A PENSION PRIMER FOR STATE EMPLOYEES

GET INVOLVED

Defending our state employee pension

2012-2013

TAKE A STAND

The fight is building already. A powerful business group in Houston is forming a pressure group – Texans for Public Pension Reform – whose goal is to dismantle public workers' pension plans. A consensus is building among anti-public services/anti-public employee legislators that Texas cannot afford decent retirement and health benefits for public employees. Well-funded right-wing think tanks are providing "research" and talking points.

The American Legislative Exchange Council (ALEC), the preeminent national far-right organization of state legislators, and the Texas Public Policy Foundation have both made public employee benefits major targets for 2012-2013. The TPPF held a forum in Austin in October 2011 to begin building its campaign for the 2013 legislative session.

Meanwhile, the Employees Retirement System held three day-long forums in November 2011 that focused on state employee pensions, state employee health care, and state employee workforce issues. While many of the speakers at the ERS forums backed up the importance of our current benefit structure, the forums made it clear that ERS takes the coming attack very seriously. TSEU was invited to have a representative on a panel at the third forum that also included other state employee organizations and representatives of state agencies and universities.

The 260,000 people who live on sub-standard salaries to work for state agencies and universities need and deserve quality, affordable retirement and health plans. And it's not just individual employees who have a stake: our pension and health plans play a major role in our agencies' and universities' ability to hire and retain staff. With turnover still at crisis levels during a major recession, the State of Texas cannot afford to cut the benefits that attract the employees we need.

The attacks are not new

Attacks on our pension and health care plans in the Texas Legislature are not new. There have been attempts since 2003 to begin converting our health care plan to "health savings accounts". There were numerous proposals to cut our pension plan or to convert it to 401-k defined contribution systems. So far, TSEU has defeated most of the more serious attacks, although legislators have forced cuts in our health coverage and have eroded the health of our pension plans by cutting the state contribution.

TSEU: organizing now for the fight in 2013

TSEU has made state employee benefits the highest priority. It will take everything we can throw into the fight: more numbers, more political activity, more work in our offices and facilities, more of everything. The forces who want to slash our benefits are serious. So are we!

WHAT TO DO NOW? **See the back page for Information**

OUR PENSION PLAN:
ERS, TRS are defined benefit plans

State agency employees get retirement through the Employees Retirement System of Texas (ERS). University employees get retirement through the Teacher Retirement System (TRS). Both plans work the same way.

In general, state employees can retire with full benefits when they reach age 60 AND meet the "Rule of 80." The Rule of 80 says that age plus years of service must total 80. The requirement that employees be at least 60 years old was added recently.

The amount of an employees monthly pension when they retire is determined by three factors:

- Years of service: the total number of years worked for the state.
- Average salary: the monthly average of their best 36 (60 for TRS) months during their career.
- A multiplier: currently 0.023, or 2.3%. This is determined by the Texas Legislature.

Example: Mary Smith worked for HHSC for 31 years. She worked her way up to unit supervisor, with a salary of $40,000, and stayed in that job for ten years.

- *Her years of service is 31, and her best 36 months of salary were when she was a supervisor, at an annual salary of $40,000 or $3333 per month.*
- *Her monthly pension is $3333 X 31 X 0.023 = $2376.*

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.

Defined Benefit vs Defined Contribution

How they work

Retirees are guaranteed a lifetime pension that is determined by a formula. The benefit – the pension amount – is defined by the plan. The pension is usually determined by a formula that takes into account years of service and salary, and retirees always get the pension amount that is determined by the formula. Contributions and investment income go into one large fund, which is managed by the plan administrator. The retiree gets the pension amount determined by the formula regardless of economic conditions. The plan itself and its administrator are responsible for making sure that the fund can pay for retirees' pensions, by adjusting investment strategy and/or contribution rates. ERS/TRS are defined benefit plans.

Retirees' pensions, if any, depend on the stock market and the condition of their personal retirement account. The contribution – who puts in money and how much – is determined by the plan. Each employee/ retiree has a separate, individual retirement account; and the employee/retiree is responsible for investing the money in the account. The retiree's benefits depend on how much is in their individual account. Employees always pay into the plan while they are working, the employer also makes a contribution in some plans. Like nearly all retirement systems, DC plans depend on investment income for most of the benefits that are paid out. 401-(k)'s and Roth accounts are defined contribution plans.

