

SUBJECT: Purchasing ERS and TRS service credit through payroll deductions

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 6 ayes — Telford, Woolley, Goolsby, Rangel, Serna, Tillery

0 nays

3 absent — Berlanga, Sadler, Williams

WITNESSES: For — Brock Gregg, Association of Texas Professional Educators; Ann Fickel, Texas Classroom Teachers Association; Mike Lehr, Texas Retired Teachers Association; Marjorie Wall, Texas State Teachers Association; Lane Zively, Texas Public Employees Association

Against — None

On — Andrea Cowan, Comptroller's Office; Ronnie Jung and Randy Mercer, Teacher Retirement System; William S. Nail, Employees Retirement System

BACKGROUND : Members of the Employees Retirement System (ERS) and the Teacher Retirement System (TRS) may purchase creditable service in order to increase the total number of years on which their retirement benefits are based. Members may purchase refunded service previously cancelled and up to five years of military service.

TRS also allows employees who leave TRS employment for active military service to purchase service. TRS service can also be purchased for up to two years of developmental leave; out-of-state service, sick and personal leave, eligible unreported service, and waived service between 1937 and 1949. TRS members may purchase service with a lump sum payment, on a monthly installment plan, or by making a down payment and monthly installment payments on the remaining balance.

ERS members may purchase service with a lump sum payment, in one-year increments, or through monthly payments deducted from the employee's state salary.

For both ERS and TRS, the cost to purchase service and the interest charged vary with the type of service purchased.

DIGEST: CSHB 1780 would allow the ERS board of trustees to adopt rules providing alternative ways for members to establish or reestablish ERS service, including allowing for payroll deduction methods.

The bill would require that TRS allow members to establish or reestablish service credit by making monthly payroll deduction payments for up to five years. Members who ceased TRS employment or stopped making monthly payments would be allowed a refund or prorated credit for service purchased. The bill would specify that payments could not be made to establish service credit for a person who had already retired or died; however, a beneficiary could make a single lump sum payment to finish purchasing service in the event of a member's death. The TRS board of trustees could adopt rules to administer the provisions of the bill.

CSHB 1780 would take effect September 1, 1997.

SUPPORTERS SAY: CSHB 1780 would make it easier for members of TRS and ERS to purchase service credit by providing more options over a longer time period. The bill would implement recommendations of the latest Texas Performance Review report, *Disturbing the Peace*, in which the Comptroller's Office suggested that procedures be liberalized to allow members of both retirement systems to purchase service through payroll deductions. Many teachers and state employees do not have the means to make lump sum payments or to repurchase service within a year's time; this bill would give more ERS and TRS members the opportunity to purchase retirement service credit and retire earlier.

OPPONENTS SAY: Making it easier for TRS and ERS members to purchase or repurchase service credit in each system could cost the retirement systems millions of dollars a year. As it stands, the cost to ERS for purchased service is \$17 million a year. At the very least, members should be required to pay an actuarially determined rate of interest for purchasing system credit instead of a flat 5 percent charge.

NOTES:

The original version of the bill would have required the interest rate on established service in ERS to be based on actuarial recommendations rather than at 5 percent, as in current law and would have placed in the ERS statute similar provisions to those of TRS for allowing monthly payroll deductions for purchasing service.

The companion bill, SB 1188 by Armbrister, has been referred to the Senate State Affairs Committee.