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: **HB2975** by Hegar (Relating to the waiting period for eligibility for membership in the Teacher Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2975, As Introduced: a positive impact of $2,534,243 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	$1,242,276
2007	$1,291,967
2008	$1,343,645
2009	$1,397,391
2010	$1,453,287

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
2006	$1,242,276	$57,724
2007	$1,291,967	$60,033
2008	$1,343,645	$62,435
2009	$1,397,391	$64,932
2010	$1,453,287	$67,529

Fiscal Analysis

The bill would extend the 90-day waiting period for new or reemployed state employees to become members of the Teacher Retirement System (TRS). Currently the waiting period is set to expire on September 1, 2005; the bill would extend it permanently.

Methodology

The bill would increase the TRS normal cost by 0.14 percent, but would decrease the unfunded actuarial accrued liability by $278 million. Combined, these result in an increase in an actuarially sound contribution rate of 0.08 percent, from 8.11 percent to 8.19 percent. The 0.08 percent increase in long-term costs to the state translates to an additional amount of approximately $19 million in 2006. However, this is balanced by making contributions on a lower payroll as a result of the 90-day delay.

The savings to the state in reduced retirement contributions at a 6 percent contribution rate is approximately $23 million in 2006, which nets out to about $4 million in savings in 2006.

The state also makes a statutory contribution to TRS-Care based on the school district retirement payroll of 1.0 percent, along with a contribution from district employees of 0.5 percent and a contribution from school districts of 0.4 percent. The bill would cause a reduction in these contributions of about $6 million per year, of which about $3 million would be a savings to the state. However, for the foreseeable future the state will need to make a supplementary contribution to TRS-Care, and any reduction in funding to the program would need to be made up by the state. The resulting need to make up the loss of these statutory contributions as a result of the provisions of the bill would eliminate the state savings.

Together, the reduced state contributions to TRS-Care and to the TRS retirement fund at 6 percent; the additional cost of TRS Care; and the additional cost of an actuarially sound contribution rate would be a savings of $1.3 million in 2006. Assuming public education payroll increases by 4 percent annually, the savings would increase proportionately.

TRS grants one year of service credit in a fiscal year if a member works 4.5 months or more during that year. Given that the majority of public school employees begin work at the beginning of the first semester, it is expected that under the provisions of the bill, most new employees would still get a year's worth of credit, and a small percentage would get no credit. The TRS actuary estimates that under the bill, 75 percent of new hires in a year would receive a year of credit, and the other 25 percent would receive no credit. While this assumption may be accurate, it should be noted that if the percentage earning no service credit were somewhat lower, the additional long term costs to the system for an actuarially sound contribution described above would increase substantially.

The TRS retirement contributions in the General Appropriations Act as passed by the House reflect a savings of $46.4 million in All Funds from not making contributions to TRS for newly hired employees at a 6.0 percent contribution rate. This matches the amount shown above. However, the long-term savings to the state from implementing the 90-day delay permanently, as reflected in this fiscal note, are lower. Note that without the 90-day delay, most of the state contribution for newly hired employees would not fund a pension for them, since few of them will retire with the state. So most of the funds remain with the plan and lower the cost of paying pensions for other members. Hence, only a portion of the reduction in contributions at the 6 percent rate is really a long-term savings.

Local Government Impact

School districts that do not generally pay Social Security would be required by Federal law to make payments into Social Security for those employees who were not covered by TRS for 90 days. Using an estimated figure of 80 percent of district employees not covered by Social Security would give annual costs to school districts of approximately $16 million in addition to any costs shown above. It is unknown how many such school districts are currently paying these costs for those subject to the 90-day delay. Also, school districts would have savings of approximately $1.6 million per year from a reduced statutory contribution to TRS-Care. This is assumed to be made up for by an increased state supplemental contribution to TRS-Care, which is included above.

Source Agencies: 323 Teacher Retirement System

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