State Pension Review Board

2011 – 2012 Biennial Report

State Pension Review Board
2011-2012
Biennial Report

Richard E. McElreath, Chair
Position: Securities & Investment
Term Expiration: January 31, 2013
Hometown: Amarillo

Paul A. Braden, Vice Chair
Position: Pension Law
Term Expiration: January 31, 2015
Hometown: Dallas

Andrew W. Cable
Position: Active Member
Term Expiration: January 31, 2013
Hometown: Wimberley

Leslie Greco-Pool
Position: Securities & Investment
Term Expiration: January 31, 2015
Hometown: Euless

J. Robert Massengale
Position: Retired Member
Term Expiration: January 31, 2017
Hometown: Lubbock

Norman W. Parrish
Position: Actuarial Science
Term Expiration: January 31, 2013
Hometown: The Woodlands

Wayne R. Roberts
Position: Governmental Finance
Term Expiration: January 31, 2015
Hometown: Austin

The Honorable Vicki Truitt
Position: State Representative
Term Expiration: January 31, 2011
Hometown: Keller

The Honorable John H. Whitmire
Position: State Senator
Term Expiration: January 31, 2005
Hometown: Houston

Christopher D. Hanson
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PRB

Pension Review Board

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November 30, 2012

The State Pension Review Board (PRB) is pleased to present this report on its activities and findings for 2011-2012. The PRB is committed to its mission to ensure that Texas public retirement systems are properly managed and actuarially sound.

In light of the current challenging economic climate, heightened policy debates on public pensions, federal law developments and other pension-related issues originating in Texas and across the country, the PRB has undertaken many important educational and research projects. With the goal to keep policymakers and Texas public retirement systems abreast of these current developments and disseminate accurate information as they weigh important decisions impacting public pensions, the PRB initiated and completed the following educational and research projects over the last two years: reviewed and updated Board policies to provide better guidance to Texas public retirement systems; published the first in a series of white papers on public pension topics; closely monitored federal law developments and distributed reports; analyzed the proposed and adopted changes and revisions to public pension plan accounting and disclosure practices and actuarial standards; and continually updated its website with agency reports and other public pension related information. Additionally, the Board submitted reports to the House Committee on Pensions, Investments, and Financial Services (PIFS) analyzing the condition of Texas public retirement systems in February of 2011 and in September of 2012.The PRB remains committed to its mission to ensure that Texas public retirement systems are properly managed and actuarially sound.

The PRB is the sole on-going oversight mechanism for Texas public retirement systems, but to fulfill our mission requires the combined effort of the trustees, administrators, sponsoring governmental entities and other members of the Texas public pension plan community. The PRB is honored to serve the State of Texas and will remain focused to oversee that the best benefits are securely provided at the lowest cost to the taxpayers.

Sincerely,

Richard McElreath
Chairman

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EXECUTIVE SUMMARY

The State Pension Review Board (the "Board" or the "PRB") was established by H.B.1506, 66th Legislature, R.S. (V.T.C.A., Title 8, Chapter 801, Government Code,) effective September 1, 1979, as an oversight agency for Texas public retirement systems. Pursuant to section 801.203, the PRB is pleased to summarize its work and findings for 2011-2012. The PRB undertook many important projects in the last two years. First, the Board extensively reviewed and adopted updates to its "Guidelines for Actuarial Soundness," the "Policy for Determination of System Actuarial Review," and "Policy for Regulation of Non-Compliant Retirement Systems." During the review process, the Board attempted to promote transparency by engaging stakeholders in the policymaking process. The Board conducted open meetings and surveys to seek input from interested parties on the policies being reviewed. Second, the Board submitted reports to the House Committee on Pensions, Investments, and Financial Services (PIFS) analyzing the condition of Texas public retirement systems in February of 2011 and in September of 2012. Third, the Board further strengthened its commitment to educational services by publishing two white papers on pension-related topics and currently preparing two additional papers; monitoring federal law developments and distributing reports to keep its constituents including Texas public retirement systems, abreast of all the federal issues that could potentially affect them; monitoring and analyzing through its staff actuary the Governmental Accounting Standards Board's (GASB) and Actuarial Standard Board's (ASB) proposed and adopted changes and revisions to public pension plan accounting and disclosure practices and actuarial standards, respectively; continually updating its website with agency reports, and other public pension related information as a forum to strengthen its educational outreach goals; and tracking and compiling pension-related issues originating in Texas and across the country and disseminating the same to interested parties via its weekly electronic news clips service. Fourth, in 2011 the agency conducted two legislative training sessions, and hosted two annual seminars in June 2011 and October 2012. Finally, the PRB made significant progress towards improving plan compliance and in assisting Texas public retirement systems with meeting statutory reporting requirements.

Beyond this, increasing its staff level has helped improve the its expertise and allowed for more complex analysis of pension-related issues. The agency has enhanced the continuing review of retirement systems by conducting trend, financial and actuarial analysis and comparative studies of Texas public retirement systems and will be available to provide actuarial services to smaller plans at no cost to the plans.

Additionally, the agency is partnering with the Office of Comptroller of Public Accounts to fulfill the requirements of S.B. 701, 82nd Legislature, which promotes online transparency through online searchable high-value data sets on the Internet. The PRB provided pension-related data, including annual financial and membership information, current actuarial and investment policy information, and plan design and plan contact information of Texas public retirement systems to the Comptroller's Office. The PRB data sets will be published in a searchable format on the Comptroller's website *Window on State Government.*

The PRB is under review by the Sunset Advisory Commission (SAC). The SAC staff report stated that as long as Texas has traditional defined benefit pensions, the state needs to monitor their financial soundness and the PRB has the resources necessary to analyze pension plans across the state. The SAC staff report specified that Texas has a continuing need for the PRB and recommended to continue the PRB as an independent agency responsible for overseeing Texas' public retirement systems and providing pension-related information. On November 13, 2012, the full SAC adopted the staff recommendation to continue the PRB for another 12 years.

The PRB remains committed to its mission to ensure that Texas public retirement systems are properly managed and actuarially sound. The Board has dealt with issues concerning public pension plans in the past and will continue to attempt to address future challenges of public pension plans. The issues facing public pension plans require consistent, long-term management to ensure that Texas plans remain adequately funded into the future. While there are indeed challenges ahead, when taken as a whole, the aggregate of Texas public pension plans remain well funded.

STATE PENSION REVIEW BOARD OVERVIEW

Mission Statement and Philosophy

The PRB is mandated to oversee all Texas public retirement systems, both state and local, in regard to their actuarial soundness and compliance with state law. Its mission is to provide the State of Texas with the necessary information and recommendations to ensure that public retirement systems, whose combined assets total in the multi-billions, are actuarially sound, properly managed, with equitable benefits. Furthermore, the PRB watches to see that tax expenditures for employee benefits are kept to a minimum while still providing for plan beneficiaries and to expand the knowledge and education of administrators, trustees, and members of Texas public pension funds.

The PRB acts in accordance with the highest standards of ethics, accountability, efficiency, and openness. We are proud to be of service to the state in helping ensure that promised pension benefits are provided to the public retirement systems' annuitants and in seeing that tax dollars are spent efficiently.

Statutory Functions

The PRB was established by H.B.1506, 66th Legislature, R.S. (V.T.C.A., Title 8, Chapter 801, Government Code,) effective September 1, 1979, as an oversight agency for Texas public retirement systems. The general duties of the PRB outlined in Chapter 801 are to 1) conduct a continuing review of public retirement systems, compiling and comparing information about benefits, creditable service, financing and administration of systems; 2) conduct intensive studies of potential or existing problems that threaten the actuarial soundness of or inhibit an equitable distribution of benefits in one or more public retirement systems; 3) provide information and technical assistance on pension planning to public retirement systems on request; and 4) recommend policies, practices, and legislation to public retirement systems and appropriate governmental entities. The agency is to prepare and provide actuarial impact statements for bills and resolutions that propose changing the amount or number of benefits or participation in benefits of a public retirement system or that proposes changing a fund liability of a public retirement system. Additionally, the board is authorized to conduct training sessions, schools, or other educational activities for trustees and administrators of public retirement systems. The board may also furnish other appropriate services such as actuarial studies or other requirements of systems and may establish appropriate fees for these activities and services.

Board Composition

Since the publication of the 2009-2010 State Pension Review Board (PRB) Biennial Report, the following changes have occurred in the Board composition.

On April 29, 2011, Governor Rick Perry appointed Ms. Leslie Greco-Pool to the securities investment position on the Board, replacing Mr. Scott D. Smith who resigned on April 1, 2010. Governor Perry reappointed Mr. Robert Massengale to the retired member position on April 29, 2011, for a term to expire January 31, 2017. At the March 7, 2012, meeting, the Board re-elected Mr. Paul A. Braden as Vice Chair for 2012.

Organizational Aspects

The Board is composed of nine members. The governor appoints seven of these: three persons who have experience in the fields of securities investment, pension administration, or pension law and are not members or retirees of public retirement systems; one active public retirement system member; one retired public retirement system member; one person who has experience in the field of governmental finance; and an actuary. The lieutenant governor appoints a state senator and the speaker of the house appoints a state representative.

The PRB has grown from a staff of four to its current level of twelve employees, including the executive director. Through its limited number of employees, the PRB has tried to increase staff expertise to allow for more intricate analysis of plans correlating to the demographic shifts in the state and investment complexity of pension funds. As issues involving public pensions grow more complex, the PRB staff provides a high quality of work for public retirement systems, their administrators, trustees and members in Texas.

Currently thirteen budgeted positions exist but due to budgetary constraints only twelve are filled, including the executive director. The executive director, selected by the members of the PRB, manages the day-to-day operations of the agency and provides oversight for all programs and activities. The agency is organized based on two main work areas: operational and analytical.

Operational

Administrative division: Provides all administrative functions including document management, receipt of all reports filed with the agency, managing contact information, annual and regional seminars, and all other necessary support.

Accounting/human resources division: Handles all matters related to Human Resources and Accounting including management of appropriated funds, purchasing and property control, personnel files, and coordinating board member travel.

Analytical

Data division: Manages all public retirement system data received by the agency and provides data support to other divisions. It is responsible for several activities, however, the most important is to review all plan information to ensure compliance with state reporting requirements. The Data division conducts reviews of all plan information received pursuant to Chapter 802. Additionally, it provides information through technical assistance when requested by public retirement systems, policy makers or the public. Finally, it provides data support for intensive studies or when the agency recommends policies, practices, and legislation to public retirement systems and appropriate governmental entities.

Actuarial division: Provides actuarial expertise to the agency, public retirement systems, the legislature, and the public. The Actuarial division is responsible for evaluating compliance with the PRB's "Guidelines for Actuarial Soundness" and providing in-depth actuarial review of system actuarial valuations, overseeing the actuarial analysis process, and providing actuarial reviews during legislative sessions.

Investment division: Provides investment and financial expertise including examination of investment performance of Texas public retirement systems, cash flow and solvency analysis, studies of current investment issues, and system investment policy reviews.

Policy division: Develops agency policies and procedures, prepares reports to other state agencies and legislative oversight bodies, reviews state and federal laws and their impact on Texas pension plans, and serves as the agency liaison with the pension plans and the legislature.

MAJOR ACCOMPLISHMENTS

BOARD POLICIES AND PROCEDURES REVIEW

Overview

In January 2010, the Board began reviewing its existing policy statements and identifying areas in need of new policies and procedures. The review was divided into two separate areas, namely the review of PRB policies impacting its constituents and review of its internal governing structure. In the interest of transparency, the Board provided an open forum for its policy review by encouraging public discussion and comment during deliberations on these policies in open meetings, and by conducting surveys soliciting comments from interested parties. The Board discussed every comment received from interested parties before making final decisions on these policies.

Board Policies Review

Recent policy reviews completed include "Guidelines for Actuarial Soundness," "Determination of System Actuarial Review," and "Regulation of Non-Compliant Retirement Systems."

PRB Guidelines for Actuarial Soundness: In Spring 2010, the PRB began reviewing the "PRB Guidelines for Actuarial Soundness," a set of recommendations for Texas public retirement systems to help ensure equitable distribution of benefits to plan members. The guidelines were first adopted by the PRB in 1984 and were revisited in 1996, but had not changed since their initial adoption. A number of surveys of Texas public retirement systems and other interested parties were conducted which provided opportunities for public comment at PRB meetings and at several PRB actuarial committee meetings. The process culminated in an updated set of guidelines for actuarial soundness which were adopted on September 28, 2011. The following are the current **PRB Guidelines for Actuarial Soundness:**

1. *The funding of a pension plan should reflect all plan obligations and assets.*
2. *The allocation of the normal cost portion of the contributions should be level or declining as a percent of payroll over all generations of taxpayers, and should be calculated under applicable actuarial standards.*
3. *Funding of the unfunded actuarial accrued liability should be level or declining as a percent of payroll over the amortization period.*
4. *Funding should be adequate to amortize the unfunded actuarial accrued liability over a period not to exceed 40 years, with 15 - 25 years being a more preferable target. Benefit increases should not be adopted if all plan changes being considered cause a material increase in the amortization period and if the resulting amortization period exceeds 25 years.*
5. *The choice of assumptions should be reasonable, and should comply with applicable actuarial standards.*

The current "PRB Guidelines for Actuarial Soundness" can also be found on the PRB website at http://www.prb.state.tx.us/about/board/board-policies.html.

The most significant change concerns Guideline 4. The upper range of the amortization period required to be considered actuarially sound was maintained at 40 years, but the preferred target range was changed from 25–30 years to 15–25 years. Also, the following stipulation was added: "Benefit increases should not be adopted if all plan changes being considered cause a material increase in the amortization period and if the resulting amortization period exceeds 25 years."

Guidelines 2 and 5 were amended to include reference to "applicable actuarial standards," i.e., the Actuarial Standards of Practice (ASOPs) covering pension valuation methods and assumptions.

Policy for Determination of System Actuarial Review: Additionally, the Board modified the new policy for "Determination of System Actuarial Review" on September 28, 2011. This policy establishes the process the PRB and staff will follow to make a determination of actuarial unsoundness and provides possible actions based on that determination.

The following is the current **Policy for Determination of System Actuarial Review:**

1. *All actuarial reports received by the Pension Review Board (PRB) will be reviewed by the staff actuary in order to determine if the public retirement system is within the PRB "Guidelines for Actuarial Soundness."*
2. *If the staff actuary determines the system is not with the "Guidelines" a report detailing why the system is not meeting the "Guidelines" will be submitted to the executive director and board actuary.*

3. *If the board actuary concurs with the determination of the staff actuary, the executive director will notify the system of this determination in writing. The system will be requested to keep the PRB informed of any corrective action being considered or taken to meet the "Guidelines".*
4. *Any system determined to not be meeting the "Guidelines" will be placed under further staff review for further risk assessment. The staff may contact the system's actuary, chief executive, and plan sponsor to conduct staff reviews. The executive director and staff actuary will report findings to the board actuary.*
5. *The board actuary may recommend a system be placed under the review of the actuarial committee of the PRB. If a system is recommended as such, the findings of the staff review will be presented at the next meeting of the actuarial committee. The system and plan sponsor will be notified of the committee review and may appear before the committee for further discussion and review.*
6. *Upon the recommendation of the committee, a system and plan sponsor may be asked to appear at a regularly scheduled meeting of the PRB. If such recommendation is made, the system will be notified in writing.*

The current policy can be found on the PRB website at: http://www.prb.state.tx.us/about/board/board-policies.html

Policy for Regulation of Non-Compliant Retirement Systems: To facilitate and improve Texas public retirement systems' compliance with reporting requirements the PRB began updating its policy for "Regulation of Non-Compliant Retirement Systems" in 2010. The policy was updated to provide a consistent framework for the public retirement systems to address potential compliance related issues through the Board. Again, for transparency the Board vetted updates to the policy throughout the public process. Accordingly, the PRB surveyed Texas public retirement systems and provided opportunities for public comment at PRB meetings. The process culminated in the adoption on December 8, 2011, of the updated policy for regulating non-compliant retirement systems. The following is the current policy for **Regulation of Non-Compliant Retirement Systems:**

I. *Applicability. This policy applies to all public retirement systems defined in Chapter 802 of the Texas Government Code subject to the requirements of 802.103 and 802.104 of the Texas Government Code, which requires public retirement systems to submit to the Pension Review Board annual reports within a specified time frame.*

II. *Notification.*[1] *The PRB will notify each system 60 days prior to the system's annual reports being due to the PRB. Additionally, the PRB will notify each system 15 days prior to the system's reports being due to the PRB.*

III. *Non-Compliant. A plan is considered non-compliant if the PRB does not receive an audited annual financial report and annual membership report before the 211th day after the last day of the plan's fiscal year.*

[1] *The PRB will notify the primary contact(s) listed in the PRB database for each plan. If a plan wishes to change or obtain the list of their primary contact(s), the plan should contact the PRB to request or change the information.*

IV. *Late Notification. A plan that has not submitted their annual reports within 15 days of their due date will be notified by the PRB of their non-compliant status and will be requested to submit the required reports.*

V. *Staff Action. If the PRB does not receive the required reports within 15 days of the late notification, the staff of the PRB will contact the plan to notify them of their non-compliant status and attempt to resolve the compliance matter.*

VI. *Action of the Executive Director. If a plan is still non-compliant 60 days from the date its reports were due to the PRB and the staff has been unable to work with the plan to resolve the compliance matter, the Executive Director will contact the plan to notify the plan of its non-compliant status and that the plan's non-compliant status may be addressed by the PRB at an upcoming Board meeting.*

VII. *Information to the Board. At each PRB meeting, staff will recommend to the Board non-compliant plans for discussion. Staff's recommendation will be based on the severity of non-compliance for each plan, indicating the amount of time that each plan has been non-compliant and efforts by staff to bring the plan into compliance, as well as the total net asset value of the plan and the total membership of the plan.*

VIII. *Board Determination. The Board will determine whether the non-compliant system/s require formal attention at the next Board meeting. If such determination is made, the PRB staff will notify the plan advising them that their plan will be placed on the agenda for formal discussion as a non-compliant plan at the next Board meeting. The Board will designate a specific time frame that the plan has to submit their report(s) or they will be requested to appear before the Board to discuss their compliance issue with the Board.*

IX. *Board Discussion. If the plan does not comply within the time specified, the plan will be placed on the agenda for the next meeting of the Board. The plan will be requested to appear for a formal discussion on its non-compliant status.*[2] *At the meeting, the Chairman will recommend what further compliance steps are required, if necessary.*

X. *Further Action. To address the non-compliance of a plan, the Board may consider use of its statutory powers contained in sections 801.204, 801.205, and 802.003(d) of the Texas Government Code.*

The current version of the Regulation of Non-Compliant Retirement Systems can be found on the PRB website at http://www.prb.state.tx.us/about/board/board-policies.html.

Board's Governing Structure Review

Since 2010 the Board has reviewed its adopted policy statements to identify areas requiring updates or new policies. As such, the Board directed staff to conduct research and recommend updates concerning its governing structure. After considerable discussion the Board reorganized its policy statements into Bylaws and Ethics Policy.

Bylaws of the State Pension Review Board: On December 8, 2010, the Board unanimously adopted the Bylaws as its primary governing charter. These create a consistent and legally

[2] *Each primary contact listed in the PRB database will receive notice of the Board's request for the plan to appear for a formal discussion of the plan's non-compliant status. The plan may designate a representative of the plan to appear for such discussion.*

compliant organizational framework and criteria for the Board's operations, including the description and responsibilities of members, standing committees and the executive director, as well as decision making procedures and other basic rules for the Board to govern itself. The Board created its Bylaws within the defined parameters of applicable state laws, including the Board's governing statute, Texas Open Meetings Act, and recommendations from the Sunset Advisory Commission and State Auditor's Office.

Ethics Policy of the State Pension Review Board Members: The Ethics Policy was also unanimously adopted on December 8, 2011. The first ethics policy statement had been adopted in 1997 and amended in 2003, but had not been reviewed since. The Board revised its ethics policy to accomplish two main goals:

- to reflect the current laws governing the conduct of state officers and employees; and
- to gather all potentially applicable laws and rules in one place to facilitate a comprehensive analysis of an issue or concern and curtail even the appearance of impropriety.

The updated Ethics Policy governs the conduct of Board members in the performance of their official duties. In that regard, the Ethics Policy contains statutory provisions governing the conduct of public servants and includes provisions relating to standards of conduct, conflict of interest, and acceptance of benefits. The Board has updated its Ethics Policy to further the Board's philosophy of acting in accordance with the highest standards of ethics, accountability, efficiency, and openness.

RESEARCH AND EDUCATIONAL OUTREACH

One important statutory duty of the PRB is to provide educational services to its constituents. The agency consistently undertakes major initiatives to fulfill this obligation, and during the last two years, has further strengthened its commitment to educational outreach by engaging in several endeavors.

Reports

During the 82nd Legislature, the agency submitted a report to the House Committee on Pensions, Investments, and Financial Services (PIFS). Among other things, the report analyzed the overall financial health of the Texas public retirement systems and included analyses on the solvency, cash flow ratios, assets, and actuarial soundness of the systems.

Additionally, following the 82nd Legislature, the PRB presented reports on two interim charges to the House Committee on Pension, Investments and Financial Services. These included the charges to "review local retirement systems that are not a part of statewide systems, the administration of these retirement systems, and current liabilities" and "monitor all agencies and programs under the committee's jurisdiction." The report relating to the review of local retirement systems included detailed information on the local retirement systems' benefit design, governance of plan provisions, actuarial valuation summary and actuarial assumptions.

Every January in odd-numbered years, the PRB publishes the "Guide to Public Retirement Systems in Texas". This publication is timed to coincide with the beginning of each legislative session. In prior years, the publication focused on the retirement systems whose authorizations were specific state statutes. For the 83rd Legislative Session beginning in January 2013, and due to expected policy interest concerning public retirement systems, the PRB is expanding the information in the "Guide to Public Retirement Systems in Texas" to ensure that lawmakers have as much relevant and current information on the State's retirement systems as possible. Additions will include information on the State's defined contribution plans and on retirement systems not created or controlled through specific state statutes, and expanding information on the retirement systems controlled through state statutes. The 83rd Legislature may focus on public retirement systems at levels heretofore not seen. The demand and need for accurate and greater quantities of information concerning the public retirement systems may be at an all-time high commencing January 2013.

Research Papers

Recently the policy debate on public pensions has garnered considerable interest across the nation and Texas. Access to accurate information is essential for policymakers as they weigh decisions impacting public pensions. To ensure that such information is readily available to policymakers and the public, the Board has begun publishing a series of white papers on public pension topics to provide an objective starting point for further deliberation. Accordingly, on May 23, 2012, the Board adopted two white papers. The first, *A Review of Defined Benefit, Defined Contribution, and Alternative Retirement Plans*, discusses costs and benefits associated with defined benefit plans, defined contribution plans, and alternative plan designs; issues relating to switching plan designs; and case studies illustrating state experiences in switching their pension plans' design. The second, *Financial Economics and Public Pensions*, reviews underlying theories supported by financial economists, including discussion of the use of the risk free interest rate to discount pension liabilities and shifting current pension asset allocations to 100% fixed income, and the implications these changes would have on pension plans.

Also at the May 23, 2012, meeting the Board directed staff to develop two additional topics for future white papers. The first is to describe the differences between public and private sector retirement plans, including a comparison of trends, regulatory framework and other related issues. The second is to provide an in-depth but comprehensible to lay readers of actuarial concepts, methods, and assumptions. Additionally, staff will continue to conduct research relating to pension accounting, funding, economic issues and other significant topics, which will be included in future agency white papers.

Federal Law Research

Since the 2008 financial downturn and various financial scandals that surfaced during that time, the federal government and its agencies have proposed and enacted substantial reforms to regulate different financial sectors of the economy. These evolving regulatory changes at the federal level presented an opportunity for the PRB to enhance its educational services by keeping its constituents abreast of all federal law developments that could potentially affect them either directly or indirectly. As such, the staff has closely monitored the regulatory activities of the federal government and its agencies such as the Securities and Exchange Commission (SEC) and Internal Revenue Services (IRS). During the last two years, the staff submitted reports to the Board discussing certain rules proposed by the SEC and IRS and the potential impact of these rules on Texas public retirement systems. Also, staff analyzed the impact of the Public Employee

Pension Transparency Act, a proposed piece of federal legislation that would create a federal reporting structure for state and local public retirement systems. The PRB will continue to monitor the federal regulatory landscape for any impending laws impacting the Texas public retirement systems into the future.

Actuarial Research

Through the staff actuary, the agency closely monitored and analyzed the Governmental Accounting Standards Board's (GASB) two exposure drafts of proposed changes to Statements No. 25, relating to public plan accounting and disclosure, and No. 27, relating to public pension plan sponsor accounting. GASB approved the proposed changes on June 25, 2012, and adopted Statements 67 and 68, replacing Statements 25 and 27, respectively. The agency also continues to monitor the Actuarial Standards Board's (ASB) proposed revisions to ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, and ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. The PRB staff has submitted reports on these proposed and adopted changes which were discussed at PRB meetings. The reports are available on the PRB website.

Educational Seminars

An important statutory duty of the PRB is to provide educational seminars to its constituents. The agency has undertaken major initiatives to fulfill this statutory obligation.

In 2011 the PRB hosted two legislative training sessions at the Capitol on February 18th and February 25th for legislative staff, Legislative Budget Board, Governor's Office, public retirement systems, and other interested parties. The PRB's executive director conducted the sessions with the staff actuary available to assist with questions. Topics included basic actuarial methods, pension plan financing and the impact statement process.

On June 13, 2011, the PRB hosted its 2011 Annual Seminar in Austin at the Hyatt Regency Hotel on Lady Bird Lake. There were 73 attendees representing pension fund administrators, trustees, and others involved with the public retirement systems for the day-long seminar. Speakers included Keith Brainard, Research Director of the National Association of State Retirement Administrators; Charles Campbell, Partner, Jackson Walker L.L.P.; Cheryl Alston, Executive Director, Dallas Employees' Retirement Fund; Ann Bishop, Executive Director, Employees Retirement System of Texas; Sampson Jordan, Chief Executive Officer, Austin Police Retirement System; Barry Goldblatt, Managing Director, Citi Global Commodities; Rodger Baker, Vice President of Strategic Intelligence, STRATFOR; Kyle Bass, Managing Partner and Principle, Hayman Capital Management; and Richard Froeschle, Director of Labor Market and Career Information, Texas Workforce Commission. Topics included public pension plan management, current trends and issues in public retirement, changes in the Texas labor market, investments, and fiduciary responsibilities.

On October 1, 2012, the PRB hosted its 2012 Annual Seminar at the Hyatt Regency Hotel on Lady Bird Lake in Austin. There were 68 participants in the day-long seminar. Speakers included Mark Fenlaw, Fellow of the Society of Actuaries (FSA), Rudd & Wisdom, Inc.; Dr. Jim Kee, President and Chief Economist, South Texas Money Management, Ltd.; Robert Miller, Partner, Locke Lord LLP; Salem Abraham, President and Founder, Abraham Trading Company; Dr. Nigel Lewis, Speaker and Author; Anthony Scaramucci, Managing Partner, SkyBridge

Capital; and Erin Perales, General Counsel, Houston Municipal Employees Pension System. The one day seminar focused on key issues in economics, the markets, ethics, governance, and financial practices.

The 2011 and 2012 seminar participates were accredited with continuing education by the Texas Association of Public Employee Retirement Systems (TEXPERS). Plans for the 2013 annual seminar are not yet underway, but the PRB's continued goal is to expand the knowledge and education of administrators, trustees, and the members of Texas public pension funds while making sure that tax dollars are spent efficiently.

Website

The PRB prioritizes enhancing its educational outreach endeavors through extensive use of the agency website. The agency launched its new website in 2009. The website was re-designed as a forum to strengthen its educational outreach services. Since then, the agency has continued updating the website to include: Board policies; information on Board meetings including agendas, minutes and meeting packets; statutory provisions; copies of various agency publications and reports including the total net assets, non-compliant plans and actuarial valuations reports; PRB research papers; and other helpful pension-related resources. The website provides greater access to the public, increase agency transparency, improves public knowledge of the agency and furthers the agency's mission.

News Clips

As part of the educational outreach program, the agency provides electronic weekly news clips service to its constituents. These clips track and compile pension-related issues in Texas and across the country and are distributed to interested parties weekly. The agency's mailing list for this service is continually expanding. Recently, the agency re-organized the structure of the news clips by streamlining its focus on four broad areas, namely: issues concerning PRB Plans; Texas Economic Indicators; National Economic, Pension, Investment & Banking Information; and Worldwide Economic, Pension, Investment and Banking Information. The agency's news clips service will continue to evolve to cover the issues that are of greatest interest to its constituents.

FEDERAL AND OTHER REGULATIONS

Securities and Exchange Commission (SEC)

The SEC is tasked to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation. To this effect, the SEC establishes rules to regulate the stock market and trading practices followed in the market. Since the downturn, the SEC has continued to propose new rules and modify existing ones to contain the market damages and prevent recurrence of past market events.

The SEC has also been active in monitoring the financial market for potential fraudulent activities and arraigning responsible entities. In 2010, the SEC restructured its Enforcement Division and created a distinct unit within the division on Municipal Finance and Public Pensions to focus on, among other things, misconduct with public pension funds. Recently, this unit investigated and charged Detroits' former mayor, former city treasurer, and the investment adviser to its public employee pension funds for peddling influence over the fund's investment process. The former mayor and city treasurer were also trustees of the pension funds at the time of the alleged misconduct.

The PRB has closely monitored the proposed and adopted rules of the SEC for their potential impact on Texas public retirement systems. In that regard, the PRB identified two rules that may affect public retirement systems, namely the Registration of Municipal Advisers and Pay to Play. The Registration of Municipal Advisers Rule was initially proposed on December 20, 2010, to implement a provision of the Dodd Frank Wall Street Reform and Consumer Protection Act that makes it unlawful for municipal advisors to provide advice to or on behalf of municipal entities with respect to municipal financial products or the issuance of municipal securities without registering with the SEC. This rule is not yet final, but could potentially require appointed board members of public retirement systems that invest money to register with the SEC.

The SEC unanimously adopted the Pay to Play Rule on June 30, 2010 primarily to prohibit investment advisers from making political contributions and other related payments to government officials who may be in a position to influence the selection of such advisers to manage public funds' (such as pension systems) investment accounts. The rule imposes significant regulatory requirements on investment advisers, including a mandatory two-year cooling off period for receiving compensation, a ban on soliciting political contributions, and a ban on certain third-party solicitors or placement agents. The Pay to Play rule directly impacts how public pension funds do business with these advisers, and may protect public funds from harm, including: inferior management and performance of the fund due to lack of merit-based adviser selection; higher fees paid to advisers seeking to recover political contributions; and greater ancillary benefits provided to advisers at the expense of the pension fund due to lack of fair contract negotiations.

Internal Revenue Service (IRS)

The IRS is a federal agency responsible for tax collection and enforcement of the federal tax law contained in the Internal Revenue Code (IRC). Due to the complex nature of the IRC, the IRS provides the official interpretation of the IRC by promulgating federal tax regulations or treasury regulations.

Public retirement systems are required to report and file taxes to the IRS and therefore are subject to the federal tax laws and various treasury regulations as promulgated by the IRS. Additionally, to receive a favorable tax treatment, public retirement systems must comply with certain qualification requirements with respect to pension plans contained in section 401(a) of the IRC and its related regulations. Due to the relevance of federal tax laws and treasury regulations for public retirement systems, the PRB closely monitors amendments to the IRC and various guidance and regulations issued by the IRS.

The Pension Protection Act of 2006 added section 401(a)(36) to the IRC providing that pension plans may allow participants who attain the age of 62, and who have not separated from service, to take distributions from the plan. In 2007, the IRS issued the final regulations interpreting subsection 401(a)(36) by providing rules permitting distributions to be made from a pension plan upon attainment of normal retirement age (NRA). The 2007 NRA regulations modified section 1.401(a)-1(b)(1) of the treasury regulations that prohibited pension plans from payment of benefits from the plan during employment. The 2007 regulations contained the following exceptions to the prohibition:

- pension plans were permitted to commence an in-service distribution after the attainment of NRA as defined in the regulation. The 2007 regulation prohibited the NRA from being earlier than the earliest age that is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed;
- the regulation provided age 62 as a safe harbor normal retirement age;
- the regulation also established a safe harbor for plans in which substantially all the participants are qualified public safety employees. For those plans, an NRA of age 50 or later was deemed not to be earlier than the earliest age that is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed.

In April 2012, the IRS and U.S. Department of Treasury issued notice of their intent to issue guidance on the applicability of the 2007 NRA rules to governmental plans as defined in section 414(d) of the IRC. The proposed guidance provides that: 1) governmental plans that do not provide for in-service distribution before age 62 do not need to conform with the 2007 NRA regulations, and 2) the age 50 safe harbor rule for public safety employees would continue to apply to the them regardless of whether they are covered by a separate plan or are a separate group within a larger plan containing other employees with higher NRAs. The IRS solicited public comments on the proposed guidance that ended on July 30, 2012.

Furthermore, in November 2011, the IRS released an "advance notice of proposed rulemaking" to define the term 'Governmental Plan' under section 414(d) of the Internal Revenue Code of 1986. Governmental pension plans are exempt from ERISA requirements and therefore subject to different rules than nongovernmental retirement plans. Hence, a plan's status determination as a governmental or nongovernmental plan becomes crucial in outlining the obligations of the plan sponsor and the rights of participants and beneficiaries. This proposed rule could conflict with the PRB's statutory provisions because a plan might be considered a governmental plan under the PRB statute but not under the IRS proposal. This could in turn create a cost and filing burden on such a plan. The IRS solicited comments until June 18, 2012.

Governmental Accounting Standards Board (GASB)

GASB is an independent not-for-profit organization that establishes standards of accounting and financial reporting for U.S. state and local governments. While the GASB's accounting and financial reporting standards are not federal laws or regulations, they are recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments including the public retirement systems.

Due to the applicability of GASB's accounting and financial reporting standards to public retirement systems' financial statement disclosures, the PRB closely monitors all GASB initiatives. As such, PRB followed two exposure drafts released by GASB in June 2011. The exposure drafts proposed changes to Statements No. 25, relating to public pension plan accounting and disclosure, and No. 27, relating to public pension plan sponsor accounting.

On June 25, 2012, GASB approved the proposed changes through two new Statements 67 and 68. Statement No. 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* The statements were made available for download on August 3, 2012. These new statements replaced GASB Statements 25 and 27, and provide updated financial reporting standards for governmental pension plans and their sponsoring entities. Most notably, the new standards de-link financial reporting from plan funding decisions. The new standards also provide new reporting requirements for pension liabilities, and standardize the actuarial methods and assumptions for calculating pension liabilities. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. However, GASB is encouraging earlier application for both statements. More information on Statements 67 and 68 can be obtained from the "News Center" section of the GASB website at http://www.gasb.org/. At the September 28, 2011, PRB meeting, staff presented a report on the exposure drafts and at the October 1, 2012, meeting, presented an update on the new approved statements to the Board.

Actuarial Standards Board (ASB)

The ASB establishes and publishes a series of actuarial standards known as the Actuarial Standards of Practice (ASOPs), which provide guidance to actuaries and pension funds on a variety of subjects related to performing an actuarial assessment. The Pension Committee of the ASB is currently reviewing and revising ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, and ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. In January 2011, the ASB issued the first discussion draft for ASOP No. 4 and the first exposure draft of ASOP No. 27, and solicited comments on these drafts. Subsequently, in January 2012, the ASB issued the exposure draft for ASOP No. 4 and the second exposure draft for ASOP No. 27. ASB again solicited written and electronic comments for proposed changes in the exposure drafts from interested parties until May 31, 2012.

Key Proposed Changes to ASOP No. 4 include:

- full funding,
- funded status,
- funded status under the spread gain methods,
- Change in actuarial method,
- Proposed Definition of Market-Consistent Present Value,
- Rationale required for plan provisions not valued, and
- Disclosure of expected declining future funded status

Key Proposed Changes to ASOP No. 27 include:

- New definition of reasonable assumption standard,
- Assumption and assumption change rationale, and
- Guidance for actuaries

The staff presented a report on the proposed revisions to ASOP No. 4 and 7 at the March 27, 2012. PRB meeting and will closely monitor the decision of the ASB with regard to the proposed revisions.

Public Employee Pension Transparency Act (PEPTA)

PEPTA was first filed in the 111th Congress as H.R. 6484, and in February 2011 was reintroduced in the 112th Congress as H.R. 567/S. 347. Both bills were referred to their respective committees, but have not yet been reported out by the committees. The legislation would create a federal reporting structure for state and local public retirement systems. Among the requirements for filing, sponsors of state and local government employee pension plans must report specific financial information to the U.S. Treasury Secretary. Governmental entities failing to report this information in a timely manner (not later than 210 days after the end of the plan year) would lose their ability to issue tax exempt bonds until they comply with the reporting requirements. The legislation would prohibit the federal government from accepting any current or future obligations of state and local government pension plans or take action to alleviate their shortfalls. The potential impact is significant for both Texas public retirement systems and their sponsoring governmental entities. Since the PRB was created in large part as response to the federal government's interest in pursuing ERISA-style legislation for state and local public retirement systems some of PEPTA's proposed reporting requirements are similar to those required of the PRB yet some elements of PEPTA are vastly different from existing PRB reporting requirements. Furthermore there are elements of PEPTA which are vastly different from current actuarial standards of practice. The PRB continues to monitor these bills due to their significance to Texas public retirement systems.

FINANCIAL TRANSPARENCY AND POSTING OF HIGH-VALUE PUBLIC DATA

The PRB is partnering with the Office of the Comptroller of Public Accounts to fulfill the requirements of S.B. 701 (82nd Legislature) by creating an online pension resource. The bill promotes online transparency and open government by requiring state agencies to post searchable high-value data sets on the Internet.

In order to create the online pension resource, the PRB provided pension-related data, including annual financial and membership information, current actuarial and investment policy information, and plan design and plan contact information of Texas public retirement systems to the Comptroller. The PRB data sets will be published in a searchable format on the Comptroller's website *Window on State Government.* A link to the data sets will be available on the PRB website for its constituents and members of the general public.

On October 1, 2012, PRB members were shown draft screen shots of the online pension resource. The Board agreed to proceed with final development of the online resource but requested to see the final product prior to a public launch. Additional information regarding the project can be found on the PRB website at: http://www.prb.state.tx.us/agency-information/open-government.html

SURVEY OF PUBLIC PENSION PLAN PARTICIPATION IN SOCIAL SECURITY

The PRB recently conducted a survey of 360 public retirement systems across Texas to determine the extent of their member participation in Social Security. Responses were received from 277 systems, or approximately 77% of those contacted. Results indicate that a majority of the members of public defined benefit plans do not participate in Social Security. Within the sample almost 60% of civilian plans participate in Social Security; however, nearly 87% of public safety plans do not. The PRB continues to work with the remaining systems to collect the relevant data for this study.

COMPLIANCE

The PRB has improved its tracking of plan compliance and in assisting plans with meeting reporting requirements. In addition to the reminder letter that is sent to plans 60 days prior to the report due dates, the agency now sends a second letter 15 days prior to the due dates. Enforcement letters are sent 15 and 60 days after the plan's due date. The agency has found that these letters improve plan compliance. Compliance is tracked with a new actuarial and financial database which enhances communication with the plans. Whenever a PRB staff member contacts a plan, the information is entered into the database to provide a historical record of all such contacts. Additional correspondence, reports, and tracking measures are developed through Excel spreadsheets and Word documents, however, all data are generated from information gathered from the plans and stored in the database. A majority of plans are currently compliant with PRB statutes and regulations but efforts continue to bring the remaining plans into compliance. Steps taken to improve compliance include campaigns to inform and collect data from plans that have fallen out of compliance and publicly identifying those plans deemed "Severely Non-Compliant." A concerted effort is made to bring those plans into compliance by informing them of compliance requirements, updating contact information for plan administrators, and continued requests for information. Multiple contacts, including email and phone calls are made. As a result, most plans deemed severely non-compliant are now compliant. The few remaining nonresponsive or unreachable have been sent certified letters, in accordance with the Board policy, informing them that they may be summoned to appear before the PRB and risk having their records subpoenaed. Altogether, these efforts have improved compliance numbers and only a few plans have required a certified letter. Improving plan compliance remains a top priority for the agency.

CUSTOMER SERVICE SURVEY

As part of its ongoing strategic planning process, the PRB conducts annual external assessments of its services. The most recent external assessment was conducted in May 2012. Surveys were sent to 358 pension system administrators, representing both defined benefit and defined contribution plans. Additionally, surveys were sent to over 101 other PRB constituents, including actuaries, trustees, government contacts, and other interested parties.

Survey participants rated the PRB in fourteen categories and indicated which PRB goals, priorities and areas of research and education are most important to them. Seventy plans (15.3%) responded. The results indicate satisfaction in all categories. Every category received an average score above 7.8 indicating that the survey participants are satisfied with PRB services. The highest level of satisfaction was with "overall transparency of the PRB" followed by "staff is professional and courteous." The PRB also received strong marks for staff knowledge, accessibility and willingness to assist, and educational services provided. Recently the PRB has undergone an increase in its staff level which has helped improve staff expertise and allowed for more complex analysis of pension-related issues. The category with the lowest level of overall satisfaction was "relevance of information provided by the PRB." The participants' overall satisfaction with the PRB was 90.0% with an average ranking of 8.4, with seven categories receiving higher average scores and six receiving lower scores. This 90.0% in overall satisfaction is an improvement from the 86.2% received in 2010. The second part of the survey asked participants to provide comments concerning goals, priorities and research they would like the PRB to undertake over the next five years. Seventeen of the 70 respondents provided comments with the majority praising the PRB staff for its knowledge, courtesy, professionalism, and assistance. Furthermore, these responses appreciated the educational services provided by the PRB and the agency's actions during legislative sessions. Some responses praised the PRB's role in providing actuarial soundness guidelines and engendering improved plan management. The PRB appreciates these comments and will continue to improve its services to meet the expectations of its constituents.

REVIEW OF AGENCY'S RISK MANAGEMENT PROGRAM

Pursuant to the Texas Labor Code, the State Office of Risk Management (SORM) conducted a Risk Management Program Review of the PRB on December 15, 2011. The agency's risk management program is contained in various policies and procedures including the Employee Policies and Procedures Manual, Business Continuity and Disaster Recovery Plan, Indoor Air Quality Policy, Employee Safety and Health Plan, and Workplace Violence Policy and Procedures.

In preparation for the review, the agency updated its risk management policies and procedures. The assessment of the agency's risk management program aided in evaluating the effectiveness of the program and identified methods for improvement.

SORM's final report contained positive comments on the strengths of the agency's program, and also provided recommendations for further improvement. The PRB has implemented some of the recommendations and will implement the remaining ones.

REPORTS

Over the last two years the PRB has presented the following research papers and reports to the Board and the Legislature on public pension topics, federal issues, surveys conducted by the agency and other pension-related issues impacting Texas public retirement systems.

A REVIEW OF DEFINED BENEFIT, DEFINED CONTRIBUTION, AND ALTERNATIVE RETIREMENT PLANS

On May 23, 2012, the Board approved the first in the agency's white paper series: *A Review of Defined Benefit, Defined Contribution, and Alternative Retirement Plans.* The paper discusses the different costs and benefits associated with defined benefit plans, defined contribution plans, and alternative plan designs; issues relating to switching plan designs; and case studies illustrating other state experiences in switching their pension plans' design. A copy of the approved paper is included as **Appendix A** and can be downloaded from the PRB website at http://www.prb.state.tx.us/resource-center/107-whitepapers.html.

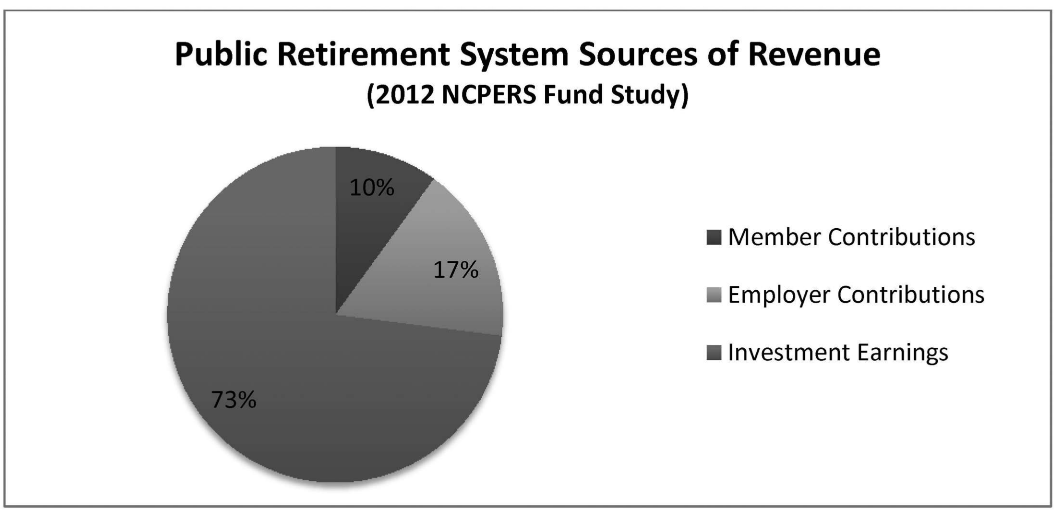
COMPLIANCE SURVEY REPORT

In 2010, the Board began updating its policy for regulating non-compliant retirement systems. In the interest of promoting transparency and open government, the Board vetted updates to the policy through a public policymaking process. Accordingly, on December 8, 2010, the Board authorized staff to conduct a voluntary online survey of Texas public retirement systems seeking input regarding compliance with state reporting requirements. The PRB staff conducted the survey in January 2011. Surveys were sent to 351 pension system administrators, representing both defined benefit and defined contribution plans. The agency presented a report on the results of the survey and a copy of the survey report is included as **Appendix B**.

ECONOMIC VARIABLES IMPACTING PUBLIC RETIREMENT SYSTEMS

Economic variables significantly affect public pension funded status and the long term viability of public pension plans. In general, defined benefit public pension plans have three sources of funding: earnings on investments, employer contributions, and member contributions. It is the ratio of these funding sources relative to the benefits paid to plan participants that determines the overall health of a pension plan.

The 2012 Annual Public Fund Study conducted by the National Conference on Public Employee Retirement Systems (NCPERS) reviewed over 147 state and local government pension systems and analyzed various aspects of the funds over a 12 month period ending April, 2012. The study found that investment returns provided the largest funding source to pension funds, generating 73% of earnings, followed by Employer Contributions at 17%, and Member Contributions, at 10%.



Source: National Conference of Public Employee Retirement Systems (NCPERS) and Cobalt Community Research 2012 Public Fund Study

Investment earnings make up the bulk of public retirement system cash flow and are largely dependent on financial market activity. As a result, variance in annual investment earnings can substantially impact the funding status of public retirement systems. This was demonstrated by the negative impact of the 2008 stock market decline on the funding status of many public retirement systems. When investment earnings are inadequate to fund benefit payments, Employer and Member Contributions must cover the shortfall.

Investment Earnings: The investment of fund assets and the income derived from the investments is the most significant contributor to the health of public retirement systems. When fund investments perform well, the additional income can help strengthen the financial health of a public pension fund, while poor investment performance can weaken the soundness of a public pension fund.

Review of the S&P 500 stock market index returns for the five years ending 2011 shows that equity markets can be very volatile in the short-term.

S&P 500 Annual Returns	
Year	**Annual Return**
2007	5%
2008	-37%
2009	26%
2010	15%
2011	2%

During 2008, the global equities market tumbled to multi-year lows, breaking previous bear market declines, in one of the market's worst, and most volatile, years ever. The elements that led to the crash were overly lax credit requirements and real estate asset bubbles in several developed countries, including the United States. Following the collapse of the equity, real estate and credit markets, several of the largest global financial institutions failed, were acquired, or were supported through unprecedented government intervention.

Since the 2008 decline, the global equities market has exhibited a significant rebound that has recently been showing signs of stalling. The rebound helped to bring pension plan funded statuses back from post-recession lows; however, recent economic data suggests that another downturn may occur in the near future. There are several factors that may lead to poor economic growth and investment performance in the near term, including fiscal consolidation; bank deleveraging; and increased geopolitical risks.

The International Monetary Fund (IMF) stated in its April 2012 World Economic Outlook, "fiscal consolidation is in effect in most advanced economies." The report also stated that fiscal consolidation will be subtracting roughly 1 percentage point from advanced economy growth in 2012. Bank deleveraging is affecting primarily Europe and is contributing to a tighter credit supply. The IMF stated in its April 2012 World Economic Outlook that this constraint may subtract another 1 percentage point from the euro area[3] growth in 2012. This may have a strong impact on U.S growth, as the euro area[4] currently accounts for over 20% of U.S. exports. As the

[3] The euro area represents the 17 European Union member states that have adopted the euro as their common currency.
[4] *Ibid.*

European Union works to find a solution to its sovereign debt crisis, the rest of the global economy will continue to struggle. While the current focus is on the European Union, other developed economies, including the U.S. will need to find solutions to their fiscal deficits in order to resume sustainable growth.

Additionally, geopolitical risks may continue to affect oil markets and energy costs. Continued tensions between the U.S., its allies and Iran, as well as instability in some large oil producing countries may result in an oil price shock, though the certainty of this is difficult to predict. While the long term effects of energy price increases cannot be accurately predicted, in the short-term price increases will put downward pressure on oil-importer economies, including the U.S.

In addition to equity markets and global growth, bond markets and monetary policy have exhibited low yields since the 2008 recession. In the years following 2008, the Federal Reserve has maintained a Federal Funds Rate target of less than one percent. Assuming a two percent inflation target, which is written into the Federal Reserve's mandate, this means that holders of U.S. treasury securities, including pension funds, have been earning negative real returns. Recent statements released through the Federal Reserve indicate that this historically low interest rate policy will continue through the end of 2012 and most likely into 2013.

A study conducted by the PRB in 2009 projected the impact of the 2008 downturn on the State's public retirement systems. The study showed the projected value of assets on a market basis to be approximately $150 billion as of January 31, 2009. That value was the approximate value of assets, on a market basis of Texas public retirement systems reported in September 2004. The peak of the total value of assets on a market basis of Texas public retirement systems had occurred in 2007, with an estimated $210 billion in total assets reported. Hence, Texas public retirement systems lost approximately $60 billion in assets due to the market downturn of 2008.

The stock market gains of 2009 and 2010 have improved the value of assets held by Texas public retirement systems, but the effects of global recession are still unfolding. The volatility in the U.S. stock market due to the European Union debt crisis is an example of an ongoing instability and unpredictability permeating the stock market. The increased global anxiety threatens to slow the economic recovery in the U.S. and continue to suppress investment returns.

Employer Contributions - Tax Revenues: The budgetary health of the sponsoring governmental entity can affect contribution levels to the public pension fund. If tax revenues are strong and growing, a governmental entity should be in a better financial position to make necessary contributions to the public pension fund; however, when tax revenue amounts decline and resources are more limited, contributions to public retirement systems may be reduced or cut leading to a deterioration of the financial health of a public pension fund.

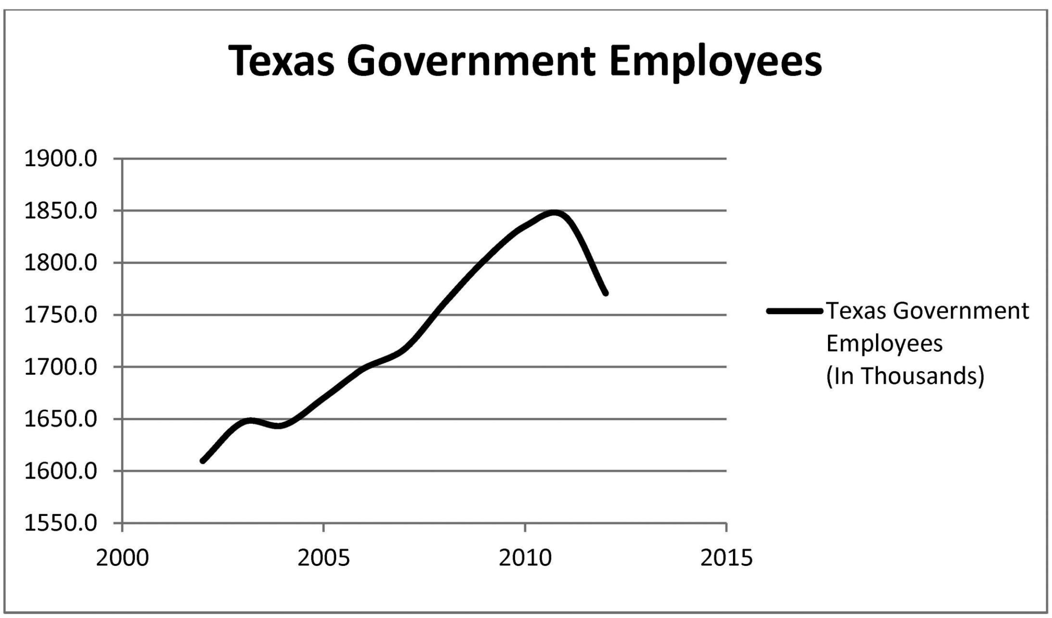
The recent recession has severely impacted the state and local tax revenues and has also increased the demand for governmental services. Governmental entities across the U.S. including the State of Texas have been challenged in recent years by reduced tax revenues. However, the Texas economy appears to be improving due to growth in the oil and natural gas sectors. In May, 2012 the Texas Comptroller's office reported that state sales tax revenue totaled $2.09 billion, an increase of 7.9% compared to May 2011. The Comptroller's office stated that, "this marks 26 consecutive months of sales tax growth." This indicates that Texas's local economy and tax revenue is in a much stronger position than it has been since the 2008 recession.

Despite local growth trends, large fiscal challenges still remain for state entities administering public pension funds. In addition to funding retirement benefits, public plans offering health care benefits will have to budget for ever increasing health care costs, which will continue to increase pressure on plan sponsors.

Employer/Member Contributions - Level of Employment: The level of employment affects public retirement systems in several ways, both directly and indirectly. The direct impact relates to the number of active members in a pension plan. When the level of employment increases, there is a corresponding increase in the number of active members and total employee contributions to a public pension fund. When levels of employment decline, the number of active members and total employee contribution amounts can decrease, leaving a public pension fund with a smaller contribution base.

The direct effect of reduced government hiring is a smaller contribution base for public pension plans due to fewer than expected new employees. Since pension plans receive a significant portion of funding from new employee contributions, reductions in new employees relative to current and retired pension plan members can put additional strain on the plan and the sponsoring entity which may be required to pay funding deficits. In Texas, as a response to reduced tax revenues and budget cuts statewide, hiring in the public sector has been significantly impacted, as is evidenced by the chart below.

Texas Government Total Employees, 2002 - 2012

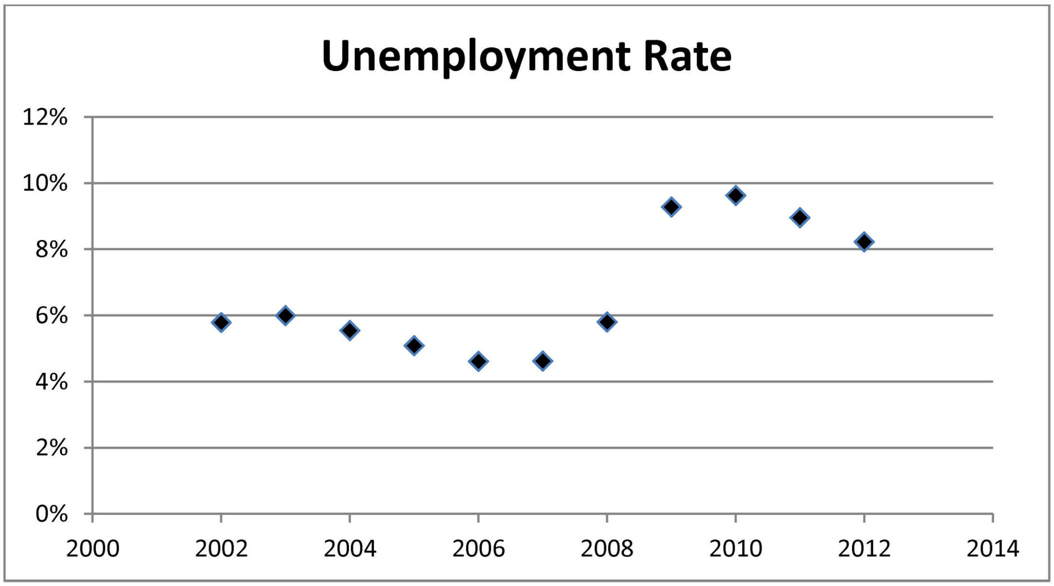


Source: Bureau of Labor Statistics, U.S. Department of Labor, 2012.

An indirect impact of the level of employment is more extensive. High levels of unemployment can have a negative impact on public pension funds. Level of unemployment is one of the economic indicators that the investors use to make their investment decisions and if that level is high, it reduces economic growth. In turn, a weak stock market affects the value of assets of public pension funds.

In general, there are two primary effects of high unemployment on the economy as a whole: lower Gross Domestic Product (GDP) and lower tax revenue for the government. A lower GDP is an economic indicator of how well the economy is doing and greatly impacts the stock market. High unemployment means lower tax receipts for the government, which as explained earlier, affects government budget and the sponsoring governmental entity's ability to increase its contribution to recover the market losses incurred by the public pension funds. Thus far, the U.S. economy is still crawling toward recovery and the unemployment figures remain high. The most recent data provided by the U.S. Department of Labor, covering a period from 2002 to 2012, indicate that the unemployment rate continues to remain above eight percent.

United States Civilian Unemployment Rate, 2002 - 2012



Source: Bureau of Labor Statistics, U.S. Department of Labor, 2012.

The economic events of the last four years have impacted the financial health of Texas public retirement systems. The loss in asset values, smaller tax revenues and competing costs of other governmental obligations will continue to exert pressure on the State's retirement systems. Many of the State's actuarially-funded defined benefit plans were well-funded prior to 2008, and were in a stronger position for recovery than other public retirement systems across the nation. Also, none of these plans faced any immediate solvency issues. The PRB will continue to work with the State's public retirement systems, their sponsors, and the Legislature to address the critical issues to ensure that Texas' public retirement systems continue to meet their future obligations.

<u>FINANCIAL ECONOMICS AND PUBLIC PENSIONS FINANCIAL ECONOMICS</u>

On May 23, 2012, the Board approved the second in the agency's white paper series: *Financial Economics and Public Pensions.* The paper reviews underlying theories supported by financial economists, including discussion of the use of the risk free interest rate to discount pension liabilities and shifting current pension asset allocations to 100% fixed income, and the implications these changes would have on pension plans. A copy of the approved paper is included as **Appendix C** and can be downloaded from the PRB website at http://www.prb.state.tx.us/resource-center/107-whitepapers.html.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS 67 AND 68

Summary

On June 25th, 2012, the Governmental Accounting Standards Board (GASB) approved two new standards relating to financial reporting for state and local defined benefit plans and defined contribution plans. According to GASB, the objective of the new Statements is to improve financial reporting by state and local governmental pension plans. The standards were made available for download on August 3rd, 2012.

Statement No. 67, Financial Reporting for Pension Plans

This Statement replaces the requirements under GASB Statement No. 25, Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50, Pension Disclosures. This Statement applies to pension plan reporting, and is effective for financial statements for fiscal years beginning after June 15, 2013.

Statement No. 68, Accounting and Financial Reporting for Pensions

This statement replaces the requirements under GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, and Statement No. 50, Pension Disclosures. This Statement applies to pension reporting for the sponsoring state or local governmental entity, and is effective for fiscal years beginning after June 15, 2014.

The most significant change from the current to the new GASB Statements is the de-linking of pension accounting and funding. Current standards use the annual required contribution (ARC) to set the measurement for funding; however, according to the Statement Plain-Language Article released by GASB in June, 2012, "The Board crafted its new Statements with the fundamental belief that funding is squarely a policy decision for elected officials to make as part of the government budget approval process." As a result, the funding policy may be implemented in accordance with the plan design, and requirements established by plan fiduciaries, sponsoring entities, and applicable governing law.

Additionally, under current standards, the sponsor's pension liability is the net pension obligation (NPO), and is measured as the difference between the actual contributions and the ARC. GASB's new standards state that the unfunded portion of a pension liability meets the definition of a liability, and therefore should be reported on the financial statements of the sponsoring entity. This liability will be reported as the net pension liability (NPL), and will be measured as the total pension liability (TPL) net of the pension plan's net assets.

Current standards also require the sponsor to report the annual pension cost (APC), measured as the ARC adjusted for interest on the NPO. The new standards require sponsors to report a pension expense. The pension expense will represent the change in the NPL from the beginning of the year to the end of the year, adjusted for the deferred recognition of gains and losses from actuarial assumptions, investment gains and losses, and recognition of actuarial assumption changes.

Statement No. 67, Financial Reporting for Pension Plans

Net Pension Liability

GASB determined that the unfunded portion of a pension liability meets the definition of a liability, and therefore should be reported. This measure of unfunded liability, defined as NPL under GASB standards, will be measured as the TPL net of the pension plan's fiduciary net position[5]. The new standards require that the fair (market) value of assets be used to calculate fiduciary net position, rather than actuarial value of assets, which is currently used in the calculation of NPO.

TPL is the liability for projected benefit payments that is attributed to past employee services. To calculate the TPL, plans will be required to use specific assumptions regarding cost of living adjustments (COLAs), benefit present value calculations, and discount rates. The new standards require the following regarding the calculation of TPL:

- ***Ad Hoc COLAs*** - Pension liabilities and normal cost currently reflect automatic COLAs; new GASB standards require that pension liabilities and normal cost should also reflect other COLAs now classified as ad hoc COLAs that are substantively automatic.
- ***Discount Rate*** - The discount rate used to value pension liabilities should be a single rate that is equivalent to using: (1) the long-term expected rate of return on plan investments for payments from the present, for as long as assets are projected to be available to pay benefits, and (2) a high-quality municipal bond index rate for payments after plan assets are projected to be exhausted.
- ***Entry Age Actuarial Cost Method*** - Pension liabilities and normal cost should be calculated under a single method: the Entry Age Actuarial Cost Method (Level Percentage of Payroll). Under the new standards, the Ultimate Entry Age Normal Cost (UEANC) Method cannot be used for GASB calculations. The UEANC Method is used by several Texas retirement systems. Under this method, the plan's normal cost is based on plan provisions applying to the newest benefit tier.

The use of fair value of assets will cause more variability in the NPL year over year, when compared to the NPO. The NPL is required to be reported on the notes to the pension plan's financial statements.

Timing and Frequency of Actuarial Valuations

GASB states that for financial reporting purposes, an actuarial valuation of the TPL should be performed at least biennially. The TPL should be determined by (a) an actuarial valuation as of the pension plan's most recent fiscal year-end or (b) the use of update procedures to roll forward amounts from an actuarial valuation to the plan's most recent fiscal year-end as of a date no more than 24 months earlier than the most recent fiscal year-end. If significant changes occur between assumptions assigned at the actuarial valuation date and the current fiscal year-end, GASB encourages professional judgment to be implemented in the roll forward process, and consideration should be given to determine whether a new actuarial valuation is needed.

[5] Fiduciary Net Position – equals fair value of the net assets held in trust for by the pension plan for payment of retirement benefits.

Investments

The plan will be required to report the annual money-weighted rate of return on pension plan investments in the notes to its financial statements.

Deferred Retirement Option Program (DROP)

The plan will be required to report the balance of the amounts held by the pension plan individual DROP accounts.

Required Supplementary Information

Schedules of required supplementary information should be presented in the notes to the pension plan's financial statements. Statement No. 68 also requires this information to be included in the notes to the sponsoring entity's financial statements. The required supplementary information includes:[6]

- A 10-year schedule of changes in the NPL
- A 10-year schedule presenting – TPL, the pension plan's fiduciary net position, NPL, the pension plan's fiduciary net position as a percentage of the TPL, covered-employee payroll, and the NPL as a percentage of covered-employee payroll
- If an actuarially determined contribution is calculated for employers or nonemployer contributing entities, a 10-year schedule presenting for each year the following:
    - The required contribution; the amount of contributions recognized during the year by the pension plan in relation to the actuarially determined contribution
    - The difference between the actuarially determined contribution and the amount of contributions by the pension plan
    - The covered-employee payroll
    - The amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution as a percentage of covered-employee payroll
- A 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on pension plan investments

Statement No. 68, Accounting and Financial Reporting for Pensions

Net Pension Liability

Under GASB standards, the unfunded pension liability will be calculated as NPL. Statement No. 68 requires that the NPL be reported on the financial statements (balance sheet) of the sponsoring entity. This new requirement will likely increase the liabilities recognized for most sponsoring entities.

[6] These requirements are only for single and agent employer plans and do not apply to cost sharing employer plans. Cost-sharing employer plans are required to report the proportionate share of NPL, TPL, and covered payroll.

Timing and Frequency of Actuarial Valuations

For financial reporting purposes, an actuarial valuation of the TPL should be performed at least biennially. The TPL should be determined by (a) an actuarial valuation as of the measurement date or (b) the use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. If significant changes occur between assumptions assigned at the actuarial valuation date and the current fiscal year-end, GASB encourages professional judgment to be implemented in the roll forward process, and consideration should be given to determine whether a new actuarial valuation is needed.

Pension Expense

The pension expense will represent the change in the NPL from the beginning of the year to the end of the year, adjusted for the deferred recognition of gains and losses from actuarial assumptions, investment gains and losses, and recognition of actuarial assumption changes. The proportion of gains and losses from actuarial assumptions, investment gains and losses, and recognition of actuarial assumption changes not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

The closed amortization period for non-investment gains and losses and assumption changes is equal to the average expected future service lives of all active and inactive members. Investment gains and losses for a given year will be amortized over a closed five year period.

The Statement also requires that contributions to the pension plan from the employer should not be recognized in pension expense. Additionally, the Statement clarifies that contributions to the pension plan from non-employer contributing entities that are not in a special funding situation should be recognized as revenue (for the pension plan).

The components of pension expense are[7]:

- Normal cost (Paragraph 267)
- Interest at the discount rate on the plan's TPL (Paragraph 267)
- An offset of expected return on plan assets (Paragraphs 33, 33(b), and 44(b)(9))
- An amortization of non-investment actuarial gain/loss and assumption changes over an average expected future service of all active and inactive members (Paragraph 33(a))
- Five year amortization of investment gains and losses (Paragraph 33(b))
- Immediate recognition of plan amendments affecting current members (Paragraph 279)

Special Funding Situations

Special funding situations are circumstances in which a non-employer contributing entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities (In accordance with requirements specified in paragraph 15 of Statement 68). Assuming a special funding situation exists; non-

[7] Paragraph references pertain to paragraph numbers in Statement 68.

employer contributing entities must recognize their proportionate share of the collective net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources.

Public Analysis

Actuaries and other commentators have made the following points about the new standards:

- There will be a de-linking of public pension funding and accounting, as the new pension expense will be less feasible a funding target than the current GASB ARC (Annual Required contribution);
- Pension expense will be more volatile than the GASB ARC;
- Rather than reporting the unfunded liability in the notes to the financial statements, the Net Pension Liability (funded status) will be reported on the plan sponsor's financial statements.
- For underfunded plans, the unfunded liability will probably increase as the discount rate will most likely be lower.
- The amortization period for actuarial changes will be shorter under the new Standards.
- Assets and liabilities must now be measured as of fiscal year end, rather than at plan year end;
- Some public pension plan obligations for accrued liabilities may lack the guarantees necessary for them to be considered liabilities.

