HOUSE
RESEARCH
ORGANIZATION bill analysis 4/20/95

HB 2283
Kuempel

SUBJECT: Texas County and District Retirement System revisions

COMMITTEE: Pensions and Investments — favorable, without amendment

VOTE: 8 ayes — Telford, Johnson, Averitt, Berlanga, Haggerty, McCall, Rangel, Wilson

0 nays

1 absent — Willis

WITNESSES: None

BACKGROUND: The County and District Retirement System (TCDRS) is a statewide pension system that administers retirement, disability and death benefits for employees in participating counties and political subdivisions, except cities and school districts. The 251 counties and 232 political subdivisions participating in TCDRS are separately funded in the system.

The plans are funded through employer and employee contributions that are either fixed and/or determined annually. TCDRS is a defined contribution plan, which means that benefits are based on contributions and investment earnings.

The TCDRS nine-member board, appointed by the governor from TCDRS membership, invests the $4-billion pooled portfolio, 98 percent of which is invested in government-insured bonds.

DIGEST: HB 2283 would make revisions in the Texas County and District Retirement System (TCDRS) including:

• permitting a TCDRS member to increase the employer contribution rates from 3 percent to 4 percent above the employee contribution rate and to reduce employee contribution rates to maintain or restore benefit levels and actuarially match assets to liabilities;

• eliminating the specific list of authorized investments and allowing the boards of trustees to invest the funds according to the prudent person rule;

• allowing retired members to continue receiving retirement benefits if they go to work for another county or political subdivision in TCDRS;

• requiring that retirement benefits, except those to an alternate payee under a qualified domestic relations order, would be suspended to retirees who return to work in the county or political subdivision from which they were retired;

• allowing county employees who receive supplemental salary to elect not to make contributions to the county's TCDRS plan;

• amending statutory language to conform with Sec. 415 of the Internal Revenue Service Code, which limits retirement plan compensation to 100 percent of taxable compensation earned three and one-half years prior to retirement;

• establishing three additional optional retirement provisions regarding annuities paid to dead members' beneficiaries;

• allowing beneficiaries or the estate of a vested member who died before retiring to elect to receive a 10-year pay-out;

• prohibiting a person convicted of killing a member or retiree from receiving the dead person's retirement benefits (the benefits would be paid to the next beneficiary or the estate); and

• allowing the board of trustees to own property housing the system offices, lease office space it owns and sell property that previously housed the system's offices.

The bill would take effect September 1, 1995, except for the provisions regarding investing system assets would take effect immediately if approved by a two-thirds vote of the membership of each house.

SUPPORTERS SAY:

HB 2283 would revise the TCDRS to assure that the system maintains compliance with the IRS Code and retains its tax-exempt status. The bill would also allow the system to increase employer contributions by up to 4 percent over employee contribution rates and lower employee contribution rates to assure a proper mix of contributions to pay retirement benefits. Another change would clarify the law regarding the system's policy on reemployment and allow retirees of one TCDRS participant to continue receiving an annuity if they go to work for another TCDRS participant. Other changes are technical in nature. None of the changes would affect the actuarial soundness of the system.

The bill would permit judges, who are paid supplemental salaries from counties, to choose not to participate in a county retirement system fund. Judicial pension plans are very generous, causing retirements benefits to be more than allowed by the IRS — 100 percent of salary prior to retirement. The bill would not require judges to pay a county plan from which they could not collect any retirement benefits because of the IRS rule.

The real estate provisions would make it clear that the board of trustees could own their old office building while they are constructing a new office building. The board has voted to sell the old building as soon as possible, and the bill would allow them time to sell the building once they have moved into their new offices.

Eliminating the investment laundry list would provide the needed flexibility to invest in today's market, leaving the board of trustees the strict fiduciary responsibility to invest its pension funds under the prudent person rule. Almost all pension funds investments are governed according to the prudent person rule, which by definition prevents risky investing. Although TCDRS's $4-billion portfolio is invested almost 100 percent in government-insured bonds, the prudent person rule would allow trustees to make other investments if needed.

OPPONENTS SAY:

The list of permissible investments was established to ensure that investments made by TCDRS are conservative and risk free. Allowing TCDRS to invest under the prudent person rule and eliminating the permissible list of investments would give less assurance that fund investments are secure.

NOTES: The companion bill, SB 1270 by Montford, was referred to the Senate State Affairs Committee.