

# Teacher Retirement System of Texas: Why 80% Funded Is Not Enough

As of August 2017, the Teacher Retirement System (TRS) of Texas reported to have 80.5 cents for every dollar of pension benefits promised to teachers and other members of the pension plan. One year later, the TRS board lowered the assumed rate of return, dropping the pension's funded ratio to 76.1%.

# Is being 80% funded a real problem?

Some argue no, since Texas has several decades to catch up on payments, while the state expects to have enough money to pay today's retirees. However, these views fail to account for the added costs and risks associated with holding an unfunded liability and a funded ratio less than 100%.

## 1. Financing TRS pension debt is expensive.

- Texas TRS has at least \$35.4 billion in pension debt, and billions more if the pension plan's assumptions are wrong. The TRS board's recent lowering of the assumed rate of return signals a pension debt closer to \$45.9 billion.
- ❖ Billions in required annual pension debt payments could instead be used to pay teachers more, support the classroom, or provide tax relief.
- Over \$16 billion in TRS pension debt payments have been made since 2000.

### 2. Maintaining an 80% funded ratio jeopardizes intergenerational equity.

- Any pension plan less than 100% funded holds pension debt that requires "unfunded liability amortization payments."
- Carrying pension debt means future taxpayers must eventually pay for today's teacher retirement benefits

### 3. The actuarial community agrees, 80% funded is not healthy.

- The idea that pension actuaries think 80% funded ratios are healthy is a myth.
- On the reverse side are quotes from the actuarial community on why pension plans with less than 100 cents on the dollar to pay promised benefits need to improve their long-term solvency.

Conclusion: Pension plans must be 100% funded to prevent expensive, intergenerational inequality. Anything less won't do for Texas teachers or taxpayers.







# The Pension Plan Actuarial Community on Fully Funding Benefits

"[A pension] plan's funding goal should always be 100% of the plan liability calculated assuming median expected future investment returns."

—Society of Actuaries

- The Society of Actuaries (SOA) is the world's largest actuarial professional organization.
- The "median expected future investment return" is reported by TRS investment advisors to be around 7% (as of February 2018)—using this measure, actuaries calculate that Texas TRS is actually only 73.9% funded.
- SOA's Blue Ribbon Panel on Public Pension Funding advises that a plan should not settle for any level of funding below 100%, and should always guide their fund to reach full funding within a reasonable time-frame and under a median level of possible long-term returns.
- \* Read for yourself: <a href="https://www.soa.org/blueribbonpanel/">https://www.soa.org/blueribbonpanel/</a>

"A plan with a funded ratio above 80% (or any specific level) might not be sustainable if the obligation is excessive relative to the financial resources of the sponsor, if the plan investments involve excessive risk, or if the sponsor fails to make the planned contributions."

—American Academy of Actuaries

- According to actuarial reports, about half of TRS's investment portfolio is in high risk and low transparency assets, which is unusually high when compared to other public pension funds.
- Texas has underpaid the actuarially determined contributions necessary for TRS almost every year since 2003, adding \$5.7 billion to the system's pension debt.
- ❖ The American Academy of Actuaries advises that an 80% funded ratio is not a reliable indicator of pension fund health, especially if the fund is allocating its investments in more risky assets and not making the full actuarially required payments.
- Read for yourself: <a href="https://www.actuary.org/files/80">https://www.actuary.org/files/80</a> Percent Funding IB 071912.pdf

"Underfunded pension plans ... generally violate the principle of intergenerational equity."

—Pension Finance Institute

- The Pension Finance Institute warned that anything below full funding represents intergenerational theft, meaning current employees and employers aren't putting enough into the system to pay the amount promised, which will result in future generations having to pay for benefits they will not receive.
- Even if TRS is on a path to full funding within 30 years, future generations bear the financial risk if all market expectations are not met. To protect their future, Texas policymakers ought to do anything in their power to expedite the path to full funding.
- \* Read for yourself: <a href="http://www.pensionfinance.org/papers/PubPrin.pdf">http://www.pensionfinance.org/papers/PubPrin.pdf</a>



