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

SPONSOR Varela **DATE TYPED** 3/11/05 **HB** 207/aHAFC/aSFC

SHORT TITLE Public Retirees Returning to Work **SB**

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			See Narrative		

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to: House Bill 16

SOURCES OF INFORMATION

LFC Files
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendments to House Bill 207 strike the House Appropriations and Finance Committee amendment and:

1) For retirees returning to work with an affiliated employer on or after July 1, 2005 the earnings limitation before pension suspension is $50,000 (fifty thousand);

2) Retirees returning to work with an affiliated employer on or after July 1, 2005 will be required to make employee contributions;

3) Require the employer of the return to work retiree to make employer contributions as specified in the Act or in a higher amount adjusted for full actuarial cost as determined annually by the association;

4) Amend 10-11-43.3 to specify that for legislators retiring on or after July 1, 2005 that the pension under member plan 2 shall be calculated based on the average of the three highest per diem rates in effect as determined on July 1 of each year of service of the legislator or lieutenant gov-

ernor. (The current method uses the per diem rate in effect on December 31 of the calendar year of service).

Note on Fiscal Impact of SFC Amendments: the fiscal impact of HB 207 as amended by SFC is uncertain. Inclusion of a requirement for future return to work retirees to make employee contributions will have a positive impact on the fund since current return to work retirees only make those contributions after earning $25,000. However, additional potential revenue will be limited due to the $50,000 earnings cap. Also, it is unclear if the $50,000 cap will discourage retirees from returning to work. PERA is concerned that excessive numbers of retirees returning to work could have a long term negative impact on the fund.

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment to House Bill 207 changes the earning limitation before pension suspension from $30,000 (thirty thousand) to $22,000 (thousand).

Synopsis of Bill

House Bill 207 amends the PERA Act on July 1, 2005 to reinstate an earnings limitation of $30,000 before suspension of pension benefits for PERA retirees who return-to-work with a PERA–affiliated public employer. The earnings limitation will not be applicable to retired members who are already employed by an affiliated-public employer prior to July 1, 2005, who will continue to make retired member contributions through December 31, 2006. Beginning January 1, 2007, the employer contribution rate for these retired members will be adjusted annually at the determination of PERA to cover the full actuarial cost to the Fund of their post-retirement employment.

Significant Issues

PERA is concerned that the current system, which allows unlimited income for retirees who return to work, is encouraging earlier retirements, which may have a long term negative impact of the solvency of the PERA fund. Some policymakers also worry about the public perception of a personnel system which allows employees to collect a pension and a salary and may provide a disincentive to hire or promote younger employees.

The Municipal League notes that municipalities continue to have difficulty in retaining and finding employees in rural areas and that the return to work provision has helped rural employers retain valuable employees. Employers are not required to hire back retirees—the provision is optional. In addition, the return to work legislation provides for contributions to cover any negative actuarial cost caused by the return to work legislation. Since the return to work provision was just implemented in 2004, the Municipal League requests that the legislature allow the provision to remain in place and allow PERA to monitor the effect over time.

FISCAL IMPLICATIONS

PERA states that HB 207 may have a positive fiscal impact on the fund if it encourages later retirements. Since removal of its earning limitation for retirees who return to work with affiliated-public employers, PERA has experienced historically heavier end-of-year retirements. For example, for the year 2004 PERA retired 1,878 of its members. The number of back-to-work-retirees has escalated from 363 on October 31, 2003 to 1,501 through December 31, 2004. The number of retirees who have returned to work correlates very closely with the increased retirements in 2004 and represents approximately 7% of annuitant payroll.

Under current law, retired member contributions will continue to be required through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA's expanded return-to-work provisions. Beginning January 1, 2007, the employer contribution rate will be adjusted annually at PERA's determination to cover the full actuarial cost of PERA retirees for post-retirement employment with PERA affiliates. It is unknown whether removal of the earnings limitation for post-retirement employment will require PERA's actuaries to modify the retirement trend assumptions used for valuation purposes. <u>Until PERA's actuaries have sufficient experience to determine the actuarial cost of the return-to-work provisions, it is unknown what impact removal of the earnings limitation has had on the Fund.</u> <u>However, if reinstatement of the PERA Act's earnings limit for retirees who return to work triggers later retirements, there may be a gain to the Fund</u>.

ADMINISTRATIVE IMPLICATIONS

House Bill 207 will have a positive administrative impact on PERA. Under current law, retirees remit nonrefundable retired member contributions when post-retirement earnings reach $25,000. Retired member contributions will continue to be required through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA's expanded return-to-work provisions. Until that time, PERA must track and account for retiree contributions on an individual basis. Beginning January 1, 2007, PERA's actuaries will determine the employer contribution rate annually at to cover the full actuarial cost of PERA retirees for post-retirement employment with PERA affiliates. Returning to an earnings limitation for retirees returning to work with affiliated-public employers will alleviate these administrative requirements.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 16, applicable to all retired members who return to work with affiliated public employers, amends the PERA Act to reinstate an earnings limitation of $15,000 before suspension of pension benefits. HB 16 does not "grandfather" already employed retirees under the existing law regarding post-retirement employment with affiliated public employers.

OTHER SUBSTANTIVE ISSUES

<u>PERA Actuarial Position</u>

Per PERA, for the period ending June 30, 2003, PERA's unfunded liability grew significantly, and the time to pay off its unfunded actuarially accrued liability (UAAL) increased from 10 years to 17 years. The June 30, 2004 actuarial valuation indicates that PERA funding resources are sufficient to fund the Normal Cost and finance the UAAL over an aggregate period of 21 years. It should be noted, however, that the funding of assets uses a smoothing technique that spreads investment gains and losses out over a 4-year period. One quarter of this year's investment gain has been recognized in last fiscal year's funding value and one quarter of it will be recognized in each of the next 3 years. Past losses more than offset last year's gain. In aggregate, the system had an experience loss for the year ending June 30, 2004 of $474 million, due to rate of return on funding value of assets less than assumed (3.8% vs. 8%) and retirements greater than assumed. PERA's actuaries report a loss of $186 million for past investment losses will flow into the recognized gain/loss in next year's actuarial valuation. If a loss of this magnitude occurs next year, the effect would be that the overall PERA funding ratio will drop to 90% and PERA's overall UAAL will increase to approximately 30 years.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Retirees who return to work with public-affiliated employers are required to remit nonrefundable retired member contributions when their post-retirement earnings reach $25,000. Retired member contributions will continue to be required through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA's expanded return-to-work provisions. Beginning January 1, 2007, the employer contribution rate will be adjusted annually at the determination of PERA to cover the full actuarial cost of PERA retirees for post-retirement employment with PERA affiliates.

GG/lg