

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: HB2913 by Hernandez (Relating to retirement benefits for law enforcement officers employed and commissioned by certain institutions of higher education.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2913, As Introduced: a negative impact of (\$12,207,523) 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	(\$6,081,439)
2011	(\$6,126,084)
2012	(\$6,271,703)
2013	(\$6,430,664)
2014	(\$6,599,957)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>General Revenue Fund</i> 1	Probable Savings/ (Cost) from <i>GR Dedicated Accounts</i> 994	Probable Savings/ (Cost) from <i>Federal Funds</i> 555	Probable Savings/ (Cost) from <i>Other Special State Funds</i> 998
2010	(\$6,081,439)	(\$1,076,524)	(\$775,262)	\$0
2011	(\$6,126,084)	(\$1,079,213)	(\$780,157)	\$0
2012	(\$6,271,703)	(\$1,089,552)	(\$834,558)	\$0
2013	(\$6,430,664)	(\$1,100,610)	(\$888,366)	\$0
2014	(\$6,599,957)	(\$1,112,387)	(\$945,672)	\$0

Fiscal Year	Probable Savings/ (Cost) from <i>State Highway Fund</i> 6
2010	(\$851,270)
2011	(\$863,026)
2012	(\$908,072)
2013	(\$956,273)
2014	(\$1,007,607)

Fiscal Analysis

The bill would add Section 811.001(19) and amend Section 811.001(9), 812.003(a), 814.104(b), 815.505, 821.001(6), and 822.002 of Government Code to grant membership in the Employees Retirement System (ERS) as of September 1, 2009 to all persons who are contributing members of Teacher Retirement System (TRS) on August 31, 2009 and who are employed as commissioned law enforcement officers of a public institution of higher education on both August 31, 2009 and September 1, 2009. The TRS service credit would be treated as ERS service credit for eligibility purposes and, at the time of retirement or death, TRS and ERS would share the cost of the benefits based on the provisions of Section 805.008 of Government Code.

Newly employed persons serving as commissioned law enforcement officers of a public institution of higher education on or after September 1, 2009 will become members of ERS. The service of these employees would be classified as custodial officer service in ERS and the Law Enforcement and Custodial Officers (LECOS) retirement fund. The bill would take effect on September 1, 2009.

Methodology

The Employees Retirement System (ERS) identified approximately 1,800 contributing members of the Teacher Retirement System that are employed as commissioned law enforcement officers of public institutions of higher education. It is assumed that these members have an average age of 39, average service of 11 years, and average annual salaries of approximately \$50,000. The bill's provisions would increase the actuarially sound contribution rate of the ERS retirement fund from 19.38 percent to 19.45 percent. The cost of adding these members to ERS would be \$7,937,756 in All Funds (\$4,962,104 in General Revenue-related Funds) for the 2010-11 biennium.

Additionally, the bill's provisions would result in an increase of the Law Enforcement and Custodial Officers Supplemental (LECOS) retirement fund's actuarially sound contribution rate from 3.12 percent to 3.27 percent. The addition of the new members to the LECOS fund would result in a cost of \$9,747,672 in All Funds (\$9,401,155 in General Revenue-related Funds) for the 2010-11 biennium.

TRS reports that the bill's provisions would increase the TRS fund's unfunded accrued liability (UAL) by approximately \$23 million, but would not result in an increase to the fund's actuarially sound contribution rate.

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 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 LECOS, 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.

As required by Section 811.006 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 ERS, will require the actuarially sound contribution for the new benefit structure. Since the legislation improves benefits and increases the actuarial costs of ERS, the state contributions would have to increase for both plans (to 13.45 percent for ERS, and to 3.27 percent for LECOS) in order to become actuarially sound and comply with the Government Code.

Local Government Impact

No fiscal implication to units of local government is anticipated.

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

LBB Staff: JOB, JRO, MS, DEH, JW