

Chapter 1102

H.B. No. 2974

AN ACT

relating to the systems and programs administered by the Teacher Retirement System of Texas.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Sections 821.001(4) and (6), Government Code, are amended to read as follows:

(4) "Annual compensation" means the compensation to a member of the retirement system for service during a 12-month period determined by the retirement system [~~school year~~] that is reportable and subject to contributions as provided by Section 822.201.

(6) "Employee" means a person who is employed, as determined by the retirement system, on other than a temporary basis by a single [~~an~~] employer for at least one-half time at a regular rate of pay comparable to that of other persons employed in similar positions.

SECTION 2. Section 822.001, Government Code, is amended by adding Subsection (c) to read as follows:

(c) Membership in the retirement system may only be established through employment with a single employer on at least a half-time basis.

SECTION 3. Section 822.003(c), Government Code, is amended to read as follows:

(c) A person does not terminate membership under Subsection

1 (a)(4) if the person:

2 (1) is performing military service creditable in the
3 retirement system;

4 (2) is on leave of absence from employment in a public
5 school; [~~or~~]

6 (3) is earning service credit in another retirement
7 system covered by Chapter 803 or 805; or

8 (4) is employed by an employer covered by the
9 retirement system and is not eligible for membership in the
10 retirement system because the person is employed on less than a
11 half-time basis.

12 SECTION 4. Section 822.005(c), Government Code, is amended
13 to read as follows:

14 (c) A person is not entitled to withdraw contributions if
15 the person [~~who~~] is employed, has applied for employment, or has
16 received a promise of employment with an employer [~~in a position~~]
17 covered by the retirement system.

18 SECTION 5. Section 823.401, Government Code, is amended by
19 amending Subsection (f) and adding Subsection (f-1) to read as
20 follows:

21 (f) Except as provided by Subsection (f-1), the [~~The~~] amount
22 of service credit a member may establish under this section may not
23 exceed the lesser of the number of years of membership service
24 credit the member has in the retirement system for actual service in
25 public schools or 15 years.

26 (f-1) A member may not purchase more than five years of
27 service credit under this section for service credit considered

1 nonqualified service credit under Section 415(n)(3), Internal
2 Revenue Code of 1986.

3 SECTION 6. Section 825.115, Government Code, is amended by
4 adding Subsection (f) to read as follows:

5 (f) Notwithstanding any other law, Chapter 551 does not
6 apply to an assembly of the board of trustees or one of the board's
7 committees while attending a summit, conference, convention,
8 workshop, or other event held for educational purposes if the
9 assembly or committee does not deliberate, vote, or take action on a
10 specific matter of public business or public policy over which the
11 board of trustees or a committee of the board has supervision or
12 control. This subsection does not apply to a regular, special, or
13 emergency meeting of the board of trustees scheduled or called
14 under the board's bylaws.

15 SECTION 7. Section 825.4092(c), Government Code, is amended
16 to read as follows:

17 (c) Except as provided by Subsection (e), each payroll
18 period, for each retiree who is enrolled in the Texas Public School
19 Employees Group Insurance Program under Chapter 1575, Insurance
20 Code, the employer who reports the employment of a retiree shall
21 contribute to the trust fund established under that chapter an
22 amount established by the retirement system. In determining the
23 amount to be contributed by the employer under this subsection, the
24 retirement system shall consider [~~any difference between~~] the
25 amount a [~~the~~] retiree is required to pay for the retiree and any
26 enrolled dependents to participate in the group program and the
27 [~~full~~] cost of the retiree's and enrolled dependents' participation

1 in the group program [~~, as determined by the retirement system~~]. If
2 more than one employer reports the retiree to the retirement system
3 during a month, the amount of the required payment shall be prorated
4 among the employers.

5 SECTION 8. Section 1575.204(b), Insurance Code, is amended
6 to read as follows:

7 (b) Each state fiscal year, each employer who reports to the
8 retirement system under Section 824.6022, Government Code, the
9 employment of a retiree who is enrolled in and receiving coverage
10 under the group program shall contribute to the fund an amount
11 established by the trustee. In determining the amount to be
12 contributed by the employer under this subsection, the trustee
13 shall consider the [~~difference, if any, between the contribution~~]
14 amount a [~~that the reported~~] retiree is required to pay for the
15 retiree and any enrolled dependents to participate in the group
16 program and the [~~full~~] cost of all retirees' [~~the retiree's~~] and
17 enrolled dependents' participation in the group program [~~, as~~
18 ~~determined by the trustee~~]. If more than one employer reports the
19 retiree to the retirement system during a month, the amount of the
20 contribution required by this subsection shall be prorated among
21 the employers. The amounts required to be paid under this
22 subsection are not required to be paid by a reporting employer for a
23 retiree who retired from the retirement system before September 1,
24 2005.

