

Public Pension Issues and Trends

Keith Brainard
Texas Pension Review Board
NASRA

TEXPERS
April 2022

Presentation Summary

- Overview of public pensions in the US and Texas
- Trends in funding conditions
- Investment return assumptions
- Contribution effort
- House Committee Interim Charge

Comparison of Retirement Benefits in the U.S.

Private Sector

- 62% of full-time private sector workers participate in an employer-sponsored retirement plan; 21% of part-time workers participate
- In total, 51% of all private sector workers participate in an employer-sponsored retirement plan
- 18 percent participate in a traditional pension (DB) plan
- Social Security coverage is universal

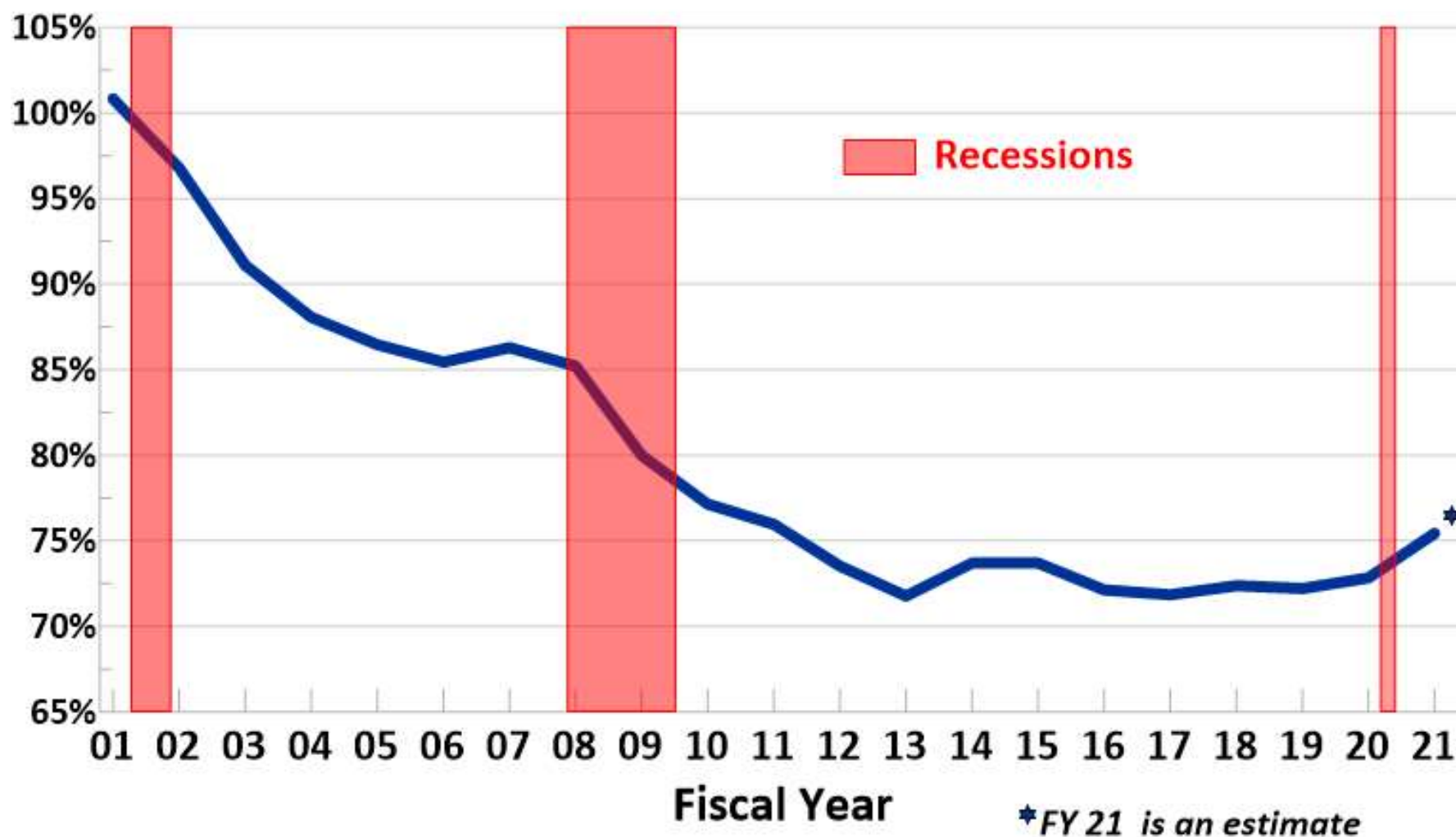
Public Sector

- Nearly all full-time workers have access to an employer-sponsored retirement benefit; most have access to a traditional pension (DB plan)
- 81% of full-time employees participate in a pension plan, as do 75% of all, including part-time workers; virtually all others are in a DC plan
- Three-fourths participate in Social Security

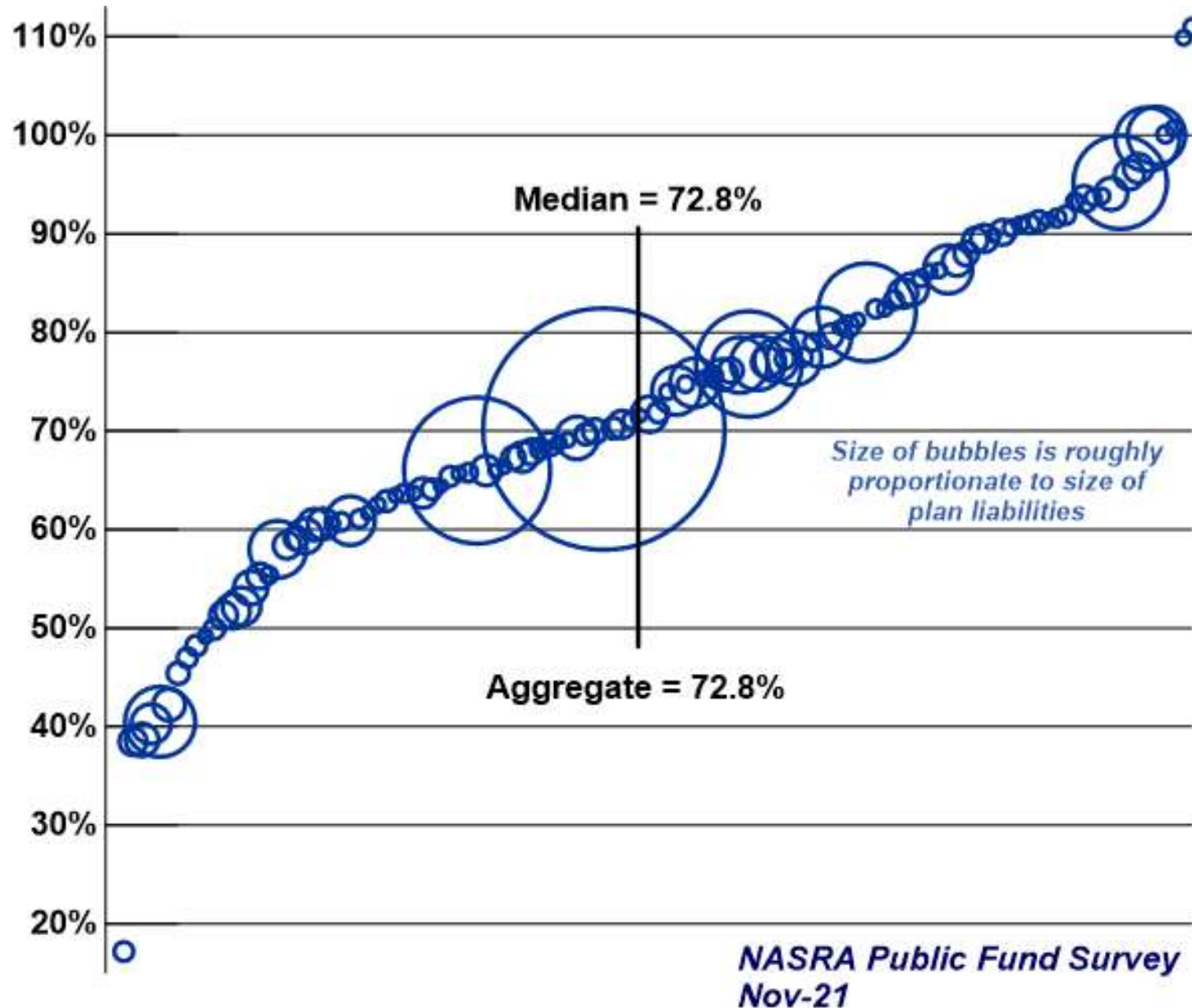
Public pensions in the U.S.

