

Employees Retirement System of Texas

Senate State Affairs

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Executive Director

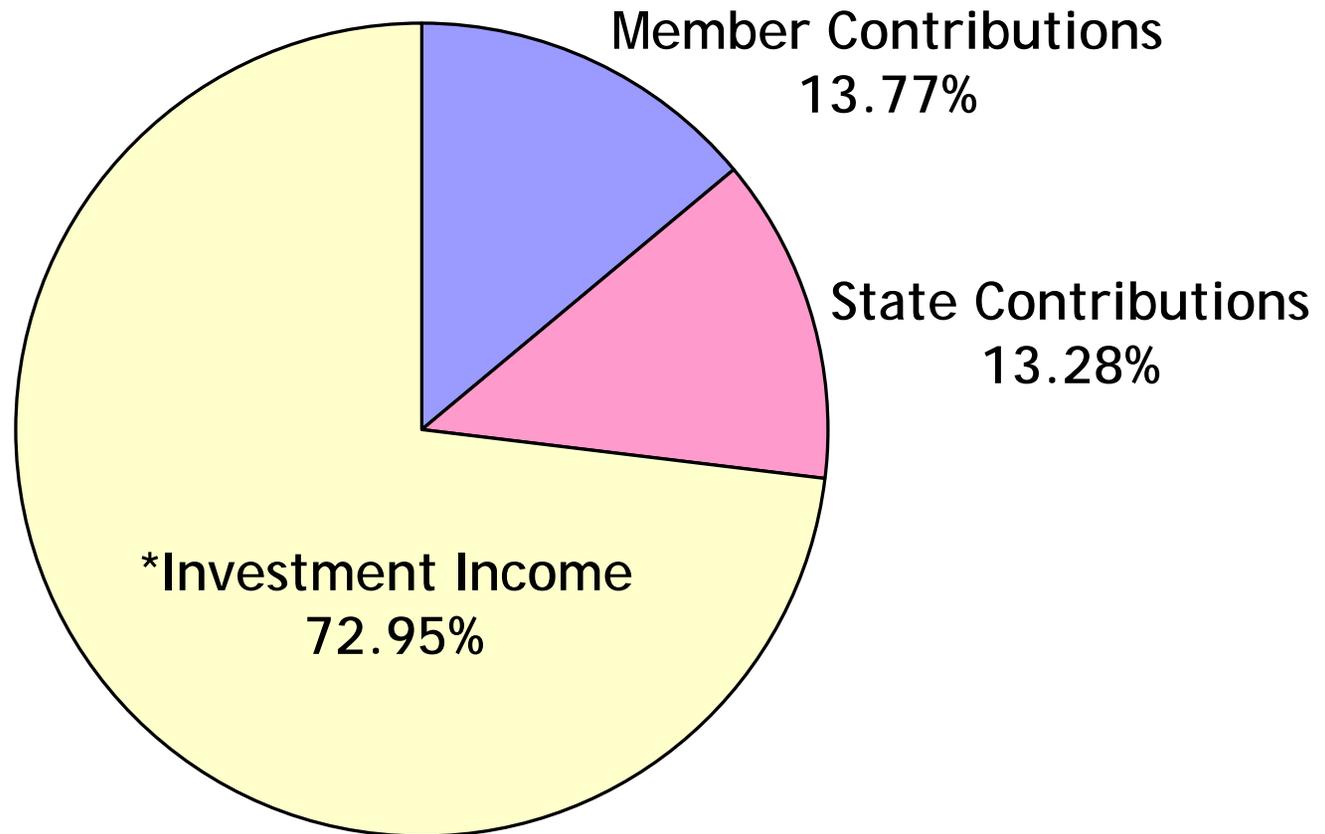


ERS Background Info

- ◆ Established by Constitutional Amendment passed in 1945, began operations in 1947
- ◆ In 60 years of ERS operations, \$11.3 billion paid in retirement benefits
- ◆ \$8 billion paid in retirement benefits between 1995-2005



ERS Trust Fund Revenue Fiscal Year 2006



Member's Contribution is greater because State does not match 6.45% when members purchase prior refunded service or additional service credit

