HOUSE
RESEARCH
ORGANIZATION bill analysis 5/17/2013

SB 1458
Duncan, et al.
(Callegari, et al.)

SUBJECT: TRS contributions and benefits

COMMITTEE: Pensions — favorable, without amendment

VOTE: 6 ayes — Callegari, Alonzo, Branch, Frullo, P. King, Stephenson

0 nays

1 absent — Gutierrez

SENATE VOTE: On final passage, May 8 — 30-0

WITNESSES: (*On House companion bill, HB 1884)*
For — (*Registered, but did not testify:* Ann Hettinger)

Against — Ann Fickel, Texas Classroom Teachers Association; Ted Melina Raab, Texas AFT; Josh Sanderson, Association of Texas Professional Educators; (*Registered, but did not testify:* Rene Lara, Texas AFL-CIO)

On — Beaman Floyd, Texas Association of School Administrators; John Grey, Texas State Teachers Association; Brian Guthrie, TRS; Tim Lee, Texas Retired Teachers Association; (*Registered, but did not testify:* Christopher Hanson, Pension Review Board; Betsey Jones and Brian Guthrie, TRS)

DIGEST: SB 1458 would make numerous changes to the Teacher Retirement System of Texas (TRS), including:

- raising the contribution rates for members and requiring a new contribution from most school districts;
- increasing the minimum retirement age to 62 for teachers who were not vested in TRS as of September 1, 2014;
- authorizing a 3 percent cost-of-living increase for those who have been retired for 15 years or more; and
- changing benefits related to the health insurance plans for some future retirees.

Contribution rates. SB 1458 would phase in an increase in contribution rates for TRS members from 6.4 percent of the member's annual compensation to 6.7 percent in fiscal 2015, 7.2 percent in fiscal 2016, and 7.7 percent in fiscal 2017.

After September 1, 2017, member contribution rates of 7.7 percent would drop to correspond with any decrease in the state's contribution rate. If the state decreased its contribution rate 0.10 percent, the rate of members' contributions would also decrease 0.10 percent.

Beginning in fiscal 2015, school districts that do not contribute to Social Security for their employees would make monthly TRS contributions equal to 1.5 percent of members' compensation. The district contribution could be reduced if the state compensation dropped.

The bill would decrease from 5 percent to 2 percent the annual interest on money in each member's individual account that is used to compute the amount paid when an employee withdraws accumulated funds in lieu of receiving a retirement annuity.

Pension benefit structure. The bill would maintain the current retirement age of 60 for those who are vested by having worked for at least five years prior to September 1, 2014.

For those who are not vested as of September 1, 2014 or who are hired after that date, the bill would:

- adjust the age to retire with full benefits from 60 to 62 if the member's age and amount of service credit in TRS equals 80; and
- provide for a 5 percent per year annuity reduction for those choosing to retire prior to age 62.

Benefit enhancement. SB 1458 would authorize a 3 percent cost-of-living adjustment for TRS members who retired on or before August 31, 1999. The adjustment could not exceed $100 per month.

Retiree health care. TRS-Care is the health plan for retirees of the TRS system. It consists of three levels of coverage, with TRS-Care 1 providing basic catastrophic coverage, with higher deductibles than TRS-Care 2 and TRS-Care 3. Under SB 1458, TRS members who retire before the age of 62 would only be eligible to participate in TRS-Care 1. Once a member reaches the age of 62, the member would be eligible for the other two plans.

The bill would exempt members from the retiree health care changes whose age and service credit equals 70 or who have 25 years of service as of August 31, 2014.

The bill would repeal a section of the Insurance Code requiring TRS to offer health plans substantially equal to those offered by the Employees Retirement System of Texas. This repeal would take effect September 1, 2013.

The bill's provisions on member contribution rates would take effect September 1, 2013, and the remainder of the bill would take effect September 1, 2014.

SUPPORTERS SAY:

SB 1458 would make revisions to TRS contributions and benefits to ensure the long-term soundness of the pension plan and to allow 102,000 older retirees to receive their first cost-of-living (COLA) increase since 2001. The average COLA would be $42 per month, an increase that would especially help the majority of retired teachers who do not receive Social Security benefits.

The bill would move the TRS retirement fund from possible future insolvency to a system that could pay off its liabilities within 29 to 30 years, which would meet the statutory bar of being actuarially sound. It also would put the fund in a better position when new Governmental Accounting Standards Board rules take effect in 2014.

