

The Fire Fighters' Pension Commissioner's Texas Statewide Emergency Services Personnel Retirement Fund for Fiscal Year 2003

Overall Conclusion

In our audit report dated January 7, 2004, we issued an unqualified opinion regarding whether the basic financial statements of the Fire Fighters' Pension Commissioner (Commissioner) for the fiscal year ended August 31, 2003, were materially correct in accordance with accounting principles generally accepted in the United States of America.

Other Issues of Legislative Interest

Although we noted no problems with the Commissioner's basic financial statements, as of fiscal year 2002, the Commissioner's Texas Statewide Emergency Services Personnel Retirement Fund (Fund) was actuarially unsound. Current member benefits are not in jeopardy; however, based on the valuation the Commissioner's actuary made as of August 31, 2002, the Fund's financial health is declining, requiring \$946,388 in additional annual contributions beginning in fiscal year 2003. In addition, the Fund's administrative costs in relation to its benefit payments remain excessively high. Specifically:

- The Fund had a \$13,179,125 projected funding shortfall (unfunded actuarial accrued liability) as of fiscal year 2002, and the Commissioner's actuary determined that the Fund was not actuarially sound. Until the Commissioner receives the actuary's next valuation report, it will not know the current status of the Fund's financial health.
- Even with benefits remaining the same, statute required the State to make additional annual contributions of \$650,056 beginning in fiscal year 2003 to restore the Fund's actuarial soundness as it is defined in statute. On top of that amount, beginning in fiscal year 2003, additional annual contributions from other sources of \$296,332 were needed. If contributions are not increased or investment returns do not improve significantly, the Legislature would need to consider making other adjustments (such as changing eligibility requirements, modifying benefits, increasing fire department participation, or adjusting other funding methods) to restore the Fund's actuarial soundness.

Background Information

- Created in 1937, the Fire Fighters' Pension Commissioner (Commissioner) provides retirement, death, and disability benefits to firefighters. At the end of fiscal year 2003, the Commissioner's Texas Statewide Emergency Services Personnel Retirement Fund (Fund) had 7,931 members.
- The amount of retirement benefits the Fund paid to eligible participants in fiscal year 2003 ranged from \$8 to \$593 per month.
- Statute requires the State to contribute a sum necessary to make the Fund actuarially sound each year. However, statute requires that this contribution may not exceed one-third of the total of all contributions by fire department governing bodies in one year.
- Statute defines an actuarially sound pension system as a system in which the amount of contributions is sufficient to cover the normal cost and amortization of the unfunded prior-service cost in a period not to exceed 30 years.



- Consistent with the Commissioner's actuary's smoothing process, the Fund's actuarial valuation did not include \$6.1 million in net investment losses that occurred in prior fiscal years. The Fund must still recognize its prior investment losses during the next three years. Recognizing the \$6.1 million in deferred losses could increase the Fund's projected shortfall.
- During fiscal year 2003, the Fund's ratio of administrative expenses to benefit payments was 45 percent, while the ratios for three other pension funds we reviewed ranged from 1.1 percent to 2.2 percent. The expenses associated with administering the Fund are relatively high, but many of these expenses are fixed. In addition, due to the pension plan's design, the Fund's average benefit payment of \$84 per month is much lower than that of other pension funds. Significant changes are necessary to improve this ratio. These changes could include modifying the pension plan's design, increasing fire department participation, and/or reducing administrative expenses. Even with those types of changes, more wide-ranging options (such as assigning the administration of the Fund to another agency) would likely be necessary to improve this ratio.

Summary of Information Technology Review

As part of obtaining an understanding of internal controls relevant to our audit of the Commissioner's basic financial statements, we performed the following technology-related procedures:

- Updated our risk assessment of the Commissioner's key information systems for accounting and reporting revenues, investments, benefit contributions and payments, and other financial information
- Recalculated and compared the amount of benefit payments for selected eligible participants and performed other procedures deemed necessary