

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

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

**April 24, 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.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1846, Committee Report 1st House, Substituted: a negative impact of (\$254,591,051) 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	(\$124,131,724)
2009	(\$130,459,327)
2010	(\$137,103,310)
2011	(\$144,079,493)
2012	(\$151,404,485)

**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	(\$124,131,724)	(\$6,165,651)	(\$127,448)	\$179,924,823
2009	(\$130,459,327)	(\$6,473,934)	(\$133,821)	\$188,052,082
2010	(\$137,103,310)	(\$6,797,630)	(\$140,512)	\$196,556,003
2011	(\$144,079,493)	(\$7,137,512)	(\$147,538)	\$205,454,529
2012	(\$151,404,485)	(\$7,494,387)	(\$154,914)	\$214,766,472

**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 and that the active member contribution rate may not be lower than 6.4 percent.

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 would allow that employers may deduct contributions made by the employer for Social Security under the Federal Insurance Contributions Act from contributions to TRS required by the bill. The bill stipulates that the

rate, within the range established by the bill, would be set in the General Appropriations Act.

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 amount of the regular annuity payment to which annuitants are entitled for August 2007.

## **Methodology**

Assuming the active member contribution rate remains at 6.4 percent, the provision that would provide a supplemental benefit to eligible annuitants in September 2007 would increase the state contribution rate required to achieve a 30-year funding period for the Retirement Trust Fund from 6.6 percent to 6.7 percent, based on the actuarial value of assets as of February 28, 2007. The incremental cost of increasing the state contribution rate from 6.6 percent to 6.7 percent is estimated at \$26 million in fiscal year 2008 and \$27 million in fiscal year 2009 in All Funds.

The bill would stipulate that the state contribution rate may not be established below the contribution rate of active members. Currently, the state contribution rate is set at the constitutional minimum of 6.0 percent. The cost of increasing the state contribution rate from 6.0 to the minimum required rate for active members of 6.4 percent is estimated at \$104 million in fiscal year 2008 and \$110 million in fiscal year 2009 in All Funds. The House and Senate versions of the appropriations bill contain sufficient funds to cover this increase in costs.

TRS estimates that the deduction for Social Security payments would reduce revenue to the Retirement Trust Fund associated with the local employer contribution established by the bill by about 25 percent as compared with the revenue that would be generated by a similar contribution from the state. Assuming the local employer rate is established at the minimum 0.25 percent, the associated revenue to the Retirement Trust fund is estimated at \$49.5 million in fiscal year 2008 and \$51.0 million in fiscal year 2009.

If the state contribution rate were established at the 6.4 percent rate to correspond with the minimum contribution rate for active TRS members, TRS estimates that a 0.4 percent local employer rate would be needed in order to achieve a 30-year funding period after accounting for the payment of the one-time supplemental benefit that would be provided by the bill.

## **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. Assuming the local employer rate is established at the minimum 0.25 percent, the associated cost to local employers is estimated at \$49.5 million in fiscal year 2008 and \$51.0 million in fiscal year 2009 statewide.

If the state contribution rate were established at the 6.4 percent rate to correspond with the minimum contribution rate for active TRS members, TRS estimates that a 0.4 percent local employer rate would be needed in order to achieve a 30-year funding period after accounting for the payment of the one-time supplemental benefit that would be provided by the bill. The associated local cost of an 0.4 percent contribution is estimated at \$79.2 million in fiscal year 2008 and \$81.6 million in fiscal year 2009 statewide.

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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