*Investment income is net investment expenses



ERS Funded Status

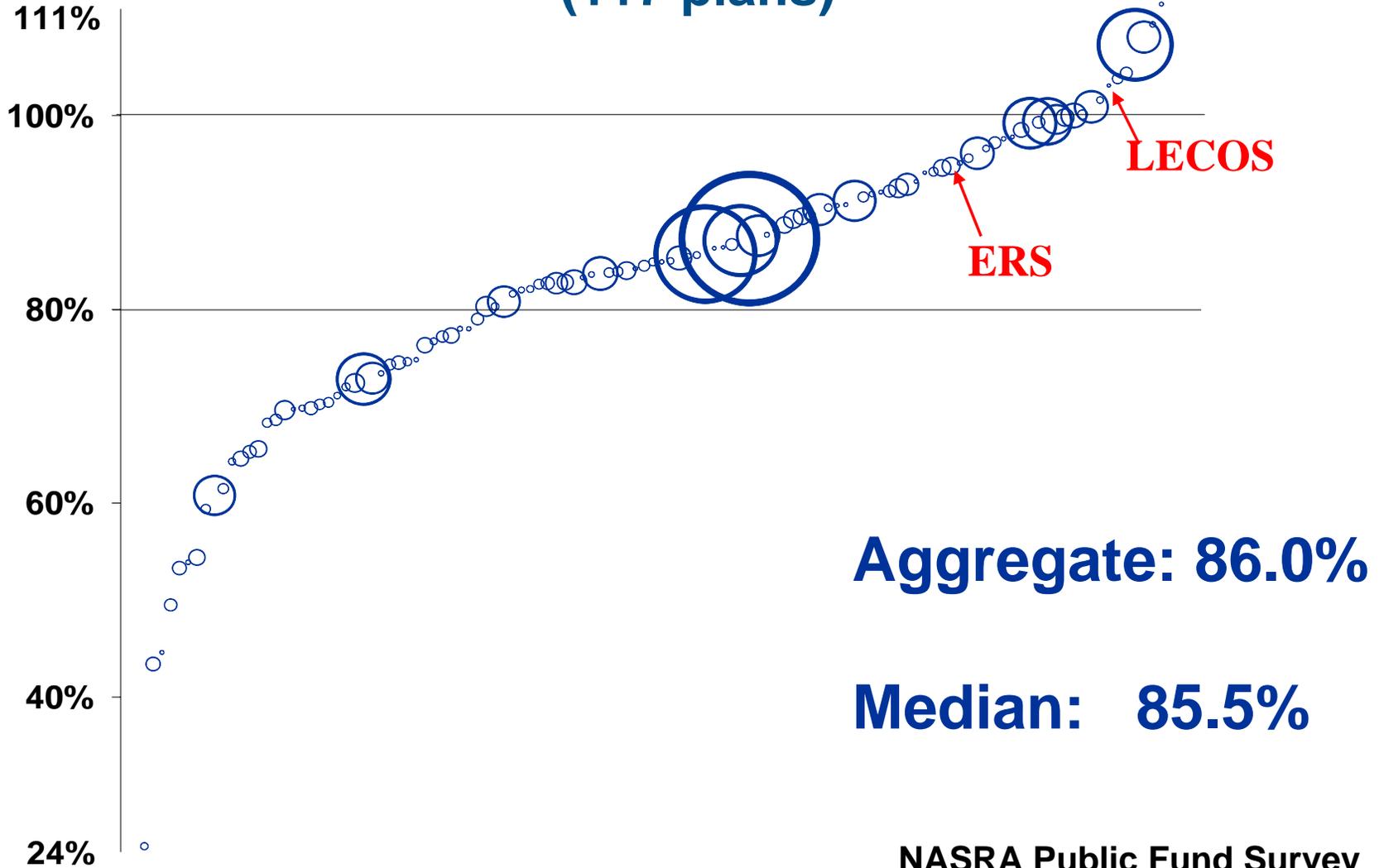
(All full-time/part-time state agency employees & elected state officials)

◆ Current contribution rate	12.45%
◆ Normal Cost (Percent of payroll)	12.28%
◆ Actuarial Value of Assets	\$20.8 billion
◆ Actuarial Accrued Liability	\$21.9 billion
◆ Net Liability Balance	(\$1.1 billion)
◆ Funded Ratio	94.8%
◆ Amortization Period	Infinite
◆ Annual Required Contribution	13.59%

Based on August 31, 2005 Actuarial Valuation



Public Pension Funding Levels By Plan Size (117 plans)

