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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/14/06

SPONSOR Smith LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Restrict Public Employees Returning to Work SB 300

ANALYST Geisler

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	Indeterminate, see fiscal impact.			

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates: HB 100

Conflicts: SB 713

### SOURCES OF INFORMATION

LFC Files  
Public Employees Retirement Association (PERA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 300 for the State Permanent Fund Task Force and Legislative Finance Committee amends the PERA Act on July 1, 2006 to reinstate an earnings limitation of \$15,000 before suspension of pension benefits for PERA retirees who return-to-work with a PERA-affiliated public employer. The earnings limitation will not be applicable to retired members who are already employed by an affiliated-public employer on or before June 30, 2006, who will be grandfathered under existing law. These reemployed retired members 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.

### FISCAL IMPLICATIONS

PERA reports that Senate Bill 300 may have a positive fiscal impact on the Fund. It is assumed that the ability for a retired member to return to work after retirement is a factor in a PERA member's timing of his or her retirement. PERA actuaries make assumptions regarding retirement trends for actuarial valuation purposes. In general, actuarial experience indicates that mem-

bers are retiring at significantly higher rates than currently assumed during the first several years of service-based eligibility. It is important to note that 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. Currently, PERA has approximately 23,000 retirees; the number of retirees who have returned to work represents approximately 6-7% of annuitant payroll. It is unknown whether removal of the earnings limitation for post-retirement employment will require PERA's actuaries to modify the retirement trend assumptions used for valuation purposes. Until PERA's actuaries have sufficient experience to determine the actuarial cost of the return-to-work provisions, it is still unknown what impact removal of the earnings limitation has had on the Fund. If reinstatement of the PERA Act's earnings limit for retirees who return to work triggers later retirements, there may be a gain to the Fund.

Reinstating an earnings limit will require PERA to make additional changes to its recently implemented pension administration system. Every revision to the PERA Act's post-retirement back-to-work provisions results in a change order, with associated costs, to PERA's existing contract with the vendor.

### **SIGNIFICANT ISSUES**

It is a policy decision for the legislature whether there should be an earnings limitation of \$15,000 for PERA retirees who return to work with an affiliated-public employer. Under current law, retirees who return to work with affiliated-public employers are required to remit nonrefundable retired member contributions when their post-retirement earnings reach \$25,000. Effective July 1, 2006, HB 100 would reinstate an earnings limitation of \$15,000 for post-retirement employment with affiliated-public employers. Upon reaching the \$15,000 earnings limitation, pension benefits for those affected retirees would be suspended, the former retired members would become contributing PERA members and would accrue service credit until employment terminates.

The earnings limitation proposed will not affect retired members who are already employed by an affiliated-public employer on or before June 30, 2006. These already reemployed retired members will be grandfathered in under existing law, which requires them to 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.

The Municipal League notes that municipalities continue to have difficulty in retaining and finding employees in rural areas and that the return to work provision has helped rural employers retain valuable employees. Employers are not required to hire back retirees—the provision is optional. In addition, the return to work legislation provides for contributions to cover any negative actuarial cost caused by the return to work legislation. Since the return to work provision was just implemented in 2004, the Municipal League requests that the legislature allow the provision to remain in place and allow PERA to monitor the effect over time.

### **ADMINISTRATIVE IMPLICATIONS**

PERA believes that Senate Bill 300 will have a positive administrative impact on PERA. Returning to an earnings limitation for retirees returning to work with affiliated-public employers will ease the administrative burden of tracking retiree contributions for post-retirement employment.

However, in the short term, PERA will continue to be required to track and account for retiree contributions on an individual basis for those retired members who are grandfathered in under the existing law. Beginning January 1, 2007, the employer contribution rate will be adjusted annually to cover the full actuarial cost, if any, of PERA retirees for post-retirement employment. PERA will be required to implement new electronic employer reporting procedures to address the two different groups of retired members - those reemployed under the existing law and those who reemploy before July 1, 2006. PERA anticipates employer reporting confusion regarding post-retirement employment in the short term.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Duplicated by HB 100. SB 713 makes several changes to the return to work program, including extending the sit out period from 90 days to 12 months.

### **OTHER SUBSTANTIVE ISSUES**

The PERA Board continues to endorse the enacted 2-year benefit expansion moratorium, passed by the 47th Legislature as HJM 5 for the retirement systems it administers. It is unknown whether removal of the earnings limitation for post-retirement employment will require PERA's actuaries to modify the retirement trend assumptions used for valuation purposes. Until PERA's actuaries have sufficient experience to determine the actuarial cost of the return-to-work provisions, it is unknown what impact removal of the earnings limitation has had on the Fund. The two-year moratorium on benefit enhancements coincides with the sunset of the PERA Act's existing provision requiring retired member contributions through December 31, 2006. This will provide PERA's actuaries with two full years of actuarial experience to determine the full actuarial cost of PERA's existing return-to-work provisions. Thereafter, PERA's actuaries will be able to provide the legislature with meaningful actuarial experience and recommendations regarding the impact of existing back to work provisions.

HB 100 provides that those retired members who are "employed" prior to July 1, 2006 will be covered under existing law. It is PERA's experience that retired members change positions during their reemployment much like active members. PERA requires retired members to submit termination notices and applications for certain changes in employment, such as movement across retirement coverage plans within the same employer or change in state agencies. If a reemployed retiree under existing law is required to submit a new application to PERA because of his or her employment/position change after July 1, 2006, they will be subject to HB 100's proposed earnings limit.

### **ALTERNATIVES**

The 47th Legislature's HJM 5, which provides for a two-year moratorium on public employment retirement benefit expansion, will coincide with the sunset of the PERA Act's provision requiring retired member contributions through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA's return-to-work provisions. Thereafter, PERA's actuaries will be able to provide the legislature with an actuarial experience study regarding impact of the back to work provisions.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?**

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.

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