

BILL ANALYSIS

Senate Research Center

S.B. 1846
By: Duncan
State Affairs
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Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Constitutional provisions of the Teacher Retirement System of Texas (TRS) include the establishment of a trust and a board of trustees to administer the system, a requirement that the trust's assets be held for the exclusive benefit of the members, and a requirement that financing of benefits be based on sound actuarial principles. One such principle is the funding period, or the necessary amortization period for assets to fund liabilities. According to the TRS outside consulting actuary, the system has had an "infinite" funding period, which has resulted in retirees being precluded from receiving any benefit enhancements until the fund can amortize liabilities within a 31-year period. Statutory change is necessary to provide TRS with the tools that may lead to better management of funding for the pension fund.

S.B. 1846 provides for a centralized structure for making both funding and benefit decisions, provides financial rewards for active members who choose to work beyond the "Rule of 80," and prohibits the state's contribution rate from dropping below the contribution rate of active members.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 825.402, Government Code, as follows:

Sec. 825.402. RATE OF MEMBER CONTRIBUTIONS. (a) Creates this subsection from existing text. Sets forth the rates of contributions to the Teacher Retirement System of Texas (TRS) for each member, based on the member's years of service, providing that services rendered after August 31, 1985, are subject to Subsection (b).

(b) Authorizes the board of trustees by order, subject to Subsection (c), to require that the rate of contributions for each member of TRS under Subsection (a) is increased to not more than 6.58 percent of the member's annual compensation for service rendered after the date of the order under certain conditions.

(c) Prohibits the board of trustees, notwithstanding any other law, from making a supplemental payment required or authorized by the legislature by law, and prohibits the board of trustees from imposing an increase in the rate of contributions under Subsection (b), if the board of trustees finds that after making the payment and imposing the increase the amortization period for the unfunded actuarial liabilities of TRS would exceed 30 years by one or more years.

(d) Authorizes the board of trustees, notwithstanding any other law, to delay making a supplemental payment required or authorized by the legislature by law as necessary to make the determinations required under Subsections (b) and (c).

SECTION 2. Amends Section 824.404, Government Code, by amending Subsection (c) and adding Subsection (a-1), as follows:

(a) Prohibits the amount of state contribution made under Section 824.404 (Collection of State Contributions and Appropriated Operating Expenses) from being less than the amount contributed by members during that fiscal year in accordance with Section 825.402 (Rate of Member Contributions).

(a-1) Requires the state, during each fiscal year of the state fiscal biennium beginning September 1, 2007, to contribute to TRS an amount equal to 6.58 of the aggregate annual compensation of all members of TRS during that fiscal year. Provides that this subsection expires September 1, 2009.

SECTION 3 Amends Section 825.4092(e), Government Code, to provide that the amounts required to be paid under Subsections (b) and (c) (regarding provisions for payment of employer contributions for employed retirees) are not required to be paid by a reporting employer for a retiree who retired from, rather than a retiree who was reported under, TRS before September 1, 2005. Deletes existing text relating to certain rules in effect for TRS for the report month of January 2005.

SECTION 4. Amends Section 1575.204(b), Insurance Code, to provide that the amounts required to be paid under this subsection are not required to be paid by a reporting employer for a retiree who retired from TRS before September 1, 2005, rather than a retiree who was reported by the employer under TRS rules in effect for the report month of January 2005.

SECTION 5. (a) Requires TRS to make a one-time supplemental payment of a retirement or death benefit, as provided by this section.

(b) Provides that the supplemental payment is payable not later than September 2007 and, to the extent practicable, on a date or dates that coincide with the regular annuity payment payable to each eligible annuitant.

(c) Provides that the amount of the supplemental payment is equal to the lesser of the gross amount of the regular annuity payment to which the eligible annuitant is otherwise entitled for the month of August 2007, or \$2,400.

(d) Provides that the supplemental payment is payable without regard to any forfeiture of benefits under Section 824.601 (Loss of Monthly Benefits), Government Code. Requires TRS to make applicable tax withholding and other legally required deductions before disbursing the supplemental payment. Provides that a supplemental payment under this section is in addition to and not in lieu of the regular monthly annuity payment to which the eligible annuitant is otherwise entitled.

(e) Requires a person, subject to Subsection (f) or this section, to be eligible for the supplemental payment, for the month of August 2007, and disregarding any forfeiture of benefits under Section 824.601, Government Code, to be an annuitant eligible to receive certain annuity payments.

(f) Requires the effective date of the retirement of the member of TRS to have been on or before December 31, 2006, if the annuitant is a retiree or a beneficiary under an optional retirement payment plan, to be eligible for the supplemental payment. Requires the date of death of the member of TRS to have been on or before December 31, 2006, if the annuitant is a beneficiary under Subdivision (3) or (4), Subsection (a), Section 824.402, Government Code, to be eligible for the supplemental payment. Requires the supplemental payment to be made to an alternate payee who is annuitant under Section 804.005 (Payment in Certain Circumstances in Lieu of Benefits Awarded by Qualified Domestic Relations Order), Government Code, only if the annuity payment to the alternate payee commenced on or before December 31, 2006. Provides that the supplemental payment is in addition to the guaranteed number of payments under Subdivision (3), Subsection (a), Section 824.402, Government Code, Sections 824.204(c)(3) or (4) (Optional Service Retirement Benefits), Government Code, or Sections 824.308(c)(3) or (4), Government Code, and is prohibited from being counted as one of the guaranteed monthly payments.

(g) Provides that the supplemental payment does not apply to payments under Section 824.304(a), Government Code, relating to disability retirees with less than 10 years of service credit, Section 824.804(b), Government Code, relating to participants in the deferred retirement option plan with regard to payments from their deferred retirement option plan accounts, Section 824.501(a), Government Code, relating to retiree survivor beneficiaries who receive a survivor annuity in an amount fixed by statute, or Section 824.404(a), Government Code, relating to active member survivor beneficiaries who receive a survivor annuity in an amount fixed by statute.

(h) Requires the board of trustees of TRS to determine the eligibility for and the amount and timing of a supplemental payment and the manner in which the payment is made.

SECTION 6. Makes application of Section 825.404(a), Government Code, as amended by this Act, prospective to the fiscal year that begins September 1, 2007.

SECTION 7. Makes application of Section 825.4092, Government Code, as amended by this Act, prospective.

SECTION 8. Effective date: September 1, 2007.