A PENSION PRIMER FOR STATE EMPLOYEES

GET INVOLVED

DEFENDING OUR STATE EMPLOYEE PENSION

2014 - 2015

TAKE A STAND

The fight continues to protect retirement benefits for state employees. In the past, the Texas State Employees Union has had to fight off attempts to convert our pensions to 401-K style defined contribution plans while trying to improve the overall funding for both the ERS (Employees Retirement System) and the TRS (Teachers Retirement System) pension funds. After nearly two decades of underfunding by the Texas Legislature and the long-term effects of state agency downsizing and privatization, the ERS fund is now financially unstable, while the TRS fund is financially sound. If corrective steps are not taken to solve the funding problem in ERS, the retirement fund will be depleted by 2052. Meanwhile, in 2013, the TRS fund was able to provide a small cost-of-living increase in the monthly annuity payments for about two thirds of its retirees.

By the start of the 2015 legislative session, the ERS pension fund is expected to have a budget deficit of $8 billion. To make matters worse, some lawmakers and political groups are expecting state employees to sacrifice more through cost increases and benefit cuts to fix the funding problems in ERS. If state employees are asked to put even more “skin-in-the-game” than they already have, then many current and future state employees will decide that they don’t want to work for the state given the low pay, increasing health care costs, and unsecure retirement benefits.

Both the 2009 and the 2013 State Legislatures passed bills which cut pension benefits for incoming state employees in the ERS. State employees in Texas receive lower pay on average than counterparts in the private sector, and the pension plan is an effective recruiting tool to make up for that. But if reducing benefits is the go-to solution for this problem, then the pension plan will lose its ability to attract potential employees to the state workforce. The effect will be even higher turnover rates and lower quality state services for all Texans.

"I thought we dealt with pensions in the last Legislative Session…"

SB 1458 (TRS), SB 1459 (ERS), and the 83rd Legislature

In the 2013 legislative session, Senate Bill 1459 and Senate Bill 1458 were filed with the initial intent to reduce costs by significantly cutting active employees' earned retirement benefits for both ERS and TRS members. In response, TSEU members went all-out and flooded the capitol with phone calls and a grassroots lobbying campaign to fight the worst elements of the legislation. Because of the political pressure imposed by union members across the state, TSEU was able to stop pension benefit cuts from being applied to current state employees in the ERS plan, along with influencing the state to increase its contribution rate to its highest levels since 1985. While we were successful in defeating benefit cuts on active employees, the final versions of bills authorized benefit design changes for workers hired after August 31, 2013, along with employee contribution rate increases in both ERS and TRS. (See listing under *'Recent changes in our pension plans'* for specific changes made by these bills).

Impact of SB 1458 (TRS)

After the passage of SB 1458, the TRS pension is now financially secure or "actuarially sound." With the TRS plan being actuarially sound, the legislature was able to provide a 3% cost of living adjustment (COLA), capped at $100, for eligible retirees who retired on or before August 31, 2004. Two-thirds (approximately 195,000) of the retirees within TRS received the COLA. However, TRS members will be paying more into the TRS fund as their contribution rate gradually increases to 7.7% by 2017. University workers in TRS did not receive an across-the-board pay increase in the 2013 legislative session and have not received one since 2003. Therefore, the additional employee contribution into TRS will be a cut in university workers already stagnate pay. Members in TRS, with less than 5 years of service as of September 2013, will be working longer as the minimum retirement age is raised to 62.

Impact of SB 1459 (ERS)

SB 1459 placed the burden for dealing with ERS' problems on the shoulders of both the state budget and state employees. Under the law, the state immediately raised its contribution rate to 7.5% while the employee contribution will incrementally increase to 7.5% by 2017 from its 2013 level of 6.5%. In 2014, the majority of state employees received only a $50 per month pay increase (their first in years), along with a pension contribution increase that took them to 6.6% of pay. This, combined with the increase in health care costs for dependent coverage, meant many state employees didn't really see much of a pay raise at all. What's worse is that if state workers are not able to win a pay raise during the next legislative session then employees will be facing pay cuts when their pension contribution eventually reaches 7.5% in 2017.

