



LEGISLATIVE BUDGET BOARD

Overview of State Employee Benefits

Employees Retirement System

Higher Education Group Insurance

Social Security and Benefit Replacement Pay

PRESENTED TO HOUSE APPROPRIATIONS COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

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Employees Retirement System – Retirement

ERS administers four retirement systems:

- ERS Retirement for state employees and elected state officials
- Law Enforcement and Correctional Officers Supplement (LECOS)
- Judicial Retirement Systems (JRS) for state judicial officers
 - JRSII for those who took office on or after September 1, 1985
 - JRSI for those who took office prior to September 1, 1985
- ERS, LECOS, and JRSII are pre-funded. JRSI is pay-as-you-go.

Retirement Funding

Recommendations in House Bill 1 maintain current contribution structures and include:

- \$1,313.9 million in All Funds (\$943.0 million in General Revenue-Related) for ERS Retirement
- \$16.9 million in All Funds (\$16.8 million in General Revenue-Related) for LECOS
- \$27.5 million in All Funds (\$18.2 million in General Revenue-Related) for JRSII
- \$46.6 million in All Funds for JRSI

These recommendations include General Revenue funding for benefits related to a ten percent judicial salary increase in ERS (\$0.4 million) and JRSII (\$2.5 million).

Retirement Contribution Structures

| | State | Member | Other | Total Contributions | <i>FY19 Actuarially Sound Contribution Rate</i> |
|--------------|--------------|---------------|--------------------------|----------------------------|--------------------------------------------------------|
| ERS | 9.5% | 9.5% | 0.5% agency | 19.5% | 23.12% |
| LECOS | 0.5% | 0.5% | ~\$18.1M / yr court fees | 1.0% + \$18.1M | 2.99% + \$18.1M |
| JRSII | 15.663% | 7.5% | | 23.163% | 23.84% |

Percentages represent the percent of payroll contributed.

Actuarial Assumptions and Valuations

Statute defines actuarial soundness as having contributions that are sufficient to amortize the unfunded accrued liability during no more than 31 years.

Annual valuations are based upon actuarial assumptions and methods and provide the funding period, funded ratio, assets, and liabilities of a defined benefit system.

In August 2017, the ERS Board decreased the investment return assumption from 8.0 to 7.5 percent.

Funding Period in recent Actuarial Valuations

| | August 31, 2016 | August 31, 2017 | August 31, 2018 |
|--------------|----------------------------|----------------------------|----------------------------|
| ERS | 35 years | Infinite (deplete in 2084) | Infinite (deplete in 2096) |
| LECOS | Infinite (deplete in 2043) | Infinite (deplete in 2044) | Infinite (deplete in 2045) |
| JRSII | 49 years | 63 years | 69 years |

Employees Retirement System – Group Insurance

- ERS administers the Group Benefits Program (GBP), which provides health insurance for state employees, higher education employees, and others.
- The Employees Life, Accident, Health Insurance and Benefits Trust Account (Appropriated Fund No. 0973) receives all revenues for the GBP, including employer and member contributions, one-percent agency and institution employer contributions, and revenues from other sources. The fund makes expenditures to cover claims and other costs.
- The fund's revenues and balances are impacted by plan experience, rebates, subsidies, and related contract agreements, revenues, and expenditures. Accumulated balances in the fund can be used for plan expenditures; the fund is often referred to as the Contingency Reserve Fund.

Group Insurance

Recommendations include \$4.0 billion in All Funds (\$2.8 billion General Revenue-Related) for the state's contribution to the GBP for state employees. This funding level maintains the per-member contribution rate from fiscal year 2019 and assumes select member growth.

ERS did not request an increase in the state contribution due to significant savings in new health plan contracts that have resulted in historically high balances in the Contingency Reserve Fund.

Higher Education Group Insurance

State contributions to Higher Education Group Insurance are based on the contribution for state agency employees. Any difference between actual premium cost and appropriated state contributions is paid by the institution.

Recommendations total \$1.4 billion General Revenue. This funding represents:

- 50 percent of contributions at Junior and Community Colleges, as set in statute;
- 81.27 percent of contributions for UT and TAMU; and
- 81.72 percent of contributions for Institutions that participate in ERS GBP.

Comptroller of Public Accounts

Social Security and Benefit Replacement Pay

As an employer, the state must contribute 7.65 percent of state agency and higher education employees' payroll to the federal government for Social Security (6.2 percent) and Medicare (1.45 percent).

- Recommendations include \$1.8 billion in All Funds (\$1.4 billion General Revenue-Related).

Employees hired before September 1, 1995 receive Benefit Replacement Pay, which replaces an additional amount the state previously paid for Social Security contributions.

- Recommendations include \$16.8 million in All Funds (\$11.3 million General Revenue-Related).



LEGISLATIVE BUDGET BOARD

Contact the LBB

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