HOUSE
RESEARCH
ORGANIZATION bill analysis

SB 522
Armbrister
(Eiland)
(CSSB 522 by Griggs)

5/17/2005

SUBJECT: Revisions to the Texas Emergency Services Retirement System

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 7 ayes — Eiland, Flynn, Griggs, Krusee, McClendon, Rodriguez, Straus

0 nays

SENATE VOTE: On final passage, April 7 — 31-0, on Local and Uncontested Calendar

WITNESSES: No public hearing

BACKGROUND: The Texas Statewide Emergency Services Personnel Retirement Fund serves volunteer firefighters, volunteer emergency medical services (EMS) personnel, and members of part-paid and part-volunteer fire departments. Currently, 176 local departments participate in this fund, which has net assets of more than $38 million. The fund is administered by the Office of the Firefighters' Pension Commissioner and is governed by a nine-member board appointed by the governor, six of whom must be active members of the fund and one of whom must represent EMS personnel.

V.A.C.S., art. 6243e.3 includes specific eligibility requirements for retirement, disability and death benefits. The board may authorize cost-of-living increases for any pension benefit with legislative approval. Each governing body of a participating department must contribute for each member at least $12 for each month of service, which can be prorated if the department serves more than one subdivision. The Legislature is required to make the fund actuarially sound, but appropriated funds cannot exceed one-third of total annual contributions by participating departments.

DIGEST: CSSB 522 would repeal V.A.C.S., art. 6243e.3 and add to the Government Code a new subchapter governing the Texas Emergency Services Retirement System. The bill would remove from statute specific requirements relating to eligibility for pension benefits and would allow the board, by rule, to establish the following:

- periods for full and partial vesting of benefits;
- a minimum contribution level;
- a multiplier or formula to be used in computing benefits;
- the method of providing an increase in benefits for service in excess of the vesting period;
- an increase in local contributions for the purpose of funding the plan's unfunded actuarial accrued liability within 30 years;
- a lump sum payment for certain annuities, if it would be more cost-efficient or if it were necessary to maintain actuarial soundness;
- an administrative fee to be charged to governing bodies for administering benefits to persons who were transferred to another retirement system; and
- changes to meet Internal Revenue Service requirements.

CSSB 522 would require a department to participate in the fund for at least five years (departments joining after September 1, 2005 could not revoke participation); broaden the definition of "qualified service" to include other kinds of training besides drills, prohibit two administrative hearings on the same issue, and prohibit appeal of a board decision to a district court. The bill would maintain the requirement that the state contribute up to one-third of the aggregate departmental contributions if the fund became unsound.

The bill would take effect September 1, 2005.

SUPPORTERS SAY:

CSSB 522 would help correct funding and plan design problems facing the Texas Statewide Emergency Services Personnel Retirement Fund, which has been determined to be actuarially unsound — i.e., not sufficiently funded to provide current and future benefits to retirees over the next 30 years. The fund has experienced significant funding problems as a result of the downturn in the stock market, the failure of the state to pay a portion of contributions as required by statute, and the board's lack of flexibility to determine eligibility and benefits. Although current benefits are not in danger, the fund could be exhausted within the next 20 years unless pension plan problems are corrected.

CSSB 522 would give the board the flexibility it needs to address funding issues on an ongoing basis by adjusting benefits or eligibility for benefits as necessary to protect fund solvency. A related bill, HB 1655 by Keffer, would meet the state's contribution requirement by authorizing a one-time credit of a portion of premium taxes on fire insurance and allied lines.

Together, these measures should help ensure the stability of the fund and protect pension benefits for volunteer firefighters and EMS personnel many years into the future.

Even though the board would be given greater authority and flexibility, the fund would continue to be carefully managed by internal staff and external investment managers. The board employs an actuary, investment consultant, custodian, accountant, and investment managers to provide professional management of the fund. All investments are managed externally by professional investment managers and reviewed quarterly. These professionals would continue to be good stewards of the fund's assets.

OPPONENTS SAY:

CSSB 522 would give the board too much authority to oversee the fund. Some limitations and eligibility requirements should remain in statute and be subject to legislative approval so that elected officials continue to have some input into the operation of the fund.

NOTES:

According to the fiscal note, the bill would cost the state approximately $350,000 per year, beginning in fiscal 2008, due to an increase in state contributions driven by a board-mandated increase in minimum local contributions.

HB 1655 by Keffer, which would authorize a one-time credit to the fund from premium taxes on fire insurance and allied lines, passed the House on May 13.