STATE OF TEXAS

House Pensions Investments and Financial Services Committee

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Testimony by

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Thank you Chairwoman Truitt, Vice Chair Anchia, and members of this committee for the opportunity to testify today about public employee pensions in cities across Texas.

I am Eyna Canales-Zarate, president of the Board of Directors of the Texas Association of Public Employee Retirement Systems, or TEXPERS.

We are highly appreciative of this opportunity and your willingness to accept our views on this matter. TEXPERS is uniquely situated to provide this view.

TEXPERS is an association representing over 80 local public employee pension systems in Texas. We are a non-profit organization whose members join us voluntarily to gain educational services. Our members include: Trustees, administrators, professional service providers and employee groups who are responsible for managing the retirement money of police, fire firefighters, municipal and district employees.

In view of the time available to this committee to hear testimony, please allow me just a few minutes to summarize points provided in longer prepared remarks and included in the information package provided to you. I will now provide you with the cliff notes version:

1) While you are here to focus on costs of local pensions, I ask you to consider a study that TEXPERS is releasing across the state today focusing on the benefits to the Texas economy by pension-paid retirement income. The Ray Perryman Group Study, which is included in your package, concludes that the Texas economy receives a $10 billion dollar annual boost in the form of retirement income to public employees. This is equivalent to 5 times our state's agricultural sector's payroll and is equal to its high tech manufacturing payroll. This $10 billion dollars is a significant economic foundation for our state's economy and serves as a building block for additional growth and tax revenue creation.
2) With regard to costs, TEXPERS encourages you to focus your attention on the dynamics that play out at every local pension because of the incumbent design of the system. Elected Trustees join city appointed officials and taxpayer to comprise the Boards that oversee investments and manage benefits. As stakeholders in their city, they have incentives for working to ensure that benefits do not exceed a city's ability to pay. Discussions and adjustments take place at local pension systems across Texas and they serve as a system of checks-and-balances on costs.
3) TEXPERS believes that defined benefit plans are the best investment for cities concerned with attracting and retaining qualified personnel, given the competition of higher salaries in the private sector. We have studies confirming that defined benefit plans work better in terms of lower costs than alternatives, like defined contributions. Employee retention is very important to cities since turnover increases training costs considerably. DB plans prove to be an attractive component to retain qualified employees. In addition, DB plans offer a tried-and-true public policy prescription for cities concerned with offering adequate retirement benefits while balancing their budgets. The jury is still out on the relatively new and risky option of defined contribution plans. No long-term studies confirm their efficiency or benefit to taxpayers. We strongly recommend looking before you leap to DC plans – they appear to be budget busters over the long term and we advise against them.

Finally, in terms of making a recommendation to this Committee for our continued shared concern about containing costs, we would like to draw your attention to the importance of cities fulfilling their commitments to their pensions' Actuarial Required Contributions or ARC.

In our view, the large problems you see outside Texas result from cities and states not paying their pensions' ARCs. This non-payment digs those systems into an IOU that becomes very difficult – and expensive to fulfill. Failure to fund an ARC is the predicate to unsustainable future costs.

Thus, the single most important policy prescription that we would recommend to this panel would be that it strongly encourage plan sponsors – the cities – to make their contributions according to their actuaries' recommendations.

In Texas, the system design is doing its job. It's the failure to actually fund systems that creates the most long-term damage and add-on costs.

In conclusion, we at TEXPERS will continue to educate the legislature, media and public about defined benefit plans because they work well in keeping overall costs to taxpayers lower than any currently known alternative.

Equally important, defined benefit plans offer sufficient monthly retirement income so that retirees will not have to depend on government assistance. The studies we've provided prove this out. No similar studies are available for defined contribution plans, according a senior fellow at the National Conference of State Legislatures.

With that I will conclude my remarks and thank this committee for its attention to these issues.