BILL ANALYSIS

Senate Research Center S.B. 1358
81R9798 TJS-D By: Seliger
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Section 854.203 of the Government Code provides for cost of living adjustments (COLA) to annuities paid to Texas Municipal Retirement System (TMRS) retirees. Currently, a COLA is calculated based on the level of the Consumer Price Index (CPI) when the employee retired. There are three optional increases allowed: 30 percent, 50 percent, or 70 percent of the change in CPI. Unless the ordinance that establishes the amount of the COLA is modified or repealed, it automatically repeats itself. Ultimately, this has had the effect of making the COLA a promised benefit to TMRS retirees because these annually repeating annuity increases were never built into the funding formulas.

In the last year, TMRS actuaries started valuing the COLA as a promised benefit. As a result, the contribution rates, as well as the unfunded liabilities, of member cities have increased dramatically with each year. It is difficult for cities to modify the percent amount of the COLA in their ordinance. For example, if a city decreases the COLA from 70 percent to 50 percent of CPI, most retirees would not see a benefit increase for a long time. Because the previous 70 percent COLA benefit is greater than the new 50 percent COLA, the retiree would not see another increase until the new 50 percent COLA exceeds the 70 percent COLA increase they were receiving previously.

The retrospective nature of this COLA also makes it very difficult to increase the COLA. If a city were granting a 30 percent (of CPI) COLA and wanted to increase it to 50 percent, calculating the increase in the benefit for several years makes it very costly for cities to implement.

This bill would allow TMRS member cities the option of calculating the amount of the COLA annually as an increase in the current benefit only. This would allow cities the ability to effectively manage their retirement plans and control costs, so that they can continue to retain the COLA as an additional benefit to their retirees.

As proposed, S.B. 1358 amends current law relating to optional annuity increases for certain retirees and beneficiaries of the Texas Municipal Retirement System.

RULEMAKING AUTHORITY

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

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 853.404(c), Government Code, to provide that the governing body of a municipality that adopts an ordinance under Section 854.203 providing for an increased annuities effective January 1 of a designated year may further provide in the ordinance that increases in annuities will be credited effective January 1 of each year following the designated year based on recomputations made as provided by Section 854.203(b), rather than Section 854.203(b)(1), for each year following the initial computation, and using the fraction specified in the ordinance as required under Section 854.203(b), rather than Section 854.203(b)(2), in the recomputations.

SECTION 2. Amends Section 854.203, Government Code, by amending Subsections (b) and (f) and adding Subsection (b-1), as follows:

(b) Provides that the amount of annuity increase under this section is computed by one of the following methods:

(1) as the sum of the prior and current service annuities on the effective date of retirement of the person on whose service the annuities are based, multiplied by:

(A) the percentage change in the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the United States Department of Labor, from December of the year immediately preceding the effective date of the person's retirement to the December that is 13 months before the effective date of the ordinance providing the increase; and

(B) 30 percent, 50 percent, or 70 percent, as specified by the governing body in the ordinance, except that if the governing body has specified a different percentage in an ordinance adopted under Section 853.404(c) and in effect on December 31, 1999, the percentage used in computing annuity increases for retirees of that municipality remains in effect until changed or discontinued under Section 853.404 (Allowance of Updated Service Credit and Annuity Increases); or

(2) as the sum of the prior and current service annuities on the effective date of retirement of the person on whose service the annuities are based, plus any previously granted annuity increases under this subdivision, multiplied by:

(A) the percentage change in the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the United States Department of Labor, for the 12-month period, from December to December, ending in the December that is 13 months before the effective date of the ordinance providing for the increase; and

(B) 30 percent, 50 percent, or 70 percent, as specified by the governing body in the ordinance.

(b-1) Provides that an annuity is not eligible to have an increase computed under the method described by Subsection (b)(2) if the person on whose service the annuity is based retired after the December that is 13 months before the effective date of the annuity increase.

(f) Provides that an increase granted to an annuitant under Subsection (b)(2), or the amount by which an increase under Subsection (b)(1), rather than this section, exceeds all previously granted increases to an annuitant is payable as a prior service annuity, is an obligation of the municipality's account in the municipality accumulation fund, and is subject to reduction under Section 855.308(f) (relating to authorizing the board of trustees to proportionately reduce all payments under annuities payable under this section, at any time and for a period necessary, to prevent those payments for a year from exceeding the amount available in the participating municipality's account). Makes a nonsubstantive change.

SECTION 3. Effective date: upon passage or September 1, 2009.