

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 13, 2003

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

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB2356 by Deshotel (Relating to age and years of service calculations for state retirement.),
As Introduced

Estimated Two-year Net Impact to General Revenue Related Funds for HB2356, As Introduced: a negative impact of (\$57,589,340) 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	(\$18,217,605)
2005	(\$39,371,735)
2006	(\$59,044,616)
2007	(\$79,099,273)
2008	(\$94,400,510)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/ (Cost) from <i>GR DEDICATED ACCOUNTS 994</i>	Probable Savings/ (Cost) from <i>FEDERAL FUNDS 555</i>	Probable Savings/ (Cost) from <i>STATE HIGHWAY FUND 6</i>
2004	(\$18,217,605)	(\$1,911,575)	(\$6,531,126)	(\$4,985,537)
2005	(\$39,371,735)	(\$4,131,279)	(\$14,115,014)	(\$10,774,702)
2006	(\$59,044,616)	(\$6,966,285)	(\$20,859,162)	(\$19,941,235)
2007	(\$79,099,273)	(\$12,024,358)	(\$26,865,810)	(\$39,926,441)
2008	(\$94,400,510)	(\$13,878,426)	(\$32,251,864)	(\$45,333,542)

Fiscal Year	Probable Savings/ (Cost) from <i>OTHER SPECIAL STATE FUNDS 998</i>
2004	(\$203,162)
2005	(\$439,072)
2006	(\$648,860)
2007	(\$835,707)
2008	(\$1,003,249)

Fiscal Analysis

This bill would change the current rule of 80 (age plus service credit equals at least 80) eligibility for service retirement under the Employees Retirement System (ERS) to a rule of 75 (age plus service credit equals at least 80).

In addition, this bill would change the definition of the normal retirement age for a law enforcement or custodial officer (LECO) to be the earliest of age 50 or the age at which the sum of age and service credit equals 75. Currently, the normal retirement age (NRA) for a law enforcement or custodial officer (LECO) retiring with at least 20 years of LECO service is the earlier of age 50 or the age at which the sum of age and service credit equals 80.

Methodology

State law provides that benefit changes may not be implemented if the result is a period to amortize the unfunded liability of the retirement system by more than 31 years. Based on an Employee Retirement System (ERS) actuarial analysis, the state contribution rate required to achieve a 30-year funding period would increase from 7.02 percent of payroll, as determined by the February 28, 2003 actuarial valuation, to 8.298 percent of payroll as a result of passage of this bill.

The current ERS state contribution rate is 6 percent. The biennial General Revenue cost to increase the state contribution rate from 6 percent to 8.298 percent of payroll is estimated to be \$119.2 million; the cost to all funds is estimated to be \$208.4 million. The portion of the biennial General Revenue cost attributable to the bill, and associated with a contribution rate increase from 7.02 percent to 8.298 percent of payroll, is estimated to be \$57.6 million (as reflected in the Fiscal Impact table).

The passage of this legislation will not effect the current funding holiday from state contributions to the Law Enforcement Custodial Officers Supplemental Retirement Fund (LECOSRF) during the 2004-05 biennium. However, according to an ERS actuarial analysis, beginning in fiscal year 2006 a state contribution is required to achieve a 30-year funding period. The state contribution to LECOSRF would be as follows: 0.393 percent of payroll in fiscal year 2006; 1.826 percent of payroll in fiscal year 2007; and, 1.873 percent of payroll in fiscal year 2008.

Technology

None.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 327 Employees Retirement System

LBB Staff: JK, JO, RR, MS, ZS