

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 16, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1906 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 HB1906, As Introduced: a negative impact of (\$8,602,352) through the biennium ending August 31, 2019. In addition, the bill would increase the unfunded actuarial accrued liability of the TRS Pension Trust Fund by an estimated \$47.0 million, and the unfunded actuarial accrued liability of the proposed Peace Officers Supplemental Retirement Fund by an estimated \$39.5 million.

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	(\$4,248,075)
2019	(\$4,354,277)
2020	(\$4,463,134)
2021	(\$4,574,712)
2022	(\$4,689,080)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund
2018	(\$4,248,075)
2019	(\$4,354,277)
2020	(\$4,463,134)
2021	(\$4,574,712)
2022	(\$4,689,080)

Fiscal Analysis

The bill would amend the Government Code related to retirement benefits to create a Peace Officers Supplemental Retirement Fund (POSRF) within the Teacher Retirement System (TRS). The bill would provide enhanced retirement benefits for certain peace officers who are members of TRS, including earlier retirement eligibility and a larger benefit multiplier (increased by 0.5 percent) for eligible members.

The bill would authorize TRS to accumulate, invest, and pay enhanced benefits from the POSRF as a separate fund. The bill specifies that supplemental retirement, disability, and death benefits to peace officers may only be funded by the Peace Officer Supplemental Retirement Fund; that all additional contributions be deposited in this fund only; and that money appropriated to this fund be used only to provide benefits established by the bill and not be diverted or used for any other purpose.

The provisions of the bill would lower the threshold for a service retirement annuity for eligible peace officers to age 55 with ten years of service or any age with twenty years of service. In addition, the standard service retirement annuity for members with at least twenty years of service would be computed on the basis of the member's highest five years of average annual compensation, multiplied by the standard percentage factor (0.23 percent), plus 0.5 percent. Members who are peace officers would be eligible to receive a combined service retirement annuity when they attain the earlier of age 57 or the rule of 80 (age plus years of service). The annuity of peace officers who retire before the age of 57 would be reduced by five percent for each year earlier than 57 at which they retire. A peace officer who retires before the age of 50 would receive a reduced annuity. Members eligible for a disability resulting from their employment as a peace officer would be eligible for an enhanced benefit if they met certain requirements, and certain spouses and dependents of deceased peace officers would be eligible for a death benefit annuity. Standard retirement and disability annuities would be capped at 100 percent of the five highest years of average annual compensation.

Members of TRS who are eligible peace officers would be required to contribute 0.5 percent of salary above what other members of TRS contribute, and the state would be required to contribute 2.13 percent of eligible peace officer salaries to the Peace Officers Supplemental Retirement Fund.

The bill would take effect September 1, 2017.

Methodology

The bill would result in a fiscal impact to the state of an estimated \$4.2 million in fiscal year 2018 and \$4.6 million in fiscal year 2019, for a 2018-19 biennial total of \$8.6 million, based on an increase of the state contribution rate from 6.8 to 8.93 percent (an increase of 2.13 percent) for the eligible salary of peace officers who are members of TRS.

These estimates are based on projected aggregate annual payroll of \$200 million for peace officers employed by school districts or institutions of higher education, based on information provided by TRS. The annual payroll growth assumption is 2.5 percent for eligible members for the 2018-19 biennium through fiscal year 2022.

In addition, the enhanced benefits established by the bill would increase the unfunded actuarial accrued liabilities (UAAL) of two separate funds administered by the Teacher Retirement System: the existing TRS Pension Trust Fund, and the proposed Peace Officers Supplemental Retirement Fund (POSRF). The UAAL of the TRS Pension Trust Fund would increase by approximately \$47.0

million, based on enhanced benefits and an anticipated increase of earlier retirements, causing the funding period to increase from 33.4 years to 33.5 years. Similarly, the POSRF would start off with an UAAL of approximately \$39.5 million due to enhanced benefits, including the 0.5 percent increase of the service retirement annuity multiplier, that would be provided for existing members on whose service time no additional contributions were made. The TRS actuary notes that contributions to the POSRF would be less than the amounts needed to pay benefits as proposed in the bill, resulting in an infinite funding period for the Peace Officers Supplement Retirement Fund. Since the actuarial impact of the new benefit changes would cause the funding periods of both the TRS Pension Trust Fund and the proposed Peace Officers Supplemental Retirement Fund to increase to a period that exceeds 31 years, passage of the bill would not be allowable under Texas Government Code, Section 821.006.

The analysis above includes only the General Revenue related impact of the state contribution of 2.13 percent established by the bill and does not include additional amounts necessary to adequately fund the POSRF as projected by the TRS actuary, estimated to be between \$3.8 and \$4.0 million per year above the state contribution proposed by the bill.

Local Government Impact

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

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, TSI