



Myths vs. Facts

Myth: *ERB is running out of money and won't be able to pay my pension.*

Fact: ERB's investment portfolio totaled \$9.5 billion on June 30, 2011, and will be able to pay retiree pension for many decades to come.

Myth: *The ERB is trying to eliminate the Cost of Living Adjustment for retirees.*

Fact: Although many states' retirement plans are eliminating or drastically reducing their COLA for retirees, the ERB Board is committed to providing a COLA for its retirees.

Myth: *Few members will benefit from the proposed 10-year grandfather period.*

Fact: Our actuaries estimate that 10,000 members will benefit from the 10-year grandfather period. Of the 21,000 anticipated retirements in the next decade, approximately 2,500 (of those 10,000 members benefitting from the 10-year grandfather period) are projected to be younger than age 55 at retirement.

Myth: *The proposed 1.75% COLA will be a severe hardship for ERB's retirees.*

Fact: If the average ERB pension is approximately \$20,000 and the change in CPI is 2%, the COLA would be \$400. With the proposed change to an average of 1.75%, the COLA would be \$350 – a \$50 difference. The cumulative effect of these slight changes in retirees' COLA payments makes a significant improvement in the fund solvency for years to come.

Myth: *The Legislature-initiated contribution swap diverted much needed contributions from ERB.*

Fact: Although the increased contributions may be a hardship for some members, ERB is receiving the same amount of total contributions (20.30%), regardless of what amount is being paid by the employer or the employee.

Myth: *We can wait several years to address ERB's funding issues.*

Fact: The longer we wait to address ERB's actuarial situation, the more difficult the changes will need to be.

Myth: *ERB lost too much money in pay-to-play and other bad investments, and now members are being asked to bail out the fund.*

Fact: There have been many stories in the media about alleged pay-to-play investments that have cost ERB millions of dollars. The unfunded liability increased during the past decade because of a number of factors. These include two severe financial market declines, the dot com bubble of 2001 and the

catastrophic global financial meltdown of 2008. Additionally, there are a number of other contributing factors to the growth in the unfunded liability that include contributions being less than the Annual Required Contributions (ARC) as determined by our actuaries, earlier retirement by many members than expected and longer life expectancy for our retirees than projected.

The two investments most often associated with the pay-to-play charges are Vanderbilt, which had a \$40 million loss, and Austin Capital, which had a \$10 million loss. Together, they total \$50 million, which is a large sum. However, when put in the context of either ERB's total investment portfolio, \$9.5 billion as of June 30, 2011, or ERB's unfunded actuarial accrued liability, \$5.7 billion as of June 30, 2011, it's a relatively small proportion, much less than 1%.

Myth: *Overpayment of “retirees” last year is why members are being required to give up part of their benefits to prop up the plan.*

Fact: No retirees were overpaid; those who were overpaid were employees who terminated employment and refunded their ERB contributions or beneficiaries of deceased members or retirees. The amount of overpayment, \$1.7 million, represents approximately .0178% of the total fund at June 30, 2011. The recipients have repaid almost one-third of the overpaid amounts.

Much has been made in the press, both on television and in the newspapers, of the error made by ERB in the overpayment of interest on refunds of contributions. Unfortunately, these reports in the press have misstated a number of relevant facts, including who was actually paid and the impact of the overpayment amount to the fund, which was negligible. The ERB Board and staff continue to work to recover the remaining outstanding amounts.

Myth: *We could fix the unfunded actuarial accrued liability (UAAL) problem by switching to a Defined Contribution (DC) plan and let everyone choose their own investments.*

Fact: Switching to a DC plan doesn't make the UAAL go away. In fact, it will exacerbate the problem as no new contributions will be added to the fund. Historically, DC plans have provided their members with smaller pensions for the same amount of contributions. Defined Benefit (DB) Plans, such as the one administered by ERB, typically provides higher pensions because of superior investment returns, better diversification of investments, and better management of longevity risk.

