LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 14, 2013

TO: Honorable Bill Callegari, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3356** by Callegari (Relating to contributions to, benefits from, and the administration of certain public retirement systems.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would amend the Government Code to define a "defined contribution plan" as a plan in which contributions are made to an individual's account, by an individual, and upon retirement the individual receives their contributions plus any investment income.

The bill would also require the governing body of a public retirement system to approve, in writing, the assumptions adopted by an independent actuary prior to audit of the retirement system.

The bill would amend the Government Code to add Subchapter E, which would require the governing body of public retirement systems to adopt funding policy to achieve and maintain a funded ratio of 100 percent and to be funded on an actuarially sound basis with an amortization period of 25 years or less. If the governing body receives an actuarial valuation indicating that the plan will not achieve a 25 year funding level within 6 years, the plan sponsor would have to submit corrective action plan to the Pension Review Board. The bill would require the sponsor to resubmit this plan every three years until the retirement system is in compliance. The bill would also require the governing body of public retirement systems with assets greater than or equal to $100 million to periodically conduct an actuarial experience study and a study of the system's assets and liabilities. The bill would also require the governing body of public retirement systems to adopt ethic standards and conflict-of-interest policies. The bill would exempt the Employees Retirement System (ERS), the Teachers Retirement System (TRS), the Texas Municipal Retirement System, the Texas County and District Retirement System, and the Judicial Retirement System – Plan II, as well as any volunteer firefighter retirement systems under the Texas Local Fire Fighters Retirement Act from the requirements in Subchapter E.

ERS and TRS anticipate that any costs associated with implementing the bill could be absorbed within existing agency resources. For the Judicial Retirement System – Plan One, the current pay-as-you-go contributions exceed the amount required under the bill, and so no fiscal impact is anticipated in the near term. There could be a future fiscal impact depending on the mortality experience of the plan.

The bill would apply to the Texas Emergency Services Retirement System (TESRS). Based on the August 31, 2012, actuarial valuation, it is estimated that an additional $1.1 million per fiscal year would be required to amortize the unfunded liability in 25 years. This amount would be in addition to all other contributions, including the anticipated statutory state contribution of one-third of total local contributions. Ultimate responsibility for any unfunded liability, however, is unclear. It could be addressed by increased state contributions, plan benefit changes, or increased local contributions specifically directed for the unfunded liability instead of benefits; however, each could require additional statutory changes. Under current law, increases to local contributions have a correlated impact on the state's statutory obligation of one-third of all contributions. For example, unless changed, the state's obligation could increase by one-third of the amount of a local contribution increase. If local contributions increase by an additional $1.1 million as noted above, the statutory state contribution would increase by approximately $367,000.

The bill would take effect September 1, 2013.

Local Government Impact

The bill would require local retirement plans' sponsors to adopt a funding policy designed to achieve a funding ratio of 100 percent, with contributions that are adequate to pay normal cost and amortize unfunded liabilities within 25 years (25 year funding). If plan actuarial valuations showed they did not achieve a 25 year funding level within 6 years, the plan sponsor would have to submit a corrective action plan to the Pension Review Board. This would have to be resubmitted every three years until the retirement plans were in compliance. Texas Municipal Retirement System and Texas County and District Retirement System are exempted from these requirements.

Additionally, local retirement plans would not be able to improve benefits unless plan contributions were at a 25 year funding level after the improvements. Larger plans would have to conduct actuarial experience studies at reasonable intervals, which could add some administrative costs to plans that are not currently conducting such studies.

Currently, public plans are not required by state or federal law to maintain any given level of funding. The current Governmental Accounting Standards Board (GASB) accounting requirements require plans to compare their contributions with an Annually Required Contribution (ARC) which is equivalent to a 30 year funding level.

Methodology:
The LBB estimates that the requirement that plans receive contributions at a 25 year funding level would mean that for most plans there would be approximately a 10 percent increase in the contributions applied to amortize the unfunded liability versus a 30 year funding level. For example, if a plan had a 12 percent normal cost and an additional 8 percent was required to amortize the liabilities in 30 years for a total of 20 percent, the plan would need to receive contributions of approximately 20.8 percent for a 25 year funding level.

Based on their most recent actuarial valuations posted to their websites, local impact to plans and employees from the bill for several retirement plans is estimated by Legislative Budget Board staff as follows:

City of Austin Employees Retirement System: Based on the 2011 valuation, their funding period is 27.1 years, with contributions of 16 percent of payroll. Under the bill, their contribution rate would increase to 16.2 percent, for an annual cost of approximately $0.9 million.

El Paso Firemen's Pension Fund: Based on the 2012 valuation, their funding period is 76 years with employer contributions of 18.5 percent of payroll. The employer 30 year funding level is 23.82 percent, which would cost the city $2.7 million. Under the bill, their contribution rate is estimated to increase to 25 percent, for an annual cost of approximately $3.2 million over current contributions.

Houston Municipal Employees Pension System: Based on the 2011 valuation, their funding period is 30.0 years, with contributions of 23.45 percent of payroll. Under the bill, their contribution rate would increase to 25.3 percent, for an annual cost of approximately $10.5 million.

Source Agencies: 323 Teacher Retirement System, 325 Fire Fighters' Pension Commissioner, 327 Employees Retirement System, 304 Comptroller of Public Accounts

LBB Staff: UP, RB, EP, EMo, PFe, WM, TP, JJO, JW