

- SUBJECT:** Commissioning a study of certain state retirement system reforms
- COMMITTEE:** Pensions, Investments and Financial Services — committee substitute recommended
- VOTE:** 9 ayes — Anchia, Parker, Capriglione, Muñoz, Perez, Rogers, Slawson, Stephenson, Vo
- 0 nays
- WITNESSES:** For — Rod Bordelon, Texas Public Policy Foundation; (*Registered, but did not testify*: Hope Osborn, Texas 2036)
- Against — (*Registered, but did not testify*: Joe Hamill, AFSCME Texas Corrections and AFSCME Texas Retirees; Dena Donaldson, Texas AFT; Tyler Sheldon, Texas State Employees Union; Laura Atlas Kravitz, Texas State Teachers Association)
- On — Ann Bishop, Texas Public Employees Association
- BACKGROUND:** Concerns have been raised about the roughly \$15 billion unfunded liability in the Employees Retirement System of Texas. Some have called for a study to evaluate potential reforms designed to improve the financial health of the retirement system.
- DIGEST:** CSHB 4534 would require the Employees Retirement System of Texas (ERS) to conduct a study to evaluate potential reforms to improve the financial health of the retirement system.
- The study would have to include the feasibility and anticipated financial impact of transitioning from providing retirement benefits to members of the system under a defined benefit plan to providing those benefits under:
- a defined contribution plan;
 - a hybrid pension plan that combined elements of a defined contribution plan and a defined benefit plan;

- a cash balance pension plan that provided individual accounts for plan members; and
- another retirement plan commonly used by other states;

It also would have to consider adopting changes to the existing defined benefit plan that were designed to reduce the unfunded actuarial accrued liabilities of the system and achieve actuarial soundness, including:

- increasing the state contribution rate;
- changing the minimum age at which members were eligible to retire;
- changing the formula used to calculate annuities provided under the plan; and
- reducing the amount of benefits provided under the plan, including the potential of offering members the option to receive partial lump sum payments in lieu of a portion of the member's annuity in a manner that ensured the amount of the lump sum payment was less than the actuarial present value of the portion of the annuity forfeited by the member;

The study also would have to examine implementing a pension revenue enhancement plan under which a life insurance policy or other financial product or benefit was purchased under the plan for members and annuitants of ERS who were eligible for and elected to enroll in the plan.

Other states' plans. ERS would be required to review and evaluate the retirement plans and systems in other states for best practices and financial outcomes. The study would have to consider the overall performance of other states' plans based on the unfunded liability balances, if any, of those plans and the strengths and weaknesses of other states' plans in attracting and maintaining a competitive workforce.

Report. ERS could consult with anyone the system determined appropriate to conduct the study and prepare the required report, including outside experts and other state agencies, including the State Pension Review Board, the Legislative Budget Board, and the Texas Department

of Insurance.

ERS would report the system's findings and recommendations to the governor, the lieutenant governor, the House speaker, and members of the Legislature by September 1, 2022. The bill's provisions would expire September 15, 2022.

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, 2021.