F I S C A L   I M P A C T   R E P O R T

SPONSOR Gardner **DATE TYPED** 02/25/05 **HB** 1040

SHORT TITLE Payment of Public Retirees Returning to Work **SB**

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			Significant	Recurring	General, Other State Funds, Federal

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with: HB 207, SB 788, SB 875, HB 1024

SOURCES OF INFORMATION

Public Employees Retirement Association (PERA)
Corrections Department (DOC)

SUMMARY

Synopsis of Bill

Effective July 1, 2005, House Bill 1040 would require PERA affiliates who employ PERA retirees to pay the retired member's contribution as provided by the PERA Act.

Significant Issues

House Bill 1040 transfers the financial responsibility for making the PERA employee contribution for return to work retirees from the employee to the employer. Retirees who return to work with public-affiliated employers are required to remit nonrefundable retired member contributions when their post-retirement earnings reach $25,000. Retired member contributions will continue to be required through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA's expanded return-to-work provisions. Beginning January 1, 2007, the employer contribution rate will be adjusted annually at the determination of PERA to cover the full actuarial cost of PERA retirees for post-retirement employment with PERA affiliates.

FISCAL IMPLICATIONS

The impact to PERA is neutral as it will still receive the same combined contribution level from employers and employees. The cost will increase for PERA-affiliated employers who choose to hire PERA retirees since they will have to pay the retired member's contributions to the PERA fund. The Corrections Department provided an estimate of the cost increase to the employer of $1,885 per return to work retiree. Not all of the approximately 1,500 retirees who have returned to work will earn $25,000 which will trigger the employee contribution. However, if one-third of the group does exceed the cap, and the employer paid the $1,885 required employee share for the employee the fiscal impact would be approximately $942 thousand per year.

PERA notes that since it will be more expensive for an employer to hire a retiree rather than an active PERA member this may influence the hiring practices of public employers. This may trigger later retirements and there may be a gain to the Fund.

ADMINISTRATIVE IMPLICATIONS

HB 1040 will have a minimal administrative effect on PERA. Under current law, retirees remit nonrefundable retired member contributions when post-retirement earnings reach $25,000 and will be required to do so through December 31, 2006. Whether the employer or the retiree is responsible for paying the contributions, the employer is responsible to remit both the retiree or employer portions to PERA.

CONFLICT, DUPLICATION, COMPANIONSHIP OR RELATIONSHIP

House Bill 207 will reinstate an earnings limitation for retired members returning to work to $30,000. The earnings limitation will not be applicable to retired members who are already employed by an affiliated-public employer prior to July 1, 2005, who will continue to make retired member contributions through December 31, 2006. Beginning January 1, 2007, the employer contribution rate for these retired members will be adjusted annually at the determination of PERA to cover the full actuarial cost to the Fund of their post-retirement employment.

Senate Bill 788 would exempt retired state police members and retired municipal police members from the PERA Act's statutory 90-day separation from service requirement to temporarily fill certain vacant public safety positions, which result from an active employee's activation or deployment to a federal call to active duty.

SB 875 raises the threshold for remitting nonrefundable retired member contributions for post-retirement earnings to $30,000, and repeals the sunset provision for retired member contributions (December 31, 2006). SB 875 lengthens the separation from service requirement for post-retirement employment, including independent contractors, to 12 months.

House Bill 1024 amends the PERA Act to limit those PERA–affiliated public employers eligible to hire retired PERA members to: 1) a municipality with a population of less than 20,000; or 2) a county with a population of less than 50,000.

OTHER SUBSTANTIVE ISSUES

Since removal of its earning limitation for retirees who return to work with affiliated-public employers, PERA has experienced historically heavier end-of-year retirements. For example, for the year 2004 PERA retired 1,878 of its members. The number of back-to-work-retirees has escalated from 363 on October 31, 2003 to 1,501 through December 31, 2004. The number of retirees who have returned to work correlates very closely with the increased retirements in 2004 and represents approximately 7% of annuitant payroll.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Retirees who return to work with public-affiliated employers will be responsible for remitting nonrefundable retired member contributions when their post-retirement earnings reach $25,000 until December 31, 2006.

AMENDMENTS

PERA suggest clearer language relating to the employer paying the employee contribution:

On page 3, line 9, after the word share, delete the word “of” and replace it with the word “for”.

GG/lg