LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

May 21, 2005

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB1579** by Kolkhorst (Relating to certain retired school employees and the powers and duties of the Teacher Retirement System of Texas.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1579, Committee Report 2nd House, Substituted: a positive impact of $904,400,000 through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	$443,000,000
2007	$461,400,000
2008	$479,900,000
2009	$499,100,000
2010	$519,000,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/ (Cost) from *EST OTH EDUC & GEN INCO* 770	Probable Revenue Gain/(Loss) from *TRS TRUST ACCOUNT FUND* 960	Probable Revenue Gain/(Loss) from *RETIRED SCHOOL EMP GROUP INSURANCE* 989
2006	$443,000,000	$20,400,000	$1,900,000	$30,054,000
2007	$461,400,000	$21,500,000	$2,100,000	$31,316,000
2008	$479,900,000	$22,300,000	$2,300,000	$32,625,000
2009	$499,100,000	$23,200,000	$2,600,000	$33,982,000
2010	$519,000,000	$24,100,000	$2,800,000	$35,389,000

Fiscal Analysis

Section 1 would prohibit school districts from offering incentives to encourage early retirement from the Teacher Retirement System (TRS).

Section 2 would change the amount required to purchase out-of-state service credit to the full actuarial present value of the annuity benefits attributable to the purchased credit.

Section 3 would change the retirement eligibility rules for a full standard service retirement to require that members have at least five years of service and be either 65 or be at least 60 years old and meet the rule of 80, with a reduction of 3 percent for each year of age below 60. Section 16 of the bill would eliminate subsidized early retirement for retirees who do not meet the rule of 80. These provisions would not apply to those eligible to retire in the next five years.

Section 4 would change the number of years of annual compensation used to calculate the amount of the standard service annuity from three years to five years.

Section 5 would change the eligibility for the Partial Lump Sum Payment Option (PLSO) to require that a member meet the rule of 90.

The bill stipulates that the changes in eligibility for a standard service annuity, the elimination of subsidized early retirement, the change in the number of years of annual compensation used to calculate annuity, and the changes to PLSO eligibility would not apply to members who are age 50, who meet the rule of 70, or who have at least 25 years of service credit.

Section 7 would require that a retiree who retires after September 1, 2005, who returns to employment as a bus driver must be a bus driver as the primary employment.

Section 8 would require employers to report employment of a TRS retiree.

Section 11 would change the 8 percent state contribution rate for retirement established in statute to reflect the 6 to 10 percent range established in the Texas Constitution.

Section 12 would require employers to contribute an amount equal to the state contribution to TRS on behalf of new TRS members first employed as of September 1, 2005, for the first 90 days of employment. During the first 90 days of employment, a new TRS member is not eligible for supplemental compensation under Chapter 1580, Insurance Code, and is not included in the computation of state assistance for health insurance.

Section 13 would require that an employer that employs a retiree to contribute an amount equivalent to the current state and member contribution for retirement applied to the retiree's salary. The employer would also be required to contribute an amount equal to the difference between retiree costs for the retiree and dependents and the full cost of coverage for a rehired retiree who is a participant in the Retired Public Education Employee Group Insurance Program, TRS-Care. These changes would apply to retirees rehired after January 2005.

Section 14 would increase the active member contribution rate to TRS-Care from 0.5 percent of payroll to 0.65 percent of payroll.

Section 16 of the bill would repeal the credit purchase option commonly referred to as "air time," effective January 2006.

Section 17 would direct TRS to make a one-time supplemental payment in January 2006 equal to the regular monthly annuity payment to which an annuitant is entitled for annuitants who retired prior to September 1, 2003. The supplemental payment would be in addition to the regular annuity payment to which the annuitant is entitled. The supplemental payment would be contingent on a funding period within 31 years.

Methodology

According the TRS actuary, the provisions of the bill would reduce the unfunded liability by $2.5 billion and would reduce the contribution rate required to achieve a 30-year funding period from 8.11 percent to 6.12 percent. Assuming this contribution were made by the state, the estimated cost to achieve the 30-year funding period would be reduced by $443 million in General Revenue in fiscal year 2006 and $461 million in General Revenue in fiscal year 2007. Similarly, the cost from Other Educational and General Income would be reduced by $20.4 million in 2006 and $21.5 million in 2007. A contribution rate of 6.09 percent would be required to achieve the 31-year funding period necessary for the issuance of the supplemental annuity payment stipulated by the bill. The cost of the supplemental payment to annuitants is estimated at $350 million from the TRS trust fund, and this cost is reflected in the actuarial analysis above.

Requiring local employers to make a contribution for the first 90 days of employment for new members would provide an actuarial gain to the retirement fund, but would not result in direct savings to the state relating to the retirement contributions for these members. The Texas Constitution requires that the state contribute 6 percent for all members of TRS, and the 90-day delay in eligibility for TRS membership for new employees in place under current law expires at the end of fiscal year 2005.

The employer contributions on behalf of rehired retirees required under the provisions of the bill would result in an estimated gain in revenue to the TRS trust fund of $1.9 million in fiscal year 2006, increasing to $2.8 million by fiscal year 2010, and an estimated gain in revenue to TRS-Care of $1 million in fiscal year 2006, increasing to $1.4 million by fiscal year 2010.

The additional revenue to TRS-Care associated with the increase in the active member contribution rate would be about $29 million in fiscal year 2006 and $30 million in fiscal year 2007 statewide.

TRS members subject to the revised entitlement eligibility requirements are likely to delay their retirement several years which will tend to reduce the long term costs of TRS-Care. The grandfathering provisions discussed above would delay any such savings beyond the timeframe of this analysis.

Local Government Impact

The bill would require an employer to pay an amount equivalent to the state contribution for retirement for new employees who are also new TRS members for the first 90 days of employment. The cost to public education employers is estimated at about $20 million annually statewide. The cost to higher education employers is estimated at about $4 million annually statewide.

The bill would require public education employers who employ TRS retirees to remit a contribution to TRS equal to the state and member contribution that would have been made on the employee’s salary if the employee were an active member and would require the employer to pay any difference between the costs paid by the retiree on behalf of the retiree and his or her dependents and the actual cost of coverage if the retiree is a TRS-Care participant. The cost to districts associated with these provisions of the bill is estimated at $2.9 million in fiscal year 2006, increasing to $4.2 million by fiscal year 2010.

The bill would prohibit local school districts from offering early retirement incentives. To the extent that school districts employ more experienced teachers longer, who are generally higher paid, district costs could increase.

Source Agencies: 323 Teacher Retirement System

LBB Staff: JOB, SR, UP, JSc