LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 21, 2013

TO: Honorable David Dewhurst, Lieutenant Governor, Senate

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1458** by Duncan (Relating to contributions to, benefits from, and the administration of systems and programs administered by the Teacher Retirement System of Texas.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated.

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 provides that to retire without reduced benefits, a member must achieve age 65 with at least five years of service credit in the Teacher Retirement System (TRS) or age 62 with five years of service credit and the sum of the member's age and service is 80. Active members are grandfathered under current law if they become a member on or before August 31, 2014. The bill exempts all future law enforcement employees from these changes.

The bill provides for a one-time cost of living adjustment (COLA) to retirees who have retired prior to August 31, 2004 and is payable if the fund is actuarially sound within 30 years. The amount of the COLA is the lesser of three percent of the retiree's monthly benefit or $100 per month.

The bill provides eligible annuitants a one-time supplemental payment, payable between September 1, 2013 through December 31, 2015, only if the funding ratio is at least 80 percent of the pension obligations and the return on investments exceeds eight percent by an amount sufficient to pay for the supplemental payment.

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

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 would remain actuarially unsound. According to the TRS actuary, the normal cost of the plan would decrease by 0.29 percent of payroll, from 10.60 percent to 10.31 percent, and if the COLA and the supplemental payment are provided, unfunded pension fund liabilities would increase by approximately two billion, and the funding period would be greater than 31.0 years as required by law. Some of the increase in unfunded liabilities is due to the reduction in normal cost for current members whose benefits are not reduced in the bill.

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 bill sets the member's contribution rate to 6.4 percent in 2014, 6.7 percent in 2015, 7.2 percent in 2016, and 7.7 percent in 2017. For service rendered after 2017, the member contribution would be 7.7 percent, which would be reduced if the state lowered the contribution rate below the level the state paid in 2015. Based on current payroll projections, the estimated cost to increase member contributions from 6.4 percent to 6.7 percent in fiscal year 2015 is approximately $189.8 million.

The repeal of the provision requiring TRS-Active Care to offer a comparable insurance plan to that offered by the Employees Retirement System of Texas may have some fiscal impact to the plans offered by TRS, but these are not anticipated to be significant.

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 1.5 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 and one-half percent of each member's minimum salary is approximately $330 million per year.

Source Agencies: 323 Teacher Retirement System

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