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: **HB472** by Allen (Relating to benefits paid by the Teacher Retirement System of Texas.), **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 a 10 percent increase in benefits payable to service retirees, disability retirees, or death benefits paid by the Teacher Retirement System (TRS), effective for benefits paid on or after September 1, 2013.

The bill would provide for an annual four percent cost-of-living (COLA) adjustment in each subsequent year after September 1, 2013 for current and future retirees.

The bill would provide for a one-time supplemental retirement payment equal to the greater of the member's pension or $2,000. The payment would apply only to members who retired on or before September 1, 2012.

For purposes of this analysis, it is assumed that the first cost-of-living (COLA) adjustment would occur one year after the 10 percent increase, or September 1, 2014, and future COLAs would occur each subsequent year. According to the TRS actuary and based on the provisions of the bill, the estimated cost to provide a one-time supplemental payment would be approximately $425 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 enhancements. TRS funding statutes prevent increases to benefits unless the system's liabilities are funded within 31 years. 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 16.30 percent, from 8.77 percent to 25.07 percent. Based on the February 28, 2013 actuarial valuation, benefit enhancements would increase the unfunded actuarial accrued liability by $76.4 billion, from $27.4 billion to $103.8 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. Enactment of the bill without sufficient funding to achieve the 30-year funding period would violate statutory funding requirements. 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.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

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