- \$5.85 trillion in assets (12/31/21)
- 14.6 million active (working) participants
 - ▲ 10 percent of the nation's workforce
- 11.2 million retirees and their survivors receive \$320+ billion annually in benefits
- Annual contributions = \$238 billion
 - ▲ \$180 billion from employers
 - ▲ \$58 billion from employees
- Of 5,000+ public retirement systems, the largest 75 account for 80+ percent of assets and members

Change in aggregate US public pension funding level, FY 01 to FY 21



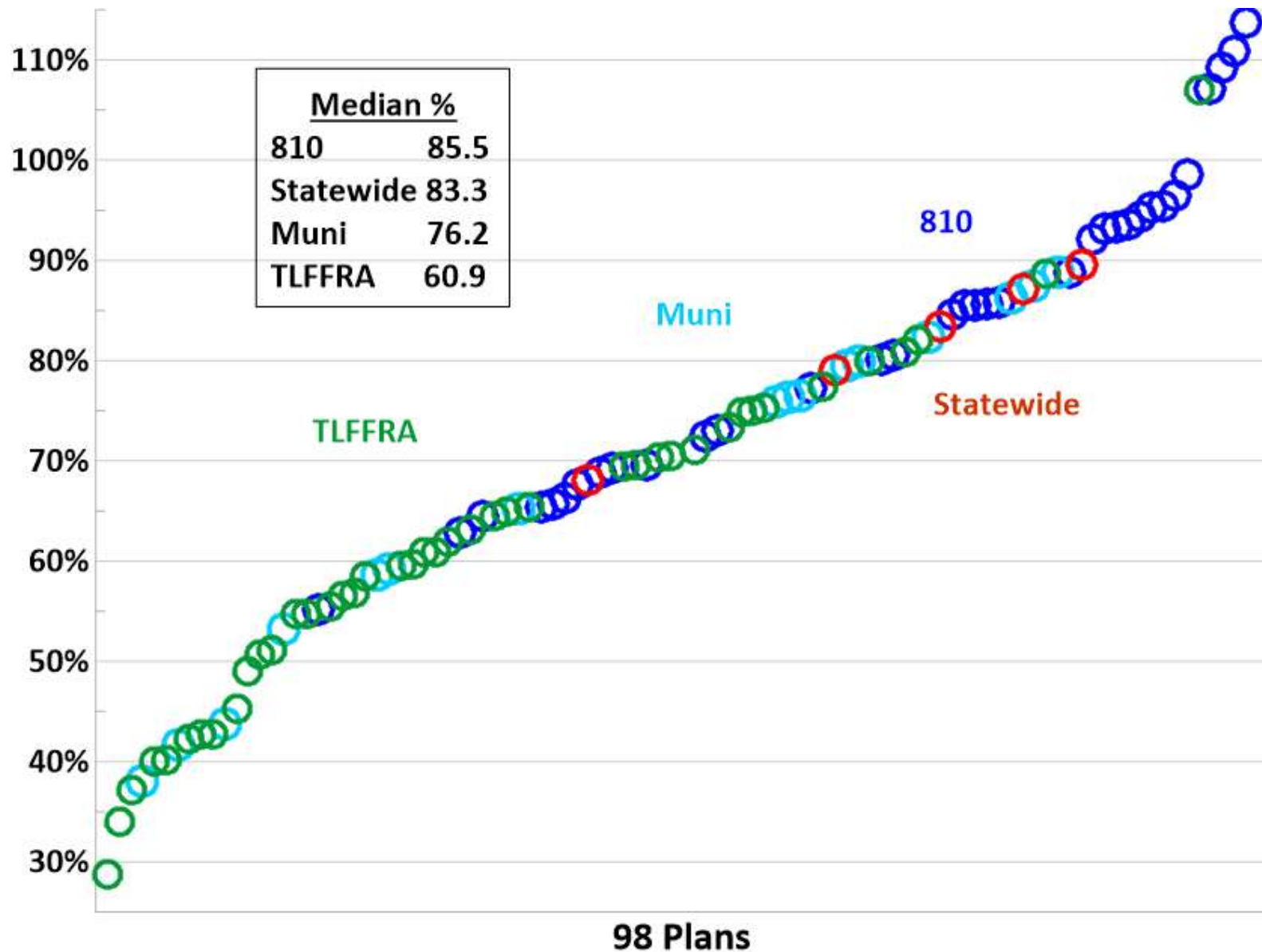
Distribution of US Public Pension Actuarial Funding Levels, FY 20



Public pensions in Texas

- \$350 billion in assets (FY21)
- 1.43 million active (working) participants
- 800k retirees and their survivors receive \$19 billion annually in benefits
- Annual contributions = \$13.6 billion
 - ▲ \$8.0 billion from employers
 - ▲ \$5.6 billion from employees
- Of 100 public retirement systems, the four big statewide systems account for 90+ percent of assets and members
- TRS of Texas alone accounts for more than half
- Aggregate funding level = ~78%

