

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 22, 2013

TO: Honorable Bill Callegari, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB103** by Gonzales, Larry (Relating to a supplemental payment for retirees of the Teacher Retirement System of Texas and the unfunded actuarial liabilities allowed under that system.), **As Introduced**

No significant fiscal implication to the State is anticipated as the provisions of the bill are not expected to take effect because required conditions related to actuarial soundness are not anticipated to be met within the period contemplated in this estimate.

The bill would provide for a one-time supplemental retirement payment equal to the greater of the member's pension or \$2,400 and would apply only to members who retired on or before September 1, 2012.

The bill would authorize the Teacher Retirement System of Texas (TRS) to make one-time supplemental payments, capped at \$2,400, to retirees and beneficiaries as of August 2013, who retired prior to January 1, 2011. One-time payments would be payable during the period beginning September 1, 2013 through December 31, 2015 and would be authorized only if the supplemental payments could be made without compromising the system's ability to meet at least 80 percent of pension obligations and if investment earnings in the previous year exceeded 8.0 percent by an amount sufficient to fund the payments.

According to the TRS, based on the provisions of the bill, the estimated cost to provide one-time supplemental payments would be approximately \$430 million from the pension trust fund account. However, the bill proposes no increase in the state contribution rate of 6.4 percent to fund the benefit enhancement. Because the bill would increase retirement benefits for the TRS retirement fund, the state contribution required to achieve the 30-year funding period stipulated in statute would increase by 1.19 percent, from 8.62 percent 9.81 percent. Based on the August 31, 2012 actuarial valuation, benefit enhancements would increase the unfunded actuarial accrued liability by \$4.3 billion.

Government Code, Section 824.2031 requires that legislation providing additional benefits that increase the actuarial cost of TRS will require a state contribution necessary to amortize the unfunded liabilities of the new benefits structure over a 31-year period. Therefore, for purposes of this estimate, it is assumed that the bill would not take effect within the period for which this estimate is prepared because the conditions to be actuarially sound are not anticipated to be met, and as a result, no significant fiscal impact to the state is anticipated.

The bill would take effect immediately September 1, 2013, or immediately upon passage with the necessary voting margins.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, RB, JSc, JW, AG, JGM