



LEGISLATIVE BUDGET BOARD

Overview of State Employee Benefits

Employees Retirement System

Higher Education Group Insurance

Social Security and Benefit Replacement Pay

PRESENTED TO HOUSE APPROPRIATIONS COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

FEBRUARY 2017

Employees Retirement System – Retirement

ERS administers four retirement systems

- ERS Retirement for state employees and elected state officials
- Law Enforcement and Correctional Officers Supplement (LECOS)
- Judicial Retirement Systems (JRS) for state judicial officers
 - JRSII for those who took office on or after September 1, 1985
 - JRSI for those who took office prior to September 1, 1985
- ERS, LECOS, and JRSII are pre-funded. JRSI is pay-as-you-go.

Significant Legislation – 84th Legislature

- 84th Regular Legislature provided funding and made statutory changes to increase member and state contributions to ERS to reduce the amortization period from infinite to 35 years.
- House Bill 9 increased the member contribution to ERS Retirement to 9.5 percent of payroll and eliminated the 90-day wait to begin making contributions.
- The 2016-17 GAA provided \$333.1 million for a 2.5 percent across-the-board pay raise to offset the increased member contribution.
- The 2016-17 GAA also provided \$329.8 million to increase the state's contribution to 9.5 percent of payroll from 7.5 percent.

Retirement Funding

Recommendations in House Bill 1 maintain current contribution structures and include:

- \$1.3 billion in All Funds (\$976.7 million in GR) for Retirement
- \$17.9 million in All Funds (\$17.6 million in GR) for LECOS
- \$24.8 million in All Funds (\$15.4 million in GR) for JRSII
- \$49.8 million in All Funds for JRSI

Retirement Contribution Structures

| | State | Other | Member | Total Contributions | Actuarially Sound Contribution Rate |
|--------------|---------|-------------------------|--------|---------------------|-------------------------------------|
| ERS | 9.5% | 0.5% agency | 9.5% | 19.5% | 20.17% |
| LECOS | 0.5% | \$19.2M / yr court fees | 0.5% | 1.0% + \$19.2M | 2.44% + \$19.2M |
| JRSII | 15.663% | | 7.5% | 23.163% | 23.77% |

Percentages represent the percent of payroll contributed

Employees Retirement System – Group Insurance

- ERS administers the Group Benefits Program (GBP), which provides health insurance for state employees, higher education employees, and others.
- The Employees Life, Accident, Health Insurance and Benefits Trust Account (Appropriated Fund No. 0973) receives all revenues for the GBP, including employer and member contributions, one-percent agency and institution employer contributions, and revenues from other sources. The fund makes expenditures to cover claims and other costs.
- The fund's revenues and balances are impacted by plan experience, rebates, subsidies, and related contract agreements, revenues, and expenditures. Accumulated balances in the fund can be used for plan expenditures; the fund is often referred to as the Contingency Reserve Fund.

Group Insurance

Recommendations include \$4.2 billion in All Funds (\$2.9 billion in GR) for the state's contribution to the Group Benefits Program (GBP) for state employees.

Recommendations combine appropriated amounts of \$4.2 billion with \$260 million from the Contingency Reserve Fund to provide for 4.6 percent annual state contribution increases to cover 8.5 percent annual cost growth.

- Estimated fund balance at the end of fiscal year 2017 – \$607 million
- Estimated fund balance at the end of fiscal year 2019 – \$661 million

Higher Education Group Insurance

State contributions to Higher Education Group Insurance are based on the contribution for state agency employees. Any difference between actual premium cost and appropriated state contributions is paid by the institution.

Recommendations total \$1.4 billion General Revenue to maintain funding at the 2016-17 level for institutions of higher education except community colleges. This funding represents:

- 76.27 percent of contributions for UT and TAMU;
- 79.15 percent of contributions for Institutions that participate in ERS GBP; and
- 50 percent of contributions at Junior and Community Colleges.

Comptroller of Public Accounts

Social Security and Benefit Replacement Pay

As an employer, the state must contribute 7.65 percent of state agency and higher education employees' payroll to the federal government for Social Security (6.2 percent) and Medicare (1.45 percent).

- Recommendations include \$1.8 billion in All Funds (\$1.3 billion in GR).

Employees hired before September 1, 1995 receive Benefit Replacement Pay, which replaces an additional amount the state previously paid for Social Security contributions.

- Recommendations include \$27.9 million in All Funds (\$17.4 million in GR).



LEGISLATIVE BUDGET BOARD

Contact the LBB

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