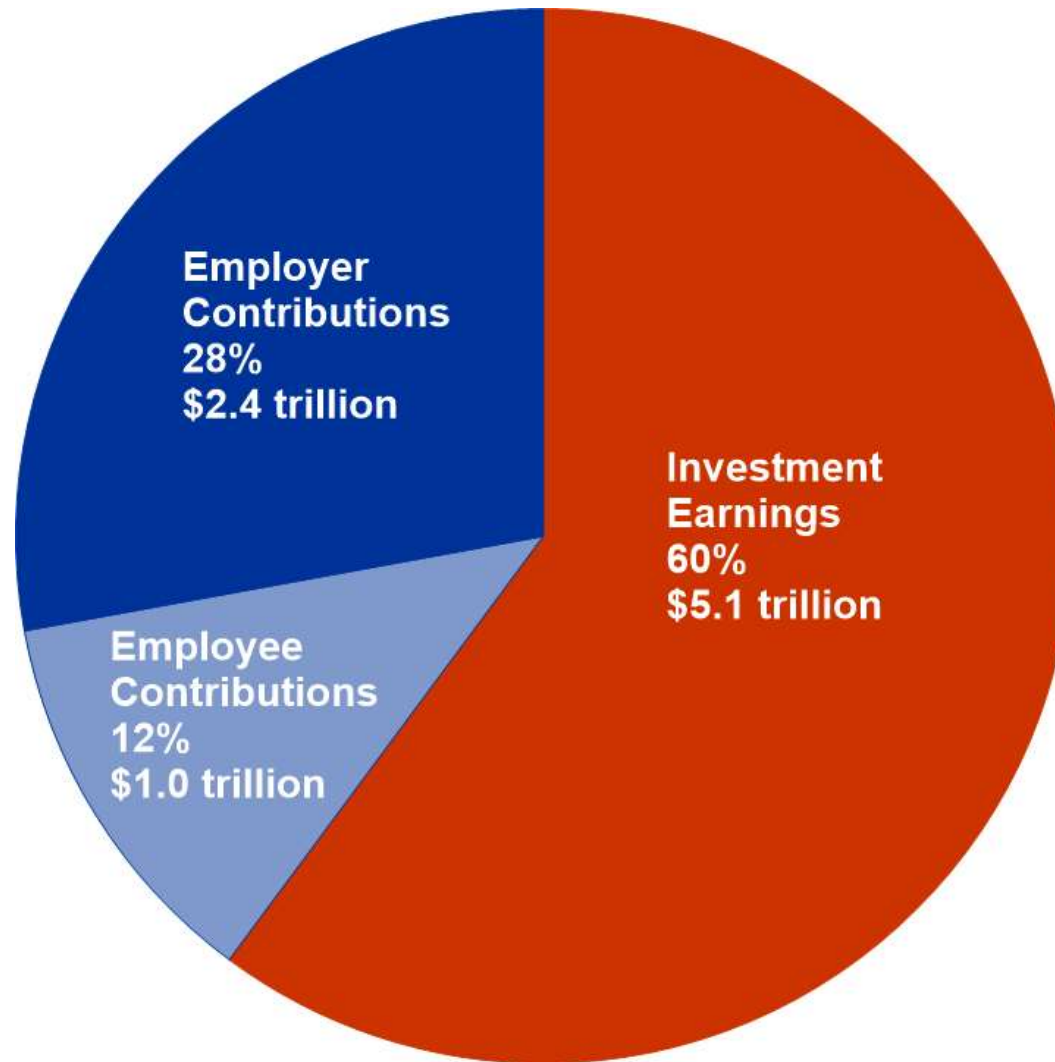
Distribution of Texas Public Pension Actuarial Funding Levels, FY 20 By Peer Group



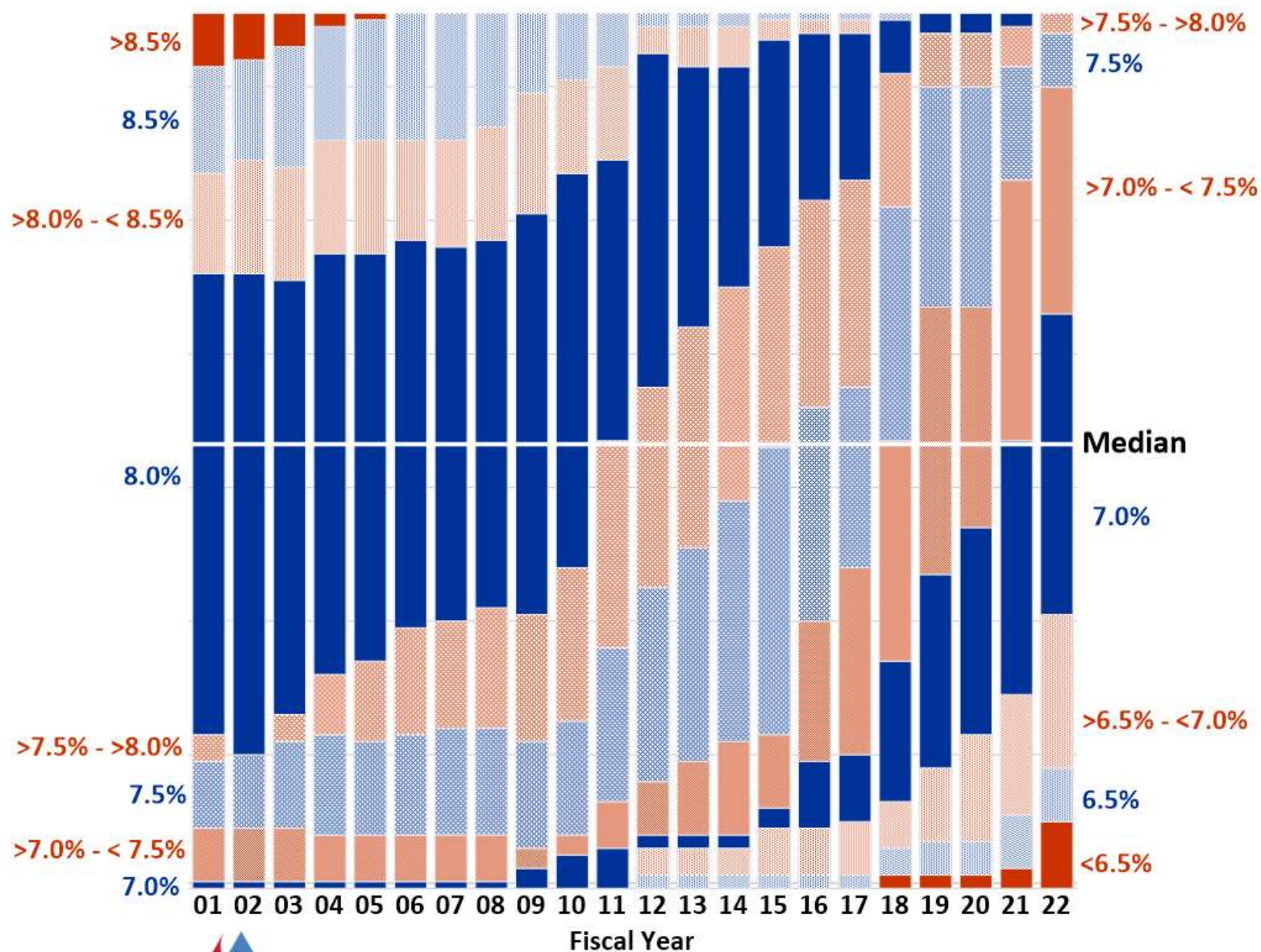
Recent Notable Statutory Changes Affecting Reporting by Texas Public Retirement Systems

