HOUSE
RESEARCH
ORGANIZATION bill analysis 5/7/2003

HB 3208
Heflin

SUBJECT: Lump-sum payments to retiring state employees at eligibility

COMMITTEE: Government Reform — favorable, without amendment

VOTE: 5 ayes — Swinford, Allen, Casteel, R. Cook, T. Smith

0 nays

2 absent — Gallego, Callegari

WITNESSES: For — Andrew Homer, Texas Public Employees Association

Against — None

On — Susan Biles, Texas State Comptroller

DIGEST: HB 3208 would add Government Code, sec. 814.1051, a temporary provision for lump-sum payments to certain retiring Employees Retirement System members during the fiscal 2004-2005 biennium. A member who was eligible to retire and receive a service annuity on or after August 31, 2003, and before September 1, 2005, would be eligible to receive a one-time lump-sum payment.

To receive a lump-sum payment, a member who was eligible to retire on August 31, 2003, would have to retire on that date and a member who became eligible to retire after August 31, 2003, but before September 1, 2005, would have to retire in the month in which that member first became eligible. The one-time payment would be an amount equal to 25 percent of the member's total regular salary for the 12-month period preceding the month in which the employee retired. The lump sum would be paid as a single payment at the same time as the retiree's first annuity payment, unless the comptroller by rule specified another date. ERS would report to the comptroller at least once each month the number of retiring members who were eligible to receive a lump-sum payment. The bill would not apply to a member who retired for a disability.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003. It would expire on January 1, 2006.

SUPPORTERS SAY:

HB 3208 would offer a lump-sum bonus of 25 percent of current annual salaries to encourage eligible state employees to retire in their first month of eligibility in the fiscal 2004-2005 biennium. This would allow the state to reduce its work force and save money without resorting to additional layoffs or salary reductions.

This bill would implement a proposal of the comptroller's e-Texas report *Limited Government, Unlimited Opportunity* in response to budgetary concerns. According to the report, declining revenues forced 40 states to consider or enact budget cuts in fiscal 2002. Many of these states developed retirement incentives to cut payroll costs.

Texas paid previous retirement incentives from surpluses in the ERS fund. Due to an increased benefit multiplier enacted in the last session, however, the ERS fund has been significantly reduced. If the fund is to remain healthy, the state cannot offer an increased benefit multiplier as an early retirement incentive.

Riders in both the House and Senate versions of HB 1, the general appropriations bill, contingent on enactment of HB 3208 or its Senate companion, SB 897 by Averitt, would follow the comptroller's suggestion to fund the cost of the early retirement incentives from reduced payrolls from the increased number of retirees. For each state employee who received a lump-sum retirement incentive payment, the comptroller would reduce agency appropriations by 35 percent of the employee's final salary for the remainder of the biennium. Bonuses would be paid from the appropriations as reduced. Amounts not necessary to provide for lump-sum retirement incentives would be transferred to the unappropriated balances in the originating fund. Both riders assume a net general revenue savings of $32.8 million in fiscal 2004-2005.

OPPONENTS SAY:

While this bill would create incentives for some state employees to retire early and create a savings, other pending legislation may contradict its purpose by making retirement less attractive for others. Minimum eligibility for retirement with health insurance currently is either age 60 or older with at least 10 years service or the employee's service credit, plus age, equaling 80 (the "rule of 80"), with at least five years service. CSHB 3441 by Pickett, reported from the Appropriations Committee on May 6, would establish the minimum eligibility for retiree health insurance to begin at age 65 with 10 years of service or satisfying the rule of 80. While CSHB 3441 would create savings at one end, it would require some employees to wait to retire in order to qualify for health insurance, creating a disincentive for some ERS members to retire early.

NOTES:

According to the Legislative Budget Board, HB 3208 would have a positive impact estimated at $21.1 million through the 2004-2005 biennium. The probable net positive impact would be $2.7 million for fiscal year 2004 and $18.4 million for 2005.

An identical companion bill, SB 897 by Averitt, has been referred to the Senate State Affairs Committee.

Both the House and the Senate versions of the general appropriations bill for fiscal 2004-2005, HB 1 by Heflin, contain a contingency appropriation for the early retirement incentives in HB 3208 or SB 897.