



LEGISLATIVE BUDGET BOARD

Teacher Retirement System Overview

2014-15 Biennial Base and 2016-17 HB 1 Recommendations

PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

February 2015

TRS Overview

- Statewide retirement plan for public and higher education employees, established in 1937 by the Texas Constitution
- Defined benefit pension plan design, with a lifetime benefit based on years of service and average salary
- Legislature determines benefit plan design, including eligibility and funding
- Fiscal Year 2014 Statistics:

Members served: 1.4 million

Annual retirement benefits paid: \$8.5 billion

Trust fund assets managed: \$132.2 billion

Unfunded Actuarial Accrued Liability (UAAL): \$31.6 billion

Funded Ratio: 80.2 percent

Funding Period: 29.8 years

One-year investment return: 16.8%; \$15.1 billion in 2014

House Bill 1 2016-17 Recommendations

Method of Finance	2014-15 Base	2016-17 Rec
General Revenue	\$3,882,858,559	\$4,049,383,824
GR-D	\$87,095,427	\$94,202,414
Other Funds (Pension Trust Fund)	<u>\$196,128,884</u>	<u>\$203,176,251</u>
TOTAL	\$4,166,082,870	\$4,346,762,489

All Funds Appropriation by Strategy		
Public Education Retirement	\$3,011,877,234	\$3,133,557,074
Higher Education Retirement	\$423,858,134	\$454,678,679
TRS-Care (Retiree health care)	\$540,345,779	\$562,175,749
Administration	<u>\$190,001,723</u>	<u>\$196,350,987</u>
TOTAL	\$4,166,082,870	\$4,346,762,489

SOURCE: Legislative Budget Board.

Key Budget Drivers

Contribution Rates (percent of active member payroll)	Fiscal Year		
	<u>2015</u>	<u>HB 1</u> <u>2016</u>	<u>HB 1</u> <u>2017</u>
State	6.8%	6.8%	6.8%
Employee	6.7%	7.2%	7.7%
Districts not in Social Security	1.5%	1.5%	1.5%

NOTE: Employee contribution rates are specified in statute. The employer contribution for districts not participating in Social Security was required by Senate Bill 1458, 83rd Legislature, and began in fiscal year 2015.

Payroll Growth	Public Education	Higher Education
Actual 2014	4.3%	5.4%
Assumptions in each year, 2015-17	2.0%	4.0%
Historical Trend		
Five-year average	1.83%	3.98%
Ten-year average	4.95%	6.93%

SOURCE: Legislative Budget Board.

83rd Legislature – Summary of Actions

■ General Appropriations Act (GAA), 2014-15

- Increased state contribution rate from 6.4% to 6.8%

■ Senate Bill 1458

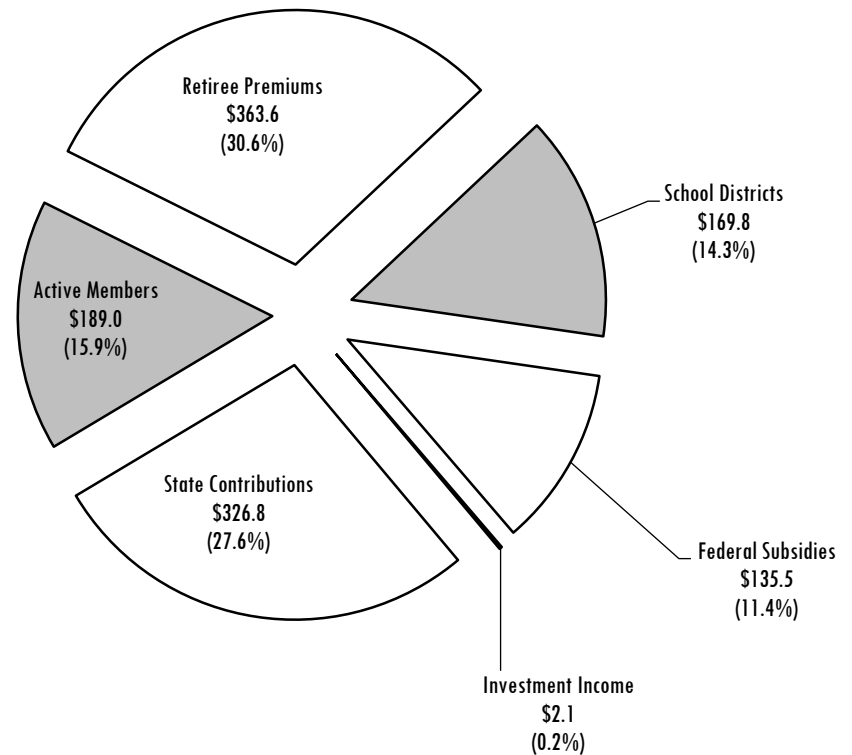
- Increased active member contribution rate from 6.4% to 6.7% in FY 2015, 7.2% in FY 2016, and 7.7% in FY 2017
- New contribution for school districts and charter schools not participating in Social Security of 1.5% in FY 2015
 - TEA Rider 71 appropriates \$330 million in FY 2015, a one-time distribution allocated equally to all school districts and charter schools based on per student Average Daily Attendance (ADA)
- Increased normal age retirement eligibility from age 60 to age 62 with Rule of 80 for members not vested on 8/31/14
 - Annuity reduction of 5% per year under age 62 (was previously 60)
- Ad hoc COLA, equal to the lesser of 3% or \$100 per month, was granted effective September 1, 2013 for those retired by August 31, 2004
- Additional changes related to TRS-Care, which also impact retirement decisions
 - Minimum age 62 required at retirement for eligibility in TRS-Care 2 or TRS-Care 3
 - » Grandfathered members with Rule of 70 or 25 years service on 8/31/14

TRS-Care Overview

- Self-funded statewide health benefit program for public school retirees.
- In 1985, the Legislature enacted the Texas Public School Retired Employees Group Benefits Act.
- Third-party administration of medical and pharmaceutical benefits
- Plan design has separate plans with varying deductibles, co-pays, and premium costs.
- 244,784 participants as of August 2014
- \$1.2 billion total plan costs paid for health benefits in Fiscal Year 2014
- State contribution: 1.0% of active member payroll
- Active member contribution: 0.65% of payroll
- School district contribution: 0.55% of payroll
- **Estimated shortfall in 2016-17: \$768.0 million**

TRS-CARE TRUST FUND CONTRIBUTIONS
FISCAL YEAR 2014
(IN MILLIONS)

TOTAL = \$1,186.8 MILLION



Source: Teacher Retirement System.



LEGISLATIVE BUDGET BOARD

Contact the LBB

Legislative Budget Board

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