



Comptroller explains the TRS-Care Predicament

TRS-Care was established in 1985 and by 2017 covered over 261,500 retirees, dependents and surviving spouses. The Texas legislature now faces a long overdue funding problem. The Texas Comptroller's March '17 "Fiscal Notes" report describes the predicament:

TRS-Care funding is linked to active public school and charter school employee payrolls and not to actual health care costs. Rising costs, an increasing retiree population and a contribution system that hasn't changed in more than a decade have led to an ongoing funding shortfall. In 2015 alone, the Legislature contributed \$768.1 million in supplementary appropriations to cover this funding gap.... [Currently it's thought to be approximately 1 billion for 2018—2019].

TRS-Care receives state general revenue contributions equal to 1 percent of the salaries of all active public education employees. In addition to these contributions, TRS-Care is funded by retiree premiums as well as contributions from active public education employees and local school districts....

At its creation in 1985, TRS-Care was expected to remain solvent for just 10 years, with the understanding that additional funding or benefit changes would be necessary to maintain the plan. Its funding formula hasn't changed since 2005, however, and hasn't kept pace with plan costs, requiring periodic supplemental appropriations. In 2003, for instance, the Legislature appropriated \$516 million from the Texas Economic Stabilization Fund to cover a TRS-Care shortfall. More recently, the Legislature made supplemental appropriations to TRS-Care in fiscal 2013, 2014 and 2015.

A message from your District IV Legislative Chair

The House after 16 hours passed HB 2 and a score of amendments... It also voted "School Choice" down. The budget discussions now move forward to conference committee. We are one step closer and are moving forward so keep up the good work of communicating with your legislative leaders!

In the vote for HB 2 (using the Rainy Day fund for TRS-Care and other things) the vote was 141 (yea) to 6 (nay). All representatives from District 4 voted in favor of the bill with the exception of newly elected Valoree Swanson. Be sure to thank those who voted in favor for their continued support.

Mary Widmier 4-7-17

TRTA Luncheon Speakers electrifies 650 Convention Retirees

At the TRTA Convention's legislative luncheon attended by 650 TRTA members, a panel led by TRTA Director Tim Lee featured a discussion of the current state of TRS-Care with **TRS Executive Director Brian Guthrie**. Moments into the dialog, **House Appropriations Chairman John Zerwas and Public Education Sub-Committee Chairman Trent Ashby**, arrived to thunderous applause. A video of the 50 minute very enlightening panel discussion is available at trta.org within the article titled "*TRTA Hosts Successful Convention...*" **Brian Guthrie**, TRS director since 2011, was enthusiastically supportive of "defined benefits" citing complimentary specifics in his analysis. **Appropriations Chair John Zerwas** insisted that rebuffing the \$10.2 million stabilization fund to shore up TRS-Care would be "almost criminal" since "it would not affect the credit worthiness of the state." **Chairman Ashby**, when asked what retirees could do to help secure TRS-Care, said "**engage with legislators**" everywhere you can. The audience with frequent applause and loud yahoos appeared to see all three speakers as intrepid warriors defending the security of Texas retired educators.

House/Senate clash on TRS-Care: Senate \$311 M vs. House \$500 M

Based on Tim Lee, *Inside Line*, 3-22-17

The Senate has passed Senate Bill 1 (SB1) which includes \$311 million for TRS-Care. The funding is a product of savings from other programs identified by the Senate Finance Workgroup on health care costs. The \$311 million is enough to cover an increase in the state contribution to TRS-Care. The increase would take the state's TRS-Care funding from 1 percent of active educator payroll to 1.25 percent. The proposed funding also would provide a small amount to help with the \$1 billion TRS-Care budget shortfall. The \$311 million is contingent on the passage of Senate Bill 788 by Senator Joan Huffman (R-Houston), which makes structural changes TRS-Care.

The House's version of the budget [passed last Friday] is included in two bills, HB1, the general appropriations bill, and HB2, the supplemental appropriations bill. HB 2 currently contains a \$500 million dollar appropriation that is contingent on a vote to access the money in the Economic Stabilization Fund (ESF). Accessing the ESF requires a 60 percent vote from both of the Legislature's houses.

Chairman Trent Ashby (R-Lufkin), who chairs Article III (education funding) of Appropriations, has also filed a bill that would provide for a larger annual state contribution to TRS-Care. **HB 3976**, if adopted, would increase the state's contribution from 1 percent to 1.25 percent of active teacher payroll. **The tenets laid out in HB 3976 would make an ongoing, positive change to the TRS-Care funding plan.**

It remains to be seen how changes in the state contribution and other additional funds and proposals would impact costs and benefits associated with the program. Through our work with the Texas Legislature, we already have seen improvements in funding strategies. We will continue to work with legislators as they make these challenging decisions. The Legislature continues to refine strategy for funding TRS-Care. They will negotiate the budget and continue passing bills.

