LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 20, 2005

TO: Honorable Craig Eiland, Chair, House Committee on Pensions & Investments

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

IN RE: **HB2757** by McReynolds (Relating to enhanced retirement benefits for certain members of the Teacher Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2757, As Introduced: a negative impact of ($199,983,145) 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	($97,960,336)
2007	($102,022,809)
2008	($106,254,983)
2009	($110,664,007)
2010	($115,257,334)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Revenue Gain/(Loss) from *EST OTH EDUC & GEN INCO* 770
2006	($97,960,336)	($4,519,658)
2007	($102,022,809)	($4,745,641)
2008	($106,254,983)	($4,982,923)
2009	($110,664,007)	($5,232,069)
2010	($115,257,334)	($5,493,673)

Fiscal Analysis

The bill would increase the benefit multiplier from 2.3 percent to 2.5 percent for Teacher Retirement System (TRS) members for whom the sum of the member's age and service credit equals at least 90 (rule of 90). TRS members who meet the rule of 90 would qualify for an annuity equal to the average annual compensation for the three years in which they received the highest annual compensation multiplied by 2.5 percent for each year of service credit.

The bill would take effect immediately upon receiving a two-thirds majority vote in both houses; otherwise, the bill would take effect September 1, 2005. The bill would apply to TRS members who retire after the effective date of the bill.

Methodology

For purposes of this estimate, the TRS actuary assumed that 15 percent of eligible members who would normally retire after attaining the rule of 80 but before attaining the rule of 90 would delay retirement to obtain the increased multiplier stipulated in the bill. Retirement rates at first eligibility past the rule of 90 were increased to reflect the delayed retirements.

Based on this assumption, the actuarial impact of the bill is estimated as follows:

1. The normal cost of TRS would increase by 0.12 percent of payroll.
2. The unfunded actuarial accrued liability would increase by $1,208 million.
3. The funding period would remain at infinity.
4. The state contribution rate to maintain a 30-year funding period would increase from 8.11 percent, as determined by the August 31, 2004 actuarial valuation as updated on February 28, 2005, to 8.55 percent of payroll. The estimated cost of increasing the state contribution rate by 0.44 percentage points would be $98.0 million in General Revenue and $4.5 million in General Revenue Dedicated in fiscal year 2006, increasing to $115.3 million in General Revenue and $5.5 million in General Revenue Dedicated by fiscal year 2010.

Since the funding period of TRS already exceeds the required 30 years, the increase in benefits provided by this bill would violate TRS funding statutes under Section 821.006, Government Code unless the full 8.55 percent contribution rate were funded; which would be an annual increase of approximately $600 million over the current 6.0 percent contribution rate.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: JOB, SR, WP, WM, JSc