2019 LEGISLATIVE AGENDA

1989 30th Anniversary 2019

TEXPERS

TEXAS ASSOCIATION OF PUBLIC EMPLOYEE RETIREMENT SYSTEMS

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The 2019 Legislative Agenda is a publication of the Texas Association of Public Employee Retirement Systems. Houston Office: 13111 Northwest Freeway, Suite 100, Houston, TX 77040. Austin Office: 1504 San Antonio St., Suite 206, Austin, TX 778701. Phone: 713-622-8018. Email: texpers@texpers.org.

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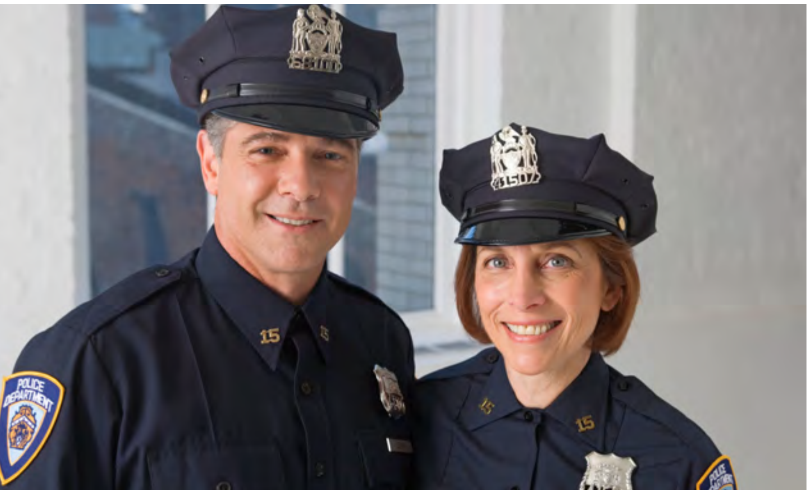
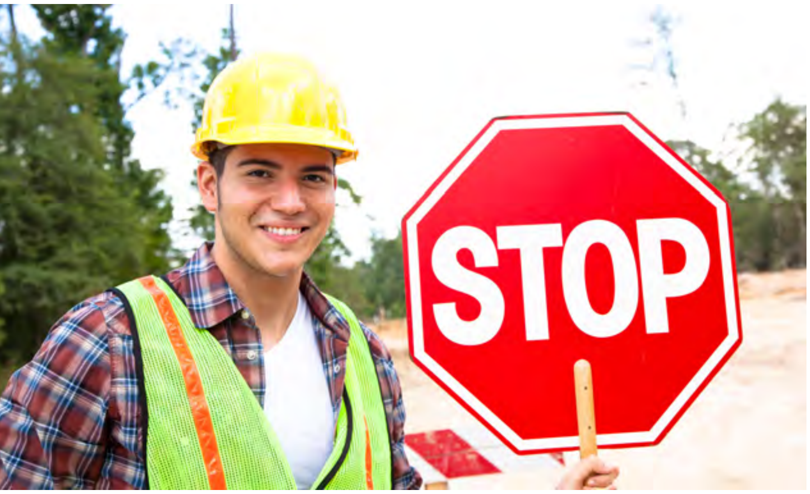
Contents