Reference Table for Statement No. 67, Financial Reporting for Pension Plans

Statement of Fiduciary Net Position		
Line Item	**Statement Paragraphs**	**Description**
Investments	18	Reported at fair (market) value.
Liabilities	20	Generally consist of benefits due to plan members and accrued investment and administrative expenses.

Notes to Financial Statements		
Line Item	**Statement Paragraphs**	**Description**
Plan Description	30(a)(5)	The pension plan should provide a description of automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs), and ad hoc post-employment benefit changes, including ad-hoc COLAs.
Return on Pension Investments	30(6)(b)(4)	The annual money-weighted rate of return on pension plan investments.
Deferred Retirement Option Program (DROP)	30(a)(6) 30(f) and 98	30(f) – (1) A description of the DROP terms (2) The balance of the amounts held by the pension plan for the DROP. 98 - Pension plans containing DROP terms should disclose information about the balances held in individual DROP accounts.
Required Supplementary Information	32	10-Year schedules of required supplementary information relating to the NPL, TPL, contributions, and annual money weighted rate of return.
Net Pension Liability	35	Measured as the total pension liability net of the pension plan's fiduciary net position. (i.e., the difference between total (accrued) pension liability and the fair (market) value of plan assets as of fiscal year-end)
Total Pension Liability	36	The portion of the actuarial present value of projected benefit payments that is attributed to past periods of plan member service.
Timing and Frequency of Actuarial Valuations	37	The total pension liability should be determined by (a) an actuarial valuation as of the pension plan's most recent fiscal year-end or (b) the use of update procedures to roll forward to the pension plan's most recent fiscal year-end amounts from an actuarial valuation as of a date no more than 24 months earlier than the pension plan's most recent fiscal year-end.
Discount Rate	40	The discount rate used to calculate the present value of liabilities should be the single rate that reflects (a) the long-term expected rate of return on plan investments as long as the pension plan is projected to have sufficient assets to make projected benefit payments, (b) A yield or index rate for 20-year, tax-exempt, high-quality municipal bonds, to the extent that the conditions in (a) are not met.
Single Actuarial Cost Method	46	Plan to calculate pension liabilities and normal cost under the Entry Age Normal Cost Method (Level Percentage of Payroll).

Reference Table for Statement No. 68, Accounting and Financial Reporting for Pensions

Financial Statements		
Line Item	**Statement Paragraphs**	**Description**
Net Pension Liability	20 and 36-48	Measured as the total pension liability net of the pension plan's fiduciary net position. (i.e., the difference between total (accrued) pension liability and the fair (market) value of plan assets as of fiscal year-end). The net pension liability is required to be presented on the sponsoring entity's Statement of Net Assets (balance sheet).
Notes to Financial Statements		
Line Item	**Statement Paragraphs**	**Description**
Timing and Frequency of Actuarial Valuations	22	For financial reporting purposes, an actuarial valuation of the TPL should be performed at least biennially. The TPL should be determined by (a) an actuarial valuation as of the measurement date or (b) the use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end.
Projected Benefit Payments	24	Should include the effects of automatic postemployment benefit changes, including automatic cost-of-living adjustments (automatic COLAs). In addition, projected benefit payments should include the effects of (a) ad hoc postemployment benefit changes, including ad hoc COLAs, to the extent that they are considered to be substantively automatic.
Discount Rate	26-31 and 64-69	The discount rate used to calculate the present value of liabilities should be the single rate that reflects (a) the long-term expected rate of return on plan investments as long as the pension plan is projected to have sufficient assets to make projected benefit payments, (b) A yield or index rate for 20-year, tax-exempt, high-quality municipal bonds, to the extent that the conditions in (a) are not met.
Actuarial Present Value	32	The entry age actuarial cost method should be used to attribute the actuarial present value of projected benefit payments of each employee. Each employee's service costs should be level as a percentage of that employee's projected pay.
Pension Expense	33	Changes in the net pension liability, excluding deferred outflows of resources and deferred inflows of resources, should be recognized in pension expense in the current reporting period.
Contributions	40(d) and 44(b)(6)	A description of contribution requirements
Assumptions	41	Significant assumptions and other inputs used to measure the total pension liability.

Notes to Financial Statements (Continued)		
Line Item	**Statement Paragraphs**	**Description**
The Pension Plan's Fiduciary Net Position	43	Information about the pension plan's basic financial statements, including information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position.
Required Supplementary Information	46	10-Year schedules of required supplementary information relating to the NPL, TPL, contributions, and annual money weighted rate of return.
Special Funding Situations – Situations where an entity other than the employer government is legally responsible for contributing to the plan.		
Line Item	**Statement Paragraphs**	**Description**
Special Funding Situations	15	Circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists: a. The amount of the contribution by the nonemployer entity is not dependent on one or more events or circumstances unrelated to the pensions. (e.g. 1. A circumstance in which the nonemployer entity is required by statute to contribute a defined percentage of an employer's covered employee payroll directly to the pension plan. 2. A circumstance in which the nonemployer entity is required by the terms of a pension plan to contribute directly to the pension plan a statutorily defined proportion of the employer's required contributions to the pension plan.) b. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.
Proportionate Share of the Collective Net Pension Liability	83 and 92	A liability should be recognized for the employer's proportionate share of the collective net pension liability.
Proportionate Share of Pension Expense	85 and 93	Pension expense should be recognized in an amount equal to collective pension expense, determined in conformity with paragraph 33).

Glossary		
Line Item	**Statement Paragraphs**	**Description**
Glossary	139	Single employer plans – Provides pensions through a defined benefit pension plan to employees of only one employer. Agent employer plans – Multi-employer defined benefit pension plans in which assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is available to pay the benefits of only its employees. Cost – sharing employer plans – Multi-employer defined benefit pension plans in which assets are pooled for investment purposes but assets can be used to pay the benefits of the employees of any employer.

INTERNAL REVENUE SERVICE PROPOSED GUIDANCE ON APPLICABILITY OF NORMAL RETIREMENT AGE RULES TO GOVERNMENTAL PLANS

On April 18, 2012, the Internal Revenue Service (IRS) and Department of Treasury issued Notice 2012-29 stating their intent to issue guidance on the applicability of the normal retirement age (NRA) rules to governmental plans as defined in section 414(d) of the Internal Revenue Code of 1986 (IRC).[8]

The IRS solicited public comments on the proposed guidance through July 30, 2012.

The 2007 NRA Regulations[9]

In 2007, the IRS issued final regulations regarding distributions from pension plans upon attainment of NRA. The 2007 regulations modified §1.401(a)-1(b)(1) of the Income Tax Regulations that prohibits pension plans from payment of benefits from the plan during employment. The 2007 regulations contained the following exceptions to the prohibition:

- pension plans are permitted to commence an in-service distribution after the attainment of NRA as defined in the regulation. The 2007 regulation prohibits the NRA from being earlier than the earliest age that is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed;
- the regulation provided a safe harbor age of 62 as deemed to be not earlier than the typical retirement age for the industry in which the covered workforce is employed;
- the regulation also established a safe harbor for plans in which substantially all the participants are qualified public safety employees. For those plans, an NRA of age 50 or later was deemed not to be earlier than the earliest age that is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed.

Proposed modification to the regulations

The proposed guidance provides that: (1) governmental plans that do not provide for in-service distribution before age 62 do not need to have a definition of normal retirement age (NRA) or conform with the 2007 NRA regulations, and (2) the age 50 safe harbor rule would apply to a group of employees substantially all of whom are qualified public safety employees regardless of whether they are covered by a separate plan or are a separate group within a larger plan containing other employees with higher NRAs.

Although the notice exempts the governmental plans that do not provide for in-service distribution before age 62 from defining NRA, conversely, the language also suggests that governmental plans will not be allowed to provide for in-service distribution before age 62. An in-service distribution may include a return-to-work provision.

Extension of Effective date

The notice also states the IRS and Treasury's intention to extend the effective date of the 2007 NRA regulations for governmental plans to annuity starting dates that occur in plan years beginning on or after the later of:

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[8] *See* IRS Notice 2012-29 (April 18, 2012); *available at* http://www.irs.gov/irb/2012-18_IRB/ar12.html .

[9] 26 CFR, Chapter I, Subchapter A, Part 1 §1.401(A)-1 - Post-ERISA Qualified Plans and Qualified Trusts; In General, *available at* http://www.law.cornell.edu/cfr/text/26/1.401(a)-1 .

- January 1, 2015, or
- the close of the first regular legislative session of the legislative body with the authority to amend the plan that begins on or after the date that is three months after the final regulations are published in the Federal Register.

The notice further states that the governmental plan sponsors may rely on Notice 2012-29 for the extension until the 2007 NRA regulations are amended.

Comments Sought

In addition to requesting comments on the proposed guidance, the IRS is also requesting comments regarding the following:

- because qualified public safety employees generally tend to have career spans that commence at a young age and continue over a limited period of years, should an additional rule be provided under which retirement after 20 to 30 years of service may be a normal retirement that is reasonably representative for qualified public safety employees;
- whether there is information indicating that there are other categories of governmental employees who have career spans similar to qualified public safety employees that would justify a similar rule.

INTERNAL REVENUE SERVICE PROPOSED REGULATION TO DEFINE "GOVERNMENTAL PLANS"

On November 7, 2011, the Internal Revenue Service (IRS or Agency) released its 'advance notice of proposed rulemaking' to define the term 'Governmental Plan' under section 414(d) of the Internal Revenue Code of 1986 (IRC).[10] Unlike IRS's usual rulemaking process, the agency has added another initial step in the process by providing an 'advance notice of proposed rulemaking' to receive public comments. Following the completion of this process, the IRS has indicated that it may use public input to develop the 'notice of proposed rulemaking' for another round of comments.[11]

The IRS solicited written or electronic comments through l June 18, 2012.[12]

Governmental pension plans are exempt from Employee Retirement Income Security Act of 1974 (ERISA) requirements and therefore subject to different rules than nongovernmental retirement plans. Hence, a plan's status determination as a governmental or nongovernmental plan becomes crucial in order to outline the obligations of the plan sponsor and the rights of participants and beneficiaries.

IRS in its draft regulation has indicated the reason for its proposed regulation. The notice states that the Agency has become concerned due to the growing number of requests for governmental plan determinations from plan sponsors whose relationship to states or political subdivisions are

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[10] *See* IRS Regulation Number 157714-06 (Nov. 7, 2011); *available at* http://www.irs.gov/pub/irs-tege/reg_157714_06.pdf
[11] *Available at* http://www.irs.gov/retirement/article/0,,id=249178,00.html
[12] Electronic comments can be submitted at http://www.regulations.gov/#!searchResults;rpp=25;po=0;s=157714-06. For information to mail your comments please refer the 'advanced Notice of proposed rulemaking'

increasingly remote and whose arguments to be determined as governmental plans raise novel issues.

In order to understand the potential issues raised by the proposed regulation, it is important to first visit the existing governmental plan definition under the IRC section 414(d).

Current Statutory Definition

Section 414(d) of the IRC generally defines the term "governmental plan" as a plan established and maintained for its employees:

- by the Government of the United States
- by the government of any State or political subdivision thereof or
- by any agency or instrumentality of any of the foregoing

Currently there are no regulations defining or interpreting the key terms relating to governmental plan definition, including the terms "political subdivision," "agency or instrumentality," and "established and maintained."

Key Provisions of the Proposed Regulations

IRS in its advanced notice has proposed to amend the current definition of the term "governmental plan" by defining the related key terms.

Definitions of key terms under section 414(d).

- defines the term "United States"
- defines the terms "State" and "political subdivision of the State"
- defines whether an entity is an agency or instrumentality of the United States or an agency or instrumentality of a State or political subdivision by providing a facts and circumstances test, and
- defines the term "established and maintained" and rules that would apply when a plan sponsor changes its status from a governmental entity to a private entity or from a private entity to a governmental entity

Request for comments. The IRS is requesting comments on

- all aspects of the guidance under consideration
- whether there should be distinctions between major and other factors relating to the determination of an agency or instrumentality of a State or political subdivision of a State
- the ordering and application of main and other factors, and
- whether an exception should be provided in cases where a small number of private employees participate in a governmental plan

Effective date. The IRS anticipates that

- the guidance resulting from this process will not be effective any earlier than plan years beginning after publication of final regulations

- the time required to complete the State legislative process for amending a State or local retirement plan will be taken into consideration when determining an effective date, and
- transition relief may apply for entities that previously operated as if they were governmental entities eligible to participate or sponsor governmental plans but later were determined to be private entities under the guidance under consideration

In the interest of reviewing the potential impact of the proposed rules on various States, including Texas, the following discussion will only define the State-related key terms of the current governmental plan definition.

Definition of a "State" or "Political Subdivision of a State"

The term "State" is defined as any State of the United States and the District of Columbia. The term "political subdivision' is defined as a regional, territorial, or local authority, such as a county or municipality that is created or recognized by State statute to exercise sovereign powers like the power of taxation, the power of eminent domain, and the police power and the governing officers either are appointed by State officials or publicly elected.

Definition of "Agency or Instrumentality of a State or Political Subdivision of a State"

Under the proposed regulation, the term "agency or instrumentality of a State or political subdivision of a State" means an entity that satisfies the facts and circumstances test. The proposed regulation is based on numerous factors historically applied in case laws by the courts and in determination rulings by the Agency to determine whether an entity is an agency or instrumentality of a State or a political subdivision of a State. Satisfaction of one or more of the factors is not necessarily determinative of whether an organization is a governmental entity. The notice provides both main factors and other factors.

Major factors for determining whether an entity is an agency or instrumentality of a State or political subdivision of a State are whether:

1. The entity's governing board or body is controlled by a State (or political subdivision thereof).
2. The members of the governing board or body are publicly nominated and elected.
3. A State (or political subdivision thereof) has fiscal responsibility for the general debts and other liabilities of the entity, including responsibility for the funding of benefits under the entity's employee benefit plans.
4. The entity's employees are treated in the same manner as employees of the State (or political subdivision thereof) for purposes other than providing employee benefits (for example, the entity's employees are granted civil service protection).
5. In the case of an entity that is not a political subdivision, the entity is delegated the authority to exercise sovereign powers (which generally means the power of taxation, the power of eminent domain, and police powers).

Other factors to be considered are whether:

1. The entity's operations are controlled by a State (or political subdivision thereof).

2. The entity is directly funded through tax revenues or other public sources. However, this factor is not satisfied if an entity that is not otherwise an agency or instrumentality is paid from public funds under a contract to provide a governmental service or is funded through grants by the State or Federal government.
3. The entity is created by a State government or political subdivision of a State pursuant to a specific enabling statute that prescribes the purposes, powers, and manners in which the entity is to be established and operated.
4. The entity is treated as a governmental entity for Federal employment tax or income tax purposes (such as, the authority to issue tax-exempt bonds under section 103(a)) or under other Federal laws.
5. The entity is determined to be an agency or instrumentality of a State (or political subdivision thereof) for purposes of State laws. For example, the entity is subject to open meetings laws or the requirement to maintain public records that apply only to governmental entities, or the State attorney general represents the entity in court under a State statute that only permits representation of State entities.
6. The entity is determined to be an agency or instrumentality of a State (or political subdivision thereof) by a State or Federal court.
7. A State (or political subdivision thereof) has the ownership interest in the entity and no private interests are involved.
8. The entity serves a governmental purpose.

The proposed regulations include a variety of examples to illustrate whether an entity is an agency or instrumentality of a State or political subdivision thereof. Many of these examples are drawn from prior judicial opinions, as well as the Agencies' determinations.[13]

Definition of "Established and Maintained"

The notice also discusses that a plan is "established and maintained" for the employees of a governmental entity if:

1. The plan is established and maintained for employees by an employer, within the meaning of §1.401-1(a)(2) of the Treasury Regulations[14]
2. The employer is a governmental entity, and
3. The participants covered by the plan are employees of that governmental entity

Furthermore, the notice provides rules for **change in plan status from a private entity to a governmental entity and vice versa (for example, as a result of stock acquisition or asset transfer).** A change in status could raise potential compliance concerns because under the notice, if a governmental employer ceases to be a governmental entity, the plan will be treated as being established by a private employer on the date of the change.

Potential impact on public retirement systems

IRS's proposed facts and circumstances test to determine whether an entity is an agency or instrumentality of a State or political subdivision of a State could potentially create issues

[13] http://www.irs.gov/pub/irs-tege/reg_157714_06.pdf

[14] 26 C.F.R., Section 1.401-1(a)(2) generally provides that a qualified pension, profit-sharing, or stock bonus plan is a definite written program and arrangement which is communicated to the employees and which is established and maintained by an employer.

relating to state public retirement systems. The potential issues can be broadly categorized into three areas:

a. **Uncertainty:** In the proposed notice, IRS states that one or more factors will not be determinative of an entity's status. Hence, any determination of governmental status will depend upon how the IRS weighs the different factors, which could create uncertainty amongst the existing and new entities seeking governmental status determination. IRS has provided examples in the notice in order to illustrate the application of the facts and circumstances test, including the following example:

Example. *A county contracts with a non-profit corporation to operate a zoo in the county. The Non-profit entity is organized under the laws of the State. Although the entity was not created by State law, the legislature of the State authorized the State's forest districts to contract with zoological societies for the creation, operation, and maintenance of zoological parks. The County entered into a contract with the entity, giving the entity exclusive control and management authority over the zoo in the County. The entity, through government contracts, receives over half of its revenues from County taxes. The remaining revenue is generated from the zoo. The County maintains a significant amount of control over the budget of the non-profit entity. The zoo is located on county-owned land, and vehicles used at the zoo are also owned by the County. Only one of 35 members of the governing board is a public official. Only 4 of 240 members who elect the board are public officials. In addition, the county has no direct role in the non-profit entity's operation and maintenance of the zoo. Employees of the entity are not treated in the same manner as public employees.* ***Based on the facts and circumstances, the entity is not an agency or instrumentality of the county or the State.*** *The non-profit entity receives the public funds under a contract and very few members of both the board of trustees and the governing members of the entity are public officials.*

b. **Conflict with state laws:** While an organization, like a river authority or a water district or other special purpose district may be treated as government agencies under the state and/or local laws, under the proposed IRS rules they might be considered a nongovernmental entity without the authority to offer or participate in a governmental plan. This could create confusion and conflict between the proposed federal and existing state laws.

c. **Transition issues for the existing governmental plans:** Generally, under the proposed rules, for a plan to be classified as a governmental plan, nongovernmental employees' participation would not be allowed. However, the notice does not provide exceptions or safe harbor provisions for existing State practices under which, special purpose districts or certain entities are considered government agencies per the State and/or local laws and are allowed to offer or participate in governmental plans. Under the proposed rules, if these types of entities do not pass the facts and circumstances test, they would be considered private entities and would not be allowed to offer a governmental plan or their participation in a governmental plan may jeopardize the plan's status. In that regard, the notice requests comments whether an exception should be provided in cases where a small number of private employees participate in a governmental plan, based on the following parameters:

- whether the private employees were previously employees of the sponsoring governmental entity;
- whether the private employees were previously participants in the governmental plan;
- whether the number or percentage of such former employees who participate in the governmental plan is *de minimis* (and, if so, what constitutes a *de minimis* number or percentage);
- whether the coverage is pursuant to pre-existing plan provisions;
- whether the private employer performs a governmental function and has been officially designated as a State entity for plan participation purposes; and
- whether the private employer sponsors or has sponsored plans that cannot be sponsored by a State governmental entity

Additionally, the proposed notice does not provide rules for transition, if indeed such entities would be required to discontinue their participation in governmental plans or change their plan status. Instead, the IRS requests comments addressing transition relief issues and related correction methods.

Potential conflict with PRB's governing statute

The PRB is mandated to oversee public retirement systems in Texas. In that regard, Government Code, Section 802.001 defines a "public retirement system" as a continuing, organized program of service retirement, disability retirement or death benefits for officers or employees of the state or political subdivision, or agency or instrumentality of the state or a political subdivision. In interpreting the definition, the agency includes governmental plans offered by special purpose districts or other entities of the State that could potentially be categorized as a nongovernmental plan under the proposed definition of the IRS. This could potentially create a conflict between the proposed IRS rules and the PRB's statutory provisions and raise statutory questions because a plan might be considered a governmental plan under the PRB statute but not under the IRS proposal. This could in turn become a cost and filing burden on such a plan. Due to the rudimentary nature of the proposed rules, the PRB determined that it would be premature to comment definitively on the impact of the rules. Nonetheless, the PRB will continue to monitor the development of the proposed rules.

PRB GUIDELINES AND POLICY REVIEW – TIMELINE

In spring 2010, the Board began reviewing the "PRB Guidelines for Actuarial Soundness" and "Policy for Determination of System Actuarial Review." The PRB Guidelines is a set of recommendations for Texas public retirement systems to help ensure equitable distribution of benefits to plan members. The Policy for Determination of System Actuarial Review outlines procedures for the PRB to make a determination of actuarial unsoundness and provides possible actions based on that determination. In the interest of transparency, the PRB conducted a number of surveys of Texas public retirement systems and other interested parties, and provided opportunities for public comment at the quarterly PRB meetings and at several PRB actuarial committee meetings. A copy of a timeline, presented to the Board, that chronologically outlines salient discussions in all the committee meetings, various surveys that were conducted, and the results of the survey with regard to the Guidelines and Policy review process is included as **Appendix D**. The process culminated in an updated set of Guidelines for Actuarial Soundness and Policy for Determination of System Actuarial Review adopted by the PRB on September 28, 2011.

PROPOSED REVISIONS OF ACTUARIAL STANDARD OF PRACTICE NO. 4 & 27

Introduction

The Actuarial Standards Board (ASB) provides guidance for, among other things, measuring pension obligations through a series of actuarial standards known as the Actuarial Standards of Practice (ASOPs), including the following:

- **ASOP No. 4**, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, and
- **ASOP No. 27**, *Selection of Economic Assumptions for Measuring Pension Obligations*.

ASOP No. 4 is the primary standard for measuring pension obligations and in the event of conflict with any other standard, ASOP No. 4 prevails.

Currently, the Pension Committee of the ASB is in the process of reviewing and revising, among other standards, the ASOPs No. 4 and No. 27. The Pension Committee is focused on the following issues relating to ASOPs No. 4 and No. 27:

- Addressing economic value issues (i.e., financial economics (FE)) regarding both actuarial methods and actuarial assumptions, thus requiring revisions to both ASOP Nos. 4 and 27,
- Reviewing ASOP No. 4 in its entirety, not just with regard to economic value issues. This review includes funding methods, contribution policy, funded status, projections, terminology, and valuation of certain types of plan provisions.

Timeline and Comment Deadline

In January 2011, the ASB issued the first discussion draft for ASOP No. 4 that can be found at (http://www.actuarialstandardsboard.org/pdf/discussions/asop4_discussiondraft_2011_updated.pdf) and the first exposure draft of ASOP No. 27 that can be found at (http://www.actuarialstandardsboard.org/pdf/asops/asop27revision_exposure_2011_updated.pdf)

ASB also solicited and accepted comments on these drafts.[15]

Subsequently, in January 2012, the ASB issued the second exposure draft for ASOP No. 4 that can be found at (http://www.actuarialstandardsboard.org/pdf/exposure/ASOP_No4_exposure_2011.pdf)

and the second exposure draft for ASOP No. 27 that can be found at (http://www.actuarialstandardsboard.org/pdf/exposure/ASOP_No27_second%20exposure_2011.pdf).

ASB was soliciting written or electronic comments for proposed changes in the exposure drafts for **ASOP No. 4 and No. 27** from interested parties until **May 31, 2012.**

[15] Comments on first exposure draft to ASOP No. 27 are *available at* http://www.actuarialstandardsboard.org/exposure.asp

Key Proposed Changes to ASOP No. 4

Some of the proposed changes to ASOP No. 4 introduce new concepts while others are refinements to concepts currently in the standard.

- **Full Funding**: The exposure draft is proposing to clarify the current definition of "fully funded." The proposed changes will require an actuary to disclose the following items when asserting that the plan is 'fully funded":
  - Whether the plan's market value of assets is equal to or exceeds the estimated cost to settle benefit obligations;
  - The fact that being fully funded is a temporary measure at a particular time;
  - Whether there is significant risk that the fully funded plan could cease to be fully funded; and
  - The fact that additional contributions may be required despite current full funding of the plan.
- **Funded Status**: The exposure draft contains new disclosure requirements related to a plan's funded status. Any plan funded status disclosure based on Actuarial Value of Assets (AVA) must be accompanied by another disclosure based on Market Value of Assets (MVA).
- **Funded Status under Spread Gain Methods**: When disclosing the plan's funded status based on a spread gain method (e.g., aggregate or individual level premium methods), the actuary must also disclose funded status based on an immediate gain cost method (e.g., Entry Age Normal Cost (EAN) or Projected Unit Credit (PUC)).
- **Change in actuarial method:** The actuary must disclose the reason for any change in the AVA method (including a reset to MVA), amortization method, or cost method.
- **Proposed Definition of Market-Consistent Present Value:**
  - A present value type that is not based on plan assets.
  - Consistent with "price at which expected benefit payments would trade in an open market."
  - May vary depending on the purpose of the measurement.
- **Rationale required for plan provisions not valued:** Written rationale required when the actuary excludes any significant plan provisions from the valuation (e.g., gain sharing or other asymmetric plan features).
- **Disclosure of expected declining future funded status:** Required disclosure if the calculated recommended contributions or contributions set by contract or law are expected to result in declining future funded status.

Key Proposed Changes to ASOP No. 27

- **New definition of reasonable assumption standard:**
  - Old standard was that assumptions were not anticipated to produce significant actuarial gains or losses over the measurement period.
  - New standard requires that the assumption meets all of the following:
    - Appropriate for the measurement purpose;
    - Reflects the actuary's professional judgment;
    - Takes into account relevant historic and current economic data;
    - Reflects the actuary's estimate of future experience, the actuary's observation of estimates inherent in financial market data, or a combination thereof; and
    - Is unbiased (neither optimistic nor pessimistic), except when provisions for adverse deviation are included and disclosed, or when alternative assumptions are used for the assessment of risk.
- **Assumption and assumption change rationale:** Requirement of brief rationale statement for each non-prescribed assumption and each change to a non-prescribed assumption.
- **Guidance for actuaries:**
  - Regarding estimated future investment returns based on arithmetic and geometric returns.
  - Regarding payroll growth assumption.

PUBLIC EMPLOYEE PENSION TRANSPARENCY ACT

In December 2010, H.R. 6484 was filed in the House of Representatives by Rep. Nunes (CA). The 111th Congress adjourned without any action on H.R. 6484. In February 2011, H.R. 567 by Rep. Nunes (CA) and S.347 by Sen. Burr (NC) were filed in their respective chambers of Congress. The proposals filed in the 112th Congress mirror the original filing of H.R.6484. Currently, H.R. 567 has been referred to the House Committee on Ways and Means; S.347 has been referred to the Committee on Finance.

The legislation would create a federal reporting structure for state and local public retirement systems. Among the requirements for filing, sponsors of state and local government employee pension plans must report specific financial information to U.S. Treasury Secretary. Governmental entities failing to report this information in a timely manner (not later than 210 days after the end of the plan year) would lose their ability to issue tax exempt bonds until they comply with the reporting requirements. The legislation would prohibit the federal government from accepting any current or future obligations of state and local government pension plans or take action to alleviate their shortfalls.

Annual Reporting Requirements

Specifically, the legislation would require a plan sponsor of a state or local government pension plan to file an annual report with the Secretary for plan years beginning on or after January 1, 2011. The term plan sponsor is defined as the "State, political subdivision of a State, or agency or instrumentality of a State which establishes or maintains the plan." The annual report would have to be filed no later than 210 days after the end of the plan year (or as otherwise determined by the Secretary). The information would be posted to a searchable public website maintained by the U.S. Treasury Department. The items to be reported would include:

A. Schedule of funding status, including the current liability of the plan, amount of plan assets, net unfunded liability, and plan's funding percentage. Current liability is defined as the present value of all benefits accrued or earned under the plan as of the end of the plan year.

B. Schedule of contributions by the plan sponsor for the plan year, indicating contributions which are or are not taken into account in the schedule of funding status.

C. Alternative projections related to the annual contributions, fair market value of assets, current liability, and plan funding status for each of the next 20 plan years. This would also include a statement of assumptions and methods used in the projections and those related to the plan's funding policy, benefit changes, future workforce projections, and future plan returns. The Secretary would issue regulations to achieve comparability across plans regarding the assumptions and methods used in the projections.

D. Statement of actuarial assumptions, including the assumed rate of return on invested plan assets for the plan year, and other assumptions as determined by the Secretary.

E. Statement of plan participants, including the number of active, retired, and vested deferred members.

F. Statement of the plan investment returns, including the actual rate of return for the plan year and 5 preceding plan years.

G. Statement of the degree and manner in which the plan sponsor expects to eliminate any unfunded current liability as well as the extent to which the plan sponsor has followed the plan's funding policy for the 5 preceding plan years.

H. Statement of outstanding pension obligation bonds, including the total amount outstanding.

Supplementary Reporting Requirements

Supplementary reports would be required if the annual report does not measure assets at fair market value or if liabilities are not discounted using U.S. Treasury bond yields. The supplementary reports would re-measure reported items in A, C, F, and G above, using assets at fair market value and liabilities discounted using the "U.S. Treasury Obligation Yield Curve Rate." This yield curve rate would be developed by the Secretary and would consist of three rates, based on U.S. Treasury bond yields of different maturities:

1. Over the next 5 years;

2. Between 6 and 20 years; and
3. Over 20 years.

The rates would be determined on a monthly basis and reflect average monthly yields over the preceding 24 month period.

Issues

- The legislation would change the way a public retirement system's funded status is measured from current actuarial standards.
- The legislation would require measures of pension liabilities and contributions that vary from those used to fund the plan and for accounting and financial reporting standards: the proposed definition of current liability would exclude benefits based on future service (only measure earned or accrued to date), whereas most retirement systems measure liabilities based on accrued and future service.
- U.S. Treasury bond yields, suggested in the legislation as the rate to measure liabilities, averaged over the 24-month period ending December 2010 at the following rates: 2.1%, 4.1%, and 4.2%. Currently, most plans use an 8% discount rate.
- Failure to report in a timely manner would result in the loss of a governmental entities tax exempt bond status during the period of non-compliance.
- The legislation seemingly ignores proposals that are currently underway with respect to GASB Statements #25 and #27.
- The legislation could force governmental plan sponsors to conduct additional actuarial valuations to meet the legislations reporting and supplemental reporting requirements, which would mean additional costs for those sponsors.
- The legislation would be particularly problematic for multi-employer plans as it is unclear if separate stand-alone valuations would be required, which would add significant cost.

Conclusion

The PRB was created in large part as response to the federal government's interest in pursuing ERISA-style legislation for state and local public retirement systems. Although some of the proposed reporting requirements are similar to those required under the enabling statute of the PRB, there are elements of the proposal which are vastly different from existing PRB reporting requirements; as well, there are elements of the proposal which significantly differ from current actuarial standards of practice. The potential impact of the legislation is significant for both Texas public retirement systems and their sponsoring governmental entities.

REPORT TO HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND FINANCIAL SERVICES 82ND INTERIM CHARGES 1 & 5

The PRB presented a report to the House Committee on Pensions, Investments and Financial Services (PIFS) on Charges 1 and 5 on September 12, 2012.

Charge # 1: "Review local retirement systems that are not a part of statewide systems, the administration of these retirement systems, and current liabilities. Study and make recommendations aimed at curbing rising pension costs to local governments." The PRB's report on this Charge included detailed information on the local retirement systems benefit design, governance of plan provisions, actuarial valuation summary and actuarial assumptions.

Charge # 5: "Monitor all agencies and programs under the committee's jurisdiction." The PRB's report on this Charge defined the agency's composition, functions, and current and future agency activities.

A copy of the report is included as **Appendix E**.

SECURITIES AND EXCHANGE COMMISSION'S PROPOSED REGISTRATION OF MUNICIPAL ADVISORS RULE

On December 20, 2010, the Securities and Exchange Commission ("SEC") released its proposed rules for registration of municipal advisors.[16] The proposed rules could potentially require the appointed board members of the public retirement systems that invest money to register with the SEC. The proposed rules were issued to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") that amended Section 15B of the Securities and Exchange Act of 1934, which, among other things, makes it unlawful for municipal advisors to provide advice to or on behalf of municipal entities with respect to municipal financial products or the issuance of municipal securities without registering with the SEC. *SEC Release at 18*. The Dodd-Frank Act also grants the Municipal Securities Rulemaking Board ("MSRB") regulatory authority over municipal advisors, and imposes a fiduciary duty on municipal advisors when advising municipal entities. *See SEC Release at 16*. The proposed rules are not yet final, and the SEC was soliciting public comments regarding the rules with a deadline of February 22, 2011. However, the SEC continued to accept public comments on the proposed rules way past the due date.

Potential Impact on Public Retirement Systems

In order to understand the impact of the proposed rules on public retirement systems' appointed board members, it is important to understand the definitions provided by the Dodd-Frank Act and their related interpretation by the SEC in the proposed rule release.

[16] SEC Release No. 34-63576; File No. S7-45-10 (Dec. 20, 2010), *available at* http://www.sec.gov/rules/proposed/2010/34-63576.pdf

Proposed Rule – Key Questions

- **Who is a Municipal Advisor?** The Dodd-Frank Act broadly defines the term "municipal advisor" to mean a person (who is not a municipal entity or an employee of a municipal entity) that:
  1. provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues, or
  2. that undertakes a solicitation of a municipal entity.

  The Dodd-Frank Act also imposes fiduciary duty on municipal advisors when advising municipal entities.

- **What is a Municipal Entity?** Under the Dodd-Frank Act the term "municipal entity" means any state, political subdivision of a state, or municipal corporate instrumentality of a state, including agencies or authorities, or any "plan, program, or pool of assets sponsored or established by the state, political subdivision, or municipal corporate instrumentality or any agency, authority or instrumentality thereof;" and any other issuer of municipal securities. *See SEC Release at 22.*
  The SEC provided additional clarification to this definition in its proposed rule release by noting that the definition of a "municipal entity" includes, but is not limited to, public pension funds, local government investment pools and other state and local governmental entities or funds, as well as participant-directed investment programs or self-directed pension funds like 403(b), and 457 plans.

- **Who is an Employee of a Municipal Entity?** The Dodd-Frank Act's definition of a "municipal advisor" excludes "employees of a municipal entity." The SEC states that "employees of a municipal entity" include elected members of a governing body of a municipal entity and appointed members who are ex officio members of the governing body by virtue of holding an elective office. However, the SEC believes that the appointed members of a governing body of a municipal entity (other than elected ex officio members) are not employees and should be included in the definition of a "municipal advisor." *See SEC Release at 40-41.* This could mean that the appointed members of a governing board of a public retirement system that provides financial advice or makes financial decisions should register with the SEC.

- **What is a Municipal financial product?** Under the Dodd-Frank Act, the term "municipal financial products" means municipal derivatives, guaranteed investment contracts and investment strategies. The term "investment strategies" includes plans or programs for the investment of the proceeds of municipal securities that are not municipal derivatives and guaranteed investment contracts. Further, the SEC in the release interprets "investment strategies" to include plans, programs, or pools of assets that invest funds held by or on behalf of a municipal entity, and, therefore, any person that provides advice with respect to such funds must register as a municipal advisor, unless it is covered by one of the exclusions provided under the Dodd-Frank Act. Based on these definitions, the SEC goes on to state that it believes *"it was Congress's intent to* *include in the definition of 'municipal advisor' persons that provide advice with respect to plans, programs or pools of assets that invest funds held by, or on behalf of, a municipal entity, such as a 529 college savings plan, or public pension plan. Such plans, programs, and pools of assets are generally funded from sources other than proceeds of municipal securities, such as pension contributions from employees and state and local government employers." See SEC Release at 26.*

SEC's interpretation, particularly the distinction between elected and appointed members of governing boards

Based on the SEC's interpretation of the amendments made by the Dodd-Frank Act as stated in the SEC proposed rule release, appointed members of governing boards of municipal entities, including public pension funds, are not excluded from the registration requirement for municipal advisors. The impact on public pension funds' board members is covered in the proposed rule's interpretation of the definition of "municipal advisor" and the related exclusions.

The proposed rule unequivocally excludes from the definition of "municipal advisor" (1) municipal entities; and (2) municipal entity employees. The SEC further addresses the second exclusion to include elected members of governing bodies of municipal entities and appointed members of a governing body to the extent such appointed members are ex officio members of the governing body by virtue of holding an elective office. The SEC does not believe that appointed members of a governing body of a municipal entity that are not elected ex officio members should be excluded from the definition of a "municipal advisor." The SEC explains:

"*The commission believes that this interpretation is appropriate because employees and elected members are accountable to the municipal entity for their actions. In addition, the Commission is concerned that appointed members, unlike elected officials and elected ex officio members, are not directly accountable for their performance to the citizens of the municipal entity." See SEC Release at 41*.

Additionally, the SEC in its release addressed the question of whether someone who offered free or voluntary advice was subject to the rule. The SEC concluded that the rule applied:

"In defining the term "municipal advisor" in Exchange Act Section 15B(e)(4), Congress did not distinguish between those municipal advisors who are compensated for providing advice and those who are not compensated for providing advice. Thus, consistent with Congress's definition of the term 'municipal advisor,' the Commission does not believe the issue of whether a municipal advisor is compensated for providing municipal advice should factor into the determination of whether the municipal advisor must register with the Commission." See SEC Release at 48.

Agency Action

In the interest of keeping its constituents informed regarding the potential impact of the proposed rules and to make them aware of the opportunity to participate in the SEC's comment process, the PRB sent out an informational e-mail with a summary of the proposed rules in January of 2011 and also published the summary on its website.

Public Comments

The SEC started receiving public comments on the proposed rules from January 1, 2011. To date, the SEC has received thousands of comments denouncing the rule's far-reaching implications. Governmental entities, including public retirement systems from all across the U.S. participated in the comment process.[17] Some of the Texas public retirement systems, including the Teacher Retirement System of Texas and Employees Retirement System of Texas also partook in the comment process. Due to the potential impact of the proposed rules on members of appointed board of state agencies, university systems, commissions, and other state and local municipal entities, the Office of the Attorney General submitted comments on behalf of the State of Texas, including the Office of the Governor, the Texas Comptroller of Public Accounts and the various agencies who also joined the Attorney General's Office in submitting the comments. Comments provided by the Attorney General's Office have been enclosed with this report for easy reference.

Proposed Legislation

On August 26, 2011, H.R. 2827[18] was introduced in the House of Representatives by Rep. Bob Dold (IL). The proposed bill seeks to amend the Securities Exchange Act of 1934 to clarify provisions relating to the regulation of municipal advisors, and for other purposes. The legislation, among other things, would narrow the definition of municipal advisor, clarify the definition of an investment strategy and eliminate the federal fiduciary standard for municipal advisers. On September 19, 2012 the proposed bill was passed by the House and on September 20, 2012 it was referred to and received by the Senate. The bill was read twice in the Senate and referred to the Committee on Banking, Housing, and Urban Affairs.

SURVEY OF PUBLIC PENSION PLAN PARTICIPATION IN SOCIAL SECURITY

The PRB recently conducted a survey of 360 public retirement systems across Texas to determine if the members of the retirement systems are also participants in Social Security. To date, the PRB has received responses from 277 systems, or approximately 77% of systems contacted.

Results of the Survey

- Of the 146 defined benefit plans that responded to the survey (78% response rate), 41 participate in Social Security and 105 do not participate in Social Security.
- Of the 131 defined contribution plans that responded to the survey (76% response rate), 63 participate in Social Security and 68 do not participate in Social Security.
- Of the responses received, approximately 86.5% of public safety defined benefit plans, including Texas Local Fire Fighters Retirement Act (TLFFRA) plans, do not participate in Social Security.
- Of the responses received, over 58% of civilian defined benefit plans do participate in Social Security.
- Analysis of the 68 defined contribution plans not participating in Social Security indicates that 19 of these plans serve as supplemental plans to the Teacher Retirement

[17] *Available at* http://www.sec.gov/comments/s7-45-10/s74510.shtml#comments
[18] *Available at* http://www.govtrack.us/congress/bill.xpd?bill=h112-2827

System (TRS), Texas Municipal Retirement System (TMRS), Texas County and District Retirement System (TCDRS) or another defined benefit plan.

The results of the Social Security participation survey are tabulated by retirement system. In the vast majority of retirement systems, members simply are or are not participants in Social Security. However, certain plans have more complicated breakouts of Social Security participation. For instance, a member municipality of TMRS may have certain classifications of municipal employees that do not participate in Social Security, while other classifications of municipal employees do participate in Social Security. Other systems with similar classification issues are TCDRS and TRS. As such, attempting to determine the actual number of members participating in Social Security is extremely difficult. Both TMRS and TCDRS indicated that the majority of their employers do participate in Social Security, while TRS indicated that the majority of their employers do not participate in Social Security. Due to this information, TMRS and TCDRS are counted as Social Security participant systems and TRS is not counted as a Social Security participant.

The following tables summarize the data collected from the PRB survey:

Total Number of Responses by Plan Type

Plan Type	Total Plans	Responded	No Response
DB	187	146	41
DC	173	131	42
Total	360	277	83

Percent of Responses by Plan Type

Plan Type	Percent Responding	Percent Not Responding
DB	78.07%	21.93%
DC	75.72%	24.28%
Total	76.94%	23.06%

Total System Social Security Participation by Plan Type

Plan Type	SS Participant	Not SS Participant	No Response
DB	41	105	41
DC	63	68	42
Total	104	173	83

Percent of System Social Security Participation by Plan Type

Plan Type	SS Participant	Not SS Participant	No Response
DB	21.93%	56.15%	21.92%
DC	36.42%	39.31%	24.27%
Total	28.89%	48.06%	23.05%

Total System Social Security Participation by Defined Benefit Plan Type

Plan Type	SS Participant	Not SS Participant
Civilian	25	18
Public Safety	16	87
Total	41	105

Conclusions

Overall, the PRB Survey of Social Security Participation received responses from nearly 77% of the public retirement systems throughout the state. Results based on responses received indicate that a majority of the members of public defined benefit plans do not participate in Social Security. Within the response sample, almost 60% of civilian plans do participate in Social Security; however, nearly 87% of public safety plans do not participate in Social Security.

SUNSET ADVISORY COMMISSION REVIEW

The PRB is under review by the Sunset Advisory Commission (SAC). The SAC staff report stated that as long as Texas has traditional defined benefit pensions, the state needs to monitor their financial soundness and the PRB has the resources necessary to analyze pension plans across the state. The SAC staff report specified that Texas has a continuing need for the PRB and recommended to continue the PRB as an independent agency responsible for overseeing Texas' public retirement systems and providing pension-related information for 12 years. **(*Recommendation 1.1*)**

In addition to recommending continuation of the PRB, the SAC staff report contained the following key recommendations:

- Exempt defined contribution and pay-as-you-go defined benefit public retirement plans from PRB reporting requirements except for registration and basic plan information. ***(Recommendation 2.1)***
- Require public retirement systems to provide PRB a summary of significant plan changes within 30 days of their adoption. ***(Recommendation 3.1)***
- Require public retirement systems that conduct experience studies to submit copies of the studies to PRB. ***(Recommendation 3.2)***
- Clarify in statute that sponsoring entity audits do not satisfy retirement systems' annual financial reporting requirements. ***(Recommendation 3.3)***
- PRB should no longer require retirement systems to submit quarterly financial data. ***(Recommendation 3.4)***
- Clarify the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators. ***(Recommendation 4.1)***
- Direct PRB to develop training content that more directly assists public retirement systems with managing their plans. ***(Recommendation 4.2)***

- Apply standard Across-the-Board Recommendations to the State Pension Review Board. ***(Recommendation 5.1)***
- Continue requiring the State Pension Review Board to submit its biennial report to the Legislature. ***(Recommendation 5.2)***

The summary section of the SAC's staff report is included as **Appendix F.** A copy of the full report can be obtained from the SAC website or from PRB website at http://www.prb.state.tx.us/agency-information/open-government.html.

The SAC requested a response from the PRB regarding its staff report and the issues presented in the report. The PRB agreed with all the SAC staff report recommendations and provided comments as well. A copy of the PRB response to the SAC staff report is as **Appendix F**.

On November 13, 2012, the Commission adopted all staff recommendations, including recommendation **1.1** to continue the PRB for 12 years.

PUBLIC PENSION LEGISLATION OF THE 82ND LEGISLATURE

The 82nd Texas Legislative Session convened on January 11, 2011, and adjourned on May 30, 2011. During the session, the PRB tracked 138 bills and companions pertaining to public pension systems. The PRB issued 56 formal impact statements to the Legislative Budget Board (LBB) regarding the actuarial effect of these bills, companions, and substitutes on public retirement systems. The Governor called a Special Session of the 82nd Legislature that was held May 31-June 29, 2011; however, pension legislation was not on his call for the Special Session. The following summarizes pension-related legislation passed during the regular session tracked by the PRB.

Retirement Systems - General

HB 2460 – Truitt

HB 2460 amends the Government Code by adding Section 552.0038 to make public retirement systems, including state agencies such as the Employees Retirement System of Texas, Teacher Retirement System of Texas, and the Office of the Fire Fighters' Pension Commissioner, subject to the Open Records Act in the same way as other governmental bodies. The new section contains language to regulate the confidentiality of records of individual members, annuitants and beneficiaries in the applicable public retirement system. The bill authorizes a retirement system to require a person to provide a social security number if needed for administrative purposes, and gives sole discretion to a retirement system in determining whether a record is subject to release under the Open Records Act. The bill also specifies that, where conflicts exist between the new section and any other law with respect to confidential information held by a public retirement system, the provision that provides greater substantive and procedural protection for the privacy of the information will prevail.

Statewide Systems

Employees Retirement System of Texas (ERS)

HB 1608 – Strama

HB 1608 amends current law relating to participation in and contributions to the State Employee Charitable Campaign (SECC) by retired state employees. The bill allows an ERS annuitant to authorize the retirement system to deduct from their monthly annuity payment the contribution amount to the SECC. The authorization will remain in effect for a maximum of one year unless the person revoked it by giving a notice to the Board of trustees of ERS.

HB 2193 – Truitt

HB 2193 amends current law relating to service and qualifications for membership on an advisory committee established by ERS to provide advice to the board of trustees on investments and investment-related issues. The bill establishes eligibility requirements and review and removal processes for members of an ERS investment advisory committee. To be eligible, an individual would have to be either a prominent educator in the field of economics or finance or another investment-related area or have expertise in managing a financial institution or other business where investment decisions were made. The bill also outlines the grounds on which an individual would be ineligible for membership and requires the ERS board to review the eligibility of investment advisory committee members at least annually.

SB 1664 – Duncan

SB 1664 amends several sections of the Texas Government Code and the Texas Insurance Code relating to ERS and the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF). The bill maintains the ERS/LECOSRF member contribution rates at 6.5%/.5% of payroll, respectively, for fiscal year 2012 only. SB 1664 amends the Government Code and the Local Government Code to provide for a funding source for LECOSRF by requiring the comptroller to deposit certain civil and criminal court fees collected from counties and municipalities in its trust fund. This provision would take effect September 1, 2013. The bill prohibits payment of any benefits, funds, or account balances payable on the death of a member to a beneficiary convicted of or adjudicated as having caused the death of the member. SB 1664 extends the service requirement for Rule-of-80 retirement from five years to ten years for members hired on or after September 1, 2009. The bill clarifies the actuarial reductions for law enforcement or custodial officers hired on or after September 1, 2009 for each year prior to age 55 are in addition to any other actuarial reductions required by law. The bill clarifies that member contributions for service not previously established in the employee elected class are paid at the same rate as current service contributions as provided by Section 815.402 of Texas Government Code. Additionally, SB 1664 also amends the Government Code Section 811 relating to the frequency with which certain type of information is provided to the comptroller by the retirement system. The bill allows ERS annuitants to contribute to the State Employee Charitable Campaign (SECC) through monthly annuity payroll deductions. This provision of the bill is similar to HB 1608. The bill makes other non-substantive amendments to the ERS existing statutes to clarify and comport with current ERS rules or practices.

Teacher Retirement System of Texas (TRS)

HB 1061 – Otto

HB 1061 amends current law under the Texas Government Code relating to the expiration of certain investment authority of TRS. The bill extends the statutory expiration date from September, 2012 to September, 2019 for the investment and reinvestment of certain assets of the retirement system by the TRS board of trustees and for the use of external managers by re-authorizing the TRS board of trustees to delegate investment authority over a portion of the assets of the Retirement Trust Fund to external managers. The bill also increases the allowable amount that TRS can invest in hedge funds to not more than 10 percent of the total investment portfolio with an expiration date of September, 2019.

HB 2120 – Miller, D

HB 2120 amends current law relating to the composition of board of trustees of TRS. The bill allows the one trustee position of the TRS board held currently by an employee of an institution of higher education to be held by any TRS member or retiree. The bill requires the nomination list provided by TRS to be the result of input from current and retired higher and public education TRS members. The changes in the bill will apply only to the appointment or election of a trustee of the TRS board that occurs after September 1, 2011. Sitting board members would complete their term of office.

HB 2561 – Eissler

HB 2561 amends current law relating to the definition of "school year" for purposes of TRS. The bill provides a uniform definition of the school year and defines a school year solely as a 12-month period beginning September 1 and ending August 31 of the next calendar year. The new definition would apply beginning with the 2012-2013 school year.

SB 1667 – Duncan

SB 1667 amends several sections of the Texas Government Code relating to TRS. The bill allows the retirement system to operate more efficiently and clarify certain statutory references by amending several sections of the Government Code to enact recommendations made by the board relating to the administration of and benefits payable by TRS. SB 1667 allows TRS to obtain access to criminal history records relating to employees, applicants, and persons doing business with TRS, from law enforcement agencies. The bill establishes that the state's open meetings law does not prohibit the TRS board of trustees or a board committee from holding an open or closed meeting by telephone conference and authorizes the board of trustees or a board committee to hold a meeting by telephone conference call only if a quorum of the applicable board or board committee is physically present at one location. The bill establishes that a telephone conference call meeting is subject to the notice requirements applicable to other meetings and requires such notice to specify the location of the meeting where a quorum of the board of trustees or board committee, as applicable, will be physically present and the intent to have a quorum present at that location. SB 1667 allows a public retirement system to assess administrative fees on a party who is subject to a domestic relations order for the review of the order under this subchapter and, as applicable, for the administration of payments under an order that is determined to be qualified. In addition to other methods of collecting fees that a retirement system may establish, the retirement system may deduct fees from payments made under the order. The bill adds sections to the Government Code clarifying a member's duty to notify the retirement system for service that has not been properly credited on an annual statement. The bill also clarifies a beneficiary's entitlement to a member's benefits upon death. SB 1667 makes other revisions to bring the statute up to date with current TRS policy by amending the language of Government Code Section 824.202 to change the retirement eligibility from employees who became members in 2006 to those who became members in 2007. The bill authorizes the amount of the State contribution to TRS for the state fiscal year end August 31, 2012 to be less than the amount contributed by members during that fiscal year.

SB 1668 – Duncan

SB 1668 amends several sections of the Texas Government Code relating to TRS. The bill requires a member establishing service credit for out-of-state public school service to have at least one year of service in TRS after the out-of-state service. SB 1668 also establishes certain timing and administrative requirements for creditable service while on developmental leave. Also, modifies the costs for the member establishing this type of service credit by requiring that the actuarial present value of the additional service credit be paid. The bill modifies the cost for establishing creditable service where member contributions were due but not paid by requiring that the actuarial present value of the additional service credit be paid and furthermore, the bill establishes a time period of five years to claim the unreported service, after which time, the unreported service can no longer be established as creditable service. The bill makes a small change to the rules for establishing service credit for active military service to comply with recent changes to the Uniformed Services Employment and Reemployment Rights Act of 1994 (USSERRA). SB 1668 also increases the interest rate charge from 6% to 8% for members to who re-establish their previous TRS service credit by repaying previously withdrawn member contributions.

SB 1669 – Duncan

SB 1669 amends several sections of the Texas Government Code relating to TRS. The bill modifies the current TRS "return to work" provisions. The bill allows a service retiree who retired on or before January 1, 2011, to work full-time in a Texas public educational institution with no loss of monthly annuity payments. Additionally, service retirees who retired on or before January 1, 2011, resumed employment after retirement and whose benefit payments were suspended under Section 824.601 would be entitled to the resumption of the monthly benefit payments. The said monthly benefit payments shall be resumed on the first payment date occurring on or after the effective date of the bill. However, the aforementioned return-to-work retirees entitled to the resumption of monthly benefit payments are not entitled to recover the past suspended benefit payments. The bill allows service retirees who retire after January 1, 2011, and have been separated from service with all Texas public educational institutions for at least 12 full consecutive months immediately after retiring, to resume full-time employment with no loss of monthly annuity payments. Currently, a return-to-work retiree will forfeit the annuity payment for any additional month the retiree works in excess of a period of six months, in a school year. SB 1669 eliminates other exceptions to the loss of monthly annuity under the Government Code, Section 824.601(b) for working in Texas public educational institutions, including working full-time as a teacher in an acute shortage area after a 12-month break in service after retirement; working as a principal or assistant principal full-time after a 12-month break in service after retirement; working as a bus driver full-time; or working as a faculty member in a professional nursing program after a 12-month break in service after retirement.

Texas Municipal Retirement System (TMRS)

HB 159 – Raymond

HB 159 amends current law relating to the resumption of employment by certain retirees within TMRS. This bill can typically be referred to as a "return to work" bill that amends the current TMRS law relating to suspension of TMRS retirement benefits upon full-time re-employment of a retiree with the same municipality from which an employee originally retired. The bill will allow an individual who has retired from a TMRS city, and who becomes re-employed by that same city at least eight (8) years after the first retirement to be able to receive a lump-sum payment of suspended benefits for the re-employment period upon subsequent (final) retirement. To be eligible for this lump-sum payment, an individual would have to have originally retired based on a bona fide termination of employment.

SB 350 – Williams

SB 350 restructures the internal existing trust funds and accounting of TMRS by consolidating the Municipality Accumulation Fund (MAF), Employees Savings Fund (ESF) and Current Service Annuity Reserve Fund (CSARF) into a single fund; the Benefit Accumulation Fund (BAF). The CSARF assets and liabilities associated with each city's retirees, as well as the ESF assets associated with each city's employees, would be allocated back to each city and combined with its MAF to form the new BAF. Each city will continue to have its own trust fund account within the BAF. Future member and city contributions will be deposited and held in their BAF account, and retirement benefits and refunds to terminated employees will be paid from there. This would mean that a member employee's individual account would be established within the employing municipality's account within the BAF. Municipality contributions would be credited to corresponding municipality accounts within the BAF, and member employee contributions would be credited to corresponding individual accounts within those municipality accounts. A retiree's annuities would be paid from the municipality's account in the BAF, which would contain contributions from both the municipality and the member by that point. Under the bill, a retiree's annuities would be the municipality's liabilities.

SB 812 – Zaffirini

SB 812 amends current law relating to the resumption of employment by certain retirees within the Texas Municipal Retirement System (TMRS) and is a companion to HB 159. This bill can typically be referred to as a "return to work" bill that amends the current TMRS law relating to suspension of TMRS retirement benefits upon full-time re-employment of a retiree with the same municipality from which an employee originally retired. The bill will allow an individual who has retired from a TMRS city, and who becomes re-employed by that same city at least eight (8) years after the first retirement to be able to receive a lump-sum payment of suspended benefits for the re-employment period upon subsequent (final) retirement. To be eligible for this lump-sum payment, an individual would have to have originally retired based on a bona fide termination of employment.

Local Systems

City of Austin Employees' Retirement System (COAERS)

HB 3033 – Naishtat

HB 3033 amends several sections of the Vernon's Texas Civil Statutes (V.T.C.S.), Article 6243n that apply to COAERS. The bill establishes a new tier of benefits for employees in classification Group B, which would include members who join COAERS on or after January 1, 2012 and members, who return to full-time employment on or after January 1, 2012, which have received a distribution for service earned prior to January 1, 2012, but have not reestablished such service credit with COAERS. The bill also makes several changes to the V.T.C.S. to bring the statute into compliance with federal law and current administrative practices of COAERS.

HB 2702 – Solomons

HB 2702 amends various statutes that restrict their provisions from general applicability based on classification of political subdivisions according to population. The bill seeks to reflect the most current federal census data and update population brackets as necessary. Accordingly, among other things, the bill amends Section 803.0021 of the Texas Government Code relating to the application of the 'Proportionate Retirement Program'. The bill specifically amends subsection 803.0021(1) by updating the population bracket with a population of not less than 750,000 nor more than 850,000 in order to continue the application of Chapter 803 to COAERS.

Austin Firefighters Relief and Retirement Fund

SB 1286 – Watson

SB 1286 amends the Vernon's Texas Civil Statutes (V.T.C.S.), Article 6243e.1 relating to the funding of the Austin Firefighters Relief and Retirement Fund. The bill incrementally increases the contribution rates paid by the City of Austin and by member firefighters to the firefighters' retirement fund. The bill increase the City of Austin contribution rates to the Fund from the current rate of 18.05% of pay to 19.05% effective October 1, 2010, to 20.05% effective October 1, 2011, to 21.05% for 24 pay dates effective October 1, 2012, and to 22.05% for all the pay dates thereafter. Additionally, the bill increase the member firefighters contribution rates from the current rate of 15.70% of pay to 16.20% effective October 1, 2011, to 16.70% effective October 1, 2012, to 17.20% effective October 1, 2013, and to 17.70% effective October 1, 2014, to 18.20% effective October 1, 2015, and to 18.70% for all the pay dates effective October 1, 2016 and thereafter. The bill codifies the increases in the contribution rates that had already been negotiated and agreed to by the City of Austin and the firefighters.

Austin Police Retirement System

SB 1285 – Watson

SB 1285 amends the Vernon's Texas Civil Statutes (V.T.C.S.), Article 6243n-1 relating to contributions to the Austin Police Retirement System. The bill increases the contribution rates paid by the City of Austin to the police officers retirement system from the current rate of 19% of payroll to 20% of payroll for all pay periods after September 30, 2011 and before October 1, 2012. For all pay periods after September 30, 2012, the City of Austin's contribution rate would increase from 20% to 21%. Additionally, the bill amends V.T.C.S. Article 6243n-1, Section 8.01(a) (1) to reflect the current member contribution rate of 13% of payroll. The bill codifies the increases in the contribution rates that had already been negotiated and agreed to by the City of Austin and the Austin Police Association.

DIRECTORY OF PUBLIC RETIREMENT SYSTEMS

The PRB currently oversees 352 public retirement systems. It reviews and maintains financial information on each plan. The information provided in this section includes a list of the plans with contact information and a list of the total net asset amounts for each plan. Many of the state's small volunteer firefighter pension plans do not maintain asset accounts and their benefits are paid annually by direct appropriations from their sponsoring municipalities. These plans are shown with no assets.

Please contact the PRB if you need additional information on any plan.

