I. My Analysis for the May 22 Board Meeting

Stuart Greenfield, Ph.D.

When I took Latin in high school, we read part of Julius Caesar's Gallic Wars. The opening sentence was, "All Gaul is divided into three parts," and so will this analysis. The three parts are a benefits increase, resolving issues with health benefits, and investment performance.

Benefit Increase or Lack Thereof

In 2013, the 83rd Legislature, SB 1459, was enacted to provide retirees who have been retired twenty years or more a 3% increase up to $100 per month in their monthly annuity. This boost, while welcome, will make up very little of what retirees have lost in purchasing power this century. As you'll note from the table below, the average $52/month increase in the annuity check of those retirees with over twenty years of retirement would cover about four percent of the $1200 per month decline in twenty-plus year retirees purchasing power.

Table 1: Loss in Purchasing Power of Retirement Annuity for Those Retired 20 Years or More

Retirement Calendar Year	Total Retirements Per Year	Average Annual Annuity Payment	Average Monthly Annuity Increase 2025	Average Age In Years (rounded)	Loss in Purchasing Power	Average Monthly Increase to Restore Parity
2005	3,078	21,272	$53	74	56.0%	$988
2004	2,928	21,816	$55	74	61.3%	$1,110
2003	5,017	22,003	$55	77	65.6%	$1,197
2002	2,887	23,350	#58	77	69.4%	$1,344
2001	2,087	21,207	$53	78	72.1%	$1,263
2000	2,052	20,522	$51	79	77.0%	$1,299
Prior-2000	9,109	23,439	$59	83	77.0%	$1,218
Total	108,788					$1,203

Bringing twenty-year retirees back to parity would require $2.2 billion in additional funding. This funding requirement is around 12.0 percent of the Certification Balance in the current Certification Revenue Estimate (CRE). Focusing on retirees with twenty years or more of retirement ignores the 79,000 other retired state employees.

So, let's look at a couple of alternative policies that could give all retired state employees a benefit increase similar to those that TRS retirees received following the passage of SB 10, which provided retired teachers with a COLA and teachers over seventy years of age a supplemental check.

Table 2 shows the number of retired state employees by year of retirement and the average annuity for all ERS retirees through 2023. A 13th check was last issued in 2001. The 13th check is determined by dividing the number of years retired by 12 and multiplying by one's monthly annuity. The maximum amount a retiree can receive is their monthly annuity. Providing a 13th check would require an appropriation of almost $165 million.

Table 2: Alternative Supplements for ERS Retirees

Retirement Calendar Year	Total Retirements Per Year	Average Annual Annuity Payment	Average Age In Years (rounded)	13th Check	Years retired	TRS Payment	TRS like Payment
2023	3,892	30,887	60	1,158,681	1	1,000	3,892,000
2022	4,594	31,243	61	2,035,977	2	1,000	4,594,000
2021	5,402	30,231	61	3,293,256	3	1,000	5,402,000
2020	4,692	29,843	62	4,593,340	4	1,000	4,692,000
2019	5,229	29,345	63	5,559,187	5	2,500	13,072,500
2018	5,541	29,496	64	6,336,703	6	2,500	13,852,500
2017	5,456	27,079	65	6,630,511	7	2,500	13,640,000
2016	5,156	27,755	66	8,073,612	8	2,500	12,890,000
2015	5,037	26,249	67	8,726,225	9	2,500	12,592,500
2014	5,236	25,416	67	8,646,776	10	2,500	13,090,000
2013	5,319	24,563	68	8,897,595	11	2,500	13,297,500
2012	4,899	25,275	69	7,967,862	12	2,500	12,247,500
2011	4,742	25,100	70	9,918,826	13	5,000	23,710,000
2010	3,783	24,153	71	7,614,350	14	5,000	18,915,000
2009	3,423	23,769	71	6,779,985	15	5,000	17,115,000
2008	3,578	24,032	72	7,165,664	16	5,000	17,890,000
2007	3,233	22,790	73	6,140,130	17	5,000	16,165,000
2006	2,418	20,884	74	4,208,122	18	5,000	12,090,000
2005	3,078	21,272	74	5,456,342	19	5,000	15,390,000
2004	2,928	21,816	74	5,323,043	20	5,000	14,640,000
2003	5,017	22,003	77	9,198,937	21	7,500	37,627,500
2002	2,887	23,350	77	5,617,652	22	7,500	21,652,500
2001	2,087	21,207	78	3,688,259	23	7,500	15,652,500
2000	2,052	20,522	79	3,509,289	24	7,500	15,390,000
1999 & Before	9,109	23,439	83	17,791,843	**25**	7,500	68,317,500
Total	**108,788**			**164,332,165**			**413,925,500**

Providing a supplemental check similar to what retired teachers over 70 received under SB 10 but provided to all ERS retirees would require an appropriation 2.5x that of the 13th check. However, this supplement would give all retirees more than a 13th check.

