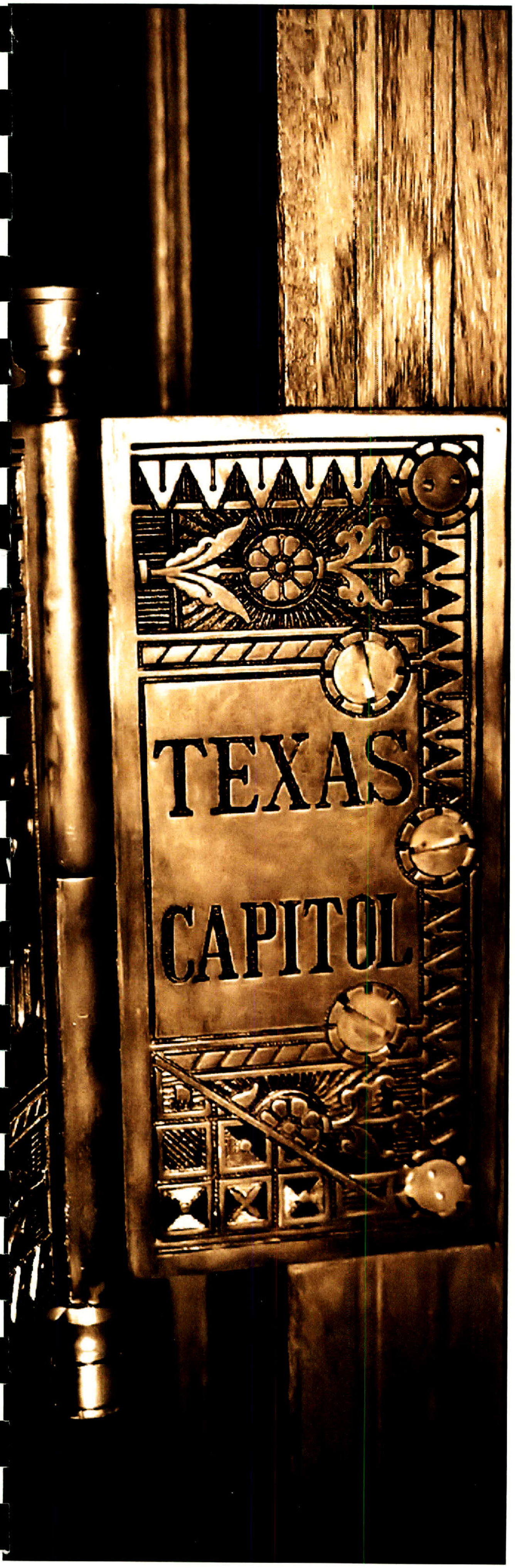

Sunset Advisory Commission

Final Report with Legislative Action

State Pension Review Board

July 2013

Sunset Advisory Commission

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Cover photo: The Texas Capitol is a marvel of craftsmanship down to the smallest details. The beautifully carved wood door frames are emphasized with elaborate, custom-designed bronze hinges and hardware produced especially for the building by Sargent and Co. of New Haven, Connecticut, in the late 1880s. The eight inch by eight inch hinges are inscribed with the words "Texas Capitol", decorated with incised designs of geometric and stylized floral motifs, and weigh over seven pounds each.

State Pension Review Board

Sunset Final Report with Legislative Action

July 2013

This document is intended to compile all recommendations and action taken by the Sunset Advisory Commission for an agency under Sunset review. The following explains how the document is expanded and reissued to include responses from agency staff and the public.

- *Sunset Staff Report, July 2012* – Sunset staff develops a separate report on each individual agency, or on a group of related agencies. Each report contains both statutory and management recommendations developed after the staff's extensive evaluation of the agency.

- *Sunset Staff Report with Hearing Material, August 2012* – Adds responses from agency staff and the public to Sunset staff recommendations, as well as new issues raised for consideration by the Sunset Commission at its public hearing.

- *Sunset Staff Report with Decision Material, November 2012* – Adds additional responses, testimony, or new issues raised during and after the public hearing for consideration by the Sunset Commission at its decision meeting.

- *Sunset Staff Report with Commission Decisions, November 2012* – Adds the decisions of the Sunset Commission on staff recommendations and new issues. Statutory changes adopted by the Commission are presented to the Legislature in the agency's Sunset bill.

- *Sunset Final Report with Legislative Action, July 2013* – Summarizes the final results of an agency's Sunset review, including action taken by the Legislature on Sunset Commission recommendations and new provisions added by the Legislature to the agency's Sunset bill.

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SUMMARY

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.

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.

As long as Texas has traditional defined benefit pensions, the State needs to monitor their financial soundness.

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.

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

Summary of Final Results

S.B. 200 Patrick (Anchia)

The economic downturn, which by many accounts began in 2007, has shown how quickly public pensions that appear financially and actuarially healthy can become dangerously underfunded. States and cities facing burdensome, unfunded liabilities to their public employees find themselves having to make difficult, but necessary, pension reforms that likely should have been foreseen.

Recognizing the long-term financial risks associated with public pensions, the Texas Legislature created the State Pension Review Board (PRB) in 1979 to monitor the state's public pensions to help detect and address funding problems before they become insurmountable. The Pension Review Board monitors Texas' 360 state and local public retirement systems that represent approximately 2.3 million public employees, retirees, and beneficiaries and have assets totaling more than $196 billion. After the Sunset review and action by the Legislature, PRB continues to be needed with a clearer focus on its core mission of overseeing the actuarial soundness of traditional defined benefit retirement plans.

Senate Bill 200, the PRB Sunset bill, relaxes reporting requirements for certain types of retirement plans that do not pose the kind of financial or actuarial risk that warrants state oversight. This change allows PRB to focus its limited resources on monitoring the larger, traditional defined benefit pensions that do present serious funding risks to their members, sponsors, and taxpayers. Along these lines, the bill strengthens reporting requirements for defined benefit pensions to allow PRB to fully evaluate their financial and actuarial condition. The bill also improves PRB's delivery of critical training to reach plans with fewer resources and a greater need for assistance. Reflecting the enhancements to PRB's oversight role, the bill removes the two legislative members from the Board, bringing PRB in line with most state oversight agencies, which have Governor-appointed boards.

The following material summarizes results of the Sunset review of PRB, including management actions directed to the agency that do not require statutory changes.

Continuation and Governance

- Continues the State Pension Review Board for 12 years.
- Removes the two legislative members from the Board, reducing the Board's size from nine to seven members, each of whom is appointed by the Governor.

Focused Reporting

- Exempts defined contribution and local volunteer firefighter pension plans from PRB reporting requirements except for registration and basic plan information.
- Directs the agency to stop collecting unnecessary quarterly financial data from retirement systems. (management action – nonstatutory)

Enhanced Reporting Requirements

- Requires public retirement systems to provide PRB with a summary of significant plan changes within 30 days, rather than 270, of their adoption.
- Requires public retirement systems that conduct experience studies to submit copies of the studies to PRB.
- Clarifies in statute that sponsoring entity audits do not satisfy retirement systems' annual financial reporting requirements.

Retirement System Training

- Clarifies the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators.
- Directs PRB to develop training content that more directly assists public retirement systems with managing their plans. (management action – nonstatutory)

Prohibition on Investments with Iran

- Prohibits the statewide retirement systems from investing in companies engaged in certain business operations with the government of Iran. The bill requires PRB to create and maintain a list of those companies and provide it to the statewide retirement systems.

Across-the-Board Recommendations and Reporting Requirements

- Applies standard Sunset Across-the-Board recommendations to the State Pension Review Board.
- Continues requiring PRB to submit its biennial report to the Legislature.

Fiscal Implication

Senate Bill 200 will not have a significant fiscal impact to the State.

Agency at a Glance
July 2012

Agency at a Glance

In 1979 the Legislature created the State Pension Review Board (PRB) to oversee state and local public retirement systems through the ongoing assessment of their actuarial and financial soundness. The agency also provides policymakers and the public with information on pension-related topics. PRB's main functions include:

- reviewing state and local retirement systems' financial and actuarial condition, and highlighting potential problems;
- collecting and aggregating information on Texas public retirement systems and relevant pension-related topics for the Legislature and the public;
- assessing the actuarial impact of proposed legislation that affects public pension benefits or contribution levels; and
- offering education for public retirement system trustees and administrators.

Key Facts

- **State Pension Review Board.** PRB's governing board has nine members: seven appointed by the Governor, one member of the House appointed by the Speaker, and one member of the Senate appointed by the Lieutenant Governor. Statutory requirements for the seven Governor-appointed members are as follows:
  - three members with experience in the fields of securities investment, pension administration, or pension law, but who are not members or retirees of a public retirement system;
  - one member who is an actuary;
  - one member with experience in governmental finance;
  - one member who is a contributing member of a public retirement system; and
  - one member who is receiving retirement benefits from a public retirement system.
- **Funding and Staffing.** PRB operated on $667,249 in fiscal year 2011, funded entirely by General Revenue. In fiscal year 2011, the agency also collected $7,600 in registration fees to help fund its annual seminar. The agency has 12 full-time staff.
- **Public Retirement System Reviews.** PRB monitors about 360 public retirement systems that represent approximately 2.3 million public employees, retirees, and beneficiaries and with assets totaling over $196 billion. While the four largest statewide retirement systems account for a large majority of these individuals and assets, and are exempt by law from reporting to PRB, they voluntarily comply with PRB reporting requirements.[1] The agency's principal focus, however, is on the remaining systems that have almost 300,000 members and assets of almost $49 billion.

PRB staff reviews reports submitted by public retirement systems to evaluate their financial condition. If the agency detects potential threats to a system's actuarial soundness, PRB conducts an intensive review to assess the situation and make the system and its sponsoring entity aware of any problems. PRB has conducted nine intensive system reviews during the last ten years.

- **Pension Information.** PRB collects and aggregates data from Texas public retirement systems, and produces reports on their structure and financial condition. The agency also conducts special studies on issues related to public pensions, such as changes in federal law and comparisons of different plan designs.
- **Education and Technical Assistance.** PRB provides training for pension administrators and trustees through the agency's annual seminar, which had 44 paid attendees in 2011. The agency offers a legislative briefing at the beginning of each session for legislative staff and public retirement systems. PRB also provides technical assistance to retirement systems upon request.
- **Actuarial Impact Statements.** During the legislative session, PRB works with the Legislative Budget Board to analyze the actuarial impact of proposed legislation related to public retirement systems. During the 2011 Legislative Session, PRB prepared 56 actuarial impact statements.

