TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

June 16, 2014

Department Partners:

Upon careful examination of System studies and public comment, and after extensive deliberation on options to address the System's unfunded liability, on Thursday June 12th, **the Board of the Texas Emergency Services Retirement System voted unanimously to adopt proposed changes to rule §310.6 relating to Local Contributions.**

This rule change creates a new mechanism (Part Two contribution) to address the System's unfunded liability and keep the program secure for the future. The Part Two portion of the contribution will be for the sole purpose of keeping the System actuarially sound. It is not for administrative costs and is limited to no more than 15% of an individual department's monthly member contribution (now called Part One).

Benefits were not reduced in order to continue to protect firefighters, first responders and their families, and to make certain that the program remains a valuable recruiting and retention tool for departments.

What was the problem that needed to be solved?
There are statutory and financial guidelines that require pension systems to predict whether or not they can pay their current and future liabilities within an acceptable amount of time, which is generally no more than thirty years.

The System has liabilities that it cannot pay within any acceptable amount of time, due to losses that occurred in 2008 and previous plan benefits that were too rich when compared to member contributions at that time. The Board was compelled to immediately address the unfunded liability, which is in excess of $33 million because the last actuarial valuation report showed the System was not actuarially sound. Without action, there was no guarantee of retirement benefits for new members coming into the System.

Because our investment returns are already exceptional, with the System consistently ranking in the top five percent among peer pension group earnings, changes to our investment strategy wasn't an option to address the issue. In addition, the State of Texas has contributed its required statutory share towards the unfunded liability. Historically, the only remaining tool for the Board to use in addressing the unfunded liability was to decrease plan benefits.

What options were considered?
Over the course of several meetings, the Board heard public comment, both written and verbal, and considered all of the suggestions and comments very carefully. The Board ordered several studies and looked at various options, including increasing the retirement age, decreasing the retirement payment multiplier, reductions to ancillary benefits, and combinations of all of these options. In reviewing the studies, it became apparent that even deep cuts to benefits, would be short term solutions that may require additional cuts in the future.

After careful deliberation, the Board chose to not decrease plan benefits in favor of creating a new mechanism to adjust the System's liabilities – the new Part Two "System" contribution. Because this new contribution is a mechanism (as opposed to a long term fixed payment rate) it gives the Board the flexibility of using it as needed, to keep the System financially secure.

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What is the Part Two or "System" contribution?
In December of every even-numbered year, the agency will notify departments of what the new Part Two percentage will be, depending on the results of its actuarial report. The Part Two percentage will be effective September 1st of the following year and be in effect for two years. Depending on investment earnings through August 31, 2014 and the results of the actuarial valuation report due in December 2014, member departments will be notified of any new Part Two contribution percentage in December 2014, to be effective September 1, 2015. This will likely amount to a Part Two contribution charge in the amount of 7 – 10% of each department's current membership contribution rate.

For example, if a department currently contributes $36 per member per month, if the Part Two contribution were set at 7%, the department would pay $36 + $2.52 per month per member, for a total contribution of $38.52 each month. In this example, additional contributions per the new Part Two contribution would be required per member in the amount of $30.21 per year, for two years.

More Examples:

Existing Part One Contribution	Part Two Contribution Possibilities	Total Monthly Contribution
$36.00	7% = $2.52	$38.52
$36.00	10% = $3.60	$39.60
$36.00	15$ = $5.40	$41.40
$50.00	7% = $3.50	$53.50
$50.00	10% = $5.00	$55.00
$50.00	15% = $7.50	$57.50
$100.00	7% = $7.00	$107.00
$100.00	10% = $10.00	$110.00
$100.00	15% = $15.00	$115.00

What does this mean for the System going forward?
We believe this measure will insure significant security for the System now and in the future. As the agency recruits new departments at the minimum Part One contribution of $36/member and continues to earn far more than the 7.75% benchmark for investment earnings, the unfunded liability will be reduced. This will result in future actuarial valuation reports that show our plan as actuarially sound with a lowering of the Part Two contribution. This means that the required Part Two percentage will go down over time, allowing for room to increase it in the event there is a financial crisis. This is a significant measure against reductions to plan benefits and will ensure that the program retains its value for members, their families, and departments.

As we move forward in the process, we will keep you informed every step of the way. Please feel free to contact me at (512) 936-3474 or michelle.jordan@tesrs.texas.gov if you have questions or need additional information.

Sincerely,

Michelle Jordan
Executive Director