2019 System Members

Abilene Firemen's Relief and Retirement
Amarillo Firemen's Relief & Retirement Fund
City of Arlington Employees Deferred Income Plan
Atlanta Firemen's Relief & Retirement Fund
Austin Fire Fighters Relief & Retirement Fund
Austin Police Retirement System
Barton Springs/Edwards Aquifer
Beaumont Firemen's Relief & Retirement
Big Spring Firemen's Relief & Retirement
Brazos River Authority Retirement Plan for Employees
Brownwood Firefighters General Fund
Capital Metro Tran Auth Retirement Plan for Administrative Employees
Capital Metro Trans Authority Retirement Plan - StarTran Inc.
Conroe Fire Fighters' Retirement Fund
Corpus Christi Firefighters' Retirement System
Corsicana Firefighters' Relief & Retirement Fund
CPS Energy Employees' Pension Plan
Dallas Employees' Retirement Fund
Dallas Fort Worth International Airport Board Retirement Plan
Dallas Police & Fire Pension System
DART - Defined Benefits Retirement Plan & Trust
DART Retirement Plan And Trust
Denison Firemen's Relief & Retirement
Denton Firemen's Relief & Retirement Fund
El Paso City Employees' Pension Fund
El Paso Firemen and Policemen's Pension Fund
Floresville Electric Light & Power System
Fort Worth Employees' Retirement Fund
City of Galveston Employees' Retirement System
Galveston Firefighter's Pension Fund
Galveston Employees' Pension Plan for Police
Greenville Firemen's Relief & Retirement
Guadalupe Blanco River Authority
Harlingen Firemen's Relief & Retirement
Houston Firefighters Relief & Retirement Fund
Houston Municipal Employees Pension
Houston Police Officers Pension System
Irving Firemen's Relief & Retirement Fund
City of Irving Supplemental Benefit Plan
Killeen Firefighters Relief and Retirement Fund
Laredo Firefighters Retirement System
Longview Firemen's Relief & Retirement
Lubbock Fire Pension Fund
Lufkin Firemen's Relief & Retirement Fund
Marshall Firemen's Relief & Retirement
McAllen Firemen Relief & Retirement
Metro Transit Authority Non-Union
Metro Transit Authority Workers Union
Midland Firemen's Relief & Retirement
Odessa Firefighters' Relief & Retirement
City of Orange Firemen's Relief & Retirement Fund
Paris Firefighters' Relief & Retirement Fund
Plainview Firemen's Relief & Retirement
Plano Retirement Security Plan
Port Arthur Firemen's Retirement Fund
Port of Houston Authority
San Angelo Firemen's Relief & Retirement
San Antonio Fire & Police Pension Fund
San Benito Firemen's Relief & Retirement Fund
Sweetwater Firemen's Relief & Retirement Fund
Temple Firefighters' Relief & Retirement Fund
Texarkana Firemen's Relief & Retirement Fund
Texas City Firemens Relief & Retirement Fund
Travis County ESD#6 Firefighters' Relief & Retirement Fund
Tyler Firefighters Relief & Retirement
University Park Firefighters Relief & Retirement Fund
VIA Metropolitan Transit Retirement Plan
Waxahachie Firemen's Relief & Retirement
Weslaco Firemen's Relief & Retirement Fund
Wichita Falls Firemen's Relief & Retirement Fund
Woodlands Firefighters Retirement System

TEXPERS is a Visionary Circle Member of the National Institute on Retirement Security.





This year, the Texas Association of Public Employee Retirement Systems is celebrating its 30th anniversary. In addition to utilizing a new anniversary logo, TEXPERS is marking the occasion by starting a two-year transition from its Houston headquarters to the state's capital, Austin.

Since 1989, our statewide nonprofit has been educating trustees and administrators of public employee retirement plans, offering state-mandated training and additional education through annual conferences and advanced-training programs.

During the last 30 years, the association also has become a strong advocate of defined-benefit retirement plans, providing a unified call to protect the promised secure retirements of its member systems' active and retired participants.

Our membership consists of police and fire departments, municipal employees, airport authorities, hospital districts, regional planning commissions, river authorities, community colleges and university medical centers. Any public employee retirement system in Texas is eligible for membership and encouraged to join.

Collectively, our association's member systems represent nearly 300,000 active and retired participants and approximately $22 billion in assets. When you consider the economic benefits public employees provide state and local governments, they make up a large and influential voting bloc. It's one reason why TEXPERS' own trustees and administrators work alongside state legislators to ensure the pension benefits of public employees are secure. Moving our office to Austin allows us to provide a louder voice of reason to lawmakers. In fact, our new Austin office will be just two blocks from the Capitol building.

During the previous legislative session in 2017, some legislative proposals involved pensions systems for police officers, firefighters, educators and city employees. TEXPERS worked to track bill progress and inform policymakers, journalists, and the public as to why harmful bills should be defeated. It will do the same this legislative session, the state's 86th.

Millions of Texans have not saved enough for retirement. Without sufficient income, older adults will not be able to afford the resources that enable them to live independently, pay for medical and other health care expenses, and continue to contribute to society. Defined-benefit pension plans provide a consistent and predictable stream of revenue to public employees – the men and women who have dedicated their careers to the public sector.