32nd Judicial District Juvenile Board Pension Plan

Gerald Jenschke	Plan Type:	DC
100 E 3rd Ste 301A	Asset Date:	10/31/2011
Sweetwater TX 79556	Total Net Assets:	$151,193
(325) 236-6388		

Abilene Firemen's Relief & Retirement Fund

Rodney Goodman	Plan Type:	DB
PO Box 60	Asset Date:	9/30/2011
Abilene TX 79604	Total Net Assets:	$43,871,253
(325) 676-6326		

Abilene Regional MHMR 457 Deferred

Jo Kincanon-Mitchell	Plan Type:	DC
2616 S Clack Ste 160	Asset Date:	8/31/2011
Abilene TX 79606	Total Net Assets:	$1,078,366
(325) 690-5100		

Abilene Regional MHMR Center Retirement Plan

Jo Kincanon-Mitchell	Plan Type:	DC
2616 S Clack Ste 160	Asset Date:	8/31/2011
Abilene TX 79606	Total Net Assets:	$3,153,755
(325) 690-5100		

ACCESS Deferred 457 Plan

Courtney Sammons	Plan Type:	DC
913 N Jackson	Asset Date:	8/31/2011
Jacksonville TX 75766	Total Net Assets:	$889,022
(903) 586-5507		

ACCESS Employee Retirement Plan 401

Courtney Sammons	Plan Type:	DC
913 N Jackson	Asset Date:	8/31/2011
Jacksonville TX 75766	Total Net Assets:	$633,963
(903) 586-5507		

Aldine ISD PARS 401(a) Matching Plan for Retirement Savings

Archie Blanson	Plan Type:	DC
14910 Aldine Westfield Rd	Asset Date:	8/31/2011
Houston TX 77032	Total Net Assets:	$9,079,778
(281) 985-6310		

Aldine ISD PARS Sick Leave Conversion Plan

Keith Clark	Plan Type:	DB
14910 Aldine Westfield Rd	Asset Date:	8/31/2011
Houston TX 77032	Total Net Assets:	$1,041,089
(800) 731-7884		

Alvin ISD 401(a) Supplemental Plan

Tommy King	Plan Type:	DC
301 E House St	Asset Date:	8/31/2011
Alvin TX 77511	Total Net Assets:	$1,079,507
(281) 388-1130		

Amarillo Firemen's Relief & Retirement Fund		
Joe Neely	Plan Type:	DB
PO Box 1971	Asset Date:	12/31/2011
Amarillo TX 79105	Total Net Assets:	$115,866,425
(806) 378-3040		
Andrews Center Retirement Plan		
Carol Fontenot	Plan Type:	DC
PO Box 4730	Asset Date:	8/31/2011
Tyler TX 75712	Total Net Assets:	$9,554,408
(903) 597-1351		
Angleton-Danbury Hospital Defined Contribution Plan		
Bill Garwood	Plan Type:	DC
132 Hospital Dr	Asset Date:	12/31/2011
Angleton TX 77515	Total Net Assets:	$5,261,185
(979) 848-9103		
Ark-Tex COG Money Purchase Pension Plan		
Brenda Davis	Plan Type:	DC
PO Box 5307	Asset Date:	12/31/2011
Texarkana TX 75506	Total Net Assets:	$1,335,098
(903) 832-8636		
Arlington Disability Income Plan		
Anne Mott	Plan Type:	DB
PO Box 90231	Asset Date:	12/31/2011
Arlington TX 76004	Total Net Assets:	$1,120,473
(817) 459-6869		
Arlington Employees Deferred Income Plan		
Anne Mott	Plan Type:	DB
PO Box 90231	Asset Date:	6/30/2011
Arlington TX 76004	Total Net Assets:	$2,225,327
(817) 459-6869		
Arlington Firemen's Relief & Retirement Fund		
April Nixon	Plan Type:	DB
101 W Abram St 3rd Floor	Asset Date:	12/31/2011
Arlington TX 76010	Total Net Assets:	$1,852
(817) 459-6403		
Arlington Money Purchase Plan		
Anne Mott	Plan Type:	DC
PO Box 90231	Asset Date:	12/31/2011
Arlington TX 76004	Total Net Assets:	$131,488
(817) 459-6869		
Arlington Thrift Savings Plan		
Anne Mott	Plan Type:	DC
PO Box 90231	Asset Date:	12/31/2011
Arlington TX 76004	Total Net Assets:	$114,992,692
(817) 459-6869		

Atlanta Firemen's Relief & Retirement Fund			
Ricky Draper		Plan Type:	DB
PO Box 1030		Asset Date:	9/30/2011
Atlanta TX 75551		Total Net Assets:	$2,579,155
(903) 796-2303			
Austin Employees' Retirement System			
Stephen C Edmonds		Plan Type:	DB
418 E Highland Mall Blvd		Asset Date:	12/31/2011
Austin TX 78752		Total Net Assets:	$1,665,789,423
(512) 458-2551			
Austin Fire Fighters Relief & Retirement Fund			
William E Stefka		Plan Type:	DB
4101 Parkstone Heights Dr Ste 270		Asset Date:	12/31/2011
Austin TX 78746		Total Net Assets:	$581,122,655
(512) 454-9567			
Austin Police Retirement System			
Sampson Jordan		Plan Type:	DB
2520 S IH 35 Ste 100		Asset Date:	12/31/2011
Austin TX 78704		Total Net Assets:	$484,088,631
(512) 416-7672			
Barton Springs/Edwards Aquifer Conservation District Retirement Plan			
Dana Christine Wilson		Plan Type:	DC
1124 A Regal Row		Asset Date:	8/31/2011
Austin TX 78748		Total Net Assets:	$944,660
(512) 282-8441			
Bastrop County Appraisal District Pension Plan & Trust			
Gayle Junker		Plan Type:	DC
PO Drawer 578		Asset Date:	12/31/2011
Bastrop TX 78602		Total Net Assets:	$1,890,380
(512) 303-1930			
Bay City Firemen's Relief & Retirement Fund			
Mark Bricker		Plan Type:	DB
1901 5th St		Asset Date:	12/31/2011
Bay City TX 77415		Total Net Assets:	$23,812
(979) 245-2137			
Beaumont Firemen's Relief & Retirement Fund			
Brian Hebert		Plan Type:	DB
1515 Cornerstone Ct		Asset Date:	12/31/2011
Beaumont TX 77706		Total Net Assets:	$83,817,970
(409) 866-1526			
Beeville Firemen's Relief & Retirement Fund			
Tami DuBois		Plan Type:	DB
400 N Washington		Asset Date:	12/31/2011
Beeville TX 78102		Total Net Assets:	$1,088
(361) 358-4641			

Belton Firemen's Relief & Retirement Fund

Connie Torres	Plan Type:	DB
PO Box 120	Asset Date:	12/31/2011
Belton TX 76513	Total Net Assets:	$25,073
(254) 933-5817		

Benavides Firemen's Relief & Retirement Fund

Dalia Hernandez	Plan Type:	DB
PO Drawer R	Asset Date:	9/30/2011
Benavides TX 78341	Total Net Assets:	$0
(361) 256-3283		

Bexar County Housing Authority Pension Plan

Albert Aleman	Plan Type:	DC
1017 North Main Avenue Suite 201	Asset Date:	12/31/2011
San Antonio TX 78212	Total Net Assets:	$253,662
(210) 225-0071		

Big Spring Firemen's Relief & Retirement Fund

Chanley Delk	Plan Type:	DB
310 Nolan St	Asset Date:	12/31/2011
Big Spring TX 79720	Total Net Assets:	$9,607,546
(432) 263-4036		

Bluebonnet Trails MHMR Center

Amy Bodkins	Plan Type:	DC
1009 Georgetown St	Asset Date:	8/31/2011
Round Rock TX 78664	Total Net Assets:	$8,880,692
(512) 244-8352		

Boerne Firemen's Relief & Retirement Fund

April Bueno	Plan Type:	DB
726 N Main St	Asset Date:	12/31/2011
Boerne TX 78006	Total Net Assets:	$284,460
(830) 249-3644		

Border Region MHMR Community Center

Sergio Vigil	Plan Type:	DC
PO Box 1835	Asset Date:	8/31/2011
Laredo TX 78044	Total Net Assets:	$2,371,222
(956) 794-3020		

Bowie Volunteer Firemen's Relief & Retirement Fund

Mitzi Wallace	Plan Type:	DB
203 Walnut St	Asset Date:	12/31/2011
Bowie TX 76230	Total Net Assets:	$0
(940) 872-1114		

Brazos River Authority Retirement Plan

Matthew Wheelis	Plan Type:	DB
PO Box 7555	Asset Date:	2/29/2012
Waco TX 76714	Total Net Assets:	$19,876,123
(254) 761-3100		

Briscoe County Appraisal District Pension Plan

Pat McWaters	Plan Type:	DC
PO Box 728	Asset Date:	12/31/2011
Silverton TX 79257	Total Net Assets:	$183,377
(806) 823-2161		

Bronte Firemen's Relief & Retirement Fund

Pat Martindale	Plan Type:	DB
PO Box 370	Asset Date:	12/31/2011
Bronte TX 76933	Total Net Assets:	$34,609
(915) 473-3501		

Brownwood Firemen's Relief & Retirement Fund

Walter Middleton	Plan Type:	DB
809 Main St	Asset Date:	9/30/2011
Brownwood TX 76801	Total Net Assets:	$2,628,393
(325) 646-5775		

Burke Center MHMR Hourly Employee Retirement Plan

Patricia Jelinek	Plan Type:	DC
4101 S Medford Dr	Asset Date:	8/31/2011
Lufkin TX 75901	Total Net Assets:	$1,209,578
(936) 676-1248		

Burke Center Salaried Staff Retirement Plan

Patricia Jelinek	Plan Type:	DC
4101 S Medford Dr	Asset Date:	8/31/2011
Lufkin TX 75901	Total Net Assets:	$9,886,874
(936) 676-1248		

Caddo Mills Volunteer Firemen's Relief & Retirement

Jeffery Holt	Plan Type:	DB
PO Box 429	Asset Date:	12/31/2010
Caddo Mills TX 75135	Total Net Assets:	$4,513
(903) 527-3116		

Campbell Health System

Judy Harris	Plan Type:	DC
713 E Anderson St	Asset Date:	12/31/2011
Weatherford TX 76087	Total Net Assets:	$1,726,681
(817) 599-1225		

Canton Volunteer Firemen's Relief & Retirement Fund

Julie Seymore	Plan Type:	DB
PO Box 245	Asset Date:	9/30/2011
Canton TX 75103	Total Net Assets:	$2,817
(903) 567-2826		

Capital Area COG Retirement Plan

Sheila Jennings	Plan Type:	DC
PO Box 17848	Asset Date:	12/31/2011
Austin TX 78760	Total Net Assets:	$3,313,622
(512) 916-6006		

Capital MTA Retirement Plan for Administrative Employees		
Claudia Camarillo	Plan Type:	DB
2910 E 5th St	Asset Date:	12/31/2010
Austin TX 78702	Total Net Assets:	$11,505,697
(512) 389-7400		

Capital MTA Retirement Plan for Bargaining Unit Employees		
Virginia Keeling	Plan Type:	DB
2910 E 5th St	Asset Date:	12/31/2011
Austin TX 78702	Total Net Assets:	$27,455,704
(512) 389-7400		

Carroll ISD		
Rob Welch	Plan Type:	DC
3051 Dove Rd	Asset Date:	8/31/2011
Grapevine TX 76051	Total Net Assets:	$188,214
(817) 949-8222		

Carrollton Money Purchase Plan		
Erin Rinehart	Plan Type:	DC
PO Box 110535	Asset Date:	12/31/2011
Carrollton TX 75011	Total Net Assets:	$66,373
(972) 466-3000		

Carson County Appraisal District Pension Plan		
Donita Davis	Plan Type:	DC
PO Box 970	Asset Date:	12/31/2011
Panhandle TX 79068	Total Net Assets:	$271,551
(806) 537-3569		

Castro County Appraisal District Pension Plan		
Jerry Heller	Plan Type:	DC
204 SE 3rd St	Asset Date:	12/31/2011
Dimmitt TX 79027	Total Net Assets:	$448,368
(806) 647-5131		

Center for Health Care Services 401(a) Retirement Plan		
Robert Guevara	Plan Type:	DC
3031 IH 10 W	Asset Date:	8/31/2011
San Antonio TX 78202	Total Net Assets:	$10,853,983
(210) 731-1300		

Central Counties Center for MHMR Services Retirement Plan		
Martin C Brubaker	Plan Type:	DC
304 S 22nd St	Asset Date:	8/31/2011
Temple TX 76503	Total Net Assets:	$6,645,231
(254) 298-7000		

Central Plains Center for MHMR & Substance Abuse		
Carmen Laymon	Plan Type:	DC
2700 Yonkers St	Asset Date:	8/31/2011
Plainview TX 79072	Total Net Assets:	$1,003,131
(806) 293-2636		

Central Texas COG Pension Trust			
	Jim Reed	Plan Type:	DC
	PO Box 729	Asset Date:	6/30/2011
	Belton TX 76513	Total Net Assets:	$5,316,008
	(254) 770-2236		
Central Texas College Pension Plan & Trust			
	Rose Ann Hayes	Plan Type:	DC
	PO Box 1800	Asset Date:	8/31/2011
	Killeen TX 76541	Total Net Assets:	$66,741,997
	(254) 526-1807		
Central Texas College Supplemental Plan			
	Rose Ann Hayes	Plan Type:	DC
	PO Box 1800	Asset Date:	8/31/2011
	Killeen TX 76540	Total Net Assets:	$9,003,914
	(254) 526-1807		
Central Texas MHMR Retirement Plan			
	James Barnes	Plan Type:	DC
	PO Box 250	Asset Date:	8/31/2011
	Brownwood TX 76804	Total Net Assets:	$7,498,434
	(325) 646-9574		
Cherokee County Appraisal District Pension Plan			
	Lee Flowers	Plan Type:	DC
	PO Box 494	Asset Date:	12/31/2011
	Rusk TX 75785	Total Net Assets:	$1,257,781
	(903) 683-2296		
Chillicothe Firemen's Relief & Retirement Fund			
	Marsha Stone	Plan Type:	DB
	PO Box 546	Asset Date:	12/31/2011
	Chillicothe TX 79225	Total Net Assets:	$653
	(940) 852-5211		
Cisco Firemen's Relief & Retirement Fund			
	Tammy Harris	Plan Type:	DB
	109 W 6th St	Asset Date:	12/31/2011
	Cisco TX 76437	Total Net Assets:	$185
	(254) 442-3078		
City of Cedar Park			
	Joseph Gonzales	Plan Type:	DC
	600 N Bell Blvd	Asset Date:	12/31/2010
	Cedar Park TX 78613	Total Net Assets:	$30,772
	(512) 258-4121		
City of Cedar Park Retirement Plan (2)			
	Brenda Eivens	Plan Type:	DC
	600 N Bell Blvd	Asset Date:	12/31/2010
	Cedar Park TX 78613	Total Net Assets:	$1,002,425
	(512) 401-5010		

City of Groves Employment Incentive Plan

Diane Thompson	Plan Type:	DC
3947 Lincoln Ave	Asset Date:	12/31/2011
Groves TX 77619	Total Net Assets:	$3,787,904
(409) 960-5778		

City of Groves Money Purchase Plan

Diane Thompson	Plan Type:	DC
3947 Lincoln Ave	Asset Date:	12/31/2011
Groves TX 77619	Total Net Assets:	$2,082,422
(409) 960-5778		

City of Harlingen Retirement Plan

Gabriel Gonzalez	Plan Type:	DC
118 E Tyler Ave	Asset Date:	9/30/2011
Harlingen TX 78550	Total Net Assets:	$1,180,386
(956) 216-5005		

City Public Service of San Antonio Pension Plan

Lois M Griffin	Plan Type:	DB
PO Box 1771	Asset Date:	12/31/2011
San Antonio TX 78296	Total Net Assets:	$1,056,714,004
(210) 353-2948		

Clear Creek ISD Sick Leave Conversion Plan

Alice Benzaia	Plan Type:	DB
2425 E Main St	Asset Date:	8/31/2011
League City TX 77573	Total Net Assets:	$389,571
(281) 284-0000		

Clear Lake City Water Authority Pension Plan

Jennifer Morrow	Plan Type:	DC
900 Bay Area Blvd	Asset Date:	9/30/2011
Houston TX 77058	Total Net Assets:	$2,764,698
(281) 488-1164		

Cleburne Firemen's Relief & Retirement Fund

Waylon Anderson	Plan Type:	DB
114 W Wardville	Asset Date:	12/31/2011
Cleburne TX 76033	Total Net Assets:	$14,622,004
(817) 556-8841		

Clifton Firemen's Relief & Retirement Fund

Pamela Harvey	Plan Type:	DB
PO Box 231	Asset Date:	12/31/2011
Clifton TX 76634	Total Net Assets:	$0
(254) 675-8337		

Coastal Bend COG

John P Buckner	Plan Type:	DC
PO Box 9909	Asset Date:	12/31/2011
Corpus Christi TX 78470	Total Net Assets:	$1,959,342
(361) 883-5743		

Coastal Plains Community MHMR Center Retirement Plan

Mark Durand	Plan Type:	DC
200 Marriott Dr	Asset Date:	8/31/2011
Portland TX 78374	Total Net Assets:	$6,310,184
(361) 777-2083		

Cockrell Hill Firemen's Relief & Retirement Fund

Bret Haney	Plan Type:	DB
4125 W Clarendon Dr	Asset Date:	12/31/2011
Dallas TX 75211	Total Net Assets:	$0
(214) 330-6333		

Coleman County Appraisal District Pension Plan

Bill Jones	Plan Type:	DC
PO Box 914	Asset Date:	12/31/2011
Coleman TX 76834	Total Net Assets:	$277,041
(325) 625-4155		

College Station Firemen's Relief & Retirement Fund

Brandi Whittenton	Plan Type:	DB
PO Box 9960	Asset Date:	6/8/2012
College Station TX 77842	Total Net Assets:	$0
(979) 764-3552		

Colorado City Firemen's Relief & Retirement Fund

Connie Baker	Plan Type:	DB
PO Box 912	Asset Date:	12/31/2011
Colorado City TX 79512	Total Net Assets:	$4,278
(325) 728-5331		

Colorado County Central Appraisal District Pension

Cindy Kubesch	Plan Type:	DC
PO Box 10	Asset Date:	12/31/2011
Columbus TX 78934	Total Net Assets:	$2,025,166
(979) 732-8222		

Colorado River Municipal Water District 401(a) Defined Contribution Plan

Virginia L Taylor	Plan Type:	DC
PO Box 869	Asset Date:	12/31/2011
Big Spring TX 79721	Total Net Assets:	$423,079
(432) 267-6341		

Colorado River Municipal Water District Defined Benefit Retirement Plan

Virginia L Taylor	Plan Type:	DB
PO Box 869	Asset Date:	12/31/2011
Big Spring TX 79721	Total Net Assets:	$8,273,581
(432) 267-6341		

Comanche Firemen's Relief & Retirement Fund

William A Flannery	Plan Type:	DB
114 W Central	Asset Date:	12/31/2011
Comanche TX 76442	Total Net Assets:	$13,183
(325) 356-2616		

Commerce Firemen's Relief & Retirement Fund		
Cleva Giddens	Plan Type:	DB
1119 Alamo St	Asset Date:	12/31/2011
Commerce TX 75428	Total Net Assets:	$14,121
(903) 886-1100		

Conroe Fire Fighters' Retirement Fund		
Tom Garvey	Plan Type:	DB
402 Simonton Ste 175	Asset Date:	12/31/2011
Conroe TX 77301	Total Net Assets:	$14,013,518
(936) 756-5917		

Cooper Volunteer Firemen's Relief & Retirement Fund		
Margaret Eudy	Plan Type:	DB
91 North Side Sq	Asset Date:	12/31/2011
Cooper TX 75432	Total Net Assets:	$3,042
(903) 395-2217		

Corpus Christi Fire Fighters' Retirement System		
Andy Barboza	Plan Type:	DB
711 N Carancahua Ste 724 America Bank Plaza	Asset Date:	12/31/2010
Corpus Christi TX 78401	Total Net Assets:	$101,080,549
(361) 882-1486		

Corpus Christi Regional Transportation Authority		
Rosa Villarreal	Plan Type:	DB
5658 Bear Ln	Asset Date:	12/31/2011
Corpus Christi TX 78405	Total Net Assets:	$21,791,159
(361) 289-2712		

Corpus Christi RTA Defined Contribution Plan & Trust		
Susan Vinson	Plan Type:	DC
5658 Bear Lane	Asset Date:	12/31/2011
Corpus Christi TX 78405-4406	Total Net Assets:	$7,605,647
(361) 289-2712		

Corsicana Firemen's Relief & Retirement Fund		
Dusty Ledbetter	Plan Type:	DB
200 N 12th St	Asset Date:	12/31/2011
Corsicana TX 75110	Total Net Assets:	$6,242,760
(903) 654-4815		

Coryell County Appraisal District Pension Plan		
Mitch Fast	Plan Type:	DC
705 E Main St	Asset Date:	12/31/2011
Gatesville TX 76528	Total Net Assets:	$581,551
(254) 865-6593		

Culberson County Appraisal District Pension Plan		
Sally Carrasco	Plan Type:	DC
PO Box 550	Asset Date:	12/31/2011
Van Horn TX 79855	Total Net Assets:	$300,966
(432) 283-2977		

Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees

Melissa McAnear	Plan Type:	DB
PO Box 692003	Asset Date:	6/30/2011
Houston TX 77269	Total Net Assets:	$4,709,593
(281) 897-4000		

Dallam County Appraisal District Pension Plan

Kim Pack	Plan Type:	DC
PO Box 592	Asset Date:	12/31/2011
Dalhart TX 79022	Total Net Assets:	$260,849
(806) 249-6767		

Dallas County Hospital District Retirement Income Plan

Martha Orona	Plan Type:	DB
5201 Harry Hines Blvd	Asset Date:	12/31/2011
Dallas TX 75236	Total Net Assets:	$513,564,000
(214) 590-1276		

Dallas County Hospital District Supplemental Retirement Plan

Martha Orona	Plan Type:	DC
5201 Harry Hines Blvd	Asset Date:	12/31/2011
Dallas TX 75236	Total Net Assets:	$423,274,000
(214) 590-1276		

Dallas Employees' Retirement Fund

Cheryl D Alston	Plan Type:	DB
600 N Pearl St Ste 2450 South Tower	Asset Date:	12/31/2011
Dallas TX 75201	Total Net Assets:	$2,748,461,000
(214) 580-7700		

Dallas ISD TERRP

Marita M Hawkins	Plan Type:	DC
3700 Ross Ave	Asset Date:	6/30/2011
Dallas TX 75204	Total Net Assets:	$15,255,054
(972) 925-3700		

Dallas Metrocare Services Pension Plan

Stephen Miller	Plan Type:	DC
1380 River Bend Dr	Asset Date:	8/31/2011
Dallas TX 75247	Total Net Assets:	$4,077,522
(214) 743-1200		

Dallas Police & Fire 401(a)

Richard Tettamant	Plan Type:	DC
4100 Harry Hines Blvd Ste 100	Asset Date:	12/31/2011
Dallas TX 75219	Total Net Assets:	$3,076,232
(214) 638-3863		

Dallas Police & Fire Pension System-Combined Plan

Richard L Tettamant	Plan Type:	DB
4100 Harry Hines Blvd Ste 100	Asset Date:	12/31/2011
Dallas TX 75219	Total Net Assets:	$3,033,919,901
(214) 638-3863		

Dallas Police & Fire Pension System-Supplemental			
Richard Tettamant	Plan Type:	DB
4100 Harry Hines Blvd Ste 100	Asset Date:	12/31/2011
Dallas TX 75219	Total Net Assets:	$20,355,008
(214) 638-3863		
Dallas/Fort Worth Airport Board 401(a) Retirement Plan		
Cindy Farrow	Plan Type:	DC
PO Box 619428	Asset Date:	9/30/2011
Dallas TX 75261	Total Net Assets:	$123,556
(972) 973-1133		
Dallas/Fort Worth Airport Board DPS Retirement Plan		
Jung Yi-Rodgers	Plan Type:	DB
PO Box 619428	Asset Date:	12/31/2011
Dallas TX 75261	Total Net Assets:	$100,233,000
(972) 973-5464		
Dallas/Fort Worth Airport Board Retirement Plan		
Jung Yi-Rodgers	Plan Type:	DB
PO Box 619428	Asset Date:	12/31/2011
Dallas TX 75261	Total Net Assets:	$292,998,000
(972) 973-5464		
DART Capital Accumulation Plan & Trust		
Lynda Jackson	Plan Type:	DC
PO Box 660163	Asset Date:	12/31/2011
Dallas TX 75266	Total Net Assets:	$137,863,000
(214) 749-3278		
DART Employees' Defined Benefit Retirement Plan & Trust		
Lynda Jackson	Plan Type:	DB
PO Box 660163	Asset Date:	9/30/2011
Dallas TX 75266	Total Net Assets:	$119,776,000
(214) 749-3278		
DART Employees Retirement Plan & Trust		
Lynda Jackson	Plan Type:	DC
PO Box 660163	Asset Date:	12/31/2011
Dallas TX 75266	Total Net Assets:	$135,697,000
(214) 749-3278		
De Kalb Firemen's Relief & Retirement Fund		
Abbi M Baker	Plan Type:	DB
110 E Grizzly	Asset Date:	12/31/2011
De Kalb TX 75559	Total Net Assets:	$13,181
(903) 667-2410		
De Soto ISD TERRP		
Kurt Brandt	Plan Type:	DC
200 E Belt Line Rd	Asset Date:	8/31/2011
De Soto TX 75115	Total Net Assets:	$308,370
(972) 223-6666		

Decatur Firemen's Relief & Retirement Fund		
Brett Shannon	Plan Type:	DB
PO Box 1299	Asset Date:	12/31/2011
Decatur TX 76235	Total Net Assets:	$52,743
(940) 627-2741		

Deep East Texas COG Retirement Plan		
Walter G Diggles	Plan Type:	DC
210 Premier Dr	Asset Date:	9/30/2011
Jasper TX 75952	Total Net Assets:	$2,142,593
(409) 384-5704		

Deep East Texas Self-Insurance Fund Profit Sharing Plan		
Frank F Strother	Plan Type:	DC
PO Box 960	Asset Date:	6/30/2011
Jasper TX 75951	Total Net Assets:	$765,059
(409) 384-5444		

Delta County Appraisal District Pension Plan		
Kim Gregory	Plan Type:	DC
PO Box 47	Asset Date:	12/31/2011
Cooper TX 75432	Total Net Assets:	$47,770
(903) 395-4118		

Denison Firemen's Relief & Retirement Fund		
Michael Flippo	Plan Type:	DB
PO Box 347	Asset Date:	12/31/2011
Denison TX 75021	Total Net Assets:	$12,895,722
(903) 465-2720		

Denton County MHMR Center Retirement Plan		
Bill Drybread	Plan Type:	DC
PO Box 2346	Asset Date:	8/31/2011
Denton TX 76202	Total Net Assets:	$1,692,085
(940) 565-5240		

Denton Firemen's Relief & Retirement Fund		
John Steger	Plan Type:	DB
PO Box 2375	Asset Date:	12/31/2010
Denton TX 76202	Total Net Assets:	$50,006,018
(940) 349-8149		

Dimmit Central Appraisal District Pension Plan		
Norma Carrillo	Plan Type:	DC
404 W Pena	Asset Date:	12/31/2011
Carrizo Springs TX 78834	Total Net Assets:	$98,673
(830) 876-3420		

Donna Firemen's Relief & Retirement Fund		
David Simmons	Plan Type:	DB
307 S 12th St	Asset Date:	12/31/2011
Donna TX 78537	Total Net Assets:	$0
(956) 464-2121		

East Texas COG Retirement Plan

Charles Cunningham	Plan Type:	DC
3800 Stone Rd	Asset Date:	9/30/2011
Kilgore TX 75663	Total Net Assets:	$6,015,923
(903) 984-8641		

Ector County ISD TERRP

David Harwell	Plan Type:	DC
PO Box 3912	Asset Date:	8/31/2011
Odessa TX 79760	Total Net Assets:	$685,250
(432) 332-9151		

Eden Firemen's Relief & Retirement Fund

Celina Hemmeter	Plan Type:	DB
PO Box 915	Asset Date:	12/31/2011
Eden TX 76837	Total Net Assets:	$0
(325) 869-2211		

Edinburg Firemen's Relief & Retirement

Rolland H Pursley	Plan Type:	DB
PO Box 1079	Asset Date:	12/31/2011
Edinburg TX 78540	Total Net Assets:	$1,604,433
(956) 383-7691		

El Paso City Employees' Pension Fund

Robert B Ash	Plan Type:	DB
2 Civic Center Plaza	Asset Date:	8/31/2011
El Paso TX 79901	Total Net Assets:	$552,542,670
(915) 541-4765		

El Paso Firemen's Pension Fund

Yolanda Carreon	Plan Type:	DB
201 E Main Ste 1616 Chase Tower	Asset Date:	12/31/2011
El Paso TX 79901	Total Net Assets:	$402,548,515
(915) 771-8111		

El Paso Police Pension Fund

Yolanda Carreon	Plan Type:	DB
201 E Main Ste 1616 Chase Tower	Asset Date:	12/31/2011
El Paso TX 79901	Total Net Assets:	$582,882,366
(915) 771-8111		

Ellis Central Appraisal District Pension Plan

Kathy Rodrigue	Plan Type:	DC
PO Box 878	Asset Date:	12/31/2011
Waxahachie TX 75168	Total Net Assets:	$1,738,746
(972) 937-3552		

Elsa Firemen's Relief & Retirement Fund

Freida Reyes	Plan Type:	DB
PO Box 422	Asset Date:	12/31/2011
Elsa TX 78543	Total Net Assets:	$38
(956) 262-2793		

Employees Retirement System of Texas

Ann S Bishop		Plan Type:	DB
PO Box 13207		Asset Date:	8/31/2011
Austin TX 78711		Total Net Assets:	$21,204,091,002
(512) 867-7711			

Ennis Firemen's Relief & Retirement Fund

Christine Rogalski	Plan Type:	DB
PO Box 220	Asset Date:	12/31/2011
Ennis TX 75120	Total Net Assets:	$219
(972) 875-3473		

Ennis ISD TERRP

Lisa Fincher	Plan Type:	DC
303 W Knox	Asset Date:	8/31/2011
Ennis TX 75119	Total Net Assets:	$3,624,376
(972) 872-7000		

Erath County Appraisal District

Jerry Lee	Plan Type:	DC
PO Box 94	Asset Date:	12/31/2011
Stephenville TX 76401	Total Net Assets:	$1,354,232
(254) 965-7301		

Fisher County Appraisal District Pension Plan

Jackie Martin	Plan Type:	DC
PO Box 516	Asset Date:	12/31/2011
Roby TX 79543	Total Net Assets:	$84,174
(325) 776-2733		

Floresville Firemen's Relief & Retirement Fund

Margaret de Hoyos	Plan Type:	DB
1120 D St	Asset Date:	12/31/2011
Floresville TX 78114	Total Net Assets:	$8,339
(830) 393-3105		

Floyd County Central Appraisal District Pension Plan

Jim Finley	Plan Type:	DC
PO Box 249	Asset Date:	12/31/2011
Floydada TX 79235	Total Net Assets:	$90,035
(806) 983-5256		

Fort Bend ISD Employee Incentive Plan

Ron Vlaskamp	Plan Type:	DC
16431 Lexington Blvd	Asset Date:	8/31/2011
Sugar Land TX 77479	Total Net Assets:	$13,227,111
(281) 634-1000		

Fort Worth Employees' Retirement Fund

Ruth Ryerson	Plan Type:	DB
3801 Hulen St Ste 101	Asset Date:	9/30/2011
Fort Worth TX 76107	Total Net Assets:	$1,652,352,074
(817) 632-8900		

Franklin County Appraisal District Pension Plan

Patty Young	Plan Type:	DC
PO Box 720	Asset Date:	8/31/2011
Mt Vernon TX 75457	Total Net Assets:	$348,409
(903) 537-2286		

Franklin Firemen's Relief & Retirement Fund

Frankie Wallace	Plan Type:	DB
PO Box 421	Asset Date:	12/31/2011
Franklin TX 77856	Total Net Assets:	$43,449
(979) 828-5831		

Frisco ISD TERRP

James Bankston	Plan Type:	DC
6942 Maple St	Asset Date:	8/31/2011
Frisco TX 75034	Total Net Assets:	$6,879,692
(469) 633-6000		

Galveston Employees' Retirement Fund

Steve Matijevich	Plan Type:	DB
4415 Avenue S	Asset Date:	12/31/2011
Galveston TX 77571	Total Net Assets:	$37,447,166
(409) 765-5274		

Galveston Employees' Retirement Plan for Police

Steve Matijevich	Plan Type:	DB
4415 Avenue S	Asset Date:	12/31/2011
Galveston TX 77571	Total Net Assets:	$21,392,141
(409) 765-5274		

Galveston Firefighter's Relief & Retirement Fund

Charley Olson	Plan Type:	DB
6511 Stewart Rd Unit 4 B	Asset Date:	12/31/2010
Galveston TX 77551	Total Net Assets:	$35,222,659
(409) 740-0881		

Galveston Housing Authority Pension Plan

Bil Bruney	Plan Type:	DC
4700 Broadway	Asset Date:	6/30/2011
Galveston TX 77551	Total Net Assets:	$2,912,843
(409) 765-1900		

Galveston Wharves Pension Plan

Bernie Curran	Plan Type:	DB
PO Box 328	Asset Date:	12/31/2011
Galveston TX 77553	Total Net Assets:	$8,982,458
(409) 766-6183		

Gatesville Volunteer Firemen's Relief & Retirement Fund

Luis E Lobo	Plan Type:	DB
110 N 8th St	Asset Date:	12/31/2011
Gatesville TX 76528	Total Net Assets:	$757
(254) 865-8951		

Gillespie Central Appraisal District Pension Plan

Mary Lou Smith	Plan Type:	DC
101 W Main St Rm 11	Asset Date:	12/31/2011
Fredericksburg TX 78624	Total Net Assets:	$823,556
(830) 997-9807		

Goldthwaite Firemen's Relief & Retirement Fund

Paula Gore	Plan Type:	DB
PO Box 450	Asset Date:	12/31/2011
Goldthwaite TX 76844	Total Net Assets:	$19,741
(325) 648-3186		

Granger Firemen's Pension Fund

Rosie Ramirez	Plan Type:	DB
PO Box 367	Asset Date:	12/31/2011
Granger TX 76530	Total Net Assets:	$0
(512) 859-2755		

Grapeland Firemen's Relief & Retirement Fund

Dan Walling	Plan Type:	DB
PO Box 567	Asset Date:	12/31/2011
Grapeland TX 75844	Total Net Assets:	$18
(936) 687-2115		

Grapevine-Colleyville ISD

DaiAnn Mooney	Plan Type:	DC
3051 Ira E Woods Ave	Asset Date:	6/30/2011
Grapevine TX 76051	Total Net Assets:	$0
(817) 251-5200		

Greater Texoma Utility Authority Retirement Plan

Debi Atkins	Plan Type:	DC
5100 Airport Dr	Asset Date:	9/30/2011
Denison TX 75020	Total Net Assets:	$1,889,644
(903) 786-4433		

Greenville Firemen's Relief & Retirement Fund

Larry Kea	Plan Type:	DB
PO Box 1049	Asset Date:	12/31/2009
Greenville TX 75403	Total Net Assets:	$11,266,214
(903) 457-2940		

Gregg County Appraisal District

Thomas Hays	Plan Type:	DC
4367 W Loop 281	Asset Date:	12/31/2011
Longview TX 75605	Total Net Assets:	$2,960,403
(903) 238-8823		

Guadalupe-Blanco River Authority

Barbara Gunn	Plan Type:	DB
933 E Court St	Asset Date:	12/31/2011
Seguin TX 78155	Total Net Assets:	$17,181,320
(830) 379-5822		

Gulf Bend Center Retirement Plan		
Anna Arage	Plan Type:	DC
6502 Nursery Dr Ste 100	Asset Date:	8/31/2011
Victoria TX 77904	Total Net Assets:	$1,575,055
(361) 575-0611		

Gulf Coast Trades Center / The Ravens School		
Diane Wood	Plan Type:	DC
PO Box 515	Asset Date:	8/31/2011
New Waverly TX 77358	Total Net Assets:	$1,496,517
(936) 344-6677		

Gulf Coast Waste Disposal Authority Pension Plan		
Bill Graves	Plan Type:	DC
910 Bay Area Blvd	Asset Date:	12/31/2011
Houston TX 77058	Total Net Assets:	$36,370,759
(281) 488-4115		

Gunter ISD TERRP		
Kevin Worthy	Plan Type:	DC
PO Box 109	Asset Date:	8/31/2011
Gunter TX 75058	Total Net Assets:	$952,931
(903) 433-4750		

Hamilton County Appraisal District Pension Plan		
Doyle Roberts	Plan Type:	DC
119 E Henry St	Asset Date:	12/31/2011
Hamilton TX 76531	Total Net Assets:	$500,053
(254) 386-8945		

Hamlin Firemen's Pension		
Maria Franco	Plan Type:	DB
PO Box 157	Asset Date:	9/30/2011
Hamlin TX 79520	Total Net Assets:	$0
(325) 576-2711		

Hansford County Appraisal District Pension Plan		
Sonya Shieldknight	Plan Type:	DC
709 W 7th St	Asset Date:	9/30/2011
Spearman TX 79081	Total Net Assets:	$62,962
(806) 659-5575		

Harlingen Firemen's Relief & Retirement Fund		
Cirilo Rodriquez	Plan Type:	DB
PO Box 2207	Asset Date:	9/30/2011
Harlingen TX 78551	Total Net Assets:	$20,822,002
(956) 216-5704		

Harris County Department of Education PARS		
Mary Yocham	Plan Type:	DB
6300 Irvington Blvd	Asset Date:	8/31/2011
Houston TX 77023	Total Net Assets:	$108,463
(713) 696-8283		

Harris County Fresh Water District 61 401(a)

Jerry Homan	Plan Type:	DC
PO Box 325	Asset Date:	12/31/2011
Cypress TX 77410	Total Net Assets:	$276,493
(281) 469-9405		

Harris County Hospital District Pension Plan

Ferdinand Gaenzel	Plan Type:	DB
2525 Holly Hall St Ste 140	Asset Date:	12/31/2011
Houston TX 77054	Total Net Assets:	$409,951,634
(713) 566-6790		

Harris County MHMR Authority

Steve Suarez	Plan Type:	DC
7011 SW Freeway	Asset Date:	8/31/2011
Houston TX 77074	Total Net Assets:	$39,955,087
(713) 970-3349		

Harris-Galveston Coastal Subsidence District

Ronald Geesing	Plan Type:	DC
1660 W Bay Area Blvd	Asset Date:	12/31/2011
Friendswood TX 77546	Total Net Assets:	$3,867,978
(281) 486-1105		

Harrison Central Appraisal District Pension Plan

Karen Jeans	Plan Type:	DC
PO Box 818	Asset Date:	12/31/2011
Marshall TX 75670	Total Net Assets:	$1,430,977
(903) 935-1991		

Haskell County Appraisal District Money Purchase Pension Plan & Trust

Wanda Hester	Plan Type:	DC
PO Box 467	Asset Date:	12/31/2011
Haskell TX 79521	Total Net Assets:	$278,486
(940) 864-3805		

Heart of Texas Region MHMR Center Retirement Plan

Ryan Adams	Plan Type:	DC
PO Box 890	Asset Date:	8/31/2011
Waco TX 76703	Total Net Assets:	$16,131,345
(254) 752-3451		

Helen Farabee Regional MHMR Center

Rodney C Brennan	Plan Type:	DC
PO Box 8266	Asset Date:	8/31/2011
Wichita Falls TX 76308	Total Net Assets:	$3,458,328
(940) 397-3127		

Hemphill Firemen's Relief & Retirement Fund

Laure Morgan	Plan Type:	DB
PO Box 788	Asset Date:	12/31/2011
Hemphill TX 75948	Total Net Assets:	$0
(409) 787-2251		

Henderson Firemen's Relief & Retirement Fund

Kelly Poovey	Plan Type:	DB
400 W Main St	Asset Date:	12/31/2011
Henderson TX 75652	Total Net Assets:	$4,225
(903) 657-6551		

Henrietta Firemen's Relief & Retirement Fund

Kelley D Bloodworth	Plan Type:	DB
PO Box 491	Asset Date:	12/31/2011
Henrietta TX 76365	Total Net Assets:	$112,216
(940) 538-4316		

Hico Firemen's Relief & Retirement Fund

Anita Mueller	Plan Type:	DB
PO Box 533	Asset Date:	2/1/2012
Hico TX 76457	Total Net Assets:	$0
(254) 796-4620		

Hill Country Community MHMR Center

Linda J Werlein	Plan Type:	DC
819 Water St Ste 300	Asset Date:	8/31/2011
Kerrville TX 78028	Total Net Assets:	$10,023,620
(830)792-3300		

Hill County Appraisal District Money Purchase Plan

Kerri Fort	Plan Type:	DC
PO Box 416	Asset Date:	12/31/2011
Hillsboro TX 76645	Total Net Assets:	$1,087,570
(254) 582-2508		

Hill Junior College District (PARS)

Billy Don Curbo	Plan Type:	DC
PO Box 619	Asset Date:	8/31/2011
Hillsboro TX 76645	Total Net Assets:	$491,022
(254) 582-2555		

Houston Firefighter's Relief & Retirement Fund

Christopher E Gonzales	Plan Type:	DB
4225 Interwood N Pkwy	Asset Date:	6/30/2011
Houston TX 77032	Total Net Assets:	$3,203,080,361
(281) 372-5100		

Houston MTA Non-Union Pension Plan

Michael Curran	Plan Type:	DB
PO Box 61429	Asset Date:	12/31/2011
Houston TX 77208	Total Net Assets:	$105,261,279
(713) 739-4886		

Houston MTA Workers Union Pension Plan

Michael Curran	Plan Type:	DB
PO Box 61429	Asset Date:	12/31/2011
Houston TX 77208	Total Net Assets:	$167,130,639
(713) 739-4886		

Houston Municipal Employees Pension System

Rhonda Smith	Plan Type:	DB
1201 Louisiana Suite 900	Asset Date:	6/30/2011
Houston TX 77002	Total Net Assets:	$2,129,441,342
(713) 595-0100		

Houston Police Officers Pension System

John E Lawson	Plan Type:	DB
602 Sawyer St Ste 300	Asset Date:	6/30/2011
Houston TX 77007	Total Net Assets:	$3,530,617,000
(713) 869-8734		

Houston-Galveston Area Council

Joyce Webb	Plan Type:	DC
PO Box 22777	Asset Date:	12/31/2011
Houston TX 77227	Total Net Assets:	$21,930,927
(713) 993-4590		

Howard County Appraisal District Money Purchase Plan

Brett Mc Kibben	Plan Type:	DC
PO Drawer 1151	Asset Date:	12/31/2011
Big Spring TX 79721	Total Net Assets:	$180,675
(432) 263-8301		

Hughes Springs Firemen's Relief & Retirement Fund

Jay Cates	Plan Type:	DB
PO Box 356	Asset Date:	12/31/2011
Hughes Springs TX 75656	Total Net Assets:	$16,493
(903) 639-3716		

Hunt Memorial Hospital District Retirement Plan

Mitzi Parker	Plan Type:	DC
PO Box 1059	Asset Date:	12/31/2009
Greenville TX 75403	Total Net Assets:	$15,155,187
(903) 408-1671		

Irving Firemen's Relief & Retirement Fund

Heidle Baskin	Plan Type:	DB
845 W Irving Blvd	Asset Date:	12/31/2011
Irving TX 75060	Total Net Assets:	$125,139,063
(972) 721-4858		

Irving Supplemental Benefit Plan

Z Ike Obi	Plan Type:	DB
825 W Irving Blvd	Asset Date:	9/30/2011
Irving TX 75060	Total Net Assets:	$38,089,892
(972) 721-2696		

Jacksboro Volunteer Fire Department

Thomas Cox	Plan Type:	DB
112 W Belknap St	Asset Date:	12/31/2011
Jacksboro TX 76458	Total Net Assets:	$0
(940) 567-6321		

Jacksonville Firemen's Relief & Retirement Fund			
Mo Raissi		Plan Type:	DB
PO Box 1390		Asset Date:	9/30/2012
Jacksonville TX 75766		Total Net Assets:	$0
(903) 586-3510			
Jefferson County Appraisal District 401(k) Retirement Plan			
Diana Miller		Plan Type:	DC
PO Box 21337		Asset Date:	12/31/2011
Beaumont TX 77720		Total Net Assets:	$4,773,180
(409) 840-9944			
Jefferson County Appraisal District Retirement Plan & Trust			
Diana Miller		Plan Type:	DC
PO Box 21337		Asset Date:	12/31/2011
Beaumont TX 77720		Total Net Assets:	$3,156,392
(409) 840-9944			
Johnson County SUD Profit Sharing Plan			
Shirley Bishop		Plan Type:	DC
PO Box 509		Asset Date:	12/31/2011
Cleburne TX 76033		Total Net Assets:	$1,467,421
(817) 760-5200			
Judicial Retirement System of Texas Plan One			
Ann S Fuelberg		Plan Type:	DB
PO Box 13207		Asset Date:	8/31/2011
Austin TX 78711		Total Net Assets:	$0
(512) 867-7711			
Judicial Retirement System of Texas Plan Two			
Ann S Fuelberg		Plan Type:	DB
PO Box 13207		Asset Date:	8/31/2011
Austin TX 78711		Total Net Assets:	$259,623,603
(512) 867-7711			
Junction Firemen's Relief & Retirement Fund			
K Vivian Saiz		Plan Type:	DB
730 Main St		Asset Date:	12/31/2011
Junction TX 76849		Total Net Assets:	$512
(325) 446-2622			
Karnes City Firemen's Relief & Retirement Fund			
Amelia Martinez		Plan Type:	DB
314 E Calvert Ave		Asset Date:	12/31/2011
Karnes City TX 78118		Total Net Assets:	$51
(830) 780-3422			
Katy ISD Sick Leave Conversion Plan			
Yolanda Edmonds		Plan Type:	DB
6301 S Stadium Ln		Asset Date:	8/31/2011
Katy TX 77494		Total Net Assets:	$631,262
(281) 396-2260			

Kaufman Fireman's Relief & Retirement Fund

JoAnn Talbot	Plan Type:	DB
209 S Washington St	Asset Date:	12/31/2009
Kaufman TX 75142	Total Net Assets:	$39,748
(972) 932-2216		

Kaufman ISD TERRP

Brian Carter	Plan Type:	DC
1000 S Houston St	Asset Date:	8/31/2009
Kaufman TX 75142	Total Net Assets:	$538,075
(972) 932-2622		

Keller ISD Employee Attendance Incentive Plan

Kristin Williams	Plan Type:	DC
350 Keller Pkwy	Asset Date:	8/31/2011
Keller TX 76248	Total Net Assets:	$372,187
(817) 744-1000		

Kenedy Volunteer Firemen's Relief & Retirement Fund

Sandra G Lundquist	Plan Type:	DB
303 W Main St	Asset Date:	9/30/2009
Kenedy TX 78119	Total Net Assets:	$1,030
(830) 583-2230		

Kerr Central Appraisal District Pension Plan

Sharon Capeheart	Plan Type:	DC
PO Box 294387	Asset Date:	12/31/2011
Kerrville TX 78029	Total Net Assets:	$1,018,122
(830) 895-5223		

Killeen Firemen's Relief & Retirement Fund

Jerry Don Sutton	Plan Type:	DB
PO Box 10849	Asset Date:	9/30/2011
Killeen TX 76547	Total Net Assets:	$23,837,183
(254) 931-0338		

Kingsland MUD Pension Plan

Paul D O Brian	Plan Type:	DC
PO Box 748	Asset Date:	9/30/2011
Kingsland TX 78639	Total Net Assets:	$537,591
(325) 388-4559		

Klein ISD TERRP Retirement Plan

Rick Stockton	Plan Type:	DC
7200 Spring Cypress Rd	Asset Date:	8/31/2011
Klein TX 77379	Total Net Assets:	$1,479,738
(832) 249-4000		

Lamar County Appraisal District Pension Plan

Phyllis Bryan	Plan Type:	DC
PO Box 400	Asset Date:	12/31/2010
Paris TX 75461	Total Net Assets:	$782,804
(903) 785-7822		

Lamb County Appraisal District		
Lesa Kloiber	Plan Type:	DC
PO Box 950	Asset Date:	12/31/2011
Littlefield TX 79339	Total Net Assets:	$415,072
(806) 385-6474		

Lampasas Firemen's Relief & Retirement Fund		
Terry Lindsey	Plan Type:	DB
408 S Main	Asset Date:	12/31/2011
Lampasas TX 76550	Total Net Assets:	$0
(512) 556-3446		

Laredo Firefighters Retirement System		
Jose R Martinez	Plan Type:	DB
PO Box 3069	Asset Date:	9/30/2011
Laredo TX 78044	Total Net Assets:	$84,080,924
(956) 717-8018		

Law Enforcement & Custodial Officer Supplemental Retirement Fund		
Ann S Bishop	Plan Type:	DB
PO Box 13207	Asset Date:	8/31/2011
Austin TX 78711	Total Net Assets:	$737,416,639
(512) 867-7711		

Lee County Appraisal District Pension Plan		
Patricia Davis	Plan Type:	DC
898 E Richmond St Ste 100	Asset Date:	12/31/2011
Giddings TX 78942	Total Net Assets:	$358,355
(979) 542-9618		

Leonard Volunteer Firemen's Relief & Retirement Fund		
George Henderson	Plan Type:	DB
PO Box 1270	Asset Date:	12/31/2010
Leonard TX 75452	Total Net Assets:	$0
(903) 587-3334		

LifePath Systems Retirement Plan		
Robert Murphy	Plan Type:	DC
PO Box 828	Asset Date:	8/31/2011
McKinney TX 75070	Total Net Assets:	$2,012,892
(972) 562-0190		

Llano Central Appraisal District Pension Plan		
Wynona Low	Plan Type:	DC
103 E Sandstone	Asset Date:	9/30/2011
Llano TX 78643	Total Net Assets:	$677,018
(325) 247-3065		

Longview Firemen's Relief & Retirement Fund		
Kolby Beckham	Plan Type:	DB
411 N Fredonia St Ste 110	Asset Date:	12/31/2011
Longview TX 75601	Total Net Assets:	$39,704,324
(903) 212-4357		

Los Fresnos Firemen's Relief & Retirement Fund

Gene Daniels		Plan Type:	DB
200 N Brazil		Asset Date:	12/31/2011
Los Fresnos TX 78566		Total Net Assets:	$21,753
(956) 371-2870			

Los Fresnos Housing Authority Employee Retirement Plan

Daniel Mata		Plan Type:	DC
801 South Mesquite		Asset Date:	9/30/2009
Los Fresnos TX 78566		Total Net Assets:	$50,518
(956) 233-5012			

Lost Creek MUD Pension Plan

Tom Clark		Plan Type:	DC
1305 Quaker Ridge Rd		Asset Date:	9/30/2011
Austin TX 78746		Total Net Assets:	$368,008
(512) 327-6243			

Lower Colorado River Authority 401(k) Plan

Lou Cioci		Plan Type:	DC
PO Box 220		Asset Date:	3/31/2011
Austin TX 78767		Total Net Assets:	$167,624,538
(512) 473-3598			

Lower Colorado River Authority Retirement Plan

Lou Cioci		Plan Type:	DB
PO Box 220		Asset Date:	3/31/2011
Austin TX 78767		Total Net Assets:	$346,689,729
(817) 569-4300			

Lower Rio Grande Valley Development Council

Kenneth N Jones		Plan Type:	DC
311 N 15th St		Asset Date:	12/31/2011
McAllen TX 78501		Total Net Assets:	$2,666,002
(956) 682-3481			

Lubbock Fire Pension Fund

Randy Butcher		Plan Type:	DB
#15 Briercroft Office Park		Asset Date:	12/31/2011
Lubbock TX 79412		Total Net Assets:	$150,565,100
(806) 762-1590			

Lubbock Regional MHMR Center

Becky Lusk		Plan Type:	DC
PO Box 2828		Asset Date:	12/31/2011
Lubbock TX 79408		Total Net Assets:	$3,542,160
(806) 766-0310			

Lufkin Firemen's Relief & Retirement Fund

Tino Vilasana		Plan Type:	DB
PO Box 190		Asset Date:	12/31/2011
Lufkin TX 75902		Total Net Assets:	$9,950,651
(936) 630-0555			

Marshall Firemen's Relief & Retirement Fund			
Jack Hanson		Plan Type:	DB
PO Box 698		Asset Date:	12/31/2011
Marshall TX 75671		Total Net Assets:	$5,576,458
(903) 935-4526			
Mason Firemen's Relief & Retirement Fund			
Pattie Grote		Plan Type:	DB
PO Box 68		Asset Date:	12/31/2011
Mason TX 76856		Total Net Assets:	$19,145
(325) 347-6449			
Matagorda County Appraisal District Pension Plan			
James Vincent Maloney		Plan Type:	DC
2225 Avenue G		Asset Date:	12/31/2011
Bay City TX 77414		Total Net Assets:	$1,150,644
(979) 244-2031			
McAllen Firemen's Relief & Retirement Fund			
Javier Gutierrez		Plan Type:	DB
1521 Galveston Ave		Asset Date:	9/30/2011
McAllen TX 78501		Total Net Assets:	$32,426,570
(956) 624-6006			
McGregor Firemen's Relief & Retirement Fund			
Angelia Sloan		Plan Type:	DB
PO Box 192		Asset Date:	12/31/2011
McGregor TX 76657		Total Net Assets:	$0
(254) 840-2806			
McKinney ISD TERRP			
Steve Fortenberry		Plan Type:	DC
1 Duvall St		Asset Date:	6/30/2011
McKinney TX 75069		Total Net Assets:	$1,071,054
(469) 742-4000			
McKinney Volunteer Fire Pension Fund			
Sandra Skinner		Plan Type:	DB
222 N Tennessee St		Asset Date:	12/31/2011
McKinney TX 75069		Total Net Assets:	$0
(972) 547-7567			
McLean Firemen's Relief & Retirement Fund			
Toni Bohlar		Plan Type:	DB
PO Box 212		Asset Date:	12/31/2011
McLean TX 79057		Total Net Assets:	$469
(806) 779-2481			
Memphis Firemen's Relief & Retirement Fund			
Nelwyn Ward		Plan Type:	DB
721 Robertson St		Asset Date:	12/31/2011
Memphis TX 79245		Total Net Assets:	$904
(806) 259-3001			

MHMR Services of Concho Valley Retirement Plan

Annette Hernandez	Plan Type:	DC
1501 W Beauregard Ave	Asset Date:	12/31/2011
San Angelo TX 76901	Total Net Assets:	$2,059,260
(325) 658-7750		

Midland Firemen's Relief & Retirement Fund

Brian McGary	Plan Type:	DB
PO Box 4296	Asset Date:	12/31/2011
Midland TX 79704	Total Net Assets:	$65,724,726
(432) 685-7213		

Midland ISD

Adan Gonzales	Plan Type:	DC
615 W Missouri Ave	Asset Date:	12/31/2011
Midland TX 79701	Total Net Assets:	$21,616,663
(432) 689-1000		

Monahans Volunteer Firemen's Relief & Retirement Fund

Lorena Marquez	Plan Type:	DB
112 W 2nd St	Asset Date:	12/31/2011
Monahans TX 79756	Total Net Assets:	$8,814
(432) 943-4343		

Morris County Appraisal District Pension Plan

Rhonda Hall	Plan Type:	DC
PO Box 563	Asset Date:	12/31/2011
Daingerfield TX 75638	Total Net Assets:	$1,010,193
(903) 645-5601		

Mount Pleasant Firemen's Relief & Retirement Fund

Lyndee Rodgers	Plan Type:	DB
728 E Ferguson Rd	Asset Date:	12/31/2011
Mount Pleasant TX 75455	Total Net Assets:	$60
(903) 575-4144		

Muenster Volunteer Firemen Relief & Retirement Fund

Stan Endres	Plan Type:	DB
PO Box 208	Asset Date:	12/31/2011
Muenster TX 76252	Total Net Assets:	$0
(940) 759-2236		

Nacogdoches County Hospital District Retirement Plan

Peggy Petty	Plan Type:	DB
1204 N Mound St	Asset Date:	6/30/2010
Nacogdoches TX 75961	Total Net Assets:	$23,513,720
(936) 569-4611		

Navasota Firemen's Relief & Retirement Fund

Lance Hall	Plan Type:	DB
PO Box 910	Asset Date:	12/31/2011
Navasota TX 77868	Total Net Assets:	$33,581
(936) 825-6490		

Nocona Firemen's Relief & Retirement Fund

Revell Hardison	Plan Type:	DB
100 Cooke St	Asset Date:	12/31/2011
Nocona TX 76255	Total Net Assets:	$19,355
(940) 825-4100		

Nolan County Central Appraisal District Pension Plan

Brenda Klepper	Plan Type:	DC
PO Box 1256	Asset Date:	12/31/2010
Sweetwater TX 79556	Total Net Assets:	$516,602
(325) 235-8421		

North Central Texas COG

Shannan Ramirez	Plan Type:	DC
PO Box 5888	Asset Date:	9/30/2011
Arlington TX 76005	Total Net Assets:	$34,749,071
(817) 695-9136		

North Central Texas COG (Plan 2)

Karen Richard	Plan Type:	DC
PO Box 5888	Asset Date:	9/30/2011
Arlington TX 76005	Total Net Assets:	$150,788
(817) 640-3300		

Northeast Medical Center Hospital Retirement Plan

Joanne Pike	Plan Type:	DB
PO Box 1508	Asset Date:	7/1/2011
Humble TX 77347	Total Net Assets:	$9,298,987
(281) 319-8415		

Northwest Texas Healthcare System Retirement Plan

Dean Frigo	Plan Type:	DB
PO Box 1971	Asset Date:	9/30/2011
Amarillo TX 79105	Total Net Assets:	$15,233,412
(806) 378-3040		

Odessa Firemen's Relief & Retirement Fund

Joey White	Plan Type:	DB
PO Box 4398	Asset Date:	12/31/2011
Odessa TX 79760	Total Net Assets:	$39,850,082
(432) 335-3233		

Olney Firemen's Relief & Retirement Fund

Mathew Ickert	Plan Type:	DB
PO Box 546	Asset Date:	12/31/2009
Olney TX 76374	Total Net Assets:	$2,140
(940) 564-5616		

Optional Retirement Program

Toni Alexander	Plan Type:	DC
PO Box 12788	Asset Date:	8/31/2011
Austin TX 78711	Total Net Assets:	$569,930,628
(512) 427-6101		

Orange Firemen's Relief & Retirement Fund			
Kenneth Parsons		Plan Type:	DB
PO Box 520		Asset Date:	12/31/2011
Orange TX 77631		Total Net Assets:	$8,148,985
(409) 883-1040			
Paducah Firemen's Relief & Retirement Fund			
Janice Nash		Plan Type:	DB
PO Box 759		Asset Date:	12/31/2011
Paducah TX 79248		Total Net Assets:	$3,309
(806) 492-3713			
Panhandle Regional Planning Commission Pension Trust			
Cindy Boone		Plan Type:	DC
PO Box 9257		Asset Date:	12/31/2011
Amarillo TX 79105		Total Net Assets:	$6,436,477
(806) 372-3381			
Panola County Appraisal District Pension Plan			
Loyd Adams		Plan Type:	DC
1736 Ballpark Dr		Asset Date:	12/31/2011
Carthage TX 75633		Total Net Assets:	$734,224
(903) 693-2891			
Paris Firefighters' Relief & Retirement Fund			
Bob Rast		Plan Type:	DB
1444 N Main		Asset Date:	12/31/2011
Paris TX 75460		Total Net Assets:	$5,809,436
(903) 784-9225			
Pecos City Firemen's Relief & Retirement Fund			
Sam Contreras		Plan Type:	DB
PO Box 929		Asset Date:	12/31/2011
Pecos TX 79772		Total Net Assets:	$166,096
(432) 445-3519			
Permian Basin Community Center for MHMR			
Chris Barnhill		Plan Type:	DC
401 E Illinois Ste 401		Asset Date:	8/31/2011
Midland TX 79701		Total Net Assets:	$7,901,850
(432) 570-3333			
Physicians Referral Service Retirement Benefit Plan			
Kevin Tran		Plan Type:	DB
1515 Holcombe Box 702		Asset Date:	8/31/2011
Houston TX 77030		Total Net Assets:	$332,623,670
(713) 792-5155			
Pittsburg Firemen's Relief & Retirement Fund			
Tim Reynolds		Plan Type:	DB
200 Rusk St		Asset Date:	12/31/2011
Pittsburg TX 75686		Total Net Assets:	$322
(903) 856-3621			

Plainview Firemen's Relief & Retirement Fund		
Albert Perez	Plan Type:	DB
911 Quincy St	Asset Date:	12/31/2011
Plainview TX 79072	Total Net Assets:	$4,517,996
(806) 291-1247		

Plano Retirement Security Plan		
Darlene McAndrew	Plan Type:	DB
PO Box 860358	Asset Date:	12/31/2011
Plano TX 75086	Total Net Assets:	$81,693,701
(972) 941-7115		

Port Arthur Firemen's Relief & Retirement Fund		
Mercer Nessour	Plan Type:	DB
PO Box 1089	Asset Date:	12/31/2011
Port Arthur TX 77641	Total Net Assets:	$33,954,802
(409) 983-8734		

Port Lavaca Firemen's Relief & Retirement Fund		
Mandy Grant	Plan Type:	DB
PO Box 105	Asset Date:	12/31/2011
Port Lavaca TX 77979	Total Net Assets:	$80
(361) 552-9793		

Port of Houston Authority Retirement Plan		
Fonda Solliday	Plan Type:	DB
PO Box 2562	Asset Date:	7/31/2011
Houston TX 77252	Total Net Assets:	$123,763,457
(713) 670-2400		

Princeton ISD TERRP		
Tina Pate	Plan Type:	DC
321 Panther Pkwy	Asset Date:	8/31/2011
Princeton TX 75407	Total Net Assets:	$49,050
(469) 952-5400		

Prosper ISD TERRP		
Teri Meyers	Plan Type:	DC
PO Box 100	Asset Date:	8/31/2011
Prosper TX 75078	Total Net Assets:	$1,268,803
(972) 346-3316		

Ralls Firemen's Relief & Retirement Fund		
Kimberly Perez	Plan Type:	DB
800 Avenue I	Asset Date:	12/31/2011
Ralls TX 79357	Total Net Assets:	$2,294
(806) 253-2558		

Red River County Appraisal District Pension Plan		
Bonnie Hamric	Plan Type:	DC
PO Box 461	Asset Date:	12/31/2011
Clarksville TX 75426	Total Net Assets:	$513,726
(903) 427-4181		

Refugio County Memorial Hospital District Retirement Plan

Lydia Schlabach	Plan Type:	DB
107 Swift St	Asset Date:	12/31/2011
Refugio TX 78377	Total Net Assets:	$2,633,076
(361) 526-2321		

Rio Grande COG Pension Plan

Hector Diaz	Plan Type:	DC
1100 N Stanton St Ste 610	Asset Date:	9/30/2011
El Paso TX 79902	Total Net Assets:	$1,621,974
(915) 533-0998		

Robert Lee Firemen's Relief & Retirement Fund

Kay Torres	Plan Type:	DB
PO Box 26	Asset Date:	12/21/2011
Robert Lee TX 76945	Total Net Assets:	$28,665
(325) 453-2831		

Robertson County Appraisal District Pension Plan

Dan Brewer	Plan Type:	DC
PO Box 998	Asset Date:	12/31/2011
Franklin TX 77856	Total Net Assets:	$181,462
(979) 828-5800		

Robstown Firemen's Relief & Retirement Fund

Isabel Barrientes	Plan Type:	DB
516 E Avenue B	Asset Date:	12/31/2011
Robstown TX 78380	Total Net Assets:	$59
(361) 387-4589		

Rockdale Firemen's Relief & Retirement Fund

Sandra Ellis	Plan Type:	DB
PO Box 586	Asset Date:	12/31/2011
Rockdale TX 76567	Total Net Assets:	$0
(512) 446-2511		

Round Rock Firemen's Relief & Retirement Fund

Jerry Galloway	Plan Type:	DB
221 E Main	Asset Date:	9/30/2011
Round Rock TX 78664	Total Net Assets:	$0
(512) 218-5432		

Runge Firemen's Relief & Retirement Fund

Esmeralda Castro	Plan Type:	DB
PO Box 206	Asset Date:	12/31/2009
Runge TX 78151	Total Net Assets:	$4,821
(830) 239-4121		

Rusk Firemen's Relief & Retirement Fund

Terry Phillips	Plan Type:	DB
408 N Main St	Asset Date:	9/30/2011
Rusk TX 75785	Total Net Assets:	$44,995
(903) 683-5794		

Sabinal Firemen's Relief & Retirement Fund

Betty Jo Harris	Plan Type:	DB
PO Box 838	Asset Date:	5/25/2010
Sabinal TX 78881	Total Net Assets:	$0
(830) 988-2218		

Sabine River Authority Retirement Plan

Jerry Clark	Plan Type:	DC
PO Box 579	Asset Date:	8/31/2011
Orange TX 77631	Total Net Assets:	$28,562,190
(409) 746-2192		

Sabine Valley Center

Sue Rathbun	Plan Type:	DC
PO Box 6800	Asset Date:	8/31/2011
Longview TX 75608	Total Net Assets:	$4,642,731
(903) 237-2317		

San Angelo Firemen's Relief & Retirement Fund

Scott Farris	Plan Type:	DB
PO Box 1751	Asset Date:	12/31/2011
San Angelo TX 76902	Total Net Assets:	$47,696,798
(325) 657-4355		

San Antonio Fire & Police Pension Fund

Warren J Schott	Plan Type:	DB
311 Roosevelt Ave	Asset Date:	9/30/2011
San Antonio TX 78210	Total Net Assets:	$1,970,054,000
(210) 534-3262		

San Antonio Housing Authority Employee's Pension Trust

Alejandra Villarreal	Plan Type:	DC
818 S Flores St	Asset Date:	12/31/2011
San Antonio TX 78204	Total Net Assets:	$38,021,514
(210) 477-6262		

San Antonio Metropolitan Transit Retirement Plan

Orlando Gallego	Plan Type:	DB
PO Box 12489	Asset Date:	9/30/2011
San Antonio TX 78212	Total Net Assets:	$159,075,398
(210) 362-2216		

San Antonio River Authority Pension Plan

Sharon L McCoy-Huber	Plan Type:	DC
PO Box 839980	Asset Date:	6/30/2011
San Antonio TX 78283	Total Net Assets:	$18,600,779
(210) 227-1373		

San Benito Firemen's Pension Fund

Raul R Zuniga Jr	Plan Type:	DB
485 N Sam Houston Blvd	Asset Date:	9/30/2011
San Benito TX 78586	Total Net Assets:	$2,390,348
(956) 361-3800		

San Saba County Central Appraisal District Pension Plan		
Randy Henderson	Plan Type:	DC
423 E Wallace St	Asset Date:	12/31/2010
San Saba TX 76877	Total Net Assets:	$150,309
(325) 372-5031		

Schleicher County Appraisal District Pension Plan		
Jani Mitchell	Plan Type:	DC
PO Box 936	Asset Date:	12/31/2011
Eldorado TX 76936	Total Net Assets:	$88,245
(325) 853-2617		

Scurry County Appraisal District Pension Plan		
Lisa West	Plan Type:	DC
2612 College Ave	Asset Date:	12/31/2011
Snyder TX 79549	Total Net Assets:	$1,619,438
(325) 573-8549		

Seagraves ISD 401(a) Profit Sharing Plan		
Traci Garza	Plan Type:	DC
PO Box 577	Asset Date:	8/31/2011
Seagraves TX 79359	Total Net Assets:	$549,461
(806) 387-2035		

Sealy Firemen's Relief & Retirement Fund		
Krisha Langton	Plan Type:	DB
PO Box 517	Asset Date:	9/30/2011
Sealy TX 77474	Total Net Assets:	$46,628
(979) 885-3511		

Silsbee Firemen's Relief & Retirement Fund		
DeeAnn Zimmerman	Plan Type:	DB
105 S 3rd St	Asset Date:	12/31/2009
Silsbee TX 77656	Total Net Assets:	$95,127
(409) 385-2863		

Silverton Firemen's Relief & Retirement Fund		
Jerry Patton	Plan Type:	DB
PO Box 250	Asset Date:	12/31/2011
Silverton TX 79257	Total Net Assets:	$28,495
(806) 823-2125		

Smithville Firemen's' Relief & Retirement Fund		
Brenda C Page	Plan Type:	DB
PO Box 449	Asset Date:	9/30/2011
Smithville TX 78957	Total Net Assets:	$42,600
(512) 237-3282		

South East Texas Regional Planning Commission		
William J Borel	Plan Type:	DC
2210 Eastex Fwy	Asset Date:	9/30/2011
Beaumont TX 77703	Total Net Assets:	$6,819,769
(409) 727-2384		

Plan			
South Plains College Pension Trust Plan			
	Anthony Riley	Plan Type:	DC
	1401 S College Ave	Asset Date:	8/31/2011
	Levelland TX 79336	Total Net Assets:	$1,746,312
	(806) 894-9611		
South Texas Water Authority Thrift Plan			
	Jo Ella Wagner	Plan Type:	DC
	PO Box 1701	Asset Date:	9/30/2011
	Kingsville TX 78364	Total Net Assets:	$1,186,997
	(361) 592-9323		
Spindletop (Life Resource) Retirement Plan			
	Carol Parker	Plan Type:	DC
	PO Box 3846	Asset Date:	8/31/2011
	Beaumont TX 77704	Total Net Assets:	$6,848,526
	(409) 784-5400		
Stephens County Tax Appraisal District Pension Plan			
	Bun Barry	Plan Type:	DC
	PO Box 351	Asset Date:	12/31/2011
	Breckenridge TX 76424	Total Net Assets:	$31,654
	(254) 559-8233		
Stephenville Firemen's Relief & Retirement Fund			
	Penny Hallmark	Plan Type:	DB
	356 N Belknap St	Asset Date:	12/31/2011
	Stephenville TX 76401	Total Net Assets:	$0
	(254) 918-1277		
Sulphur Springs Firemen's Relief & Retirement Fund			
	Kirk Brown	Plan Type:	DB
	125 Davis St S	Asset Date:	12/31/2011
	Sulphur Springs TX 75482	Total Net Assets:	$0
	(903) 885-7541		
Sundown ISD Supplemental Retirement Plan			
	Mike Motheral	Plan Type:	DC
	PO Box 1110	Asset Date:	8/31/2011
	Sundown TX 79372	Total Net Assets:	$7,153,649
	(806) 229-3021		
Sutton County Appraisal District Pension Plan			
	Mary Bustamante	Plan Type:	DC
	300 E Oak St Ste 2	Asset Date:	12/31/2011
	Sonora TX 76950	Total Net Assets:	$244,537
	(325) 387-2809		
Sweetwater Firemen's Relief & Retirement Fund			
	Marshall Kiser	Plan Type:	DB
	PO Box 450	Asset Date:	12/31/2011
	Sweetwater TX 79556	Total Net Assets:	$6,803,421
	(325) 235-4304		

Taft Firemen's Relief & Retirement Fund

Stephanie Floyd	Plan Type:	DB
PO Box 416	Asset Date:	12/31/2011
Taft TX 78390	Total Net Assets:	$143,034
(361) 528-3512		

Tarrant County MHMR Service Pension Plan

Espi West	Plan Type:	DC
3840 Hulen St Hulen Tower North	Asset Date:	8/31/2011
Fort Worth TX 76107	Total Net Assets:	$38,237,534
(817) 569-4300		

Tarrant County WCID #1

Nina Jalbert	Plan Type:	DC
PO Box 4508	Asset Date:	9/30/2011
Fort Worth TX 76164	Total Net Assets:	$17,902,785
(817) 335-2491		

Tarrant County WCID #1 457 Deferred

Nina Jalbert	Plan Type:	DC
PO Box 4508	Asset Date:	9/30/2011
Fort Worth TX 76164	Total Net Assets:	$5,070,057
(817) 335-2491		

Teacher Retirement System of Texas

Brian Guthrie	Plan Type:	DB
1000 Red River St	Asset Date:	8/31/2011
Austin TX 78701	Total Net Assets:	$107,420,786,893
(512) 542-6400		

Temple Firemen's Relief & Retirement Fund

Scott Hoelscher	Plan Type:	DB
PO Box 6101	Asset Date:	9/30/2011
Temple TX 76503	Total Net Assets:	$30,334,836
(254) 774-5834		

Temple Housing Authority 401(a)

Stacie Kline	Plan Type:	DC
700 W Calhoun Ave	Asset Date:	9/30/2011
Temple TX 76501	Total Net Assets:	$1,898,657
(254) 773-2009		

Texana MHMR Center

Amanda Darr	Plan Type:	DC
4910 Airport Ave Ste D	Asset Date:	8/31/2011
Rosenberg TX 77471	Total Net Assets:	$11,330,886
(281) 342-9887		

Texarkana Firemen's Relief & Retirement Fund

Tim Martin	Plan Type:	DB
PO Box 1967	Asset Date:	9/30/2011
Texarkana TX 75504	Total Net Assets:	$23,805,017
(903) 798-3923		

Texas City Firemen's Relief & Retirement Fund

Brian Ringleben	Plan Type:	DB
1801 9th Ave N	Asset Date:	9/30/2011
Texas City TX 77590	Total Net Assets:	$13,460,752
(409) 643-5714		

Texas City ISD TERRP Retirement Plan

Chad Marek	Plan Type:	DC
1401 9th Ave N	Asset Date:	8/31/2011
Texas City TX 77590	Total Net Assets:	$138,554
(409) 916-0100		

Texas County & District Retirement System

Gene Glass	Plan Type:	DB
PO Box 2034	Asset Date:	12/31/2011
Austin TX 78768	Total Net Assets:	$17,626,066,007
(512) 328-8889		

Texas Emergency Services Retirement System

Sherri Walker	Plan Type:	DB
PO Box 12577	Asset Date:	8/31/2011
Austin TX 78711	Total Net Assets:	$62,465,098
(512) 936-3372		

Texas Municipal Power Agency Employees Plan

Lynn Gilleland	Plan Type:	DC
PO Box 7000	Asset Date:	9/30/2011
Bryan TX 77805	Total Net Assets:	$31,402,428
(936) 873-1136		

Texas Municipal Retirement System

David Gavia	Plan Type:	DB
PO Box 149153	Asset Date:	12/31/2011
Austin TX 78714	Total Net Assets:	$18,571,293,924
(512) 476-7577		

Texas Panhandle MHMR Authority Retirement Plan

Joyce Lopez	Plan Type:	DC
PO Box 3250	Asset Date:	8/31/2011
Amarillo TX 79116	Total Net Assets:	$4,916,307
(806) 358-1681		

Texoma COG Pension Trust

Terrell Culbertson	Plan Type:	DC
1117 Gallagher Dr Ste 100	Asset Date:	12/31/2011
Sherman TX 75090	Total Net Assets:	$4,025,466
(903) 813-3516		

Texoma Community Center

Tony Maddox	Plan Type:	DC
315 McLain St	Asset Date:	12/31/2011
Sherman TX 75092	Total Net Assets:	$2,279,776
(903) 957-4700		

Three Rivers Firemen's Relief & Retirement Fund			
M Rosie Forehand		Plan Type:	DB
PO Box 398		Asset Date:	12/31/2011
Three Rivers TX 78071		Total Net Assets:	$1,780
(361) 786-2528			
Throckmorton Firemen's Relief & Retirement Fund			
Judy Jackson		Plan Type:	DB
PO Box 640		Asset Date:	12/31/2011
Throckmorton TX 76483		Total Net Assets:	$20
(940) 849-4411			
Tom Green County Appraisal District Pension Plan			
Bill Benson		Plan Type:	DC
PO Box 3307		Asset Date:	12/31/2011
San Angelo TX 76902		Total Net Assets:	$2,075,081
(325) 658-5575			
Travis County ESD # 6 Firefighter's Relief & Retirement Fund			
Scott Falltrick		Plan Type:	DB
19824 San Chisolm Dr		Asset Date:	12/31/2011
Round Rock TX 78664		Total Net Assets:	$3,680,348
(512) 663-6804			
Travis County Healthcare District			
Patricia A Young		Plan Type:	DC
1111 E Cesar Chavez St		Asset Date:	9/30/2011
Austin TX 78702		Total Net Assets:	$9,762,266
(512) 978-8171			
Tri-County MHMR Services Retirement Plan			
Sandra Kelley		Plan Type:	DC
PO Box 2067		Asset Date:	8/31/2011
Conroe TX 77305		Total Net Assets:	$6,830,641
(936) 521-6120			
Tropical TX Center for Services Retirement Plan & Trust			
Beatriz Trejo		Plan Type:	DC
PO Drawer 1108		Asset Date:	8/31/2011
Edinburg TX 78540		Total Net Assets:	$4,191,934
(956) 289-7015			
Tulia Firemen's Relief & Retirement Fund			
James Davis		Plan Type:	DB
PO Box 847		Asset Date:	12/31/2011
Tulia TX 79088		Total Net Assets:	$0
(806) 995-3547			
Tyler County Hospital District Thrift Plan			
Richard Wallace		Plan Type:	DC
1100 W Bluff		Asset Date:	5/31/2011
Woodville TX 75979		Total Net Assets:	$1,177,606
(409) 283-6440			

Tyler Fire Department Relief & Retirement Fund

James Mullicane	Plan Type:	DB
1718 W Houston St	Asset Date:	12/31/2011
Tyler TX 75702	Total Net Assets:	$46,088,794
(903) 535-0005		

University Health System Pension Plan

Roe Garrett	Plan Type:	DB
4502 Medical Dr	Asset Date:	12/31/2011
San Antonio TX 78229	Total Net Assets:	$167,288,617
(210) 358-2218		

University Park Firemen's Relief & Retirement Fund

Cecil Barton	Plan Type:	DB
3800 University Blvd	Asset Date:	9/30/2011
Dallas TX 75205	Total Net Assets:	$7,536,196
(214) 987-5386		

Upper Leon River Municipal Water District

Gary Lacy	Plan Type:	DC
2250 Highway 2861	Asset Date:	6/30/2011
Comanche TX 76442	Total Net Assets:	$316,505
(254) 879-2258		

Upper Trinity Regional Water District Pension Plan

John Adair	Plan Type:	DC
PO Box 305	Asset Date:	9/30/2011
Lewisville TX 75067	Total Net Assets:	$7,825,720
(972) 219-1228		

Upshur County Appraisal District

Sarah Pruit	Plan Type:	DC
105 Diamond Loch	Asset Date:	12/31/2011
Gilmer TX 75644	Total Net Assets:	$515,253
(903) 843-3041		

Uvalde County Appraisal District Pension Plan

Alida Lopez	Plan Type:	DC
209 N High St	Asset Date:	12/31/2011
Uvalde TX 78801	Total Net Assets:	$779,161
(830) 278-1106		

Valley Mills Firemen's Relief & Retirement Fund

Bill Lancaster	Plan Type:	DB
PO Box 239	Asset Date:	12/31/2011
Valley Mills TX 76689	Total Net Assets:	$4,267
(254) 932-5101		

Victoria County Appraisal District Pension Plan

John Haliburton	Plan Type:	DC
2805 N Navarro Ste 300	Asset Date:	12/31/2011
Victoria TX 77901	Total Net Assets:	$750,346
(361) 576-3621		

Waco Charter Retirement Program			
Janice Andrews		Plan Type:	DB
PO Box 2570		Asset Date:	9/30/2011
Waco TX 76702		Total Net Assets:	$0
(254) 750-5600			
Walker County Appraisal District Pension Plan			
Carolyn Brown		Plan Type:	DC
PO Box 1798		Asset Date:	8/31/2011
Huntsville TX 77342		Total Net Assets:	$526,482
(936) 295-0402			
Waxahachie Firemen's Relief & Retirement Fund			
Gary Myers		Plan Type:	DB
407 Water St		Asset Date:	9/30/2011
Waxahachie TX 75168		Total Net Assets:	$8,003,952
(972) 937-1200			
Weatherford Firemen's Relief & Retirement Fund			
Brenda Hall		Plan Type:	DB
PO Box 255		Asset Date:	12/31/2011
Weatherford TX 76086		Total Net Assets:	$0
(817) 598-4000			
Weslaco Firemen's Relief & Retirement Fund			
Tom Dimas		Plan Type:	DB
901 N Airport		Asset Date:	9/30/2011
Weslaco TX 78596		Total Net Assets:	$5,979,894
(956) 969-1534			
West Texas Center for MHMR Retirement Plan			
Shelley Smith		Plan Type:	DC
319 Runnels St		Asset Date:	8/31/2011
Big Spring TX 79720		Total Net Assets:	$2,995,558
(432) 263-0007			
Wharton County Central Appraisal District			
Tylene Gamble		Plan Type:	DC
2407 1/2 N Richmond Rd		Asset Date:	12/31/2011
Wharton TX 77488		Total Net Assets:	$506,762
(979) 543-0019			
White Deer Volunteer Firemen's Relief & Retirement Fund			
Julie Bennett		Plan Type:	DB
PO Box 98		Asset Date:	12/31/2011
White Deer TX 79097		Total Net Assets:	$5,168
(806) 883-4191			
Wichita Falls Firemen's Relief & Retirement Fund			
Donald Hughes		Plan Type:	DB
624 Indiana Ave Ste 305		Asset Date:	12/31/2011
Wichita Falls TX 76301		Total Net Assets:	$39,354,123
(940) 761-7901			

Winters Firemen's Relief & Retirement Fund		
Shelly Antilley-Guevara	Plan Type:	DB
310 S Main St	Asset Date:	12/31/2011
Winters TX 79567	Total Net Assets:	$614
(325) 754-4424		

APPENDICES

APPENDIX A – A REVIEW OF DEFINED BENEFIT, DEFINED CONTRIBUTION, AND ALTERNATIVE RETIREMENT PLANS

P R B

Pension
Review
Board

A Review of Defined Benefit, Defined Contribution, and Alternative Retirement Plans

May 2012

Research Paper No. 12-001

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Additional information about this report may be obtained by contacting the Pension Review Board, by phone at (512) 463-1736, by email at prb@prb.state.tx.us, or by mail at P. O. Box 13498 Austin, Texas 78711- 3498. Copies of the report may be downloaded from the agency website: http://www.prb.state.tx.us/resource-center.html/.