Raising all retirees' annuities to account for Inflation since they retired would require almost half the certification balance ($8.5 billion). I would very much like our actuaries to review my calculations and find I've overstated the outlays by several orders of magnitude.

If we haven't done so, we might consider a study similar to TRS's proposal to the legislature on the benefits that retired teachers provide to their districts.
https://www.texasaft.org/wp-content/uploads/2024/05/White-Paper-3.pdf

Providing a benefit supplement to ERS retirees would require the 89th Legislature to appropriate funds. Unfortunately, neither the agency nor the Board can lobby the legislature to obtain an appropriation to provide the 109,000 retirees with a benefit increase. So, if the agency cannot lobby, how can we achieve a benefit increase? A tool provided me with a list of ways to achieve a benefit. That tool is Perplexity, an AI bot similar to Chat GPT. I asked Perplexity, "**if one cannot lobby a legislature what are ways to influence legislation?"** It provided eight ways to influence the legislative process.

II. Issues with Health Benefits, especially Express Scripts

I have received several emails dealing with issues members have had and continue to have with Express Scripts (ES). Blaise, Robin, and Debbie have effectively addressed these issues, but several remain. These issues include pre-authorization, drugs on the previous formulary but not on the current one, suggesting alternative medicines, and pricing to members.

While Blaise and the staff have discussed these issues with ES, I suggest the Board consider an executive meeting with ES, including Blaise and relevant agency staff. This meeting would show ES that this is of significant concern to ERS. I hope it will motivate ES to implement corrective practices. As the Board approved the contract with ES, I assume it will take our approval to consider alternatives.

Providing ERS charge card for use with Austin Radiological Associates.
Creating a medical provider – ERS cooperation group.

III. My Investment Performance Analysis

Stuart Greenfield, Ph.D.

In my introductory lecture to my economics students, there are two quotes that I hope you also find informative: "The longer you can look back, the farther you can look forward." Winston Churchill and "You are entitled to your opinion. But you are not entitled to your own facts."— **Daniel Patrick Moynihan. So, let's look back at the facts about the ERS trust fund since 1989.**

Before each Board Meeting, an "ERS Trust Performance" document is sent to the Board and IAC members. According to the recently released end-of-January report, the overall performance of the trust fund exceeded the "policy benchmark," which is the weighted average of the component financial assets held by the trust fund.

Table : Trust Fund Performance April 2024

ERS Trust investments at month end: $38.2B

Investment returns (periods ≥1 year are annualized)			
Period	ERS Trust	Policy Benchmark	Trust excess return in bps
April 2024	-1.20%	-1.71%	+51
FY24 to date	6.54%	5.10%	+144
Trailing 1 Year	9.33%	7.78%	+155
Trailing 3 Years	6.41%	4.34%	+206
Trailing 5 Years	8.66%	6.72%	+195

Even with a rate of return (RoR) that exceeds our policy benchmarks, the fund would probably still have an infinite unfunded liability without the supplements the Legislature has provided ERS over the last two sessions.