Along with contribution increases, SB 1459 authorized a number of benefit changes for workers hired after FY 2013 for the purposes of cutting costs for ERS. Such changes included expanding the final average salary to 60 months which will result in a lower monthly annuity for new state workers when they retire. Back in 2009 the final average salary was expanded from 36 months to 48 months. These changes have steadily reduced the value of monthly pension checks for state retirees.

SB 1459's increase of the minimum retirement age to 62 will likely have a negative effect on employee working conditions. Many state employees work in physically intensive and hazardous job positions that are not eligible for early retirement. For example, direct-care workers at state-run facilities closely monitor individuals who have severe intellectual and psychological disabilities that sometimes result in aggressive if not violent behavior. Working 2 extra years for retirement eligibility in these positions exposes the employees to additional health risks and on-the-job injury.

Our Pension Plan: Part of a package that pays off for Texas and Texans

State employee pay has always been low, but for thousands of state employees, it is the benefits that made working for the state attractive. Because of stagnant pay and increases in healthcare costs, our standard of living is not only declining now, but state employees' and retirees' ability to make ends meet is fading. Dedicating a career to state services- while overworked, underpaid, and with an inadequate pension at the end of the tunnel- is not sustainable for many current and future workers.

Our major benefits – pension and health care – help make it possible for agencies and universities to attract and keep skilled, dedicated employees. The other parts of the state employee package: low pay, poor job security, constantly increasing workloads, and on-the-job stress, all discourage people from applying for state jobs, and drive away good employees.

Why is TRS financially sound, when ERS is not?

While ERS is facing a large shortfall, the TRS pension fund is currently financially sound. A common question is why the TRS fund is financially secure while the ERS fund remains unstable? The answer is that while the Texas Legislature cut its funding rates for both pension plans over two decades ago; the workforce within TRS *(i.e. public school teachers, higher education faculty and staff)* has increased over 20% while the workforce within ERS *(i.e. state agency employees)* has decreased 20% due to budget cuts and the privatization of state services. That means there are 20% fewer employees contributing to the ERS fund in order to pay for benefits for both current and future retirees. To illustrate, in 1994 for every one ERS retiree drawing down benefits there were three active state employees paying into ERS. Today, that ratio is one retiree for every 1.6 active employees.

What created the problems in ERS?

On top of the declining number of state employees contributing to the pension fund, ERS was hit by a double whammy. In 1995 the state reduced its share of contributions to the minimum required by the Texas Constitution. The ERS fund was fully funded and the TRS fund was close. In a time of high stock market growth that seemed to make up the difference, the damage was not obvious. But by 2002 ERS and TRS were both bringing in less money than they were spending, bringing the funding ratio below 100%. When the recession hit in 2007, the funding ratio fell rapidly. Since 75% of the funds' income is from investments, the stock market slide hit the funds hard. (See "The source of the problem")

Why it's a bad idea to cut state employee pensions:

Anti-state employee ideologues are continually developing plans to attack public workers' pensions. Unfortunately, they are getting support from some legislators who see cuts in state employee benefits as a way to save the state money.

But cutting our pensions will hurt everyone: state employees, our agencies and universities, and all the people of our state. State employees are already feeling the squeeze of high workloads, stagnant pay, and eroding benefits. Turnover is increasing, and agencies and universities have increasing difficulties attracting and keeping qualified staff.

For thousands of state employees, it is the benefits that keep them working to deliver quality state services year after year. Our pay buys less for our families every year. Our workloads and on-the-job stress grow every year. We know that turnover is a problem and hurts the quality of services that Texans receive. The State Auditor's Office has continually identified state employee turnover as a serious problem. Texas cannot afford to cut state employee pensions or it will only make a bad situation worse.

Recent changes in our pension plans:

• 2005:

the salary calculation for TRS was changed from the best 36 months to the best 60 months. This reduces the pension amount for many retirees.

• 2005:

for TRS employees who start after September 2006: must be 60 years old AND meet the rule of 80 to retire with full benefits *(increased from age 55).*

• 2009:

for ERS employees who start after September 2009: must be 60 years old AND meet the rule of 80 to retire with full benefits. Previously employees could retire with full benefits at any age if they met the Rule of 80.

