

House Appropriations Committee

September 8, 2022

Interim Charge: Provide an overview of the ERS Fund and implementation of SB 321.

I am Ann Bishop, Executive Director of the Texas Public Employees Association (TPEA). Founded in 1946 by dedicated state employees, TPEA has advocated for more than 75 years to promote and preserve the salaries and quality benefits enjoyed by state employees and retirees. These benefits make it possible for Texans to devote themselves to careers in public service. TPEA is the only nonunion, nonpartisan association serving state employees during and after their careers. Thank you for the opportunity to talk to you about the ERS Fund and the implementation of SB 321.

At the beginning of the 87th Legislative Session, the ERS pension plan faced an estimated depletion by 2061 due to a growing unfunded liability. Thanks to your hard work, the passage of SB 321 and the legacy payment commitment to pay off the unfunded liabilities of the ERS pension plan, you have safeguarded state employee retirement benefits and improved the state's financial standing related to pension obligations.

The Texas Public Employees Association (TPEA) is most grateful for your steadfast commitment to rectifying the funding shortfall at the Employees Retirement System (ERS). By the passage of SB 321, you reshaped the retirement benefits for future employees in a way that is more apropos for the younger, upcoming workers we want to have to carry out the many missions of state government.

Good pension plan reform typically has retirement plan provisions that balance multiple objectives: a management tool to maximize the training and experience invested in their employees; competitive compensation that includes income security in retirement; and public services performed in the most effective and cost-efficient manner. SB 321 meets all of the objectives by:

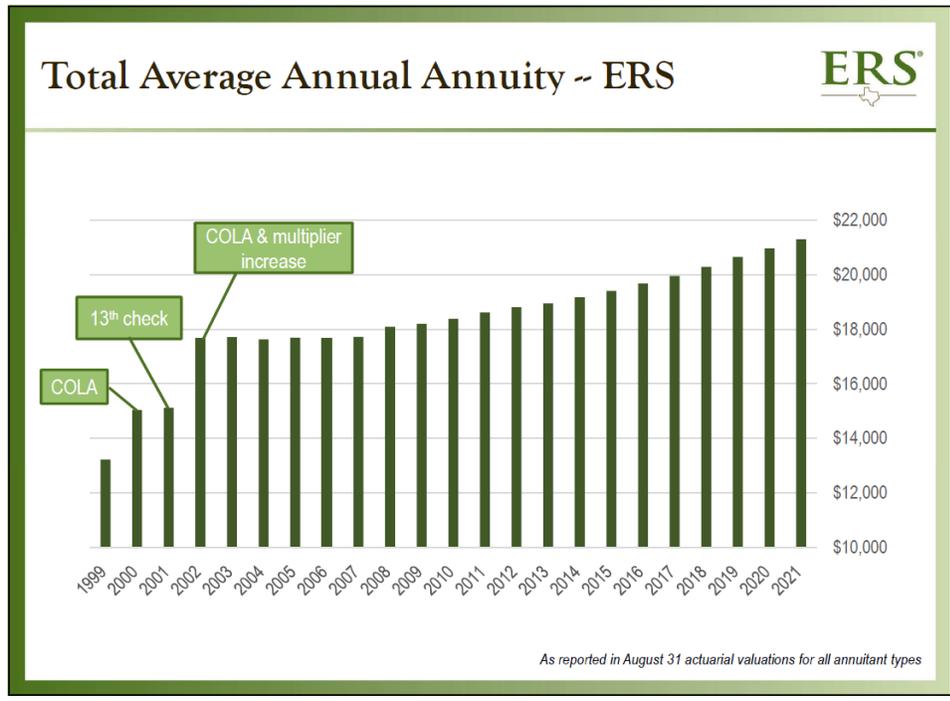
- Mandatory participation.
- Pooled and professionally managed assets.
- Supplemental savings opportunities.
- Survivor and disability benefits.
- Risk and cost-sharing between employers and employees.
- Lifetime benefit payouts.

SB 321 matters to over a quarter million Texas families - current state employees and retirees-depend on a secure retirement. Their employer- the state, is keeping its promise to fund what has already been earned and will secure the retirement system's financial stability moving forward.

TPEA led a coalition of state employee and retiree organizations to support SB 321 with Chairman Bonnen as the House Sponsor (*see attached*). Having worked with Legislative leadership for at least five

successive Legislatures on this issue, we recognize how innovative this approach was – all without a reduction in benefits to current employees, retirees, and beneficiaries. There is still work to be done to make the Law Enforcement Supplemental Officers (LECOS) fund actuarially sound, and this is a funding issue, not a plan design issue.