Where the money comes from

Usually the employer along with the employee will contribute some percentage of payroll each month. The money goes into a single overall account. The fund manager (ERS or TRS for us) is responsible for investing these funds. In ERS and TRS, about 75% of the income is from investment returns. The fund is large enough to "ride out" poor stock market years, and is managed by professionals who are able to maximize investment income.

The employee makes regular contributions, and in many plans the employer makes contributions. The employee contributions can be some fixed percent of payroll, or some amount chosen by the employee. The employer contribution, if any, can be a flat amount, a percent of salary, or as a full or partial match of the employees' contributions. The employee/retiree is responsible for making investment decisions, and the value of the account depends on the results of the investments.

How the pension amount is determined

Pension amount is defined by the plan, usually as a formula that takes into account years of service and salary. The retiree gets the pension amount determined by the formula regardless of stock market or other economic conditions.

The retiree can withdraw funds from their individual account. If the account runs out, they have no further benefits.

OUR PENSION PLAN: Part of a package that pays off for Texas and Texans

State employee pay has never been good. For decades it has been getting worse, and is now far behind private sector pay. Workloads for state employees have always been high, and they have been getting worse in recent years. For decades, for thousands of state employees, it is the benefits that made the difference.

Our major benefits – pension and health care – help make it possible for state 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 in this first place, and drive away good employees.

State employee pension funds: problems but not a crisis.

Anti-public employee demagogues attack anyway

The state employee retirement funds – ERS and TRS – do have "unfunded liabilities". That is, predicted income will not keep up with predicted expenses (pensions) over the next 31 years. The shortage in the ERS and TRS funds, less than 20%, is not a sign of impending disaster. As the stock markets recover, the situation will get better. But both funds will need more contribution income.

While attackers try to paint pictures of huge liabilities that will drain tax funds, the state employee pension plans are sound, 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.

What created the problem?

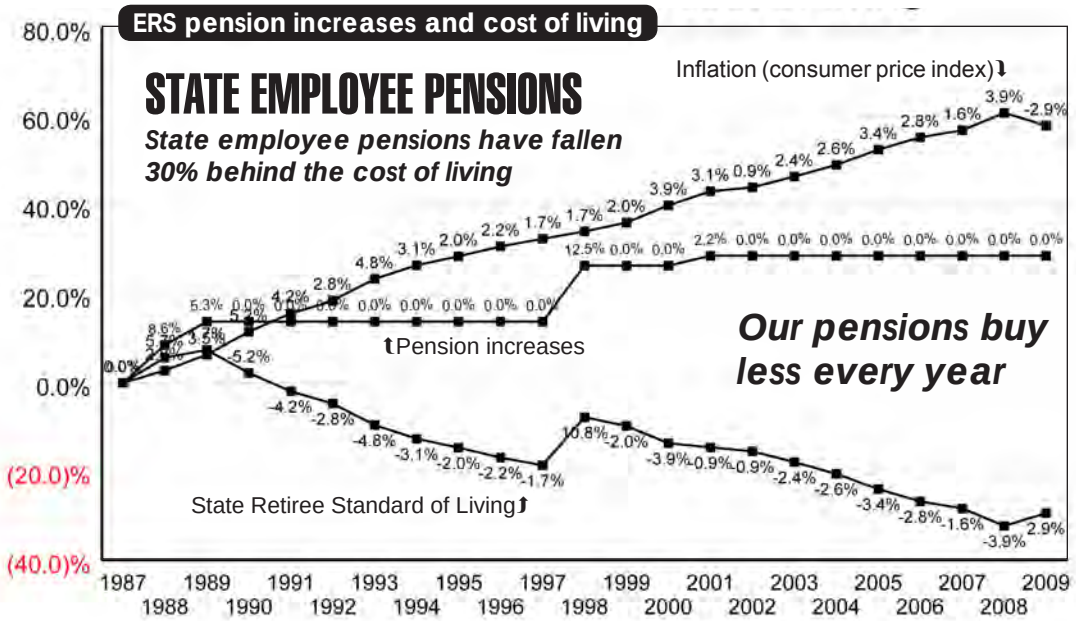
It was a double whammy: in 1995 the state reduced its share of contributions to the minimum required by the Texas Constitution. The ERS fund was fully funded and the TRS fund was close. In a time of high stock market growth that seemed to make up the difference, the damage was not obvious. But by 2002 income was not keeping up with expenditures, and the funding ratio was 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")*

