

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 20, 2005

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

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

IN RE: HB2974 by Hegar (Relating to membership in the Employees Retirement System of Texas.),
As Introduced

Estimated Two-year Net Impact to General Revenue Related Funds for HB2974, As Introduced: a positive impact of \$6,034,945 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	\$2,850,005
2007	\$3,184,940
2008	\$3,372,289
2009	\$3,497,189
2010	\$3,559,638

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	\$2,850,005	\$264,199	\$918,363	\$34,063
2007	\$3,184,940	\$296,102	\$996,245	\$38,234
2008	\$3,372,289	\$313,519	\$1,054,847	\$40,483
2009	\$3,497,189	\$325,131	\$1,093,916	\$41,982
2010	\$3,559,638	\$330,937	\$1,113,450	\$42,732

Fiscal Year	Probable Savings from STATE HIGHWAY FUND 6
2006	\$833,370
2007	\$936,205
2008	\$991,276
2009	\$1,027,989
2010	\$1,046,346

Fiscal Analysis

The bill would extend the 90-day waiting period for new or reemployed state employees to become members of the Employees Retirement System (ERS). Currently the waiting period is set to expire on September 1, 2005. The bill would extend it permanently.

Methodology

The bill would increase the normal cost slightly over the next several years because the entry age of members would be higher. However, the higher normal cost would be applied to a lower covered payroll. The ERS actuary estimates the cost of an actuarially sound contribution would increase by the rate of 0.011%, though that increase would apply to a smaller payroll base; which results in a reduced contribution. The savings shown is the reduction in an actuarially sound contribution.

The ERS retirement contributions in the General Appropriations Act as passed by the House reflect savings of \$24.1 million in All Funds from not making contributions to ERS for newly hired employees at a 6.0 percent contribution rate. The long-term savings from implementing this permanently, as reflected in this fiscal note, are lower due to the increase in normal cost. Without the 90-day delay, most of the state contribution for the newly hired employees would not go towards paying a pension for them, since fewer than 15% of them will retire with the state. So most of the funds remain with the plan and lower the cost of paying pensions for other members. Hence only a portion of the reduction in contributions at the 6% rate is a long-term savings.

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