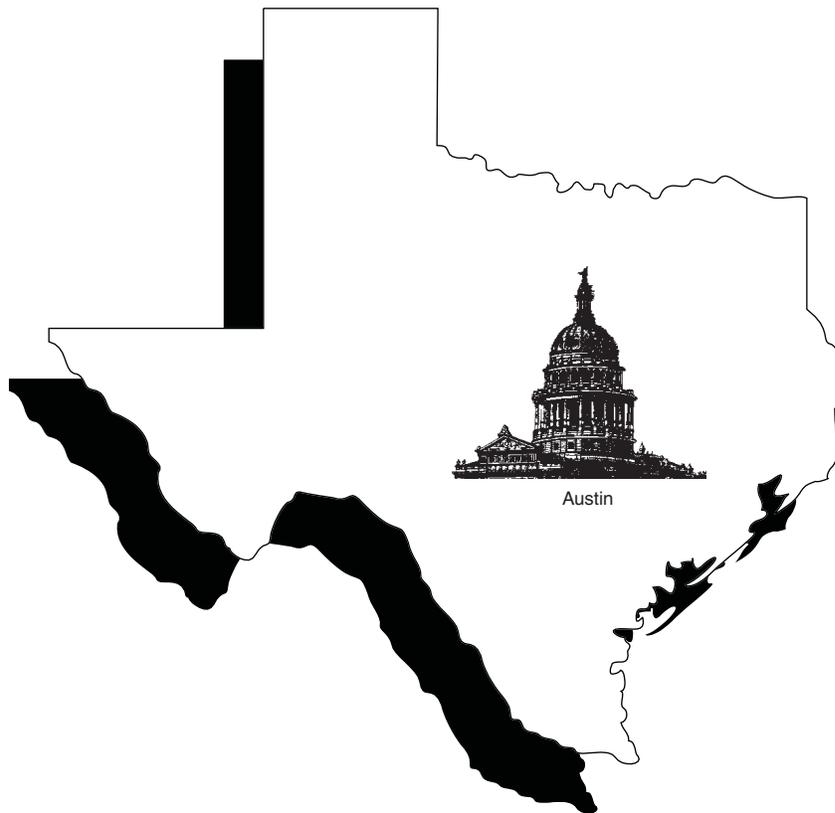


# **Sunset Advisory Commission**



## **State Pension Review Board**



### **Staff Report**

**2000**

## SUNSET ADVISORY COMMISSION

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In 1977, the Texas Legislature created the Sunset Advisory Commission to identify and eliminate waste, duplication, and inefficiency in government agencies. The 10-member Commission is a legislative body that reviews the policies and programs of more than 150 government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency's operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them. This report is the Commission staff's recommendations, which serves as the starting point for the Commission's deliberations.

**STATE PENSION REVIEW BOARD**

**SUNSET STAFF REPORT**

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# **SUMMARY**

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# Summary

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## Overview

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Public pension systems in Texas involve billions of dollars and the financial welfare of thousands of citizens. The State has a stake in the successful performance of these funds. The Legislature has created 15 of the largest pension systems in the state by statute; needs of these systems come back to the Legislature for attention, even though 10 of these funds are local in nature. In addition, even when not created by statute, local pension problems come to the attention of State leaders.

Because of its stake in the state's public pensions, the State needs the Pension Review Board as an early warning system to detect pensions that need corrective action, and to bring attention to these problems before they become critical. The agency is also needed as a neutral and knowledgeable third party to advise the Legislature on proposed, and often complex, legislation affecting the state's pension systems.

The Sunset review identified two ways to strengthen the agency.

- Eliminate voluntary contributions supporting the agency to ensure objectivity in its oversight function.
- Authorize the Board to require information in a standardized form to improve the efficiency of reporting.

A summary of the recommendations and findings in this report follows.

## Issues / Recommendations

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### **Issue 1 Supporting the Board through Voluntary Contributions from Public Retirement Systems Is Unreliable and May Lead to a Perceived Conflict of Interest.**

#### **Key Recommendation**

- Eliminate the voluntary contributions that public retirement systems provide the Board and make the agency fully funded from General Revenue.

#### **Key Findings**

- The Board's solicitation of voluntary contributions from the public retirement systems it monitors may be perceived as a conflict of interest.
- Most systems do not make contributions, while the remaining systems provide voluntary support at varying levels.
- Total contributions from year to year do not provide a consistent level of support.

- No oversight agency in Texas, or comparable agency in other states, receive voluntary contributions from those entities they oversee, as a means of support.

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**Issue 2 The Board Does Not Receive Essential Monitoring Information in a Standard Format, Making Data Entry Time-Consuming and Prone to Error.**

**Key Recommendation**

- Authorize the Board to require public retirement systems to submit summary information in a standardized manner and form.

**Key Findings**

- The Board is not specifically authorized to require information from public retirement systems in a standardized format.
- The Board spends much time and effort extracting monitoring information from these reports submitted in a variety of formats.
- Some other agencies in Texas, and other states, receive pension-related information in standardized formats.

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**Issue 3 Texas Has a Continuing Need for the State Pension Review Board.**

**Key Recommendation**

- Continue the State Pension Review Board for 12 years.

**Key Findings**

- The Board serves primarily as an early warning system to identify public pension systems that may experience financial problems, and as an independent source of information for the Legislature on pension-related legislation.
- The agency's monitoring and informational functions have resulted in benefits to public pension systems and the Legislature.
- No substantial benefits would result from transferring the Board's functions to another agency.
- Various other states also have affirmed the need for oversight of public pension systems by assigning oversight functions to state entities.

## Fiscal Implication Summary

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This report contains one recommendation that will have a fiscal impact to the State. It is discussed below, followed by a five-year summary chart.

- Issue 1 - Eliminating the voluntary monetary contributions to the Board from public retirement systems would cost an additional \$45,000 in General Revenue each year to maintain current funding levels. The Pension Review Board Fund, which has received these voluntary contributions, would be eliminated.

<b>Fiscal Year</b>	<b>Cost to General Revenue</b>	<b>Change in FTEs from Fiscal Year 2001</b>
2002	(\$45,000)	0
2003	(\$45,000)	0
2004	(\$45,000)	0
2005	(\$45,000)	0
2006	(\$45,000)	0



**ISSUES / RECOMMENDATIONS**

# Issue 1

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## **Supporting the Board Through Voluntary Contributions from Public Retirement Systems is Unreliable and May Lead to a Perceived Conflict of Interest.**

### **Summary**

#### **Key Recommendations**

- Eliminate the voluntary contributions that public retirement systems provide the Board and make the agency fully funded from General Revenue.

#### **Key Findings**

- The Board's solicitation of voluntary contributions from the public retirement systems it monitors may be perceived as a conflict of interest.
- Most systems do not make contributions, while the remaining systems provide voluntary support at varying levels.
- Total contributions from year to year do not provide a consistent level of support.
- No oversight agency in Texas, or comparable agency in other states, receive voluntary contributions from those entities they oversee, as a means of support.

