



LEGISLATIVE BUDGET BOARD

Overview of the Teacher Retirement System

PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

February 2017

Teacher Retirement System Overview

TRS administers three discrete benefit plans, each of which uses its own fund, receives revenue from its own sources, and employs different funding mechanisms. The three trust funds are legally separate and not commingled.

1. The **Pension Trust Fund** provides retirement benefits to employees of K-12 and institutions of higher education. It is funded by payroll contributions from the state, employers, and members, combined with investment income of the Fund.
The net value of the Pension Trust Fund is \$134.0 billion (as of August 31, 2016).
2. The **TRS-Care Trust Fund** provides health care benefits to retired employees of K-12 education. The TRS-Care Fund receives payroll contributions from the state, active members, and school districts, combined with investment income earned by the Fund and retiree premiums paid by participating retirees.
TRS-Care is projected to become insolvent at the beginning of fiscal year 2018, with the shortfall estimated between \$1.1 and \$1.3 billion in the 2018-19 biennium.
3. The **TRS-ActiveCare Trust Fund** provides health care benefits to active public education employees in participating districts statewide. ActiveCare is funded by contributions from the state of \$75 per member per month, distributed as part of the Foundation School Program; and a minimum contribution of \$150 per member per month from school districts. The remainder of plan costs are covered by member premiums.
Although ActiveCare uses its own fund, the plan is funded on a pay-as-you-go basis.

Key Budget Drivers

| Payroll Growth | Public Education | Higher Education |
|---|-------------------------|-------------------------|
| Growth assumptions in each fiscal year, 2017-19 | 3.5% | 2.9% |
| Historical Trends: | | |
| Since Funding Recovery (FY 2013) | 4.14% | 3.03% |
| Ten-year Average | 4.09% | -1.52% |
| Since 2002 | 4.78% | 0.62% |

House Bill 1 as Introduced maintains current contribution rates.

| Contribution Rates (percentage of active member payroll) | |
|---|------|
| State | 6.8% |
| Employee | 7.7% |
| Districts not participating in Social Security | 1.5% |

SOURCE: Legislative Budget Board.

House Bill 1 as Introduced: 2018-19 Recommendations for TRS Compared to the 2016-17 Base

| Method of Finance | 2016-17 Base | 2018-19 |
|----------------------------------|------------------------|------------------------|
| General Revenue | \$4,127,445,321 | \$4,515,961,727 |
| GR-D | \$86,376,320 | \$97,451,314 |
| Other Funds (Pension Trust Fund) | <u>\$221,358,544</u> | <u>\$219,439,257</u> |
| TOTAL | \$4,435,180,185 | \$4,832,852,298 |

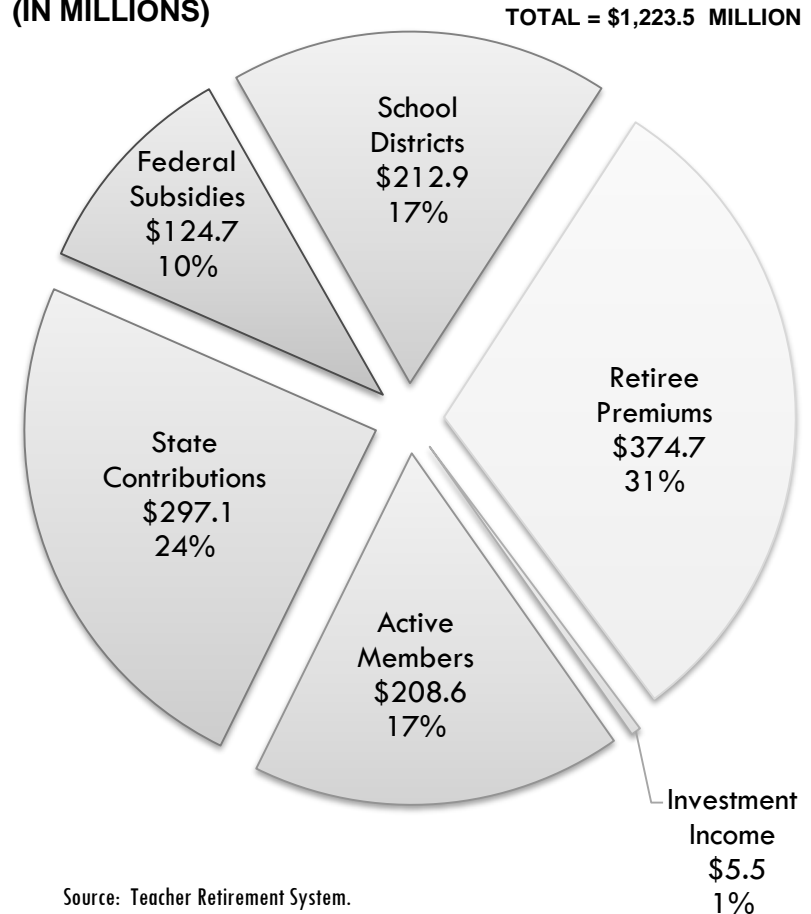
| All Funds Appropriation by Strategy | | |
|-------------------------------------|------------------------|------------------------|
| Public Education Retirement | \$3,208,124,758 | \$3,544,224,289 |
| Higher Education Retirement | \$431,629,285 | \$429,650,690 |
| TRS-Care (Retiree health care) | \$580,941,843 | \$647,597,636 |
| Administration | <u>\$214,484,299</u> | <u>\$211,379,683</u> |
| TOTAL | \$4,435,180,185 | \$4,832,852,298 |

SOURCE: Legislative Budget Board.

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
- 261,528 participants as of August 2016
- \$1.2 billion total plan costs paid for health benefits in Fiscal Year 2016
- State contribution: 1.0% of active member payroll
- Active member contribution: 0.65% of payroll
- School district contribution: 0.55% of payroll

**TRS-CARE TRUST FUND CONTRIBUTIONS
FISCAL YEAR 2016
(IN MILLIONS)**



SOURCE: Legislative Budget Board.

TRS-Care Shortfall

- The TRS-Care health plan has depleted its trust fund because contributions are based on payroll, which grows slowly, while costs are linked to much higher rates of health care and prescription drug inflation.
- The TRS-Care shortfall in the 2016-17 biennium was estimated at \$768 million, which the 84th Legislature funded with a one-time supplemental appropriation in fiscal year 2015.
- TRS does not anticipate the need for supplemental funding in the current biennium.
- Recent plan design changes, effective September 1, 2016, yielded savings of approximately \$40 million in fiscal year 2017.
- TRS-Care is projected to become insolvent in fiscal year 2018.
- The TRS-Care funding shortfall in the 2018-19 biennium was estimated at \$1.35 billion at the time of LAR submission, the amount requested as TRS's first exceptional item.
- The Joint Interim Committee on TRS Health Benefits examined options for TRS-Care sustainability and released its report in December 2016.
- House Bill 1 as Introduced adds Rider 18, "TRS-Care Shortfall," expressing the intent of the Legislature that resolving the long-term solvency cost of TRS-Care be a shared fiscal responsibility between the state, school districts, employees, and retirees.



LEGISLATIVE BUDGET BOARD

Contact the LBB

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