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Comments to the Legislative Budget Board
Regarding the Teacher Retirement System 2024-2025
Legislative Appropriations Request

Submission from:
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The Texas Classroom Teachers Association appreciates this opportunity to provide input on the Teacher Retirement System's 2024-2025 Legislative Appropriation Request.

TCTA recommendations:

- **TCTA asks the LBB to provide a more permanent solution to rising health care costs by considerably increasing the $75 state health insurance contribution and indexing it to inflation in future years. A direct appropriation to TRS to maintain or reduce ActiveCare premiums may be an alternative shorter-term approach.**
- **TCTA requests a rider to require TRS to collect certain data from districts based on the change to regional pricing to determine the impact on districts and school employees. Specifically, TRS should determine:**
    - **for each district experiencing a decrease in premiums, whether the district lowered its contribution; and if so, whether the savings went back into employee compensation such as salaries; and**
    - **in future years, for each district that experiences an increase, whether the district makes up the difference in additional costs or passes it through to the employee.**
- **TCTA requests the state balance the responsibility to ensure the pension fund remains actuarially sound with the need to increase pension benefits due to the loss of purchasing power by retirees since 2004 and provide a meaningful COLA through the TRS pension fund and/or state funding of the benefit. The CPI catch-up increase could be provided over a period of time following precedent set by previous Texas legislatures. Also, the Legislature should begin setting aside money to pre-fund benefit increases.**

The current national average in annual expenses per consumer unit when accounting for inflation is $68,317 (U.S. Bureau of Labor Statistics). Drastic increases in cost-of-living expenses – housing, food, transportation, childcare, health care, and other necessities – are causing additional strain on Texas teachers striving to earn a living on an average base pay of $58,887 or an average retirement annuity of $25,416. Addressing the adverse impact of inflation on current and retired teachers and the teacher shortage in Texas necessitates making sure that compensation, including health insurance premiums for active teachers and retirement benefits, provides teachers with a net wage that reflects their contributions and overall effect on students, the community and economy.

TCTA appreciates that the Teacher Retirement System's Legislative Appropriations Request assumes the continuation of contribution increases as approved in SB 12 in the 86th session. These increases are crucial to ensuring the long-term sustainability of the pension fund, which in turn helps provide stability to retired teachers and other school employees, and it is important that this commitment to additional funding be honored through the upcoming biennium.

Health insurance funding

TCTA appreciates the additional $638.3 million in federal COVID relief funds approved by legislators and state leadership for the TRS-ActiveCare health insurance program, which kept total premiums from increasing in FY 2023. The TRS Administrator's Statement in the appropriations request emphasizes that without additional action by the Legislature, premiums for ActiveCare will have to increase "significantly" to maintain benefits in the coming biennium. This is of great concern to teachers across the state who are already overwhelmed with health care costs and their ability to keep pace with the cost of living. The funding structure of health care for school employees may be a barrier to a longer-term solution. Although TRS administers the health plan for active employees, covering approximately half of school employees across the state, several districts offer their own local plan.

Funding is provided through the school finance formulas and is not specified or enumerated in any way. TRS cannot directly request more funding in its appropriation request as the funding is not included in its budget; TEA – which has no authority over or affiliation with the health insurance program – has not addressed the issue in its budget, despite multiple requests from TCTA and likely others for the last several budget cycles. **TCTA asks the LBB to provide a more permanent solution to rising health care costs by considerably increasing the $75 state contribution and indexing it to inflation in future years. A direct appropriation to TRS to maintain or reduce ActiveCare premiums may be an alternative shorter-term approach.**

An ongoing, more permanent solution for unaffordable health insurance will be a crucial component of the solution to the teacher shortage. Teachers in Texas make an average of $7,449 less than the national average teacher salary. Even when accounting for cost of living, teacher wages in Texas rank 29th out of the 50 states and Washington, D.C. (Every Texan Report 2022). The Southern Regional Education Board estimates take-home pay in 2020 for a typical first-year teacher in Texas at $30,588; 15-year teacher at $28,036; and 35-year teacher at $33,078. It is clear from the following chart that health insurance premiums are a major part of the problem.

