LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 22, 2005

TO: Honorable Craig Eiland, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB2566** by Eiland (Relating to the Texas Emergency Services Retirement System; providing an administrative penalty.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill restates the statutes governing the Texas Emergency Services Retirement System. It makes several major plan design changes to this fund, which is currently actuarially unsound. As in current statute, the bill requires the state to make contributions to make the system actuarially sound, up to one-third of the total of all contributions by governing bodies in a given year. This amount is estimated by the Firefighters' Pension Commissioner to be $1.38 million in the 2006-07 biennium. However, the bill also provides that the commissioner may request and administer, in an emergency, additional state funds. This could have a potential fiscal impact, though it would be at the discretion of the legislature whether to grant any requests.

The most significant change is in the calculation of the benefit amount. Currently local departments make monthly contributions on behalf of members, and the basic benefit is defined as 6.0 times the average monthly contributions by a department. When the change to this benefit was made in the 1980's, the investment rate of return assumption was 9.0 percent. Changes over time, primarily in inflation experience, have made an 8.0 percent investment assumption more prudent. Combined with some market losses, the generous benefit (relative to contributions) has led to the system becoming actuarially unsound. The bill would allow the board to make rules that would define benefits as a percentage times average contributions times years of service. Additionally, some contributions could be required to reduce the unfunded actuarial accrued liability. The percentage determined would be one that allowed the fund to be maintained as actuarially sound. This change could substantially improve the actuarial status of the fund, which would lower the amount of required contributions by the state.

Other significant changes would allow the board to make rules to determine vesting periods, to determine minimum required contributions by participating departments, and to provide for cost of living increases. Changing vesting periods could significantly improve the actuarial status of the fund. Under current plan design, increasing contributions often leads to plan losses, but with the new benefit design, this would likely change.

The bill would allow current participating departments to withdraw from the fund if they have not yet participated for five years; currently this is allowed only for departments which previously had pension plans. This could lead to some minor actuarial losses.

There is some concern that the change in benefit formula does not make reference to making changes in such a way that current vested benefits are not materially reduced. It is unclear if the board would have full discretion to make changes to the benefit structure in such a way as to satisfy all relevant federal statues.

Local Government Impact

There could be significant fiscal impacts to participating local volunteer fire and emergency service departments. One cause would be if the board requires an increase in the minimum contributions from the current $12 per month per participating member. Another source of fiscal impacts to local departments would be if additional contributions were requested to amortize an unfunded actuarial accrued liability.

Source Agencies: 325 Fire Fighters' Pension Commissioner

LBB Staff: JOB, SR, SD, WP, WM, KJG