Executive Summary

Debate over the merits and costs of various retirement plan structures has intensified recently as state and local pension funds address funding deficits and consider potential plan modifications. This paper outlines plan design options, and presents potential redesigns and case studies based on changes already enacted in several states. Throughout this review, the interests of both the sponsoring entity and the plan participant were considered while evaluating how best to maintain the long-term solvency of the plans and ensure participants are financially prepared for retirement.

Plan Designs Are Generally Comprised of Defined Benefit, Defined Contribution, and Hybrid Plans

Plan design options include defined benefit plans, which provide formula-derived benefits to plan members at retirement, and defined contribution plans, which consist of participant and sponsor funded individual plan accounts that provide benefits at retirement based on individual savings. Additionally, plan sponsors may consider hybrid plan designs, which incorporate elements of both defined benefit and defined contribution plans.

Plan design benefits and costs to plan participants and plan sponsors depend on the type of plan provided. For instance, defined benefit plans guarantee a minimum benefit to plan participants, and generally provide the greatest assurance that employees enter retirement financially secure. However, since the employer is guaranteeing a certain benefit at retirement, defined benefit plans create an obligation that is owed by the employer regardless of the adequacy of plan contribution levels or changes in economic conditions.

Defined contribution plans resolve the obligation issue by not guaranteeing a minimum benefit payment to plan participants. Instead, employees and the plan sponsor contribute set amounts to individual retirement accounts. The employees receive the benefits of these savings at retirement with no additional funding required from the plan sponsor. While this reduces the sponsoring entity's financial risk, it increases the responsibility placed on the plan participant. By not ensuring a minimum annuity payment to plan participants, there is a possibility that the participants will outlive their savings at retirement.

Policy Modifications Must Balance the Two Goals of Ensuring Employees are Financially Prepared for Retirement, and Maintaining the Fiscal Solvency of Retirement Plan Structures

Ensuring that employees are financially prepared to exit the workforce also has societal consequences. If individuals outlive their savings in retirement, they may require public assistance to survive. Public assistance expenditures place a financial burden on government budgets and taxpayers, and could be mitigated through careful deliberation of retirement policy decisions. By helping employees plan for retirement now, policymakers can reduce the chance that they will require assistance in the future.

Plan design modifications should include consideration of defined benefit plan structure changes, such as adjusting contribution policy and benefit payments in order to ensure long term financial viability of the current plan. Alternatively, redesign could include transitioning from a defined benefit plan to a defined contribution plan or a hybrid defined benefit/defined contribution plan.

This paper reviews various plan structures and provides examples of states that have enacted redesigns to their retirement plans. Retirement plan alteration requires careful consideration of the equitable allocation of benefits and risks between employer and employee, assurance that employees are financially prepared to exit the workforce, and the assurance of long-term financial solvency for the plan sponsor. By presenting these issues, potential plan alternatives, and case studies, the Pension Review Board hopes to facilitate this debate with objective information.

Table of Contents

A Review of Defined Benefit, Defined Contribution, and Alternative Plans

Introduction

Texas has over two million active and retired members in state and local retirement systems, and 358 public retirement plans.[1] Public sector employment covers a diverse group, including city, county, and state employees working in education, public safety, and general services.

Public sector employers generally provide retirement benefits within two primary structures: defined benefit plans and defined contribution plans. For a significant segment of these employees, these benefits may comprise the majority of income at retirement. Employers may also provide a hybrid plan that incorporates elements of both plan structures.

The assurance of retirement security for public sector workers through fiscally responsible means has generated a debate on the merits of the two major plan structures. A fundamental question in this discussion is whether governmental plan sponsors should offer their employees a defined benefit or defined contribution plan.

Public Sector Plans Reporting to the Pension Review Board for Fiscal Year 2012[2]

Defined Benefit

- 184 Texas Plans
- 2.3 Million Participants

Defined Contribution

- 172 Texas Plans
- 149,000 Participants

Hybrid Plans

- Two Texas Plans
- 406,000 Participants

In recent years, the debate has grown in magnitude and public awareness, in part due to the economic downturn of 2008-2009, which left governmental plan sponsors with lower tax revenues to fund government expenditures, including pension costs. A significant number of plan sponsors have contributed less than the Actuarially Required Contribution (ARC) rate during this time,[3] which, in addition to investment losses sustained by their pension funds, has increased Unfunded Actuarial Accrued Liabilities (UAAL) of plans. Other factors impacting the debate include the impending retirements of the baby boomer generation and the rising costs of retiree health care.

[1] PRB Board Meeting Packet, 5/23/2012 – *Public Retirement System Reporting and Compliance,* p. 14; can be requested from the agency.
[2] PRB Data – Membership Data Run 2/27/2012.xls, can be requested from the agency.
[3] Keith Brainard, *Public Fund Survey Summary of Findings for FY 2009*, National Association of State Retirement Administrators (November 2010).

In designing a plan that best meets the needs of the individual and the sponsoring entity, consideration should include assurance that employees depart the workforce financially secure, and that benefits are fiscally responsible and financially supportable.

This paper analyzes these issues by reviewing

- *The traditional defined benefit and defined contribution plan structures*
- *The benefits and costs of the traditional plan structures*
- *Alternative plan designs currently being administered, including hybrid plans*
- *Potential Plan Modifications*
- *Case studies highlighting Plan Redesigns already enacted in other states*

Traditional Plan Structure Comparison

Defined Benefit (DB) Plan

A defined benefit plan is a retirement plan that promises the participant a specified monthly benefit at retirement.[4] Defined benefit plans are financed under the following structure:

Contributions + Investment Returns = Benefit Payments + Operating Expenses

Generally, both the employee and the employer contribute to the plan, and the contributions are pooled and invested by the plan sponsor. Ensuring contributions plus investment returns are adequate to cover benefit costs is critical to the defined benefit plan design.

The level of benefits an employee will receive at retirement is derived from a formula based on years of service, salary, and a multiplier factor. The formula is typically calculated as follows:

(years of service) x (final average salary) x (multiplier) = annual benefit

For example, if a member participates in a plan that offers one percent of the final average three years of salary, the member's final average salary is $50,000, and the member had worked for 25 years for the employer, then their annual benefit at retirement would be:

(25 years of service) x ($50,000 final average salary) x (1% multiplier) = $12,500 annual benefit

Many state and local plans use this simplified version of the formula to calculate benefits owed to retirees. The definition of final average salary and the multiplier varies for each plan.

In defined benefit plans, maintaining agreed upon benefit levels for plan participants at retirement is the obligation of the plan sponsor. In addition to retirement benefits, defined benefit plans may also

[4] Internal Revenue Service Definitions, http://www.irs.gov/retirement/participant/article/0,,id=211142,00.html (accessed May 2, 2012).

include disability benefits, survivorship benefits, early retirement incentives, and post-retirement cost-of-living adjustments.

Defined Contribution (DC) Plan

In defined contribution plans, the employee and/or the employer contribute to the employee's individual account under the plan. The amount in the account at distribution includes the contributions and investment gains or losses, minus any investment and administrative fees. For participants in defined contribution plans, the amount of the contribution is defined, and the benefit at retirement is variable. The benefit amount at retirement is based on the ending account balance.[5] At retirement, the benefit can be received as a lump sum, as equal payments over a specified number of years, or can be used to purchase an annuity for a lifetime benefit. Examples of defined contribution plans include:

- 401(k) Plans – Programs where employees can make contributions from their paychecks either before or after-tax, often with an employer contribution match. The contributions go into a 401(k) account, with employees often choosing the investments based on options provided under the plan.[6]
- 403(b) Plans – Also known as a tax-sheltered annuity plan (TSA), 403(b) plans are for certain employees of public schools and employees of certain tax-exempt organizations.[7]
- 457(b) Plans – Defined as deferred compensation and are available for certain state and local governments and non-governmental tax exempt entities.[8]

[5] Internal Revenue Service Definitions, *available at* http://www.irs.gov/retirement/participant/article/0,,id=211142,00.html (accessed May 2, 2012).

[6] *Ibid.*

Note: Section 401(k)(4)(B)(ii) of the Internal Revenue Code (Code) generally prohibits a governmental employer from maintaining a qualified 401(k) plan. This Code provision was added by the Tax Reform Act of 1986 (P.L. 99-514). However, Section 1116(f)(2)(B)(i) of the 1986 Tax Reform Act grandfathered governmental 401(k) plans adopted before May 6, 1986.

[7] Internal Revenue Service 403(b) Plan Basics, *available at* http://www.irs.gov/publications/p571/ch01.html (accessed May 2, 2012).

[8] Internal Revenue Service Definitions, *Supra* note 5.

Comparison of Traditional Plan Structure Benefits, Costs, and Performance

Recruitment and Retention

Defined benefit plans provide a greater benefit to employees that participate in the plan for a longer time period. They also generally have longer vesting periods than defined contribution plans, and the benefit formula for retirees is based on age, years of service, salary, and a multiplier, which rewards employees for tenure with most employees achieving their highest benefit accruals at the end of their career.

As a result of the inherent structure of defined benefit plans, portability of earned retirement benefits is more difficult than portability associated with defined contribution plans. Employees changing from one employer to another under a defined contribution plan have the ability to roll their retirement to the new employer's plan. However, employees that change jobs under a defined benefit plan must either leave their money in the plan to receive their vested benefits, or roll only the amount contributed by the participant into an IRA or 401(k) plan, thereby losing their employer matched contributions.

Defined benefit plans are more restrictive in terms of mobility. However, the security associated with a defined benefit plan versus a defined contribution plan may offset the portability issue. Defined benefit members often work in careers that promote longevity (e.g. public safety, education, and government).

Additionally, defined benefit plans may provide employees with disability and survivor benefits through the plan. These benefits are funded through contributions and investment earnings. In the absence of a defined benefit plan, employers may need to obtain disability and pre-retirement death benefits through commercial insurance or fund the benefits internally. Access to disability and survivor benefits is especially important for employees in hazardous occupations such as firefighters and police officers.

Benefit Obligation

Under defined benefit plans, employers guarantee benefit payments and are typically obligated to bear the costs of funding deficits. When a funding deficit occurs, it generates unfunded benefit obligations for the plan sponsor. The benefit obligation in a defined benefit plan is also called the Actuarial Accrued Liability. The defined benefit plan sponsor's unfunded obligation fluctuates each year according to the following annual formula:

Beginning Unfunded Benefit Obligation + Benefits Earned – Contributions – Investment Returns = Ending Unfunded Benefit Obligation

If the contributions from employees and employers, plus the investment returns are not adequate to cover the additional benefits earned each year, the unfunded benefit obligation increases, and the funded status of the plan deteriorates. In some instances, sponsor and/or participant contribution rates can be increased to ensure plan viability.[9] During periods of prolonged economic contraction, contributions may be increased to offset lower investment returns.

If promised benefits are prudently designed, actuarial assumptions are met, and the Actuarially Required Contribution (ARC) is made, the unfunded obligation should be minimized. According to the Public Fund Survey by the National Association of State Retirement Administrators, contribution payments for state plans averaged 91 percent of the ARC from fiscal year 2001 through fiscal year 2009.[10] However, in 2010 the average contribution for state plans had fallen to 88 percent of the ARC.[11] By underfunding the ARC, plan sponsors defer costs into the future and the deferred costs will need to be made up with interest. Additionally, underfunding the ARC will likely cause the funded status of the plan to deteriorate.

Since defined contribution plans do not guarantee a specific benefit payment amount to participants, there is no unfunded benefit obligation. As a result, defined contribution plans do not create future cost obligations for the plan sponsor.

Administration and Investment Costs

Plan sponsors have some discretion in determining whether to classify costs as administrative or investment related. Consequently, it is difficult to compare these costs within different plans, and it is therefore necessary to compare an "all in" cost, which includes costs related to administration, record keeping, and investment fees.

A 2011 study by Deloitte surveyed 520 defined contribution plan sponsors and found that the total for administrative, record keeping, and investment fees was a weighted mean of .78 percent of plan assets.[12] A 2011 report by the Boston College Center for Retirement Research found that the administrative and investment cost for defined benefit plans to be .43 percent of assets, and defined contribution plans to be .95 percent of assets.[13]

A 2006 report by the Boston College Center for Retirement Research found that investment fees for mutual funds can vary widely. "For example, an actively managed Global Fund costs 1.72 percent of

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[9] Kate Alexander, *State Employee's Retirement Contribution to Rise,* Texas Public Employees Association (May 2009), *available at* http://www.tpea.org/news/newsarticle.php?id=49.

[10] Keith Brainard, *Public Fund Survey Summary of Findings for FY 2009*, National Association of State Retirement Administrators (November 2010).

[11] Keith Brainard, *Public Fund Survey Summary of Findings for FY 2010*, National Association of State Retirement Administrators (November 2011).

[12] Investment Company Institute & Deloitte Consulting LLP, *Inside the Structure of Defined Contribution/401(k) Plan Fees: A Study Assessing the Mechanics of the 'All In' Fee,* (November 2011).

[13] Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby, *A Role for Defined Contribution Plans in the Public Sector*, Center for Retirement Research (April 2011).

assets annually compared to .59 percent for an S&P Index Fund."[14] Recent data shows that approximately 45 percent of defined contribution plan assets are invested in mutual funds.[15] The fees associated with the mutual funds are generally borne by the plan participants.

Investment Performance

Studies indicate that defined benefit plans outperform defined contribution plan investment performance, and expose plan participants to less risk. An analysis of investment returns from 1988 to 2004 by the Center for Retirement Research at Boston College found that defined benefit plans had a weighted median rate of return equal to 10.7 percent, compared to 9.7 percent for 401(k) plans.[16]

A second report by Towers Watson analyzed returns from 1995 to 2008, and found that defined benefit plans generated a 7.51 percent asset-weighted median rate of return, and defined contribution plans generated 6.48 percent.[17]

There are several reasons for the observed disparities. First, the additional expenses, including increased investment fees, attributed to defined contribution plans reduce returns. Second, defined benefit plans use professional investment management teams to manage fund assets. These managers diversify risk by investing in different asset classes (e.g. equities, bonds, etc.), with the goal of maximizing return while minimizing risk of loss. Conversely, asset allocations in defined contribution plans are often set by the individual employee.

Review of aggregate defined contribution data shows that defined contribution plans as a whole appear to be well diversified. However, to understand fully whether defined contribution plans are well diversified, it is necessary to review investment data for individual accounts. A 2006 analysis of defined contribution plan participants by the Boston College Center for Retirement Research found that:

> "…nearly half of all participants have either none of their account in equities or virtually all of the account in equities. So even though the aggregate data suggest that participants make sensible investment choices on average, the individual data reveal that a majority of participants are not well diversified."[18]

This leads to a third reason for defined contribution plan's underperformance. Plan participants in defined contribution plans must change asset allocations to reduce risk as they approach retirement.

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[14] Alicia H. Munnell, Mauricio Soto, Jerilyn Libby, and John Prinzivalli, *Investment Returns: Defined Benefit Vs. 401(K) Plans*, Center for Retirement Research at Boston College (September 2006).

[15] Vishal Apte and Brendan McFarland, *DB Versus DC Plan Investment Returns: The 2008-2009 Update,* Towers Watson, (March 2011), *available at* http://www.towerswatson.com/united-states/newsletters/insider/3955 (accessed May 14, 2012).

[16] Alicia H. Munnell, Mauricio Soto, Jerilyn Libby, and John Prinzivalli, *Investment Returns: Defined Benefit Vs. 401(K) Plans*, Center for Retirement Research at Boston College (September 2006).

[17] Apte, *supra* note 15.

[18] Munell, *supra* note 16.

High allocations to more volatile assets such as equities may be acceptable for individuals when they are young and early in their careers. However, as individuals reach retirement age, they tend to shift their portfolio to less risky, and therefore lower return, fixed income assets. While this is prudent financial planning for an individual, it also means that defined contribution plan participants may lose the opportunity to earn higher returns as they reach retirement.

By contrast, the continuous long-term outlook associated with defined benefit plans allows plan fiduciaries to have a higher risk tolerance and to set portfolio allocation based on current and future economic outlook and current funding needs. This results in a greater ability to take on risk, and generate greater returns over the long term.

Investment returns for defined contribution plans are reduced further when accounting for Individual Retirement Account (IRA) participation. The Investment Company Institute, the national association for mutual fund companies, reported that 94 percent of money flowing into traditional IRAs was rolled over from employer sponsored plans from 1997-2003.[19] Analysis of IRA rates of return shows that their investments significantly underperformed compared to defined benefit or 401(k) plans from 1998-2003. During the six year period, IRAs generated an average rate of return equal to 3.8 percent, which is less than the 6.6 percent for defined benefit plans and 5.6 percent for 401(k) plans.[20]

These poor results may stem from several issues relating to IRAs. First, individual investors, inexperienced with investment management, may miss opportunities to invest their IRA into funds with strong performance.[21] They may also fail to consider fund fee structure and commissions when entering investments, both of which can place significant drag on an investment's performance.[22] By contrast, the sponsoring entity of a 401(k) plan has a fiduciary obligation to select investment options for plan participants, and to negotiate lower fees by buying in bulk.[23]

Investment Risk

The investment risk for plan participants is lower for defined benefit plans compared to defined contribution plans. In defined benefit plans, the employer and employee may split the investment risk or the employer could assume all of the investment risk. Contribution rates to defined benefit plans will change over time to offset investment gains and losses. Furthermore, a defined benefit plan guarantees a set benefit level at retirement, ensuring that no individual plan participant's retirement income will be affected by short term changes in economic conditions.

Defined contribution plan participants are solely responsible for their savings and investment performance. To illustrate the potential impact of changes in economic conditions on an individual,

[19] Munell, *supra* note 16.

[20] Munell, *supra* note 16.

[21] Forbes.com, How to Avoid Costly IRA Mistakes, *available at* http://www.forbes.com/2009/11/14/independent-retirement-account-personal-finance-low-cost.html (accessed May 14, 2012).

[22] *Ibid.*

[23] Forbes.com, *supra* note 21.

assume it is 2008 and a plan participant is expecting to retire in the near future. If this individual's portfolio were significantly exposed to equity markets, she would have experienced considerable losses over the course of the year. These losses, borne solely by the individual, would force her to delay retirement, or enter retirement with less available savings.

Conversely, the pooled nature and long-term outlook of defined benefit plans allows the plans to provide benefits based on the previously mentioned benefit formula regardless of market fluctuations. Any short-term losses are absorbed by the defined benefit plan, and may be recovered through long-term investment returns and contributions.

Retirement Income Security

Financial advisors generally agree that the replacement rate, defined as the percentage of a worker's pre-retirement income that is paid out upon retirement, should average approximately 80 percent of pre-retirement income.[24] A study by the *Journal of Financial Planning* showed that in 2007 the average worker making $40,000 per year would need to save $190,647 to maintain an 80% replacement rate. This assumes the annuity from the $190,647 equals $10,298 and is combined with Social Security income equal to $17,798 per year, and that gross contributions to savings of approximately $4,800 is discontinued.[25] For an individual earning $60,000, $343,847 savings would be required.[26]

The required savings are increased significantly when considering that many public sector employees do not contribute to social security.[27] A 2011 survey of Texas pension funds conducted by the Pension Review Board (PRB) found that, of the 277 plans that responded (77 percent of the total 362 plans), 39 percent of defined contribution plan employees and 56 percent of defined benefit employees do not participate in social security.[28]

On average, participants in 401(k)/IRA plans are reaching retirement age with less saved than is recommended by financial planners. In 2004, the actual amount saved for individuals close to retirement (age 55-64), was around $60,000.[29] Adjusted for the three years of average two percent inflation from 2004 to 2007, the $60,000 grows to approximately $64,000. This is far less than the minimum of $190,647.

There are several reasons for this under-saving. First, plan participants may elect to cash out of their savings plans when changing jobs. A study by Hewitt Associates found that "…about 45 percent of

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[24] Aon Consulting, *Replacement Ratio Study - A Measurement Tool For Retirement Planning* (2008).

[25] Roger Ibbotson, James Xiong, Robert P. Kreitler, Charles F. Kreitler, and Peng Chen, *National Savings Rate Guidelines for Individuals*, Journal of Financial Planning (April 2007).

[26] *Ibid.*

[27] PRB survey Data – SS Results 2011.xls, can be requested from the agency.

[28] PRB Data – Membership Data Run 2/27/2012.xls, can be requested from the agency.

[29] Alicia H. Munnell and Annika Sundén, *401(k) Plans Are Still Coming Up Short,* Center For Retirement Research At Boston College, (March 2006).

participants in 2004 cashed out when they changed jobs."[30] Second, plan participants may not adequately contribute to the plan. In 2004, the Survey of Consumer Finances found that only 11 percent of 401(k) participants contributed the legal maximum amount.[31] Contribution rates were closely related to salary, with more participants with higher salaries contributing the maximum than those with lower salaries. For individuals with salaries between $40-$60,000, the total contributing the maximum amount was one percent.[32] Finally, as stated in the Investment Performance section, participants may not properly diversify the investments in their 401(k) plans.

Additionally, defined benefit plans often allow for the implementation of cost-of-living adjustments (COLAs) for plan participants during retirement. Cost-of-living adjustments increase retirement benefits paid to retirees and can be provided on a scheduled or ad hoc basis. The addition of a cost-of-living adjustment helps protect the retiree against a reduced standard of living due to the erosion of benefit value from annual inflation. Defined contribution plans do not have provisions for cost-of-living adjustments, as the benefit payment is generally limited to the balance in the participant's retirement account at retirement.

Plan Participant Education

Defined benefit plans have set contribution rates for plan participants and provide formula based retirement benefits for plan participant retirees. This requires little input from the participant, since the benefits are set.

Defined contribution plans place more responsibility on individual participants to save and invest for their retirement. As discussed in the Investment Performance section, individuals managing their own investments may have difficulty generating returns comparable to defined benefit plans, which are managed by professional investment staff. Additionally, as mentioned in the Retirement Income Security section, individuals may not know how much to contribute to their plan to ensure adequate savings at retirement. As a result of these issues, defined contribution plan sponsors may need to incur additional expenses to educate participants in retirement planning and investment allocation.

Longevity Risk Pooling

Longevity risk is the risk attached to the increasing life expectancy of pension plan participants, which can eventually translate into higher than expected pay-out-ratios for many pension funds.[33] In a defined benefit plan, benefits are normally distributed in a lifetime annuity, or a series of monthly

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[30] Alicia H. Munnell and Annika Sundén, *401(k) Plans Are Still Coming Up Short,* Center For Retirement Research At Boston College, (March 2006).

Hewitt Associates, Hewitt Study Shows Nearly Half of U.S. Workers Cash Out of 401(k) Plans When Leaving Jobs (July 25, 2005), *available at* www.retirementplanblog.com/Hewitt%20Distribution%20Study(1).pdf.

[31] Alicia H. Munnell and Annika Sundén, *401(k) Plans Are Still Coming Up Short,* Center For Retirement Research At Boston College, (March 2006).

[32] *Ibid.*

[33] Society of Actuaries, Longevity: The Underlying Driver of Retirement Risk, 2005 Risks and Process of Retirement Survey Report (July 2006), *available at* www.soa.org/files/pdf/Longevity%20Short%20Report.pdf.

payments that lasts until death. A defined benefit plan with a large number of participants can plan for the fact that some individuals will live longer than others. As a result, the defined benefit plan only needs to ensure that it has enough assets available to pay benefits for the member's average life expectancy, assumed by many actuaries to be 85 years.[34]

Longevity risk can also describe the risk that individuals will live longer than expected and thus exhaust their savings.[35] A plan participant in a defined contribution plan does not know exactly how long she will live, and therefore, will probably not be satisfied to save only enough for the average life span of 85.[36] If the individual lives past 85 she will have depleted all of her retirement savings. As a result, an individual in a defined contribution plan will want to save for the maximum life span. This increases the amount of saving required by the individual over the course of his or her working years.

If retirees die before exhausting all of their savings, the money will pass to their estate. Benefits that were intended to be pension benefits become death benefits paid to heirs instead. The "oversaving" dilemma is inherent in defined contribution plans. A 2008 analysis by the National Institute of Retirement Security found that the aggregate amount of money transferred to estates was approximately 24 percent of all assets accumulated in the plan.[37]

Public Assistance Expenditures

The main goal of any retirement plan should be to ensure that its participants are financially prepared to exit the workforce when they reach retirement age. A 2008 Ernst and Young study found that among married couples with income of $75,000 before retirement, those without defined benefit income had a 90 percent chance of outliving their assets in retirement, as compared to just 31 percent for those with defined benefit plans.[38]

A study by the National Institute on Retirement Security found that 2006 poverty rates among older households lacking pension income were approximately six times greater than those with such income.[39] Additionally, a 2009 National Institute on Retirement Security report found that:

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[34] Beth Almeida and William B. Fornia, *A Better Bang for the Buck, The Economic Efficiencies of Defined Benefit Pensions Plans*, National Institute on Retirement Security (August 2008).

[35] Society of Actuaries, Longevity: The Underlying Driver of Retirement Risk, 2005 Risks and Process of Retirement Survey Report (July 2006), *available at* www.soa.org/files/pdf/Longevity%20Short%20Report.pdf.

[36] *Ibid.*

[37] A Better Bang for the Buck, *supra* note 35.

[38] Roger Ibbotson, James Xiong, Robert P. Kreitler, Charles F. Kreitler, and Peng Chen, *National Savings Rate Guidelines for Individuals,* Journal of Financial Planning (April 2007).

[39] National Institute on Retirement Security, Why Do Pensions Matter? (January 2010), *available at* www.iaff.org/pensions/documents/why_do_pensions_matter.pdf.

Frank Porell, and Beth Almeida, *The Pension Factor, Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships*, National Institute on Retirement Security (July 2009), *available at* http://www.nirsonline.org/index.php?option=com_content&task=view&id=285&Itemid=48.

> "…when fewer households experience poverty and financial hardship, federal, state, and local governments see a cost savings in terms of public assistance expenditures avoided. The report calculates a savings of $7.3 billion in public assistance expenditures in 2006 attributable to receipt of pension income. In the absence of DB pensions, spending on public assistance for the elderly would be about 40% higher than we actually observe."[40]

Reviewers of these data may disagree on the total costs identified in the report. However, despite the intrinsic difficulty associated with exactly quantifying the costs of supporting retirees in poverty, it should be agreed that the costs, whether through planning and saving for future retirees or through direct public assistance expenditures, do exist and may be borne to some extent by taxpayers and society.

A summarization of the comparison of Defined Benefit and Defined Contribution Plan attributes is presented in the following table.

[40] National Institute on Retirement Security, *Why Do Pensions Matter?* (January 2010), *available at* www.iaff.org/pensions/documents/why_do_pensions_matter.pdf.

Defined Benefit/Defined Contribution Comparison		
Attribute	**Defined Benefit**	**Defined Contribution**
Recruitment and Retention	Better benefits for long-service employees with low turnover	Better benefits for short-service employees with high turnover
Benefit Obligation	Can have unfunded obligations	Fully funded
Administration Costs	Higher costs for actuarial analysis	Higher costs for maintaining individual accounts
Investment Costs	Lower due to pooling of fund assets	Higher fees associated with mutual fund investments borne by the plan participants
Investment Performance	Better performance due to lower costs and pooled investment structure	Individual accounts lack diversification causing investment performance disparity
Investment Risk	Borne by plan sponsor	Borne by the plan participant
Retirement Income Security	Greater financial security for plan participants	Less assurance that plan participants will retire securely
Cashing Out	Less likely due to loss of longevity benefit of employee	Evidence of greater cash out when changing employers
Participant Education	Lower education costs	Education costs higher due to plan structure allowing employees to direct investments
Longevity Risk Pooling	Mitigates risk of over/under saving	Individuals tend to over or under save. Difficult to accurately estimate required savings.
Public Assistance Expenditures	Participants face less risk of needing public assistance at retirement	Evidence exists showing participants outlive savings and require public assistance in retirement
Ancillary Benefits	May provide cost-of-living adjustments, pre-retirement death benefits, and disability benefits through the plan	Generally does not provide for cost-of-living adjustments. Pre-retirement death benefits and disability benefits may be purchased from third-party insurer.

Hybrid Plan Designs

Along with the traditional defined benefit and defined contribution plans, a number of hybrid pension plans have also evolved in the public sector. No standardized definition for hybrid plans is currently available, but hybrid plans generally are defined as those that attempt to combine the key features of defined benefit (DB) and defined contribution (DC) plans and may be offered as a mandatory or optional plan.[41]

Studies show that a majority of statewide public retirement systems have retained defined benefit plans to provide pension security for state employees and teachers; however, in light of the recent economic downturn, a number of states are considering alternatives to this model.[42] Current trends indicate that a majority of public retirement systems that have implemented plan design changes have either opted for hybrid plans or are offering employees choices between defined benefit, defined contribution, or hybrid plans.[43]

There are a variety of hybrid pension plan models, including combined DB/DC plans, cash balance plans, pension equity plans, floor-offset plans, and target balance plans. The most common types of hybrid plans in the public sector are cash balance plans and combined DB/DC plans.[44] Of the two, combined DB/DC plans are most prevalent in state retirement systems.

Combined DB/DC Plans

As the name suggests, under a Combined DB/DC plan employees receive two-fold coverage from a traditional defined benefit and defined contribution plan. This type of hybrid plan has two separate elements, one defined benefit and one defined contribution plan that provide coordinated retirement coverage through a lifetime annuity and individual retirement account, respectively. Generally, the defined benefit component of the plan has provisions similar to a traditional defined benefit plan, but it provides a smaller benefit. The Combined DB/DC plan is the most common type of hybrid pension plan currently being offered by eight states across the country for their state employees or teachers, with slight variations in the features relating to contributions, enrollment, and investment choices.

The motivation for forming a Combined DB/DC plan may include creating a reduced obligation for the plan sponsor. This reduced obligation to the sponsor is achieved by providing a smaller defined benefit plan and requiring employees to compensate for the difference through participation in a defined contribution plan. While this plan design may reduce the plan sponsor's obligation, it may also transfer risk exposure to the plan participants.

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[41] In this paper, a reference to a hybrid plan does not include voluntary defined contribution plans, like 457, 403(b), and 401(k) which are currently offered by a majority of governmental employers to supplement their mandatory DB plan, including Texas.

[42] Ron Snell, *Tables showing which states have defined benefit, defined contribution and hybrid plans for state employees and teachers,* National Conference of State Legislatures (January 2012).

[43] *See* **Appendix C.**

[44] Paul Zorn, *Alternative Retirement Plan Designs, Hybrid Plans,* Government Finance Review (April 2011), *available at* www.gabrielroeder.com/pdf/GFR_apr_11_hybrid_plans.pdf.

Examples of combined DB/DC pension plans can be found in the statewide employees and/or teachers' retirement systems of Georgia, Indiana, Michigan, Ohio, Oregon, Rhode Island, Washington, and Utah.

Combined DB/DC Plan Summary

- Mandatory enrollment in the defined benefit plan, and optional or mandatory enrollment in the defined contribution plan.
- The defined benefit portion of the benefit is usually funded by the employer.
- The employee usually contributes to the defined contribution plan; some plans offer a small employer match as well.
- The defined benefit plan may have a reduced multiplier ranging from 1 percent to 1.5 percent reflecting a smaller guaranteed benefit than traditional defined benefit plans.
- The defined benefit portion of the plan provides a lifetime annuity. The defined contribution portion allows various distribution options including a lump sum, annuity payable for life, a partial lump-sum, or installment payments.
- Typically, defined benefit plan investments are directed by the employer and the defined contribution component's investments are directed by the employee.

Cash Balance Plan

A cash balance pension plan is a defined benefit plan that includes some defined contribution plan features.[45] The U.S. Department of Labor (DOL) considers a cash balance plan to be a defined benefit plan with the benefit being more characteristic of a defined contribution plan. Like traditional defined benefit plans, cash balance plans are funded on an actuarial basis and guarantee a future benefit to covered employees. The employer administers the plan and makes investment decisions.[46]

The benefits under cash balance plans are expressed in terms of individual account balances credited with pay credits and interest credits. Pay credits are usually expressed as a percentage of salary; and interest credits are specified in the plan's formula that can be a fixed rate or a variable rate linked to an index such as the one-year Treasury rate. However, unlike a defined contribution plan's individual accounts, cash balance accounts are hypothetical or notional in nature and are used only to communicate the account balance of each participant's accrued pension benefits.

Cash balance plans benefit employees by offering a steady rate of accrual and guaranteed benefit payments. Unlike in the private-sector, cash balance plans in the public-sector are typically funded by both the employer and employees.

Examples of cash balance plans can be found in Texas and Nebraska. The Texas County and District Retirement System (TCDRS) and Texas Municipal Retirement System (TMRS) are two statewide cash

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[45] Employee Benefit Research Institute, *Hybrid Retirement Plans: The Retirement Income System Continue to Evolve*; March 1996, page 7.

[46] *Ibid.*

balance plans for local government employers in Texas, including counties and municipalities. Nebraska provides two separate cash balance plans for state and county employees.

Cash Balance Plan Summary

- Employee benefits are expressed in terms of individual account balances.
- Contributions to the plan are placed in a pension trust fund.
- Assets of the plan are pooled and invested by the employer.
- The employer bears the investment risk and is required to maintain sufficient funds to pay future benefits.
- Employees are assigned notional or hypothetical accounts which are credited by a percentage of salary and interest credits as specified in the plan formula.
- Employees' individual accounts are not affected by the plan's investment gains or losses.
- The payment options available under a cash balance plan are similar to a defined benefit plan; however, vested members may be allowed to access their account balance in lump sum, or partial lump sum.

Additional Hybrid Plan Designs

Additional hybrid plan designs include pension equity plans, floor-offset plans, and target balance plans. Unlike combined DB/DC and cash balance plans, these hybrid pension plans are used primarily in the private sector, although they are uncommon.

Fundamental Plan Redesign Transition Issues

Advocates of public retirement plan change have proposed phasing out existing defined benefit plans and instituting defined contribution plans. When analyzing potential effects of these redesigns, policymakers should consider that moving from a defined benefit plan to a defined contribution plan may require the sponsoring entity to incur transitional costs. These costs include continued funding of benefits earned by participants in the existing defined benefit plan, and the additional administrative costs associated with building and maintaining the new defined contribution plan. The timing of the transition in relation to plan funding levels and market performance is also an important consideration, as these may also influence transition costs. Finally, policy examination should evaluate how proposed changes may affect the plan participants' income security in retirement.

Funding Benefits Under the Existing Defined Benefit Plan

The most significant transition cost incurred by a plan sponsor in shifting from a defined benefit plan to a defined contribution plan is funding the benefits earned by employees under the existing defined benefit plan. Defined benefit plans are funded through an "open group" basis. Under this structure, it is assumed that new entrants will join the plan each year and the total payroll of the active members will grow continuously. Payroll increases over time generate increased contributions for the plan, thereby funding benefits for current and retired members. However, under a phase-out of an existing defined benefit plan, new entrants stop contributing to the plan and the responsibility to pay benefits owed to current members is borne exclusively by the sponsoring entity.

Plan sponsors generally have two options to implement a transition from a defined benefit plan to a defined contribution plan: a "soft freeze" or a "hard freeze". Under a "soft freeze," the plan is only amended to not allow new participants into the plan; however, current participants remain in the plan and continue to accrue additional benefits. Under a "hard freeze," in addition to not allowing new participants into the plan, the plan is amended to not allow current participants to accrue additional benefits beyond those already earned. However, there may be potential legal challenges on the implementation of a "hard freeze." Public retirement systems across the country may have varying legal protections for retirement benefits, including state constitutional, general law and common law protections. In Texas, the State Constitution prohibits the impairment or reduction of accrued benefits under certain local public retirement systems.[47] The effect of the constitutional language on the ability of these retirement systems and plan sponsors to implement a "hard freeze" has not yet been tested in the Texas courts. [48]

Under either option, the sponsoring entity becomes primarily responsible for funding benefits owed. This can result in costs for years after the transition is initiated, as sponsors fund participant benefits throughout their retirements. In planning a transition, the timing of a transitional policy decision is

[47] T.X. Const. art. XVI, § 66.

[48] The Texas Attorney General, in Opinion No. GA-0615, stated that the City of Fort Worth's 12% cap on increases in earnings used to determine the compensation base for calculating retirement benefits contravened art. XVI, section 66(d) to the extent it reduced or impaired retirement benefits that vested employees would have received on or before the effective date of the change.

also important. Closing a well-funded defined benefit plan to new hires may reduce obligations imposed on the sponsor; however, even fully funded plan closures generate transition costs that must be paid. These costs can result in the creation of an unfunded obligation, similar to the situation that occurred in the Michigan State Employees plan in 1997 (See Case Studies of Plan Modification Implementation Section).

Administrative Costs

Plan administration becomes more expensive and complicated when transitioning from a defined benefit to a defined contribution plan. Maintaining an existing defined benefit plan as it is phased out, while concurrently building and implementing a new defined contribution plan could place significant administrative costs on a sponsoring entity.

Social Security

Many public retirement plan members do not participate in Social Security.[49] In deciding whether to close an existing defined benefit plan, the plan sponsor will have to consider what benefits, if any, from Social Security their employees are entitled to receive. The Internal Revenue Code (IRC) states that State and local governments providing Social Security exempt plans must adhere to the following requirements:[50]

- "A defined benefit retirement system that qualifies as an alternative to social security provides for a retirement benefit to the employee that is comparable to the benefit provided by the social security part of FICA."[51]
- "A defined contribution plan that satisfies the definition of a retirement system must provide for an allocation to the employee's account of at least 7.5 percent of the employee's compensation during any period under consideration. Contributions from both the employer and the employee may be used to make up the 7.5 percent."[52]

Policymakers must ensure that modifications involving retirement plans whose members do not participate in Social Security comply with IRS Code, and should consider how plan changes will compensate employees that are not able to collect Social Security benefits at retirement.

Employee Compensation and Perception

Implementing policy modifications that specify different benefits for new employees and existing employees can cause morale issues and related pressures on plan sponsors. If retirement benefits for new hires are perceived to be less generous than benefits in place for current members, the implication may be that future employees are expected to work for a lower total compensation package. Policymakers should consider whether this discrepancy should be alleviated through another form of compensation such as increased salaries or employer matching payments for retirement

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[49]PRB Survey Data – *Social Security Survey Results 2011.xls,* can be requested from the agency.
[50] 26 CFR 31.3121(B)(&)-2 – Service by Employees Who Are Not Members of a Public Retirement System.
[51] Internal Revenue Service, Federal-State Reference Guide. Publication 963 (Rev. 11-2011). Pages 80-81. Available at - www.irs.gov/pub/irs-pdf/p963.pdf (accessed May 15, 2012).
[52] *Ibid.*

benefits. Conversely, if the retirement plan offered to new hires is perceived to be more generous than the plan for current members, then there would be pressure from current members to have an option to participate in the new plan.

In either scenario, retirement plan sponsors and policymakers must be prepared to show how plan changes are in the best interest of the long term financial health of the plan. Communicating these issues and obtaining participant support may be crucial for redesign success.

Moderate Plan Modification Alternatives

Many proposed solutions to defined benefit plan funding deficits have focused on whether these plans should be phased out in favor of defined contribution plan structures. Framing the issue as either defined benefit or defined contribution fails to consider more moderate modifications that could be made to existing plan structures. Transitioning from a defined benefit plan to a defined contribution plan results in many costs, both expected and unexpected. In many instances these costs may be significant and could be mitigated through more moderate plan modifications.

Moderate modifications to improve defined benefit plan funded status may include:

- Increasing participant/sponsor plan contributions
- Reducing future benefit accruals for new hires
- Prospectively reducing future benefit accruals for all employees
- Modifying existing benefit enhancements, such as Cost-of-Living Adjustments (COLAs) or Deferred Retirement Option Plans (DROPs)

Current Moderate Redesigns

Nationally, many state policymakers are opting for more moderate pension modifications. A review by The National Conference of State Legislatures found that 18 states made revisions to at least one statewide plan between 2005 and 2009 aimed at shoring up declining funding levels. More recently this trend has increased. In 2010-2011, 40 states passed significant legislation to alter pension plan designs.[53]

In Texas, many defined benefit plans have already initiated plan modifications. The El Paso Firemen's Pension Fund, the El Paso Police Pension Fund, the Houston Police Officers Pension Fund, the Houston Municipal Employees Pension System, the Fort Worth Employees' Retirement Fund, the Employees Retirement System of Texas and the Teacher Retirement System of Texas have all enacted changes to their existing defined benefit plans. The following list summarizes many of the modifications already enacted in Texas defined benefit plans:

- Creating new tiers for new hires with lower multipliers
- Increasing retirement ages
- Increasing both employer and employee contributions
- Changing automatic COLAs[54] to ad-hoc COLAs
- Eliminating or changing DROPs
- Changing the final average salary calculation to include more years, which reduces the possibility that benefits will be calculated on only a few abnormally high-salary years preceding retirement.

[53] National Conference of State Legislatures, *Pensions and Retirement Plan Enactments in 2011 State Legislatures*, January 31, 2012, p. 1.

[54] *Automatic Cost-of-Living Adjustment (COLA)* provides automatic increases to employee benefit received during retirement without consideration of plan funded status or investment performance.

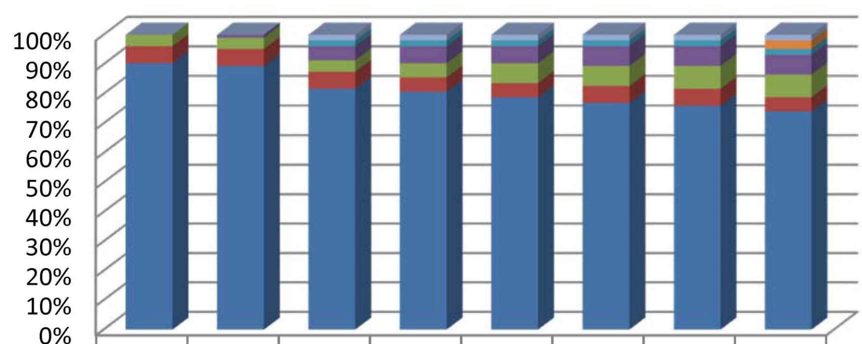
Case Studies of Plan Modification Implementation

During the 2011 legislative session, the Texas Legislature instructed that both the Employees Retirement System of Texas and the Teacher Retirement System of Texas report on the actuarial and fiscal effects of changes to their retirement plans, including but not limited to: retirement eligibility, final average salary, benefit multiplier, and the creation of a hybrid plan that includes defined benefit and defined contribution features such as a two-part plan or a cash balance plan. The reports are to be submitted to the Legislative Budget Board and the Governor no later than September 1, 2012.

As governmental plan sponsors, boards of trustees, taxpayers and public employees across Texas consider options for how best to provide adequate retirement security for public employees while controlling costs, it is helpful to evaluate the experiences of other plans. While no two situations are exactly alike, the following case studies of structural redesigns can help guide decision makers by demonstrating how pension modification initiatives have performed in the real world.

The following graph illustrates national trends in plan design among statewide plans from 1998 to present, based on data published by the National Conference of State Legislatures.[55]

National Trends in Plan Design



	1998	2000	2002	2004	2006	2008	2010	2012
Choice of DB, DC or Hybrid	0	0	2	2	2	2	2	2
Choice of DC or Hybrid	0	0	0	0	0	0	0	3
Choice of DB or Hybrid	0	0	2	2	2	2	2	2
Choice of DB or DC	0	1	5	6	6	7	7	7
Hybrid Only	4	4	4	5	7	7	8	8
DC Only	6	6	6	5	5	6	6	5
DB Only	94	93	85	84	82	80	79	77

[55] National Conference of State Legislatures, *Tables Showing Which States Have Defined Benefit, Defined Contribution and Hybrid Plans for State Employees and Teachers,* January 2012.

As the above graph demonstrates, in the past 14 years the percentage of statewide defined benefit plans has decreased, the percentage of statewide defined contribution plans has stayed relatively constant, and the percentage of plans adopting a hybrid structure or offering employees a choice between two or more plans has increased. It is important to note that some plans have made plan modifications counter to these trends, including moving from defined contribution to defined benefit or hybrid structures.

Michigan – Defined Benefit to Defined Contribution

Michigan is one of only two states nationwide that provides a mandatory-participation defined contribution plan for state employees. All Michigan state employees participate in Social Security.[56]

The Michigan 401(k) Defined Contribution Plan for state employees was established effective April 1, 1997, after the state employees' defined benefit plan was closed to new enrollment due to concerns about cost unpredictability.[57] Employees hired prior to April 1, 1997, retained active membership in the defined benefit plan, unless they chose to make an irrevocable transfer to the new defined contribution plan during a one-time window of opportunity immediately following defined contribution plan establishment.

Those choosing to switch to the defined contribution plan had the actuarial present value of their accrued benefit transferred into their defined contribution plan account, and were no longer entitled to a benefit under the defined benefit plan upon retirement.[58] Approximately 5.5 percent of all eligible employees took advantage of this opportunity.[59] Defined benefit plan members were given another opportunity to transfer to the defined contribution plan effective April 1, 2012. Employees electing to transfer to the defined contribution plan at that time retained all pension benefits earned prior to their switch and will receive a pension benefit as well as their defined contribution plan account balance upon retirement.[60]

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[56] Wisconsin Legislative Council, *2010 Comparative Study of Major Public Employee Retirement Systems*, December 2011, p. 33.
[57] Institutional Investor, *State Pension Plans Scramble to Avoid Bankruptcy*, February 17, 2011, p. 4, *available at* http://www.cnbc.com/id/41642979/ (accessed May 14, 2012).
[58] Michigan State Employees Retirement System, 1997 CAFR, p. 50, *available at* http://www.michigan.gov/documents/sers1997cafr_115293_7.pdf.
[59] Leslie E. Papke, *Pension plan choice in the public sector: The case of Michigan state employees,* Michigan State University (March 2004)*, available at* https://www.msu.edu/~ec/faculty/papke/NTJforum.vr1.pdf.
[60] Michigan State Employees Retirement System, *Defined Benefit Plan Reform - DB/DC Blend,* http://www.michigan.gov/orsstatedb/0,4654,7-208-58637-273635--,00.html (accessed May 11, 2012).

Michigan - Current Plan Design Comparison (as of September 30, 2010)		
	Defined Benefit Plan	**Defined Contribution Plan**
Status	Closed to new enrollment, effective 4/1/97	Active
Membership	25,478 Active, 50,462 Retiree/Beneficiary	26,519 Active, 6,340 Retiree/Non-active
Employer Contributions	Actuarially determined; 22.8% in 2010	4%plus employee match of up to 3%
Employee Contributions	Non-contributory	None required, must contribute 3% to receive max. state match
Full Vesting	10 years	4 years

Plan Experience

At the time the defined benefit plan was closed to new entrants in 1997, it was 109 percent funded.[61] The funding ratio has declined to 72.6 percent as of the 2010 valuation. Pension benefits expressed as a percentage of active member payroll rose from approximately 20 percent in 1999 to 56.7 percent in 2010, and employer contributions grew from 9 percent in 1997 to 22.8 percent in 2010.[62] Active member payroll is based on defined benefit plan membership, and is gradually declining because the plan is closed to new hires. The annual required employer contribution expressed in dollar amounts has increased from $229.5 million in 1997 to $447.9 million in 2011, which reflects an approximate 4.89 percent compound annual growth rate.[63]

According to an asset liability study conducted by the Michigan Employees' Retirement System, the defined benefit plan will need to pursue an increasingly conservative investment strategy to reduce risk of incurring difficult-to-absorb market losses as the ratio of benefit payments to active members rises. This could potentially result in a sharp increase in required employer contributions during the last 25-35 years of plan life if investments underperform the assumed rate of return.[64]

Michigan's declining funding ratios and increasing contribution rates illustrate the challenges of funding a closed group plan, where active member payroll steadily decreases due to no new enrollment. Every plan choosing to transition from a defined benefit to a defined contribution structure will face these costs, regardless of whether or not they have an unfunded obligation at the time of transition.

[61] Michigan State Employees Retirement System, 1998 CAFR, *available at* http://www.michigan.gov/documents/sers1998cafr_115294_7.pdf.

[62] Michigan State Employees Retirement System, 2010 Actuarial Valuation Report, *available at* http://www.michigan.gov/documents/orsstatedb/SERS_-_Pension_2010_-_2011-05-16_355931_7.pdf.

[63] Michigan State Employees Retirement System, CAFRs for FY 1997-2011, *available at* http://www.michigan.gov/ors/0,1607,7-144-6183_34726-109600--,00.html.

[64] Michigan State Employees Retirement System, Asset Liability Study, November 2009, p. 7, *available at* http://www.michigan.gov/documents/treasury/AssetLiabilityStudy_StateEmployees_368378_7.pdf.

At the time of transition in 1997, investments were performing well, which increased support for the switch among employees desiring increased portability and the ability to manage their own investments.[65] Fifteen years following the switch, studies show that members who elected to remain in the defined benefit plan are receiving, on average, a significantly higher benefit upon retirement than defined contribution plan members. As of 2010, the average account balance for defined contribution plan members approaching retirement (age 60 or over) was approximately $123,000, an amount plan actuaries have estimated would provide a post-retirement annual income of about $9,000. In contrast, the average defined benefit plan member receives an annual benefit of approximately $30,000.[66]

Executives in Michigan's Office of Retirement Services have stated that current defined contribution plan balances "clearly need to grow" in order for Michigan's retirees to have stable and predictable retirement incomes.[67] The state legislature's recent decision to move new public school employees to a hybrid plan was widely regarded as public acknowledgment of the state's need for greater retirement income security.

Alaska – Defined Benefit to Defined Contribution

Alaska provides a mandatory defined contribution plan for both state employees and teachers. It is currently the only state where teachers are covered under a mandatory defined contribution plan. Neither teachers nor state employees participate in Social Security.

The state legislature's 2006 decision to close the defined benefit Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) to new membership, allowing current nonvested members the choice to remain in the defined benefit plan or transfer their account balance and membership to the defined contribution plan, was made in response to concerns over growing unfunded obligations.

Alaska transitioned from defined benefit to defined contribution during a period of strong market performance prior to the 2008 financial crisis and the state's experience managing defined contribution plans has been relatively brief.

[65] Institutional Investor, *State Pension Plans Scramble to Avoid Bankruptcy*, February 17, 2011, p. 4, *available at* http://www.cnbc.com/id/41642979/ (accessed May 14, 2012).

[66] *Ibid.*

[67] *Ibid.*

Alaska - Current Plan Design Comparison (as of June 30, 2010)		
	Defined Benefit Plan	Defined Contribution Plan
Status	Closed to new enrollment, effective 7/1/2006	Active
Membership	PERS: 26,442 Active TRS: 7,832 Active	PERS: 11,182 Active TRS: 2,738 Active
Employer Contributions	Actuarially determined. PERS: 22% statutory max TRS: 12.56% statutory max	PERS: 10.32% (public safety), 9.57% (civilian) TRS: 11.61%
Employee Contributions	PERS: 6.75%-9.6% TRS: 8.65%.	PERS: 8% TRS: 8%
Full Vesting	PERS: 5 Years TRS: 8 Years	5 Years

Plan Experience

PERS was 63 percent funded when the plan was frozen to new entrants in 2006, and 61.5 percent funded in 2010. TRS was 57 percent funded in 2006, and 54 percent funded in 2010.[68] The unfunded accrued liabilities in both plans are amortized as a level percent of total payroll, which includes members of the new defined contribution plans as well as all active members of the defined benefit plans.[69]

To pay down the unfunded liability and continue meeting obligations to vested defined benefit plan members as membership in the defined benefit plan shrinks, actuarially determined employer contribution requirements are expected to increase significantly. Contribution rates for PERS are projected to be $719 million in 2012 (33 percent of payroll), exceed $1 billion by 2016 (40 percent of payroll), and peak at $1.6 billion in 2029 (39 percent of payroll).[70] The compound annual growth rate for PERS projected contributions is 8.60 percent from 2012-2016, and 4.80 percent from 2016-2029. TRS contribution requirements increase even more significantly, projected to be $332 million in 2012 (45 percent of payroll), $513 million in 2016 (62 percent of payroll), and peak at $862 million in 2029

[68] Unless noted, all funding ratio and employer contribution calculations for Alaska PERS and TRS take into account the normal cost and liability amortization of retiree health benefits as well as those of the pension plans. While discussion of Other Post-Employment Benefits is beyond the scope of this paper, it is important to note that prior to the 2006 redesign, Alaska prefunded retiree healthcare benefits alongside pension benefits. Healthcare benefits continue to be funded on a defined benefit basis following the 2006 plan changes. Health benefit prefunding has garnered the state a "Solid Performer" rating for Health Care and Other Benefits by The Pew Center on the States, but has also resulted in significantly higher contribution rates.

[69] Alaska Public Employees' Retirement System, *Actuarial Valuation* for Fiscal Year 2010, p. 2.; Alaska Teachers' Retirement System, Actuarial Valuation for Fiscal Year 2010, p. 2.

[70] Alaska Public Employees' Retirement System, *Actuarial Valuation* for Fiscal Year 2010, p. 36.

(66 percent of payroll).[71] The compound annual growth rate for TRS projected contributions is 11.49 percent from 2012-2016, and 5.77 percent from 2016-2029.

The State is required to appropriate additional "State Assistance" funds to cover the difference between the actuarially required contribution and statutory maximum employee contribution rates.[72] The State Assistance funding requirement from 2012 to 2029 is projected to average approximately 18 percent of payroll for PERS, and to grow from 32.5 percent to 53.2 percent for TRS. Plan actuaries' projections showing funding ratio improvement are dependent on the assumption that the actuarially required contributions are being consistently met. If the State is unwilling or unable to contribute the full amount, including the employer statutory maximum and full State Assistance amount, funding levels will deteriorate.

Since Alaska's transition from defined benefit to defined contribution occurred recently, defined contribution plan balances have not had time to mature. A comparison of average benefits under Alaska's defined benefit and defined contribution plans will only be possible once adequate numbers of defined contribution plan members reach retirement eligibility.

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[71] Alaska Teachers' Retirement System, *Actuarial Valuation* for Fiscal Year 2011, p. 31-32.

[72] Alaska Retirement Management Board, *Resolution 2011-23 - Relating to the Unfunded Liability of PERS and TRS, available at* http://www.revenue.state.ak.us/treasury/programs/documentviewer/viewer.aspx?879.

West Virginia – Defined Contribution to Defined Benefit

The West Virginia Teachers' Retirement System (TRS), which currently enrolls all new hires in a defined benefit plan, has undergone major plan restructuring three times since its 1941 founding. The most recent redesign occurred in 2005 when the mandatory Teachers' Defined Contribution Plan was closed to new enrollment following results of a study that showed reinstatement of a defined benefit plan structure would result in decreased costs to the state and improved retirement income security. Following the 2005 plan changes, all new employees became members of the Teachers' Retirement System defined benefit plan and current members were given several windows of opportunity to transfer.

West Virginia - Current Plan Design Comparison (as of July 1, 2011)		
	Defined Benefit Plan	**Defined Contribution Plan**
Status	Active	Closed to new enrollment, effective 6/30/2005
Membership	35,855 Active	4,554 Active
Employer Contributions	Statutory Contribution: 7.5% ARC: 27.66%	7.5%
Employee Contributions	6.0%	4.5%
Full Vesting	5 years	12 years

Plan Experience

Prior Plan Changes

Originally established as a defined contribution plan in 1941, West Virginia TRS first transitioned to a defined benefit plan design during the 1960s to provide retirees a more stable, guaranteed benefit.[73] Though benefits under the new defined benefit plan were based on actuarial calculations, the plan's funding strategy did not fully transition from the pay-as-you-go model used to determine contributions under the defined contribution plan structure which contributed to an extended period of severe underfunding. By the late 1980s, extremely high unfunded obligations resulting from years of insufficient contributions created impetus for structural change and in 1991 the defined benefit plan was frozen. All new teachers became members of the new Teachers' Defined Contribution 401(a) Plan. It was only after the defined benefit plan was frozen that the state began making contributions on an actuarially-determined basis, and plan health did not improve due to the decline in its contribution base. At its lowest point, the defined benefit plan saw funding ratios of only 19 percent in 2002 and 2003.

2005 Redesign

Plan funding has improved from 22.2 percent in 2004, just prior to re-opening the defined benefit plan, to 46.5 percent in 2010 based on market value of assets. Following the 2005 plan redesign, the state has continued to work towards improved funding by making additional appropriations of $290.1

[73] Plan Sponsor, *State Plan Sponsor of the Year: A Lesson in Funding*, March 2009, p. 1, *available at* http://www.plansponsor.com/MagazineArticle.aspx?id=4294990027 (accessed May 14, 2012).

million in 2006, and $1.1 billion in 2007 ($807.5 million of which were proceeds from a tobacco bond securitization).[74] Employer contributions to the plan are established by state law and do not fluctuate on an annual basis based on actuarial valuations.

Under the defined contribution plan, many teachers held total assets equivalent to only a single year's annuity payment in the defined benefit plan.[75] As of 2005, the average total balance was $23,193 for defined contribution plan members aged 60 and over. In contrast, the average annual benefit for teachers retiring under the defined benefit plan was $29,777.[76] According to the West Virginia Consolidated Public Retirement Board's deputy director, the legislature decided providing teachers a guaranteed benefit was the most prudent course of action to prevent retirees from needing additional state assistance when their defined contribution funds were exhausted.[77] Three years after the transition, teachers who had initially elected to remain in the defined contribution plan were given another opportunity to switch to the defined benefit plan. Seventy-nine percent of remaining defined contribution plan members chose to transfer at that time.[78]

The 2003 study that prompted defined benefit plan reinstatement found that not only was the defined contribution plan providing inferior benefits, it was also costing the state more to fund on a normal cost basis.[79] An actuary for the state retirement board calculated that returning to a defined benefit plan structure could save the state an estimated $1.4 billion by 2034 based on an assumed investment return of 7.5 percent. Studies also demonstrated higher returns in the defined benefit plan than in the defined contribution plan over a 10-year period from 2001-2010; defined benefit plan assets earned 3.93 percent, while defined contribution plan assets earned 2.32 percent.[80] Actual savings based on normal cost or investment performance gained from returning to a defined benefit plan structure cannot be accurately reported until the end of the projection period.

[74] Mark Olleman, *Public plan DB/DC choices,* Milliman (January 2009), p.3, *available at* http://nasra.org/resources/Milliman_DBDC_Choice.pdf.

[75] Jennifer Levitz, *When 401(k) Investing Goes Bad: Teachers in West Virginia offer a valuable lesson*, Wall Street Journal (August 4, 2008), *available at* http://online.wsj.com/article/SB121744530152197819.html (accessed February 29, 2012).

[76] Plan Sponsor, *supra* note 68.

[77] Institutional Investor, *supra* note 60.

[78] *Ibid at* p. 9.

[79] Institutional Investor, *supra* note 60 at p. 4.

[80] Mark Olleman, and Ilana Boivie, *Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers*, National Institute on Retirement Security and Milliman (September 2011), p. 31.

Florida – Choice between Defined Benefit and Defined Contribution

Florida currently offers its employees the choice to participate in a traditional defined benefit plan or a defined contribution plan, both administered by the Florida Retirement System. The Florida State Legislature established the defined contribution Investment Plan effective July 1, 2002, but did not close the existing defined benefit pension plan. The decision to offer employees options for retirement planning was made in response to results of a survey that indicated a large number of Florida employees preferred the portability and individual control of a defined contribution plan, while many others preferred the stability of a traditional defined benefit plan.[81] As of 2011, 25 percent of new hires have elected to join the defined contribution plan and 75 percent have chosen the defined benefit plan.[82]

Florida - Current Plan Design Comparison (as of June 30, 2010)		
	Defined Benefit Plan	**Defined Contribution Plan**
Status	Active	Active
Membership	557,585 Active	97,782 Active
Employer Contributions	3.77% (Civilian) 12.96% (Public safety)	6.0% (Civilian) 17.0% (Public safety)
Employee Contributions	3%	3%
Full Vesting	6 years	1 year

All employees are allowed one additional chance to transfer between plans after they make their initial selection. This "Do-Over Option" was a controversial provision given its potential to add strain to the defined benefit plan by requiring it to absorb losses from late-career switches by defined contribution members whose investments did not perform well. From 2002-2011, 53,112 members elected to utilize the Do-Over Option. 51,005 of these switched from the defined benefit plan to the defined contribution plan, 138 switched from defined benefit to a hybrid plan (only available to a small segment of employees), and 1,919 switched from defined contribution to defined benefit.[83]

Plan Experience

At the time the defined contribution plan was established, the defined benefit plan was overfunded, with a funding ratio in excess of 110 percent. Defined benefit plan funding declined to 87.9 percent in 2010 as a result of poor investment performance during the 2008-2009 financial crisis.[84]

In 2011, the legislature made notable changes to several plan provisions aimed at ensuring continued funding. These included adding a 3 percent employee contribution requirement to both defined

[81] *Texas Pensions and Investments Committee*, 2000 Interim Report, p. 28, can be requested from the agency.

