

# House Committee on Pensions

## Law Enforcement and Custodial Officers (LECO) Retirement Benefits

November 14, 2016

Porter Wilson, Executive Director



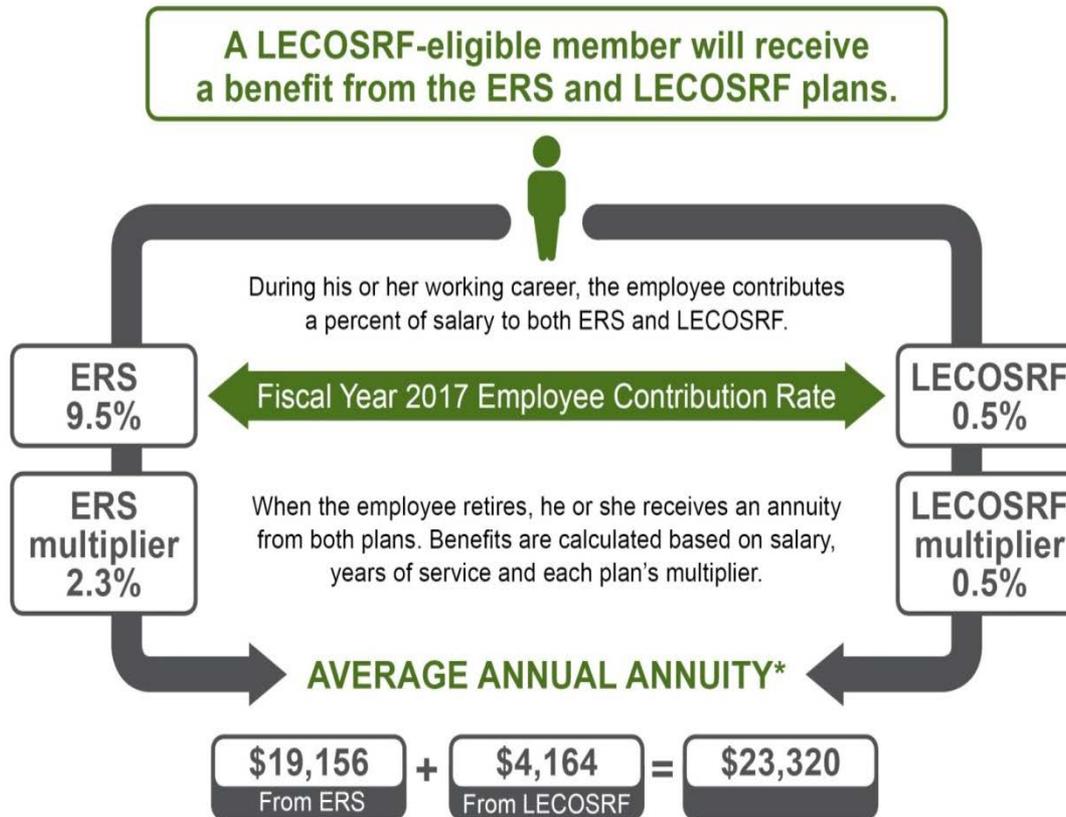
# LECOSRF: Supplementing the ERS Benefit



- Created in 1979
- Purpose: Provide supplemental income to address physical hazards associated with eligible positions in law enforcement and custodial officer functions
- Originally funded using a dedicated portion of the motor vehicle inspection fee, but later switched to percent of payroll contributions
- Many state and local systems offer an enhanced benefit for hazardous duty jobs such as police, fire and correctional officers, though the level of enhancement and exact populations covered will vary

# LECO Retirement Benefit

*A higher level of benefits*



For the average LECOSRF retiree, about 82% of his or her annuity is from the ERS plan and about 18% is from LECOSRF.

\*Based on August 31, 2015 valuation (most recent available)

