History of Benefit Changes

Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698

Citizens of Texas in 1936 approved an amendment to the Texas constitution (Section 48a of Article III) establishing a retirement system for public school employees. The amendment provided: (1) state contributions to equal the amount paid by the member; (2) member contributions to be 5 percent of compensation received but not to exceed $180 per year; (3) no person to be eligible for an annuity who had taught fewer than 20 years in this state; and (4) funds to be invested in government and municipal bonds.

1937 Enacting legislation passed by the 45th Texas Legislature put TRS in business in September. The legislation limited membership to persons employed in professional and business administration, supervision, and instruction. Credit was given to persons teaching prior to 1937 without requiring contributions. The program further provided for **service and disability retirement with 20 or more years of service** or a return of deposits if employment terminated before qualifying for a retirement annuity. Operations of the retirement system were to be funded by an annual membership fee. At the end of the first year there were 38,052 members, assets totaled $2.25 million, and the yield on investments was 2.26 percent.

1941 The first group of teachers (535) retired and the average monthly benefit was $40. The **retirement formula** was based on the member's contributions, an equal amount from state contributions, and 1 percent of the member's average prior service compensation not to exceed 36 years of prior service and a $3,000 salary.

1947 Legislation increased **prior service annuities** for active and retired members to 1.5 percent of the average prior service compensation and provided for vesting of benefits with 25 years of service.

1949 Membership was extended to **auxiliary employees** in school districts and the retirement formula was changed for the second time to provide 2 percent of the average prior service compensation in computing benefits. The increase also applied to retired members.

1951 Further **increases in retirement benefits** for active and retired members were passed by the 52nd Legislature. The prior service annuity was raised to 3 percent of a member's average prior service compensation. Other law revisions provided for (1) payment of deposits for previous service rendered by employees who **waived** their right to membership; and (2) the **reemployment** of retired teachers in public schools provided that their annuities were suspended.

1953 Active and retired members received another annuity increase when the retirement formula was amended to provide for **additional matching money** from the State Membership Fund. A new law also permitted **repayment of withdrawn** accounts.

1954 A constitutional amendment to permit members to **transfer service** between the Teacher Retirement System of Texas (TRS) and the Employees Retirement System of Texas (ERS) was approved by voters.

1955 The first major revision in the retirement law was enacted by the 54th Legislature contingent upon passage of a constitutional amendment to be voted on in November 1956. Provisions of the new law included (1) an entirely new method of **calculating a retirement annuity;** (2) **increasing the rate of contributions** to 6 percent of salary but not to exceed $504 per year based on a maximum salary of $8,400; (3) **death and survivor benefit coverage** for all members; (4) guaranteed **minimum retirement annuities** for active and retired members; (5) **disabil-**

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ity benefits for members with fewer than 20 years of service; (6) **broader investment authority** to permit investing of funds in corporate bonds and common stocks; (7) **lower retirement age** requirements; (8) **expanded retirement options;** and (9) the purchase of retirement credit for **out-of-state service.** The new retirement formula provided for 1 percent for each year of prior service and 1.5 percent for each year of membership service multiplied by a member's five-year average compensation earned immediately preceding Sept. 1, 1955. Enacting legislation was also passed to put into effect a constitutional amendment passed by the voters in 1954, relating to **joint service** by members of TRS and ERS.

1956 The **constitutional amendment** permitting provisions of the 1955 law to take effect was overwhelmingly approved by voters in November by one of the largest margins in the state's history, 1,350,372 to 166,788.

1959 The legislature passed laws permitting (1) **retired members to substitute** in a public school up to 60 days without affecting annuity payments; (2) persons who retired on a **disability retirement to return to active membership** should they recover from their disability; and (3) any person who was a member of the system prior to performing active **military duty** to make deposits and receive retirement credit for the service.

1961 Law revisions provided for (1) **employment of retired teachers** in public schools for up to 80 days on a substitute basis or on a one-third time basis not to exceed six semester hours; and (2) persons who served in **military duty during World War I** to receive prior service credit without making deposits.

1963 Significant retirement law changes were adopted by the 58th Legislature. A **terminal average plan** for calculating retirement benefits was adopted and the **new formula** used 1 percent for each year of prior service and 1.5 percent for each year of membership service multiplied by a member's **best 10-year average salary.** The legislature also (1) established **new guaranteed minimums** for active and retired members with 25 or more years of service; (2) exempted death and survivor benefits from **state inheritance taxes;** (3) permitted **auxiliary employees to substitute** in a public school up to 80 days in a school year; and (4) extended **survivor benefits** to a certain group of beneficiaries not previously covered.

1965 A very important constitutional amendment relating to **investment of funds** was approved by voters in November 1965. The amendment enabled the system to sell most of its U.S. Treasury bonds and replace them with higher yielding U.S. Agency obligations and corporate bonds.

1967 The 60th Texas Legislature improved the retirement program by (1) **increasing annuities** for retired teachers by $1.50 per month for each year they had been retired; (2) **lowering the vesting provision** to 10 years; (3) allowing persons who served in active **military duty** during World War II to purchase up to five years of retirement credit even though they were not members of the system when they entered the military; (4) expanding the **employment after retirement** provisions to allow for one-third time employment in public schools by any retired member; and (5) further expanding **survivor benefit coverage** to certain beneficiaries not previously covered.

1968 A constitutional amendment to **remove the $8,400 ceiling** on which contributions could be based was adopted by voters.

1969 Enacting legislation established a **new salary ceiling at $25,000** and **increased the retirement formula** to 1.65 percent for each year of prior and membership service effective March 31, 1969. Legislation also (1) gave retired members a 10 percent increase; (2) **increased minimum** retirements for auxiliary members; and (3) **increased survivor benefits** for auxiliary members earning more than $3,800 per year.

1971 The 62nd Texas Legislature amended teacher retirement law to (1) change the formula for calculating a retirement annuity by using the **best five-year average salary** and increasing the percentage credit for each year of service to 1.75 percent effective May 31, 1971; (2) increase **minimum service retirement benefits** for auxiliary employees to $60 per month at age 65 with 10 through 19 years of service, or $95 per month at age 60 with 20 or more years of service; (3) **increase benefits** for present annuitants (except those receiving survivor benefits) by an amount equal to 10 percent of their present annuities; and to (4) establish a **minimum retirement benefit** for "teacher" members (active and retired) amounting to $6.50 per month for each year of service.

1973 Benefit adjustments contained in SB 352, and passed by the 63rd Texas Legislature, included (1) guaranteeing that a member's **net deposits, plus interest,** will be paid the beneficiary if the retired member dies before recovering all funds under the standard annuity or options 1 or 2, and (2) permitting retired members who returned to teaching for five consecutive years to repay everything they have received from TRS plus interest, make deposits for this service, and **reretire under the present formula.** Legislation also **expanded the board** of trustees to nine members by the addition of a retired member and a second appointee of the State Board of Education, and enlarged provisions for **repaying a withdrawn account** by allowing a member to purchase withdrawn service if service has been rendered for seven years during any 10-year period.

1975 **Benefit increases** for retired members effective February 1, 1975, were granted by the legislature as follows: 18 percent for those who retired before March 31, 1969; 12 percent for those who retired on or after March 31, 1969, and before May 31, 1971; and 5 percent for those who retired on or after May 31, 1971, and before Sept. 1, 1973. Voters approved a Constitutional Amendment on April 22, 1975, **revising and consolidating provisions** for state and local retirement systems; allowing the legislature to set the state contribution rate between six and 10 percent; and permitting emergency appropriations for the system. Interest on member accounts was increased to **5 percent on the average yearly balance.** Auxiliaries were granted a **minimum standard service retirement benefit** of $5 per month for each year of service with a minimum of $60 per month. Definition of "school year" was expanded to allow certain members to use their **"contract year"** in determining their final salary at retirement. Relationship requirements on death in service benefits were removed. Requirement for purchase of **out-of-state service** was changed to one year of out-of-state service for each year of TRS membership and auxiliaries were allowed to purchase out-of-state credit. Availability of military credit was extended to **veterans of Korean and Vietnam Wars.** Requirement for **repaying a withdrawn account** was changed to two years of continuous TRS service or a period equal to the length of absence if the absence was for less than two years. Members receiving **disability retirement benefits** were made eligible for full death benefit coverage. Retired members were allowed to **substitute 100 days** on a day-to-day basis for an absent employee or 45 days in a vacant position during a school year. A **reinstatement fee** of 5 percent per year of the amount withdrawn was added to the cost of paying back **withdrawn accounts.** A 5 percent per year fee, calculated from the date the member becomes eligible for the purchase, was added to the cost of obtaining **out-of-state, military,** and **delinquent service.**

1977 Changes in retirement law by the 65th Legislature provided major benefit improvements by (1) increasing the **standard annuity formula factor to 2 percent** effective May 31, 1977; (2) granting **increases for retired members** based on a graduated scale ranging from approximately 4 percent for 1977retirees to approximately 15 percent for 1941 retirees; (3) establishing **one-class membership** with survivor benefits and minimum service retirement benefits for auxiliaries brought up to the level for teachers; (4) **improving early age retirement tables** and allowing retirement at 55 with a minimum of 10 years of service; (5) allowing **purchase of military service** by certain volunteers and limiting to five years the maximum purchase of military credit; (6) increasing to $6.50 per month per year of service the **minimum disability benefits** for members with 10 or more years of service; (7) increasing the number of days a **retired member may substitute** on a day-to-day basis for an absent employee to 120 school days in a single school year; and (8) allowing purchase of up to two years of credit for **developmental leave.** Member **contributions were increased** to 6.65 percent of the first $25,000 of annual compensation and state contributions were increased to 7.5 percent of payroll.