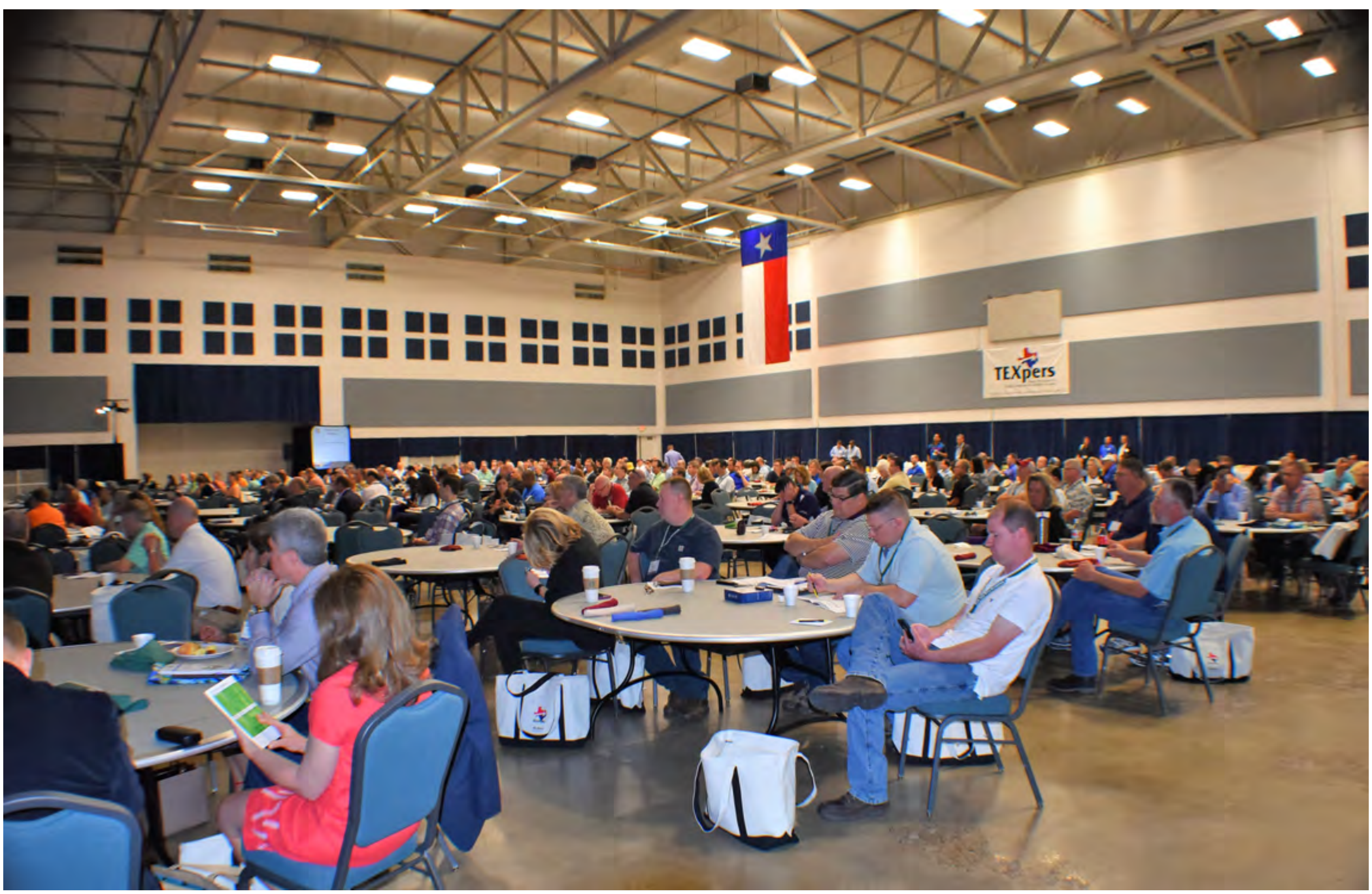
Providing retirement benefits help state and local governments recruit and retain public employees. However, not all pension plans are equal. Studies have shown that 401(k)s and other defined contribution plans are not as successful in ensuring public employees have a secure retirement.