- Public retirement systems in Texas must prepare or conduct the following:
 - ▲ Investment Policy Statement
 - ▲ Investment Performance Report
 - ▲ Asset-Liability Study
 - ▲ Funding policy in concert with plan sponsor

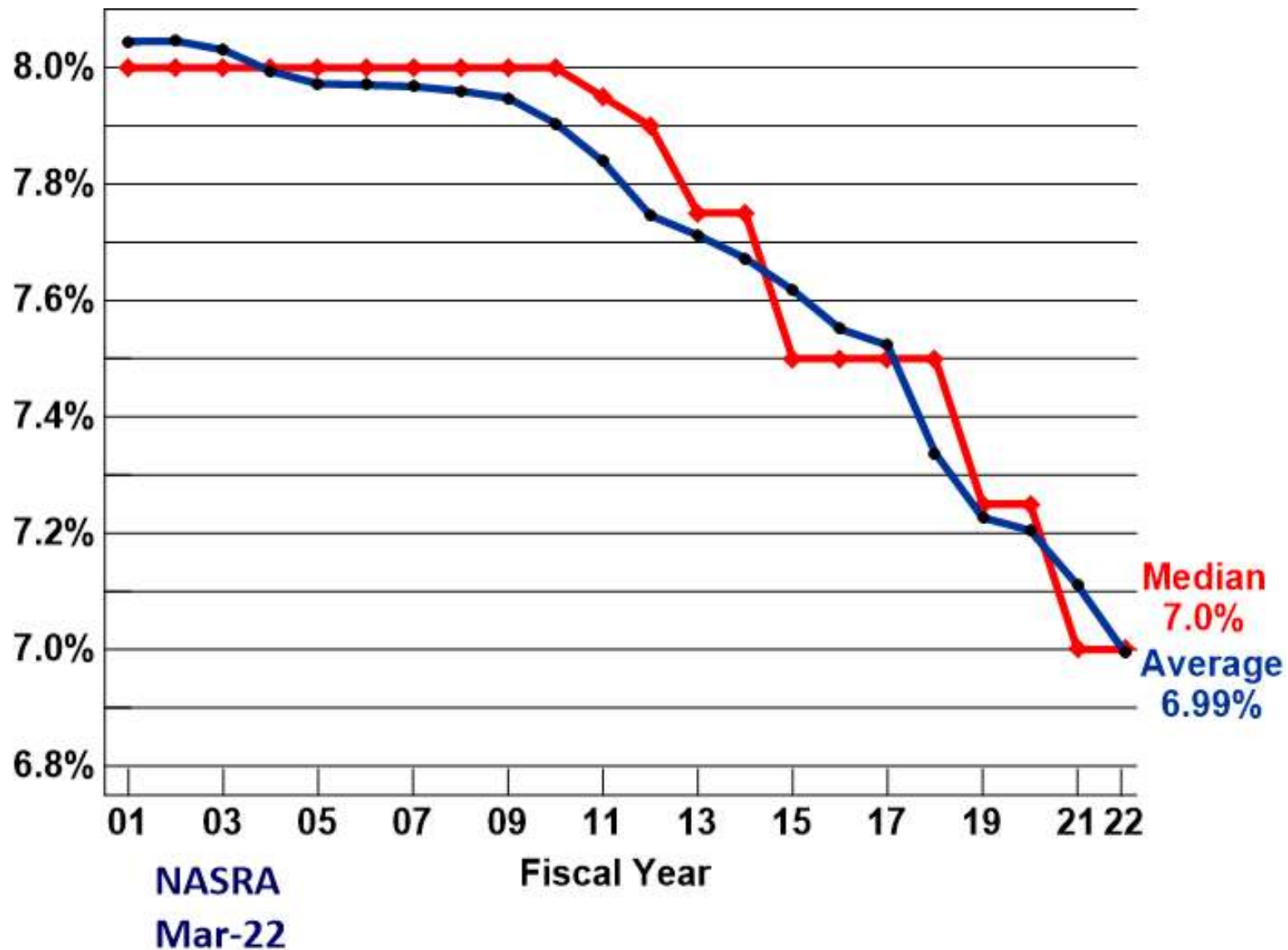
Sources of US Public Pension Revenue, 1991 to 2020