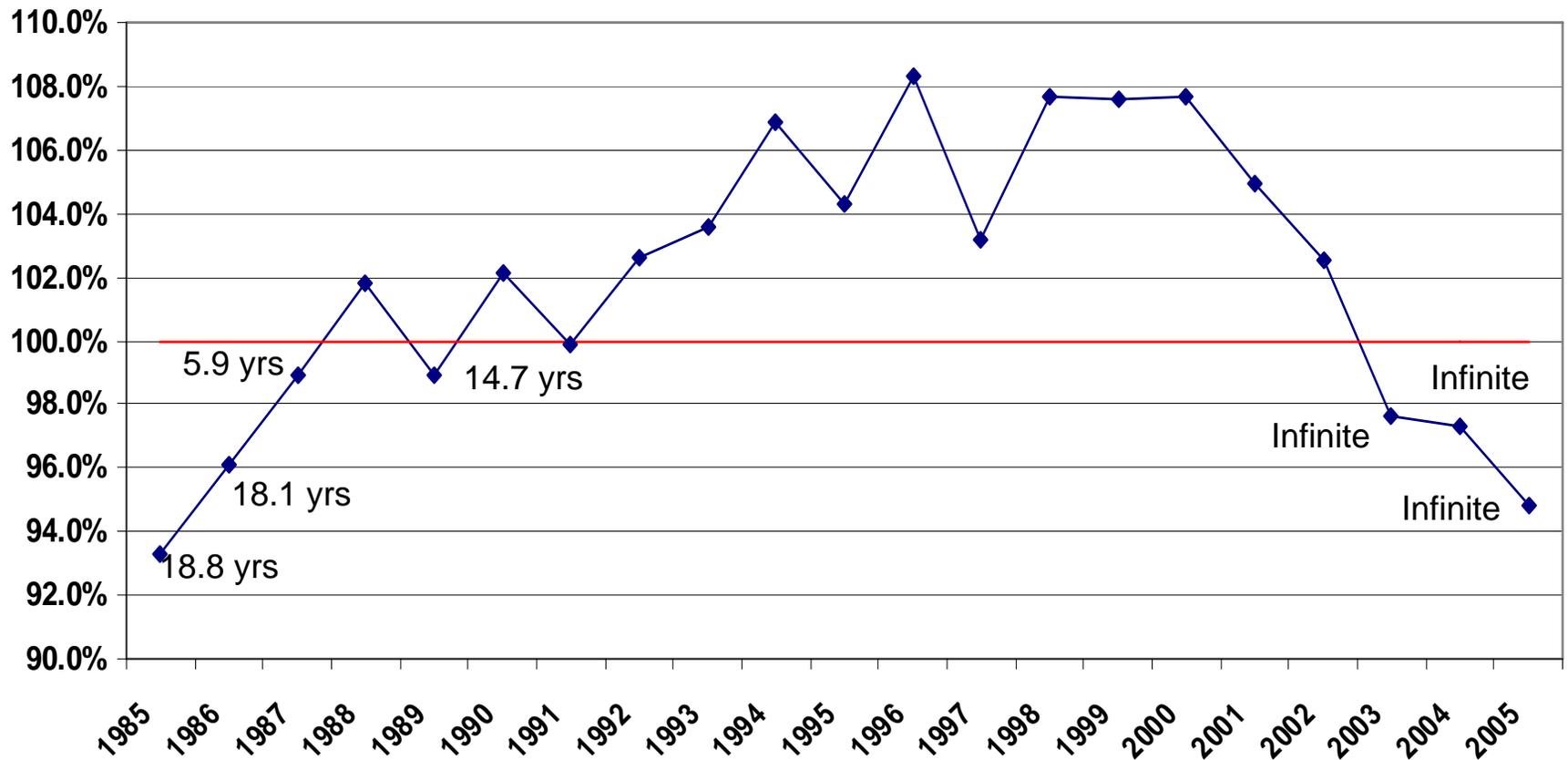


When Is Funded Ratio Too Low?

- ◆ With 94.8% funded ratio, ERS is financially solid
- ◆ The funded ratio is a long-term calculation -- movement around the 100% number is normal
- ◆ The Pension Protection Act of 2006 requires private sector pension plans to improve when they fall below 80% funded
- ◆ Funded ratio can drop below 100% and the fund remain actuarially sound