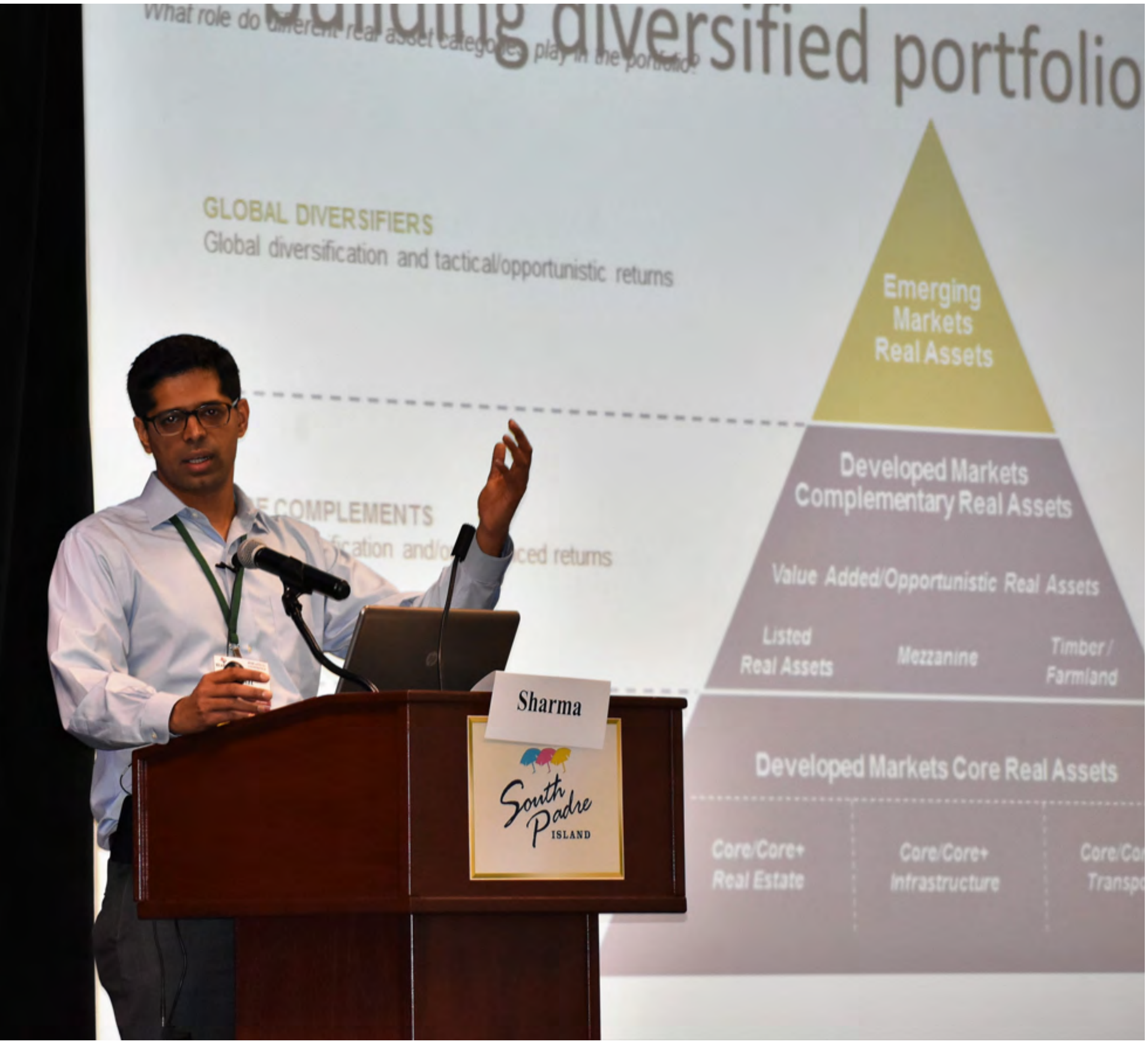
Here's the problem: as people live longer there is a greater need to generate income after retirement that supplement expenses. Social Security doesn't cover enough. In some cases, government workers are not eligible to receive Social Security benefits because they have not paid into it due to an exemption. Those that have paid into Social Security also may face a reduction in benefits. And, those investing into 401(k)s or similarly constructed defined-contribution pension plans on their own also are not investing enough and do not know how to invest their hard-earned money properly.

A defined benefit plan, however, delivers retirement income with little effort on the part of public employees while providing retirement security. And unlike the private sector, public employees share in the cost of their retirement benefits. Employee contributions typically make up a set percentage of their salaries.

Public pension-related bills are often complicated, but when legislators take the time to understand them, they can make decisions that positively help pension systems. We offer this book as a beginner's guide using sound data and statistics on the true merits of defined-benefit pensions for public employees.

Below, members gather for TEXPERS' 2018 Annual Conference held on South Padre Island. TEXPERS conducts an Annual Conference each spring, offering workshops designed around the current topics and trends focused on public fund management and investment issues.





