

NOTE: As provided in LFC policy, this report is intended for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.

Only the most recent FIR version, excluding attachments, is available on the Intranet. Previously issued FIRs and attachments may be obtained from the LFC office in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR:	Marquardt	DATE TYPED:	02/14/00	HB	247
SHORT TITLE:	Educational Contribution/Retirement Benefits			SB	
				ANALYST:	Eaton

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY00	FY01	FY00	FY01		
					Educational Retirement

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to

SOURCES OF INFORMATION

State Department of Education

Educational Retirement Board (ERB)

Watson Wyatt & Company

SUMMARY

Synopsis of Bill

This bill seeks to amend the Educational Retirement Act to allow new members, hired after July 1, 2000 to elect either the current ERA plan or two alternative plans established by the bill. The election would be irrevocable during the member's career with an ERA employer(s).

The first option to the regular ERA plan would allow the new member to choose a reduced employee contribution from 7.6% to 3.6% of salary. If a member elects this option, upon retirement the benefit would be 1.77% of the Final Average Salary (FAS), not the 2.35% of the regular ERA plan.

The second option allows the new member to elect to have no employee contributions. This option would provide a retirement benefit of 1.25% of FAS.

Employer contributions for both options would remain the same as the regular ERA plan at 8.65%.

Significant Issues

The ERA actuarial (Watson Wyatt & Company) is concerned that although the total member-plus - employer contribution rates are proportional to the different possible formula multipliers, the result may still not be actuarially sound. They believe that it will be necessary to carry out a significant actuarial study of the bill.

FISCAL IMPLICATIONS

The Educational Retirement Board (ERB) report that the fiscal impact on the ERA fund would be negative.

Exact impacts would require an actuarial study.

ADMINISTRATIVE IMPLICATIONS

The Educational Retirement Board (ERB) report that additional staff and programming time will be required to implement the two new retirement plans.

POSSIBLE QUESTIONS

While these two new plans would reduce employee contributions, and thus increase employee take home pay, would employees understand that their retirement annuity will be significantly smaller as well?

JBE/gm