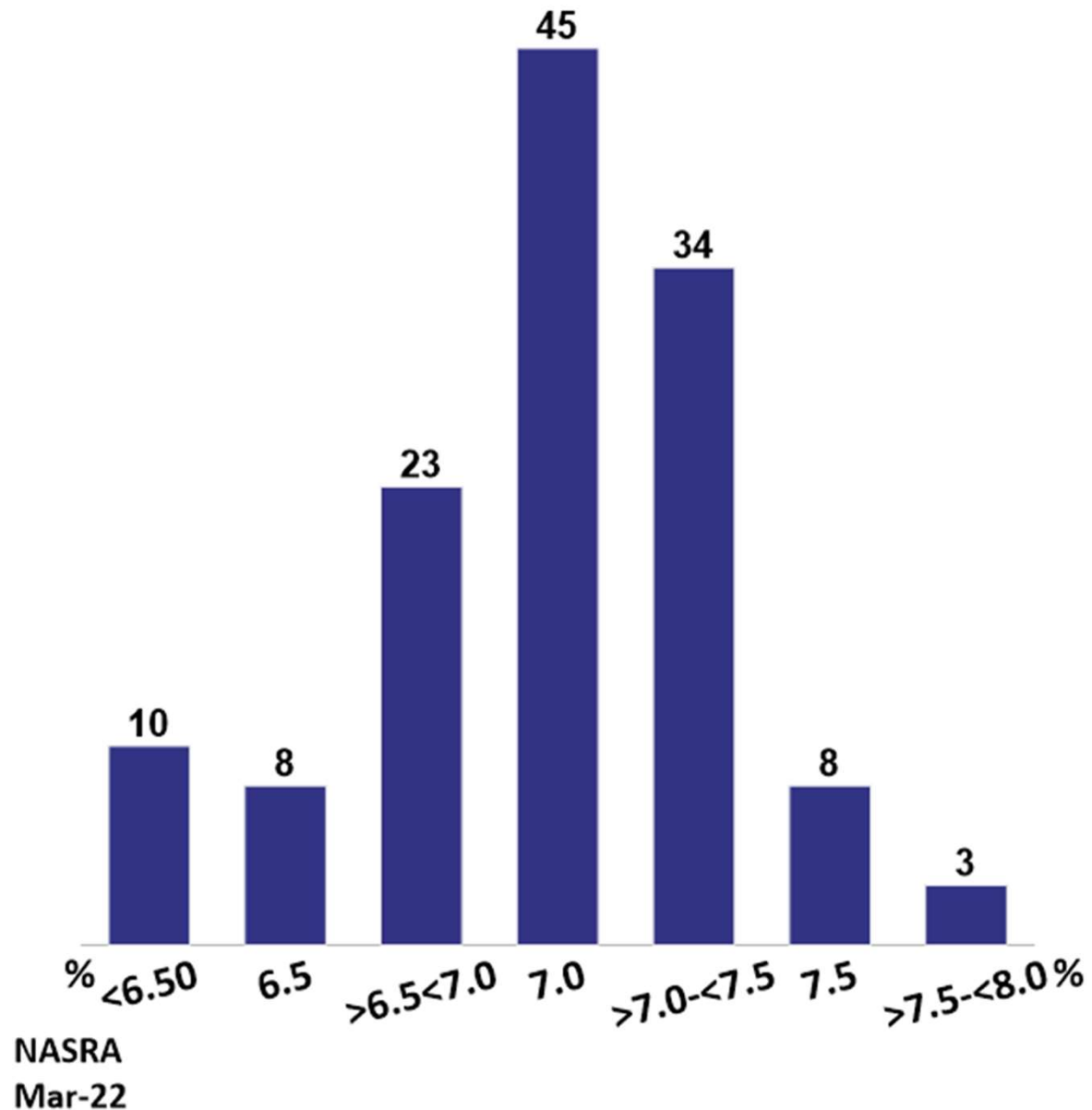
Change in distribution of investment return assumption, 131 US plans, FY 01 to FY 22



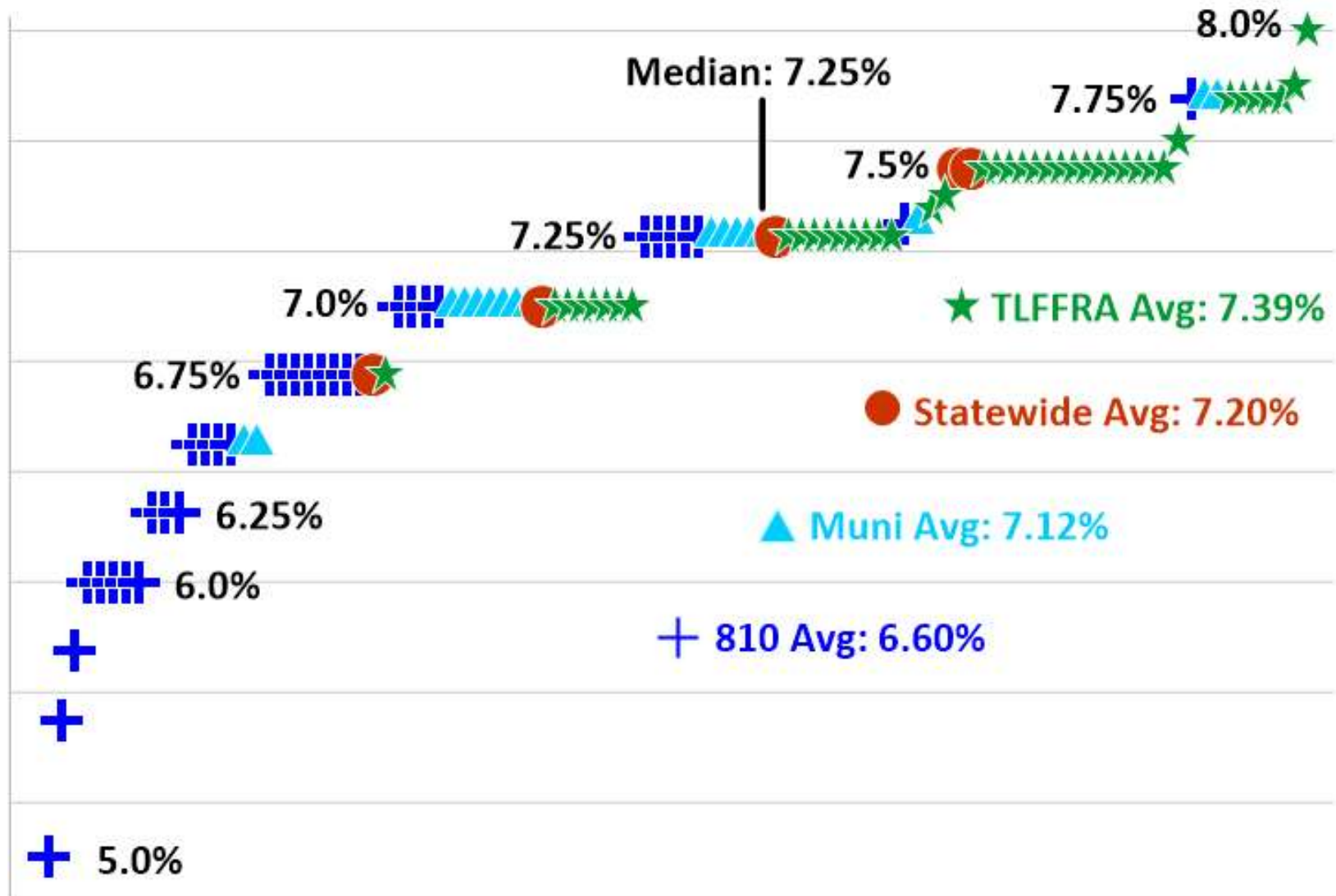
Change in median and average investment return assumption, 131 US plans, FY 01 to FY 22



