



FINANCIAL STATUS OF THE ERS RETIREMENT PLANS as of August 31, 2012

Employees Retirement System of Texas (ERS); Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF); Judicial Retirement System of Texas Plan II (JRS II)

The value of the main ERS, LECOSRF and JRS II retirement plans' assets and liabilities were valued as of August 31, 2012 by ERS' consulting actuary. The actuarial valuations show that the retirement plans remain in good financial standing today, but without changes to funding or benefits, that will not always be the case.

Investment returns continue to be the largest funding component of retirement benefits, accounting for 54% of the ERS Trust member benefits over the last fiscal year. While the ERS Trust's investment return for FY 2012 exceeded the retirement plan's assumed 8% return, actuarial losses experienced in 2008 – 2010 continue to be recognized creating losses in the actuarial value of assets across each plan. These losses and insufficient state and employee contribution levels are the primary causes for the dips in funded ratios for ERS (*from 82.6% to 81.0%*) and LECOSRF (*from 83.7% to 79.7%*). JRS II also experienced these losses; however, those were more than offset by gains due to retirement and mortality experience which resulted in JRS II's funded ratio increasing from 94.6% to 95.3%.

Actuarial losses in all plans were again offset by the fact that there were no legislative across-the-board salary increases in FY 2012. Because such annual increases are accounted for in the plans' long-term liabilities, gains are realized when salary increases do not occur.

Each plan continues to operate on an actuarially unsound basis. That is, contributions and investment returns are less than the long-term benefits (liabilities) the plans are expected to pay. This causes a portion of the plans' liabilities to remain unfunded. The main ERS plan has the largest unfunded balance at \$5.7 billion, an increase of \$651.9 million over the August 2011 valuation.

The following factors impacted the main ERS retirement plan in FY 2012:

Gains:

- \$317.4 million gain due to no legislative pay increase
- \$4.2 million gain due to merit/promotion salary increases that were less than expected
- \$43.9 million gain due to other factors not attributed to assumptions (*majority of gains attributed to TRS service previously attributed to ERS liability*)

Losses:

- \$611.7 million loss in actuarial assets
- \$392.6 million loss due to contribution rates
- \$1.2 million loss due to demographic changes
- \$11.9 million loss due to retiree mortality

The cost of benefits being earned by active state employees (normal cost) remained stable over the past year at 12.31% of payroll and is being fully funded by state and employee contributions. However, as long as contribution levels continue to be less than needed to cover both the normal cost and unfunded liability, ERS' funded status will continue to decline.

Summary of Demographic and Payroll Results Actuarial Valuations as of August 31, 2012			
	ERS	LECOSRF*	JRS II
	State Employees Elected Officials District Attorneys	Certain law enforcement officers & custodial officers @ DPS, TABC, TPWD, TYC, TDCJ & TBPP	Judges, justices and certain commissioners of court
Active contributing members	132,669	37,404	541
Average age	44.3	42.5	56.5
Average years of service	9.7	9.1	10.0
Average annual salary	42,188	39,444	127,130
Non-contributing vested (≥ 5 yrs)	16,535	109	19
Non-contributing non-vested (< 5yrs)	73,655	7,020	124
Annuitants			
Annuitants	87,799	8,477	215
Average annual annuity	18,799	5,470	59,961
Service Retirements	74,197	7,835	194
Average age	67.8	61.3	67.5
Average years of service @ retirement	22.3	24.3	14.3

*Members of LECOSRF are also members of ERS.

**SUMMARY COMPARISON OF THE RETIREMENT ACTUARIAL VALUATIONS FOR
Fiscal Years Ending August 31, 2011 and August 31, 2012**