[82] Olleman and Boivie, *supra* note 75.

[83] Olleman and Boivie, *supra* note 75.

[84] Florida House of Representatives, Pre-Session Information Session, January 20, 2011, p. 23.

benefit and defined contribution plans, lowering the deferred retirement option plan (DROP) interest credit rate, and suspending accumulation of service credits for annual cost-of-living adjustments (COLAs). The defined benefit and defined contribution plans had both previously been non-contributory for employees. Under the new provisions, members who enter the DROP program after July 1, 2011, will earn 1.3 percent interest, compared to 6.5 percent earned by those who entered prior to that date. Accumulation of service credit for annual cost-of-living increases was suspended through 2016, resulting in lower COLA amounts paid.[85] These changes are designed to ensure the plan funding ratio does not dip below the 80 percent benchmark commonly used to determine whether or not a plan is adequately funded.

Nebraska – Defined Contribution to Cash Balance

The Nebraska State Employees' and County Employees' Retirement Systems are two of the nation's few statewide cash balance plans. Originally, Nebraska state and county government employees were covered by defined contribution plans established in 1967. In 2002, 35 years after their inception, the Nebraska Legislature closed both defined contribution plans to new enrollment and established cash balance plans. Current employees were given two opportunities to transfer to the new cash balance plan, the first in 2003 and the second in 2007. Approximately one-third of eligible plan members switched to the cash balance plan during the 2003 window, and another third transferred in 2007.[86]

Nebraska - Current Plan Design Comparison (as of June 30, 2010)		
	Hybrid Plan	**Defined Contribution Plan**
Status	Active	Closed to new enrollment, effective 12/31/2002
Membership	State: 11,238 Members County: 5,637 Members	State: 5,224 Members County: 1,982 Members
Employer Contributions	State: Employee Rate x 156% County: Employee Rate x 150%	State: 7.5% County: Employee Rate x 150%
Employee Contributions	State: 4.8% County: 4.5%	State: 4.8% County: 4.5%
Full Vesting	3 years	3 years

[85] Mary Ellen, Breaking down Florida's pension reform changes, May 2011, *available at* http://www.tampabay.com/news/politics/stateroundup/breaking-down-floridas-pension-reform-changes/1172229 (accessed May 14, 2012).

[86] Nebraska Public Employees Retirement Systems, *Presentation on Cash Balance Plans,* August 31, 2011, *available at* http://skyways.lib.ks.us/ksleg/KLRD/Resources/Documents/KPERS_StudyCommission/2011-08-31_MeetingMaterials/NPERS-CashBalancePlan.pdf (accessed May 14, 2012).

Plan Experience

The legislature's initial decision to create defined contribution plans rather than defined benefit plans for state and county workers was due to concerns about underfunding in the state's preexisting defined benefit plans for school employees and state judges.[87] The transition from defined contribution to cash balance hybrid plan structure was initiated in the late 1990s based on the results of several state-commissioned studies that demonstrated the defined contribution plans' disproportionately high administrative costs, lower benefits and lower investment returns compared to statewide defined benefit plans. These reports found that the 20-year return average for Nebraska's defined benefit plans was 11 percent between 1982 and 2002, whereas the defined contribution plans' average return was between 6 percent and 7 percent during that same time period.[88]

The Director of the Nebraska Public Employees Retirement System stated just prior to the transition that Nebraska's experience with defined contribution plans had been "mixed," but that defined contribution plan members typically retire with lower benefits than defined benefit plan members, and that administrative costs for the defined contribution plans were twice as high as for defined benefit plans.[89] Nebraska's hybrid plan allows the average plan member to earn a better rate of return than in the defined contribution plan by providing professional investment management services, increasing individual member risk tolerance through investment pooling, and allowing members to benefit from economies of scale.

Rhode Island – Defined Benefit to Combined DB/DC Hybrid

In mid-November 2011, Rhode Island closed the state's defined benefit pension plan and established a new combined DB/DC hybrid plan for all employees. Rhode Island's pension reform differs from all other presented case studies in that it affects benefit accrual rates and plan membership for all employees, not just new hires. Passage of the statewide Rhode Island Retirement Security Act of 2011 ("RIRSA") followed the bankruptcy filing and subsequent renegotiation of benefits in the City of Central Falls, RI, where years of underfunding the actuarially required contribution left the pension fund insolvent.[90] RIRSA plan changes take full effect July 1, 2012.

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[87] Texas Pensions and Investments Committee, *2000 Interim Report,* p. 26, can be requested from the agency.

[88] Alicia H. Munnell, Alex Golub-Sass, Kelly Haverstick, Mauricio Soto, and Gregory Wiles, *Why Have Some States Introduced Defined Contribution Plans?,* Center for State & Local Government Excellence (January 2008), p. 6, *available at* http://crr.bc.edu/wp-content/uploads/2008/01/slp_3.pdf (accessed May 14, 2012).

[89] Texas Pensions and Investments Committee, *supra* note 82 at p. 27.

[90] The New York Times, *A Small City's Depleted Pension Fund Rattles Rhode Island,* July 2011, *available at* http://www.nytimes.com/2011/07/12/business/central-falls-ri-faces-bankruptcy-over-pension-promises.html?pagewanted=all (accessed May 14, 2012).

Rhode Island - Current Plan Design Comparison (as of July 1, 2012)		
	Defined Benefit Plan	**DB/DC Combo Hybrid Plan**
Status	Closed effective 7/1/2012, all members transferred to hybrid	Active
Membership (as of 2010 Actuarial Valuation)	25,061 Members	Not yet available
Employer Contributions	Actuarially required contribution 36.34%, as of latest valuation (6/30/2010)	State: Varies (DB portion actuarially determined, DC portion – 1%) Teacher: Same as State, + 2% for EEs not covered in Social Security
Employee Contributions	8.75%	State: 8.75% (DB portion - 3.75%; DC portion – 5%) Teacher: 8.75%, + 2% for EEs not covered in Social Security
Full Vesting	10 Years	DB contributions – 5 years; DC contributions – 3 years

Plan Experience

Prior to adoption of RIRSA, state employee plan funding had deteriorated from 64.5 percent in 2003 to 48.4 percent in 2010; teacher plan funding had similarly eroded, from 64.2 percent in 2003 to 48.4 percent in 2010.[91] Employer contribution rates increased at an unsustainable rate over the same period, increasing from 5.59 percent in 1999 to 36.34 percent in 2010 for the state employee plan, and 9.95 percent in 1999 to 35.25 percent in 2010 for the teacher plan.[92]

Detailed information on RIRSA's changes to benefit accrual rates, retirement eligibility schedules, and cost-of-living adjustments can be found in the following tables. These changes are predicted to save the State of Rhode Island approximately $4 billion over the next 20 years. Additionally, the changes are expected to remove immediately about $3 billion in unfunded obligations owed by the state and raise plan funding ratios to 60 percent. Because the RIRSA plan changes affect current employees along with new hires, court challenges are possible. It will be necessary to continue to evaluate the effects of these redesigns on the plans' financial health and funding status as these changes are implemented and allowed time to produce results.

[91] Rhode Island Employees' Retirement System, *Actuarial Valuation* for Fiscal Year 2010, p. 15.

[92] Rhode Island Employees' Retirement System, *Actuarial Valuation* for Fiscal Year 2010, p. 24.

Rhode Island Pension Reform[93]	
Retirement Eligibility Schedules and Benefit Accrual Rates for State Employees	

2009 Article 7[94] Reforms:

- **Schedules AB and B1**– Applied a proportional downward adjustment credit to retirement eligibility calculations for members not yet eligible for retirement as of September 30, 2009 ("Article 7 retirement eligibility date").
- **Schedule B2** – Set retirement eligibility age for newly-hired employees equal to the normal Social Security retirement eligibility age.

2011 Rhode Island Retirement Security Act (RIRSA) Reforms:
(all changes and eligibility calculations as of July 1, 2012)

- **All Employees –** benefit accrual rate change; automatic COLAs suspended for all members, including current retirees, until plan funding exceeds 80%, supplanted by interim COLAs calculated by plan's 5-year avg. return minus 5.5% (0-4%);
- **New/Non-Vested Employees** – will retire at Social Security retirement age, capped at age 67.
- **Vested with 5+ Years of Service** – applied additional proportional downward adjustment credit towards an earlier retirement date calculated using the following formula ("RIRSA retirement eligibility date"); minimum retirement age is 59.

$$SS\ Eligibility\ Age - \left(\frac{Years\ Cumulative\ Service\ thru\ June\ 30{,}2012}{Proj.YCS\ thru\ Article\ 7\ Retirement\ Date} \times [SS\ Eligibility\ Age - Article\ 7\ Eligibility\ Age]\right)$$

- **Vested with 10+ Years of Service** – may choose to retire at Article 7 retirement date, but benefits will be calculated based on salary and benefits accrued as of June 30, 2012.
- **20+ Years of Service and Within 5 Years of RIRSA Retirement Eligibility** – may choose to retire at any time with an actuarially reduced benefit.

Pre-July 1, 2012 Benefit Accrual Rates:

Benefit Accrual Rates: Schedule A	Benefit Accrual Rates: Schedule B
Years 1-10: 1.7%	Years 1-10: 1.6%
Years 11-20: 1.9%	Years 11-20: 1.8%
Years 21-34: 3%	Years 21-25: 2%
Year 35: 2%	Years 26-30: 2.25%
	Years 31-37: 2.5%
	Year 38: 2.25%

Post-July 1, 2012 Benefit Accrual Rate:

1% for each year worked after July 1, 2012. Final pension benefit equals total benefit accruals times average of five highest consecutive years of compensation.

[93] Data and Tables adapted from "An Employee's Guide to Understanding the Rhode Island Retirement Security Act", January 2012, Employees' Retirement System of Rhode Island.
[94] Article 7, Chapter 68, Laws of 2009 (HB 5983 substitute as amended).

Rhode Island Pension Reform (continued)

Retirement Eligibility Schedules & Benefit Accrual Rates under Retirement Security Act of 2011

Schedule A – State employees or public school teachers eligible for retirement as of September 30, 2009 (28 years of service at any age, or age 60 with 10 years of service), and vested with 10 years of service credit as of July 1, 2005.

- **Eligible to retire at any time.**
- **Accrue benefits at Schedule A rates until July 1, 2012.**

Schedule B – State employees or public school teachers eligible for retirement as of September 30, 2009 (age 65 with 10 years of service), but not vested with 10 years of service as of July 1, 2005.

- **Eligible to retire at any time.**
- **Accrue benefits at Schedule B rates until July 1, 2012.**

Schedule AB – State employees or public school teachers not eligible for retirement as of September 30, 2009, but vested with 10 years of service as of July 1, 2005.

- **Options available contingent upon age and years cumulative service (YCS) include: choosing to retire at Article 7 retirement date** with benefits calculated as of June 30, 2012, **choosing to work until new retirement eligibility date under RIRSA formula** with benefits and salary increases calculated as of retirement date, and **choosing to retire immediately and receive an actuarially reduced benefit** (only available if YCS≥20 and member is within 5 years of retirement eligibility). DC plan balances disbursed upon retirement, regardless of option chosen.

Accrue benefits at Schedule A rates until September 30, 2009, and then at Schedule B rates until July 1, 2012.

Schedule B1 – State employees or public school teachers not eligible for retirement as of September 30, 2009, and not vested with 10 years of service as of July 1, 2005.

- Options dependent on employee's years of service as of July 1, 2012. Those with **more than 10 YCS will have the option to retire on their Article 7 date or their RIRSA date**, those with **greater than or equal to 5 but less than 10 YCS will retire on the RIRSA eligibility date**, and those with **fewer than 5 YCS will retire at the normal Social Security retirement age**.
- **Accrue benefits at Schedule B rates until July 1, 2012.**

Schedule B2 – State employee or public school teacher who became a member of the Employees' Retirement System of Rhode Island after September 30, 2009.

- **Eligible to retire at normal Social Security retirement age.**
  Accrue benefits at Schedule B rates until July 1, 2012.

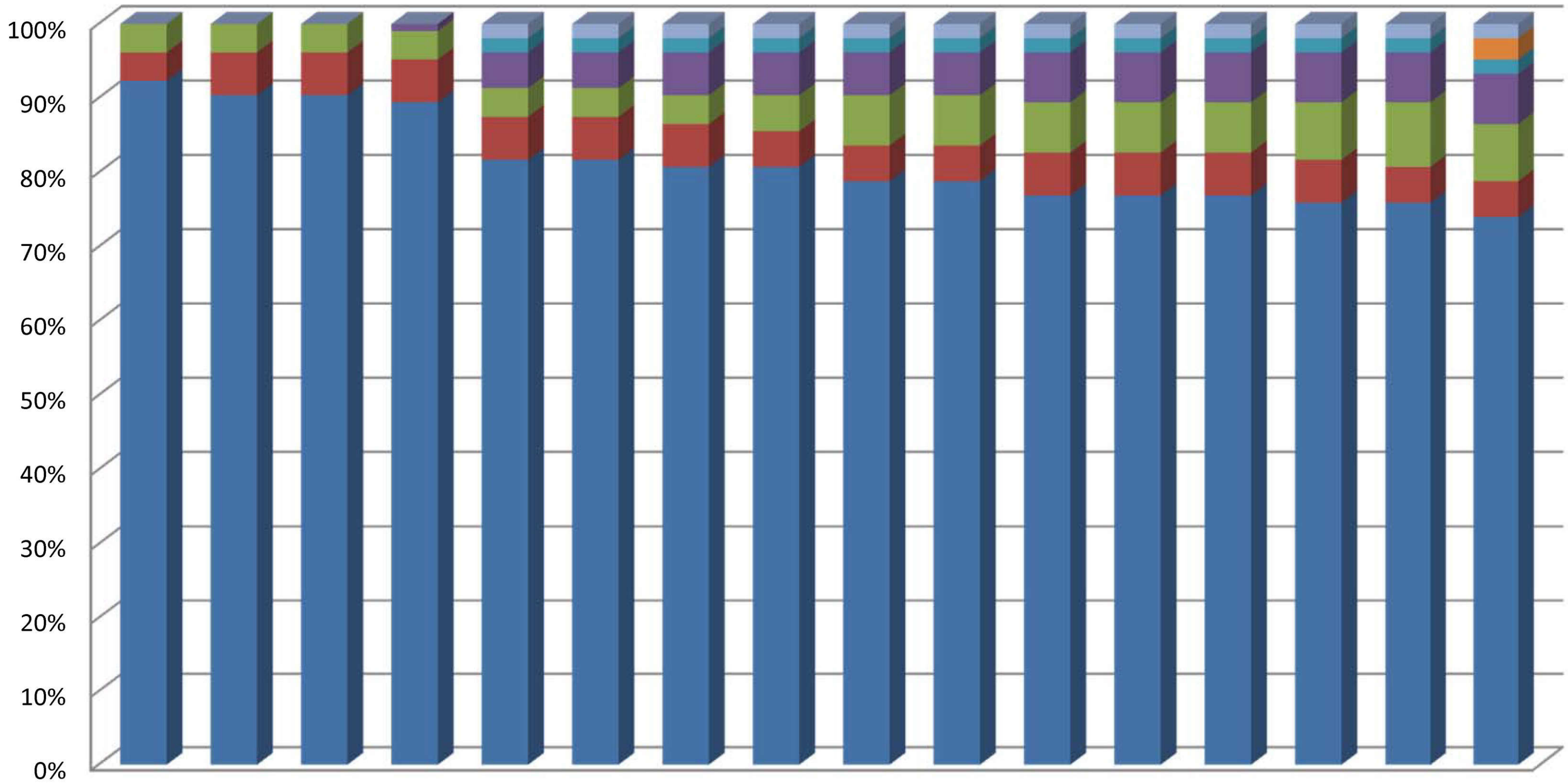
Appendices

Appendix A - Statewide Retirement Systems' Combined DB/DC Plan Features

State	Year Approved	Employee Groups	DB/DC Enrollment	Employer Contribution	Employee Contribution	DB Multiplier	Vesting	Investment Risk
Georgia	2009	State Employees	DB-Mandatory DC – Auto Enrollment with Opt-out	DB – 11.5% (actuarially determined) DC – 1-3% (match)	DB – 1.25% DC – 1% (option to increase)	1%	DB – 10 years DC – 5-year vesting schedule (ER contribution)	DB – State DC – Member
Indiana	1955	State Employees and Teachers	Mandatory for both plans	DB – 9.7% (determined by the Board) DC - None	DB - None DC – 3% (option to increase)	1.10%	DB – 10 years DC - None	DB – State DC – Member
Oregon	2003	State Employees and Teachers	Mandatory for both plans	DB – 8.4% (Actuarially determined) DC - None	DB - None DC – 6%	1.50%	DB – 5 years DC - None	DB – State DC – Member (employer manages the investment)
Ohio	2011	State Employees and Teachers	Mandatory for both plans	DB – 14% DC - None	DB - None DC – 10%	1% (for 30 years) & 1.25% (for every year over 30)	DB – 5 years DC - None	DB – State DC – Member
Rhode Island	2011	State Employees and Teachers	Mandatory for both plans	DB – Actuarially determined DC – 1% (+2% for teachers not in SS)	DB – 3.75% DC – 5% (+2% for teachers not in SS)	1%	DB – 5 years DC – 3 years (ER contribution)	DB – State DC – Member
Michigan	2010	Teachers	DB – Mandatory DC – auto enrollment with Opt-out	DB – Actuarially determined DC – 1% (match)	DB – 6.4% DC – 2%	1.50%	DB – 10 years DC – 4 years (ER contribution)	DB – State DC – Member
Washington State	1996/ 2002	State Employees and Teachers	Mandatory for both plans	DB – Actuarially determined DC - None	DB - None DC – 5% to 15% (employee selection)	1%	DB – 10 years DC - None	DB – State DC – Member
Utah	2011	State Employees and Teachers	Mandatory for both plans	DB – 10% DC – any excess DB contribution	DB – any contribution required in excess of employer's 10% DC – employee selection	1.50%	DB – 4 years DC – 4 years (ER contribution)	DB – State DC – Member

Appendix B - Statewide Retirement Systems' Cash Balance Plan Features							
Plan Name	**Year Approved**	**Employee (EE) Groups**	**Enrollment**	**Employer (ER) Contributions**	**Employee (EE) Contribution**	**Interest Rate**	**Benefit Payment Options**
Texas Municipal Retirement System	1947	EEs of cities and municipalities that have elected to participate	Mandatory	100, 150, or 200% match of EE actuarially determined rate (based on ER election and adjusted for unfunded obligation)	5, 6, or 7%	Minimum 5% (set by statute)	Annuity with or without partial lump sum
Texas County and District Retirement System	1967	EEs of counties and districts that have elected to participate	Mandatory	Ranges from 100% to 250% match of EE actuarially determined rate (based on ER election and adjusted for unfunded obligation)	4, 5, 6, or 7%	7% (set by statute)	Annuity with or without partial lump sum
Nebraska	2002	State Employees	Mandatory	7.5% (156% of EE rate)	4.8%	Greater of 5% or the federal mid-term rate plus 1.5%	Rollover, lump sum, and annuity

Appendix C – Trends in Plan Design by Percentages



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Choice of DB, DC or Hybrid	0	0	0	0	2	2	2	2	2	2	2	2	2	2	2	2
Choice of DC or Hybrid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
Choice of DB or Hybrid	0	0	0	0	2	2	2	2	2	2	2	2	2	2	2	2
Choice of DB or DC	0	0	0	1	5	5	6	6	6	6	7	7	7	7	7	7
Hybrid Only	4	4	4	4	4	4	4	5	7	7	7	7	7	8	9	8
DC Only	4	6	6	6	6	6	6	5	5	5	6	6	6	6	5	5
DB Only	96	94	94	93	85	85	84	84	82	82	80	80	80	79	79	77

Appendix D - Index of Statewide Plans by Plan Type[95]		
Plan Type(s) Offered	**State Employees' Plan**	**Teachers' Plan**
Mandatory DB Plan	Alabama, Arizona, Arkansas, California, Connecticut, Delaware, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Vermont, Virginia, West Virginia, Wisconsin, Wyoming, Puerto Rico	Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Vermont, Virginia, West Virginia, Wisconsin, Wyoming, Puerto Rico
Mandatory DC Plan	Alaska, Michigan, Washington DC	Alaska, Washington DC
Mandatory Hybrid Plan	Georgia, Nebraska, Oregon, Rhode Island	Indiana, Michigan, Oregon, Rhode Island
Choice of DB or DC Plan	Colorado, Florida, Montana, North Dakota, South Carolina	Florida, South Carolina
Choice of DB or Hybrid Plan	Washington	Washington
Choice of DC or Hybrid Plan	Utah; Indiana	Utah
Choice of DB, DC or Hybrid Plan	Ohio	Ohio

[95] Tables adapted from National Conference of State Legislatures, Tables showing which states have defined benefit, defined contribution and hybrid plans for state employees and teachers. January 2012.

Glossary of Terms

Actuarial Accrued Liability
Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the Present Value of Future Projected Benefits attributable to service credit earned (or accrued) as of the valuation date.

Actuarial Assumptions
Factors which actuaries use in estimating the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, termination, etc.

Actuarial Cost Methods
An actuarial method which defines the allocation of pension costs (and contributions) over a member's working career. All standard actuarial cost methods are comprised of two components: normal cost and the actuarial accrued liability. An actuarial cost method determines the incidence of pension costs, not the ultimate cost of a pension plan; that cost is determined by the actual benefits paid less the actual investment income.

Actuarial Equivalent
A benefit having the same present value as the benefit it replaces. Also, the amount of annuity that can be provided at the same present value cost as a specified annuity of a different type or a specified annuity payable from a different age.

Actuarial Gain or Loss
Experience of the plan, from one year to the next, which differs from that assumed results in an actuarial gain or loss. For example, an actuarial gain would occur if assets earned 10 percent for a given year since the assumed interest rate in the valuation is 8 percent.

Actuarial Present Value
The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc).

Actuarial Value of Assets
The value of pension plan investments and other property used by the actuary for the purpose of an actuarial valuation (sometimes referred to as valuation assets). Actuaries often select an asset valuation method that smoothes the effects of short-term volatility in the market value of assets.

Actuarially Reduced
The method of adjusting a benefit received at an early date so that the expected total cost to the retirement system is equivalent to the cost if the benefit did not begin until later.

Annual Required Contribution (ARC)

The ARC is the actuarially-determined level of employer contribution that would be required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL) attributed to past service over a period not to exceed thirty years. It is the amount needed to pay benefits as they come due plus amortize the UAAL. The ARC has two components: Normal cost and amortization of the UAAL for both active employees and retirees.

Actuary

A business professional who analyzes the financial consequences of risk. Actuaries use mathematics, statistics and financial theory to study uncertain future events, especially those of concern to insurance and pension programs. They evaluate the likelihood of those events, design creative ways to reduce the likelihood and decrease the impact of adverse events that actually do occur.

Age (Retirement)

Normal retirement dependent upon attainment of a specified age.

Aggregate Funding Method

The aggregate funding method is a standard actuarial funding method. The annual cost of benefits under the aggregate method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Amortization

Paying off an interest bearing liability by gradual reduction through a series of installments, as opposed to paying it off by one lump sum payment.

Annuitant

One who receives periodic payments from the retirement system. This term includes service and disability retirees, and their survivors.

Annuity

A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance derived from a participant's contributions. Compare with "pension".

Beneficiary

The person designated to receive benefits under an employee benefit plan in the event of the death of the person covered by the plan.

Cash-Out

A lump sum payment of the member's contributions prior to retirement.

Credited Service

A period of employment which is recognized as service for purposes of determining eligibility to receive pension payments and/or determining the amount of such payments.

Death Benefit
A benefit payable by reason of a member's death. The benefit can be in the form of a lump sum, an annuity or a refund of the member's contributions.

Deferred Annuity
An annuity for which payments do not commence until a designated time in the future.

Deferred Compensation
Compensation for employment that is not payable until after the regular pay period. The most common form of deferred compensation is pension plans, but private employers may also offer bonuses, incentive clauses, etc.

Deferred Retirement Option Plan (DROP)
A DROP plan is an arrangement under which an employee, who would otherwise be entitled to retire and receive retirement benefits, instead, continues working. However, instead of accruing additional retirement benefits, the employee has their monthly benefit credited for the period of their continued employment to a separate balance under the employer's retirement plan. The balance may earn interest (either at a rate stated in the plan, or based on the earnings of the trust underlying the retirement plan). The DROP balance is paid to the employee, in addition to whatever benefit the employee has accrued under the defined benefit plan based on earlier years of service, when the employee eventually retires.

Defined Benefit Plan (DB)
A pension plan providing a definite benefit formula for calculating benefit amounts -such as a flat amount per year of service; a percentage of salary; or a percentage of salary, times years of service.

Defined Contribution Plan (DC)
A pension plan in which the contributions are made to an individual account for each employee. The retirement benefit is dependent upon the account balance at retirement. The balance depends upon amounts contributed during the employee's participation in the plan and the investment experience on those contributions.

Disability Retirement
A termination of employment involving the payment of a retirement allowance as a result of an accident or sickness occurring before a participant is eligible for normal retirement.

Early Retirement
A termination of employment involving the payment of a retirement allowance before a participant is eligible for normal retirement. The retirement allowance payable in the event of early retirement is often lower than the accrued portion of the normal retirement allowance.

Entry Age Normal Cost Method (EANC)
The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost

- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Equities

Ownership of a company (as opposed to debt). Examples include stocks, venture capital, and leveraged buy-outs.

ERISA

Employee Retirement Income Security Act acronym. This federal legislation sets minimum standards for pension design to increase the security of private sector employees' benefits.

401(k), 403(b), and 457 Plans

These defined contribution plans allow employees to save for retirement on a tax-deferred basis. 401(k) plans are found in the private sector and the public sector in some states. 403(b) plans are for employees of public educational institutions and certain non-profit tax-exempt organization. 457 plans (also known as deferred compensation plans) are for governmental employees and non-church-controlled tax-exempt organizations.

Fiduciary

(1) Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person; (2) anyone who exercises power and control, management or disposition with regard to a fund's assets, or who has authority to do so or who has authority or responsibility in the plan's administration. Fiduciaries must discharge their duties solely in the interest of the participants and their beneficiaries, and are accountable for any actions which may be construed by the courts as breaching that trust.

Funded Ratio

The ratio of a plan's current assets to the present value of earned pensions. There are several acceptable methods of measuring a plan's assets and liabilities. In financial reporting of public pension plans, funded status is reported using consistent measures by all governmental entities. According to the Government Accounting Standards Board (GASB), the funded ratio equals the actuarial value of assets divided by the actuarial accrued liability calculated under the Projected Unit Credit cost method.

General Accounting Standards Board (GASB)

This governmental agency sets the accounting standards for state and local government operations.

Individual Retirement Account (IRA)

A retirement account to which an individual can make annual tax-deductible contributions according to annual limits that are specified by the Internal Revenue Service.

Joint and Survivor Annuity
A provision that enables a plan participant to take annuity payments with continuing payments of all or part of the benefits after his or her death going to a designated beneficiary. The survivor annuity will automatically be provided to a married participant if he or she does not choose against it. The annual pension benefits of the participant electing to have such a survivor annuity are generally reduced to provide for the survivor.

Life Annuity
A monthly benefit payable as long as the annuitant is alive. There are no residual payments to survivors.

Life Expectancy
The average number of years a person of a given age might be expected to live.

Lump Sum Distribution
Payment within one taxable year of the entire balance payable to the participant from a qualified pension or employee annuity plan.

Money Purchase Plan
A type of pension plan where the employer agrees to make a fixed contribution each year for each eligible employee. The contribution is typically expressed as a percentage of the employee's pay and the contribution constitutes a non-discretionary commitment on the part of the employer. The contribution must be made each year, regardless of employer profits, and can only be varied by plan amendment. Although treated differently under federal tax law, money purchase plans are fundamentally defined contribution plans.

Non-Contributory Plan
A retirement system in which no contributions are required of its members to aid in its financing.

Normal Cost
Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Normal Retirement Age
The age, as established by a plan, when unreduced benefits can be received.

Offset Plan
A pension plan in which the employer's participation in Social Security is used as "credit" against members' benefits.

Pay-As-You-Go
A method of recognizing the costs of a retirement system only as benefits are paid. Also known as the current disbursement cost method.

Pension
A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer contributions. Compare with "annuity".

Portability
The ability of an employee who changes jobs and joins a different retirement system to become a dual member, maintaining membership in both systems. Dual members may combine service for benefit eligibility. They may also use their highest salary from either system for benefit calculation.

Pre-Funding
To accumulate a reserve fund in advance of paying benefits. This is the opposite of "pay-as-you-go."

Present Value
The current worth of an amount or series of amounts payable in the future, after discounting each amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Present Value of Future Projected Benefits (PVFB)
Computed by projecting the total future benefit payments from the plan, using actuarial assumptions (i.e. probability of death or retirement, salary increase, etc.), and discounting the payments to the valuation date using the valuation interest rate to determine the present value (today's value).

Projected Benefits
Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Projected Unit Credit (PUC) Funding Method
The PUC funding method is a standard actuarial funding method. The annual cost of benefits under PUC is comprised of two components:

- Normal cost
- Amortization of the unfunded actuarial accrued liability

The PUC normal cost equals the difference between the accrued liability at the beginning and end of the year.

Projected Unit Credit (PUC) Liability
The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Prudent Man Rule
A requirement imposed by the Employee Retirement Income Security Act (ERISA) that plan fiduciaries carry out their duties with the care, skill prudence and diligence which a prudent man, acting in a like capacity and familiar with such matters, would use under conditions prevailing at the time.

Qualified Plan
An employee benefit plan approved by the Internal Revenue Service, meeting requirements set forth in IRS Code Section 401. Contributions to such plans are subject to favorable tax treatment.

Replacement Ratio
A calculation of the degree to which retirement income supplants a pre-retirement member's "take home" pay, less working expenses. To determine this ratio, several factors must be taken into account: a retiree's pre-retirement earnings; changes in tax liabilities after retirement; changes in Social Security tax liability; the elimination of work-related expenses -including contributions to the retirement system; and savings.

Reserve
A collection of assets set aside to meet future liabilities.

Roth IRA
A retirement account which an individual can make after-tax contributions according to annual limits that are specified by the IRS.

Service Retirement
Retirement dependent upon completion of a specified period of service. In some usages, the term has the same meaning as "normal retirement".

Supplemental Cost
A separate element of actuarial cost which results from future normal costs having a present value less than the present value of the total prospective benefits of the system. Such supplemental cost is generally the result of assuming actuarial costs accrued before the establishment of the retirement system. A supplemental cost may also arise after inception of the system because of benefit changes, changes in actuarial assumptions, actuarial losses, or failure to fund or otherwise recognize normal cost accruals or interest.

Thirteenth Check
An annual supplemental retirement payment arising from earnings on investments of the system in excess of those determined as needed.

Ultimate Entry Age Normal Cost Method (Ultimate EANC)
The Ultimate EANC method is a variation of EANC, where the normal cost is calculated for each active member based on the plan provisions applicable to a new or recent entrant to the plan. For a plan that has a lower cost tier for new or recent entrants, use of the Ultimate EANC method lowers the normal cost and increases the actuarial accrued liability, as compared to EANC.

Unfunded Actuarial Accrued Liability (UAAL)
The excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets. In other words, the present value of benefits earned to date that are not covered by current plan assets.

Unfunded Liability or Unfunded PBO
The excess, if any, of the pension benefit obligation over the valuation assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Variable Annuity
A benefit whose payments vary from year to year depending upon the value of a portfolio of securities (usually common stocks).

Vesting
The right of an employee to the benefits he or she has accrued, or some portion of them, even if employment under the plan is terminated. An employee who has met the vesting requirements of a pension plan is said to have a vested right. Voluntary and mandatory employee contributions are always fully vested.

Withdrawal
The termination of employment prior to becoming eligible for any benefits. The term sometimes refers to subsequent termination of membership in a system by withdrawal of the employee's accumulated contributions from the system.

APPENDIX B – COMPLIANCE SURVEY REPORT

On December 8, 2010, the Board authorized staff to conduct a voluntary online survey of Texas public retirement systems seeking input regarding compliance with state reporting requirements. The survey was conducted in January 2011. Surveys were sent to 351 pension system administrators, representing both defined benefit and defined contribution plans.

Participants were asked to comment on four items. The first three items were questions focusing on whether the systems have difficulty meeting the reporting requirements and if they are provided with sufficient information regarding the requirements. The final item requested any comments on the PRB's proposed policy "Regulation of Non-Compliant Retirement Systems". The staff received 43 responses, a response rate of 12.3%. One retirement system declined to participate in the survey and some of the participants stated that they wish to participate, but did not send their replies. Shown below are:

- The proposed policy for "Regulation of Non-compliant Retirement Systems; and
- The proposed policy's survey results.

STATE PENSION REVIEW BOARD

REGULATION OF NON-COMPLIANT RETIREMENT SYSTEMS

I. Applicability. This rule applies to all public retirement systems defined in Chapter 802 of the Texas Government Code subject to the requirements of 802.103 and 802.104 of the Texas Government Code, which requires public retirement systems to submit to the State Pension Review Board annual reports within a specified time frame.

II. Notification. The PRB will notify each system 60 days prior to the system's annual reports being due to the PRB. Additionally, the PRB will notify each system 15 days prior to the system's reports being due to the PRB.

III. Non-Compliant. A plan is considered non-compliant if the PRB does not receive an audited annual financial report and annual membership report before the 211th day after the last day of the plan's fiscal year.

IV. Late Notification. A plan that has not submitted their annual reports within 15 days of their due date will be notified by the PRB of their non-compliant status and will be requested to submit the required reports.

V. Staff Action. If the PRB does not receive the required reports within 15 days of the late notification, the staff of the PRB will contact the plan to notify them of their non-compliant status and attempt to resolve the compliance matter.

VI. Action of the Executive Director. If a plan is still non-compliant 60 days from the date its reports were due to the PRB and the staff has been unable to work with the plan to resolve the compliance matter, the executive director will contact the plan to notify the plan of its non-compliant status and that the plan's non-compliant status may be addressed by the PRB at an upcoming Board meeting.

VII. Information to the Board. At each PRB meeting, staff will recommend to the Board non-compliant plans for discussion. Staff's recommendation will be based on the severity of non-compliance for each plan, indicating the amount of time that each plan has been non-compliant and efforts by staff to bring the plan into compliance, as well as the total net asset value of the plan and the total membership of the plan.

VIII. Board Determination. The Board will determine whether the non-compliant system/s require formal attention at the next Board meeting. If such determination is made, the PRB staff will notify the plan advising them that their plan will be placed on the agenda for formal discussion as a non-compliant plan at the next Board meeting. The Board will designate a specific time frame that the plan has to submit their report(s) or they will be requested to appear before the Board to discuss their compliance issue with the Board.

IX. Board Discussion. If the plan does not comply within the time specified, the plan will be placed on the agenda for the next meeting of the Board. The plan will be requested to appear for a formal discussion on its non-compliant status. At the meeting, the Chairman will recommend what further compliance steps are required, if necessary.

X. Further Action. To address the non-compliance of a plan, the Board may consider use of its statutory powers contained in sections 801.204, 801.205, and 802.003(d) of the Texas Government Code.

PROPOSED POLICY FOR REGULATION OF NON-COMPLIANT RETIREMENT SYSTEMS, SURVEY RESULTS

Survey Question 1. *State law requires that public retirement systems submit their annual audited financial reports and annual membership reports to the PRB within 211 days of the close of its fiscal year. Does your retirement system have any difficulty in meeting this requirement? If so, please describe any difficulties that arise from this provision.*

Results: The staff received 38 responses to this question. 61% of the total responses answered 'no' to the above question indicating that they do not have any difficulty in meeting the reporting requirements. The responses that commented otherwise can be broadly grouped into the following five categories:

a. **Delay due to the Auditors:** 13% of the responses commented that the systems have to wait for the auditors to complete the audit which delays their reports getting to the PRB. Below are the verbatim comments as received:

   - *Yes it can be. We are at the mercy of the auditors. They usually don't begin the audit until late April or early May. And the final report usually is not provided to us until late July. That can be near or over the 211 day period.*
   - *Yes. The annual audited financial reports are normally done in the fall for us.*
   - *Depends on when the audit begins and the work load of the firm.*
   - *Yes, most of the time we are waiting on auditors to complete their work so we can submit work. In our area it has been difficult to find auditors that want to audit pension plans.*
   - *Sometimes we have to wait on the auditor.*

b. **Delay due to higher Fee charged by the auditors:** 5% of the responses commented that they deliberately delay the financial audits of their funds to be performed after the tax season in order to avoid higher fee charged by the auditors during that time. Below are the verbatim comments as received:

  - *Audited financial report: When we do our audit for the year we use local auditors, the auditors will charge a premium price $$$ for audit work done during tax season, we get a cheaper rate if we wait until after April 15th for this work as this tends to be a slower time of year for them. In this part of the world farmers are first priority with CPA's due to their tax time frame of February 31 of each year. We wait until after April 15th to submit our work to CPA and we get our report sometime in late July or August. Our Board meets on 4th Monday of month, usually it will not be until after August that we submit report. The annual membership report of 2-27 of each year is a little soon and would prefer 4-15 of each year.*
  - *Our fiscal year end is September 30th, therefore, our reporting would be due by April 29th of the following year. In years past, we have had our audit performed later in the calendar year to reduce the fee charged by our auditing company. Therefore, our final audit wasn't complete until late April or May and usually went before our Board of Directors for final approval at our June BOD meeting. This year we are hoping to have our audit completed earlier and should be able to meet your deadline.*

c. **Delay due to the complexity of the fund's investment structure:** 5% of the responses stated that due to the complex nature of their fund's investments and tightened audit standards, it's taking them additional time to complete the audits, which in turn makes it difficult for them to meet the reporting deadline. Blow are the verbatim comments as received:

  - *As our DB Plan becomes more diversified and complex and audit standards tighten, this deadline is becoming increasingly difficult to meet. As an example, the Plan has two hedge funds of funds, each with about 30 underlying hedge funds. Separate audits for most of these underlying funds must be completed before the funds of funds audit reports can be issued. We have found that the audited financial reports for the hedge funds of funds cannot be available until the end of June (nearly 180 days after year end). Our auditors won't release the Plan's report until these audit reports are received or they do "alternate procedures" that add time and expense to the process with little benefit to the Plan. For oversight and control purposes, the reports then go through executive review, representation letters are signed, and other audit work completed before the formal audit reports can be issued.* ***A timeline of 270 days to report to the PRB would be a more reasonable standard.***
  - *Yes the System does have difficulty procuring its private equity (hedge funds, real estate, venture capital) investment audits since they require independent reviews under the latest GASB and FAS 157 rules. Normally this type of annual financial audit takes our retirement system another 30 days past the 241 days in recent experience on audit financial statements.*

d. **Defined Contribution Plans:** 5% of the responses commented on the uniqueness attributable to their defined contribution plans. Below are the verbatim comments as received:

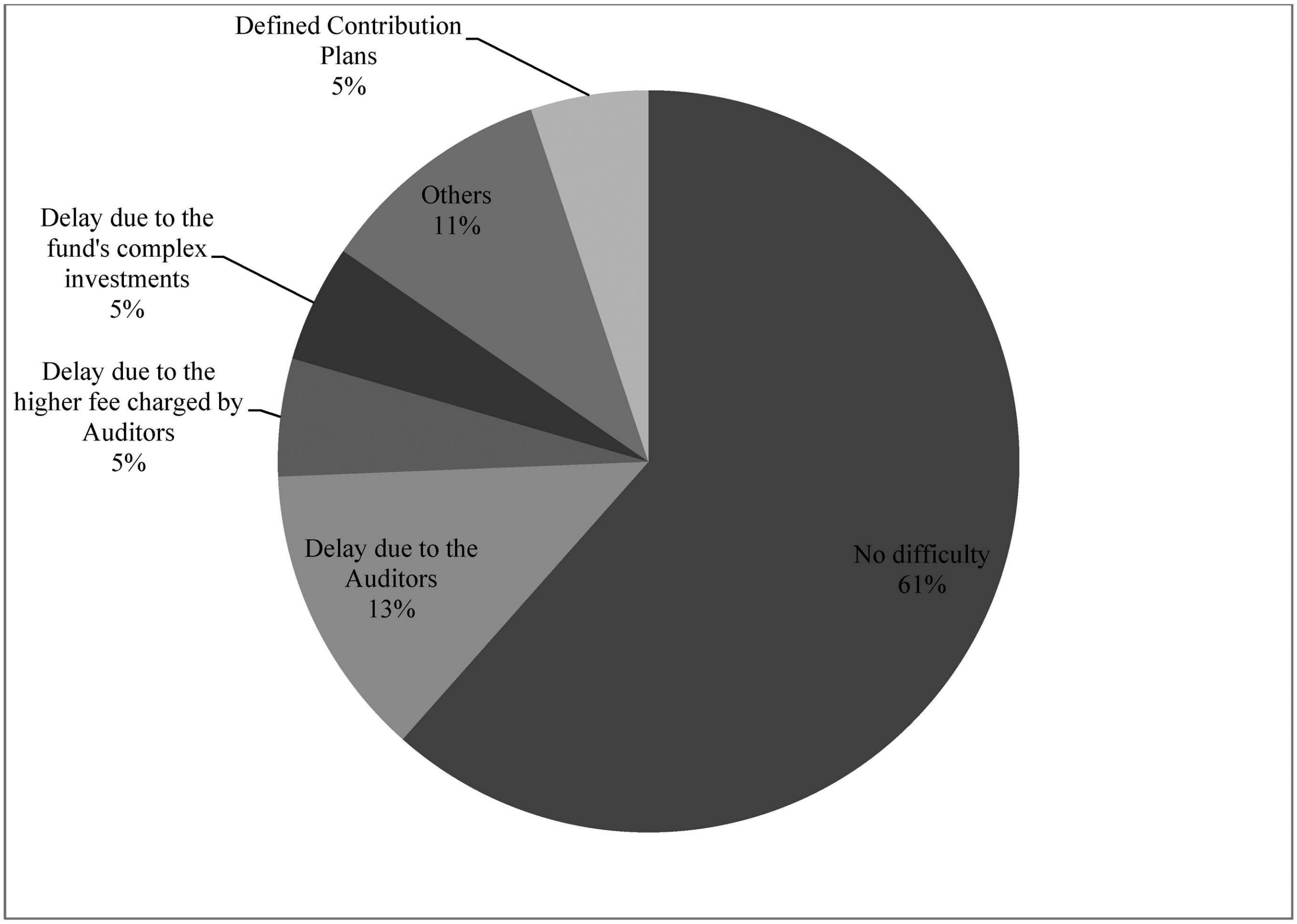
   - *We just sent in our annual financial audit. It has a basic membership report. Again, the problem we have is this a defined contribution and not a defined benefit plan, and we know the number of active participants because the center deposits 6% of their base pay each month into their 401 plan. It is an unmatched plan. They can contribute additional amounts through either a 457 or 403. Once someone leaves our employ, the vested portion of their funds belongs to them, and we really do not track that. We request the information from ICMA (RC) to get the total number of participants.*

- *The auditing requirements of our 401K administrator are somewhat different than those of a pension. In addition, since we are not a pension, we do not hold the funds directly – so it requires that our agency auditor re-audit the statements from our 401K administrator before sending to the PRB. In our experience, for a 401K, the process is duplicative.*

e. **Other Comments:** 11% of the responses provided general comments to the survey question. Below are the verbatim comments as received:

   - *No, sometimes it is difficult to know exactly what is required.*
   - *The biggest problem was actually a lack of knowledge about the report and reporting requirements. Our retirement system management team met the requirements once everyone was cognizant of the requirements.*
   - *The administration company we use is based out-of-state. Once they understood what information the PRB needed it was not a problem. Every state has different reporting requirements so perhaps an instruction booklet or on-line source documents that we could provide to our plan administrator firm would be helpful. The audited financial reports presented no problems.*
   - *Yes, the forms I use are not posted on the Firemen's Retirement web site for 2010.*

Below is a graphic representation of the breakdown of the grouped comments:



Survey Question 2. *Are there any other challenges your retirement system faces in meeting the state reporting requirements?*

Results: The staff received 36 responses to this question. 78% of the total responses answered 'no' to the above question indicating that their retirement system does not face any other challenges in meeting the state reporting requirements. 22% of the responses provided the following comments:

- *We respond when asked, I'm not sure we are compliant as it is a long time between requests.*
- *Mainly just the timelines that we have no control over such as the audit financial report.*
- *Not as long as we submit only the audit reports and actuarial valuations. Submitting plan documents, amendments, and investment and other policies can be difficult to manage.*
- *I have asked several times for relief from having to report the total number of retirees along with their status—drawing retirement specifically. We have to approve their*

transfer if they wish to leave ICMA after they leave, but that is their decision and we have always approved those requests. I'm not sure I fully understand the need for the extensive reporting on a defined contribution plan since there is no future liability in funding their retirement plan.

- *Most of the issues we've found have to do with the online system, which turns out to be a mixed bag in terms of convenience. The online system does not preserve reports at our end – therefore we have no way of verifying what has been submitted, or preserving a history of filings with the PRB. In addition, there isn't a way to upload documents to the online system, so we have to complete the filing and then email the audited statements. And finally there is some lack of connection between filing online and the PRB actually checking us off as being in compliance. We have had to submit our reports twice in both of the past two years- in both instances we were still before the deadline, but for whatever reason still received emails from PRB staff stating that we were not in compliance and had to re-submit.*
- *Auditors are limited in our area for pension plan audits.*
- *In a normal year, the only challenge is the date that the Board approves our CAFR and then getting the CAFR printed (burned to CD) in time to meet the state reporting requirements.*
- *The challenge we face have faced in the past is communicating what documents you require to the administrator. There seemed to be a communication barrier on PRB's requirements and what we understood what was needed. The last year's reporting went much smoother and I believe we have a better handle on the requirements.*

Survey Question 3. *Do you feel that the PRB has provided your system with adequate information regarding state reporting requirements? If not, what could the PRB do to improve its communication on this matter?*

Results: The staff received 36 responses to this question. 69% of the total responses answered 'yes' to the above question indicating that they felt that the PRB has provided their systems with adequate information regarding state reporting requirements. 3% of the responses answered 'No' to the above question and 31% of the responses provided the following comments:

- *More frequent contact and feedback regarding compliance. I suggest a certificate of compliance with the year prominently displayed as a way to "close the loop" on the reporting process. We could keep the cert. on file and provide it as part of our external audit.*
- *E-mail blasts and/or periodic electronic newsletter. Also a reminder e-mail of documents needed and a timeline.*
- *We're just not clear on what the PRB does with the information. We've scanned PRB's web site and can't find any reports or data on specific plans. We found some data in the Office of the Attorney General's web site but it was very old (in our Plan's case, it was actuarial data from 1/1/06 though we've submitted reports through 1/1/10).*
- *None*

- *At first, I was not very familiar what is required as it relates to the financial statement and related notes. But we now have notes included in our Audited Financial Statements.*
- *As stated above our plan is administered by an out-of-Texas company so the requirement information needs to be provided to them either by an instructional booklet or an on-line link so that they would have an easier time creating the reports that are required.*
- *Given the budget reductions we are about to sustain, and the efforts to reduce administrative functions, you could minimize the reporting requirements and deal strictly with information that really matters. Again, a defined contribution plan has no future liability.*
- *We do not receive any regular correspondence from the PRB but if regulations change a newsletter would be great describing any changes. Are there any State Conferences held other than the annual one in Austin? Occasional training options would be helpful as well.*
- *The information from the PRB has often been confusing. We have received notifications of deadlines that did not apply to our plan – again, a weakness in the system that is not catching our plan's year or whether we have already filed.*
- *After numerous conversations and exchange or reports, we now feel that we are able to meet the state reporting requirements. In the situation of a third party administrator, would PRB consider contacting them directly?*

Survey Item 4. *Below is a draft of the PRB policy "Regulation of Non-Compliant Retirement Systems". Please feel free to provide additional comments regarding the proposal or any part of the proposal.*

Results: The staff received 17 responses to this item. 53% of the responses stated that they did not have any additional comments regarding the proposed regulation. 47% of the responses provided the following comments:

- *Add certification for those who are responsive as the majority of this deals with non-compliant parties.*
- *The proposed policy seems reasonable.*
- *Regulation of Non–Compliant Retirement Systems" is generous and fair and gives several opportunities and ample time to retirement systems to submit and fully comply with the proposed policy.*
- *It may be good to indicate these requirements are in addition to the federal regulatory reporting requirements (i.e. IRS determination letter), if applicable to the plan.*
- *My understanding of the basic premise of paragraph 1 is that we are called a public retirement system because we are partially funded by state general revenue. However, we are not at all similar to ERS or TRS or those types of plans. There is absolutely no way we could be creating a future, unfunded liability for the state since the retirement contributions are made two times each month, and our auditors verify that we are making these on time and correctly.*

- *We have no problems with the Regulation of Non-Compliant Retirement Systems.*
- *This process would be fine if the staff actually know whether the reports have been filed or not-please see our comments above. For whatever reason, we have been contacted as non-compliant although the reports had already been filed in a timely manner. Please ensure that the records correct such a mistake, and do not show an agency as non-compliant when it is an error of the PRB reporting system.* (This comment was made specifically on Section V of the policy)
- *The policy states that the PRB will be in contact and work with the "system". However, as mentioned above, what about the plans that are administered by a third party. Would the Board contact the administrator directly?*

APPENDIX C - FINANCIAL ECONOMICS AND PUBLIC PENSIONS

P R B
Pension
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Board

Financial Economics and Public Pensions

May 2012
Research Paper No. 12-002

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Additional information about this report may be obtained by contacting the Pension Review Board, by phone at (512) 463-1736, by email at prb@prb.state.tx.us, or by mail at P. O. Box 13498 Austin, Texas 78711- 3498. Copies of the report may be downloaded from the agency website: http://www.prb.state.tx.us/resource-center.html/

Financial Economics and Public Pensions

Introduction

Financial economics (FE) is a branch of economics concerned with the workings of financial markets such as the stock market and the financing of companies. In recent years, proponents of FE have advocated for public pension plans to adopt FE methods as described in a 2003 paper by Dr. Jeremy Gold and Dr. Lawrence Bader.[1] The FE position argues for public pension plans to use a risk-free discount rate in valuing their liabilities. The valuation of pension liabilities is currently an area of contention between FE proponents and those who disagree with the application of FE pricing methods to pension liabilities. Additionally, FE advocates shifting current public pension asset allocations to 100% fixed income. This paper will first provide a short background on the development of FE, then describe the areas of contention surrounding the use of FE and analyze the use of FE proposals as applied to pension plans, as well as discuss their underlying assumptions. Lastly, this paper will examine the implication of FE methods in public pension plans and compare them to traditional public pension plan practices.

FE Asset Pricing Method

Financial economists were influential in the development of pricing fixed income securities, stock options, and more complex financial options, such as derivatives. The FE asset pricing model is exclusively used to determine a price for any fixed income security or stock option (using stock prices as inputs) that is agreeable to both buyer and seller. The pricing of a security under the FE asset pricing model is based on the timing of expected cash flows, and the probability of their payment (the latter concept encompasses both default risk and the volatility risk of a risky asset).

The FE asset pricing method is derived from the Arrow-Debreu economic model. In the FE model, Arrow-Debreu securities are the building blocks of concepts called state-contingent claims (or simply contingent claims). A contingent claim has a schedule of payouts based on the future state of the world. Examples of a contingent claim are stock put or call options; the future payout depends on a present value of a future stock price. The key feature of the FE asset pricing method is the use of a risk-neutral measure, where cash flows are discounted at a risk-free rate. The interest rate on US Treasury securities is the most commonly used proxy for a risk-free rate, followed by LIBOR (London Interbank Offered Rate) or other similar swap rates.

[1] Lawrence N. Bader and Jeremy Gold, *Reinventing Pension Actuarial Science*, The Pension Forum, Volume 15, Number 1 January 2003, available at http://www.soa.org/library/newsletters/pension-forum/2003/january/pfn0301.pdf.

Extension of Asset Pricing Methods to Non-Traded Liabilities

The success of the FE pricing model for securities led some financial economists to extend the application of this model to non-traded liabilities (i.e. liabilities that arise in the course of doing business that are never traded). Examples of non-traded liabilities include liabilities that are intrinsic to the nature of certain businesses, such as bank deposit liabilities and insurance company policy claims liabilities. Another notable example of a non-traded liability is the liability for pension payments in a defined benefit pension plan. The valuation of pension liabilities using FE methods is also called market value of liabilities (MVL).

Financial economists believe that the treatment of non-traded liabilities as if they were securities is a small step, based on the complexity of the contingent cash flows used on a daily basis in derivative pricing. However, non-traded liabilities differ from traded securities or derivatives simply because they are never traded. Because they are never traded, non-traded liabilities have no apparent constraint under the no arbitrage principle, which is the fundamental constraint underlying FE asset pricing.

Two Definitions of the Term 'Market Value'

Another aspect of the FE pension liability pricing controversy is that there are two different uses of the term 'market value' used in connection with pension liabilities (or any other in-use non-traded liability):

1. 'Market value of pension liabilities' based on an observed market transaction. Pension liabilities are not bought and sold like securities, but they can be settled via the purchase of a group annuity. The price of annuities can be closely estimated based on certain interest rate indices used by annuity providers. In the sense of 'the amount that the liabilities can be currently settled for', the tools of financial economics are applicable.

2. 'Market value of pension liabilities' derived from the principle that market value is a measure. If it is possible to assign a market value to each of the components of a company (including its pension liabilities), these market values must add up to the market value of the company as a whole (otherwise market value is not a measure in the mathematical sense).

US regulators of private sector pension plans have followed the first sense of the concept of 'market value of pension liabilities', and not the second. For example:

- The Pension Protection Act of 2006 mandates the use of Treasury yield curves to calculate pension liabilities and the unit credit cost method for minimum funding purposes.

- FASB and IASB (the US and International Financial Accounting Standards Boards) mandate the use of currently available yields on high-quality corporate bonds to calculate pension liabilities on the plan sponsor's balance sheet. This liability is considered to be a quasi-market value, similar to the first sense above.

100% Fixed Income Investment versus Traditional Investment Mix

Financial economists advocate that public pension funds should be invested 100% in fixed income.[2] The original argument applicable to private sector plans is attributed to Tepper, who uses a tax arbitrage argument based on the augmented balance sheet of a corporate pension plan sponsor.[3] The crucial assumption in this argument is that before considering the effect of taxes, an investor in the corporate pension plan sponsor is indifferent as to how the pension plan assets are invested.

This argument is extended to public pension plans, substituting taxpayers for investors, but still taking the stakeholder point of view. Their 100% fixed income conclusion rests on an assumption that ordinary taxpayers can borrow for speculative investment at a risk-free interest rate, and the presumption of a highly risk-averse utility function for the taxpayer. The argument concludes that 100% fixed income investment in pension plans is necessary to achieve intergenerational equity.

Bader and Gold suggest that public plans sponsors should try to be ahead of the curve when it comes to shifting towards 100% fixed income to avoid being left holding equities after most other funds have moved to bonds. A portfolio invested 100% in bonds would have a significantly lower long-term expected rate of return than a portfolio with the more traditional mix of 60% in equities and 40% in fixed income. To make up for lower investment earnings, contribution requirements would be greater.

[2] Bader, Lawrence and Gold, Jeremy, *The Case Against Stock in Public Pension Plans*, October 19, 2004, available at http://www.pensionfinance.org/papers/publicplaninvestment.pdf .

[3] Tepper, Irwin, *Taxation and Corporate Policy* (The Journal of Finance, March 1981).

For the asset allocation, FE methods tend to over emphasize fixed income investments with low returns. One issue with a 100% fixed income mix is that it does not appear on the efficient frontier.[4] Determining the asset mix based only on the risk and return characteristics of the assets ignores the fact that the efficient frontier changes when the liabilities are considered. Investments that may not be on the efficient frontier when only the assets are considered may have characteristics that match the underlying liabilities sufficiently so that the risk of extreme volatility in contribution rates and funded ratios can be reduced significantly by including them in the portfolio. The appropriate asset mix for public plans is a balanced portfolio that includes equities, based on an analysis that includes consideration of the underlying liabilities.

The typical asset mix for public plans in Texas is a balanced portfolio with a mix of equities and fixed income investment vehicles. A required shift to 100% in fixed income for a public pension fund would lock in lower rates of return than the rates that could be achieved with more equity exposure, resulting in significantly less investment earnings and higher contributions. The appropriate method is to consider the underlying liabilities in an asset/liability modeling study, and look at risk not just as the standard deviation of returns on the asset portfolio, but consider all the risks including the risk of extreme volatility in the contribution rates and funded ratios.

The Traditional View: Discount Rate = Expected Return on Invested Assets

In contrast to the FE approach which would require the discounting of pension liabilities at a risk-free rate, the traditional approach is to discount pension plan liabilities at the assumed rate of return on pension plan invested assets. This approach is consistent with the view that market participants (and public plan stakeholders) value in-use non-traded liabilities (such as pension liabilities) based on the estimated cost to meet those liabilities. Combined with an assumption of near full funding of pension liabilities, the basic funding equation Benefits + Expenses = Contributions + Investment Return (B + E = C + I) suggests that pension liabilities should be discounted at the expected rate of investment return.

The National Association of State Retirement Administrators (NASRA) estimates that from 1982 – 2009, 60% of the revenue of US public pension plans was from investment earnings versus 40% from employer and employee contributions. [5] This statistic underscores the historically key role that investment return has played, combined with historic average funded percentages over 80%.[6] The Boston College Center for Retirement Research reported 1988-

[4] The efficient frontier is the highest level of expected return for a given positive level of risk.
[5] NASRA Issue Brief: *Public Pension Plan Investment Assumptions* (March, 2010).
[6] GAO Report to the Committee on Finance, U.S. Senate, *State and Local Government Retiree Benefits – Current Funded Status of Pension and Health Benefits* (January, 2008).

2004 defined benefit pension plan investment returns had a weighted median of 10.7%.[7] Towers Watson reported[8] 1995-2008 defined benefit pension plan rates of return had a weighted median rate of return of 7.51%. These historical returns are in line with public pension plan assumed rates of return closely centered on 8%. The assumed rates of return used by the 94 public plans overseen by the Pension Review Board are as follows:[9]

Investment Return Assumption	Percent of Plans
4.00%	3%
5.00%	1%
6.50%	2%
7.00%	2%
7.50%	10%
7.75%	13%
8.00%	55%
8.25%	5%
8.50%	9%
Total	**100%**

[7] Munnell, A., Soto, M., Libby, J., and Pinzivalli, J., *Investment Returns: Defined Benefit vs. 401(k) Plans*, Issue Brief 52, Center for Retirement Research at Boston College (September 2006).
[8] Apte, V., McFarland B. *DB vs. DC Plan Investment Returns: The 2008-2009 Update*, Towers Watson (March 2011).
[9] Pension Review Board, 2009-2010 Biennial Report (November, 2010).

In contrast to the traditional discount rates, the FE approach uses a discount rate that is significantly lower, and as a result, the FE method produces greater liabilities which would require higher contribution rates. The Governmental Accounting Standards Board (GASB) considered the application of certain FE methods in the GASB 27 exposure draft. Though the GASB proposal shifts from the original concept of suggested funding to that of disclosure, the released exposure draft adopts the traditional view relative to the discount rate assumption, except for public pension plans that are projected to run out of assets. In this case, the GASB 27 exposure draft mandates a blended rate, representing expected return on invested assets until the projected trust exhaustion, and the plan sponsor's borrowing rate thereafter.

FE versus Traditional: Cost Method and Asset Smoothing

FE pension pricing must use the Unit Credit cost method, a method that excludes liabilities for future pay increases. This requirement comes from the fact that in FE pricing, one essentially pretends that the liability is a bond with its interest and principal payments matched up with the pension payments, and the liability is what is currently owed – i.e. the plan's liability for current accrued benefits.

Traditional approaches use methods such as Entry Age Normal (EAN), Projected Unit Credit (PUC) or the Aggregate Cost Method that include projected pay in the liabilities. For plans that are not pay-related, PUC and the Unit Credit method are the same. For public plans, it is appropriate to use methods that project salary. Costs are shown as a percent of projected payroll. According to the PRB Guidelines for Actuarial Soundness, the allocation of the normal cost portion of contributions should be level or declining as a percent of payroll over all generations of taxpayers, and the funding of the unfunded actuarial accrued liability should be level or declining as a percent of payroll over the amortization period. The FE cost method, the Unit Credit cost method with no assumption for pay increases, typically is not an appropriate funding method for public plans. The Unit Credit cost method produces a normal cost pattern that increases significantly as a percent of pay. Therefore, the use of the Unit Credit cost method for a final pay plan would violate PRB Guideline #2.

The FE method uses the Market Value of Assets (MVA), and though the MVA should be disclosed, the traditional approach is to allow the use of either the MVA or a smoothed actuarial value of assets. The use of a smoothing method reduces the volatility in contribution rates due to short term investment gains and losses. Many plan sponsors would prefer smoothing of assets to avoid uncertainty in the budget planning process, as stable and predictable contribution rates are generally more preferable to volatile rates for public plan sponsors.

Conclusion

The use of FE methods in public pensions has been a subject of debate in the financial and actuarial community. The application of FE to public pension would lead to significant changes in the traditional asset allocation of public pension plans. Furthermore, the use of a risk-free discount rate to value pension liabilities would lead to higher contribution requirements to fund public pension plans. While voluntary disclosure using FE is not unreasonable, requiring the use of FE for the funding policy and investment policy is not prudent for public pension plans.

Appendix

Timeline of recent events regarding the application of financial economics to US public pension plans:

June 23, 2008: The financial economics topic was debated at the PRB's annual seminar on June 23, 2008, at a session titled "Actuarial Analyses of Financial Economics, Market Value Liabilities, and Liability Driven Investing: A Discussion", with Paul Angelo taking the position against disclosure of MVL and Gordon Latter speaking for the disclosure.

September 8, 2008: The American Academy of Actuaries' Public Interest Committee held a public forum to hear views on the disclosure of market value of assets and liabilities for public pension plans. The committee used information obtained through this forum to determine whether a statement from the Academy's board of directors on the issue is in the public interest.

October 7-8, 2008: The American Academy of Actuaries issued a press release that it would not be issuing a public advocacy statement on the issue of the disclosure of the market value of liabilities at that time. The Academy announced that it will continue to examine issues of relevance to practice in the public plans sector through the formation of a Public Plan Practices Task Force.

October, 2010: The Public Plan Practices Task Force issued their final paper entitled "Risk Management and Public Plan Retirement Systems".

December, 2010: The Public Employee Pension Transparency Act (PEPTA) was introduced in Congress, requiring numerous public pension plan disclosures on an FE basis.

February, 2011: The Actuarial Standards Board of the American Academy of Actuaries issues a discussion draft of ASOP 4 (Measuring Pension Obligations and Determining Pension Plan Costs or Contributions) and an exposure draft of ASOP 27 (Selection of Economic Assumptions for Measuring Pension Obligations). The discussion draft of ASOP 4 defines market-related value of accrued pension benefits.

June, 2011: GASB issues its exposure draft to Statement 27, focusing on public pension plan disclosure, and moving slightly away from the traditional approach by requiring a blended discount rate for poorly funded plans.

January, 2012: ASOP 4 and ASOP 27 exposure drafts issued with May 31, 2012 comment deadline.

APPENDIX D – PRB GUIDELINES AND POLICY REVIEW: TIMELINE

Timeline of Current Process to Develop Proposed Changes to the PRB Guidelines for Actuarial Soundness and Proposed Policy for Determination of System Actuarial Review

On April 29, 2010, the Board authorized the Actuarial Committee to develop proposed changes to the PRB Guidelines for Actuarial Soundness and a proposed Policy for Determination of System Actuarial Review. From July, 2010 until May, 2011, the Actuarial Committee conducted a series of public opinion surveys and public meetings to develop these proposed changes. Shown below are:

- The current Guidelines for Actuarial Soundness and Procedures for Monitoring the Status of Actuarially Unsound Pension Plans;
- The steps taken from July, 2010 through May, 2011 to develop proposed changes to these Guidelines and Procedures; and
- The proposed Guidelines for Actuarial Soundness and proposed Policy for Determination of System Actuarial Review resulting from this process.

Current PRB Guidelines for Actuarial Soundness (adopted 1984; changes considered but not adopted in 1996)

1. The funding of a pension plan should reflect all plan liabilities and assets.

2. The allocation of the normal cost portion of contributions should be level as a percent of payroll over all generations of taxpayers.

3. Funding of the unfunded actuarial accrued liability should be level or declining as a percent of payroll over the amortization period.

4. Funding should be adequate to amortize the unfunded actuarial accrued liability over a period which should never exceed 40 years, with 25-30 years being a more preferable target. (ERS and TRS have 31-year amortization limits set in their statutes.)

5. The choice of assumptions should be realistic and reasonable in the aggregate.

Current Procedures for Monitoring the Status of Actuarially Unsound Pension Systems

A. Pension Review Board (PRB) staff will review the actuarial valuation of each defined benefit pension system when the valuation is received in the PRB office.

B. A pension plan with an amortization period between 30 and 40 years will be placed on a watch list maintained by PRB staff. Future actuarial valuations and annual financial reports will be monitored to assess the funding progress of the plan.

C. If the financing arrangement of a Texas public retirement system is determined by the system's actuary to be inadequate, the system is required by law to notify each active member and annuitant. When an actuarial valuation received by the PRB reveals that the funding period of a retirement system has increased to over 40 years or infinity, the PRB will notify the system by letter that they must inform their members. The PRB will request that the retirement system keep the PRB informed of any corrective changes to the plan design or contribution rate or other methods developed to alleviate the inadequate funding.

D. A list of underfunded retirement systems is presented to the PRB members at each official Board meeting. The report will include a short summary of the current funding status of the plan. Subsequent actuarial valuations are closely monitored for indications of improved funding of the plan. If a future actuarial valuation does not show an improvement in the amortization period, the PRB will ask the fund's administrator and/or members of its governing body to appear before the Board for a discussion of the plan's course of action to improve the funding arrangement.

E. Each underfunded retirement system will continue to be closely monitored until such time as the amortization period reaches an acceptable level.

July, 2010 Survey on Proposed Changes to the Guidelines for Actuarial Soundness

At the direction of the Actuarial Committee Chairman, PRB Staff prepared nine questions with possible responses:

Strongly Agree / Agree / Neutral / Disagree / Strongly Disagree

1. The current 40 year amortization period should be changed to 30 years to remain consistent with GASB 27.

2. If the recommended amortization period is to be changed, what time frame should be used to phase into the new period?

3. Currently, GASB 27 permits the use of a rolling 30 year amortization for ARC calculation. The PRB guidelines should be based on a fixed date amortization, with the remaining amortization period declining by one each year.

