

**Employees Retirement System
Summary of Budget Recommendations - House**

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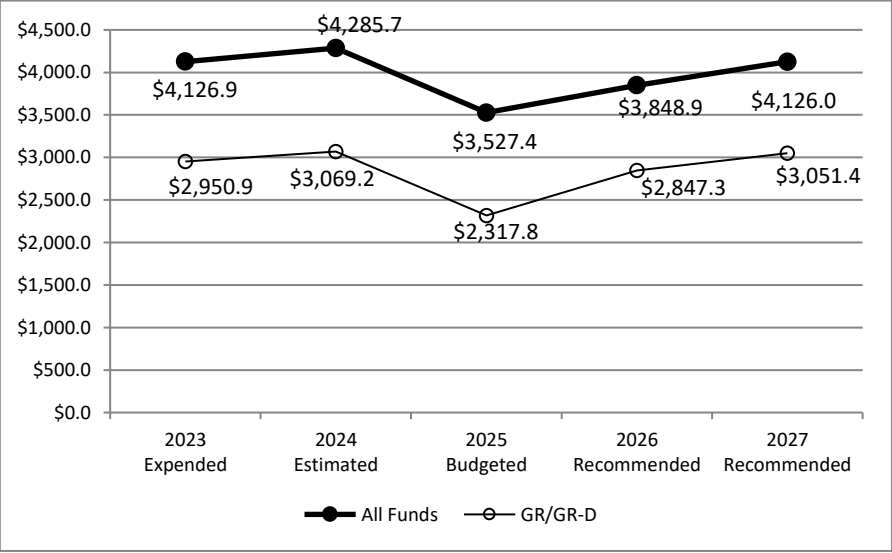
Method of Financing	2024-25 Base	2026-27 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$5,072,138,124	\$5,537,642,754	\$465,504,630	9.2%
GR Dedicated Funds	\$314,781,869	\$361,012,440	\$46,230,571	14.7%
<i>Total GR-Related Funds</i>	<i>\$5,386,919,993</i>	<i>\$5,898,655,194</i>	<i>\$511,735,201</i>	<i>9.5%</i>
Federal Funds	\$1,627,625,332	\$1,150,996,721	(\$476,628,611)	(29.3%)
Other	\$798,529,542	\$925,220,992	\$126,691,450	15.9%
All Funds	\$7,813,074,867	\$7,974,872,907	\$161,798,040	2.1%

Agency Budget and Policy Issues and/or Highlights

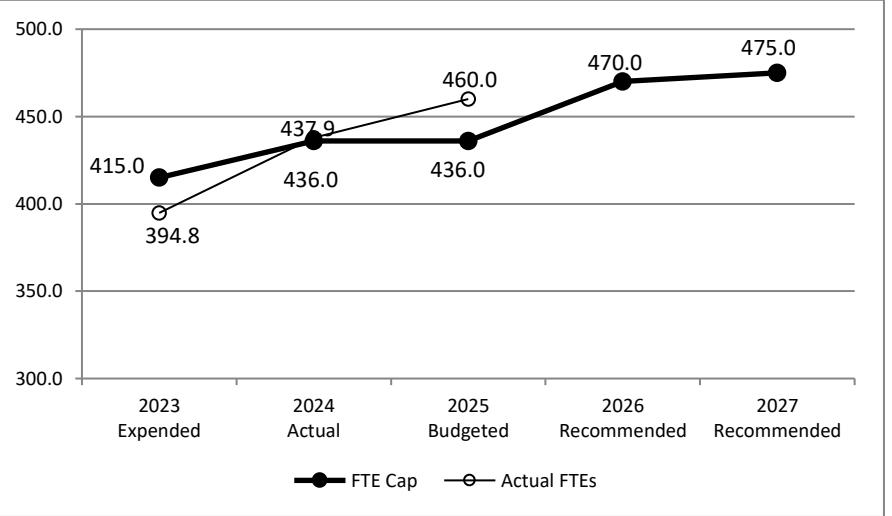
The substantial decrease in Federal Funds is largely due to the provisions of Article IX, Sec. 18.01, American Rescue Plan Act Appropriations, of the 2024-25 General Appropriations Act. This section appropriated \$5.4 billion in federal ARPA funds for salaries and associated benefits to the Texas Department of Criminal Justice in the 2024-25 biennium. The Federal Funds have been replaced with General Revenue for the 2026-27 biennium, and this increase to General Revenue is offset by onetime appropriations in the 2024-25 biennium to pay off the unfunded liabilities in the LECOS and JRS II programs.