25 SECTION 9. (a) A joint interim committee is created to
26 study and review the health benefit plans, including TRS-Care and
27 TRS-ActiveCare, operated under Chapters 1575 and 1579, Insurance

1 Code, and propose reforms to address issues described by Subsection
2 (f) of this section.

3 (b) The joint interim committee shall be composed of three
4 senators appointed by the lieutenant governor and three members of
5 the house of representatives appointed by the speaker of the house
6 of representatives.

7 (c) The lieutenant governor and speaker of the house of
8 representatives shall each designate a co-chair from among the
9 joint interim committee members.

10 (d) The joint interim committee shall convene at the joint
11 call of the co-chairs.

12 (e) The joint interim committee has all other powers and
13 duties provided to a special or select committee by the rules of the
14 senate and house of representatives, by Subchapter B, Chapter 301,
15 Government Code, and by policies of the senate and house committees
16 on administration.

17 (f) The joint interim committee created by this section
18 shall study the health benefit plans, including TRS-Care and
19 TRS-ActiveCare, operated under Chapters 1575 and 1579, Insurance
20 Code, to examine and assess the following issues:

- 21 (1) the financial soundness of the plans;
22 (2) the cost and affordability of plan coverage to
23 persons eligible for coverage under the plans; and
24 (3) the sufficiency of access to physicians and health
25 care providers under the plans.

26 (g) As part of the study of TRS-ActiveCare described under
27 Subsection (f) of this section, the joint interim committee shall

1 study:

2 (1) the impact of allowing school districts and other
3 participating entities in the uniform group coverage program for
4 active employees under Chapter 1579, Insurance Code, to opt out of
5 that program;

6 (2) the impact, should participating entities be
7 authorized to opt out of the program, of allowing or prohibiting
8 future participation by previous participating entities that have
9 opted out; and

10 (3) the impact of establishing a regional rating
11 method for determining premiums charged in different regions of the
12 state for the benefits provided under a group coverage plan
13 established under the program.

14 (h) Not later than January 15, 2017, the joint interim
15 committee created by this section shall report the committee's
16 findings and recommendations to the lieutenant governor, the
17 speaker of the house of representatives, and the governor. The
18 joint interim committee shall include in its recommendations
19 specific statutory and regulatory changes that appear necessary
20 from the results of the committee's study under Subsection (f) of
21 this section.

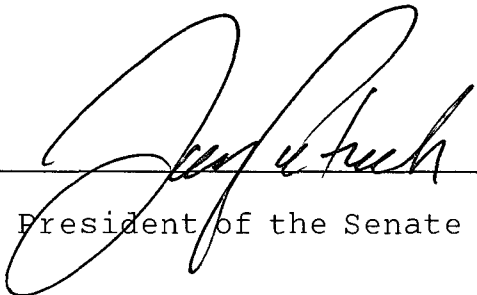
22 (i) Not later than the 60th day after the effective date of
23 this Act, the lieutenant governor and speaker of the house of
24 representatives shall appoint the members of the joint interim
25 committee created under this section.

26 (j) The joint interim committee created by this section is
27 abolished and this section expires January 20, 2017.

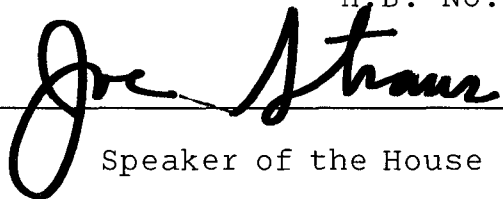
1 SECTION 10. Section 821.001(4), Government Code, as amended
2 by this Act, applies only to a member of the Teacher Retirement
3 System of Texas who retires or dies on or after the effective date
4 of this Act.

5 SECTION 11. Section 825.4092(c), Government Code, as
6 amended by this Act, applies to a retiree of the Teacher Retirement
7 System of Texas regardless of whether the person retired from
8 employment before, on, or after the effective date of this Act.

9 SECTION 12. This Act takes effect September 1, 2015.



President of the Senate



Speaker of the House

I certify that H.B. No. 2974 was passed by the House on May 12, 2015, by the following vote: Yeas 141, Nays 3, 2 present, not voting; and that the House concurred in Senate amendments to H.B. No. 2974 on May 29, 2015, by the following vote: Yeas 145, Nays 0, 2 present, not voting.



Chief Clerk of the House

I certify that H.B. No. 2974 was passed by the Senate, with amendments, on May 27, 2015, by the following vote: Yeas 31, Nays 0.

