HOUSE RESEARCH ORGANIZATION bill analysis | 4/28/1999 | SB 574 Armbrister (Kuempel)

SUBJECT: Changes to Texas Municipal Retirement System

COMMITTEE: Pensions and Investments — favorable, without amendment

VOTE: 6 ayes — Greenberg, Tillery, Bonnen, Clark, George, Rangel

0 nays

3 absent — Salinas, Telford, Williams

SENATE VOTE: On final passage, March 30 — 30-0

WITNESSES: *(On House companion bill, HB 1392:)*
For — Victoria LaFollet, Texas Municipal Retirement System

Against — None

BACKGROUND: The Texas Municipal Retirement System (TMRS) administers retirement, disability, and death benefits for employees of cities that elect to participate in the system. The system is governed by a board of trustees. The plan of each of the 720 participating cities is funded separately by employee contributions at a percentage of compensation selected by the city and by employer contributions actuarially determined as necessary to provide the benefits selected. No state funds are expended.

DIGEST: SB 574 would enhance several retirement benefits, expand the definition of survivors' beneficiaries, and make other system changes to TMRS.

Retirement benefits. SB 574 would increase the percentage cap on the partial lump-sum distribution available to a retiring member to 75 percent of base updated service credit, the member's deposits and interest within the pension system. This amount is equal to a standard benefit retirement annuity, an amount based on prior and current service credited and multiplied by a weighted formula. Other service credits also could serve as a basis for lump-sum payments. A participating municipality could elect by ordinance to provide further updated service credit in each subsequent year, provided the ordinance was in effect on December 31, 1999.

SB 574 also would increase the multiplier used to determine annuity increases to 30, 50, or 70 percent of the sum of the prior and current service annuities. A participating municipality could operate under a different multiplier if it determined this multiplier by an ordinance in effect on December 31, 1999. The bill would allow a retiree to cash out of his or her TMRS account if the amount was $5,000 or less.

The bill would allow TMRS to pay prorated interest to a member's account under the distributive benefit plan at dates other than December or January. The member could choose the date of retirement.

Beneficiaries. SB 574 would change the "surviving spouse" benefit of vested members to the "designated beneficiary" benefit, which would include any beneficiary. The designated beneficiary could elect to receive either a refund of the member's accumulated contributions and interest or a monthly annuity when the member would have turned 60 years of age.

The bill would create a new benefit option for the beneficiary, who could select a reduced monthly retirement annuity immediately or could wait until the member would have turned 60 years of age. The beneficiary's reduced monthly annuity would be calculated from the full amount of credited system contributions in the member's account. It would be a lower monthly benefit because payments would begin earlier, with a longer payout period, than if the beneficiary had waited until the member would have turned 60.

The bill would allow a recomputation of the annuity payable to a retiree in accordance with a divorce or qualified domestic relations order signed after December 31, 1999. The amount payable would increase to the amount that would have been payable if the retiree had selected an annuity payable only during the retiree's lifetime.

Occupational disability benefits. SB 574 would index to the Consumer Price Index the amount of income an occupational disability retiree could earn after retirement. The occupational disability retirement would be paid throughout the retiree's lifetime, but if the retiree died before five years of payments had been made, the remainder of those payments would go to a designated beneficiary. The same options available for retirement based on years of service would be available for an occupational disability retirement.

Other provisions. SB 574 would give a municipality joining TMRS some flexibility in adopting plan improvements if the municipality's combined rate of normal contributions and prior service contributions would exceed the statutorily prescribed limit.

The bill would add criteria for valid reporting of errors to the TMRS board. Certain written agreements, court orders, and properly signed supplemental records, consistent with the type of correction being made, would have to be presented to the board to satisfy these criteria.

The bill would require TMRS to make payments by electronic funds transfer (EFT) to annuitants whose first payment occurred after January 1, 2000. However, payments could be made by vouchers, checks, or warrants if EFT payments would be impractical for the system or if an annuitant properly notified the system that receiving payment by EFT would cost the person more than receiving payment by check or warrant or that the person could not establish a qualifying account at a financial institution to receive electronic transfers. The board of trustees could adopt rules and procedures relating to electronic filing of documents with the retirement system.

SB 574 also would make other conforming changes for consistency between the current law and the changes outlined in the bill.

The bill would take effect December 31, 1999.

SUPPORTERS SAY:

SB 574 is the omnibus pension bill for municipal employees and retirees, crafted with the input of all parties who hold a stake in the system. The bill would provide a flexible approach for participating municipalities to increase the benefits package for members. It also would clarify criteria for reporting errors to the board of trustees to help eliminate current confusion. The cleanup provisions in the bill would lead to increased efficiency in delivering retirement benefits.

SB 574 would provide an enhanced menu of increased benefits. By increasing the partial lump-sum distribution that a retiring member could receive, the bill would allow more people who choose the three-year lump-sum option to receive the entire amount in the account instead of a reduced amount. It would allow members to receive interest on their accounts at dates other than at the end of the year.

Pension members also could designate beneficiaries other than their spouses. This new option would give members more freedom to direct their hard-earned benefits as they wished.

The bill would have no fiscal implication for state or local government.

OPPONENTS SAY: No apparent opposition.

NOTES: The companion bill, HB 1392 by Kuempel, was left pending in the House Pensions and Investments Committee on April 7. The committee considered SB 574 in lieu of HB 1392 on April 14.