The bill pattern for this agency (2026-27 Recommended) represents an estimated 11.0% of the agency's estimated total available funds for the 2026-27 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



**Employees Retirement System
Summary of Funding Changes and Recommendations - House**

Funding Changes and Recommendations for the 2026-27 Biennium compared to the 2024-25 Base Spending Level (in millions)	General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
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SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):

A)	Increase in state contributions for ERS Retirement due to payroll growth. The substantial increase in General Revenue funds and substantial decrease in Federal Funds is due to the provisions of Article IX, Sec. 18.01. This section appropriated \$5.4 billion in federal ARPA funds for salaries and associated benefits to the Texas Department of Criminal Justice in the 2024-25 biennium. The Federal Funds have been replaced with General Revenue for the 2026-27 biennium.	\$345.4	\$4.7	(\$183.0)	\$17.7	\$184.8	A.1.1
B)	Decrease in funds for the LECOS retirement plan for certain law enforcement officers due to the removal of \$772.0 million in one-time funding to pay off the unfunded liability of this plan. This decrease was somewhat offset by the increase in state contributions from 0.5 percent to 1.75 percent of payroll for members of LECOS.	(\$766.0)	\$0.1	\$0.0	\$0.0	(\$765.9)	A.1.2
C)	Decrease in funds for the the JRS II retirement program for judges due to the removal of \$99.0 million in one-time funding to pay off the unfunded liability of this plan.	(\$99.0)	\$0.0	\$0.0	(\$0.0)	(\$99.0)	A.1.3
D)	Increase in funds for the Public Safety Death Benefits program due to a projected increase in the lump sum payments for this program. The lump sum payment for this program is \$611,136 to the survivors of certain first responders killed in the line of duty on or after September 1, 2025.	\$16.4	\$0.0	\$0.0	\$0.0	\$16.4	A.1.5
E)	Increase in state contributions to the Group Benefits program due to growth among active and retired members and an 8 percent increase in premiums each year of the biennium.	\$954.0	\$41.4	(\$293.7)	\$109.1	\$810.8	B.1.1
F)	Increase in funding for Probation Health Insurance due to an 8 percent increase in premiums each year of the biennium.	\$13.6	\$0.0	\$0.0	\$0.0	\$13.6	B.1.2

OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):

G)	Decrease in funding for the JRS I retirement program for judges of \$71,175 for the biennium due to a decrease in membership for this plan which only applies to those judges hired before September 1, 1985.	(\$0.1)	\$0.0	\$0.0	\$0.0	(\$0.1)	A.1.4
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**Employees Retirement System
Summary of Funding Changes and Recommendations - House**

Funding Changes and Recommendations for the 2026-27 Biennium compared to the 2024-25 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
H)	Increase for Retiree Death Benefits due to an anticipated increase in claims.	\$1.2	\$0.0	\$0.0	\$0.0	\$1.2	A.1.6
TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)		\$465.5	\$46.2	(\$476.6)	\$126.7	\$161.8	As Listed
<i>SIGNIFICANT & OTHER Funding Increases</i>		\$1,330.6	\$46.2	\$0.0	\$126.7	\$1,026.7	As Listed
<i>SIGNIFICANT & OTHER Funding Decreases</i>		(\$865.1)	\$0.0	(\$476.7)	(\$0.0)	(\$864.9)	As Listed

NOTE: Totals may not sum due to rounding.

