

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: CS/SB 86

51st Legislature, 1st Session, 2013

Tracking Number: .193063.2

Short Title: Public Employee Average Salary Calculations

Sponsor(s): Senator Sue Wilson Beffort and Others

Analyst: Ian Kleats

Date: March 6, 2013

SENATE FINANCE COMMITTEE SUBSTITUTE FOR SENATE BILL 86

Bill Summary:

Effective July 1, 2013, CS/SB 86 amends sections of the *Public Employees Retirement Act* and the *Educational Retirement Act* to exclude certain salary increases from the calculation of annual average salary for the purposes of defining the pension benefit. Among its provisions, the bill would:

- adjust each 12-month period in the 36-month average salary calculation period for members of the Public Employees Retirement Association (PERA) with an average salary greater than \$60,000 to exclude salary increases in excess of 20 percent of the immediately preceding 12-month period;
- adjust each 12-month period in the 60-month average salary calculation period for members of the Educational Retirement Board (ERB) with an average salary greater than \$60,000 to exclude salary increases in excess of 20 percent of the immediately preceding 12-month period; and
- index the salary threshold of \$60,000 to changes in the consumer price index (CPI) for each retirement plan beginning July 1, 2014.

Fiscal Impact:

CS/SB 86 contains no appropriation.

Fiscal Issues:

By possibly reducing the amount of pension benefits through a limited calculation of final average salary, the provisions of CS/SB 86 could improve the actuarial standing of both funds.

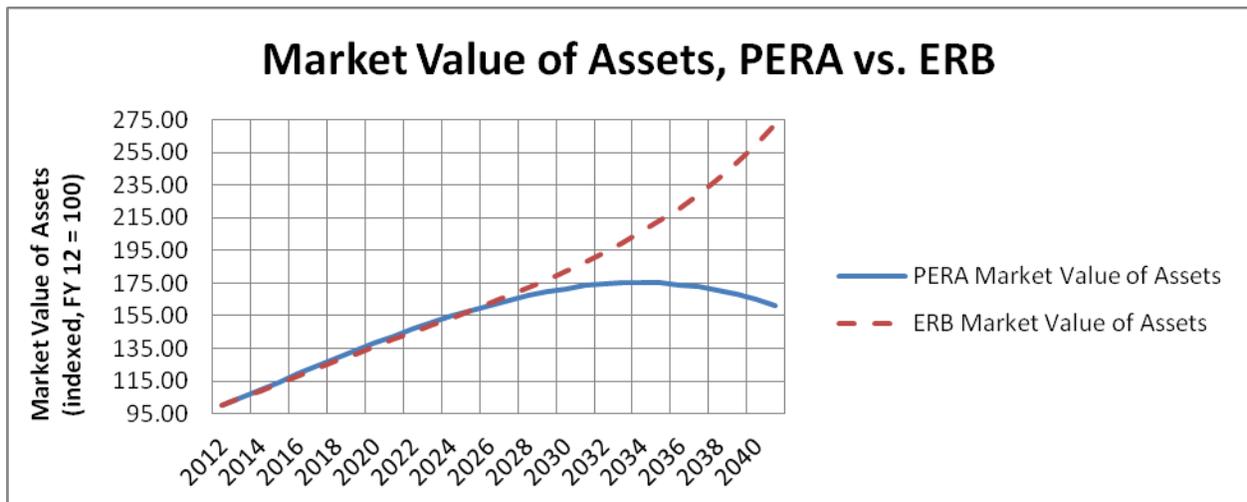
Substantive Issues:

The provisions of CS/SB 86 could have effects on recruitment and retention for members of both retirement plans. In a state fiscal environment where employee compensation increases are irregularly scheduled or nonexistent, upward promotion and lateral career movements become primary avenues for salary growth. As a result of the bill's provisions, employees could be deterred from advancing to the upper management, either in state agencies or in school districts,

because they would be unable to benefit from a portion of their compensation package in the form of limits to the calculation of final average salary.

Moreover, CS/SB 86 may create further disparity between the PERA and ERB retirement plans. Calculation of final average salary under PERA considers a three-year period, whereas the ERB plan considers a five-year period. By enforcing the 20 percent salary increase limitation for an additional two years, ERB members may be more adversely affected by the provisions than PERA members.

It is unclear why ERB members should face longer restrictions in the average salary calculation than PERA members. In fact, actuarial projections suggest that the PERA plan is in a less favorable financial standing than the ERB plan. Based on the graph provided below, it could be argued that more stringent restrictions should be placed on PERA rather than ERB members.



Source: ERB and PERA Actuarial Projections

Both PERA and ERB actuarial projections assume relatively smooth salary growth profiles for their members. If actual salary profiles maintain the same average final salary characteristics as the actuarial projection, the presence of a 20 percent bump in salary near the end of a career might not have a significant impact on the actuarial liabilities; instead, the main issue would stem from a contribution level in earlier years of a member's career that could be lower than the actuarial model anticipated.

Technical Issues:

The ERB bill analysis highlights one possible technical issue. As drafted, CS/SB 86 may not address the changes to the *Public Employees Retirement Act* proposed by SB 27. SB 27 would create a 60-month period to determine the final average salary for persons who are not PERA members as of June 30, 2013 (i.e., those that become members on or after July 1, 2013). If both bills were to become law, the differences may result in the provisions of CS/SB 86 applying only to those who were PERA members as of June 30, 2013 and not to those who became members after that date.

Committee Referrals:

SPAC/SFC

Related Bills:

CS/SB 25 *Judicial Retirement Changes*
SB 26 *Supplemental Retirement Contributions*
SB 71 *Retiree Health Care Contributions*
CS/SB 86 *Public Employee Average Salary Calculations*
SB 114a *Legislative Retirement Qualification*
SB 115 *Educational Retirement Changes*
SB 121 *Law Enforcement Returning to Work*
SB 168 *Public Safety Officers Returning to Work*
HB 64 *Educational Retirement Changes*
CS/HB 95 *Judicial Retirement Changes*
HB 96 *Educational Retirement Sick Leave*
CS/HB 147 *Public Employees Returning to Work Retirement*
HB 169 *Judicial Retirement Contributions*