

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 16, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1907 by Anderson, Rodney (Relating to retirement benefits for certain peace officers who are members of the Teacher Retirement System of Texas.), **As Introduced**

No significant fiscal implication to the State is anticipated. However, the bill would result in local costs to school districts and institutions of higher education, and would increase the unfunded actuarial accrued liability of the Teacher Retirement System Pension Trust Fund.

The bill would amend the Government Code to provide enhanced benefits for certain peace officers who are members of the Teacher Retirement System (TRS), including earlier retirement eligibility and a larger benefit multiplier (increased by 0.5 percent) for eligible members.

The enhanced benefits established by the bill would increase the unfunded actuarial accrued liability (UAAL) of the TRS Pension Trust Fund by approximately \$87.0 million, based on enhanced benefits and an anticipated increase of earlier retirements. The TRS actuary anticipates that the funding period would increase by 0.4 years, from 33.4 years to 33.8 years. Since the actuarial impact of the new benefit changes would cause the funding periods of the TRS Pension Trust Fund to increase to a period that exceeds 31 years, passage of the bill would not be allowable under Texas Government Code, Section 821.006.

The provisions of the bill would lower the threshold for a service retirement annuity for eligible peace officers to age 55 with ten years of service, or any age with twenty years of service. In addition, the standard service retirement annuity for members with at least twenty years of service would be computed on the basis of the member's highest five years of average annual compensation, multiplied by the standard percentage factor (0.23 percent), plus 0.5 percent. Members who are peace officers would be eligible to receive a combined service retirement annuity when they attain the earlier of age 57 or the rule of 80 (age plus years of service). The annuity of peace officers who retire before the age of 57 would be reduced by five percent for each year earlier than 57 at which they retire. A peace officer who retires before the age of 50 would receive a reduced annuity. Members eligible for a disability resulting from their employment as a peace officer would be eligible for an enhanced benefit if they met certain requirements, and certain spouses and dependents of deceased peace officers would be eligible for a death benefit annuity. Standard retirement and disability annuities would be capped at 100 percent of the five highest years of average annual compensation.

Members of TRS who are eligible peace officers would be required to contribute 9.5 percent of salary, 1.8 percent of salary above what other members of TRS contribute, and employers would be required to contribute an additional 1.0 percent of eligible peace officer salaries.

The bill would take effect September 1, 2017.

Local Government Impact

The bill would increase the employer contribution rate by 1.0 percent of salary for peace officers who are members of TRS. Based on projected aggregate annual payroll of \$200 million for peace officers employed by school districts and institutions of higher education and an annual growth assumption of 2.5 percent, the fiscal impact is projected to be approximately \$2.0 million each fiscal year of the 2018-19 biennium, for a biennial total of \$4.0 million; \$2.1 million in fiscal year 2020; \$2.1 million in fiscal year 2021; and \$2.2 million by fiscal year 2022, rising thereafter due to anticipated payroll growth.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, TSI