

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: HB2810 by Muñoz, Jr. (Relating to the inclusion of overtime pay in the computation of benefits for members of the Employees Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2810, As Introduced: a negative impact of (\$56,139,817) 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	(\$27,545,875)
2019	(\$28,593,942)
2020	(\$29,612,681)
2021	(\$30,660,748)
2022	(\$31,679,487)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>GR Dedicated Accounts</i> 994	Probable Savings/(Cost) from <i>Federal Funds</i> 555	Probable Savings/(Cost) from <i>State Highway Fund</i> 6
2018	(\$27,545,875)	(\$1,400,722)	(\$5,033,263)	(\$3,165,982)
2019	(\$28,593,942)	(\$1,450,748)	(\$5,213,022)	(\$3,279,053)
2020	(\$29,612,681)	(\$1,504,942)	(\$5,407,761)	(\$3,401,546)
2021	(\$30,660,748)	(\$1,554,968)	(\$5,587,521)	(\$3,514,617)
2022	(\$31,679,487)	(\$1,609,163)	(\$5,782,260)	(\$3,637,110)

Fiscal Year	Probable Savings/(Cost) from Other Special State Funds 998
2018	(\$254,159)
2019	(\$263,236)
2020	(\$273,070)
2021	(\$282,147)
2022	(\$291,980)

Fiscal Analysis

The bill would amend Government Code to include overtime in the calculation of retirement benefits for members of the Employees Retirement System (ERS) and Law Enforcement and Correctional Officer Supplement (LECOS) beneficiaries. Currently the definition of compensation excludes overtime.

The bill would take effect September 1, 2017 and only apply to members who retire on or after that date.

Methodology

ERS staff estimates that under provisions of the bill, the compensation upon which benefits are calculated would increase 5.5 percent for correctional and peace officers and 2.0 percent for employees who are not correctional or peace officers. This analysis does not include the potential of employees increasing their final years' salaries by working additional overtime. This analysis applies the current method of finance proportions to additional ERS retirement contributions and assumes that all additional LECOS contributions are 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 \$472.0 million from \$9,481.9 million to \$9,953.9 million. The ERS actuarially sound contribution rate would increase from 20.17 percent to 20.33 percent. The LECOS actuarially sound contribution rate would increase from 3.18 percent to 3.24 percent. 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 10.33 percent of payroll for the ERS Retirement fund and to 2.04 percent of payroll, plus court fees, 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.

Local Government Impact

No fiscal implication to units of local government is anticipated.

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

LBB Staff: UP, AG, NV, KFa