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Retired State Employees Association

NEWS

Serving Texas ERS Retirees Since 1977

June 2022

Volume 44 - Number 3

Message from the President

Dear RSEA Members, Friends, and Neighbors,

I hope this message finds everyone safe and healthy in spite of the early stresses of summer weather. Allow me to share perspectives on recent events.

I know our RSEA community joins me in the shock from the tragic events in Uvalde. The lost lives of these precious young school children and their wonderful teachers is hard to fathom. We have members in the Uvalde area and our hearts go out to this beautiful community of family and friends. Their journey will be difficult, and it deserves our continued thoughts and support.

To the relative mundane of our RSEA work ...

On the legislative front, we appreciate Senator Joan Huffman's first hearing as Chair of the Senate Finance Committee giving attention to: the long-term health of the ERS retirement refund with the reforms of SB321 (Huffman), 87th Legislature; and the effects of inflation on state services including state employees and retirees. (See pages 2-3 of this newsletter for the ERS Director's presentation to the Committee.)

As a long-time observer of how inflation affects our state revenue streams and budget spending patterns, I have two observations. First, since the last cost-of-living adjustment for retirees in 2002, lots of purchasing power has been lost, estimated at 38%, so the potential benefits of SB 321 on the retirement fund can't come soon enough. Second, as we assuredly see the increased effects

of extraordinary inflation on revenues, it will be important for any "surpluses" to be directed to those budget areas under stress of that same inflation, including employee salaries and retiree benefits, and the ERS fund itself. RSEA remains focused on both upcoming sessions in 2023 and 2025.

On the RSEA front, we're using this legislative interim to update our website and logo. We're also reviewing our outreach messaging to current and prospective retirees.

Finally, we're in early planning stages for the 2022 Annual Membership Meeting. Please save-the-date of October 6th. We're tentatively thinking of a "hybrid" format where members will have options to attend in person or virtually, given the unknown status of COVID and/or the flu season at the time. We are always mindful of what's best for our members' health and safety.

Thank you for supporting us as your voice in retirement.

Bill Hamilton, RSEA President

Save the Date RSEA Annual Meeting October 6, 2022

We expect to have this as both an in-person and computer-broadcast meeting. We hope to be able to secure a hotel we've used previously, in Round Rock.

We hope to "see" you (virtually, or face-to-face) on Thursday, October 6, 2022.

ERS Celebrates 75 Years

September 2, 2022, marks 75 years since the Employees Retirement System first opened in 1947, with only three employees working out of a few rooms of a North Congress Avenue apartment building near the Capitol. In the 1940s, the Texas Legislature faced the challenge of attracting and retaining a qualified workforce. They worked with employee groups and voters to pave the way for retirement and insurance benefits to supplement salaries.

As Texas has grown, so has the critical work of the state workforce, ERS and the value of state employees' benefits. Decades later, retirement and health benefits account for roughly a third of the average state employee's compensation. And agency leaders and employers say they are an important draw to public service.

If you have a memory related to your experience with ERS or the retirement and insurance benefits, they would love to hear it. It will help them piece together their story from many perspectives.

For example:

Tell them about the day you saw your retirement counselor, or the day you visited the Capitol to advocate for state employee benefits.

How did the benefits offered through ERS impact your decision to work (or keep working) for the State of Texas?

If you work or worked at ERS, do you have a story to share about the work, a customer or co-workers?

If you served on the ERS Board of Trustees, what was your experience like?

For further information: <https://ers.texas.gov/About-ERS/75th-anniversary-project>, or submit your memories and photos to Amy Chamberlain (Amy.Chamberlain@ers.texas.gov).

Interested in getting more benefits? Information details are available at
www.myambabenefits.info/rsea-of-texas.


Recent ERS Testimony

On May 4, 2022, the Employees Retirement System Executive Director testified before the state Senate Finance Committee. The committee asked ERS to address two topics: State Pension Reforms, and Inflation.

Here are the slides he presented on the first topic:

Senate Finance Committee
Interim Hearing
State Pension Reforms

Porter Wilson, Executive Director
Employees Retirement System of Texas
May 4, 2022

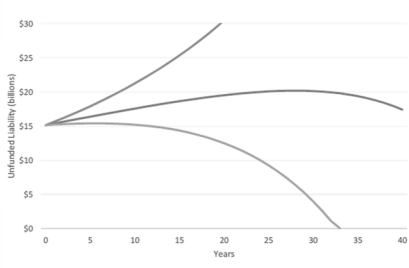


SB 321 changes ERS Plan trajectory

Created long-term solutions to address the critical funding status and mitigate future unfunded liability for the ERS Retirement Plan

- Legacy Payment Schedule
 - Annual, actuarially determined payments to address unfunded liabilities within at least 33 years
 - Currently \$510 million per year
- Established Group 4 for new employees hired on or after 9/1/22
 - Guaranteed lifetime benefit using a Cash Balance structure
 - Reduced employee contributions (6% vs 9.5%)
 - Shorter vesting period (5 years)
 - Annual Interest (4%) and Gain Share (0-3%) structure

Legacy Payment Schedule Interest Savings



87th - Options Considered:

- Annual payments of \$100m
 - Asset depletion in 56 years
- Annual payments of \$350m
 - UAAL eliminated in 54 years; and
 - State will pay \$62 billion in interest on UAAL
- Annual payments of \$510m
 - UAAL eliminated in 33 years
 - State will save \$34 billion in interest compared to the \$350 million scenario

