

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: SB 265

50th Legislature, 1st Session, 2011

Tracking Number: .183918.1SA

Short Title: Educational Retirement Contributions

Sponsor(s): Senator Vernon D. Asbill and Others

Analyst: Peter B. van Moorsel

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Bill Summary:

SB 265 amends the *Educational Retirement Act* to increase both the employer and employee Educational Retirement Board (ERB) contributions.

The employer contribution is increased by:

- 0.5 percent per year for six years (from 10.9 percent in FY 11 to 13.9 percent in FY 17) for employees whose salary is greater than \$20,000; and
- by 0.25 percent per year for six years (from 12.4 percent in FY 11 to 13.9 percent in FY 17) for employees whose salary is less than or equal to \$20,000.

The employee contribution is increased by:

- 0.125 percent per year for four years (from 9.4 percent in FY 11 to 9.9 percent in FY 15) for employees whose salary is greater than \$20,000; and
- by 0.125 percent per year for four years (from 7.9 percent in FY 11 to 8.4 percent in FY 15) for employees whose salary is less than or equal to \$20,000.

If SB 265 is enacted, the ERB contributions will increase as shown in the table below:

ERB Contribution Rates Per the Provisions of SB 265				
Fiscal Year	Employer Contribution Rate (Salary > \$20,000)	Employer Contribution Rate (Salary =< \$20,000)	Employee Contribution Rate (Salary > \$20,000)	Employee Contribution Rate (Salary =< \$20,000)
2011	10.90%	12.40%	9.400%	7.900%
2012	11.40%	12.65%	9.525%	8.025%
2013	11.90%	12.90%	9.650%	8.150%
2014	12.40%	13.15%	9.775%	8.275%
2015	12.90%	13.40%	9.900%	8.400%
2016	13.40%	13.65%	9.900%	8.400%
2017	13.90%	13.90%	9.900%	8.400%

Fiscal Impact:

- SB 256 does not contain an appropriation.
- According to ERB salary data, the total FY 10 salaries of all ERB members is as follows:

\$2,511,018,337	for members with salaries greater than \$20,000, and
<u>\$176,045,276</u>	for members with salaries less than or equal to \$20,000.
\$2,687,063,613	for all members.

- If SB 265 is enacted, the employer contribution would increase in FY 12 by:
 - 0.5 percent (from 10.9 percent in FY 11 to 11.4 percent) for employees whose salary is greater than \$20,000; and
 - 0.25 percent (from 12.9 percent in FY 11 to 13.025 percent) for employees whose salary is less than or equal to \$20,000;
- Based on the above data, the increases would represent a cost to the General Fund of approximately \$13.0 million, calculated as follows:

\$2,511,018,337	x	0.005	=	\$12,555,091.69	(Salary > \$20,000)
\$176,045,276	x	0.0025	=	<u>\$440,113.19</u>	(Salary =< \$20,000)
TOTAL				\$12,995,204.88	(All ERB members)

- The General Fund impact of SB 265 is smaller than the General Fund cost of the current statutorily scheduled increase in the employer contribution of 2.25 percent, which, for all ERB members, is estimated to be approximately \$57.8 million.

This estimate considers provisions in current law that increase the employer contribution from 10.9 percent in FY 11 to 13.15 percent in FY 12, due to an expiring 1.5 percent employer-employee contribution swap and a scheduled 0.75 percent increase in the employer’s contribution (see Background, below).

Fiscal Issues:

ERB reports in its analysis of SB 265 that it is the board’s goal to reach an 80 percent funding level within 30 years.

ERB adds that enactment of SB 265 would contribute to achieving that goal of an 80 percent funded ratio, noting that its outside actuaries have determined that the bill would improve the actuarial soundness of the Educational Retirement Fund, enabling it to reach an 88.8 percent funding level and an unfunded actuarial accrued liability of \$5.714 billion in 30 years.

Background:

In 2005, legislation was enacted to increase the employer and employee contributions to the fund in order to restore solvency to the fund, which had become insolvent by the end of FY 04. The increases were as follows:

- The employer contribution was set to increase by 5.25 percent over seven years (a 0.75 percent increase per year) to increase from 8.65 percent in FY 05 to 13.9 percent in FY 12.
- The employee contribution increased by 0.30 percent over four years from 7.6 percent in FY 05 to 7.9 percent in FY 09. (a 0.075 percent increase per year).

The following table shows the contribution rates per the 2005 legislation:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
2005	8.650%	7.600%
2006	9.400%	7.675%
2007	10.150%	7.750%
2008	10.900%	7.825%
2009	11.650%	7.900%
2010	12.400%	7.900%
2011	13.150%	7.900%
2012	13.900%	7.900%

However, solvency legislation enacted in both 2009 and 2010 amended the *Educational Retirement Act* to change the contribution rates. Specifically:

- in 2009, legislation reduced the employer contribution by 1.5 percent for FY 10 and FY 11, and increased the employee contribution rate by 1.5 percent for those same fiscal years. The 0.75 percent increase in the employer contribution for FY 10 that was required by the 2005 legislation was implemented; and
- in 2010, legislation delayed the 0.75 percent increase for FY 11 for one year (to FY 12).

Related Bills:

- SB 119 *Retirement Beneficiary Designation of Spouse* (Identical to HB 146)
- SB 247 *Forfeiture of Retirement for Certain Crimes*
- SB 248 *Change Public Retiree Contributions*
- SB 269 *Educational Retirement Board Bank & Attorneys*
- HB 133 *Delay Educational Retirement Contributions*
- HB 146 *Retirement Beneficiary Designation of Spouse* (Identical to SB 119)
- HB 251 *Amend Certain Retirement Acts*
- HB 272 *Public Employee & Education Retirement Acts*