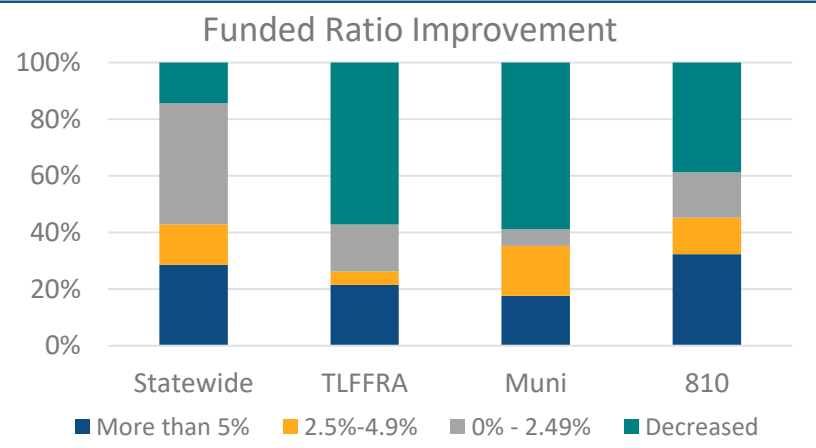PENSION REVIEW BOARD

System Overview by Type - Current

Type	Count	Median Return	Median Funding Period	Median Funded Ratio
Statewide	7	7.00%	14	89%
TLFFRA	42	7.25%	27	63%
Muni	17	7.00%	23 ↓	77%
810	34	6.50%	10 ↓	85%
Total	**100**	**7.00%**	**20**	**76%**

Expected Returns

Below 7% ■ 7.00 - 7.24% ■ 7.25 - 7.50% ■ Above 7.50%

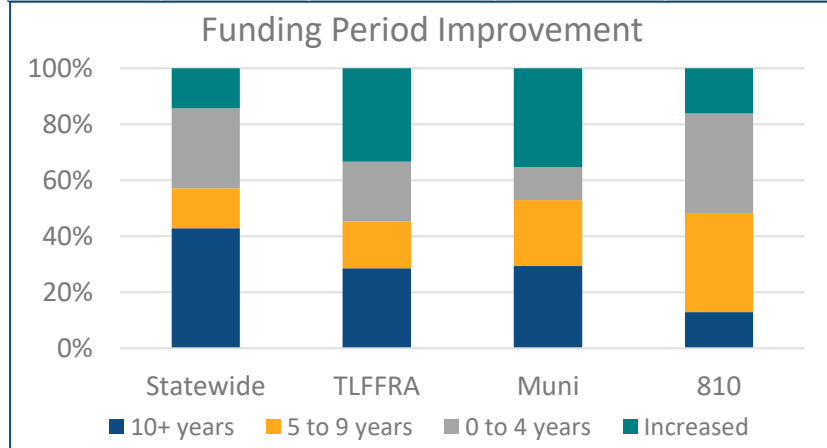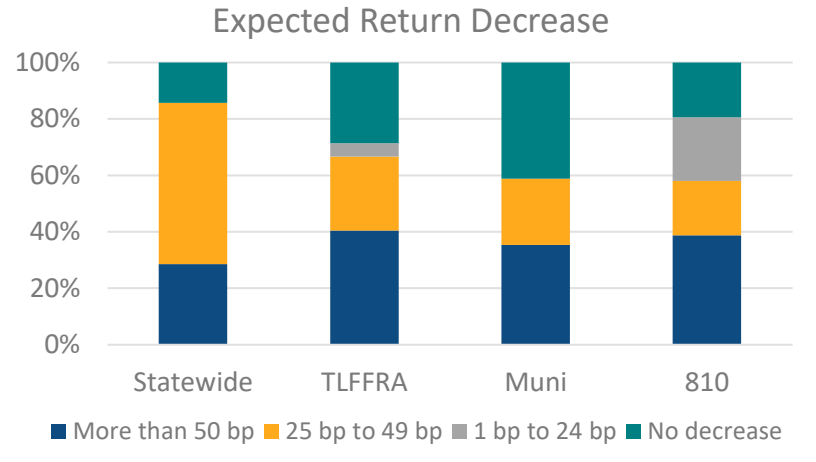Funding Period