1979 The **$25,000 salary ceiling** on compensation subject to TRS deduction and as a factor in the retirement benefit formula was removed by the 66th Legislature. Effective Sept. 1, 1980, lump sum **survivor benefit payment** was increased to $1,500 and monthly payments from $75 to $100 and from $150 to $200. **Remarriage** after Sept. 1, 1980, was no longer cause for termination of survivor benefits. The 5 percent fee on **delinquent deposits** assessed before 1975-76 was removed and refund of fees already collected prior to 1975-76 was authorized. One year was allowed for **transfer of credit** between TRS and ERS without a waiting period and after Sept. 1, 1980, transfer of credit between the systems would end. Participants in the **Optional Retirement Program** at colleges and universities were given until Sept. 1, 1980, to make **a one-time election** to return to TRS. Effective September 1979, **cost-of-living increases** for retired members and certain beneficiaries of deceased members were authorized as follows: 13 percent increase for those retired before March 31, 1969; 6 percent increase for those retired on or after March 31, 1969, but before Sept. 1, 1973; $75 per month **survivor benefits** increased to $100; and $150 per month survivor benefits increased to $200. **Employment after retirement** in Texas public schools without loss of benefits was increased to one-half time and the 60-year age requirement was removed. The **state contribution rate** was increased to 8.5 percent of payroll.

1981 The 67th Legislature decreased the best five-year average annual salary to the **best three-year average annual salary** used for retirement benefit calculation. **Annual compensa-**

tion was defined as salary and wages paid or payable to a member during a school year, excluding expenses, allowances, fringe benefits, and payments for unused vacation or sick leave, or other payments not includable in annual compensation which have been converted to salary in the final years before retirement. A **transition period** was allowed during which a member could retire between Sept. 1, 1981, and Sept. 1, 1982, on the better of the three-year average or a five-year average.

Fees were increased, effective Sept. 1, 1982, from 5 percent non-compounded rate to 8 percent compounded annually for establishing out-of-state service and military duty credit and to 6 percent compounded annually for reinstating a withdrawn account or membership terminated by retirement. A grace period of **45 days following retirement** was given retirees to revoke their retirement, return benefits received, and return to active service. Effective Sept. 1, 1982, the **consecutive service required** after a retired member returned to active service before re-retirement would be allowed was reduced from five to two years.

TRS was allowed to adopt **nominee name** for investment purposes to speed the clearing of securities, reduce cost of transactions, and open new avenues of investment for the system. **Direct deposit** of TRS annuity checks by electronic transfer of funds was made available. **TRS law was recodified** under Title 110B of Revised Civil Statutes.

Increases of 5.1 percent beginning in February 1981 were granted for those receiving benefits as a result of retirement or death before Aug. 31, 1979, and **additional increases** beginning with the September 1981 annuity checks for the following: 21 percent if benefit began before Sept.1, 1963; 16 percent if benefit began on or after Sept. 1, 1963, but before May 31, 1971; 14 percent if benefit began on or after May 31, 1971, but before May 31, 1977; 2 percent if benefit began on or after May 31, 1977, but before Aug. 31, 1979; and 7 percent if benefit began on Aug. 31, 1979, and **retiree did not benefit** from $25,000 salary ceiling removal. Increases would not apply to persons with fewer than 10 years credit receiving minimum disability benefits, those receiving $100 or $200 monthly survivor benefits, and those retired on or after September 1979. If it would result in an **annuity greater** than that provided by the percentage increases shown above, an annuitant would receive an annuity calculated under the benefit formula of the law in effect Aug. 31, 1979, **without any increases** which had been provided since the benefit began.

1983 The 68th Legislature, Regular Session, passed a two-year **reduction in contribution rates,** from 8.5 to 7.1 percent for the state and from 6.65 to 6 percent for the member, effective Sept. 1, 1983, and ending Aug. 31, 1985. ORP rates remained at 8.5 and 6.65 percent. The **annual membership** fee was increased from $5 to $10 beginning Sept. 1, 1983. Future **direct gubernatorial appointees** to the board of trustees could not be a member or an annuitant of the system, and two of the three must have demonstrated financial expertise, worked in private business or industry, and have broad investment experience, preferably in investment of pension funds.

1984 A special session of the 68th Legislature granted **benefit increases** beginning August 1984, based on the date of retirement or death of a member, as follows: 9.5 percent on or before Aug. 31, 1970; 5 percent after Aug. 31, 1970, but on or before Aug. 31, 1975; 4 percent after Aug. 31, 1975, but on or before Aug. 31, 1978; and 3 percent after Aug. 31, 1978, but on or before Aug. 31, 1982.

The increases did not apply to the $100 or $200 survivor benefit payments, disability retirement benefits for persons with fewer than 10 years of creditable service, or annuities calculated on an average compensation factor that exceeded $25,000. The increases were **funded by TRS** as a result of greater than expected earnings on investments.

Beginning with the 1985-86 school year, **school districts would pay** the state's TRS contribution on compensation in excess of the state minimum salary unless the district qualified for an exemption based on its high tax rate. Amounts due TRS are **held in trust** by the district for the retirement system. Provision was made for **payment of interest** compounded monthly, based on the TRS assumed interest rate plus 2 percent, on late payments made by school districts after the 10th of the month they are due.

1985 Establishment of the **Texas Public School Retired Employees Group Insurance Program** was authorized by the 69th Legislature. TRS was named to administer a program providing a basic level of **health insurance** coverage at no cost to TRS retirees not otherwise covered by any other state funded group health insurance program beginning Sept. 1, 1986. In addition to the **basic coverage** for retirees, the basic and optional coverage for spouses, surviving spouses, and dependents and optional coverage for retirees could be made available at additional cost. Surviving spouses would be eligible to enroll in the program by paying the required premiums. The insurance program is **funded by contributions** of 0.25 percent of annual compensation paid by TRS members not covered by any other state funded group health insurance program beginning Sept. 1, 1985, and state contributions of 0.35 percent beginning Sept. 1, 1986;

0.4 percent in 1987-88; 0.45 percent in 1988-89; and 0.50 percent in 1989-90 and 1990-91. A nine-member **advisory committee** appointed by the board of trustees was authorized to hold public hearings on benefits and recommend to the board minimum standards, plan features, and desirable changes in rules and legislation affecting the program. **Contribution rates were set** at 6.4 percent for members and 8 percent for the state (ORP rates remained at 6.65 and 8.5 percent) beginning Sept. 1, 1985. **Lump sum payment** to the beneficiary upon the death of a retired member and as part of the survivor benefit plan which may be selected by the beneficiary upon the death of an active member was increased from $1,500 to $2,500 for deaths that occur on or after Sept. 1, 1985.

Employment in Texas public education without loss of benefits was **allowed after service retirement** as a substitute for no more than 120 days during a school year, or on no more than a one-half time basis during any month, or on as much as a **full-time basis** for five consecutive months between September and June if certain conditions are met. A disability retiree was allowed employment in a Texas public school **only as a substitute** for no more than 90 days in a school year. One month (two months if May 31 retirement with work in June) **absence from service** was required before employment in Texas public schools could begin without revocation of retirement. TRS members were allowed the advantage of a federal income tax break without losing TRS salary credit by participating in certain qualifying **salary reduction plans.** Institutions of higher education were required to **reimburse the state** for TRS and ORP state contributions based on salary paid from noneducational and general funds. Interest on **delinquent amounts** owed by school districts after the 10th of the month in which they are due was set at 2 percent above the assumed rate of return on TRS investments.

In a special session in 1986, a bill was passed to delay payment of state contributions **for five months** to both TRS and ERS during the state's financial shortfall of 1986-87. However, only the October payment was deferred. The delay did not affect benefit payments or actuarial soundness.

