

AGENDA ITEM DETAILS

Subject: Review of 87th Legislative Session

Background:

The 87th Legislative Session commenced on January 12, 2021 and adjourned on May 31, 2021. ERS staff tracked over 200 pieces of legislation that were introduced that could have had an impact on ERS members, benefits programs or operations. ERS leadership and staff worked to educate lawmakers about the value of our insurance and retirement benefits to employees and retirees, as well as the Texas economy.

One significant piece of legislation, HB 917, permits an ERS retiree to serve as an elected member of the ERS Board of Trustees. The legislation will go into effect on September 1, 2021 and will apply to the ERS Board of Trustees 2023 election.

As it relates to the Group Benefits Programs, the Legislature maintained funding levels for eligible employees', retirees' and dependents' health coverage. Various legislation passed that positively affect participants' GBP benefits, such as SB 827 which limits member cost share for insulin to \$25 per prescription per month.

Related to investments and state contracting provisions, legislation was passed and signed by the Governor which prohibits state pension funds, including ERS, from investing in and governmental entities from contracting with companies that boycott certain energy companies. Further, legislation was approved which places a restriction on state agencies from contracting with companies that boycott firearms.

Most notably for all current and retired state employees, lawmakers made a significant, long-term commitment to return the ERS pension plan to actuarial soundness. Going into the session, the ERS pension plan faced an estimated depletion date of 2061 due to the growing \$14.7 billion unfunded liability. Senate Bill 321 creates an annual state payment schedule to address the current unfunded liabilities by at least Fiscal Year 2054. ERS retirement actuaries will calculate the actuarially determined amount of the payments prior to each legislative session to be included in future state budgets along with the current 10% state contributions. This extraordinary commitment to completely paying off the unfunded liability will ensure current and future retirees get the lifelong annuities they earned over their careers.

In an effort to mitigate future unfunded liabilities and modernize the state pension benefit, SB 321 also established a new benefit group for state employees beginning their employment on or after September 1, 2022. These future employees will be enrolled in a different type of defined benefit retirement structure known as a cash balance benefit which will be referred to as "Group 4."

Features of the Group 4 benefit include:

1. a lower employee contribution (6% of pay),
2. a five-year vesting period,
3. a state match equal to 150% of the account balance at retirement,
4. a lifetime annuity in retirement, based on the balance in the employee's account at retirement (including the state match) accrued over their lifetime,
5. guaranteed annual earnings of at least 4%

6. up to 3% per year more in gain-share, when the ERS Trust Fund has investment earnings (or “gain”) of more than 4% over a five-year average, and the possibility of annuity increases in retirement, when the gain-sharing benefit is achieved.

Members of the Law Enforcement and Custodial Officers Supplemental (LECOS) plan will continue to have access to an enhanced benefit.

SB 321 fundamentally shifts the ERS Trust Fund from a pension plan with a depletion date to a plan that will be actuarially sound within a few years and 100% funded in 33 years. The new Group 4 structure increases risk transparency for the state and ERS members while providing a meaningful retirement benefit with a lower employee contributions amounts and a shorter vesting requirement. The provisions of SB 321 are historic policies that protect the long-term stability of the state's pension plan for all employees and retirees while ensuring a significant liability savings for future state budgets and Texas taxpayers.

ATTACHMENTS:

1. Slides – 87th Legislative Session