

BILL ANALYSIS

Senate Research Center
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C.S.S.B. 1458
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State Affairs
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Committee Report (Substituted)

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The Texas Legislature evaluates the Teacher Retirement System of Texas (TRS) in regard to the statute currently in place on occasion. This bill is intended to encompass the needs of both the legislature and TRS.

C.S.S.B. 1458 seeks to revise applicable laws relating to TRS in regard to its authority and rules in statute.

C.S.S.B. 1458 amends current law relating to contributions to, benefits from, and the administration of systems and programs administered by the Teacher Retirement System of Texas

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 824.202, Government Code, by amending Subsections (a), (b), (d), and (d-1), as follows:

(a) Provides that a member is eligible to retire and receive a standard service retirement annuity if the member is at least 65 years old and has at least five years of service credit in the Teacher Retirement System of Texas (TRS), or the member is at least 62 years old and has at least five years of service credit in TRS, and the sum of the member's age and amount of service credit in TRS equals the number 80, rather than providing that a member, except as provided by Subsection (a-1) (relating to certain persons who become a member of TRS on or after September 1, 2007), is eligible to retire and receive a standard service retirement annuity if the member is at least 65 years old and has at least five years of service credit in TRS, the member is at least 60 years old and has at least 20 years of service credit in TRS, the member is at least 50 years old and has at least 30 years of service credit in TRS, or the sum of the member's age and amount of service credit in TRS equals the number 80.

(b) Provides that this subsection applies only to a person who is not subject to Subsection (d) or (d-1), rather than Subsection (b-1) (relating to the service retirement annuity reduced from the standard service retirement annuity for certain persons who become a member of TRS) or (d).

(d) Provides that this subsection applies only to a person who has at least five years of service credit in TRS on or before August 31, 2014, and who retires on or after September 1, 2014, rather than providing that this subsection applies only to a person who is not subject to Subsection (d-1). Provides that if the sum of the member's age and amount of service credit in TRS equals the number 80, with at least five years of service credit, or if the member has at least 30 years of service credit in TRS, rather than providing that if a member subject to this subsection has at least 20 years of service in TRS, the member is eligible to retire regardless of age and receive a service retirement

annuity consisting of the standard service retirement annuity available under Subsection (a)(2) (relating to a member being eligible to retire and receive a standard annuity if the member is at least 62 years old and has at least five years of service credit in TRS), rather than available under Subsection (a), decreased by two percent for each year of age under 62 years.

(d-1) Provides that a member, if the sum of the member's age and amount of service credit in TRS equals the number 80, with at least five years of service credit, or if the member has at least 30 years of service credit in TRS, is eligible to retire regardless of age and receive a service retirement annuity consisting of the standard service retirement annuity available under Subsection (a)(2) decreased by five percent for each year of age under 62 years, rather than is eligible to retire regardless of age and receive a service retirement annuity, reduced from the standard service retirement annuity available under Subsection (a)(2), to a percentage derived from a certain table. Deletes existing text providing that this subsection applies only to a person who becomes a member of TRS on or after September 1, 2007. Deletes the existing table setting forth certain reductions in the standard service retirement annuity.

SECTION 2. Amends Subchapter H, Chapter 824, Government Code, by adding Section 824.702, as follows:

Sec. 824.702. COST-OF-LIVING ADJUSTMENT. (a) Requires TRS to make a one-time cost-of-living adjustment payable to annuitants receiving a monthly death or retirement benefit annuity, as provided by this section.

(b) Requires a person, subject to Subsections (c) and (d), to be eligible for the adjustment, to be on the effective date of the adjustment and disregarding any forfeiture of benefits under Section 824.601 (Loss of Monthly Benefits) an annuitant eligible to receive:

- (1) a standard service or disability retirement annuity payment;
- (2) an optional service or disability retirement annuity payment as either a retiree or beneficiary;
- (3) an annuity payment under Section 824.402(a)(3) (relating to providing that the rate of contributions for each member of TRS is six percent of the member's annual compensation for service rendered during a certain period of time) or (4) (relating to providing that the rate of contributions for each member of TRS is 6.65 percent of the member's annual compensation for service rendered during a certain period of time);
- (4) an annuity payment under Section 824.502 (Benefits on Death of Disability Retiree); or
- (5) an alternate payee annuity payment under Section 804.005 (Payment in Certain Circumstances in Lieu of Benefits Awarded by Qualified Domestic Relations Order).

(c) Provides that if the annuitant:

- (1) is a retiree, or is a beneficiary under an optional retirement payment plan, to be eligible for the adjustment under this section the annuitant is required to be living on the effective date of the adjustment, and the effective date of the retirement of the member of TRS is required to have been on or before August 31, 1994;
- (2) is a beneficiary under Section 824.402(a)(3) or (4) or 824.502, to be eligible for the adjustment the annuitant is required to be living on the

effective date of the adjustment, and the date of death of the member of TRS is required to have been on or before August 31, 1994;

(3) is an alternate payee under Section 804.005, the annuitant is eligible for the adjustment only if the effective date of the election to receive the annuity payment was on or before August 31, 1994.

