

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: HB1124 by Muñoz, Jr. (Relating to a cost-of-living adjustment applicable to certain benefits paid by the Teacher Retirement System of Texas, including a related study.), **As Introduced**

No significant fiscal implication to the State is anticipated. However, there would be an impact to the Teacher Retirement System which could impact the actuarial soundness of the fund.

According to the Teacher Retirement System of Texas (TRS) actuarial analysis, the bill would increase the unfunded actuarially accrued liability (UAAL) by \$1.3 billion, which would increase the system's amortization period from 26 years to 27 years. The analysis also notes that without additional contributions to offset the interest charges (7.25 percent per year), the \$1.3 billion UAAL for this benefit enhancement would increase to \$8 billion over the 26-year period, to be financed in year 27.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a 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. The projected funding period would increase to 27 years following the passage of this bill.

The bill would amend the Government Code by adding Section 824.703 to provide a cost-of-living adjustment (COLA) in the amount of the lesser of 3 percent of the current monthly annuity or \$100. To receive the benefit the effective date of retirement, or for other annuitants the effective date payments began, must be after August 31, 2004 and on or before August 31, 2015. The increase in monthly payments would occur as soon as practicable if the board determines the COLA would not increase the amortization period above TRS's 31 year statute. The COLA would not apply to annuitants whose benefit is fixed by statute, disabled retirees with less than 10 years of service creditor deferred retirement option plan (DROP) participants regarding their DROP account.

Additionally, the bill would require TRS to conduct a study on the possibility of providing future COLAs with structural changes or offering an alternative annuity payment option such as a graduated scale with the annuity payments increasing on an annual basis. The study can only consider alternative payment options that are projected by TRS's actuary to have no fiscal impact to the state. A written report of the study with results and recommendations must be sent to the Texas legislature no later than September 1, 2022. This study provision would expire September 1, 2023.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

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