LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 6, 2021

**TO:** Honorable Rafael Anchia, Chair, House Committee on Pensions, Investments & Financial Services

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE:** **HB672** by Martinez (Relating to cost-of-living increases applicable to benefits paid by the Teacher Retirement System of Texas.), **As Introduced**

The fiscal implications of the bill cannot be determined at this time.

The bill would amend the Government Code to establish an annual automatic cost-of-living adjustment (COLA), equivalent to the annual increase in United States Social Security benefits (the actuarial analysis assumes it to be equal to the valuation inflation assumption, or 2.3 percent per annum), for all current and future retirees. The COLA would only be granted when the Teacher Retirement System (TRS) board finds the system actuarially sound and has money available to pay the increased benefit. The Pension Review Board's (PRB) actuarial review notes that the bill would have a significant negative impact on the long-term funding of the retirement system.

According to information provided by the Teacher Retirement System, the actuarial analysis states that the automatic trigger to provide the COLA coupled with the restriction to only provide the COLA when it is possible for the system to remain actuarially sound following the increase, creates a benefit that is difficult to value. However, because the bill does not provide for decreases in the benefits but only provides for potential increases, it is not possible to define the bill as cost neutral. Therefore, the COLA provisions must have some value and any reasonable COLA assumption would increase the funding period beyond 31 and passage of the bill would violate TRS governing statutes.

The actuarial review states under the current PRB Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) over a brief period as possible, but not to exceed 30 years, with 10 - 25 years being the preferable target range. TRS statute defines actuarial soundness, for purposes of making modifications to benefit and contribution levels, as no more than 31 years. TRS is currently actuarially sound, with an amortization period of 26 years. According to analysis provided by the agency, TRS would be actuarially unsound following the passage of the bill.

Analysis provided by the Teacher Retirement System states that for the bill to meet funding period requirement of the TRS governing statute, it would require an immediate increase in contributions of 10 percent of payroll, allowing TRS to make regular COLAs. This would increase the UAAL by approximately $52 billion while lowering the funded ratio to 62.4 percent.

Lastly, the actuarial analysis notes that an attempt to value this benefit using traditional actuarial methodologies can lead to circular logic where assuming the COLA is paid results in an amortization period that would not allow the COLA to be paid, while assuming the COLA is not paid results in triggering the provision requiring the COLA to be paid and is therefore difficult to measure.

## Local Government Impact

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 323 Teacher Retirement System

**LBB Staff:** JMc, AAL, AH, RSTE