



TEXAS' PUBLIC SECTOR PENSION SYSTEM generally is in good shape, with funding levels that exceed the national average; however, the state has not made its full annual required contribution since 2002. On the non-pension side, in late November 2007, the Employees' Retirement System of Texas reported a \$17.7 billion bill coming due for retiree health care and other post-employment benefits for state employees, while the Texas Teacher Retirement System announced an additional \$19 billion tab for those benefits for teachers. (These valuations came out after Pew's report went to press. The report references the Credit Suisse estimate from March 2007 of \$26.8 billion for state employees.) Unlike every other state in the country, however, Texas likely won't report these obligations as long-term liabilities, because it has rejected the new accounting rules that ask states to do this. Texas leaders argue that retiree health benefits are offered on a year-to-year basis and can be withdrawn if they become unaffordable.

PENSIONS

TOTAL BILL COMING DUE: **\$132 billion**¹

FUNDS SET ASIDE: **\$117 billion**

PORTION UNFUNDED: **\$15 billion**

PERCENT FUNDED: **88.5 as of 2006**²

TEN YEAR FUNDING HIGH: **107% in 2000**

TEN YEAR FUNDING LOW: **88.3% in 2005**

HOW IS THE STATE DOING IN PAYING ITS ANNUAL BILL? 

ASSUMPTIONS: Texas assumed an 8% return for its pension investments in 2006, the same as the 50-state median. It uses a five-year smoothing period to calculate the actuarial value of its assets, which is also the most common approach. The amortization period conforms to accounting standards, although Texas' attorney general criticized a number of local pension funds in 2007 because they use longer amortization periods than the Governmental Accounting Standards Board (GASB) stipulates.

¹ Pension funds include state, law enforcement, judicial and emergency services employees and teachers.

² 50-state mean was 82%.

OTHER BENEFITS

TOTAL BILL COMING DUE: **\$17.7 billion**¹

FUNDS SET ASIDE: **\$0**

PORTION UNFUNDED: **\$17.7 billion**²


PERCENT FUNDED: **0 as of 2006**

HOW IS THE STATE DOING IN MANAGING THIS BILL? 

¹ For state employees, plus \$19 billion for teachers; based on November 2007 valuations.

² 200% of covered payroll, compared to a national median of 135%; \$19 billion more for teachers; based on November 2007 valuations.

REFORMS: Texas passed legislation in 2007 that, in effect, allows its governments to opt out of following GASB standards for recording liabilities for retiree health and other non-pension benefits. The state is still reporting the figures, however. In 2005, the state raised the retirement age for new teachers to qualify for full retirement benefits to 60, and increased the number of years included in an employee's final salary calculations, an action that governments take to stem the "spiking" of salaries to increase annual pension benefits. It also prohibited local school districts from offering early retirement incentives, according to the National Conference of State Legislatures. The state improved public disclosure of changes in assumptions and actuarial methods, and required its pension systems to use consistent, generally accepted actuarial standards.

KEY:  Top Performer  Needs Improvement  Below Par  Non-Pension Benefits are Minimal

This fact sheet stems from a 50-state analysis of states' retiree benefit obligations by Pew's Center on the States. The full report and 50 state fact sheets can be found at www.pewcenteronthestates.org.



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