LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

March 23, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB950** by Isett (Relating to an optional defined contribution retirement plan for persons eligible to participate in the Teacher Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB950, As Introduced: a negative impact of ($100,116,000) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	($49,062,000)
2005	($51,054,000)
2006	($54,282,000)
2007	($57,634,000)
2008	($61,115,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/(Cost) from *EST OTH EDUC & GEN INCO* 770	Change in Number of State Employees from FY 2003
2004	($49,062,000)	($1,876,000)	32.0
2005	($51,054,000)	($1,992,000)	36.0
2006	($54,282,000)	($2,092,000)	40.0
2007	($57,634,000)	($2,196,000)	44.0
2008	($61,115,000)	($2,300,000)	48.0

Fiscal Analysis

The bill would create an optional defined contribution retirement plan as an alternative to the defined benefit pension plan administered by the Teacher Retirement System (TRS) for public school and higher education employees. Higher education employees eligible for the Optional Retirement Program would be ineligible for the defined contribution alternative that would be established under the bill. A newly hired employee would have 90 days after the date of hire to make an irrevocable election to join the defined contribution plan.

The state's 6.0 percent retirement contribution, along with the member's 6.4 percent contribution would be deposited to whichever plan the employee chose. Members that terminate employment with fewer than five years of service would forfeit a portion of their defined contribution account derived from state contributions, as determined by a vesting schedule under which 20 percent of the state contribution vests with the member each year.

Methodology

State law requires that a new monetary benefit may not be established if the result is a period to amortize the unfunded liability of the retirement system by more than 31 years. According to a Teacher Retirement System actuarial analysis, the state contribution rate required to achieve a 30-year funding period would increase from 8.94 percent of payroll, as determined by the February 28, 2003 actuarial valuation, to 9.15 percent of payroll as a result of passage of this legislation. The current TRS state contribution rate is 6 percent. The biennial General Revenue cost (excluding General Revenue-Dedicated) to increase the state contribution rate from 6 percent to 9.15 percent is estimated to be $1,449.2 million; the cost to all funds is estimated to be $1,508.6 million. The portion of the biennial General Revenue cost attributable to the bill, and associated with a contribution rate increase from 8.94 percent to 9.15 percent, is estimated to be $96.6 million (as reflected in the Fiscal Impact table).

The bill does not provide any mechanism for TRS to fund the administrative costs of operating the defined contribution plan. Therefore, it is assumed that General Revenue will be necessary to pay for the administrative costs. First year start-up costs for the Teacher Retirement System are estimated to total $2,000,000 and require 32 additional full-time-equivalent employees. The ongoing annual cost for operation is estimated at $1,500,000 in fiscal year 2005, increasing in subsequent years as the number of participants increases. These costs are included in the General Revenue cost column above.

TRS would be responsible for selecting and maintaining the list of approved vendors, distributing plan materials, collecting the employee contributions remitted by the school districts, and allocating the employee and state contributions among the investment vendors. The estimated costs of administration are based on the current costs incurred by the Employees Retirement System for administering the state's deferred compensation program, adjusted for participation levels.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies:	304 Comptroller of Public Accounts, 312 Securities Board, 323 Teacher Retirement System
LBB Staff:	JK, RR, UP, RN