• 2013: TRS - SB1458

- TRS members with at least 5 years of service will be excluded from the benefits changes.
- TRS members who retired on or before August 31, 2004 will receive a 3% annuity increase, capped at $100 a month.
- Active state employee contributions will be increased over a 4-year period to 7.7% *(employee contributions will increase in 2014 to 6.4%, 2015 to 6.7%, 2016 to 7.2%, 2017 to 7.7%).*
- The state will increase its contribution to 6.8% in 2014, 2015.
- Benefit Plan Change
  - TRS members who are not grandfathered will see an increase in the minimum retirement age to 62 with the rule of 80; a 2% annuity reduction each year below age 62 when they retire.

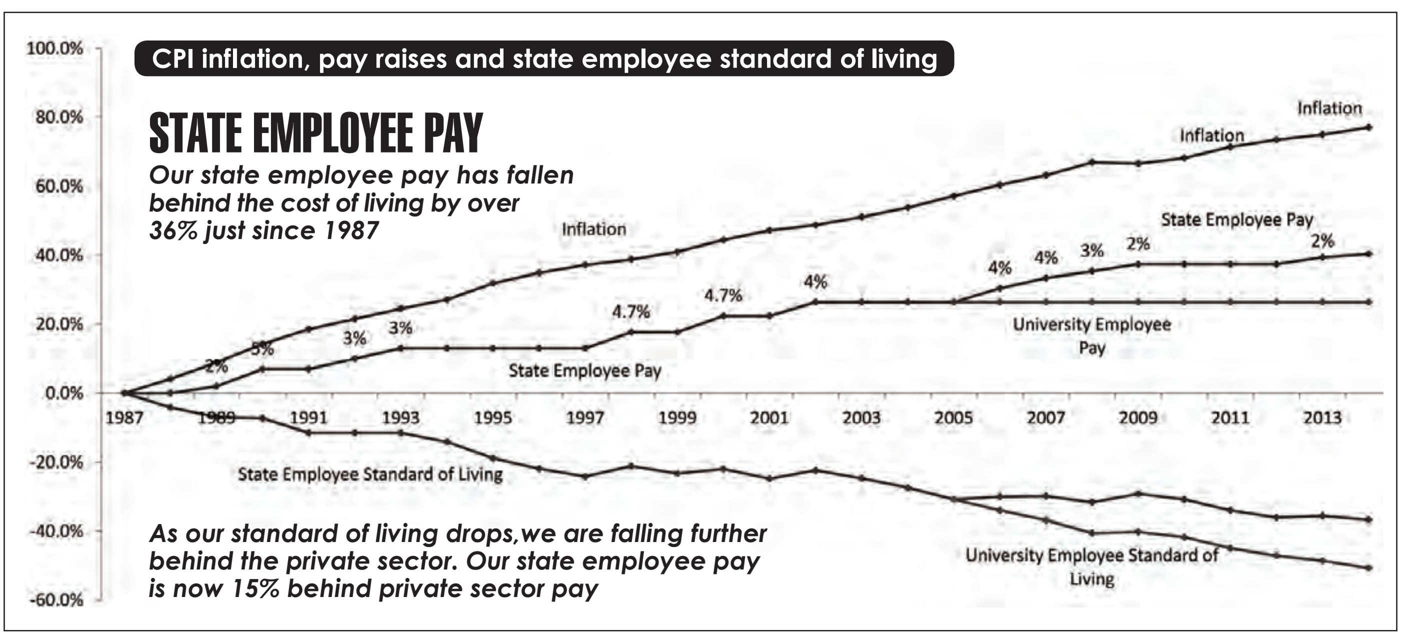
• 2013: ERS - SB 1459

- All current employees hired before August 31, 2013 will be grandfathered from design changes in the pension plan.
- The state will increase its contribution to 7.5% in 2014 and 2015 *(highest contribution level by the state since 1985).*
- Active state employee contributions will be increased over a 4-year period to 7.5% *(employee contributions will increase in 2014 to 6.6%, 2015 to 6.9%, 2016 to 7.2%, 2017 to 7.5%)*
- ERS will be required to model TJJD Juvenile Justice Correctional Officers' induction into the LECO Supplemental Retirement Fund.
- Employees with 5 years in the system, as of 2014, will be grandfathered from the health care contribution tiering.
- Benefit plan changes for those hired after August 31, 2013
  - Increase final average salary to 60 months
  - Eliminate unused leave *(sick/annual)* for retirement eligibility
  - Disallow annual leave for which employee has been compensated from also being used in benefits calculation
  - Up minimum retirement age to 62 with rule of 80; a 5% annuity reduction each year below age 62 when they retire
  - Tiered retiree health care premium contribution from the state
    . .10 years of service - 50% contribution
    . .15 years - 75% / 20 years- 100%