Below 15 ■ 15 - 30 ■ Above 30

Funded Ratio
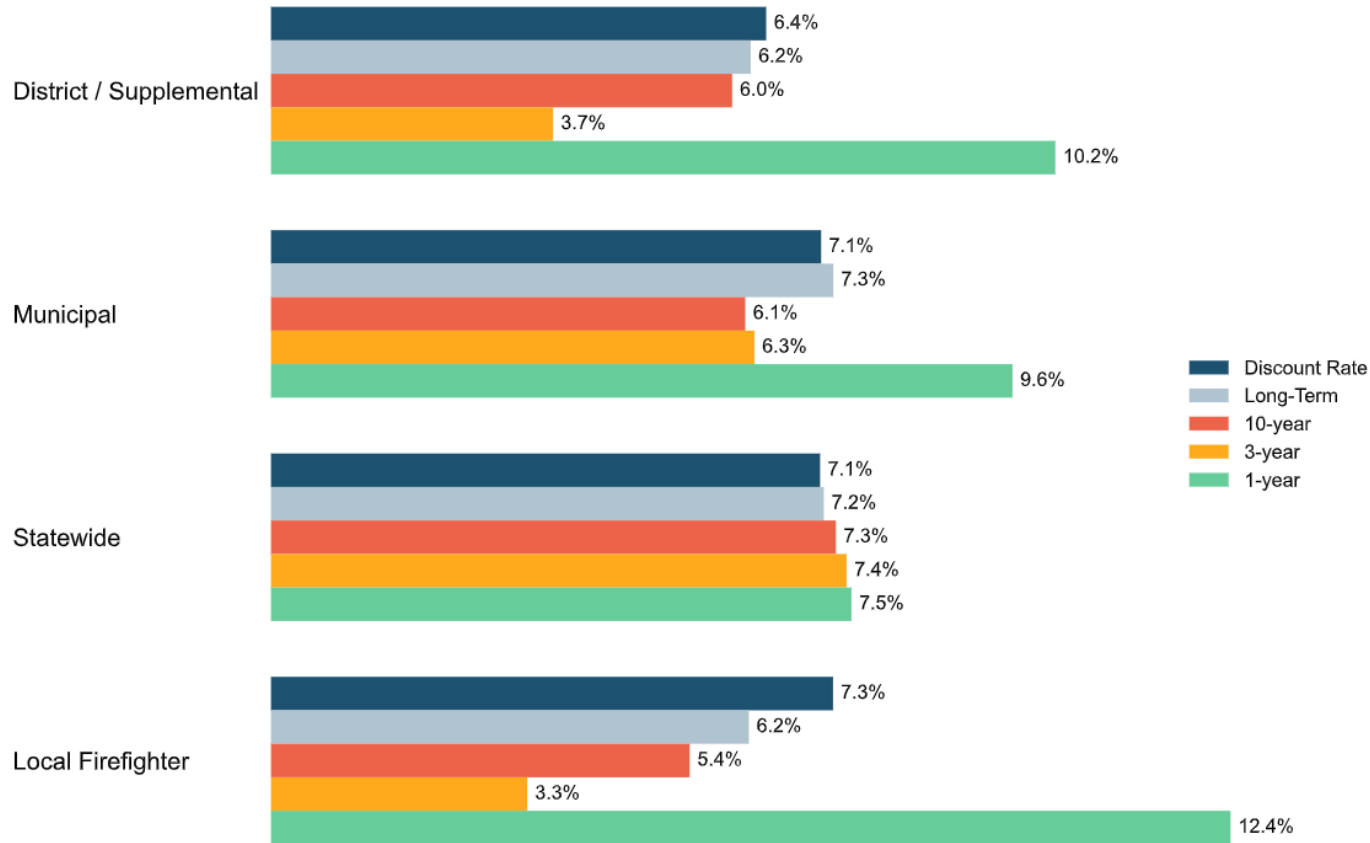
Below 65% ■ 65 - 80% ■ Above 80%

System Overview by Type – Six Year Trend

Type	Count	Average Expected Return	Average Funding Period	Average Funded Ratio
Statewide	7	(0.46%)	-21.0	7.0%
TLFFRA	42	(0.32%)	-4.9	1.3%
Muni	17	(0.34%)	-1.3	(0.4%)
810	34	(0.48%)	-3.8	2.5%
Total	**100**	**(0.39%)**	**-5.1**	**1.8%**

