TEXAS

Senate Bill 321

Texas has made changes to retirement plan provisions for its Employees Retirement System (TXERS), as presented in Senate Bill 321, signed into law on June 18, 2021. The stated intent of the legislation is to address the pension plan's solvency, which was projected by the retirement system's actuaries to run out of money within 20 to 30 years.[1] Equable Institute has analyzed the proposed changes using Retirement Security Report methodology, and we report here how these changes to retirement benefits would influence current and/or future TXERS plan members.

RETIREMENT BENEFIT SCORE	
PRIOR PLAN[2]	ADOPTED CHANGES[3]
38.0% of available points	61.5% of available points

EQUABLE'S ASSESSMENT	
PRIOR PLAN	ADOPTED CHANGES
Does NOT Serve All Members Well	Serves All Members Moderately Well

KEY POLICY CHANGES

- New Texas state employees hired on/after September 1, 2022 will be enrolled in a guaranteed return retirement plan instead of a pension plan.
- The state legislature is committing to make annual "legacy payments" that ensure TXERS will receive its full actuarially determined contribution.
- No changes were made to the benefits for current and active members of TXERS.

WHAT SENATE BILL 321 MEANS FOR WORKERS

Members of the TXERS legacy pension plan can have much greater assurance that their pension fund will not become insolvent within the next few decades. New members of TXERS will be served moderately well by the new guaranteed return plan, though it will be a substantially better benefit than the legacy pension plan.

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS PRIOR PLAN[4]

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM *10-20 years of service*	FULL CAREER *>20 years of service*
TOTAL SB321 SCORE Status Quo Score	61.5% of points Prior Plan: 38.0%	57.1% of points Prior Plan: 22.0%	64.2% of points Prior Plan: 35.7%	63.1% of points Prior Plan: 56.4%
BENEFIT VALUE v. INCOME ADEQUACY TARGET	58.1% of points Prior Plan: 39.7%	47.5% of points Prior Plan: 17.4% Earnings Change: +$2,235/yr	55.1% of points Prior Plan: 38.1% Earnings Change: +$274/yr	71.8% of points Prior Plan: 63.6% Earnings Change: +$1,395/yr
COLA & INFLATION PROTECTION	20.0% of points Prior Plan: 20.0%	N/A	20.0% of points Prior Plan: 20.0%	20.0% of points Prior Plan: 20.0%
FLEXIBILITY & MOBILITY	100.0% of points Prior Plan: 40.0%	100.0% of points Prior Plan: 40.0%	100.0% of points Prior Plan: 40.0%	N/A

This table shows the proposed plan's total Benefit Scores, e.g., the percentage of available points for a given category. We also show how proposed changes would improve or decrease the Benefits Score of the prior plan (the "score change"). And we show what the material effect would be on an average employee's annual retirement earnings, using salary assumptions used by TXERS trustees.

A full scorecard for the prior plan is available in the Retirement Security Report Index at www.Retirement Security.Report.

For a breakdown of score changes by worker class, including for employees classified as elected officials and hazardous members, please visit https://equable.org/oklahoma-house-bill-2486-retirement-security-policy-scores/.

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Senate Bill 321

EQUABLE INSTITUTE'S ANALYSIS

The funding policy changes in SB321 are very important for ensuring the legacy TXERS pension plan remains solvent. If future legislatures appropriate the intended "legacy payments" on top of the 10% of payroll constitutional maximum employer contribution, then this legislation will meet its stated goal to ensure solvency.

The new retirement benefit design adopted via SB321 will also improve TXERS by offering a benefit that will be better for all members.

- **Short-Term Workers will benefit the most from the new changes, with the guaranteed return plan scoring nearly triple the amount of available Retirement Benefits Score points (57.1%) compared to the legacy pension plan (22%) that wasn't serving members well at all.**
- **Medium-Term Workers also will benefit substantially from the new plan design with nearly double the available points scored.**
- **Those who work a full career covered by TXERS will also be better off under the new plan, though only served moderately well.**

Guaranteed return plans like the new "Group 4 cash balance" plan balance the trade-offs of promising certain benefit levels and offering mobility. As such, the core plan design works much better for Short-Term and Medium-Term Workers, particularly compared to a pension plan with 10-year vesting rules (like the legacy TXERS plan design).

There is room to improve the guaranteed return plan design that would allow it to serve all members well, such as increasing contribution rates or the rules on investment gain-sharing above the 4% minimum return. However, the fact that the new plan automatically supports the annuitization of account balances into guaranteed payment streams at retirement is a very strong plan provision supporting a path to retirement income security.

For further Retirement Security Policy Score analysis visit https://equable.org/category/rsr-policy-scores/.

TEXAS EMPLOYEES RETIREMENT SYSTEM

2021 AT A GLANCE

SUSTAINABILITY SCORE[5]
FOR PRIOR PLAN
22.2% of points

EQUABLE'S ASSESSMENT	
FOR LEGACY PENSION PLAN	
Distressed	
FUNDED RATIO:	76.1%
TOTAL PROMISED BENEFITS:	$44.2 billion
UNFUNDED LIABILITIES:	$10.6 million
FUNDING SHORTFALL AS A % OF STATE GDP:	0.6%
ASSUMED RATE OF RETURN:	7.0%
YEARS UNTIL ASSET SHORTFALL IS PAID OFF:	7
# YEARS ANNUAL BILL FULLY PAID:	1/10 years
#YEARS PLAN EARNED THE ASSUMED RETURN:	6/10 years
SOCIAL SECURITY	Mixed
FY 2023 EMPLOYER CONTRIBUTION RATE:	4.36% Legacy 9.0% GR Plan
FY 2023 MEMBER CONTRIBUTION RATE:	6.5% Legacy 6.0% GR Plan
RISK-SHARING TOOLS:	No

FOOTNOTES: 1 - 5

To read more about the methodology behind our scoring system, please reference the notes section in our extended analysis of the adopted legislation at: https://equable.org/texas-senate-bill-321-retirement-security-policy-scores

ABOUT THESE SCORES

These scores are based on a 25-year-old entrant with average starting salary for members of the plan. It is not intended to comprehensively measure every aspect of a retirement plan, but instead to measure the factors that are most important for measuring retirement income adequacy. It is reasonable to compare plan changes against the status quo, but the most fundamental question is whether any retirement plan (the existing benefits or proposed adjusted benefits) is providing retirement income security to all members of the plan. These scores are based on a comparison against a standard benchmark for retirement income adequacy, but there are other reasonable benchmarks too.

ABOUT EQUABLE INSTITUTE

Equable Institute is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments find ways to both fix threats to municipal finance stability and ensure the retirement security of all public servants.