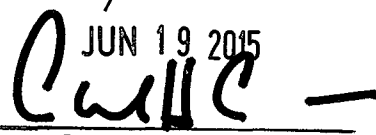


Secretary of the Senate

APPROVED: 6-13-2015
Date



Governor

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
6:30 pm O'CLOCK
JUN 19 2015


Secretary of State

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 28, 2015

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2974 by Flynn (Relating to the systems and programs administered by the Teacher Retirement System of Texas.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated.

The bill would make technical and administrative changes related the definitions of annual compensation and employees, membership requirements, refunds, out-of-state service credit, open meetings, and contributions from employers to TRS-Care, the retiree health benefit plan, due to the employment of retired return-to-work employees.

The bill would create a joint interim committee comprised of three members each of the Senate and the House of Representatives to study and propose reforms to the two healthcare plans (TRS-Care and TRS-ActiveCare) administered by the Teacher Retirement System of Texas. The joint interim committee would be required to examine and assess the financial soundness of the plans, the cost and affordability of plan coverage, and the sufficiency of access to physicians and health care providers. As part of the study of TRS-ActiveCare, the committee study would specifically assess the impact of allowing participating entities to opt out, and the impact of allowing previously participating entities back into the program. The committee would also study the impact of establishing a regional rating method for determining premiums charged in different regions of the state for TRS-ActiveCare. A report with recommendations would be required by January 15, 2017.

According to TRS, the bill would have no significant fiscal impact.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, PFe

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 22, 2015

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2974** by Flynn (Relating to the systems and programs administered by the Teacher Retirement System of Texas.), **Committee Report 2nd House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would make technical and administrative changes related the definitions of annual compensation and employees, membership requirements, refunds, out-of-state service credit, open meetings, and contributions from employers to TRS-Care, the retiree health benefit plan, due to the employment of retired return-to-work employees.

The bill would create a joint interim committee comprised of three members each of the Senate and the House of Representatives to study and propose reforms to the two healthcare plans (TRS-Care and TRS-ActiveCare) administered by the Teacher Retirement System of Texas. The joint interim committee would be required to examine and assess the financial soundness of the plans, the cost and affordability of plan coverage, and the sufficiency of access to physicians and health care providers. A report with recommendations would be required by January 15, 2017.

According to TRS, the bill would have no significant fiscal impact.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, PFe

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 15, 2015

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2974 by Flynn (Relating to the creation of a joint interim committee to undertake a study of health benefit plans administered by the Teacher Retirement System of Texas.),
As Engrossed

No significant fiscal implication to the State is anticipated.

The bill would create a joint interim committee comprised of three members each of the Senate and the House of Representatives to study and propose reforms to the two healthcare plans (TRS-Care and TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). The joint interim committee would be required to examine and assess the financial soundness of the plans, the cost and affordability of plan coverage, and the sufficiency of access to physicians and health care providers. A report with recommendations would be required by January 15, 2017.

According to TRS, the bill would have no significant fiscal impact on the two healthcare plans (TRS-Care and TRS-ActiveCare).

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, PFe

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 7, 2015

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2974 by Flynn (Relating to the creation of a joint interim committee to undertake a study of health benefit plans administered by the Teacher Retirement System of Texas.),
Committee Report 1st House, Substituted

No significant fiscal implication to the State is anticipated.

The bill would create a joint interim committee comprised of three members each of the Senate and the House of Representatives to study and propose reforms to the two healthcare plans (TRS-Care and TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). The joint interim committee would be required to examine and assess the financial soundness of the plans, the cost and affordability of plan coverage, and the sufficiency of access to physicians and health care providers. A report with recommendations would be required by January 15, 2017.

According to TRS, the bill would have no significant fiscal impact on the two healthcare plans (TRS-Care and TRS-ActiveCare).

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, PFe

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 10, 2015

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2974 by Flynn (Relating to contributions to, benefits from, and the administration of systems and programs administered by the Teacher Retirement System of Texas.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would amend the Government Code to make certain technical changes relating to Internal Revenue Code provisions applicable to the Teacher Retirement System of Texas (TRS). In addition, the bill would amend the Government Code and the Insurance Code to make certain clarifying and administrative changes relating to the purchase of service credit, the service requirement for vesting, and employer reporting requirements.

The bill would also expand the TRS Board of Trustees from nine to eleven members, and specifies the selection of the additional members. The bill would also require TRS to do a study of the benefits, funding and administration of the system, and adopt findings and recommendations that will improve the administration and performance. A report is due to the Governor and the legislature by December 1, 2016.

TRS indicates the bill would have no significant fiscal impact.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System

LBB Staff: UP, AG, AM, PFe

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

ACTUARIAL IMPACT STATEMENT

84TH LEGISLATIVE REGULAR SESSION

May 22, 2015

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2974 by Flynn (Relating to the systems and programs administered by the Teacher Retirement System of Texas.), **Committee Report 2nd House, Substituted**

The bill would create a joint interim committee to study and propose reforms to the two healthcare plans (TRS-Care and TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS).