The bill passed with a unanimous vote out of the Senate and with the approval of active and retired teacher groups. The changes for which some are now calling could delay the goals of SB 1458 to create an actuarially sound fund and deliver the COLA.

Contribution rates. The bill would create a new revenue source from a 1.5 percent contribution from public schools that do not pay Social Security taxes for their employees. It is appropriate to require the vast majority of districts that do not contribute to Social Security to pay into TRS. These districts save about $1.5 billion a year by not paying Social Security taxes on their employees, so it is reasonable to have them contribute a smaller amount than they would pay into Social Security to strengthen the TRS fund. The school districts' contributions also could be covered by an increase in funding through the school finance formulas in SB 1.

The combined state and district contribution would bring the total employer contribution to 8.3 percent, which would be higher than employee contributions. The bill would provide an incentive for the state to maintain appropriate contribution levels by linking state, member, and school district rates so that if the state rate was reduced, the member and district rates would be reduced by an equivalent percentage.

Many teachers understand that the pension fund must be strengthened to ensure it is able to meet its future obligations. They are willing to pay higher contributions to maintain a defined benefit plan.

The bill would maintain current retirement eligibility for members who are vested in TRS. Those not vested — an estimated 190,000 — would only have to work two years more, to age 62, to receive full benefits. The average age of TRS retirees in 2012 was 61.

Retiree health care. The bill would make necessary changes to TRS-Care for retirees to help stabilize the health care fund. Without any changes, the TRS-Care fund will face a negative balance of $1 billion in fiscal 2017.

Early retirement is a major factor in rising health costs. Retirees who are younger than 65 and not eligible for Medicare cost TRS-Care six times more than Medicare-eligible retirees. SB 1458 would not make changes for current retirees and active members who meet the rule of 70 or have 25 years of service as of August 31, 2014. TRS-Care 1, the catastrophic plan, would still be available to early retirees.

Next session, major reform of TRS-Care will be necessary, but right now, SB 1458 is a step in the right direction.

OPPONENTS SAY:

Although significant improvements were made on the Senate floor to SB 1458, some substantial concerns remain. The bill would provide a COLA to less than one-third of all retirees, leaving the rest without any immediate relief from the rising cost of living that has eroded the purchasing power of TRS pensions by more than 25 percent since the last COLA in 2001.

It would be better to give all retirees a "13th check" supplemental payment.

The bill would cut pension and health-care benefits that teachers and other employees working in schools today have earned. The bill should be amended to grandfather in all current employees to ensure no one loses benefits they've already worked to earn.

The goal of ensuring actuarial soundness could be achieved without imposing disproportionate sacrifices on retirees and school employees. The Legislature has underfunded TRS for years and should be putting substantially more money in the pension system now.

Contribution rates. SB 1458 would place the largest burden on active members who would see contributions increase by an estimated $189.8 million just in fiscal year 2015, according to the fiscal note. Texas teachers already are paid below the national average and the increased bite out of their take-home pay would hurt the lowest-paid educators the most.

School districts still dealing with the 2011 budget cuts would be required to pay 1.5 percent of their payroll into TRS. Some districts say the contribution requirement could eat into any pay raises they were planning for the next school year.

Retiree health care. The bill would place a hardship on certain employees who retire early by making them ineligible for the two most affordable and comprehensive insurance plans. The only plan open to them carries high deductibles for medical and prescription drug expenses. If retired teachers cannot afford to visit the doctor and buy their prescription drugs, their health could be affected.

NOTES:

The Legislative Budget Board (LBB) said the estimated cost to local school districts of the 1.5 percent contributions for each TRS member salary would be about $330 million per year.

In its actuarial analysis, LBB said the state contribution rate must be 6.8 percent for fiscal 2014-15 for the fund to become actuarially sound within 29 years as required by statute. The analysis assumes that the state contribution rate would be 6.4 percent for fiscal 2014 and 6.8 percent for fiscal 2015 and that a rider to a supplemental appropriations bill would allow TRS to keep the settle up money at the end of fiscal 2013 and apply it toward the fiscal 2014 state contribution rate, thereby increasing the total state rate to 6.8 percent for fiscal 2014 and thereafter.

The actuarial review states that SB 1458 would change the amortization period of TRS from infinite to a finite period under 30 years as of the February 28, 2013 valuation.