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# TEXAS RESEARCH LEAGUE



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JAN 23 1992

DECEMBER 1991

Volume 1 Number 3

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# THE Budget IN Brief

## STATE EMPLOYEE BENEFITS

The state employee benefits package -- including retirement plans, social security, and group insurance plus a few related administrative and ancillary programs -- is a significant state budget item. In fact, the legislature appropriated \$4.6 billion for 1992-1993 employee benefit expenses - 7.6% of the total.

The employee benefit figures, broken into the four component areas, are shown in Table 1.

**Table 1**  
**Employee Benefits Overview**  
(millions of dollars)

	Appropriated 1990-1991	Expended 1990-1991	Appropriated 1992-1993
Retirement			
Plans	\$2,163.7	\$2,354.2	\$2,217.5
Social Security	965.2	1,046.5	1,053.5
Insurance	700.4	625.7	280.0
All Other	2.4	2.4	2.4
<b>Total</b>	<b>\$3,831.7</b>	<b>\$4,028.9</b>	<b>\$4,553.4</b>

Actual 1990-1991 expenditures exceeded appropriations by \$197 million (5.1%) largely because the benefit package is formula-based and the exact number of employees and their salary levels only can be estimated at the beginning of a fiscal period.

Money appropriated for 1992-1993 is \$525 million (13.0%) greater than the preceding biennial spending level. As will be demonstrated later, because of accounting and budgetary legerdemain, the 1992-1993 numbers are at the same time both inflated and understated.

### Retirement Plans

There are four major state-financed public retirement programs covering Texas employees. In addition, there are several "minor" pension plans nested within the major programs.

Teacher Retirement System of Texas (TRS) is the state's largest public retirement program, and one of the largest in the nation. Participants include local school district employees, most college and university employees, and certain state employees. TRS administers a defined benefit plan; that is, the benefits paid annuitants are derived from a formula based on years of service and average salary.

Employees Retirement System of Texas (ERST) covers all state-paid employees not participating in another state system; it too is a defined benefit plan.

Nested within ERST is a "legislative retirement program," that provides benefits for retired legislators. Benefits are based on current district judges' salaries, and if it were a free-standing program, it would not meet sound actuarial standards. However, because it is "piggy-backed" on ERST, it passes actuarial muster. (A supplemental retirement program for law enforcement officers also is administered by ERST.)

Optional Retirement Program (ORP) is a special program designed for certain professional higher education employees. Participants are permitted to buy annuities with both the state and the participants contributing to the cost.

Judicial Retirement System (JRS) includes two programs. JRS-I is a pay-as-you-go pension plan with benefits paid annually from current revenues. JRS-II, established in 1985, is an actuarially based defined benefit program which covers all judges serving after September 1, 1985.

**Table 2**  
**State Retirement Programs**  
(millions of dollars)

	Appropriated 1990-1991	Expended 1990-1991	Appropriated 1992-1993
TRS	\$1,498.2	\$1,648.4	\$1,570.7
ERST	399.3	419.3	389.9
ORP	240.9	259.9	225.3
JRS	25.4	26.6	31.5
Total	\$2,163.7	\$2,354.2	\$2,217.5

Comment. The \$2.2 billion 1992-1993 appropriation does not accurately reflect a true spending pattern. For example, the TRS appropriation does not include \$235 million which is a "deferred

contribution for [the] last quarter of 1993." Delaying the contribution moved the expenditure into 1994-1995, and reduced the revenue needed for the current biennium.

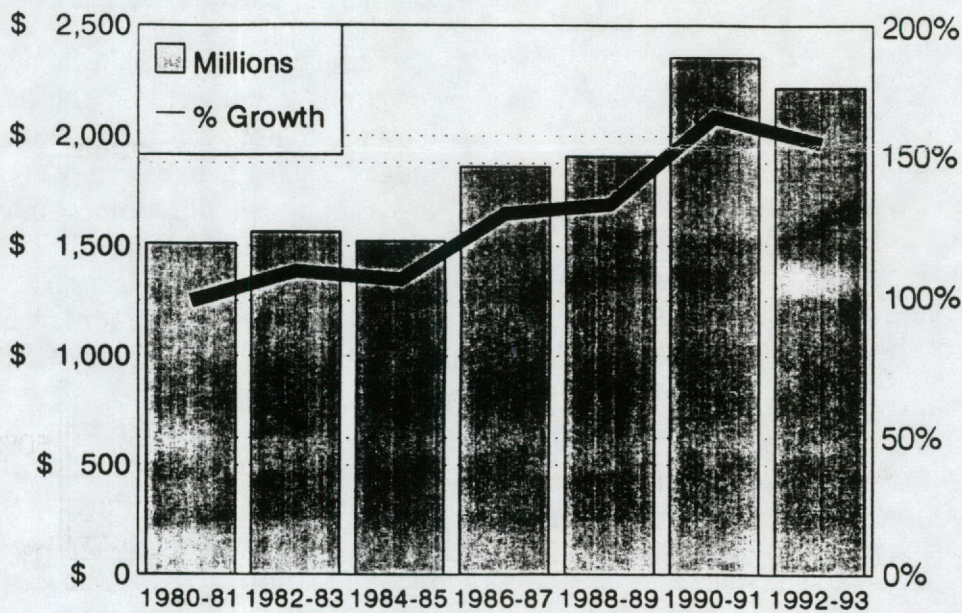
Ever since the end of "easy money" revenue surplus budgets (the last five regular sessions), the legislature has sought ways to cut spending; reduced state retirement contributions and longer amortization periods is one method. This is a viable alternative so long as the state stays within acceptable actuarial parameters.

