BILL ANALYSIS

S.B. 642
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Pensions, Investments & Financial Services
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Currently, the Texas Municipal Retirement System (TMRS) may provide for cost of living adjustments (COLAs) for system retirees and beneficiaries that are calculated based on the Consumer Price Index for All Urban Consumers when the employee retires. According to certain sources, unless the participating municipality changes or discontinues its ordinance establishing the amount of the COLA, the COLA is automatically provided every year, which has had the effect of making such COLAs a promised benefit to TMRS annuitants despite the fact that these annually repeating COLAs were never built into the system's funding formulas.

Those sources further assert that TMRS actuaries recently began valuing such COLAs as a promised benefit, and consequently both the contribution rates and the unfunded liabilities of member cities have increased so dramatically that many cities have discontinued their annually repeating COLAs. S.B. 642 proposes to address this problem by allowing cities participating in TMRS the option of calculating the amount of the COLA annually as an increase in the current benefit only. This change will allow cities to effectively manage their retirement plans and control costs so they can continue to retain the COLA as an additional benefit to their annuitants.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the board of trustees of the Texas Municipal Retirement System in SECTION 2 of this bill.

ANALYSIS

S.B. 642 amends the Government Code to require the governing body of a municipality participating in the Texas Municipal Retirement System (TMRS), if an ordinance authorizing and providing for increased annuities to be paid to retirees and beneficiaries of deceased retirees of the municipality will cease to be in effect for a future year, or if an increase in annuities specified in the ordinance will be changed or discontinued under provisions of law governing such increases, to provide notice to members and annuitants by regular mail not later than the 60th day before the date on which the ordinance will cease to be in effect or the increase will be changed or discontinued. The bill requires the notice, for an annuitant who receives a periodic check or advice of deposit from the retirement system by regular mail, to be included with the annuitant's check or advice of deposit.

S.B. 642 provides as an alternative method by which the amount of an annuity increase is computed the computation of that amount as the sum of the prior and current service annuities of the person on whose service the annuities are based on the effective date of the annuity increase multiplied by the percentage increase specified in the ordinance adopted by the governing body, except that an adjustment to an annuity after the annuity starting date for annuity increases under this provision may not cause an annuitant's annuity to exceed the amount that the annuitant would be entitled to had the maximum amount of the annuity increase allowed under the existing method of computing the amount of annuity increase been applied to the annuitant's annuity.

S.B. 642 establishes that an increase computed under this alternate method applies to all annuities for which the effective date of retirement of the person on whose service the annuity is based is at least 12 months before the effective date of the increase. The bill requires each distribution of a benefit under TMRS to be determined and made in accordance with federal law relating to the required distributions for qualified pension, profit-sharing, and stock bonus plans and authorizes the board of trustees of TMRS to adopt rules the board considers necessary to comply with the distribution requirements. The bill makes conforming changes.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2011.