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: **HB951** by Isett (Relating to an optional defined contribution retirement plan for persons eligible to participate in the Employees Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB951, : a negative impact of ($800,000) 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	($500,000)
2005	($300,000)
2006	($450,000)
2007	($600,000)
2008	($750,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Change in Number of State Employees from FY 2003
2004	($500,000)	8.0
2005	($300,000)	8.0
2006	($450,000)	9.0
2007	($600,000)	10.0
2008	($750,000)	11.0

Fiscal Analysis

The bill would create an optional defined contribution retirement plan as an alternative to the defined benefit pension plan administered by the Employees Retirement System (ERS) for state employees. 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 bill does not appear to allow current state employees to switch from the pension plan to the proposed defined contribution plan. The state's 6.0 percent retirement contribution, along with the member's 6.0 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.

ERS estimates that the first year start-up costs will total $500,000 and require eight additional full-time-equivalent employees. The ongoing annual cost for operation is estimated at $300,000 in fiscal year, increasing to $750,000 in fiscal year 2008 as the number of participants increases. ERS would be responsible for selecting and maintaining the list of approved vendors, distributing plan materials, collecting the employee and state contributions and remitting those contributions to the investment vendors chosen by the participants.

Methodology

The bill does not provide any mechanism for ERS 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. The estimated costs of administration are based on the current costs incurred by ERS for administering the state's deferred compensation program and adjusted for estimated participation levels.

ERS also projects that the defined contribution plan will be an attractive option to younger employees, who have a lower normal cost than older employees. As a portion of these younger employees choose the defined contribution plan over the pension plan, the overall normal cost of the pension plan will increase. The combined state and employee contribution will not be sufficient to cover the normal cost; as a result, the fund's actuarial surplus will decrease.

It is important to note that the actuarial impact of the benefit increase required under the bill could change as a result of the retirement system's February 2003, updated actuarial valuation.

Technology

None.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies:	304 Comptroller of Public Accounts, 312 Securities Board, 327 Employees Retirement System
LBB Staff:	JK, RR, MS, ZS