HOUSE
RESEARCH
ORGANIZATION bill analysis 5/11/2005

HB 3169
Crownover
(CSHB 3169 by Eiland)

SUBJECT: Eliminating purchase of TRS service credits

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Eiland, Flynn, Krusee, McClendon, Straus

0 nays

2 absent — Griggs, Rodriguez

WITNESSES: For — Tom Rogers, Texas Retired Teachers Association; Donald Myers; Le Roy Van Booven

Against — Patty Quinzi, Association of Texas Professional Educators; Ted Melina Raab, Texas Federation of Teachers

On — Ann Fickel, Texas Classroom Teachers Association; Tim Lee, Texas Retired Teachers Association

BACKGROUND: Government Code, sec. 823.405 allows a member of the Teachers Retirement System of Texas (TRS) to establish up to three years of equivalent member service credit if the member has at least seven years of actual service. To establish equivalent service, the member must pay TRS the actuarial present value for each year of credit purchased. The actuarial present value is based on rates recommended by the TRS actuary.

DIGEST: CSHB 3169 would repeal Government Code, sec. 823.405, which allows TRS members to purchase service credit.

The bill would take effect September 1, 2005, and would not apply to TRS members who purchase service credit on or before that date.

SUPPORTERS SAY: CSHB 3169 would eliminate an option for TRS members that is increasing cost pressures on TRS-Care, the retiree health program, by increasing the number of members eligible for health coverage before they become eligible for Medicare. Members who purchase service credits typically do so in order to retire sooner and to qualify for health insurance coverage at an earlier age. Retirees who do not qualify for Medicare cost TRS about $5,000 per year in additional health costs.

Although the cost of purchasing this "air time" varies with salary, age and years of experience, the overall practice has a negative impact on TRS. People who purchase service credit tend to be in better health and live longer, which makes these retirees more costly for TRS

Although TRS has experienced solid investment gains in recent years, the fund has about $11 billion less than the amount needed to pay current and future benefits to retirees. Under state law, TRS cannot increase pension payments to retirees unless the fund is deemed "actuarially sound," meaning that it is sufficiently funded to pay current and future benefits over the next 31 years. TRS needs to limit its costs in order to become actuarially sound so that it could provide annuity increases for current and future retirees.

OPPONENTS SAY: Any savings resulting from eliminating air time would be minimal and would not have a significant effect on the solvency of the TRS pension fund. Instead of eliminating benefits for TRS members, the state should increase its share of payments to the TRS pension fund so that the fund could be deemed actuarially sound and benefits for current retirees could be increased.

NOTES: The committee substitute made nonsubstantive revisions to the original version.