

## Testimony to the House Committee on Pensions, Investments and Financial Services September 19, 2024

Submission from:  
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### **INTERIM CHARGE**

*Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 88<sup>th</sup> Legislature. Conduct oversight of all associated rulemaking and other governmental actions taken to ensure the intended legislative outcome of SB 10, relating to certain benefits paid by the Teacher Retirement System of Texas.*

### **RECOMMENDATIONS**

**TCTA requests the state continue to balance its responsibility to ensure the TRS pension fund remains actuarially sound with the need to increase pension benefits due to the loss of purchasing power by retirees. The legislature should provide additional authority to the TRS Board of Trustees to periodically review and provide an increase to retirees' annuities to reduce the effects of inflation within a framework based on the fund's performance and that protects the long-term health of the fund. Also, the legislature should begin setting aside money to pre-fund benefit increases.**

The Texas Classroom Teachers Association appreciates this opportunity to provide input on the TRS pension fund and SB 10 passed by the 88<sup>th</sup> Legislature. TCTA and retired Texas teachers who received a one-time stipend or cost-of-living adjustment (approved by voters) due to the passage of SB 10 and HJR 2 are thankful for the actions of the 88<sup>th</sup> Legislature. We look forward to continuing to work with the committee on our recommendations and shared goals.

While educators agree that the main benefit of being a teacher is the opportunity to instill children with a life-long love of learning, a respectable salary, affordable and comprehensive health coverage, and a strong pension plan are also important benefits that are vital to attract and retain the best and brightest teachers. Persistent increases in cost-of-living expenses are causing additional strain on retired Texas teachers who receive an average annual retirement annuity of \$26,388. Addressing the adverse impact of inflation on retired teachers and the pervasive teacher shortage in Texas necessitates making sure that retirement benefits reflect their contributions and overall effect on students, the community and economy.

Teacher retirees continue to struggle with sustaining everyday costs such as housing, groceries, gas, medications, and other daily expenses due to recent economic pressures and modest retirement funds. Texas teachers also face structural challenges when it comes to their retirement. The TRS annuity is essential for retirees and is often the only source of retirement income, especially since most school employees do not receive Social Security benefits. Texas is one of 18 states that do not require teachers to be enrolled in Social Security. Additionally, Texas still lags other states in contribution rates to the pension fund. Per the NASRA Public Funds Survey, the median contribution rate for non-Social Security employers is around 21% while the median employer rate for Social Security employers is 16%. The state and district combined employer contribution in Texas for the 2024-25 school year is only 10.25%.

Prior to the 2023 legislative session, educators in Texas who retired during the previous two decades never received a cost-of-living adjustment to their monthly pension. Even those who retired before then only received a slight increase in their monthly annuities. Meanwhile, consumer prices over that same period increased by more than 60% in Texas, burdening retired teachers across the state. Consequently, the 88<sup>th</sup> Legislature passed SB 10 and HJR 2. TRS was able to issue nearly 286,000 stipends to some retirees, and over 400,000 eligible retirees received a voter-approved cost-of-living adjustment – all of which did not impact the actuarial soundness of the pension fund due to full funding from the state. Unfortunately, because of the age of a retiree or the date of their retirement, some former school employees were left out from receiving a much-needed increase in their pensions. 205,000 individuals did not receive a one-time stipend, and 111,000 retirees did not receive a COLA. TCTA heard from retired teachers across the state who were disappointed they were overlooked by the legislature. These individuals expressed hardship in affording the basics. Per the Bureau of Labor Statistics, in 2023 the average consumer in the U.S. spent about \$9,343 on food, \$24,298 on housing and \$72,967 overall.

According to state law, increases to annuities for retirees under the Teacher Retirement System of Texas (TRS) require an action by the legislature. Unlike Texas, the vast majority of other teacher retirement systems and other public retirement systems across the U.S. have an automatic system for providing increases to annuitants as the prices of consumer goods increase. How public pension increases are calculated and approved varies considerably. Per the National Association of State Retirement Administrators (NASRA), approximately three-fourths of pension plans sponsored by states and local governments provide some form of an automatic increase, one that does not require specific approval of or action by the plan sponsor (the legislature or city council). Other types of increases among plans in the public sector are increases to annuitants' benefits resulting from specific action by a system, such as TRS; and investment-based increases, which increase annuitants' benefits when the pension fund's investment performance surpasses a designated benchmark. Only making available increases possible through legislative action has proven ineffective for retired Texas teachers.

TRS has proven to be a good steward of teachers' pensions, and the Board of Trustees is qualified to determine future increases to annuities when warranted and within parameters set by the legislature. TRS is currently the sixth largest public pension fund in the U.S. and is actively managed by a team of investment professionals whose long-term, risk-adjusted returns have exceeded the benchmark over the past 10 years and have generated an estimated \$31 billion more than a purely passive strategy. The investment management function has undergone more than 120 audits and independent reviews over the past 10 years with no major findings. As of June 2024, the fund completed a return of more than 9.3% and a market value of \$203.7 billion, exceeding the 7%

investment return assumption. The fund is projected to continue to be actuarially sound through the end of FY 2024. State law provides that the legislature may consider a benefit enhancement only when the fund is actuarially sound, defined by state law as when the pension trust fund's funding period is less than 31 years.

In conclusion, TRS pensions are not only vital to annuitants, but payments are a significant source of economic stimulus across the state. An economic analysis conducted by The Perryman Group concluded that TRS annuity payments alone generated an additional \$2.4 billion in annual tax revenues for both the state and local governments and supported more than 160,000 permanent jobs in Texas. The legislature should consider a more workable solution to making available annuity increases to retired teachers not only to offset rising costs to retirees, but also to stimulate the economy. **More specifically, the legislature should provide additional authority to the TRS Board of Trustees to periodically review and provide an increase to retirees' annuities to reduce the effects of inflation within a framework based on the fund's performance and that protects the long-term health of the fund. Also, the legislature should begin setting aside money to pre-fund benefit increases.**