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

		ORIGINAL DATE	02/04/10		
SPONSOR	Miera	**LAST UPDATED**	02/06/10	**HB**	239
SHORT TITLE	No Educational Retirement Benefit Adjustments			**SB**	
				ANALYST	Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY10	FY11	FY12	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$1,539.0	$.1*	$1,539.0	Recurring	ERA

(Parenthesis ( ) Indicate Expenditure Decreases)

*The difference beyond FY11 will depend on future COLAs.
*This amount does not represent an increase in the pension payroll but is the incremental difference between the resulting pension payroll under the bill compared to what the pension payroll would be under current statute.

Relates to Senate Bill 91

SOURCES OF INFORMATION
LFC Files

Responses Received From
Educational Retirement Board (ERB)
Public Education Department (PED)
Higher Education Department (HED)

SUMMARY

Synopsis of Bill

House Bill 239 amends Section 22-11-31(B) to prevent a decrease in Educational Retirement Board (ERB) pensions for retirees receiving a cost of living adjustment (COLA) due to a decrease in the Consumer Price Index (CPI). This bill would allow these retirees to maintain their current pension amounts.

FISCAL IMPLICATIONS

ERB reports 22,304 ERB retirees with an average annual ERB retirement benefit of $17,310 will see an average $69.00 decline in pensions beginning July 1, 2010. HB239 would prevent this decrease in pensions, resulting in the fund paying about $1.5 million more in pensions than the fund would have under current law.

ERB states that the actuarial impact due to implementing HB239 would a slightly negative by increasing the unfunded actuarial accrued liability (UAAL) by $15 million. The UAAL is the amount of obligations for pensions that are unfunded, based on actuarial values as of a certain time. The UAAL as of June 30, 2009, was $4.5 billion.

ERB reported that their actuary considered the effect of removing potential negative COLA so small that he did not see a need to modify the basis on which they estimate the effect of COLAs on the plan.

SIGNIFICANT ISSUES

The annual cost of living adjustment (COLA) for ERB begins at age 65 and is based on the Consumer Price Index (CPI): ½ of the increase or decrease in the CPI with minimum of 2 percent and a maximum of 4 percent. In the event that the percentage increase or decrease of the CPI is less than 2 percent, in absolute value, the adjustment factor shall be the same as the percentage increase or decrease of the consumer price index. Thus, current law allows the COLA to be positive or negative, depending on the prior year CPI increase or decrease. Pensions cannot be adjusted below the initial benefit received upon retirement.

ERB states the impact to current retirees of a negative COLA:

> If the retirement benefit is reduced in FY 11 and inflation goes up again, the COLA is calculated on the difference, in absolute terms, between the Calendar 2009 CPI and the Calendar 2010 CPI. The FY 11 decrease under current law would not be "made up" or added back, before retirement benefits were increased based on future increases in the CPI.

The following example demonstrates this impact:

Using the average pension of $17,310, under current law the pension will decrease to $17,241 and under HB239 the pensions would remain at $17,310. Assuming an 8 percent increase in CPI for the following year, the benefit under SB239 would be about $18,002 and under current law would be about $17,930, or $72 lower.

ERB reported in 2006 that COLA increases over the last 20 years have averaged 2 percent. The agency states that this would be the first year that ERB benefits would decrease under the current calculation.

ERB states a concern that "even a small decrease in benefits could be difficult for many ERB retirees", particularly since the basket of items used to produce the CPI most likely do not reflect the spending patterns of ERB retirees. For example, medical costs have not declined.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 239 relates to Senate Bill 91 that delays the 0.75 percent in the FY11 employer contribution one year.

OTHER SUBSTANTIVE ISSUES

Retirees under the Public Employees Retirement Association receive a flat 3 percent COLA two calendar years after retiring, regardless of age and or changes in the CPI. PERA retirees receive the 3 percent even when the economy is experiencing deflation.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

ERB retires who receive a COLA will see an average reduction in their retirement pension of $69, which will not be "made up" future years. ERB notes that "allowing ERB retirees to have their benefits reduced while eligible PERA retirees continue to receive a 3% increase would further add to the disparity between the two state retirement systems."

MA/svb:mew