[1] Sections 802.002 and 802.1012, Texas Government Code, exempt the following systems from most PRB reporting requirements: the Employees Retirement System of Texas, including the Judicial Retirement System of Texas Plan One and the Judicial Retirement System of Texas Plan Two; the Teacher Retirement System of Texas; the Texas County and District Retirement System; and the Texas Municipal Retirement System.

ISSUES

Issue 1

Texas Has a Continuing Need for the State Pension Review Board.

Background

The State Pension Review Board (PRB) was created to provide oversight of public retirement systems and to preempt the need for federal regulation of state and local pensions, although federal oversight has not materialized. To fulfill its mission, PRB collects information from public retirement systems, analyzes it to evaluate their condition, shines a light on potential problems, and serves as a resource for systems and the Legislature on public pensions and related issues. If a retirement system is in danger of becoming actuarially unsound, meaning it may not be able to meet future liabilities, PRB staff performs an intensive actuarial review. Depending on the severity of the funding issues found, PRB's Board may request the system and its sponsoring governmental entity appear before the Board to explain the problems and their plan for addressing them.

In total, PRB monitors the financial and actuarial condition of 358 public retirement systems in Texas, but focuses most of its efforts on the 96 traditional defined benefit plans that present the highest risk for funding problems. Of the 358 systems, four are the largest statewide systems which are exempt from PRB reporting requirements but voluntarily submit information to PRB.[1] The remaining systems include 13 municipal and public safety plans established in state law, four municipal plans established in city ordinance, 210 plans established by districts or other governmental entities, and 127 firefighter plans organized under the Texas Local Fire Fighters' Retirement Act.

By design, PRB's oversight is not regulatory: it has no authority over retirement systems or sponsoring entities and cannot order them to do anything. The agency cannot even order noncompliant systems to report required data without issuing a subpoena, which it has done only once. PRB's oversight consists only of monitoring retirement systems and making recommendations to them, their sponsoring entities, and the Legislature.

Good reasons exist for the soft approach to oversight PRB takes. In a state in which local control predominates, dictating decisions from Austin on matters not supported by state dollars and where the ultimate risk to the State is unclear, is not the direction the State has chosen to go. However, the result is a cautious state approach that causes the agency to be careful about whether and how it calls attention to issues with local retirement systems and their sponsors.

Findings

The State's light oversight of public retirement systems may not be very compelling, but serves a needed role of averting potentially costly and harmful problems for system participants and taxpayers.

The oxymoron of non-regulatory oversight perfectly focuses the question of the need for what PRB does. Such a function seems meaningless on its face — the promise of oversight with no way to require corrective action when things go awry. Sunset staff certainly grappled with this question of the need for such an apparent contradiction. However, a deeper look revealed that removing the state role would eliminate tangible benefits that this light approach provides and a valuable source of objective information about public pensions that would be lacking during a critical time of debate over the future of public retirement systems. The following information summarizes the factors that point to the needed state role in this area.

- **Decentralized pension landscape.** Texas, in contrast to many other states, has a large number of local retirement systems that are not part of a centralized statewide system and do not receive state aid. The decentralized nature of pensions in Texas risks local pension problems languishing unnoticed as governmental sponsors may lack incentives to address pension underfunding, particularly during lean economic times. This scenario can result in problems growing much worse and more costly to repair. Without state-level pension oversight, state legislators and local authorities would also lack a central source of information to make informed decisions on pension matters.

Some retirement systems credit PRB with helping bring about needed funding changes.

- **Needed public accountability.** State oversight of public retirement systems can bring public exposure to pension problems at the local level and provide a forum through which local officials can be held accountable to explain their actions before a state body. In the past decade, PRB has helped shine light and bring resolution to problems that threatened the actuarial soundness of nine retirement systems. In each of these cases, PRB worked with the system to identify contribution rates or benefit levels that would achieve actuarial soundness. Some of these systems credit PRB's involvement with bringing both the sponsoring entity and the system itself to the negotiating table to find a workable solution. The chart, *Intensive System Reviews*, shows that PRB's impact can take many years due to the slow-moving nature of pension funding.

Intensive System Reviews, FYs 2001 – 2011*

Public Retirement System	Time Period
El Paso Firemen and Policemen's Pension Fund	1992, 1996, 2000–2007
Employees' Retirement Fund of the City of Dallas	1996–2006
Texas Emergency Services Retirement System	2003–2007
Houston Municipal Employees Pension System	2004
Houston Police Officers' Pension System	2006
Fort Worth Employees' Retirement Fund	2007
Lufkin Firemen's Relief and Retirement Fund	2008–2009
Conroe Fire Fighters' Retirement Fund	2009
University Park Firemen's Relief and Retirement Fund	2009–2010

* While problems with some retirement systems began before 2001, most of PRB's intensive work with these systems took place between fiscal years 2001 and 2011.

- **Risk to system participants and taxpayers.** Public retirement systems, especially defined benefit plans, place a lot of risk on their members, sponsoring entities, and taxpayers, even if the State is not directly liable for local pensions. Defined benefit pensions create future liabilities for the sponsoring entity, or employer, by promising a specific monthly benefit to members for life. Local public pension systems cover almost 300,000 individuals — including employees, retirees, and their beneficiaries — more than half of whom are wholly dependent on their pensions for retirement security because their employers do not participate in Social Security.[2]

  Retirement system participants have a strong interest in a secure retirement benefit as part of their overall compensation package. Taxpayers who pay sponsoring entities' contributions through local taxes have a significant stake in seeing that participants' funds are properly invested and, in the case of traditional defined benefit plans, that taxpayers are not harmed by overly generous retirement terms or pension benefits. Local sponsoring entities whose municipal bond ratings, and the ability to raise cash to provide services, are tied closely to pension obligations have a significant interest in avoiding large unfunded liabilities that could dramatically raise the costs of borrowing.

Local public pensions cover almost 300,000 individuals in Texas.

- **Objectivity of information.** Pensions are very complex, as what may seem like small changes in contributions, benefits, or actuarial assumptions today can have enormous effects on future fund liabilities. The ability to take a long-term view of funding obligations is useful to help illuminate public pension policy in which long-term outcomes are typically decided in short-term budgetary or electoral cycles. Because PRB does not have a stake in matters affecting local retirement systems, it is able to serve as an intermediary for systems and sponsoring entities, helping forge a path forward that the parties may have trouble finding on their own.

  At the state level, aggregated, statewide data and analysis helps inform state policymakers' decisions affecting both general law provisions for all systems and the specific statutes for the 13 retirement systems established in law. PRB's actuarial impact statements for bills proposing changes in benefits provide an unbiased, independent review of initial analysis done by the retirement systems themselves, which often have a vested interest in legislation.

PRB provides an unbiased, independent review of legislation proposing changes to benefits.

  As the policy debate about the future of public pensions, particularly defined benefit plans, intensifies, so does the need for objective information about these plans, their performance, and their sustainability. In addition to regularly publishing information on Texas plans' actuarial condition, the agency has recently prepared a white paper comparing defined benefit with defined contribution and hybrid plans to help prepare legislators and the public for policy discussions. To enhance public transparency, PRB is also working with the Comptroller to create a searchable online database with key information on public retirement systems. This tool should be available to the public in the fall, pending board approval.

- **Pension funding standards.** PRB's data and analysis serves as an important resource for local retirement systems themselves, and their actuaries, in understanding and implementing the elements of sound plan design and funding. PRB's guidelines for actuarial soundness provide a benchmark that systems can point to when considering changes to contributions, benefits, and other plan components. Texas actuaries working with public retirement systems rely on PRB's actuarial soundness standards to help guide their clients toward sound funding decisions.

Texas actuaries advising pension systems rely on PRB's actuarial soundness guidelines.

- **Resources for sound operation.** PRB provides technical assistance and education to local public retirement systems that may not have a lot of resources. The agency's reports on timely topics including changes in federal law and other pressing policy issues help systems remain informed. The agency's staff also answers inquiries from local systems on topics including clarification of statute, information on investment options, and potential impacts of plan changes. PRB offers education for local system trustees and administrators, who are often new to the field of public pensions, to help them carry out their duties responsibly and effectively.

Sunset review of the State Pension Review Board and other related agencies did not reveal significant beneficial alternatives for consolidation or transfer of functions.

A key benefit of PRB's soft oversight of public retirement systems is having the Board itself serve as a forum for pension issues or for hearing from systems about issues that may affect their actuarial or financial soundness. As discussed below, other organizational options exist for providing the basic functions of collecting and assessing information about public retirement systems. However, none could easily accommodate such a forum for public accountability on pension matters. In addition, none currently has the type of local pension expertise that PRB possesses and so would need to develop such expertise, potentially negating any savings to be achieved through consolidation.

No other organizational option could easily accommodate the Board's role as a forum for public pension accountability.

- **Standing legislative committees.** Standing committees of the House and Senate review and study public pension issues; however, public retirement is just one policy area they must consider among many others related to public finance. The committees also have limited staff and funding, and ever-changing membership. Moving PRB's functions to the standing committees could result in a loss of valuable expertise, particularly financial and actuarial analysis skills PRB relies on to evaluate systems' soundness.

- **Legislative Budget Board.** While LBB plays a role in producing actuarial impact statements for bills that would affect public pensions, its primary focus is on the state budget. It does not play an oversight role with respect to local governments or local funding issues that are outside state budget considerations.

- **Comptroller of Public Accounts.** The Comptroller has financial expertise, but primarily works in the areas of tax collection and assistance rather than public retirement. Except for some property tax and basic financial transparency matters, the Comptroller does not perform an oversight role over local governments.

- **Employees Retirement System of Texas.** The Employees Retirement System (ERS) administers the state's retirement plans, which fall under the purview of PRB, although these plans are exempt from most reporting requirements. However, ERS has no connection to local public pension systems and has no role or experience in their oversight. Consolidating public pension oversight at ERS would not likely result in benefits or savings because its trust fund can only be used for the benefit of ERS members, and the resources needed to oversee local retirement systems would need to continue to be funded from General Revenue.[3,4]

Sunset staff could not identify potential savings from any PRB consolidation.

National standards for pension policy encourage centralized oversight of public pensions.

The National Conference of State Legislatures (NCSL) has published a Legislators' Guide to Public Pensions that recommends states establish permanent pension review commissions to set actuarial soundness standards, bring public exposure to state and local pensions, and review all pension legislation.[5] In the guide, originally published in 1995 but still used today, NCSL's working group on pensions specifically recommended states create a permanent state body that can provide a critical eye to local pension decision making and analyze the future effects of benefit and contribution changes. In the current economic climate and given pension funding deficits around the nation, NCSL's recommendations continue to have relevance for state public pension policy.

Other states' pension oversight bodies generally have functions similar to PRB's.