#### **Conclusion**

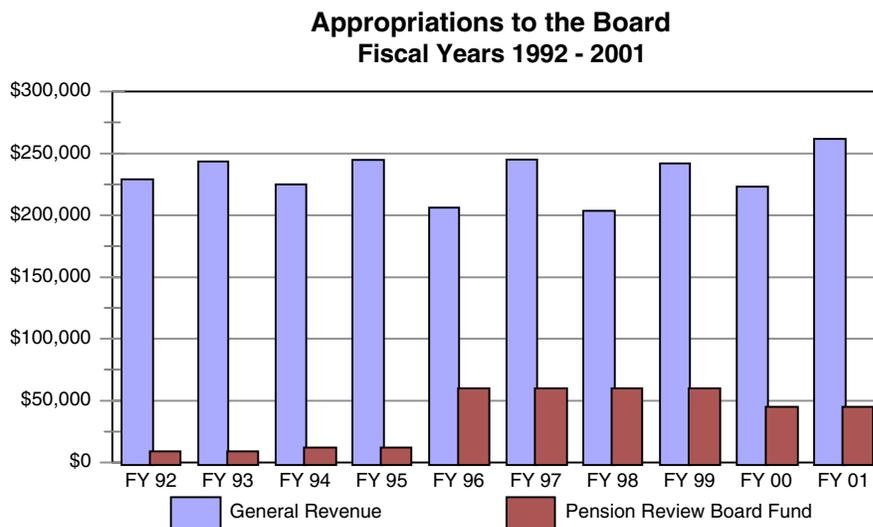
The Board's reliance on voluntary contributions from public pension systems that it oversees creates a situation in which these systems may feel compelled to contribute, or be seen as trying to buy favor from the agency. Systems also contribute unequally, with only 67 (19 percent) of 349 funds contributing in fiscal year 1999. Finally, total voluntary contributions fluctuate from year to year, making planning and efficient agency administration difficult. Similar agencies in other states do not rely on voluntary contributions, but on state revenues or assessments on public pension systems.

Replacing voluntary contributions with additional General Revenue would reflect the agency's role as an independent source of information for pension-related legislation. Because public pension systems do not receive direct services from the Board, assessments on their funds would be more difficult to justify.

## Support

**Current Situation:** The Board's funding is split between two sources: General Revenue and voluntary contributions from the public retirement systems that the Board monitors.

- In fiscal year 1989, the Legislature changed the Board's method of financing from full General Revenue funding to a combination of General Revenue and voluntary contributions from public retirement systems. By statute, public retirement systems may contribute annually a lump sum of not more than 50 cents for each of the system's active members and annuitants.<sup>1</sup> Voluntary contributions are deposited to the Pension Review Board Fund 662 (the Board fund) in the State Treasury.
- Appropriations to the Board from these two sources for the 10-year period between fiscal year 1992 and fiscal year 2001 are shown below in the graph *Appropriations to the Board*. In fiscal year 2001, appropriations from General Revenue total \$261,559, or 85 percent, of the agency's total appropriation of \$306,559. Appropriations from the Board fund make up the remaining \$45,000, or about 15 percent of the agency's appropriation.



- In this 10-year period, annual appropriations from the Board fund have varied from a minimum of \$9,011 to a maximum of \$60,000, as recently as fiscal year 1999, before dropping to \$45,000 for each year of the current biennium. In contrast, total annual contributions from public retirement systems to the Board fund have varied from a low of about \$25,000 to a high of about \$41,000.

**Problem:** The Board's reliance on voluntary contributions from retirement systems that it oversees creates a potential conflict of interest.

- The Board monitors and oversees the operation of about 350 public retirement systems. Seeking and relying on voluntary contributions from monitored entities creates a situation where a retirement

system's contribution could be viewed as an effort to influence the agency. Pension systems also might be concerned that failure to contribute would affect the Board's behavior toward them.

- Recognizing this problem, Board member Senator John Whitmire requested that the Senate Finance Committee consider a change in funding for the agency. In a February 1999 letter to Senator Bill Ratliff, Chairman of the Senate Finance Committee, Senator Whitmire wrote:

"I believe you will agree that asking pension funds to contribute to the same board that regulates them is a questionable practice that could lead to real or perceived ethical and moral dilemmas for the Pension Review Board and those funds which are being asked to contribute funding. As such, I ask that the Pension Review Board's Fund Number 662 be abolished and that the \$45,000 per year (\$90,000 per biennium) needed to fund the Board's operations be paid out of general revenue."<sup>2</sup>

- In 1999, Senators Bill Ratliff and Mike Moncrief sponsored Senate Bill 1867 to modify the Boards' funding. As passed by the Senate, this legislation required the Teacher Retirement System (TRS) and the Employees Retirement System (ERS) to each contribute \$100,000 annually for the Board's operation, but did not eliminate voluntary contributions or funding from General Revenue.<sup>3</sup> The bill was left pending in the House Committee on Pensions and Investments and was not enacted into law.

**Problem:** The voluntary system of contributions results in some pension systems contributing funds to support the Board, while others contribute nothing, resulting in widely varying levels of support from pension systems.

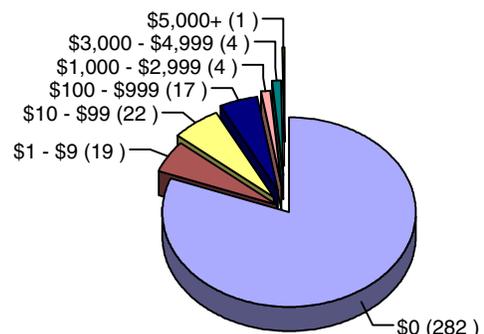
- In fiscal year 1999, 282, or about 81 percent of 349 public retirement systems that the Board monitored, did not make a voluntary contribution, as shown in the chart, *Contributions to the Board*. The remaining 67 systems contributed varying amounts, as shown in the funding categories displayed in the graph. Over the period between fiscal years 1992 and 1999, only 103 systems have contributed to the Board.

**Problem:** Voluntary contributions do not provide a consistent level of support for the Board, making planning and budgeting difficult.

