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Moody's: Texas Pension Costs Rising for State and Its Local Governments.

New York, January 21, 2015 — The State of Texas (Aaa stable) and some of its local governments face rising pensions costs due to a history of contributions below actuarial requirements, Moody's Investors Service says in a new report, "Cost Deferrals Drive Rising Pension Challenges for Texas and Some Locals."

While the state has a broad ability to tackle pension funding challenges, many local government pension plans are subject to state constitutional protection.

"Most Texas local governments face greater legal constraints and procedural hurdles to pension reform, while the state has substantially more legal flexibility to change and adjust benefits to its plans," said the report's author and Moody's Assistant Vice President — Analyst, Thomas Aaron.

Texas participates in four single-employer plans, with the majority of costs associated with the Employee Retirement System (ERS), and the Teachers Retirement System (TRS). In order to address an ongoing funding challenge, the ERS requested a 59% increase in the state's contribution rate for the fiscal 2016-17 biennium for that system alone, a cost increase of nearly \$540 million across all of the state's funds.

Local governments can have one or more single-employer plans, and may also participate in either the Texas Municipal Retirement System (TMRS), or the Texas County and District Retirement System (TCDRS). The state's largest cities — Houston, Dallas, San Antonio, and Austin - face varying levels of projected pension cost and liability growth, driven in part by divergent historical contributions compared to plan funding requirements.

While state statute governs TRS, TMS and TCDRS, the control of benefits and contributions for local single-employer plans varies. Some local single-employer plans are solely governed solely by state statute, while in other cases state law delegates authority to local control. However, local control does not necessarily translate to unilateral authority to enact benefit changes for local governments, because many share authority over their pension systems with the plan boards of trustees.

In August 2015, the City of Fort Worth (Aa1 stable) will head to federal court to settle a disagreement regarding whether its reduction to the future pension benefits of current employees violates state constitutional protections.

The report can accessed at:

https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1002263