Most states oversee local public pension systems, but oversight structures vary.

Across states, public pension oversight bodies are common. Structures include legislative commissions, legislative-executive hybrid committees, independent state agencies, and divisions of state agencies. These states' pension oversight bodies generally have functions similar to those of PRB, including collecting and reporting data, monitoring actuarial soundness, making recommendations to the legislature, and analyzing proposed pension legislation. While no direct correlation exists between the nature of oversight and the incidence of pension problems, under the central oversight PRB provides, Texas has not experienced the kinds of issues with local retirement systems that have appeared in other states.

Recommendation

Change in Statute

1.1 Continue the State Pension Review Board for 12 years.

This recommendation would continue the State Pension Review Board as an independent agency responsible for overseeing Texas' public retirement systems and providing pension-related information for 12 years.

Fiscal Implication

If the Legislature continues the current functions of the State Pension Review Board using the existing organizational structure, the agency would require continuation of its annual appropriation of $694,000.

1 Sections 802.002 and 802.1012, Texas Government Code, exempt the following systems from most PRB reporting requirements: the Employees Retirement System of Texas, including the Judicial Retirement System of Texas Plan One and the Judicial Retirement System of Texas Plan Two; the Teacher Retirement System of Texas; the Texas County and District Retirement System; and the Texas Municipal Retirement System.

2 Pension Review Board, *Survey of Public Plan Participation in Social Security* (Austin, TX: Pension Review Board, 2011), p. 1.

3 Section 67-a, Article XVI, of the Texas Constitution provides that the assets of a public retirement system must be held in trust for the benefit of members and may not be diverted.

4 Section 815.103 of the Texas Government Code requires that the board of trustees of ERS hold its assets in trust for the exclusive benefit of the members and annuitants of the system and administer all operations funded by trust assets for that purpose.

5 The NCSL Working Group on Pensions of the Fiscal, Oversight and Intergovernmental Affairs Committee, *Public Pensions: A Legislator's Guide* (Denver, CO: National Conference of State Legislatures, 1995).

Responses to Issue 1

Recommendation 1.1

Continue the State Pension Review Board for 12 years.

Agency Response to 1.1

Agree. 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. (Chris D. Hanson, Executive Director – State Pension Review Board)

For 1.1

Robert May, Actuary, Austin

David Stacy, Vice Chairman – Midland Firemen's Relief and Retirement Fund

William E. Stefka, Administrator – Austin Firefighters Relief and Retirement Fund

Against 1.1

None received.

Commission Decision on Issue 1

(November 2012)

Adopted Recommendation 1.1.

Final Results on Issue 1

(July 2013)

Legislative Action — S.B. 200

Recommendation 1.1 — Senate Bill 200 continues the State Pension Review Board (PRB) for 12 years.

Issue 2

Many Pension Plans Lack Significant Risk, Necessitating Less PRB Oversight.

Background

When the Legislature created the State Pension Review Board (PRB) in 1979, the state had more than 300 public retirement plans, 90 percent of which were defined benefit pension plans. Many of these plans were traditional defined benefit pensions, although about 175 smaller, mostly volunteer firefighter pensions, were designed to be funded on a pay-as-you-go basis. Even fewer plans, 15 in total, were defined contribution plans. The textbox, *Public Retirement Plans*, describes the funding and payout structures of these common retirement plans.

To ensure traditional defined benefit pension plans will be able to pay future benefits, actuaries determine necessary employer and employee contributions. If contributions are inadequate, benefits are too generous, or investment returns are unexpectedly low, a plan's actuarial soundness, or ability to meet its future liabilities, is threatened. Recognizing the risk presented by traditional defined benefit plans, the Legislature created a statutory reporting framework through PRB to reveal potential threats to actuarial soundness before becoming unmanageable.

Over the years, defined contribution plans, already popular among private sector employers, have gained popularity in the public sector. Today, almost half, or 172, of Texas' nearly 360 public pensions are defined contribution plans. Many public defined contribution plans organized under the Internal Revenue Code, such as 457 and 403(b) plans, are exempt from PRB oversight. Meanwhile, others, such as 401(a) and 401(k) plans, are not specifically exempt from PRB oversight. Of the 186 defined benefit plans in the state today, 96 are traditional defined benefit plans, and 90 are pay-as-you-go defined benefit plans.

Public Retirement Plans

Defined Benefit

Traditional – This plan guarantees a specific monthly benefit for life at retirement, usually based on salary and years of service. This plan is pre-funded, which means employee and employer contributions for all members are combined into a large trust to take advantage of economies of scale and are invested to provide funding for the plan to meet promised benefits. Such a plan is also said to be actuarially funded in that it relies on actuarial assumptions for determining the funding needed to provide benefits to employees and retirees. Appendix A lists the traditional defined benefit plans in fiscal year 2011.

Pay-as-you-go – Like a traditional defined benefit plan, this type of plan also typically guarantees a lifetime annuity at retirement. However, the benefit is often small, and the plan is not pre-funded. Sponsoring entities pay benefits as they become due rather than investing contributions to fund future liabilities. Appendix B lists the pay-as-you-go defined benefit plans in fiscal year 2011.

Defined Contribution

In this plan, contributions are made to each employee's account. The retirement benefit depends on the account balance at retirement, which consists of contributions and earned investment income. This plan is not actuarially funded, as the employee's funds are kept in a separate account that does not guarantee a specific monthly benefit for life. Appendix C lists the defined contribution plans in fiscal year 2011.

Findings

Certain retirement plans do not pose long-term funding risks.

Defined contribution plans do not pose the same risks to pay benefits as defined benefit plans.

Traditional defined benefit plans carry certain inherent risks. Failure to adequately fund a traditional defined benefit plan can result in a large unfunded liability, taking many years to address and requiring either a large increase in contributions, a reduction in benefits, or both. While the State is not directly responsible for local pension plans, it certainly has an interest in seeing that these plans stay out of trouble and avoid questions of needed financial support if major pensions faced insolvency.

In contrast to traditional defined benefit plans, defined contribution plans do not offer a specific monthly benefit for life. Therefore they do not pose the same risk to the sponsoring entity to pay for the benefit or to the plan members to receive the promised benefit. Defined contribution plans only pay out whatever money has accumulated in the employee's account at retirement and are not responsible for losses such as those due to fluctuations in the stock market. Without promising a specific monthly benefit for life at retirement, defined contribution plans shift most of the risk for retirement from the employer, where it lies with defined benefit plans, to the employee. While defined contribution plans pose the same risks as any public trust, such as exorbitant contracting fees, breach of fiduciary duty, or fraud, these risks fall outside the scope of PRB's oversight and fall under the jurisdiction of civil or criminal courts.

Most pay-as-you-go plans average total payouts of only $3,000 per year.

Pay-as-you-go defined benefit plans typically do provide a specific monthly benefit for life, but are not pre-funded, so do not accumulate significant funds in trust invested to fund future liabilities using actuarial principles. The sponsoring entity of a pay-as-you-go plan, usually a city, simply pays benefits as they become due from its general coffers, generally without accumulating significant assets in trust or investments. The primary risk pay-as-you-go plan members face is that a sponsoring entity could be unable, or unwilling to pay a benefit when it becomes due. However, these plans generally have small annual payouts that sponsoring entities can budget for annually. Over the past five fiscal years, most pay-as-you-go-plans averaged about $3,000 per year in total benefit payouts. PRB is unaware of any sponsoring entity of a Texas pay-as-you-go plan ever failing to make its monthly payment. In contrast, traditional defined benefit plans had an average payout of more than $113 million per year for the last five fiscal years.

PRB's oversight tools, designed for traditional defined benefit plans, have little value for defined contribution and pay-as-you-go plans.

PRB's primary duty is to oversee public pension plans and help ensure their continued actuarial soundness. If PRB discovers through analysis that a plan is actuarially unsound, the agency works with the plan and sponsoring entity to identify necessary contribution or benefit changes to ensure sufficient funding to pay future benefits. Since defined contribution plans do not promise a specific monthly benefit for life, PRB has no similar role to play. Although pay-as-you-go defined benefit plans have promised future liabilities, PRB has no need to work with these plans to ensure adequate funding because the financial health of the sponsoring entity alone determines whether benefits can be paid. PRB's duties do not include monitoring the financial condition of plan sponsors such as cities.

PRB's current oversight of defined contribution and pay-as-you-go defined benefit plans consists mainly of researching occasional public complaints. However, PRB receives very few complaints related to defined contribution plans and has never received a complaint related to a pay-as-you-go plan. PRB generally has no authority to resolve these complaints and must either direct the complainant to an agency that can address the issue, such as the Office of the Attorney General, the State Securities Board, or the Securities and Exchange Commission, or recommend the complainant seek legal counsel.

PRB generally has no authority to resolve complaints on defined contribution or pay-as-you-go plans.

Outdated state law requires defined contribution and pay-as-you-go plans to prepare and report unnecessary information to PRB.

Statute requires all plans to report the same information to PRB, as summarized in the textbox, *PRB Required Reports*.[1,2] While PRB needs the registration and summary plan information to provide overall data and information on the state's public retirement landscape, the remaining reports are either not applicable or unnecessary for defined contribution and pay-as-you-go defined benefit plans.

PRB Required Reports

Registration – Plans must register with PRB and provide contact information and general information on the system and its governing body to identify themselves to PRB.

Summary Plan Information – Plans must submit summarized information on benefits, vesting and eligibility, and other information on how they administer benefits.

Membership Report – Plans must provide the number of members and retirees in the plan during the previous year.

Investment Policy – An investment policy sets asset allocation goals and allows PRB to ensure that plans do not take excessive risks through their investments.

Annual Audited Financial Report – This basic audited financial statement allows PRB to track plans' assets and liabilities, revealing potential funding issues, such as a drop in the value of a plan's assets from one year to the next.

Actuarial Valuation – An actuarial valuation uses economic and demographic information to estimate a traditional defined benefit plan's ability to pay future liabilities.

Actuarial Audit by Sponsoring Entity – This audit performed by the sponsoring entity evaluates annual financial reports, actuarial valuations, and any other reports or studies conducted by a plan with more than $100 million in assets. These audits are designed to ensure the accuracy of previous actuarial work.

Because actuarial principles do not apply to defined contribution or pay-as-you-go plans, these plans do not prepare or submit actuarial valuations or audits to ensure the accuracy of this actuarial work. Defined contribution and pay-as-you-go plans also generally do not formulate investment policies, as they are not investing to meet a promised benefit. These plans typically do not present funding risks, so PRB does not need their annual audited financial data. PRB does not need information on the number of plan members and annuitants, since the number of plan participants does not directly impact these plans' financial solvency like traditional defined benefit plans. General law provisions applicable to all public retirement plans, however, provide useful information and are still needed.

