LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 17, 2011

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

FROM: John S O'Brien, Director, Legislative Budget Board

IN RE: **SB1164** by Wentworth (Relating to optional annuity increases and annual supplemental payments for certain retirees and beneficiaries of the Texas Municipal Retirement System.), **As Introduced**

No fiscal implication to the State is anticipated.

The bill would revise Government Code to authorize cities to adopt by ordinance two new supplemental payment options to persons who have retired from the Texas Municipal Retirement System (TMRS).

The new options would be to grant either an ad hoc one-time supplemental payment, commonly called a 13th check, or a non-cumulative but repeating cost of living adjustment (COLA) to any person that had been retired at least 12 months. Currently COLAs must be cumulative relative to Consumer Price Index changes since the time of retirement. The COLA could be set at any percentage, but the resulting annuity could not exceed the amount that would be paid had the retiree received annual COLAs equal to the total change in the CPI from the December preceding retirement to the December 13 months prior to the effective date of the increase. The supplemental payment could be any percentage of the retiree’s benefit and would be pro-rated for anyone retired less than one year. Payments under either option would be obligations of the city’s Municipality Accumulation Fund.

Since TMRS does not receive state appropriated funds, no fiscal impact on state funds is anticipated.

Local Government Impact

According to TMRS, there would not be an automatic cost incurred by each municipality because the adoption of an ad hoc or repeating COLA or the 13th check option would be at the discretion of each participating municipality and the fiscal impact would depend on which municipalities chose to adopt the alternate COLA option. However, the cost of an ad hoc COLA or 13th check could affect the actuarial funding status of a municipality that chooses to adopt either of these options.

Having the ability to offer non-cumulative COLAs or one-time supplemental payments would likely reduce long-term funding costs for many municipalities. The current options either cost cities significantly, or have poor outcomes for long retired retirees.

In addition, there would be costs associated with reprogramming TMRS' internal computer systems and systems used by the outside actuary. The majority of the internal systems' costs would be related to no limit on the amount of the 13th Check; without a limit, funds paid to an annuitant may have to be processed and reported differently to meet Internal Revenue Service (IRS) requirements. The IRS rollover requirement is based on whether the payment exceeds 120 percent of the monthly annuity (10 percent of the annual annuity). Each annuitant would need to be notified of their "rollover" option to allow TMRS time to input their election. TMRS estimated that the necessary system changes would cost $248,500, unless the 13th check did not exceed 120 percent of the monthly annuity costs which would reduce implementation costs to $118,900.

Source Agencies:

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