History of ERS Funded Ratio 1985- 2005



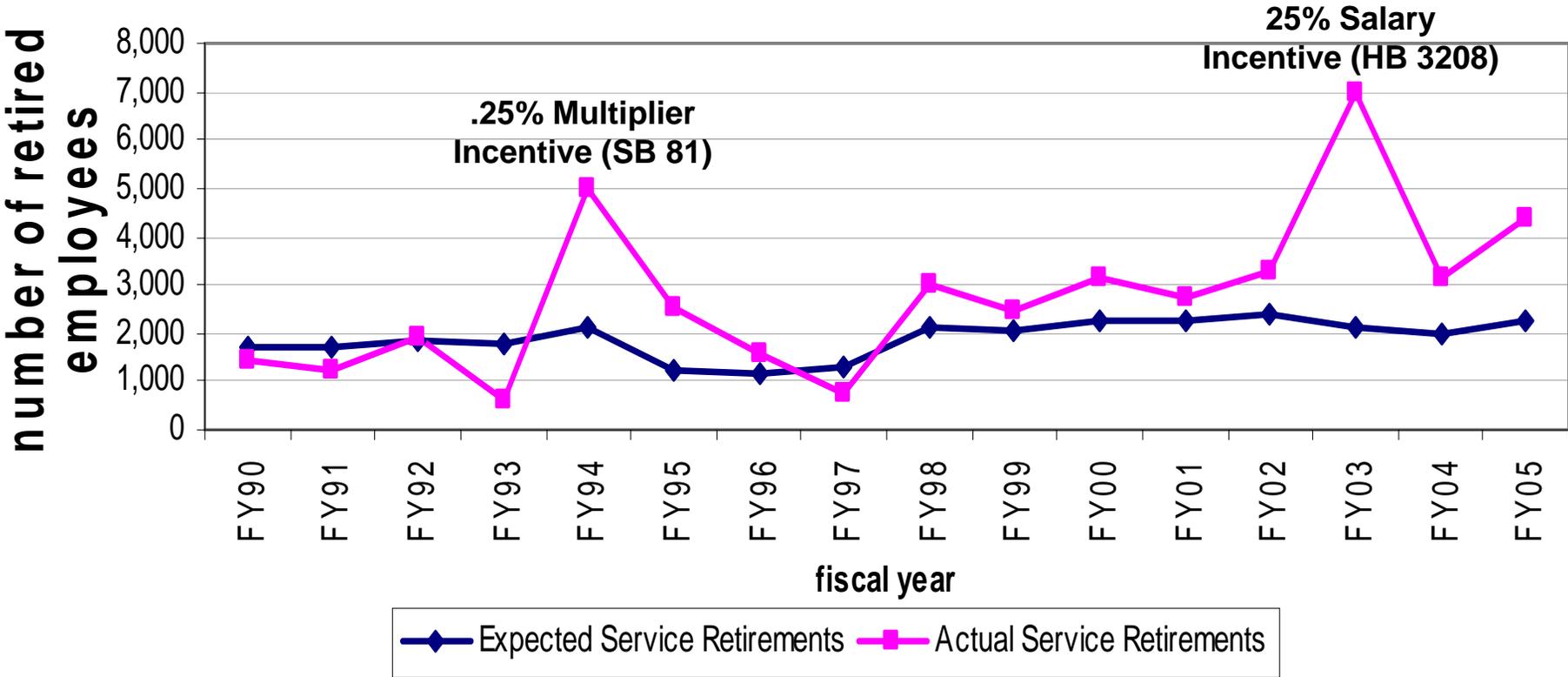
Amortization Period Reflected Above for Periods when Funded Ratio Fell Below 100%



