

### Review Process

ERS is required by law to complete a periodic pension experience study which is a review of the actuarial methods and economic and demographic assumptions used in the annual actuarial valuation. This regular review process ensure the plans follow best practices and utilize assumptions that provide the most realistic picture of the pension plans' funding status and contribution needs. The ERS independent consulting actuaries review actual experience, best practices and national trend data to produce ERS-specific findings and recommendations. The ERS Board of Trustees adopted new actuarial assumptions in May 2020 based on the experience study findings and meeting discussions.

### Actuarial Assumptions and Methods

The actuaries analyzed the ERS actual experience compared to existing assumptions, or projections, about that experience, to determine if the assumptions are still reasonable. For the economic assumptions, the actuaries consult with investment professionals, including the ERS independent investment consultant, on current economic conditions and expected future outlooks to determine an appropriate investment return assumption.

When an assumption is changed, or actual experience is not what was assumed, there is an impact to the projected funding status of the plans. The impact may increase or decrease the funding status with various magnitudes. Over time, the ultimate cost of benefits will be determined by plan design and actual experience. By adopting assumptions that better align with future expectations, ERS provides the plan sponsor, the State of Texas, with up-to-date data on which to base appropriate funding strategies to return the ERS pension plans to actuarial soundness.



**The ERS Board of Trustees adopted updated actuarial assumptions on May 20, 2020. These assumptions will be used to prepare the 87<sup>th</sup> Legislative Session Legislative Appropriations Request and the future Actuarial Valuation Reports.**

## Impact on ERS Plans

The following findings resulted in recommended changes that impact the previous funding status of the plans. The findings are ranked from the most to the least impactful and indicate whether a change would increase or decrease funding status.

Key Findings	Impact of Assumption Change on Projected Funding Status
Lower expectations for nominal investment return going forward	Decrease
Lower expectations for future individual salary growth	Increase
Lower expectations for future overall payroll growth	Decrease
Lower expectations for law enforcement and custodial officers retirements	Increase
Higher expectations for law enforcement and custodial officers employment separation	Increase

### Employees Retirement System (ERS) Plan Cost Impact of Newly Adopted Assumptions

As of August 31, 2019	Previous Assumptions and Methods	Newly Adopted Assumptions and Methods
Unfunded Accrued Liability	\$11.7 billion	\$13.6 billion
Funded Ratio	70.5%	67.3%
Funding Period	Never	Never
Projected Depletion Date	2075	2061
FY 2020 Normal Cost	13.76%	14.24%
FY 2020 Actuarially Sound Contribution (ASC)	23.26%	25.33%

### Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) Plan Cost Impact of Newly Adopted Assumptions

As of August 31, 2019	Previous Assumptions and Methods	Newly Adopted Assumptions and Methods
Unfunded Accrued Liability	\$515 million	\$584 million
Funded Ratio	65.3%	62.4%
Funding Period	Never	Never
Projected Depletion Date	2043	2041
FY 2020 Normal Cost	2.08%	1.97%
FY 2020 Actuarially Sound Contribution (ASC)	3.14%*	3.24%*

\*In addition to expected court fees

### Judicial Retirement System, Plan 2 (JRS 2) Plan Cost Impact of Newly Adopted Assumptions

As of August 31, 2019	Previous Assumptions and Methods	Newly Adopted Assumptions and Methods
Unfunded Accrued Liability	\$67 million	\$90 million
Funded Ratio	87.5%	83.8%
Funding Period	Never	Never
Projected Depletion Date	2076	2063
FY 2020 Normal Cost	23.14%	24.66%
FY 2020 Actuarially Sound Contribution (ASC)	27.84%	30.79%