**Employees Retirement System
Selected Fiscal and Policy Issues - House**

1. **Employees Retirement System.** Recommendations for the 2026-27 biennium total \$1.8 billion in All Funds (\$1.3 billion in General Revenue-Related Funds) for the system that provides a defined retirement benefit to state employees and elected officials. This is an All Funds increase of \$184.8 million (11.1 percent) and a General Revenue-Related increase of \$350.1 million (37.0 percent). Recommendations are based on the following assumptions:
- Continued state and agency contribution rates of 9.5 and 0.5 percent respectively;
 - 0.93 percent payroll growth for state agency employees in fiscal years 2025, 2026, and 2027;
 - Replacement of federal ARPA funds with General Revenue in the 2026-27 biennium for salaries and benefits at the Texas Department of Criminal Justice;
 - FTE growth at the Health and Human Services Commission, the Texas Department of Criminal Justice, and the Texas Department of Transportation; and
 - Funding for salaries and associated benefits to biennialize the statewide salary adjustments included in the 2024-25 appropriations.

Information from ERS' August 31, 2024 Actuarial Valuation revealed the following:

- The amortization of the period of the system is 30 years, which is a decrease from the 31 years in August 31, 2023 actuarial valuation.
- The funded ratio at the end of fiscal year 2024 was 72.0%, which is an increase from 70.8 percent at the end of fiscal year 2023.
- The unfunded actuarial accrued liability was \$13.9 billion at the end of fiscal year 2024, which is a decrease from the \$14.0 billion at the end of fiscal year 2023.
- The one year rate of return was 12.53 percent at the end of fiscal year 2024 compared to 6.75 percent at the end of fiscal year 2023.
- The five year average rate of return was 9.66 percent at the end of fiscal year 2024 compared to 7.75 percent at the end of fiscal year 2023.
- The ten year average rate of return was 7.83 percent at the end of fiscal year 2024 compared 8.04 percent at the end of fiscal year 2024.
- The market value of assets of the system was \$37.5 billion at the end of fiscal year 2024 compared to \$34.2 billion at the end of fiscal year 2023.

2. **Cost of Living Increase.** In January 2025, ERS provided a cost of living adjustment (COLA) to members who have been retired for 20 years or more as of December 31, 2024. Legislation passed in 2013, which established Government Code, Section 814.604, creating this COLA, but it can only be implemented when the ERS plan is determined to be actuarially sound. That determination was made at the December ERS board meeting.

The COLA is the lesser of 3 percent of a person's gross monthly pension or \$100 per month, whichever is less. ERS projects 25 percent of current retirees are eligible for the COLA and anticipates the cost to be slightly over \$100 million. The rate of return on investments is expected to help cover this cost. The liabilities associated with this COLA are included in annual actuarial funding valuations and therefore will not result in a change in the funding status or amortization period for the plan.

The COLA is considered one-time because members who have not been retired at least 20 years by the end of December 2024, will not be eligible for this benefit once they have reached 20 years of retirement.

3. **Law Enforcement and Custodial Officers Supplemental (LECOS) Retirement Fund.** LECOS provides a supplemental retirement benefit to certain law enforcement and custodial officers in addition to their benefit as state employees through the ERS plan. Recommendations for the 2026-27 biennium total \$76.5 million in All Funds and \$76.1 million in General Revenue-Related Funds, which continue the contribution structure from the 2024-25 biennium. That contribution structure is comprised of a member contribution rate of 0.5 percent of payroll for those hired before September 1, 2022 and 2.0 percent for those hired on or after September 1, 2022; a state contribution rate of 1.75 percent of payroll (regardless of then the person was hired), and anticipated annual court fees of \$15 million.

The recommendation of \$76.5 million in All Funds represents a decrease of \$765.9 million from the 2024-25 biennium due to the removal of \$772.0 million in one-time funding to pay off the unfunded liability of this plan. This decrease was somewhat offset by the increase in state contributions from 0.5 percent to 1.75 percent of payroll for members of LECOS. As a result of paying off the unfunded liability and increasing the state contribution rate, the 2024 Actuarial Valuation indicates this fund is now actuarially sound, with a funded ratio of 101.5 percent.

4. **Judicial Retirement System Plan Two (JRS II).** JRS II provides a defined retirement benefit to state judicial officers who first took office on or after September 1, 1985. Recommendations for the 2026-27 biennium total \$36.5 million in All Funds and \$26.3 million in General Revenue Funds. Judicial Fund No. 0573, \$8.4 million, and Other Special State Funds, \$1.9 million, comprise the remainder of the estimated appropriation. Recommendations continue the contribution structure from the 2024-25 biennium of a state contribution of 19.25 percent of payroll and a member contribution rate of 9.5 percent for those hired before September 1, 2024 and a member contribution rate of 6.0 percent for those hired on or after September 1, 2024.