1987 The 70th Legislature approved **record increases** for retiree and beneficiary annuities beginning with the August 1987 checks. The increases, based on the date of retirement or death, were: 20 percent, prior to Sept. 1, 1966; 15 percent, on or after Sept. 1, 1966, but before Sept.1, 1972; 10 percent, on or after Sept. 1, 1972, but before Sept. 1, 1980; and 5 percent, on or after Sept. 1, 1980, but before Sept. 1, 1984. The TRS state contribution rate was reduced from 8 to 7.2 percent **for two years** beginning Sept. 1, 1987, resulting in a reduction of approximately $144 million in state appropriations to TRS over that biennium. Larger-than-expected earnings from TRS investments made possible the benefit increases and reduction of state contributions. The lump sum **death benefit payment** to beneficiaries of active members was increased to twice the member's salary or $60,000, whichever is less, for deaths occurring on or after Sept. 1, 1987. The Public School Retired Employees Group Insurance Program was enlarged to allow coverage of surviving spouses and dependent children of **active public school members** with 10 or more years of service who died on or after Sept. 1, 1986. Penalties against fraud and late payment of premiums were strengthened. Provision was made **for tax sheltering** of employee contributions to TRS (effective Jan. 1, 1988) through an employer pickup plan which reduces the employee's salary for tax purposes without changing the contract salary amount, thus increasing take-home pay and **deferring tax payments** on the contributions until after retirement. A "housekeeping bill" clarified survival benefits involving simultaneous death of a TRS member and beneficiary, suspended disability annuity payments if retiree refuses a medical exam, provided annuity death benefits at least equal to the member's accumulated contributions at time of death, and removed the exception to TRS membership provision for employees **at least 60 years old,** to conform to the federal age discrimination law.

1989 Normal age retirement without reduction was extended to **age 55 with 30 years** of service and an improved early age retirement schedule beginning Sept. 1, 1989, was approved by the 71st Regular Session of the legislature. Annuities of those taking early age retirement in May through August 1989 could be adjusted to the new provisions beginning Sept. 1, 1989. A **pop-up feature** for options one and two, allowing the retiree to begin receiving a standard annuity if the designated beneficiary predeceases the retiree, became effective Sept. 1, 1989. May, June, July and August 1989 retirees could choose either the old or new options one and two provisions.

Years required for members to be **vested** for service retirement benefits upon reaching retirement age, even though they leave covered employment, if they do not withdraw their deposits, was reduced from 10 years to five years. **Benefit increases** not to exceed $100 per month were granted based on date of retirement or death of a member, as follows: 16 percent before Sept. 1, 1975; 12 percent after Aug. 31, 1975, but before Sept. 1, 1980; 8 percent after Aug. 31, 1980, but before Sept. 1, 1983; 4 percent after Aug. 31, 1983, but before Sept. 1, 1986. Increases did not apply to the survivor benefits payments or to disability retirement benefits for persons with fewer than 10 years of creditable service.

A **$10,000 lump sum payment** to the beneficiary of a retiree who dies after Sept. 1, 1989, was added as an optional death benefit.

The legislature reduced the **state contribution rate** to 7.65 percent from Sept. 1, 1989, until Sept. 1, 1993. Provision was made for delay of state contributions for June, July and August 1991 until September 1991 and for payment to TRS of 8 percent of the amount delayed or the rate of yield on the deferred amount that TRS would have earned had the payments not been delayed, whichever is greater.

1991 The 72nd Legislature approved **benefit increases of 1 percent for each year of retirement** for annuitants retiring before May 1989. Legislation called for the increases to be effective Aug. 31, 1991; however, because the bill did not pass by a two-thirds majority, its implementation was delayed until November. The TRS board of trustees approved a retroactive payment of annuitant increases for August, September, and October to be paid in December with the November payment.

The **state contribution rate was set at 7.31 percent** until September 1993, a reduction from 7.65 percent. The state contribution to the Optional Retirement Program (ORP) for participating higher education employees was reduced to 7.31 from 8.5 percent.

The **minimum retirement benefit was increased to $150 per month** from $75 per month for members retiring at 65 or older after November 1991.

Military service credit purchase was extended to a member who voluntarily enlisted for service. Eligibility to purchase military service credit was changed to five years of TRS service from 10 years.

Installment payments to purchase withdrawn, military, unreported, waiver, developmental leave, out-of-state, and reemployed veteran's service were approved to begin Sept. 1, 1992. Monthly payments can be spread over one to five years.

Effective 2001, **purchase of one year of service credit for 50 days or more of accumulated state sick leave** was approved. Five state sick leave days per year may be accumulated.

Annuitants are required effective Jan. 1, 1992, to use **electronic fund transfer (EFT)** for receipt of annuity payments unless EFT is impossible or impractical.

Beginning Sept. 1, 1992, a member may apply for **disability retirement** regardless of age with no presumption of disability after age 60 and can select an unreduced standard annuity or one of four options similar to those of service retirees. **Death benefit options for disability retirees** will be the same as those of service retirees.

Provision for **employment after retirement** without loss of annuity was changed from five consecutive months to six months during the school year.
Legislators placed a proposed constitutional amendment, Proposition 7, on the November 1991 ballot. The proposition, removing provisions restricting statewide retirement systems' investments to securities, was defeated by voters.

1993 The 73rd Legislature approved **benefit increases equal to a 25 percent inflation "catch-up."** A catch-up benefit is an increase given to retirees whose original annuity purchasing power lags behind the Consumer Price Index. Increases were effective January 1994 for annuitants who retired before Sept. 1, 1991. A minimum 5 percent increase was granted and increases ranged from five to 15 percent, depending on the date of retirement or, for beneficiaries, death of the retiree.

Monthly survivor benefit payments were increased from $100 to $150 and from $200 to $250.

Change of beneficiary and retirement plan selection before first annuity payment is due or paid was allowed.

TRS service required for **purchase of out-of-state service** was reduced from 10 to five years. Ten years TRS service is required for TRS-Care eligibility. **Withdrawn service** may be reinstated immediately when TRS service is resumed.

Payment of death benefits to beneficiaries who remarried before 1980 was restored with no provision for retroactive payments.

Disability retirees may be employed no more than 90 days during a school year on a one-half time basis or as a substitute.

Special **military service purchase** was allowed if a member is not eligible for military retirement benefits, is a recipient of special separation benefits, and becomes a TRS classroom teacher within four years of leaving military service. The member would pay actuarial cost and membership fees and could purchase the number of years of active military service. The member could not use purchased service for benefits until five years of TRS service credit has been earned.

A **TRS or ERS member** with at least three years of service credit in either system may **transfer credit** from the other system upon retirement and retire under rules of the transferred-to system. A person with three years in either TRS or ERS can reinstate an account withdrawn before Sept. 1, 1993, from the other system and use the reinstated service for retirement purposes in either system in which the person has at least three years of service. The years of reinstated TRS service may be used to qualify for purchase of eligible out-of-state, military, and other TRS special service. Similarly, the reinstated and transferred service can be used in calculation of the death benefit. Governing boards of some state agencies may **transfer employees' membership from TRS to ERS** effective Sept. 1, 1994. Texas Education Agency transfer was allowed Sept. 1, 1993.

Direct rollover of eligible TRS payments to an eligible retirement plan was allowed in compliance with federal tax law. TRS was required to conduct **a study of statewide active and retiree health insurance and collect a $10 fee** from active public school employees in September 1993 and September 1994. A portion of this $10 annual fee will fund the study, with the remaining amount going to active insurance plan reserves if a plan is adopted or be refunded to members. School districts must also certify to TRS that a level of group health insurance comparable to that provided state employees is provided.

Contribution rates in the Appropriations Act remained at 7.31 percent for the state and 6.4 percent for members with **state contributions for June-August 1995** delayed until September 1995.

Ethics requirements were broadened for TRS board and employees, and **investment and other reporting requirements** were added.

TRS was required to **submit its operating budget to the Legislative Budget Board** for review and comment and to undergo **Sunset Review** in 1995. **The title of TRS Executive Secretary** was changed to Executive Director.

TRS was permitted to make up to **two mailings per year on behalf of a nonprofit association** which shall pay the cost of mailings.

1995 The 74th Legislature approved **the largest benefit increase in the system's history totaling $1.6 billion.** Increases, effective Sept. 30, 1995, addressed two purposes: To compensate for inequities in levels of payments caused by lower salaries and differing benefit calculations at the time of retirement; and to pass along the second CPI "catch-up" increase. Increases were effective for retirements or deaths occurring before Sept. 1, 1993, with an annuitant being paid the greater of two options: Computation of the annuity under law in effect on Jan. 1, 1995, and inclusion of all benefit increases since retirement or death including the 1995 percentage increase ranging from 2 to 17 percent based upon year of retirement or death; or recomputation of the annuity using the minimum annual salary ($18,500) for a classroom teacher or full-time librarian if the actual average salary was less than the current minimum, and reduction, if applicable for early retirement and annuity option selected. Increases were funded from TRS investment income. No additional state appropriation was required.

Eligibility for unreduced retirement with 30 years of service was lowered from age 55 to age 50.

"Pop-up" feature was extended to retirees who retired before pop-up provision became law.

Monthly disability payment was increased from $50 to $150 for a member having fewer than 10 years of service credit. Applied prospectively to persons already receiving a $50 disability payment and applied to disability retirements having 10 or more years of service.

