**LEGISLATIVE BUDGET BOARD**
**Austin, Texas**

**FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION**

**April 27, 2005**

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

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

**IN RE:** **HB2617** by Eiland (Relating to systems and programs administered by the Employees Retirement System of Texas.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB2617, As Introduced: a positive impact of $13,534,664 through the biennium ending August 31, 2007.

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 |
|---|---|
| 2006 | $6,674,601 |
| 2007 | $6,860,063 |
| 2008 | $6,997,265 |
| 2009 | $7,137,210 |
| 2010 | $7,279,954 |

## All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings from *GENERAL REVENUE FUND* 1 | Probable Savings from *GR DEDICATED ACCOUNTS* 994 | Probable Savings from *FEDERAL FUNDS* 555 | Probable Savings from *OTHER SPECIAL STATE FUNDS* 998 |
|---|---|---|---|---|
| 2006 | $6,674,601 | $618,744 | $2,150,770 | $79,773 |
| 2007 | $6,860,063 | $637,775 | $2,145,818 | $82,352 |
| 2008 | $6,997,265 | $650,531 | $2,188,735 | $83,999 |
| 2009 | $7,137,210 | $663,542 | $2,232,509 | $85,679 |
| 2010 | $7,279,954 | $676,812 | $2,277,159 | $87,392 |

| Fiscal Year | Probable Savings from *STATE HIGHWAY FUND* 6 |
|---|---|
| 2006 | $1,951,721 |
| 2007 | $2,016,498 |
| 2008 | $2,056,828 |
| 2009 | $2,097,964 |
| 2010 | $2,139,924 |

## Fiscal Analysis

The bill would make various changes to the Employees Retirement System (ERS). One provision would make the current 90-day delay in eligibility for new state employees permanent; it is currently set to expire at the end of Fiscal Year 2005. Members would not be eligible for disability benefits unless they were contributing at the time of disability. Members choosing to reestablish service credit would pay interest at the rate of 10 percent, instead of the current 5 percent. Service credit for Texas governmental employers for retirement eligibility purposes would no longer be allowed, unless it was through the Proportionate Retirement Program.

Further, the credit purchase option, which currently allows members to establish up to 60 months of equivalent membership service, is reduced to allow members to establish up to 36 months of equivalent membership service

These provisions are anticipated to reduce the normal cost and the actuarial accrued liability of ERS. The ERS actuary estimates an actuarially sound funding rate would be reduced by 0.232 percent, from 7.044 percent of pay to 6.812 percent, in Fiscal Year 2006, and by 0.235 percent from 7.129 percent of pay to 6.894 percent in Fiscal Year 2007. Both of these reduced rates are greater than the current contribution rate of 6.0 percent.

There would be potential savings to the group insurance program for employees who were part time when they retired since they would get a reduced state contribution as retirees, though no estimate of the savings was made by ERS and none is included here.

## Methodology

The savings shown reflect the reduction to an actuarially sound contribution rate described above; 0.232 percent in 2006 and 0.235 percent in 2007 and future years. These rates were applied to the current ERS retirement payroll, adjusted for payroll growth. A further adjustment was made to reflect that the current payroll is reduced by approximately 3.5 percent since employees with less than 90 days of state service are not ERS members this biennium. An appropriate method of finance is applied.

The ERS retirement contributions in the General Appropriations Act as passed by the House reflect savings of $16.0 million in All Funds savings from not making contributions to ERS for newly hired employees at a 6 percent contribution rate. The long-term savings from implementing this permanently, as reflected in this fiscal note, are much lower. Most of the state contribution for these employees would not go towards paying a pension for them, since fewer than 15% of them will retire with the state, so more than 85 percent of the funds remain with the plan and lower the cost of paying pensions for other members. The long-term savings as calculated by the ERS actuary for just this provision would be approximately $5 million per year.

## Local Government Impact

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 327 Employees Retirement System

**LBB Staff:** JOB, SR, WP, WM