

BILL ANALYSIS

Senate Research Center
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S.B. 1226
By: Shapiro
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DIGEST

Currently, the Teacher Retirement System of Texas (TRS) maintains an early retirement program called the deferred retirement option plan (DROP). A person participating in the Employees Retirement System of Texas (ERS) may transfer credit from ERS to TRS for the purpose of establishing eligibility in DROP. The retirement annuity of a person participating in DROP is computed by using the date the person enrolled in the program without referencing any future pay raises the person would have received. While a member is participating in DROP, TRS transfers monthly, from the retired reserve account to the member's DROP account, 79 percent of the amount the member would have received had the member retired on the day he or she elected to participate in DROP. If the member dies while participating in DROP, the member's beneficiary receives a death benefit based on compensation and years of service from the date the member elected to participate.

However, there is some confusion to the interpretation and disagreement to the application of statutes regarding DROP. First, Subsection 805.002(a), Government Code, suggests a member cannot retire and participate in DROP because the service credit cannot be transferred until retirement. As a result, a member may not access transferrable service credit to establish eligibility in DROP. Furthermore, under DROP, a participant receives 79 percent of the amount the participant would have obtained on the day of retirement. TRS retains the remaining 21 percent for the administration of the plan. Finally, reference to the day on which a member elects to participate does not entitle a member to any benefits from pay raises received while participating in DROP.

S.B. 1226 would add clarifying language to permit a member of TRS to transfer ERS credit for eligibility in DROP. This bill also would make changes to the retirement guidelines: A member could revoke his or her election to DROP once, rather than make the election irrevocable; member could receive DROP benefits based upon salary at termination, rather than salary at time of DROP participation; and a member would have an increase in the withdrawal rate raised by raising from 79 percent to 95 percent the amount the member would have retired the previous month. Finally, S.B. 1226 would include the member's age in calculating a beneficiary's death benefit and would allow all raises and bonuses to be included in the computation of the death benefit.

PURPOSE

As proposed, S.B. 1226 amends guidelines regarding the deferred retirement option plan in the Teacher Retirement System of Texas.

RULEMAKING AUTHORITY

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 824.802, Government Code, to authorize a member to transfer to the Teachers Retirement System of Texas (TRS) service credit established in the Employees Retirement System of Texas (ERS). Authorizes service credit transferred to be used to establish eligibility for participation in and the amount of benefits under the deferred retirement option plan (DROP). Authorizes a contributing member to revoke an election to participate in DROP on a form prescribed by and filed with TRS. Authorizes the revocation for only one time. Requires TRS to transfer all contributions and interest in DROP account as a result of the member's election to the appropriate system accounts. Establishes that the effective date revocation or participation of DROP is the first day of the month after the month in which a revocation is received. Requires TRS to approve the revocation filed by a member who is eligible

to make the revocation. Deletes a requirement that an election be made only once and be irrevocable. Makes conforming changes.

SECTION 2. Amends Section 824.803(b), Government Code, to provide that the amount of service credit used to compute the service retirement annuity is determined as the effective date of participation in DROP. Makes a participating member eligible to receive certain post-retirement increases.

SECTION 3. Amends Sections 824.804(a) and (c), Government Code, to require TRS to draw an amount equal to 95 percent, rather than 75 percent, of the amount the member would receive, rather than have received, that month under a standard retirement annuity if the member had retired the preceding month, rather than on the effective date of DROP participation. Entitles a person to compensation based on age. Deletes the entitlement of compensation based on years of service on the effective date of participation in DROP and on age.

SECTION 4. Effective date: September 1, 1999.

SECTION 5. Emergency clause.