

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: HB 96

51st Legislature, 1st Session, 2013

Tracking Number: .190678.2

Short Title: Educational Retirement Sick Leave

Sponsor(s): Representative Dennis J. Roch and Others

Analyst: Ian Kleats

Date: February 15, 2013

Bill Summary:

HB 96 adds new material to the *Educational Retirement Act* allowing Educational Retirement Board (ERB) members to convert unused sick leave to service credit effective July 1, 2013. Among its provisions, HB 96 would:

- equate eight hours of sick leave to one day of sick leave;
- allow members to convert up to six days of sick leave per year of contributory employment into service credit on the following basis:
 - one quarter of service credit for 38 to 82 days of unused leave;
 - two quarters of service credit for 83 to 127 days of unused leave;
 - three quarters of service credit for 128 to 172 days of unused leave; and
 - four quarters of service credit for 173 or more days of unused leave;
- prohibit members from converting unused leave into service credit if the member has been paid for any unused leave; and
- provide that members pay actuarial present value for converted service credit.

Fiscal Impact:

HB 96 does not contain an appropriation.

Fiscal Issues:

The ERB bill analysis states that HB 96 could result in members retiring earlier than they might have otherwise. The analysis further suggests that this factor could have an adverse impact on the ERB fund's unfunded actuarial accrued liability (UAAL). However, in order for this to be true, the contributions made on behalf of the member, and any investment earnings on those member contributions, in the time period between the member's possibly earlier retirement date and the date upon which he or she would otherwise retire would have to exceed the liability the member would accrue in the same period.

In finding an internal rate of return for ERB plan participation that is below the plan's investment earnings assumptions, LESC staff analysis of the ERB plan during the 2012 interim suggests that current contribution levels do exceed a member's accrued liability. Thus, it could be possible that the provisions of HB 96 adversely impact the UAAL, but only because members currently

pay more into the system than they receive in retirement benefits after considering investment returns on those contributions.

By disallowing a member from purchasing service credit with unused sick leave if that member is paid for any unused sick leave, the provisions of HB 96 could allow for decreased cost to employers of ERB members. The Higher Education Department (HED) notes in its analysis that this provision could minimize the impact on HED from sick leave payouts. Any school districts currently paying unused sick leave balances to employees upon retirement could also benefit from a reduction in those payouts.

Substantive Issues:

HB 96 would allow an ERB member to convert up to six days of unused sick leave per accumulated year of employment into service credit. The Children, Youth and Families Department (CYFD) bill analysis suggests that all teachers earn up to nine full days of sick leave annually, with no cap on the number of accumulated hours and no restriction on the carry-over of those hours between years. On average, a teacher could use up to three sick days every year and still maintain an accrued balance that allows the teacher to fully utilize the proposed provisions.

Even if a member has enough unused sick leave to convert into service credit, the member must still purchase the service credit at the actuarial value of the benefit attributable to service credit gained from the conversion. This provision implies that the actuarial value of assets of the ERB fund would increase by the same amount as the fund's actuarial accrued liability from the service credit purchase. Consequently, at a funded ratio below 100 percent, a purchase of service credit could improve the plan's actuarial position.

Because a member must choose between being paid by his or her employer for unused sick leave or converting the unused sick leave into service credit, it is possible that the opportunity cost (an employer payment of accrued leave balances) and the purchase price of the service credit (the actuarial present value of the service credit) considered together are more costly than the member would be willing to bear. This could result in members not utilizing the provisions of HB 96.

If the provisions of HB 96 allowed members to receive payment on a certain portion of their unused balances while converting the remainder to service credit, it could provide added flexibility to the members and increase utilization of the service credit purchase.

An ERB member would have to work approximately 29 years in order to qualify for the maximum conversion of unused sick leave based on a six-day per year average maximum accumulation of sick leave, which would allow the member to purchase one year of service credit. One year of service credit currently increases a member's annual pension benefit by 2.35 percent of the member's final average salary.

Committee Referrals:

HEC/HAFC

Related Bills:

HB 64 *Educational Retirement Changes*

HB 95a *Judicial Retirement Changes*

HB 169 *Judicial Retirement Contributions*

CS/SB 25 Judicial Retirement Changes
SB 26 Supplemental Retirement Contributions
SB 71 Retiree Health Care Contributions
SB 86 Public Employee Average Salary Calculations
SB 114 Legislative Retirement Qualification
SB 115 Educational Retirement Changes
SB 121 Law Enforcement Returning to Work
CS/HB 147 Public Employees Returning to Work Retirement
SB 168 Public Safety Officers Returning to Work