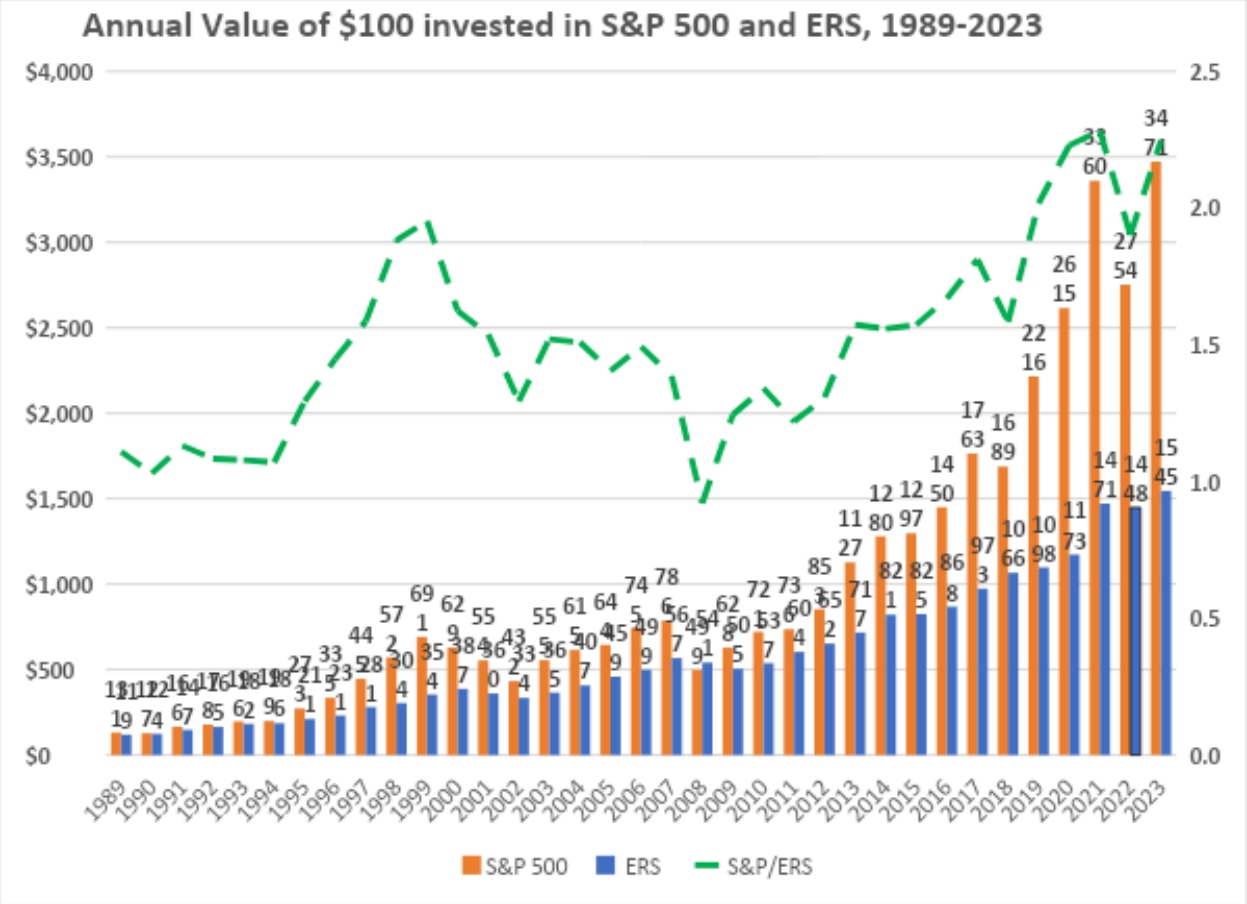
ERS spends over $100 million a year for investment advice, and as the table above shows, given the selected policy benchmarks, this outlay would appear to be justified. However, when I compared the above table w/ the returns for the S&P 500, the results were not as positive.