PENSION FACTS:

Average state agency pension: about $1579/month

Average university pension: about $1981/month



The source of the problem ›

The table shows that the state contribution was above 7% in most years between 1981 and 1991 for both ERS and TRS. Even when the state share fell to 6.43% for ERS, the cut was made up by increasing stock market profits. However, when the state cut its share to 6% in 1995, both funds slowly fell behind, and they went below 100% funded in 2002 – 2003. 6% (of salary) is the minimum required by the Texas Constitution as the state contribution to state employees' retirement plans.

Fiscal Year	ERS			TRS		
	Contributions		funded status	Contributions		funded status
	state	employee		state	employee	
1985	8.00%	6.00%	Must be 100% to allow pension increase for retirees	7.10%	6.00%	Must be 100% to allow pension increase for retirees
1986	7.40%	6.00%		8.00%	6.40%	
1987	7.40%	6.00%		8.00%	6.40%	
1988	7.00%	6.00%		7.20%	6.40%	
1989	7.00%	6.00%		7.20%	6.40%	
1990	7.40%	6.00%	102%	7.65%	6.40%	89%
1991	7.40%	6.00%	100%	7.65%	6.40%	89%
1992	6.43%	6.00%	103%	7.31%	6.40%	90%
1993	6.43%	6.00%	104%	7.31%	6.40%	91%
1994	6.43%	6.00%	108%	7.31%	6.40%	98%
1995	6.43%	6.00%	103%	7.31%	6.40%	96%
1996	6.00%	6.00%	108%	6.00%	6.40%	96%
1997	6.00%	6.00%	108%	6.00%	6.40%	100%
1998	6.00%	6.00%	108%	6.00%	6.40%	104%
1999	6.00%	6.00%	105%	6.00%	6.40%	103%
2000	6.00%	6.00%	103%	6.00%	6.40%	107%
2001	6.00%	6.00%	98%	6.00%	6.40%	103%
2002	6.00%	6.00%	97%	6.00%	6.40%	96%
2003	6.00%	6.00%	95%	6.00%	6.40%	95%
2004	6.00%	6.00%	95%	6.00%	6.40%	92%
2005	6.00%	6.00%	96%	6.00%	6.40%	87%
2006	6.45%	6.00%	93%	6.00%	6.40%	87%
2007	6.45%	6.00%	87%	6.58%	6.40%	89%
2008	6.45%	6.00%	83%	6.58%	6.40%	91%
2009	6.45%	6.00%	83%	6.58%	6.40%	83%
2010	6.95%	6.45%	83%	6.40%	6.40%	83%
2011	6.95%	6.50%	83%	6.64%	6.40%	83%
2012	6.00%	6.50%	83%	6.00%	6.40%	81%
2013	6.50%	6.50%	81%	6.40%	6.40%	
2014	7.50%	6.60%	77%	6.80%	6.40%	
2015	7.50%	6.90%		6.80%	6.70%	
2016	7.50%	7.20%			7.20%	
2017	7.50%	7.50%			7.70%	

Texas State Employees Union - CWA Local 6186

SAVE OUR PENSIONS

CWA TSEU

ORGANIZING FOR JUSTICE - JOIN TODAY!

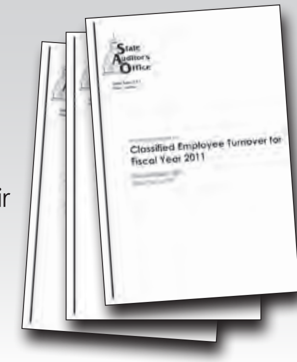
The problems are fixable

The state of Texas, as a whole, has a positive budget outlook with an $8.8 billion revenue surplus on top of $8 billion in the rainy day fund going into the next legislative session. Texas can afford to fix this problem without placing additional and unnecessary financial burdens on the backs of state employees. ERS funding is only 0.4% of the entire state budget. If the state increases its contribution to the constitutional maximum of 10% (approx. $303 million over current funding levels) and provides a cash in-fusion of roughly $235 million to cover the 2-year funding deficit, then the ERS fund will be on track to sustainability without any cuts or cost increases to employees.

