

# **OVERVIEW OF TEACHER RETIREMENT SYSTEM (PENSION)**

Joint Meeting of the House Committee on Appropriations  
Subcommittee on Education  
and the House Pensions Committee

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Prepared by the Legislative Budget Board

# TRS Pension Overview

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- Created in 1937; established by the Texas Constitution
- Covers all public education and higher education employees; mandatory participation (Optional Retirement Program alternative)
- Defined benefit pension plan design; lifetime benefit based on years of service and average salary
- Legislature determines benefit plan design, including eligibility and funding
- Members Served, Fiscal Year 2013:
  - Active Members – 1,021,412
  - Annuitants – 348,228
- Annual retirement benefits paid in Fiscal Year 2013: \$8.1 Billion

# TRS Funding Status on 8/31/2013

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- Pension trust fund size: \$117.4 Billion in assets
- Unfunded Accrued Actuarial Liability (UAAL):  
\$28.9 Billion
- Funded Ratio: 80.8%
- Amortization Period: 28 years

# TRS Funding Sources

State Appropriations	FY 2013	FY 2014	FY 2015
General Revenue Related	\$1.7 Billion	\$1.6 Billion	\$1.7 Billion

- Appropriations are estimated and settled up at year end based on actual payroll amounts.
- TRS Rider 4 of the 2014-15 General Appropriations Act re-appropriated \$127 million owed back to the State due to settle up for FY 2013 to increase the state contribution rate from 6.4% to 6.8% in FY 2014 (\$91 million) and paid the remainder to TRS-Care (\$36 million).

Contribution Rates	FY 2013	FY 2014	FY 2015
State Rate	6.4%	6.8%	6.8%
Employee Rate	6.4%	6.4%	6.7%

- The Texas Constitution establishes a range for the state rate between 6-10%, based on a percentage of active member payroll.
- School districts and charter schools not participating in Social Security contribute 1.5% beginning in FY 2015.
- Employee rate is scheduled to increase to 7.2% in FY 2016 and 7.7% in FY 2017.

# 83<sup>rd</sup> 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
    - 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 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

# 83<sup>rd</sup> Legislature – Summary of Actions

## □ **Senate Bill 1812**

- Sets the state contribution rate at 50% of eligible compensation for Instructional and Administrative employees who are eligible to be paid from appropriated funds to community colleges
- Further limits the number of employees eligible to receive state contributions
  - Total employees may not be adjusted in a proportion greater than the change in student enrollment at each community college district.
  - Schools that experience a decline in enrollment may petition the LBB to maintain eligible employees up to 98 percent of the employee level of the previous biennium.