

SUBJECT: Increasing state contributions to the Teacher Retirement System

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

VOTE: 9 ayes — Murphy, Vo, Capriglione, Flynn, Lambert, Leach, Longoria, Stephenson, Wu

0 nays

2 absent — Gervin-Hawkins, Gutierrez

SENATE VOTE: On final passage, March 25 — 31-0

WITNESSES: For — (*Registered, but did not testify:* Rene Lara, Texas AFL-CIO; Beaman Floyd, Texas Association of School Administrators; Lance Lowry, Texas Association of Taxpayers; Lisa Dawn-Fisher, Texas State Teachers Association; Timothy Lee, Texas Retired Teachers Association)

Against — (*Registered, but did not testify:* Will Holleman, Texas Association of School Boards; Talmadge Heflin, Texas Public Policy Foundation)

On — (*Registered, but did not testify:* Ann Fickel, Texas Classroom Teachers Association; 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 six 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: CSSB 12 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:

CSSB 12 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.

The bill also 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 health insurance costs.

At a time when the Legislature is working to increase teacher pay, it should not require working teachers to contribute a higher percentage of their pay to TRS. Similarly, school funding should not be boosted just to re-take dollars by requiring districts to increase their TRS contributions.

While some have suggested moving to a defined contribution retirement plan, that would not change the need to make the existing system actuarially sound, as CSSB 12 would do.

OPPONENTS
SAY:

It would be better 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.

OTHER
OPPONENTS
SAY:

Texas should make the fiscally prudent transition from its defined benefit retirement plan for retired teachers to a defined contribution plan. Even if TRS is placed on a path to actuarial soundness, future generations could bear the financial risk if market expectations are not met.

NOTES:

According to the Legislative Budget Board (LBB) fiscal note, CSSB 12 would have an estimated negative impact of \$1.3 billion through the biennium ending August 31, 2021. The bill would make the TRS pension fund actuarially sound by reducing the amortization period to 30 years, according to the LBB's actuarial impact statement.