Lump sum benefit death payment for active members was increased from the lesser of two times the annual salary or $60,000 to the lesser of two times the annual salary or $80,000.

A new service/disability retirement option was established whereby the retiree may select a reduced annuity with the designated beneficiary to receive 75 percent of the reduced annuity upon the retiree's death.

A retiree receiving a standard service annuity and who marries after retirement was allowed during a one year period from the date of marriage or until Aug. 31, 1996, whichever was later, to **replace the annuity by selecting an Option 1, 2, or the option described above** and designate the person's spouse as beneficiary. The effective date of such a beneficiary change is deferred until two years after the change is made.

The limit for employment in a Texas public school after service retirement was changed from 120 substitute service days to an unlimited number of days at no more than the daily substitute pay rate established by the employer.

TRS will make an annuity **payment for the month in which the annuitant dies.** A continuation of an optional annuity or the payment of a death survivor benefit begins with payment for the month following the month in which the annuitant's death occurred.

The effective date of death of a member who dies before retirement was, for the purpose of paying a death or survivor benefit annuity, designated as the last day of the month preceding the month in which the member died. The first payment of the annuity becomes due at the end of the month in which the member's death occurred.

TRS-Care was expanded to include public school employees of districts which elect to participate beginning with the 1996-97 school year.

The **$10 insurance fee** enacted in 1993 was extended for public school employees through 1997.

TRS will not **correct a member's service credits** if such credits have been reflected on the member's annual statement for five or more years except where fraud or three or more years of credit are involved.

Special service will be evaluated for credit on a September 1 - August 31 school year. Special service may be purchased with a direct rollover of an eligible rollover distribution from another qualified plan. The number of **years of actual service** in Texas public schools required **to qualify for TRS-Care coverage** was reduced from 10 to five for a member who purchases out-of-state credit to equal a total of 10 years.

A member's **service or disability retirement date** was designated as any month within a three-month period (three-month window) with the month the application is filed being the third month.

Employers were required to annually certify to TRS **the beginning date of an oral or written work agreement** that begins after June 30 and continues after August 31 of the same calendar year. Employees so certified will have a school year for TRS purposes that begins with that date.

For the purpose of establishing annual compensation, **excluded from salary and wages** are payments received in the 1995-1996 or a subsequent school year for **teaching a driver education and traffic safety course.**

The purpose of TRS was defined: To invest and protect TRS funds and to deliver benefits provided by statute, not to advocate or influence legislative action or inaction or to advocate higher benefits.

The **state contribution rate** was reduced from 7.31 to 6 percent effective Sept. 1, 1995, until Aug. 31, 1997.

TRS's operating expenses were placed under the state appropriation process and number of employees limited to 384 for the 1996-97 biennium.

The **annual $10 membership fee** was repealed.

The **TRS Board of Trustees** was restructured with the governor appointing five members, two of which are chosen from nominees submitted by the State Board of Education. Appointments must be persons with demonstrated financial expertise, preferably in investment of pension funds. The terms of existing two **direct State Board of Education appointments** to the TRS Board of Trustees expired Aug. 31, 1995. The governor is to appoint the **presiding officer of the board** who serves in that capacity at the pleasure of the governor. A board member training program was established.

TRS is to be reviewed by the **Sunset Advisory Commission in 2007**.

TRS was authorized to use **electronic storage for all records**.

TRS was required to acquire and maintain **records identifying members and types of positions they have held** as members, the length of service in each type of position, and whether service in each type of position is or was as a full-time employee.

Changes to the **ERS/TRS Joint Service Law** were approved. A member is prohibited from applying for an occupational disability under ERS to include service transferred from TRS unless the member was contributing at the time the disabling condition occurred. A beneficiary of a deceased member with TRS and ERS service is eligible to combine the service under one system only if the person was the designated beneficiary under both retirement systems. A beneficiary is eligible to receive a benefit based on transferred service from either TRS or ERS without precluding the person from receiving benefits as a beneficiary of an account not related to the transferred service. The TRS service of a person whose membership was transferred to ERS remains with TRS, unless withdrawn, if the person terminates ERS-covered employment before death or retirement. Persons receiving an annuity because of a retirement or death that occurred after June 18, 1993, but before Aug. 31, 1993, may reinstate, purchase, or transfer service credit between TRS and ERS.

Delay of the state's contribution for the last quarter of FY 95 was repealed.

1997 **Annuities were increased** for most retirees and beneficiaries. This was the third Consumer Price Index increase in recent years designed to help retirees and their beneficiaries catch up on what they had lost to inflation since retirement. Annuity increases ranged from two to 14 percent based on the year of retirement. The increases affected those who retired prior to Sept. 1, 1996.

Passage of the Rule of 80 enabled unreduced retirement whenever a member's age combined with his/her years of service equaled or exceeded 80. For example, a 52-year-old member with 28 years of service became eligible (52+28=80). Although effective Sept. 1, 1997, the legislation included a retroactive feature which allowed qualifying retirees who took early retirement with a reduced annuity during May through August of 1997 to have their benefits recalculated in September.

A Deferred Retirement Option Plan (DROP) was established creating a significant new preretirement benefit provision for active employees eligible to retire with unreduced benefits and with at least 25 years of creditable service. DROP allows participants to accumulate funds in a special account which can be disbursed to them at retirement in addition to their regular annuity payments.

An excess benefits arrangement was created to pay certain TRS retirees an amount equal to the annuity reduction applied due to the limit imposed by Section 415 of the Internal Revenue Code.

School district participation in TRS-Care was simplified when districts were authorized to participate in TRS-Care even if they also offered an alternative plan. The required district contribution was lowered from 100 to 75 percent of employee premiums. TRS-Care became self-insured and is no longer limited to contract with insurance carriers. As a result, contracts with HMOs, PPOs, and other vendors are now permitted.

Survivor benefits for surviving spouses, children and dependent parents were increased by $50 per month, from $150 to $200 and from $250 to $300.

Drivers' education salary credit was once again allowed. Salary earned for teaching drivers' education and/or traffic safety courses outside of regular classroom hours was limited to $5,000.

Payroll deduction through employers became a new option for active members wishing to purchase special service credit.

New legislation **added the ability to change beneficiary designations**. Designations for death benefits only are now revoked if (1) the beneficiary is an ex-spouse, (2) the designation was made prior to the divorce, and (3) a certified copy of the divorce decree is filed with TRS before payment of any part of the death benefits begin. (This provision does not apply to retirement options.) Disability retirees receiving a standard annuity, and who have at least 10 years of service, may now select Option 1, 2, or 5 during their first year of a marriage that occurred after retirement. In doing so, they may name their new spouse as beneficiary. There is a two-year waiting period during which if either spouse dies the selection is void. Payments for the reduced amount will begin after this two-year period. Retirees now have a one-time opportunity to change their beneficiary for an Option 1, 2, or 5 retirement benefit. (Options 3 and 4 may be changed at any time.) If the beneficiary is a spouse or ex-spouse, either a court must have ordered the change, or the beneficiary must consent to the change in writing. Benefit option payments to the new beneficiary are limited to the *remaining life expectancy of the original beneficiary* or the new beneficiary's actual life, whichever is shorter.

A change in the law that allowed the revocation of beneficiary designation upon divorce was adopted allowing service or disability retirees who had selected Option 1, 2 or 5 to revoke their designation of the beneficiary named to receive the annuity after the retiree's death and return to a standard annuity amount. This was permitted when the revocation was ordered by a court in a divorce proceeding involving the retiree and the beneficiary or if the beneficiary (former spouse) consented to the revocation. When TRS received the divorce decree and a completed copy of the appropriate form, the retiree begins receiving payments of a standard annuity, reduced for early retirement if applicable.

Performance pay was included in the definition of salary for the purpose of calculating a member's retirement benefit. This will occur when such pay is awarded to an employee by a school district as part of a total compensation plan approved by that school district's board of trustees.

Proportionate retirement was expanded to local retirement systems in Texas which cover municipal employees. However, this law did not extend to combining Texas County and District Retirement System or Texas Municipal Retirement System service with the newly included municipal employees. The governing bodies of the local retirement system and the municipality must both approve participation in the proportionate retirement program.

A post-retirement salary cap will now apply to TRS and ERS retirees who are reemployed by the state or contract with the state in a position performing services substantially similar to those which they performed for the same agency during the last 12 months before retirement. For example, a retiree having earned a majority of service in TRS from a position in a state agency is limited in his or her post-retirement salary with that agency to the lesser of the following: (1) the rate of compensation received from the state during the last 12 months of service before retirement; or (2) $60,000. This limitation does not apply to the retiree's first six months of reemployment after retirement. However, if a retiree is reemployed for more than six months after retirement, the limitation applies to the entire period of reemployment.

1999 The **retirement annuity calculation multiplier was increased** from 2 to 2.2 percent effective Sept. 1, 1999.

The **fourth and final phase in a series of Consumer Price Index (CPI) catch-up increases** was approved. Rates of increase varied between 2 and 7 percent based upon members' retirement dates.