ERS Performance Relative to S&P 500

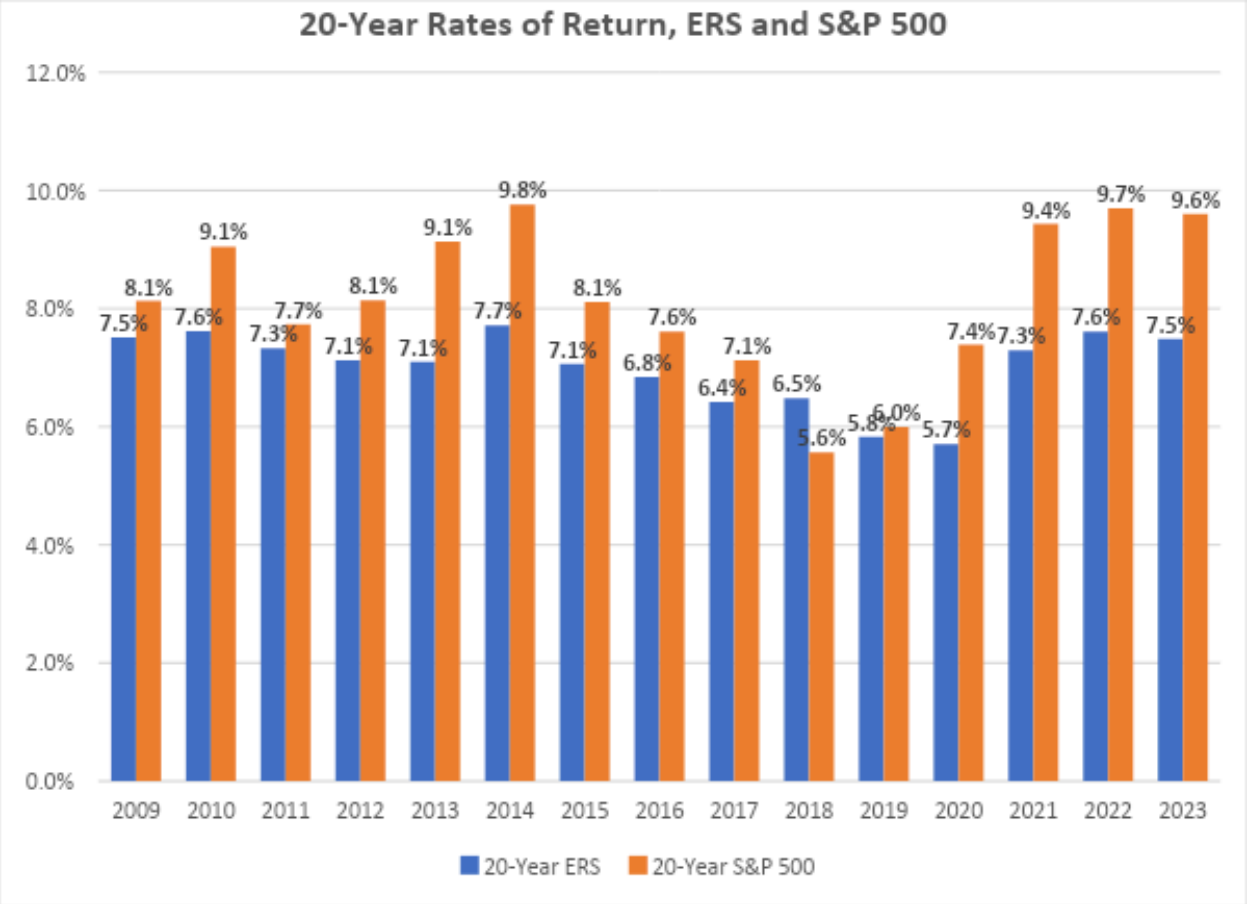
	ERS	Policy Benchmark	Trust Fund - Policy Benchmark, in bps	S&P 500	Trust Fund - S&P 500, in bps
1 Month	-1.20 %	-0.34%	+51	-4.16%	296
FY24 YtD	6.54%	5.10%	+144	5.57%	97
1 yr	9.33%	7.78%	+155	26.06%	-1673
3 yr	6.41%	4.34%	+206	9.89%	-348
5 yr	8.66%	6.72%	+195	15.50%	-684
10 yr	7.80%	6.80%	100	11.90%	-410

While the trust fund outperformed the Policy Benchmarks for every period, it underperformed the S&P 500 in each period of a year or more. The most critical differential is the ten-year difference, 410 bps. This increase would have resulted in a 49.5 percent increase in the trust fund's assets, which would have increased assets by almost $19.0 billion, 136 percent of the UAAL.

