

ACTUARIAL VALUATION OF THE PLANS ADMINISTERED BY ERS

As of August 31, 2018

- Employees Retirement System of Texas (ERS)
- Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF)
- Judicial Retirement System of Texas Plan 2 (JRS 2)

Actuarial Valuation Results as of August 31, 2018			
	ERS	LECOSRF	JRS 2
Actuarial Accrued Liability	\$39.0 B	\$1.5 B	\$488 M
Actuarial Value of Assets	\$27.4 B	\$953 M	\$447 M
Unfunded Accrued Liability	\$11.6 B	\$500 M	\$40.7 M
Funded Ratio	70.2%	65.6%	91.7%
Funding Period (Years)*	Never	Never	69
Estimated Depletion Date	2096	2045	None

*The funding period defines when a plan can expect to be fully funded based on current benefits, plan experience and contribution rates. "Never" indicates that based on current assumptions and contribution rates, the plan will never be fully funded and will never have enough money to pay benefits to all current and future retirees. Plans that are not fully funded have a funding gap, referred to as an unfunded liability. Texas Government Code 811.006 requires that unfunded liabilities be paid off within a 31-year rolling period to be considered actuarially sound.

The financial health of a defined benefit plan depends on an equal balance between assets and liabilities so that:

Investments + Contributions = Benefits + Expenses

Despite positive investment returns and reduced benefit costs for new hires resulting from past benefit reforms, the funding status of all three plans is declining. Additional contributions, benefit cost reductions or some combination of the two will be needed to further stabilize the funds.

State contributions to the ERS retirement plan represent 0.6% of the state's budget.

In May 2018, the ERS Board of Trustees approved the Pension Funding Priorities and Guidelines policy. The main goal of ERS' retirement programs is to fully fund the long-term cost of benefits provided by statute, through disciplined and timely accumulation of contributions and prudent investment of assets. The policy seeks to balance five principle objectives: (1) 100% payment of vested benefits; (2) contribution stability and sound financing; (3) intergenerational equity; (4) workforce parity; and

Breakdown of Contribution Funding Gap (% of payroll)			
	ERS	LECOSRF	JRS 2
Normal Cost (Base Benefit)	13.86%	2.09%	20.83%
FY18 Contribution	19.50%	2.07%*	23.12%
Actuarially Sound Contribution (ASC) (Covers normal cost + paying off unfunded liability)	23.12%	3.76%	23.84%
Contribution Shortfall	(3.62%)	(1.69%)	(0.72%)

*LECOSRF receives a dedicated portion of court cost revenue that is not a defined percent of payroll and is expected to decrease relative to payroll over time.

Contributions

- Since Fiscal Year 1998, in 19 out of 20 years, contributions have not met the full funding rate needed.
- For the ERS and LECOSRF funds, contributions are not enough to pay down unfunded liabilities. For JRS 2, contributions cover the normal cost to provide benefits and to pay off the unfunded liabilities in 69 years.
- ERS contributions remain the same as prior fiscal years: state contributions of 9.5%, agency contributions of 0.5% and member contributions of 9.5%.

ERS Investment Performance (period ending August 31, 2018)					
Period	20-Year	10-Year	5-Year	3-Year	1-Year
Annualized Return (Net)	6.48%	7.02%	8.27%	8.94%	9.54%
Annualized Return (Gross)	6.56%	7.14%	8.33%	8.98%	9.58%

Investments

- Investment returns are the largest funding component of retirement benefits and represent approximately two-thirds of the ERS Trust's value.
- ERS lowered its assumed rate of return from 8% to 7.5% based on results of an asset allocation and experience study conducted in Fiscal Year 2017.

Retirement Plan Demographics as of August 31, 2018

	ERS	LECOSRF	JRS 2	JRS 1*
	State employees Elected official District attorneys	Law enforcement and custodial officer (DPS, TABC, TPWD, TDCJ)	Judges, justices and certain court commissioners (as of Sept. 1, 1985)	<i>(closed plan)</i> Judges, justices and certain court commissioners (before Sept. 1, 1985)
Members (current and terminated employees)				
Active Members	141,535	37,167	561	7
Average Age	43.6	41.0	57.8	71.2
Average Entry Age	35.0	33.0	47.4	N/A
Average Years of Service	8.6	8.0	10.4	29.9
Average Annual Salary	\$48,581	\$45,321	\$142,731	\$148,000
Inactive Members – Vested	15,842	104	12	0
Inactive Member – Non-vested	103,894	19,738	141	0
Annuitants (retirees and beneficiaries)				
Retirees and Beneficiaries	111,361	13,080	393	337
Service Retirements	100,302	12,244	346	218
Disability Retirements	2,289	94	1	0
Beneficiaries	8,770	742	46	119
Average Age**	68.9	63.2	69.9	80.9
Average Age at Retirement**	59.1	54.0	62.9	61.3
Average Years of Service**	21.7	23.6	15.0	18.3
Average Annual Annuity	\$20,285	\$5,410	\$63,902	\$65,913

*JRS 1 is a pay-as-you-go plan in which the state appropriates money to pay benefits. It was closed in 1985, and judges hired after that date were placed in JRS 2, a pre-funded plan that leverages investment earnings to offset employer contributions.

**Annuitant demographics on age and service are based only on service retirements, they do not include disability retirements.

