

State Retiree Update

State employees and retirees have been waiting for almost a decade for the legislature to recognize its debt to their service. While state employees have received small salary increases and are eligible for promotions (with income increases), retirees have trudged on as though traversing a vast economic desert. Why is this?

The state employee retirement fund is not 100% able to meet its long term unfunded liability and retirees are seriously losing ground from a financial standpoint. According to ERS' Actuarial Valuation report dated December 1, 2010 and based on the fiscal year end financial reports dated August 31, 2010, the retirement fund's ratio of assets to liabilities is 83.2%.

The state's active employee contribution rate has remained static at 6.0% of pay and was not increased from 1977 until 2009 (32 years). The Texas Constitution mandates the state's contribution rate to be not less than 6.0% or greater than 10.0%. The Legislature reduced the state contribution to the minimum 6.0% for ten years, then changed it back to 6.45% when TPEA and ERS finally succeeded in convincing legislators the fund was getting into fiscal difficulty.

According to the ERS Actuarial Consultants, the current combined employee and state contribution rates will "never amortize the unfunded accrued liability." The bottom line is that the legislature has not adjusted state employee and the State's contributions for the retirement fund to keep pace with inflation, which is partially the basis for the unfunded liability.

An equally critical concern is how the current state of the economy has negatively affected the "paper" value of fund investments. Two of the worst bear markets in U.S. history occurred during the past decade, resulting in huge actuarial losses to the ERS fund, though not as dire as those of most other major pension plans.

In addition, the Legislature has passed three early retirement incentives since 1985 that have had substantial negative effects on the retirement fund by removing employee contribution revenue and adding annuity expenditures for retirees.

Excluding the early retirement incentive #1 that began in 1986, there has been a 125+% increase in the number of retirees receiving annuities since incentive #2 in September of 1993. Add

legislative caps on employment to that, and you can readily ascertain that the system is moving towards a 1 to 1 ratio of active employees to retirees/annuitants. Will the system continue to be sustainable when it reaches that state? According to ERS data for the fiscal year ending August 31, 2010, there were 142,490 active employees and 79,311 annuitants. That is a ratio of 1.8 active employees to each annuitant. Annuitants comprise 55.7% of the combined total of both classes.

The following charts, created from ERS data, illustrate this.

Chart #1:

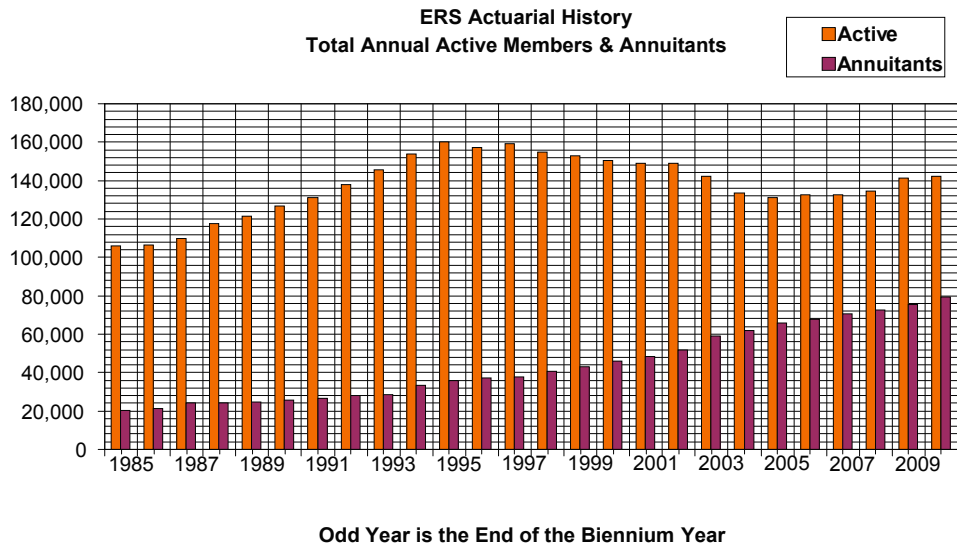
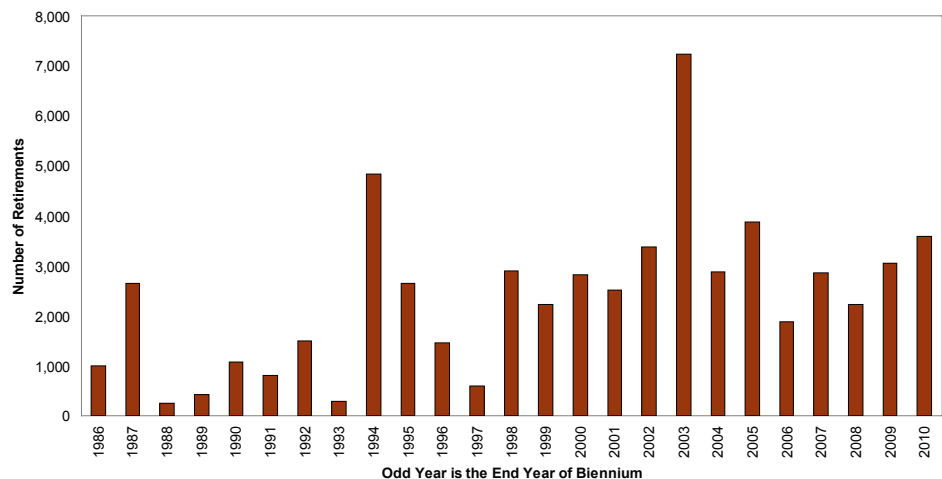


Chart #2 illustrates the actual number of annual retirements more graphically. Fiscal Years 1987, 1994 and 2003 were the beginning years of each of the three legislated retirement incentives. As you will note, there were substantially more retirements in those years.