On top of the CPI catch-up, all retirees as of Aug. 31, 1999, received an **additional 10 percent increase** (the equivalent of a 2.2 percent multiplier).

A new **partial lump sum cash option** at the time of retirement was established with an actuarially reduced monthly annuity. To qualify, active members must be eligible for unreduced service retirement benefits, not be participating in the Deferred Retirement Option Plan, and not be retiring with disability benefits.

DROP participants enrolled on or before Aug. 31, 1999, were provided with a **one-year window** (from Sept. 1, 1999, through Aug. 31, 2000) **to revoke DROP participation**.

The **standard annuity for determining DROP deposits was increased by 10 percent** (the equivalent of the 2.2 percent multiplier) for participants enrolled prior to Sept. 1, 1999 and who are actively depositing into DROP after Aug. 31, 1999.

A **lump sum death benefit** of $160,000 was established for active members employed by a school district who die due to a physical assault during the performance of their regular duties.

TRS was authorized to establish **life insurance and long-term care insurance** programs for active members and retirees, as well as **short- and long-term disability insurance** coverage for active members.

Certain retirees may now return to full-time employment teaching in subject areas determined by the commissioner of education to be **acute shortage areas** without a reduction in their annuity, provided they have had a consecutive 12-month break in service since the time of their retirement.

The requirement that only **currently contributing members** are eligible to buy back withdrawn service was eliminated. Now, members who are not contributing and wish to buy back withdrawn TRS service must only have an account balance with TRS. **Disability retirees** with 10 or more years of service and who retired prior to Sept. 1, 1992, were provided a **two-year window** (Sept. 1, 1999, through Aug. 31, 2001) to choose an actuarially reduced optional annuity and designate a beneficiary for a continuing annuity.

The time period was extended from one to two years after marriage in which a retiree, who is receiving a standard annuity and who married after retirement, may **select an actuarially reduced joint and survivor annuity** and name his or her spouse as beneficiary.

In addition, a retiree receiving a standard annuity who married after retirement but before Sept. 1, 1999, was provided a **one-year window** (Sept. 1, 1999, through Aug. 31, 2000) to choose an option that provides a continuing annuity and names his or her spouse as beneficiary.

A retiree may now **return to a standard annuity** by revoking a beneficiary designation when the beneficiary is an adult child who signs a notarized written consent form provided by TRS.

Performance pay was clarified for purposes of salary credit counted toward the retirement calculation. Qualifying performance pay plans must now include the employer's teachers.

TRS was authorized to enter into **reciprocal agreements with other states** to establish service credit and transfer contributions.

As in the past, members may withdraw an account during any month of the year. Now, when they do so, **they may also receive current-year interest on that account during any month of the year.**

Certain members may now purchase up to two years of additional service credit for work experience (outside of public education) in a **career or technological field** for which they are entitled to salary step credit per the requirements of the Texas Education Agency.

2001 The **retirement annuity calculation multiplier was increased** from 2.2 to 2.3 percent effective Sept. 1, 2001. **Members who retired prior to Sept. 1, 2000,** received a 10.77 percent increase in their annuities (6 percent inflation adjustment plus the 4.5 percent multiplier equivalent, which becomes 10.77 percent when compounded). **Members who retired between Sept. 1, 2000 and Aug. 31, 2001,** received a 4.5 percent increase in their annuities, which is equivalent to the multiplier increase.

Survivor benefits were increased by $50 per month to either $250 or $350, whichever is applicable based upon the relationship of the beneficiary to the member or retiree.

Annuitants (other than disability retirees) who retired *before* Jan. 1, 2001, were granted the ability to **return to work without restriction or reduction in benefits.**

Employment-after-retirement provisions changed for members retiring *on or after* Jan. 1, 2001. Normal-age retirees may now return to work as bus drivers on a full-time basis *without* a 12-month break in service. Also, retirees may return to work as principals and assistant principals on a full-time basis, if certified as a principal and *with* a 12-month break in service. (A 12-month break in service is required, and early age retirees are excluded from participation.)

A **new Credit Purchase Option was approved** allowing any TRS member with seven years actual membership service to buy up to three years additional service credit by paying the actuarial cost.

Certain members were provided with a **one-year window (Sept. 1, 2001-Sept. 1, 2002) to reinstate withdrawn service credit** which they established while employed by a public institution of higher education and while they were required to be enrolled as a student of that institution as a condition of employment.

Individuals in ERS-covered positions were provided a **one-year window (Sept. 1, 2001-Sept. 1, 2002) to reinstate withdrawn service** even if withdrawn after 1993 for the purpose of retiring under the ERS/TRS transfer law.

ERS members with 20 years of service were provided a **one-year window (Sept. 1, 2001-Sept. 1, 2002) to purchase up to three years of service for employment in higher education** if the person's part-time employment averaged 20 hours per week and the person deposits amounts required for unreported service.

Out-of-state purchase of service credit was extended from 10 years to 15 years. [Subject to limitations that may apply from the Internal Revenue Code for acquisition of nonqualified permissive service.]

Retirees were given the option of **revoking a beneficiary designation** of a spouse or former spouse to receive an optional retirement annuity if the beneficiary signs a notarized consent form provided by TRS.

Members participating in the Deferred Retirement Option Plan (DROP) on Sept. 1, 2001, were permitted to **revoke DROP participation** between Sept. 1 and Dec. 31, 2001.

The requirement of an **annual report of earnings for disability retirees** was eliminated.

Members of participating retirement systems were provided the option to **reestablish service credit earned in another participating retirement system** which the employee had previously canceled--even though the member is not currently a member of the system of which he or she is buying back service. Certain restrictions apply.

A **statewide health care benefits program was established** for employees of school districts, charter schools, regional education service centers, and other educational districts whose employees are members of TRS. Effective Sept. 1, 2002, the program will cover smaller districts, but it will broaden to include larger districts over a period of time.

2003 As a result of the 78th Legislature, statutory funding for TRS-Care was strengthened by increasing the current **0.5 percent state statutory contribution to 1 percent** of the salary of each **active public school employee,** increasing the current **0.25 percent active member contribution** for TRS-Care to **0.5 percent** of salary, and requiring that **public schools** contribute between **0.25 and 0.75 percent of active employees' salaries** to TRS-Care. For the 2004-05 biennium, **public schools contributed 0.4 percen**t of the salary of each active employee. New legislation became **effective Sept. 1, 2003.**

A statutory standard for sharing TRS-Care funding costs was established. **Retirees** paid at least **30 percent** of program costs, while the **state** paid **no more than 55 percent** of program costs.

The annual supplemental compensation that could be used toward health care for active public school employees (**approved at $1,000** by the 77th Legislature in 2001) was **reduced to $500** paid in monthly installments for full-time, nonprofessional employees and **$250** paid in monthly installments for part-time, non-professional employees during **FY04 and FY05,** subject to available funding. Professional employees, as defined by TRS rules, were ineligible for the supplement.

A **90-day waiting period for new employees was required for TRS pension plan membership** during the 2004-05 biennium. Members who, due to the waiting period, did not work a sufficient length of time as a TRS member to earn a year of membership service credit for that school year may be eligible to purchase this service credit at actuarial cost.

Effective Sept. 1, 2004, eligibility for TRS-Care was redefined. To be eligible to participate, members had to meet two eligibility standards: **a member must have at least 10 years of actual Texas public school service,** and **must be age 65 or older or must meet a rule of 80** where age and years of service credit for actual Texas public school service equal 80. A portion (up to five years) of any requirement for "actual Texas public school service" could be satisfied through the purchase of military service credit. Purchased out-of-state service, however, could no longer be used toward health insurance eligibility. Those retired and participating in TRS-Care prior to Sept. 1, 2004, were not affected by this change in eligibility criteria.

Further specifications for the **restructuring of premiums based on Medicare Part A eligibility and years of service** were provided by the legislature.

An **additional enrollment period was authorized for** retirees who were enrolled in TRS-Care as of Aug. 31, 2004 and were 65 years of age or older on that date; and retirees who enrolled in TRS-Care on or after Sept. 1, 2004, and were 65 years of age or older on or after that date.

TRS-Care and TRS-ActiveCare, were **required to provide disease management services** to assist individuals in managing certain diseases or other chronic health conditions.

Health reimbursement arrangements were established for public school employees into which the supplemental compensation must be deposited (effective for the 2004-05 school year). Administrative expenses were deducted from the supplemental compensation. Funding for the 2004-05 school year continued to be $500 paid in monthly installments for full-time, non-professional employees and $250 paid in monthly installments for part-time, non-professional employees.

Continued authority for entities participating in TRS-ActiveCare to offer optional coverages, such as dental and vision care, on their own, was clarified. However, the legislation prohibited the TRS-ActiveCare program from offering such optional coverage. The current TRS long-term care program was not affected.

