LEGISLATIVE BUDGET BOARD

Employees Retirement System Retirement Program

2016-17 Appropriations, House Bill 9, and Cost-of-Living Adjustments

PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

APRIL 2016

Overview of Presentation

Related to the House Interim Committee Charge #6: Monitor the implementation of HB 9 (84R) and study updated projections towards actuarial soundness of the Employees Retirement System. Examine issues and costs associated with granting cost of living adjustments or “13th Checks” to retired state employees and teachers.

1. Appropriations for ERS Retirement in the 2016-17 General Appropriations Act (GAA).

2. Significant legislation from the Eighty-fourth Legislative Session affecting ERS Retirement.

3. Estimated cost of granting a cost-of-living adjustment, should ERS Retirement achieve actuarial soundness.

2016-17 General Appropriations Act

Employees Retirement System (ERS) Retirement Program

- State Contribution to ERS Retirement in the 2016-17 GAA
  - Appropriations for ERS Retirement provide for a 9.5% state contribution rate in each year of the 2016-17 biennium (Rider 4, State Contribution to Employees Retirement Program, in ERS Bill Pattern).
  - Appropriations also continue the 0.5% agency contribution (Art. IX, Sec. 17.08, Additional Payroll Contribution for Retirement Contribution).
  - The combined state and agency contribution rate of 10.0% is equal to the maximum contribution rate set by the Texas Constitution (Article XVI, Sec. 67 (b)(3)).

ERS Retirement Appropriation and Contribution History

FISCAL YEAR	EXPENDED/ APPROPRIATED in ALL FUNDS (in millions)	EXPENDED/ APPROPRIATED IN GR-RELATED FUNDS (in millions)	STATE CONTRIBUTION RATE	MEMBER CONTRIBUTION RATE
2013	$367.5	$244.0	6.5%	6.5%
2014	$442.0	$293.4	7.5%	6.6%
2015	$457.0	$300.9	7.5%	6.9%
2016	$610.3	$438.5	9.5%	9.5%
2017	$615.5	$444.0	9.5%	9.5%

Note: Since FY 2014, state agencies also contribute 0.5% of payroll.

SOURCE: Legislative Budget Board.

Significant Legislation – 84^{th} Legislature

House Bill 9 – Relating to the Employees Retirement System of Texas

- Increases the member contribution rate to ERS Retirement
  - Increases from 7.2% of payroll in FY 2016 and 7.5% in FY 2017 to 9.5% in each year of the 2016-17 biennium and beyond.
  - Member contribution rate would be reduced proportionally beyond FY 2017 if the state contribution rate is less than 9.5%.
  - Prior to this, the 83^{rd} Legislature implemented tiered statutory increases to the member contribution with the rate set at 7.2% in FY 2016 and 7.5% in FY 2017.

Significant Legislation, continued

House Bill 9 – Relating to the Employees Retirement System of Texas

- Increases the member contribution rate to ERS Retirement
  - Art. IX, Sec. 18.02, Appropriation for a Salary Increase for General State Employees, in the 2016-17 GAA provides funding totaling an estimated $332.0 million in All Funds for a 2.5% across-the-board pay raise in FY 2016 for employees that contribute to ERS Retirement.
  - Pay raise intended to offset the impact of member contribution increase from 7.2% to 9.5% in FY 2016 under House Bill 9.
  - Employees still see net decrease in take home pay because the member contribution rate in FY 2015 was 6.9%.

Significant Legislation, continued

House Bill 9 – Relating to the Employees Retirement System of Texas

- Eliminates the 90-day membership waiting period for ERS Retirement
  - Allows for retirement contributions by the state and members to begin on the first day of employment.
  - Additional appropriations included in Art. IX, Sec. 18.11, Contingency for House Bill 9 total an estimated **$32.0 million** in All Funds for the 2016-17 biennium.
  - State expenditures related to elimination of the 90-day waiting period total **$8.6 million** through February 29, 2016.

Significant Legislation, continued

House Bill 9 – Relating to the Employees Retirement System of Texas

- Changes enacted by HB 9 and the state contribution increase were projected to reduce the funding period from infinite to 32 years and result in an actuarially sound contribution rate of 19.57%.
- As of the August 31, 2015 actuarial valuation
  - the funding period is **33 years**; and
  - the Actuarially Sound Contribution Rate is **19.62%**
- The total 19.50% contribution to ERS retirement is 0.12% below the actuarially sound contribution rate.

Cost-of-Living Adjustment Background

Cost-of-living adjustments (COLAs) to retirees.

- The last ad-hoc COLA for retirees was granted by the 77th Legislature. The COLA was provided in January 2002 to all annuitants who were retired as of September 1, 2001. ERS has never provided regular COLAs to retirees.
  - The most recent COLA was based on a personalized calculation comparing the year of retirement to the Consumer Price Index in December 2001 and affected approximately 50,000 annuitants.
  - ERS also increased annuities at this time based on a legislative change to the multiplier from 2.25% to 2.3%.
  - There was no cost to the state at the time because the annuity increases were paid out of the ERS Retirement trust fund.

Statutory COLA

The 83rd Legislature passed SB 1459 which added a statutory cost-of-living adjustment that permanently increases annuities for certain ERS retirees.

- **Government Code, Sec. 814.604** directs ERS to provide for a one-time cost-of-living adjustment (COLA) for those retired for 20 or more years, by the lesser of 3% or $100 per month.
  - The COLA may only be granted if the board of trustees finds that this action would not make the fund actuarially unsound.
- If the COLA were triggered by the findings of the August 31, 2016 actuarial valuation, ERS estimates that the adjustment would impact approximately 16,700 annuitants, or 16.7% of the retiree population.
  - However, under current assumptions and practices, the COLA is not anticipated to take effect at that time.

Estimated Cost of COLA

The following table summarizes the actuarial and funding impact of the COLA, as described in statute.

ACTUARIAL ACCRUED LIABILITY	UNFUNDED LIABILITY INCREASE	ACTUARIALLY SOUND CONTRIBUTION RATE	ADDITIONAL COST TO STATE
$59.1 million	$59.1 million	0.05%	$3.4 million/year

- Because the COLA was not funded during the retiree's working career, the impact is to create an immediate unfunded liability.
- According to ERS, the legislature could choose to appropriate a lump sum to pay off the additional COLA-related liability or could appropriate an additional $3.4 million each year to amortize the additional COLA-related liability over 31 years.
- However, any additional appropriations at this time would exceed the 10% constitutional maximum.

Note: All estimates are based on information from the August 31, 2015 actuarial valuation

SOURCE: Employees Retirement System.

Contact the LBB

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