(d) Provides that an adjustment made under this section does not apply to payments under:

(1) Section 824.203(d), relating to retirees who receive a standard service retirement annuity in an amount fixed by statute;

(2) Section 824.304(a), relating to disability retirees with less than 10 years of service credit;

(3) Section 824.304(b)(2), relating to disability retirees who receive a disability annuity in an amount fixed by statute;

(4) Section 824.404(a), relating to active member survivor beneficiaries who receive a survivor annuity in an amount fixed by statute;

(5) Section 824.501(a), relating to retiree survivor beneficiaries who receive a survivor annuity in an amount fixed by statute; or

(6) Section 824.804(b), relating to participants in the deferred retirement option plan with regard to payments from their deferred retirement option plan accounts.

(e) Provides that an adjustment under this section

(1) is required to be made beginning with an annuity payable for the month of September 2013; and

(2) is limited to the lesser of an amount equal to three percent of the monthly benefit subject to the increase or \$100 a month.

(f) Requires the board of trustees of TRS to determine the eligibility for and the amount of any adjustment in monthly annuities in accordance with this section.

SECTION 3. Amends Section 824.807, to provide that interest is creditable to a member's account in the deferred retirement option account at an annual, prorated rate equal to two percent, rather than equal to five percent, during the period of participation in the plan and until all benefits are distributed.

SECTION 4. Amends Section 825.307(b), Government Code, to provide that interest on a member's contribution is earned monthly and computed at the rate of two percent a year, rather than at the rate of five percent a year.

SECTION 5. Amends Section 824.402, Government Code, as follows:

Sec. 825.402. RATE OF MEMBER CONTRIBUTIONS. Deletes existing Subsection (a) designation. Provides that the rate of contributions for each member of TRS is:

(1)-(3) Makes no change to these subdivisions;

(4) Makes a nonsubstantive change;

(5) 6.4 percent of the member's annual compensation for service rendered after August 31, 1985, and before September 1, 2014, rather than 6.4

percent of the member's annual compensation for service rendered after August 31, 1985, subject to Subsection (b); and

(6) for service rendered on or after September 1, 2014, the greater of 6.4 percent of the member's annual compensation, or a percent of the member's annual compensation equal to the state contribution rate, except that the member contribution is prohibited from exceeding 6.9 percent.

Deletes existing Subsection (b) authorizing the board of trustees of TRS, subject to Subsection (c), to by order require that the rate of contributions for each member of TRS under Subsection (a) is increased to not more than 6.58 percent of the member's annual compensation for service rendered after the date of the order if the legislature by law requires or authorizes the board of trustees to pay a supplemental payment to specified annuitants, and the board of trustees finds, as of the time the payment is to be made, that after the payment is made the amortization period for the unfunded actuarial liabilities of TRS would exceed 30 years by one or more years.

Deletes existing Subsection (c) prohibiting the board of trustees of TRS, notwithstanding any other law, from making a supplemental payment required or authorized by the legislature by law, and from imposing an increase in the rate of contributions under Subsection (b), if the board of trustees finds that after making the payment and imposing the increase the amortization period for the unfunded actuarial liabilities of TRS would exceed 30 years by one or more years.

Deletes existing Subsection (d) authorizing the board of trustees of TRS, notwithstanding any other law, to delay making a supplemental payment required or authorized by the legislature by law as necessary to make the determinations required under Subsections (b) and (c).

SECTION 6. Amends Section 825.403(a), Government Code, to require each employer, each payroll period, to deduct from the compensation of each member employed by the employer the amount required by Section 825.402 (Rate of Member Contributions), rather than require each employer, each payroll period, to deduct from the compensation of each member employed by the employer an amount equal to 6.4 percent of the member's compensation for that period.

SECTION 7. Amends Subchapter E, Chapter 825, Government Code, by adding Section 825.4035, as follows:

Sec. 825.4035. EMPLOYER CONTRIBUTIONS FOR CERTAIN EMPLOYED MEMBERS FOR WHOM THE EMPLOYER IS NOT MAKING CONTRIBUTIONS TO THE FEDERAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM. (a) Provides that in this section:

(1) applies to an employer who reports to TRS under Section 825.403 (Collection of Member's Contributions) the employment of a member for whom the employer is not making contributions to the federal Old-Age, Survivors, and Disability Insurance (OASDI) program; and

(2) does not apply to an employer that is an institution of higher education.

(b) Requires an employer, except as provided in Subsection (c), for each member the employer reports to TRS and for whom the employer is not making contributions to the OASDI program, to contribute monthly to TRS for each such member an amount equal to one percent of the member's compensation.

(c) Requires the employer, if a member is entitled to the minimum salary for certain school personnel under Section 21.502 (Establishment of Program), Education Code, or if a member would have been entitled to the minimum salary

for certain school personnel under former Section 16.056 [Repealed], Education Code, as that section existed on January 1, 1995, to, in addition to any contributions required under Section 825.405 (Contributions Based on Compensation Above Statutory Minimum), contribute monthly to TRS for each such member an amount equal to one percent of the statutory minimum salary determined under Section 825.405(b) (relating to the statutory minimum for certain school personnel).

