

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 30, 2015

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2933 by Anderson, Rodney (Relating to retirement benefits for certain peace officers who are members of the Teacher Retirement System of Texas, including the creation of a peace officer supplemental retirement fund.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2933, As Introduced: a negative impact of (\$8,064,000) 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	(\$4,230,000)
2017	(\$3,834,000)
2018	(\$3,834,000)
2019	(\$3,834,000)
2020	(\$3,834,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund
2016	(\$4,230,000)
2017	(\$3,834,000)
2018	(\$3,834,000)
2019	(\$3,834,000)
2020	(\$3,834,000)

Fiscal Analysis

The bill would create a Peace Officer Supplemental Retirement Fund (POSRF) within the Teacher Retirement System of Texas (TRS). Additional contributions from the state and from peace officers employed by a school district or an institution of higher education would be made to the

supplemental fund. The bill would provide enhanced benefits for members of POSRF, including earlier retirement eligibility standards and a larger benefit multiplier (increased by 0.5 percent) for eligible employees.

The bill would take effect September 1, 2015.

Methodology

The TRS actuary estimates the actuarial impact separately for the existing regular retirement fund and for the new POSRF. The actuary's estimate includes an increase in the unfunded liability of \$37 million and an increase in the funding period of 0.1 years from 29.3 years to 29.4 years for the regular retirement fund. Since the actuarial impact of the new benefit change would not cause the funding period of the TRS regular fund to exceed 31 years pursuant to Government Code Section 821.006, passage of this bill would be allowable under the TRS statute.

However, the new POSRF would be actuarially unsound from creation with an infinite funding period, and the fund would have an Unfunded Actuarial Accrued Liability (UAAL) of \$43 million at inception. It is also estimated that a total state contribution rate of 3.77 percent of payroll is necessary for the new POSRF to pay the normal cost of 2.34 percent (offset by the 0.5 percent member contribution) This is based on the difference between the current normal cost of 10.43% and the enhanced benefits normal cost of 13.27%, plus an additional 1.43 percent to amortize the UAAL of \$43 million over a 30-year period. However, the bill sets a mandatory state contribution rate of 2.13 percent and a member contribution rate of 0.5 percent for the POSRF. The TRS actuary notes that without full funding, the POSRF will be unsustainable and cannot pay the benefits as proposed.

Given that the bill would set the state contribution rate at 2.13 percent, the General Revenue necessary to fund the legislation would be \$3.8 million annually, based on the estimated peace officer payroll of \$180 million. The analysis above includes only the General-Revenue Related impact of the state contribution of 2.13 percent allowable under the bill and does not include additional amounts necessary to adequately fund the POSRF as projected by the TRS actuary, estimated to be approximately \$3.0 million annually.

Technology

TRS also identifies a one-time administrative cost of \$396,000, related to necessary technology changes. HB 2933 provides that the state shall contribute amounts necessary for the administration of POSFR, and this amount is included in the General Revenue cost in fiscal year 2016 in the table above.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, PFe