HOUSE HB 2701
RESEARCH Greenberg
ORGANIZATION bill analysis 5/10/1999 (CSHB 2701 by Greenberg)

SUBJECT: Changes to the Teacher Retirement System

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 8 ayes — Greenberg, Tillery, Bonnen, Clark, George, Rangel, Salinas, Williams

0 nays

1 absent — Telford

WITNESSES: For — Ann Fickel, Texas Classroom Teachers Association; Brock Gregg, Association of Texas Professional Educators; Mike Lehr, Texas Retired Teachers Association; Joe Ross, Texas School Alliance; Larry Shaw, United Educators Association; Johnny Veselka, Texas Association of School Administrators; Marjorie Wall, Texas State Teachers Association; Eric Hartman, Texas Federation of Teachers

Against — None

On — Michael Carter, Teacher Retirement System of Texas; Charles Dunlap

BACKGROUND: The Teacher Retirement System (TRS) is the retirement system for public school teachers and school personnel of Texas. Funded by a combination of teacher and state contributions, the system provides retirement annuities and death and disability benefits for its members and designated beneficiaries.

The standard service retirement annuity is computed by multiplying the system member's average yearly salary over the three years of the member's highest salary by the multiplier for each year of service credit.

The Deferred Retirement Option Plan (DROP) is available to members eligible for retirement who choose to continue to work. The plan allows an employee to remain a member of TRS while making payments, but without accruing additional service credit. The plan requires TRS to make a monthly deposit in a retired reserve account that reflects a percentage of the standard service annuity the member would have received had the member retired.

DIGEST:

CSHB 2701 would amend the Government Code to make substantive changes to TRS retirement benefits and the designation of retirement beneficiaries. It would authorize TRS to make partial lump-sum payments of retirement benefits under certain conditions and would require TRS to contract for specific optional insurance services. The bill also would make other amendments and conforming changes.

Multiplier. CSHB 2701 would increase the standard service retirement annuity multiplier to 2.2 percent from the current 2.0 percent. The multiplier increase would apply to active and retired system members.

Lump-sum payment. The bill would authorize TRS to provide for a one-time lump-sum payment, upon written notice, for active system members who are not participating in the DROP plan and are eligible for an unreduced service retirement service annuity. The lump sum could not exceed the sum of three years of the standard service annuity. Lump-sum payments reflecting lesser amounts also would be allowed. Subsequent service annuities would be reduced to reflect the lump-sum payment in order to maintain the actuarial soundness of the system. The bill would establish other restrictions on the lump-sum payment, including that the payment be subject to rollover.

CPI increase. CSHB 2701 would increase monthly payments to system retirees for TRS retirement or death-benefit annuities, based on the retirement date, to reflect changes in the Consumer Price Index (CPI). The adjustments would range from 5 to 7 percent, with 2 percent set for the year ending August 31, 1998. It also would increase annuity payments by 10 percent on September 1, 1999, to reflect the proposed increase in the multiplier. The monthly payment increase would not apply to disability retirement benefits under certain conditions, nor to survivor benefits.

Beneficiary designation. The bill would extend to two years the period during which a retiree could name a beneficiary after marriage, under certain conditions. It also would provide a two-year window before September 1, 2001, for disability retirees who retired before September 1, 1992, to choose an optional annuity and to designate a beneficiary, under certain conditions.

Optional insurance programs. The bill would require TRS to create new programs to provide life, long-term health care, and disability insurance coverage for active and retired members. It would specify requirements for such provisions, including necessary member contributions.

DROP. The bill would reduce annuity deposits made by TRS for a member participating in the DROP plan to 60 percent of the standard service annuity for members entering the plan on or after September 1, 1999. Current participants would continue to receive 79 percent of the standard service annuity. The bill also would apply the multiplier increase to DROP participants and would add other provisions to the plan.

Other provisions. CSHB 2701 would amend several provisions concerning system members' eligibility for employment after retirement. It would allow six months of work without a reduction in the standard service annuity. The bill would authorize certain retirees teaching in acute shortage areas as defined by the education commissioner to work full-time after retirement without a reduction in their annuity.

The bill would specify that TRS service credit is not allowed for any period of participation in the optional retirement plan. It would add a provision to the benefit plan regarding limitations made by the Internal Revenue Code in compliance with recent federal changes. It also would make other changes in regard to securities lending and custodial services to authorize TRS to select one or more commercial banks, depository trust companies, or other entities to act independently of the custodian and to lend according to TRS board rules. The bill also would make changes to dues reduction and other provisions related to school districts. It also would add new definitions and make other conforming changes.

This bill would take effect September 1, 1999, except that the provisions on member eligibility for employment after retirement would take effect at the beginning of the 1999-2000 school year.

SUPPORTERS SAY:

CSHB 2701 would increase retirement benefits to Texas teachers and related personnel. Some estimates place the benefits package for Texas teachers at a national ranking of 51st, including the District of Columbia.

This bill would give teachers and other school personnel a much-deserved increase in the retired service credit multiplier. With an increased multiplier of 2.2 percent, a teacher who retired after 30 years of service could retire with

66 percent of the teacher's average salary over the highest three years rather than with the current 60 percent. The multiplier increase would come from within the system, with no increase in member or state contributions. Thus, teachers would receive greater retirement monthly payments within an actuarially sound retirement system.

The bill also would provide other benefits. For current retirees, it would provide for a CPI-based adjustment in retirement take-home pay. The increase would bring the retirement benefits of the most senior retirees toward parity with more recent retirees. The lump-sum payment would provide ready cash for retirees who need extra help making the transition to retirement. Because subsequent service credit annuity payments would be reduced accordingly, the lump-sum payment would have no adverse effect on the actuarial soundness of the system.

The bill also would give retirees flexibility to change named beneficiaries within an extended period of time. This change would allow a retiree to change a beneficiary after marriage, which would strengthen members' options to direct their funds to whom they wish.

The bill would have no fiscal impact on the state. The increase in the unfunded actuarial liability would be well within the amortization period required by law.

OPPONENTS SAY:

CSHB 2701 would increase the unfunded actuarial accrued liability by $5.6 billion. Although the amortization period for this unfunded liability would be less than required by law, the unfunded liability would result in system payments over a span of 22 years to finance the increased benefits of the bill.

NOTES:

The committee substitute made many changes to the original bill, including:

- increasing the standard service credit multiplier to 2.2 percent;
- specifying that lump-sum payments would be subject to direct rollover and written notice requirements for annuity reductions;
- making the withholding of payment for certain retirees subject to federal income-tax plan qualification and adding other withholding restrictions for classroom teachers;
- lowering the amount of annuity deposits for DROP participants to 60 percent of the standard service annuity for new members;

- adding provisions on securities custody and securities lending; and
- changing the effective date for the provisions on member eligibility for employment after retirement.

The companion bill, SB 1128 by Armbrister, passed the Senate on April 30 and was referred to the House Pensions and Investments Committee.