As the deal sours, turnover climbs. In many key programs, turnover is so high that it threatens program integrity and the quality of services received by the people of Texas

Excerpts from State Auditor's Office report: Classified Employee Turnover for Fiscal Year 2013

- State employee turnover (excluding university workers) reached its highest level since 2008, now at 17.6%.
- Of all those who left their agency for another job, 70% said they were going to be paid more at their next job. Of those, 29% said they would be making $10,000 or more annually at their next job.
- Better pay and benefits continues to be cited among top reasons employees left employment with their agencies.



State employee pension funds: problems but not a crisis.

Anti-public employee demagogues attack anyway

It is true that ERS does have an unfunded liability. That is, predicted income will not keep up with predicted expenses (retirement checks) over the next 31 years. TRS is already on track to pay off its predicted expenses in 28 years; 3 years ahead of the funding benchmark. The ERS unfunded liabilities are currently not within the 31 year funding benchmark. While attackers try to paint pictures of huge liabilities that will drain tax funds, the underlying structure of both state employee pension plans are solid, and the liabilities that do exist can be paid off with small increases in state funding.

Anti-public employee politicians and their allies are making the most they can of these shortages as an excuse to attack our pension plans. Many would like to eliminate the plans we have now and replace them with 401-k type defined contribution plans. But the facts do not back them up: an improving economy and restoration of reasonable state contributions will fix the problem. Our opponents on the pension issue are driven by ideology, not facts.

A snapshot of the ERS pension plan:

***Who is included**	Employees/retirees of state agencies
***Employees**	134,227
***Retirees**	91,367
***Assets**	$24.7 billion
***Unfunded liability**	$7.2 billion
***Funded ratio**	77.4%
***Average pension**	$1579/month
***Current contribution rates**	state 7.5%
	employee 6.9%
	total 14.9%
***Total contribution needed for stable fund (normal cost)**	11.6%
***Total contribution needed to pay off unfunded liability (actuarially sound)**	19.79%

Who gets what from whom:

EMPLOYEES OF	PENSION	HEALTH PLAN
state agencies	ERS	ERS
UT system	TRS	UT health plan
Texas A&M system	TRS	A&M health plan
other state universities	TRS	ERS

A snapshot of the TRS pension plan:

***Who is included:**	Employees/retirees of school districts state universities, and community colleges
***Active employees:**	
universities/community colleges	(APPROX) 143,850
school districts	(APPROX) 702,330
total	846,178
***Retirees:**	348,228
***Assets**	$117.4 billion
***Unfunded liability**	$28.9 billion
***Funded ratio:**	80.8%
***Average pension:**	$1981/month
***Current contribution rates**	state 6.7%
	employee 6.8%
	total 13.5%
***Total contribution needed for stable fund (normal cost)**	10.6%
***Total contribution needed to pay off unfunded liability (actuarially sound)**	14.5%

TAKE ACTION TODAY

Knowledge is not power! It will take action, by thousands of state employees and our friends, to defend our pension plans, along with our health plan, our jobs, and the critical, quality services that we provide for the people of our state.

If you are not a TSEU member, join today! A strong, united, and growing organization is our best chance to win. If you are a member, get your co-workers to join today. We need people to get off the sidelines and into the game.

This is a political fight. Join TSEU/CWA COPE. COPE is our state employee political action network, and our political action fund. It's how we level the political playing field.

Join the TSEU statewide network on pension issues. Sign up at our website or ask your organizer or committee member for pledge cards, materials and information.

Contact any TSEU office for more information.

TEXAS STATE EMPLOYEES UNION - CWA LOCAL 6186

CWA TSEU

AUSTIN 512.448-4225
HOUSTON 713.661-9030
NORTH TEXAS 214.942-4305
SAN ANTONIO 210.354-2900
VALLEY 956.428-0251
WEST TEXAS 806.741-0044

online at: www.cwa-tseu.org