



## Senate Finance Chair creates committee probe how to fund TRS-Care

Tim Lee, *Inside Line*, 1-16-17

Senate Finance Chair Jane Nelson has created a work group specifically to look at funding issues with all state-vested health care programs. Huffman chaired the interim committee responsible for studying TRS-Care. “I am hoping the work group will do an in-depth look at what is driving these costs and what we can do about it... There are options... it will cause some pain, more so for people 65 and under, and it does not go without more cost to the state,” Huffman said. TRTA encourages all of our members to follow the committee members on social media. Here are links to connect with these legislators:

**Charles Schwertner** (R-Georgetown) – Facebook – Twitter

**Joan Huffman** (R-Houston) – Facebook – Twitter

**Lois Kolkhorst** (R-Brenham) – Facebook – Twitter

**Carlos Uresti** (D-San Antonio) – Twitter

**Kirk Watson** (D-Austin) – Facebook – Twitter

**John Whitmire** (D-Houston) – Twitter

**Robert Nichols** (R-Jacksonville) is not on Facebook or Twitter.

## 15-member Senate Finance Committee hears LBB detail the TRS- Short-fall

Time Lee, *Inside Line*, 1-26-17

The Senate Finance committee received budget recommendations from the Legislative Budget Board about the Teacher Retirement System of Texas. The committee received testimony from TRS Executive Director Brian Guthrie and TRTA Executive Director Tim Lee.

In the absence of additional funding, Guthrie explained TRS-Care would cease to exist. Lee offered retirees’ assistance to solve the budget shortfall, but asserted that the contribution levels from all sources must be raised to ensure the fund’s solvency.

On January 24, 2017, the Senate Finance Committee met to discuss several state budget items, including requests from the Teacher Retirement System of Texas (TRS) for the pension fund and the TRS-Care retiree health insurance program.

The committee began its budget discussions with Article III, which includes all agencies affiliated with education. **Chairman Jane Nelson** (R-Flower Mound) is a former teacher, and she explained her reasoning for beginning budget discussions with Article III. “Public education is critical to the future of our state,” said Nelson.

The members of the Senate Finance Committee are: Sen. Jane Nelson, Chairman; Sen. Juan Hinojosa, Vice-Chairman; Sen. Paul Bettencourt; Sen. Brian Birdwell; Sen. Kelly Hancock; Sen. Joan Huffman; Sen. Lois W. Kolkhorst; Sen. Robert Nichols; Sen. Charles Schwertner; Sen. Kel Seliger; **Sen. Larry Taylor**; Sen. Carlos Uresti; Sen. Kirk Watson; Sen. Royce West; and Sen. John Whitmire.

### **Testimony about TRS began with Trevor Simmons of the Legislative Budget Board (LBB), reporting an overview of the TRS Legislative Appropriations Request.**

As part of the request submitted by TRS in August 2016, an exceptional item for retiree health funding in the amount of \$1.35 billion above the standard 1 percent of aggregate active teacher payroll from the state was included.

“Our request includes funding for the 1.0% contribution and assumes covered payroll growth of 3.5% for the public education sector. Additionally, TRS is requesting an exceptional item in the amount of \$1.35 billion to provide for fiscal solvency through the end of FY 2019.”

### **The TRS-Care budget shortfall’s amount has decreased since August, and is now expected to be about \$1.1 billion. When the Senate filed its budget bill, no exceptional items or extra funding to ease the TRS-Care shortfall were included.**

Simmons said TRS would need \$4.8 billion for the biennium to fund the pension trust fund and the health insurance programs, including TRS-Care and TRS-ActiveCare. This amount is approximately \$400 million more than last session, a number that has grown due to active educator payroll growth.

**The state contribution to the pension fund is set presently at 6.8 percent of active payroll, while the state contribution to TRS-Care is set at 1 percent of active payroll.** The LBB reported that payroll in public education has grown an estimated 3.5 percent. The 1 percent for TRS-Care is equivalent to \$650 million for the 2018-2019 biennium.

**The LBB reported that a rider prohibiting retiree premiums from increasing had been deleted from the Senate budget bill, SB 1. The rider had been in place for multiple sessions prior to its removal.**

**The LBB also said there are five funding sources that can be manipulated to impact TRS-Care financially:**

- 1. state contribution rate,**
- 2. active member contribution rate,**
- 3. school district contribution rate,**
- 4. retiree premiums and**
- 5. benefit reductions.**

Senator Kirk Watson (D-Austin) brought attention to the fact that retirees are already paying \$1.4 billion in premiums and out-of-pocket expenses.

