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: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems. Some plans have provisions to increase member contributions when increased unfunded liabilities arise, these provisions would superceded by the amendment unless their employees agreed to increased contributions.

Unless investment returns are above their assumptions of 8 or 8.5 percent for the next few years, losses will be realized and plan sponsors will have to significantly increase contributions, or reduce benefits in some way.

Due to their size, major municipal plans would have the majority of any fiscal implications, and are used for examples in this fiscal note. Additional similar fiscal implications would occur for other plans and their sponsors.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM