

SUBJECT: Increasing TRS state contribution and providing “13th check” for retirees

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Truitt, McClendon, Burnam, Macias, Rodriguez

0 nays

2 absent — Villarreal, Keffer

WITNESSES: For — Ann Fickel, Texas Classroom Teachers Association; Tim Lee, Texas Retired Teachers Association; Josh Sanderson, Association of Texas Professional Educators (*Registered, but did not testify*: Lloy Lizcano, Austin Retired Teachers Association; Tom Rogers, Texas Retired Teachers Association; Madeline Gayle Adams; Kathryan Baker; Wayne M. Bowen; Billie Chapman; Warner Dahlberg; Nancy Deckard; Zora Mae Hise; Anna Huckabee; Judith R. Kalb; Lois A. Ricci; Sheila D. Sargent; Annie B. Scholtz)

Against — None

On — Ronnie Jung, Teacher Retirement System; Ted Melina Raab, Texas Federation of Teachers

BACKGROUND: Texas Constitution, Art. 16, sec. 67(b)(3) requires that the state contribution to state retirement systems, including the Teacher Retirement System (TRS) pension fund, be at least 6 percent and no more than 10 percent of payroll. These constitutional limits are established in statute in Government Code, sec. 825.404(a). The current statutory state contribution rate to the TRS pension fund is 6 percent of payroll.

Government Code, sec. 811.006 prohibits the Legislature from granting benefit increases to retirees unless the pension fund is considered “actuarially sound,” meaning that the pension system is able to amortize all of its liabilities over 31 years.

DIGEST: CSHB 1105 would amend Government Code, sec. 825.404(a) to increase the minimum required state contribution rate to TRS from 6 percent to 6.7 percent of payroll.

The bill also would require TRS to make a one-time supplemental payment, or “13th check,” to eligible TRS annuitants no later than September of 2007. This additional payment would be equal to the amount of the annuitant’s August 2007 gross annuity payment and subject to all applicable tax withholding and other required deductions.

The bill outlines eligibility criteria for annuitants under optional retirement payment plans and lists annuitants who would not be eligible for the “13th check.” These would include disability retirees with less than 10 years of service credit and participants in the deferred retirement option plan (DROP) with regard to payments from their DROP accounts.

The bill would take effect September 1, 2007.

**SUPPORTERS
SAY:**

HB 1105 would provide the statutory change needed to make the TRS pension fund actuarially sound and should allow TRS to issue a “13th check” to eligible retirees in September 2007. A February 2007 valuation of the TRS pension fund determined that an increase in the state contribution rate to 6.6 percent of payroll would be sufficient to make the fund actuarially sound.

HB 1 by Chisum, as passed by the House, would appropriate sufficient funding to increase the state contribution rate to 6.7 percent. By raising the state contribution rate an additional 0.1 percent above what is needed to make the fund actuarially sound, this appropriation should be sufficient to fund a “13th check” during the current fiscal biennium.

TRS retirees have not had a benefit increase since 2001 and should not have to wait another two years or more until market gains are sufficient for the pension fund to be determined actuarially sound. Since the last benefit increase, retirees living on fixed incomes have struggled with higher costs for health care, food, and other necessities.

The 4 percent cost-of-living increase included in the HB 1105 as introduced would be too expensive and would not ensure the long-term health and actuarial soundness of the TRS pension fund. The “13th check” authorized in CSHB 1105 would serve as a stop-gap measure to provide retirees with an immediate benefit increase. If the health of the TRS pension fund continues to improve, a cost-of-living increase may be considered by the 81st Legislature.

CSHB 1105 would authorize a state appropriation that is expected to make the TRS pension fund actuarially sound and provide sufficient funding for a “13th check.” Other proposed alternatives, such as increasing active employee contributions to the pension fund, would be less likely to provide the funding needed to cover the cost of a “13th check” in 2007.

OPPONENTS
SAY:

In view of other budget needs, the state contribution rate should be increased to only 6.4 percent of payroll. Even at this level, improving market conditions, changes in TRS investment strategies, and new TRS eligibility requirements adopted in 2005 eventually should lead the fund to become actuarially sound and allow TRS to grant benefit increases by 2010. If the state increases its contribution level, the percentage of payroll contributed by active employees also should increase.

OTHER
OPPONENTS
SAY:

The original version of the bill included a 4 percent cost of living increase for TRS retirees. This would be a better way to provide a benefit increase than issuing a “13th check” as a one-time bonus. The state should make a long-term commitment to retired teachers and other education employees by providing regular cost of living increases, not just a one-time supplemental payment.

NOTES:

According to the Legislative Budget Board (LBB), CSHB 1105 would cost the state \$356.4 million in general revenue-related funds for fiscal 2008-09.

The original version of HB 1105 would have provided a cost of living increase of 4 percent of a standard service retirement annuity and raised the state contribution rate to 7 percent of payroll. According to the LBB, HB 1105 as introduced would have cost the state \$656.8 million in general revenue-related funds for fiscal 2008-09.