HOUSE
RESEARCH
ORGANIZATION bill analysis 5/23/97

SB 1102
Armbrister (Telford, et al.)
(CSSB 1102 by Telford)

SUBJECT: Employees Retirement System (ERS) revisions and benefit increases

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Telford, Woolley, Goolsby, Serna, Tillery

0 nays

4 absent — Berlanga, Rangel, Sadler, Williams

SENATE VOTE: On final passage, April 18 — 29-0

WITNESSES: For —Carolyn Genereux, Michael Gross and Rosie Torres, Texas State Employees Union; Billy D. Ivey, Department of Public Safety Officers Association; Larry McGinnis; Dee Simpson; Wayne Johnson; E. V. Kitterlin; Michael Vaclav, Texas Dental Association; Lane A. Zivley, Texas Public Employees Association

Against — Lisa McGiffert, Consumers Union

On — Robert Kane and David Lacy, University of Texas System; Marty McCartt Texas Performance Review, Comptroller's Office; William S. Nail, Employees Retirement System

BACKGROUND: The Employees Retirement System (ERS) has more than 150,000 active members and about 30,000 retirees and assets with a market value of more than $12.3 billion. Established by constitutional amendment in 1947, ERS provides retirement death and disability benefits to state employees and elected officials. It administers the Texas Employees Uniform Group Insurance Program, which provides life, accident and health benefits for state employees, elected officials, judges and retirees. In addition, it administers the two judicial retirement programs, JRS I and JRS II, and the supplemental retirement programs for state law enforcement and custodial officers.

DIGEST:

CSSB 1102 would increase the retirement benefit multiplier from 2 percent to 2.25 percent and would increase retirement, disability, and death benefits for members and their survivors in the employee class by 12.5 percent for those retiring between September 1, 1996, and August 31, 1997. In addition, the bill would allow the ERS board of trustees to provide all ERS retirees and their survivors with one supplemental payment (13th check) in fiscal 1998, if the ERS actuaries certified the expenditure would not increase the amortization period beyond 31 years.

The bill would offer temporary service retirement options to employees of the Texas Workforce Commission, Texas Department of Human Services and Texas Department of Mental Health and Mental Retardation affected by privatization or other workforce reductions before September 1, 1999. These members would be given three years of service and age if doing so would allow them to retire immediately. Their retirement benefits would reflect the additional three years' service. Members of these agencies who would not be eligible to retire immediately would be given five years of age and service for purposes of determining retirement eligibility. Their retirement annuities would not be affected.

The bill would make a number of other changes to ERS:

- Members could retire if their age and years of service combined totalled 80 or more.

- The ERS board could make rules allowing alternative methods for members to pay for establishing or reestablishing service credit other than a lump-sum payment.

- Members of the elected class could establish service credit for any calendar year during which they held office or were eligible to take the oath of office by paying a lump sum amount plus 10 percent annual interest and membership fee dues.

- A fraction of a month of sick leave could be rounded up to a whole month for determining service eligibility.

- ERS could not use any money under its control to influence the outcome of an election or support or defeat the passage of legislation.

- A separate, nonqualified, unfunded excess benefit plan could be created to pay certain retirees benefits above the federal limits imposed by Section 415 of the Internal Revenue Code.

- Judges could retire with unreduced benefits at age 65 with 10 years of service or at any age with 20 years of service. Judges in JRS II could use military service credit for retirement eligibility.

- Custodial officers could transfer service credit between the Texas Department of Criminal Justice and the managed health care unit of the University of Texas Medical Branch and the Texas Tech Health Sciences Center.

The bill would delete language requiring that the Uniform Group Insurance Benefits Program basic coverage include benefits and health care service required by state and federal law and would repeal Art. 3.50-2 of the Insurance Code pertaining to the Texas Employees Uniform Group Insurance Benefits Act.

The bill would take effect September 1, 1997.

SUPPORTERS SAY:

CSSB 1102 would provide ERS retirees, who do not receive automatic cost-of-living benefit hikes, with a much needed 12.5 increase in their retirement benefits. The system is flush with money and should return these funds to members in form of increased benefits. In addition, the bill would continue the “13th” check for the next fiscal year, giving retirees an added bonus.

The bill would provide generous benefits for members working for the Texas Workforce Commission, Texas Department of Human Services and the Texas Department of Mental Health and Mental Retardation who lose their state jobs as a result of privatization or reductions in workforce in fiscal 1998 and fiscal 1999. The additional “free” years of service and age would help those employees retire earlier if they could not find new jobs.

The bill also would make it easier for ERS members to purchase service credit, fulfilling a recommendation by the latest Texas Performance Review report *Disturbing the Peace*, which suggested making it easier for members of ERS to purchase service through payroll deductions. Many 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 of them the opportunity to purchase retirement service credit over time and retire earlier.

The bill would repeal an unnecessary section of the Insurance Code referring to ERS health plans. The repeal would not mean that ERS planned to violate federal and state laws regarding qualified health care plans. ERS has always been above board and will continue this practice.

OPPONENTS SAY: Repealing Insurance Code provisions pertaining to the Texas Employees Uniform Group Insurance Plan ERA administers would lead some to believe that the system is attempting to exempt itself from state regulation regarding qualified health care plans.

NOTES: The substitute placed the retirement multiplier increase in statute instead of making it at the option of the board; provided that employees could retire with a combination of years of service and age totalling 80; and added additional benefits for employees affected by privatization and workforce reductions.