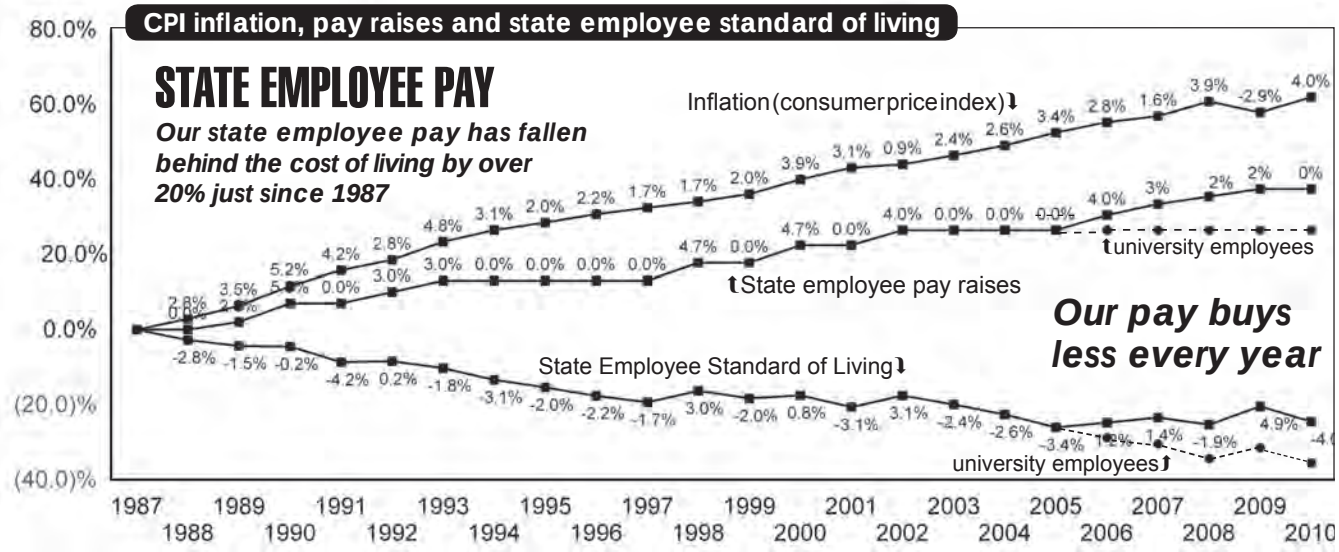
Why it's a bad idea to cut state employee pensions

Anti-state employee ideologues are currently building a campaign 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 money.

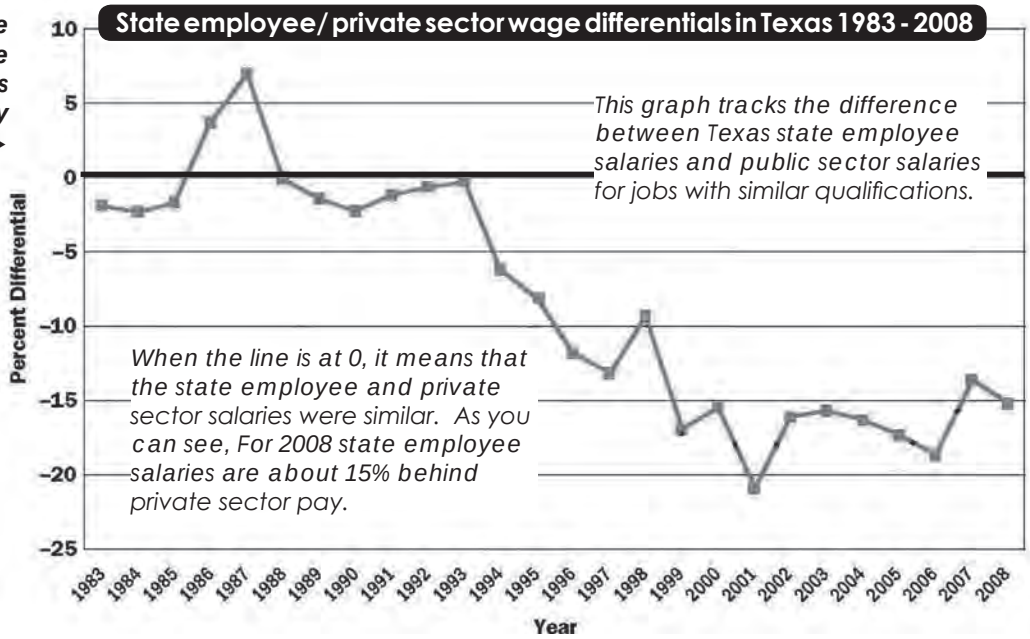
But cutting our pensions will hurt everyone: state employees, our agencies and universities, and all the people of our state. Morale is already a crisis, turnover is increasing, and agencies and universities have increasing difficulties attracting and keeping qualified staff.

