

Testimony

Bill Hamilton, President
Retired State Employees Association of Texas (RSEA)

Mr. Chairman and Commission Members,

Thank you for the opportunity to present testimony today regarding the Board of Trustees of the Employees Retirement System on behalf of the RSEA.

Our organization is composed of an 11-member, all-volunteer Board of Directors who are state retirees, and we represent approximately 3,000 state retirees.

We have three priorities, in this order:

1. Get and keep the state pension fund to a status of actuarially-sound;
2. Have an insurance benefits program whose trademarks are cost-containment, wellness, and customer-friendly; and,
3. Get a retiree on the Board of Trustees.

Here's how our priorities relate to your Commission's staff report.

First, in general we support all the recommendations in the staff report.

Second, we especially support the recommendation to re-establish the concept of a representative "benefits advisory committee." This can assure there is an on-going, permanent dialogue among all parties, especially when it comes to program costs affecting retirees.

Except for the pension fund itself, this program is the most important to retirees partly because whenever there is an increase in the retiree cost-share of the health insurance program, this is the equivalent of a reduction in a retiree's annuity which still averages \$1,600 a month.

Third, there is no doubt the financial status and well-being of state retirees is on the minds and in the work of the Board of Trustees and staff of ERS. But rarely is

there a person at the table who is speaking in the first person as a retiree with the experiences and perspective of living on a fixed income on main street and at the grocery store.

During the last election for employee-members to the Board of Trustees, all candidates in the election endorsed the idea of having a retiree on the board. Retirees are a significant portion of those who participate in trustee elections. Therefore, the RSEA Board recommends your final report include a recommendation for retiree representation on the ERS Board.

Finally comes the pension fund. I know things-constitutional and matters pertaining to the appropriations process are generally not germane to the scope and charge of the Sunset Commission. But I do know, respectfully, that the efficiency and cost-effectiveness of the financial structure Texas government is important.

It is widely known that for most of the last 20 years, mostly due to economic reasons, the state pension fund has been underfunded. During this time, the state contribution was generally below the 10% constitutional maximum. Also during this time, a substantial unfunded liability built up and the fund became substantially outside the bounds of actuarial soundness. Over the last three sessions, with legislative leadership, including the good work of some of you, the retirement eligibility criteria have been modified, state contributions have been brought back up significantly, employees are paying 9.5% of salaries, and the fund is now within a couple of years of the 31-year actuarial measure of being able to pay off current liabilities.

Additionally, State Comptroller Hegar noted last session his concerns the chronic underfunding of the pension fund had the attention of Wall Street, and could affect, among other things, the state's bond rating, so a long-term plan needs to be in place to put the fund on solid footing. To be sure, significant progress has been made. Texas is well-served by its defined benefits program with strong constitutional protections, wise and prudent investments, and a fiscally-conservative management structure.

As the next legislative session approaches and additional appropriations are needed, this will be challenging as we bump up against the 10% maximum limit on state contributions. We will urge the Legislature to continue its diligence to make our retirement system work as intended, to provide a strong system for funding monthly annuity payments for retirees and beneficiaries, including periodic increased adjustments to those annuities.

A strong Board of Trustees and a sound pension fund are not only good for state retirees and active employees, but they are also good for the long-term state budget and the Texas economy. It especially places a high value on public service.

Thank you for your service and I appreciate this opportunity to speak to you.