Typical 1st Year Teacher	Typical 15th Year Teacher	Typical 35th Year Teacher
Gross Annual Salary **$44,582**	Gross Annual Salary **$57,090**	Gross Annual Salary **$63,784**
$3,715.17 Monthly Gross Pay	$4,757.50 Monthly Gross Pay	$5,315.33 Monthly Gross Pay
— $286.07 Retirement Contribution	— $366.33 Retirement Contribution	— $409.28 Retirement Contribution
— $378.00 Health Premium	— $1,718.00 Health Premium	— $1,718.00 Health Premium
— $268.67 Federal Tax	— $132.32 Federal Tax	— $187.65 Federal Tax
— $189.17 FICA	— $165.74 FICA	— $197.66 FICA
— $44.24 Medicare	— $38.76 Medicare	— $46.23 Medicare
— $0.00 State Tax	— $0.00 State Tax	— $0.00 State Tax
= $2,549.02 Monthly Net Pay	= $2,336.35 Monthly Net Pay	= $2,756.51 Monthly Net Pay
Net Annual Salary **$30,588**	Net Annual Salary **$28,036**	Net Annual Salary **$33,078**

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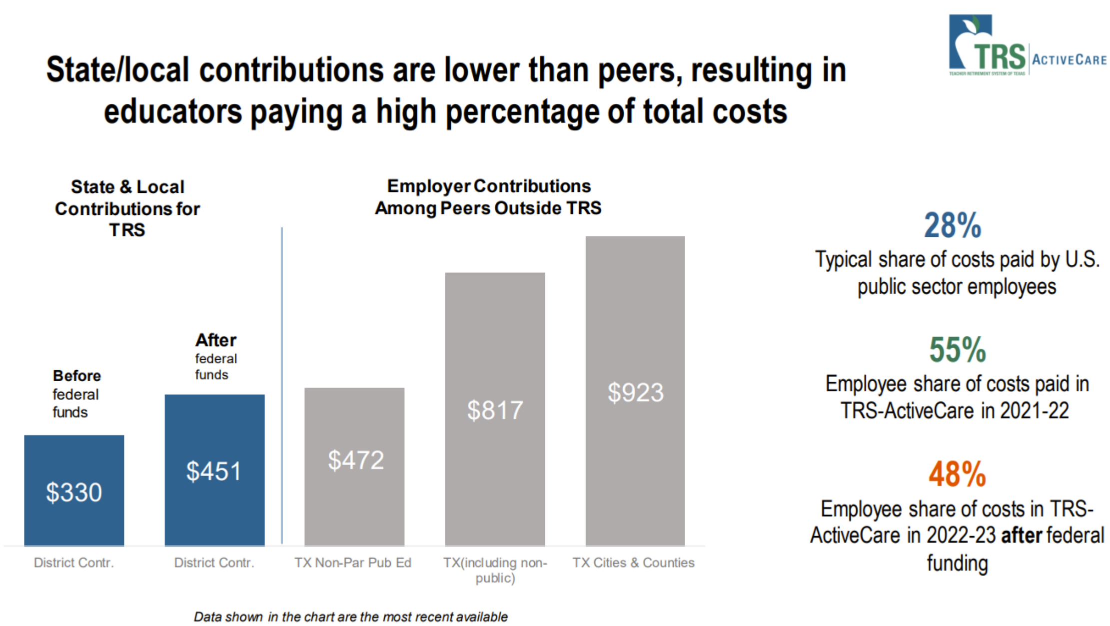
Source: Information provided by The Southern Regional Education Board, https://www.sreb.org/interactive/teacher-compensation-dashboard