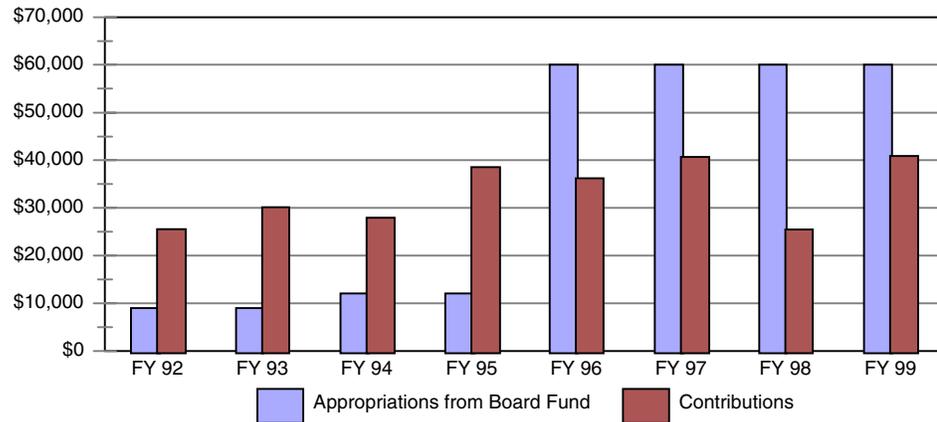
- As seen in the following graph *Contributions vs. Appropriations*, appropriations from the Board fund generally have not matched actual contributions, and have exceeded contributions since fiscal

A retirement system's contribution could be viewed as an effort to influence the agency.

**Contributions to the Board  
Fiscal Year 1999**  
(349 Pension Systems)



### Contributions vs. Appropriations Pension Review Board Fund




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Variations in contribution levels affect the agency's ability to carry out its mission.

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year 1996. In addition, the graph shows that total contributions from all pension systems also vary, from a minimum of about \$25,000 to a maximum of close to \$41,000 annually. Variable funding that does not meet actual spending authority, as reflected in agency appropriations, strains the agency's ability to plan and carry out its mission.

- The Board has used its authority to carry forward fund balances from fiscal years 1992 through 1995, when contributions exceeded spending authority. This balance has helped make up for contribution shortfalls from appropriations in the fiscal years since 1995. However, as the agency depletes this carryover, varying contributions may not be sufficient to match future spending authority.

**Comparison: No other oversight agencies in Texas, or comparable agencies in other states, rely on voluntary contributions from entities they monitor, as a funding source.**

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Regulatory agencies receive funding from entities they regulate, but this funding is related to issuing licenses and permits.

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- The review found no other state oversight agency in Texas that relies on voluntary contributions as a major funding source. Licensing and regulatory agencies receive funding from those entities they regulate, but this funding is usually mandated and associated with the issuing of licenses, permits, or fees.
- The review found that agencies in other states with public retirement system oversight functions do not rely on voluntary contributions. Other states fund their pension oversight agencies through a number of non-voluntary means, including state funds or mandatory assessments of varying types made on participating systems. Agencies making assessments often provide a service to systems that they oversee, helping to justify the assessment.

## Recommendation

### Change in Statute

#### 1.1 Eliminate voluntary monetary contributions to the Board from public retirement systems and fully fund the Board from General Revenue.

This recommendation would require amendment of the Board's statute to eliminate the Pension Review Board Fund and voluntary contributions. The Legislature would need to appropriate an additional \$45,000 in General Revenue each year if it wished to maintain current funding levels.

### Impact

This recommendation would eliminate the Board's reliance on voluntary contributions, thereby eliminating any possible conflict of interest. Replacing this variable funding source with General Revenue would also provide the agency with more funding stability. Most of the agency's appropriation (about 85 percent in fiscal year 2001) already comes from General Revenue. Funding the remaining amount from this source would be appropriate, given the Legislature's reliance on the agency as an informed source of independent information on pension-related matters. Although the Legislature also could require a mandatory assessment on public pension systems, this approach is harder to justify. The Board plays an oversight role, and does not provide public pension systems with direct services that could help support such an assessment.

### Fiscal Implication

Eliminating the voluntary monetary contributions to the Board from public retirement systems would cost an additional \$45,000 in General Revenue each year to maintain current funding levels. The Pension Review Board Fund 662, which has received these voluntary contributions, would be eliminated.

Fiscal Year	Cost to General Revenue	Change in FTEs from Fiscal Year 2001
2002	(\$45,000)	0
2003	(\$45,000)	0
2004	(\$45,000)	0
2005	(\$45,000)	0
2006	(\$45,000)	0

<sup>1</sup> Tex. Gov. Code ch. 801, sec. 801.113 (c).

<sup>2</sup> Letter from Senator John Whitmire, Board member, State Pension Review Board, State of Texas, to Senator Bill Ratliff, Chairman, Texas Senate Finance Committee, February 25, 1999.

<sup>3</sup> Tex. S.B. 1867 (as engrossed by the Texas Senate), 76th Leg., R.S. (1999).



## Issue 2

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### **The Board Does Not Receive Essential Monitoring Information in a Standard Format, Making Data Entry Time-Consuming and Prone to Error.**

#### **Summary**

##### **Key Recommendation**

- Authorize the Board to require public retirement systems to submit summary information in a standardized manner and form.

##### **Key Findings**

- The Board is not specifically authorized to require information from public retirement systems in a standardized format.
- The Board spends much time and effort extracting monitoring information from these reports submitted in a variety of formats.
- Some other agencies in Texas, and other states, receive pension-related information in standardized formats.

##### **Conclusion**

The Board monitors about 350 public retirement systems, analyzing the information in required reports that systems submit in a variety of formats. The Board estimates that more than 10 percent of the systems the Board reviews do not submit information in a form that can be easily used. Consequently, the Board must spend time and effort extracting and interpreting data, or contacting systems' staff for clarification. Authorizing the Board to require information in a summary form would not only clarify the agency's authority and make the review process more efficient, but would also help to reduce errors and allow the agency to take advantage of electronic reporting technology.

## Support

**Current Situation:** State law requires public retirement systems to submit descriptive and analytical information to the Board, but the Board does not have specific authority to require this information in a standardized format.

- The Board receives a variety of documents from public retirement systems it oversees, as required by law. Because the Board does not have clear authority to control how the systems report this information, it typically receives reports in various formats. This information includes:
  - a summary description of the pension plan,
  - an annual report of the system’s membership,
  - an annual financial report,
  - an actuarial valuation,
  - a written investment policy, and
  - other summarized information.
- The Board uses these documents to extract essential data needed to monitor the condition of public retirement systems. Essential data falls into four categories:
  - information used to register the retirement system with the Board, including the system’s name and the administrator’s name and address;
  - benefit data, such as the years required for vesting, the formula for calculating benefits, and employer and employee contribution rates;
  - investment information, including the system’s asset mix and rate of return; and
  - actuarial data, including various measures of a fund’s actuarial health and basic assumptions such as the anticipated rate of return on investment.

**Problem:** Extracting information from reports that are in different formats is time-consuming and inefficient.

- Because retirement systems submit documents in different formats, the Board’s staff must search out relevant data or call a system for

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Because the Board cannot control how systems report, it receives information in different formats.

