

ANNUITY INCREASES FOR STATE RETIREES

Background

State law prohibits ERS from increasing annuity payments or giving an additional payment unless the ERS Retirement Trust Fund is “actuarially sound” and would stay actuarially sound after the increase. For the ERS Trust Fund to be actuarially sound, it must have enough money to pay current and future retirees’ benefits and gradually eliminate the Fund’s debt within 31 years (a period also set by state law).

The last state employee retiree annuity increase was in 2001.

At the beginning of the 87th Legislative Session, the ERS pension plan faced an estimated depletion by 2061 due to a growing unfunded liability. With the passage of SB 321 and the legacy payment commitment to pay off the unfunded liabilities of the ERS pension plan, SB 321 safeguards state employee retirement benefits and improves the state’s financial standing related to pension obligations. With a combination of solid investment performance from the fiscal year 2021 (25% gross investment return) and SB 321, the ERS retirement plan fundamentally shifts from an expected depletion date to an actuarially sound future within a few years and 100% funded within 33 years.

Is there authority for an annuity increase?

Yes. In 2013, the Texas Legislature passed a bill providing a retiree annuity increase if the ERS trust fund becomes actuarially sound. The legal authority is Texas Government Code Sec. 814.604. Section 814.604 states that a one-time cost-of-living adjustment (COLA) can be given if (1) the amortization period for the unfunded actuarial liabilities of the retirement system does not exceed 30 years by one or more years; and (2) as a result of paying the adjustment, the time required to amortize the unfunded actuarial liabilities of the retirement system would not be increased to a period that exceeds 30 years by one or more years.

Under the current statute, only retirees who have been retired for 20 years or more are eligible for the COLA. The amount of the cost-of-living adjustment is limited to the lesser of: (1) an amount equal to three percent of the monthly benefit subject to the increase; or (2) \$100 a month. During legislative session, TPEA will work to expand the statute.

2021 ERS Trust Fund Status

According to the ERS actuary, the funded ratio for the ERS Retirement plan improved as of August 31, 2021, and the funding period is 33 years. There is no longer a depletion date for the trust fund.

Post-Retirement Increase in Accordance with Section 814.604: The Texas Government Code provides for a one-time limited group of retirees to receive a permanent monthly annuity increase once the funding period remains under the 31-year requirement after the increase. The timing of this COLA is assumed to be in January 2025.