LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 12, 2015

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB4080** by Smithee (Relating to optional annuity increases for certain retirees and beneficiaries of the Texas Municipal Retirement System.), **As Introduced**

No fiscal implication to the State is anticipated.

The bill would amend the Government Code to allow a municipality participating in the Texas Municipal Retirement System (TMRS) to adopt a non-retroactive flat rate cost of living adjustment (COLA). This would give more flexibility to municipalities by allowing cities to adopt COLAs without the "catch up" feature of the current COLA under the TMRS act. This flexibility is likely to produce cost savings to municipalities.

Under the current methodology, if a COLA is granted in one year, the same percentage of the consumer price index (CPI) is also applied to all prior years following retirement. Therefore, if a municipality does not provide a COLA in one year, but chooses to do so the following year, the cost essentially doubles. A city could reduce the percentage of CPI offered as a COLA, but then retirees may not get increases for many years because the lower percentage would apply to all years following retirement.

To comply with federal law applicable to qualified plans, any increased payment to an annuitant resulting from such a COLA adopted by a city would be limited to the cumulative increase the annuitant would have been entitled to receive if the 70 percent of CPI limit under TMRS' existing law had been applied to the annuitant's annuity. The bill also would require that if a city adopts an ordinance to either discontinue an annually repeating COLA or to change an annually repeating COLA, the city must give written notice to members and annuitants at least 60 days prior to the effective date of the change adopted in the ordinance.

Local Government Impact

According to TMRS, there would not be an automatic cost incurred by each municipality because the adoption of a COLA would be at the discretion of each participating municipality and the fiscal impact of the bill would depend on which municipalities chose to adopt the alternate COLA option.

The cost of a COLA would affect the actuarial funding status of a municipality if it chooses to adopt and provide a COLA using the new non-retroactive flat rate option. If the new COLA was not applied retroactively, a municipality would realize savings compared with providing a COLA under the previous methodology. In some cases, these savings could be significant, especially for a municipality that made the determination to no longer provide COLAs every year.

In addition, there would be costs to TMRS associated with reprogramming both internal computer systems and actuarial systems used by the outside actuary, but the amounts are not anticipated to be significant.

Source Agencies:

LBB Staff: UP, EK, SD, AG