ISSUE BRIEF: ERS AND TRS

ISSUE: ERS and TRS are different, and the plans have different funding needs.

The foundations of the Employees Retirement System (ERS) and Teacher Retirement System (TRS) are similar. In fact, both plans were actuarially sound in 2001. Today's picture is different though. TRS is considered actuarially sound with contributions from employees' paychecks and the state to provide retiree benefits for the long term. The ERS Trust, however, is unsound and does not have enough Trust assets to pay benefits beyond the next 38 years.

Changes over the years have caused the difference.

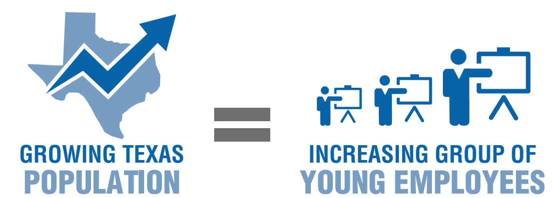
Demographics and growth: TRS membership shows consistent population growth, while ERS' active membership has trended down, reducing both employee and state contributions. The number of school faculty and staff (TRS members) are driven by the state's population growth, which increased 20% in Texas from 2000-2010. The number of state employees (ERS members) is driven by the legislature. Texas had 27% fewer state employees contributing to the ERS plan in 2013 than in 1995. Yet there is steady growth among retirees from both groups. Payroll growth and membership also plays a role in the level of contributions. Again, TRS average payroll is growing almost twice as fast at 5.1%, while ERS is at 2.6%.

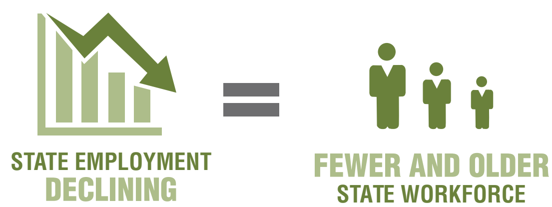
Benefit costs: Even though the benefits are similar, the cost to provide benefits to state employees is higher. The ERS plan covers Law Enforcement and Custodial Officers (LECO) and elected officials. Both of these groups — which together account for 30% of the ERS population — can retire earlier (shortening contribution years), and have more valuable and more costly benefits as a percentage of payroll. In addition, state employees, on average, start working for government at a slightly older age, are more likely to stay on the job, but often work in physically demanding jobs with a tendency to retire earlier than TRS members.

Inadequate contribution rates: In 17 of the last 20 years, the combined contribution rate from both the state and the employee to the ERS plan have not been based on sound funding policy and have not been enough to sustain a healthy fund. During this same period, a number of benefit enhancements and demographic changes have increased the overall cost.

TRS

TRS lowered the cost of their plan by making benefit changes that affected current employees starting in 2005. ERS launched a similar effort in 2009, but ultimately, the benefit changes affected only future ERS members, as shown on the following page.



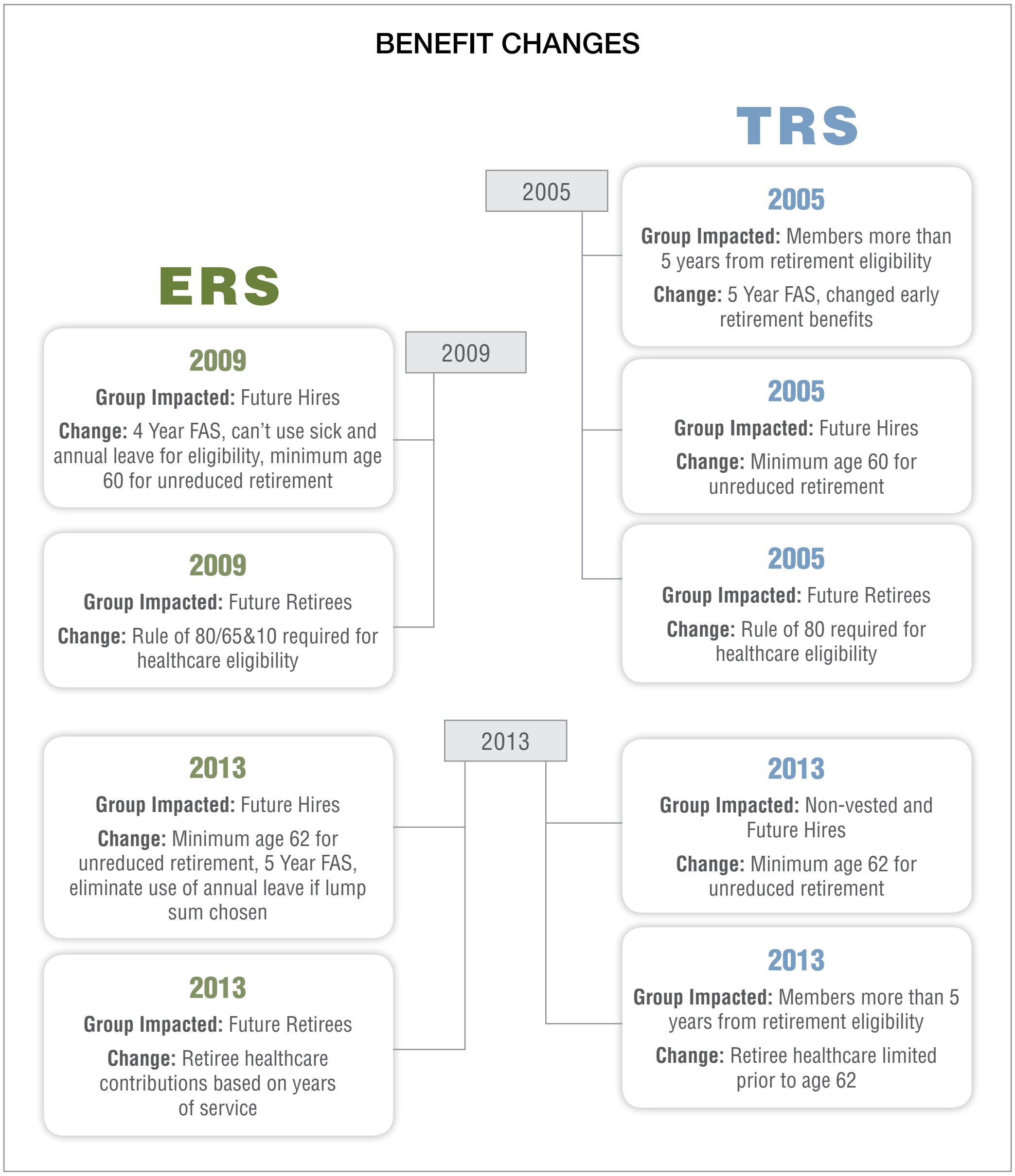


ERS

Legislative changes in the 1990s and 2000s to increase ERS benefits added to the plan's long-term liability and were not fully funded:

- Increasing ways for employees to add service credit
- Encouraging early retirement through monetary incentives
- Making it easier for retirees to return to work

ERS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS



RESOLUTION: ERS and TRS plans have different funding needs.

Historically, the state's policy has been to keep the plans synchronized. However, the employee plan simply costs more. Teachers start young, their benefits cost less, the plan has a growing population, and many TRS members leave without retiring, all of which has helped make the TRS plan more sound.

Unfortunately, the 2013 legislative reforms and increased contributions did not go far enough to address the ERS Trust shortfall. But opportunities remain to change the course of action and steer the fund onto the sustainable path that provides for state employees far into the future.