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Texas pension funds in good shape

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Recent headlines from New Jersey and California indicate problems for some state public pension funds that manage the retirement investments and benefits of public school teachers, police, firefighters, municipal and other employees. But headlines tend to paint with a broad brush: There's a much brighter picture in Texas.

The condition of Texas public pension funds is much better than most, due to the effects of the overall structure of Texas' public pension systems, one that is governed by local control of investment decisions and benefit levels. Texas is different from California and New Jersey, as well as many other states.

Last week the Pew Center on the States released a study indicating there is a \$1 trillion gap between money that the states have on hand to pay for commitments to the public employees' retirement and health care benefits. (Texas local systems do not provide health care benefits.) Also last week, New Jersey Gov. Chris Christie fueled the fire of public concern when he noted that the state has some \$90 billion in unfunded pension and health care benefit costs. And last month the Wall Street Journal carried a piece noting how California's state employees are due some \$63.5 billion in benefits that aren't currently funded, a situation caused by a 2,000 percent increase in pension costs over the last 10 years.

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The situation is different in Texas.

First, Texas doesn't have one massive pension fund that's administered at the state level. Our state has five statewide systems and dozens of local pension boards that determine benefits of their workers and then make investment decisions for them. The local system approach ensures that people in one city or town aren't on the hook for the retirement benefits promised to workers by another city or town.

Texas does have four large, statewide funds but most cities and towns have local boards of active employees, retired members and citizens (of which many are professionals in the community) making the major investment decisions and benefit determinations for their neighbors. The vast majority of local systems are managed at the local level. But benefits and contributions are embedded in state law, which is an added oversight. This structure creates a more direct relationship between public employees and the taxpayers who fund their retirement. Because benefits are more closely tied to the city's overall financial picture, benefits are less likely to go beyond the means of a local government's ability to pay them.

And rightfully, Texas lawmakers aren't keen on the idea of statewide bailouts of individual systems that promise too much or don't deliver on investment performance. Therefore, the local pensions must become very good at making sound investment decisions to make expected

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payments to retirees. The Texas Association of Employee Retirement Systems (TEXPERS) helps local plans educate their trustees about their investment options and the actuarial realities of their individual systems.

Local boards' decision-making seems to be going well. A recent TEXPERS survey of 55 members indicates that investment performance for the 15-year period ending in September returned 8.3 percent, just a notch above the 8.2 percent mean return that actuaries deem necessary. The average return outperformed the 8.0 percent Wilshire Median Public Fund for the same period, indicating that investment decisions are turning out favorably for many plans across Texas.

In its January report, the Texas Pension Review Board (PRB) showed that, taken as a whole, Texas' public employee pensions are "underfunded" by about \$38.5 billion, meaning the plans will need to make up this amount through investment performance or contributions — probably more of the latter — over the next 10 to 40 years. This is much less than California or New Jersey, the current problem states.

The PRB report also indicates that the local pension systems' unfunded liabilities total only \$6 billion, a very manageable amount, especially as the economy continues its recovery.

Yes, there may be some situations where taxpayers in some cities will need to add more money to their employees' retirements. But it's our observation that many of the cities that are falling behind were those that weren't actually paying enough into their employees' retirement funds on a schedule that could give the pensions a chance to grow their returns using prudent investments. They're playing catch-up with previous decisions not to contribute all that they

should have.

Patterson is the executive director of TEXPERS.

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