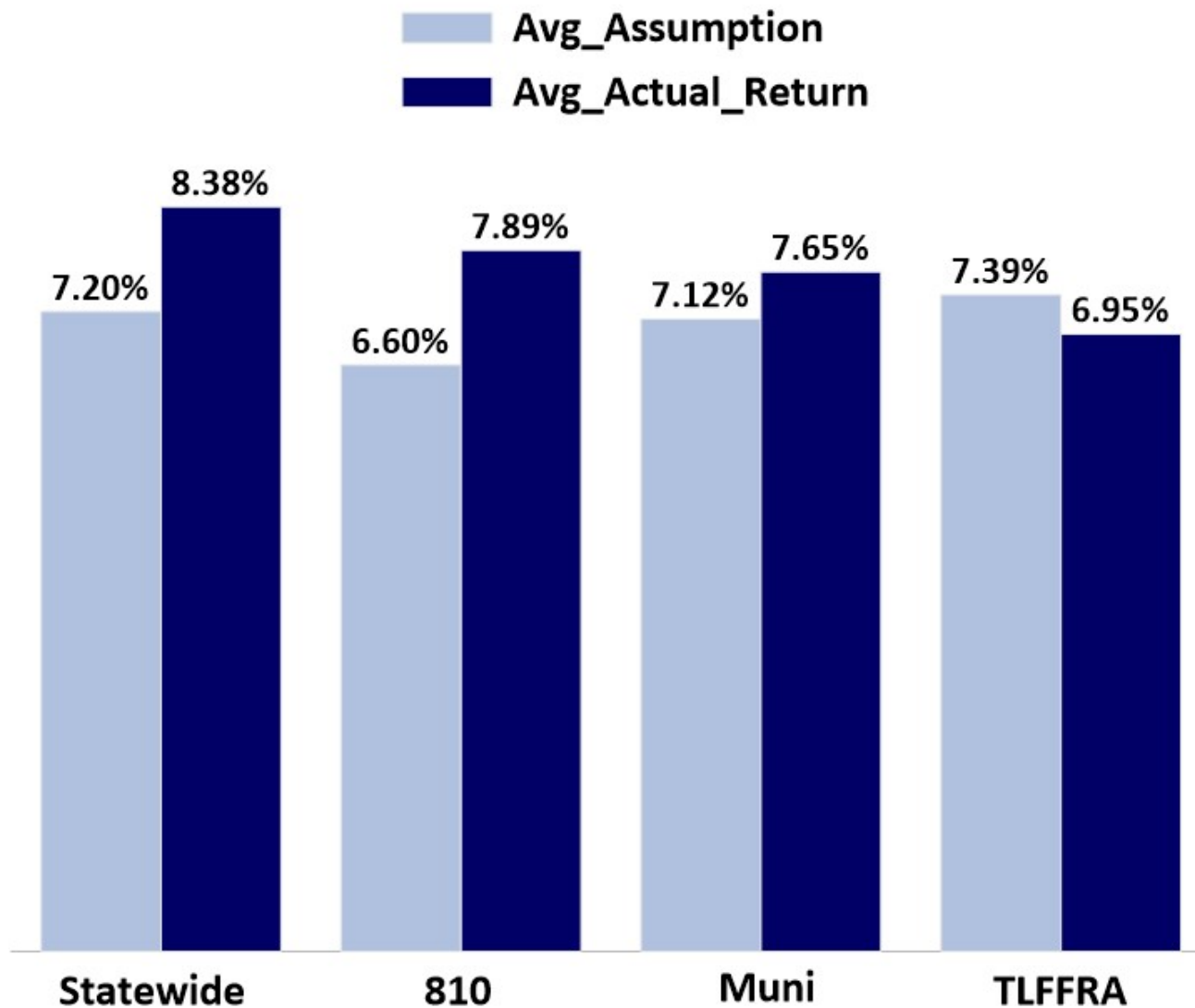
Current distribution of investment return assumptions, 131 US plans



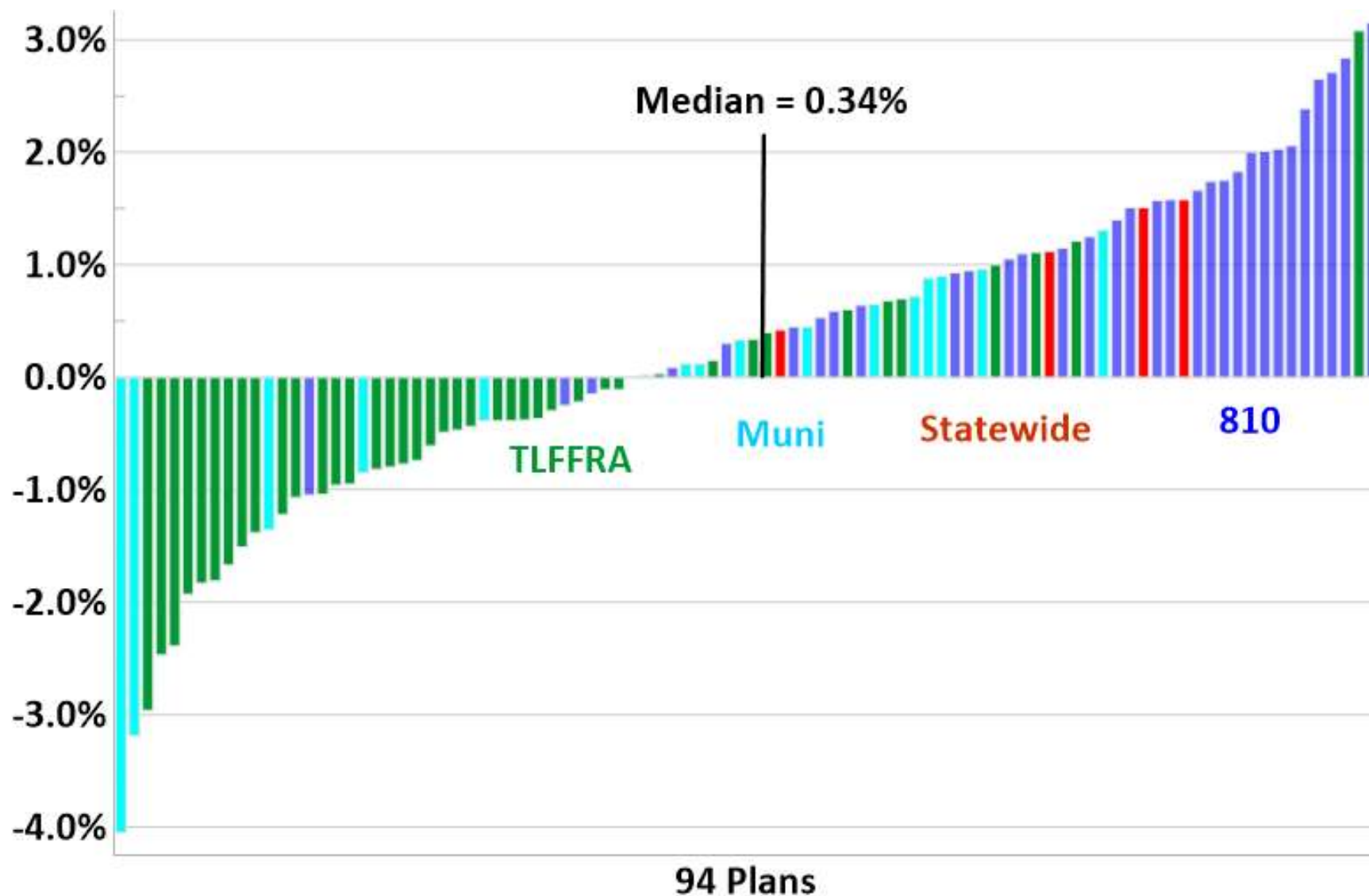
Distribution of Texas Public Pension Investment Return Assumptions By Peer Group, March 2022



