SB 1846
Duncan (Truitt)
(CSSB 1846 by McClendon)

SUBJECT: Increasing contribution rates and issuing a "13th check" for TRS retirees

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 4 ayes — Truitt, Villarreal, McClendon, Macias

0 nays

1 present not voting — Burnam

2 absent — Keffer, Rodriguez

SENATE VOTE: On final passage, May 2 — 22-8 (Ellis, Hinojosa, Lucio, Shapleigh, Van de Putte, Watson, Whitmire, Zaffirini)

WITNESSES: For — Tim Lee, Texas Retired Teachers Association; (*Registered, but did not testify*: Julia Mellenbruch; Tom Rogers)

Against — David Duty, Texas Association of School Boards, Texas Association of School Administrators; Ann Fickel, Texas Classroom Teachers Association; Jack Kelly, Texas State Teachers Association; Lynn Moak, Texas School Alliance; Ted Melina Raab, Texas Federation of Teachers; Josh Sanderson, Association of Texas Professional Educators; Alejandra Martin, Texas Association of School Personnel Administrators; and five others; (*Registered, but did not testify*: Caroline O'Connor, Texas State Employees Union; Beaman Floyd, Texas Association of School Administrators)

On — (*Registered, but did not testify*: Rebecca Flores, Houston Independent School District)

BACKGROUND: Texas Constitution, Art. 16, sec. 67(b)(3) requires that the state contribution to state retirement systems, including the Teacher Retirement System (TRS) pension fund, be at least 6 percent and no more than 10 percent of payroll. These constitutional limits are established in statute in Government Code, sec. 825.404(a). The current statutory state contribution rate to the TRS pension fund is 6 percent of payroll.

TRS members currently contribute 6.4 percent of their salary to the TRS pension fund, as required by Government Code, sec. 825.402(5).

Government Code, sec. 811.006 prohibits the Legislature from granting benefit increases to retirees unless the pension fund is considered "actuarially sound," meaning that the pension system is able to amortize all of its liabilities over 31 years.

DIGEST:

CSSB 1846 would increase the TRS member contribution to 6.58 percent of salary and specify that the state contribution rate to TRS could not be less than the amount contributed by members during that fiscal year.

The bill also would require TRS to make a one-time supplemental payment, or "13th check," to eligible TRS annuitants no later than September 2007. This additional payment would be the lesser of $2,400 or the amount of the annuitant's August 2007 gross annuity payment and subject to all applicable tax withholding and other required deductions.

The bill outlines eligibility criteria for annuitants under optional retirement payment plans and lists annuitants who would not be eligible for the "13th check." These would include disability retirees with less than 10 years of service credit and participants in the deferred retirement option plan (DROP) with regard to payments from their DROP accounts.

Employer contributions and other contributions to the TRS pension fund currently deposited in other state accounts would have to be deposited in the TRS state contribution account.

The bill would take effect September 1, 2007.

SUPPORTERS SAY:

CSSB 1846 would divide responsibility for the long-term health of the TRS pension fund between the state and active teachers by increasing the contribution rate for both groups. This would help ensure that the pension fund was determined to be "actuarially sound" and would allow TRS to issue a "13th check" to eligible retirees in September 2007.

The long-term financial strength of the pension fund should not be only the state's responsibility. Active members, for whom the fund provides retirement security, also should have to increase their contributions to make the fund actuarially sound. It would be irresponsible to issue a "13th check" to eligible retirees without taking significant steps to address the overall financial health of the pension fund.

TRS retirees have not had a benefit increase since 2001 and should not have to wait another two years or more until market gains are sufficient for the pension fund to be determined actuarially sound. Since the last benefit increase, retirees living on fixed incomes have struggled with higher costs for health care, food, and other necessities.

OPPONENTS SAY:

A February 2007 valuation of the TRS pension fund determined that an increase in the state contribution rate to 6.6 percent of payroll would be sufficient to make the fund actuarially sound. The state then could issue a "13th check" without taking about $50 million per year out of the pockets of working teachers and other education employees.

A "13th check" should not be held hostage by a requirement that active teachers contribute more to the pension fund. Over the past two decades, the state has decreased its TRS contribution rate to the constitutional minimum, which has negatively impacted the long-term financial health of the fund. Rather than asking active TRS employees to contribute more, the state should make a long-term commitment to funding levels that would ensure solvency.

OTHER OPPONENTS SAY:

In view of other budget needs, the state contribution rate should not be raised to match the contribution level of active teachers. Improving market conditions, changes in TRS investment strategies, and new TRS eligibility requirements adopted in 2005 eventually should lead the fund to become actuarially sound and allow TRS to grant benefit increases by 2010.

NOTES:

According to the Legislative Budget Board (LBB), SB 1846 would cost the state $295.3 million in general revenue-related funds for fiscal 2008-09.

The House committee substitute added the $2,400 cap to the "13th check" amount. The Senate-passed version of the bill would allow the TRS member and employer contributions to be adjusted as part of the appropriations process, depending on the actuarial soundness of the retirement system. Member contributions could be adjusted to a rate of between 6 and 6.6 percent, and employer contributions could be between one-quarter and three-quarters of 1 percent of the aggregate annual compensation of contributing members.