Expected Return Decrease

Legend: More than 50 bp | 25 bp to 49 bp | 1 bp to 24 bp | No decrease

Funding Period Improvement

Legend: 10+ years | 5 to 9 years | 0 to 4 years | Increased

Funded Ratio Improvement

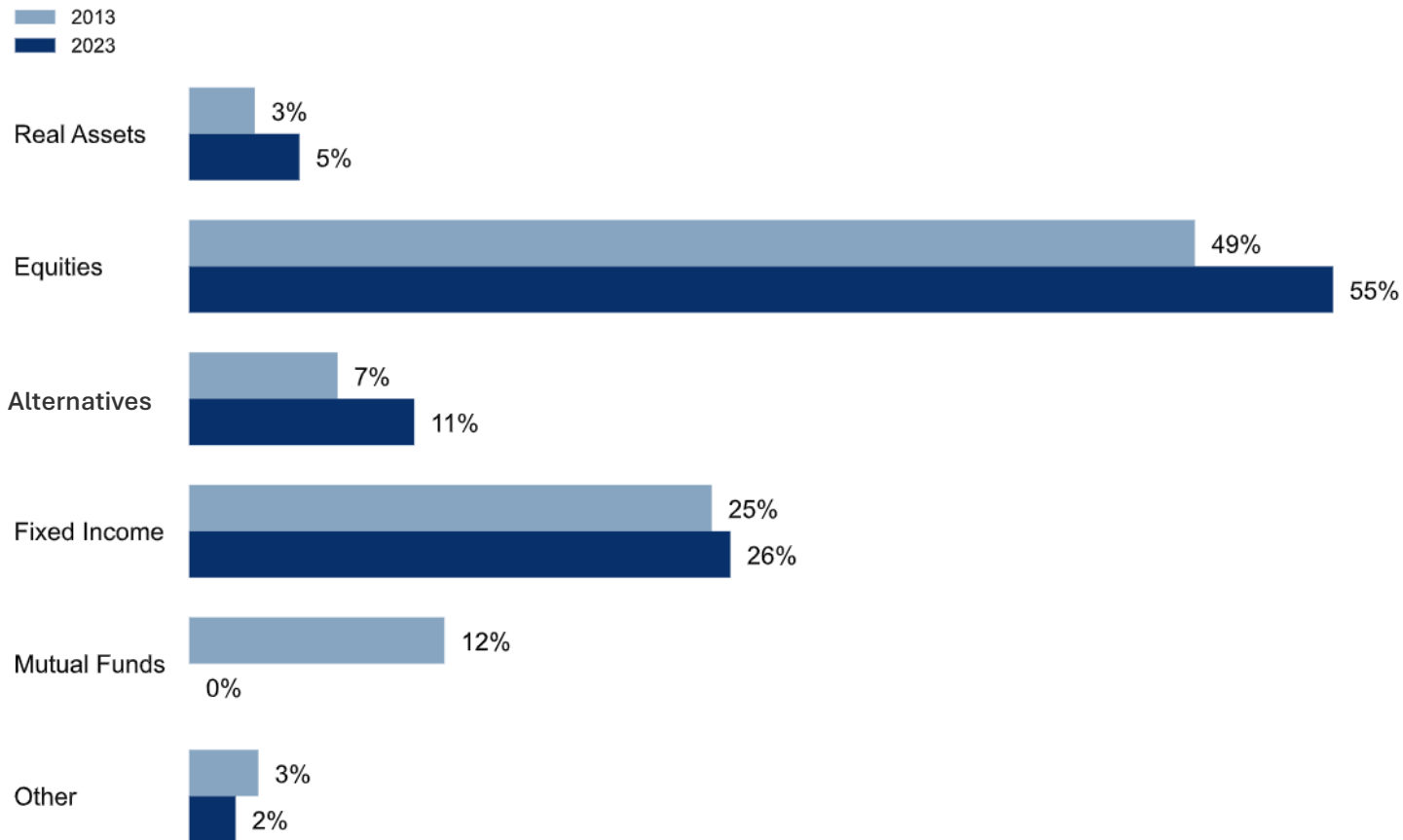Legend: More than 5% | 2.5%-4.9% | 0% - 2.49% | Decreased

Average Actual Investment Return Trends
FYE 2023

Long-term return is 30 years or longest term available. All figures are net of fees. Assumed returns obtained from most recent actuarial valuation reports.

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Average Asset Allocation FYE 2013 v 2023

Legend: 2013, 2023

Asset Class	2013	2023
Real Assets	3%	5%
Equities	49%	55%
Alternatives	7%	11%
Fixed Income	25%	26%
Mutual Funds	12%	0%
Other	3%	2%

Other includes: capital assets, receivables, securities lending collateral, liabilities and cash. The allocations provided are an unweighted average of all Texas defined benefit plans. Figures are obtained from the annual financial reports and may differ from allocation targets in investment policy statements.

