

BILL ANALYSIS

Senate Research Center
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S.B. 8
By: Duncan
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AUTHOR'S/SPONSOR'S STATEMENT OF INTENT

The Teacher Retirement System of Texas (TRS) was created in 1937 and is established by Section 67, Article XVI, Texas Constitution. Constitutional provisions include the establishment of a trust and a board of trustees to administer TRS, a requirement that assets of the trust be held for the exclusive benefit of the members, and a requirement that financing of benefits be based on sound actuarial principles.

Although the payment of current benefits is not in jeopardy, TRS currently has an "infinite" funding period according to TRS's outside consulting actuary. This refers to the necessary amortization period for assets to fund liabilities. Benefit increases, even if only for current retirees, cannot be passed until such time that the fund can amortize liabilities within a 31-year period. As such, it is estimated that an increase for retirees to adjust for cost of living is not expected within the next decade unless there are sufficient changes in contributions to the system or to the structure of future liabilities.

S.B. 8 attempts to address actuarial soundness and lessen the escalating pressure on TRS Care by maintaining the Rule of 80 but requiring certain future retirees to take an annuity reduction of three percent per year for each year prior to age 60 that they retire. The bill grandfathers active TRS members who by September 1, 2005, are 50 years old, meet the Rule of 70, or have 25 years of experience. In addition, members who can meet the Rule of 80 by 2010 are also grandfathered. S.B. 8 also provides a financial reward for those active teachers who choose to delay retirement beyond their initial eligibility. Finally, S.B. 8 provides for a 13th month check for current retirees.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority for a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter I, Chapter 21, Education Code, by adding Section 21.4031, as follows:

Sec. 21.4031. SALARY SUPPLEMENT FOR CERTAIN RETIREMENT-ELIGIBLE CLASSROOM TEACHERS. (a) Provides that the amounts specified by this section are in addition to amounts to which a classroom teacher is entitled under Section 21.402.

(b) Entitles a classroom teacher, other than an employed retiree reported as described by Section 825.4092, Government Code, to an annual salary supplement equal to a certain amount.

(c) Requires the amount of a salary supplement, if a person is entitled to the salary supplement under a provision of Subsection (b) for only part of a year, to be prorated accordingly.

(d) Requires the Teacher Retirement System of Texas (TRS), at the request of the Texas Education Agency (TEA), to provide TEA information and assistance necessary to determine a person's eligibility for a salary supplement under this section.

(e) Entitles a school district to state funds in an amount equal to the sum of the salary supplements to which classroom teachers employed by the district are entitled under this section. Provides that funding a school district receives under this section is in addition to any funding the district receives under Chapter 42. Requires the commissioner of education (commissioner) to distribute funds under this section with the Foundation School Program payment to which the district is entitled as soon as practicable after the end of the school year as determined by the commissioner. Entitles a district to which Chapter 41 applies to funding under this section. Requires the commissioner to determine the timing of the distribution of funds to a district that does not receive Foundation School Program payments.

SECTION 2. Amends Sections 824.202(a-1), (b-1), and (d-1), Government Code, as added by S.B. No. 1691, Acts of the 79th Legislature, Regular Session, 2005, effective September 1, 2005, as follows:

(a-1) Deletes existing text providing that this subsection applies only to a person who becomes a member of TRS on or after September 1, 2006. Makes a conforming change.

(b-1) Deletes existing text providing that this subsection applies only to a person who has become a member of TRS on or after September 1, 2006. Makes a conforming change.

(d-1) Deletes existing text providing that this subsection applies only to a person who becomes a member of TRS on or after September 1, 2007. Requires the standard service annuity, for each year of age under 50 years with 30 years of service credit, the standard service retirement annuity to be three, rather than five, percent less than the percentage for age 50 with 30 years of service credit. Makes conforming changes.

SECTION 3. Amends Section 824.405, Government Code, as amended by S.B. No. 1691, Acts of the 79th Legislature, Regular Session, 2005, effective September 1, 2005, to make conforming changes.

SECTION 4. Amends Section 824.602(a), Government Code, as amended by S.B. No. 1691, Acts of the 79th Legislature, Regular Session, 2005, effective September 1, 2005, and S.B. No. 132, Acts of the 79th Legislature, Regular Session, 2005, effective June 17, 2005, to make conforming changes.

