Testimony of Dan Doonan

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Thank you for the opportunity to submit written comments on House Bill (HB) 3. My name is Dan Doonan and I am the Executive Director of the National Institute on Retirement Security, a nonprofit, nonpartisan research organization based in Washington, DC. I'd like to highlight that NIRS does not conduct research on education or the various impacts of different types of schools. We do, however, conduct research on public pension systems, including pension plans for teachers, such as the Teacher Retirement System of Texas (TRS). My comments will focus on the potential impact to TRS from HB3.

For the benefit of your deliberations, I'd like to make a few key points to inform your policymaking debate:

- Prior testimony noted that if the total number of teachers in TRS continues to grow as projected, the plan would not be harmed.
- It is worth understanding that the allocation of pension costs could be impacted within Texas' schools if the move toward private education occurs more in some jurisdictions than others.
- Finally, the ultimate impact on TRS from HB3 would depend not just how widespread the adoption of private school options is, but how geographically dispersed the shift is toward private schooling.

Cost Sharing and Risk

Retirement benefits are earned by workers over the course of decades during a career, and then paid out over more decades. This makes retirement and pensions a long-term project compared to other financial endeavors.

Cost-sharing, multiemployer plans typically utilize future payroll as the base for funding these earned benefits if there is a gap between assets and plan liabilites.

The laws governing private-sector multiemployer plans recognize the impact of employers leaving the system and require departing employers to pay their share of accrued costs, which is commonly referred to as a withdrawal liability.

The change in HB3 would look different, as it wouldn't be public schools themselves choosing to leave the plan. Instead, it would be the drift of students and educators out of the public schools and the resulting shift in who is paying for the accrued liabilities that would have an impact. However, the math is the same if the potential decline in teacher payroll is viewed as a partial withdrawal.

These dynamics were laid out in the discussion in the Committee on Pensions, Investments and Financial Services hearing.

Beyond Financial Stability of TRS: The Allocation of Pension Costs

Beyond the broader question about the fiscal impacts on TRS, it is worth understanding that the allocation of pension costs among school districts and various communities in Texas could be impacted.

While NIRS does not study educational vouchers or charter schools at NIRS, I am aware that charter schools in Louisiana tend to be concentrated in and around New Orleans. These schools have an option to enroll their teachers in the teacher pension plan, but are not required to do so.

Given this, it is very likely that the percentage of future plan payroll from the New Orleans area was reduced by the charter school expansion. However, the legacy costs remained.

This means, to the extent that those charter schools did not participate in the Teachers Retirement System of Louisianna (TRSL), gains and losses for 1) existing unfunded liabilities, 2) future market risks, and 3) future assumption changes were being shifted when one part of a state moves more quickly toward privatization of education than other parts of the state.

As such, the taxpayers in this region likely contribute less toward unfunded liabilities in the pension plan if the charters did not participate in (TRSL). In addition, taxpayers in New Orleans would be partially shielded from future financial risks during investment market downturns, including the risks associated with the benefits earned by the retirees who worked there before the charter schools emerged. Similarly, they are partially shielded from any cost impact of raising or lowering the discount rate, i.e., the assumed rate of return on investments, or making other assumption changes in the future.

Future assumption changes could end up raising or lowering costs at various points in time, but the key point is that the impact of those changes could be spread differently across the state, unless adjustments are deliberately made.

This dynamic is likely to also impact the allocation of pension liabilities to the balance sheets of Texas' jurisdictions under GASB.

These difficulties that arise with these issues are discussed in an article “Charter and Traditional Public Schools Fight Over Money”, where both sides of this debate are presented. On the one hand, it seems unfair to charge a private (non-participating) school for a portion of past service costs, especially if they are not enrolling their staff in the plan. At the same time, it is the communities that pay these costs, so by not charging the new schools for a portion of past service costs, those costs are being transferred to citizens in other jurisdictions throughout the state.

Scale Matters

I am not confident that I know how much HB3 could move students from public schools to other schooling arrangements that do not enroll educators in TRS of Texas. If the change generated by HB3 is minimal, it is unlikely that these differences will be noticeable. However, if the change is more substantial, then it is possible that this issue could cause frustrations, particularly if there is a significant market downturn and some jurisdictions have minimized their share of payroll while still representing a larger share of future benefit payments.

Resources:

- NASRA, State Policies Governing Pension Plan Participation by Charter School Employees, https://www.nasra.org/files/Compiled%20Resources/charterschoolpolicies.pdf
- Charter and Traditional Public Schools Fight Over Money, The American Prospect, Rachel M. Cohen
- NPPC charter school report: https://publicpensions.org/wp-content/uploads/2017/10/Charter-School-Report-10.24-Final.pdf