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Actuarial Impact Statement Process

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Actuarial Impact Statements

- During legislative sessions, the agency provides an actuarial impact statement analyzing the **economic or financial impact** of a proposed pension bill on a public retirement system.

- Changes to pension systems often create **financial commitments** that extend far into the future.

- By addressing the actuarial impact of proposed changes, the PRB provides the Legislature with information that assists in **managing pension costs**.

88th Legislature Pension Bill Tracking

- 136 pension bills were filed during the 88th Legislative Session.

- The PRB provided 66 actuarial impact statements on bills affecting public retirement systems.

Key Components of Actuarial Impact Statements

The actuarial impact statement for a pension bill will include a summary of changes in:

- Benefit formula and provisions

- Assets and liability
    - Including resulting changes in funded ratio and unfunded liability

- Normal cost percentage, employee contribution rate
    - And resulting employer normal cost percentage

- Employer contribution percentage

- Funding period

- Actuarial assumptions

Triggers for Actuarial Impact Statement

A bill that may affect any element of the basic funding equation: **C + I = B + E**

Contributions (C) + Income (I) = Benefits (B) + Expenses (E).

- **C** = Increase or decrease in employer, employee or non-employer contributions

- **I & E** = Permissible investments or financing

- **B** = Plan participation, eligibility for benefits, or amount of benefits.

  - ❑ Benefit change examples:

    - **New tiers** for new or existing employees.

    - **Benefit formula** for existing members (e.g., multiplier, final average salary, service credit)

    - **Retirement eligibility** requirements

    - Cost of living adjustment (**COLA**) or **supplemental payments**.

    - Adding or removing a **class of employees**.

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Actuarial Impact Statement Process

- When a bill with a **potential cost** effect on a retirement system is scheduled for committee hearing, the PRB obtains an **actuarial analysis** of the legislation from the system's actuary.

- The actuarial analysis is reviewed by the PRB's staff actuary, providing a **"second opinion"** or actuarial review of any costs associated with the bill.

- These two documents are summarized in an **actuarial impact statement** prepared by staff and submitted to the Legislative Budget Board (LBB).

- The **LBB** publishes the final actuarial impact statement, which is attached to the bill in committee and stays with the bill throughout the legislative process.

- If a bill is subsequently **amended or substituted** so that its actuarial effect is changed, another impact statement is usually prepared.

- The PRB also estimates the **cumulative effect** of all pension bills affecting TRS and ERS **70** days and again at **30** days before the end of session.

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Reporting Requirements for Texas Plans & Recent Agency Activities

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System Reporting Requirements

Systems Required	Report	How often
All	• Annual Financial Report (audited) • Investment Returns and Assumptions Report (PRB-1000) • Membership report • MET form to report training (PRB-2000) • Registration/board information (Form PRB-150)	Annually
All	• Actuarial Valuation	Every three years
Systems with assets over $100 million	• Investment Practices and Performance Evaluation	Every three years
Systems with assets over $100 million	• Actuarial Experience Study • Actuarial Audit	Every five years
Systems with assets over $30 million	• Investment Practices and Performance Evaluation	Every six years
All	• Funding Policy • Investment Policy • Summary Plan Description • Registration/board information (Form PRB-150)	Upon change
All non-statewide systems	• Funding soundness restoration plan	If necessary

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Funding Soundness Restoration Plans (FSRPs)

- Created by HB 3310 (84R) in 2015 to help ensure systems can meet their long-term obligations
  - Systems would create a plan to improve their funding status if funding period higher than maximum over time

- Requirements updated by 87th Legislature (HB 3898)
  - Maximum funding period reduced; additional triggers created
  - More direct sponsor involvement and tied to funding policy requirement
  - Revised FSRP requirement strengthened to prevent repeated, ineffective revisions
  - More time to create FSRP, shorter time to reach target
  - Additional changes to process and material requirements

Investment Practices and Performance Evaluations (IPPEs)

- Created by SB 322 (86R) to improve investment practices
- Systems of at least $30 million in assets must have an independent firm:
  - Evaluate the investment practices and performance
  - Recommend ways to improve the investment policies, procedures, and practices
- Requirements updated by 87th Legislature (HB 3898)
  - Added additional disclosure requirements about experience of evaluators, conflicts of interest, and reasons for not including recommendations
  - Added formal review-and-comment process
  - Sponsor may help pay the cost, and current investment consultants can be hired to prepare a system's IPPE

Major Agency Activities (FY 2024-25)

- **Completion of Internal Database Rebuild:** Vital for many aspects of agency mission