The recommendation of \$36.5 million in All Funds represents a decrease of \$99.0 million from the 2024-25 biennium due to the removal of \$99.0 million in one-time funding to pay off the unfunded liability of this plan. The 88th Legislature increased the state contribution rate from 15.663 percent to 19.25 percent of payroll for members of JRS II. As a result of paying off the unfunded liability and increasing the state contribution rate, the 2024 Actuarial Valuation indicates this fund is now actuarially sound, with a funded ratio of 99.3 percent.

The 88th Legislature passed Senate Bill 1245, which established a cash balance benefit for JRS II members who join the plan on or after September 1, 2024. The plan includes a guaranteed 4.0 percent annual interest and gain sharing interest of up to 3.0 percent on member accounts, lump-sum and survivor's benefit retirement options, and a 6.0 percent member contribution rate.

5. **Public Safety Death Benefits.** Chapter 615 of the Government Code provides for a lump sum payment by the state to the survivors of certain public law enforcement and firefighting personnel who are killed in the line of duty. The lump-sum amount is adjusted each year by the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U). The lump sum payment for a death occurring on or after September 1, 2024 is \$611,136.

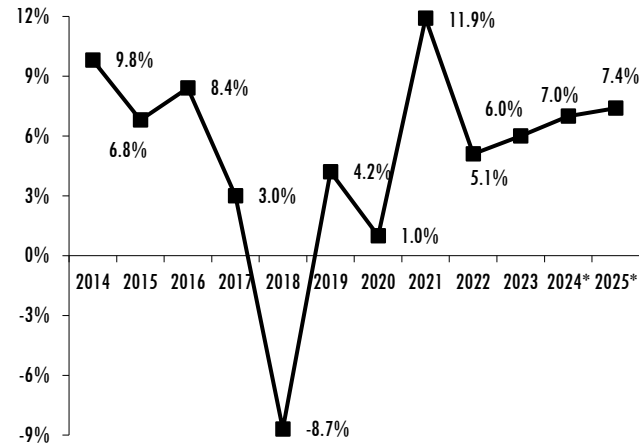
Recommendations for the 2026-27 biennium total \$99.3 million in All Funds and General Revenue-Related Funds. This is an increase of \$16.4 million from the 2024-25 biennium. According to ERS, this increase is due to the expected increase in the lump sum amount from changes in the CPI-U.

6. **Group Benefits Program (GBP).** Recommendations include \$4.7 billion in All Funds (\$3.3 billion in General Revenue-Related Funds) to provide state employees and retirees with health and life insurance. This is an increase over the previous biennium of \$810.8 million in All Funds (20.9 percent). Recommendations assume that:
- the state will continue to contribute the full cost of member-only group insurance and fifty percent of family coverage;
 - full-time-equivalent employment levels will grow at the Health and Human Services Commission, the Texas Department of Criminal Justice, and the Texas Department of Transportation; and
 - retiree membership will grow 3.4 percent in fiscal years 2025, 2026 and 2027, while active membership will grow just over 1 percent.

Recommendations also include an 8 percent increase in GBP premiums for each year of the 2026-27 biennium. This rate increase results in a need of an additional \$520.7 million in All Funds (\$362.0 million in GR and GR-Dedicated funds) for the biennium for the GBP program. The rate increase also results in an additional \$16.5 million in All Funds and General Revenue-Related Funds for Probation Health Insurance over the biennium. The 8 percent rate increase also requires an adjustment to the cost for Higher Education Group Insurance, though the impact on costs is different than for the GBP.

According to ERS, this increase to the GBP is needed due to increasing health care costs, especially pharmacy costs, and the expected depletion of the contingency reserve fund balance in fiscal year 2029. ERS last asked for an exceptional item for the GBP during the 85th Legislative Session for the 2018-19 biennium.