Assumed vs. Actual Experience - Impact on Actuarial Accrued Liabilities

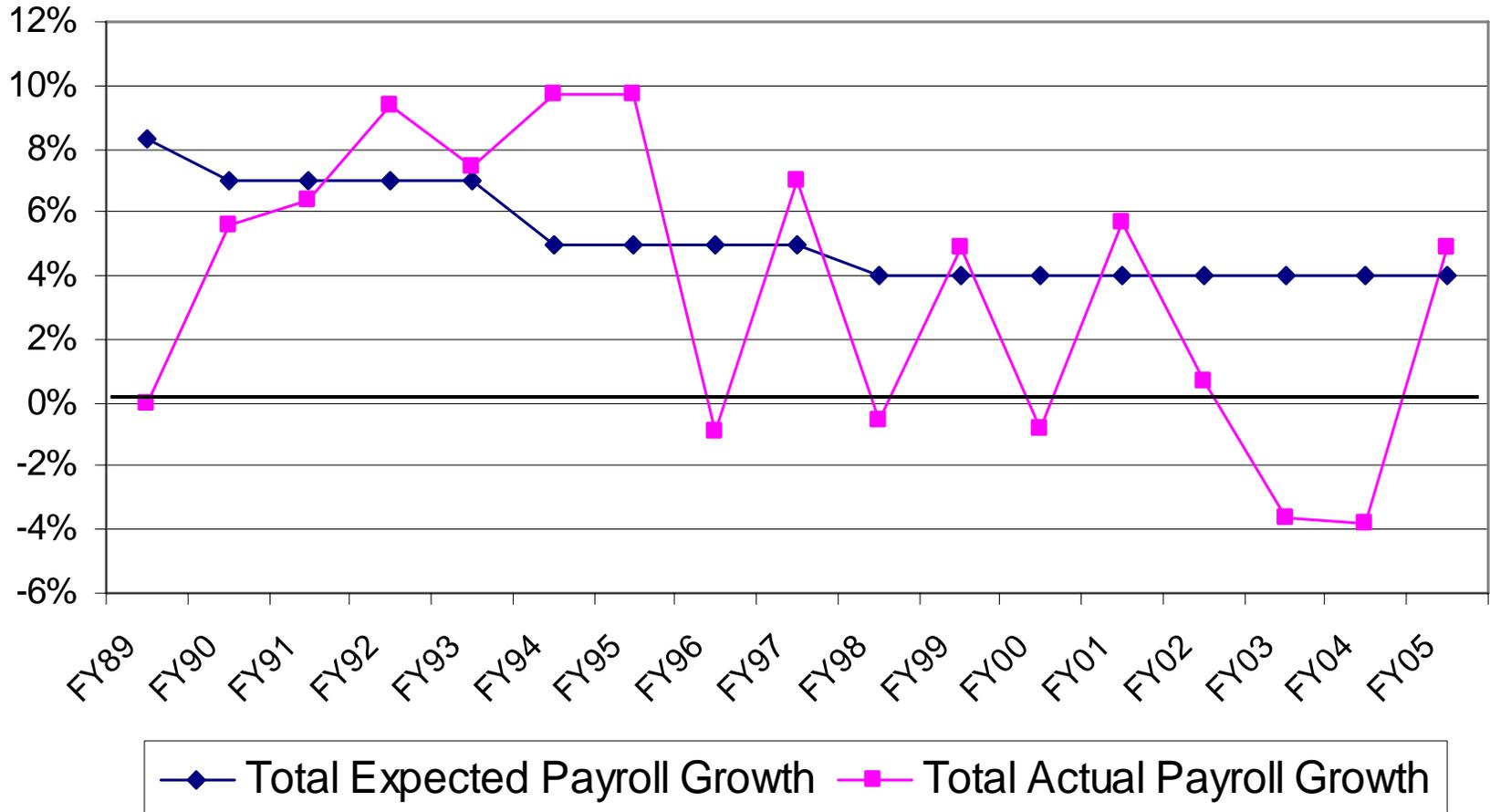
<u>Type of Activity</u>	ERS		LECOS	
	2005	2004	2005	2004
<i>Combined gain/(loss) from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment</i>	(324.3)	(166.2)	(4.0)	0.5
<u>Pay Increases</u> If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	(251.6)	400.9	(17.3)	15.5
<u>Interest on Overfunded/(Unfunded) Actuarial Accrued Liability</u> A gain/(loss) is recognized each year for the actual interest accumulated and credited to the overfunded/(unfunded) actuarial accrued liability at the beginning of the year.	(44.4)	(38.4)	4.6	5.5
<u>Contribution Income</u> If contributions are received in excess of normal cost, there is a gain. If less, a loss.	(21.4)	(12.4)	(20.7)	(21.4)
<u>Investment Income</u> If there is greater investment income than assumed, there is a gain. If less income, a loss.	(98.6)	(309.8)	(3.3)	(10.7)
<u>Death After Retirement</u> If retirees live longer than assumed, there is a loss. If not as long, a gain.	120.9	76.2	3.3	(0.3)
<u>Other</u> Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(30.4)	(24.9)	-	-
Gain/(Loss) During Year from Financial Experience	(649.8)	(74.6)	(37.4)	(10.9)
<u>Non-Recurring Items</u> Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, etc.	70.8	-	0.5	-
8 Composite Gain/(Loss) During Year (in millions)	(579.0)	(74.6)	(36.9)	(10.9)

