LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 30, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB397** 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 was 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, 2017.

The bill would provide for an annual four percent cost-of-living adjustment (COLA) in each subsequent year after September 1, 2017 for current and future retirees. The bill would provide for a one-time supplemental retirement payment, payable in January 2018, equal to the greater of $2,000 or the gross amount of the member's regular annuity payment. The payment would apply only to members who retired on or before September 1, 2016.

For purposes of this analysis, it is assumed that the first cost-of-living adjustment (COLA) would occur one year after the 10 percent increase, or September 1, 2018, and future COLAs would occur each subsequent year thereafter. According to the TRS actuary, the bill would increase the unfunded actuarial accrued liability (UAAL) from $36.6 billion to $135.5 billion, decrease the funding ratio from 79.5% to 51.2%, and would result in an infinite funding period.

Government Code, Section 821.006, prohibits action that would increase the period to amortize the unfunded actuarial liabilities of TRS beyond 31 years. In addition, the state contribution rate that would be needed to achieve and maintain actuarial soundness under the bill is expected to exceed the allowable rate specified in the Texas Constitution, Article 16, Section 67(b)(3), which requires that the state contribution may not be less than six percent nor more than ten percent of aggregate compensation paid to individuals participating in the system. 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 significant fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, TSI