LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 26, 2011

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions, Investments & Financial Services

FROM: John S O'Brien, Director, Legislative Budget Board

IN RE: **HB2506** by Chisum (Relating to creating defined contribution retirement plans for persons eligible to participate in the Employees Retirement System of Texas and the Teacher Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2506, As Introduced: a negative impact of ($3,143,463,005) through the biennium ending August 31, 2013.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

The bill would create new defined contribution (DC) plans for newly hired state employees and teachers, who would no longer be eligible to participate in the Employees Retirement System (ERS) or the Teacher Retirement System (TRS). The state would make the same contribution into the defined contribution plans as the benefit plans, even the portion that is earmarked for amortizing unfunded liabilities.

The bill proposes that current members of these retirement plans would have the option of joining the new DC plans by transferring the current value of their benefits to personal accounts, but does not suggest what to do with accompanying unfunded liabilities. This could leave the state with unfunded liabilities for the retirement plans yet no associated payroll base. It is unlikely the IRS would allow the removal of monies already held in the retirement trust funds without revoking the tax exempt status of the funds, which would significantly increase the tax liabilites of the state. None of the additional liabilites or costs discussed in this paragraph are included in the fiscal note tables.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	($1,551,942,223)
2013	($1,591,520,782)
2014	($1,591,520,782)
2015	($1,591,520,782)
2016	($1,591,520,782)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Probable (Cost) from *State Highway Fund* 6	Probable (Cost) from *Federal Funds* 555	Probable (Cost) from *GR Dedicated Accounts* 994
2012	($1,551,942,223)	($74,955,221)	($86,057,012)	($108,705,260)
2013	($1,591,520,782)	($75,322,135)	($86,057,012)	($111,762,976)
2014	($1,591,520,782)	($75,322,135)	($85,606,367)	($111,762,976)
2015	($1,591,520,782)	($75,322,135)	($85,606,367)	($111,762,976)
2016	($1,591,520,782)	($75,322,135)	($85,606,367)	($111,762,976)

Fiscal Year	Probable (Cost) from *Other Special State Funds* 998
2012	($4,303,314)
2013	($4,324,630)
2014	($4,324,630)
2015	($4,324,630)
2016	($4,324,630)

Fiscal Analysis

The bill would require an increase in the actuarially sound state contribution rate of 7.9%, from 11.31% to 19.71% for ERS, assuming a 6 percent member contribution rate to match the proposed 6 percent state contribution rate for the 2012-13 biennium. The increase would be due to several reasons. First, some percentage of the current contribution goes to paying off unfunded liabilities for all members. Secondly, the percentage of the state contribution that goes towards paying benefits is much lower for newly hired employees, since most of them will not ever vest in the system. Thirdly, the percentage of salary needed to pay off unfunded liabilites would go up since the payroll they are based on- active members in the retirement plan- would go down.

A similar increase of 1% in the actuarially sound state contribution would be required for the Law Enforcement and Custodial Officers Retirement Fund (LECOS), going from 2.82 to 3.82 percent. TRS has indicated a 5% increase in contributions to amortize the actuarial liability would be required.

Amounts shown would decrease over time as fewer participants remain in the plan and liabilites became amortized, however the reduction in costs would take place over several decades.

Methodology

The increase in actuarially sound contribution rates for ERS would be 7.90 percent; this is applied to the same payroll base used for the General Appropriations Act as Introduced, with the 2013 payroll base used for 2014 and 2015. Similar approaches were used for LECOS and TRS, using the increase of 1.0 percent in the actuarially sound contribution rate for LECOS applied to LECOS payroll. TRS only described the increase to the contributions to amortize the unfunded liability of 5 percent, so this percentage was used instead of the increase in actuarially sound contribution rate.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System, 327 Employees Retirement System

LBB Staff: JOB, AG, SD, WM