Expected vs. Actual Service Retirements FY 1990 - FY 2005



Expected vs. Actual Payroll Growth*

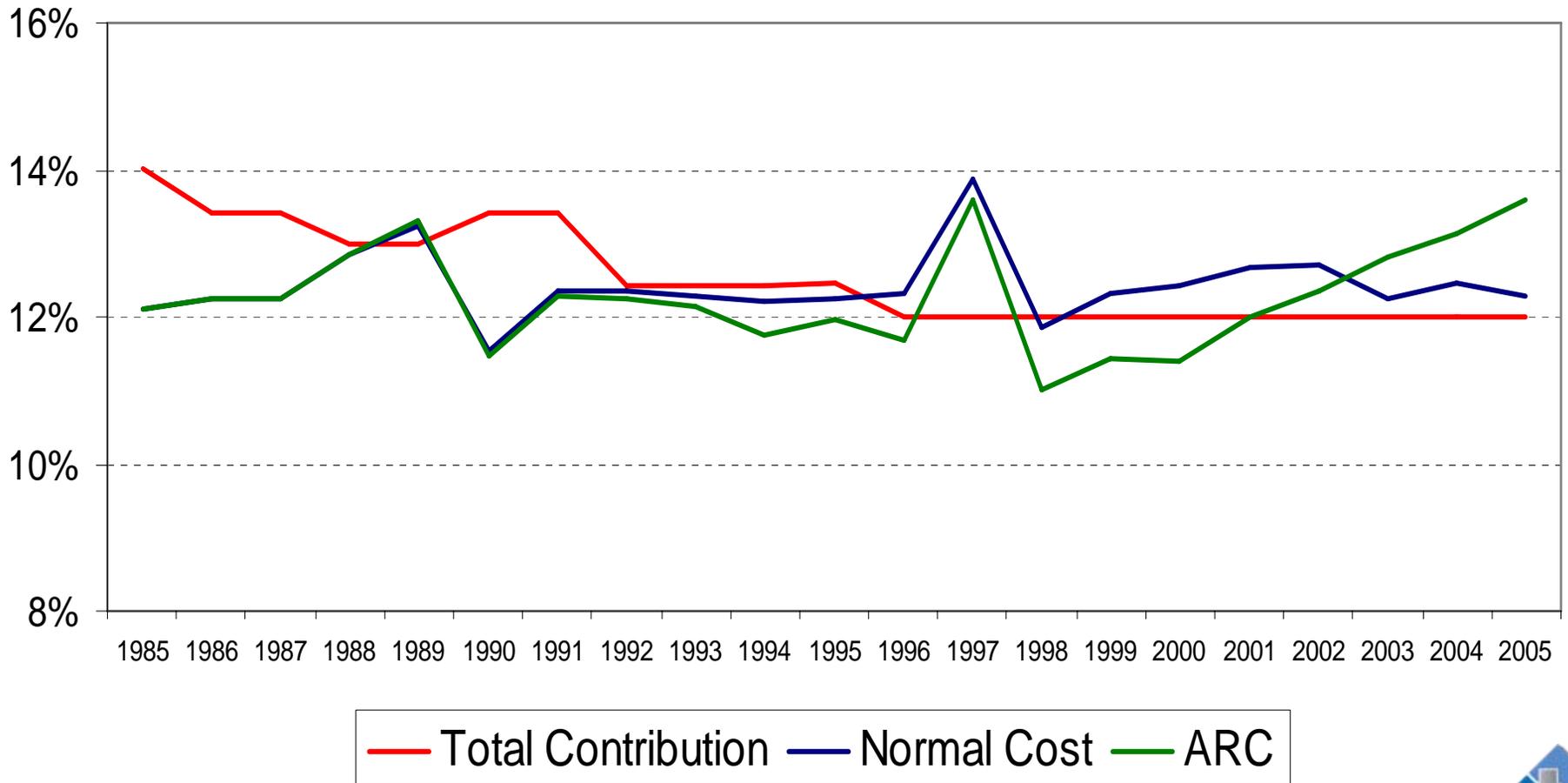
FY 1989 – FY 2005



* **Payroll growth** = Percentage growth in number of active members plus the percentage increase in average salaries

