HOUSE
RESEARCH
ORGANIZATION bill analysis 8/1/2017

HB 80
Darby, et al.

SUBJECT: Making a one-time cost-of-living adjustment for certain TRS members

COMMITTEE: Appropriations — favorable, without amendment

VOTE: 22 ayes — Zerwas, Longoria, Ashby, G. Bonnen, Capriglione, Cosper, Dean, Giddings, Gonzales, Howard, Koop, Miller, Muñoz, Perez, Phelan, Raney, Roberts, J. Rodriguez, Rose, Sheffield, VanDeaver, Wu

0 nays

5 absent — S. Davis, Dukes, González, Simmons, Walle

WITNESSES: For — Timothy Lee, Texas Retired Teachers Association; (*Registered, but did not testify*: Colby Nichols, Texas Association of Community Schools, Texas Rural Education Association; Amy Beneski, Texas Association of School Administrators; Grover Campbell, Texas Association of School Boards; Ann Fickel, Texas Classroom Teachers Association; Kevin Stewart, Texas School Nurses Organization; Portia Bosse, Texas State Teachers Association; Monty Exter, Association of Texas Professional Educators; Susan Armstrong; Marlene Lobberecht; Rosemary Morrow; Leah Stephanow)

Against — (*Registered, but did not testify*: Adam Cahn, Cahnman's Musings; John Marler, Texans 4 Truth)

On — Katrina Daniel and Brian Guthrie, Teacher Retirement System of Texas; (*Registered, but did not testify*: Trevor Simmons, Legislative Budget Board)

BACKGROUND: Government Code, ch. 824 governs service retirement, disability retirement, and death benefits for the Teacher Retirement System of Texas (TRS). As added in 2013 by the 83rd Legislature's enactment of SB 1458 by Duncan, sec. 824.702 required TRS to make a one-time cost-of-living adjustment (COLA) to certain annuitants receiving a monthly death or retirement benefit annuity. This COLA applied to members who retired on or before August 31, 2004, and their beneficiaries.

Sec. 821.006 prohibits any action that would extend the amortization of TRS unfunded actuarial liabilities by 31 years or more.

DIGEST:

HB 80 would require the Teacher Retirement System of Texas (TRS) to make a one-time cost-of-living adjustment (COLA) to annuitants receiving a monthly death or retirement benefit annuity. The COLA would be limited to the lesser of a 3 percent increase of the monthly benefit or $100 per month and would begin with an annuity payable for December 2017.

Eligibility. To qualify for the COLA, an annuitant would have to be eligible to receive:

- a standard service or disability retirement annuity payment;
- an optional service or disability retirement annuity payment as either a retiree or beneficiary;
- a standard service retirement annuity of 60 monthly payments or an optional retirement annuity for the designated beneficiary's life;
- benefits on the death of a disabled retiree; or
- an alternate payee annuity payment.

Alternate payees would qualify for the COLA if the election to receive the annuity payment was after August 31, 2004, and on or before August 31, 2015. Other annuitants would qualify for a COLA if they were alive on the COLA's effective date and the member's retirement or death was after August 31, 2004, and on or before August 31, 2015.

The TRS board of trustees would determine the eligibility for and the amount of any adjustment in monthly annuities in accordance with the bill.

Exceptions. The COLA would not apply to:

- retirees who receive a standard service retirement annuity in a statutorily fixed amount;

- disability retirees with less than 10 years of service credit or who receive a disability annuity in a statutorily fixed amount;
- active member or retiree survivor beneficiaries who receive a survivor annuity in a statutorily fixed amount; or
- participants in the deferred retirement option plan.

Effective date. This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect December 1, 2017.

SUPPORTERS SAY:

HB 80 would improve the economic stability of retirees who live on fixed incomes by making a cost-of-living adjustment (COLA) payable to certain members in the Teacher Retirement System of Texas (TRS). The last COLA was made in 2013 to members who retired on or before August 31, 2004. Gov. Abbott has encouraged the Legislature to increase benefits for TRS members because some are anticipating a rise in health care costs and changes to their health plans. A COLA would help offset rising costs of health care, transportation, housing, food, travel, and other living expenses.

According to the Legislative Budget Board's (LBB's) actuarial impact statement, the Legislature could finance the entire COLA amount without extending the amortization of unfunded liabilities by contributing about $1.36 billion in fiscal 2018 or $1.47 billion over the biennium ($736 million each in fiscal 2018 and 2019). Alternatively, the state's annual contribution could be increased from 7.7 percent to 8.18 percent to meet the statutory 31-year amortization benchmark, according to the LBB.

OPPONENTS SAY:

HB 80 would cause the Teacher Retirement System of Texas (TRS) fund to exceed the statutorily required amortization period of unfunded liabilities. This would negatively affect the long-term sustainability of TRS and require taxpayers to pay for any funding gaps.

According to the LBB's actuarial impact statement, TRS currently is actuarially unsound, and the fiscal note indicates that this bill is not expected to take effect because the standard of actuarial soundness cannot be met upon payment of the COLA. HB 80 would delay the amortization of TRS' unfunded liabilities from 34.3 years to 38.1 years and increase the unfunded liabilities by $1.28 billion, from $36.6 billion to $37.88 billion, according to the LBB.

NOTES: According to the Legislative Budget Board's fiscal note, there would be a significant but indeterminate cost to the state, unless the cost was passed on to Teacher Retirement System of Texas members or local employers. The fiscal note indicates the bill's provisions would not be expected to take effect because the statutory requirement for actuarial soundness could not be met upon payment of the proposed benefit increases.