**“Retirees are already contributing more than the state,”** Watson said. “State contributions are tied to payroll growth . . . there is no relationship to the cost of health care we are buying with TRS-Care.”

Watson then asked if there is a better way to tie the state’s contribution to the program than through payroll.

Senator Joan Huffman (R-Houston) reminded the committee members that during the 84th Legislative Session in 2015, TRS-Care faced a shortfall of \$768 million, which was covered by the state, in addition to the 1 percent contribution. Watson agreed, saying, “we filled in a little more of the hole, but we’re still behind.” “It was a plug but not a fix, and we have got to fix this,” Nelson responded.

**The LBB suggested a funding possibility.**

The LBB provided a hypothetical funding scenario showing proportional increases by all of the different contributors to TRS-Care, **suggesting the state increase by 50 percent to 2 percent of payroll, school districts and actives increase by 12 percent, and retiree premiums increase by 25 percent. They emphasized that this scenario would apply to covering the shortfall cost only, and would not provide a long-term funding solution. If this scenario were to occur, it would be a cost of \$673 million to the state.**

## **Director Guthrie proclaims TRS has \$134 Billion w/ rate of return of 7.4%**

Brian Guthrie, Executive Director of TRS, followed the LBB’s presentation, providing an overview of the pension fund, which now has \$134 billion held in trust for 1.5 million active and retired members. “One out of every 20 Texans is a member of TRS,” he said. TRS received a 7.4 percent rate of return on investments in 2016, while the agency’s assumed rate is 8 percent. Senator Charles Schwertner (R-

Georgetown) expressed concern about the assumed rate of return, while Guthrie explained that the agency uses a long-term projection of at least 15 to 20 years to determine if its return assumption is reliable. Guthrie also reported that by 2047, TRS projects the unfunded liability will be paid off, assuming the 8 percent rate of return and that contribution rates from the state, active members and school districts remain the same.

Guthrie provided an overview of TRS-Care, a program that now has more than **250,000 participants**. Reiterating a sentiment shared by Watson and the LBB earlier, Guthrie pointed to active teacher payroll not keeping pace with health care coverage costs. “There is a fundamental disconnect in the funding for TRS-Care and the actual cost of health care,” Guthrie said. Senator Huffman asked Guthrie to explain the reason Medicare-eligible retirees cost TRS-Care significantly less than non-Medicare-eligible retirees. For example, a non-Medicare participant in TRS-Care 3 costs \$14,000 per year, while a Medicare Advantage enrollee in the same level costs \$3000 per year. Guthrie explained that the majority of Medicare-eligible retirees’ costs are covered by the federal Medicare program, and TRS-Care functions as a supplement.

According to Guthrie, TRS-Care funding has been an issue for several sessions, and as time goes by, the options for resolving the problem become fewer and fewer. “We have very few tools left to address this issue,” he said.

**Guthrie also reminded the committee members that “increasing premiums on retirees with fixed incomes has a fundamental impact on their ability to survive.”** The TRS Board of Trustees has done everything it can that is within its purview to save money, including introducing the Medicare Advantage program two years ago and raising retiree out-of-pocket costs and deductibles in September 2016.

## **Premiums Increases may have dire Consequences**

**If the committee does not make any changes to TRS-Care, TRS’s only option would be to raise premiums for retirees using TRS-Care 2 and 3, effectively quadrupling them.** TRS expects many retirees would cease to use levels 2 and 3, opting instead to go to the catastrophic plan, TRS-Care 1, which is provided at no cost to the retiree by state

law. TRS-Care would no longer be sustainable, and TRS would be forced to begin closing the program altogether. “TRS-Care would last for maybe two years and that’s it, it’s gone,” said Guthrie. Rep. Schwertner, who will chair a newly created work group on health care and is also a medical doctor, asked Guthrie if TRS has changed benefit designs, limited its networks and tried to manage costs by limiting benefits. Guthrie said that TRS has done all three of those things in varying degrees, and has also looked at providers and tried to steer members to the most economical options. Schwertner expressed his concern over the cost differential between Medicare and non-Medicare participants.

Tim Lee says

“Everyone will need to pay more.”

