TCDRS bill analysis of HB 958

Filed by Rep. Rob Orr (R-Burleson), HB 958 reduces the interest crediting rate on all TCDRS funds from 7% to 5%, which would significantly reduce benefits and employer costs for all TCDRS plans.

Specifically, this bill lowers the interest crediting on the system's annuity reserve fund, which is used to pay monthly benefits to current retirees. This fund needs to be credited with 7% annual interest to be sufficiently funded. HB 958 reduces this crediting to 5%. As a result, HB 958 would cause the annuity reserve fund to eventually run out of money. To get things back in balance there would need to be an across-the-board reduction in benefits to retirees, an extra charge to employers to fund the shortfall or a combination of both.

In addition, the bill lowers the interest crediting on employee accounts from 7% to 5%. TCDRS is a savings-based or cash-balance plan. This means members are saving for their own retirement over the length of their careers. Benefits are based on the total final employee savings balance (deposits and interest) and employer matching. In contrast, benefits in traditional pension plans are based on a final average salary calculation and length of career.

TCDRS is the only statewide plan in which reducing the interest rate on employee accounts significantly impacts retiree benefits. Teacher Retirement System (TRS) and Employees Retirement System (ERS) benefits are based on final salary before retirement. For most plans at Texas Municipal Retirement System (TMRS), there is a component of the benefit based on the final salary in addition to the cash-balance component. Thus, for these other statewide systems, changes to the interest rate do not impact retiree benefits (or may not impact retiree benefits, in the case of TMRS).

For an example of how the interest rate reduction might affect an individual, consider a new employee enrolled in a TCDRS plan with a 200% employer match and a 7% employee deposit rate. The interest rate on the employee's deposits is 5%. This employee works 20 years and then retires.

- The benefit for this employee would be reduced by approximately 17% compared to the benefit this employee would receive with a 7% interest rate.
- The cost for the employer to provide this benefit would also be reduced by 17%.

Keep in mind, this is an average example. The impact on actual individuals would vary based on their circumstances. For example, an employee who is close to retirement may not be impacted as much as an employee who has many years before retirement. Similarly, the impact on employers' total plan costs would vary based on plan experience and demographics.

Employers currently have local control to select benefits and costs based on their workforce needs and budget. Employers may reduce benefits and costs by reducing the amount employees are saving toward retirement (the employee deposit rate) or by reducing the employer matching rate. In order to achieve the same result without adjusting the interest rate, the employer in the example above could reduce the

employer matching rate from 200% match to 150% match. This would ultimately result in the same 17% reduction in the benefit and cost.

We continue to analyze the impact of this bill on system funds and to look at the complexity of such a change. We will keep you updated as we have more information.