

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 7, 2007

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

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

IN RE: HB1105 by McClendon (Relating to the state contribution to the Teacher Retirement System of Texas, including an adjustment to the standard service retirement annuity.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1105, As Introduced: a negative impact of (\$656,844,912) 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	(\$320,259,848)
2009	(\$336,585,064)
2010	(\$353,726,541)
2011	(\$371,725,092)
2012	(\$390,623,570)

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	(\$320,259,848)	(\$15,907,380)	(\$328,817)	\$336,496,045
2009	(\$336,585,064)	(\$16,702,749)	(\$345,258)	\$353,633,071
2010	(\$353,726,541)	(\$17,537,886)	(\$362,521)	\$371,626,948
2011	(\$371,725,092)	(\$18,414,780)	(\$380,647)	\$390,520,519
2012	(\$390,623,570)	(\$19,335,519)	(\$399,679)	\$410,358,768

Fiscal Analysis

The bill would increase the amount of a Teacher Retirement System (TRS) standard service retirement annuity by 4 percent of the amount otherwise calculated under the statutory funding formula to be paid to members receiving benefits as of September 1, 2007 and future retirees. The bill would increase the minimum state contribution for retirement from 6.00 percent to 7.00 percent of compensation.

Methodology

The provisions of the bill would increase the unfunded actuarial accrued liability by \$4.3 billion and would increase the state contribution rate required to amortize the liability within the 30-year period required by statute to 8.31 percent.

As of the August 31, 2006 actuarial valuation, the state contribution rate required to achieve the 30-year funding period is 7.02 percent. The provisions of this bill would increase that rate by 1.29 percent. Assuming the state would fully fund the difference, the incremental cost of the 1.29 percent is estimated at \$320 million in General Revenue and \$16 million in General-Revenue Dedicated in fiscal year 2008 and \$337 million in General Revenue and \$17 million in General-Revenue Dedicated in fiscal year 2009. Additional amounts would need to be contributed from Other Funds (Fund 960, TRS Trust Account), to make contributions on behalf of TRS employees; but these amounts would be deposited back into Fund 960 for no net cost.

TRS funding statutes prohibit the provision of retirement benefit increases unless the fund is actuarially sound. Assuming the state contribution rate at the current 6.00 percent, the full cost of achieving the 30-year funding period required for actuarial soundness would be the incremental costs associated with the additional 1.29 percent plus an estimated \$253 million in General Revenue and \$13 million in General Revenue-Dedicated in fiscal year 2008 and \$266 million in General Revenue and \$13 million in General Revenue-Dedicated in fiscal year 2009.

All costs would be expected to increase at a similar rate annually and would be ongoing.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

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