HOUSE RESEARCH ORGANIZATION bill analysis 4/24/2019

HB 9 (2nd reading)
G. Bonnen, et al.
(CSHB 9 by Longoria)

SUBJECT: Increasing state contributions to the Teacher Retirement System

COMMITTEE: Pensions, Investments and Financial Services — committee substitute recommended

VOTE: 11 ayes — Murphy, Vo, Capriglione, Flynn, Gervin-Hawkins, Gutierrez, Lambert, Leach, Longoria, Stephenson, Wu

0 nays

WITNESSES: For — Byron Hildebrand, Association of Texas Professional Educators; Vernagene Mott, Texas Association of School Boards; Rita Runnels, Texas American Federation of Teachers; Beaman Floyd, Texas Association of School Administrators; Ann Fickel, Texas Classroom Teachers Association; Timothy Lee, Texas Retired Teachers Association; Evalina Loya, Texas State Teachers Association-Retired; Donna Haschke; Felecia Owens; Louise Watkins; (*Registered, but did not testify*: Rene Lara, Texas AFL-CIO; Barry Haenisch, Texas Association of Community Schools; Mark Terry, Texas Elementary Principals and Supervisors Association; Dee Carney, Texas School Alliance; Lisa Dawn-Fisher, Texas State Teachers Association; and six individuals)

Against — Vance Ginn, Texas Public Policy Foundation

On — (*Registered, but did not testify*: Brian Guthrie, Teacher Retirement System)

BACKGROUND: Government Code sec. 825.404 sets the state's contribution to the Teacher Retirement System at an amount equal to at least 6 and not more than 10 percent of the aggregate annual compensation of all members of the retirement system during that fiscal year. Sec. 825.402 establishes rates of contribution for various members of the Teacher Retirement System.

DIGEST: CSHB 9 would set the state contribution to the Teacher Retirement System (TRS) at certain percentages of the aggregate annual compensation of all members of the retirement system according to the following schedule:

- 7.8 percent for the fiscal year beginning on September 1, 2019;
- 8.05 percent for the fiscal year beginning on September 1, 2020;
- 8.3 percent for the fiscal year beginning on September 1, 2021;
- 8.55 percent for the fiscal year beginning on September 1, 2022; and
- 8.8 percent for the fiscal year beginning on September 1, 2023.

The bill would retain the current member contribution rate of 7.7 percent of a member's annual compensation for compensation paid on or after September 1, 2019. That rate would be reduced by one-tenth of 1 percent for each one-tenth of 1 percent that the state contribution rate was less than the rate established under the bill for the applicable fiscal year.

The bill would require TRS to make a one-time supplemental payment of the lesser of $2,400 or the gross annuity payment to which the annuitant was entitled for the month preceding the month when TRS issued the payment.

The state would be required to appropriate to TRS an amount equal to the cost of the one-time supplemental payment. If the state did not transfer the appropriated amount, TRS could not issue the payment.

The bill would take effect September 1, 2019.

SUPPORTERS SAY:

CSHB 9 would make the Teacher Retirement System actuarially sound by incrementally increasing state contributions over the 2020-2024 fiscal years, providing for an ultimate increase of 2 percent over the five-year period. TRS serves more than 420,000 retirees, many of whom do not receive Social Security benefits. Recent decisions by the TRS Board of Trustees to adjust plan participant life expectancies and projected investment return assumptions have contributed to the system being actuarially unsound as defined by state law. Investing in the fund now would be financially prudent, making it more likely that the state could meet its promises to current teachers and provide increased benefits to retirees.

The bill would provide retired school employees with a one-time supplemental payment, or "13th check," of up to $2,400. This extra pension benefit would help retired educators pay for increased expenses, including higher TRS health insurance costs.

While some have suggested moving younger teachers to a less costly defined contribution retirement plan, Texas would still need to make its existing defined benefit pension system actuarially sound, as CSHB 9 would do.

At a time when the Legislature is working to improve school finance and increase teacher pay, it should not require school districts and teachers to contribute more money to TRS, as would occur under the Senate's plan.

OPPONENTS SAY:

While CSHB 9 would improve the funding situation for TRS, the pension system would still be underfunded. While the increased state contributions would allow the fund to be considered actuarially sound under state law, the fund's amortization period of 30 years would remain above the preferable target range of 10 to 25 years under Pension Review Board funding guidelines. Future generations would bear the financial risk if TRS market expectations were not met.

New teachers should be offered the option to join TRS or a program similar to the defined contribution plan offered to faculty at higher education institutions and by many private employers. Such plans offer portability between public and private sector jobs and a shorter time frame for a teacher to become fully vested.

The cost of the one-time supplemental payment would add to the rising state budget and the burdens of taxpayers, who include teachers and retirees.

OTHER OPPONENTS SAY:

A better approach would be to follow the Senate's plan to increase TRS contributions from all participants, including school districts and active teachers. Current teachers and school districts, along with the state, should play a role in making the pension system actuarially sound. The Senate plan would provide a smaller $500 payment supplemental payment but would cost the state less than half of the amount of the House plan.

NOTES:

According to the Legislative Budget Board, the bill would have an estimated negative impact of $1.3 billion on general revenue related funds through fiscal 2020-21. The bill would make the TRS pension fund actuarially sound by reducing the amortization period to 30 years, according to the Legislative Budget Board's actuarial impact statement.