LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 30, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB398** by Allen (Relating to certain benefits paid by the Employees Retirement System of Texas.), **As Introduced**

The provisions of the bill are not expected to take effect because the statutory requirement for actuarial soundness is not currently met and cannot be met upon payment of the proposed benefit increases. However, if the benefit increases were paid, there would be a significant but indeterminate cost to the State, unless the cost is passed on to the System members.

The bill would amend Government Code to require the Employees Retirement System (ERS) to increase the annuity paid to a retiree or beneficiary by ten percent, with a four percent annual cost-of-living-adjustment (COLA) thereafter. The bill would also require ERS to make a one-time supplemental payment in January 2018 equal to the lesser of $2,000 or the regular annuity payment for an eligible retiree, subject to the availability of appropriated funds. The bill would also repeal the current COLA included in statute. The bill would take effect September 1, 2017.

Based on the projected August 31, 2017 actuarial valuation, the ERS actuary estimates the bill would increase the unfunded actuarial accrued liability (UAAL) by $18,993.4 million, from $9,481.9 million to $28,475.3 million. The increasing annuities would result in an increase in the actuarially sound contribution rate as a percentage of payroll, from 20.17 percent to 40.26 percent for the ERS Retirement Fund and from 3.18 percent to 6.52 percent for the LECOS Retirement fund. However, based on the current plan provisions and the total contribution rates for the 2016-17 biennium of 19.50 percent for the ERS Retirement Fund and 1.00 percent (plus $19.2 million in court fees) for the LECOS Retirement Fund, the funds would remain actuarially unsound.

Government Code, Sec. 811.006, requires that legislation providing additional benefits that increase the actuarial cost of ERS would require a state contribution at least equal to the normal cost plus an amount necessary to amortize the unfunded liabilities of the new benefits structure over a 31-year period. Because the bill would increase benefits to the ERS fund and the LECOS fund, ERS estimates the state contribution would need to increase to 30.76 percent of payroll for the ERS Retirement Fund and to 6.02 percent of payroll for the LECOS fund. ERS estimates the additional costs to comply with statute total approximately $1,563.5 million in fiscal year 2018, $1,618.4 million in fiscal year 2019, $1,674.8 million in fiscal year 2020, $1,733.5 million in fiscal year 2021, and $1,794.1 million in fiscal year 2022. Note that this analysis is isolated to the provisions of this legislation and changes to either benefit plan or state contributions would shift the analysis.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 327 Employees Retirement System

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