# LECO Benefit compared Regular Class

## *Recognition of high-risk work*



*As of August 31, 2015*

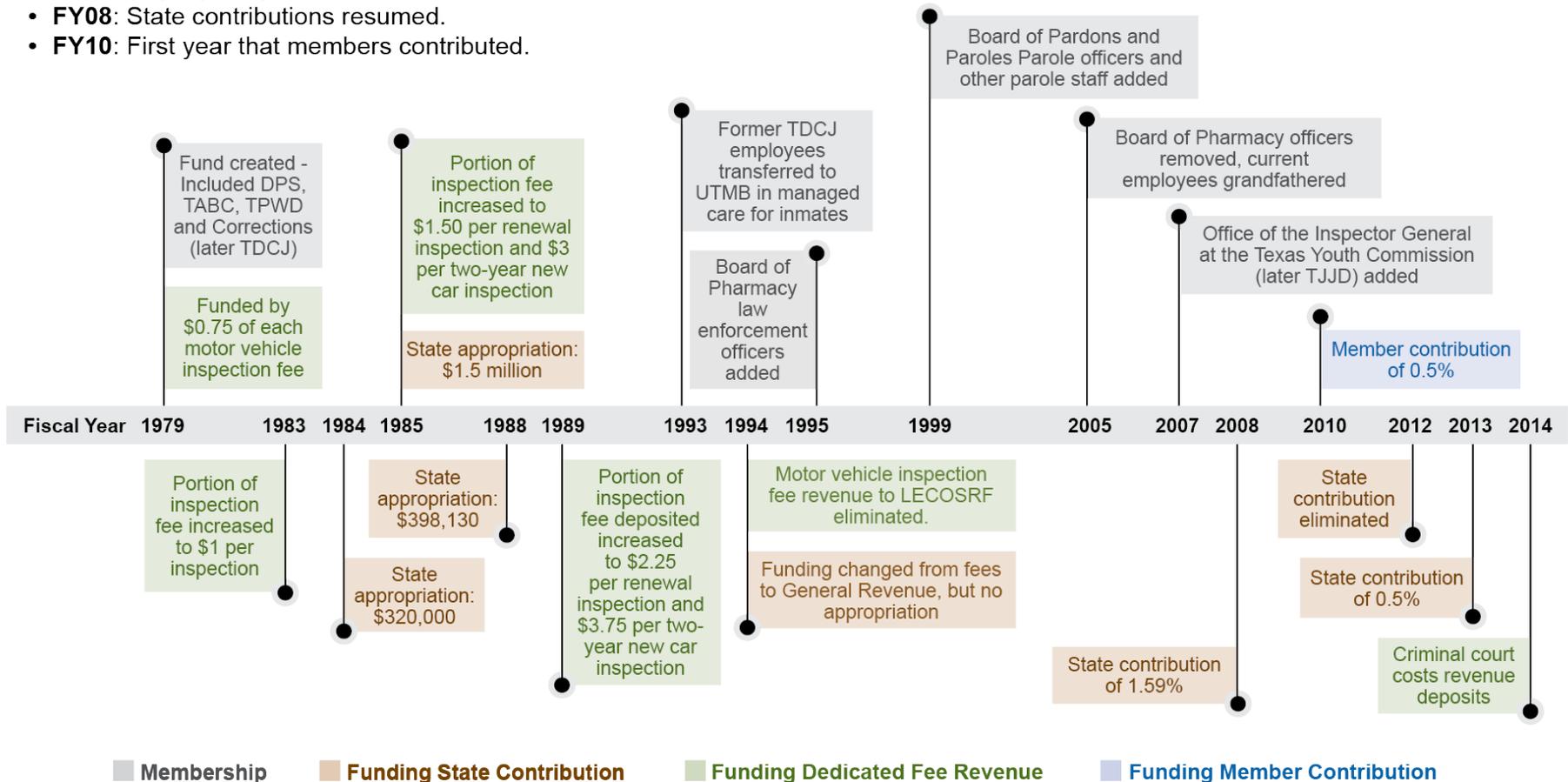
	Regular Class	LECO
<b>Active Members</b>		
Active Contributing Members	103,883	38,526
Average Age	44.3	41.7
Average Entry Age	35.4	33.3
Average Annual Salary	\$46,115	\$41,957
<b>Annuitants</b>		
Retirees and Beneficiaries	83,028	16,975
Average Annual Annuity	\$19,292	\$23,320
Average Years of Service	22.5	21.5
Average Age at Retirement	59.0	55.4

*Annuitants with at least 10 years of Certified Peace Officer service are identified as LECO annuitants. Annuitant demographics are based on service retirements.*

# LECOSRF Membership and Funding History



- **FY79-94** (15 years): Funded primarily by dedicated revenues (motor vehicle fees).
- **FY94-07** (14 years): No state contributions.
- **FY08**: State contributions resumed.
- **FY10**: First year that members contributed.



# Who's Currently in LECOSRF?



	Law Enforcement	Custodial
Key Stats*	4,614 active members 13.5 average years of service \$73,761 average annual salary	34,652 active members 7.5 average years of service \$40,289 average annual salary
Agencies & Positions	<b>Texas Alcoholic Beverage Commission</b> <ul style="list-style-type: none"> <li>• Agents</li> </ul> <b>Texas Department of Public Safety</b> <ul style="list-style-type: none"> <li>• Troopers</li> </ul> <b>Texas Parks and Wildlife Department</b> <ul style="list-style-type: none"> <li>• Game wardens</li> <li>• Park police</li> </ul>	<b>Texas Department of Criminal Justice</b> <ul style="list-style-type: none"> <li>• Correctional and parole officers 25,000+ members</li> <li>• Clerks</li> <li>• Maintenance supervisors</li> <li>• Food service managers</li> <li>• Laundry managers</li> <li>• Case managers</li> <li>• Agriculture specialists</li> <li>• Chaplains</li> <li>• Other</li> </ul>

\*As of October 31, 2016. Source is ERS BI Warehouse.

# Characteristics of the LECOSRF workforce vary by position



Law Enforcement	Custodial
Lower turnover than state average	Higher turnover than state average
Lifelong careers	Not necessarily lifelong careers
Majority of turnover is from retirements	Much of turnover is pre-retirement
Most Schedule C eligible	Not Schedule C Eligible

During workforce analysis conducted in July 2014, the agencies indicate that there is little migration between law enforcement and custodial populations.

