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

SPONSOR Smith **DATE TYPED** 03/05/05 **HB**

SHORT TITLE Educational Retirees Returning to Work **SB** 216/aSFC

ANALYST Geisler

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	$1,750.0	See Amendment & Narrative	Recurring	Educational Retirement Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB 207
Conflicts with SB 28

SOURCES OF INFORMATION

LFC Files
Educational Retirement Board (ERB)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendments to Senate Bill 216:

1) Will require return to work educational retirees to make non-refundable employee contributions. A preliminary estimate of this fiscal impact is that it would provide an additional $1.75 million in revenue yearly to the educational retirement fund.

2) Will leave the sunset period in statute at 2012.

Synopsis of Original Bill

Senate Bill 216 is Legislative Finance Committee sponsored legislation which accelerates the sunset provisions the return to work program (RTW) of Educational Retirement Act (“ERA”) from January 2012 to July 2005. The RTW allows ERA members who meet certain criteria to return to work with an ERA employer and not have to suspend retirement benefits. This bill would end entry by ERA retirees into this program by July 2005. This bill would grandfather all those who already entered into the RTW program prior to the July 2005.

Significant Issues

The actuarial position of the ERB has declined dramatically in the past few years. For example, the funding ratio, the actuarial value of assets as a percentage of actuarially accrued liabilities, has declined to 75.9% at 6/30/04, down from 91.6% at 6/30/00. Given the financial difficulty of the fund, there is concern that the current system, which allows retirees to return to work without any income limitations after sitting out year, is encouraging earlier retirements, which may have a long term negative impact of the solvency of the ERB fund. There can also be a public perception problem of a system which allows a member to receive both a salary and a pension.

The original intent of the legislation was to help alleviate the teacher shortage by enticing retired teachers to return to the classroom. The program was developed with the aid of ERB's actuaries who stated that the program would be actuarially neutral if retirees were required to wait one year from retirement before returning to ERB employment. It was thought this would prevent large numbers of members from retiring earlier than normally contemplated to take advantage of a double stream of income.

Any provision that entices a member to retire earlier than normal means the fund will have to pay out retirement benefits longer than was actuarially expected, thus having a negative effect on the fund. After two years of operation, there have been approximately 700 ERB retirees who have taken advantage of the RTW program and early indications are that approximately 70% of them are teachers. Another preliminary study by ERB's actuaries have indicated that the RTW program as is, has had no negative actuarial effect on the ERB fund. That means that so far the program has not been a financial burden to ERB. This, of course, could change in the future. There is a concern among some that there will be continued attempts to change ERB's RTW program to shorten the waiting period from one year to 90 days as provided for by the Public Employees Retirement Association. This and other possible proposed changes could easily have a negative actuarial effect on the fund. This would be unfortunate for the fund, which now has a $2.4 billion dollar unfunded liability.

FISCAL IMPLICATIONS

ERB's actuaries have studied 3 years of data (2002-2004) and thus far have not found that the RTW program has had a negative impact on the actuary position of ERB or that the program is encouraging earlier retirements.

An alternative view is that the actuarial analysis of no negative impact may be a little premature and that many current teachers may choose to retire earlier in the future. A contributing factor would be the higher pensions future retirees will receive due to base salary increases under the 3-tier licensure program (pensions are determined by the average of highest 5 consecutive years of salary X years of service X .0235). Any major increase in retirements would have a negative actuarial impact on the fund due to increased payouts and reduced contributions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Conflicts with SB 28 which provides for elimination of the waiting period for certain higher educational retirees who wish to enter the RTW program.

HB 207 will amend the PERA return to work program by reinstituting a earnings cap on retirees of $30,000.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

The return to work program will continue.

GG/sb:lg