

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 24, 2007

TO: Honorable David Dewhurst, Lieutenant Governor, Senate

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

IN RE: SB1846 by Duncan (Relating to funding for, and benefits provided under, the Teacher Retirement System of Texas.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1846, As Passed 2nd House: a negative impact of (\$356,427,471) 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	(\$173,784,413)
2009	(\$182,643,058)
2010	(\$191,944,635)
2011	(\$201,711,290)
2012	(\$211,966,278)

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	(\$173,784,413)	(\$8,631,911)	(\$178,428)	\$182,594,752
2009	(\$182,643,058)	(\$9,063,507)	(\$187,349)	\$191,893,914
2010	(\$191,944,635)	(\$9,516,682)	(\$196,717)	\$201,658,034
2011	(\$201,711,290)	(\$9,992,517)	(\$206,553)	\$211,910,360
2012	(\$211,966,278)	(\$10,492,142)	(\$216,880)	\$222,675,300

Fiscal Analysis

The bill would increase the minimum state contribution to the Teacher Retirement System (TRS) for retirement from 6.00 percent to 6.70 percent of compensation.

The bill would exempt school districts from return-to-work retiree employer surcharge payments for retirees who retired prior to September 1, 2005.

The bill would direct TRS to make a one-time supplemental payment of a retirement or death benefit in September 2007 to members eligible to receive benefits in August 2007 and who have an effective retirement date on or before December 31, 2006.

The bill would exempt a school district required to expand classroom facilities as a result of the Department of Defense base realignment and closure process from payment of pension and insurance surcharge amounts to the Teacher Retirement System of Texas (TRS) on behalf of retired TRS members who return to work in public schools.

Methodology

The provisions of the bill related to the supplemental benefit would increase the unfunded actuarial accrued liability by \$410 million and would increase the state contribution rate required to amortize the liability within the 30-year period required by statute by 0.1 to 6.7 percent.

In the current biennium, the state contribution rate to TRS is 6.00 percent. The estimated cost of the requirement to increase the state contribution rate from a minimum of 6.00 to 6.70 percent is \$183 million in All Funds in FY2008 and \$192 million in All Funds in FY2009. These costs would be expected to increase at a similar rate annually and would be ongoing.

Since the minimum required state contribution rate required by the bill is equal to the contribution rate required to amortize the unfunded liability, including the supplemental benefit provided by the bill, within the 30-year funding period, the supplemental benefit does not violate TRS funding statutes.

Provisions of the bill related to pension and insurance surcharge payments on behalf of return-to-work retirees for districts affected by base realignment and closure would result in a loss of revenue to the TRS Retirement Trust Fund and the TRS-Care, Retired School Employees Group Insurance Trust Fund. Associated losses are not estimated to be significant.

Local Government Impact

The bill would expand the number of TRS retirees for which hiring school districts would be exempt from return-to-work-related surcharges for pension and insurance.

Source Agencies:

LBB Staff: JOB, KJG, UP, JSc