LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 24, 2013

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

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 Employee Retirement System of Texas.), **Committee Report 1st House, Substituted**

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). Active members are grandfathered under current law if they qualify under the following criteria by August 31, 2014:
a. attained age 50;
b. the sum of the member's age and years of service is 70 or greater;
c. the member has 20 years of service or more; or
d. are Commissioned Peace Officers and Correctional Officer class members and have attained the age of 45 or completed 15 years of service.

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 leave to determine retirement eligibility would be eliminated for non-grandfathered participants; the use of annual leave for which a member has been compensated would no longer be used to compute benefit accruals for non-grandfathered particpants; 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.

Based on the August 31, 2012 actuarial valuation, as updated February 28, 2013, the ERS actuary estimates the bill would decrease unfunded actuarial accrued liability (UAAL) by approximately $988.9 million, from $6,425.8 million to $5,436.9 million; and, that it would increase the funded ratio of assets to liabilities from 79.3 percent to 82.0 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 16.42 percent. The decrease is comprised of a reduction in the projected normal cost, from 12.27 percent to 10.98 percent, and a decrease in the rate required to amortize the unfunded liability over 31 years, from 6.43 percent to 5.44 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.

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 decrease the UAAL by approximately $26.0 million, from $249.5 million to $223.5 million; and, that would increase the funded ratio of assets to liabilities from 77.2 percent to 79.1 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 2.63 percent. The decrease is comprised of a reduction in the projected normal cost, from 2.08 percent to 1.76 percent, and a reduction in the rate required to amortize the unfunded liability over 31 years, from 0.98 percent to 0.87 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.

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.

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 10 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, AG, EP, EMo