

BILL ANALYSIS

Senate Research Center
81R32638 SGA-D

C.S.H.B. 3347
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State Affairs
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Committee Report (Substituted)

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

According to Section 825.506, Government Code, a Teacher Retirement System (TRS) plan operates as a "qualified" plan under the federal tax code. TRS is a governmental plan qualified under Section 401(a) of the federal tax code, and is required to meet the requirements that Congress and the Internal Revenue Service (IRS) establish for governmental 401(a) plans. From time to time, Congress enacts new laws and the IRS issues new regulations requiring plans to adopt new provisions in order to remain qualified. The TRS retirement plan document (the laws and rules governing the TRS plan) is required to be updated from time to time. Congress has enacted several new tax laws affecting pension plans in recent years, resulting in the need for updates to state laws governing TRS.

C.S.H.B. 3347 amends current law relating to plan qualification provisions for the Teacher Retirement System of Texas.

RULEMAKING AUTHORITY

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

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 822.201, Government Code, by amending Subsection (b) and adding Subsection (b-1), as follows:

(b) Redefines "salary and wages."

(b-1) Provides that an individual receiving wages to which Subsection (b)(11) (relating to differential wage payments received by an individual from an employer on or after January 1, 2009, while the individual is performing qualified military service as defined by Section 414(u), Internal Revenue Code of 1986) applies is considered employed by the employer for purposes of this section, and the differential wage payment is considered earned compensation. Requires that the Teacher Retirement System (retirement system) determine how contributions attributable to differential wage payments are made.

SECTION 2. Amends Subchapter A, Chapter 824, Government Code, by adding Section 824.007, as follows:

Sec. 824.007. DEDUCTIONS FROM SERVICE OR DISABILITY RETIREMENT ANNUITY. (a) Defines "program administrator."

(b) Authorizes an individual eligible to participate in the uniform program under Section 1601.102 (Participation Eligibility: Retirees), Insurance Code, to authorize the retirement system to deduct the amount of the contribution and any other qualified health insurance premium from the individual's regular monthly service or disability retirement annuity payment if the individual is:

(1) eligible to receive a monthly annuity from the retirement system greater than the amount of the authorized deduction; and

(2) eligible under Section 402(1), Internal Revenue Code of 1986, or a similar law, to elect to exclude from annual gross income up to \$3,000 of distributions from an eligible retirement plan used for qualified health insurance premiums.

(c) Authorizes an individual to authorize the deduction described by Subsection (b) on a form provided by the program administrator. Requires the program administrator to coordinate the implementation of an authorization under Subsection (b) with the retirement system.

(d) Requires that the retirement system, after making the deductions, pay to the program administrator an aggregate amount for all individuals who authorized annuity deductions under Subsection (b).

(e) Provides that if an individual no longer receives a monthly annuity greater than the amount of the authorized deductions, the retirement system is required to inform the program administrator, and is not required to make any deduction under this section for the individual.

(f) Provides that the retirement system is not required to accept an authorization for a deduction under this section if payment of qualified health insurance premiums by deduction from a retirement plan annuity is not required for an eligible retiree to elect the gross income exclusion described by Subsection (b)(2).

SECTION 3. Amends Section 824.403, Government Code, as follows:

Sec. 824.403. BENEFITS ON DEATH OF INACTIVE MEMBER. (a) Creates this subsection from existing text.

(b) Provides that, to the extent required by Section 401(a)(37), Internal Revenue Code of 1986, the designated beneficiary of a member who died on or after January 1, 2007, while the member was performing qualified military service as defined by Section 414(u), Internal Revenue Code of 1986, is eligible to receive additional benefit to the same extent as if the member had resumed employment and been employed at the time of death.

SECTION 4. Amends Section 825.509, Government Code, by adding Subsections (b-1), (e), and (f) and amending Subsections (c) and (d), as follows:

(b-1) Provides that notwithstanding Subsection (b)(3), with respect to a distribution made on or after January 1, 2002, an otherwise eligible portion of a rollover distribution that consists of after-tax employee contributions not includable in gross income is an eligible rollover distribution for purposes of this section. Authorizes the eligible portion to be transferred only to an individual retirement account or annuity described by Section 408(a) or (b), Internal Revenue Code of 1986; to a qualified plan described by Section 403(a), Internal Revenue Code of 1986; or to an annuity contract described by Section 403(b), Internal Revenue Code of 1986, that agrees to separately account for amounts transferred and earning on amounts transferred, including for the portion of the distribution that is includable in gross income and the portion of the distribution that is not includable in gross income.

(c) Provides that an eligible retirement plan under this section includes certain individual retirement accounts and annuities; with respect to a distribution made on or after January 1, 2002, a plan under Section 457(b), Internal Revenue Code of 1986, that is maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state that agrees to separately account for amounts transferred into the plan from the retirement system; with respect to a distribution made on or after January 1, 2002, an annuity contract described by Section 403(b), Internal Revenue Code of 1986; or with respect to a distribution made on or after January 1, 2008, a Roth IRA described by Section 408A, Internal Revenue Code of 1986. Deletes existing text stating that in the case of an eligible rollover distribution to a surviving spouse, an eligible

retirement plan under this section is an individual retirement account or individual retirement annuity.

(d) Redefines "distributee."

(e) Provides that a direct trustee-to-trustee transfer on behalf of a distributee beneficiary who is not a spouse is an eligible rollover distribution. Authorizes a distributee beneficiary who is not a spouse to roll over the distribution only to an individual retirement account or individual retirement annuity that is established for the purpose of receiving the distribution; and is considered an inherited account or annuity to which Section 401(a)(9)(B), Internal Revenue Code of 1986, applies, except for Section 401(a)(9)(B)(iv).

(f) Requires that a trust maintained for the benefit of one or more designated beneficiaries, to the extent provided by federal law, be treated in the same manner as a trust maintained for a designated beneficiary.

SECTION 5. Effective date: September 1, 2009.