All of the retirement programs - except JRS - have had the state's contribution rate periodically lowered and then raised, accounting for the up and down appropriation pattern.

### Social Security

As an employer, the state pays its share of social security liability; in addition, it pays a portion of the employee's liability. In total the 1992-1993 appropriation comes to a little over \$1 billion.

## Retirement Biennial Spending



**Table 3**  
**State Social Security Contributions**  
(millions of dollars)

	Appropriated 1990-1991	Expended 1990-1991	Appropriated 1992-1993
Employer's Share	\$ 623.0	\$ 692.9	\$ 698.8
Employees' Share	342.1	353.6	354.7
Total	\$ 965.1	\$1,046.5	\$1,053.5

**Comment.** The employer's share in 1992 is 6.2% of the first \$55,500 in wages for social security and 1.45% of the first \$130,200 for medicare. In 1977, the legislature agreed to pay state employees' social security liability up to 5.85% of the first \$16,500 in wages (the maximum at the time).

The rationale behind that stratagem was that it would provide the employee with more take-home pay at a smaller cost to the state. This was

predicated on the assumption that this would be a tax-free benefit.

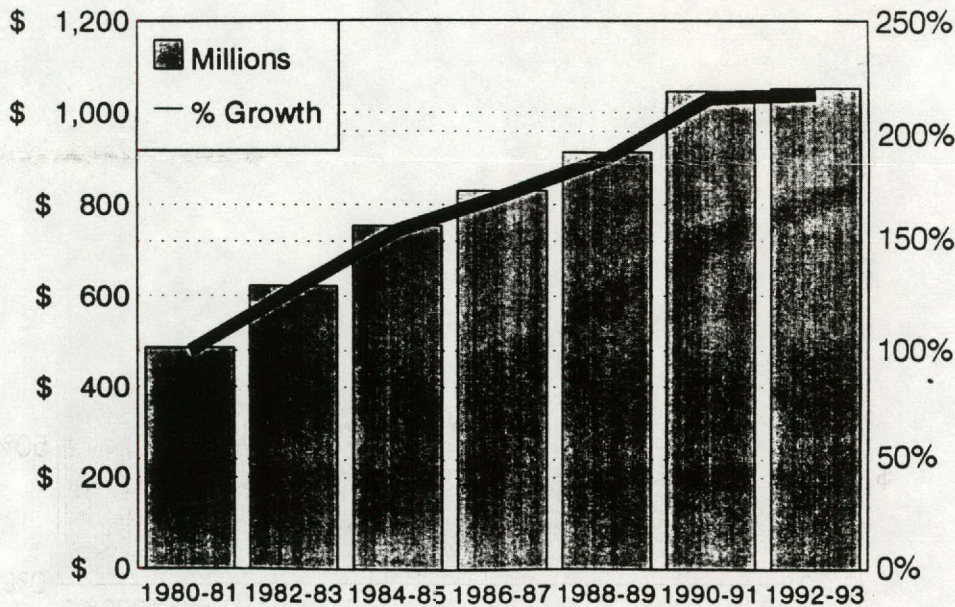
However, both the IRS and the Social Security Administration ruled that this income is subject to federal income and social security taxes. As a consequence, the state has since picked up the additional social security costs for employees. A \$355 million appropriation is included in the 1992-1993 state budget to pay this item.

### Group Insurance

The state's share for providing group insurance for three categories of public employees totals almost \$1.3 billion for 1992-1993.

Group health insurance is one of the fastest rising expenses in both the public and private sectors, and the state is not immune from these increases. The \$1.28 billion 1992-1993 appropriation for group insurance is a 68% increase over the \$872 million spent in the 1990-1991 biennium. However, a significant part of that growth is accounted

## Social Security Biennial Spending



**Table 4**  
**State-Paid Group Insurance**  
(millions of dollars)

	Appropriated 1990-1991	Expended 1990-1991	Appropriated 1992-1993
State Employees	\$ 542.4	\$ 532.7	\$ 777.9
Retired Teachers	86.0	93.0	106.4
Higher Education*	246.0	246.0	395.7
<b>Total</b>	<b>\$ 874.4</b>	<b>\$ 871.7</b>	<b>\$1,280.0</b>

\* Appropriated 1990-1991 for higher education was not readily available.

for by an increase in the state-paid portion of the premium cost for dependent coverage.

### All Other

There are several agencies or programs included in the employee benefits sphere that are closely connected with the state's pension plans. For each of these, 1990-1991 appropriations and spending, and 1992-1993 appropriations are essentially level.

**State Pension Review Board.** Created in 1979, the Board has the responsibility of examining and studying all Texas public retirement programs in order to monitor their actuarial and fiscal soundness and their management practices. (1992-1993 appropriation is \$0.5 million.)

**Fire Fighters' Pension Commissioner.** The Commissioner administers the programs providing retirement benefits to volunteer and local fire fighters. (1992-1993 appropriation is \$0.4 million.)

**Death Benefits (Law Enforcement).** This program provides benefits to survivors of law enforcement officials and other statutorily specified individuals who die a violent death in the line of duty. (1992-1993 appropriation is \$1.5 million.)

**Ranger Pensions.** This program provides pensions to Texas Rangers (or their widows) who served prior to 1947, and who were not eligible for ERST membership. (1992-1993 appropriation is \$0.1 million.)

## Insurance

(Excluding Higher Education)  
**Biennial Spending**