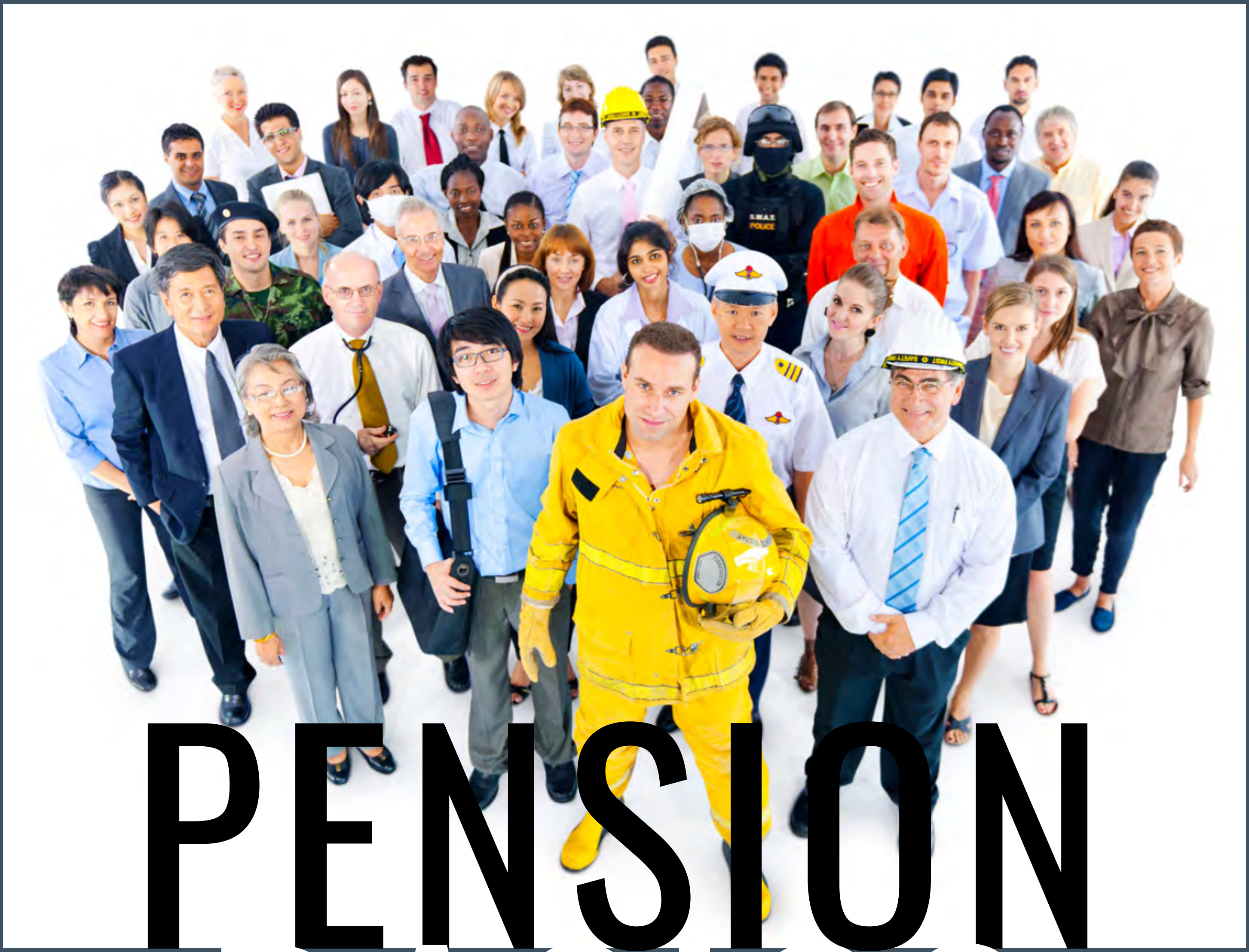
At left, Pulkit Sharma, executive director of JP Morgan Asset Management, discusses global assets during TEXPERS' Annual Conference held last year. Sharma is the co-founder of the real assets and alternatives investment solutions team, and within that heads the portfolio construction team focused on global real assets and other alternatives. He is an example of some of the topic experts that serve as speakers during TEXPERS' conferences and forums.
Below, Diane Garnick of TIAA explains her research on the gender gap in retirement during a session held during TEXPERS' 2017 Summer Forum in San Antonio.

WORKING TO EDUCATE

The Texas Association of Public Employee Retirement Systems, TEXPERS, is a statewide voluntary nonprofit educational association organized in 1989.

Trustees and administrators voluntarily give their time to strengthen and enhance their pension fund management skills. TEXPERS supported House Bill 13, enacted by the 83rd Legislature, and participated in the Pension Review Board working committee that developed the Minimum Education and Training Program.

The MET Program was created by the PRB to meet House Bill 13's mandate. TEXPERS created the Basic Trustee Training class. Since then, nearly 580 trustees have gone through Basic Trustee Training, which is offered periodically to train new trustees on the basics of their roles. The MET rules also require continuing education hours. TEXPERS provides Advanced Trustee Training, workshops, symposiums, and sessions at conferences to help meet those requirements.



PENSION BASICS

THE INS AND OUTS OF PUBLIC EMPLOYEE RETIREMENT PLANS

Pensions are offered by federal, state and local levels of government. In Texas, many dedicated firefighters, police officers, educators, nurses, pilots, and municipal employees at all levels of state and local government are working toward the promise of a secure retirement. Others have already spent decades vesting their own funds into a defined-benefit pension plan.

During their time in office, Texas lawmakers may be called to cast votes and make decisions regarding public pensions. New legislators often enter office with little understanding of how public pensions work, how they are funded, and how they benefit the economy. Here's a primer.

A pension plan is an employer-sponsored retirement account that provides employees a fixed payout during their retirement years. Payouts typically are based on how long an employee has worked for an employer and on the employee's salary. When an employee retires, the employee can choose between a lump-sum payout and a monthly "annuity" payment. Traditional pensions are offered by about 84 percent of state and local governments.

DEFINED BENEFITS

A plan is considered "defined benefit" because it is known in advance the income an employee will receive in retirement.

Many defined benefit, or DB, plans require both the employee and the employer to contribute. The employer invests the contributions into a fund to help cover future payout. DB plans make planning for retirement easier for workers, who are often not equipped to properly invest in complicated portfolios on their own.