4. The current PRB guideline: "The allocation of the normal cost portion of contributions should be level as a percent of payroll over all generations of taxpayers," should be replaced by "The normal cost and accrued liability should be calculated under a method complying with ASOP No. 4 or GASB 27."

5. The accrued liability funded percentage should be added to the PRB guidelines as a measure of actuarial soundness.

6. A measure of the plan's unfunded liability as a percentage of payroll should be added to the PRB guidelines as a measure of actuarial soundness.

7. A projection of cash flows and solvency should be added to the PRB guidelines as a measure of actuarial soundness.

8. The history of the percentage of ARC contributed or the plan's GASB 27 Net Pension Obligation (NPO) should be added to the PRB guidelines as a measure of actuarial soundness.

9. A validation of all major assumptions, including a derivation of the assumed rate of return on plan assets, should be performed periodically by the plan's actuary for PRB-supervised plans of at least a certain size.

August 5, 2010 Actuarial Committee Meeting

Actuarial Guidelines: A summary of the survey results in the form of a matrix was presented and discussed. Chair Parrish stated his opinion that the amortization period in Guideline 4 should be shortened to 30 or 31 years. Public testimony was received regarding the consequences of shortening the amortization period.

Monitoring Procedures: Chair Parrish stated that creating official lists should be minimized, and the PRB Guidelines should be the only criteria the PRB should use. Mr. Massengale proposed an action plan to give notice to plans. Chair Parrish suggested a policy of engaging the plans in a discussion before asking them to appear before the Board. Public testimony was received regarding how long trends should be observed before taking action, when plans should be alerted as to PRB's concerns, and possible criteria for PRB attention.

September 21, 2010 Actuarial Committee Meeting

At the direction of the Actuarial Committee Chairman, PRB Staff prepared two proposals for Guideline #2 and three proposals for Guideline #4, which were presented and discussed:

Proposed Alternatives for Guideline #2:

A. The normal cost and actuarial accrued liability should be calculated under applicable actuarial standards, and where a normal cost is calculated for each active member, this calculation should reflect the benefit structure pertaining to that member.

B. The normal cost and actuarial accrued liability should be calculated under applicable actuarial standards.

Proposed Alternatives for Guideline 4:

A. Funding should be adequate to amortize the unfunded actuarial accrued liability either over: a) a fixed period not to exceed 40 years, or, b) a rolling period not to exceed 25 years, with 15-25 years being a more preferable target. (ERS and TRS have 31-year amortization limits set in their statutes.)

B. Funding should be adequate to amortize the unfunded actuarial accrued liability over a period not to exceed 31 years, with 15-25 years being a more preferable target.

C. Funding should be adequate to amortize the unfunded actuarial accrued liability over a period not to exceed 40 years, with 15-25 years being a more preferable target. Benefit increases should not be adopted if the resulting amortization period is outside the preferable target.

Also, the following revision of Guideline #5 was presented and discussed:

5. The choice of assumptions should comply with applicable actuarial standards.

No changes were proposed at this time for Guidelines #1 and #3.

Actuarial Guidelines: Extensive public testimony was received regarding:

- The rationale of calculating the plan's normal cost as a level percentage of payroll (Guideline 2);
- The definition of a "rolling period" (Guideline 4);
- Consistency of the Guidelines with Governmental Accounting Standards Board (GASB) and Actuarial Standards of Practice (ASOPs).

A motion was carried to direct the Staff to develop a final set of proposed Guidelines based on Committee discussion and public testimony.

Monitoring Procedures: Staff presented a draft Policy for Determination of System Actuarial Review. Public testimony was received regarding the how long the monitoring takes.

October, 2010 Survey on Proposed Changes to the Guidelines for Actuarial Soundness

At the direction of the Actuarial Committee Chairman, PRB Staff prepared an opinion survey including the complete list of proposed PRB Guidelines exposed for comment, plus the proposed Policy of Determination of System Actuarial Review.

Proposed Guidelines:

1. The funding of a pension plan should reflect all plan liabilities and assets.

2. The allocation of the normal cost portion of contributions should be level as a percent of payroll over all generations of taxpayers, and should be calculated under applicable actuarial standards.

3. Funding of the unfunded actuarial accrued liability should be level or declining as a percent of payroll over the amortization period.

4. Funding should be adequate to amortize the unfunded actuarial accrued liability over a period not to exceed 40 years, with 15-25 years being a more preferable target. Benefit increases should not be adopted if the resulting amortization period exceeds 25 years.

5. The choice of assumptions should be realistic and reasonable, and should comply with applicable actuarial standards.

November 18, 2010 Actuarial Committee Meeting

Actuarial Guidelines: Based on the summary of the survey results presented, Chair Parrish discussed changing the word 'liabilities' in Guideline 1 to 'obligations'. Chair Parrish proposed to change the word 'level' in Guideline 2 to 'level or declining'. Responsive to public testimony, Chair Parrish suggested revised wording of proposed Guideline 4, which was later presented in the February, 2011 survey.

Monitoring Procedures: Based on survey comments, staff added 'plan sponsor' to the parties to be contacted while the plan's soundness is reviewed by PRB staff, notified of PRB actuarial committee meeting review, and asked to appear before the PRB.

February, 2011 Survey with 2 questions regarding the Proposed Guidelines:

At the direction of the Actuarial Committee Chairman, PRB Staff prepared an opinion survey with two questions. The first question was regarding the use of "obligations" vs. "liabilities" in proposed Guideline 1. The second question presented a proposed revision to Guideline 4 intended to facilitate changes made for administrative simplicity with a slight cost impact, and to consider all plan changes being considered as a group, rather than individually.

May 2, 2011 Actuarial Committee Meeting

A summary of the survey results was presented and discussed. Public testimony was received questioning the use of the term 'material' in proposed Guideline 4. Motions were carried to present both the proposed Guidelines for Actuarial Soundness and the proposed Policy for Determination of System Actuarial Review to the Board.

Proposed Guidelines for Actuarial Soundness:

1. The funding of a pension plan should reflect all plan obligations and assets.

2. The allocation of the normal cost portion of contributions should be level or declining as a percent of payroll over all generations of taxpayers, and should be calculated under applicable actuarial standards.

3. Funding of the unfunded actuarial accrued liability should be level or declining as a percent of payroll over the amortization period.

4. Funding should be adequate to amortize the unfunded actuarial accrued liability over a period not to exceed 40 years, with 15-25 years being a more preferable target. Benefit increases should not be adopted if all the plan changes being considered cause a material increase in the amortization period and if the resulting amortization period exceeds 25 years.

5. The choice of assumptions should be realistic and reasonable, and should comply with applicable actuarial standards.

Also, the Proposed PRB Policy for Determination of System Actuarial Review was determined.

Proposed Policy for Determination of System Actuarial Review:

1. All actuarial reports received by the PRB will be reviewed by the staff actuary in order to determine if the public retirement system is within the PRB "Guidelines for Actuarial Soundness."

2. If the staff actuary determines the system is not within the "Guidelines", a report detailing why the system is not within the "Guidelines" will be submitted to the executive director and board actuary.

3. If the board actuary concurs with the determination of the staff actuary, the executive director will notify the system of this determination in writing. The system will be requested to keep the PRB informed of any corrective action being considered or taken to meet the "Guidelines."

4. Any system determined to be not meeting the "Guidelines" will be placed under further staff review for further risk assessment. The staff may contact the system's actuary, plan sponsor, and chief executive to conduct staff reviews. The executive director and staff actuary will report findings to the board actuary.

5. The board actuary may recommend a system be placed under the review of the actuarial committee of the PRB. If a system is recommended as such, the findings of the staff review will be presented at the next meeting of the actuarial committee. The system and plan sponsor will be notified of the committee review and may appear before the committee for further discussion and review.

6. Upon the recommendation of the committee, a system and plan sponsor may be asked to appear at a regularly scheduled meeting of the PRB[1]. If such recommendation is made, the system will be notified in writing.

[1]Any system can request to appear at a regularly scheduled meeting of the PRB.

State Pension Review Board
House Committee on Pensions, Investments, and Financial Services
82nd Interim
September 12, 2012 hearing

State Pension Review Board
House Committee on Pensions, Investments, and Financial Services
82nd Interim, September 12, 2012 hearing

Interim Charge #1: *Review local retirement systems that are not a part of statewide systems, the administration of these systems, and current liabilities. Study and make recommendations aimed at curbing rising pension costs to local governments.*

Introduction

Public retirement systems in the State of Texas have over 2.3 million members and nearly $200 billion in total net assets. Of the 358 Texas public retirement systems registered with the Pension Review Board (PRB), 186 are defined benefit systems and 172 are defined contribution systems. Local retirement systems that are not part of a statewide system such as Texas Municipal Retirement System (TMRS) and Texas County and District Retirement System (TCDRS) total 178 defined benefit systems and 171 defined contributions systems. These 349 local retirement systems have over 291,000 members and over $30 billion in total net assets.

Local defined benefit systems include actuarially funded and pay-as-you-go systems. Actuarially funded defined benefit systems are pre-funded systems which utilize the combination of contributions and investment income to fund their benefits and expenses. Pay-as-you-go systems typically fund benefits and expenses solely from contributions as trust fund assets are either zero or too small to generate sufficient investment income to offset benefit and expense costs. Of the 178 local defined benefit systems, 88 are actuarially funded and 90 are pay-as-you-go. Local defined contribution systems include 401(a), 401(k) and 457 plans. The table below summarizes the number of different local retirement systems in the State of Texas:

Local Retirement Systems in Texas

DB/DC	Plan Type	Number of Plans	Total Net Assets	Number of Members
DB	Actuarially funded	88	$28,481,347,040	189,008
DB	Pay-as-you-go	90	$4,405,382	2,597
DC	401(a)	156	$1,476,976,875	93,655
DC	401(k)	7	$316,615,396	5,951
DC	457	8	$10,809,764	423

Actuarially funded defined benefit systems have the most members and the largest percentage of total net assets of all the local retirement systems. The sponsors of these systems include over 50 cities as well as several river, transit, hospital authorities and districts. Members of the systems include both civilian and public safety employees. The table below summarizes the number of different local actuarially funded defined benefit systems:

Local Actuarially Funded Defined Benefit Systems

Description	Number of Plans	Total Net Assets	Number of Members
Civilian[1]	7	$9,030,377,612	74,994
Public Safety	53	$15,336,335,518	45,943
Other Governmental Entity[2]	28	$4,114,633,911	68,071

State Constitution and Statutes

Texas has numerous statutes and laws governing local retirement systems. Local retirement systems are enabled by the State Constitution. Article 16, Section 67 of the State Constitution has two key subsections which provide for the creation of local retirement systems, as well as outline basic fiduciary and governance principles:

- Article 16, Section 67(c) states that the Legislature shall provide by law for the creation by any city or county of a system of benefits for its officers and employees.
- Article 16, Section 67(f) directs the boards of trustees of retirement systems not belonging to a statewide system to hold the assets in trust for the exclusive purpose of providing benefits to the members, defraying reasonable expenses of administering the system, and to adopt sound actuarial assumptions.

In 2003, the State Constitution was amended to include Section 66 of Article 16, "Protected Benefits under Certain Public Retirement Systems". This section applies only to certain local public retirement systems and does not cover health or life insurance benefits. The key provisions of this section of the State Constitution are:

- Local retirement systems covered by this section may not reduce or otherwise impair benefits accrued by a person if the person could have terminated employment or had terminated employment and would have been eligible for those benefits without accumulating additional service under the retirement system.
- Benefits granted to a retiree or other annuitant may not be reduced or otherwise impaired.
- The political subdivision(s) and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under the section are not reduced or impaired and the section does not create a liability or an obligation to a retirement system for a member of the retirement system other than the payment by active members of a required contribution.
- Subsection (b) specifically exempts the San Antonio Fire and Police Pension Fund from the provisions of this section.

[1] Includes combined civilian/public safety plans.
[2] Other Governmental Entities include river, transit, hospital authorities and districts. See Appendix A for a full list of local retirement systems under the category of "Other Governmental Entity".

Additionally, the section allowed for a one-time opt-out election in May 2004 for any retirement system and the political subdivision that finances benefits under the retirement system. The following cities opted-out of the section: Denison, Galveston, Houston, Marshall, McAllen, Paris, and Port Arthur.

Twelve retirement systems are specifically enabled by state statute. The following are local retirement systems with their own provisions of Article 6243, Vernon's Civil Statures (also known as Title 109):

- Austin Employees' Retirement System
- Austin Fire Fighters Relief & Retirement Fund
- Austin Police Retirement System
- Dallas Police & Fire Pension System
- El Paso Firemen's Pension Fund
- El Paso Police Pension Fund
- Fort Worth Employees' Retirement Fund
- Galveston Employees' Retirement Plan for Police
- Houston Firefighter's Relief & Retirement Fund
- Houston Municipal Employees Pension System
- Houston Police Officers Pension System
- San Antonio Fire & Police Pension Fund

In addition to these systems, the Texas Local Fire Fighters' Retirement Act (TLFFRA), Article 6243(e) of Vernon's Civil Statutes, is the governing statute of 41 paid/part-paid and 80 volunteer fire systems across the State.

Several local retirement systems were created without specific legislative authority required by the Constitution. Two attorney general opinions (JM-1068 and JM-1142) determined these local retirement systems were invalid. To resolve this situation, the 72nd Legislature adopted Chapter 810 of the Government Code to authorize all those systems that had been established prior to the attorney general opinions as well as to provide for subsequent local retirement systems established by local jurisdictions.

Local retirement systems established in Title 109 have their contribution rates, benefit levels and the composition of their board of trustees set in statute. Certain systems may have authority to make changes locally, either through meet and confer provisions in their statute, or through other procedures outlined in their enabling statute. Local retirement systems established under TLFFRA have authority to determine member contribution rates, benefit levels, and other plan provisions locally through procedures outlined in TLFFRA; however, the composition of TLFFRA board of trustees are set in statute. Sponsoring municipalities of TLFFRA systems must meet a statutory minimum contribution rate, but may adopt by ordinance a higher contribution rate than set in statute. Local retirement systems established under Chapter 810 of the Government Code have the authority to determine plan provisions locally[3].

[3] See Appendix A for local retirement system statutory information and Appendix B for local retirement system board of trustee information.

Local retirement systems, except for certain deferred compensation plans, are also subject to Chapter 802 of the Government Code. Subchapter C of Chapter 802 covers the administration of the systems assets and provides for the following key fiduciary guidelines[4]:

- The assets held in trust are for the benefit of the members and retirees of the system and their beneficiaries.
- In making and supervising investments, an investment manager or the governing body of the system shall fulfill its duties solely in the interest of the participants and beneficiaries; and with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity would use.

Actuarial Soundness and Financial Condition

The Pension Review Board (PRB) has adopted "Guidelines for Actuarial Soundness" for public retirement systems, with a maximum amortization period of not more than 40 years and a recommended amortization period of 15 to 25 years. The table below summarizes local retirement system amortization periods:

Local Retirement System Amortization Periods

Amortization Period	Number of Plans	Percent of Total
Greater than 40	15	17%
Between 25 and 40	42	48%
Less than or equal to 25	31	35%

The projected unfunded actuarial accrued liability (UAAL) for actuarially funded local retirement systems is $8.8 billion as of September 1, 2012 based on an actuarial value of assets of $30.2 billion. The 88 actuarially funded local retirement systems have an aggregate funded ratio of 77.5% on an actuarial basis and 73.0% on a market value basis. The table below summarizes local retirement system actuarial funded ratios:

Local Retirement System Funded Ratios

Funded Ratio	Number of Plans	Percent of Total
Greater than 80%	20	23%
Between 60% and 80%	45	51%
Less than 60%	23	26%

[4] Local retirement systems created under TLFFRA are exempt from Subchapter C of Chapter 802 of the Government Code, except sections 802.205 and 802.207. Section 27(b) of TLFFRA provides for similar prudent care language for TLFFRA systems.

The PRB does not project any immediate solvency issues for any open mature actuarially funded local retirement systems. Cash flow analysis indicates that assets held by these plans are sufficient to pay benefits for retirees over the next 20 years.

Over the ten year period ending December 31, 2011, local retirement systems generated an average internal rate of return (IRR) of approximately 6% with an expense ratio of 0.80%. Local retirement system asset allocations have shifted during the last ten years with a reduction in the amount of fixed income in their portfolios with increases in both alternative investments and real estate asset classes.

Over the last five years, the 88 actuarially funded local retirement systems paid out an annual average of over $1.5 billion in benefits to retirees and beneficiaries. Based on information available to the PRB, the average assumed retirement age of the local retirement systems is 55.6 and the average annual benefit payment to retirees and beneficiaries of the systems is approximately $25,000.

Trends and Issues

Actuarially funded retirement systems rely on a combination of contributions and investment income to fund benefits and expenses: C + I = B + E. Over the last few years, local retirement systems have dealt with a period of higher unemployment and volatile markets. The impact of both have put pressure on local retirement systems as investment income has been lower than expected, tax revenues of sponsors strained, and growth in payrolls less than expected for many systems. In response to this, many systems have adopted reductions in benefits for new hires, extended vesting periods, increased retirement ages, and increased member contributions. Moreover, sponsors of local retirement systems have increased contributions to the systems when possible.

Conclusions

Local retirement systems in Texas differ significantly in size and scope. Local systems include both defined benefit and defined contribution plans. For some systems, local control over plan provisions is limited, but for many other systems, plan provisions are controlled at the local level. For actuarially funded local retirement systems, the economic events since 2008 have challenged their financial health and actuarial soundness. Many systems have enacted changes to address concerns and shore up the actuarial condition of their systems. The PRB will continue to monitor the state's local public retirement systems to identify issues and provide recommendations to sponsoring local jurisdictions before the issues become critical and too difficult to resolve. The PRB will also recommend necessary legislative action, as necessary, to ensure the actuarial soundness and viability of these plans.

State Pension Review Board
House Committee on Pensions, Investments, and Financial Services
82nd Interim, September 12, 2012 hearing

Interim Charge #5: *Monitor the agencies and programs under the committee's jurisdiction.*

Overview

The State Pension Review Board (PRB) was established by H.B.1506, 66th Legislature, R.S. (V.T.C.A., Title 8, Chapter 801, Government Code,) effective September 1, 1979, as an oversight agency for Texas public retirement systems. The agency was originally conceived in the late 1970s, as a solution to the need for federal oversight of state and local retirement systems through ERISA-style legislation. It was established as a "blue ribbon" board with the members bringing their expertise in related fields to serve the public pension community in Texas. The agency was given additional authority in the 1980s and its mandate has not changed greatly since that time. The PRB service population consists of the members, administrators, and trustees of 358 individual public retirement systems; state and local government officials; and the general public. The total membership of Texas public retirement systems exceeds 2.3 million active and retired members and the total net assets of the plans are nearly $200 billion.

Board Members

The board is composed of nine members. The governor appoints seven of these: three persons who have experience in the fields of securities investment, pension administration, or pension law and are not members or retirees of a public retirement system; one active public retirement system member; one retired public retirement system member; one person who has experience in the field of governmental finance; and an actuary. The lieutenant governor appoints a state senator and the speaker of the house appoints a state representative.

Agency Functions

The general duties of the PRB outlined in Chapter 801 of the Government Code are to (1) conduct a continuing review of public retirement systems, compiling and comparing information about benefits, creditable service, financing and administration of systems; (2) conduct intensive studies of potential or existing problems that threaten the actuarial soundness of or inhibit an equitable distribution of benefits in one or more public retirement systems; (3) provide information and technical assistance on pension planning to public retirement systems on request; and (4) recommend policies, practices, and legislation to public retirement systems and appropriate governmental entities. The agency is also charged with preparing and providing an actuarial impact statement for bills and resolutions that propose to change the amount or number of benefits or participation in benefits of a public retirement system or that proposes to change a fund liability of a public retirement system. Additionally, the board is authorized to conduct training sessions, schools, or other educational activities for trustees and administrators of public retirement systems. The board may also furnish other appropriate services such as actuarial studies or other requirements of systems and may establish appropriate fees for these activities and services.

Agency Budgetary Information

Method of Finance	Fiscal Year Appropriations					
	2008	2009	2010	2011	2012	2013
General Revenue	$684,373	$658,561	$742,968	$692,968	$694,002	$694,001
Fund No. 662	$22,316	$22,316	$0	$0	$0	$0
GR Reduction	$0	$0	-$46,932	-$42,189	$0	$0
Grand Total	$706,689	$680,877	$696,036	$650,779	$694,002	$694,001

Fiscal years 2012-2013 appropriations for the PRB totaled $1,388,003. The funding source for the appropriations is the General Revenue Fund. Of the agency's appropriations for FY 2012-2013, 90% is dedicated to salaries and wages. The agency is authorized for 13.0 FTEs (full time equivalents); however, due to the reduction in the agency's baseline during FY 2010-2011, funding is only available for 12.0 FTEs. In fiscal year 2010, the agency was instructed that it would need to reduce its 2010-2011 biennium budget by 5% for all general revenue funds. The agency proposed reductions totaling $71,797 which were accepted by the Legislative Budget Board (LBB). In fiscal year 2011, the agency was instructed to further reduce its 2011 budget by 2.5%, or a total of $17,324. Total agency budget reductions for FY 2010-2011 were $89,121.

Current Agency Activities

In the last year, the agency has undertaken many important projects to ensure that the agency is fulfilling its duties. The PRB has written several reports on federal issues impacting public retirement systems, including the impact of Dodd-Frank, the SEC's Pay-to-Play and Municipal Advisor rules, the recent GASB proposals, and the Public Employee Pension Transparency Act. The agency has recently completed two research papers, part of a series of "white papers" on important public pension topics. The first paper provides an in-depth look at defined benefit, defined contribution, and alternative retirement plans. The second paper examines the idea of financial economics and its role in public pension plans. Also, the agency completed its Survey of Public Pension Plan Participation in Social Security in 2011. These reports are available on the agency website.

The agency is currently working with the Comptroller of Public Accounts on a joint partnership to enhance the amount of public pension information that is available online. By utilizing existing technology via the Comptroller's website, the PRB will be able to upload significant amount of financial and actuarial information online. As part of the educational outreach program, the agency provides electronic weekly news clips service to its constituents. The purpose of the news clips service is to track and compile pension-related issues in Texas as well as across the country and to disseminate the same to interested parties every week.

The PRB recently completed the review and adoption of two important policies related to the public retirement systems it oversees. The PRB approved an updated version of the "Guidelines for Actuarial Soundness" in September 2011. The PRB has adopted "Guidelines for Actuarial Soundness" to provide public retirement systems with guidance on maintaining their actuarial soundness. At the December 2011 board meeting, the PRB adopted an update to its "Policy for Regulation of Non-Compliant Retirement Systems". The policy provides a framework for addressing non-compliance with state reporting requirements. The updated policy and the concentrated effort of the PRB staff over the last few years, including additional outreach to plans, has resulted in the best compliance results in agency history with nearly 90% of systems in compliance with state reporting requirements. Lastly, the PRB recently completed the first part of its Sunset Review process. The Sunset Staff Report issued in July 2012 recommended continuation of the agency for another 12 years. Additionally, the Sunset Staff Report contained the following key recommendations:

- Exempt defined contribution and pay-as-you-go systems from PRB reporting requirements except for registration and basic plan information.
- Require public retirement systems to provide PRB a summary of significant plan changes within 30 days of adoption.
- Require public retirement systems that conduct experience studies to submit copies of the studies to the PRB.
- Clarify in statute that sponsoring entity audits do no satisfy retirement system's annual financial reporting requirements.
- Clarify the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators.
- Direct PRB to develop training content that more directly assists public retirement systems with managing their plans.
- Apply standard Across-the-Board Recommendations to the PRB.
- Continue requiring the PRB to submit its biennial report to the Legislature.

The PRB submitted its written response to the recommendations of the Sunset Staff Report and accepted all the recommendations contained in the report.

Future Issues and Activities: Fiscal Year 2013 and Beyond

1. Monitoring the actuarial soundness of our Texas public retirement systems. Though the markets have rebounded from the 2008-2009 downturn, unemployment remains high, interest rates at all-time lows, instability remains in the European Union, and there is much uncertainty about the true state of the US economy.
2. The national debate over public sector defined benefit plans and the consideration of transitioning public plans to DC plans. The need for objective, accurate, and timely information will be crucial as this debate unfolds in Texas.

3. Studying and reporting on the impact of the GASB changes, Moody's proposed changes, potential changes at the SEC and IRS, as well as any legislation considered by Congress.
4. The 2012 PRB annual seminar will be held on October 1, 2012 in Austin, TX.

APPENDICES

Appendix A: Governance of Plan Provisions for Local Retirement Systems

Appendix B: Board of Trustee Composition for Local Retirement Systems

Appendix C: Plan Provisions for Local Retirement Systems

Appendix D: Actuarial Valuation Summary for Local Retirement Systems

Appendix E: Actuarial Assumptions and Methods for Local Retirement Systems

APPENDIX A

LOCAL GOVERNANCE OF PLAN PROVISIONS FOR LOCAL RETIREMENT SYSTEMS

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Austin Employees' Retirement System		
Governing Statute	V.T.C.S., Article 6243n	
Local Governance Structure	Other than certain plan modifications allowed by the governing statute, neither the retirement system nor the city can make any changes to the plan. Changes to the plan can be made only through the legislative process.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Under section 10 the governing body of the city may authorize the city to make additional contribution to the system.
	Employee	Section 10 allows active members to increase their contribution by a majority vote of all such members.
Benefit	**Benefit Increase**	Section 7 allows the board to authorize COLA payments or lump-sum additional benefit payments.
	Benefit Reduction	Section 7 allows the amount of each retirement allowance and all other benefits payable under the governing statute to be subject to such adjustments as may be required to ensure actuarial soundness as may be approved by the actuary and adopted by the retirement board, except that annuities already accrued may not be reduced.
Retirement Eligibility	As outlined in the governing statute.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Other than certain plan modifications allowed by the governing statute, any changes to the plan provisions require modification of the system's governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Austin Fire Fighters Relief & Retirement Fund		
Governing Statute	V.T.C.S., Article 6243e.1	
Local Governance Structure	The City of Austin & the local firefighters association can enter into employment-related agreements under Chapter 143 of the Local Government Code. However, section 1.05 of Article 6243e.1 states that any such agreement may not supersede or preempt any provisions of the retirement system's governing statute and may not increase, diminish, or qualify any right, benefit, privilege, or obligation under the system's governing statute. Hence, any pension fund related changes like city contribution rate modifications as a result of these agreements must be codified in the governing statute in order to become effective.	
Local Governance of Plan Provisions		
Contribution	**Employer**	As outlined in the governing statute, however, section 10.01 allows the governing body of the municipality to authorize the municipality to make an additional contribution to the fund.
	Employee	As outlined in the governing statute, however, section 10.01 allows the members of the fund to increase their contribution rate by a majority vote to any percentage recommended by a majority vote of the board of trustees.
Benefit	**Benefit Increase**	Section 5.04 allows a change in service retirement benefit multiplier if, among other things, the change is approved by the board's actuary and the board of trustees and does not reduce a member's benefit for service credit accumulated before the date of the change. Also, Section 9.04 of the system's governing statute authorizes the board to increase the COLA interest credit.
	Benefit Reduction	Section 8.10 of the system's governing statute authorizes the board to make DROP related changes for accounts established after the effective date of the change. Additionally, section 9.08 authorizes the board to make prorated reduction in benefit payments if funds become insufficient to make those benefit payments in full.
Retirement Eligibility	As outlined in the governing statute.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Other than certain plan modifications allowed by the governing statute, any changes to the plan provisions require modification of the system's governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Austin Police Retirement System		
Governing Statute	V.T.C.S., Article 6243n-1	
Local Governance Structure	Other than changes relating to contribution, retirement eligibility requirements, Retro DROP and COLAs, any other plan modification can be made only through the legislative process.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 8.01 allows the city council to authorize the city to make additional contributions to the system.
	Employee	Sec. 8.01 allows the members by a majority vote to increase or decrease the contribution rate with a floor of 13%.
Benefit	**Benefit Increase**	Sec. 6.01 allows a change in service retirement benefit multiplier if, among other things, the change is approved by the board's actuary, is adopted by the board as a board rule, and a member's vested interest before the effective date of the change is not reduced. Board can also authorize the payment of a COLA. Under section 6.07 the Board can modify or eliminate Retro DROP if the change is adopted by the Board as a rule and approved by the actuary.
	Benefit Reduction	Under section 6.07 the board can eliminate Retro DROP.
Retirement Eligibility	Section 6.02 allows the board to make retirement eligibility related changes. However, any such change cannot increase the requirements for a person who is already eligible for the service retirement on the effective date of the change.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	If any pension-related change, like contribution rate modification, is made through an agreement between the city and local police association, such change requires codification in the governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Dallas Employees' Retirement Fund			
Governing Statute	Dallas City Code, Chapter 40A		
Local Governance Structure	Dallas Employees' Retirement Fund was established by city ordinance and is not governed by state statute. The provisions under the city ordinance can be amended by ordinance recommended by the board, adopted by the city council, and approved by a majority of the voters voting at a general or special election.		
Local Governance of Plan Provisions			
Contribution	**Employer**	City Ordinance	
	Employee	City Ordinance	
Benefit	**Benefit Increase**	City Ordinance	
	Benefit Reduction	City Ordinance	
Retirement Eligibility	City Ordinance		
Plan Structure	City Ordinance		
Board Composition	City Ordinance		
Ratification by State Legislature	No, the plan is not governed by state statute.		
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.		
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.		

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Dallas Police & Fire Pension System		
Governing Statute	V.T.C.S., Article 6243a -1	
Local Governance Structure	Section 7 of the system's governing statute authorizes the members of the pension system to amend the plan in any manner, including amendments to benefits, eligibility requirements, amendment or restatement of any existing plan, and establishment of a new plan. Amendments require the approval of the following: a qualified actuary selected by the board, the board, and plan members. Also, amendments cannot deprive any plan member of any of the benefits that have become fully vested or nonforfeitable.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 4.02(b) states that the amount of employer contribution and any change in it may be determined only by the legislature or by a majority vote of the city voters.
	Employee	Section 4.03(g) states that the statutorily determined member contribution can only be altered by the legislature or by a majority vote of the city voters.
Benefit	**Benefit Increase**	Section 7 of the retirement system's governing statute authorizes the members of the pension system to amend the plan including the benefit provisions.
	Benefit Reduction	Section 7 of the retirement system's governing statute authorizes the members of the pension system to amend the plan including the benefit provisions.
Retirement Eligibility	Section 7 of the retirement systems governing statute authorizes the members of the pension system to amend the plan in any manner including the modification of eligibility requirements.	
Plan Structure	Section 7 of the retirement systems governing statute authorizes the members of the pension system to amend the plan in any manner including the amendment or restatement of any existing plan or creation of a new plan.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Section 7 of the retirement system's governing statute states that any amendment made by members of the pension system in accordance with section 7 is not required to be ratified by the legislature, but is effective when properly recorded in the permanent records of the pension system.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

El Paso City Employees' Pension Fund		
Governing Statute	El Paso City Code, Title II, Chapter 2.64	
Local Governance Structure	El Paso employees' pension fund was established by city ordinance and is not governed by state statute.	
Local Governance of Plan Provisions		
Contribution	**Employer**	City Ordinance
	Employee	City Ordinance
Benefit	**Benefit Increase**	City Ordinance
	Benefit Reduction	City Ordinance
Retirement Eligibility	City Ordinance	
Plan Structure	City Ordinance	
Board Composition	City Ordinance	
Ratification by State Legislature	No, the plan is not governed by state statute.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	
Comments	A provision in the city ordinance states that all rights under this chapter shall be against such pension fund only and the city shall not be liable therefor except to the extent of its contributions to such fund.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

El Paso Firemen Pension Fund			
Governing Statute	V.T.C.S., Article 6243b		
Local Governance Structure	The board in accordance with section 10A of the governing statute can make changes to the fund. The changes must be approved by majority vote of the whole board; by a qualified actuary selected by the board; by a majority of active members and in case of changes to benefits, by the city council or by citizens of El Paso through charter referendum.		
Local Governance of Plan Provisions			
Contribution	**Employer**	The maximum limit on city contribution rate is established in the City's Civil Service Commission Charter at 18%. However, in accordance with section 14A of the governing statute, if a qualified actuary determines that the total contribution rate is insufficient to amortize the unfunded liability over a forty (40) year period, the city's governing body may increase the city contribution rate.	
	Employee	Under section 10A of the governing statute, the board can increase member contribution rate.	
Benefit	**Benefit Increase**	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.	
	Benefit Reduction	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.	
Retirement Eligibility	Section 10A authorizes the board of trustees to modify prospectively or retroactively any eligibility requirements for pensions or benefits.		
Plan Structure	The board in accordance with section 10A can make changes to the plan structure.		
Board Composition	As outlined in the governing statute.		
Ratification by State Legislature	Plan modifications made by the board in accordance with the governing statute are not required to be codified.		
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. The governing statute of the retirement system under section 10A also states that any changes to the fund shall not deprive any person, without his written consent, of any right to receive a pension or benefits which have already become vested and matured.		
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.		

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

El Paso Police Pension Fund		
Governing Statute	V.T.C.S., Article 6243b	
Local Governance Structure	The board in accordance with section 10A of the governing statute can make changes to the fund. The changes must be approved by majority vote of the whole board; by a qualified actuary selected by the board; by a majority of active members and in case of changes to benefits, by the city council or by citizens of El Paso through charter referendum.	
Local Governance of Plan Provisions		
Contribution	**Employer**	The maximum limit on city contribution rate is established in the City's Civil Service Commission Charter at 18%. However, in accordance with section 14A of the governing statute, if a qualified actuary determines that the total contribution rate is insufficient to amortize the unfunded liability over a forty (40) year period, the city's governing body may increase the city contribution rate.
	Employee	Under section 10A of the governing statute, the board can increase member contribution rate.
Benefit	**Benefit Increase**	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.
	Benefit Reduction	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.
Retirement Eligibility	Section 10A authorizes the board of trustees to modify prospectively or retroactively any eligibility requirements for pensions or benefits.	
Plan Structure	The board in accordance with section 10A can make changes to the plan structure.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made by the board in accordance with the governing statute are not required to be codified.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. The governing statute of the retirement system under section 10A also states that any changes to the fund shall not deprive any person, without his written consent, of any right to receive a pension or benefits which have already become vested and matured.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Fort Worth Employees' Retirement Fund		
Governing Statute	V.T.C.S., Article 6243i	
Local Governance Structure	Fort Worth Employees' Retirement System was established by city ordinance. The applicability provision under section 1 of Article 6243i states that the Article applies to a retirement system established by municipal ordinance. The governing statute authorizes the board and the governing body of the municipality to make certain changes to the retirement system and adopt administrative rules to govern the system. Accordingly, the fund has adopted administrative rules to govern the system and the rules can be amended locally within the parameters of the governing statute.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 5.07 authorizes the board or the governing body of the municipality to amend municipality contribution rates; however, only the governing body of the municipality may increase municipal contributions.
	Employee	Section 5.09 authorizes the board or the governing body of the municipality to amend member contribution rates.
Benefit	**Benefit Increase**	Sec. 4.02 allows the board of trustees to propose benefit increases, but requires the approval of the city council.
	Benefit Reduction	Sec.4.03 authorizes the City Council to adopt amendments to the administrative rules for benefit reduction.
Retirement Eligibility	Administrative rules	
Plan Structure	Administrative rules	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made per the administrative rules are not required to be codified in the governing statute.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. However, section 4.03, Article 6243i allows the governing body to adopt amendments to the administrative rules that reduces the benefits provided by the fund.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Galveston Employees' Retirement Fund		
Governing Statute	Galveston City Code, Part II, Chapter 28	
Local Governance Structure	Galveston employees' retirement fund was established by city ordinance and is not governed by state statute. The fund's board and the city council have the authority to make changes to the fund.	
Local Governance of Plan Provisions		
Contribution	**Employer**	The board of trustees and the city council determine the contribution rates to the fund.
	Employee	The board of trustees and the city council determine the contribution rates to the fund.
Benefit	**Benefit Increase**	The board is authorized to make amendments to the plan.
	Benefit Reduction	The board is authorized to make amendments to the plan.
Retirement Eligibility	The board is authorized to make amendments to the plan.	
Plan Structure	The board is authorized to make amendments to the plan.	
Board Composition	The board is authorized to make amendments to the plan.	
Ratification by State Legislature	Since the plan is not governed by the state statute, legislative ratification of plan modification is not required.	
Constitutional/ Statutory Protection of Benefits	No, city of Galveston opted out of the constitutional protection provision.	
Liability	Unclear	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Galveston Employees' Retirement Plan for Police		
Governing Statute	Vernon's Tex. Rev. Civ. Stat., Art. 6243p	
Local Governance Structure	Section 11 of the system's governing statute allows Galveston Police's board of trustees to make plan modifications relating to benefits, membership qualifications, eligibility requirements, and contributions.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 6.03 requires the municipality to contribute to the fund based on the advice of the fund's actuary.
	Employee	Section 6.01 requires the fund's board of trustees to determine employee contribution and the board can increase the rate in accordance with section 11.
Benefit	**Benefit Increase**	Board of trustees of the fund under section 11 can make benefit increases.
	Benefit Reduction	Board of trustees of the fund under section 11 of the statute.
Retirement Eligibility	Board of trustees of the fund under section 11 of the statute.	
Plan Structure	Board of trustees of the fund under section 11 of the statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made by the board in accordance with the governing statute are not required to be codified.	
Constitutional/ Statutory Protection of Benefits	No, city of Galveston opted out of the constitutional protection provision.	
Liability	Section 6.04 of the governing statute outlines municipality's liability by stating that the municipality may not be held responsible for any claim or asserted claim for benefits under the fund.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Houston Firefighters' Relief & Retirement Fund		
Governing Statute	V.T.C.S., Article 6243e.2(1)	
Local Governance Structure	Unlike Houston Municipal and Houston Police pension systems, Houston Fire's governing statute does not allow plan modifications through agreements.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 13(d) requires the fund's board of trustees to certify the municipality's contribution rate based on the results of the actuarial valuation with a floor of twice the member contribution.
	Employee	As outlined in the governing statute.
Benefit	**Benefit Increase**	Section 10 of the statute allows for non-statutory benefit increases.
	Benefit Reduction	Section 11(l) states that if the board determines that the amount in the fund is insufficient to pay in full any pension or disability benefits, all pension and disability benefits made after the date of the determination shall be reduced pro rata for the period of insufficiency.
Retirement Eligibility	As outlined in the governing statute.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Any changes to the plan provisions require modification of the system's governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	No, city of Houston opted out of the constitutional protection provision.	
Liability	Unclear	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

<table>
<tr><th colspan="3">Houston Municipal Employees Pension System</th></tr>
<tr><td>Governing Statute</td><td colspan="2">V.T.C.S., Article 6243h</td></tr>
<tr><td>Local Governance Structure</td><td colspan="2">Section 3(n) of the Houston Municipal's governing statute authorizes the pension board to enter into written agreements with the city regarding pension issues and benefits. The agreements have to be approved and signed by the pension board and the governing body of the city. The agreements are enforceable against and binding on the city and the pension system's members, retirees, deferred participants, beneficiaries, eligible survivors, and alternate payees. As such, the Houston Municipal Employees Pension System has entered into seven meet & confer agreements with the city of Houston since 2004 with the most recent being executed in 2011. Essentially, the statute allows for complete local control and the agreements have an effect of superseding certain statutory provisions.</td></tr>
<tr><td colspan="3">Local Governance of Plan Provisions</td></tr>
<tr><td>Contribution</td><td>Employer</td><td>Employer contributions are determined by the agreements between the city of Houston and the pension system.</td></tr>
<tr><td></td><td>Employee</td><td>Employee contributions are determined by the agreements between the city of Houston and the pension system.</td></tr>
<tr><td>Benefit</td><td>Benefit Increase</td><td>Agreements between the city of Houston and the pension system.</td></tr>
<tr><td></td><td>Benefit Reduction</td><td>Agreements between the city of Houston and the pension system.</td></tr>
<tr><td>Retirement Eligibility</td><td colspan="2">Retirement eligibility requirements can be modified through the agreements between the city of Houston and the pension system.</td></tr>
<tr><td>Plan Structure</td><td colspan="2">Plan structure can be modified through the agreements between the city of Houston and the pension system.</td></tr>
<tr><td>Board Composition</td><td colspan="2">Board composition can be modified through the agreements between the city of Houston and the pension system.</td></tr>
<tr><td>Ratification by State Legislature</td><td colspan="2">No, Houston Municipal's agreements with the city have never been codified in the statute. The preamble section of the agreements state that certain provisions in the agreements have the effect of superseding provisions of the statute. Also, the most current 2011 agreement has language stating that if the statute is amended or repealed in the Texas Legislature in a manner that is not mutually agreeable to the parties, the parties shall amend the existing agreement or enter into a separate agreement to reestablish the amended or repealed provision.</td></tr>
<tr><td>Constitutional/ Statutory Protection of Benefits</td><td colspan="2">No, the city of Houston opted out of the constitutional protection provision. However, the parties in the agreement have agreed not to file and to oppose any legislation that is filed in the Texas Legislature that would result in the reduction of benefits or in a change under the governing statute and/or that would affect any matter covered by the agreement. The agreement further states that if the governing statute is amended or repealed in the Texas Legislature, in a manner that is not mutually agreeable to the parties, the parties shall amend the current agreement or enter into a separate agreement to reestablish the amended or repealed provision(s).</td></tr>
<tr><td>Liability</td><td colspan="2">Section 3(n) makes the agreements binding on the city and the pension system's board, members, retirees, beneficiaries, and eligible survivors.</td></tr>
</table>

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Houston Police Officers Pension System		
Governing Statute	V.T.C.S., Article 6243g-4	
Local Governance Structure	**Section 27(a) of the Houston police's governing statute allows for agreements to change benefits.** The statute states that the retirement system's board of trustees may enter into written agreements with the city on behalf of the retirement system and members and beneficiaries of the pension system if the agreement is approved by the board and signed by the mayor and the board. As such, the Houston Police Officers Pension System has entered into five meet & confer agreements with the city of Houston since 1998 with the most recent being executed in 2011. Essentially, the statute allows for complete local control and the agreements have an effect of superseding certain statutory provisions.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Employer contributions are determined by the agreements between the city of Houston and the pension system.
	Employee	Employee contributions are determined by the agreements between the city of Houston and the pension system.
Benefit	**Benefit Increase**	Agreements between the city of Houston and the pension system.
	Benefit Reduction	Agreements between the city of Houston and the pension system.
Retirement Eligibility	Retirement eligibility requirements can be modified through the agreements between the city of Houston and the pension system.	
Plan Structure	Plan structure can be modified through the agreements between the city of Houston and the pension system.	
Board Composition	Board composition can be modified through the agreements between the city of Houston and the pension system.	
Ratification by State Legislature	No, the agreements state that certain provisions in the agreements have the effect of superseding provisions of the statute. However, agreements prior to 2004 were codified in Article 6243g-4. 2004 & 2011 agreements have not yet been codified.	
Constitutional/ Statutory Protection of Benefits	No, the city of Houston opted out of the constitutional protection provision. However, the 2011 agreement states that nothing in the agreement can deprive a member, without the member's written consent, of a right to receive benefits that have become fully vested and matured in the member.	
Liability	The 2011 Agreement includes a provision stating that if for any reason the City fails to comply with any material provision of the agreement, including the timing and amount of payments for Shortfall Debt, additional amount and the legislature codifies the provisions and the city does not correct its failure for thirty days, HPOPS may terminate any and all provisions of the agreement and can file a suit against the City in Harris County District Court for any remedy available at law or in equity. The City also agreed that if it commits any breach of terms of the agreement, HPOPS may seek specific performance by enjoining the City by way of temporary restraining order & temporary and permanent injunction without regard to the City's sovereign immunity.	
Comments	Section 1 of Article 6243g-4 states that, among other things, the purpose of the Article is to reflect changes agreed to by the city and the board of trustees of the pension system under Section 27 of the Article.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Plano Retirement Security Plan		
Governing Statute	City Ordinance	
Local Governance Structure	Plano Retirement Security Plan was created by city ordinance and is not governed by state statute.	
Local Governance of Plan Provisions		
Contribution	**Employer**	City of Plano
	Employee	City of Plano
Benefit	**Benefit Increase**	City of Plano
	Benefit Reduction	City of Plano
Retirement Eligibility	City of Plano	
Plan Structure	City of Plano	
Board Composition	City of Plano	
Ratification by State Legislature	Since the plan is not governed by the state statute, legislative ratification of plan modification is not required.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. However, the Plan Document as adopted by the city council contains specific provisions relating to termination and liquidation of the trust fund.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

San Antonio Fire and Police Pension Fund		
Governing Statute	V.T.C.S., Article 6243o	
Local Governance Structure	The retirement system's governing statute does not allow for any local control. Changes to the plan can be made only through the legislative process.	
Local Governance of Plan Provisions		
Contribution	**Employer**	As outlined in the governing statute.
	Employee	As outlined in the governing statute.
Benefit	**Benefit Increase**	As outlined in the governing statute.
	Benefit Reduction	As outlined in the governing statute.
Retirement Eligibility	As outlined in the governing statute.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Any changes to the plan provisions require modification of the system's governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	No, the City of San Antonio opted out of the constitutional protection provision. However, section 4.05(e) of the retirement system's governing statute states that the municipal contribution and retirement annuities are a part of the compensation for services rendered to the municipality and makes the governing statute a contract of employment.	
Liability	Section 4.06 of the governing statute makes the municipality liable to pay the deficiency, if any, between the amount available to pay all retirement annuities and other benefits owed under the Act and the amount required to pay those benefits.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

<table>
<tr><th colspan="3">Texas Local Fire Fighters Retirement Act (TLFFRA)</th></tr>
<tr><td>Governing Statute</td><td colspan="2">V.T.C.S., Article 6243e</td></tr>
<tr><td>Local Governance Structure</td><td colspan="2">Section 7 of the TLFFRA statute authorizes the fund's board of trustees to modify benefits and eligibility requirements for benefits. However, any proposed change must be approved by the board actuary and a majority of the participating members of the retirement system.</td></tr>
<tr><td colspan="3">Local Governance of Plan Provisions</td></tr>
<tr><td rowspan="2">Contribution</td><td>Employer</td><td>Section 29(b) of the governing statute establishes the municipality's contribution rate, but the governing body of a municipality by ordinance can adopt a contribution rate higher than the statutory rate.</td></tr>
<tr><td>Employee</td><td>Section 29(a) authorizes the members of each fund to determine their contribution rates by voting.</td></tr>
<tr><td rowspan="2">Benefit</td><td>Benefit Increase</td><td>Under section 7 of the statute, the retirement system's board of trustees can increase benefits.</td></tr>
<tr><td>Benefit Reduction</td><td>Under section 7 of the statute, the retirement system's board of trustees can reduce benefits prospectively. Also, section 16 of the governing statute states that if money available to pay benefits is insufficient to pay the full amount, a board of trustees may proportionately reduce all benefit payments for the time necessary.</td></tr>
<tr><td>Retirement Eligibility</td><td colspan="2">Under section 7 of the statute, each retirement system's board can modify or change the retirement eligibility requirements.</td></tr>
<tr><td>Plan Structure</td><td colspan="2">Under section 7 of the statute, the retirement system's board of trustees can modify or change plan structure.</td></tr>
<tr><td>Board Composition</td><td colspan="2">As outlined in the governing statute.</td></tr>
<tr><td>Ratification by State Legislature</td><td colspan="2">Plan modifications made by each retirement system within the framework of the governing statute are not required to be codified.</td></tr>
<tr><td>Constitutional/ Statutory Protection of Benefits</td><td colspan="2">Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits except for the TLFFRA plan cities that have opted out of the constitutional protection provision. Additionally, section 7(e) & (f) of the TLFFRA statute states that a plan modification cannot deprive a member, a retiree, or an eligible survivor of a right to receive vested accrued benefit and may not be applied retroactively.</td></tr>
<tr><td>Liability</td><td colspan="2">Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.</td></tr>
<tr><td>Comments</td><td colspan="2">TLFFRA law provides a basic framework for the TLFFRA plans by establishing minimum contribution rates, retirement eligibility standards, and service credit requirements, but beyond that section 7 of the statute gives each system the flexibility to determine its plan structure.</td></tr>
</table>

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

Other Political Entities' Retirement Systems under Texas Government Code, Chapter 810		
Governing Statute	Texas Government Code, Chapter 810	
Local Governance Structure	Chapters 810 of the Government Code authorizes political entities, including junior college districts, river authorities, water districts, appraisal districts, or other special purpose district to establish, finance, and administer public retirement systems for their appointive officers and employees. Unlike the plans created under Vernon's, Chapter 810 does not provide any framework of the pension structure for the retirement systems created under this Chapter. Currently, as listed below, there are 28 such local actuarially funded defined benefit plans.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Determined by the political entity.
	Employee	Determined by the political entity.
Benefit	**Benefit Increase**	Determined by the political entity.
	Benefit Reduction	Determined by the political entity.
Retirement Eligibility	Determined by the political entity.	
Plan Structure	Determined by the political entity.	
Board Composition	Determined by the political entity.	
Ratification by State Legislature	Retirement systems created by political entities under Chapter 810 of the Government Code are administered locally and changes to their plan provisions do not require ratification by the legislature.	
Constitutional/ Statutory Protection of Benefits	Unless the employer has specifically opted out of the constitutional protection provision, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	
Comments	Chapter 810 of the Government Code was enacted by the 72nd Legislature in response to Attorney General Opinions JM-1068 (1989) and JM-1142 (1990) stating that political subdivisions were not authorized to create their own local retirement systems as the constitution specifically required the Legislature to first enact general laws establishing such retirement programs under Article XVI, sections 67(a) & (c). At the time, the Texas Legislature had not enacted any such general law authorizing these political entities to create their own local retirement systems. Hence, the Legislature passed SB798 adding Chapter 810 to the Government Code, to provide the required statutory authority for political entities to establish, finance, and administer public retirement systems for their appointive officers and employees.	

Appendix A: Local Governance of Plan Provisions for Local Retirement Systems

List of Other Political Entities' Retirement Systems

Arlington Employees Deferred Income Plan

Brazos River Authority Retirement Plan

Capital MTA Retirement Plan for Administrative Employees

Capital MTA Retirement Plan for Bargaining Unit Employees

City Public Service of San Antonio Pension Plan

Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust

Corpus Christi Regional Transportation Authority

Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees

Dallas County Hospital District Retirement Income Plan

Dallas Police & Fire Pension System-Supplemental

Dallas/Fort Worth Airport Board DPS Retirement Plan

Dallas/Fort Worth Airport Board Retirement Plan

DART Employees' Defined Benefit Retirement Plan & Trust

Galveston Wharves Pension Plan

Guadalupe-Blanco River Authority

Harris County Hospital District Pension Plan

Houston MTA Non-Union Pension Plan

Houston MTA Workers Union Pension Plan

Irving Supplemental Benefit Plan

Lower Colorado River Authority Retirement Plan

Nacogdoches County Hospital District Retirement Plan

Northeast Medical Center Hospital Retirement Plan

Northwest Texas Healthcare System Retirement Plan

Physicians Referral Service Retirement Benefit Plan

Port of Houston Authority Retirement Plan

Refugio County Memorial Hospital District Retirement Plan

San Antonio Metropolitan Transit Retirement Plan

University Health System Pension Plan

APPENDIX B

BOARD OF TRUSTEE COMPOSITION FOR LOCAL RETIREMENT SYSTEMS

Appendix B: Local Retirement System Board of Trustees

Texas Public Retirement System Board Composition Comparison					
Plan	Board Composition and Trustee Selection Mechanism:				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	Governing Statute:
Austin Employees' Retirement Fund	4 - Active employees; elected by active membership body. Four-year term.	2 - Retired members; elected by retired membership body. Four-year term.	1 - Member of City Governing Body; appointed by and serving at the pleasure of the city governing body. No term specified. 1 - City manager, or designee	3 - City residents, must be qualified voters and not employees/former employees; appointed by city governing body. Four-year term.	Article 6243n, V.T.C.S.
Austin Fire Fighters' Relief and Retirement Fund	3 - Fund members (may be active or retired); elected by active and retired members. Three-year term.	See Active Employee entry.	1 - Mayor. 1 - City Treasurer. No terms specified.		Article 6243e.1, V.T.C.S.
Austin Police Officers' Retirement System	5 - Police officer fund members; elected by system members. Four-year term.	2 - Retired members; elected by the retired membership body. Four-year term.	1 - Member of City Council, designated by City Council. 1 - City Manager or designee. 1 - Director of Finance or designee. No terms specified.	1 - City resident, must be qualified voter and resident for preceding five years; appointed by police retirement board. Four-year term.	Article 6243n-1, V.T.C.S.
Dallas Employees' Retirement Fund	3 - City employee fund members, from different city departments; elected by fund members. Three-year term.		3 - City Council members or appointees; appointed by City Council. Two-year term. 1 - City auditor.		Dallas City Code, Chpater 40A
Dallas Police and Fire Pension System	6 - Active members, three police and three fire; elected by their respective departments. Four-year term.	2 - Retired fund members, one police and one fire. Four-year term.	4 - City Council members; appointed by City Council. Term same as City Council term.		Article 6243a-1, V.T.C.S.
El Paso City Employees' Pension Fund	4 - City employees qualified to participate in the fund; elected by employees qualified to participate in the fund.	1 - Retired city employee receiving pension benefits, must be city resident; appointed by mayor.	2 - District representatives; designated by City Council.	2 - City residents, must have resided in city for at least two years immediately preceding appointment and are not city officers/employees; appointed by mayor. Two-year terms.	El Paso City Code
El Paso Firemen and Policemen's Pension Fund	3 - Policemen; elected by members of the policemen's pension fund. Four-year terms. 3 - Firemen; elected by members of the firemen's pension fund. Four-year terms.			3 - City residents; designated by the mayor. Four-year terms. 2 - City residents; designated by the city manager. Four-year terms.	Article 6243b, V.T.C.S.

Appendix B: Local Retirement System Board of Trustees

Texas Public Retirement System Board Composition Comparison					
Plan	Board Composition and Trustee Selection Mechanism:				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	Governing Statute:
Fort Worth Employees' Retirement Fund	1 - Vested police officer fund member; elected by police fund members. Two-year term. 1 - Vested firefighter fund member; elected by firefighter fund members. Two-year term. 2 - Vested general employee fund members, not police or firefighters; elected by civilian fund members. Two-year term.	1 - Retired police officer; elected by retired police officer fund members. Two-year term. 1 - Retired firefighter; elected by retired firefighter fund members. Two-year term. 1 - Retired general employee, not police or fire; elected by civilian retirees. Two-year term.	1 - City chief financial officer; designated by city governing body. Two-year term.	5 - City residents, may not be members of city governing body; nominated by mayor, confirmed by majority vote of city governing body. Two-year term.	Article 6243i, V.T.C.S.
Galveston Employees' Pension Plan for Police	1 - President of municipal police association, or next-highest ranked member if President is not a fund member. Term equal to president's term of office. 3 - Members of the fund; elected by fund members. Three-year term.		1 - Municipal finance staff employee; designated by and serving at the pleasure of the city manager. No term specified.	1 - Legally qualified voter; designated by the mayor. Two-year term. 1 - Legally qualified voter; designated by city council. Two-year term.	Article 6243p, V.T.C.S.
Galveston Employees' Retirement Plan	3 - City employees; elected by city employees who are current members in the plan. Terms of office determined by Board bylaws.		1 - City employee in the City's Finance Department; appointed by the City Manager. Terms of office determined by Board bylaws.	1 - City resident, must not be a city employee; appointed by the mayor. Terms of office determined by Board bylaws. 2 - City residents, must not be city employees; appointed by the other five Board of Trustee members. Terms of office determined by Board bylaws.	Galveston City Code
Houston Firefighter's Relief and Retirement Fund	5 - Firefighters who are members of the fund; elected by firefighters who are members of the fund. Three-year term.	1 - Retiree fund members, with at least 20 years of fund participation; elected by retired firefighter fund members with 20+ years of service. Three-year term.	1 - Mayor, or appointed representative of the mayor. No term specified. 1 - City treasurer, or person performing treasurer duties for the city. No term specified.	2 - City residents, must be registered voters, not employees of the city, and city residents for at least one year preceding initial appointment; appointed by the elected members of the Board of Trustees. Two-year term.	Article 6243e.2(1), V.T.C.S.

Texas Public Retirement System Board Composition Comparison					
Plan	Board Composition and Trustee Selection Mechanism:				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	Governing Statute:
Houston Municipal Employees' Pension System	4 - Municipal employees who are members of the pension system, with at least 5 years of credited service; elected by active members of the pension system. No term specified.	2 - Retirees, must be receiving a retirement pension from the system, have at least five years of service in the pension system, and not currently a city officer or employee; elected by retirees of the pension system. No term specified.	1 - Person appointed by mayor; must not be a participant or beneficiary in the pension system. Three-year term. 1 - Person appointed by the city controller; must not be a participant or beneficiary in the pension system. Three-year term. 2 - Persons appointed by the governing body of the city; must not be participants or beneficiaries of the pension system. Three-year terms.	1 - Person appointed by elected Board of Trustee members, must have been a resident of the state for the three years preceding the date of initial appointment. Three-year term.	2011 Amended and Restated Meet and Confer Agreement; supercedes outdated Article 6243h, V.T.C.S.
Houston Police Officers' Pension System	3 - Police employees who are members of the pension system; elected by active, inactive and retired members of the pension system. Three-year term.	2 - Retired members, must be receiving pensions from the system and not currently city employees or officers; elected by active, inactive and retired members of the system. Three-year term.	1 - Administrative head of the city, or authorized representative. No term specified. 1 - City treasurer, or person discharging treasurer duties. No term specified.		Article 6243g-4, V.T.C.S.
San Antonio Fire and Police Pension Fund	2 - Active member firefighters, must be below the rank of fire chief; elected by fire department fund members. Four-year terms. 2 - Active member police officers, must be below the rank of police chief; elected by police department fund members. Four-year terms.	1 - Fire department retiree; elected by fire department retiree fund members and surviving spouses currently receiving benefits. Four-year term. 1 - Police department retiree; elected by police department retiree fund members and surviving spouses currently receiving benefits. Four-year	1 - Mayor, or qualified mayoral designee. Term corresponds to mayor's term of office. 2 - Members of the city governing body; appointed by the governing body. Term corresponds to city government term of office.		Article 6243o, V.T.C.S.

Texas Public Retirement System Board Composition Comparison					
Plan	Board Composition and Trustee Selection Mechanism:				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	Governing Statute:
TLFFRA Plans, Paid or Part-Paid	3 - Members of the retirement system; elected by fund members. Three-year terms.		1 - Mayor or designated representative, or the political subdivision's Chief Operating Officer or designated representative. 1 - Chief Financial Officer of the political subdivision, or designated representative. Terms correspond to term of office.	2 - Residents of the political subdivision, must not be officers/employees of the political subdivision; elected by other Board of Trustee members. Two-year terms.	Article 6243e, sec. 19. V.T.C.S.
TLFFRA Plans, Volunteer	3 - Members of the retirement system; elected by fund members. Three-year terms.		1 - Mayor, or designated representative. 1 - Municipal treasurer, or person performing duties of municipal treasurer. Terms correspond to term of office.		Article 6243e, sec. 20. V.T.C.S.