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clarification. The agency estimates that more than 10 percent of the systems that the Board reviews annually require extra effort to extract essential data for monitoring.<sup>1</sup>

- The agency also performs other duties that require the time of its staff of five, including other aspects of ongoing monitoring, technical assistance and education, and legislative support. The staff's time is particularly constrained during session years, when the agency focuses on issuing actuarial impact statements for the Legislature. At times, the agency is about two months behind in entering system data into its database.
- In 1996, a Board-appointed database study group recommended that the Board develop standardized reporting procedures and forms to simplify the collection and distribution of public pension data.<sup>2</sup> The 27-member committee included persons active in the public pension community and those with computer expertise in the public pension industry.

**Problem: The Board is susceptible to errors in interpreting data that come in different formats.**

- Varying formats for information place the Board's staff in the position of interpreting information for data entry. Improperly interpreted data could result in misleading results on the health of a system and inaccurate information being given to the public.
- The Board's staff reports that its most frequent errors involve interpreting a system's particular asset allocation mix, which includes the amount of cash, equities, fixed income, and other assets a system has in its portfolio of investments. Systems have contacted the Board to report errors in the agency's interpretation of this data.

**Comparison: Other agencies in Texas, and other states, receive pension-related information in standardized formats.**

- The Office of Fire Fighters' Pension Commissioner has created standardized forms to gather statutorily required information from local fire fighter retirement boards. The agency's statute provides that plans submit information as required by the Commissioner.<sup>3</sup>
- The review identified several states in which the Board's counterparts require systems to report certain kinds of information in a standardized format. States identified were Florida, Massachusetts, Missouri, Ohio, and Pennsylvania.
- The National Conference of State Legislators recommends requiring public retirement system managers to use the same reporting forms.<sup>4</sup>

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A previous study recommended standardized reporting procedures and forms to simplify the collection and distribution of public pension data.

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## Recommendation

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### Change in Statute

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#### **2.1 Specifically authorize the Board to require public retirement systems to submit summary information in a standardized manner and form.**

Under this recommendation, the Board would develop a standardized one- to two-page summary document to be included with the annual reports currently required of public retirement systems. The summary document would include the information and measures that the Board determines most necessary to quickly judge the actuarial and financial conditions of these systems. To not overly burden any particular system, the summary document would require the minimum amount of information the Board needs to efficiently assess a system's health. Much of the information reported in the summary document is not expected to change significantly from year to year. The Board may need to assist smaller systems with the form until they become familiar with it. The Board could place this form on the Internet to make standardized reporting easier for these systems. Finally, the Board should occasionally verify the information that systems provide on the summary document.

### Impact

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A summary form for essential monitoring information would make the Board's process of ongoing monitoring more efficient, with fewer possibilities for error. The summary form would enable an employee with little training or actuarial knowledge to enter data into the Board's database during the legislative session when the agency is preoccupied with actuarial impact statements. The agency would also be able to use the Internet to gather data.

### Fiscal Implication

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This recommendation would have no fiscal impact to the State.

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<sup>1</sup> Interview with Rita Horwitz, Executive Director, and Ginger Smith, Program Administrator, Pension Review Board, Austin, Texas, March, 17, 2000.

<sup>2</sup> State Pension Review Board, Database Subcommittee Report (Austin, Tex., September 11, 1996), p. 1.

<sup>3</sup> Title 109. Pensions, Part 2. art. 6243e. §18(g) (Vernon's Texas Civil Statutes).

<sup>4</sup> National Conference of State Legislators, *Public Pensions - A Legislator's Guide* (Denver, Col., 1995), pp. 21-22.

## Issue 3

### Texas Has a Continuing Need for the State Pension Review Board.

#### Summary

##### Key Recommendation

- Continue the State Pension Review Board for 12 years.

##### Key Findings

- The Board serves primarily as an early warning system to identify public pension systems that may experience financial problems and as an independent source of information for the Legislature on pension-related legislation.
- The agency's monitoring and informational functions have resulted in benefits to public pension systems and the Legislature.
- No substantial benefits would result from transferring the Board's functions to another agency.
- Various other states also have affirmed the need for oversight of public pension systems by assigning oversight functions to state entities.

##### Conclusion

The State Pension Review Board has served the needs of Texans and the Legislature. The agency has helped uncover and resolve problems involving thousands of pension members and billions of dollars. The Legislature also has benefitted from the independent actuarial analyses and pension-related information received from the Board. As an independent executive branch agency with relevant actuarial, financial, and legislative expertise on its board, the State Pension Review Board is well structured to perform its assigned functions.

Texas will benefit from continuing the agency, given the growth in public pension systems and the importance of maintaining their financial viability. Since the agency's Sunset review in 1991, the number of systems the Board oversees has increased from 254 with total assets of \$35 billion, to about 350 with assets of \$121 billion in fiscal year 1998. In addition, a continuing need exists for independent actuarial analysis of pension-related legislation.

## Support

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The Board was created, in part, from a concern that the federal government might regulate public pension systems.

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**Current Situation:** The State Pension Review Board functions primarily as an early warning system to identify pension systems that may experience future financial problems, and as an independent source of information for the Legislature on pension-related legislation.

- The Legislature created the Board in 1979 to monitor and review state and local government pension systems in Texas. The creation of the agency reflected a concern over the fast growth of pension systems in the state and the impact that financially troubled systems could have on Texans. The Legislature also was concerned that the federal government would intervene to regulate public pension systems if the states failed to act.
- Since its creation, the Board has served as an early warning system to identify troubled pension systems. In addition to its monitoring activities, the agency also studies pension issues and provides technical assistance to pension systems or other parties. In 1983, the Legislature assigned the Board the added duty of reviewing and commenting on the actuarial impact of legislation affecting public pension systems.

**Need for Agency Functions:** The agency's monitoring and informational functions have resulted in benefits to public pension systems and the Legislature.

- In 1991, Sunset reported that the Board monitored 254 public pension systems with assets of \$35 billion.<sup>1</sup> In fiscal year 1998, the agency monitored about 350 public pension systems that had total assets of \$121 billion. In that fiscal year, these systems served about 1.2 million active employees and 278,000 annuitants. Substantial harm in lost benefits could result from financially troubled funds.
- The Board's early warning system has helped uncover and resolve problems with public pension funds. Although not empowered to require a system to change its pension structure, the Board works closely with a troubled fund to keep it focused on problems and to help find solutions. Some of the systems that the board has worked with affect a large membership and involve billions of dollars, as shown in the table, *Selected Pension Systems Assisted by the Pension Review Board*.

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The Board works with trouble funds to help find solutions.

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<b>Selected Pension Systems Assisted by the Pension Review Board</b>			
<b>Year(s) of Review</b>	<b>Pension Fund</b>	<b>Pension Assets at Time of Review</b>	<b>Total Membership at Time of Review (Active and Retired)</b>
2000*	El Paso Policemen's Pension Fund	\$284.2 million	1,582
2000*	El Paso Firemen's Pension Fund	\$169.7 million	1,073
1996 - 1999	Dallas Employees Retirement Fund	\$1.8 billion	12,705
1991	Houston Municipal Employees	\$552.0 million	16,675

\* The El Paso funds continue to be under study at the time of this report. They were also reviewed in 1992.

