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

		ORIGINAL DATE	01/26/21		
SPONSOR	Stewart	**LAST UPDATED**	03/16/21	**HB**	
SHORT TITLE	Increase Ed Retirement Contributions			**SB**	42/aSFC/aHAFC
				ANALYST	Jorgensen

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY21	**FY22**	**FY23**		
	$34,038.0	$68,076.0	Recurring	Educational Retirement

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	Recurring or Nonrecurring	Fund Affected
Public Schools		$21,716.0	$43,432.0	Recurring	State Equalization Guarantee
Higher Education		$11,805.8	$23,611.5	Recurring	Various
Other		$516.2	$1,032.4	Recurring	Various
Total		$34,038.0	$68,076.0	Recurring	

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act of 2021

SOURCES OF INFORMATION
LFC Files

Responses Received From
Education Retirement Board (ERB)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment to Senate Bill 42 (SB42) as amended, reduces the total employer contribution increase from 4 percent to 2 percent; the amendment provides for a 1 percent increase per year for two years rather than the 1 percent per year for four years contained in the original bill. Additionally, the amendment contains a temporary provision requiring ERB to present ways to improve pension solvency without additional employer-paid increases to the Department of Finance and Administration, the Legislative Finance Committee, Legislative Education Study Committee and any other appropriate interim legislative committee before July 1, 2022.

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 42 extends the sunset of return to work provisions from fiscal year 2022 to fiscal year 2024. The return to work program affected allows ERB retirees who have completed a 12 month layout to return to work and continue to receive a pension in addition to their salary. Non-refundable employee and employer contributions are required from the employee and employer and employees do not receive additional service credit.

SUMMARY

Synopsis of Original Bill

Senate Bill 42 (SB42) increases employer contributions to the regular educational retirement board (ERB) plan and the alternative retirement plan (ARP) by 1 percent per year for four years. Employer contribution rates will increase as follows:

Employer Contribution Rate

	ERB	ARP
Current	14.15%	3.25%
FY22	15.15%	4.25%
FY23	16.15%	5.25%
FY24	17.15%	6.25%
FY25	18.15%	7.25%

FISCAL IMPLICATIONS

SB42 will increase employer costs for all educational institutions in the state, resulting in cost increases for state agencies which employ ERB-covered employees. Salaries for ERB-covered employees total $3.4 billion with K-12 education employees accounting for 63.8 percent of the total and higher education employees accounting for an additional 34.7 percent. The remaining 1.5 percent is divided between ERB-covered employees at state agencies and employees of special schools.

Based on this salary data, ERB estimates a 1 percent increase in the contribution rate will generate approximately $34 million in revenue to the educational retirement fund. When the provisions of SB42 are fully implemented, the 4 percent increase will increase fund revenue by over $136 million per year as shown in the FY25 column of the revenue table.

The estimated operating budget impact table shows the revenue impact by funding source. The impact by entity through the full four-year period is detailed below:

Additional Cost of Employer Contribution Increase

(in thousands)

Entity	**FY22**	**FY23**	**FY24**	**FY25**
Public Schools	$21,716.0	$43,432.0	$65,148.1	$86,864.1
Higher Education	$11,805.8	$23,611.5	$35,417.3	$47,223.1
Other	$516.2	$1,032.4	$1,548.6	$2,064.8
Total	**$34,038.0**	**$68,076.0**	**$102,114.0**	**$136,151.9**

All of the entities employing ERB-covered employees receive at least a portion of their funding from the state general fund. ERB estimates the proportion of the budget made up from the general fund, and thus, the general fund impact of SB42 as follows:

General Fund Impact Per 1 Percent Increase

(in thousands)

Entity	**Payroll**	**General Fund Proportion**	**1% General Fund Cost**
Public Schools	$2,171,601.8	80.3%	$17,437.96
Higher Education	$1,180,577.5	52.8%	$6,233.45
Other	$51,619.1	29%	$150.74
Total	**$3,403,798.4**		**$23,822.15**

According to ERB actuaries, the SFC amendment is likely to have a slight positive impact on the fund. Non-refundable employee and employer contributions are required during the time of employment, but no additional service credit is awarded to employees who return to work and receive both a pension benefit and a salary from employment. This increases funding to the pension plan without increasing the liability to the fund which improves pension funding.

SIGNIFICANT ISSUES

ERB’s comprehensive annual financial report, or CAFR, showed assets totaling $13 billion. The report also noted that during FY20, the unfunded liability, or the amount of benefits promised but not paid for, increased from $7.9 billion to $9 billion. Based on current assumptions, the fund will never be able to pay off the unfunded liability. This is referred to as an ‘infinite funding period’ and is a sign that the cost of benefits is greater than the combination of contribution and investment returns.

ERB reports that “Once fully enacted, SB42 will improve the funding period from infinite to 42 years; the funded ratio is projected to be 73.6 percent in 2051.”

Laws 2019, Chapter 258 (House Bill 360) made several changes to the education retirement plan including reducing the amount of service credit earned by employees and closed various loopholes with the intention of improving the financial position of the plan. A 0.25 percent employer contribution increase was included, less than the 3 percent increase requested.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The General Appropriation Act as passed by the Senate Finance Committee, includes a $34 million appropriation to pay costs of employer contribution increases.

CJ/sb/rl