

SUBJECT: Establishing a cash balance benefit for Judicial Retirement System Plan 2

COMMITTEE: Pensions, Investments & Financial Services — favorable, without amendment

VOTE: 7 ayes — Capriglione, Lambert, Bhojani, Frazier, Plesa, VanDeaver, Vo
1 nay — Bryant
1 absent — Leo-Wilson

SENATE VOTE: On final passage (April 12) — 31 - 0

WITNESSES: None (*considered in a formal meeting on April 20*)

BACKGROUND: Concerns have been raised about the future depletion and unfunded liabilities of the Judicial Retirement System of Texas Plan Two (JRS-2). Some have suggested that the stability of JRS-2 could be improved by establishing a cash balance benefit retirement plan for new judges.

DIGEST: SB 1245 would establish a cash balance annuity for certain members of the Judicial Retirement System of Texas Plan Two (JRS-2) who took office on or after September 1, 2024.

Definitions. The bill would define "accumulated account balance" as the total of amounts in a member's individual retirement account, including:

- amounts deducted from the compensation of the member;
- other member deposits required to be placed in the member's individual account; and
- interest credited to amounts in the member's individual account, including interest and gain sharing interest credited.

"Cash balance group member" would mean a member subject to the cash balance benefit established by the bill.

Eligibility. A member of JRS-2 would be eligible to participate in the program if the member took office on or after September 1, 2024, and was not a member on the date that the member took office.

A member would be eligible to retire and receive a cash balance annuity if the member was:

- at least 60 years old and had at least eight years of service credited in the retirement system; or
- at least 50 years old and had at least 12 years of service credited in the retirement system.

Application. A member could apply for a cash balance annuity by filing an application for retirement with the board of trustees. Applications could not be made after the date the person wished to retire or more than 90 days before a member wished to retire.

Standard cash balance benefits for members. The state match for the cash balance benefit would be an amount computed by multiplying the member's accumulated account balance by 150 percent.

The Employees Retirement System of Texas (ERS) would be required to compute a member's standard cash balance annuity by taking the sum of the member's accumulated account balance and the state match, and annuitizing that amount over the life expectancy of the member as of the effective date of the member's retirement using mortality and other tables adopted by the board of trustees.

Optional cash balance benefits. A retiring member could elect to receive an optional cash balance annuity instead of the standard cash balance annuity. A person that selected such an option would be required to designate one beneficiary to receive the annuity upon the death of the person making the annuity. An individual also could select multiple beneficiaries to receive the annuity upon the retirees' death, if the optional lifetime cash balance annuity was for a guaranteed period.

The individual would be allowed to select from a number of options for a lifetime cash balance annuity established in the bill, varying in the portion of the annuity payable, the timeline of payments, and how many payments must be made prior to the retiree's death. The bill would prohibit the computation of an optional cash balance annuity based on the gender of the annuitant or designated beneficiary.

A person who selected an optional cash balance annuity could not change or revoke a beneficiary designation after the person's effective date of retirement, with the exception of certain conditions relating to divorce in which the annuity would be recomputed as a standard cash balance annuity. The bill also would provide for a beneficiary predeceasing a retiree, in which case the reduced annuity would be increased to the standard cash balance annuity.

Partial lump-sum cash balance option. A member who was eligible for a cash balance annuity could select a partial lump-sum distribution with either a standard cash balance annuity or an optional cash balance annuity. The cash balance annuity selected by the member would be actuarially reduced to reflect the lump-sum option selected by the member. Additionally, the bill would require the cash balance annuity to be actuarially equivalent to a standard or optional cash balance annuity, and result in no actuarial loss to ERS.

The lump-sum distribution:

- could not exceed the sum of 36 months of a standard cash balance annuity;
- would have to be made as a single payment payable at the time that the first monthly annuity payment was paid; and
- would be required to be deducted from any amount otherwise payable under the provisions of the bill.

The bill would establish provisions related to the selection, eligibility requirements, and administration of the lump-sum option.

Death and disability benefits. Under the bill, members, retirees, and beneficiaries who qualified for a death or survivor benefit annuity or a disability retirement annuity would be entitled to a cash balance annuity.

Collection of member contributions. Each payroll period, departments or agencies of the state would be required to deduct 6 percent of the compensation of the member for contribution to the retirement plan.

Annual interest adjustment. Each fiscal year, ERS would be required to deposit an amount equal to 4 percent of the member's accumulated account balance into the member's individual retirement account.

Gain sharing interest adjustment. The bill would require ERS to compute, each fiscal year, the gain sharing interest rate by:

- determining the average return on the investment of the system's cash and securities during the preceding five fiscal years, expressed as a percentage rate;
- subtracting four percentage points from the percentage rate; and
- multiplying the resulting difference by 50 percent.

Each fiscal year, ERS would, for a retiree or annuitant who was receiving a cash balance annuity, including for an alternate payee, take the following actions:

- in addition to the amount deposited, deposit into each member's individual retirement account an amount equal to the gain sharing interest rate for the fiscal year multiplied by the member's accumulated account balance as of the end of the preceding fiscal year; and
- recalculate the annuity payment of a retiree or annuitant.

The bill would establish that the gain sharing interest rate could not be less than zero or more than 3 percent.

State contribution for military service. The bill would require the state

to contribute for military service in an amount that would be determined using the ratio of the member's contribution for the service required of a member of the retirement system. The state's contribution would have to be paid from the fund from which the member was receiving compensation or most recently received contribution.

Resumption of full-time judicial service. The bill would provide for retirees who resumed service as full-time judges to elect to rejoin the retirement system under certain conditions specified by the bill.

Conforming changes. The bill would make conforming changes throughout to integrate the cash balance group into existing rules regarding retirement systems, including specifying certain provisions in statute that would not apply to the cash balance group.

Conflicts of law. The bill would specify that its provisions would preempt any conflicting laws or administrative rules.

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, 2023.

The bill would apply to a retiree of JRS-2 who resumed service as a judicial officer before, on, or after the effective date. The board of trustees could adopt rules necessary and enter into certain contracts for the purposes of implementing the provisions of the bill.