Health Select Cost Trends Since Fiscal Year 2014 Projected Through Fiscal Year 2025



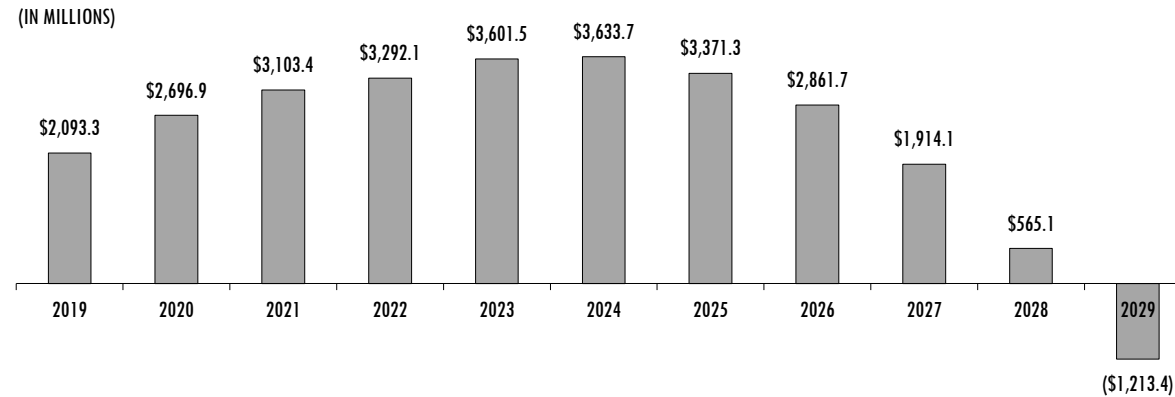
Source: Employees Retirement System of Texas.
 *FY 2024 and FY 2025 figures are projected.

The figure above shows that the projected health cost trends are 7.0 percent for fiscal year 2024 and 7.4 percent for fiscal year 2025. These cost trends are a combination of medical cost trends and pharmacy cost trends. While actual medical costs are significantly higher than pharmacy costs (for HealthSelect self-funded plans, the medical cost was \$2.4 billion in fiscal year 2023, while the pharmacy cost was \$609.5 million), pharmacy costs are increasing more than medical costs. For example, the medical cost trend was 2.7 percent in fiscal year 2022, 3.1 percent in fiscal year 2023, 6.9 percent in fiscal year 2024, and is projected to be 5.6% in fiscal year 2025. The pharmacy cost trend was 11.4 percent in fiscal year 2022, 12.8 percent in fiscal year 2023, 7.2 percent in fiscal year 2024, and is projected to be 11.3 percent in fiscal year 2025.

According to ERS, the main contributors to increased pharmaceutical costs are two medications that are prescribed to treat diabetes and that also result in significant weight loss. These drugs are Ozempic and Mounjaro, otherwise known as GLP-1 agonist medications. According to ERS, those two medications are extremely popular, highly effective, and extremely costly, at approximately \$700 per month net of rebates. The medications also must be used continuously, like maintenance medication, which adds to their cost. According to ERS' Group Benefits Program Annual Report for fiscal year 2023, these medications accounted for 42.0 percent of the \$218.3 million increase in plan year 2023 spent on all drugs.

The Contingency Reserve Fund receives all revenues for the Group Benefits Program (GBP) and makes expenditures to cover claims costs. Section 1551.211(a) of the Texas Insurance Code requires ERS to maintain funds in the reserve to cover expenditures for an average 60 day period. According to ERS, without the 8 percent increase in premiums, this fund is projected to be depleted in fiscal year 2029, as illustrated by the following figure:

Group Benefits Plan Contingency Reserve Fund Balance Since Fiscal Year 2019, Projected through Fiscal Year 2029



Note: Figures are in millions; fiscal years 2024 to 2029 are projected.
 Source: Employees Retirement System of Texas.

8. **Legal Authority and Trust.** The Texas Constitution directed the Legislature to establish the Employees Retirement System and Government Code §815.103 provides that the ERS Board of Trustees 1) shall hold all retirement system assets in trust for the exclusive benefit of the members and annuitants, and 2) administer all operations funded by trust assets for the same purpose. Statute specifies that the Board and executive director may acquire, manage, and sell any of the system’s assets, and exempts ERS from some statutory requirements such as certain contracting and risk management practices.