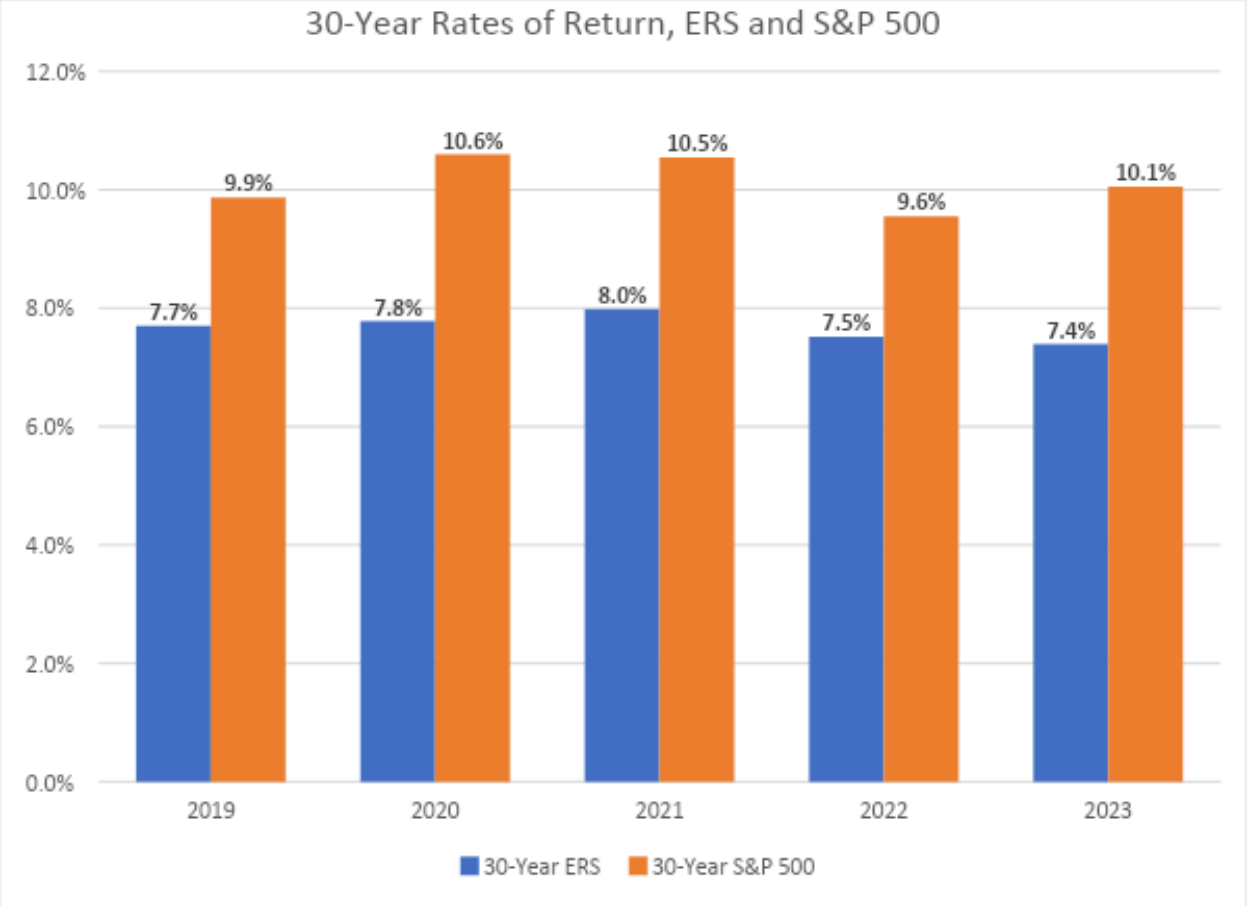
As shown in the graph below, had the trust fund just held an S&P 500 index fund since 1989, the asset value of the fund would have more than doubled.



I have now been retired for twenty-four years, so what has been the 20-year rate of return for the trust fund and the S&P 500? The table below shows that, except for 2018, the S&P 500 return has exceeded the trust fund return. For the last three twenty-year periods, the S&P 500 return has exceeded the trust fund return by 200 basis points.


20-Year Rates of Return, ERS and S&P 500
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
7.5%
8.1%
7.6%
9.1%
7.3%
7.7%
7.1%
8.1%
7.1%
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9.8%
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5.8%
6.0%
5.7%
7.4%
7.3%
9.4%
7.6%
9.7%
7.5%
9.6%
2009
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2016
2017
2018
2019
2020
2021
2022
2023
20-Year ERS
20-Year S&P 500

Comparing the rates of returns over 30 years shows the S&P 500 RoR exceeding the ERS returns by over 200 bps for each 30-year period.



From 1989 through 2023, the S&P 500 CAGR was 10.1 percent. The CAGR for ERS was 7.8 percent. Having a 2.3 percent increase for 34 years results in an increase of 116.7 percent in the overall rate of return.

Following Winston Churchill's quote above, I hope we will re-evaluate our investment policies so future retirees won't have to wait twenty years or more for a benefit increase.

Notes:

May Board Meeting

David's investment presentation and information from an article in Pensions&Investmnet motivated me to undertake a complementary analysis using more widely used investment return measures,

Vanguard Admiral fund,
https://investor.vanguard.com/investment-products/mutual-funds/profile/vfiax

S&P 500, SPDR S&P 500 ETF Trust (SPY) Performance History - Yahoo Finance

Motley Fool, Is an S&P 500 Index Fund Your Best Retirement Investment? (msn.com)

Retired teachers,
https://www.texasaft.org/policy/retirement/unpacking-the-88th-legislature-retired-educator-cola/

what are some successful examples of retirement benefit improvements in other states,
https://www.perplexity.ai/search/what-are-some-atFvtYV6SyuVF3HaTk8JJQ

explain alpha and beta in finance,
https://www.perplexity.ai/search/explain-alpha-and-z1ni0VuwQSq6SqwCLbPknA

If one cannot lobby, then
https://www.perplexity.ai/search/if-one-cannot-8qR0EkQhQ.usRH_vdfmlLQ