BILL ANALYSIS

C.S.H.B. 4534
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Pensions, Investments & Financial Services
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The Employees Retirement System of Texas (ERS) has a funded ratio of only 66 percent and an unfunded liability of roughly $15 billion. There have been calls for the state to implement reforms to ERS to improve its financial health and ensure that it is able to remain solvent for generations of state employees yet to come. C.S.H.B. 4534 seeks to answer those calls and provide for a study of certain potential reforms.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 4534 requires the Employees Retirement System of Texas (ERS) to conduct a study to evaluate the following potential reforms designed to improve the financial health of ERS, including the feasibility and anticipated financial impact of implementing the reforms:

- transitioning from providing retirement benefits to ERS members under a defined benefit plan to providing those benefits under the following:
    - a defined contribution plan;
    - a hybrid pension plan that combines elements of a defined contribution plan and a defined benefit plan;
    - a cash balance pension plan that provides individual accounts for plan members; and
    - another retirement plan commonly used by other states;
- adopting changes to the existing defined benefit plan that are designed to reduce unfunded ERS actuarial accrued liabilities and achieve actuarial soundness, including:
    - increasing the state contribution rate;
    - changing the minimum employee retirement eligibility age;
    - changing the formula to calculate annuities provided under the plan; and
    - reductions in employee benefits; and
- implementing a pension revenue enhancement plan under which a life insurance policy or other financial product or benefit is purchased under the plan for eligible ERS members and annuitants who elect to enroll in the plan.

The bill requires ERS, in conducting the study, to review and evaluate retirement plans and systems in other states for best practices and financial outcomes, taking into consideration the overall performance of those plans based on any unfunded liability balance and the strengths and weaknesses of those plans in attracting and maintaining a competitive workforce.

C.S.H.B. 4534 requires ERS, not later than September 1, 2022, to report its findings and recommendations to the governor, the lieutenant governor, the speaker of the house of representatives, and each member of the legislature. The bill requires ERS to include in those recommendations specific statutory and regulatory changes that ERS determines necessary or appropriate to implement the recommendations. The bill authorizes ERS to consult with anyone it determines appropriate to conduct the study and prepare the report. The bill's provisions expire September 15, 2022.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2021.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 4534 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute includes a provision not in the original establishing that the purpose of the study is to evaluate the potential reforms that are designed to improve the financial health of ERS.

The substitute revises the potential reforms to be studied as set out in the original by doing the following:

- with respect to the plans from which ERS may transition, including a defined contribution plan among the plan types for which ERS must evaluate for such a transition;
- with respect to the list of potential changes to the existing designed benefit plan that ERS must study:
    - specifying that, with respect to the requirement to evaluate changing the state's contribution to ERS and changing the employee retirement eligibility age, ERS must evaluate increasing that rate and changing the minimum retirement age;
    - specifying that, in evaluating a reduction of the amount of benefits provided under the plan, ERS must evaluate potentially offering members the option to receive partial lump sum payments in lieu of a portion of their annuity in a specified manner; and
    - including as a potential reform to be studied implementing a pension revenue enhancement plan under which a life insurance policy or other financial product or benefit is purchased under the plan for eligible ERS members and annuitants.

The substitute includes a requirement for ERS, in conducting the study, to review and evaluate the retirement plans and systems established in other states, whereas the original requires ERS to review the pension and retirement systems established in other states. The substitute includes a requirement that did not appear in the original for ERS to make certain considerations in reviewing and evaluating such plans and systems.

The substitute revises the original's authorization for ERS to consult with the Pension Review Board, the Legislative Budget Board, and other entities in conducting the study and preparing the report to provide that ERS may consult with those two particular agencies, as well as outside experts, the Texas Department of Insurance, and other state agencies that ERS deems appropriate.

The substitute includes a requirement not included in the original for ERS to include recommendations in its report following the study, including specific statutory and regulatory changes. The bill omits a requirement from the original that the report include estimates of the state's potential cost savings associated with adopting each of the potential reforms studied.

The substitute includes a provision not included in the original that makes the bill temporary and sets its provisions to expire September 15, 2022.