HOUSE OF REPRESENTATIVES
DEMOCRATIC COMMITTEE

BILL ANALYSIS

BILL NO: House Bill 2497 PN 3916 SPONSOR: D. Evans
COMMITTEE: Appropriations
DATE: June 16, 2010

PROPOSAL/EXECUTIVE SUMMARY:
This bill amends Title 24 for the Public School Employees' Retirement System (PSERS) and Title 71 for the State Employees' Retirement System (SERS) by making changes to the current actuarial assumptions/methodologies, implementing employer contribution collars, setting a permanent minimum employer contribution rate, and altering benefits for future employees.

EXISTING LAW:
Title 24 (Education) for Public School Employees' Retirement System
Title 71 (State Government) for State Employees' Retirement System

ANALYSIS:
Enactment of the bill will have the following effect:

1. Fresh start re-amortization of unfunded accrued liability for both PSERS and SERS. The current excess liabilities over the value of the assets will be amortized over a 30 year period beginning December 31, 2009 for SERS and June 30, 2010 for PSERS.
2. Actuarial cost method applied to both systems will remain as currently set in law at entry-age normal. This affects how the payments are calculated and pays more of the overall liability up-front.
3. Asset smoothing refers to the period of time over which gains and losses are recognized. For instance, in 10 year asset smoothing, 1/10 of the gains and losses are recognized for each year. This bill implements a 10 year asset smoothing for PSERS and maintains the current 5 year asset smoothing for SERS.
4. Institutes a level percent of pay amortization methodology for both PSERS and SERS. This refers to the method used in paying off debt; current law uses level dollar amortization. Under level percent of pay, the payments increase over time as payroll increases because the payments are based on current payroll amounts.
5. Beginning in 2010-11, employer contribution rate collars would take effect. The collar represents the maximum percentage amount that the employer contribution rate could increase in the given fiscal year and is expressed as a percentage of payroll. The collars are listed below and represent the percentage that the employer contribution rate will increase over the prior fiscal year. The percentage increases listed below are for SERS only:
   a. Fiscal year 2010-2011: 1%
   b. Fiscal year 2011-2012: 3%

c. Fiscal year 2012-2013: 3.5%
d. Fiscal year 2013-2014 and all future years: 4.5%

For PSERS, the same collars are in place except that, for 2010-11, the total employer contribution rate shall be a minimum of 5.64% (reflecting a 1% increase) to a maximum of 8.22%. The final percentage will be determined by the amount of funding in the General Appropriations Act for 2010-11. Regardless of which total rate is funded for 2010-11, the rate for 2011-12 will match 5.64% plus a 3% collar. From that point on, the collar percentages listed above for SERS will apply to PSERS as well.

The collars will permanently expire in the first fiscal year in which they are no longer necessary. That will be the year in which the actuarially calculated contribution rate, as determined in the actuarial valuation for each system, is lower than the contribution rate for the prior year plus the collar. For instance: in 2015-16 if the collared rate would be 24.5% but the actuarially calculated rate that is necessary for that year is only 24%, then the collar does not apply and the employer contribution rate would be 24%. For all subsequent years, there would no longer be a collar and the rate would be the actuarial rate calculated in the valuation for each system.

6. After the collars permanently expire, language contained within the bill requires that the employer contribution rate never be less than the employer "normal cost" for each system. Normal cost represents the cost required to pay for the benefits earned by members of the retirement system for a given fiscal year. The normal cost does not include payment of any of the accumulated unfunded liabilities prior to the current fiscal year. At the time of this bill summary, the normal cost for fiscal year 2009-2010 for SERS is 9.51 percent and for PSERS is 8 percent. Normal cost does not tend to fluctuate dramatically from year to year, so it is expected that the permanent floor on the employer contribution rate will be close to 8 percent for PSERS and 9.53 percent for SERS once the collars expire and the unfunded liabilities are paid down.

The bill removes the benefit enhancement provided in Act 9 of 2001 and makes other benefit changes for both PSERS and SERS. *All benefit changes are for new employees only.*

<u>Changes for PSERS for new employees (effective July 1, 2011):</u>

- Creates a new Class T-E with an accrual multiplier rate of 2.0% of final average salary. This is a decrease from the current rate of 2.5% of final average salary. The member contribution rate will remain at 7.5% of pay.
    - New members may opt into a new Class T-F with a 2.5% accrual rate multiplier and required member contribution of 10.3% of pay.
- Number of years required to vest is increased from 5 to 10 years
- Retirement age increases from age 62 with one year of service to age 65 with three years of service
- Option 4 (lump sum payout) is eliminated

Changes for new employees of SERS (effective December 1, 2010 for legislators and January 1, 2011 for other members)

- Creates a new Class A-3 with an accrual multiplier rate of 2% of final average salary. This is a decrease from 3% for legislators and 2.5% for other members. Member contribution rate for legislators and other effected members is 6.25% of pay.
  - New members, including legislators, may opt into a new Class A-4 with a 2.5% accrual rate multiplier and required member contribution of 9.3% of pay.
- Number of years required to vest is increased from 5 to 10 years
- Retirement age increases by 5 years. For most SERS members, this change equates to a retirement age of 65, rather than 60. For those members currently eligible to retire at age 50, the new retirement age will be 55.
- Option 4 (lump sum payout) is eliminated.

Employees who have made retirement contributions and/or have been eligible for benefits in one of these retirement system, left that system, then returned after the effective date of this bill, will not be placed under these new provisions.

EFFECTIVE DATE: Immediately

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