Premiums have continued to rise through TRS-ActiveCare over the years, yet the minimum contributions by the state of $75 per member per month and districts of $150 per member per month have remained stagnant and are not based on actual health care costs. (Many districts opt to contribute more with the average employer/state contribution at $330, however, those optional contributions have not come near keeping pace with the increased costs.) In 2001, a $225 contribution covered the cost of the premium for the member. The contribution no longer covers the premium; the median least expensive coverage for 2022-23 is $384/month (ranging between $331 and $417) in the regional-based system. TRS-ActiveCare participants have paid an increasingly greater share of the total premium and the burden on school employees has become staggering, significantly reducing take-home pay in Texas, especially in comparison to other states.



Moreover, the health care benefits have steadily declined, accompanied by a migration of participants into the lowest levels of the plan for affordability reasons. An employee who needs family coverage will pay a median premium of $1,298/month in regional-based premiums for the LOWEST level of coverage. And that premium cost per month includes a $5,000 family deductible in addition to co-pays, with most benefits not kicking in until after the deductible is met. For those with greater medical needs who choose a higher level of coverage, which also includes co-pays and a $3,600 deductible, the median premium for family coverage – after the state/district minimum contribution – is $1,486 per month.

Additionally, SB 1444 in the 87th Session established regional ratings that adjust a district's premium rate based on its regional cost of care, demographics, and other factors. While many districts benefit under this new structure from lower premiums, others – without the appropriated COVID-relief funds – would have seen significantly higher rates. Without legislative action to approve ongoing higher state contributions, this structure will continue to create higher or lower premium costs based on regions, with higher costs most likely borne by school employees. **In addition to increasing state funding, TCTA requests a rider to require TRS to collect certain data from districts based on the change to regional pricing to determine the impact on districts and school employees. Specifically, TRS should determine:**

- **for each district experiencing a decrease in premiums, whether the district lowered its contribution; and if so, whether the savings went back into employee compensation such as salaries; and**
- **in future years, for each district that experiences an increase, whether the district makes up the difference in additional costs or passes it through to the employee.**

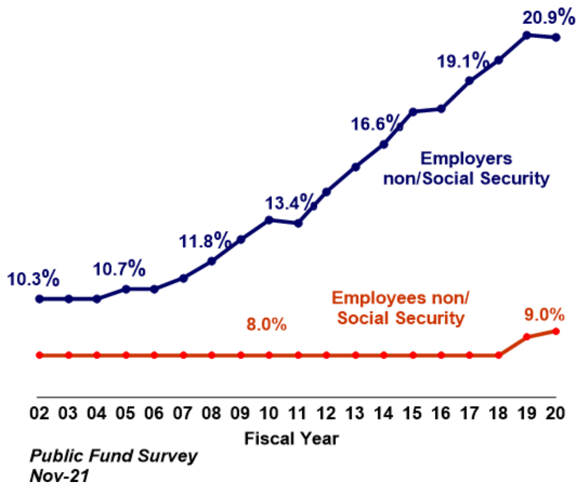
Retirement benefits

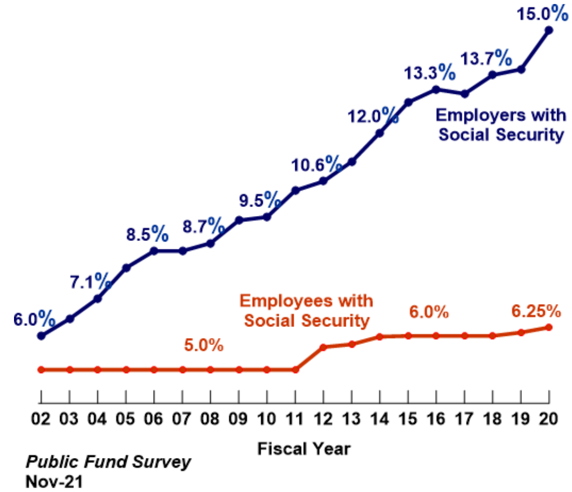
The Administrator's Statement highlights that retirees are having difficulties with sustaining everyday costs such as housing, groceries, gas, medications, and other daily expenses due to recent economic pressures. **TCTA requests the state balance the responsibility to ensure the pension fund remains actuarially sound with the need to increase pension benefits due to the loss of purchasing power by retirees since 2004 and provide a meaningful COLA through the TRS pension fund and/or state funding of the benefit. The CPI catch-up increase could be provided over a period of time following precedent set by previous Texas legislatures. Also, the Legislature should begin setting aside money to pre-fund benefit increases.**

