HOUSE RESEARCH ORGANIZATION bill analysis | 5/18/2001 | SB 292 Armbrister (Telford) (CSSB 292 by Tillery)

SUBJECT: ERS health benefit and retirement revisions

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 6 ayes — Tillery, Woolley, Crownover, Salinas, Goodman, Telford

0 nays

3 absent — George, Rangel, Williams

SENATE VOTE: On final passage, April 20 — voice vote

WITNESSES: For — Gary Anderson, Texas Public Employees Association; Ted Raab, Texas State Employees Union; *(Registered but did not testify:)* Julia Johnson; Larry McGinnis, Texas Department of Public Safety Officers Association

Against — None

On — Sheila Beckett, Employees Retirement System

BACKGROUND: Established by constitutional amendment in 1947, the state Employees Retirement System (ERS) provides retirement, death, and disability benefits to state employees and elected officials. It administers the Texas Employees Uniform Group Insurance Program (UGIP), which provides life, accident, and health benefits for state employees, elected officials, judges, and retirees. It also administers two judicial retirement programs and supplemental retirement programs for state law enforcement and custodial officers. ERS has more than 152,000 active members and about 42,000 retirees. It assets have a market value of more than $19.5 billion.

DIGEST: CSSB 292 would amend various provisions of current law regarding state employees' health benefit and retirement programs. It would:

- increase the multiplier used to determine the retirement benefit from 2.25 percent to 2.3 percent;

- allow accumulated unused sick-leave credit and unused annual leave to be included in calculating a survivor's death benefit;
- allow the establishment of up to 60 months of equivalent service credit by paying the actuarial present value of each month of the additional service credit;
- allow a retiree to authorize the deduction of state employee organization dues directly from monthly benefit payments;
- provide that a beneficiary designation that named a former spouse for a guaranteed optional annuity would be invalid unless the designation was made after the divorce;
- change the multiplier for the standard disability retirement annuity from 2 percent to 2.3 percent;
- change the payment of survivor benefits for law enforcement and emergency services personnel from when a child turns 21 to the child's 18th birthday;
- modify the definition of "minor child" to include a child who is not a biological or adopted child but who is claimed as a dependent in the employee's federal income-tax return;
- retain provisions making Texas Workforce Commission, Texas Department of Human Services, Texas Department of Mental Health and Mental Retardation, and Texas Department of Health (TDH) employees eligible for early retirement due to privatization or other reductions in workforce that occur before September 1, 2001; and
- provide for a cost-of-living adjustment of annuities based on the U.S. Consumer Price Index.

Administrative changes. CSSB 292 would change administrative procedures by:

- requiring the ERS board to adopt an investment program that includes a code of ethics;
- requiring records of retirees, beneficiaries, and alternative payees to be kept confidential and to be exempt from public disclosure;
- creating an administrative process and sanctions for those who commit fraud against the ERS insurance program, including expulsion from the program, denial of a claim, or requirement of reimbursement;
- requiring the board to adopt rules on the use of debit cards or other technology for claims administration; and

- authorizing ERS and its insurance carriers or health maintenance organizations to collect, furnish, or exchange information, including medical records or other confidential information, to detect or impose a sanction for a criminal act, misrepresentation, or nondisclosure in an effort to obtain coverage, payment, reimbursement, or benefits from ERS.

CSSB 292 would repeal provisions that allow:

- establishment of service credit for employment in a school system in another state;
- temporary service retirement options for employees whose positions with TDH's Texas Center for Infectious Diseases were eliminated;
- some employees 60 years of age or older to receive up to 60 months of additional service credit for retirement;
- temporary service retirement options for people employed by TDH's South Texas Hospital on or before September 1, 2000;
- collection of membership fees;
- the ERS executive director to rescind insurance coverage in cases of misrepresentation or fraud; and
- creation of a group benefits advisory committee.

This bill would take effect September 1, 2001, except for the provision allowing the purchase of additional service credit, which would take effect January 1, 2002.

SUPPORTERS SAY:

By raising the multiplier for retirement benefits, CSSB 292 would make the overall retirement package more attractive for state employees. Maintaining a competitive benefit package is important for keeping experienced employees and reducing turnover.

State employees generally like the retirement system's feature of a guaranteed benefit amount. ERS' conservative investment policy has been successful during the recent stock market expansion, and those decisions have increased the assets available to the system. By requiring an investment policy, including a code of ethics, CSSB 292 would help ensure the continuing success of the investment program.

Changing the calculation of the survivor's benefit to include unused sick leave and annual leave credit would mirror the current formula for members' retirement benefits. Unused accumulated sick and annual leave could change the level of the benefit significantly. It would be only fair to increase the benefit to the survivor on the basis of leave due to an employee who died before retirement.

The ERS fund has no unfunded liability, and additional future costs are not expected to occur. If they should occur, those costs should be insignificant and easily absorbed by the fund.

The provisions relating to early retirement options for employees whose jobs are terminated due to privatization would recognize the loyalty and the career aspirations of state employees whose jobs and benefit levels change for reasons beyond their control. Many state jobs are being shifted to county and local government responsibility, such as the transfer of state administration of many mental health and mental retardation services to local community centers. Employees in these situations may remain employed in the same job, even in the same facility, but be employed by a local employer whose benefit plans are much less generous than the state's benefits.

OPPONENTS SAY:

All state agency employees should have an early retirement option if their jobs are eliminated by privatization. Under CSSB 292 and current law, only the employees of four agencies would be eligible.

NOTES:

Major changes made by the committee substitute to the Senate engrossed version include:

- requiring the ERS board to adopt an investment policy that includes a code of ethics;
- increasing the multiplier for calculating annual retirement benefits from 2.25 to 2.3;
- removing a provision regarding an employee's entitlement to service credit previously credited for sick leave that has accumulated and was unused on or before September 1, 2000; and
- requiring that a state employee organization have at least 2,500 members before it could qualify for an optional deduction by a retiree.