- The agency serves a useful function as an independent source of information in preparing actuarial impact statements for the Legislature, according to the offices of legislative members currently serving on the agency's Board.<sup>2</sup> The agency produced 154 actuarial impact statements for the 76th Legislature in 1999, and 215 actuarial impact statements for the 75th Legislature in 1997.

**Need for Agency Structure: No substantial benefits would result from transferring the Board's functions to another agency.**

- Having public pension oversight responsibilities performed by a separate board works well in Texas. First, the Board is the only state agency with direct oversight responsibilities for public pension systems. Second, the Legislature has designed the agency to carry out its oversight responsibilities efficiently. The agency's independence as a free-standing, executive branch entity strengthens its ability to give impartial advice on legislation and public pension issues. In addition, the agency's Board provides a balanced perspective that contributes to carrying out its functions. This balance stems from the nine-member Board's make-up, which represents financial, actuarial, pension system, and legislative expertise.
- The Legislature previously has demonstrated an interest in continuing public pension oversight functions in a separate agency. In 1991, the Legislature voted to continue the Pension Review Board at the end of its first Sunset review.

**Comparison: Various other states also oversee the operation of their public pension systems, which adds weight to the need for these oversight functions.**

- The State of Minnesota's Legislative Commission on Pensions and Retirement reports that 22 state pension commissions exist

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As an independent entity, the Board can give impartial advice on legislation and public pension issues.

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nationwide.<sup>3</sup> Other states perform the oversight functions primarily through agencies like the Board, legislative committees, or agencies with fiscal responsibilities, such as a state controller's office.<sup>4</sup> States using an independent agency like the Pension Review Board include Massachusetts, Ohio, Oklahoma, and Pennsylvania.<sup>5</sup>

## Recommendation

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### Change in Statute

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#### 3.1 Continue the State Pension Review Board for 12 years.

### Impact

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This recommendation would continue the State Pension Review Board as an independent agency, responsible for monitoring and providing technical assistance to public pension systems, as well as serving the Legislature through actuarial analysis of pension-related legislation.

### Fiscal Implication

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If the Legislature continues the current functions and staffing of the Board, the agency's operations would require continuing its annual appropriation of about \$300,000.

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<sup>1</sup> Sunset Advisory Commission, *Staff Evaluation, State Pension Review Board* (Austin, Tx., November 1990), p. 9.

<sup>2</sup> Interview with Michael Kelley, Legislative Assistant to Senator John Whitmire, Texas Senate, Austin, Texas, February 18, 2000; and telephone interview with Representative Barry Telford, Texas House of Representatives, Austin, Texas, April 3, 2000.

<sup>3</sup> Legislative Commission on Pensions and Retirement, *Role and Function*. Online. Available: <http://www.commissions.leg.state.mn.us/lcpr/role.htm>. Accessed: April 4, 2000.

<sup>4</sup> State Pension Review Board, *Survey of State Oversight of Public Pensions* (Austin, Tx., November 1999), p. 1.

<sup>5</sup> Telephone interviews with Glenn Kacic, Staff Attorney, Ohio Retirement Study Council, March 10, 2000; Ruthie Chicoine, Administrator, Oklahoma State Pension Commission, March 10, 2000; James Lamenzo, Actuary, and Barbara Phillips, Legal Counsel, Massachusetts Public Employee Retirement Administration Commission, March 14, 2000; and Peter Nelson, Research Associate, Pennsylvania Public Employee Retirement Commission, March 16, 2000.

## **ACROSS-THE-BOARD RECOMMENDATIONS**

<b>State Pension Review Board</b>	
<b>Recommendations</b>	<b>Across-the-Board Provisions</b>
	<b>A. GENERAL</b>
Not Applied	1. Require at least one-third public membership on state agency policymaking bodies.
Already in Statute	2. Require specific provisions relating to conflicts of interest.
Update	3. Require that appointment to the policymaking body be made without regard to the appointee's race, color, disability, sex, religion, age, or national origin.
Apply	4. Provide for the Governor to designate the presiding officer of a state agency's policymaking body.
Update	5. Specify grounds for removal of a member of the policymaking body.
Update	6. Require that information on standards of conduct be provided to members of policymaking bodies and agency employees.
Apply	7. Require training for members of policymaking bodies.
Update	8. Require the agency's policymaking body to develop and implement policies that clearly separate the functions of the policymaking body and the agency staff.
Already in Statute	9. Provide for public testimony at meetings of the policymaking body.
Apply	10. Require information to be maintained on complaints.
Update	11. Require development of an equal employment opportunity policy.



## **AGENCY INFORMATION**

# Agency Information

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## AGENCY AT A GLANCE

Created by the Legislature in 1979, the State Pension Review Board monitors all state and local public retirement systems for actuarial soundness and compliance with state law. The agency provides the State of Texas with information and recommendations to help ensure that public retirement systems are financially sound, properly managed, distributing benefits equitably, and minimizing employee benefit tax expenditures while still providing for those employees. The Board also provides information to help educate system administrators, trustees, and members.

The Board's major functions include:

- monitoring public retirement systems to uncover potential financial or operational problems and to compare benefits, creditable service, financing, and administration among systems;
- reporting on problems that threaten the actuarial soundness of one or more public retirement systems or inhibit an equitable distribution of benefits;
- providing technical assistance and education on pension planning to public retirement systems; and
- developing information for actuarial impact statements on legislation affecting public retirement systems.

### Key Facts

- **Funding.** For fiscal year 1999, the Legislature appropriated the Board \$302,000, with \$242,000, or 80 percent, coming from General Revenue and the remaining \$60,000, or 20 percent, coming from voluntary contributions from public retirement systems.
- **Staffing.** In fiscal year 1999, the Board operated with a full-time staff of five, including an Executive Director, two professional staff, and two administrative staff.

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The agency helps ensure that public retirement systems are financially sound and properly managed.

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- **Monitoring.** The Board had oversight responsibility over 349 systems in fiscal year 1999. Eight operated statewide and 341 operated locally. The 349 systems:
  - represent a 37 percent increase in the number of systems from fiscal year 1990;
  - had combined assets of \$121 billion in fiscal year 1998, more than triple from fiscal year 1990;
  - served 1.2 million active employees in fiscal year 1998, up 46 percent from fiscal year 1990; and
  - served 278,000 annuitants in fiscal year 1998, up 38 percent from fiscal year 1990.
- **Special Reports.** The Board has conducted 12 actuarial studies since 1984. The Board has published reports on timely pension-related issues such as *Written Investment Policies for Public Pension Funds*, and *Guidelines for Actuarial Soundness*.
- **Technical Assistance and Education.** An average of 100 pension trustees and others attend the Board's public pension seminars, which cover major topics that affect public retirement systems.
- **Legislative Support.** During the 76th Legislature, the Board tracked 149 bills and companions affecting public retirement systems, and prepared 154 formal impact statements.

