TEACHERS RETIREMENT SYSTEM OF TEXAS (TRS)

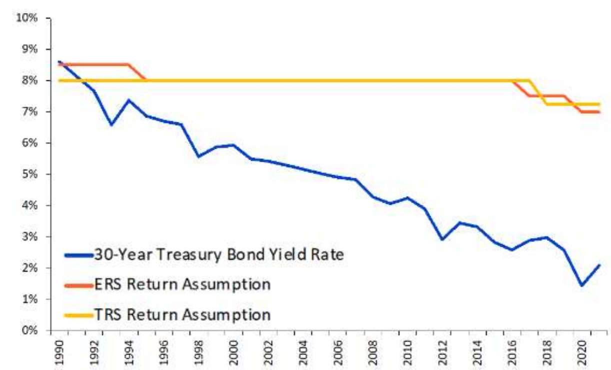
REFORM REVIEW:
TRS After SB12 (2019)

I. TRS Funding Policy is Unresponsive, Outdated

- ✓ Unlike the Employees Retirement System of Texas after SB321 (2021), TRS contributions post-SB12 (2019) are still set by law—not actuarially determined—and will likely be insufficient to keep up as the system adjusts outdated economic assumptions.
- ✓ Funding pension benefits at a rate calculated annually by actuaries would ensure that contributions flowing into the system are timely and sufficient enough to avoid long-lasting expensive unfunded liabilities, saving taxpayers in the long-term regardless of future market performance.
- ✓ Texas would cement itself as a national leader in funding public pensions by adopting actuarially determined rates tied to an appropriate schedule for paying down existing and future TRS debt.

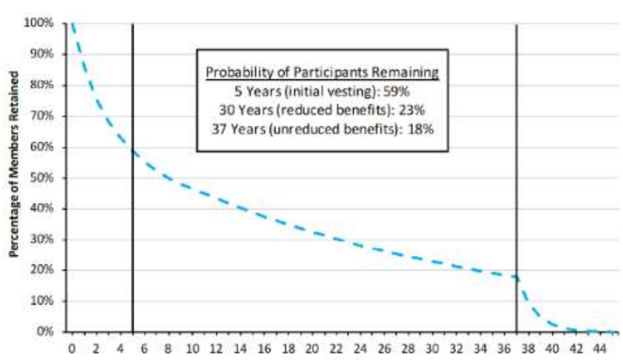
II. TRS Investment Assumptions Overly Optimistic

- ✓ TRS currently uses a 7.25% assumed rate of return, which is on the higher end of investment return assumptions among major public systems.
- ✓ The national average expected rate of return has fallen to 7.0% over the years, with major plans like CalPERS now lowering assumptions into the 6-7% range.
- ✓ Despite SB12 (2019), with investment returns expected to underperform over the next decade relative to expectations, capping contribution rates in statute creates the perfect conditions for unfunded liabilities to keep accruing—just as they have since 2001.



Source: Actuarial reports and Yahoo Finance.

III. TRS Not Benefitting 85% of New Hires



Source: Pension Integrity Project analysis of TRS assumptions based on a new teacher hired at age 25.

- ✓ The TRS pension is clearly not serving as a recruitment and retention tool, as 41% of new hires leave public employment within 5 years and only 18% earn a full-career pension.
- ✓ The vast majority of TRS members would see increased retirement savings if provided with more choice, benefit flexibility and portability.

PENSION INTEGRITY PROJECT CONTACTS

- Leonard Gilroy, Senior Managing Director (leonard.gilroy@reason.org)
- Steven Gassenberger, Policy Analyst (steven.gassenberger@reason.org)

Reason Foundation is a national 501(c)(3) public policy research and education organization with expertise across a range of policy areas, including public sector pensions, transportation, infrastructure, education, and criminal justice. For more information about the Pension Integrity Project at Reason Foundation, visit reason.org.

reason FOUNDATION