ERS Plan
Actuarial Valuation Results

Funded Status	8/31/2020 valuation	8/31/2021 valuation
Unfunded Liability	\$14.7 B	\$14.1 B
Funded Ratio	68.0%	68.0%

	Meets Funding Guidelines and Priorities	
Cover Normal Cost	✓	✓
Avoid Trust Fund Depletion	✗	✓
Meet Statutory 31 Year ASC Rate	✗	Approx. 2024
Meet Additional Funding Standards	✗	100% funded in 2054

All of the funding goals will be met following the Legacy Payment Schedule

Group 4 Implementation

- New employees joining the state workforce on/after 9/1/22
- Implementation is on schedule
- Significant changes to technical systems, data interfaces, administrative rules, policies, procedures, communications and educational materials
- Requires work from multiple state agency partners
- Clarifying legislation for next session to address issues raised in implementation

LECOS and JRS 2
Actuarial Valuation Results

Funded Status	LECOS	JRS 2
Unfunded Liability	\$653 M	\$95 M
Funded Ratio	60.5%	84.6%


	Meets Funding Guidelines and Priorities	
Cover Normal Cost	✗	✗
Avoid Trust Fund Depletion	✗	✗
Meet Statutory 31 Year ASC Rate	✗	✗
Meet Additional Funding Standards	✗	✗

With projected depletion dates, none of the vital funding goals are being met.

Investments are Essential to Benefits

ERS Trust Fund Assets by Revenue Source - FY 1998-2021

Of each dollar paid for ERS retirement benefits, 63 cents has come from investments




Period	30 year	20 year	10 year	5 year	3 year	1 year
Net Return	Not available*	7.28%	9.32%	11.13%	11.34%	25.46%
Gross Return	8.05%	7.38%	9.40%	11.17%	11.38%	25.51%

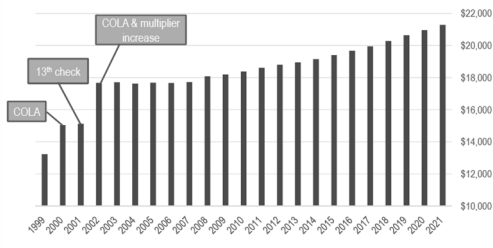
Here are the slides ERS presented to the Senate Finance Committee on the topic of Inflation:

Senate Finance Committee
Interim Hearing
Inflation

Porter Wilson, Executive Director
Employees Retirement System of Texas
May 4, 2022



Total Average Annual Annuity ~ ERS

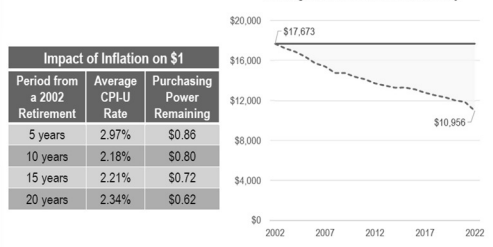


As reported in August 31 actuarial valuations for all annuitant types


Inflation impacts individual retiree annuity value

Average Annual ERS Retiree Annuity

Period from a 2002 Retirement	Average CPI-U Rate	Purchasing Power Remaining
5 years	2.97%	\$0.86
10 years	2.18%	\$0.80
15 years	2.21%	\$0.72
20 years	2.34%	\$0.62



State Employees Have a Diversified Retirement Pension, Social Security and Personal Savings



To watch and listen to this Senate Finance Committee hearing, go to <https://bit.ly/3NFGcjh>

State Auditor Report on Employee Turnover

The State Auditor's Office (SAO) issued its Annual Report on Classified Employee Turnover for Fiscal Year 2021 in March (Report No. 22-702). While this information does not directly impact state employee retirees, RSEA members may be interested in what is happening with the active state employees in Texas.

In 2021, SAO calculated that 21.5 percent of employees left state employment for voluntary or involuntary reasons. Voluntary separations (for example retirements and resignations) were about 78 percent of turnover. The rest were involuntary separations, deaths, and reductions in force. Interagency transfers were excluded from their calculations. This means that over one in five employees left their jobs in Texas state government in FY 2021.

Of the 27 occupational categories, highest turnover rates were in job classification categories Criminal Justice (37%), Social Services (28.8%), and Custodial (28.5%). The three categories with lowest turnover were Law Enforcement (5.3%), Military (5.3%), and Information Technology (9.2%).

Based on a RSEA analysis of SAO reports, 2021 was the highest turnover rate since the data reported for 1990. For the past 32 years, the turnover rate ranged from 10.0 percent in 1993 to the 21.5 percent in 2021. The median rate for this period was 17.3 percent. The turnover rate has exceeded 14.3 percent since 1997.

The top two reasons reported for leaving state employment were: low pay/benefits and poor working conditions; retirement was the top reason for those 50 and older. ■

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What do you think?

An article in a recent *AARP Bulletin* (May 2022) said the four top issues that concern seniors nationwide:

1. Prescription drugs (high costs)
2. Social Security (long-term stability)
3. Medicare (protect the program and services)
4. Caregiving/Long-Term Care (family assistance, institutional safety and affordability)

What are your top concerns?

In the last session, RSEA supported the successful efforts to make insulin more affordable.

We will continue to monitor these and other issues of importance to Texas state retirees. ■