LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 24, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1884** by Callegari (Relating to contributions to, benefits from, and the administration of systems and programs administered by the Teacher Retirement System of Texas.), **Committee Report 1st House, Substituted**

No fiscal implication to the State is anticipated.

However, the bill would have long-term fiscal implications to the Teacher Retirement System trust fund.

The bill would amend current law relating to contributions to, benefits from, and the administration of systems and programs administered by the Teacher Retirement System of Texas.

The bill requires that to retire without reduced benefits, a member must achieve age 65 with at least five years of service credit or age 62 with at least five years of service credit if the sum of the member's age and service is 80.

The bill provides for a one-time cost of living adjustment (COLA) to retirees who have been retired since August 31, 1994. The amount of the COLA is the lesser of three percent of the retiree's monthly benefit or $100 per month, if the funding period does not increase above 30 years by one or more years.

The bill reduces the monthly interest rate credited to a member's contribution account from five percent to two percent per annum.

The bill sets the member's contribution rate equal to the rate of state contributions established by the legislature, not to exceed 6.9 percent.

Active members are grandfathered under current law if they (1) they have attained age 50, (2) the sum of the member's age and years of service is 70 or greater; and (3) the member has 25 years of service or more as of August 31, 2014.

For purposes of this analysis, based on the provisions of the bill, if the state and member contributions remain at 6.4 percent for all future years, the funding period as of the February 28, 2013 update is 33.4 years and would remain actuarially unsound. However, under either state contribution rate currently being considered by the legislature for the 2014-15 biennium, the unfunded actuarial accrued liabilities (UAAL) would decrease by $5.6 billion, from $27.4 billion to $21.8. Based on these assumptions, the fund would become actuarially sound within 30 years or less as required by statute.

According to the TRS, there is no immediate significant impact to the TRS-Care retiree health insurance, but provides for savings beginning in fiscal year 2020.

Local Government Impact

The repeal of the provision requiring that TRS-Active Care offer a plan that is comparable to the ERS plan for state employees could affect the level of coverage offered. The bill requires employers, excluding institutions of higher education, whose members do not participate in the federal Old Age, Survivors, and Disability Insurance Program (Social Security) to contribute one percent of each member's minimum salary into the pension trust fund beginning in fiscal year 2015. According to the TRS, the estimated cost to local ISDs who contribute one percent of each member's minimum salary is approximately $220 million per year.

Source Agencies: 323 Teacher Retirement System, 212 Office of Court Administration, Texas Judicial Council, 360 State Office of Administrative Hearings

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