DEFINED CONTRIBUTION

Employers typically contribute funds along with employee contributions for a defined benefit plan, taking the burden of investing off of the employee. That isn't the case with a defined contribution, or DC, plan. In a DC plan, an employee must put their own money into a fund like a 401(k) plan. In a DC plan, an employee must play the role of a financial analyst, choosing among a very limited set of mutual fund options in a 401(k).

A defined benefit plan assists with more secure retirement because the employee doesn't have to make their own investments. Studies show 401(k)s and other DC plans haven't been successful.

In a DC pension, what's defined in advance is the amount the employee and employer contribute each year. Unlike DB pension plans, the funds aren't invested into a pension fund. Instead, each employee has their own individual account, which places the investment risk on the employees.

The amount of income an employee will receive in retirement depends on how well their investments perform during their lifetime in the DC plan. That makes planning for retirement difficult. A DB plan rewards employee loyalty to public service, which in turn benefits taxpayers who rely on the skills and dedication of these public servants.

HEALTHY PENSION PLAN TREND CONTINUES IN 2018

The confidence which the Texas Legislature places in defined benefit plans is supported by the latest TEXPERS study of Pension Review Board data. The 99 state and local pension funds monitored by the PRB continued improving their overall health based on a trend analysis of their amortization periods, a measurement similar to a home mortgage. The PRB says that amortization periods are the single "most appropriate" measure of public retirement systems' health.

Six pension systems for police, firefighters and municipal employees now have a 0-year amortization, compared to three last year. Thirty-five systems join them in the PRB's recommendation for amortization periods less than 25 years.

TEXPERS' study shows that 32 systems lowered their targeted investment return in line with PRB recommendations for more conservative estimates. Only 12 systems now target an eight percent or better return compared to 24 systems which did so last year. Most systems (46) seek a 7.50-7.99 percent average yearly return, as compared to 42 last year. The targets are a major factor used to calculate the contributions needed from employees and their city sponsor.

TEXPERS former executive director Max Patterson said: "Trend data reveals a high level of pension system health across Texas. Lawmakers should have every confidence in the defined benefits which continue to prove themselves by delivering reasonable earned benefits to police, firefighters and municipal employees at minimal contribution from taxpayers."

Amortization Periods for Texas State and Local Pension Funds

Amortization Periods	2011	2012	2013	2014	2015	2016	2017	2018
0 years *(most healthy)*	2	1	1	1	3	4	3	6
> 0 yr < 15 yrs	13	14	11	12	11	12	14	16
> 15 yrs < 25 yrs	21	20	17	16	20	23	22	19
> 25 yrs < 40 yrs	38	40	44	36	35	34	36	37
> 40 yrs < Infinite	16	13	10	13	17	16	15	15
Infinite *(least healthy)*	6	8	10	15	7	4	3	6

Pension Review Board recommended amortization period 0-25 years*

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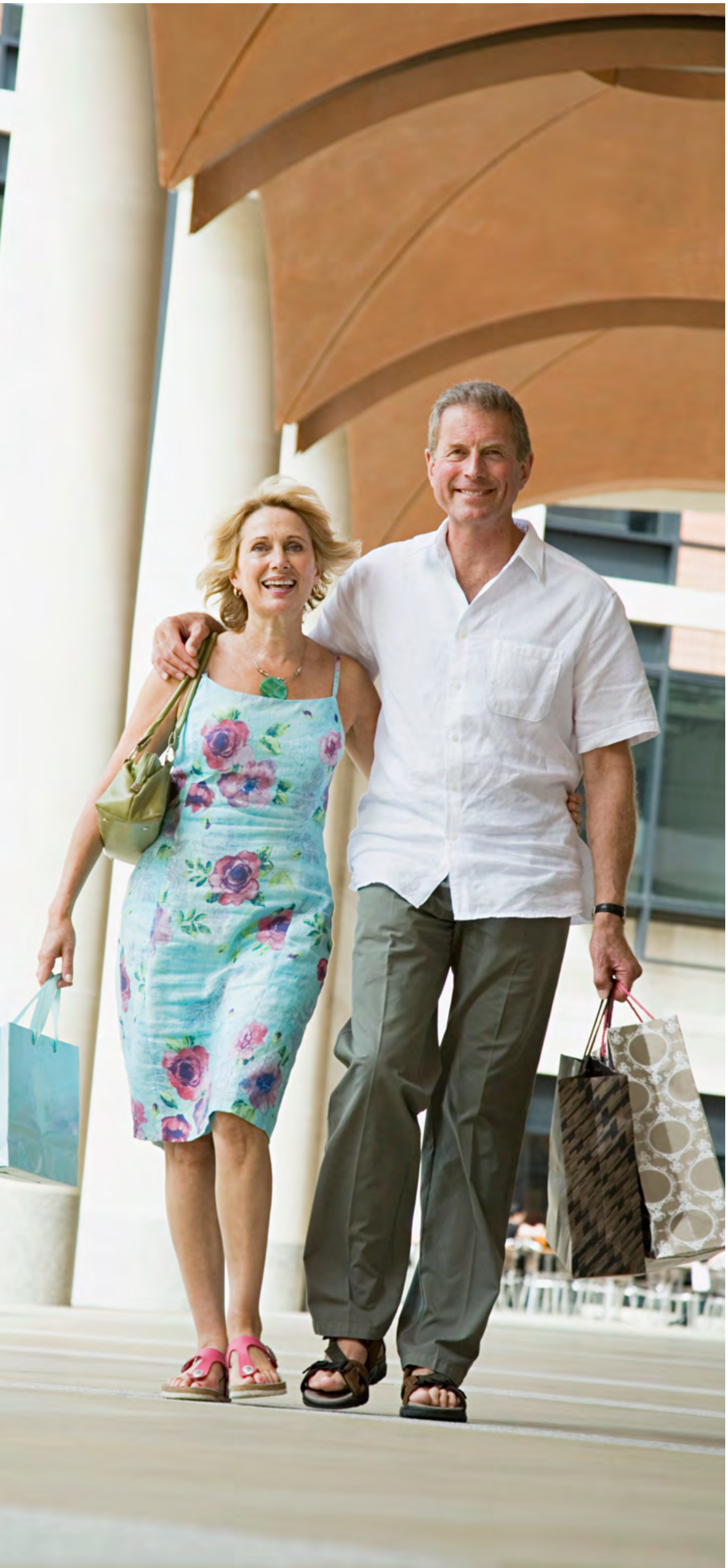
Source: Texas Pension Review Board Actuarial Valuation Reports (AVR) for the following seven reporting periods (1) August 1, 2011 (2) June 13, 2012 (3) June 13, 2013 (4) June 12, 2014 (5) June 16, 2015 (6) August 4, 2016 (7) October 13, 2017. (8) October 4, 2018.

