LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

March 21, 2023

TO: Honorable Giovanni Capriglione, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB600** by Bonnen (Relating to contributions to, benefits from, and the administration of systems and programs administered by the Teacher Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB600, As Introduced : a negative impact of ($3,450,000,000) through the biennium ending August 31, 2025.

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*
2024	($2,566,000,000)
2025	($884,000,000)
2026	($909,000,000)
2027	($920,000,000)
2028	($930,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1
2024	($2,566,000,000)
2025	($884,000,000)
2026	($909,000,000)
2027	($920,000,000)
2028	($930,000,000)

Fiscal Analysis

The bill would provide for a gain sharing cost-of-living adjustment that would annually increase retirees' annuities for most classifications of payees, starting in September 2028. The annual amount of the increase would be contingent on the investment earning of the Teacher Retirement System (TRS) Pension Trust Fund, determined by a formula equal to the average rate of return on investments during the preceding five years subtracted by 5.0 percent, multiplied by 50.0 percent, and rounded down to the nearest one-tenth of a percent. The amount of the increase in one year may not exceed 2.0 percent and would occur only if the average rate of return from the preceding five years is equal to or greater than 7.0 percent. To be eligible for the increase in a given year, a retiree would have had to have been retired for at least three fiscal years.

The bill would provide a onetime cost-of-living adjustment to most current payees, effective in January 2024. The amount of the increase would be 6.0 percent of the annuitant's monthly benefit if the member retired before January 1, 2004. The amount of the increase would be 4.0 percent of the annuitant's monthly benefit if the member retired before January 1, 2014, but on or after January 1, 2004. The amount of the increase would be 2.0 percent of the annuitant's monthly benefit if the member retired before January 1, 2021, but on or after January 1, 2014.

The bill would increase the active member contribution rate from 8.25 percent to 9.0 percent of compensation, beginning September 1, 2023. The bill would increase the State contribution rate from 8.25 percent to 9.0 percent of compensation, beginning September 1, 2023.

The bill would require the State to make legacy payments in each fiscal year to amortize current and future unfunded actuarial liabilities by no later than the fiscal year ending August 31, 2054, based on actuarially determined payments.

The bill would provide a $5,000 onetime payment, not later than February 2024, to most categories of members in payment status that are age 70 or older by the month before the payment is made. TRS would be required to make the onetime payment only if the TRS Board of Trustees were to find that the legislature appropriated money to the retirement system in an amount sufficient to provide the payment.

The bill would take effect on September 1, 2023, contingent on approval by the voter of an associated constitutional amendment (HJR 2).

Methodology

According to the Pension Review Board, TRS is considered actuarially sound, with an amortization period of 27 years as of August 31, 2023. Government Code, Section 821.006 defines actuarial soundness, for the purposes of making modifications to benefit and contribution levels, as less than 31 years.

The increase in the State contribution rate from 8.25 percent to 9.0 percent is estimated to cost an additional $247.0 million in General Revenue in fiscal year 2024 and $254.0 million in General Revenue in fiscal year 2025 above currently appropriated levels. These amounts are subject to a settle up provision.

According to TRS, the cost to make legacy payments in each fiscal year to amortize current and future unfunded actuarial liabilities is estimated to be $630.0 million in General Revenue in each fiscal year of the biennium and over the course of 30.0 years.

TRS estimates that the cost to provide a $5,000 onetime payment to most categories of members in payment status that are age 70 or older would be $1,689.0 million.

Local Government Impact

This analysis assumes that local school districts would incur a cost associated with the increase in state contribution rate on compensation above the statutory minimum, as outlined in Government Code, Section 825.405.

Source Agencies: 323 Teacher Retirement System

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