

Retired State Employees Association
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**An Independent Association of
Retired State Employees**
Chartered by the State of Texas
in 1977

July 29, 2025

The Honorable Greg Abbott
Governor of Texas
State Capitol Building
Austin, Texas 78701

Dear Governor Abbott:

I write this letter requesting respectfully that you add to your call for the First Called Session of the 89th Legislature the item of a one-time supplemental annuity payment or "13th check" for all State of Texas retirees within the Employees Retirement System of Texas.

Summary

This request is made on behalf of the 125,832 (ERS data as of 8/31/24) state retirees who committed their careers in public service to the State of Texas and its citizens.

It is supported by the Board of Directors of the Retired State Employees Association whose singular focus is on the economic security, health and welfare of all current and future State of Texas retirees. This has been RSEA's mission since its founding in 1977 at the encouragement of the late-Senator A. M. Aikin, Jr.

Please allow this letter to serve as the basis for this request as a matter of both urgency and fairness, with the intention of making the case that it warrants special session consideration among the other priorities being considered.

We make this request with the knowledge that Acting State Comptroller Hancock has certified there are \$3.1 billion in funds available for general legislative appropriations.

Finally, we submit that legislation similar to HB 886 from the 89th Regular Session, authored by Representative Cody Vasut, would comport with the purpose of this special session item at a one-time cost of \$180 million. (See page four for a brief description of HB 886.)

The following background narrative and data are offered in support of this request.

TO CONTACT OUR OFFICE

Voice: (512) 451-0087 **Relay Texas:** (800) 735-2988 **Website:** www.rseaofTX.org



Recent Financial History of the ERS Pension Fund and Its Health

It is fair to say that, with your past support, the ERS main pension fund has been properly funded by the Legislature since 2021 and we appreciate that wholeheartedly.

It is also accurate to say that, prior to 2021, the pension fund was under-funded significantly by the Legislature during at least the previous 17 years – 2003 through 2020.

In fact, during those years, the ERS pension fund fell into the unfortunate status of being declared as actuarially-unsound (meaning projected not to become solvent within 31 years), and at one point was sufficiently in arrears that it potentially could “never,” the actuarial term is “infinity,” be able to meet its obligations.

It was in 2015 that then-newly-elected Comptroller Hegar warned the legislative leadership that the financial status of the fund had become sufficiently profound and conspicuous within the state’s financial portfolio that the state’s historically-stellar AAA bond rating was at risk of being down-graded by the national bond-rating agencies.

Fortunately, with legislative improvements beginning in 2021 (SB 321, 87th RS, Senator Huffman, Representative Bonnen), much progress has been made and the fund is now considered to be on an actuarially-sound path and is projected to be 100% solvent in the year 2046 – 21 years from now – including recent actions by the 89th Legislature in its recent Regular Session, again, all with your support.

At that future point 21 years from now, the six-member Board of Trustees of ERS, who oversees the ERS pension fund can be potentially – with income from: (1) prudent and healthy fund investments by the Board itself; plus, (2) required statutory payroll contributions from 144,707 active employees (ERS data as of 8/31/24); and, finally, plus (3) continuing biennial Legacy Payments (estimated to be \$1+ billion) from the Legislature – in a sufficiently good financial position, within its current statutory authority and with appropriate legislative support, to once again authorize periodic annuity adjustments for retirees based on trends in various cost of living factors, including inflation.

However, it is worth re-stating that, unless and until the pension fund becomes fully solvent, again now projected to be 2046, the ERS will not be able to commit to any periodic or meaningful adjustments in the annuity level for its retiree members. And, before that can happen, according to ERS Board’s best-practice policy, there must be sufficient balances in, and ongoing income coming into, the pension fund to cover (i.e., “pre-fund”) any such commitments, whether that be through a one-time supplemental annuity



payment or 13th check, or a permanent adjustment to each retiree's annuity, often styled as a cost-of-living adjustment, or COLA.

But, in spite of the positive, long-term prospects for future retirees expected to result from these favorable factors, current state retirees are left in somewhat of a "catch-22" type situation, as described below.

The Financial Picture from the Current Retiree Perspective

It is not only important to view this history from the pension fund's financial perspective, but also from the standpoint of the state retiree.

It was in 2001 -- 24 years ago -- that state retirees last saw a meaningful adjustment to their annuity by the Trustees of the Employees Retirement System, with legislative support led by then-Senator Armbrister.

