

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 5, 2007

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions & Investments

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

IN RE: HB469 by Phillips (Relating to computation of the standard service annuity under the Teacher Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB469, As Introduced: a negative impact of (\$295,325,619) through the biennium ending August 31, 2009.

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
2008	(\$143,992,800)
2009	(\$151,332,819)
2010	(\$159,039,840)
2011	(\$167,132,212)
2012	(\$175,629,202)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/ (Cost) from <i>EST OTH EDUC & GEN INCO 770</i>	Probable Savings/ (Cost) from <i>TRS TRUST ACCOUNT FUND 960</i>	Probable Revenue Gain/(Loss) from <i>TRS TRUST ACCOUNT FUND 960</i>
2008	(\$143,992,800)	(\$7,152,155)	(\$147,840)	\$151,292,795
2009	(\$151,332,819)	(\$7,509,763)	(\$155,232)	\$158,997,814
2010	(\$159,039,840)	(\$7,885,251)	(\$162,994)	\$167,088,085
2011	(\$167,132,212)	(\$8,279,514)	(\$171,144)	\$175,582,870
2012	(\$175,629,202)	(\$8,693,489)	(\$179,701)	\$184,502,392

Fiscal Analysis

The bill would change the calculation of final average salary for purposes of calculating the amount of the standard service retirement annuity under the Teacher Retirement System (TRS) to include the three years in which TRS members received their highest annual compensation instead of the five years in which TRS members received their highest annual compensation.

Methodology

The bill would increase the unfunded actuarial accrued liability by \$684 million and would increase the contribution rate required to achieve the 30-year funding period stipulated in statute by 0.58

percent. Enactment of this bill without sufficient funding to achieve the 30-year funding period would violate statutory funding requirements.

Assuming the state would fund the contribution rate required to achieve the 30-year funding period, the cost of the additional 0.58 percent contribution is estimated at \$144 million in General Revenue and \$7.2 million in General Revenue-Dedicated in fiscal year 2008 and \$151 million in General Revenue and \$7.5 million in General Revenue-Dedicated in fiscal year 2009. Additional funds from Fund 960, TRS Trust Account Fund (Other Funds), would be required to fund additional contributions on behalf of TRS employees whose salaries are paid from Fund 960, TRS Trust Account Fund, but these additional funds would be deposited back into Fund 960 for no net fiscal impact.

TRS funding statutes prevent increases to benefits unless the system's liabilities are funded within 31 years. Based on the August 31, 2006 actuarial valuation, the annual required contribution rate exclusive of the provisions of the bill would be 7.02 percent. Assuming the current state contribution rate at 6.00 percent, the estimated cost of increasing the state contribution rate to 7.02 percent would be \$253.2 million in General Revenue and \$12.6 million in General Revenue-Dedicated in fiscal year 2008 and \$266.1 million in General Revenue and \$13.2 million in General Revenue-Dedicated in fiscal year 2009. Funding of the 7.02 percent rate plus the incremental 0.58 percent increase resulting from the provisions of the bill would be required for the benefit increase contemplated in the bill to comply with TRS funding statutes.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

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