* In January 2017, the PRB adopted new Pension Funding Guidelines, which went into effect June 30, 2017. The *Guidelines* lowered the maximum recommended amortization, or AM, period from 40 years to 30 years and made other changes. The PRB retained a 10-25 year "preferable target range." To maintain consistency for this trend comparison, TEXPERS has retained its AM Periods from previous AVR reports. It does not substantively affect the overall trend analysis. The 2018 column reflects the addition of 6 pension systems which had not previously reported data to the Pension Review Board.



PENSION EARNINGS SPENDING DRIVES TEXAS ECONOMY

When public employees retire and begin receiving their pension checks, they spend. Regardless of whether they are finishing off their mortgage or taking their grandchildren out to eat, their retirement earnings are propelling the economy.

Texas' retired public sector employees collected $16.1 billion in deferred earnings from their decades of service to governments here and around the U.S., according to a group which studies the positive impact of defined benefit plans. The National Institute on Retirement Security says in its most recent "Pensionomics 2018" report that money is multiplied with each dollar spent, so that $1 in pension earnings paid out supports $1.61 in economic output in Texas.

Because of that multiplier, the Texas economy gained $29.4 billion in total economic output from the spending of pension fund earnings. That is just below the total real value added to the Texas economy by all the water, gas, and electric utility companies which serve our 28 million residents. When thought of as an industry, retirement spending would be the 14th largest in Texas – more than three times the amount generated from agriculture, forestry, fishing and hunting.

The research report also says that pension earnings spending created 185,087 Texas jobs and $9.7 billion in wages and salaries, and added $4.4 billion to federal, state and local tax funds. Because Texas is so economically diversified, its multiplier is the second highest in the U.S., just a few cents behind Florida.

The NIRS report shows that the real estate industry owes 9,586 jobs to retiree spending, while full- and limited- service restaurants add 7,011 and 6,743 jobs to their workforce from pension-funded tab payments. The fourth largest sector benefiting from pension earning spending is healthcare, with 5,815 jobs created.

"Steady income from DB pension plans play a key role in stabilizing local economies during economic downturns," the Pensionomics report says. "Retirees with DB pensions know they will receive a monthly check despite economic conditions. In contrast, other retirees may be reluctant to spend out of their 401(k) type accounts if their savings are negatively impacted by market downturns."

Across the United States, more than $519 billion was paid to 24.3 million retired Americans, supporting 7.1 million jobs that paid $354 billion wages and salaries. Overall, pension earnings spending supported $1.2 trillion in total economic output nationwide.

About Texas Pensionomics

$16.1 Billion	Benefits paid to Texans from state and local pension funds in Texas and other states
$11.8 Billion	Direct economic impacts supported by retirees' initial expenditures.

#1

As you might expect from the economic Texas Miracle, the Lone Star State has the highest economic multiplier of all 50 states.

Every $1 contributed to pension funds by taxpayers over 30 years supported $9.10 in total economic output.

Every $1 earned and paid to public employees supported $1.83 in total economic output.

