

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

May 25, 2019

TO: Honorable Dan Patrick, Lieutenant Governor, Senate
 Honorable Dennis Bonnen, Speaker of the House, House of Representatives

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

IN RE: SB12 by Huffman (Relating to the contributions to and benefits under the Teacher Retirement System of Texas.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for SB12, Conference Committee Report: a negative impact of (\$1,024,759,184) 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	(\$802,152,044)
2021	(\$222,607,140)
2022	(\$315,522,121)
2023	(\$416,263,468)
2024	(\$525,353,599)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Revenue Gain/(Loss) from <i>TRS Trust Account Fund</i> 960
2020	(\$802,152,044)	\$355,759,480
2021	(\$222,607,140)	\$402,984,816
2022	(\$315,522,121)	\$738,924,346
2023	(\$416,263,468)	\$941,108,372
2024	(\$525,353,599)	\$1,301,132,048

Fiscal Analysis

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

The bill would require TRS active employee members to contribute to TRS the following percentages of annual compensation per year: 7.7 percent for fiscal years 2020 and 2021, 8.0 percent for fiscal years 2022 and 2023, and 8.25 percent per year thereafter. The bill would reduce these required contribution rates by 0.1 percent for each 0.1 percent the state reduces its contribution rate from the rates specified by the bill for that fiscal year.

The bill would require all public education employers to make an additional contribution to TRS. For employees who are subject to the Minimum Salary Schedule (MSS) under Education Code Section 21.402 or who would have been subject to the MSS under former Education Code Section 1.056 as it existed on January 1, 1995, this contribution would be a percentage of the Statutory Minimum Salary determined under Government Code Section 825.405. For other TRS members, this contribution would be a percentage of the members' compensation. The bill would specify the following contribution rates for both groups of employees per year: 1.5 percent for fiscal year 2020, 1.6 percent for fiscal year 2021, 1.7 percent for fiscal year 2022, 1.8 percent for fiscal year 2023, 1.9 percent for fiscal year 2024, and 2.0 percent per year thereafter. The bill would reduce these required contribution rates by 0.1 percent for each 0.1 percent the state reduces its contribution rate from the rates specified by the bill for that fiscal year.

The bill would require the state to contribute to TRS the following percentages of aggregate annual compensation for all members during each fiscal year: 7.5 percent for fiscal year 2020, 7.5 percent for fiscal year 2021, 7.75 percent for fiscal year 2022, 8.0 percent for fiscal year 2023, and 8.25 percent per year thereafter.

The bill would require TRS to provide a onetime supplemental payment of a retirement or death benefit to certain annuitants not later than September 2020, contingent upon receipt of an additional appropriation from the state equal to the cost of the payment. The payment would equal the lesser of \$2,000 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 \$1.0 billion in General Revenue in the 2020-21 biennium, including \$435.8 million related to increases in the state contribution rate and \$589.0 million for a onetime supplemental payment to TRS annuitants in fiscal year 2020. This analysis further estimates the bill would result in \$758.7 million in total additional contributions from the state and employers 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 \$37.0 billion and \$10.7 billion, respectively, in fiscal year 2020. This analysis assumes that these amounts will 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 0.7 percentage points for fiscal years 2020 and 2021; and by an additional 0.25 percentage points each fiscal year from 2022 to 2024.

Applying these rate increases to the assumed payroll results in estimated additional total state contributions of \$333.1 million in fiscal year 2020, \$347.8 million in fiscal year 2021, increasing

to \$820.9 million in fiscal year 2024. 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 percent of the state's contribution being paid by General Revenue results in additional state costs of \$213.2 million in fiscal year 2020, \$222.6 million in fiscal year 2021, increasing to \$525.4 million in fiscal year 2024. However, actual General Revenue costs will vary based on the actual growth of payroll and employer payments offsetting General Revenue.

The bill would increase the current 7.7 percent active employee contribution rate for fiscal year 2019 by 0.3 percentage points in fiscal year 2022 and by 0.25 percentage points in fiscal year 2024. Applying these rate increases to the assumed payroll results in estimated additional employee contributions of \$155.7 million in fiscal year 2022, increasing to \$311.4 million in fiscal year 2024 to TRS Trust Account Fund 960.

The bill would increase the 1.5 percent contribution currently paid by only non-Social Security participating public education employers by 0.1 percentage points each fiscal year from 2021 to 2024 and require all public education employers to make the contribution. This analysis assumes the contribution would apply to 82.0 percent of TRS public education payroll each year, an increase from the current 77.9 percent of public education payroll. Applying these rate increases to the assumed payroll results in estimated additional employer contributions of \$22.7 million in fiscal year 2020, \$55.2 million in fiscal year 2021, increasing to \$168.9 million in fiscal year 2024 to TRS Trust Account Fund 960.

Including increases in state, member, and employer contributions, additional revenues to the TRS Trust Account Fund 960 are estimated to total \$355.8 million in fiscal year 2020, \$403.0 million in fiscal year 2021, increasing to \$1.3 billion in fiscal year 2024. Final additional revenues would vary based on the actual growth of payroll.

TRS assumes the cost to provide a onetime supplemental payment of a retirement or death benefit to certain annuitants as required by the bill would total \$589.0 million in General Revenue in fiscal year 2020.

Local Government Impact

This analysis assumes the bill would result in \$323.0 million in additional retirement costs statewide for public education employers 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 \$65.5 million in fiscal year 2020, \$68.4 million in fiscal year 2021, increasing to \$161.5 million in fiscal year 2024. Additionally, public education employer contributions are estimated to total \$22.7 million in fiscal year 2020, \$55.2 million in fiscal year 2021, increasing to \$168.9 million in fiscal year 2024. Actual costs would vary by employer based on actual payroll amounts.

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 \$5.7 million in fiscal year 2020, \$5.9 million in fiscal year 2021, increasing to \$14.0 million in fiscal year 2024. Actual costs would vary by employer based on

actual payroll amounts.

Source Agencies: 323 Teacher Retirement System

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