#### On the Internet

Information about the Pension Review Board including basic information about public pension systems and Board guidelines and other special reports is available on the Internet at [www.ers.state.tx.us/prb](http://www.ers.state.tx.us/prb).

## ORGANIZATION

### Governing Body

The State Pension Review Board consists of nine members who serve staggered six-year terms. The Governor appoints seven members who must satisfy the following statutory requirements:

- three members must have experience in securities investment, pension administration, or pension law, but not be members or retirees of a public retirement system;
- one member must be an actuary;
- one member must have experience in governmental finance;
- one member must be an active member of a public retirement system; and

- one member must be receiving retirement benefits from a public retirement system.

The two remaining members are legislators - a Senator, appointed by the Lieutenant Governor, and a Representative, appointed by the Speaker of the House. The Board elects its presiding officers. The chart, *State Pension Review Board Members*, lists the current Board members and their terms, the statutory qualifications for membership, and cities of residence.

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The Board has two legislative members, appointed from the Senate by the Lieutenant Governor and from the House by the Speaker.

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<b>State Pension Review Board Members</b>			
<b>Name</b>	<b>Term</b>	<b>Representation</b>	<b>Residence</b>
Craig S. Goralski, Sr. (Chair)	1997-2001	Active Public Retirement System Member	Houston
Rafael A. Cantu	1999-2005	Retired Public Retirement System Member	Mission
Leonard R. Cargill, Jr.	1996-2001	Actuary	Houston
William Mahomes, Jr.	1997-2003	Pension Law	Dallas
Frederick E. Rowe, Jr.	1997-2003	Securities Investment	Dallas
Shari O. Shivers (Vice Chair)	1997-2003	Governmental Finance	Austin
Rep. Barry B. Telford	1995-1999	State Representative	DeKalb
Sen. John H. Whitmire	1996-1999	State Senator	Houston
Jeanie Wyatt, CPA	1998-2001	Securities Investment	San Antonio

## Staff

In fiscal year 1999, the Board operated with five full-time employees, the same staffing level it has had since fiscal year 1983. The agency's staff includes an Executive Director, two program administrators, a chief accountant, and an executive assistant. Because the staff size is so small, no analysis was prepared comparing the agency's workforce composition to the overall civilian labor force.

## FUNDING

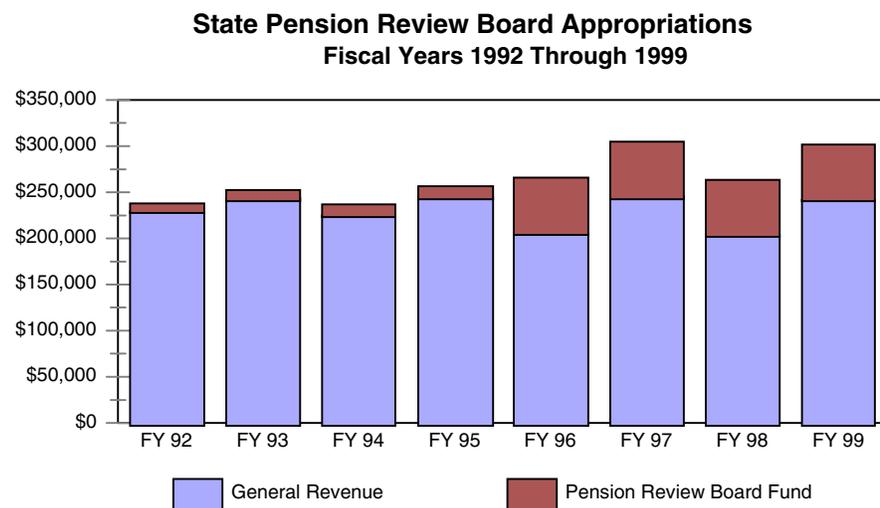
The Board is funded from General Revenue and the State Pension Review Board Fund 662 (the Board fund), which relies on voluntary contributions from the state's public retirement systems.

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The Board receives 80 percent of its funding from General Revenue with the rest coming from voluntary contributions from public retirement systems.

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In the period from fiscal year 1992 through fiscal year 1999, the Board's General Revenue appropriation remained relatively constant, varying from a low of about \$200,000 in fiscal year 1998 to a high of about \$245,000 in fiscal year 1997. Appropriations from the Board fund have been more volatile, ranging from \$9,000 in fiscal year 1992 to \$60,000 in fiscal year 1999. The chart, *State Pension Review Board Appropriations*, shows the trend in the agency's appropriations from fiscal years 1992 through 1999, and shows the source of the agency's funding.



Fiscal year 1999 total appropriations were \$302,000, with 80 percent coming from General Revenue and 20 percent coming from the Board fund.

Expenditures from these appropriations totaled \$294,000, with almost a quarter of these expenditures for monitoring pension systems. The remaining 75 percent of expenditures were for legislative support, technical assistance, and special studies functions. The Board paid \$53,000 in consulting fees for its contract actuary.

The Board's use of Historically Underutilized Businesses in purchasing goods and services can be seen in Appendix A. The Appendix shows that the Board exceeded the state goal in the commodities category in fiscal year 1999, but fell short in the professional services and other services categories. Most small agencies with limited budgets typically have less opportunity than bigger agencies to diversify their purchases among multiple vendors.

## AGENCY OPERATIONS

The Board's operations divide into four functions: ongoing monitoring, special reports, technical assistance and education, and legislative support.

### Ongoing Monitoring

The Board continuously monitors public retirement systems in the state to identify and study potential problems. The bulk of monitoring activity takes place during the interim between legislative sessions.

In fiscal year 1999, the Board had 349 registered public retirement systems, which in fiscal year 1998 had combined assets of more than \$121 billion and served 1.2 million active employees and 222,000 annuitants. The chart, *Public Pension Systems by Category*, provides a breakdown of the systems, and shows an example of a system in each category.

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The Board monitors  
public retirement  
systems with assets  
of \$121 billion and  
1.2 million  
employees.