Pensionomics 2018

Pension-based economic stimulus in Texas

JOBS

185,087

Created by the spending of pension benefits paid to retired public employees.

WAGES/SALARIES

$9.7 B

Paid from pension benefit created jobs.

$29.4 B

Total Economic Output

$4.4 B

Federal, state, local taxes

Industry	# of Jobs	Labor Income Produced
Real Estate	9,586	$267,094,054
Full-service Restaurants	7,011	$173,745,274
Limited-service Restaurants	6,743	$141,896,061
Nursing/Community Care Facilities	5,815	$220,253,423

SOURCE: "Pensionomics 2018: Measuring the Economic Impact of DB Pension Expenditures," National Institute on Retirement Security, for Texas.

When Pension "Reform" Fails the Public Suffers

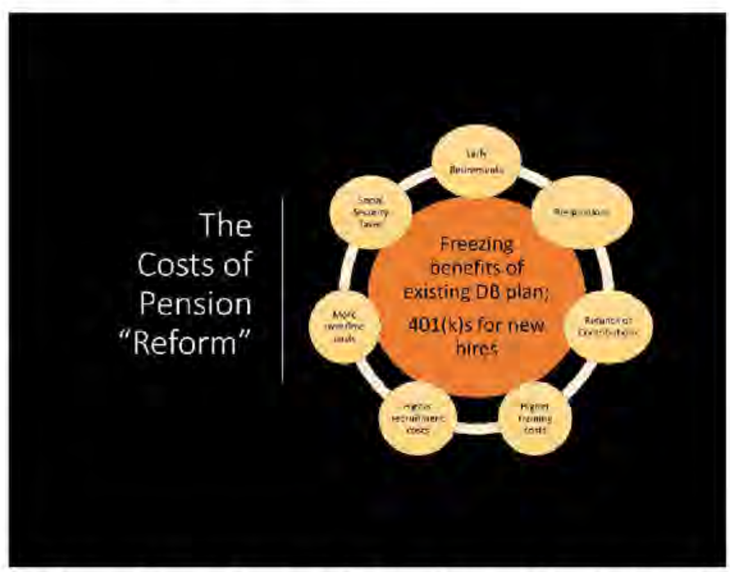
Executive Summary – Opponents to defined benefit plans for public employees promote the private sector's use of 401(k)s as the best alternative. Each year, we at TEXPERS learn of more failed attempts to adapt the defined contribution model to the markedly different operational needs of public sector employers. The following case studies offer more examples, and the results, of failed "reform" efforts: early retirements, resignation, increased training costs.

Case Study – Palm Beach ditches 401(k)s, returns to DB plan for Police, Firefighters

In early 2016, the Palm Beach, Florida, town council restored traditional defined benefit pensions for its police and firefighting force after a four-year failed experiment with a 401(k)/defined benefit mix. Its 2012 'reform' attempt of deeply cutting all employee retirement benefits had failed miserably. Reform advocates had anticipated to save taxpayers $6.6 million immediately and $10.2 yearly by 2020. The reform advocates did not anticipate that 20 percent of the workforce would retire immediately, nor that 109 officers and firefighters would leave for other jobs, causing workforce shortages, higher training costs, increased overtime and a significant loss of institutional knowledge. Nor did it anticipate the town's forfeiture of access to $800,000 in annual state financial report for the retirement system. The high turnover rate which ensued after the 'reform' cost the city an additional $20 million in training costs.

Source: "Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions," National Institute on Retirement Security, February 2018.

Case Study – West Haven struggles with effects of 2009 'reform'



In 2010, the Connecticut city of West Haven adopted 401(k) plans for police hired after Nov. 1, 2009 in a 'reform' plan that would save millions. Since then, 17 officers were hired and trained, but left for other departments which have defined benefit plans. Training costs $70,130 for each new police officer, so total waste amounted to $1.7 million. The department has budgeted for 120 police officers but is only able to maintain 105 on the job. Unexpected costs occurred when the move from a DB plan to 401(k) was made without consideration of the additional Social Security taxes. Police now do not have a significant disability benefit which would care for their family if harmed in the line of duty. Former West Haven police officer Scott Carrigan said, "You'll see people go [to West Haven] to basically just get their foot in the door [of police work], and it's a shame, because it's a great department. [I]t's basically like a farm team."

Source: "West Haven PD, losing officers, pleads with city to return to a traditional pension plan," New Haven Register, December 10, 2018.

MISSION STATEMENT

'TO STRENGTHEN TEXAS BY EXPANDING AWARENESS OF PUBLIC PENSION ISSUES, PROVIDING HIGH-QUALITY TRAINING TO RETIREMENT SYSTEMS' DECISION MAKERS AND WORKING TO ASSURE THE PROMISED BENEFITS OF PUBLIC EMPLOYEES.'