

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION**

**March 14, 2007**

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

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

**IN RE: HB1259** by Martinez, "Mando" (Relating to a cost of living increase applicable to benefits paid by the Teacher Retirement System of Texas.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB1259, 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 &amp; 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 provide an ad hoc increase of 5 percent to monthly service retirement benefits, disability benefits, and death benefits paid by the Teacher Retirement System (TRS), effective for benefits paid on or after January 1, 2008 and applying only to members who receive payments in January 2008. Members retiring after that date would not be entitled to the increase.

**Methodology**

The bill would increase the unfunded actuarial accrued liability by \$2.522 billion and would increase the contribution rate required to achieve the 30-year funding period stipulated in statute by 0.58

percentage points based on the actuarial value of assets as of February 28, 2007. Enactment of the bill without sufficient funding to achieve the 30-year funding period would violate statutory funding requirements.

Assuming that the state would fund the contribution rate required to achieve the 30-year funding period with the member contribution rate remaining at 6.4 percent, 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 30 years. Based on the February 28, 2007 update to the most recent actuarial valuation, the annual required contribution rate exclusive of the provisions of the bill would be 6.6 percent. Assuming the current state contribution rate at 6.00 percent, the estimated cost of increasing the state contribution rate to 6.6 percent would be \$149 million in General Revenue and \$7.4 million in General Revenue-Dedicated in fiscal year 2008 and \$157 million in General Revenue and \$7.8 million in General Revenue-Dedicated in fiscal year 2009. Funding of the 6.6 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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