LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 14, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1459** by Duncan (Relating to the powers and duties of and contributions to and benefits from the systems and programs administered by the Employees Retirement System of Texas.), **As Engrossed**

No significant fiscal implication to the State is anticipated.

However, the bill would have long-term fiscal implications to the Employees Retirement System pension fund.

The bill would amend a number of sections of the Government Code relating to the Employees Retirement System (ERS). New retirement eligibility limits only apply to person hired on or after September 1, 2013.

The bill includes certain provisions that would have financial implications, primarily impacting the pension fund as follows: the final average salary calculation period would be changed from 36 or 48 months to 60 months for non-grandfathered participants; the use of unused sick leave to determine retirement eligibility would restricted to purposes of calculating the annuity for non-grandfathered participants; the use of annual leave for which a member has been compensated could only be used to calculate the annuity of non-grandfathered participants; interest earned on retirement account balances would be reduced from five percent to two percent for all active participants; a reduction of five percent would be applied to retirement benefits for each year by which commencement of retirement precedes age 62 for non-grandfathered regular class members and for each year by which commencement precedes age 57 for non-grandfathered CPO/CO class members; and a one-time benefit increase of three percent, paid by the pension trust fund, would be granted to all ERS annuitants who have been retired for 20 years or more once the funding period (including the additional COLA liability) is less than 31 years. The bill would limit this increase in each affected participant's benefit to not exceed $100 per month.

 The bill would increase the member contribution rate to 6.6 percent in fiscal year 2014, 6.9 percent in fiscal year 2015, 7.2 percent in fiscal year 2016, and 7.5 percent in fiscal year 2017 and beyond. The member contribution rate is reduced beyond fiscal year 2017 if the state contribution rate is less than 7.5 percent. The bill would also increase the contribution rate for members of the Judicial Retirement System - Plan 2 in the same manner.

The bill would also require state agencies to contribute 0.5 percent of payroll each year to the Employees Retirement System trust fund.

Based on the August 31, 2012 actuarial valuation, as updated February 28, 2013, the ERS actuary

estimates the bill would increase the unfunded actuarial accrued liability (UAAL) by approximately $406.1 million, from $6,425.8 million to $6,831.9 million; and, that it would decrease the funded ratio of assets to liabilities from 79.3 percent to 78.3 percent. The contribution rate needed to fund the normal cost and amortize UAAL as a level percentage of payroll over 31 years would decrease from 18.70 percent to 17.80 percent. The decrease is comprised of a reduction in the projected normal cost, from 12.27 percent to 10.96 percent, and a increase in the rate required to amortize the unfunded liability over 31 years, from 6.43 percent to 6.84 percent. The current combined contribution rate of 13.0 percent is sufficient to cover normal cost, but is insufficient to pay down the existing UAAL. Therefore, the funding period would remain Infinite.

Given that the funding period remains Infinite, the actuarial analysis does not include an estimate of the three percent Cost-of-Living Adjustment, which would only be granted once the funding period is below 31 years.

Based on the August 31, 2012 Law Enforcement and Custodial Officers Supplemental (LECOS) Fund's actuarial valuation, as updated February 28, 2013, the ERS actuary estimates the bill would increase the UAAL by approximately $28.9 million, from $249.5 million to $278.4 million; and, that would increase the funded ratio of assets to liabilities from 77.2 percent to 75.2 percent. The contribution rate needed to fund the normal cost and amortize the UAAL as a level percentage of payroll over 31 years would decrease from 3.06 percent to 2.82 percent. The decrease is comprised of a reduction in the projected normal cost, from 2.08 percent to 1.73 percent, and an increase in the rate required to amortize the unfunded liability over 31 years, from 0.98 percent to 1.09 percent. The current combined contribution rate of 1.0 percent is not sufficient to cover normal cost or pay down the existing UAAL, so the funding period would remain Infinite.

The bill would also require ERS to account for the LECOS fund separately from other retirement plans, however the fund would still be considered part of the retirement system. The bill would require ERS to conduct a study on the feasibility of adding custodial officers employed at the Texas Juvenile Justice Department to the LECOS fund.

The bill would also amend Insurance Code to change the definition of a full-time employee to those working 30 hours or more. ERS anticipates that any program costs associated with changing the definition of part-time employment for the purpose of eligibility for the Group Benefit Program could be absorbed with existing resources. The bill would also reduce insurance benefits for future retirees with less than 20 years of service, exempting all individuals with 5 years or more service as of September 1, 2014. Due to the grandfather provisions, no significant savings are estimated from reducing the state contribution for insurance benefits to annuitants based on years of service. ERS anticipates that any costs associated with the bill could be absorbed within existing resources.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System
LBB Staff: UP, RB, EP, EMo, AG