*Tim Lee, Inside Line, 1-26-17*

Following TRS’s testimony, time was allowed for public comment. TRTA Executive Director Tim Lee told committee members that Medicare actually pays for \$1.6 billion of TRS-Care’s program costs. By having a health care network through TRS, the state and retirees additionally save \$940 million.

It is clear from the meeting that in order for TRS-Care to survive, everyone will need to pay more. As Tim Lee stated, “money is necessary to save this program, and retirees are ready to come to the table to discuss premium and benefit adjustments.”

However, **Lee restated the need for all parties to increase funding to protect the program.** Retirees want to do their part and are ready to do so, but are limited in what they can afford. TRTA is asking the Legislature to prioritize TRS-Care this session, and to develop long-term solutions that include additional state and employer contributions.

Lee also addressed concerns by some Senators about the stability of the TRS pension fund. During the meeting, some Senators openly discussed moving the fund to a defined contribution plan. However, Huffman made a point to compliment TRS’s work. “I think it’s really important for the committee to differentiate between TRS-Care and the very healthy pension system that the Teacher Retirement System actually is,” Huffman said.

Lee echoed Huffman’s sentiments by praising the retirement system for its great work in managing the defined benefit pension fund.

TRTA is ready to discuss options such as health care containment with the Senate work group, and there is

hope for increased savings to the TRS-Care program. However, these efforts alone will not solve the shortfall. More appropriations are necessary to resolve the current shortfall, and keep the program sustainable for the future. We can solve the TRS-Care crisis, but it will take all of us working together!

## House Committee Members have been named

**Sen. Larry Taylor** remains as Chair of Education with memberships with the following committees: Business & Commerce, Committee of the Whole Senate, Finance and Higher Education.

**Dr. Greg Bonnen** is now a member of the powerful Appropriations Committee and he also serves with House Energy Resources. His brother, Dennis Bonnen is now the Chair of the House Ways and Means Committee.

**Rep. Dennis Paul** continues to serve on the Pensions and Insurance committees as well as the House Rules and Resolutions committee. He has been named Vice-Chair of the newly established Texas Ports, Innovation & Infrastructure select committee.

## District Legislative Chair Mary Widmier sent us an email Detailed our TRTA Message

I had asked earlier about different cost assessments for saving TRS-Care and told her of my Austin adventure. The following is Mary’s full message:

James,

Thanks so much for going to Austin and visiting all of the legislative members you mentioned. I have visited all 32 representatives and 8 senators from the District 4 area and found that all are supportive of us (with the exception of Briscoe Cain - he believes in defined contributions for anyone hired in the future). Also, the House seems to be receptive to somehow finding some funding to help us. However, the Senate is more doubtful.

**My message with all of them was that the TRS pension plan is on solid ground and doing well with its investments and we appreciate what they have done in the past - please don't mess with it. We do need their**

**help with TRS-Care which is in crisis.**

**TRTA is looking at a shared solution.**

While some sort of increase in premiums is expected we certainly could not bear that the entire shortfall to be handled that way. Active-Care participants are already being hit hard. We are hoping for ideas on plan savings (there is a Senate working committee that will be looking at that in conjunction with other state plans) and we need an increase in State funding which has not occurred in the past 14 years. It's a hard sell since the state is looking at a decrease in revenues this session.

I understand the confusion on what exactly the shortfall amount is now. It appears that the original amount of 1.3 billion has been recently lowered due to savings seen since the Sept. 1 implementation of changes in our deductibles and out-of-pocket costs. The new amount is now 1.088 so some refer to it as 1.1 billion and others as 1.0 billion. I have attached a scan of a TRS-Care Fact Sheet printed by TRTA that I distributed during my recent visits and found it to be very helpful. It includes facts about the current status and history of TRS-Care and the back side (page 2) has some personal stories of how a large increase in premiums would directly impact our retirees.

I will email you again tomorrow with an update of the staff members I spoke to in the offices you listed. I'm also attaching an updated Captiol map showing the new offices of the District 4 members.

Mary

Among the several items on the Fact Sheet:

- In the past, when TRS-Care faced significant funding shortfalls, the state, school districts and retirees worded together to share the pain of increased contributions.
- TRTA believes the employer contribution rate (combined state and district) 3% or more to honor the promise of a reasonable and affordable health care plan for retired educators.

## Your State Legislators

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Just scroll to the bottom of his website and email a letter under:

“CONTACT THE LIEUTENANT GOVERNOR.”