

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 26, 2005

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

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

IN RE: HB3169 by Crossover (Relating to purchase of equivalent membership service credit in the Teacher Retirement System of Texas.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would repeal the credit purchase option section of the Teacher Retirement System (TRS) law which allows an eligible member to buy up to three years of service credit through payment of the actuarial present value of the additional standard retirement annuity benefits equivalent to the service credit purchased. Members of TRS who would be eligible to retire by purchasing service before the effective date of the bill, September 1, 2005, would still be able to purchase credit before they retire.

TRS currently incurs actuarial losses from the purchase of service credit. While the provision requires payment of the actuarial present value of additional retirement benefits, there is an early retirement table applicable to employees with more than 20 years of service credit but who do not yet meet the rule of 80. The reductions made by this table fall well short of the actuarial cost of retiring earlier and are used where applicable to estimate the cost of service credit, allowing up to a 10 percent reduction in the cost to the participant.

There are two other sources of losses from the purchase of service credit. One is that people who choose to purchase annuities are generally in better health and likely to live longer on average; certainly those who believe themselves to be in poor health are unlikely to purchase service when they can retire using an early retirement reduction table. The other source is the assumed rate of return. TRS currently assumes an 8 percent rate of return, while in the private market the rate of return on an annuity would only be 5.5 to 6 percent. If TRS earns 8 percent over the period of the annuity there is no loss, but there is a substantial risk that earnings fall short and that the state will have to make up the difference.

Passage of the bill would eliminate these sources of loss to the pension fund. Additionally, to the extent that the bill encourages later retirement, it would have a positive impact on TRS-Care.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System, 701 Central Education Agency

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