Prior authorization for certain drug categories: gastrointestinal; cholesterol-lowering; anti-inflammatory; antihistamine; and antidepressant was required by TRS-Care and TRS-ActiveCare.

The collection of overpayments made in error was limited to those made during the three years prior to when the overpayment was discovered, except in cases of fraud or where a reasonable person should know that payments were incorrect.

Legislation repealed the requirement that in order to **reinstate service withdrawn after Aug. 31, 1993, for the purpose of ERS/TRS transfer,** the member must belong to the system from which the service was purchased. Effective Sept. 1, 2003, a TRS member who withdrew ERS service may, provided that the person met other requirements for reinstatement, reinstate ERS service regardless of when it was withdrawn.

Retirees employed by a third-party entity came under the limits on employment after retirement because they are considered to be employees of the TRS-covered employer for return-to-work purposes, unless they did not perform duties or provide services on behalf of the TRS-covered employer. As a result, all statutory restrictions on returning to work applied to these retirees. A third-party entity is an entity retained by a public school to provide personnel to the public school who perform duties or provide services that employees of the public school would otherwise provide. This law became effective June 20, 2003 and pertains to retirement payments to a retiree first employed by a third-party entity on or after May 24, 2003.

Service and disability retirees were allowed to work as a substitute and on a one-half time basis during a single calendar month without forfeiting the annuity for that month, so long as the total days worked did not exceed the number of days for one-half time employment for that month. The change in the law was effective Sept. 1, 2003.

2005 Several law changes by the 79th Legislature affecting benefit calculations went into effect Sept. 1, 2005 for members retiring or dying after that date, except for those members who were **grandfathered** from the changes. If a member met any one of the following criteria on or before Aug. 31, 2005, the member was **grandfathered (exempt)** from the changes and the member's retirement benefit calculation was not affected by these changes: at least 50 years old; age and years of service credit equal at least 70 ("Rule of 70"); or have at least 25 years of service credit.

Members who **did not meet one of the above grandfather provisions** by Aug. 31, 2005 are subject to the following law changes effective Sept. 1, 2005: **final average salary** at retirement is determined by the highest five years (instead of three years) of salary; **subsidized early retirement** is eliminated; **Partial Lump Sum Option (PLSO**) eligibility requires a combined age plus years of creditable service that equals at least 90 ("Rule of 90").

If members had **service credit** they could purchase to help them meet the benefit calculation **grandfather** provisions described above, they had to purchase that service credit by Aug. 31, 2005 for it to count toward Rule of 70 or at least 25 years of service credit. Members who were making payments on an installment agreement had to complete the purchase by making all remaining payments by Aug. 31, 2005.

TRS counted service actually credited by Aug. 31, 2005 in **ERS or another Texas public retirement system** participating in the proportionate retirement program toward the years of service credit requirements in the grandfathering criteria.

The opportunity **to purchase one, two, or three years of additional service credit** by eligible members was repealed Jan. 1, 2006. Members had to either purchase the service credit or enter into an installment agreement for purchase as long as the complete payment or the installment agreement was actually received by TRS on or before Dec. 31, 2005. However, entering into an installment agreement by Aug. 31, 2005, would not enable the member to count the service towards the benefit calculation grandfather provisions.

Out-of-state service credit purchase costs increased after Jan. 1, 2006 to the actuarial equivalent of the increased benefits associated with the purchase unless a member qualified for the cost method in effect prior to Jan. 1, 2006 as follows: individuals who were TRS members as of Dec. 31, 2005, and also had eligible service in another state rendered before Jan. 1, 2006, could purchase TRS out-of-state service credit using the cost method in effect prior to Jan. 1, 2006 at any time prior to retirement.

Retirement eligibility was not changed for TRS members whose membership began prior to Sept. 1, 2007 and who maintained their membership status until retirement. However, TRS members who established TRS membership on or after Sept. 1, 2007 are required to meet one of the following eligibility requirements to qualify for an unreduced annuity at retirement: age 65 with five years of service credit or age 60 with at least five years of service credit and meets the Rule of 80 (combined age and years of service credit equals at least 80).

Members who terminated TRS membership by withdrawing TRS contributions upon termination of employment were subject to these new eligibility requirements if they resumed TRS membership on or after Sept. 1, 2007.

Members who were subject to these new eligibility requirements and who retired before age 60 must have at least five years of service credit and meet the Rule of 80 but would have a 5 percent annuity reduction for each year under age 60. Members with at **least 30 years of service credit** but who do not meet the Rule of 80 could retire but would have a 5 percent reduction for each year under age 60.

Employers are required to pay a monthly surcharge to the pension fund for each retiree reported as working to TRS. The pension surcharge is an amount equal to the sum of the combined state and member contributions. Also, the **employer must pay a health benefit surcharge** for each retiree enrolled in TRS-Care that is working in the amount of the difference between the retiree's premium (including dependent coverage) to TRS-Care and the actual cost of the coverage as determined by TRS. Surcharges are owed by each employer on all TRS-retired employees regardless of the amount of time the retirees work unless they are working as substitutes, or unless the retirees are expressly exempted as described below.

Employer surcharge payments as described above were not required for a retired employee who was reported by the employer to TRS as a retiree working for that same employer in January 2005. The surcharge payment was also waived in the event of district consolidations before Sept. 1, 2005, if the retired employee was reported by either district as working for that district in January 2005.

Effective with retirements after Sept. 1, 2005, normal-age **retired employees who worked as bus drivers** did not have their annuities withheld, provided bus driving was their primary employment with the TRS-covered employer.

Effective Sept. 1, 2005, a normal-age **retiree serving as a faculty member in an undergraduate or graduate professional nursing program** could work on as much as a full-time basis without forfeiting any annuity provided the retiree was separated from service with all TRS-covered employers for at least 12 full consecutive calendar months.

The **90-day membership waiting period** expired on Sept. 1, 2005. Employers are instead required to pay an amount to TRS equal to the state contribution during the first 90 days of a new member's employment. A person hired before Sept. 1, 2005, and who was still in the 90-day waiting period as of Aug. 31, 2005, became eligible for TRS membership starting Sept. 1, 2005.

The **Deferred Retirement Option Plan (DROP) was discontinued** for new participation effective Dec. 31, 2005. Any eligible member who wanted to initiate participation in DROP had to do so by Dec. 31, 2005. In addition, there was a window for current participants to revoke DROP participation from Sept. 1 through Dec. 30, 2005. In order to revoke DROP participation, one of the following requirements had to be met: participated in DROP on Sept. 1, 2005 or participated in DROP on or before Sept. 1, 2005 but not yet retired on or before Sept. 1, 2005.

Effective Sept. 1, 2005, the **active member contribution to TRS-Care** increased from 0.5 to .65 percent of salary. In addition, the **employer contribution to TRS-Care** increased from 0.4 to 0.55 percent of payroll.

TRS was required to adopt **rules that included a percentage limit on the amount of increases in annual compensation** that are subject to credit and deposit during a member's final years of employment. TRS was also required to adopt **rules that exclude compensation subject to deposit and credit earned in the member's final years of employment** before retirement that represents amounts converted from noncreditable to creditable compensation.

To be eligible for TRS-Care, the member had to have at least 10 years of service credit in the system. This service credit included up to five years of military service credit, but it did not include any other special or equivalent service credit purchased. The member also had to meet one of the following requirements: the sum of the retiree's age and years of service credit in the system equaled or exceeded 80 at the time of retirement, regardless of whether the retiree had a reduction in the retirement annuity for early age (years of service credit could include all purchased service); or the retiree had 30 or more years of service credit in the retirement system at the time of retirement (years of service credit could include all purchased service).

To be eligible for TRS-Care, an individual, on Sept. 1, 2005, either had to: (1) meet TRS-Care eligibility requirements as they existed on Aug. 31, 2004. Under these requirements, an individual must: have taken a TRS service retirement with either at least 10 years of service credit in the retirement system for actual service in public schools in this state; have at least five years of service credit for actual service in Texas public schools and up to five years of out-of-state service credit in the system; (2) meet the requirements for eligibility outlined above for an individual taking a service retirement after Sept. 1, 2005; or (3) be enrolled in TRS-Care and was enrolled in TRS-Care on Aug. 31, 2005.

Regardless of retirement date, to be eligible for TRS-Care, disability and service retirees could not be eligible for Employees Retirement System, University of Texas System, or Texas A&M System health benefit program coverage. **Disability retirees were eligible to participate in TRS-Care** when they became a disability retiree. Once enrolled in TRS-Care as a disability retiree, participation continued as long as the individual was a disability retiree. Coverage for disability retirees with fewer than 10 years of service ended when disability retirement benefits ended.

2007 As a result of the 80th Texas Legislature, the **state contribution rate** increased from 6 to 6.58 percent of payroll, effective Sept. 1, 2007. The law also stipulated that the state contribution rate would not be less than the contribution rate of active members.

