LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 17, 2011

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

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

IN RE: **SB812** by Zaffirini (Relating to the service retirement benefits of certain retirees who resume employment within the Texas Municipal Retirement System.), **As Introduced**

No fiscal implication to the State is anticipated.

The bill would amend the Government Code relating to the service retirement benefits of certain retirees who resume employment within the Texas Municipal Retirement System (TMRS). The bill would apply to retirees from TMRS who choose to return to work at the city from which they retired after a separation of at least 12 months. The returning retiree's annuity would be suspended for the duration of the re-employment, the individual's member account(s) would be "reactivated," and the returning retiree would be required to elect whether or not to contribute to their reactivated account. Under current statute, the annuity of a retiree must be suspended if the retiree returns to work for the city from which he or she retired and a new member account must be created with TMRS for the period of re-employment.

According to the analysis of TMRS, based upon this election, and upon re-retiring from the municipality, the member's annuity would be recalculated to include any contributions made to TMRS during the reemployment period; interest earned on the accumulated contributions during the re-employment period; additional service credit earned during the term of the member's re-employment; an amount paid by the city equal to the "city match," regardless of whether or not the member elected to make contributions; and any Cost of Living Adjustments (COLAs) that have been granted during the period the benefit was suspended.

Any annuity payments received by the retiree during their period of retirement before returning to work at the re-employing municipality would be deducted before recalculating the member's annuity. An eligible person returning to work may choose to terminate their re-employment with the municipality and resume their suspended annuity payments without having their annuity recalculated except for any COLAs that have been granted during the period the benefit was suspended, and the member may elect to receive either a refund of any employee contributions made to TMRS during re-employment, plus any interest accrued thereon during the re-employment period; or a basic annuity based on the sum of any employee contributions made to TMRS during re-employment and any interest accrued thereon during the re-employment period, plus appropriate matching funds.

Since TMRS does not receive state appropriated funds, no fiscal implication to the State is anticipated.

Local Government Impact

According to TMRS, the bill would have an immediate impact on cities that have retirees who have returned to work, and current and future retirees who may choose to return to work. The costs to participating cities of paying for the possible return to work and retirement options to current and future retirees could affect the actuarial status of member municipalities. In addition, due to the provision that member's accounts be reactivated and to account for the payment options that would be available to retirees who have returned or will return to work, significant reengineering of the internal benefits system would be required. The reengineering would include modifying the following functional areas: Enrollment Processing; Retirement Reinstatement; Updated Service Credit

Calculation; Payroll Processing; Retirement Benefit Estimates; New Retirement Setup; Pre- and Post-Retirement Processing; Retirement Benefit Calculation; Annuity Increases (COLA); Actuarial Valuation Processes; and Annual Benefit Statement Generation.

TMRS identified two possible scenarios for implementing these changes, either of which would have a moderate fiscal impact o the agency. The first would be to complete the re-engineering of the internal benefits system by September 1, 2011, the implementation date of the bill which would require 75 percent of the project to be outsourced, due to the limited capacity of TMRS information technology staff to make these system changes within this timeframe. The cost of this option would be $741,404, which is five percent of TMRS' annual budget. An alternative and less costly option would be for TMRS staff to implement all changes which would take approximately one year to complete and would require TMRS to keep manual records until the system is re-engineered. This option would ensure that retirees who return to work are accounted for and whose accounts and benefits are accurately recorded and maintained. TMRS estimates this approach would cost $354,250 which is three percent of TMRS' annual budget.

Source Agencies:

LBB Staff: JOB, KJG, TP, WM