LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 11, 2019

TO: Honorable Jim Murphy, Chair, House Committee on Pensions, Investments & Financial Services

FROM: John McGeady, Assistant Director   Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB9** by Bonnen, Greg (relating to the contributions to and benefits under the Teacher Retirement System of Texas.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB9, Committee Report 1st House, Substituted: a negative impact of ($1,360,015,672) through the biennium ending August 31, 2021.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2020	($962,502,921)
2021	($397,512,751)
2022	($498,192,822)
2023	($607,050,891)
2024	($724,625,653)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Probable Revenue Gain/(Loss) from TRS Trust Account Fund 960
2020	($962,502,921)	$475,785,814
2021	($397,512,751)	$621,113,673
2022	($498,192,822)	$778,426,284
2023	($607,050,891)	$948,517,018
2024	($724,625,653)	$1,132,227,583

Fiscal Analysis

The bill would amend the Government Code to increase state contributions to the Teacher Retirement System (TRS) for public and higher education retirement benefits.

The bill would provide that if the state were to reduce its contribution rate from rates required by the bill, the required 7.7 percent employee contribution rate for that fiscal year would be decreased by 0.1 percent for each 0.1 percent the state reduces its contribution rate.

The bill would require the state to contribute to TRS the following percentages of aggregate annual compensation for all members during each fiscal year: 7.8 percent for fiscal year 2020, 8.05 percent for fiscal year 2021, 8.3 percent for fiscal year 2022, 8.55 percent for fiscal year 2023, and 8.8 percent per year thereafter.

The bill would require TRS to provide a onetime supplemental payment of a retirement or death benefit to certain annuitants during the 2020-21 biennium, contingent upon receipt of an additional appropriation from the state equal to the cost of the payment. The payment would equal the lesser of $2,400 or the gross annuity payment to which the annuitant is entitled for the month preceding the month when TRS issues the payment.

Methodology

This analysis estimates the bill would result in a cost of $1.4 billion in General Revenue for the 2020-21 biennium, including $702.0 million related to increases in the state contribution rate and $658.0 million for a onetime supplemental payment to certain TRS annuitants in fiscal year 2020. This analysis further estimates the bill would result in $1.1 billion in total additional contributions to the TRS Trust Account Fund 960 for the 2020-21 biennium.

Based on fiscal year 2018 TRS payroll data, this analysis assumes public and higher education covered payroll would total $34.1 billion and $9.6 billion, respectively, in fiscal year 2020. This analysis assumes that these amounts would increase annually by 4.1 percent and 5.6 percent, respectively, based on projected payroll growth trends. The bill would increase the current 6.8 percent state contribution rate for fiscal year 2019 by 1.0 percentage point in fiscal year 2020 and by an additional 0.25 percentage points each fiscal year from 2021 to 2024. Applying these rate increases to the assumed payroll results in estimated additional total state contributions of $475.8 million in fiscal year 2020, $621.1 million in fiscal year 2021, increasing to $1.1 billion in fiscal year 2024. These amounts would represent additional revenues to TRS Trust Account Fund 960. Final contribution amounts would vary based on actual payroll growth.

TRS assumes 64.0 percent of the total additional state contributions would be paid by General Revenue Funds, and the remaining 36.0 percent would be funded by increased payments from public and higher education employers pursuant to Government Code, Chapter 825. These employer payments, which offset General Revenue, include the Statutory Minimum Contribution, contributions for new TRS members for the first 90 days of employment, federal funds and private grants, Educational and General Funds, non-Educational and General Funds, and contributions for employees of community colleges. Using the TRS assumption of 64.0 percent of the state's contribution being paid by General Revenue results in additional state costs of $304.5 million in fiscal year 2020, $397.5 million in fiscal year 2021, increasing to $724.6 million in fiscal year 2024. However, actual General Revenue costs would vary based on the actual growth of payroll and employer payments offsetting General Revenue.

TRS assumes the cost to provide a onetime supplemental payment of a retirement or death benefit

to certain annuitants under the bill would total $658.0 million in General Revenue in fiscal year 2020.

Local Government Impact

This analysis assumes the bill would result in additional retirement costs statewide for public education employers and community colleges in the 2020-21 biennium. Based on fiscal year 2018 TRS payroll data, this analysis assumes payments from public education employers would represent 20.0 percent of the increased state contributions, totaling an estimated $93.6 million in fiscal year 2020, $122.2 million in fiscal year 2021, increasing to $222.7 million in fiscal year 2024.

This analysis further assumes additional payments from community colleges would represent 2.0 percent of the increased state contributions, resulting in statewide additional costs to community colleges estimated to be $8.1 million in fiscal year 2020, $10.6 million in fiscal year 2021, increasing to $19.3 million in fiscal year 2024. Actual costs would vary by employer based on actual payroll amounts.

Source Agencies: 323 Teacher Retirement System
LBB Staff: WP, ASa, CMa, AM