BILL ANALYSIS

S.B. 1358
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Pensions, Investments & Financial Services
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Provisions of the Government Code provide for cost of living adjustments (COLA) to annuities paid to Texas Municipal Retirement System (TMRS) retirees. Under current law, a COLA is calculated based on the level of the Consumer Price Index (CPI) when the employee retired. There are three optional increases allowed: 30 percent, 50 percent, or 70 percent of the change in CPI. Unless the ordinance that establishes the amount of the COLA is modified or repealed, the increase automatically repeats itself. Ultimately, this has had the effect of making the COLA a promised benefit to TMRS retirees because these annually repeating annuity increases were never built into the funding formulas.

In the last year, TMRS actuaries started valuing the COLA as a promised benefit. As a result, the contribution rates and unfunded liabilities of member cities have increased dramatically. It is difficult for cities to modify the percentage amount of the COLA in their ordinance. For example, if a city decreases the COLA from 70 percent of CPI to 50 percent, most retirees would not see a benefit increase for a long time. Because the previous 70 percent COLA benefit would be greater than the 50 percent COLA, the retiree would not see another increase until the 50 percent COLA exceeded the 70 percent COLA increase received previously. The retrospective nature of this COLA also makes increases difficult. If a city was granting a 30 percent COLA and wanted to increase it to 50 percent, calculating the increase in the benefit for several years becomes very costly for cities to implement. This bill seeks to allow cities the ability to effectively manage their retirement plans and control costs and continue to retain the adjustment as an additional benefit for retirees.

S.B. 1358 provides TMRS member cities the option of calculating the amount of the annual COLA as an increase in the current benefit only.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

S.B. 1358 amends the Government Code to include as an alternative to the existing method for computing the amount of annuity increase under the Texas Municipal Retirement System the computation of the amount of increase as the sum of the prior and current service annuities on the effective date of the increase multiplied by the integer percentage increase specified in the ordinance adopted by the governing body of a participating municipality. The bill makes such an increase applicable to all annuities for which the effective date is at least 12 months before the effective date of the increase and makes conforming changes to reflect the inclusion of the bill's computational method.

EFFECTIVE DATE

On passage, or, if the act does not receive the necessary vote, the act takes effect September 1, 2009.