

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 22, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1163 by Alonzo (Relating to eligibility for membership and funding of benefits for certain law enforcement, custodial, and other peace officers.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1163, As Introduced: a negative impact of (\$19,046,315) through the biennium ending August 31, 2019.

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
2018	(\$9,330,526)
2019	(\$9,715,789)
2020	(\$10,029,474)
2021	(\$10,386,316)
2022	(\$10,800,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund
	1
2018	(\$9,330,526)
2019	(\$9,715,789)
2020	(\$10,029,474)
2021	(\$10,386,316)
2022	(\$10,800,000)

Fiscal Analysis

The bill would amend Government Code to expand the definition of employees that are eligible to participate in the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF). This expanded definition would include approximately 2,600 additional state employees, primarily correctional officers at the Juvenile Justice Department and commissioned

law enforcement officers at the Office of the Attorney General, as well as approximately 4,000 commissioned peace officers currently participating in the Teacher Retirement System of Texas (TRS).

The bill would take effect September 1, 2017.

Methodology

The bill would require additional state contributions to the ERS Retirement Fund for the approximately 4,000 commissioned peace officers currently participating in TRS that would be eligible for LECOS and become members of ERS under the bill. The state contribution for TRS members is currently 6.8 percent and the state contribution for ERS members is 9.5 percent, which results in an increased cost to the state. The state would also contribute an additional 0.5 percent of payroll to LECOSRF for the additional eligible employees under the bill. This analysis presumes that all contributions to both systems for these members would be from General Revenue.

Based on the projected August 31, 2017 actuarial valuation, the Employees Retirement System (ERS) actuary estimates the bill would increase the unfunded actuarial accrued liability (UAAL) by \$7.9 million from \$9,481.9 million to \$9,489.8 million. Current TRS members would begin participating in ERS, providing additional payroll but have very little accrued liability in ERS. This could result in an actuarially sound total contribution rate that goes down as a percentage of payroll, from 20.17 percent to 20.01 percent for the ERS plan and from 3.18 percent to 3.12 percent for LECOSRF. These actuarially sound contribution rates are higher than the current total contribution rates of 19.50 percent for the ERS plan and 1.0 percent (plus \$19.2 million in court fees) for LECOSRF, and as such the funds would remain actuarially unsound.

Government Code, Sec. 811.006, requires that legislation providing additional benefits that increase the actuarial cost of ERS only be implemented if the state contribution to the system is 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 for the ERS fund and the LECOS fund, ERS estimates the state contribution would need to increase to 10.1 percent of payroll for the ERS Retirement fund and to 1.99 percent of payroll for the LECOS fund. ERS estimates that the additional costs to comply with statute total approximately \$73.9 million in fiscal year 2018, \$76.6 million in fiscal year 2019, \$79.1 million in fiscal year 2020, \$81.9 million in fiscal year 2021, and \$84.7 million in fiscal year 2022. These amounts do not account for a cost of living increase and are not included in the tables above.

According to TRS, there is no significant fiscal or actuarial impact to TRS. The TRS actuary estimates a decrease in UAAL of \$130 million. TRS also indicates that under the provisions of this bill, members who elect to transfer to ERS would be treated differently than members who already have service credit in both systems. In addition, there may be unanticipated logistical difficulties for members and employers when switching from TRS to ERS.

Local Government Impact

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

Source Agencies: 302 Office of the Attorney General, 323 Teacher Retirement System, 327 Employees Retirement System, 454 Department of Insurance, 644 Juvenile Justice Department

LBB Staff: UP, AG, WP, KFa