

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 26, 2007

TO: Honorable David Dewhurst , Lieutenant Governor, Senate
 Honorable Tom Craddick, Speaker of the House, House of Representatives

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.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1846, Conference Committee Report: 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	(\$153,946,719)
2011	(\$161,780,594)
2012	(\$170,006,164)

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)	\$272,327,031
2009	(\$151,332,819)	(\$7,509,763)	(\$155,232)	\$286,196,065
2010	(\$153,946,719)	(\$7,885,251)	(\$162,994)	\$291,590,935
2011	(\$161,780,594)	(\$8,279,514)	(\$171,144)	\$306,416,254
2012	(\$170,006,164)	(\$8,693,489)	(\$179,701)	\$321,982,837

Fiscal Analysis

The bill would allow the Teacher Retirement System to require that the rate of contribution to the Teacher Retirement System (TRS) retirement trust fund by active members be increased up to 6.58 percent if a supplemental benefit payment is authorized by the legislature and TRS determines that after paying the supplemental benefit payment the funding period of the pension trust fund would exceed 30 years by one or more years. The bill would stipulate that the state contribution rate may not be lower than the active member contribution rate and that the state contribution rate shall be 6.58 percent for the 2008-09 biennium.

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

The bill would direct TRS to make a one-time supplemental benefit payment to eligible annuitants in September 2007 equal the lesser of \$2,400 or the amount of the regular annuity payment to which annuitants are entitled for August 2007. The bill would allow TRS to delay payment in order to allow the determination of actuarial soundness and to determine whether an increase in the active member rate, as permitted by the bill, is warranted.

Methodology

For purposes of this estimate, it is assumed that the active member contribution rate would be increased to 6.58 percent, which would result in a revenue gain to the TRS Retirement Trust Fund estimated at \$121 million in fiscal year 2008 and \$127 million in fiscal year 2009, increasing at a similar rate in subsequent years.

In the current biennium, the state contribution rate is set at 6.0 percent. The estimated cost of increasing the state contribution rate from 6.0 to 6.58 percent would be \$151 million in All Funds in fiscal year 2008 and \$159 million in All Funds in fiscal year 2009, increasing at a similar rate in subsequent years. Note that the decisions to date of the Conference Committee on House Bill 1, 80th Legislature, Regular Session, 2007 contain appropriations sufficient to fund a 6.58 percent state contribution rate for the 2008-09 biennium.

This bill would provide for a supplemental payment that would provide eligible annuitants an amount equal to their monthly benefit, but not in excess of \$2,400, to be paid no later than September of 2007. The provisions of the bill would increase the unfunded liability by \$359 million based on the actuarial value of assets on February 28, 2007. Assuming an active member contribution rate of 6.58 percent, as permitted under the provisions of the bill, and assuming the state contribution of 6.58 percent stipulated by the bill would remain the same in perpetuity, the funding period would not exceed 30 years by one or more years. Therefore, passage of this bill with the funding outlined above, would not violate statutory funding requirements.

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: 323 Teacher Retirement System

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