Speaker of the House Joe Straus (R-San Antonio), Chairman John Zerwas and Chairman Trent Ashby are long-time champions of Texas retired public educators, and we are extremely grateful for their help.

A Senate Bill to Watch:

SB-788: (Sen. Joan Huffman) This bill addresses changes to the current TRS-Care health plans. The bill proposes two basic plans: Retirees age 65 and over will be eligible to enroll in a Medicare Advantage Plan with premiums of \$146 per month. Retirees under 65 will be eligible to enroll only in a high-deductible plan [\$4000]. Recent changes to the bill call for additional funding of \$290M to address the anticipated high premiums and other out-of-pocket costs for members of this high-deductible plan.

In the light of HB2 spectacular passage, Tim Lee in an email last Friday said that "TRTA would like to see the Legislature use the funding to reduce impact of SB 788, which would create a \$4,000 deductible plan for under-65 retirees, and would move all Medicare eligible retirees into Medicare Advantage. SB 788's proposed changes simply are not affordable for many of our members." [SB788 is currently on the Senate Intent Calendar for April 10.]

My Message to my Senator:

I appreciate your attention to consider a plan to save TRS-Care. However, I urge you to continue to look for additional sources of funding in order to keep premium increases and out-of-pocket costs to a more manageable level as I cannot bear a massive increase in the cost of my health care.

A House Bill to Watch:

HB-3976: (Rep. Trent Ashby) This House bill proposes increasing the basic state funding for TRS-Care from the current level of 1% of Active Teacher Payroll to 1.25% [It's now in pending in the House Appropriations Committee.]

My message to my Representative:

I ask that you support HB-3976. As a retired educator who receives a modest pension I cannot bear a massive increase in the cost of my health care. HB-3976 proposes a modest increase to basic state funding. I am truly concerned about the future of available health care. HB-3976 is a move in the right direction to address the future of TRS-Care. I urge you to support this HB-3976.

Five Important facts -Tim Lee

Tim Lee, *Inside Line*, 4-5/7-17

1. The house budget contains at least \$500 million in state appropriations for TRS-Care, which is almost \$200 million more than the amount approved by the Senate;
2. These additional dollars may be used to lower the proposed \$4,000 deductible for TRS-Care participants under the age of 65 and/or to extend the life of TRS-Care;
3. TRS-Care's funding is contingent upon a two-thirds vote from the House as opposed to a majority vote (100 votes are needed instead of 76);
4. This is because the money must be appropriated from the Economic Stabilization Fund (also known as the Rainy Day Fund), and the vote is considered politically risky for some legislators.
5. No changes were made to the TRS pension fund. House members voted to maintain the state's contribution of 6.8 percent of active educator payroll to the TRS pension fund. This amount is required by the statute passed in 2013, SB 1458, and it ensures the actuarially soundness target for the TRS fund.

Bills on DB to DC filed

Tim Lee, *Inside Line*, 4-5-17

Senator Paul Bettencourt (R-Houston) has filed two bills (**SB1750** and **SB1751**) that may convert the Teacher Retirement System of Texas (TRS) defined benefit plan—which offers a lifetime benefit for our dedicated Texas educators—to a defined contribution

(401k-style) or hybrid plan for new and future education employees!

Senator Bettencourt has communicated with TRTA that these bills are designed to be "permissive," giving TRS and ERS the ability to implement such plan designs for future educators, and that the intent is to gather more information about making such changes.... **TRTA remains opposed any change to the defined benefit plan for future education employees. Having new education employees go into a defined contribution or hybrid style retirement plan:**

Does not provide them retirement security after their career in education is over;

Will not solve the TRS unfunded liability issue, as TRS would no longer be investing new contributions and managing pension obligations with a long-term view;

Does not create a path to a secure retirement. Ninety-five percent of current school districts do not pay into the Social Security system for their employees;

Will have an adverse impact on current retirees by destabilizing the TRS pension fund and preventing a path to future retirement increases for current retirees as the unfunded liability grows due to inadequate investment strategies;

Will force TRS to manage the investments differently resulting in less revenue and a decreased likelihood for future cost of living increases for current and future retirees;

May cause the federal government to require mandatory Social Security. Texas could potentially lose hundreds of millions of dollars a year in employment costs for Texas public workers;

Replaces the very efficient defined benefit plan with a much less efficient defined contribution plan with higher costs, loss of professional asset management of a pooled trust fund and less incentive for educators to remain in their profession.

Texas should want to incentivize educators to remain in the classroom, and we should also want to attract the best educators to Texas. The current teacher retirement system, which is solid and secure, motivates future Texas educators to work for our children, communities and state!

The following is a small segment of a much more comprehensive article in last Friday's Austin paper.

Austin's *Statesman* lauds Speaker Straus & Appropriations Zerwas

Sean Collins Walsh, *Austin American Statesman*, 4-7-17

...The biggest question coming into Thursday's debate was whether Zerwas' plan, which totals \$218 billion when federal money and dedicated funds are included, would win the support of 100 of the 150 state representatives. Budgets typically require a majority vote in each chamber, but the state constitution requires two-thirds of legislators to approve the Zerwas budget because it takes \$2.5 billion from the rainy day fund, which is funded by oil and gas production taxes and will grow to \$11.9 billion by the end of the next budget cycle. Straus and Zerwas have pushed for lawmakers to use the fund this year to alleviate cuts as lawmakers struggle to craft a budget with less money than they had in 2015 and with increased demands from a growing population.... In the end, only 18 voted no. Conservatives have balked at the idea of using money from the fund, which they say should only be tapped in extreme circumstances or for one-time expenses.... The two chambers will now appoint members to meet in a conference committee and negotiate a compromise.

2019: Sunset Review for TRS

Tim Lee, *Inside Line*, 4-5-17

TRS will experience a number of significant hurdles in 2019 when it goes through a process known as "**sunset review**." The sunset review may provide momentum for DC and hybrid plan supporters. **Josh McGee** serves as the Chairman for the Pension Review Board. McGee, who works for the Laura and John Arnold Foundation, (a group that often criticizes defined benefit pension plans) will likely be involved in this debate. TRTA will defend the TRS defined benefit plan for all current and future TRS retirees...even the ones that have not even started their educator career! TRS is the sole form of retirement security for the vast majority of Texas educators, as 95% of school

districts in the state do not pay into the federal Social Security program. Even educators who paid in, either through their work in the school system or work in the private sector, do not receive all of the Social Security benefits they have earned due to an unfair law called the Windfall Elimination Provision (WEP).

Lawmakers need to fix the failing health care plan for retired educators.

Houston Chronicle editorial, 4-9-17

Imagine a life of service with barely adequate pay and thin retirement benefits — it's not one many of us would embrace. But lucky for most across our state who have been educated in a public school classroom, thousands upon thousands chose such a life when they made the decision to teach. With the state's health care plan for retired teachers in precarious financial condition, and a Legislature that has yet to fully address the problem, that decision now likely seems like so much folly. The failure also is a disgraceful statement about lawmakers' priorities. Since 1986, teachers have been making monthly payments into a health care plan set up by the Legislature to be available upon their retirement. That plan, TRS-Care, is going to fail without legislative action. The impact on retired educators will be severe. "When I decided to retire I knew financially it was going to be tight but doable," one retired teacher told us. The 20-year Houston ISD veteran noted that if the Legislature doesn't step up and keep her health insurance affordable, she will need to go back to work full time or to materially reduce her standard of living. Sen. Joan Huffman, R-Houston, has shown leadership in acknowledging the problem. **But the bill proposed by Huffman in the Senate, S.B. 788, is a disingenuous half measure that will barely keep the plan alive while devastating the financial condition of some retired teachers, or worse, leaving many without any health care at all.**

The House budget is better for teachers but doesn't fix the underlying shortfall. In other words, regardless of which budget version ultimately passes, Texas' 262,000 retired teachers who have dedicated themselves to educating our students will likely pay higher deductibles and potentially have to accrue new medical debt year after year. In addition, they'll have to live with uncertainty as to whether the Legislature will step up again in two years to make sure they have affordable health care in retirement. TRS-Care is facing a \$1 billion shortfall. Huffman's bill will increase state funding by approximately \$311 million, including an increase in state base funding of .25 percent. The remainder of the shortfall, though, falls onto retirees. This amount of state funding is inadequate to keep the plan affordable.

Here's why lawmakers' math doesn't add up: Approximately 56,000 teachers with roughly 22,000 dependents have retired after decades of service, are under age 65 and have not yet qualified for Medicare. The average annuity payment for a retired teacher is \$2,035 month, before federal income tax. Under the Senate plan, the proposed deductible for the TRS-Care plan would rise from around \$400 to \$4,000 for an individual. Prescription medication is also subject to the deductible, as there is no prescription drug coverage with this proposal.

It's hard to see how retired teachers living on a pension will be able to afford health care under a system where their deductible is the equivalent of two full months of their benefits, not to mention their premiums.

The budget plan the House passed Friday has clearly made TRS Care a funding priority by making \$500 million available for the program. Lawmakers in that chamber are willing to use the state's savings account — the so-called Rainy Day Fund — to live up to their promise to retirees. While premiums are sure to rise and benefits certain to decrease under the House plan, it's not clear how much.

Some Texas lawmakers may view the state's large uninsured population as more a matter of individual hardship than public responsibility. That is not the case for individuals who have served as public

employees based on state commitments for some level of retirement security.

Lawmakers are fond of talking about their favorite teachers and how they made a difference in their lives. Talk is cheap. We all know that medical care is not. The Legislature should live up to its promise and provide affordable care for some of our state's most honored citizens, its teachers.

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