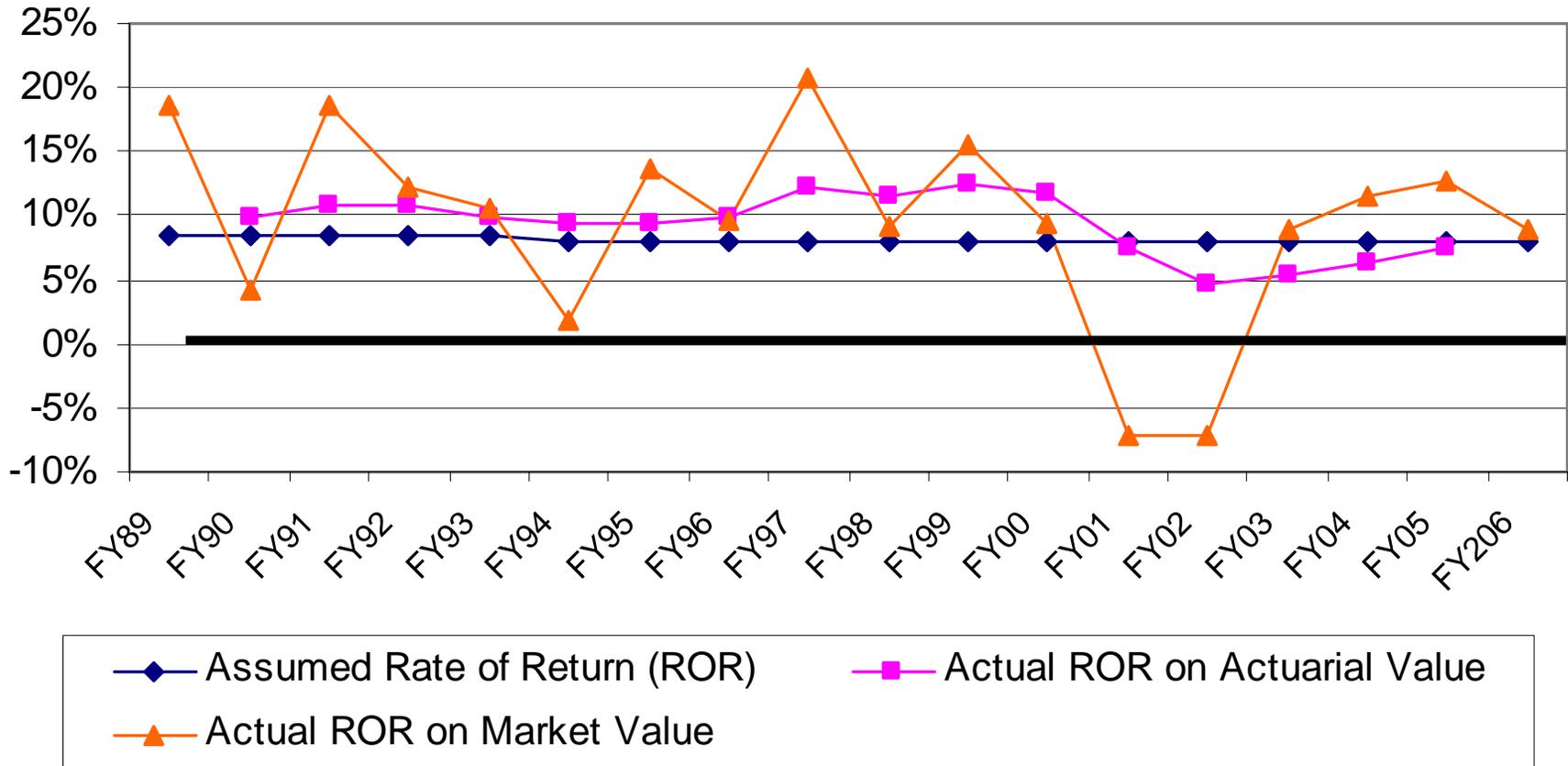


History of Contribution vs. Normal Cost and Annually Required Contribution 1985-2005