SECTION 5. Repealer: Sections 824.202(a), (b), and (d) (relating to eligibility for service retirement), Government Code.

SECTION 6. (a) Requires TRS to make a one-time supplemental payment of a retirement or death benefit, as provided by this section.

(b) Provides that the supplemental payment is payable in January 2006 and, to the extent practicable, on a date or dates that coincide with the regular annuity payment payable to each eligible annuitant.

(c) Provides that the amount of the supplemental payment is equal to the gross amount of the regular annuity payment to which the eligible annuitant is otherwise entitled for the month of December 2005 and is payable in January 2006, without regard to any forfeiture of benefits under Section 824.602, Government Code. Requires TRS to make applicable tax withholding and other legally required deductions before disbursing the supplemental payment. Provides that the supplemental payment under this section is in addition to and not in lieu of the regular monthly annuity payment to which the eligible annuitant is otherwise entitled.

(d) Requires a person, subject to Subsection (e) of this section, in order to be eligible for the supplemental payment, to be, for the month of December 2005, and disregarding any

forfeiture of monthly benefits under Section 824.602, Government Code, an annuitant eligible to receive certain payments.

(e) Requires an annuitant, if the annuitant is a retiree or a beneficiary under an optional retirement payment plan, in order to be eligible for the supplemental payment, to have an effective retirement date prior to September 1, 2003. Requires, if the annuitant is a beneficiary under Section 824.402(a)(3) or (4), Government Code, to be eligible for the supplemental payment, the date of death of the member of TRS to have been before September 1, 2003. Requires the supplemental payment to be made to an alternate payee who is an annuitant under Section 804.005, Government Code, only if the annuity payments to the alternate payee commenced before September 1, 2003. Provides that the supplemental payment is in addition to the guaranteed number of payments under Section 824.402(a)(3) or 824.204(c)(3) or (4), Government Code, and prohibits it from being counted as one of the guaranteed monthly payments.

(f) Provides that the supplemental payment does not apply to payments under certain statutes.

(g) Requires the TRS board of trustees, except as provided by this section, to determine the eligibility for and the amount and timing of a supplemental payment and the manner in which the payment is made.

(h) Requires TRS to pay the supplemental payment made under this section from the retired reserve account and authorizes TRS to transfer to that account from the state contribution account any portion of the amount that exceeds the amount in the retired reserve account available to finance the supplemental payment and that is actuarially determined to be necessary to finance the supplemental payment. Requires the supplemental payment under this section to comply with Section 821.006, Government Code.

SECTION 7. (a) Makes application of the changes in law made in this Act to Sections 824.202, 824.405, and 824.602, Government Code, prospective, unless certain persons meet one of the requirements of Subsection (b) of this section.

(b) Sets forth conditions under which a person who retires under TRS on or after the effective date of this Act is governed by the law as it existed immediately before that date, and continues that law in effect for that purpose.

(c) Authorizes only service actually credited in the TRS on or before August 31, 2005, to be used to determine eligibility under Paragraphs (B) and (C), Subdivision (1), Subsection (b) of this section. Prohibits service credit established only after completion of additional payments under an installment agreement after August 31, 2005, from being considered to be actually credited for the purpose of Paragraphs (B) and (C), Subdivision (1), Subsection (b) of this section.

SECTION 8. (a) Provides that in addition to the estimated amounts appropriated under Strategies A.1.1 and A.1.2 of the appropriations to the TRS by S.B. No. 1, Acts of the 79th Legislature, Regular Session, 2005 (the General Appropriations Act), an estimated \$57 million is appropriated from the general revenue fund to the system to fund the retirement contributions described by those strategies for the state fiscal biennium beginning September 1, 2005, at the rate of 6.12 percent of payroll for each fiscal year.

(b) Provides that this section applies notwithstanding the rate specified in Rider 4, page III-33, S.B. No. 1, Acts of the 79th Legislature, Regular Session, 2005 (the General Appropriations Act).

SECTION 9. Provides that in addition to other amounts appropriated by other acts of the 79th Legislature, \$35 million is appropriated from the general revenue fund to the Texas Education Agency for the fiscal year beginning September 1, 2006, to fund the salary supplement authorized by Section 21.4031, Education Code, as added by this Act.

SECTION 10. Makes application of Section 21.4031, Education Code, as added by this Act, prospective to the 2006-2007 school year.

SECTION 11. Effective date: September 1, 2005, or November 1, 2005.