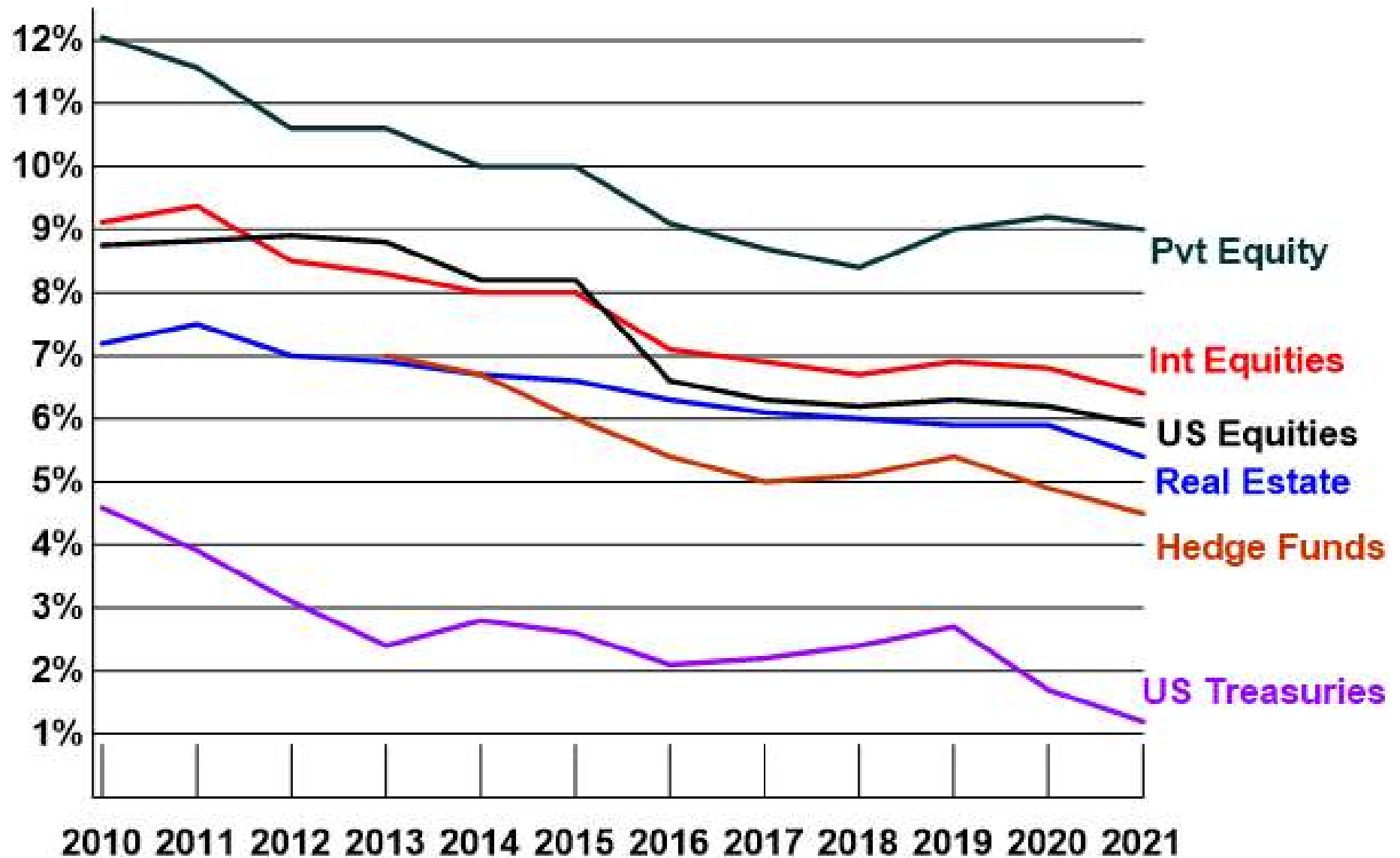
Average Assumed vs Actual 10-Year Returns, For Periods Ended in 2020 Divided by Peer Group



Distribution of Difference in Assumed and Actual 10-Year Investment Returns Divided by Peer Group For Periods Ended in 2020