ERS’s status as a constitutionally-created agency and its trust fund structure are both uncommon among state agencies. In practice, ERS operates from three pension trusts and the Group Benefits Program trust. Legislative appropriations made to ERS are deposited into the appropriate trust and administrative expenses are allocated across respective funds. The balance at the beginning of fiscal year 2026 is estimated to be \$45.9 billion for these four funds.

Estimated Balances of ERS Trust Funds at the Beginning of Fiscal Year 2026

Trust Fund	Estimated Balance at the Beginning of Fiscal Year 2026
ERS Retirement Trust Fund	\$39,844,528,614
LECOS Trust Fund	\$2,138,068,075
JRS II Trust Fund	\$773,081,334
Insurance Fund (for the Group Benefits Program)	\$3,125,738,077
TOTAL OF ALL	\$45,881,416,100

**Employees Retirement System
Rider Highlights - House**

Modification of Existing Riders

2. **Informational Listing of Appropriated Funds.** Revise rider to reflect benefit recommendations for the 2026-27 biennium.
4. **State Contribution to Employees Retirement Program.** Revise rider to reflect retirement benefit recommendations for the 2026-27 biennium.
8. **Excess Benefit Arrangement Account.** Revise rider to delete section providing a contingency for the enactment of Senate Bill 1245, 88th Regular Session.

Article IX.

- 17.03 **Payroll Contribution for Group Health Insurance.** Revise rider to reflect estimates for the 2026-27 biennium. Delete section (f) as the Texas Higher Education Coordinating Board (THECB) no longer has any role in the administration of this section for public community/ junior colleges. According to the agency, public community/ junior colleges work directly with ERS on the administration of this section.
- 17.06 **Additional Payroll Contribution for Retirement Contribution.** Revise rider to reflect estimates for the 2026-27 biennium.

The following riders include recommendations to remove obsolete language, make conforming changes such as updating fiscal years and amounts to reflect funding recommendations, and clarify deadlines:

- Rider 5, State Contribution to the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS).
- Rider 6, State Contribution to Judicial Retirement Program (JRS-2).
- Rider 7, State Contribution to Group Insurance for General State Employees.
- Rider 11, Appropriations for the Deferred Compensation Trust Fund and the TexaSaver Trust Fund.
- Rider 12, Tobacco User Monthly Premium Fee.

**Employees Retirement System
Items Not Included in Recommendations - House**

	2026-27 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2028-29
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items Not Included (in agency priority order)

No exceptional items are requested by this agency.						
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TOTAL Items Not Included in Recommendations

**Employees Retirement System
Appendices - House**

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* Appendix is not included - no significant information to report