# LECO Benefits Cost More



- LECO employees retire at an earlier age.
- The combined ERS and LECOSRF benefits makes the LECO benefit 25% more valuable than what Regular Class employees receive.
- The base LECO benefit cost (normal cost) is 2.42% higher than the Regular Class benefit.
- When paying off the unfunded liability is considered, the Actuarially Sound Contribution (ASC) rate is 4.77% higher for LECO members.
- Future contribution rates could be structured to fully address the cost differential to preclude Regular Class employees from subsidizing LECO employees.

# Cost of Benefits by Employee Type

## Comparing Cost by Plan to Cost by Member Population



*As of August 31, 2015*

Valuation Metrics as of 8/31/15	Current Structure – By Plan		Separate Accounting by Member Population	
	ERS	LECOSRF	Regular Class	LECO
Total Liability* (billions)	\$33.9	\$1.3	\$26.7	\$8.4
Actuarial Value of Assets* (billions)	\$25.9	\$0.9	\$21.0	\$5.7
Unfunded Liability* (billions)	\$8.0	\$0.4	\$5.7	\$2.7
Funded Ratio	76.3%	72.0%	78.7%	68.1%
Funding Period	33	Infinite	29	76
Normal Cost Rate	12.27%	1.77%	12.10%	14.52%
ASC Rate	19.62%	3.01%	19.16%	23.93%
Actual Contribution Rate Fiscal Year 2016	19.50%	2.20%	19.50%	21.70%

\*Rounded

# Summary of LECO Benefits Difference:

*Additional contributions not enough*



The state and LECO members also contribute 0.5% to the supplemental fund, plus the fund receives dedicated court cost revenues. But these extra contributions are not enough to fund the extra LECO cost.

## LECO Benefit Cost

LECO benefits cost more than Regular Class benefits

Each group pays the same amount to the ERS Trust Fund

Regular Class is subsidizing the LECO Class

## LECO Eligible Population

No policy on how or why to add employees to the LECO benefits

Employee groups may be included (or excluded) without justification

Workforce needs may not be met

# Series of retirement benefit changes have been made – primarily to new employees



	Group 1	Group 2	Group 3
	Employees hired before 9/1/2009	Employees hired 9/1/2009 – 8/31/2013	Employees hired on/after 9/1/2013
<b>Minimum retirement age with GBP benefits</b>	65 with 10 years service credit or Rule of 80 (55 with 10 years LECO)	65 with 10 years service credit or Rule of 80 (55 with 10 years LECO)	65 with 10 years service credit or Rule of 80 (55 with 10 years LECO)
<b>Annuity reduction for “early” retirement</b>	No reduction	5% per year, 25% cap Age 60 – Regular Class Age 55 – LECO*	5% per year, no cap Age 62 – Regular Class Age 57 – LECO*
<b>Final average salary based on:</b>	36 months	48 months	60 months
<b>Multiplier</b>	2.3% - Regular Class 2.8% - LECO*	2.3% - Regular Class 2.8% - LECO*	2.3% - Regular Class 2.8% - LECO*
<b>Unused leave can count toward eligibility?</b>	Yes	No	No
<b>Unused leave can help increase annuity?</b>	Yes	Yes	Yes - if not taken as a lump sum

\* The lower retirement age and higher multiplier for a Law Enforcement and Custodial Officer (LECO) employee applies when an employee has at least 20 years of LECO service.

# Reforms have created three groups of retirement benefits under the ERS trust



More than 50% of employees for both LECO and Regular Class are in Groups 2 and 3

Group Membership - Number of Employees by Group and Type  
As of August 31, 2016

Group	Regular	LECO*	Total
1	52,213	18,022	70,235
2	21,114	7,519	28,633
3	33,365	13,455	46,820
Total	106,692	38,996	145,688

\*LECO = Law Enforcement and Custodial Officer.

Source: ERS BI Warehouse.

# 2018-19 Legislative Appropriations Request

## LECO-related Retirement programs



	2018-19 LAR (All Funds)	Purpose
<b>Base Request</b>		
ERS	\$1,262.2 million	State contribution of 9.5% per year
LECOSRF	\$17.9 million	State contribution of 0.5% per year
Total Base	\$1,280.1 million	
<b>Exceptional Items Request</b>		
ERS	\$69.0 million	Meet ASC* rate; Requires additional 0.52% per year
LECOSRF	\$33.3 million	Meet ASC* rate; Requires additional 0.93% per year
Total Exceptional	\$102.3 million	

\*ASC = Actuarially Sound Contribution (pay-off unfunded liabilities within 31 years)

# New member populations add cost



- Various member groups have been considered for LECOSRF eligibility
- Adding new populations creates additional liabilities and puts further upward pressure on contribution rates for ERS and LECOSRF funds
- Constitutional and Statutory provisions prohibit benefit enhancements if ERS or LECOSRF are unsound
  - ERS interprets adding new member populations to LECOSRF as a benefit enhancement

# Questions