Recommendation

Change in Statute

2.1 Exempt defined contribution and pay-as-you-go defined benefit public retirement plans from PRB reporting requirements except for registration and basic plan information.

This recommendation would exempt defined contribution and pay-as-you-go defined benefit plans from submitting membership reports, investment policies, annual audited financial reports, actuarial valuations, and sponsoring entity audits. These plans would still be required to register with PRB, provide summary plan information, and provide updates to both.[3] Maintaining registration and basic plan information reporting requirements would allow PRB to continue collecting and reporting data to provide a summary of the public retirement landscape in Texas.

Fiscal Implication

This recommendation would not have a significant fiscal impact to the State. The agency would experience a small administrative savings from no longer processing reports from defined contribution and pay-as-you-go defined benefit plans. However, these savings would be minimal and could not be estimated. Certain plans would see similar savings from no longer preparing unnecessary reports.

1 Sections 802.101, 802.1012, 802.103, 802.202(3), 802.104, 802.105, and 802.106(h), Texas Government Code.

2 Statute exempts Employees Retirement System of Texas, Teacher Retirement System of Texas, Texas Municipal Retirement System, Texas County and District Retirement System, and most public defined contribution plans, such as 457 and 403(b) plans, from reporting to PRB.

3 Sections 802.105 and 802.106(h), Texas Government Code.

Responses to Issue 2

Recommendation 2.1

Exempt defined contribution and pay-as-you-go defined benefit public retirement plans from PRB reporting requirements except for registration and basic plan information.

Agency Response to 2.1

Agree. 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. (Chris D. Hanson, Executive Director – State Pension Review Board)

For 2.1

None received.

Against 2.1

None received.

Commission Decision on Issue 2

(November 2012)

Adopted Recommendation 2.1.

Final Results on Issue 2

(July 2013)

Legislative Action — S.B. 200

Recommendation 2.1 — The bill exempts low-risk retirement plans — identified as defined contribution and local volunteer firefighter plans, that are almost exclusively pay-as-you-go 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.

Background

The State Pension Review Board's (PRB) primary duty is monitoring public retirement systems' financial condition and actuarial soundness, with the goal of exposing problems in time to address them before a system's ability to pay benefits is affected. The agency does this by monitoring a variety of statutorily required reports submitted by most public retirement systems.[1] The table, *PRB Reporting Requirements*, lists all reporting requirements beyond initial registration. Included in these requirements is a quarterly reporting system, originally created in response to a rider to the agency's appropriation in 2005, which was designed to provide an early warning of possible problems by traditional defined benefit systems.[2] These systems provide a specific monthly benefit for life and are pre-funded using actuarial principles. By rule, PRB requires these plans to provide quarterly financial updates through the system, although PRB allows the plans to submit unaudited information.[3]

PRB Reporting Requirements

Reporting Requirement	Systems That Must Comply	Report Frequency	Filing Deadline
Information for New System Members	All public retirement systems	When basic plan publications are updated	30 days after publication
Summary Plan Information	All public retirement systems	When key plan changes are made	270 days after a change is adopted
Membership Report	All public retirement systems	Annually	210 days after the last day of the system's fiscal year
Investment Policy	All public retirement systems, except the four largest statewide plans	When a policy is adopted	90 days after a policy is adopted
Quarterly Financial Data	Traditional defined benefit plans, except the four largest statewide plans	Quarterly	45 days after the quarter closes
Annual Audited Financial Report	All public retirement systems, except the four largest statewide plans and firefighter plans with less than $50,000 in assets[4]	Annually	210 days after the last day of the system's fiscal year
Actuarial Valuation	Traditional defined benefit plans, except the four largest statewide plans[5]	At least once every three years	When completed
Actuarial Audit by Sponsoring Entity	All plans with at least $100 million in assets, except the four largest statewide plans	Every five years	30 days after the final report

PRB applies its guidelines for actuarial soundness to the data submitted by traditional defined benefit retirement systems. To get a detailed, accurate picture of these at-risk systems, the agency must have complete, up-to-date information about their financial and actuarial condition. If a system is in danger of becoming unsound, staff performs an in-depth actuarial review to identify the cause of the problems. Depending on the severity of the system's situation, PRB's Board may request the system and sponsor appear before the Board to explain the problems and their plan for addressing them. PRB has worked intensively with nine systems during the last decade to improve their actuarial soundness, and has recently adopted new procedures for identifying and working with at-risk systems.

Findings

Statute does not require public retirement systems to notify PRB of plan changes in time to allow PRB to evaluate their effects on actuarial soundness.

PRB uses notification of plan changes, specifically benefit or contribution changes, to evaluate plans' present costs and future liabilities. Statute requires retirement systems to provide PRB a summary of major plan changes within 270 days of the date the changes are adopted.[6] However, with current communications technology, retirement systems could provide PRB more timely notification of major plan changes, which are public information and adopted in open meetings.

By potentially delaying this notification nine months, PRB may be unaware that a system is accruing new unfunded liabilities, which can affect its ability to meet PRB's actuarial soundness guidelines. Under the current statutory timeframe, PRB may not find out about new risks to soundness and may be unable to timely analyze or make the system aware of the future effects of these changes.

Retirement systems could provide PRB with more timely plan updates, given current technology.

Statute does not require large public retirement systems to provide PRB with their experience studies, limiting PRB's ability to confirm the accuracy of systems' actuarial assumptions over time.

If a system's actuarial assumptions do not accurately predict future events, the system risks being unable to meet its future liabilities. Large traditional defined benefit pension plans, usually defined as those having more than $100 million in assets, generally conduct experience studies to examine the actuarial assumptions used to estimate plans' future liabilities.[7] These studies compare plan assumptions with actual data including key variables related to retirement, mortality, hiring, and salary increases, to determine how well they match actual events during the previous five years. When appropriate, experience studies include recommended changes to the system's actuarial assumptions by the actuary performing the study.

General state law does not require systems to conduct experience studies nor does it require systems already conducting experience studies to provide them to PRB, although a few systems have submitted them. When PRB does not receive this study, it misses an important source of information to perform a thorough, accurate, and efficient actuarial analysis of these large, complex retirement systems. Instead, in judging the system's soundness, PRB must use other reports to infer the reasonableness of a system's actuarial assumptions. When PRB has received experience studies in its review of systems with funding issues, it has found them useful in identifying specific problems and improving the quality and efficiency of its reviews.

In fiscal year 2011, nearly 20 percent of traditional defined benefit plans failed to provide a system audit.

Some retirement systems submit audits of their sponsoring entity, avoiding the statutorily required audits of the systems themselves, limiting PRB's ability to evaluate their financial condition.

Statute requires all retirement systems to provide PRB annual audited financial reports, except for the four largest statewide systems and smaller firefighter systems.[8] However, in fiscal year 2011, nearly 20 percent of the traditional defined benefit pension systems in Texas submitted their sponsoring entity's annual audited financial report instead of providing PRB with an audit of the system itself, generally citing the costs of an independent audit. The number of systems sending in sponsor audits has grown in recent years.

A sponsoring entity's audit, usually a city's audit, includes information about the plan as part of the sponsor's overall financial audit. It is not a comprehensive audit of the retirement system's financial information and lacks detailed analysis of the plan's transactions. Without a full system audit, PRB staff is limited in its ability to analyze a traditional defined benefit system's financial condition. Further, not having an annual audit specifically focusing on the retirement system may affect the ability of system trustees to satisfy their fiduciary responsibilities and may deny plan participants, taxpayers, and the public a transparent view of the system.

PRB's quarterly reporting system does not provide the agency with information that can provide an early warning of impending problems with a retirement system.

PRB's quarterly reporting system has not worked as expected to serve its intended early warning purpose. As the turmoil in the financial markets at the end of the last decade has amply revealed, conditions can change quickly. A corollary to this lesson is that the shelf life of financial data is limited. PRB has developed a method of evaluating retirement systems based on the performance of the stock market, which provides a better indicator of financial status on any given day. This information is more useful to PRB, as it provides more of a real-time indicator of a plan's financial performance than quarterly reports that reflect data already up to three months old.

PRB requires quarterly reports that have little value.

Even if quarterly reporting was useful to PRB, the data has other limitations. In working with systems to ease the burden of making quarterly reports, PRB allowed the systems to report unaudited financial data, which is less reliable for accurately measuring the financial health of retirement systems. Despite this accommodation, the quarterly reporting system is still burdensome for retirement systems. Although PRB allows for online data entry, systems report that gathering and reporting the information when they otherwise would not, is inefficient, particularly when PRB does not use the data to detect funding problems.

Recommendations

Change in Statute

3.1 Require public retirement systems to provide PRB a summary of significant plan changes within 30 days of their adoption.

This recommendation would require public retirement systems to provide PRB a summary of plan changes that affect contributions, benefits, or eligibility, within 30 days of their adoption, instead of the 270 days in current law. This recommendation would not be a new statutory requirement, but merely shorten the amount of time provided by statute for compliance with the requirement.

3.2 Require public retirement systems that conduct experience studies to submit copies of the studies to PRB.

This recommendation would require a retirement system that conducts an experience study, except the four largest statewide systems already exempt from most PRB reporting requirements, to provide PRB a copy within 30 days of the adoption of the study. This provision does not require any systems to conduct experience studies, merely to send it to PRB if they choose to perform one.

3.3 Clarify in statute that sponsoring entity audits do not satisfy retirement systems' annual financial reporting requirements.

While statute already requires an audit, this recommendation would clarify that public retirement systems cannot submit their sponsoring entity's audit to satisfy their statutory annual financial reporting requirement. Some systems have used this lack of clarity as a loophole to avoid sending PRB a system audit. This change would ensure that these systems have their own audits conducted and submitted to PRB for its oversight purposes. In conjunction with the recommendation in Issue 2 of this report, this change would only apply to traditional defined benefit plans.

Management Action

3.4 PRB should no longer require retirement systems to submit quarterly financial data.

This recommendation would direct PRB to stop requiring public retirement systems to provide quarterly financial reports, and would direct the Board to adjust rules as necessary.

Fiscal Implication

These recommendations would have no fiscal impact to the State. Removing a loophole to clarify that retirement systems should submit their own financial audit could result in increased costs for the systems. However, all of the traditional defined benefit plans that this recommendation would affect have more than $2 million in assets. The cost of a financial audit for these plans, typically between $8,000 and $15,000, would be relatively small and a financial audit is an important component of the proper oversight of these systems.

....