ERS Annual Retirements
(FY 1987, 1994-5 and 2003-4-5 peaks reflect early retirement incentives)



Issues Plaguing State Employees and Retirees

1. State employee retirees' last increase in their monthly annuity payment was almost a decade ago in January, 2002.
2. The retirement fund has been unable to issue retirees a cost of living bonus check (fondly called a 13th check) due to the retirement fund not being 100% funded to cover long term retirement obligations. This "bonus" payment is generally designed to mitigate inflation but is only issued when funds are available and inflation in the decade since the last annuity increase has devastated retirees' available income.
3. Inflation since December 2001, plus the increase in health care deductibles and co-pays in 2003 and again in 2010 has drastically reduced the purchasing power of a state retiree's annuity. Prior to the 2010 increase in health care costs, for a retiree with no spouse on their health care plan, the inflation toll has been a 28% reduction in purchasing power (analogous to getting only 9 of 12 checks); for a retiree with a spouse on their health care plan it has been 34% (analogous to getting only 8 of 12 checks).
4. The average monthly annuity for a state retiree is less than \$1,500. For those who have no other income, e.g. Social Security, most of these folks are likely eligible for State and Federal assistance. However, there is no agency designated by the legislature to provide assistance for state retirees in making applications to take advantage of these programs.
5. Health care deductibles and co-pays were increased in 2003. Because the FY 2010-2011 Legislative Appropriations Bill did not fund the Group Benefits Program (health care) as presented in the ERS Legislative Appropriations Request, ERS again had to "shift costs" to cover the deficit from the state to employees and retirees by raising co-pays and coinsurance beginning September 1, 2010.
6. With a major funding shortfall facing the legislature in 2011, if adequate funds are not appropriated to cover the Group Benefits Program (health care), ERS will again have to "shift costs" to the employee and retiree during the FY 2012-2013 biennium (most likely effective on September 1, 2011). These increases will be substantial due to the amount of the expected shortfall. The most likely targets will be to require employees and retirees/beneficiaries to share in the cost of insurance premiums, to alter the fundamental health plan model, e.g. to a high deductible plan, or some combination of both.
7. When a retiree that has their spouse on their health care plan dies, the spouse's premium increases 100%. This premium doubling comes at the worst time, when the beneficiary spouse has just lost the income from the retiree's annuity.

What Can State Employees and Retirees Do?

State employee retirees can learn a lot from observing Texas' teachers, who have been successful in letting legislators know what salary and benefits issues they were concerned with and which solutions they support. State employees and retirees, on the other hand, were and even today are neither visible nor vocal in their concerns. We all have heard many times the expression "we prefer to let ERS take care of us." Unfortunately, ERS cannot "take care of us" as they are prevented by statute from lobbying for or against any proposed legislation. Ann Fuelberg, Executive Director of ERS, even commented in her remarks to the annual TPEA Conference in Austin on June 25, 2010 that following the 2009 legislative session, two of her legislative staff members were charged with lobbying and investigated. It is clear that both the legislature and ERS take the statute very seriously. ERS can only provide information to the legislature and cannot function as an employee or retiree advocate.

How Can We Be Both Visible And Vocal?

The first step is to join (and recruit your friends for) an organization that supports the issues you, as a state employee or a retiree, are concerned about. The Texas Public Employees Association has a long history of advocating for state employees. TPEA maintains constant contact with both ERS and the Legislature. More importantly, your individual contact with your elected senator and representative is essential.

The second step: while legislators do listen to organizations such as TPEA, they pay a lot more attention to communications from you, a voter living in their district. How should you contact your legislator if you do not know them personally? Phone calls are logged but rarely transcribed and emails during the press of the legislative session may not even get read. Frankly, the old fashioned "personal" letter in the mail gets the most attention and results! Form letters are disposed of so if you want your communication to be read and acted on, pick a few issues that matter to you and focus on those. This article is a gold mine of issues affecting retirees. Never forget that personal experiences and the outcomes that illustrate and emphasize your concern on an issue are of paramount importance.

Ted Miller retired from TxDOT in June 1997. His responsibilities included statewide implementation of the Americans with Disabilities Act for TxDOT and preparation of the State of Texas' Transportation Revenue Needs Assessment (1996-2006) for the 1997 legislative session. He has undergraduate and graduate degrees in business and is a Certified Computing Professional specializing in Systems Development. He also currently serves as First Vice President of TPEA's Statewide Retirees' Chapter 149.