APPENDIX C

PLAN PROVISIONS FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Eligible Members	Age	Normal YCS	Normal Multiplier	Final Average Salary	Automatic COLA	Benefit Tier Options	Social Security	Employee Contribution	Active Members	Average Salary	Bound by TX Constitution Article XVI, Sec 66
Austin Employees Retirement System, Group A	Hired before 1/1/2012	55; or 62 w/no YCS req.	20	3.00	High 36 mos	No	BackDROP, 5 yr max (no interest/COLA)	Yes	8.00%	All tiers: 8,348	$ 53,069	Yes
Austin Employees Retirement System, Group B	Hired on/after 1/1/2012	62; or 65 with 5 YCS	30	2.50	High 36 mos	No	BackDROP, 5 yr max (no interest/COLA)	Yes	8.00%	All tiers: 8,348	$ 53,069	Yes
Dallas Employees' Retirement Fund	All	50; or 60 w/no YCS req.	30, or Rule of 78	2.75	High 3 yrs	% Change in CPI, max. 5%	No DROP	No	37% of current adj. total obligation rate. 11.87% for 2013.	6,745	$ 45,831	Yes
El Paso City Employees' Pension Fund	All	55	10, or 30 w/no age req.	2.50	Final 36 mos	No	No DROP	Yes	7.75%	4,164	$ 34,368	Yes
Ft. Worth Employees Retirement Fund - Civilian	All	65	Rule of 80	3.00	High 5 yrs	Choice of Auto 2%, or Ad Hoc 0-4%	DROP, 1 yr min/5 yr max (no interest/COLA; contribs go to fund)	No	8.73%	Total, incl. Public Safety: 6,281	$ 58,860	Yes
Galveston Employees' Retirement Fund	All	65	5	2.25	High 60 mos	No	No DROP	Yes	6.00%	444		No
Houston Municipal Employees Pension System, Group A	Hired prior to 9/1/1981, or between 9/1/1999 and 1/1/2008, or former member of Group B or C who elects to join Group A	62	5, or Rule of 75 w/min. age 50	2.50 (first 20), 3.25 (20+)	High 78 bi-weeks, divided by 36	3%, not compounded	DROP (Interest credit: 1/2 investment return, min. 2.5%, max. 7.5%. COLA: 3% not compounded for pre-1/1/2005 hires, 2% for post-1/1/2005 hires)	Yes	5.00%	All Tiers: 12,345	$ 42,648	No
Houston Municipal Employees Pension System, Group B	Hired between 9/1/1981 & 9/1/1999	62	5, or Rule of 75 w/min. age 50	1.75 (first 10), 2.00 (10-20), 2.50 (20+)	High 78 bi-weeks, divided by 36	3% not compounded; 2% for post-1/1/2005 hires	DROP (Interest credit and COLA same as Group A)	Yes	Non-contributory	All Tiers: 12,345	$ 42,648	No
Houston Municipal Employees Pension System, Group D	Hired on/after 1/1/2008	62	5	1.80 (first 25), 1.00 (25+)	High 78 bi-weeks, divided by 36	No	No DROP	Yes	Non-contributory	All Tiers: 12,345	$ 42,648	No

Plan Name	Eligible Members	Age	Normal YCS	Normal Multiplier	Final Average Salary	Automatic COLA	Benefit Tier Options	Social Security	Employee Contribution	Active Members	Average Salary	Bound by TX Constitution Article XVI, Sec 66
Austin Firefighters' Relief & Retirement Fund	All	50	10; or 25 w/no age limit	3.30	High 36 mos	CPI, 1% min.	DROP, 7 yr. max. (5% interest credit)	No	15.70%	1,025	$ 77,054	Yes
Austin Police Retirement System	All	55	20	3.20	High 36 mos (w/in last 120 mos)	No	DROP, 60 mos. max; RetroDROP, 36 mos max backdate	Yes	13.00%	1,624	$ 78,653	Yes
Dallas Police & Fire Pension System, Group A	Members hired prior to 3/1/1973, Choose greater of following options: Option 1:	50	20	50% Base Pay, + 50% Longevity Pay, + 50% Incentive Pay	-	4%	DROP (Interest credit: 10-yr avg of fund's actual return; Eff. 10/1/2013, full employee contrib credited to DROP account)	No	6.50%	All tiers, incl. DROP: 5,376 excl. DROP: 3,995	$ 65,010	Yes
	Option 2:	55	20	3% Base Pay for each yr of svc, + 50% Longevity Pay, + 50% Incentive Pay	-	4%	same as Option 1	No	6.50%	see above	see above	Yes
Dallas Police & Fire Pension System, Group B	Hired between March 1, 1973 and Feb 28, 2011:	50	5	3.00	Final 36 mos	Hired before 12/31/2006: 4%. Hired after 12/31/2006: 0%.	DROP (Interest credit & contrib credit same as Group A)	No	8.50%	see above	see above	Yes
	Hired after Feb 28, 2011:	55	20	2.0% (first 20)/2.5% (next 5)/3.0% (post-25)	Final 60 mos	No	DROP (Interest credit & contrib credit same as Group A)	No	8.50%	see above	see above	Yes
El Paso Firemen's Pension Fund, Base Plan	Hired prior to 06/30/2007	45	20	2.75	Final 36 mos	3% (begins at age 60, or 5 years post-retirement)	BackDROP 6 mos min, 36 mos max.	No	15.28%	All Tiers: 794	$ 62,899	Yes
El Paso Firemen's Pension Fund, Second-Tier Plan	Hired on/after 06/30/2007	50	25	2.50	Final 36 mos	No	BackDROP 6 mos min, 36 mos max.	No	15.28%	All Tiers: 794	$ 62,899	Yes
El Paso Police Pension Fund, Base Plan	Hired prior to 06/30/2007	45	20	2.75	Final 36 mos	3% (begins at age 60, or 2 years post-retirement)	BackDROP 6 mos min, 36 mos max.	No	13.89%	All Tiers: 1,044	$ 64,132	Yes

Plan Name	Eligible Members	Age	Normal YCS	Normal Multiplier	Final Average Salary	Automatic COLA	Benefit Tier Options	Social Security	Employee Contribution	Active Members	Average Salary	Bound by TX Constitution Article XVI, Sec 66
El Paso Police Pension Fund, Second-Tier Plan	Hired on/after 06/30/2007	50	25	2.50	Final 36 mos	No	BackDROP 6 mos min, 36 mos max.	No	13.89%	All Tiers: 1,044	$ 64,132	Yes
Ft. Worth Employees Retirement Fund - Fire	All	65	Rule of 80	3.00	High 3 yrs	Choice of Auto 2% or Adhoc 0-4%	DROP 12 mos min, 60 mos max. (Employee contribs credited to fund)	No	8.25%	Total, incl. civilian: 6,281	$ 61,105	Yes
Ft. Worth Employees Retirement Fund - Police	All	65	25 w/no age req, or Rule of 80	3.00	High 3 yrs	Choice of Auto 2% or Adhoc 0-4%	DROP 12 mos min, 60 mos max. (Employee contribs credited to fund)	No	8.73%	Total, incl. civilian: 6,281	$ 61,105	Yes
Galveston Employees' Retirement Plan for Police, Group A	Member as of 6/30/2008, with 15 or more YCS as of 1/1/2006	45; or 65 w/no YCS req	20; or 25 w/no age limit	-	Final 60 mos	No	No DROP	Yes	12.00%	14	$ 73,399	No
Galveston Employees' Retirement Plan for Police , Group B	Less than 15 YCS as of 1/1/2006:	50; or 65 w/no YCS req	20	2.11	Final 60 mos	No	No DROP	Yes	12.00%	113	$ 63,768	No
Houston Police Officers Pension System	Sworn prior to Oct. 9, 2004:	Any age w/20 YCS	20	2.75% (first 20)/2.0% (post 20)	Final 36 mos	2/3 increase in CPI; min. 3%, max. 8%; compounded	BackDROP, no max. (Interest credit: 5-yr fund earnings/losses, min 3% max 7%; Employee contribs and normal retirement COLA credited to DROP accounts)	No	9.00%	5,312		No
	Sworn on/after Oct. 9, 2004:	55	10	2.25% (first 20)/2.0% (post 20)	Final 36 mos	80% increase in CPI; min. 2.4%, max. 8%.	No DROP; PLOP option offered.	No	10.25%	5,312		No
Houston Firefighters' Relief & Retirement Fund	All	No age req. (must be under age 36 at hire date to participate)	20	50% (first 20)/3.0% (post-20)	High 36 mos	3%	DROP, 13-yr max. (10-yr max for contribution credit. Interest credit: 5-yr fund earnings/losses; COLA: 2%) BackDROP, 3 year max backdate.	No	9.00%	Incl. DROP: 3,911 Excl. DROP: 2,898	$ 63,296	No
San Antonio Fire & Police Pension Fund	All		20 w/no age limit	2.25 (first 20)/5.00 (21-27)/ 2.00 (28-30)/0.50 (post-30)	High 36 mos	75% CPI	BackDROP, max 60 mos.	No	12.32%	Incl. DROP: 3,911 Excl. DROP: 2,898	$ 70,521	No

Plan Name	Age	Years of Credited Service (YCS) (A)	Multiplier (B)	Final Average Salary (C)	Benefit Formula	Automatic COLA	DROP	Social Security	Employee Contribution	Active Members	Bound By TX Constitution Article XVI, Section 66
Abilene Firemen's Relief & Retirement Fund	50	20	3%	Highest 36 Month Salary	(A)*(B)*(C)	No	Yes	Yes	13.20%	182	Yes
Amarillo Firemen's Relief & Retirement Fund	50	20	3.30%	Highest 36 Month Salary	(A)*(B)*(C)	No	Yes	No	10%	243	Yes
Atlanta Firemen's Relief & Retirement Fund	50	20	61%	Highest 60 Month Average Salary but not less than $1,000	(B)*(C)	No	Yes	No	12%	33	Yes
Beaumont Firemen's Relief & Retirement Fund	50	20	63.15%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	13%	230	Yes
Big Spring Firemen's Relief & Retirement Fund	50	20	2.55%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	12.00%	66	Yes
Brownwood Firefighter's Relief & Retirement Fund	50	20	50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	8%	33	Yes
Cleburne Firemen's Relief & Retirement Fund	50	20	68%	Final 60 Month salary	(B)*(C)	No	Yes	*	12%	54	Yes
Conroe Fire Fighters' Retirement Fund	50	20	67.50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	13.24%	81	Yes
Corpus Christi Fire Fighters' Retirement System	54	20	50.80%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	11.1%	416	Yes
Corsicana Firemen's Relief & Retirement Fund	50	20	53%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	12%	52	Yes
Denison Firemen's Relief & Retirement Fund	50	20	2.65%	Highest 24 Month Average Salary	(A)*(B)*(C)	No	No	No	12%	55	No
Denton Firemen's Relief & Retirement Fund	50	20	2.59%	Highest 36 Month Average Salary	(A)*(B)*(C)	Automatic equal to 70% of the increase in the consumer price index	Yes	No	12.6%	163	Yes
Galveston Firefighter's Relief & Retirement Fund	50	20	3%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	10%	124	No
Greenville Firemen's Relief & Retirement Fund	50	20	3.15%	Highest 36 Month Average Salary	(A)*(B)*(C)	No	Yes	*	15.3%	58	Yes
Harlingen Firemen's Relief & Retirement Fund	50	20	65.50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	12%	106	Yes
Irving Firemen's Relief & Retirement Fund	50	20	3.18%	Salary for 78 Consecutive Two-Week Pay Periods that Produces the Highest Average	(A)*(B)*(C)	No	Yes	No	10%	311	Yes
Killeen Firemen's Relief & Retirement Fund	55	20	58.40%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	10%	187	Yes
Laredo Firefighters Retirement System	50	20	3.03%	Highest 78 Biweekly Pay Period out of the Last 208 Biweekly Pay Periods	(A)*(B)*(C)	No	Yes	*	14%	362	Yes
Longview Firemen's Relief & Retirement Fund	50	20	80%	Highest 36 Month Average Salary	(B)*(C)	No	No	No	15%	164	Yes
Lubbock Fire Pension Fund	50	20	68.92%	Final 48 Month Average Salary	(A)*(B)*(C)	No	No	No	12.43%	345	Yes
Lufkin Firemen's Relief & Retirement Fund	50	15	3.35%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	13.2%	78	Yes
Marshall Firemen's Relief & Retirement Fund	50	10	3.13%	Last 36 Month Average Salary	(A)*(B)*(C)	No	Yes	*	14%	49	No

* Plan did not respond to Pension Review Board Social Security participation survey

Plan Name	Age	Years of Credited Service (YCS) (A)	Multiplier (B)	Final Average Salary (C)	Benefit Formula	Automatic COLA	DROP	Social Security	Employee Contribution	Active Members	Bound By TX Constitution Article XVI, Section 66
McAllen Firemen's Relief & Retirement Fund	50	20	2.90%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	Yes	10%	162	No
Midland Firemen's Relief & Retirement Fund	50	20	75%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	13.2%	190	Yes
Odessa Firemen's Relief & Retirement Fund	50	20	72%	Highest Monthly Average Salary for 5 of Last 10 Years of Service	(B)*(C)	1% of Benefit with a Minimum of $37	Yes	Yes	13%	178	Yes
Orange Firemen's Relief & Retirement Fund	50	20	2.60%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	Yes	11%	37	Yes
Paris Firefighters' Relief & Retirement Fund	55	20	Greater of 2% x Highest 5 Year Average or $85.50 x Years of Service	Highest 60 Month Average Salary or $85.50 x Years of Service	Greater of 2% x Highest 5 Year Average or $85.50 x Years of Service	No	Yes	No	10%	49	No
Plainview Firemen's Relief & Retirement Fund	53	20	63.75%	Highest 60 Month Average Salary	(B)*(C)	No	No	No	14%	36	Yes
Port Arthur Firemen's Relief & Retirement Fund	50	20	2.70%	Average Monthly Salary	(A)*(B)*(C)	No	Yes	*	13%	103	No
San Angelo Firemen's Relief & Retirement Fund	50	20	66%	Highest 48 Month Average Salary	(B)*(C)	1.2% Annually	Yes	*	13.2%	179	Yes
San Benito Firemen's Pension Fund	52	20	38%	Highest 60 Month Average Salary	(B)*(C)	No	No	Yes	9%	24	Yes
Sweetwater Firemen's Relief & Retirement Fund	50	20	3.95%	Highest 36 Month Average Salary	(A)*(B)*(C)	No	Yes	No	15%	28	Yes
Temple Firemen's Relief & Retirement Fund	50	20	65.75%	Highest 60 Month Average Salary	(B)*(C)	No	No	No	14.69%	110	Yes
Texarkana Firemen's Relief & Retirement Fund	50	20	2.98	Highest 36 Month Average Salary	(A)*(B)*(C)	No	Yes	*	12%	80	Yes
Texas City Firemen's Relief & Retirement Fund	53	20	3.0%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	15%	69	Yes
Travis County ESD # 6 Firefighter's Relief & Retirement Fund	55	25	1.67%	Highest Average Monthly Pay	(A)*(B)*(C)	No	No	No	12%	59	Yes
Tyler Firemen's Relief & Retirement Fund	55	20	71.50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	13.5%	156	Yes
University Park Firemen's Relief & Retirement Fund	50	20	56.25%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	15%	35	Yes
Waxahachie Firemen's Relief & Retirement Fund	50	20	2.6%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	No	Yes	12%	48	Yes
Weslaco Firemen's Relief & Retirement Fund	55	20	47%	Highest 60 Month Average Salary	(B)*(C)	No	No	Yes	10%	74	Yes
Wichita Falls Firemen's Relief & Retirement Fund	50	20	2.55%	Salary for 78 Consecutive Two-Week Pay Periods that Produces the Highest Average	(A)*(B)*(C)	No	Yes	Yes	12%	150	Yes

* Plan did not respond to Pension Review Board Social Security participation survey

APPENDIX D

ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

CIVILIAN

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Austin Employees' Retirement System	12/31/2011	8.00%	16.00%	11.74%	$1,790,902,641	$932,942,173	27.1
Dallas Employees' Retirement Fund	12/31/2011	11.87%	10.48%	17.09%	$2,916,746,000	$474,906,000	30
El Paso City Employees' Pension Fund	9/1/2010	7.75%	11.65%	14.60%	$569,723,124	$140,274,242	39
Fort Worth Employees' Retirement Fund	1/1/2012	8.41%	19.98%	15.39%	$1,869,656,263	$748,205,870	28.4
Galveston Employees' Retirement Fund	1/1/2012	6.00%	9.00%	11.48%	$40,151,763	$10,689,568	Infinite
Houston Municipal Employees Pension System	7/1/2011	3.37%	18.08%	5.86%	$2,328,804,000	$1,461,524,000	30
Plano Retirement Security Plan	12/31/2009	0.00%	0.00%	3.25%	$75,217,522	$1,332,782	25

PUBLIC SAFETY

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Austin Fire Fighters Relief & Retirement Fund	12/31/2009	15.70%	18.05%	30.22%	$589,261,001	$74,924,239	20.5
Austin Police Retirement System	12/31/2011	13.00%	21.63%	23.24%	$553,701,976	$270,760,099	30.7
Dallas Police & Fire Pension System-Combined Plan	1/1/2012	8.50%	27.50%	23.51%	$3,378,481,222	$1,190,369,365	30
El Paso Firemen's Pension Fund	1/1/2012	15.28%	18.50%	26.89%	$431,209,946	$108,582,531	76
El Paso Police Pension Fund	1/1/2012	13.89%	18.50%	27.17%	$626,346,104	$174,514,074	Infinite
Galveston Employees' Retirement Plan for Police	1/1/2012	12.00%	12.00%	12.06%	$22,695,097	$25,694,496	53.5
Houston Firefighter's Relief & Retirement Fund	7/1/2010	8.50%	27.92%	18.00%	$3,116,848,000	$220,625,000	30
Houston Police Officers Pension System	7/1/2011	9.35%	20.86%	29.37%	$3,718,052,000	$770,090,000	30
San Antonio Fire & Police Pension Fund	10/1/2011	24.64%	12.32%	25.86%	$2,330,520,561	$242,741,389	9.12

TLFFRA

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Abilene Firemen's Relief & Retirement Fund	9/30/2011	13.20%	19.25%	15.58%	$49,429,210	$38,982,852	32.9
Amarillo Firemen's Relief & Retirement Fund	1/1/2010	11.00%	17.83%	21.80%	$116,150,945	$22,112,825	35.9
Atlanta Firemen's Relief & Retirement Fund	12/31/2009	12.00%	12.00%	16.84%	$2,638,258	$910,476	30
Beaumont Firemen's Relief & Retirement Fund	12/31/2010	14.00%	13.00%	17.01%	$91,469,680	$36,926,504	53.6
Big Spring Firemen's Relief & Retirement Fund	1/1/2008	12.00%	12.00%	12.70%	$9,837,578	$4,602,913	25.66
Boerne Firemen's Relief & Retirement Fund	12/31/2011	0.00%	0.00%	0.00%	$249,568	$0.00	15
Brownwood Firemen's Relief & Retirement Fund	12/31/2009	8.00%	20.00%	14.00%	$2,460,557	$3,747,374	27.2
Cleburne Firemen's Relief & Retirement Fund	12/31/2010	13.00%	23.17%	17.59%	$14,581,551	$10,155,702	21.9
Conroe Fire Fighters' Retirement Fund	12/31/2011	13.24%	15.00%	18.90%	$15,392,762	$10,016,819	38.2
Corpus Christi Fire Fighters' Retirement System	12/31/2010	12.20%	20.78%	14.82%	$104,079,845	$73,485,485	22.3
Corsicana Firemen's Relief & Retirement Fund	12/31/2010	12.00%	14.00%	14.81%	$6,349,644	$5,873,138	29
Denison Firemen's Relief & Retirement Fund	1/1/2012	11.99%	14.92%	15.48%	$13,680,826	$5,552,667	23.9
Denton Firemen's Relief & Retirement Fund	12/31/2009	12.00%	16.00%	19.08%	$46,256,617	$19,617,547	26.5
Edinburg Firemen's Relief & Retirement	12/31/2007	0.00%	0.00%	0.00%	$1,177,912	$780,691	14
Galveston Firefighter's Relief & Retirement Fund	1/1/2010	12.00%	14.00%	17.13%	$37,630,993	$14,087,546	36.5
Greenville Firemen's Relief & Retirement Fund	12/31/2010	15.30%	15.30%	15.19%	$13,032,946	$10,797,507	45.7
Harlingen Firemen's Relief & Retirement Fund	12/31/2009	12.00%	12.00%	17.40%	$20,187,246	$10,761,642	Infinite
Henrietta Firemen's Relief & Retirement Fund	12/31/2006	0.00%	0.00%	0.00%	$94,989	$96,251	36
Irving Firemen's Relief & Retirement Fund	1/1/2012	12.00%	12.00%	17.12%	$134,886,668	$65,253,147	Infinite
Killeen Firemen's Relief & Retirement Fund	9/30/2010	10.00%	13.00%	15.71%	$23,980,822	$13,181,124	27
Laredo Firefighters Retirement System	3/31/2010	14.00%	17.65%	19.34%	$84,625,644	$49,350,956	23.5
Longview Firemen's Relief & Retirement Fund	12/31/2011	15.00%	15.00%	15.14%	$39,578,091	$36,507,494	Infinite
Lubbock Fire Pension Fund	12/31/2010	12.43%	22.83%	23.16%	$156,812,670	$40,682,725	22.80

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Lufkin Firemen's Relief & Retirement Fund	12/31/2010	13.20%	23.50%	14.97%	$10,101,470	$16,950,479	53.7
Marshall Firemen's Relief & Retirement Fund	12/31/2010	14.00%	18.69%	13.65%	$6,653,612	$7,518,284	23.5
McAllen Firemen's Relief & Retirement Fund	9/30/2010	10.00%	12.00%	13.75%	$36,635,594	$14,914,549	39.6
Midland Firemen's Relief & Retirement Fund	1/1/2010	13.20%	20.20%	26.15%	$70,554,953	$19,783,245	41.2
Odessa Firemen's Relief & Retirement Fund	1/1/2011	15.00%	16.45%	17.46%	$46,170,391	$28,188,865	71
Orange Firemen's Relief & Retirement Fund	12/31/2010	11.00%	14.00%	11.59%	$9,035,613	$4,643,644	34.3
Paris Firefighters' Relief & Retirement Fund	1/1/2011	13.00%	12.00%	8.48%	$6,736,683	$6,227,642	27.9
Plainview Firemen's Relief & Retirement Fund	12/31/2011	14.00%	18.23%	13.52%	$4,969,795	$7,729,513	35.2
Port Arthur Firemen's Relief & Retirement Fund	1/1/2010	13.00%	14.39%	14.74%	$33,233,278	$12,656,143	22.5
San Angelo Firemen's Relief & Retirement Fund	12/31/2009	14.20%	20.20%	22.87%	$47,962,971	$21,490,843	32.4
San Benito Firemen's Pension Fund	12/31/2008	12.00%	12.00%	12.03%	$1,696,067	$2,005,151	18.7
Sweetwater Firemen's Relief & Retirement Fund	12/31/2010	15.00%	15.00%	21.07%	$7,438,844	$2,246,455	39.4
Temple Firemen's Relief & Retirement Fund	9/30/2010	14.69%	14.93%	20.07%	$33,272,723	$10,100,730	27.4
Texarkana Firemen's Relief & Retirement Fund	12/31/2009	13.50%	19.50%	20.31%	$24,692,627	$4,125,446	10.3
Texas City Firemen's Relief & Retirement Fund	12/31/2008	15.00%	15.00%	14.70%	$9,564,760	$13,315,308	53.3
Travis County ESD # 6 Firefighter's Relief & Retirement Fund	12/1/2012	18.20%	18.20%	13.10%	$3,469,606	$2,865,849	3.2
Tyler Firemen's Relief & Retirement Fund	12/31/2009	13.50%	18.00%	19.97%	$45,386,149	$19,035,929	26.4
University Park Firemen's Relief & Retirement Fund	12/31/2010	14.35%	15.93%	15.94%	$9,008,704	$8,771,026	40.6
Waxahachie Firemen's Relief & Retirement Fund	10/1/2010	12.00%	18.09%	16.10%	$8,159,658	$5,159,579	13.8
Weslaco Firemen's Relief & Retirement Fund	9/30/2009	10.00%	10.00%	13.56%	$4,977,251	$4,308,720	31
Wichita Falls Firemen's Relief & Retirement Fund	12/31/2010	12.00%	13.08%	14.64%	$41,107,385	$19,044,765	38.9

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

ALL OTHER LOCAL PLANS

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liability	Amortization Period
		Member	City				
Arlington Employees Deferred Income Plan	7/1/2011	3.00%	0.50%	6.42%	$2,230,389	-$602,466	0
Brazos River Authority Retirement Plan	3/1/2012	0.00%	0.00%	0.00%	$19,775,845	$7,455,335	30
Capital MTA Retirement Plan for Administrative Employees	1/1/2010	0.00%	12.02%	11.40%	$8,451,210	$5,217,817	10.5
Capital MTA Retirement Plan for Bargaining Unit Employees	1/1/2010	4.30%	4.30%	6.66%	$29,725,459	$19,536,309	29
City Public Service of San Antonio Pension Plan	1/1/2011	5.00%	14.66%	15.86%	$1,146,038,622	$152,897,317	20
Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust	1/1/2011	0.00%	13.86%	9.98%	$8,600,281	$1,107,922	30
Corpus Christi Regional Transportation Authority	1/1/2012	0.00%	15.50%	9.20%	$21,791,159	$3,785,266	12
Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees	1/1/2008	0.00%	0.00%	6.22%	$4,997,800	$1,572,937	30
Dallas County Hospital District Retirement Income Plan	1/1/2012	4.50%	0.00%	2.36%	$556,872,195	$88,893,356	30
Dallas Police & Fire Pension System-Supplemental	1/1/2012	8.50%	264.86%	14.74%	$20,822,569	$15,507,036	5
Dallas/Fort Worth Airport Board DPS Retirement Plan	1/1/2012	7.00%	26.02%	19.82%	$104,620,612	$51,601,188	23
Dallas/Fort Worth Airport Board Retirement Plan	1/1/2012	0.00%	29.56%	15.53%	$305,799,228	$120,322,817	23
DART Employees' Defined Benefit Retirement Plan & Trust	10/1/2010	0.01%	26.13%	10.00%	$145,605,173	$30,981,997	30
Galveston Wharves Pension Plan	1/1/2011	0.00%	0.00%	7.08%	$9,312,959	$3,511,192	30
Guadalupe-Blanco River Authority	1/1/2011	0.00%	12.00%	5.24%	$16,133,705	$5,288,829	12.3
Harris County Hospital District Pension Plan	1/1/2012	0.00%	10.33%	5.91%	$450,120,559	$126,436,540	20
Houston MTA Non-Union Pension Plan	1/1/2012	0.00%	22.65%	10.58%	$110,278,187	$31,775,580	30
Houston MTA Workers Union Pension Plan	1/1/2012	0.00%	0.00%	7.08%	$173,837,727	$81,715,182	30
Irving Supplemental Benefit Plan	1/1/2011	2.50%	0.00%	2.94%	$44,288,082	$7,907,326	Infinite
Lower Colorado River Authority Retirement Plan	4/1/2011	0.00%	9.70%	3.41%	$343,116,746	$150,902,367	21.5

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liability	Amortization Period
		Member	City				
Nacogdoches County Hospital District Retirement Plan	6/30/2011	0.00%	6.00%	0.00%	$0.00	$0.00	30
Northeast Medical Center Hospital Retirement Plan	7/1/2011	0.00%	0.00%	0.00%	$9,298,987	$2,006,393	10
Northwest Texas Healthcare System Retirement Plan	10/1/2010	0.00%	0.00%	0.00%	$18,259,179	$12,269,891	10
Physicians Referral Service Retirement Benefit Plan	9/1/2011	0.00%	0.00%	6.21%	$374,274,704	$136,175,930	15
Port of Houston Authority Retirement Plan	8/1/2011	0.00%	30.39%	11.40%	$123,763,457	$8,731,509	3
Refugio County Memorial Hospital District Retirement Plan	11/1/2010	0.00%	0.00%	5.94%	$2,498,932	$0.00	NA
San Antonio Metropolitan Transit Retirement Plan	10/1/2010	0.00%	0.00%	8.19%	$184,078,773	$80,376,401	26
University Health System Pension Plan	1/1/2010	2.00%	0.00%	0.00%	$147,063,800	$77,421,123	30

APPENDIX E

ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

APPENDIX E - ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

CIVILIAN

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Austin Employees' Retirement System	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	3.25%
Dallas Employees' Retirement Fund	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.25%	3.00%
El Paso City Employees' Pension Fund	9/1/2010	Entry Age Normal	Level Percent Open	5 - year Smoothing	8.00%	4.00%
Fort Worth Employees' Retirement Fund	1/1/2012	Entry Age Normal	Level Percent Open	Market Value of Assets	8.25%	3.00%
Galveston Employees' Retirement Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.25%
Houston Municipal Employees Pension System	7/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	8.50%	3.00%
Plano Retirement Security Plan	12/31/2009	Entry Age Normal	Level Percent Closed	5-year Smoothing	7.75%	3.00%

PUBLIC SAFETY

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Austin Fire Fighters Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
Austin Police Retirement System	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.75%
Dallas Police & Fire Pension System-Combined Plan	1/1/2012	Entry Age Normal	Level Percent	Market Value of Assets	8.50%	4.00%
El Paso Firemen's Pension Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
El Paso Police Pension Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
Galveston Employees' Retirement Plan for Police	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.50%	4.00%
Houston Firefighter's Relief & Retirement Fund	7/1/2010	Entry Age Normal	Level Percent Closed	5-year Smoothing	8.50%	3.00%
Houston Police Officers Pension System	7/1/2011	Projected Unit Credit	Level Percent Open	5-year Smoothing	8.50%	3.00%
San Antonio Fire & Police Pension Fund	10/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	4.00%

TLFFRA

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Abilene Firemen's Relief & Retirement Fund	9/30/2011	Entry Age Normal	Level Percent	5-yr Smoothing	8.00%	3.00%
Amarillo Firemen's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	8.25%	3.25%
Atlanta Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-yr Smoothing	7.25%	4.00%
Beaumont Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	8.00%	4.00%
Big Spring Firemen's Relief & Retirement Fund	1/1/2008	Entry Age Normal	Level Percent	5-yr Smoothing	8.00%	NA
Boerne Firemen's Relief & Retirement Fund	12/31/2011	Aggregate	NA	NA	4.75%	NA
Brownwood Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-yr Smoothing	7.25%	4.00%
Cleburne Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	7.50%	3.75%
Conroe Fire Fighters' Retirement Fund	12/31/2011	Entry Age Normal	Level Percent	5-yr Smoothing	7.75%	NA
Corpus Christi Fire Fighters' Retirement System	12/31/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	8.00%	4.00%
Corsicana Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	5-yr Smoothing	7.50%	4.00%
Denison Firemen's Relief & Retirement Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
Denton Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.25%	3.50%
Edinburg Firemen's Relief & Retirement	12/31/2007	Entry Age Normal	Level Percent	Market Value of Assets	4.00%	3.50%
Galveston Firefighter's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.25%
Greenville Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.25%	3.00%
Harlingen Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	Market Value of Assets	8.00%	NA
Henrietta Firemen's Relief & Retirement Fund	12/31/2006	Entry Age Normal	Level Dollar	NA	4.75%	0.00%
Irving Firemen's Relief & Retirement Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	8.25%	3.25%
Killeen Firemen's Relief & Retirement Fund	9/30/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	4.00%
Laredo Firefighters Retirement System	3/31/2010	Entry Age Normal	Level Percent Open	Other	8.00%	3.75%
Longview Firemen's Relief & Retirement Fund	12/31/2011	Entry Age Normal	Level Percent	Market Value of Assets	8.00%	3.00%

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Lubbock Fire Pension Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Lufkin Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	3-year Smoothing	7.50%	NA
Marshall Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	Market Value of Assets	8.00%	NA
McAllen Firemen's Relief & Retirement Fund	9/30/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Midland Firemen's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.00%
Odessa Firemen's Relief & Retirement Fund	1/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	8.50%	3.00%
Orange Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Paris Firefighters' Relief & Retirement Fund	1/1/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Plainview Firemen's Relief & Retirement Fund	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	NA
Port Arthur Firemen's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
San Angelo Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent	5-year Smoothing	7.90%	NA
San Benito Firemen's Pension Fund	12/31/2008	Entry Age Normal	Level Percent	Market Value of Assets	7.00%	NA
Sweetwater Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Temple Firemen's Relief & Retirement Fund	9/30/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	4.00%
Texarkana Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	3.50%
Texas City Firemen's Relief & Retirement Fund	12/31/2008	Entry Age Normal	Level Percent Open	Market Value of Assets	7.75%	NA
Travis County ESD # 6 Firefighter's Relief & Retirement Fund	12/1/2012	Entry Age Normal	Level Percent Open	5-year Smoothing	7.00%	3.00%
Tyler Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	3.75%
University Park Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.00%
Waxahachie Firemen's Relief & Retirement Fund	10/1/2010	Entry Age Normal	Level Percent	Market Value of Assets	7.00%	NA
Weslaco Firemen's Relief & Retirement Fund	9/30/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.25%	4.00%
Wichita Falls Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.00%

ALL OTHER LOCAL PLANS

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Arlington Employees Deferred Income Plan	7/1/2011	Entry Age Normal	NA	NA	6.50%	NA
Brazos River Authority Retirement Plan	3/1/2012	NA	NA	5-year Smoothing	6.50%	NA
Capital MTA Retirement Plan for Administrative Employees	1/1/2010	Aggregate	NA	Market Value of Assets	7.50%	NA
Capital MTA Retirement Plan for Bargaining Unit Employees	1/1/2010	Entry Age Normal	Level Percent Closed	Other	7.50%	3.00%
City Public Service of San Antonio Pension Plan	1/1/2011	Projected Unit Credit	Level Dollar Open	5-year Smoothing	7.75%	3.00%
Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust	1/1/2011	Entry Age Normal	Level Percent	Market Value of Assets	7.50%	NA
Corpus Christi Regional Transportation Authority	1/1/2012	Entry Age Normal	Level Dollar Closed	Market Value of Assets	7.50%	NA
Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees	1/1/2008	Unit Credit	NA	Market Value of Assets	4.25%	NA
Dallas County Hospital District Retirement Income Plan	1/1/2012	Projected Unit Credit	Level Percent Open	Market Value of Assets	8.25%	NA
Dallas Police & Fire Pension System-Supplemental	1/1/2012	Entry Age Normal	Level Percent	Market Value of Assets	8.50%	4.00%
Dallas/Fort Worth Airport Board DPS Retirement Plan	1/1/2012	Entry Age Normal	Level Percent Closed	5-year Smoothing	7.25%	3.00%
Dallas/Fort Worth Airport Board Retirement Plan	1/1/2012	Entry Age Normal	Level Dollar Closed	5-year Smoothing	7.25%	3.00%
DART Employees' Defined Benefit Retirement Plan & Trust	10/1/2010	Projected Unit Credit	Level Dollar Open	5-year Smoothing	8.00%	2.50%
Galveston Wharves Pension Plan	1/1/2011	Entry Age Normal	Level Dollar	Market Value of Assets	7.50%	3.50%
Guadalupe-Blanco River Authority	1/1/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	4.00%
Harris County Hospital District Pension Plan	1/1/2012	Projected Unit Credit	Level Percent Open	5-year Smoothing	8.00%	3.00%
Houston MTA Non-Union Pension Plan	1/1/2012	NA	NA	5-year Smoothing	8.00%	NA
Houston MTA Workers Union Pension Plan	1/1/2012	Unit Credit	Level Dollar	5-year Smoothing	8.00%	NA
Irving Supplemental Benefit Plan	1/1/2011	Projected Unit Credit	Level Percent Open	5-year Smoothing	7.00%	3.00%

APPENDIX E - ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Lower Colorado River Authority Retirement Plan	4/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	7.50%	3.75%
Nacogdoches County Hospital District Retirement Plan	6/30/2011	Entry Age Normal	Level Percent Closed	NA	8.00%	NA
Northeast Medical Center Hospital Retirement Plan	7/1/2011	Projected Unit Credit	Level Dollar	Market Value of Assets	8.00%	NA
Northwest Texas Healthcare System Retirement Plan	10/1/2010	Entry Age Normal	Level Dollar Open	5-year Smoothing	8.00%	3.00%
Physicians Referral Service Retirement Benefit Plan	9/1/2011	Projected Unit Credit	Level Percent	5-year Smoothing	8.00%	NA
Port of Houston Authority Retirement Plan	8/1/2011	Entry Age Normal	Level Dollar Closed	Market Value of Assets	7.25%	3.50%
Refugio County Memorial Hospital District Retirement Plan	11/1/2010	NA	NA	NA	NA	NA
San Antonio Metropolitan Transit Retirement Plan	10/1/2010	Entry Age Normal	Level Percent Closed	5-year Smoothing	8.00%	3.00%
University Health System Pension Plan	1/1/2010	Projected Unit Credit	Level Percent Open	5-year Smoothing	7.50%	2.50%

APPENDIX E – REPORT TO THE HOUSE COMMITTEE ON PENSION, INVESTMENTS, AND FINANCIAL SERVICES ON INTERIM CHARGES 1 AND 5

State Pension Review Board
House Committee on Pensions, Investments, and Financial Services
82^{nd} Interim
September 12, 2012 hearing

State Pension Review Board
House Committee on Pensions, Investments, and Financial Services
82nd Interim, September 12, 2012 hearing

Interim Charge #1: *Review local retirement systems that are not a part of statewide systems, the administration of these systems, and current liabilities. Study and make recommendations aimed at curbing rising pension costs to local governments.*

Introduction

Public retirement systems in the State of Texas have over 2.3 million members and nearly $200 billion in total net assets. Of the 358 Texas public retirement systems registered with the Pension Review Board (PRB), 186 are defined benefit systems and 172 are defined contribution systems. Local retirement systems that are not part of a statewide system such as Texas Municipal Retirement System (TMRS) and Texas County and District Retirement System (TCDRS) total 178 defined benefit systems and 171 defined contributions systems. These 349 local retirement systems have over 291,000 members and over $30 billion in total net assets.

Local defined benefit systems include actuarially funded and pay-as-you-go systems. Actuarially funded defined benefit systems are pre-funded systems which utilize the combination of contributions and investment income to fund their benefits and expenses. Pay-as-you-go systems typically fund benefits and expenses solely from contributions as trust fund assets are either zero or too small to generate sufficient investment income to offset benefit and expense costs. Of the 178 local defined benefit systems, 88 are actuarially funded and 90 are pay-as-you-go. Local defined contribution systems include 401(a), 401(k) and 457 plans. The table below summarizes the number of different local retirement systems in the State of Texas:

Local Retirement Systems in Texas

DB/DC	Plan Type	Number of Plans	Total Net Assets	Number of Members
DB	Actuarially funded	88	$28,481,347,040	189,008
DB	Pay-as-you-go	90	$4,405,382	2,597
DC	401(a)	156	$1,476,976,875	93,655
DC	401(k)	7	$316,615,396	5,951
DC	457	8	$10,809,764	423

Actuarially funded defined benefit systems have the most members and the largest percentage of total net assets of all the local retirement systems. The sponsors of these systems include over 50 cities as well as several river, transit, hospital authorities and districts. Members of the systems include both civilian and public safety employees. The table below summarizes the number of different local actuarially funded defined benefit systems:

Local Actuarially Funded Defined Benefit Systems

Description	Number of Plans	Total Net Assets	Number of Members
Civilian[1]	7	$9,030,377,612	74,994
Public Safety	53	$15,336,335,518	45,943
Other Governmental Entity[2]	28	$4,114,633,911	68,071

State Constitution and Statutes

Texas has numerous statutes and laws governing local retirement systems. Local retirement systems are enabled by the State Constitution. Article 16, Section 67 of the State Constitution has two key subsections which provide for the creation of local retirement systems, as well as outline basic fiduciary and governance principles:

- Article 16, Section 67(c) states that the Legislature shall provide by law for the creation by any city or county of a system of benefits for its officers and employees.
- Article 16, Section 67(f) directs the boards of trustees of retirement systems not belonging to a statewide system to hold the assets in trust for the exclusive purpose of providing benefits to the members, defraying reasonable expenses of administering the system, and to adopt sound actuarial assumptions.

In 2003, the State Constitution was amended to include Section 66 of Article 16, "Protected Benefits under Certain Public Retirement Systems". This section applies only to certain local public retirement systems and does not cover health or life insurance benefits. The key provisions of this section of the State Constitution are:

- Local retirement systems covered by this section may not reduce or otherwise impair benefits accrued by a person if the person could have terminated employment or had terminated employment and would have been eligible for those benefits without accumulating additional service under the retirement system.
- Benefits granted to a retiree or other annuitant may not be reduced or otherwise impaired.
- The political subdivision(s) and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under the section are not reduced or impaired and the section does not create a liability or an obligation to a retirement system for a member of the retirement system other than the payment by active members of a required contribution.
- Subsection (b) specifically exempts the San Antonio Fire and Police Pension Fund from the provisions of this section.

[1] Includes combined civilian/public safety plans.
[2] Other Governmental Entities include river, transit, hospital authorities and districts. See Appendix A for a full list of local retirement systems under the category of "Other Governmental Entity".

Additionally, the section allowed for a one-time opt-out election in May 2004 for any retirement system and the political subdivision that finances benefits under the retirement system. The following cities opted-out of the section: Denison, Galveston, Houston, Marshall, McAllen, Paris, and Port Arthur.

Twelve retirement systems are specifically enabled by state statute. The following are local retirement systems with their own provisions of Article 6243, Vernon's Civil Statures (also known as Title 109):

- Austin Employees' Retirement System
- Austin Fire Fighters Relief & Retirement Fund
- Austin Police Retirement System
- Dallas Police & Fire Pension System
- El Paso Firemen's Pension Fund
- El Paso Police Pension Fund
- Fort Worth Employees' Retirement Fund
- Galveston Employees' Retirement Plan for Police
- Houston Firefighter's Relief & Retirement Fund
- Houston Municipal Employees Pension System
- Houston Police Officers Pension System
- San Antonio Fire & Police Pension Fund

In addition to these systems, the Texas Local Fire Fighters' Retirement Act (TLFFRA), Article 6243(e) of Vernon's Civil Statutes, is the governing statute of 41 paid/part-paid and 80 volunteer fire systems across the State.

Several local retirement systems were created without specific legislative authority required by the Constitution. Two attorney general opinions (JM-1068 and JM-1142) determined these local retirement systems were invalid. To resolve this situation, the 72nd Legislature adopted Chapter 810 of the Government Code to authorize all those systems that had been established prior to the attorney general opinions as well as to provide for subsequent local retirement systems established by local jurisdictions.

Local retirement systems established in Title 109 have their contribution rates, benefit levels and the composition of their board of trustees set in statute. Certain systems may have authority to make changes locally, either through meet and confer provisions in their statute, or through other procedures outlined in their enabling statute. Local retirement systems established under TLFFRA have authority to determine member contribution rates, benefit levels, and other plan provisions locally through procedures outlined in TLFFRA; however, the composition of TLFFRA board of trustees are set in statute. Sponsoring municipalities of TLFFRA systems must meet a statutory minimum contribution rate, but may adopt by ordinance a higher contribution rate than set in statute. Local retirement systems established under Chapter 810 of the Government Code have the authority to determine plan provisions locally[3].

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[3] See Appendix A for local retirement system statutory information and Appendix B for local retirement system board of trustee information.

Local retirement systems, except for certain deferred compensation plans, are also subject to Chapter 802 of the Government Code. Subchapter C of Chapter 802 covers the administration of the systems assets and provides for the following key fiduciary guidelines[4]:

- The assets held in trust are for the benefit of the members and retirees of the system and their beneficiaries.
- In making and supervising investments, an investment manager or the governing body of the system shall fulfill its duties solely in the interest of the participants and beneficiaries; and with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity would use.

Actuarial Soundness and Financial Condition

The Pension Review Board (PRB) has adopted "Guidelines for Actuarial Soundness" for public retirement systems, with a maximum amortization period of not more than 40 years and a recommended amortization period of 15 to 25 years. The table below summarizes local retirement system amortization periods:

Local Retirement System Amortization Periods

Amortization Period	Number of Plans	Percent of Total
Greater than 40	15	17%
Between 25 and 40	42	48%
Less than or equal to 25	31	35%

The projected unfunded actuarial accrued liability (UAAL) for actuarially funded local retirement systems is $8.8 billion as of September 1, 2012 based on an actuarial value of assets of $30.2 billion. The 88 actuarially funded local retirement systems have an aggregate funded ratio of 77.5% on an actuarial basis and 73.0% on a market value basis. The table below summarizes local retirement system actuarial funded ratios:

Local Retirement System Funded Ratios

Funded Ratio	Number of Plans	Percent of Total
Greater than 80%	20	23%
Between 60% and 80%	45	51%
Less than 60%	23	26%

[4] Local retirement systems created under TLFFRA are exempt from Subchapter C of Chapter 802 of the Government Code, except sections 802.205 and 802.207. Section 27(b) of TLFFRA provides for similar prudent care language for TLFFRA systems.

The PRB does not project any immediate solvency issues for any open mature actuarially funded local retirement systems. Cash flow analysis indicates that assets held by these plans are sufficient to pay benefits for retirees over the next 20 years.

Over the ten year period ending December 31, 2011, local retirement systems generated an average internal rate of return (IRR) of approximately 6% with an expense ratio of 0.80%. Local retirement system asset allocations have shifted during the last ten years with a reduction in the amount of fixed income in their portfolios with increases in both alternative investments and real estate asset classes.

Over the last five years, the 88 actuarially funded local retirement systems paid out an annual average of over $1.5 billion in benefits to retirees and beneficiaries. Based on information available to the PRB, the average assumed retirement age of the local retirement systems is 55.6 and the average annual benefit payment to retirees and beneficiaries of the systems is approximately $25,000.

Trends and Issues

Actuarially funded retirement systems rely on a combination of contributions and investment income to fund benefits and expenses: C + I = B + E. Over the last few years, local retirement systems have dealt with a period of higher unemployment and volatile markets. The impact of both have put pressure on local retirement systems as investment income has been lower than expected, tax revenues of sponsors strained, and growth in payrolls less than expected for many systems. In response to this, many systems have adopted reductions in benefits for new hires, extended vesting periods, increased retirement ages, and increased member contributions. Moreover, sponsors of local retirement systems have increased contributions to the systems when possible.

Conclusions

Local retirement systems in Texas differ significantly in size and scope. Local systems include both defined benefit and defined contribution plans. For some systems, local control over plan provisions is limited, but for many other systems, plan provisions are controlled at the local level. For actuarially funded local retirement systems, the economic events since 2008 have challenged their financial health and actuarial soundness. Many systems have enacted changes to address concerns and shore up the actuarial condition of their systems. The PRB will continue to monitor the state's local public retirement systems to identify issues and provide recommendations to sponsoring local jurisdictions before the issues become critical and too difficult to resolve. The PRB will also recommend necessary legislative action, as necessary, to ensure the actuarial soundness and viability of these plans.

State Pension Review Board
House Committee on Pensions, Investments, and Financial Services
82nd Interim, September 12, 2012 hearing

Interim Charge #5: *Monitor the agencies and programs under the committee's jurisdiction.*

Overview

The State Pension Review Board (PRB) was established by H.B.1506, 66th Legislature, R.S. (V.T.C.A., Title 8, Chapter 801, Government Code,) effective September 1, 1979, as an oversight agency for Texas public retirement systems. The agency was originally conceived in the late 1970s, as a solution to the need for federal oversight of state and local retirement systems through ERISA-style legislation. It was established as a "blue ribbon" board with the members bringing their expertise in related fields to serve the public pension community in Texas. The agency was given additional authority in the 1980s and its mandate has not changed greatly since that time. The PRB service population consists of the members, administrators, and trustees of 358 individual public retirement systems; state and local government officials; and the general public. The total membership of Texas public retirement systems exceeds 2.3 million active and retired members and the total net assets of the plans are nearly $200 billion.

Board Members

The board is composed of nine members. The governor appoints seven of these: three persons who have experience in the fields of securities investment, pension administration, or pension law and are not members or retirees of a public retirement system; one active public retirement system member; one retired public retirement system member; one person who has experience in the field of governmental finance; and an actuary. The lieutenant governor appoints a state senator and the speaker of the house appoints a state representative.

Agency Functions

The general duties of the PRB outlined in Chapter 801 of the Government Code are to (1) conduct a continuing review of public retirement systems, compiling and comparing information about benefits, creditable service, financing and administration of systems; (2) conduct intensive studies of potential or existing problems that threaten the actuarial soundness of or inhibit an equitable distribution of benefits in one or more public retirement systems; (3) provide information and technical assistance on pension planning to public retirement systems on request; and (4) recommend policies, practices, and legislation to public retirement systems and appropriate governmental entities. The agency is also charged with preparing and providing an actuarial impact statement for bills and resolutions that propose to change the amount or number of benefits or participation in benefits of a public retirement system or that proposes to change a fund liability of a public retirement system. Additionally, the board is authorized to conduct training sessions, schools, or other educational activities for trustees and administrators of public retirement systems. The board may also furnish other appropriate services such as actuarial studies or other requirements of systems and may establish appropriate fees for these activities and services.

Agency Budgetary Information

Method of Finance	Fiscal Year Appropriations					
	2008	2009	2010	2011	2012	2013
General Revenue	$684,373	$658,561	$742,968	$692,968	$694,002	$694,001
Fund No. 662	$22,316	$22,316	$0	$0	$0	$0
GR Reduction	$0	$0	-$46,932	-$42,189	$0	$0
Grand Total	$706,689	$680,877	$696,036	$650,779	$694,002	$694,001

Fiscal years 2012-2013 appropriations for the PRB totaled $1,388,003. The funding source for the appropriations is the General Revenue Fund. Of the agency's appropriations for FY 2012-2013, 90% is dedicated to salaries and wages. The agency is authorized for 13.0 FTEs (full time equivalents); however, due to the reduction in the agency's baseline during FY 2010-2011, funding is only available for 12.0 FTEs. In fiscal year 2010, the agency was instructed that it would need to reduce its 2010-2011 biennium budget by 5% for all general revenue funds. The agency proposed reductions totaling $71,797 which were accepted by the Legislative Budget Board (LBB). In fiscal year 2011, the agency was instructed to further reduce its 2011 budget by 2.5%, or a total of $17,324. Total agency budget reductions for FY 2010-2011 were $89,121.

Current Agency Activities

In the last year, the agency has undertaken many important projects to ensure that the agency is fulfilling its duties. The PRB has written several reports on federal issues impacting public retirement systems, including the impact of Dodd-Frank, the SEC's Pay-to-Play and Municipal Advisor rules, the recent GASB proposals, and the Public Employee Pension Transparency Act. The agency has recently completed two research papers, part of a series of "white papers" on important public pension topics. The first paper provides an in-depth look at defined benefit, defined contribution, and alternative retirement plans. The second paper examines the idea of financial economics and its role in public pension plans. Also, the agency completed its Survey of Public Pension Plan Participation in Social Security in 2011. These reports are available on the agency website.

The agency is currently working with the Comptroller of Public Accounts on a joint partnership to enhance the amount of public pension information that is available online. By utilizing existing technology via the Comptroller's website, the PRB will be able to upload significant amount of financial and actuarial information online. As part of the educational outreach program, the agency provides electronic weekly news clips service to its constituents. The purpose of the news clips service is to track and compile pension-related issues in Texas as well as across the country and to disseminate the same to interested parties every week.

The PRB recently completed the review and adoption of two important policies related to the public retirement systems it oversees. The PRB approved an updated version of the "Guidelines for Actuarial Soundness" in September 2011. The PRB has adopted "Guidelines for Actuarial Soundness" to provide public retirement systems with guidance on maintaining their actuarial soundness. At the December 2011 board meeting, the PRB adopted an update to its "Policy for Regulation of Non-Compliant Retirement Systems". The policy provides a framework for addressing non-compliance with state reporting requirements. The updated policy and the concentrated effort of the PRB staff over the last few years, including additional outreach to plans, has resulted in the best compliance results in agency history with nearly 90% of systems in compliance with state reporting requirements. Lastly, the PRB recently completed the first part of its Sunset Review process. The Sunset Staff Report issued in July 2012 recommended continuation of the agency for another 12 years. Additionally, the Sunset Staff Report contained the following key recommendations:

- Exempt defined contribution and pay-as-you-go systems from PRB reporting requirements except for registration and basic plan information.
- Require public retirement systems to provide PRB a summary of significant plan changes within 30 days of adoption.
- Require public retirement systems that conduct experience studies to submit copies of the studies to the PRB.
- Clarify in statute that sponsoring entity audits do no satisfy retirement system's annual financial reporting requirements.
- Clarify the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators.
- Direct PRB to develop training content that more directly assists public retirement systems with managing their plans.
- Apply standard Across-the-Board Recommendations to the PRB.
- Continue requiring the PRB to submit its biennial report to the Legislature.

The PRB submitted its written response to the recommendations of the Sunset Staff Report and accepted all the recommendations contained in the report.

Future Issues and Activities: Fiscal Year 2013 and Beyond

1. Monitoring the actuarial soundness of our Texas public retirement systems. Though the markets have rebounded from the 2008-2009 downturn, unemployment remains high, interest rates at all-time lows, instability remains in the European Union, and there is much uncertainty about the true state of the US economy.
2. The national debate over public sector defined benefit plans and the consideration of transitioning public plans to DC plans. The need for objective, accurate, and timely information will be crucial as this debate unfolds in Texas.

3. Studying and reporting on the impact of the GASB changes, Moody's proposed changes, potential changes at the SEC and IRS, as well as any legislation considered by Congress.
4. The 2012 PRB annual seminar will be held on October 1, 2012 in Austin, TX.

APPENDICES

Appendix A: Governance of Plan Provisions for Local Retirement Systems

Appendix B: Board of Trustee Composition for Local Retirement Systems

Appendix C: Plan Provisions for Local Retirement Systems

Appendix D: Actuarial Valuation Summary for Local Retirement Systems

Appendix E: Actuarial Assumptions and Methods for Local Retirement Systems

APPENDIX A

LOCAL GOVERNANCE OF PLAN PROVISIONS FOR LOCAL RETIREMENT SYSTEMS

<table>
<tr><th colspan="3">Austin Employees' Retirement System</th></tr>
<tr><td>Governing Statute</td><td colspan="2">V.T.C.S., Article 6243n</td></tr>
<tr><td>Local Governance Structure</td><td colspan="2">Other than certain plan modifications allowed by the governing statute, neither the retirement system nor the city can make any changes to the plan. Changes to the plan can be made only through the legislative process.</td></tr>
<tr><td colspan="3">Local Governance of Plan Provisions</td></tr>
<tr><td>Contribution</td><td>Employer</td><td>Under section 10 the governing body of the city may authorize the city to make additional contribution to the system.</td></tr>
<tr><td></td><td>Employee</td><td>Section 10 allows active members to increase their contribution by a majority vote of all such members.</td></tr>
<tr><td>Benefit</td><td>Benefit Increase</td><td>Section 7 allows the board to authorize COLA payments or lump-sum additional benefit payments.</td></tr>
<tr><td></td><td>Benefit Reduction</td><td>Section 7 allows the amount of each retirement allowance and all other benefits payable under the governing statute to be subject to such adjustments as may be required to ensure actuarial soundness as may be approved by the actuary and adopted by the retirement board, except that annuities already accrued may not be reduced.</td></tr>
<tr><td>Retirement Eligibility</td><td colspan="2">As outlined in the governing statute.</td></tr>
<tr><td>Plan Structure</td><td colspan="2">As outlined in the governing statute.</td></tr>
<tr><td>Board Composition</td><td colspan="2">As outlined in the governing statute.</td></tr>
<tr><td>Ratification by State Legislature</td><td colspan="2">Other than certain plan modifications allowed by the governing statute, any changes to the plan provisions require modification of the system's governing statute through the legislative process.</td></tr>
<tr><td>Constitutional/ Statutory Protection of Benefits</td><td colspan="2">Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.</td></tr>
<tr><td>Liability</td><td colspan="2">Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.</td></tr>
</table>

Austin Fire Fighters Relief & Retirement Fund		
Governing Statute	V.T.C.S., Article 6243e.1	
Local Governance Structure	The City of Austin & the local firefighters association can enter into employment-related agreements under Chapter 143 of the Local Government Code. However, section 1.05 of Article 6243e.1 states that any such agreement may not supersede or preempt any provisions of the retirement system's governing statute and may not increase, diminish, or qualify any right, benefit, privilege, or obligation under the system's governing statute. Hence, any pension fund related changes like city contribution rate modifications as a result of these agreements must be codified in the governing statute in order to become effective.	
Local Governance of Plan Provisions		
Contribution	**Employer**	As outlined in the governing statute, however, section 10.01 allows the governing body of the municipality to authorize the municipality to make an additional contribution to the fund.
	Employee	As outlined in the governing statute, however, section 10.01 allows the members of the fund to increase their contribution rate by a majority vote to any percentage recommended by a majority vote of the board of trustees.
Benefit	**Benefit Increase**	Section 5.04 allows a change in service retirement benefit multiplier if, among other things, the change is approved by the board's actuary and the board of trustees and does not reduce a member's benefit for service credit accumulated before the date of the change. Also, Section 9.04 of the system's governing statute authorizes the board to increase the COLA interest credit.
	Benefit Reduction	Section 8.10 of the system's governing statute authorizes the board to make DROP related changes for accounts established after the effective date of the change. Additionally, section 9.08 authorizes the board to make prorated reduction in benefit payments if funds become insufficient to make those benefit payments in full.
Retirement Eligibility	As outlined in the governing statute.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Other than certain plan modifications allowed by the governing statute, any changes to the plan provisions require modification of the system's governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Austin Police Retirement System		
Governing Statute	V.T.C.S., Article 6243n-1	
Local Governance Structure	Other than changes relating to contribution, retirement eligibility requirements, Retro DROP and COLAs, any other plan modification can be made only through the legislative process.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 8.01 allows the city council to authorize the city to make additional contributions to the system.
	Employee	Sec. 8.01 allows the members by a majority vote to increase or decrease the contribution rate with a floor of 13%.
Benefit	**Benefit Increase**	Sec. 6.01 allows a change in service retirement benefit multiplier if, among other things, the change is approved by the board's actuary, is adopted by the board as a board rule, and a member's vested interest before the effective date of the change is not reduced. Board can also authorize the payment of a COLA. Under section 6.07 the Board can modify or eliminate Retro DROP if the change is adopted by the Board as a rule and approved by the actuary.
	Benefit Reduction	Under section 6.07 the board can eliminate Retro DROP.
Retirement Eligibility	Section 6.02 allows the board to make retirement eligibility related changes. However, any such change cannot increase the requirements for a person who is already eligible for the service retirement on the effective date of the change.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	If any pension-related change, like contribution rate modification, is made through an agreement between the city and local police association, such change requires codification in the governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Dallas Employees' Retirement Fund			
Governing Statute	Dallas City Code, Chapter 40A		
Local Governance Structure	Dallas Employees' Retirement Fund was established by city ordinance and is not governed by state statute. The provisions under the city ordinance can be amended by ordinance recommended by the board, adopted by the city council, and approved by a majority of the voters voting at a general or special election.		
Local Governance of Plan Provisions			
Contribution	**Employer**	City Ordinance	
	Employee	City Ordinance	
Benefit	**Benefit Increase**	City Ordinance	
	Benefit Reduction	City Ordinance	
Retirement Eligibility	City Ordinance		
Plan Structure	City Ordinance		
Board Composition	City Ordinance		
Ratification by State Legislature	No, the plan is not governed by state statute.		
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.		
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.		

Dallas Police & Fire Pension System			
Governing Statute	V.T.C.S., Article 6243a -1		
Local Governance Structure	Section 7 of the system's governing statute authorizes the members of the pension system to amend the plan in any manner, including amendments to benefits, eligibility requirements, amendment or restatement of any existing plan, and establishment of a new plan. Amendments require the approval of the following: a qualified actuary selected by the board, the board, and plan members. Also, amendments cannot deprive any plan member of any of the benefits that have become fully vested or nonforfeitable.		
Local Governance of Plan Provisions			
Contribution	**Employer**	Section 4.02(b) states that the amount of employer contribution and any change in it may be determined only by the legislature or by a majority vote of the city voters.	
	Employee	Section 4.03(g) states that the statutorily determined member contribution can only be altered by the legislature or by a majority vote of the city voters.	
Benefit	**Benefit Increase**	Section 7 of the retirement system's governing statute authorizes the members of the pension system to amend the plan including the benefit provisions.	
	Benefit Reduction	Section 7 of the retirement system's governing statute authorizes the members of the pension system to amend the plan including the benefit provisions.	
Retirement Eligibility	Section 7 of the retirement systems governing statute authorizes the members of the pension system to amend the plan in any manner including the modification of eligibility requirements.		
Plan Structure	Section 7 of the retirement systems governing statute authorizes the members of the pension system to amend the plan in any manner including the amendment or restatement of any existing plan or creation of a new plan.		
Board Composition	As outlined in the governing statute.		
Ratification by State Legislature	Section 7 of the retirement system's governing statute states that any amendment made by members of the pension system in accordance with section 7 is not required to be ratified by the legislature, but is effective when properly recorded in the permanent records of the pension system.		
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.		
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.		

El Paso City Employees' Pension Fund		
Governing Statute	El Paso City Code, Title II, Chapter 2.64	
Local Governance Structure	El Paso employees' pension fund was established by city ordinance and is not governed by state statute.	
Local Governance of Plan Provisions		
Contribution	**Employer**	City Ordinance
	Employee	City Ordinance
Benefit	**Benefit Increase**	City Ordinance
	Benefit Reduction	City Ordinance
Retirement Eligibility	City Ordinance	
Plan Structure	City Ordinance	
Board Composition	City Ordinance	
Ratification by State Legislature	No, the plan is not governed by state statute.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	
Comments	A provision in the city ordinance states that all rights under this chapter shall be against such pension fund only and the city shall not be liable therefor except to the extent of its contributions to such fund.	

El Paso Firemen Pension Fund		
Governing Statute	V.T.C.S., Article 6243b	
Local Governance Structure	The board in accordance with section 10A of the governing statute can make changes to the fund. The changes must be approved by majority vote of the whole board; by a qualified actuary selected by the board; by a majority of active members and in case of changes to benefits, by the city council or by citizens of El Paso through charter referendum.	
Local Governance of Plan Provisions		
Contribution	**Employer**	The maximum limit on city contribution rate is established in the City's Civil Service Commission Charter at 18%. However, in accordance with section 14A of the governing statute, if a qualified actuary determines that the total contribution rate is insufficient to amortize the unfunded liability over a forty (40) year period, the city's governing body may increase the city contribution rate.
	Employee	Under section 10A of the governing statute, the board can increase member contribution rate.
Benefit	**Benefit Increase**	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.
	Benefit Reduction	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.
Retirement Eligibility	Section 10A authorizes the board of trustees to modify prospectively or retroactively any eligibility requirements for pensions or benefits.	
Plan Structure	The board in accordance with section 10A can make changes to the plan structure.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made by the board in accordance with the governing statute are not required to be codified.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. The governing statute of the retirement system under section 10A also states that any changes to the fund shall not deprive any person, without his written consent, of any right to receive a pension or benefits which have already become vested and matured.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

El Paso Police Pension Fund		
Governing Statute	V.T.C.S., Article 6243b	
Local Governance Structure	The board in accordance with section 10A of the governing statute can make changes to the fund. The changes must be approved by majority vote of the whole board; by a qualified actuary selected by the board; by a majority of active members and in case of changes to benefits, by the city council or by citizens of El Paso through charter referendum.	
Local Governance of Plan Provisions		
Contribution	**Employer**	The maximum limit on city contribution rate is established in the City's Civil Service Commission Charter at 18%. However, in accordance with section 14A of the governing statute, if a qualified actuary determines that the total contribution rate is insufficient to amortize the unfunded liability over a forty (40) year period, the city's governing body may increase the city contribution rate.
	Employee	Under section 10A of the governing statute, the board can increase member contribution rate.
Benefit	**Benefit Increase**	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.
	Benefit Reduction	Section 10A authorizes the board of trustees to modify benefits prospectively and retroactively. Retroactive change can only increase benefits. Benefit changes need to be approved by an actuary selected by the board; by a majority of active members; and either by the city council or by citizens of El Paso through charter referendum.
Retirement Eligibility	Section 10A authorizes the board of trustees to modify prospectively or retroactively any eligibility requirements for pensions or benefits.	
Plan Structure	The board in accordance with section 10A can make changes to the plan structure.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made by the board in accordance with the governing statute are not required to be codified.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. The governing statute of the retirement system under section 10A also states that any changes to the fund shall not deprive any person, without his written consent, of any right to receive a pension or benefits which have already become vested and matured.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Fort Worth Employees' Retirement Fund		
Governing Statute	V.T.C.S., Article 6243i	
Local Governance Structure	Fort Worth Employees' Retirement System was established by city ordinance. The applicability provision under section 1 of Article 6243i states that the Article applies to a retirement system established by municipal ordinance. The governing statute authorizes the board and the governing body of the municipality to make certain changes to the retirement system and adopt administrative rules to govern the system. Accordingly, the fund has adopted administrative rules to govern the system and the rules can be amended locally within the parameters of the governing statute.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 5.07 authorizes the board or the governing body of the municipality to amend municipality contribution rates; however, only the governing body of the municipality may increase municipal contributions.
	Employee	Section 5.09 authorizes the board or the governing body of the municipality to amend member contribution rates.
Benefit	**Benefit Increase**	Sec. 4.02 allows the board of trustees to propose benefit increases, but requires the approval of the city council.
	Benefit Reduction	Sec.4.03 authorizes the City Council to adopt amendments to the administrative rules for benefit reduction.
Retirement Eligibility	Administrative rules	
Plan Structure	Administrative rules	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made per the administrative rules are not required to be codified in the governing statute.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. However, section 4.03, Article 6243i allows the governing body to adopt amendments to the administrative rules that reduces the benefits provided by the fund.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

Galveston Employees' Retirement Fund		
Governing Statute	Galveston City Code, Part II, Chapter 28	
Local Governance Structure	Galveston employees' retirement fund was established by city ordinance and is not governed by state statute. The fund's board and the city council have the authority to make changes to the fund.	
Local Governance of Plan Provisions		
Contribution	**Employer**	The board of trustees and the city council determine the contribution rates to the fund.
	Employee	The board of trustees and the city council determine the contribution rates to the fund.
Benefit	**Benefit Increase**	The board is authorized to make amendments to the plan.
	Benefit Reduction	The board is authorized to make amendments to the plan.
Retirement Eligibility	The board is authorized to make amendments to the plan.	
Plan Structure	The board is authorized to make amendments to the plan.	
Board Composition	The board is authorized to make amendments to the plan.	
Ratification by State Legislature	Since the plan is not governed by the state statute, legislative ratification of plan modification is not required.	
Constitutional/ Statutory Protection of Benefits	No, city of Galveston opted out of the constitutional protection provision.	
Liability	Unclear	

Galveston Employees' Retirement Plan for Police		
Governing Statute	Vernon's Tex. Rev. Civ. Stat., Art. 6243p	
Local Governance Structure	Section 11 of the system's governing statute allows Galveston Police's board of trustees to make plan modifications relating to benefits, membership qualifications, eligibility requirements, and contributions.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 6.03 requires the municipality to contribute to the fund based on the advice of the fund's actuary.
	Employee	Section 6.01 requires the fund's board of trustees to determine employee contribution and the board can increase the rate in accordance with section 11.
Benefit	**Benefit Increase**	Board of trustees of the fund under section 11 can make benefit increases.
	Benefit Reduction	Board of trustees of the fund under section 11 of the statute.
Retirement Eligibility	Board of trustees of the fund under section 11 of the statute.	
Plan Structure	Board of trustees of the fund under section 11 of the statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made by the board in accordance with the governing statute are not required to be codified.	
Constitutional/ Statutory Protection of Benefits	No, city of Galveston opted out of the constitutional protection provision.	
Liability	Section 6.04 of the governing statute outlines municipality's liability by stating that the municipality may not be held responsible for any claim or asserted claim for benefits under the fund.	

Houston Firefighters' Relief & Retirement Fund		
Governing Statute	V.T.C.S., Article 6243e.2(1)	
Local Governance Structure	Unlike Houston Municipal and Houston Police pension systems, Houston Fire's governing statute does not allow plan modifications through agreements.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 13(d) requires the fund's board of trustees to certify the municipality's contribution rate based on the results of the actuarial valuation with a floor of twice the member contribution.
	Employee	As outlined in the governing statute.
Benefit	**Benefit Increase**	Section 10 of the statute allows for non-statutory benefit increases.
	Benefit Reduction	Section 11(l) states that if the board determines that the amount in the fund is insufficient to pay in full any pension or disability benefits, all pension and disability benefits made after the date of the determination shall be reduced pro rata for the period of insufficiency.
Retirement Eligibility	As outlined in the governing statute.	
Plan Structure	As outlined in the governing statute.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Any changes to the plan provisions require modification of the system's governing statute through the legislative process.	
Constitutional/ Statutory Protection of Benefits	No, city of Houston opted out of the constitutional protection provision.	
Liability	Unclear	

Houston Municipal Employees Pension System		
Governing Statute	V.T.C.S., Article 6243h	
Local Governance Structure	Section 3(n) of the Houston Municipal's governing statute authorizes the pension board to enter into written agreements with the city regarding pension issues and benefits. The agreements have to be approved and signed by the pension board and the governing body of the city. The agreements are enforceable against and binding on the city and the pension system's members, retirees, deferred participants, beneficiaries, eligible survivors, and alternate payees. As such, the Houston Municipal Employees Pension System has entered into seven meet & confer agreements with the city of Houston since 2004 with the most recent being executed in 2011. Essentially, the statute allows for complete local control and the agreements have an effect of superseding certain statutory provisions.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Employer contributions are determined by the agreements between the city of Houston and the pension system.
	Employee	Employee contributions are determined by the agreements between the city of Houston and the pension system.
Benefit	**Benefit Increase**	Agreements between the city of Houston and the pension system.
	Benefit Reduction	Agreements between the city of Houston and the pension system.
Retirement Eligibility	Retirement eligibility requirements can be modified through the agreements between the city of Houston and the pension system.	
Plan Structure	Plan structure can be modified through the agreements between the city of Houston and the pension system.	
Board Composition	Board composition can be modified through the agreements between the city of Houston and the pension system.	
Ratification by State Legislature	No, Houston Municipal's agreements with the city have never been codified in the statute. The preamble section of the agreements state that certain provisions in the agreements have the effect of superseding provisions of the statute. Also, the most current 2011 agreement has language stating that if the statute is amended or repealed in the Texas Legislature in a manner that is not mutually agreeable to the parties, the parties shall amend the existing agreement or enter into a separate agreement to reestablish the amended or repealed provision.	
Constitutional/ Statutory Protection of Benefits	No, the city of Houston opted out of the constitutional protection provision. However, the parties in the agreement have agreed not to file and to oppose any legislation that is filed in the Texas Legislature that would result in the reduction of benefits or in a change under the governing statute and/or that would affect any matter covered by the agreement. The agreement further states that if the governing statute is amended or repealed in the Texas Legislature, in a manner that is not mutually agreeable to the parties, the parties shall amend the current agreement or enter into a separate agreement to reestablish the amended or repealed provision(s).	
Liability	Section 3(n) makes the agreements binding on the city and the pension system's board, members, retirees, beneficiaries, and eligible survivors.	

Houston Police Officers Pension System		
Governing Statute	V.T.C.S., Article 6243g-4	
Local Governance Structure	**Section 27(a) of the Houston police's governing statute allows for agreements to change benefits.** The statute states that the retirement system's board of trustees may enter into written agreements with the city on behalf of the retirement system and members and beneficiaries of the pension system if the agreement is approved by the board and signed by the mayor and the board. As such, the Houston Police Officers Pension System has entered into five meet & confer agreements with the city of Houston since 1998 with the most recent being executed in 2011. Essentially, the statute allows for complete local control and the agreements have an effect of superseding certain statutory provisions.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Employer contributions are determined by the agreements between the city of Houston and the pension system.
	Employee	Employee contributions are determined by the agreements between the city of Houston and the pension system.
Benefit	**Benefit Increase**	Agreements between the city of Houston and the pension system.
	Benefit Reduction	Agreements between the city of Houston and the pension system.
Retirement Eligibility	Retirement eligibility requirements can be modified through the agreements between the city of Houston and the pension system.	
Plan Structure	Plan structure can be modified through the agreements between the city of Houston and the pension system.	
Board Composition	Board composition can be modified through the agreements between the city of Houston and the pension system.	
Ratification by State Legislature	No**,** the agreements state that certain provisions in the agreements have the effect of superseding provisions of the statute. However, agreements prior to 2004 were codified in Article 6243g-4. 2004 & 2011 agreements have not yet been codified.	
Constitutional/ Statutory Protection of Benefits	No, the city of Houston opted out of the constitutional protection provision. However, the 2011 agreement states that nothing in the agreement can deprive a member, without the member's written consent, of a right to receive benefits that have become fully vested and matured in the member.	
Liability	The 2011 Agreement includes a provision stating that if for any reason the City fails to comply with any material provision of the agreement, including the timing and amount of payments for Shortfall Debt, additional amount and the legislature codifies the provisions and the city does not correct its failure for thirty days, HPOPS may terminate any and all provisions of the agreement and can file a suit against the City in Harris County District Court for any remedy available at law or in equity. The City also agreed that if it commits any breach of terms of the agreement, HPOPS may seek specific performance by enjoining the City by way of temporary restraining order & temporary and permanent injunction without regard to the City's sovereign immunity.	
Comments	Section 1 of Article 6243g-4 states that, among other things, the purpose of the Article is to reflect changes agreed to by the city and the board of trustees of the pension system under Section 27 of the Article.	