1 Sections 802.002 and 802.1012, Texas Government Code, exempt the Employees Retirement System of Texas, Teacher Retirement System of Texas, Texas County and District Retirement System, and Texas Municipal Retirement System from most PRB reporting requirements.

2 Rider 2, page I-74, Article I (S.B. 1), Acts of the 79th Legislature, Regular Session, 2005 (the General Appropriations Act).

3 40 T.A.C. Section 605.3(c).

4 Section 802.103(c), Texas Government Code, allows systems established under the Texas Local Fire Fighters' Retirement Act with less than $50,000 in assets to submit the financial report supplied to the Fire Fighters' Pension Commissioner instead of an annual audited financial statement.

5 Section 802.1012, Government Code, requires all systems except the four largest statewide systems, to file actuarial valuations. However, because defined contribution and pay-as-you-go plans are not actuarially funded, PRB does not require valuations from them.

6 Section 802.106(h), Texas Government Code.

7 Section 802.1012, Texas Government Code, requires sponsoring entity audits of systems with at least $100 million in assets. PRB generally acknowledges this asset level as a threshold for distinguishing large systems. Texas currently has 35 public retirement plans that fit this description.

8 *See id.* at 1 and 6.

Responses to Issue 3

Recommendation 3.1

Require public retirement systems to provide PRB a summary of significant plan changes within 30 days of their adoption.

Agency Response to 3.1

Agree. 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. (Chris D. Hanson, Executive Director – State Pension Review Board)

For 3.1

None received.

Against 3.1

None received.

Recommendation 3.2

Require public retirement systems that conduct experience studies to submit copies of the studies to PRB.

Agency Response to 3.2

Agree. The agency agrees with the recommendation. (Chris D. Hanson, Executive Director – State Pension Review Board)

For 3.2

None received.

Against 3.2

None received.

Recommendation 3.3

Clarify in statute that sponsoring entity audits do not satisfy retirement systems' annual financial reporting requirements.

Agency Response to 3.3

Agree. The agency agrees with the recommendation. (Chris D. Hanson, Executive Director – State Pension Review Board)

For 3.3

None received.

Against 3.3

None received.

Recommendation 3.4

PRB should no longer require retirement systems to submit quarterly financial data.

Agency Response to 3.4

Agree. The agency agrees with the recommendation. (Chris D. Hanson, Executive Director – State Pension Review Board)

For 3.4

None received.

Against 3.4

None received.

Commission Decision on Issue 3

(November 2012)

Adopted Recommendations 3.1 through 3.4.

Final Results on Issue 3

(July 2013)

Legislative Action — S.B. 200

Recommendation 3.1 — Senate Bill 200 requires public retirement systems to provide PRB with a summary of significant plan changes within 30, rather than 270, days of their adoption.

Recommendation 3.2 — The bill requires public retirement systems that conduct actuarial experience studies to submit copies of the studies to PRB within 30 days of their adoption. The bill exempts the four largest statewide retirement systems, that are already exempt from most PRB reporting requirements, from this requirement.

Recommendation 3.3 — The bill clarifies that a general audit of a plan's sponsoring entity does not satisfy retirement systems' annual financial reporting requirements.

Management Action

Recommendation 3.4 — PRB should no longer require retirement systems to submit quarterly financial data.

Issue 4

The Agency's Training Efforts Are Not Reaching Public Retirement Systems With the Greatest Needs.

Background

One of the key functions of the State Pension Review Board (PRB) is to provide information and technical assistance to Texas' almost 360 state and local public retirement systems. These systems range in size from large, with many staff and often contracted expertise, to small, with limited resources and staff, and, at times, no staff at all.

PRB provides assistance by responding to requests for information and offering training for public pension trustees and administrators through a one-day annual seminar held in Austin. For this seminar, the agency schedules speakers and panels to discuss a range of pension-related topics, such as those listed in the textbox, *Sample Annual Seminar Topics*. The agency charges seminar attendees a registration fee to help cover the costs of the event.

Sample Annual Seminar Topics
FYs 2010 and 2011

- U.S. Prospects and Global Challenges
- Key Issues in the Markets
- Fiduciary Responsibility in Today's Public Pension Climate
- Current Trends and Issues in Public Retirement
- Changing Face of the Texas Labor Market
- Ethics and Public Employee Retirement Systems

In fiscal years 2007 and 2008, the agency provided one-day regional training seminars in select cities outside Austin to reach smaller systems that may have difficulty attending the annual seminar. However, due to budget constraints, the agency discontinued these regional seminars in fiscal year 2009. That same year, PRB began providing legislative briefings to members and their staff, retirement systems, and other stakeholders. The agency uses these briefings to explain its role, discuss pension-related issues and legislation, and explain the process for preparing actuarial impact statements for legislation affecting public retirement systems.

Findings

Statute lacks clear direction enabling the agency to provide accessible training to public retirement systems in a variety of formats.

- **Inadequate statutory guidance.** State law authorizes PRB to conduct training sessions, schools, or other educational activities for public pension trustees and administrators, but does so in such a way that may prevent the agency from pursuing better delivery methods.[1] The statute ties the authorization for agency training to a funding mechanism allowing public pension systems to contribute funds to PRB to support these and other activities. This connection implies an approach to training that relies on conferences and seminars. Although the Legislature in 2003 modified the agency's budget structure to end the program of accepting voluntary contributions from public retirement systems, the statutory authorization remains as the only reference to the agency's training activities.[2] Since 1990, the agency has provided training primarily through its annual seminar.

When attendance lags, PRB absorbs the costs of the annual seminar.

- **Limitations of seminars.** PRB's annual seminar offers certain benefits to retirement systems, such as the opportunity for trustees and administrators to obtain objective information free from vendor sales pitches and to network with peers from other systems. To take advantage of these benefits, however, the systems must have someone physically present on the specific date of the event, which can be difficult given the high cost of travel and shrinking travel budgets, especially for smaller systems with few resources and those located far from Austin. On average 25 systems attended the event during the past four years, and most were larger plans located near Austin.

  Seminar attendance by individuals fluctuates significantly from year to year, dipping precipitously in 2011 after the late cancellation by the planned keynote speaker, when just 44 paying participants attended, as compared to 86 paying participants in 2010. When attendance lags, PRB has to absorb the costs to host these seminars, which amounted to about $10,000 in 2011. While not a large sum, when added to the staff time and resources required to plan and organize these seminars, these costs have an impact on the agency and its ability to focus more squarely on its oversight role.

- **Insufficient use of technology.** PRB's approach has not taken advantage of technology to provide training most accessibly or cost-effectively. The agency does not provide its seminars or archive its materials online so that information is available on demand, whenever and wherever the system or user may be. Without harnessing technology, such as web-based tools, the agency is unable to effectively deliver training to the smaller systems that could benefit most from it.

Without harnessing technology, the agency is unable to effectively deliver training to all systems.

The content of PRB's training does not meet systems' needs or take full advantage of staff expertise.

A survey of public pension systems conducted by Sunset staff found that retirement systems with many resources, often larger plans, were generally pleased with the broad, high-level topics covered by the speakers at PRB's annual seminar. These systems' attendees were interested in noteworthy speakers and topics of national interest. However, the survey also revealed that many systems, often with fewer resources — some without any full-time staff — need more narrowly-focused, Texas-specific content on topics more directly related to the daily operations of a retirement system. Such topics include information on sound plan design, asset allocation, implications of changes in laws and regulations, and best practices for contracting with actuaries or investment managers.

PRB has worked hard to attract distinguished seminar speakers with the training funds it has available, but the agency could make greater use of its highly trained and experienced staff that possesses the technical knowledge many systems need. While outside experts bring an understanding of market trends and other broad economic and pension topics, PRB's staff has a deep and unique understanding of the needs and challenges specific to Texas public retirement systems.

Recommendations

Change in Statute

4.1 Clarify the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators.

This recommendation would clarify PRB's authority to provide training to public retirement systems through a delivery method that is cost-effective and accessible to all systems, not just through its current annual seminar. This recommendation would provide this authority separate from the statutory funding mechanism where authority is currently given. The agency would also gain greater flexibility to pursue training options beyond its current seminar, using technology to provide training on an ongoing basis throughout the year. The agency should consider using web-based tools, such as webinars, that would allow it to economically provide training to the greatest number of system trustees and administrators. PRB should archive training sessions and make them available on its website.

Management Action

4.2 Direct PRB to develop training content that more directly assists public retirement systems with managing their plans.

PRB should develop training content that is Texas-specific and relevant to the day-to-day management of plans. Best practices should be made available on the agency's website. This training content should include the following topics:

- asset allocation;
- plan design;
- plan management;
- regular updates to federal and state law;
- contracting, such as creating requests for proposals for investment managers, actuaries, and other professional contractors; and
- other information relevant to retirement systems.

Certain content could be delivered as short training sessions presented by staff, Board members, or other pension professionals, as envisioned by Recommendation 4.1. PRB could provide these sessions throughout the year and archive them on the agency's website. The agency should seek ongoing input from public retirement systems, through email or online surveys, to ensure that content and delivery methods are relevant to their needs.

Fiscal Implication

These recommendations would not have a fiscal impact to the State. The agency could redirect funding currently used for its annual seminar to cover the cost of web-based training tools. PRB could also continue to collect fees to cover the cost of its seminars, should these continue to be offered, or for other training offerings. PRB staff already produces white papers and other materials that could be used and expanded upon to provide best practices materials and online training seminars.

1 Section 801.113(e), Texas Government Code.

2 Article I (H.B. 1), Acts of the 78th Legislature, Regular Session, 2003 (the General Appropriations Act).

Responses to Issue 4

Overall Agency Response to Issue 4

Agree. 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. 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. (Chris D. Hanson, Executive Director – State Pension Review Board)

Recommendation 4.1

Clarify the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators.

For 4.1

None received.

Against 4.1

None received.

Recommendation 4.2

Direct PRB to develop training content that more directly assists public retirement systems with managing their plans.

For 4.2

None received.

Against 4.2

None received.

Commission Decision on Issue 4

(November 2012)

Adopted Recommendations 4.1 and 4.2.

Final Results on Issue 4

(July 2013)

Legislative Action — S.B. 200

Recommendation 4.1 — Senate Bill 200 clarifies the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators. PRB may use live webinars and other technologies and maintain archives of previous training sessions online.

Management Action

Recommendation 4.2 — PRB should 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.

Background

Over the years, Sunset reviews have come to encompass an increasing number of standard elements either from direction traditionally provided by the Sunset Commission, or from statutory requirements added by the Legislature to the criteria for review in the Sunset Act, or from general law provisions typically imposed on state agencies. The following material highlights the changes needed to conform the State Pension Review Board's (PRB) statute to Sunset Across-the-Board recommendations, and to address the need for the agency's required report.