The TRS annuity is essential for retirees and is often the only source of retirement income, especially since the vast majority of 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.

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%. While the state and district combined employer contribution in Texas for the 2022-23 school year is 10.15%.

National Association of State Retirement Administrators FY 2020





Texas teachers' pensions average only $2,118 per month even though the fund is healthy and could remain viable with increased benefits to annuitants. Retired teachers in Texas have not received a cost-of-living increase since 2013 (which only affected those retiring before August 31, 2004, and was capped at $100) and some have never seen such an increase, while 60% of states have an automatic COLA. Additionally, the dollar had an average inflation rate of 2.7% per year between 2013 and today, producing a cumulative price increase of 27.14%. This means that today's prices are 1.27 times higher than average prices since 2013, according to the Bureau of Labor Statistics consumer price index. In 2022 alone, the inflation rate has increased by 8.3%.

The legislature has successful precedent in providing cost of living increases over a period of several years to restore retirees to the purchasing power of their original pensions. In 1993, a four-phase Consumer Price Index catch-up plan was designed to increase annuities for TRS members whose incomes were 15% to 115% below the CPI. The 73rd Legislature passed legislation to implement the plan. The second, third and fourth phases were signed into law in 1995, 1997 and 1999 respectively.

History of TRS COLA	
1993	TRS Members who retired prior to 9/1/91 received an inflation adjustment ranging from 5%– 15% depending on the member's retirement date. This was the first in a series of "catchups," for retirees whose annuity-purchasing power lagged behind the Consumer Price Index.
1995	TRS Members who retired before 9/1/93 were paid the greater of two options: • Current annuity with an inflation adjustment ranging from 2%–17% depending on the member's retirement date; or • Re-computation of the annuity using the current minimum annual salary ($18,500) for a classroom teacher or full-time librarian if the actual average salary was less than the current minimum.
1997	TRS Members who retired prior to 9/1/96 received an inflation adjustment ranging from 2%–14% based upon the member's retirement date.
1999	TRS Members who retired between 9/1/98 and 8/31/99 received a 10% increase in their annuities, which was equivalent to the multiplier increase.

	Members who retired prior to 9/1/98 received an inflation adjustment between 2%–7% based upon the member's retirement date and the 10% multiplier equivalent.
2001	TRS Members who retired between 9/1/00 and 8/31/01 received a 4.5% increase in their annuities, which was equivalent to the multiplier increase. Members who retired prior to 9/1/00 received a 6% inflation adjustment plus the 4.5% multiplier equivalent.
2013	Members who retired prior to 9/1/04 received a 3% COLA (capped at $100 per month).

**Information provided by TRS*

The most effective way to focus benefit increases on the neediest retirees is to direct the greatest increases to those who retired earliest; but more recent retirees cannot be left out, given current inflationary pressures. Granting retirees a pension increase based on inflation would help all retirees regain purchasing power lost to inflation.

While the costs of providing benefit increases must be taken into consideration, the purpose of the retirement fund is not simply to grow, but to provide retirement security for Texas' retired school employees. The state must prioritize spending to increase benefits, and we suggest setting aside funding each session to begin prefunding future enhancements, as TRS data clearly shows that this is a cost-effective way to fund benefit increases.