**Employees Retirement System
Funding Changes and Recommendations by Strategy - House -- ALL FUNDS**

Strategy/Goal	2024-25 Base	2026-27 Recommended	Biennial Change	% Change	Comments
ERS RETIREMENT PROGRAM 1.1.1	\$1,661,145,580	\$1,845,920,671	\$184,775,091	11.1%	Recommendations reflect an increase of \$184.8 million in All Funds from the 2024-25 biennium based on the following assumptions: - Continued state and agency contribution rates of 9.5 and 0.5 percent respectively; - 0.93 percent payroll growth for state agency employees in fiscal years 2025, 2026, and 2027; - Replacement of federal ARPA funds with General Revenue in the 2026-27 biennium for salaries and benefits at the Texas Department of Criminal Justice; - FTE growth at the Health and Human Services Commission, the Texas Department of Criminal Justice, and the Texas Department of Transportation; and - Funding for salaries and associated benefits to biennialize the statewide salary adjustments included in the 2024-25 appropriations.
LECOS RETIREMENT PROGRAM 1.1.2	\$842,376,644	\$76,516,000	(\$765,860,644)	(90.9%)	Recommendations reflect a decrease of \$765.9 million in All Funds from the 2024-25 biennium due to the removal of \$772.0 million in one-time funding to pay off the unfunded liability of this plan.
JUDICIAL RETIREMENT PROGRAM-PLAN 2 1.1.3	\$135,556,232	\$36,548,934	(\$99,007,298)	(73.0%)	Recommendations reflect a decrease of \$99.0 million in All Funds from the 2024-25 biennium due to the removal of \$99.0 million in one-time funding to pay off the unfunded liability of this plan.
JUDICIAL RETIREMENT PROGRAM-PLAN 1 1.1.4	\$33,258,345	\$33,187,170	(\$71,175)	(0.2%)	Recommendations reflect a decrease of \$71,175 from the 2024-25 biennium due to a decrease in membership for his plan which only applies to those judges hired before September 1, 1985.
PUBLIC SAFETY DEATH BENEFITS 1.1.5	\$82,905,640	\$99,301,664	\$16,396,024	19.8%	Recommendations reflect an increase of \$16.4 million in All Funds from the 2024-25 biennium due a projected increase in the lump sum payments for this program. The lump sum amount is adjusted each year by the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U).
RETIREE DEATH BENEFITS 1.1.6	\$26,271,518	\$27,500,000	\$1,228,482	4.7%	Recommendations reflect an increase of \$1.2 million in All Funds from the 2024-25 biennium due to an anticipated increase in claims.
LEGACY PAYMENTS 1.1.7	\$1,020,000,000	\$1,020,000,000	\$0	0.0%	Recommendations reflect no change in funding from the 2024-25 biennium for this program which provides a lump sum payment each biennium to help pay off the unfunded liability of the ERS plan.

**Employees Retirement System
Funding Changes and Recommendations by Strategy - House -- ALL FUNDS**

Strategy/Goal	2024-25 Base	2026-27 Recommended	Biennial Change	% Change	Comments
Total, Goal 1, ADMINISTER RETIREMENT PROGRAM	\$3,801,513,959	\$3,138,974,439	(\$662,539,520)	(17.4%)	
GROUP BENEFITS PROGRAM 2.1.1	\$3,875,134,320	\$4,685,909,140	\$810,774,820	20.9%	Recommendations reflect an increase of \$810.8 million in All Funds from the 2024-25 biennium based on the following assumptions: - an 8 percent increase in premiums each year of the 2026-27 biennium. - the state will continue to contribute the full cost of member-only group insurance and fifty percent of family coverage; - full-time-equivalent employment levels will grow at the at the Health and Human Services Commission, the Texas Department of Criminal Justice, and the Texas Department of Transportation; and - retiree membership will grow 3.4 percent in fiscal years 2025, 2026 and 2027.
PROBATION HEALTH INSURANCE 2.1.2	\$136,426,588	\$149,989,328	\$13,562,740	9.9%	Recommendations reflect an increase of \$13.6 million in All Funds from the 2024-25 biennium due to an 8 percent increase in premiums each year of the 2026-27 biennium.
Total, Goal 2, EMPLOYEES RETIREMENT SYSTEM	\$4,011,560,908	\$4,835,898,468	\$824,337,560	20.5%	
Grand Total, All Strategies	\$7,813,074,867	\$7,974,872,907	\$161,798,040	2.1%	

**Employees Retirement System
FTE Highlights - House**

Full-Time-Equivalent Positions	Expended 2023	Actual 2024	Budgeted 2025	Recommended 2026	Recommended 2027
Cap	415.0	436.0	436.0	470.0	475.0
Actual/Budgeted	394.8	437.9	460.0	NA	NA

Schedule of Exempt Positions (Cap)					
Executive Director	\$357,120	\$420,000	\$420,000	\$475,000	\$550,000
Director of Investments	\$416,401	\$475,000	\$475,000	\$520,000	\$575,000

Notes:

a) The agency is requesting salary increases for both the Executive Director and the Director of Investments. Both positions are paid with funds outside the treasury and are not subject to limitations on exempt positions in Article IX, Section 3.04, Scheduled Exempt Positions. The State Auditor's Office Report, Executive Compensation at State Agencies (Report 25-702, October 2024) does not indicate a market average salary for either of these positions.

b) The agency is increasing its FTEs primarily to address needs in customer benefits and investment accounting and research.

c) The State Auditor's Office is the source for the FY 2023 and FY 2024 annual average (actual) FTE levels.