- **Sunset Across-the-Board provisions.** The Sunset Commission has developed a set of standard recommendations that it applies to all state agencies reviewed unless an overwhelming reason exists not to do so. These Across-the-Board Recommendations (ATBs) reflect an effort by the Legislature to place policy directives on agencies to prevent problems from occurring, instead of reacting to problems after the fact. The ATBs also reflect review criteria contained in the Sunset Act designed to ensure open, responsive, and effective government.
- **Reporting requirements.** The Texas Sunset Act establishes a process for state agencies to provide information to the Sunset Commission about reporting requirements imposed on them by law and requires the Commission, in conducting reviews of state agencies, to consider if each reporting requirement needs to be continued or abolished.[1] The Sunset Commission has interpreted these provisions as applying to reports that are specific to the agency and not general reporting requirements that extend well beyond the scope of the agency under review.

Findings

The State Pension Review Board's statute does not reflect two areas of standard language typically applied across the board during Sunset reviews.

PRB's statute does not include standard provisions relating to conflicts of interest and alternative rulemaking and dispute resolution that the Sunset Commission applies in across-the-board fashion to agencies under review.

- **Conflict of interest.** The agency's statute contains standard language to prevent potential conflicts of interest by board members with entities receiving funds from PRB. PRB's statute also prohibits board members and the general counsel from lobbying on behalf of pension-related professions. However, statute does not include standard conflict of interest language that prohibits board members, high-ranking agency employees, and their spouses from being closely affiliated with a pension-related professional trade association.

- **Alternative dispute resolution.** The agency's statute does not include a standard provision relating to alternative rulemaking and dispute resolution that the Sunset Commission routinely applies to agencies under review. This provision helps improve rulemaking and dispute resolution through more open, inclusive, and conciliatory processes designed to solve problems by building consensus rather than through contested proceedings.

The State Pension Review Board's single statutory reporting requirement to produce a biennial report serves a useful purpose.

The biennial report is the Governor and the Legislature's primary source of information about the agency's activities and serves a useful purpose.[2] The agency's report, which also is available on its website, must include an explanation of the agency's work and findings and any recommendations for needed legislation related to public retirement systems.

Recommendations

Change in Statute

5.1 Apply standard Across-the-Board Recommendations to the State Pension Review Board.

- **Conflict of interest.** This provision would prohibit a board member or high-level agency employee from being an officer, employee, or paid consultant of a pension-related professional trade association. The provision would also prohibit the spouse of a board member or high-level agency employee from being an officer, manager, or paid consultant of a pension-related professional trade association.

- **Alternative dispute resolution.** This provision would ensure that the agency develops and implements a policy to encourage alternative procedures for rulemaking and dispute resolution that conforms, to the extent possible, to model guidelines by the State Office of Administrative Hearings. The agency would provide internal training as needed and collect data concerning the effectiveness of these procedures.

5.2 Continue requiring the State Pension Review Board to submit its biennial report to the Legislature.

This recommendation would continue the existing requirement in law for the agency's biennial report to the Governor and the Legislature, though no statutory change would be needed to continue this reporting requirement. This report provides the Governor and the Legislature the only formal opportunity to hear from PRB regarding its activity over the preceding two years as well as necessary changes to pension statutes. To comply with a recent change in law, the report should be provided to the Legislature in an electronic format only.

Fiscal Implication

These recommendations would not have a fiscal impact to the State.

1 Sections 325.0075, 325.011(13), and 325.012(a)(4), Texas Government Code.

2 Section 801.203(a), Texas Government Code.

Responses to Issue 5

Overall Agency Response to Issue 5

Agree. 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. (Chris D. Hanson, Executive Director – State Pension Review Board)

Recommendation 5.1

Apply standard Across-the-Board Recommendations to the State Pension Review Board.

For 5.1

None received.

Against 5.1

None received.

Recommendation 5.2

Continue requiring the State Pension Review Board to submit its biennial report to the Legislature.

For 5.2

None received.

Against 5.2

None received.

Commission Decision on Issue 5
(November 2012)

Adopted Recommendations 5.1 and 5.2.

Final Results on Issue 5
(July 2013)

Legislative Action — S.B. 200

Recommendation 5.1 — The bill updates standard Sunset language prohibiting a person from serving as a Board member if the person, or their spouse, is an officer, employee, or paid consultant of a Texas trade association in the field of pensions. Senate Bill 200 also adds standard Sunset language requiring the Commission to develop a policy that encourages the use of negotiated rulemaking and alternative dispute resolution.

Recommendation 5.2 — Although no statutory change was necessary through Senate Bill 200, the Sunset Commission adopted this recommendation which continues the existing requirement in law for the agency's biennial report to the Governor and Legislature.

New Issues

New Issues

None received.

Provisions Added by the Legislature

Provisions Added by the Legislature

Legislative Action — S.B. 200

- **Board Composition**

The Legislature added a provision to S.B. 200 that removes the two legislative members from the Board, reducing the Board's size from nine to seven members as of September 1, 2013. All remaining members are Governor appointees.

- **Prohibition on Investments with Iran**

The Legislature added a provision to S.B. 200 prohibiting statewide retirement systems from investing in companies engaged in certain business operations with the government of Iran. The bill requires PRB to create and maintain a list of companies doing business with Iran, and to update the list at least once per year. PRB must provide the list to the statewide systems and the presiding officer of each house of the Legislature and the attorney general. The bill requires the statewide systems to notify the Board of any holdings in listed companies and to divest from those that have active business operations with Iran, unless the systems can show evidence that the action would result in a certain loss of value or would be inconsistent with the funds' fiduciary responsibility.

APPENDICES

Appendix A

Traditional Defined Benefit Pension Plans – FY 2011

Plan Name	Membership	Total Assets
Total	**2,277,757**	**$194,466,783,810**
Abilene Firemen's Relief & Retirement Fund	323	$43,871,253
Amarillo Firemen's Relief & Retirement Fund	433	$115,866,425
Arlington Employees Deferred Income Plan	3,909	$2,225,327
Atlanta Firemen's Relief & Retirement Fund	49	$2,579,155
Austin Employees' Retirement System	13,696	$1,711,577,229
Austin Fire Fighters Relief & Retirement Fund	1,551	$601,833,839
Austin Police Retirement System	2,188	$492,545,219
Beaumont Firemen's Relief & Retirement Fund	381	$86,352,765
Big Spring Firemen's Relief & Retirement Fund	100	$9,704,476
Boerne Firemen's Relief & Retirement Fund	53	$279,514
Brazos River Authority Retirement Plan	365	$20,321,777
Brownwood Firemen's Relief & Retirement Fund	58	$2,628,393
Capital MTA Retirement Plan for Administrative Employees	368	$11,505,697
Capital MTA Retirement Plan for Bargaining Unit Employees	1,040	$27,652,777
City Public Service of San Antonio Pension Plan	5,415	$1,056,714,004
Cleburne Firemen's Relief & Retirement Fund	84	$14,237,414
Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust	111	$8,273,581
Conroe Fire Fighters' Retirement Fund	104	$13,549,384
Corpus Christi Fire Fighters' Retirement System	697	$101,080,549
Corpus Christi Regional Transportation Authority	405	$21,791,159
Corsicana Firemen's Relief & Retirement Fund	81	$6,305,623
Cypress-Fairbanks ISD Pension Plan for Non-TRS Employees	4,922	$4,709,593
Dallas County Hospital District Retirement Income Plan	14,290	$504,560,000
Dallas Employees' Retirement Fund	14,138	$2,868,196,000
Dallas Police & Fire Pension System-Combined Plan	9,248	$3,112,686,542
Dallas Police & Fire Pension System-Supplemental	150	$21,119,036
Dallas/Fort Worth Airport Board DPS Retirement Plan	494	$95,906,000
Dallas/Fort Worth Airport Board Retirement Plan	2,618	$281,306,000
DART Employees' Defined Benefit Retirement Plan & Trust	1,310	$119,776,000
Denison Firemen's Relief & Retirement Fund	101	$12,599,808

Appendix A

Plan Name	Membership	Total Assets
Denton Firemen's Relief & Retirement Fund	222	$50,006,018
Edinburg Firemen's Relief & Retirement Fund	42	$1,510,912
El Paso City Employees' Pension Fund	6,527	$552,542,670
El Paso Firemen's Pension Fund	1,457	$418,002,551
El Paso Police Pension Fund	1,740	$605,033,404
Employees Retirement System of Texas	305,623	$21,204,091,002
Fort Worth Employees' Retirement Fund	10,196	$1,652,352,074
Galveston Employees' Retirement Fund	903	$36,853,674
Galveston Employees' Retirement Plan for Police	259	$22,785,515
Galveston Firefighter's Relief & Retirement Fund	197	$35,222,659
Galveston Wharves Pension Plan	192	$9,312,959
Greenville Firemen's Relief & Retirement Fund	122	$11,266,214
Guadalupe-Blanco River Authority	220	$15,978,183
Harlingen Firemen's Relief & Retirement Fund	106	$20,822,002
Harris County Hospital District Pension Plan	8,670	$416,247,019
Henrietta Firemen's Relief & Retirement Fund	38	$112,216
Houston Firefighter's Relief & Retirement Fund	6,588	$3,203,080,361
Houston MTA Non-Union Pension Plan	1,200	$112,396,959
Houston MTA Workers Union Pension Plan	4,113	$166,762,025
Houston Municipal Employees Pension System	27,074	$2,129,441,342
Houston Police Officers Pension System	8,433	$3,530,617,000
Irving Firemen's Relief & Retirement Fund	452	$125,139,063
Irving Supplemental Benefit Plan	1,677	$38,089,892
Judicial Retirement System of Texas Plan One*	467	$0
Judicial Retirement System of Texas Plan Two	888	$259,623,603
Killeen Firemen's Relief & Retirement Fund	248	$23,837,183
Laredo Firefighters Retirement System	506	$84,080,924
Law Enforcement & Custodial Officer Supplemental Retirement Fund	50,319	$737,416,639
Longview Firemen's Relief & Retirement Fund	280	$41,675,937
Lower Colorado River Authority Retirement Plan	2,768	$346,689,729
Lubbock Fire Pension Fund	612	$150,565,100
Lufkin Firemen's Relief & Retirement Fund	131	$9,950,651
Marshall Firemen's Relief & Retirement Fund	85	$5,576,458
McAllen Firemen's Relief & Retirement Fund	243	$32,426,570