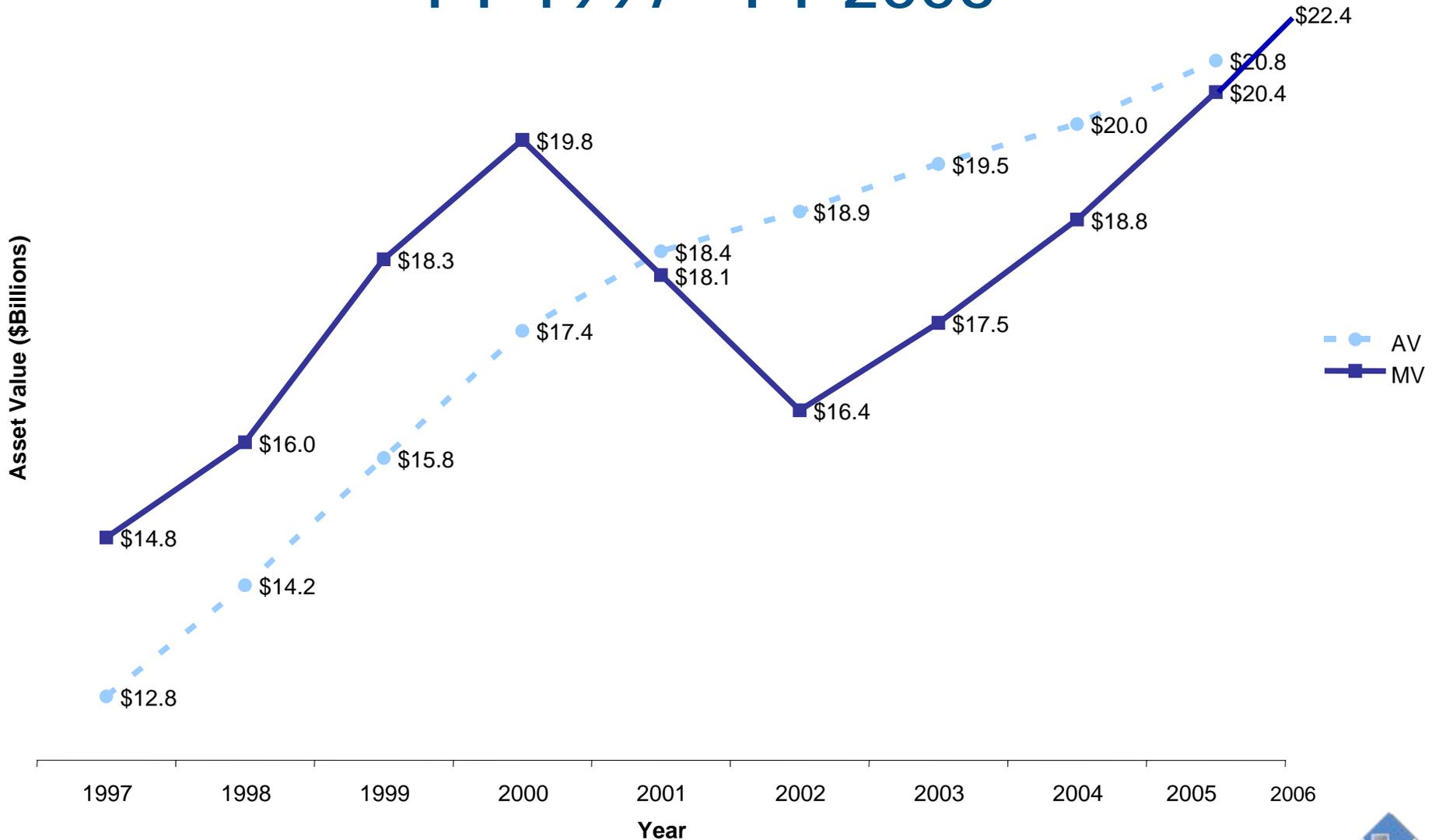


ERS Investment Experience

FY 1989 - FY 2006



Actuarial Value & Market Value of Assets FY 1997 - FY 2006



FY 2006 Investment Results

◆FY 2006 return	8.83%
◆Actual 10 year return	7.99%
◆Policy benchmark 10-yr return	7.89%
◆Actuarial assumption	8.00%



LECOSRF Background Info

- ◆ Created by the Legislature in 1979
- ◆ Over the past 10 years...
 - ◆ Active members have decreased 4.12%
 - ◆ Retirees have increased 149.3%
 - ◆ Monthly annuity payroll has increased 98%
- ◆ Original funding source repealed in 1995
- ◆ Without funding source, funded ratio is expected to drop below 100% during the current biennium



Law Enforcement & Custodial Officer Supplemental Retirement Fund ~ LECOSRF

(Law enforcement officers commissioned by DPS, TABC, TBPC Capitol Area Security Force, TDP&W, custodial and parole officers employed by the TDCJ supervising and having direct contact with inmates)direct contact with inmates)

◆ Current Contribution Rate	0%
◆ Normal Cost (Percent of Payroll)	1.62%
◆ Actuarial Value of Assets	\$698.8 million
◆ Actuarial Accrued Liability	\$677.9 million
◆ Net Asset Balance	\$20.8 million
◆ Funded Ratio	103.1%
◆ Amortization Period	0.0

Based on August 31, 2005 Actuarial Valuation



JRS II Funded Status

(Judges, Justices, and Commissioners of the Texas Supreme Court, Court of Criminal Appeals, Court of Appeals, and District Courts employed after August 31, 1985)

◆ Current Contribution Rate	16.83%
◆ Normal Cost (Percent of Payroll)	20.98%
◆ Actuarial Value of Assets	\$164,230,979
◆ Actuarial Accrued Liability	\$182,311,161
◆ Net Asset Balance	(\$21,625,727)
◆ Funded Ratio	90.1%
◆ Amortization Period	26.0

Based on August 31, 2005 Actuarial Valuation



ERS Trust Fund In Summary

- ◆ Financially solid and provides guaranteed lifetime annuity to State of Texas retirees
- ◆ Allows for annuity increases when UAAL can be amortized over 31 years
 - ◆ Six “13TH Checks” from 1993 to 2001
 - ◆ Ad-hoc increases
 - ◆ Cost-of-living increase based on Consumer Price Index for all retirees
- ◆ Allowed ERS’ funded ratio to remain in national top third despite:
 - ◆ Major downturn in market in 2001 & 2002; and
 - ◆ Normal Cost under-funded
 - ◆ Retirement Incentives
- ◆ Results in 72% of the Fund’s revenue coming from investment earnings



APPENDIX



Retirement Appropriation Request for 2008-2009

- ◆ \$660 million to continue current contribution rate
- ◆ \$117 million for ERS to receive ARC contribution
- ◆ \$46 million for LECOSRF to receive ARC contribution

Total Retirement = \$822.2 million



Current Status of ERS Retirement Funds

August 31, 2005 Actuarial Valuation

FINANCIAL DATA	<u>ERS</u>	<u>LECOSRF</u>	<u>JRS II</u>	<u>JRS I</u>
Actuarial Value of Assets	\$20.8 billion	\$699 million	\$164 million	0
Current STATE Contribution Rate	6.45%	N/C	16.83%	None - "Pay As You Go" Plan
Current MEMBER Contribution Rate				
First 20 years	6.00%	0.00%	6.00%	6.00%
After 20 Years	6.00%	0.00%	0.00%	0.00%
Funded Ratio	94.80%	103.10%	90.10%	JRS I is not a pre-funded retirement plan.
Normal Cost	12.28%	1.63%	20.98%	N/A
Annually Required Contribution (ARC)	13.59%	1.7%*	N/A	N/A
MEMBER DATA				
Active Members	133,331	37,175	491	43
Inactive Members	57,079	12	88	16
Average Salary	\$34,345	\$31,848	\$99,734	
Average Entry Age	33-34	--	45	--
Average Age	43	40.8	53.5	--
RETIREE DATA				
Annuitants	62,822	4,942	81	491
Average Service at Retirement	22.76	25.48	11.63	17.42
Average Retiree Age	67	61	67	75
Average Monthly Annuity	\$1,574	\$2,478	\$4,421	\$4,735
Average Age @ Retirement	58	53	63	62

*Based on current projection