Plano Retirement Security Plan		
Governing Statute	City Ordinance	
Local Governance Structure	Plano Retirement Security Plan was created by city ordinance and is not governed by state statute.	
Local Governance of Plan Provisions		
Contribution	**Employer**	City of Plano
	Employee	City of Plano
Benefit	**Benefit Increase**	City of Plano
	Benefit Reduction	City of Plano
Retirement Eligibility	City of Plano	
Plan Structure	City of Plano	
Board Composition	City of Plano	
Ratification by State Legislature	Since the plan is not governed by the state statute, legislative ratification of plan modification is not required.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits. However, the Plan Document as adopted by the city council contains specific provisions relating to termination and liquidation of the trust fund.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	

<table>
<tr><th colspan="3">San Antonio Fire and Police Pension Fund</th></tr>
<tr><td>Governing Statute</td><td colspan="2">V.T.C.S., Article 6243o</td></tr>
<tr><td>Local Governance Structure</td><td colspan="2">The retirement system's governing statute does not allow for any local control. Changes to the plan can be made only through the legislative process.</td></tr>
<tr><td colspan="3">Local Governance of Plan Provisions</td></tr>
<tr><td>Contribution</td><td>Employer</td><td>As outlined in the governing statute.</td></tr>
<tr><td></td><td>Employee</td><td>As outlined in the governing statute.</td></tr>
<tr><td>Benefit</td><td>Benefit Increase</td><td>As outlined in the governing statute.</td></tr>
<tr><td></td><td>Benefit Reduction</td><td>As outlined in the governing statute.</td></tr>
<tr><td>Retirement Eligibility</td><td colspan="2">As outlined in the governing statute.</td></tr>
<tr><td>Plan Structure</td><td colspan="2">As outlined in the governing statute.</td></tr>
<tr><td>Board Composition</td><td colspan="2">As outlined in the governing statute.</td></tr>
<tr><td>Ratification by State Legislature</td><td colspan="2">Any changes to the plan provisions require modification of the system’s governing statute through the legislative process.</td></tr>
<tr><td>Constitutional/ Statutory Protection of Benefits</td><td colspan="2">No, the City of San Antonio opted out of the constitutional protection provision. However, section 4.05(e) of the retirement system's governing statute states that the municipal contribution and retirement annuities are a part of the compensation for services rendered to the municipality and makes the governing statute a contract of employment.</td></tr>
<tr><td>Liability</td><td colspan="2">Section 4.06 of the governing statute makes the municipality liable to pay the deficiency, if any, between the amount available to pay all retirement annuities and other benefits owed under the Act and the amount required to pay those benefits.</td></tr>
</table>

Texas Local Fire Fighters Retirement Act (TLFFRA)		
Governing Statute	V.T.C.S., Article 6243e	
Local Governance Structure	Section 7 of the TLFFRA statute authorizes the fund's board of trustees to modify benefits and eligibility requirements for benefits. However, any proposed change must be approved by the board actuary and a majority of the participating members of the retirement system.	
Local Governance of Plan Provisions		
Contribution	**Employer**	Section 29(b) of the governing statute establishes the municipality's contribution rate, but the governing body of a municipality by ordinance can adopt a contribution rate higher than the statutory rate.
	Employee	Section 29(a) authorizes the members of each fund to determine their contribution rates by voting.
Benefit	**Benefit Increase**	Under section 7 of the statute, the retirement system's board of trustees can increase benefits.
	Benefit Reduction	Under section 7 of the statute, the retirement system's board of trustees can reduce benefits prospectively. Also, section 16 of the governing statute states that if money available to pay benefits is insufficient to pay the full amount, a board of trustees may proportionately reduce all benefit payments for the time necessary.
Retirement Eligibility	Under section 7 of the statute, each retirement system's board can modify or change the retirement eligibility requirements.	
Plan Structure	Under section 7 of the statute, the retirement system's board of trustees can modify or change plan structure.	
Board Composition	As outlined in the governing statute.	
Ratification by State Legislature	Plan modifications made by each retirement system within the framework of the governing statute are not required to be codified.	
Constitutional/ Statutory Protection of Benefits	Yes, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits except for the TLFFRA plan cities that have opted out of the constitutional protection provision. Additionally, section 7(e) & (f) of the TLFFRA statute states that a plan modification cannot deprive a member, a retiree, or an eligible survivor of a right to receive vested accrued benefit and may not be applied retroactively.	
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.	
Comments	TLFFRA law provides a basic framework for the TLFFRA plans by establishing minimum contribution rates, retirement eligibility standards, and service credit requirements, but beyond that section 7 of the statute gives each system the flexibility to determine its plan structure.	

Other Political Entities' Retirement Systems under Texas Government Code, Chapter 810			
Governing Statute	Texas Government Code, Chapter 810		
Local Governance Structure	Chapters 810 of the Government Code authorizes political entities, including junior college districts, river authorities, water districts, appraisal districts, or other special purpose district to establish, finance, and administer public retirement systems for their appointive officers and employees. Unlike the plans created under Vernon's, Chapter 810 does not provide any framework of the pension structure for the retirement systems created under this Chapter. Currently, as listed below, there are 28 such local actuarially funded defined benefit plans.		
Local Governance of Plan Provisions			
Contribution	**Employer**	Determined by the political entity.	
	Employee	Determined by the political entity.	
Benefit	**Benefit Increase**	Determined by the political entity.	
	Benefit Reduction	Determined by the political entity.	
Retirement Eligibility	Determined by the political entity.		
Plan Structure	Determined by the political entity.		
Board Composition	Determined by the political entity.		
Ratification by State Legislature	Retirement systems created by political entities under Chapter 810 of the Government Code are administered locally and changes to their plan provisions do not require ratification by the legislature.		
Constitutional/ Statutory Protection of Benefits	Unless the employer has specifically opted out of the constitutional protection provision, the retirement system is bound by Article XVI, section 66 of the Texas Constitution that protects certain retirement benefits.		
Liability	Article XVI, Section 66(f) of the Texas constitution states that the political subdivision and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits protected by section 66 are not reduced or otherwise impaired.		
Comments	Chapter 810 of the Government Code was enacted by the 72nd Legislature in response to Attorney General Opinions JM-1068 (1989) and JM-1142 (1990) stating that political subdivisions were not authorized to create their own local retirement systems as the constitution specifically required the Legislature to first enact general laws establishing such retirement programs under Article XVI, sections 67(a) & (c). At the time, the Texas Legislature had not enacted any such general law authorizing these political entities to create their own local retirement systems. Hence, the Legislature passed SB798 adding Chapter 810 to the Government Code, to provide the required statutory authority for political entities to establish, finance, and administer public retirement systems for their appointive officers and employees.		

List of Other Political Entities' Retirement Systems

Arlington Employees Deferred Income Plan
Brazos River Authority Retirement Plan
Capital MTA Retirement Plan for Administrative Employees
Capital MTA Retirement Plan for Bargaining Unit Employees
City Public Service of San Antonio Pension Plan
Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust
Corpus Christi Regional Transportation Authority
Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees
Dallas County Hospital District Retirement Income Plan
Dallas Police & Fire Pension System-Supplemental
Dallas/Fort Worth Airport Board DPS Retirement Plan
Dallas/Fort Worth Airport Board Retirement Plan
DART Employees' Defined Benefit Retirement Plan & Trust
Galveston Wharves Pension Plan
Guadalupe-Blanco River Authority
Harris County Hospital District Pension Plan
Houston MTA Non-Union Pension Plan
Houston MTA Workers Union Pension Plan
Irving Supplemental Benefit Plan
Lower Colorado River Authority Retirement Plan
Nacogdoches County Hospital District Retirement Plan
Northeast Medical Center Hospital Retirement Plan
Northwest Texas Healthcare System Retirement Plan
Physicians Referral Service Retirement Benefit Plan
Port of Houston Authority Retirement Plan
Refugio County Memorial Hospital District Retirement Plan
San Antonio Metropolitan Transit Retirement Plan
University Health System Pension Plan

APPENDIX B

BOARD OF TRUSTEE COMPOSITION FOR LOCAL RETIREMENT SYSTEMS

Appendix B: Local Retirement System Board of Trustees

Texas Public Retirement System Board Composition Comparison					
Plan	Board Composition and Trustee Selection Mechanism:				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	Governing Statute:
Austin Employees' Retirement Fund	4 - Active employees; elected by active membership body. Four-year term.	2 - Retired members; elected by retired membership body. Four-year term.	1 - Member of City Governing Body; appointed by and serving at the pleasure of the city governing body. No term specified. 1 - City manager, or designee	3 - City residents, must be qualified voters and not employees/former employees; appointed by city governing body. Four-year term.	Article 6243n, V.T.C.S.
Austin Fire Fighters' Relief and Retirement Fund	3 - Fund members (may be active or retired); elected by active and retired members. Three-year term.	See Active Employee entry.	1 - Mayor. 1 - City Treasurer. No terms specified.		Article 6243e.1, V.T.C.S.
Austin Police Officers' Retirement System	5 - Police officer fund members; elected by system members. Four-year term.	2 - Retired members; elected by the retired membership body. Four-year term.	1 - Member of City Council, designated by City Council. 1 - City Manager or designee. 1 - Director of Finance or designee. No terms specified.	1 - City resident, must be qualified voter and resident for preceding five years; appointed by police retirement board. Four-year term.	Article 6243n-1, V.T.C.S.
Dallas Employees' Retirement Fund	3 - City employee fund members, from different city departments; elected by fund members. Three-year term.		3 - City Council members or appointees; appointed by City Council. Two-year term. 1 - City auditor.		Dallas City Code, Chpater 40A
Dallas Police and Fire Pension System	6 - Active members, three police and three fire; elected by their respective departments. Four-year term.	2 - Retired fund members, one police and one fire. Four-year term.	4 - City Council members; appointed by City Council. Term same as City Council term.		Article 6243a-1, V.T.C.S.
El Paso City Employees' Pension Fund	4 - City employees qualified to participate in the fund; elected by employees qualified to participate in the fund.	1 - Retired city employee receiving pension benefits, must be city resident; appointed by mayor.	2 - District representatives; designated by City Council.	2 - City residents, must have resided in city for at least two years immediately preceding appointment and are not city officers/employees; appointed by mayor. Two-year terms.	El Paso City Code
El Paso Firemen and Policemen's Pension Fund	3 - Policemen; elected by members of the policemen's pension fund. Four-year terms. 3 - Firemen; elected by members of the firemen's pension fund. Four-year terms.			3 - City residents; designated by the mayor. Four-year terms. 2 - City residents; designated by the city manager. Four-year terms.	Article 6243b, V.T.C.S.

Appendix B: Local Retirement System Board of Trustees

Texas Public Retirement System Board Composition Comparison					
Plan	**Board Composition and Trustee Selection Mechanism:**				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	**Governing Statute:**
Fort Worth Employees' Retirement Fund	1 - Vested police officer fund member; elected by police fund members. Two-year term. 1 - Vested firefighter fund member; elected by firefighter fund members. Two-year term. 2 - Vested general employee fund members, not police or firefighters; elected by civilian fund members. Two-year term.	1 - Retired police officer; elected by retired police officer fund members. Two-year term. 1 - Retired firefighter; elected by retired firefighter fund members. Two-year term. 1 - Retired general employee, not police or fire; elected by civilian retirees. Two-year term.	1 - City chief financial officer; designated by city governing body. Two-year term.	5 - City residents, may not be members of city governing body; nominated by mayor, confirmed by majority vote of city governing body. Two-year term.	Article 6243i, V.T.C.S.
Galveston Employees' Pension Plan for Police	1 - President of municipal police association, or next-highest ranked member if President is not a fund member. Term equal to president's term of office. 3 - Members of the fund; elected by fund members. Three-year term.		1 - Municipal finance staff employee; designated by and serving at the pleasure of the city manager. No term specified.	1 - Legally qualified voter; designated by the mayor. Two-year term. 1 - Legally qualified voter; designated by city council. Two-year term.	Article 6243p, V.T.C.S.
Galveston Employees' Retirement Plan	3 - City employees; elected by city employees who are current members in the plan. Terms of office determined by Board bylaws.		1 - City employee in the City's Finance Department; appointed by the City Manager. Terms of office determined by Board bylaws.	1 - City resident, must not be a city employee; appointed by the mayor. Terms of office determined by Board bylaws. 2 - City residents, must not be city employees; appointed by the other five Board of Trustee members. Terms of office determined by Board bylaws.	Galveston City Code
Houston Firefighter's Relief and Retirement Fund	5 - Firefighters who are members of the fund; elected by firefighters who are members of the fund. Three-year term.	1 - Retiree fund members, with at least 20 years of fund participation; elected by retired firefighter fund members with 20+ years of service. Three-year term.	1 - Mayor, or appointed representative of the mayor. No term specified. 1 - City treasurer, or person performing treasurer duties for the city. No term specified.	2 - City residents, must be registered voters, not employees of the city, and city residents for at least one year preceding initial appointment; appointed by the elected members of the Board of Trustees. Two-year term.	Article 6243e.2(1), V.T.C.S.

Appendix B: Local Retirement System Board of Trustees

Texas Public Retirement System Board Composition Comparison					
Plan	**Board Composition and Trustee Selection Mechanism:**				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	**Governing Statute:**
Houston Municipal Employees' Pension System	4 - Municipal employees who are members of the pension system, with at least 5 years of credited service; elected by active members of the pension system. No term specified.	2 - Retirees, must be receiving a retirement pension from the system, have at least five years of service in the pension system, and not currently a city officer or employee; elected by retirees of the pension system. No term specified.	1 - Person appointed by mayor; must not be a participant or beneficiary in the pension system. Three-year term. 1 - Person appointed by the city controller; must not be a participant or beneficiary in the pension system. Three-year term. 2 - Persons appointed by the governing body of the city; must not be participants or beneficiaries of the pension system. Three-year terms.	1 - Person appointed by elected Board of Trustee members, must have been a resident of the state for the three years preceding the date of initial appointment. Three-year term.	2011 Amended and Restated Meet and Confer Agreement; supercedes outdated Article 6243h, V.T.C.S.
Houston Police Officers' Pension System	3 - Police employees who are members of the pension system; elected by active, inactive and retired members of the pension system. Three-year term.	2 - Retired members, must be receiving pensions from the system and not currently city employees or officers; elected by active, inactive and retired members of the system. Three-year term.	1 - Administrative head of the city, or authorized representative. No term specified. 1 - City treasurer, or person discharging treasurer duties. No term specified.		Article 6243g-4, V.T.C.S.
San Antonio Fire and Police Pension Fund	2 - Active member firefighters, must be below the rank of fire chief; elected by fire department fund members. Four-year terms. 2 - Active member police officers, must be below the rank of police chief; elected by police department fund members. Four-year terms.	1 - Fire department retiree; elected by fire department retiree fund members and surviving spouses currently receiving benefits. Four-year term. 1 - Police department retiree; elected by police department retiree fund members and surviving spouses currently receiving benefits. Four-year	1 - Mayor, or qualified mayoral designee. Term corresponds to mayor's term of office. 2 - Members of the city governing body; appointed by the governing body. Term corresponds to city government term of office.		Article 6243o, V.T.C.S.

Appendix B: Local Retirement System Board of Trustees

Texas Public Retirement System Board Composition Comparison					
Plan	Board Composition and Trustee Selection Mechanism:				
	Active Employee	Retiree	Sponsor Government	Taxpayer, Not Affiliated with Fund/Sponsor Govt.	Governing Statute:
TLFFRA Plans, Paid or Part-Paid	3 - Members of the retirement system; elected by fund members. Three-year terms.		1 - Mayor or designated representative, or the political subdivision's Chief Operating Officer or designated representative. 1 - Chief Financial Officer of the political subdivision, or designated representative. Terms correspond to term of office.	2 - Residents of the political subdivision, must not be officers/employees of the political subdivision; elected by other Board of Trustee members. Two-year terms.	Article 6243e, sec. 19. V.T.C.S.
TLFFRA Plans, Volunteer	3 - Members of the retirement system; elected by fund members. Three-year terms.		1 - Mayor, or designated representative. 1 - Municipal treasurer, or person performing duties of municipal treasurer. Terms correspond to term of office.		Article 6243e, sec. 20. V.T.C.S.

APPENDIX C

PLAN PROVISIONS FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Eligible Members	Age	Normal YCS	Normal Multiplier	Final Average Salary	Automatic COLA	Benefit Tier Options	Social Security	Employee Contribution	Active Members	Average Salary	Bound by TX Constitution Article XVI, Sec 66
Austin Employees Retirement System, Group A	Hired before 1/1/2012	55; or 62 w/no YCS req.	20	3.00	High 36 mos	No	BackDROP, 5 yr max (no interest/COLA)	Yes	8.00%	All tiers: 8,348	$ 53,069	Yes
Austin Employees Retirement System, Group B	Hired on/after 1/1/2012	62; or 65 with 5 YCS	30	2.50	High 36 mos	No	BackDROP, 5 yr max (no interest/COLA)	Yes	8.00%	All tiers: 8,348	$ 53,069	Yes
Dallas Employees' Retirement Fund	All	50; or 60 w/no YCS req.	30, or Rule of 78	2.75	High 3 yrs	% Change in CPI, max. 5%	No DROP	No	37% of current adj. total obligation rate. 11.87% for 2013.	6,745	$ 45,831	Yes
El Paso City Employees' Pension Fund	All	55	10, or 30 w/no age req.	2.50	Final 36 mos	No	No DROP	Yes	7.75%	4,164	$ 34,368	Yes
Ft. Worth Employees Retirement Fund - Civilian	All	65	Rule of 80	3.00	High 5 yrs	Choice of Auto 2%, or Ad Hoc 0-4%	DROP, 1 yr min/5 yr max (no interest/COLA; contribs go to fund)	No	8.73%	Total, incl. Public Safety: 6,281	$ 58,860	Yes
Galveston Employees' Retirement Fund	All	65	5	2.25	High 60 mos	No	No DROP	Yes	6.00%	444		No
Houston Municipal Employees Pension System, Group A	Hired prior to 9/1/1981, or between 9/1/1999 and 1/1/2008, or former member of Group B or C who elects to join Group A	62	5, or Rule of 75 w/min. age 50	2.50 (first 20), 3.25 (20+)	High 78 bi-weeks, divided by 36	3%, not compounded	DROP (Interest credit: 1/2 investment return, min. 2.5%, max. 7.5%. COLA: 3% not compounded for pre-1/1/2005 hires, 2% for post-1/1/2005 hires)	Yes	5.00%	All Tiers: 12,345	$ 42,648	No
Houston Municipal Employees Pension System, Group B	Hired between 9/1/1981 & 9/1/1999	62	5, or Rule of 75 w/min. age 50	1.75 (first 10), 2.00 (10-20), 2.50 (20+)	High 78 bi-weeks, divided by 36	3% not compounded; 2% for post-1/1/2005 hires	DROP (Interest credit and COLA same as Group A)	Yes	Non-contributory	All Tiers: 12,345	$ 42,648	No
Houston Municipal Employees Pension System, Group D	Hired on/after 1/1/2008	62	5	1.80 (first 25), 1.00 (25+)	High 78 bi-weeks, divided by 36	No	No DROP	Yes	Non-contributory	All Tiers: 12,345	$ 42,648	No

Plan Name	Eligible Members	Age	Normal YCS	Normal Multiplier	Final Average Salary	Automatic COLA	Benefit Tier Options	Social Security	Employee Contribution	Active Members	Average Salary	Bound by TX Constitution Article XVI, Sec 66
Austin Firefighters' Relief & Retirement Fund	All	50	10; or 25 w/no age limit	3.30	High 36 mos	CPI, 1% min.	DROP, 7 yr. max. (5% interest credit)	No	15.70%	1,025	$ 77,054	Yes
Austin Police Retirement System	All	55	20	3.20	High 36 mos (w/in last 120 mos)	No	DROP, 60 mos. max; RetroDROP, 36 mos max backdate	Yes	13.00%	1,624	$ 78,653	Yes
Dallas Police & Fire Pension System, Group A	Members hired prior to 3/1/1973, Choose greater of following options: Option 1:	50	20	50% Base Pay, + 50% Longevity Pay, + 50% Incentive Pay	-	4%	DROP (Interest credit: 10-yr avg of fund's actual return; Eff. 10/1/2013, full employee contrib credited to DROP account)	No	6.50%	All tiers, incl. DROP: 5,376 excl. DROP: 3,995	$ 65,010	Yes
	Option 2:	55	20	3% Base Pay for each yr of svc, + 50% Longevity Pay, + 50% Incentive Pay	-	4%	same as Option 1	No	6.50%	see above	see above	Yes
Dallas Police & Fire Pension System, Group B	Hired between March 1, 1973 and Feb 28, 2011:	50	5	3.00	Final 36 mos	Hired before 12/31/2006: 4%. Hired after 12/31/2006: 0%.	DROP (Interest credit & contrib credit same as Group A)	No	8.50%	see above	see above	Yes
	Hired after Feb 28, 2011:	55	20	2.0% (first 20)/2.5% (next 5)/3.0% (post-25)	Final 60 mos	No	DROP (Interest credit & contrib credit same as Group A)	No	8.50%	see above	see above	Yes
El Paso Firemen's Pension Fund, Base Plan	Hired prior to 06/30/2007	45	20	2.75	Final 36 mos	3% (begins at age 60, or 5 years post-retirement)	BackDROP 6 mos min, 36 mos max.	No	15.28%	All Tiers: 794	$ 62,899	Yes
El Paso Firemen's Pension Fund, Second-Tier Plan	Hired on/after 06/30/2007	50	25	2.50	Final 36 mos	No	BackDROP 6 mos min, 36 mos max.	No	15.28%	All Tiers: 794	$ 62,899	Yes
El Paso Police Pension Fund, Base Plan	Hired prior to 06/30/2007	45	20	2.75	Final 36 mos	3% (begins at age 60, or 2 years post-retirement)	BackDROP 6 mos min, 36 mos max.	No	13.89%	All Tiers: 1,044	$ 64,132	Yes

Plan Name	Eligible Members	Age	Normal YCS	Normal Multiplier	Final Average Salary	Automatic COLA	Benefit Tier Options	Social Security	Employee Contribution	Active Members	Average Salary	Bound by TX Constitution Article XVI, Sec 66
El Paso Police Pension Fund, Second-Tier Plan	Hired on/after 06/30/2007	50	25	2.50	Final 36 mos	No	BackDROP 6 mos min, 36 mos max.	No	13.89%	All Tiers: 1,044	$ 64,132	Yes
Ft. Worth Employees Retirement Fund - Fire	All	65	Rule of 80	3.00	High 3 yrs	Choice of Auto 2% or Adhoc 0-4%	DROP 12 mos min, 60 mos max. (Employee contribs credited to fund)	No	8.25%	Total, incl. civilian: 6,281	$ 61,105	Yes
Ft. Worth Employees Retirement Fund - Police	All	65	25 w/no age req, or Rule of 80	3.00	High 3 yrs	Choice of Auto 2% or Adhoc 0-4%	DROP 12 mos min, 60 mos max. (Employee contribs credited to fund)	No	8.73%	Total, incl. civilian: 6,281	$ 61,105	Yes
Galveston Employees' Retirement Plan for Police, Group A	Member as of 6/30/2008, with 15 or more YCS as of 1/1/2006	45; or 65 w/no YCS req	20; or 25 w/no age limit	-	Final 60 mos	No	No DROP	Yes	12.00%	14	$ 73,399	No
Galveston Employees' Retirement Plan for Police , Group B	Less than 15 YCS as of 1/1/2006:	50; or 65 w/no YCS req	20	2.11	Final 60 mos	No	No DROP	Yes	12.00%	113	$ 63,768	No
Houston Police Officers Pension System	Sworn prior to Oct. 9, 2004:	Any age w/20 YCS	20	2.75% (first 20)/2.0% (post 20)	Final 36 mos	2/3 increase in CPI; min. 3%, max. 8%; compounded	BackDROP, no max. (Interest credit: 5-yr fund earnings/losses, min 3% max 7%; Employee contribs and normal retirement COLA credited to DROP accounts)	No	9.00%	5,312		No
	Sworn on/after Oct. 9, 2004:	55	10	2.25% (first 20)/2.0% (post 20)	Final 36 mos	80% increase in CPI; min. 2.4%, max. 8%.	No DROP; PLOP option offered.	No	10.25%	5,312		No
Houston Firefighters' Relief & Retirement Fund	All	No age req. (must be under age 36 at hire date to participate)	20	50% (first 20)/3.0% (post-20)	High 36 mos	3%	DROP, 13-yr max. (10-yr max for contribution credit. Interest credit: 5-yr fund earnings/losses; COLA: 2%) BackDROP, 3 year max backdate.	No	9.00%	Incl. DROP: 3,911 Excl. DROP: 2,898	$ 63,296	No
San Antonio Fire & Police Pension Fund	All	-	20 w/no age limit	2.25 (first 20)/5.00 (21-27)/ 2.00 (28-30)/0.50 (post-30)	High 36 mos	75% CPI	BackDROP, max 60 mos.	No	12.32%	Incl. DROP: 3,911 Excl. DROP: 2,898	$ 70,521	No

Appendix C: Plan Provisions for Local Retirement Systems

Plan Name	Age	Years of Credited Service (YCS) (A)	Multiplier (B)	Final Average Salary (C)	Benefit Formula	Automatic COLA	DROP	Social Security	Employee Contribution	Active Members	Bound By TX Constitution Article XVI, Section 66
Abilene Firemen's Relief & Retirement Fund	50	20	3%	Highest 36 Month Salary	(A)*(B)*(C)	No	Yes	Yes	13.20%	182	Yes
Amarillo Firemen's Relief & Retirement Fund	50	20	3.30%	Highest 36 Month Salary	(A)*(B)*(C)	No	Yes	No	10%	243	Yes
Atlanta Firemen's Relief & Retirement Fund	50	20	61%	Highest 60 Month Average Salary but not less than $1,000	(B)*(C)	No	Yes	No	12%	33	Yes
Beaumont Firemen's Relief & Retirement Fund	50	20	63.15%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	13%	230	Yes
Big Spring Firemen's Relief & Retirement Fund	50	20	2.55%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	12.00%	66	Yes
Brownwood Firefighter's Relief & Retirement Fund	50	20	50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	8%	33	Yes
Cleburne Firemen's Relief & Retirement Fund	50	20	68%	Final 60 Month salary	(B)*(C)	No	Yes	*	12%	54	Yes
Conroe Fire Fighters' Retirement Fund	50	20	67.50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	13.24%	81	Yes
Corpus Christi Fire Fighters' Retirement System	54	20	50.80%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	11.1%	416	Yes
Corsicana Firemen's Relief & Retirement Fund	50	20	53%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	12%	52	Yes
Denison Firemen's Relief & Retirement Fund	50	20	2.65%	Highest 24 Month Average Salary	(A)*(B)*(C)	No	No	No	12%	55	No
Denton Firemen's Relief & Retirement Fund	50	20	2.59%	Highest 36 Month Average Salary	(A)*(B)*(C)	Automatic equal to 70% of the increase in the consumer price index	Yes	No	12.6%	163	Yes
Galveston Firefighter's Relief & Retirement Fund	50	20	3%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	10%	124	No
Greenville Firemen's Relief & Retirement Fund	50	20	3.15%	Highest 36 Month Average Salary	(A)*(B)*(C)	No	Yes	*	15.3%	58	Yes
Harlingen Firemen's Relief & Retirement Fund	50	20	65.50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	12%	106	Yes
Irving Firemen's Relief & Retirement Fund	50	20	3.18%	Salary for 78 Consecutive Two-Week Pay Periods that Produces the Highest Average	(A)*(B)*(C)	No	Yes	No	10%	311	Yes
Killeen Firemen's Relief & Retirement Fund	55	20	58.40%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	10%	187	Yes
Laredo Firefighters Retirement System	50	20	3.03%	Highest 78 Biweekly Pay Period out of the Last 208 Biweekly Pay Periods	(A)*(B)*(C)	No	Yes	*	14%	362	Yes
Longview Firemen's Relief & Retirement Fund	50	20	80%	Highest 36 Month Average Salary	(B)*(C)	No	No	No	15%	164	Yes
Lubbock Fire Pension Fund	50	20	68.92%	Final 48 Month Average Salary	(A)*(B)*(C)	No	No	No	12.43%	345	Yes
Lufkin Firemen's Relief & Retirement Fund	50	15	3.35%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	13.2%	78	Yes
Marshall Firemen's Relief & Retirement Fund	50	10	3.13%	Last 36 Month Average Salary	(A)*(B)*(C)	No	Yes	*	14%	49	No

* Plan did not respond to Pension Review Board Social Security participation survey

Appendix C: Plan Provisions for Local Retirement Systems

Plan Name	Age	Years of Credited Service (YCS) (A)	Multiplier (B)	Final Average Salary (C)	Benefit Formula	Automatic COLA	DROP	Social Security	Employee Contribution	Active Members	Bound By TX Constitution Article XVI, Section 66
McAllen Firemen's Relief & Retirement Fund	50	20	2.90%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	Yes	10%	162	No
Midland Firemen's Relief & Retirement Fund	50	20	75%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	13.2%	190	Yes
Odessa Firemen's Relief & Retirement Fund	50	20	72%	Highest Monthly Average Salary for 5 of Last 10 Years of Service	(B)*(C)	1% of Benefit with a Minimum of $37	Yes	Yes	13%	178	Yes
Orange Firemen's Relief & Retirement Fund	50	20	2.60%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	Yes	11%	37	Yes
Paris Firefighters' Relief & Retirement Fund	55	20	Greater of 2% x Highest 5 Year Average or $85.50 x Years of Service	Highest 60 Month Average Salary or $85.50 x Years of Service	Greater of 2% x Highest 5 Year Average or $85.50 x Years of Service	No	Yes	No	10%	49	No
Plainview Firemen's Relief & Retirement Fund	53	20	63.75%	Highest 60 Month Average Salary	(B)*(C)	No	No	No	14%	36	Yes
Port Arthur Firemen's Relief & Retirement Fund	50	20	2.70%	Average Monthly Salary	(A)*(B)*(C)	No	Yes	*	13%	103	No
San Angelo Firemen's Relief & Retirement Fund	50	20	66%	Highest 48 Month Average Salary	(B)*(C)	1.2% Annually	Yes	*	13.2%	179	Yes
San Benito Firemen's Pension Fund	52	20	38%	Highest 60 Month Average Salary	(B)*(C)	No	No	Yes	9%	24	Yes
Sweetwater Firemen's Relief & Retirement Fund	50	20	3.95%	Highest 36 Month Average Salary	(A)*(B)*(C)	No	Yes	No	15%	28	Yes
Temple Firemen's Relief & Retirement Fund	50	20	65.75%	Highest 60 Month Average Salary	(B)*(C)	No	No	No	14.69%	110	Yes
Texarkana Firemen's Relief & Retirement Fund	50	20	2.98	Highest 36 Month Average Salary	(A)*(B)*(C)	No	Yes	*	12%	80	Yes
Texas City Firemen's Relief & Retirement Fund	53	20	3.0%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	Yes	No	15%	69	Yes
Travis County ESD # 6 Firefighter's Relief & Retirement Fund	55	25	1.67%	Highest Average Monthly Pay	(A)*(B)*(C)	No	No	No	12%	59	Yes
Tyler Firemen's Relief & Retirement Fund	55	20	71.50%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	No	13.5%	156	Yes
University Park Firemen's Relief & Retirement Fund	50	20	56.25%	Highest 60 Month Average Salary	(B)*(C)	No	Yes	Yes	15%	35	Yes
Waxahachie Firemen's Relief & Retirement Fund	50	20	2.6%	Highest 60 Month Average Salary	(A)*(B)*(C)	No	No	Yes	12%	48	Yes
Weslaco Firemen's Relief & Retirement Fund	55	20	47%	Highest 60 Month Average Salary	(B)*(C)	No	No	Yes	10%	74	Yes
Wichita Falls Firemen's Relief & Retirement Fund	50	20	2.55%	Salary for 78 Consecutive Two-Week Pay Periods that Produces the Highest Average	(A)*(B)*(C)	No	Yes	Yes	12%	150	Yes

* Plan did not respond to Pension Review Board Social Security participation survey

APPENDIX D

ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

CIVILIAN

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Austin Employees' Retirement System	12/31/2011	8.00%	16.00%	11.74%	$1,790,902,641	$932,942,173	27.1
Dallas Employees' Retirement Fund	12/31/2011	11.87%	10.48%	17.09%	$2,916,746,000	$474,906,000	30
El Paso City Employees' Pension Fund	9/1/2010	7.75%	11.65%	14.60%	$569,723,124	$140,274,242	39
Fort Worth Employees' Retirement Fund	1/1/2012	8.41%	19.98%	15.39%	$1,869,656,263	$748,205,870	28.4
Galveston Employees' Retirement Fund	1/1/2012	6.00%	9.00%	11.48%	$40,151,763	$10,689,568	Infinite
Houston Municipal Employees Pension System	7/1/2011	3.37%	18.08%	5.86%	$2,328,804,000	$1,461,524,000	30
Plano Retirement Security Plan	12/31/2009	0.00%	0.00%	3.25%	$75,217,522	$1,332,782	25

PUBLIC SAFETY

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Austin Fire Fighters Relief & Retirement Fund	12/31/2009	15.70%	18.05%	30.22%	$589,261,001	$74,924,239	20.5
Austin Police Retirement System	12/31/2011	13.00%	21.63%	23.24%	$553,701,976	$270,760,099	30.7
Dallas Police & Fire Pension System-Combined Plan	1/1/2012	8.50%	27.50%	23.51%	$3,378,481,222	$1,190,369,365	30
El Paso Firemen's Pension Fund	1/1/2012	15.28%	18.50%	26.89%	$431,209,946	$108,582,531	76
El Paso Police Pension Fund	1/1/2012	13.89%	18.50%	27.17%	$626,346,104	$174,514,074	Infinite
Galveston Employees' Retirement Plan for Police	1/1/2012	12.00%	12.00%	12.06%	$22,695,097	$25,694,496	53.5
Houston Firefighter's Relief & Retirement Fund	7/1/2010	8.50%	27.92%	18.00%	$3,116,848,000	$220,625,000	30
Houston Police Officers Pension System	7/1/2011	9.35%	20.86%	29.37%	$3,718,052,000	$770,090,000	30
San Antonio Fire & Police Pension Fund	10/1/2011	24.64%	12.32%	25.86%	$2,330,520,561	$242,741,389	9.12

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Abilene Firemen's Relief & Retirement Fund	9/30/2011	13.20%	19.25%	15.58%	$49,429,210	$38,982,852	32.9
Amarillo Firemen's Relief & Retirement Fund	1/1/2010	11.00%	17.83%	21.80%	$116,150,945	$22,112,825	35.9
Atlanta Firemen's Relief & Retirement Fund	12/31/2009	12.00%	12.00%	16.84%	$2,638,258	$910,476	30
Beaumont Firemen's Relief & Retirement Fund	12/31/2010	14.00%	13.00%	17.01%	$91,469,680	$36,926,504	53.6
Big Spring Firemen's Relief & Retirement Fund	1/1/2008	12.00%	12.00%	12.70%	$9,837,578	$4,602,913	25.66
Boerne Firemen's Relief & Retirement Fund	12/31/2011	0.00%	0.00%	0.00%	$249,568	$0.00	15
Brownwood Firemen's Relief & Retirement Fund	12/31/2009	8.00%	20.00%	14.00%	$2,460,557	$3,747,374	27.2
Cleburne Firemen's Relief & Retirement Fund	12/31/2010	13.00%	23.17%	17.59%	$14,581,551	$10,155,702	21.9
Conroe Fire Fighters' Retirement Fund	12/31/2011	13.24%	15.00%	18.90%	$15,392,762	$10,016,819	38.2
Corpus Christi Fire Fighters' Retirement System	12/31/2010	12.20%	20.78%	14.82%	$104,079,845	$73,485,485	22.3
Corsicana Firemen's Relief & Retirement Fund	12/31/2010	12.00%	14.00%	14.81%	$6,349,644	$5,873,138	29
Denison Firemen's Relief & Retirement Fund	1/1/2012	11.99%	14.92%	15.48%	$13,680,826	$5,552,667	23.9
Denton Firemen's Relief & Retirement Fund	12/31/2009	12.00%	16.00%	19.08%	$46,256,617	$19,617,547	26.5
Edinburg Firemen's Relief & Retirement	12/31/2007	0.00%	0.00%	0.00%	$1,177,912	$780,691	14
Galveston Firefighter's Relief & Retirement Fund	1/1/2010	12.00%	14.00%	17.13%	$37,630,993	$14,087,546	36.5
Greenville Firemen's Relief & Retirement Fund	12/31/2010	15.30%	15.30%	15.19%	$13,032,946	$10,797,507	45.7
Harlingen Firemen's Relief & Retirement Fund	12/31/2009	12.00%	12.00%	17.40%	$20,187,246	$10,761,642	Infinite
Henrietta Firemen's Relief & Retirement Fund	12/31/2006	0.00%	0.00%	0.00%	$94,989	$96,251	36
Irving Firemen's Relief & Retirement Fund	1/1/2012	12.00%	12.00%	17.12%	$134,886,668	$65,253,147	Infinite
Killeen Firemen's Relief & Retirement Fund	9/30/2010	10.00%	13.00%	15.71%	$23,980,822	$13,181,124	27
Laredo Firefighters Retirement System	3/31/2010	14.00%	17.65%	19.34%	$84,625,644	$49,350,956	23.5
Longview Firemen's Relief & Retirement Fund	12/31/2011	15.00%	15.00%	15.14%	$39,578,091	$36,507,494	Infinite
Lubbock Fire Pension Fund	12/31/2010	12.43%	22.83%	23.16%	$156,812,670	$40,682,725	22.80

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS - TLFFRA

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liabilities	Amortization Period
		Member	City				
Lufkin Firemen's Relief & Retirement Fund	12/31/2010	13.20%	23.50%	14.97%	$10,101,470	$16,950,479	53.7
Marshall Firemen's Relief & Retirement Fund	12/31/2010	14.00%	18.69%	13.65%	$6,653,612	$7,518,284	23.5
McAllen Firemen's Relief & Retirement Fund	9/30/2010	10.00%	12.00%	13.75%	$36,635,594	$14,914,549	39.6
Midland Firemen's Relief & Retirement Fund	1/1/2010	13.20%	20.20%	26.15%	$70,554,953	$19,783,245	41.2
Odessa Firemen's Relief & Retirement Fund	1/1/2011	15.00%	16.45%	17.46%	$46,170,391	$28,188,865	71
Orange Firemen's Relief & Retirement Fund	12/31/2010	11.00%	14.00%	11.59%	$9,035,613	$4,643,644	34.3
Paris Firefighters' Relief & Retirement Fund	1/1/2011	13.00%	12.00%	8.48%	$6,736,683	$6,227,642	27.9
Plainview Firemen's Relief & Retirement Fund	12/31/2011	14.00%	18.23%	13.52%	$4,969,795	$7,729,513	35.2
Port Arthur Firemen's Relief & Retirement Fund	1/1/2010	13.00%	14.39%	14.74%	$33,233,278	$12,656,143	22.5
San Angelo Firemen's Relief & Retirement Fund	12/31/2009	14.20%	20.20%	22.87%	$47,962,971	$21,490,843	32.4
San Benito Firemen's Pension Fund	12/31/2008	12.00%	12.00%	12.03%	$1,696,067	$2,005,151	18.7
Sweetwater Firemen's Relief & Retirement Fund	12/31/2010	15.00%	15.00%	21.07%	$7,438,844	$2,246,455	39.4
Temple Firemen's Relief & Retirement Fund	9/30/2010	14.69%	14.93%	20.07%	$33,272,723	$10,100,730	27.4
Texarkana Firemen's Relief & Retirement Fund	12/31/2009	13.50%	19.50%	20.31%	$24,692,627	$4,125,446	10.3
Texas City Firemen's Relief & Retirement Fund	12/31/2008	15.00%	15.00%	14.70%	$9,564,760	$13,315,308	53.3
Travis County ESD # 6 Firefighter's Relief & Retirement Fund	12/1/2012	18.20%	18.20%	13.10%	$3,469,606	$2,865,849	3.2
Tyler Firemen's Relief & Retirement Fund	12/31/2009	13.50%	18.00%	19.97%	$45,386,149	$19,035,929	26.4
University Park Firemen's Relief & Retirement Fund	12/31/2010	14.35%	15.93%	15.94%	$9,008,704	$8,771,026	40.6
Waxahachie Firemen's Relief & Retirement Fund	10/1/2010	12.00%	18.09%	16.10%	$8,159,658	$5,159,579	13.8
Weslaco Firemen's Relief & Retirement Fund	9/30/2009	10.00%	10.00%	13.56%	$4,977,251	$4,308,720	31
Wichita Falls Firemen's Relief & Retirement Fund	12/31/2010	12.00%	13.08%	14.64%	$41,107,385	$19,044,765	38.9

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

ALL OTHER LOCAL PLANS

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liability	Amortization Period
		Member	City				
Arlington Employees Deferred Income Plan	7/1/2011	3.00%	0.50%	6.42%	$2,230,389	-$602,466	0
Brazos River Authority Retirement Plan	3/1/2012	0.00%	0.00%	0.00%	$19,775,845	$7,455,335	30
Capital MTA Retirement Plan for Administrative Employees	1/1/2010	0.00%	12.02%	11.40%	$8,451,210	$5,217,817	10.5
Capital MTA Retirement Plan for Bargaining Unit Employees	1/1/2010	4.30%	4.30%	6.66%	$29,725,459	$19,536,309	29
City Public Service of San Antonio Pension Plan	1/1/2011	5.00%	14.66%	15.86%	$1,146,038,622	$152,897,317	20
Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust	1/1/2011	0.00%	13.86%	9.98%	$8,600,281	$1,107,922	30
Corpus Christi Regional Transportation Authority	1/1/2012	0.00%	15.50%	9.20%	$21,791,159	$3,785,266	12
Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees	1/1/2008	0.00%	0.00%	6.22%	$4,997,800	$1,572,937	30
Dallas County Hospital District Retirement Income Plan	1/1/2012	4.50%	0.00%	2.36%	$556,872,195	$88,893,356	30
Dallas Police & Fire Pension System-Supplemental	1/1/2012	8.50%	264.86%	14.74%	$20,822,569	$15,507,036	5
Dallas/Fort Worth Airport Board DPS Retirement Plan	1/1/2012	7.00%	26.02%	19.82%	$104,620,612	$51,601,188	23
Dallas/Fort Worth Airport Board Retirement Plan	1/1/2012	0.00%	29.56%	15.53%	$305,799,228	$120,322,817	23
DART Employees' Defined Benefit Retirement Plan & Trust	10/1/2010	0.01%	26.13%	10.00%	$145,605,173	$30,981,997	30
Galveston Wharves Pension Plan	1/1/2011	0.00%	0.00%	7.08%	$9,312,959	$3,511,192	30
Guadalupe-Blanco River Authority	1/1/2011	0.00%	12.00%	5.24%	$16,133,705	$5,288,829	12.3
Harris County Hospital District Pension Plan	1/1/2012	0.00%	10.33%	5.91%	$450,120,559	$126,436,540	20
Houston MTA Non-Union Pension Plan	1/1/2012	0.00%	22.65%	10.58%	$110,278,187	$31,775,580	30
Houston MTA Workers Union Pension Plan	1/1/2012	0.00%	0.00%	7.08%	$173,837,727	$81,715,182	30
Irving Supplemental Benefit Plan	1/1/2011	2.50%	0.00%	2.94%	$44,288,082	$7,907,326	Infinite
Lower Colorado River Authority Retirement Plan	4/1/2011	0.00%	9.70%	3.41%	$343,116,746	$150,902,367	21.5

APPENDIX D - ACTUARIAL VALUATION SUMMARY FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Effective Date	Contributions		Normal Cost	Actuarial Value of Assets	Unfunded Actuarial Liability	Amortization Period
		Member	City				
Nacogdoches County Hospital District Retirement Plan	6/30/2011	0.00%	6.00%	0.00%	$0.00	$0.00	30
Northeast Medical Center Hospital Retirement Plan	7/1/2011	0.00%	0.00%	0.00%	$9,298,987	$2,006,393	10
Northwest Texas Healthcare System Retirement Plan	10/1/2010	0.00%	0.00%	0.00%	$18,259,179	$12,269,891	10
Physicians Referral Service Retirement Benefit Plan	9/1/2011	0.00%	0.00%	6.21%	$374,274,704	$136,175,930	15
Port of Houston Authority Retirement Plan	8/1/2011	0.00%	30.39%	11.40%	$123,763,457	$8,731,509	3
Refugio County Memorial Hospital District Retirement Plan	11/1/2010	0.00%	0.00%	5.94%	$2,498,932	$0.00	NA
San Antonio Metropolitan Transit Retirement Plan	10/1/2010	0.00%	0.00%	8.19%	$184,078,773	$80,376,401	26
University Health System Pension Plan	1/1/2010	2.00%	0.00%	0.00%	$147,063,800	$77,421,123	30

APPENDIX E

ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

APPENDIX E - ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

CIVILIAN

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Austin Employees' Retirement System	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	3.25%
Dallas Employees' Retirement Fund	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.25%	3.00%
El Paso City Employees' Pension Fund	9/1/2010	Entry Age Normal	Level Percent Open	5 - year Smoothing	8.00%	4.00%
Fort Worth Employees' Retirement Fund	1/1/2012	Entry Age Normal	Level Percent Open	Market Value of Assets	8.25%	3.00%
Galveston Employees' Retirement Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.25%
Houston Municipal Employees Pension System	7/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	8.50%	3.00%
Plano Retirement Security Plan	12/31/2009	Entry Age Normal	Level Percent Closed	5-year Smoothing	7.75%	3.00%

PUBLIC SAFETY

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Austin Fire Fighters Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
Austin Police Retirement System	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.75%
Dallas Police & Fire Pension System-Combined Plan	1/1/2012	Entry Age Normal	Level Percent	Market Value of Assets	8.50%	4.00%
El Paso Firemen's Pension Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
El Paso Police Pension Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
Galveston Employees' Retirement Plan for Police	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.50%	4.00%
Houston Firefighter's Relief & Retirement Fund	7/1/2010	Entry Age Normal	Level Percent Closed	5-year Smoothing	8.50%	3.00%
Houston Police Officers Pension System	7/1/2011	Projected Unit Credit	Level Percent Open	5-year Smoothing	8.50%	3.00%
San Antonio Fire & Police Pension Fund	10/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	4.00%

APPENDIX E - ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS - TLFFRA

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Abilene Firemen's Relief & Retirement Fund	9/30/2011	Entry Age Normal	Level Percent	5-yr Smoothing	8.00%	3.00%
Amarillo Firemen's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	8.25%	3.25%
Atlanta Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-yr Smoothing	7.25%	4.00%
Beaumont Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	8.00%	4.00%
Big Spring Firemen's Relief & Retirement Fund	1/1/2008	Entry Age Normal	Level Percent	5-yr Smoothing	8.00%	NA
Boerne Firemen's Relief & Retirement Fund	12/31/2011	Aggregate	NA	NA	4.75%	NA
Brownwood Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-yr Smoothing	7.25%	4.00%
Cleburne Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	7.50%	3.75%
Conroe Fire Fighters' Retirement Fund	12/31/2011	Entry Age Normal	Level Percent	5-yr Smoothing	7.75%	NA
Corpus Christi Fire Fighters' Retirement System	12/31/2010	Entry Age Normal	Level Percent Open	5-yr Smoothing	8.00%	4.00%
Corsicana Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	5-yr Smoothing	7.50%	4.00%
Denison Firemen's Relief & Retirement Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	7.75%	3.50%
Denton Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.25%	3.50%
Edinburg Firemen's Relief & Retirement	12/31/2007	Entry Age Normal	Level Percent	Market Value of Assets	4.00%	3.50%
Galveston Firefighter's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.25%
Greenville Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.25%	3.00%
Harlingen Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	Market Value of Assets	8.00%	NA
Henrietta Firemen's Relief & Retirement Fund	12/31/2006	Entry Age Normal	Level Dollar	NA	4.75%	0.00%
Irving Firemen's Relief & Retirement Fund	1/1/2012	Entry Age Normal	Level Percent	5-year Smoothing	8.25%	3.25%
Killeen Firemen's Relief & Retirement Fund	9/30/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	4.00%
Laredo Firefighters Retirement System	3/31/2010	Entry Age Normal	Level Percent Open	Other	8.00%	3.75%
Longview Firemen's Relief & Retirement Fund	12/31/2011	Entry Age Normal	Level Percent	Market Value of Assets	8.00%	3.00%

APPENDIX E - ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Lubbock Fire Pension Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Lufkin Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	3-year Smoothing	7.50%	NA
Marshall Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	Market Value of Assets	8.00%	NA
McAllen Firemen's Relief & Retirement Fund	9/30/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Midland Firemen's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.00%
Odessa Firemen's Relief & Retirement Fund	1/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	8.50%	3.00%
Orange Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Paris Firefighters' Relief & Retirement Fund	1/1/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Plainview Firemen's Relief & Retirement Fund	12/31/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	NA
Port Arthur Firemen's Relief & Retirement Fund	1/1/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
San Angelo Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent	5-year Smoothing	7.90%	NA
San Benito Firemen's Pension Fund	12/31/2008	Entry Age Normal	Level Percent	Market Value of Assets	7.00%	NA
Sweetwater Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	3.00%
Temple Firemen's Relief & Retirement Fund	9/30/2010	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	4.00%
Texarkana Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	3.50%
Texas City Firemen's Relief & Retirement Fund	12/31/2008	Entry Age Normal	Level Percent Open	Market Value of Assets	7.75%	NA
Travis County ESD # 6 Firefighter's Relief & Retirement Fund	12/1/2012	Entry Age Normal	Level Percent Open	5-year Smoothing	7.00%	3.00%
Tyler Firemen's Relief & Retirement Fund	12/31/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.75%	3.75%
University Park Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.00%
Waxahachie Firemen's Relief & Retirement Fund	10/1/2010	Entry Age Normal	Level Percent	Market Value of Assets	7.00%	NA
Weslaco Firemen's Relief & Retirement Fund	9/30/2009	Entry Age Normal	Level Percent Open	5-year Smoothing	7.25%	4.00%
Wichita Falls Firemen's Relief & Retirement Fund	12/31/2010	Entry Age Normal	Level Percent	5-year Smoothing	8.00%	3.00%

APPENDIX E - ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

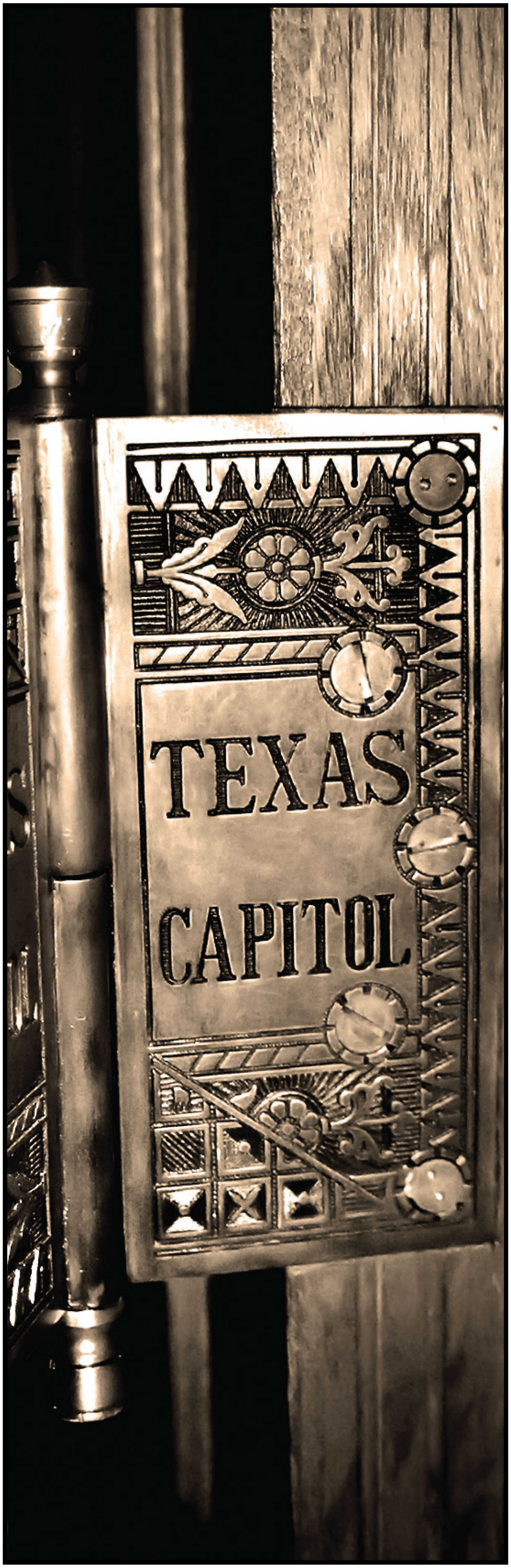
ALL OTHER LOCAL PLANS

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Arlington Employees Deferred Income Plan	7/1/2011	Entry Age Normal	NA	NA	6.50%	NA
Brazos River Authority Retirement Plan	3/1/2012	NA	NA	5-year Smoothing	6.50%	NA
Capital MTA Retirement Plan for Administrative Employees	1/1/2010	Aggregate	NA	Market Value of Assets	7.50%	NA
Capital MTA Retirement Plan for Bargaining Unit Employees	1/1/2010	Entry Age Normal	Level Percent Closed	Other	7.50%	3.00%
City Public Service of San Antonio Pension Plan	1/1/2011	Projected Unit Credit	Level Dollar Open	5-year Smoothing	7.75%	3.00%
Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust	1/1/2011	Entry Age Normal	Level Percent	Market Value of Assets	7.50%	NA
Corpus Christi Regional Transportation Authority	1/1/2012	Entry Age Normal	Level Dollar Closed	Market Value of Assets	7.50%	NA
Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees	1/1/2008	Unit Credit	NA	Market Value of Assets	4.25%	NA
Dallas County Hospital District Retirement Income Plan	1/1/2012	Projected Unit Credit	Level Percent Open	Market Value of Assets	8.25%	NA
Dallas Police & Fire Pension System-Supplemental	1/1/2012	Entry Age Normal	Level Percent	Market Value of Assets	8.50%	4.00%
Dallas/Fort Worth Airport Board DPS Retirement Plan	1/1/2012	Entry Age Normal	Level Percent Closed	5-year Smoothing	7.25%	3.00%
Dallas/Fort Worth Airport Board Retirement Plan	1/1/2012	Entry Age Normal	Level Dollar Closed	5-year Smoothing	7.25%	3.00%
DART Employees' Defined Benefit Retirement Plan & Trust	10/1/2010	Projected Unit Credit	Level Dollar Open	5-year Smoothing	8.00%	2.50%
Galveston Wharves Pension Plan	1/1/2011	Entry Age Normal	Level Dollar	Market Value of Assets	7.50%	3.50%
Guadalupe-Blanco River Authority	1/1/2011	Entry Age Normal	Level Percent Open	5-year Smoothing	8.00%	4.00%
Harris County Hospital District Pension Plan	1/1/2012	Projected Unit Credit	Level Percent Open	5-year Smoothing	8.00%	3.00%
Houston MTA Non-Union Pension Plan	1/1/2012	NA	NA	5-year Smoothing	8.00%	NA
Houston MTA Workers Union Pension Plan	1/1/2012	Unit Credit	Level Dollar	5-year Smoothing	8.00%	NA
Irving Supplemental Benefit Plan	1/1/2011	Projected Unit Credit	Level Percent Open	5-year Smoothing	7.00%	3.00%

APPENDIX E - ACTUARIAL ASSUMPTIONS AND METHODS FOR LOCAL RETIREMENT SYSTEMS

Plan Name	Effective Date	Actuarial Cost Method	Amortization Method	Asset Valuation Method	Investment Rate of Return	Inflation
Lower Colorado River Authority Retirement Plan	4/1/2011	Entry Age Normal	Level Percent	5-year Smoothing	7.50%	3.75%
Nacogdoches County Hospital District Retirement Plan	6/30/2011	Entry Age Normal	Level Percent Closed	NA	8.00%	NA
Northeast Medical Center Hospital Retirement Plan	7/1/2011	Projected Unit Credit	Level Dollar	Market Value of Assets	8.00%	NA
Northwest Texas Healthcare System Retirement Plan	10/1/2010	Entry Age Normal	Level Dollar Open	5-year Smoothing	8.00%	3.00%
Physicians Referral Service Retirement Benefit Plan	9/1/2011	Projected Unit Credit	Level Percent	5-year Smoothing	8.00%	NA
Port of Houston Authority Retirement Plan	8/1/2011	Entry Age Normal	Level Dollar Closed	Market Value of Assets	7.25%	3.50%
Refugio County Memorial Hospital District Retirement Plan	11/1/2010	NA	NA	NA	NA	NA
San Antonio Metropolitan Transit Retirement Plan	10/1/2010	Entry Age Normal	Level Percent Closed	5-year Smoothing	8.00%	3.00%
University Health System Pension Plan	1/1/2010	Projected Unit Credit	Level Percent Open	5-year Smoothing	7.50%	2.50%

APPENDIX F - SUNSET ADVISORY COMMISSION STAFF REPORT SUMMARY AND PRB RESPONSE



Sunset Advisory Commission

Staff Report with Hearing Material

State Pension Review Board

August 2012

Summary

Traditional defined benefit pensions for public employees present a conundrum to policymakers. To pay a lifetime monthly retirement benefit requires policymakers more accustomed to short-term budgetary and electoral cycles to take a longer view in committing taxpayer money far into the future based on complicated actuarial assumptions. These pensions also challenge human nature by requiring consistent funding not just in good times when funds are flush, but in bad times when funds are scarce and governmental budgets are tightest. Because of the nature of assumptions used to project funding needs, the financial liabilities these pensions create can almost seem theoretical — until the bill for promised benefits comes due. Recognizing these concerns, the Legislature created the State Pension Review Board (PRB) in 1979 to monitor Texas' local public pensions to help avoid funding problems before they become insurmountable.

As long as Texas has traditional defined benefit pensions, the State needs to monitor their financial soundness.

Through PRB, the State takes a light approach to overseeing an array of local public pensions, reflecting the strong Texas tradition of local control. While statute exempts the statewide retirement systems from most PRB oversight, they voluntarily submit to its watchful gaze. The agency cannot force action by local retirement systems. Instead PRB works to shine light on potential problems affecting the ability of traditional defined benefit pensions to meet obligations to members. As long as Texas has traditional defined benefit public pensions, the State needs ways to monitor these plans and work with them to help ensure they remain financially and actuarially sound without unnecessarily burdening taxpayers. PRB has the resources necessary to analyze public pensions across the state, and it provides a public forum to help hold local pensions accountable.

The Sunset review of PRB largely focuses on the agency's oversight responsibility for traditional defined benefit plans. The review does not delve into the gathering debate about the advisability of moving away from defined benefit plans to other retirement structures such as defined contribution plans that do not promise a specific monthly benefit for life. This debate would need to occur in relation to each pension system's enabling statute or governing authority. While PRB will be a necessary resource in the debate by providing data and technical information, it has no responsibility in the matter.

Sunset staff's analysis did identify ways in which PRB has not been focused on its core mission of overseeing the actuarial soundness of traditional defined benefit plans. The agency has long struggled to gain reporting compliance from other types of retirement plans, even though those plans do not pose enough risk to warrant state oversight beyond basic data collection.

Conversely, the review found that PRB lacks critical information from traditional defined benefit plans to allow it to fully evaluate those plans that do present serious funding risks to their members, sponsors, and taxpayers. The report focuses on solutions to these problems and improving PRB's delivery of educational resources to reach plans with fewer resources and a greater need for assistance.

Overall, this Sunset review seeks to refocus PRB on overseeing and helping those public retirement plans that truly benefit from its monitoring and resources, to help Texas avoid the potentially disastrous pension shortfalls affecting state and local retirement systems in other states. The following material summarizes Sunset staff's recommendations for PRB.

Issues and Recommendations

Issue 1

Texas Has a Continuing Need for the State Pension Review Board.

The contradiction of having an oversight agency with no means to force any corrective action for what it sees is hard to justify. So it is for PRB, which seeks to ensure financial and actuarial soundness by local public retirement systems basically by watching over them. On further inspection, however, the benefits of this approach become clear. In a state with many scattered local public pensions, PRB serves as a central source of objective pension information, bringing light to financial issues before they become unmanageable. The Board provides a public forum for holding pension systems and their sponsoring governmental entities accountable for their decisions, and the staff provides pension expertise that is especially important as the policy debate about the future of public pensions grows louder. No other state entity provides this needed mix of structure, focus, and expertise to adequately perform this job.

Key Recommendation

- Continue the State Pension Review Board for 12 years.

Issue 2

Many Pension Plans Lack Significant Risk, Necessitating Less PRB Oversight.

Since 1979, when the Legislature created PRB, the pension landscape in Texas has shifted from mostly defined benefit pension plans to a nearly even mix of defined benefit and defined contribution plans. Neither defined contribution nor pay-as-you-go defined benefit plans pose the same long-term funding risks as traditional defined benefit plans, which guarantee a monthly benefit for life and can generate large unfunded liabilities for taxpayers. However, state law requires defined contribution and pay-as-you-go plans to file the same reports as traditional defined benefit plans, even though PRB cannot use much of the information, as its oversight tools are not designed for these plans. Exempting these plans from unnecessary PRB reporting requirements would allow the agency to focus its resources on the traditional defined benefit plans that pose the greatest financial risk to retirees and taxpayers.

Key Recommendation

- Exempt defined contribution and pay-as-you-go defined benefit public retirement plans from PRB reporting requirements except for registration and basic plan information.

Issue 3

Pension System Reporting Requirements Do Not Provide Important Data Needed to Detect Problems.

PRB monitors public retirement systems' financial condition to expose problems in time to address them before a system's ability to pay benefits is affected. The agency does this by monitoring and analyzing a variety of statutorily required reports submitted by the systems, and may request a system and its sponsor appear before the Board to explain identified problems and how they plan to address them. The agency could better detect potential problems if statute provided for more timely updates from the systems and more detailed information. Requiring systems to provide more timely updates to plan information, any experience studies conducted, and audited financial reports of the systems themselves would equip PRB with the tools it needs to help ensure public retirement systems' ongoing financial and actuarial soundness.

Key Recommendations

- Require public retirement systems to provide PRB a summary of significant plan changes within 30 days of their adoption.
- Require public retirement systems that conduct experience studies to submit copies of the studies to PRB.
- Clarify in statute that sponsoring entity audits do not satisfy retirement systems' annual financial reporting requirements.

Issue 4

The Agency's Training Efforts Are Not Reaching Public Retirement Systems With the Greatest Needs.

Statute authorizes PRB to provide training for public retirement system trustees and administrators but implies an approach that consists of conferences and seminars. PRB's primary reliance on an annual seminar to deliver training limits the agency's ability to reach all public retirement systems, especially smaller systems with few resources and those located far from Austin. By using technology, such as webinars, PRB could provide education more accessibly and cost-effectively, reaching the most systems possible with its limited training resources.

The agency's training content, although high quality, was often too general for many systems' needs and did not take full advantage of staff expertise. Directing PRB staff to develop and deliver Texas-specific materials focused on the day-to-day management of retirement plans would help systems, especially smaller ones, remain informed and financially sound.

Key Recommendations

- Clarify the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators.
- Direct PRB to develop training content that more directly assists public retirement systems with managing their plans.

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Key Recommendations

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- Direct PRB to develop training content that more directly assists public retirement systems with managing their plans.

Issue 5

The State Pension Review Board's Statute Does Not Reflect Certain Standard Elements of Sunset Reviews.

Among the standard elements considered in a Sunset review are across-the-board recommendations by the Sunset Commission as standards for state agencies to reflect criteria in the Sunset Act designed to ensure open, responsive, and effective government. PRB's statute contains most across-the-board provisions but does not include standard provisions relating to conflicts of interest or alternative rulemaking and dispute resolution. The Texas Sunset Act also directs the Sunset Commission to recommend the continuation or abolishment of reporting requirements imposed on an agency under review. Sunset staff found that the agency's only reporting requirement, to produce a biennial report to the Legislature regarding its activities, serves a useful purpose and should be continued.

Key Recommendations

- Apply standard Across-the-Board Recommendations to the State Pension Review Board.
- Continue requiring the State Pension Review Board to submit its biennial report to the Legislature.

Fiscal Implication Summary

These recommendations would not have a fiscal impact to the State. Information on potential financial impacts of certain recommendations is summarized below.

Issue 2 – Exempting defined contribution and pay-as-you-go defined benefit plans from most PRB reporting requirements would create a small administrative savings for the agency, but these savings could not be estimated.

Issue 3 – Clarifying that retirement systems should submit their own financial audit to PRB instead of submitting their sponsor's audit could result in increased costs for the systems. However, the cost of a financial audit for these plans, which have millions of dollars in assets, would be relatively small.

Issue 4 – Authorizing PRB to provide education and training in a way that is accessible to all public retirement systems using internet technology would not create a need for additional funding. The agency could continue to collect fees for its seminars and could redirect some of this funding to cover the cost of web-based training tools

P R B
Texas Pension Review Board

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Chair

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Vice-Chair

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July 26, 2012

Mr. Ken Levine
Director
Sunset Advisory Commission
P.O. Box 13066
Austin, TX 78711-3066

Dear Mr. Levine:

You requested a response from the State Pension Review Board (PRB) regarding the Sunset Staff Report on the PRB, indicating the agency's position on the issues presented in the report.

The agency has reviewed the recommendations in the report and would like to make the following comments regarding each issue:

On Issue One, the agency agrees with the recommendation to continue the PRB for 12 years. We appreciate the report's conclusions on the benefits provided by the PRB to the State of Texas.

On Issue Two, the agency agrees with the recommendation. One point to consider involving this recommendation is the marginal loss of information regarding the plans that would be exempted from certain annual reports to the PRB. As shown in the report, these plans represent a small fraction of the total assets and members of public retirement systems statewide; however, it would nonetheless slightly diminish the amount of information the PRB could provide members of the Legislature and others regarding the entirety of public retirement systems statewide.

On Issue Three, the agency agrees with the recommendations. With respect to the recommendation to shorten the time frame for reporting plan changes to us, the PRB understands "significant plan changes" to mean changes in benefits, eligibility, and/or contributions. In implementing this and the other recommendations, the agency would continue to work in partnership with the state's public retirement systems to fulfill these recommendations.

On Issue Four, the agency agrees with the recommendations. One of the agency's initiatives beginning in 2007 was to develop and provide training sessions accessible to all public retirement systems throughout the state. In planning regional seminars in San Angelo, Dallas, Houston, and El Paso, the PRB targeted all public retirement systems within a 200 mile radius of each host city and developed each agenda to provide education on important pension topics. Agency staff and board members provided much of the training conducted at these free educational seminars. However, due to budget constraints the agency had to suspend these educational efforts. The agency continues to conduct its annual educational seminar in Austin with great success. The PRB recognizes the report's issue regarding the accessibility of this seminar for some plans. Still, the agency believes that the annual seminar provides attendees with excellent and relevant education at an efficient cost. It is extremely difficult to develop a program that meets the needs of small and large systems; however the PRB will strive to address the educational needs of all public retirement systems across the State of Texas.

On Issue Five, the agency agrees with the recommendations. The agency fully endorses the effort to ensure all agencies' enabling statutes meet the Across-the-Board Sunset provisions.

The board members of the State Pension Review Board asked me to convey that in examining the issues and recommendations raised in the Sunset Staff Report specific to our agency, as well as those affecting duties or responsibilities of other agencies undergoing Sunset review, that adequate funding be provided to PRB to implement those recommendations. Due to fiscal constraints occurring over the past two biennia, the PRB is unable to fill one authorized position and has delayed filling vacated positions longer than desirable to stay within our authorized appropriations level, resulting in significant additional work levels for existing staff. Regardless, the board and the staff remain committed to providing a high level of service to its constituencies and will enthusiastically accept any additional responsibilities the Legislature instructs us to undertake.

The PRB appreciates the work of the Sunset Advisory Commission, in particular the staff members assigned to conduct our review. Sunset staff was extremely professional, thoughtful and helpful during the review process; additionally, they demonstrated an incredible understanding of highly complex issues over a short period of time. The PRB is grateful for their hard work. Regardless of the end result of this process, we consider it an honor to work with the members of the Commission, you, and your staff on behalf of the citizens of Texas.

Please contact me at your convenience should you have any questions or if the PRB can be of any further assistance to you in this matter.

Sincerely,

Christopher D. Hanson
Executive Director