Eligible annuitants who retired by Dec. 31, 2006 received a **one-time supplemental payment** in January 2008, up to a maximum of $2,400.

The **pension and health benefit surcharges** paid by employers for hiring TRS retirees was amended so that the surcharges were not owed on those who retired before September 2005.

Retirees who returned to work with a TRS-covered employer and were working full-time under the **six-month exception** and could not complete work required under their contract by May 31, were allowed to work from June 1 to June 15 without losing their annuity for June.

Retirees who returned to work full-time with a TRS-covered employer did not have to forfeit an annuity for attending **professional development activities.**

The **TRS-Care coinsurance maximum was reduced** from $5,000 to $3,000 in 2007-08.

Disability retirees are required to file an annual compensation statement with TRS. Disability retirees whose retirement date is after Aug. 31, 2007 and whose retirement application is received after Aug. 31, 2007 who earn compensation exceeding limits set by the TRS Board of Trustees forfeit their disability annuity and have to pay an increased amount for TRS-Care coverage until the compensation is reduced to a level below the limit.

Beginning with the 2007-08 school year, an **employee participating in TRS-ActiveCare** was entitled to continue to participate in TRS-ActiveCare if the employee resigned after the end of the instructional year. Additional coverage available would expire at the end of the district's health coverage plan year, typically August 31 in TRS-ActiveCare. The district would not diminish or eliminate the state and employer contribution amount available to the employee before the end of the extended period. The same provisions applied to an employee participating in a local plan in a district not participating in TRS-ActiveCare.

A company offering 403(b) investment products to public school employees must register and be certified by TRS. TRS must establish and maintain a list of companies that are certified on the TRS website, including information on the fees charged by companies in connection with the investment products. These provisions took effect January 1, 2008.

2009 The 81st Texas Legislature provided for a **state contribution rate of 6.644 percent to the TRS pension trust** and a **1 percent state contribution rate to TRS-Care.**

Certain requirements were added **for third-party administrators of 403(b) plans.**

Changes were made in state law governing the definition of salary and wages in the TRS plan to include **"differential pay"** for active duty military under the federal "Heroes Act" (Heroes Earnings Assistance and Relief Tax Act of 2008).

State law was conformed to federal law for **members who die while performing active military duty.** The designated beneficiary of a member who died on or after Jan. 1, 2007, while the member was performing qualified military service as defined in federal law, is eligible to receive additional benefits to the same extent as if the member had resumed employment and been employed at the time of death.

A non-spouse beneficiary is allowed to **roll over an eligible distribution to an Individual Retirement Account (IRA);** thereby electing to continue the deferral of taxes on those funds as permitted under the federal Pension Protection Act of 2006 and the Worker, Retiree, and Employer Recovery Act of 2008. Other updates were made to keep TRS rollover provisions consistent with federal law rollover provisions, such as permitting rollovers to Roth IRAs.

Statutory authorization provided **retired public safety officers** participating in The University of Texas and Texas A&M University retiree health programs the opportunity to deduct their qualified health insurance premiums (the federal HELPS Act) from their TRS retirement annuities.

A health benefit plan had to provide coverage for **prosthetic devices** (limited to devices designed to replace, wholly or partly, an arm or a leg), orthotic devices, and professional services related to the fitting and use that equaled the coverage provided for such devices under Medicare law. The new law applied to TRS-Care and TRS-ActiveCare beginning Sept. 1, 2010.

TRS issued **new plan identification cards** with required information. The law applied to TRS-Care and TRS-ActiveCare beginning Sept. 1, 2010.

A TRS retiree may select **TRS-Care coverage** during the first 90 days after retirement and applied only to members who retired on or after Sept. 1, 2009.

Coverage for health benefit plans required **certain amino acid-based elemental formulas** used for the diagnosis and treatment of (1) immunoglobulin E and non-immunoglobulin E mediated allergies to multiple food proteins; (2) severe food protein induced enterocolitis syndrome; (3) eosinophilic disorders; and (4) impaired absorption of nutrients caused by certain disorders. The bill also provided utilization review. The new law applied to TRS-Care and TRS-ActiveCare beginning Sept. 1, 2010.

A new law allowed TRS-Care and TRS-ActiveCare participants to obtain a **multiple-month supply of any drug** at participating retail pharmacies under the same terms as mail order. The retail pharmacy must accept the same reimbursement terms as those for mail order. Participation by retail pharmacies under this provision was voluntary. The law applied to TRS-Care and TRS-ActiveCare beginning Sept. 1, 2010.

2011 Service retirees who retired before Jan. 1, 2011, are permitted to work in Texas public education in any capacity without any **loss of monthly annuities.** Surcharge requirements for employers still apply to retirees who retired after Sept. 1, 2005 and were working in TRS-eligible positions. New TRS-Care surcharge rates were effective Sept. 1, 2011.

The exceptions for loss of retirement annuities for bus drivers, principals and assistant principals, acute shortage area teachers, faculty members in an undergraduate professional nursing program or graduate professional nursing program, and full time for no more than six months in a school year (six-month exception) are repealed.

Service retirees who retired after Jan. 1, 2011 are permitted to work full time for as much as 12 months each school year without any loss of annuities only if they had a break in service of 12 full consecutive calendar months after retirement. **Retirees who**

had not served a 12 full, consecutive-calendar-month break in service after retirement could only work as substitutes or on a one-half time basis. Working in any capacity for a TRS-covered employer, including work as a substitute, will restart the counting towards the required 12 full, consecutive-calendar-month-break in service. Surcharge requirements for employers still applied to retirees who retired after Sept. 1, 2005 and worked in a TRS-eligible position.

Disability retirees who are working on a **three-month trial basis** may do so even if the three months cross school years.

To **purchase out-of-state service credit, developmental leave service credit, unreported service or compensation credit and substitute service,** the cost increased to the actuarial cost of the additional benefit resulting from the credit.

To **purchase withdrawn service credit,** the member is required to deposit the withdrawn amount plus a fee of 8 percent (increased from 6 percent).

For withdrawn service, developmental leave, unreported service or compensation, and substitute service, **an eligible member may purchase credit for eligible service rendered or compensation paid before Sept. 1, 2011, at the old cost,** if the credit is purchased before Sept. 1, 2013, or an installment agreement is signed and received at TRS before that date. For out-of-state service credit to be purchased at the old cost, the same deadline applies, and the **out-of-state service must have been rendered before Jan. 1, 2006, by a person who was a member of TRS on Dec. 31, 2005.**

A **member who was ineligible to receive a refund but nevertheless obtained one** from TRS is no longer required to reinstate the refunded amounts before being eligible to receive TRS benefits on subsequent service credit. However, no benefits associated with the ineligible refund are due unless the amounts are repaid before retirement.

A person with **unreported service or compensation and/or substitute service, is required to verify the service to TRS within five years of when it was rendered** in order for it to be creditable. Unreported service or compensation and substitute service will no longer be mandatory to purchase after verification.

Up to two years of developmental leave service credit may be purchased if the member notified TRS before the leave began. The member must have at least five years of TRS service credit before the leave occurred and at least one year of service credit following the developmental leave. The credit no longer must be purchased by the end of the first school year following the leave.

For members with **military service that qualified as USERRA service** (Uniformed Services Employment and Reemployment Rights Act of 1994), the service may be counted toward length of service requirements for TRS benefit eligibility (but not benefit amount), even if the member does not purchase credit for the service.

Starting with the 2012-13 school year, all TRS members will use a **standardized school year of September 1 through August 31** for TRS benefit purposes, including establishing service and compensation credit.

Members must notify TRS in writing if eligible membership service is not shown as service credit on the member's annual statement. In order for the member to receive TRS credit for the service, the member must notify TRS within five years of when the service was rendered. A member who seeks to establish credit for service rendered before Sept. 1, 2011, but that is not credited on the annual statement must notify TRS in writing by Aug. 31, 2016.

For members and retirees who are subject to a court order known as a **Qualified Domestic Relations Order (QDRO)** dividing their TRS retirement benefits (usually as a result of divorce), changes in the law provided that the QDRO need not state the parties' social security numbers. TRS may allow the parties to use an alternate method, acceptable to TRS, to verify their social security numbers. The bill also authorized TRS to establish a fee for administering a QDRO and required use of the TRS model QDRO.

If a TRS participant or beneficiary owes TRS money, TRS is authorized to deduct that amount from benefit payments made by TRS to that person.

If a retiree **designated a trust as beneficiary for Option 1, 2, or 5 benefits and later changes the beneficiary designation from the trust to the individual** named as the trust beneficiary, the bill allows TRS to pay the new TRS beneficiary for life, instead of just for the new TRS beneficiary's life expectancy.

Clarification was made on how TRS pays benefits after the death of a member or annuitant when a beneficiary designation is revoked upon TRS receipt of a divorce decree or when a beneficiary is not eligible to receive the death benefits because the beneficiary is convicted of causing the death of the TRS participant. For applicable situations, TRS will use the statutory order of payment set out in the plan provisions.

