

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 10, 2013

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

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 Engrossed**

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 60 with at least 20 years of service credit; or age 50 with at least 30 years of service credit; or the member has at least five years of services credit and the sum of the member's age and service is 80.

Active members are grandfathered under current law if they became a member of TRS on or after September 1, 2007 and (1) attain age 65 with five years services credit; or (2) attain age 60 with at least five years of service credit and the sum of the member's age and service is 80.

A member who has less than five years of service on or before August 31, 2014, or who becomes a member on or before September 1, 2014, is eligible to retire without reduced benefits if the member is at least 65 years old with at least five years of service credit; or age 62 with at least five years of service credit and the sum of the member's age and service is 80.

The bill provides for a one-time percent annual cost of living adjustment (COLA) to retirees who have retired prior to August 31, 1999. 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.

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. However, if the state contribution rate were established by the legislature at 6.8 percent beginning with the 2014-15 biennium, the fund would become actuarially sound within 29.0 years 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 bill sets the member's contribution rate equal to the rate of state contributions established by the legislature, not to exceed 6.4 percent in 2014, 6.7 percent in 2015, 7.2 percent in 2016, and 7.7 percent in 2017. 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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