(d) Provides that contributions under this section are subject to the requirements of Section 825.408 (Interest on Contributions and Fees; Deposits in Trust), and are required to be used to fund the normal cost of TRS.

SECTION 8. Amends Section 1575.158(a), Insurance Code, to authorize TRS, subject to Section 1575.1581, to, in addition to providing a basic plan, contract for and make available an optional group health benefit plan for retirees, dependents, surviving spouses, or surviving dependent children.

SECTION 9. Amends Chapter 1575, Insurance Code, by adding Section 1575.1581, as follows:

Sec. 1575.1581. LIMITATION ON ENROLLMENT IN OPTIONAL GROUP HEALTH BENEFIT PLAN. (a) Provides that a service retiree and any dependent of a service retiree are not eligible to participate in an optional group health benefit plan made available under Section 1575.158 (Optional Group Health Benefit Plan), unless the retiree is at least 62 years of age or older, and meets the definition of retiree under Section 1575.004(a)(1) (relating to an individual not eligible for coverage under certain plans).

(b) Authorizes a retiree subject to Subsection (a) to, on the date the retiree reaches 62 years of age, under rules adopted by TRS, enroll in any coverage tier under the group program, and enroll in the same coverage tier the retiree's dependents who are enrolled in the group program as of the date the retiree reaches 62 years of age.

SECTION 10. Repealer: Sections 824.202(a-1) (relating to certain persons who become a member of TRS on or after September 1, 2007) and (b-1) (relating to the reduction of a service retirement annuity from the standard service retirement annuity for certain persons), Government Code.

Repealer: 1579.103 (Primary Care Coverage Plan), Insurance Code.

SECTION 11. (a) Provides that the changes in law made by this Act to Section 824.202 (Eligibility for Service Retirement), Government Code, except as provided in this section, do not apply to, and the former law is continued in effect for, a person who retires under TRS on or after September 1, 2014, and who meets one or more of the following requirements on or before August 31, 2014:

- (1) the person has attained age 50;
- (2) the sum of the person's age and amount of service credit in TRS equals 70 or greater; or
- (3) the person has at least 25 years of service credit in TRS.

(b) Provides that only service actually credited in TRS, the Employees Retirement System of Texas, or a retirement system participating in the proportionate retirement program under Chapter 803 (Proportionate Retirement Program), Government Code, on or before August 31, 2014, may be used to determine eligibility under Subsection (a)(2) and (3) of this section. Provides that purchased service credit in TRS is:

(1) not considered actually credited in TRS for purposes of Subsection (a)(2) or (3) of this section, as applicable, if the service credit is established only after completion of an installment payment plan under which any installment payment is required to be made after August 31, 2014; and

(2) considered actually credited in TRS for purposes of Subsection (a)(2) or (3) of this section, as applicable, if payment in full for the purchase of service credit is made by a direct rollover or otherwise on or before August 31, 2014, or payment in full by direct rollover or otherwise is made after August 31, 2014, if the member's request to purchase service credit occurred on or before August 31, 2014, and payment to purchase the service credit is made in accordance with uniform administrative requirements, including payment deadlines, established by TRS.

(c) Provides that, for members who meet the eligibility requirements of Subsection (a) of this section and who otherwise would be subject to Section 824.202(d-1) as it formerly existed before being amended by this Act, instead of the five percent reduction for each year the member is less than age 60, the reduction will be two percent for each year the member is less than age 60.

SECTION 12. Provides that Sections 824.807 and 825.307(b), Government Code, as amended by this Act, apply only to interest accrued on or after the effective date of this Act. Provides that interest accrued before the effective date of this Act is governed by the law in effect on the date the interest accrued, and that law is continued in effect for that purpose.

SECTION 13. (a) Provides that the change in law made by this Act to Chapter 1575 (Texas Public School Employees Group Benefits Program), Insurance Code, does not apply to, and the former law is continued in effect for, a person who takes a service retirement under TRS on or after September 1, 2014, and who meets one or more of the following requirements on or before August 31, 2014:

(1) the sum of the person's age and amount of service credit in the requirement system equals 70 or greater; or

(2) the person has at least 25 years of service credit in TRS.

(b) Authorizes only service actually credited in TRS or the Employees Retirement System of Texas, on or before August 31, 2014, to be used to determine eligibility under this section. Provides that purchased service credit in the retirement system is:

(1) not considered actually credited in the retirement system for purposes of this section if the service credit is established only after completion of an installment payment plan under which any installment payment is required to be made after August 31, 2014; and

(2) considered actually credited in the retirement system for purposes of this section if:

(A) payment in full for the purchase of service credit is made by a direct rollover or otherwise on or before August 31, 2014; or

(B) payment in the full by direct rollover or otherwise is made after 31, 2014, if the member's request to purchase service credit occurred on or before August 31, 2014, and payment to purchase the service credit is made in accordance with uniform administrative requirements, including payment deadlines, established by the retirement system.

SECTION 14. (a) Effective date, except as provided by Subsection (b) of this section: September 1, 2014.

(b) Effective date, Section 824.702, Government Code, as added by this Act, and the repeal by this Act of Section 1579.103, Insurance Code: September 1, 2013.