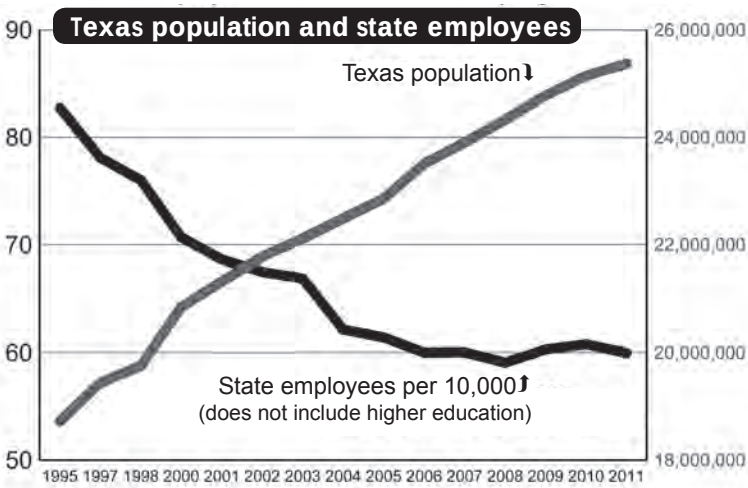
For thousands of state employees it is the benefits that keep them. Our pay buys less for our families every year. Our workloads and on-the-job stress grow every year. The state auditor has identified employee turnover as a serious problem. Texas cannot afford to cut state employee pensions.





As our standard of living drops, we are falling further behind the private sector. Our state employee pay is now 15% behind private sector pay





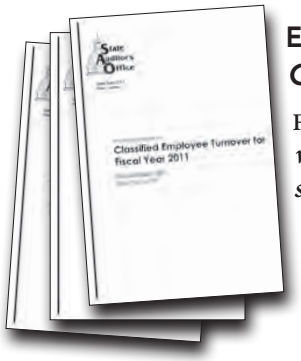
While pay falls, workloads skyrocket. The number of state employees per 10,000 residents has fallen 27% since 1995. The drop is even higher in critical health and human services programs.

PENSION FACTS:

The average state agency retiree pension is $1531 per month.

The average university pension is about $1,779 per month.

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 2011

From overall conclusion: ***"The fiscal year 2011 turnover rate was the highest turnover rate that the State has experienced since fiscal year 2008"***

"There was a perceived lack of employment stability due to state budget cuts. Exit survey comments suggested that some state workers decided to find other employment because of perceived employment stability in their state agency."

"Better pay and benefits continues to be cited among top reasons employees left employment with their agencies."

Find a link to a complete copy of the SAO report in the pension resources section of the TSEU web site.

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.

Pension issues glossary

ACTUARIAL: related to statistical calculations that are based on predictions of many factors that affect long-term trends. Actuarial calculations for state employee pension systems are based on predictions of numbers of employees and their pay, tenure as employees, life span, and changes in employee and state contribution rates, among others. ERS and TRS use a system that is based on a period 31 years into the future to determine if the systems are adequately funded.

ACTUARIALLY SOUND: the income needed to pay off the unfunded liability within a set period.

DEFINED BENEFIT/CONTRIBUTION: see "Defined Benefit vs Defined Contribution" inside.

EMPLOYEE CONTRIBUTION: the amount taken out of the employee's paycheck each month. This amount is currently 6.5% (ERS) and 6.4% (TRS), and is pre-tax (you do not pay income tax in this money).

FISCAL YEAR: For Texas state government: September 1 - August 31. FY 2012 began on September 1, 2011.

FUNDED RATIO: the percent of predicted expenses that will be covered by predicted income. Many sound pension plans have funded ratios around 80%, since the recession seriously reduced investment income for several years, but long-term market trends paint a much better picture.

NORMAL COST: the income needed to keep the unfunded liability from getting larger.

STATE CONTRIBUTION: amount the state pays into the ERS or TRS retirement fund for each state employee. It's currently 6.0% of salary, and is scheduled to go back up to 6.5% next year.

UNFUNDED LIABILITY: amount that predicted income will be less than predicted expenses in a pension system.

