

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: HB 251

50th Legislature, 1st Session, 2011

Tracking Number: .183436.2

Short Title: Amend Certain Retirement Acts

Sponsor(s): Representative Mimi Stewart and Senator Stuart Ingle and Others

Analyst: Craig J. Johnson

Date: February 11, 2011

Bill Summary:

HB 251 amends the *Public Employees Retirement Act* (PERA) and the *Educational Retirement Act* (ERA) to increase the age and service requirements for their members, including certain legislators.

In general, HB 251 provides that a member:

- who first becomes eligible to retire on or after July 1, 2014 must be 55 years or older to retire and receive benefits; and
- who is eligible to retire before July 1, 2014 would continue to be subject to the current statutory requirements.

For PERA, HB 251 also reduces the cost-of-living adjustments (COLA) for certain retirees.

Fiscal Impact:

HB 251 does not contain an appropriation.

Fiscal Issues:

Retirement Eligibility

HB 251 establishes the following retirement eligibility requirements:

For employees who are members on or before June 30, 2010¹ and are eligible to retire before July 1, 2014:

- **PERA:** State General Member Coverage Plan 3: any age and 25 years or more of service credit.
- **PERA:** State Legislator Member Coverage Plan 1: any age and 14 or more years of service credit.
- **PERA:** State Legislator Member Coverage Plan 2: any age and 10 or more years of service credit.
- **PERA:** Municipal General Member Coverage Plans 1, 2, 3, and 4: any age and 25 or more years of service credit.
- **ERA:** age 55 or older and 20 or more years of service credit.

¹ For ERA, the initial membership date is July 1, 2010 as opposed to the PERA date of June 30, 2010

For employees who are members on or before June 30, 2010 and are eligible to retire after July 1, 2014:

- **PERA:** State General Member Coverage Plan 3: age 55 or older and 25 or more years of service credit.
- **PERA:** State Legislator Member Coverage Plan 1: age 55 or older and 14 or more years of service credit.
- **PERA:** State Legislator Member Coverage Plan 2: age 55 or older and 10 or more years of service credit.
- **PERA:** Municipal General Member Coverage Plans 1, 2, 3, and 4: age 55 or older and 25 or more years of service credit.
- **ERA:** age 55 or older and 20 or more years of service credit.

For employees who are members after June 30, 2010 and are eligible to retire before July 1, 2014:

- **PERA:** State General Member Coverage Plan 3: age 55 or older if the sum of the member's age and years of service credit equals at least 80.
- **PERA:** State Legislator Member Coverage Plan 1: any age and 14 or more years of service credit.
- **PERA:** State Legislator Member Coverage Plan 2: any age and 10 or more years of service credit.
- **PERA:** Municipal General Member Coverage Plans 1, 2, 3, and 4: age 55 or older if the sum of the member's age and years of service credit equals at least 80.
- **ERA:** age 55 or older and 30 or more years of service credit.

For employees who are members after June 30, 2010 and are eligible to retire after July 1, 2014:

- **PERA:** State General Member Coverage Plan 3: age 55 or older if the sum of the member's age and years of service credit equals at least 80.
- **PERA:** State Legislator Member Coverage Plan 1: age 55 or older and 14 or more years of service credit.
- **PERA:** State Legislator Member Coverage Plan 2: age 55 or older and 10 or more years of service credit.
- **PERA:** Municipal General Member Coverage Plans 1, 2, 3, and 4: age 55 or older if the sum of the member's age and years of service credit equals at least 80.
- **ERA:** age 55 or older and 30 or more years of service credit.

Cost of Living Adjustments

HB 251 amends the PERA to reduce the COLA. For those PERA members eligible to retire before July 1, 2014, cost-of-living adjustments will be 3.0 percent each July 1. However, for those members eligible to retire on or after July 1, 2014, cost-of-living adjustments will be 75 percent of the change in the consumer price index (CPI) not to exceed 3.0 percent or fall below zero percent. The COLA cannot be negative and pension benefits cannot be reduced if the CPI is negative.

Deferred Retirement

HB 251 amends the ERA to increase the age limits on deferred retirement. A member eligible to retire on or after July 1, 2014 may terminate employment and retire if the member is at least 55 years old and has 20 or more years of service credit.

Substantive Issues:

If enacted, HB 251 could impact the solvency of retirement funds by:

- establishing a higher minimum age for retirement eligibility;
- increasing the years of service needed to retire; and
- reducing COLAs.

The bill analysis from the Educational Retirement Board (ERB) noted that ERB has asked its actuaries to estimate the actuarial impact on the Educational Retirement Fund (ERF) and its unfunded actuarial accrued liability (UAAL). ERB's outside actuaries determined that if the changes proposed in HB 251 become law, the ERF would reach an 87.6 percent funding level and have a UAAL of \$6.343 billion in 30 years. The projection is based on the following contribution rates currently in Section 22-11-21: employee contribution rate effective July 1, 2011 – 7.9 percent; employer contribution rates effective July 1, 2011 to June 30, 2012 – 13.15 percent; and July 1, 2012 and thereafter – 13.9 percent. The projection also assumes an average 8.0 percent investment rate of return over the 30-year period. Changes in the contribution rates and the assumed rate of return would affect the projection.

Technical Issues:

To clarify legislative intent and to eliminate potential ambiguity, the ERB bill analysis offers the following amendments:

Tier 2 - Rule of 80. If the intent is for all ERB members who first become eligible to retire on or after July 1, 2014 to be at least age 55, Section 10 could be amended as set forth below. This would affect Tier 2 members retiring under the Rule of 80. Such members would still be subject to Tier 2 age-based pension reduction factors.

Page 15, Line 7, after “(3)” add “the member is age fifty-five years or older and”

Tier 1 – Age 55 plus 20 Years Earned Service Credit. To confirm that this deferred retirement would be subject to the Tier 1 age-based reduction factors:

Page 16, Line 5, after “credit” and before “if” insert “subject to the reduction in benefits set forth in Paragraph (2) of subsection (A) of Section 22-11-23,”

Tier 2 – Deferred Rule of 80 Retirement. To confirm deferred Rule of 80 Retirements:

Page 16, Line 17, insert “F. A member who initially became a member on or after July 1, 2010 whose age and years of service credit equals at least eighty may terminate employment and retire at any time after reaching the age of fifty-five years subject to the reduction in benefits set forth in subsection (H) of Section 22-11-30, if the contributions the member has made are left in the fund.”

Page 16, Line 17, strike “F” and insert “G”

Related Bills:

HB 57 *Public Employees Returning to Work*

HB 129a *Returning Educational Retiree Payments*

HB 133 *Delay Educational Retirement Contributions*

SB 87 *Public Employee Retirement Contribution*

SB 248 *Change Public Retiree Contributions*

SB 265 *Educational Retirement Contributions*

SB 303 *Identical Benefits for Some Public Employees*