Does Texas' Teacher Pension Reform (SB 12) Meet Objectives for Good Pension Reform?

Objective	Pre-Reform	SB 12
Keeping Promises *Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees*	NO	SOME
Retirement Security *Provide retirement security for all current and future employees*	NO	SOME
Predictability *Stabilize contribution rates for the long-term*	SOME	SOME
Risk Reduction *Reduce pension system exposure to financial risk and market volatility*	SOME	SOME
Affordability *Reduce long-term costs for employers/taxpayers and employees*	SOME	SOME With SLIGHT IMPROVEMENT
Attractive Benefits *Ensure the ability to recruit 21st Century employees*	FOR SOME	FOR SOME With SLIGHT IMPROVEMENT
Good Governance *Adopt best practices for board organization, investment management, and financial reporting*	YES	YES

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Objective	Pre-Reform	SB 12
Keeping Promises	TRS does not have all the funds it will need to pay promised benefits.	Increases annual pension contributions coming from the state, school districts, and teachers. The bill upholds promises made to teachers by improving TRS solvency without cutting any earned pension benefits for current hires.
Retirement Security	TRS is on a path of growing pension debt, meaning its members' retirement security is at risk.	The bill uses increased contributions to steer TRS back to a path of solvency, thus improving the retirement security of teachers. But the success of the reform relies heavily on achieving investment returns that match the system's expectations.
Predictability	Rates are predictable in the short-term, but not in the long-run.	Contribution rates continue to dependent on a lofty assumed rate of return, meaning long-term rates are not as predictable as they would be if more conservative assumptions were used. Future necessary increases in contributions are still likely to rise if markets perform below expectations.
Risk Reduction	The current assumed return has only about a 50% probability of success.	The reform does not address the plan's risk. The pension plan will continue to be exposed to market volatility and TRS' 7.25% assumed rate of return, which has just a 50% probability of success.
Affordability	TRS unfunded liabilities generate major long-term costs through interest on the pension debt.	SB 12 will generate additional contributions, which will reduce TRS unfunded liabilities. The immediate increase in costs will help to reduce long-term overall costs by reducing pension debt, but the reform falls short in correcting the problems that caused the current funding problems.
Attractive Benefits	The current amortization schedule of pension debt restricts COLAs for members	The new contribution schedule puts TRS on track to pay off its unfunded liabilities within 31 years, improving the chance for retired teachers to be able to receive COLAs in the future. The reform, however, does not address attraction or retention of teachers by providing more plan options for a wider variety of employees.
Good Governance	TRS generally is a well operated enterprise delivering high quality services	SB 12 does not address the plan's governing structure.

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