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: **HB2873** by Allen (Relating 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 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, 2015.

The bill would provide for an annual four percent cost-of-living (COLA) adjustment in each subsequent year after September 1, 2015 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, 2014.

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, 2016, and future COLAs would occur each subsequent year. According to the TRS actuary, the bill would increase the unfunded actuarial accrued liability (UAAL) from $32.1 billion to $121.0 billion, decrease the funding ratio from 80.4% to 52.1%, and would result in a funding period of "Never".

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