

SUBJECT: ERS contributions and benefits

COMMITTEE: Pensions — committee substitute recommended

VOTE: 5 ayes — Callegari, Branch, Frullo, P. King, Stephenson  
2 nays — Alonzo, Gutierrez

WITNESSES: For — Maura Powers, AFSCME; Lindsay Vogtsberger, Cerner Corporation; (*Registered, but did not testify*: Doug Ervin, Cerner Corporation; Ann Hettinger)

Against — (*Registered, but did not testify*: Deborah Ingersoll, Texas State Troopers Association)

On — Gary Anderson, Texas Public Employees Association; Ann Bishop, ERS; Elizabeth Blount, Retired State Employees Organization; Shea Guinn, Game Warden Peace Officers Association; Ray Hymel, Texas Public Employees Association; Jimmy Jackson, Department of Public Safety Officers Association; Harry Nanos, Texas Alcoholic Beverage Commission Officers Association; (*Registered, but did not testify*: Mike Ewing, ERS; Christopher Hanson, Pension Review Board)

DIGEST: (*This analysis reflects the author's intended floor amendments.*)  
CSHB 1882, with the proposed floor amendments, would make numerous changes to the Employees Retirement System of Texas (ERS). It would place civilian state employees and law enforcement/corrections officers into separate plans.

The bill would authorize a cost-of-living increase for retirees if certain actuarial conditions were met. It would require a dedicated contribution of .5 percent of payroll from state agencies.

For employees hired after September 1, 2013, the bill would:

- base their retirement annuity on the 60 highest months of compensation, rather than the 48- or 36-month calculations used for current employees, depending on when they were hired;
- set age 62 instead of age 60 as the threshold below which a retiree's

- annuity would be subject to a 5 percent reduction per year; and
- increase the normal retirement age for law enforcement or corrections officers from 55 to 57, with 20 years of service.

**Contribution rates.** Beginning September 1, 2013, civilian employees' contribution rates would increase from 6.5 percent to 7.5 percent of their compensation. Contribution rates for members of the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF) would increase from 7 percent to 8 percent.

The bill would decrease from 5 percent to 2 percent the annual interest on money in each member's individual account that is used to compute the amount paid when an employee withdraws accumulated funds in lieu of receiving a retirement annuity. The provisions would apply only to interest accrued after January 1, 2014.

**Retiree health care.** CSHB 1882 would implement tiered health insurance premium contributions for retirees in the Group Benefits Program (GBP), based on their years of service. Employees with 10 years of contributions to GBP as of September 1, 2014 would be exempted from these provisions.

Beginning September 1, 2014, the state would pay 100 percent of premium costs for employees who retired with 20 years of service, 75 percent for retirees with 15 years of service, and 50 percent for retirees with 10 years of service.

**Other provisions.** CSHB 1882 would change the calculation of the 90-day period for new employees to join GBP. It would raise from 25 to 26 the age when coverage ended for an unmarried dependent child.

The bill would decrease from 40 to 30 the minimum number of hours per week an employee would have to work in order to be considered a "full-time employee." It would add a definition of eligible dependents to include a child for whom the participant served as managing conservator.

Retirees could opt to receive service credit instead of a lump-sum payment for accrued vacation time and could make changes related to divorce decrees.

ERS would be entitled to obtain criminal history record information on

candidates for appointment or election to the ERS board or a board advisory committee. The information also would be allowed for consultants, contract employees, independent contractors, interns, and volunteers.

The bill would extend liability protection to advisory committee members appointed by the board.

CSHB 1882 would authorize a one-time cost-of-living adjustment of 3 percent or at least \$100 for those who had been retired 20 years, based on a finding by the ERS board that, as determined by an actuarial valuation, the amortization period for ERS' unfunded actuarial liabilities does not exceed 30 years by one or more years.

The bill would take effect September 1, 2013.

**SUPPORTERS  
SAY:**

CSHB 1882, with the proposed floor amendments, would provide a balanced approach to strengthening the ERS retirement fund that shares responsibility among the state, the employer, and the employee. Over time, it would help get the system closer to actuarial soundness.

The bill would preserve the defined benefit pension plan as an important component of state employees' compensation package. It would recognize the contributions of career employees and make sensible benefit changes for new employees hired after September 1, 2013. It would maintain the "rule of 80" and grandfather all current state employees from being subjected to any of the eligibility changes.

The bill would reward longer term employees with higher health insurance contributions in retirement. While some future retirees with fewer years of service would have to pay more for health insurance, the changes only would apply to members with less than 10 years of covered GBP participation going forward. These changes are not significant enough to prompt a rush to retire.

Interest earnings paid on members' retirement accounts would be more in line with market rates. It does not make sense for the state to pay above-market rates when employees who leave state service withdraw their accumulated funds in lieu of receiving a retirement annuity.

Current retirees would not be affected by any reduction in benefits and

CSHB 1882 would create an opportunity for retiree cost-of-living increases if the fund became more actuarially sound in the future.

For law enforcement officers and prison guards, the bill would provide separate accounting to reflect the true costs of each plan.

**OPPONENTS  
SAY:**

CSHB 1882, with the author's planned floor amendments, represents a significant improvement for current state employees than earlier versions. However, it would not adequately address the real problem of chronic state underfunding.

For 18 of the past 20 years, the Legislature has failed to contribute at levels that could have made the fund actuarially sound. While the Senate and House versions of the general appropriations bill would increase contributions for fiscal 2014-15, more is needed.

The increase in employee contributions would be a de facto pay cut that particularly would be felt by the lowest-paid workers.

**OTHER  
OPPONENTS  
SAY:**

CSHB 1882, with the author's planned floor amendments, would represent a failed opportunity to make more significant changes to improve the fund's stability. A prior version of the bill would have lowered the actuarial costs of ERS by \$989 million and represented a significant move toward actuarial soundness, according to the Legislative Budget Board's actuarial impact statement. The difficulty in gaining a consensus to implement those changes resulted in a watered-down effort.