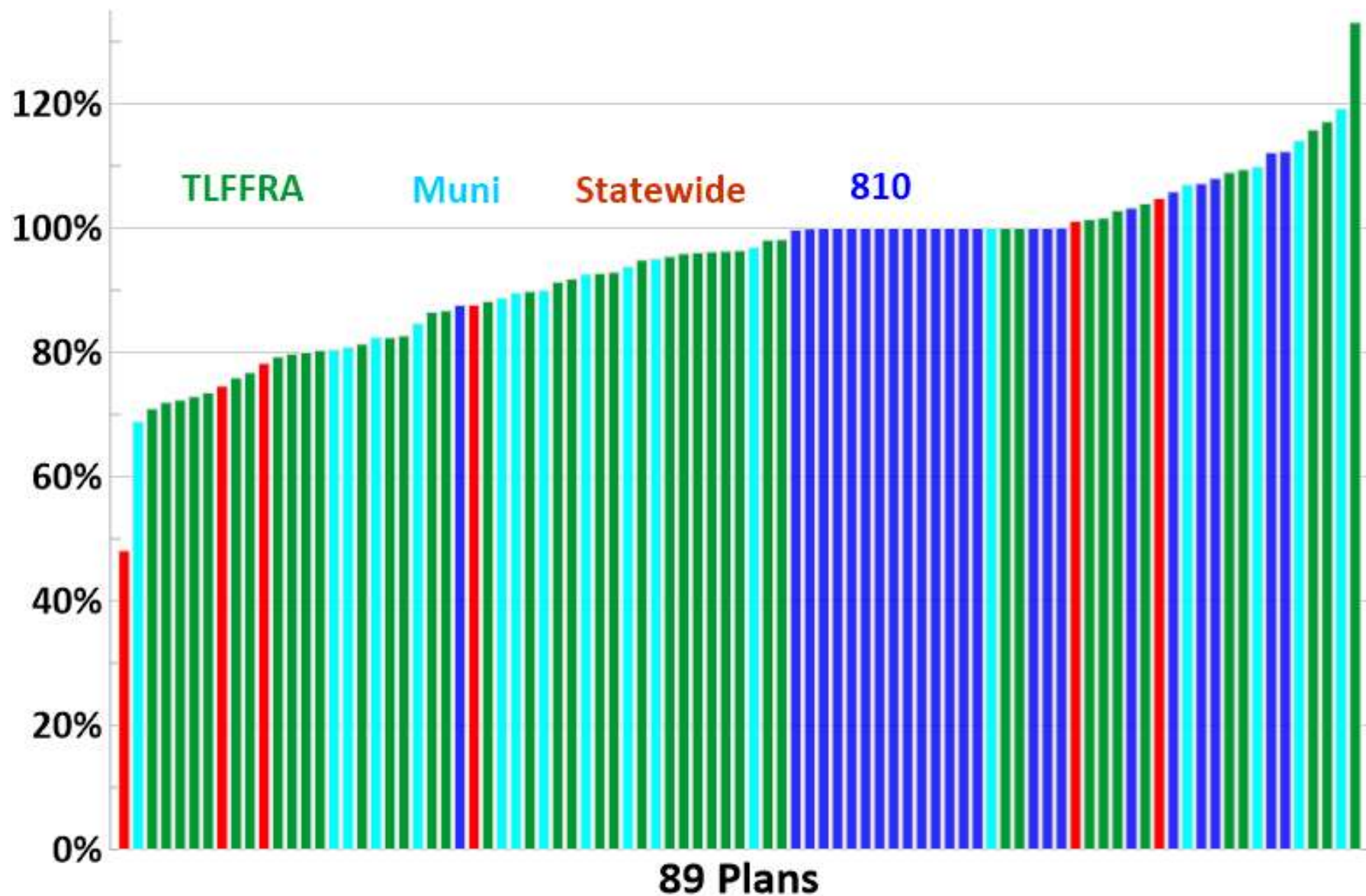


Projected Returns on Individual Asset Classes 10 Years

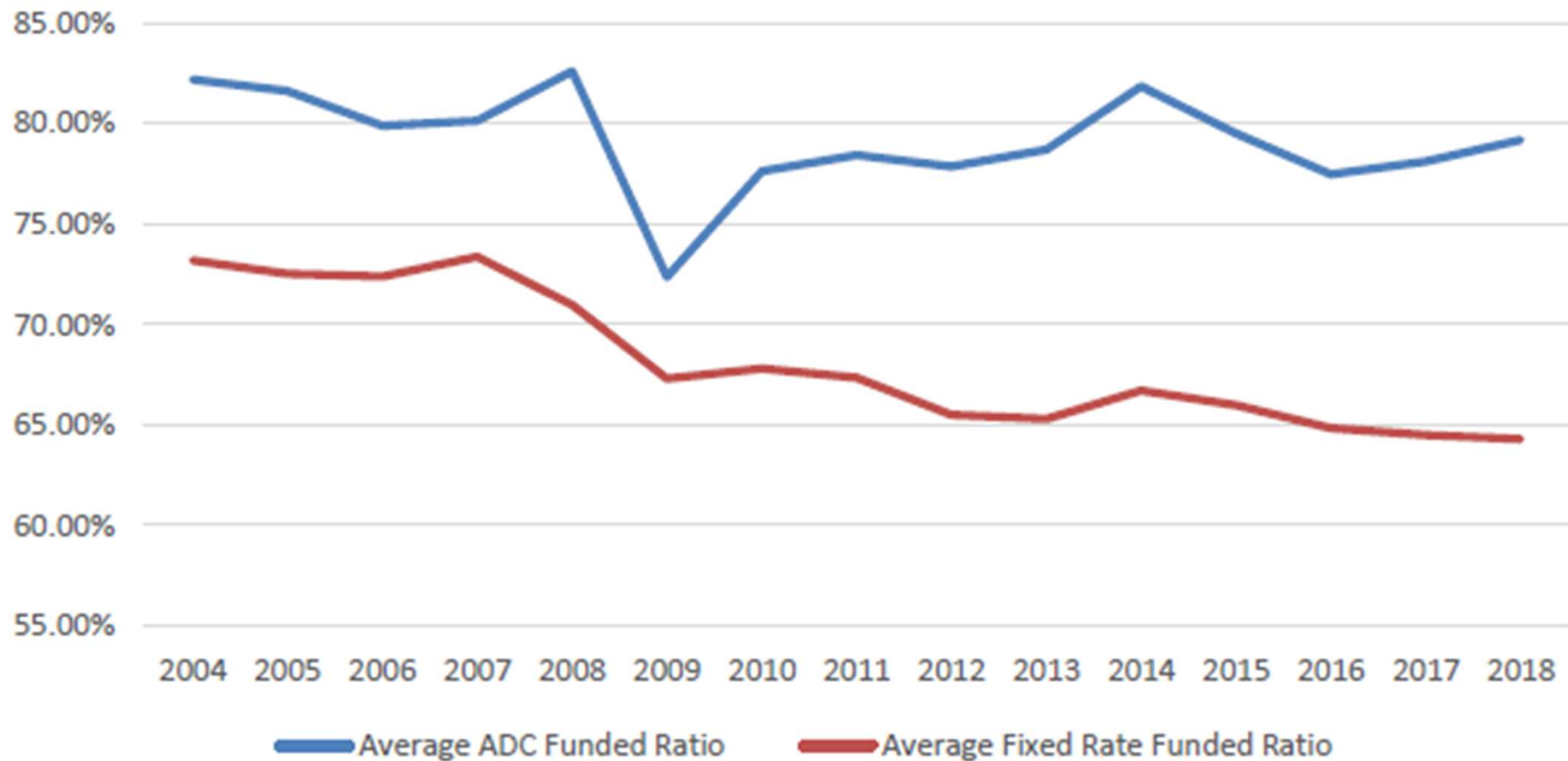


Horizon Actuarial Services

Average Actuarially Determined Contribution Received for 10 Years Ended 2020



Funding Level of Texas Public Pension Plans Based on Contribution Basis Fixed Rate vs ADC



**Texas Pension Review Board, “Interim Study, Funding Policies
for Fixed-Rate Pension Plans,” January 2019**

Texas House Committee on Pensions, Investments, and Financial Services Interim Charge

Among others:

Review the Texas Local Fire Fighters Retirement Act to ensure proper governance and financial oversight. Examine whether the Pension Review Board has proper oversight and authority to implement necessary corrective measures.

Possible TLFFRA Governance Considerations

- In lieu of the 12% statutory minimum employer contribution rate, require that the full actuarially determined contribution be made each year
 - ▲ Rationale: Paying the ADC is a best practice and public pension contribution levels should not be negotiable
- Require joint city council and board approval of employee contribution rates and benefit changes
 - ▲ Rationale: The city is liable for the benefits and their cost, and plan members should not determine their own contribution rates or benefit levels

- keith@nasra.org

- 202-624-8464