

**LEGISLATIVE EDUCATION STUDY COMMITTEE  
BILL ANALYSIS**

**Bill Number: HB 133**

**50th Legislature, 1st Session, 2011**

**Tracking Number: .183068.3**

**Short Title: Delay Educational Retirement Contributions**

**Sponsor(s): Representatives Mimi Stewart and Dennis J. Roch**

**Analyst: Craig J. Johnson**

**Date: February 3, 2011**

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**FOR THE INVESTMENTS OVERSIGHT COMMITTEE**

**Bill Summary:**

HB 133 amends the *Educational Retirement Act* to:

- delay the increases in the employer's contribution to the Educational Retirement Fund that are scheduled to begin July 1, 2011; and
- increase the employer contributions incrementally, by 0.5 percent annually, until FY 17 when the employer contribution will be 13.9 percent of an employee's salary.

The effective date of HB 133 is July 1, 2011.

**Fiscal Impact:**

HB 133 does not contain an appropriation.

**Fiscal Issues:**

- If HB 133 is not enacted, approximately \$35.9 million will be required in FY 12 to provide for the employer contribution for public school employees.
- If HB 133 is enacted, approximately \$8.0 million would be needed in FY 12 for public school employees.

In current law, the employer's contribution is set to reach 13.15 percent in FY 12 and 13.9 percent in FY 13. Table 1 below provides a comparison of the percentage increase required in current law and the percentage increase proposed in HB 133.

<b>Table 1: ERA Employer Contribution Rate</b>				
	<b>Current Law</b>	<b>% Change</b>	<b>HB 133</b>	<b>% Change</b>
FY 11	10.9%		10.9%	
FY 12	13.15%	2.25%	11.4%	0.5%
FY 13	13.9%	0.75%	11.9%	0.5%
FY 14	13.9%	0.0%	12.4%	0.5%
FY 15	13.9%	0.0%	12.9%	0.5%
FY 16	13.9%	0.0%	13.4%	0.5%
FY 17	13.9%	0.0%	13.9%	0.5%

## **Substantive Issues:**

The Educational Retirement Board's (ERB) analysis indicates that the reduction in funds available for investment will increase the funds unfunded liability (UAAL), which is the difference between the amount of fund assets and the long-term liabilities owed.

The ERB's actuarial valuation report of June, 2010 contained the following update on financial objectives.

- The funded ratio<sup>1</sup> at June 30, 2009 was 67.5 percent, while it is now 65.7 percent. Five years ago the ratio stood at 70.4 percent, and 10 years ago the ratio was 91.6 percent.
- During the last fiscal year, the UAAL increased from \$4,517.0 million to \$4,922.2 million.

The executive summary of the actuarial report is attached.

## **Background:**

- Due to solvency concerns, in 2005, legislation was enacted to increase the employer contribution rate by 5.25 percent over seven years or 0.75 percent each year, so that it would ultimately reach 13.9 percent in FY 12.
- In 2009, the enactment of legislation provided for a temporary transfer of a 1.5 percent contribution from employer to employee effective July 1, 2009 through June 30, 2011.
- In 2010, the enactment of legislation again revised the schedule of employer contribution rates. For FY 11, the current employer contribution rate remains at 10.9 percent.

## **Related Bills:**

HB 3 *Education Appropriation Act*  
HB 129 *Returning Educational Retiree Payments*  
SB 248<sup>2</sup> *Change Public Retiree Contributions*  
SB 265 *Educational Retirement Contributions*

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<sup>1</sup> The funded ratio is the ratio of the actuarial value of assets to the actuarial accrued liability.

<sup>2</sup> Senate Bill 248 outlines a different schedule of changes in employer contributions.