The bill would amend the Government Code to make certain clarifying and technical changes to provisions applicable to TRS. The bill would amend the definitions of "annual compensation" and "employee" for purposes of TRS membership and service credit. Changes to the definition of annual compensation would apply only to TRS members retiring or dying on or after the effective date of the bill. Eligibility for membership and for contribution withdrawals would be clarified to conform to IRS requirements. Also, out-of-state service credit purchases would be limited to five years to satisfy IRS requirements.

The TRS board of trustees would be authorized to attend events without public notice if there is no deliberating, voting, or taking action on TRS business at the event. Additionally, the bill would make certain changes relating to the health benefit surcharge in return-to-work cases.

The bill would take effect on September 1, 2015.

The proposed bill, if enacted, would not have an actuarial effect on TRS because it does not propose to change the benefit structure, funding or obligations of the system.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, AM, PFe, KFa

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

ACTUARIAL IMPACT STATEMENT

84TH LEGISLATIVE REGULAR SESSION

April 13, 2015

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2974 by Flynn (Relating to contributions to, benefits from, and the administration of systems and programs administered by the Teacher Retirement System of Texas.), **As Introduced**

ACTUARIAL EFFECTS

The bill would allow the Teacher Retirement System of Texas (TRS) board to include new categories of service, through rule making, that would be counted toward the five year vesting requirement (but not as credited service for benefits).

According to the actuarial review, TRS is currently actuarially sound. The bill would not in itself make the system actuarially unsound. Under the current PRB *Guidelines for Actuarial Soundness*, funding should be adequate to amortize the unfunded actuarial accrued liability over a period which should not exceed 40 years, with 15-25 years being a more preferable target. The bill would keep TRS's amortization period under 30 years, thus the passage of the bill would be allowed under Government Code Section 821.006.

SYNOPSIS OF PROVISIONS

The bill would amend the Government Code to make certain technical and administrative changes relating to the Internal Revenue Code, board of trustee appointments, and employer contribution remittances and other provisions applicable to TRS. The bill would also allow the TRS board to include new categories of service that would be counted toward the five-year vesting requirement. The bill would take effect on September 1, 2015.

FINDINGS AND CONCLUSIONS

The actuarial analysis states that the bill text does not define what other sources of service could be allowed by the TRS board, or suggest that any new categories of vesting service will be added. It only provides the TRS board the authority to make those decisions.

METHODOLOGY AND STANDARDS

The TRS actuarial analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the August 31, 2014 actuarial valuation, with the actuarial value of assets from the February 28, 2015 update of TRS.

According to the PRB actuaries, the actuarial assumptions, methods and procedures used in the analysis appears to be reasonable. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual

results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of TRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Lewis Ward and Joseph P. Newton, FSA, EA, MAAA, Gabriel Roeder Smith & Company, April 8, 2015.

Actuarial Review by Daniel P. Moore, FSA, EA, MAAA, Staff Actuary, Pension Review Board, April 9, 2015.

GLOSSARY

Actuarial Accrued Liability (AAL) • The portion of the PVFB that is attributed to past service.

Actuarial Value of Assets (AVA) • The smoothed value of system's assets.

Amortization Payments • The yearly payments made to reduce the Unfunded Actuarial Accrued Liability (UAAL).

Amortization Period • The number of years required to pay-off the unfunded actuarial accrued liability. The State Pension Review Board recommends that funding should be adequate to amortize the UAAL over a period which should not exceed 40 years, with 15-25 years being a more preferable target. An amortization period of 0-15 years is also a more preferable target.

Actuarial Cost Method • A method used by actuaries to divide the Present Value of Future Benefits (PVFB) into the Actuarial Accrued Liability (AAL), the Present Value of Future Normal Costs (PVFNC), and the Normal Cost (NC).

Funded Ratio (FR) • The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) • The fair market value of the system's assets.

Normal Cost (NC) • The portion of the PVFB that is attributed to the current year of service.

Present Value of Future Benefits (PVFB) • The present value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) • The portion of the PVFB that will be attributed to future years of service.

Unfunded Actuarial Accrued Liability (UAAL) • The Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA).

Source Agencies: 338 Pension Review Board

LBB Staff: UP, AM, PFe, KFa

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

OPEN GOVERNMENT IMPACT STATEMENT

84TH LEGISLATIVE REGULAR SESSION

May 22, 2015

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2974 by Flynn (Relating to the systems and programs administered by the Teacher Retirement System of Texas.), **Committee Report 2nd House, Substituted**

As a result of this bill, there will be a restriction upon the open meetings law.

The bill would exempt certain meetings of the board of trustees or the boards committees from Chapter 551, Government Code.

Source Agencies:

LBB Staff: UP, SD, KVe