

FISCAL IMPLICATIONS

This bill will improve the actuarial position of the ERB. ERB’s actuaries have determined that the Governmental Accounting Standards Board (GASB) actuarially required contribution (ARC) would decrease from 12.5% to 12.28%. The ARC represents the required employer contribution to pay benefits for current employees and to amortize the unfunded actuarial liability (UAAL) within 30 years.

Note that because the bill provisions would only apply to new hires the majority of the positive impact on ERB’s solvency would be in the outyears.

SIGNIFICANT ISSUES

Impact on ERA Retirement

The rule of 80 is used for the majority of state teacher retirement plans. By changing from a rule of 75 to a rule of 80, this bill will effectively raise the retirement age approximately 2.5 years for many members of ERB (2.5 years of age, plus 2.5 years of service make the five extra years to equal 80). Members will still be able to retire with twenty five years of service regardless of age. The chart below provides scenarios for how this change will impact a typical ERA member.

Age that educational employee starts career.	Earliest Eligibility to Retire <u>Under Current Rules</u> Without Reduction in Benefit	Earliest Eligibility to Retire <u>Under SB 206</u> Without Reduction in Benefit	Notes
Hired at age 25	At age 50 with 25 years service	No change	Eligible to retire under “25 and out rule”
Hired at age 35	At age 55 with 20 years service (“rule of 75”)	At age 57.5 with 22.5 years service	Rule of 80 would require 2.5 more years of service
Hired at age 40	At age 57.5 with 17.5 years of service (“rule of 75”)	At age 60 with 20 years service	Rule of 80 would require 2.5 more years of service
Hired at age 45	At age 60 with 15 years service (“rule of 75”)	At age 62.5 with 17.5 years service	Rule of 80 would require 2.5 more years of service
Hired at age 50	At age 65 with 15 years	No change	Eligible to retire under age 65 plus 5 years service rule.
Hired at age 55	At age 65 with 10 years	No change	Eligible to retire under age 65 plus 5 years service rule.

Note: the above chart deals with retirement eligibility only—actual pension calculation is based on final average salary X years of service credit X .0235.

ERB Solvency

SB 181 passed during the 2005 session seeks to improve ERB solvency by increasing employer contributions to ERB over seven years at a cost of approximately \$150 million. The employer contribution rate will increase .75 per year, which will take the contribution rate from 8.65% in FY05 to 13.90% in FY12. Employee contributions will increase .075 per year, which will take the contribution rate from 7.6% in FY05 to 7.90% in FY09. With these contribution increases it is anticipated that ERB will meet the 80% funded ratio actuarial benchmark by FY19 and will meet the 30 year GASB standard for amortization of the UAAL by FY11. However, it is important to note that these actuarial projections are dependent on important assumptions on teacher pay growth, rate of retirements, and 8% investment return holding firm.

ADMINISTRATIVE IMPLICATIONS

ERB notes that the changes made by this bill will require software changes at an unknown cost. In addition, the Board would have to issue rules and procedures to make sure the law was administered correctly and fairly.

RELATIONSHIP

SB 541 relates as it seeks to improve ERB actuarial solvency by increasing employee contributions to the fund. SB 300 and SB 100 seek to improve ERB actuarial solvency by changing the rules of the retiree return to work program.

TECHNICAL ISSUES

ERB has identified a potential bill language problem in that Section 2B conflicts with Section 1A. Section 2B provides that unless a member retires before July 1, 2006, they cannot use the rule of 75, while the prior sections determines the change to be effective for members who become members after July 1, 2006. The law as stated in section 2 B would most likely fail to pass a Constitutionality test under Article 20 Section 22.

AMENDMENTS

To fix the issue identified above, ERB suggests:

1. On page 3, line 10, after "if" delete until "the contributions" in line 13.
2. On page 3, line 10 after "seventy-five" insert "or the sum of eighty if the member first become a member after July 1, 2006"

GG/mt