

BILL ANALYSIS

C.S.H.B. 73
By: Eiland
Pensions & Investments
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The Teacher Retirement System of Texas (TRS) pension fund is not actuarially sound, and due largely to chronic underfunding by the Legislature, has a shortfall of approximately \$13.2 billion. The unsoundness of the TRS trust fund has statutorily prohibited the Legislature from providing retirement benefit increases or cost of living adjustments for retired teachers since 2001. CSHB73 requires the level of state contributions to TRS be in an amount sufficient to amortize, within a 30-year funding period, the actuarial liability of the retirement fund for service retirement, disability retirement, and death benefits for members, retirees, and beneficiaries. This amount will be determined based on the annual August 31 actuarial valuation. CSHB73 also provides for a one-time supplemental payment of retirement or death benefits in January 2007. This payment will be in the amount of the lesser of \$2000.00 or the gross amount of the regular annuity payment the member is entitled to for the month of December 2006. CSHB73 also determines the eligibility for, amount, timing, and method of payment for the supplemental payment and appropriates the necessary funding.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

SECTION 1. Amends Section 825.404(a), Government Code, to require the amount of the state contribution to the Teacher Retirement System be in an amount sufficient to amortize, within a 30-year funding period, the system's actuarial liability for service retirement, disability retirement, and death benefits as determined by the annual August 31 actuarial valuation.

SECTION 2. Provides the Teacher Retirement System shall make a one-time supplemental payment of a retirement or death benefit in January 2007 in an amount equal to the lesser of \$2,000.00 or the gross amount of the regular annuity payment the annuitant is entitled to for December 2006. The payment will be made, to the extent practicable, on a date or dates that coincide with the eligible annuitant's regular annuity payment. Payees will include annuitants who are eligible to receive:

- a standard retirement annuity;
- an optional retirement annuity payment as either a retiree or beneficiary;
- a life annuity payment under Section 824.402 (a) (4), Government Code;
- an annuity for a guaranteed period of 60 months under Section 824.402 (a) (3), Government Code;
- an alternate payee annuity payment under Section 804.005, Government Code.

To be eligible:

- For retirees or beneficiaries under an optional retirement payment plan, the effective date of retirement must be before September 1, 2005.
- For annuitants who are beneficiaries under Section 824.402 (a) (3) or (4), Government Code, the death of the member of the retirement system must be before September 1, 2005.

- For alternate payees who are annuitants under 804.005, Government Code, payments must have begun before September 1, 2005.

The supplemental payment is in addition to the guaranteed number of payments under 824.402 (a) (3) or 824.204 (c) (3) or (4), Government Code, and cannot be counted as one of the monthly payments. The supplemental payment will be made without regard to members who forfeiture benefits under Section 824.602, Government Code. All applicable tax withholdings and legally required deductions apply to the supplemental payment.

The supplemental payment does not apply to payments under:

- Section 824.304 (a), Government Code
- Section 824.804 (b), Government Code
- Section 824.501 (a), Government Code
- Section 824.404 (a), Government Code

Provides the Teacher Retirement System Board of Trustees the ability to determine the eligibility for, amount, timing, and payment manner for supplemental payments except as provided for in this section.

Provides that the Teacher Retirement System shall pay the supplemental payment from the retired reserve account and can transfer to that account from the state contribution account any portion of the amount that exceeds the amount in the retired reserve account available to finance the supplemental payment and that is actuarially determined to be necessary to finance the supplemental payment. Provides that the supplemental payment under this section must comply with Section 821.006, Government Code.

SECTION 3. Appropriates the amount to fund the supplemental payment required by Section 2 of this Act (approximately \$310 million) out of the state's general revenue fund to the Teacher Retirement System of Texas for the fiscal year beginning September 1, 2006, for the purpose of funding that supplemental payment.

SECTION 4. Changes made by this Act to Section 825.404 (a) Government Code, applies beginning with the 2007-2008 fiscal year.

SECTION 5. This act takes effect immediately if it receives a two-thirds vote of all members elected to each house or on the 91st day after the last day of the legislative session.

EFFECTIVE DATE

This act takes effect immediately if it receives a two-thirds vote of all members elected to each house or on the 91st day after the last day of the legislative session.

COMPARISON OF ORIGINAL TO SUBSTITUTE

SECTION 1. Adds language to require the amount of the state contribution to the retirement system be sufficient to amortize, within a 30-year funding period, the system's actuarial liability for service retirement, disability retirement, and death benefits as determined by the annual August 31 actuarial valuation. Restores the 10 percent state contribution maximum that was deleted in the original bill. Removes language that states the amount may not be less than the amount necessary to satisfy the requirements of this subsection.

SECTION 2. Removes the additional \$300 million appropriation from general revenue to the Teacher Retirement System for the fiscal year beginning September 1, 2006, for the purposes of making retirement contributions for public education employees. Adds language providing the Teacher Retirement System to issue a one-time supplemental payment and sets out eligibility for, amount, timing, and method of payment for the supplemental payment.

SECTION 3. Inserts a new section that appropriates the amount necessary to fund the supplemental payment required in Section 2 out of general revenue to the Teacher Retirement

System for the fiscal year beginning September 1, 2006 for the purpose of funding the supplemental payment.

SECTION 4 and SECTION 5 of the committee substitute have no significant changes in comparison to SECTION 3 and SECTION 4 respectfully of the bill as filed.