

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

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

**April 1, 2007**

**TO:** Honorable Robert Duncan, Chair, Senate Committee on State Affairs

**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 Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1846, As Introduced: a negative impact of (\$106,000,000) 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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2008	(\$53,000,000)
2009	(\$53,000,000)
2010	(\$53,000,000)
2011	(\$53,000,000)
2012	(\$53,000,000)

**All Funds, Five-Year Impact:**

<b>Fiscal Year</b>	<b>Probable Savings/(Cost) from GENERAL REVENUE FUND 1</b>
2008	(\$53,000,000)
2009	(\$53,000,000)
2010	(\$53,000,000)
2011	(\$53,000,000)
2012	(\$53,000,000)

**Fiscal Analysis**

The bill would allow the rate of contributions to the Teacher Retirement System (TRS) retirement trust fund by active members to be increased to a rate up to 6.6 percent in the General Appropriations Act for the purpose of ensuring the actuarial soundness of the fund. The bill would stipulate that the state contribution rate may not be lower than the active member contribution rate.

The bill would require local employers to contribute to the TRS retirement trust fund an amount between 0.25 and 0.75 percent of aggregate annual compensation of employees who are contributing TRS members. The bill stipulates that the rate, within the range established by the bill, would be set in the General Appropriations Act.

The bill would entitle classroom teachers other than employed retirees whose age plus years of service is greater than 80 to a salary supplement ranging from \$1,000 to \$4,000 in a year. The amounts of the salary supplement are stipulated in the bill and increase as the teacher's age plus years of service increases. The bill would entitle a school district to additional state funds sufficient to pay salary supplements to which classroom teachers would be entitled under the provisions of the bill.

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

### **Methodology**

Assuming the employer contribution rate established by the bill were set at the minimum 0.25 percent and that 20 percent of classroom teachers would defer retirement for at least one year, the contribution rate required to achieve a 30-year funding period for the TRS retirement trust fund would be reduced by 0.36 percentage points under the provisions of the bill based on the February 28, 2007 update to the August 31, 2006 actuarial valuation of the fund..

The current active member contribution rate is 6.4 percent, and assuming that rate remains unchanged, based on the February 28, 2007 update to the actuarial valuation, the state contribution rate required to achieve a 30-year funding period is 6.6 percent. It is assumed that a reduction of 0.28 would be applied to the state rate and a reduction of 0.08 would be applied to the active member contribution rate in order that the state contribution rate not drop below the active member contribution rate as stipulated in the bill. The reduction to the state contribution rate would reduce the cost of achieving a 30-year funding period by about \$73 million in All Funds in FY2008 and about \$76 million in All Funds in FY2009. Those reductions in potential costs would continue and would increase at a similar rate annually.

The state cost of funding for school districts associated with salary supplements to which certain classroom teachers would be entitled under the provisions of the bill is estimated at \$50 million annually in General Revenue. Assuming a 6.0 percent state contribution rate, additional state contributions to the TRS retirement fund associated with the provisions of the bill is estimated at \$3 million annually in General Revenue.

### **Local Government Impact**

Local employers would be required to contribute between 0.25 and 0.75 percent of aggregate total compensation for employees who are contributing TRS members to the TRS retirement trust fund. 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. School districts would be required to pay salary supplements to certain classroom teachers and would be entitled to state funds sufficient to fund the supplements.

**Source Agencies:** 323 Teacher Retirement System

**LBB Staff:** JOB, KJG, UP, JSc