	August 31, 2011	August 31, 2012	Difference
ERS State Employee Fund			
Accrued Liability	\$29,050,127,601	\$29,977,156,791	\$927,029,190
Actuarial Value of Assets	\$23,997,444,804	\$24,272,514,483	\$275,069,679
Unfunded Accrued Liability	\$5,052,682,797	\$5,704,642,308	\$651,959,511
Funded Status	82.6%	81.0%	(1.6)%
Amortization Period	Infinite	Infinite	No change
Normal Cost as a Percent of Payroll	12.31%	12.31%	0.00 %
Actuarially Sound Rate	17.47%	18.25%	0.78 %
Contribution Rates:			
State	6.00%	6.50%	0.50 %
Employee	<u>6.50%</u>	<u>6.50%</u>	<u>0.00 %</u>
Total FY 2012/FY 2013 Contribution Rates	12.50%	13.00%	0.50 %
Difference between current contribution rate and actuarially sound rate	4.97%	5.25%	0.28 %
Law Enforcement & Custodial Officer Supplemental Retirement Fund			
Accrued Liability	\$992,796,846	\$1,044,255,456	\$51,458,610
Actuarial Value of Assets	\$830,522,385	\$832,451,079	1,928,694
Unfunded Accrued Liability	\$162,274,461	\$211,804,377	\$49,529,916
Funded Status	83.7%	79.7%	(4.0)%
Amortization Period	Infinite	Infinite	No change
Normal Cost as a Percent of Payroll	2.07%	2.02%	(0.05)%
Actuarially Sound Rate	2.72%	2.86%	0.14 %
Contribution Rates			
State	0.00%	0.50%	0.50 %
Employee	<u>0.50%</u>	<u>0.50%</u>	<u>0.00 %</u>
Total FY 2012/FY 2013 Contribution Rates	0.50%	1.00%	0.50 %
Difference between current contribution rate and actuarially sound rate	2.22%	1.86%	(0.36)%
Judicial Retirement System of Texas Plan II			
Accrued Liability	\$300,162,824	\$315,199,152	\$15,036,328
Actuarial Value of Assets	\$283,935,401	\$300,433,111	\$16,497,710
Unfunded Accrued Liability	\$16,227,423	\$14,766,041	\$(1,461,382)
Funded Status	94.6%	95.3%	0.7%
Amortization Period	Infinite	Infinite	No change
Normal Cost as a Percent of Payroll	20.38%	20.25%	(0.13)%
Actuarially Sound Rate	21.76%	21.52%	(0.24)%
Contribution Rates			
State	6.00%	6.50%	0.50 %
Employee*	<u>5.97%</u>	<u>5.98%</u>	<u>0.01 %</u>
Total FY 2012/FY 2013 Contribution Rate	11.97%	12.48%	0.51 %
Difference between current contribution rate and actuarially sound rate	9.79%	9.04%	(0.75)%

**Reflects JRS II plan feature that allows judges with ≥ 20 years of service to discontinue contributions, otherwise, the employee contribution rate for JRS II is 6.00%. The amount shown reflects total payroll % over all JRS II active members, contributing and non-contributing.*

**Employees Retirement System of Texas
ERS Plan for State Employees and Elected Officials**

BILLS	REFORMS	ACTUARIAL IMPACT ¹	
		February 28, 2013 Valuation	After legislative changes (as reported in 06/14/13 Fiscal Note) ²
	2013 83rd Legislative Session		
SB 1459	Benefit changes applied to employees hired after August 31, 2013: Unused vacation leave can only be counted toward retirement annuity if not paid in a lump sum by agency Retirement benefits calculated using highest 60 months of salary, instead of highest 48 months Retirement annuity reduced by 5% for each year retired before age 62 Interest paid when closing account reduced prospectively beginning January 2014 from 5% to 2% Employee contribution increases incrementally to 6.6% beginning FY14 ranging up to 7.5% in FY17 State agencies begin contributing 0.5% of payroll (FY14-15 biennium)	State contribution rate - 6.6% Member contribution rate - 6.5% Normal cost ³ - 12.27% Actuarial sound contribution rate - 18.94% Unfunded liability - \$6.0 billion Funded ratio - 80.3% Amortization (funding) period - Infinite	State contribution rate - 7.5% Member contribution rate - 6.6% Agency contribution rate - 0.5% Normal cost - 10.98% Actuarial sound contribution rate - 17.6% Unfunded liability - \$6.8 billion Funded ratio - 78.3% Amortization (funding) period - Infinite
SB 1	State contribution increases to 7.5% (FY14-15 biennium)		
	2009 81st Legislative Session	August 31, 2009 Valuation	August 31, 2011 Valuation
HB 2559	Benefit changes applied to employees hired after August 31, 2009: Unused leave cannot be used for meeting service requirement for retirement eligibility Retirement benefits calculated using highest 48 months of salary, instead of highest 36 months Retirement annuity reduced by 5% for each year retired before age 60, up to a maximum of 25% Retirement eligibility changed from age 60 w/5 years of service to 65 w/10 years of service, or rule-of-80 Return-to-work retiree provisions were strengthened: Those retired after May 30, 2009 cannot return to state employment before 90 days from retirement date State agencies that hire a retiree who retired after September 1, 2009, pay a surcharge to ERS equal to the state contribution	State contribution rate - 6.45% Member contribution rate - 6.45% Normal cost - 12.38% Actuarial sound contribution rate - 15.84% Unfunded liability - \$3.4 billion Funded ratio - 87.4% Amortization (funding) period - Infinite	State contribution rate - 6.0% Member contribution rate - 6.5% Normal cost - 12.31% Actuarial sound contribution rate - 17.47% Unfunded liability - \$5.0 billion Funded ratio - 82.6% Amortization (funding) period - Infinite
SB 1	State and employee contributions increased to 6.5% each (FY10-11 biennium)		
	2005 79th Legislative Session	August 31, 2005 Valuation	August 31, 2007 Valuation
SB 1176	Made 90-day wait for ERS membership permanent for all new employees hired after August 31, 2005 Increased interest rate for purchasing refunded service from 5% to 10% Reduced additional service credit purchases from 60 months to 36 months (cost remains at actuarial value) Authorized lump sum payments in lieu of annuities for accounts with present value under \$20k Changes to non-occupational benefits – actuarial reduction for retirement before normal retirement age and limited benefits to contributing members Repealed future use of service from another Texas governmental entity as service credit in ERS for purposes of meeting retirement eligibility	State contribution rate - 6.45% Member contribution rate - 6.0% Normal cost - 12.28% Actuarial sound contribution rate - 13.59% Unfunded liability - \$1.1 billion Funded ratio - 94.6% Amortization (funding) period - Infinite	State contribution rate - 6.45% Member contribution rate - 6.0% Normal cost - 11.98% Actuarial sound contribution rate - 13.10% Unfunded liability - \$1.0 billion Funded ratio - 95.6% Amortization (funding) period - Infinite
SB 1	Increased state contribution (FY08-07 biennium) to 6.45% funding normal cost for the 2nd time in 9 years		
SB 1863	Limited some benefit provisions applicable to "return-to-work" retirees who retired after May 31, 2005: No benefit replacement pay (BRP); service accumulated prior to retirement no longer counts toward calculation of longevity pay or accrual rates for annual leave	No measurable impact. Any impact to retirement rates would be reflected in future experience studies	
	2003 78th Legislative Session		
HB 2359	Instituted a temporary 90-day wait for ERS membership for new employees hired between September 1, 2003 and August 31, 2005, and allows purchase of that service at the actuarial value upon becoming an ERS member.		No material impact

