

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 21, 2009

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

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

IN RE: HB1838 by Maldonado (Relating to eligibility for and the establishment of service credit in the Employees Retirement System of Texas for military service.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would amend Section 813.302 of Government Code to allow members with 20 years or more of active federal military duty to establish service credit in the Employees Retirement System (ERS). Eligible members who elect to establish service credit under this proposal would be required to contribute the amount that would constitute the state's contribution to establish the service in the retirement system. The bill would take effect September 1, 2009, or immediately upon a two-thirds vote of all members of each house of the Legislature.

The provisions of the bill are not projected to have a material fiscal impact on ERS. Section 811.006 of the Government Code requires any legislation that credits additional service, or provides any benefit improvements that increase the actuarial cost of ERS, will require the actuarially sound contribution for the new benefit structure. Since the legislation does not materially increase the actuarial costs of ERS, state contributions would not have to increase in order to become actuarially sound.

Based on the February 28, 2009 actuarial valuation update, the ERS actuary has projected that the actuarially sound contribution rate for fiscal years 2010 and 2011 is 19.38 percent. The current total contribution rate of 12.45 percent does not cover the normal cost requirement of 13.37 percent, and there is no remaining contribution to pay down the existing unfunded accrued liability (UAL). Therefore, the UAL will never be amortized with the current 12.45 percent total contribution rate, so the ERS retirement fund is considered actuarially unsound. Given the current member contribution of 6 percent, the state contribution rate would have to increase to 13.38 percent to meet the actuarially sound contribution rate of 19.38 percent. This would translate to a cost of \$776,927,842 in All Funds (\$482,338,274 in General Revenue-related Funds). Additionally, Article 16, Section 67 of the Texas Constitution limits the state contribution rate to 10 percent.

Based on the February 28, 2009 actuarial valuation update of the Law Enforcement and Custodial Officer Supplemental (LECOS) retirement fund, the actuarially sound contribution rate for fiscal years 2010 and 2011 is 3.12 percent. The current state contribution rate of 1.59 percent does not cover the normal cost requirement of 2.18 percent, and there is no remaining contribution to pay down the existing UAL. Therefore, the UAL will never be amortized with the current 1.59 percent contribution rate, so LECOS is considered actuarially unsound. Increasing the state contribution rate to 3.12 percent would result in a cost of \$39,389,049 in All Funds (\$35,854,585 in General Revenue-related Funds) for the 2010-11 biennium.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System, 323 Teacher Retirement System

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