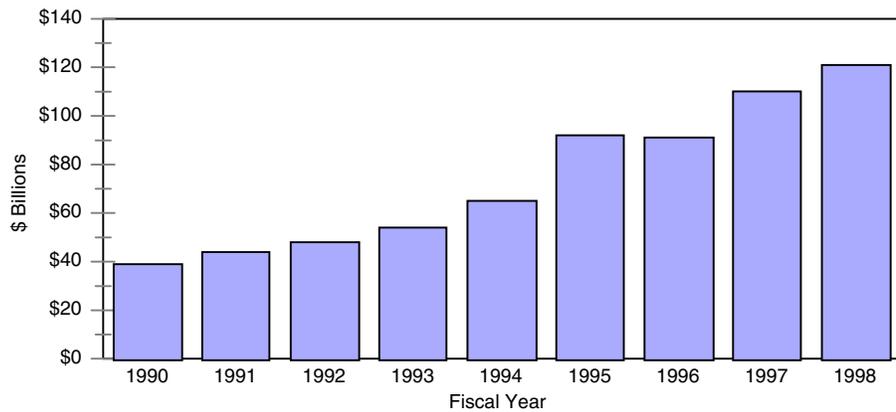
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<b>Public Pension Systems by Category Fiscal Year 1999</b>		
<b>Category</b>	<b>Example</b>	<b>Number</b>
Volunteer Fire Fighters	Bay City Firemen's Relief Retirement Fund	110
Districts	Bastrop County Appraisal District Pension Plan and Trust	88
Paid Fire Fighters	Amarillo Firemen's Relief and Retirement Fund	39
Authorities	Brazos River Authority Retirement Plan	19
Statewide	Teacher Retirement System	8
Supplemental <sup>1</sup>	Irving Supplemental Benefit Plan	5
Non-uniformed Municipal Employees	Austin Employee's Retirement Fund	5
Paid and Volunteer Fire Departments	Conroe Fire Fighters' Retirement Fund	4
Police	El Paso Police Pension Fund	4
Combined Fire and Police	San Antonio Fire and Police Pension Fund	3
All Municipal Employees	Fort Worth Employees Retirement Fund	2
Statewide Supplemental	Law Enforcement and Custodial Officer Supplemental Retirement Fund	1
All Other	Abilene Regional MHMR Center Retirement Plan	61

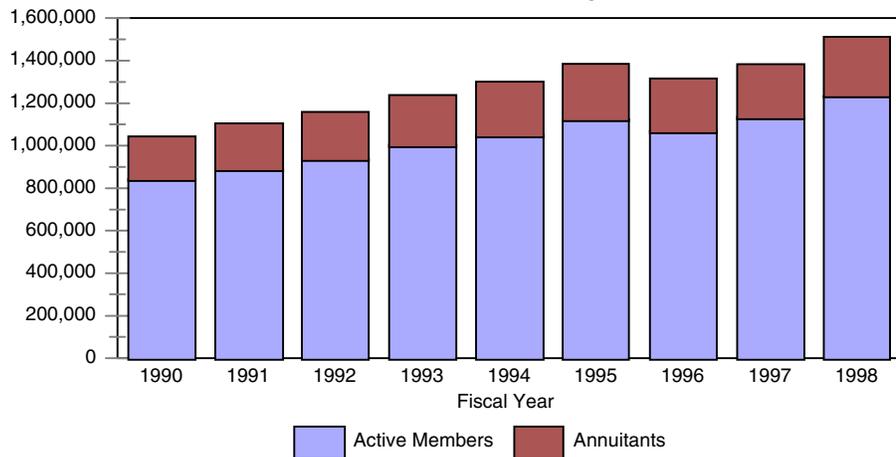
The number of public retirement systems has increased by almost 100 in the 1990s.

Between fiscal year 1990 and fiscal year 1999, the number of systems registered with the Board has increased, as have pension assets, members, and annuitants. This growth may be seen in the charts *Texas Public Retirement Systems, Total Assets* and *Total Membership*. The number of systems grew from 254 to 349, an increase of 37 percent. Combined assets more than tripled for the period between fiscal year 1990 and fiscal year 1998, from \$39 billion to \$121 billion, while active members increased by one half from 843,000 to 1.2 million, and annuitants grew by 38 percent, from 201,000 to 278,000.

**Texas Public Retirement Systems  
Total Assets**



**Texas Public Retirement Systems  
Total Membership**



The Board collects and analyzes financial and actuarial data submitted by the public retirement systems. Within 90 days of creation, each public retirement system must register with the Board and provide basic descriptive information about the system. Other information that the Board receives for monitoring systems includes:

- a summary description of the pension plan,
- an annual membership report,
- an annual financial report,
- an actuarial valuation (at least once every three years),
- summarized information as provided to members, and
- a written investment policy.

Using this data, the Board annually monitors about 250 of the 349 registered retirement systems to assure that systems are complying with reporting requirements and are actuarially or financially sound. Systems not monitored in one year receive attention in a subsequent year.

If a system fails to meet its state reporting requirements, the Board has a range of actions that it can take. The most common action is to place a system on the agency's meeting agenda for formal discussion. The Board has the authority to issue subpoenas, although it has issued only one in its history. The Board has in the past referred noncompliant systems to the Attorney General. Noncompliant systems are listed in the Board's newsletter.

If monitoring indicates that a public retirement system has potential financial problems, the Board contacts the system's Board of Trustees and advises that the law requires the system to notify each active member and annuitant of the financial problem. The system must provide members with a summary of the financial condition of the system. The Board places these systems on a "watch list" and closely monitors subsequent actuarial valuations for indications of improvement. The Board asks the systems to notify the agency of any corrective changes that would alleviate funding problems. The Board has placed 13 public retirement systems on the watch list over the last 10 years.

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If the Board detects potential financial problems, it notifies the system's Board of Trustees and monitors actuarial valuations for signs of improvement.

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### Special Reports

The Board conducts special reports and studies to identify problems and to educate the public pension community about current issues that affect them. Reports may include special actuarial studies, plan comparisons, surveys, and investment studies.

Occasionally, the Board may approve a special actuarial study of systems if its staff identifies situations or problems that require more attention. The Board contracts with an outside actuary to perform the actuarial review of a system. Once completed, the system's trustees, the contract actuary, and Board meet to present recommendations to correct potential problems.

The Board has conducted 12 actuarial studies since 1984. Studies of the Judicial Retirement System and the statutory plans in Houston and San Antonio resulted in remedial actions. The agency has not conducted an actuarial review since 1996 because of funding constraints. The agency has come to rely more on the voluntary efforts of its actuary Board member to address the Board's concerns about systems' actuarial soundness.

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The agency has not conducted an actuarial review of a troubled public retirement system since 1996 because of funding constraints.

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The Board also publishes data and reports on topical issues related to public retirement systems. Some of the topics have included deferred retirement option plans, guidelines for actuarial soundness, investment policies, and early retirement incentives. The Board has also compiled lists of registered systems as well as comparative information on major municipal retirement systems, statewide retirement systems, and statutory retirement systems.<sup>2</sup>

### Technical Assistance and Education

The Board directly assists public retirement systems and other interested persons with information and technical advice. Staff handle most requests for information by telephone, but satisfy some of the requests through information that is posted on the agency's Web site. In fiscal year 1998, the Board produced written responses to 197 requests for information. This figure increased 81 percent to 356 in fiscal year 1999, due to the activity associated with the legislative session.

