

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

May 27, 2021

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB321 by Huffman (Relating to contributions to, benefits from, and the administration of the Employees Retirement System of Texas.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB321, As Passed 2nd House : a negative impact of (\$678,300,000) through the biennium ending August 31, 2023.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill. ERS is required to implement a provision of this Act only if the legislature appropriates money specifically for that purpose. If the legislature does not appropriate money specifically for that purpose, ERS may, but is not required to, implement a provision of this Act using other appropriations available for that purpose.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2022	(\$339,150,000)
2023	(\$339,150,000)
2024	(\$339,150,000)
2025	(\$339,150,000)
2026	(\$339,150,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from General Revenue Fund 1	Probable Savings/(Cost) from GR Dedicated Accounts 994	Probable Savings/(Cost) from Federal Funds 555	Probable Savings/(Cost) from Other Special State Funds 998
2022	(\$339,150,000)	(\$26,010,000)	(\$85,680,000)	(\$7,140,000)
2023	(\$339,150,000)	(\$26,010,000)	(\$85,680,000)	(\$7,140,000)
2024	(\$339,150,000)	(\$26,010,000)	(\$85,680,000)	(\$7,140,000)
2025	(\$339,150,000)	(\$26,010,000)	(\$85,680,000)	(\$7,140,000)
2026	(\$339,150,000)	(\$26,010,000)	(\$85,680,000)	(\$7,140,000)

<i>Fiscal Year</i>	Probable Savings/(Cost) from State Highway Fund 6
2022	(\$52,020,000)
2023	(\$52,020,000)
2024	(\$52,020,000)
2025	(\$52,020,000)
2026	(\$52,020,000)

Fiscal Analysis

The bill would amend the Government Code to make changes to the contribution structure and retirement benefits for members of the Employees Retirement System (ERS) and Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOS) hired on or after September 1, 2022. Under the provisions of the bill, all members of ERS hired on or after September 1, 2022 would contribute six percent of pay into individual accounts, and members of LECOS hired on or after September 1, 2022 would contribute an additional two percent. In addition to required state contributions, the bill would require the state each fiscal year to make a payment in the amount necessary to amortize the system's unfunded actuarial liability not later than the fiscal year ending August 31, 2054. The bill would restructure the retirement benefit for members of both plans hired on after September 1, 2022 from a defined benefit plan to a cash balance benefit retirement plan.

The bill allows a member 60 years of age and older who has accrued enough service credit to receive the maximum annuity to retire without separating from service. A member who retires is not eligible to earn additional retirement benefits.

The bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2021.

Methodology

The bill would require the state each fiscal year to make a payment in the amount necessary to amortize the system's unfunded actuarial liability not later than the fiscal year ending August 31, 2054. Based on the results of the ERS updated actuarial valuation as of February 28, 2021, the annual level dollar actuarially determined payment necessary to amortize the system's unfunded actuarial liabilities by that year is \$510 million in all funds. The bill does not specify the methods of finance which can be used for this payment. This analysis assumes an appropriation would be proportional to the state's current contribution by method of finance. The employer provided value of the proposed cash balance provisions is largely comparable to the current defined benefit provisions.

Local Government Impact

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

Source Agencies: 327 Employees Retirement System

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