¹ The contribution rates listed in the valuation reports are for the fiscal year beginning September 1st after the valuation report date

² A better estimate of the full actuarial impact of SB 1459 and SB 1 will be reported in the FY13 Actuarial Valuation Report, December 2013

³ Normal cost is the annual cost, as a percentage of payroll, of the benefits being earned by contributing employees during the next fiscal year. Beginning August 31, 2009 NC is calculated using the ultimate entry age normal cost method.

INVENTORY OF STATE DATA RESOURCES

What is the Inventory of State Data Resources?

At the request of the Texas Legislative Council (TLC), the Office of the State Demographer (OSD) and the Texas State Data Center (TxSDC) at the University of Texas at San Antonio have developed an inventory of data that are collected, maintained, and/or used by Texas state agencies. The Inventory was created as a resource to the Legislature, to streamline TLC's response to legislative research requests, and to reduce the burden these research requests may place on state agencies like yours.

Since 2010, we have processed information on data series used to track a state agency's outcome, output, and efficiency measures for Legislative Appropriations Requests (LARs) and program performance sent by over 100 agencies. The OSD and TLC worked to verify and organize this information into a usable Inventory of State Data Resources, an online application of the inventory for use by the TLC, legislative members and their staff, as well as participant agencies.

What information does the Inventory contain?

The inventory consists of "data profiles," which do not require agencies to provide their data directly, but rather to profile it, i.e., describe what the data contain, its format, timeframe, and access methods, if possible. The main data or data series profiled relate to the underlying data used to calculate agencies' key performance measures. However, the inventory also contains profiles on data beyond this purpose.

Who can participate in the Inventory?

State agencies participate on a volunteer basis. However, agencies are strongly encouraged to

participate, as the inventory has the potential to better inform the Legislature and other state agencies on the data series related to the important services provided by agencies such as yours.

What if my agency already participates in the Inventory?

Thank you for your collaboration! Your input has been invaluable toward this effort.

As a participating agency, you can use the Inventory to find information on data you need but do not collect. Many times these data are already maintained by other agencies.

We need your help once again as the data profiles are scheduled to be updated on an annual basis.

IMPORTANT DATES & INFORMATION

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Access the Inventory of State Data Resources online:

<https://idserportal.utsa.edu/TLC/Inventory/Index.aspx>

Deadline to assign Agency Administrator: Oct 25, 2013

Deadline to complete annual update: Nov 15, 2013



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