- **Completion of Pension Online Reporting Tool:** Portal that allows retirement systems to directly submit reports and improves IT security

- **Legislative Session:** Provided actuarial analysis and technical assistance for complex pension bills

- **Pension Funding Guidelines and Funding Policy Guidance updates**: Align to statute and updated industry standards

- **Intensive Studies**:

  - Abilene Fire Intensive Review

  - Funding Soundness Restoration Plans: Overview, Implementation and Case Studies

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Major Agency Activities (FY 2024-25)

- **Investment Policy Guidelines, Guidance, and Tools:** Help systems maintain effective investment policies to govern investment programs

- **Investment Performance Report:** Analysis and summaries of about 40 Investment Practices and Performance Reports

- **New investment data report:** Comprehensive look at retirement systems' investment returns, assumptions and expenses

- **Rule Review:** Overhaul of education rules to improve efficiency and system compliance

- **TLFFRA governance project:** Engage stakeholders and assist TLFFRA systems with identified issues

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FSRP Study

- *FSRP: Overview, Implementation, and Case Studies*

- Macro-level actuarial study in lieu of standard intensive review in 2024 intended to assist retirement systems that have or will become subject to FSRP requirement

- Serves as an FSRP progress update

- Provides case studies involving 14 TLFFRA systems that took steps since Sept. 2021 to reach 30-year funding period

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TLFFRA Governance Project

- Staff published a study on TLFFRA governance titled *TLFFRA Governance Issues and Options* with four identified issue areas:

    1. System funding and decision-making practices
    2. Board structure and membership
    3. Transparency and communication
    4. Additional areas for research and consideration

- PRB staff ultimately proposed 20 recommendations to the board to conclude the study, and the board adopted 18 on September 25, 2024.

- Eleven of the 18 recommendations would require statutory changes for implementation.

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Intensive Reviews to Date

January 2018	April 2018	October 2018	October 2019	November 2021	October 2022	September 2023
Galveston Police Greenville Fire	Beaumont Fire Marshall Fire	Longview Fire Orange Fire Irving Fire	Odessa Fire Paris Fire	Midland Fire	Wichita Falls Fire	Abilene Fire

Recommendations:

- Adopt a funding policy that requires payment of an actuarially determined contribution, or at minimum, that fully funds the plan over a finite period of 30 years or less

- Adopt a formal risk/cost-sharing framework with "guardrails" or triggers that reduce uncertainty and guide stakeholders in how benefit and contribution levels will be modified under different economic conditions

- Closely monitor investment performance including asset allocation and expenses

- Conduct an in-depth asset-liability study of potential risks associated with existing asset mix and liabilities they support. Perform scenario testing of large PROP withdrawals coupled with potential adverse investment experience

- Regularly review actuarial assumptions against experience, making necessary changes

- Become compliant with minimum educational training requirements as soon as possible so that the board can make informed decisions

- Adjust benefits and contributions to sustainable levels based on reasonable plan assumptions

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Resources

- **PRB Public Pension Data Center**: https://data.prb.texas.gov/

- **PRB Legislative page:** https://www.prb.texas.gov/legislative/

- **PRB Online Courses**: Actuarial Matters, Benefits Administration, Investments, Governance, Fiduciary Matters, Ethics, Risk Management: https://education.prb.texas.gov

- **FSRP**: https://www.prb.texas.gov/actuarial/funding-soundness-restoration-plan-fsrp/

- **Funding policy**: https://www.prb.texas.gov/actuarial/funding-policy/

- **Investment Practices and Performance Evaluations**: https://www.prb.texas.gov/investments/ippe/

- **Pension Funding Guidelines:** https://www.prb.texas.gov/wp-content/uploads/2024/07/PRB-Pension-Funding-Guidelines-Adopted-07.25.2024.pdf

- **PRB Actuarial Valuation Report (December 2024):** https://www.prb.texas.gov/wp-content/uploads/2024/12/AV-Report-for-Website.xlsb.xlsx

- **2024 Biennial Report to the Legislature:** https://www.prb.texas.gov/wp-content/uploads/2024/11/2024-Biennial-Report.pdf

- **Intensive Reviews:** https://www.prb.texas.gov/intensive-reviews/

- **Investment Data Report:** https://www.prb.texas.gov/wp-content/uploads/2024/11/July-Investment-Data-Report-Combined.pdf

- **2024 Texas Local Firefighters Retirement Act (TLFFRA) Report**: https://www.prb.texas.gov/wp-content/uploads/2024/03/2024-TLFFRA-Report.pdf

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