LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 4, 2015

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB45** by Martinez, "Mando" (Relating to a cost-of-living increase applicable to benefits paid by the Teacher Retirement System of Texas.), **As Introduced**

The provisions of the bill are not expected to take effect because the statutory requirement for actuarial soundness cannot be met upon payment of the proposed benefit increases. However, if the benefit increases were paid, there would be a significant but indeterminate cost to the State, unless the cost is passed on to the System members or local employers.

The bill would require the Teacher Retirement System of Texas (TRS) to provide for a cost of living adjustment (COLA) for service retirement benefits, disability retirement benefits, and death benefits, adjusted for inflation. The bill would require the TRS board to grant an annual cost-of-living adjustment equal to the percentage increase made by the United States Social Security Administration. The first COLA would be payable on January 1, 2016, and on January 1st of each subsequent year. The bill would take effect on September 1, 2015.

The increase could be made only if the board finds the TRS retirement fund to be actuarially sound and if funds are available to increase benefits. If a full COLA adjustment could not be made possible while maintaining actuarial soundness, the board is to compute the largest adjustment for a partial COLA. As there are no provisions for decrease, the actuary states the any reasonable COLA assumption would increase the funding period above 31 years.

Based on the February 28, 2015 actuarial valuation update, benefit enhancements would increase the unfunded actuarial accrued liability by $52.7 billion, from $32.1 billion to $84.8 billion, reduce the funding ratio from 80.4 percent to 60.8 percent, and result in a funding period of "Never". To maintain a 30-year funding period, the state contribution rate would have to increase from the current 6.8 percent of employee payroll to 17.41 percent.

Government Code, Section 821.006, prohibits action that would increase the period to amortize the unfunded actuarial liabilities of TRS beyond 31 years. Therefore, no significant fiscal implication to the State is anticipated as the provisions of the bill are not expected to take effect because the statutory requirement for actuarial soundness cannot be met upon payment of the proposed benefit increases.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, PFe, JBi