During those ensuing 24 years when there was no annuity adjustment, state retirees lost 45 to 50% in their annuity's purchasing power. (ERS estimate)

Recently, as somewhat of a caveat or perhaps interim step, this past January 2025, based on state law passed in 2013 (SB 1459, 83rd RS, Senators Duncan and Watson, Representative Callegari), 12 years ago, the ERS pension fund was found to be healthy enough, based on a determination by ERS independent actuaries -- through years of careful investments and management by ERS and along with the new biennial Legacy Payments from the legislature beginning 2021, per SB 321 -- to afford a modest but permanent annuity adjustment pursuant to SB 1459 (codified as Texas Government Code, Section 814.604).

Specifically, the statute prescribed the adjustment as the lesser amount of 3% or \$100 a month for retirees who had been retired for at least 20 years as of December 31, 2024. The "as-of date" was finally determined by the Board based on the evaluation of the fund's status pursuant to Sec. 814.604, and the first recurring monthly payment to retirees was finally authorized for January 2025.

Since it was framed as a "cost of living adjustment," COLA, it now remains included in the ongoing monthly annuity payment to each qualifying retiree for the life of that retiree.



But, due to the 20-year retirement tenure limitation in the statute, only 23% (28,728 retirees) of the current retiree population was qualified and able to realize this limited adjustment to their monthly annuity. (ERS data)

As well, per the dollar limitations in the statute, the average monthly annuity increase per retiree was \$50.28, and 92.3% of those retirees deemed eligible received less than the \$100/month maximum. (ERS data)

For comparison, immediately prior to this January 2025 adjustment, as of 8/31/24, based on ERS data, the average annuity was \$22,285 annually or \$1,857 per month.

To be precise, the annual value of a "true 13th check" would be an 8.3% one-time supplement or boost to a 12-month annuity (i.e., the equivalent of 1 more month's paycheck divided by 12, thus, $1/12 = 8.33\%$).

It is fair to say that such a one-time supplement or 13th check providing an additional 8.3% for one year would not allow a retiree to fully recoup the 50% historical loss in purchase power, but it would definitely be a good start.

Thus occurs the "catch-22" situation for current retirees: Since 2046 is essentially 21 years away when the ERS can perhaps exercise its current statutory authority, along with the Board's "pre-fund policy," to make any future periodic adjustments in pension annuities, a special legislative appropriation, along with enabling legislation, is now the best and most immediate source of relief for current retirees.

There was at least one potential legislative mechanism to address this problem in the recently concluded Regular Session of the 89th Legislature.

HB 886 by Representative Cody Vasut would have provided a one-time supplemental payment or 13th check for each state retiree subject to a \$2,000 maximum cap per retiree. The LBB Fiscal Note estimated the one-time cost of this bill would be \$180 million in General Revenue funds.

HB 886 was reported favorably by the House Committee on Pensions, Investments, and Financial Services (Chair Stan Lambert). Moreover, HB 886 received overwhelming support by the full House of Representatives in its final passage on the House floor.



Again, for emphasis: While such a one-time supplemental annuity payment or a 13th check (8.3%) would not allow a retiree to fully recoup the 50% loss in purchase power during those 24 years, it would definitely be a good start toward overcoming the historical loss.

Conclusion

The Retired State Employees Association will remain vigilant in our pursuit of a secure retirement program for both current retirees as well as future retirees. It, along with the state insurance program, is a cornerstone of the valued employment benefits which attract literally thousands of individuals who dedicate their professional lives to public service on behalf of the people of Texas.

While the Legislature has made remarkable investments to put the ERS pension fund back on a strong path to long-term actuarial soundness and 100% solvency by 2046, the lingering effects of many previous years of chronic under-funding still remain and are being felt now, in the short-term, by 126,000 state retirees, especially those who have been retired for more than just a few years. Thus, an interim legislative solution is both warranted and imperative, in our respectful opinion.

We, therefore, respectfully ask that you add this item to your call for the special session so that legislation similar to HB 886 can be considered and passed by both chambers of the First Called Session of the 89th Legislature.

Governor Abbott, on a personal note, thank you very much for your own long-standing commitment to public service to the people of State of Texas.

Respectfully submitted,



William C. (Bill) Hamilton
President
Retired State Employees Association