Benefits payable on the death of a member or annuitant are not payable to a person who is **found not guilty of causing the death by reason of insanity or who is found incompetent to stand trial.**

When there is no executor or administrator for an estate of a deceased participant, TRS is given authority to release information about the participant when the executive director determines the recipient is acting in interest of the participant's estate or an heir of the participant.

TRS has greater flexibility to use electronic voting in board nominating elections. Also, if fewer than three persons are nominated for a board position that has a nominating election, TRS may forward fewer than three names to the governor. The bill also authorizes the governor to appoint the trustee if no person is nominated.

For the pension fund, the state contribution rate was lowered from 6.644 to 6.0 percent in fiscal year 2012; in fiscal year 2013, the rate was increased to 6.4 percent. The member contribution rate remains at 6.4 percent for both years of the biennium. The **state contribution rate remained at 1 percent for TRS-Care** in fiscal year 2012; it was lowered to 0.5 percent in fiscal year 2013.

TRS was required to **conduct a study of TRS-Care** and report to the legislature on potential changes to improve the program's sustainability.

The legislature expressed its intent that **TRS not increase retiree health insurance premiums** for the 2012-13 biennium. TRS was required **to report to the legislature on the impact of potential changes to the pension plan,** including retirement eligibility, final average salary, benefit multiplier, and the creation of a hybrid defined contribution/defined benefit retirement plan.

TRS was authorized to **establish a pilot program for TRS participants in the group health benefit programs** to test alternatives to traditional fee-for-service payments.

The higher education trustee position is now an "open" seat. TRS retirees, members in public school districts, and members in higher education institutions may run for nomination to this trustee position in the next election (2017).

TRS was authorized to **use derivatives in its investment portfolio** to efficiently manage and reduce risk of the overall investment portfolio and to use external managers to invest up to 30 percent of the TRS fund until Sept. 1, 2019. TRS was authorized to **increase its allocation to hedge funds** from 5 to 10 percent until Sept. 1, 2019.

2013 The **state contribution rate increased from 6.4 to 6.8 percent** for fiscal year 2014 and fiscal year 2015. The increased **contribution rates for TRS active members will be phased in.** The rate will increase from the current 6.4 to 6.7 percent in fiscal year 2015, 7.2 percent in fiscal year 2016, and 7.7 percent in fiscal year 2017. Beginning Sept. 1, 2017, if the state contribution rate is reduced below 6.8 percent, the contribution rate for active employees will be reduced from 7.7 percent by an equivalent percentage.

Beginning in fiscal year 2015, **school districts and charter schools that do not contribute to Social Security** for TRS-eligible employees will contribute to TRS 1.5 percent of the statutory minimum salary for employees whose positions were subject to the state statutory minimum salary schedule in addition to the state contribution amount on compensation paid in excess of the state minimum amount. For employees whose positions were not subject to the state statutory minimum salary schedule, the employer **will contribute** 1.5 percent on the employees' total salary.

Beginning Sept. 1, 2015, if the **state contribution rate is reduced below 6.8 percent, the employer contribution rate is reduced by an equivalent percentage.**

Normal-age retirement eligibility was increased to age 62 with the Rule of 80 and at least five years of service credit for all members who did not have at least five years of service credit as of Aug. 31, 2014 and new members on or after Sept. 1, 2014. Only service credit actually credited in TRS as of Aug. 31, 2014 is considered for meeting the five years of service credit requirement. Withdrawn service credit and unreported service credit that had not been reinstated or purchased in full by Aug. 31, 2014 is not used to determine whether the member met the five years of service credit requirement. However, any qualifying USERRA military service, up to a maximum of five years, rendered on or before Aug. 31, 2014, will be counted toward the five years of service credit requirement, even if it is not purchased. A TRS member on Aug. 31, 2014, who also has service in another Texas public retirement system that participates in the Proportionate Retirement Program may combine active service credit in the other retirement system with TRS service credit as of Aug. 31, 2014, in order to meet the five years of service credit retirement.

Members who are subject to these new eligibility requirements and who retire before age 62 must have at least five years of service credit and meet the Rule of 80 but will have a 5 percent annuity reduction for each year under age 62. Members with at **least 30 years of service credit** but who do not meet the Rule of 80 may retire but will have a 5 percent annuity reduction for each year under age 62.

All **members who met the five year service credit requirement as of Aug. 31, 2014, were not subject to the new requirements** and experienced no change in normal-age retirement eligibility or early-age retirement reductions.

Under the changes in contribution rates and retirement eligibility, **TRS became "actuarially sound" and provided a 3 percent COLA,** capped at no more than $100 per month, for annuitants who retired on or before Aug. 31, 2004 or whose benefits were based on the death of a retiree or member who died on or before Aug. 31, 2004. The COLA began with the annuity payable for September 2013, which was paid in October 2013. The annuitant had to be living on Sept. 1, 2013 to be eligible to receive the COLA. The COLA did not apply to annuitants who were receiving survivor benefits in an amount fixed by statute.

For individuals who took a service retirement on or after Sept. 1, 2014, new law set the minimum **age of 62 to be eligible for TRS-Care 2 and 3.** All service retirees affected by this limitation are eligible to choose TRS-Care 2 or 3 when they turn 62 years of age. Eligibility requirements for participating in TRS-Care 1 were not changed. A service retiree was not subject to the new age requirements if the sum of the person's age and years of service credit was 70 or greater on or before Aug. 31, 2014; or if the person had at least 25 years of service credit on or before Aug. 31, 2014.

The rate of **interest paid to member and DROP accounts was reduced from 5 to 2 percent,** beginning Sept. 1, 2014.

A **retiree who selected an Option 1, 2, or 5 annuity payment plan was allowed to increase to the standard annuity payment plan** without regard to the relationship of the retiree to the beneficiary of the optional annuity. However, the plan term that requires the beneficiary's consent if a spouse or former spouse is the beneficiary or a court order from a court with authority over the marriage that orders or authorizes the retiree to make the change, was not changed.

The statutory requirement that **TRS-ActiveCare** must provide a health care plan equivalent to that offered by ERS was repealed.

Clarification was made that regional education service center and charter school employees can serve as trustees and vote in the election of TRS trustees.

State contributions to the pension plan were limited for junior colleges and junior college districts to 50 percent of the creditable compensation of members whose duties are instructional or administrative and whose salaries may be fully paid from funds appropriated under the General Appropriations Act, whether the salaries are actually paid from appropriated funds. For TRS pension benefits, junior colleges and junior college districts must pay the state contribution amount on the remaining 50 percent of creditable compensation for instructional or administrative employees as well as 100 percent of the state contribution amount on all other TRS members employed by these entities. The number of instructional and administrative employees for which the state must make contributions on 50 percent of the creditable compensation may not be increased at a greater rate than the percentage growth in student enrollment.

2015 New laws of the 84th Texas Legislature took effect on **Sept. 1, 2015,** unless otherwise noted.

TRS **active members in the Deferred Retirement Option Plan (DROP)** who had not yet retired were allowed to **revoke their DROP election.** The window to revoke started Sept. 1, 2015 and ended Dec. 31, 2015.

The payment date for annuities was moved from the first working day of the month following the month for which the annuity is due to the last working day of the month for which the annuity is due. As a result of the change in payment dates, the August **2015** annuity would be paid on the first working day of September 2015, and the September 2015 annuity would be paid on the last working day of September 2015. This shift in payment dates results in annuitants receiving 13 annuity payments during calendar year 2015.

The TRS Board was authorized to determine the 12-month period used to establish a member's annual compensation.

Membership must be established under a single employer. A member is not prohibited from working for more than one TRS-covered employer during a school year, but work with more than one employer cannot be combined to establish membership for that school year. If working for more than one employer, a member must regularly work at least one-half time or more and be paid a comparable rate of pay for one of the employers in order to be eligible for TRS membership. Regular employment is employment that is expected to last four and one-half months or more or for work in institutions of higher education, the employment is expected to last for more than one semester or does, in fact, last for more than one semester.

Membership in TRS does not terminate while working for a TRS-covered employer in a part-time position that is not eligible for membership. However, additional service credit while working in a position that was not eligible for membership cannot be earned. Also, a member is not eligible to receive a refund of accumulated contributions with TRS while working for a TRS-covered employer in any position, including one that is not eligible for membership.

The TRS Board was authorized to **set a single rate for the health care surcharge paid by TRS-covered employers for the employment of retirees who retired after September 1, 2005.**

Out-of-state service credit that may be purchased was limited to five years (rather than 15 years) if service credit that relates to the same out-of-state service is still maintained with another public retirement system. Service credit is considered maintained with another public retirement system if contributions have not been withdrawn.

Clarification was made that accumulated contributions cannot be withdrawn if a person is employed, has applied for employment, or has received a promise of employment for *any* position with a TRS-covered employer.

TEACHER RETIREMENT SYSTEM OF TEXAS

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