

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

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**April 15, 2009**

**TO:** Honorable Vicki Truitt, Chair, House Committee on Pensions, Investments & Financial Services

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

**IN RE: HB997** by Lewis (Relating to retirement and health insurance benefits of school district peace officers under the Teacher Retirement System of Texas.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB997, As Introduced: a negative impact of (\$40,900,000) through the biennium ending August 31, 2011.

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
2010	(\$40,900,000)
2011	\$0
2012	\$0
2013	\$0
2014	\$0

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable (Cost) from <i>RETIRED SCHOOL EMP GROUP</i> <i>INSURANCE</i> 989
2010	(\$40,900,000)	\$0
2011	\$0	(\$1,728,000)
2012	\$0	(\$1,900,800)
2013	\$0	(\$2,090,880)
2014	\$0	(\$2,299,968)

**Fiscal Analysis**

The bill would allow commissioned peace officers employed by school districts to be eligible to retire from the Teacher Retirement System (TRS) at age 55 with ten years of service as a commissioned peace officer in a school district, at age 50 with 20 years of service as a commissioned peace officer, or when the sum of age and years of service equals 80.

The bill would enhance the formula by which standard service annuities for commissioned peace officers employed by school districts with 20 years of service or more as a peace officer are calculated by adding 0.5 percent to the 2.3 percent multiplier and by calculating final average salary based on the highest 36 months of compensation. The benefit associated with the 0.5 percent enhancement to the

multiplier would be paid from the Peace Officer Supplemental Retirement Fund. Peace officers employed by school districts with 20 years of service or more would be eligible to retire with an actuarially reduced annuity.

The bill would require peace officers to contribute to TRS at a rate of 7 percent of payroll annually, an increase of 0.6 percent from the current 6.4 percent. The bill would establish the Peace Officer Supplemental Retirement Fund with an asset value of zero. The bill would require a state contribution rate of 8.71 percent of compensation for all members defined as “peace officers”, plus the costs to administer the fund. This represents an increase of 2.13 percent above the current state contribution rate of 6.58 percent.

The bill would entitle retired peace officers to health benefits comparable to those provided to retirees of the Employees Retirement System of Texas (ERS) beginning in fiscal year 2011.

### **Methodology**

Based on the February 28, 2009 actuarial valuation update, the Teacher Retirement System (TRS) actuary has projected that the actuarially sound state contribution rate for the 2010-11 biennium is 11.26 percent, assuming the member contribution rate remains at 6.4 percent of pay. Article 16, Section 67 of the Texas Constitution limits the TRS state contribution rate to 10 percent. The provisions of the bill would increase the estimated unfunded actuarial accrued liability by \$8 million. The cost of the 2.13 percent state contribution to the Peace Officer Supplemental Retirement Fund is estimated at \$40.9 million in fiscal year 2010. Because there are no accumulated assets for the Supplemental Plan, the funded ratio is 0% and the entire Actuarial Accrued Liability for current active members would need to be amortized. The total 30 year Annually Required Contribution for the Supplemental Plan is 4.77% and therefore the proposed 2.13% is not sufficient to provide the proposed benefits.

TRS estimates increased costs to the TRS-Care, Retired Public School Employee Health Insurance Program, associated with the requirement to provide comparable coverage to that offered to retirees by ERS. For estimating the impact of TRS-Care provisions of the bill, TRS assumes that out of the 2,000 defined peace officers, approximately 20 percent would participate in the TRS-Care retiree health plan. This number is assumed to grow by 10 percent each year and is based on an average monthly state cost for ERS retiree insurance of \$360 per month.

As required by Section 821.006 of the Government Code, any legislation that reduces contributions or interest rates, credits additional service, or provides any benefit improvements that increase the actuarial cost of TRS, will require the actuarially sound contribution for the new benefit structure. Since the legislation improves benefits and increases the actuarial costs of TRS, the state contributions would have to increase for both plans (to 11.26 percent for TRS, and to 2.13 percent for the Supplemental Fund) in order to become actuarially sound and comply with Government Code.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 323 Teacher Retirement System

**LBB Staff:** JOB, JGM, JW, CL