Appendix A

Plan Name	Membership	Total Assets
Midland Firemen's Relief & Retirement Fund	319	$68,514,410
Nacogdoches County Hospital District Retirement Plan	983	$23,513,720
Northeast Medical Center Hospital Retirement Plan	576	$9,298,987
Northwest Texas Healthcare System Retirement Plan	856	$15,233,412
Odessa Firemen's Relief & Retirement Fund	337	$42,764,055
Orange Firemen's Relief & Retirement Fund	71	$8,563,461
Paris Firefighters' Relief & Retirement Fund	92	$6,271,702
Physicians Referral Service Retirement Benefit Plan	1,875	$332,623,670
Plainview Firemen's Relief & Retirement Fund	64	$4,599,725
Plano Retirement Security Plan	2,460	$79,414,623
Port Arthur Firemen's Relief & Retirement Fund	167	$30,311,331
Port of Houston Authority Retirement Plan	1,158	$123,763,457
Refugio County Memorial Hospital District Retirement Plan	108	$2,498,932
San Angelo Firemen's Relief & Retirement Fund	300	$49,087,894
San Antonio Fire & Police Pension Fund	6,086	$1,970,054,000
San Antonio Metropolitan Transit Retirement Plan	2,295	$159,075,398
San Benito Firemen's Pension Fund	30	$2,390,348
Sweetwater Firemen's Relief & Retirement Fund	49	$7,103,229
Teacher Retirement System of Texas	1,316,566	$107,420,786,893
Temple Firemen's Relief & Retirement Fund	168	$30,334,836
Texarkana Firemen's Relief & Retirement Fund	129	$23,805,017
Texas City Firemen's Relief & Retirement Fund	119	$13,460,752
Texas County & District Retirement System	223,383	$17,729,759,611
Texas Emergency Services Retirement System	8,672	$62,465,098
Texas Municipal Retirement System	182,831	$18,571,293,924
Travis County ESD #6 Firefighter's Relief & Retirement Fund	63	$2,075,147
Tyler Firemen's Relief & Retirement Fund	238	$31,661,403
University Health System Pension Plan	5,983	$167,288,617
University Park Firemen's Relief & Retirement Fund	75	$7,536,196
Waxahachie Firemen's Relief & Retirement Fund	77	$8,003,952
Weslaco Firemen's Relief & Retirement Fund	92	$5,979,894
Wichita Falls Firemen's Relief & Retirement Fund	255	$35,987,068

* Judicial Retirement System of Texas Plan One is closed.

Appendix B

Pay-As-You-Go Defined Benefit Pension Plans – FY 2011

Plan Name	Membership	Total Assets
Total	**2,597**	**$4,405,382**
Aldine ISD PARS Sick Leave Conversion Plan	30	$1,041,089
Arlington Disability Income Plan	472	$935,706
Arlington Firemen's Relief & Retirement Fund	4	$1,852
Bay City Firemen's Relief & Retirement Fund	39	$23,812
Beeville Firemen's Relief & Retirement Fund	46	$818
Bellville Volunteer Firemen's Relief & Retirement Fund	50	$185,178
Belton Firemen's Relief & Retirement Fund	11	$25,073
Benavides Firemen's Relief & Retirement Fund	4	$0
Bowie Volunteer Firemen's Relief & Retirement Fund	36	$0
Bronte Firemen's Relief & Retirement Fund	10	$34,822
Caddo Mills Volunteer Firemen's Relief & Retirement	44	$4,513
Canton Volunteer Firemen's Relief & Retirement Fund	10	$2,817
Chillicothe Firemen's Relief & Retirement Fund	38	$653
Cisco Firemen's Relief & Retirement Fund	36	$185
Clear Creek ISD Sick Leave Conversion Plan	15	$389,571
Clifton Firemen's Relief & Retirement Fund	42	$0
Cockrell Hill Firemen's Relief & Retirement Fund	8	$0
College Station Firemen's Relief & Retirement Fund	5	$0
Colorado City Firemen's Relief & Retirement Fund	21	$4,278
Comanche Firemen's Relief & Retirement Fund	39	$13,183
Commerce Firemen's Relief & Retirement Fund	17	$14,121
Cooper Volunteer Firemen's Relief & Retirement Fund	34	$3,042
De Kalb Firemen's Relief & Retirement Fund	29	$17,249
Decatur Firemen's Relief & Retirement Fund	29	$52,743
Donna Firemen's Relief & Retirement Fund	38	$0
Eden Firemen's Relief & Retirement Fund	15	$0
Elsa Firemen's Relief & Retirement Fund	33	$57,354
Ennis Firemen's Relief & Retirement Fund	2	$219
Floresville Firemen's Relief & Retirement Fund	49	$8,339
Franklin Firemen's Relief & Retirement Fund	15	$43,449

Appendix B

Plan Name	Membership	Total Assets
Gatesville Volunteer Firemen's Relief & Retirement Fund	14	$757
Goldthwaite Firemen's Relief & Retirement Fund	46	$19,741
Granger Firemen's Pension Fund	5	$0
Grapeland Firemen's Relief & Retirement Fund	40	$18
Hamlin Firemen's Pension	9	$0
Harris County Department of Education PARS	4	$108,463
Hemphill Firemen's Relief & Retirement Fund	11	$0
Henderson Firemen's Relief & Retirement Fund	20	$4,225
Hico Firemen's Relief & Retirement Fund	10	$0
Hughes Springs Firemen's Relief & Retirement Fund	25	$16,493
Jacksboro Volunteer Fire Department	25	$0
Jacksonville Firemen's Relief & Retirement Fund	13	$0
Junction Firemen's Relief & Retirement Fund	40	$512
Karnes City Firemen's Relief & Retirement Fund	4	$46
Katy ISD Sick Leave Conversion Plan	10	$631,262
Kaufman Fireman's Relief & Retirement Fund	32	$39,748
Kenedy Volunteer Firemen's Relief & Retirement Fund	26	$1,030
Lampasas Firemen's Relief & Retirement Fund	13	$0
Leonard Volunteer Firemen's Relief & Retirement Fund	32	$0
Los Fresnos Firemen's Relief & Retirement Fund	39	$21,749
Mason Firemen's Relief & Retirement Fund	23	$19,145
McGregor Firemen's Relief & Retirement Fund	27	$0
McKinney Volunteer Fire Pension Fund	4	$0
McLean Firemen's Relief & Retirement Fund	15	$469
Memphis Firemen's Relief & Retirement Fund	18	$824
Menard Volunteer Fire Department	1	$0
Monahans Volunteer Firemen's Relief & Retirement Fund	35	$8,814
Mount Pleasant Firemen's Relief & Retirement Fund	10	$70
Muenster Volunteer Firemen Relief & Retirement Fund	35	$0
Navasota Firemen's Relief & Retirement Fund	15	$33,311
Nocona Firemen's Relief & Retirement Fund	38	$19,355
Olney Firemen's Relief & Retirement Fund	55	$2,140
Paducah Firemen's Relief & Retirement Fund	20	$3,309

Appendix B

Plan Name	Membership	Total Assets
Pecos City Firemen's Relief & Retirement Fund	63	$166,096
Pharr Firemen's Relief & Retirement Fund	28	$0
Pittsburg Firemen's Relief & Retirement Fund	7	$322
Port Lavaca Firemen's Relief & Retirement Fund	14	$80
Ralls Firemen's Relief & Retirement Fund	19	$893
Robert Lee Firemen's Relief & Retirement Fund	31	$28,665
Robstown Firemen's Relief & Retirement Fund	8	$59
Rockdale Firemen's Relief & Retirement Fund	54	$0
Round Rock Firemen's Relief & Retirement Fund	5	$0
Runge Firemen's Relief & Retirement Fund	33	$4,821
Rusk Firemen's Relief & Retirement Fund	38	$44,995
Sabinal Firemen's Relief & Retirement Fund	1	$0
Sealy Firemen's Relief & Retirement Fund	36	$46,628
Silsbee Firemen's Relief & Retirement Fund	40	$95,123
Silverton Firemen's Relief & Retirement Fund	16	$28,495
Smithville Firemen's' Relief & Retirement Fund	37	$42,600
Stephenville Firemen's Relief & Retirement Fund	15	$0
Sulphur Springs Firemen's Relief & Retirement Fund	5	$0
Taft Firemen's Relief & Retirement Fund	12	$143,034
Three Rivers Firemen's Relief & Retirement Fund	20	$1,780
Throckmorton Firemen's Relief & Retirement Fund	26	$20
Tulia Firemen's Relief & Retirement Fund	26	$0
Valley Mills Firemen's Relief & Retirement Fund	36	$4,443
Waco Charter Retirement Program	9	$0
Weatherford Firemen's Relief & Retirement Fund	8	$0
White Deer Volunteer Firemen's Relief & Retirement Fund	31	$5,168
Winters Firemen's Relief & Retirement Fund	44	$614

Appendix C

Defined Contribution Pension Plans – FY 2011

Plan Name	Membership	Total Assets
Total	**139,632**	**$2,365,541,375**
32nd Judicial District Juvenile Board Pension Plan	3	$151,193
Abilene Regional MHMR 457 Deferred	106	$1,078,366
Abilene Regional MHMR Center Retirement Plan	237	$3,153,755
ACCESS Deferred 457 Plan	106	$889,022
ACCESS Employee Retirement Plan 401	106	$633,963
Aldine ISD PARS 401(a) Matching Plan for Retirement Savings	3,950	$9,079,778
Alvin ISD 401(a) Supplemental Plan	267	$1,079,507
Andrews Center Retirement Plan	364	$9,554,408
Angleton-Danbury Hospital Defined Contribution Plan	258	$4,921,034
Ark-Tex COG Money Purchase Pension Plan	61	$1,335,098
Arlington Money Purchase Plan	1	$154,939
Arlington Thrift Savings Plan	2,437	$112,872,192
Barton Springs/Edwards Aquifer Conservation District Retirement Plan & Trust	16	$944,660
Bastrop County Appraisal District Pension Plan & Trust	23	$1,804,425
Bexar County Housing Authority Pension Plan	21	$253,662
Bluebonnet Trails MHMR Center	837	$8,880,692
Border Region MHMR Community Center	511	$2,371,222
Briscoe County Appraisal District Pension Plan	2	$183,377
Burke Center MHMR Hourly Employee Retirement Plan	442	$1,209,578
Burke Center Salaried Staff Retirement Plan	1,403	$9,886,874
Campbell Health System	119	$1,726,681
Capital Area COG Retirement Plan	63	$3,081,535
Carroll ISD	2	$188,214
Carrollton Money Purchase Plan	4	$66,373
Carson County Appraisal District Pension Plan	4	$272,672
Castro County Appraisal District Pension Plan	3	$448,368
Center for Health Care Services 401(a) Retirement Plan	759	$10,853,983
Central Counties Center for MHMR Services Retirement Plan	294	$6,645,231
Central Plains Center for MHMR & Substance Abuse	240	$1,003,131