Now I turn to a different issue- the state of Texas retirees. You have heard about the impact of inflation on various businesses, and inflation is not just an Austin issue. As you might imagine, inflation is eating into the household budgets of both employees and retirees. ERS retirees have not received a cost-of-living adjustment (COLA) or 13th check for over **20 years**.



A COLA is a cost-of-living adjustment that increases your pay or annuity that often depends on the rising cost of goods and services—also called inflation. A COLA is a permanent increase in payment, whereas a **13th check** refers to an extra check- usually in the amount that the annuitant would receive each month.

Figure 1: Total Average Annual Annuity (as reported on August 31, actual valuations for all annuitant types. Source: Employees Retirement System (ERS), May 2022.

In 2022, the impact of inflation on the fixed incomes of seniors was magnified for the state's retired workers. Going into this year of near record inflation, retired state employees already had seen the purchasing power of their pensions significantly decreased, even as they have gone without any annuity increase in over 20 years. For those state employees who retired 20 or more years ago, their pension's value had been cut by more than 40% . For state workers who retired in 2011, their pension dollars were now worth 80 cents.

The chart below illustrates the average annual annuity and the inflation-adjusted value of that annuity for various years.

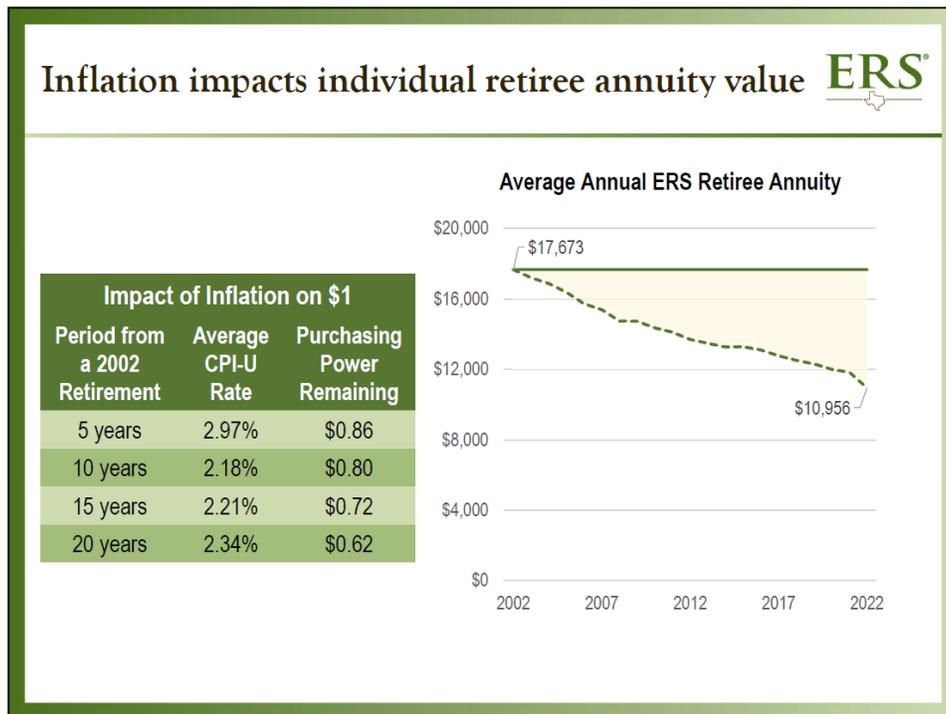


Figure 2: Inflation impacts individual retiree annuity value. Source: Employees Retirement System (ERS), May 2022.

TPEA receives comments from ERS retirees on the impact of inflation on their lives. These are real people across the state.

Jon: "I am afraid of the rocketing high property taxes. My brother is on Social Security and couldn't afford to pay the Caldwell County taxes and had to move out of his house. I'm afraid Hays County is the same. Our pension increases don't keep up with property taxes every year."

Judy: "It is important to stress the hardship on retirees who retired over 20 years ago and have received no cost-of-living adjustments."

Cindy: "My necessity bills have tripled monthly since my retirement. There is no way I could survive on my benefits alone, nor could I survive without them. Additionally, with the way inflation is rising across the country and particularly in Texas, my future does not look very bright either."

Kathy: "Everything else is going up (gasoline, groceries, interest rates, property taxes, general cost of doing business with others who've gone up on their rates for everything because of these same increased prices), but my retiree benefits haven't gone up one red cent since I retired 6½ years ago. Those other expenses have gone up, but my income hasn't."

Thank you again for taking on the hard part- making the ERS pension actuarially sound. Now I ask that you turn your attention to taking care of the people who have taken care of you—your ERS retirees.