

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 14, 2009

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

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

IN RE: HB1529 by Hughes (Relating to the service retirement annuity for certain members of the Judicial Retirement System of Texas Plan Two.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1529, As Introduced: a negative impact of (\$1,479,738) 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	(\$739,869)
2011	(\$739,869)
2012	(\$739,869)
2013	(\$739,869)
2014	(\$739,869)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Probable Savings/(Cost) from Judicial Fund 573
2010	(\$739,869)	(\$317,087)
2011	(\$739,869)	(\$317,087)
2012	(\$739,869)	(\$317,087)
2013	(\$739,869)	(\$317,087)
2014	(\$739,869)	(\$317,087)

Fiscal Analysis

The bill would amend Section 839.102(a) of the Government Code by adding a provision that would increase the annuity of a member of the Judicial Retirement System of Texas Plan Two (JRS-II) by 10 percent if, at retirement, the member has made contributions continuously to the retirement system and has acquired at least 22 years of service credit as a district judge or at least 20 years of service credit as an appellate judge.

The bill would take effect September 1, 2009, or immediately upon a two-thirds vote of all elected members of the Legislature.

Methodology

Given the average member contribution rate of 5.99 percent, this would result in an increase in the state contribution rate from 16.83 percent to 18.41 percent to meet the actuarially sound contribution rate. This increase would result in an increase of \$2,113,912 in All Funds (\$1,479,739 in General Revenue-related Funds) for the 2010-11 biennium. The Employees Retirement System, which administers JRS-II, reports that the bill's provisions would increase the actuarially sound contribution rate from 22.82 percent to 24.40 percent.

ERS reports that the bill's provisions would also increase the total normal cost contribution rate from 19.26 percent to 19.92 percent, and would result in a \$12.9 million increase in the projected August 31, 2009 unfunded accrued liability.

The February 28, 2009 actuarial valuation of JRS II shows it as an actuarially sound system, based on an Actuarial Value of Assets (AVA) of \$237.3 million. However, the Market Value of Assets (MVA) was \$157.5 million; so the AVA was 50.7 percent greater than the MVA. JRS II uses an uncommon smoothing methodology which is slower to recognize gains or losses than a traditional 5 year smoothing method; additionally it has no corridor around the MVA to make sure the AVA is close to the MVA. The Actuarial Standard of Practice (ASOP) 44 requires smoothing methods to produce AVAs whose values fall within a reasonable range around the corresponding market values. A strong case could be made that an AVA more than 30 percent in excess of the market value is not in a reasonable range, indeed many plans have adopted a corridor which would require the AVA to be within 80 percent and 120 percent of the market value.

Even if JRS II had a unusually wide 40 percent corridor, requiring the Actuarial Value of Assets to be within 40 percent of the market value, the February 28, 2009 valuation would have shown JRS II to be actuarially unsound with an infinite funding period. This makes a strong case that JRS II is currently actuarially unsound. If so, then Government Code 840.106 which prohibits certain benefit increases when the system is actuarially unsound would prohibit passage of this bill without a significant increase in contributions.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System

LBB Staff: JOB, JRO, MS, DEH