LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 25, 2015

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB9** by Flynn (Relating to member contributions to the Employees Retirement System of Texas.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB9, As Passed 2nd House: a negative impact of ($21,382,416) through the biennium ending August 31, 2017.

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
2016	($10,691,208)
2017	($10,691,208)
2018	($10,744,664)
2019	($10,798,387)
2020	($10,852,379)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *GR Dedicated Accounts* 994	Probable Savings/(Cost) from *Federal Funds* 555	Probable Savings/(Cost) from *State Highway Fund* 6
2016	($10,691,208)	($728,691)	($2,883,119)	($1,558,396)
2017	($10,691,208)	($728,691)	($2,883,119)	($1,558,396)
2018	($10,744,664)	($732,334)	($2,897,535)	($1,566,189)
2019	($10,798,387)	($735,996)	($2,912,022)	($1,574,019)
2020	($10,852,379)	($739,676)	($2,926,582)	($1,581,889)

Fiscal Year	Probable Savings/(Cost) from *Other Special State Funds* 998
2016	($138,586)
2017	($138,586)
2018	($139,279)
2019	($139,975)
2020	($140,675)

Fiscal Analysis

The bill would amend Government Code to increase the member contribution rate from 7.2 percent in fiscal year 2016 and 7.5 percent in fiscal year 2017 to 9.5 percent in both fiscal years and beyond. The member contribution rate would be reduced beyond fiscal year 2017 if the state contribution rate is less than 9.5 percent. The bill would also increase the contribution rate for members of the legislature from 8.0 to 9.5 percent in fiscal year 2016 and beyond. The bill would eliminate the 90-day membership waiting period, which would allow for retirement contributions by the state and members to the Employees Retirement System Retirement Program (ERS Retirement) to begin on the first day of employment.

Based on the projected August 31, 2015 actuarial valuation, the ERS actuary estimates the bill would decrease the unfunded actuarial accrued liability (UAAL) by $49.3 million, from $8,078.9 million to $8,029.6 million; and that it would increase the funded ratio of assets to liabilities from 76.4 percent to 76.5 percent. The contribution rate needed to fund the normal cost and amortize the UAAL as a level percentage of payroll over 31 years would increase from 19.11 percent to 19.57 percent.

The change in the actuarially sound contribution rate is due to an increase in the projected normal cost from 11.58 percent to 12.26 percent, which was partially offset by a decrease to the rate required to amortize the unfunded liability over 31 years, from 7.53 percent to 7.31 percent. As the member contribution rate increases, the amount of contribution refunds expected to be paid to members upon termination would also increases. Significant increases in the member contribution rate could also result in an increased number of members electing to take a refund of their contributions when compared to historical experience. Since the normal cost rate is based on the present value of all benefits that ERS is expected to pay out to plan members after their employment ceases, the normal cost rate would increase as a result of the proposed increase in the member contribution rate. The total contribution rate of 17.50 percent under the bill is sufficient to cover the normal cost but is insufficient to pay down the existing UAAL.

The ERS actuary assumes that the changes in the bill would be accompanied by an increase in the State contribution rate to 10.0% of pay (9.5% from state contributions and 0.5% from agency contributions). The combination of these changes would be expected to reduce the funding period to 32 years, which would not meet the statutory definition of actuarial soundness of 31 years. Note that this analysis is isolated to the provisions of this legislation and changes to either the benefit plan or to state contributions would shift the analysis.

Government Code, Section 814.604 would provide for a cost-of-living adjustment be paid to certain ERS retirees once the actuarial valuation indicates that the amortization period for unfunded actuarial liabilities of the retirement system does not exceed 31 years, and would not exceed 31 years as a result of paying the adjustment. The ERS actuaries anticipate that the bill would allow for a cost-of-living adjustment in January 2019. At the time the COLA is granted, the funding period for ERS would be expected to increase by one additional year.

The bill would take effect September 1, 2015.

Methodology

The cost included in the tables reflect the additional state contribution required to ERS Retirement, assuming a 10.0 percent total state contribution (9.5 percent from the state and 0.5 percent from agencies). Beginning membership in ERS Retirement on the first day of employment would require approximately $16,000,000 in All Funds for fiscal year 2016 and fiscal year 2017. The additional All Funds cost to the state contribution would increase to $16,080,001 in fiscal year 2018, $16,160,300 in fiscal year 2019, and $16,241,201 in fiscal year 2020, assuming 0.5 percent payroll growth in each year.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System

LBB Staff: UP, AG, EP, EMo