

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 21, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB2359 by Ritter (Relating to the programs and systems administered by the Employees Retirement System of Texas.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2359, Committee Report 2nd House, Substituted: a negative impact of (\$24,500,000) 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	(\$11,400,000)
2005	(\$13,100,000)
2006	(\$15,100,000)
2007	(\$17,400,000)
2008	(\$20,000,000)

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	(\$11,400,000)	(\$1,265,457)	(\$3,889,695)	(\$3,541,806)
2005	(\$13,100,000)	(\$1,455,547)	(\$4,473,984)	(\$4,073,837)
2006	(\$15,100,000)	(\$1,678,224)	(\$5,158,436)	(\$4,697,074)
2007	(\$17,400,000)	(\$1,933,488)	(\$5,943,053)	(\$5,411,515)
2008	(\$20,000,000)	(\$2,221,339)	(\$6,827,833)	(\$6,217,162)

Fiscal Year	Probable Savings/ (Cost) from <i>OTHER FUNDS 997</i>	Probable Savings/ (Cost) from <i>OTHER SPECIAL STATE FUNDS 998</i>
2004	(\$2,661,706)	(\$541,336)
2005	(\$3,073,979)	(\$622,653)
2006	(\$3,548,357)	(\$717,909)
2007	(\$4,084,838)	(\$827,106)
2008	(\$4,683,423)	(\$950,242)

Fiscal Analysis

This bill provides for miscellaneous administrative clarifications and changes for the Employees Retirement System (ERS), the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF), and the Judicial Retirement System - Plan 2 (JRS II), including the following:

- a) temporary employees over age 65 would no longer have the option to defer membership in the retirement system;
- b) the amount and timing of future supplemental payments to retirees would be determined by the Board of Trustees; and,
- c) certain service as an employee of the Railroad Commission could no longer be used to allow retirement eligibility under the ERS at age 55 with 10 years of such service.

This bill also reinstates the Public Safety Benefits monthly guardian payments that were inadvertently deleted by the Seventy-seventh Legislature, and requires at least 10 years of eligible service for an ORP retiree to participate in the Uniform Group Insurance Program.

Finally, if this bill is adopted, ERS may not exclude from participation in the health care network a general hospital that is located in a county, all or part of which is located within the service area of the health coverage plan, in which at least two, but not more than four, general hospitals are located, if the hospital agrees to provide services under the plan subject to the same terms and conditions as other hospital providers.

Methodology

Based on the benefit provisions, data, actuarial assumptions, and actuarial funding methods included in the August 31, 2002 actuarial valuations (that are applicable for fiscal year 2003) completed by the ERS actuary for pension matters, the changes in this bill would not have a material effect on the soundness of the ERS, the LECOSRF, or JRS II.

The provision requiring ERS to add hospitals located within the service area of UGIP health coverage plans would result in an additional biennial cost to General Revenue of \$24.5 million. (See the Fiscal Impact Table.) For the HealthSelect network, ERS expects to add hospitals in at least three counties, at a cost trend anticipated to be twice the trend estimated for hospital costs in 2004. At present, the HMOs that ERS contracts with have exclusive hospital arrangements. Two of the contracted HMOs (First Care and Scott and White) expect that opening these agreements up to other hospitals in their service areas will increase costs by as much as 15 percent above the estimated 2004 levels. Finally, this provision is expected to result in an increase in members' costs of \$4.6 million during the 2004-05 biennium.

Technology

None.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System

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