Appendix C

Plan Name	Membership	Total Assets
Central Texas COG Pension Trust	240	$5,316,008
Central Texas College Pension Plan & Trust	1,606	$66,741,997
Central Texas College Supplemental Plan	10,237	$9,003,914
Cherokee County Appraisal District Pension Plan	17	$1,257,781
City of Cedar Park	1	$30,772
City of Cedar Park Retirement Plan (2)	17	$1,002,425
City of Groves 457 Deferred Compensation Plan	35	$1,140,409
City of Groves Employment Incentive Plan	86	$3,787,904
City of Groves Money Purchase Plan	36	$2,082,422
City of Harlingen Retirement Plan	231	$1,180,386
Clear Lake City Water Authority Pension Plan	158	$2,764,698
Coastal Bend COG	29	$1,959,342
Coastal Plains Community MHMR Center Retirement Plan	237	$6,310,184
Coleman County Appraisal District Pension Plan	7	$256,420
Colorado County Central Appraisal District Pension	9	$2,025,166
Colorado River Municipal Water District 401(a) Defined Contribution Plan	85	$423,079
Coryell County Appraisal District Pension Plan	17	$546,109
Culberson County Appraisal District Pension Plan	4	$282,303
Dallam County Appraisal District Pension Plan	3	$260,849
Dallas County Hospital District Supplemental Retirement Plan	11,697	$415,428,000
Dallas ISD TERRP	13,426	$15,255,054
Dallas Metrocare Services Pension Plan	678	$4,077,522
Dallas Police & Fire 401(a)	40	$3,002,030
Dallas/Fort Worth Airport Board 401(a) Retirement Plan	221	$123,556
DART Capital Accumulation Plan & Trust	3,732	$139,677,000
DART Employees Retirement Plan & Trust	3,342	$137,528,000
De Soto ISD TERRP	167	$308,370
Deep East Texas COG Retirement Plan	87	$2,142,593
Deep East Texas Self-Insurance Fund Profit Sharing Plan	123	$765,059
Delta County Appraisal District Pension Plan	4	$47,770
Denton County MHMR Center Retirement Plan	393	$1,692,085
Dimmit Central Appraisal District Pension Plan	7	$120,566
East Texas COG Retirement Plan	116	$6,015,923

Appendix C

Plan Name	Membership	Total Assets
Ector County ISD TERRP	1,438	$685,250
Ellis Central Appraisal District Pension Plan	48	$1,614,894
Ennis ISD TERRP	470	$3,624,376
Erath County Appraisal District	25	$1,354,232
Fisher County Appraisal District Pension Plan	4	$84,174
Floyd County Central Appraisal District Pension Plan	5	$96,860
Fort Bend ISD Employee Incentive Plan	6,585	$13,227,111
Franklin County Appraisal District Pension Plan	6	$348,409
Frisco ISD TERRP	1,746	$6,879,692
Galveston Housing Authority Pension Plan	156	$2,912,843
Gillespie Central Appraisal District Pension Plan	12	$823,556
Grapevine-Colleyville ISD	2,188	$0
Greater Texoma Utility Authority Retirement Plan	9	$1,889,644
Gregg County Appraisal District	29	$2,960,403
Gulf Bend Center Retirement Plan	305	$1,575,055
Gulf Coast Trades Center / The Ravens School	218	$1,496,517
Gulf Coast Waste Disposal Authority Pension Plan	205	$36,370,759
Gunter ISD TERRP	215	$952,931
Hamilton County Appraisal District Pension Plan	6	$500,053
Hansford County Appraisal District Pension Plan	3	$62,962
Harris County Fresh Water District 61 401(a)	17	$254,136
Harris County MHMR Authority	1,435	$36,441,761
Harris-Galveston Coastal Subsidence District	81	$3,867,978
Harris-Galveston Coastal Subsidence District 457	19	$1,015,141
Harrison Central Appraisal District Pension Plan	37	$1,430,977
Haskell County Appraisal District Money Purchase Pension Plan & Trust	7	$278,486
Heart of Texas Region MHMR Center Retirement Plan	369	$16,131,345
Helen Farabee Regional MHMR Center	491	$3,458,328
Hill Country Community MHMR Center	778	$10,023,620
Hill County Appraisal District Money Purchase Plan	14	$1,087,570
Hill Junior College District (PARS)	657	$491,022
Houston-Galveston Area Council	274	$57,582,123
Howard County Appraisal District Money Purchase Plan	17	$180,675

Appendix C

Plan Name	Membership	Total Assets
Hunt Memorial Hospital District Retirement Plan	987	$15,155,187
Jefferson County Appraisal District 401(k) Retirement Plan	55	$5,126,813
Jefferson County Appraisal District Retirement Plan & Trust	55	$3,673,699
Johnson County SUD Profit Sharing Plan	27	$1,418,920
Kaufman ISD TERRP	299	$538,075
Keller ISD Employee Attendance Incentive Plan	554	$372,187
Kerr Central Appraisal District Pension Plan	13	$831,447
Kingsland MUD Pension Plan	19	$537,591
Klein ISD TERRP Retirement Plan	1,398	$1,479,738
Lamar County Appraisal District Pension Plan	15	$782,804
Lamb County Appraisal District	6	$415,072
Lee County Appraisal District Pension Plan	12	$358,355
LifePath Systems Retirement Plan	238	$2,012,892
Llano Central Appraisal District Pension Plan	8	$677,018
Los Fresnos Housing Authority Employee Retirement Plan	2	$50,518
Lost Creek MUD Pension Plan	13	$368,008
Lower Colorado River Authority 401(k) Plan	2,652	$167,624,538
Lower Rio Grande Valley Development Council	121	$2,428,534
Lubbock Regional MHMR Center	473	$4,937,332
Magnolia ISD 401(a) Matching Plan for Retirement Savings	1,752	$6,816,716
Matagorda County Appraisal District Pension Plan	9	$1,191,086
McKinney ISD TERRP	1,019	$1,071,054
MHMR Services of Concho Valley Retirement Plan	156	$1,417,203
MHMR Services of Texoma	341	$2,279,776
Midland ISD	1,474	$21,394,671
Morris County Appraisal District Pension Plan	7	$1,010,193
Nolan County Central Appraisal District Pension Plan	11	$516,602
North Central Texas COG	815	$34,749,071
North Central Texas COG (Plan 2)	1	$150,788
Optional Retirement Program	39,603	$561,139,338
Panhandle Regional Planning Commission Pension Trust	90	$6,436,477
Panola County Appraisal District Pension Plan	8	$688,573
Permian Basin Community Center for MHMR	545	$7,901,850

Appendix C

Plan Name	Membership	Total Assets
Permian Basin Regional Planning Commission	81	$5,133,743
Princeton ISD TERRP	1	$49,050
Prosper ISD TERRP	332	$1,268,803
Red River County Appraisal District Pension Plan	6	$513,726
Rio Grande COG Pension Plan	39	$1,621,974
Robertson County Appraisal District Pension Plan	7	$181,462
Sabine River Authority Retirement Plan	137	$28,562,190
Sabine Valley Center	653	$4,642,731
San Antonio Housing Authority Employee's Pension Trust	700	$38,482,836
San Antonio River Authority Pension Plan	295	$18,600,779
San Saba County Central Appraisal District Pension Plan	3	$150,309
Schleicher County Appraisal District Pension Plan	4	$88,245
Scurry County Appraisal District Pension Plan	11	$1,619,438
Seagraves ISD 401(a) Profit Sharing Plan	108	$549,461
South East Texas Regional Planning Commission	75	$6,819,769
South Plains College Pension Trust Plan	382	$1,746,312
South Texas Water Authority Thrift Plan	15	$1,186,997
Spindletop (Life Resource) Retirement Plan	479	$6,848,526
Stephens County Tax Appraisal District Pension Plan	4	$31,654
Sundown ISD Supplemental Retirement Plan	134	$7,153,649
Sutton County Appraisal District Pension Plan	3	$244,537
Tarrant County MHMR Service Pension Plan	1,058	$32,627,126
Tarrant County WCID #1	371	$17,902,785
Tarrant County WCID #1 457 Deferred	118	$5,070,057
Temple Housing Authority 401(a)	88	$1,898,657
Temple Housing Authority 457 Plan	21	$463,556
Texana MHMR Center	706	$11,330,886
Texas City ISD TERRP Retirement Plan	166	$138,554
Texas Municipal Power Agency Employees Plan	214	$31,402,428
Texas Panhandle MHMR Authority Retirement Plan	295	$4,916,307
Texoma COG Pension Trust	138	$3,796,964
Tom Green County Appraisal District Pension Plan	22	$2,097,160
Travis County Healthcare District	782	$9,762,266

Appendix C

Plan Name	Membership	Total Assets
Tri-County MHMR Services Retirement Plan	708	$6,830,641
Tropical TX Center for Services Retirement Plan & Trust	417	$4,191,934
Tyler County Hospital District Thrift Plan	106	$1,177,606
Upper Leon River Municipal Water District	12	$316,505
Upper Trinity Regional Water District Pension Plan	89	$7,540,079
Upshur County Appraisal District	13	$515,253
Uvalde County Appraisal District Pension Plan	12	$772,073
Victoria County Appraisal District Pension Plan	23	$730,911
Walker County Appraisal District Pension Plan	27	$526,482
West Texas Center for MHMR Retirement Plan	386	$2,995,558
Wharton County Central Appraisal District	17	$506,762

Appendix D

Staff Review Activities

During the review of the State Pension Review Board, Sunset staff engaged in the following activities that are standard to all Sunset reviews. Sunset staff worked extensively with agency personnel; attended Board meetings; spoke with staff from key legislative offices; conducted interviews and solicited written comments from interest groups and the public; reviewed agency documents and reports, state statutes, legislative reports, previous legislation, and literature; researched the organization and functions of similar state agencies in other states; and performed background and comparative research using the Internet.

In addition, Sunset staff also performed the following activities unique to this agency.

- Attended the Texas Association of Public Employee Retirement Systems' Annual Conference.
- Interviewed staff from the Comptroller of Public Accounts and the Legislative Budget Board.
- Observed the initial stage of an intensive review of a public retirement system.
- Interviewed actuaries who work with public retirement systems throughout the state.
- Surveyed and interviewed state and local public retirement systems.
- Spoke with staff of the National Conference of State Legislatures.

Sunset Staff Review of the *State Pension Review Board*

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