

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 29, 2015

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB9 by Flynn (Relating to member contributions to the Employees Retirement System of Texas.), **As Engrossed**

No significant fiscal implication to the State is anticipated.

The bill would amend Government Code to increase the member contribution rate from 7.2 percent in fiscal year 2016 and 7.5 percent in fiscal year 2017 to 9.5 percent in both fiscal years and beyond. The member contribution rate would be reduced beyond fiscal year 2017 if the state contribution rate is less than 9.5 percent. The bill would also increase the contribution rate for members of the legislature from 8.0 to 9.5 percent in fiscal year 2016 and beyond.

Based on the projected August 31, 2015 actuarial valuation, the ERS actuary estimates the bill would decrease the unfunded actuarial accrued liability (UAAL) by \$49.3 million, from \$8,078.9 million to \$8,029.6 million; and that it would increase the funded ratio of assets to liabilities from 76.4 percent to 76.5 percent. The contribution rate needed to fund the normal cost and amortize the UAAL as a level percentage of payroll over 31 years would increase from 19.11 percent to 19.75 percent.

The change in the actuarially sound contribution rate is due to an increase in the projected normal cost from 11.58 percent to 12.26 percent, which was slightly offset by a decrease to the rate required to amortize the unfunded liability over 31 years, from 7.53 percent to 7.49 percent. As the member contribution rate increases, the amount of contribution refunds expected to be paid to members upon termination would also increase. Significant increases in the member contribution rate could also result in an increased number of members electing to take a refund of their contributions when compared to historical experience. Since the normal cost rate is based on the present value of all benefits that ERS is expected to pay out to plan members after their employment ceases, the normal cost rate would increase as a result of the proposed increase in the member contribution rate.

The total contribution rate of 17.50 percent under the bill is sufficient to cover the normal cost but is insufficient to pay down the existing UAAL. Therefore, the funding period would remain infinite. Note that this analysis is isolated to the provisions of this legislation and changes to either the benefit plan or to state contributions would shift the analysis.

The bill would take effect September 1, 2015.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System

LBB Staff: UP, AG, EP, EMo