Fiscal Year	ERS			TRS		
	Contributions		funded status	Contributions		funded status
	state	employee		state	employee	
1981	8.00%	6.00%	Must be 100% to allow a pension increase	8.50%	6.65%	Must be 100% to allow a pension increase
1982	8.00%	6.00%		8.50%	6.65%	
1983	8.00%	6.00%		8.50%	6.65%	
1984	8.00%	6.00%		7.10%	6.00%	
1985	8.00%	6.00%		7.10%	6.00%	
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%	84%
1989	7.00%	6.00%	99%	7.20%	6.40%	87%
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%	107%	7.31%	6.40%	98%
1995	6.43%	6.00%	104%	7.31%	6.40%	96%
1996	6.00%	6.00%	108%	6.00%	6.40%	96%
1997	6.00%	6.00%	103%	6.00%	6.40%	100%
1998	6.00%	6.00%	108%	6.00%	6.40%	104%
1999	6.00%	6.00%	108%	6.00%	6.40%	103%
2000	6.00%	6.00%	108%	6.00%	6.40%	107%
2001	6.00%	6.00%	105%	6.00%	6.40%	103%
2002	6.00%	6.00%	103%	6.00%	6.40%	96%
2003	6.00%	6.00%	98%	6.00%	6.40%	95%
2004	6.00%	6.00%	97%	6.00%	6.40%	92%
2005	6.00%	6.00%	95%	6.00%	6.40%	87%
2006	6.45%	6.00%	95%	6.00%	6.40%	87%
2007	6.45%	6.00%	96%	6.58%	6.40%	89%
2008	6.45%	6.00%	93%	6.58%	6.40%	91%
2009	6.45%	6.45%	87%	6.58%	6.40%	83%
2010	6.95%	6.50%	83%	6.64%	6.40%	83%
2011	6.95%	6.50%	83%	6.64%	6.40%	83%
2012	6.00%	6.50%		6.00%	6.40%	

A snapshot of the ERS pension plan:

***Who is included** ..... Employees/retirees
* ..... of state agencies

***Employees** 137,293

***Retirees** 83,430

***Assets** ..... $24 billion

***Unfunded liability** ..... $5 billion

***Funded ratio** 82.6%

***Average pension** $1531/month

***Current**
***contribution rates** ..... state 6.0%
* ..... employee 6.5%
* ..... total 12.5%

***Total contribution**
***needed for stable**
***fund (normal cost)** 12.3%

***Total contribution**
***needed to pay off**
***unfunded liability**
***(actuarially sound)** ... 17.5%

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) 140,900
**school districts ..... (APPROX) 688,000
**total 828,919

***Retirees:** 301,603

***Assets** ..... $115 billion

***Unfunded liability** ..... $24 billion

***Funded ratio:** 82.7%

***Average pension:** $1779/month

***Current**
***contribution rates** ..... state 6.0%
* ..... employee 6.4%
* ..... total 12.4%

***Total contribution**
***needed for stable**
***fund (normal cost)** 10.6%

***Total contribution**
***needed to pay off**
***unfunded liability**
***(actuarially sound)** ... 14.5%

Changes in the pension multiplier since 1988				
year	ERS		TRS	
	multiplier	actual change in pension amount	multiplier	actual change in pension amount
1989	2.00%		2.00%	
1997	2.25%	12.5%	2.00%	0.0%
1999	2.25%	0.0%	2.20%	10.0%
2001	2.30%	2.2%	2.30%	4.5%
Both remain at 2.3% in 2012				
Visit pension resources on the TSEU web site for a history of multiplier changes since 1974				

Changes in the amount of state employees' pensions are made by adjusting the multiplier that is part of the pension formula. The multiplier has been increased twice since 1988 for each system, producing an overall increase of 15% in retirees' pension amount since 1988.

What about COLAs

Cost of Living Adjustments – COLAs – are generally automatic adjustments that are built into a salary or pension plan to cover increases in the cost of living. There never have been real COLAs in Texas state employees' pay or pensions. Increases, if any, have to be approved by the legislature.

Who gets what from whom:

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

What to do now!

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.

1. **IF YOU ARE NOT A TSEU MEMBER, JOIN TODAY!** A strong, united, and growing organization is our best chance to win.
2. **IF YOU ARE A MEMBER, GET YOUR CO-WORKERS TO JOIN TODAY.** We need people off the sidelines.
3. **JOIN TSEU/CWA COPE.** This is a political fight. COPE is our state employee political action network, and our political action fund.
4. **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.

Texas State Employees Union - CWA Local 6186

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