Since 1991, the Board has sponsored public pension seminars in Austin to educate system administrators and trustees. The seminars feature

speakers from the public and private sectors and focus on current issues that affect public retirement systems. Attendance at the seminars averages 100.

### Legislative Support

The Legislature has created 17 public retirement systems, including seven statewide systems and 10 municipal systems. During the legislative session, the Legislature relies on the Board to evaluate the actuarial impact of proposed pension-related legislation that affects these statutory systems. The actuary for the affected system conducts an initial analysis on a bill, and the Board's contracted consulting actuary reviews this analysis to assure that the work is accurate and in accordance with actuarial practices. The Board's legislative committee then examines the actuarial analysis and review, and drafts an impact statement summarizing the actuarial and policy implications of the proposed legislation. The Board updates this information when modifications to proposed legislation change actuarial effects. The agency forwards these impact statements to the Legislative Budget Board, which attaches the statements to proposed legislation. The Board also provides the Legislature with reports on the cumulative effects of retirement legislation on state-sponsored systems. During the 76th Legislature, the Board tracked 149 bills and companions affecting public retirement systems. The agency prepared 154 formal impact statements.

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The Legislature relies on the Board to evaluate the actuarial impact of pension-related legislation affecting 17 statutory public retirement systems.

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<sup>1</sup> A supplemental public pension system supplements another public pension system administered by a particular jurisdiction. For example, the Law Enforcement and Custodial Officer Supplemental Retirement Fund is administered by the state's Employees Retirement System (ERS) and provides its members with benefits in addition to those received by other ERS members.

<sup>2</sup> The Board makes much of this information available on its Web site at [www.ers.state.tx.us/prb](http://www.ers.state.tx.us/prb).



# **APPENDICES**

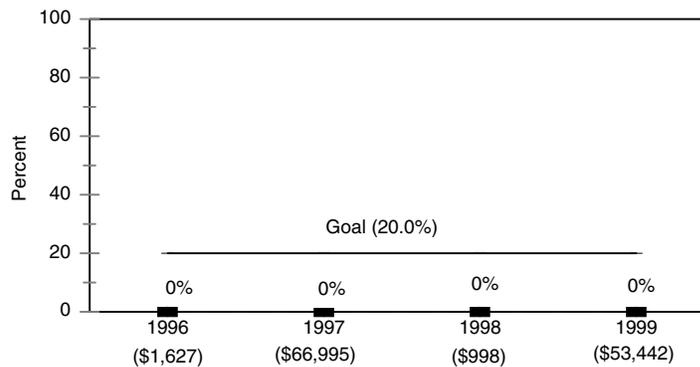
## Appendix A

### Historically Underutilized Businesses Statistics

#### 1996 to 1999

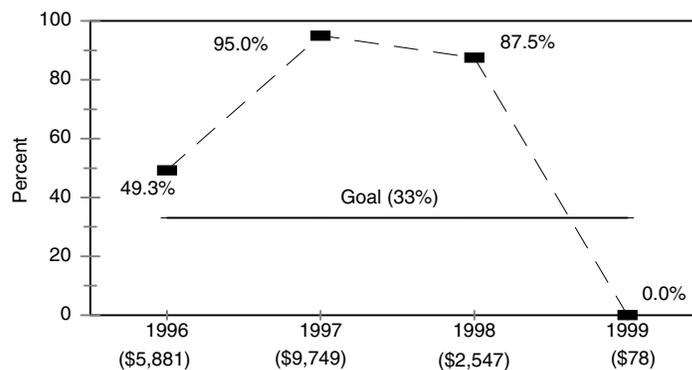
The Legislature has encouraged state agencies to use Historically Underutilized Businesses (HUBs) to promote full and equal opportunities for all businesses in state procurement. In accordance with the requirements of the Sunset Act,<sup>1</sup> the following material shows trend information for the agency's use of HUBs in purchasing goods and services. The agency maintains and reports this information under guidelines in the General Services Commission's enabling statute.<sup>2</sup> In the charts, the flat lines represent the goal for each purchasing category, as established by the General Services Commission. The dashed lines represent the agency's actual spending percentages in each purchasing category from 1996 to 1999. Finally, the number in parentheses under each year shows the total amount the agency spent in each purchasing category.

#### Professional Services

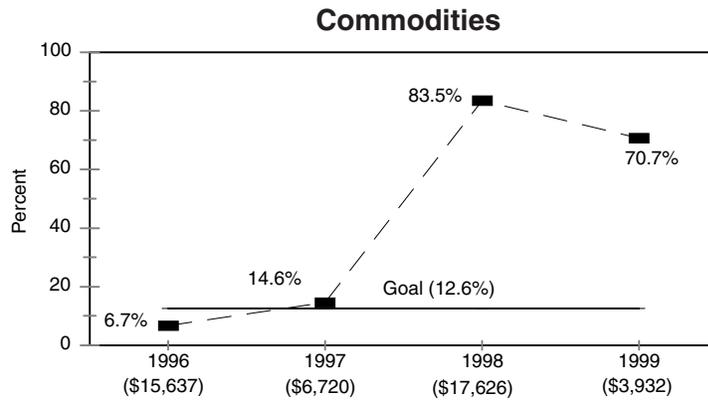


The agency has fallen short of the State goal each year. The agency's expenditures for professional services are for a single contract for actuarial services for reviewing pension legislation in session years.

#### Other Services



In 1996 and 1998, the agency exceeded the State goal. In 1999, however, the agency almost eliminated its expenditures in this category and did not meet the State goal.



With the exception of 1996, the agency has exceeded the State goal for the purchasing of commodities.

<sup>1</sup> Tex. Govt. Code ch. 325, sec. 325.011(9)(B) (Vernon 1999).

<sup>2</sup> Tex. Govt. Code ch. 2161 (Vernon 1999). Some provisions were formerly required by rider in the General Appropriations Act.

## **Appendix B**

### **Staff Review Activities**

The Sunset staff engaged in the following activities during the review of the Board.

- Worked extensively with Board staff.
- Met with various Board members.
- Attended public meetings of the Board and reviewed past minutes of meetings.
- Attended hearings of the Texas House of Representatives Committee on Pension and Investments, and its Subcommittee on Local Retirement Systems.
- Worked with the Legislative Budget Board, Legislative Council, and legislators' staffs.
- Interviewed officials from the Employees Retirement System of Texas, General Services Commission, Office of Fire Fighters' Pension Commissioner, State Comptroller, and Teacher Retirement System of Texas.
- Reviewed reports by the State Auditor's Office.
- Conducted interviews and solicited written comments from state and local interest groups regarding their ideas and opinions related to state oversight of public retirement systems.
- Researched the structure of agencies in other states with common functions.
- Reviewed agency documents and reports, state statutes, legislative reports, Attorney General opinions, previous legislation, literature on public retirement systems, other states' information, and information available on the Internet.



## STATE PENSION REVIEW BOARD

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