COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **HB 4984** March 29, 2016

SPONSOR (S): Morrison

SYSTEM(S): State Universities Retirement System (SURS) and Teachers' Retirement System (TRS)

FISCAL IMPACT: The table below shows the impact of the current final average salary law on TRS by presenting (1) the total number of members whose earning increases exceeded 6% in the final average salary period (2) the number of members whose employer made the additional contributions to TRS due to the excess benefit, (3) the number of members whose employer was exempted from the additional payments, and (4) the amount of such additional payments to TRS from FY 2013 to 2015. The fiscal impact of HB 4984 cannot be determined at this time as it will depend largely on how a stricter final average salary cap will change compensation practices of school districts and universities in TRS and SURS.

TRS

Fiscal Year	Teachers whose final avg. salary exceeded the "excess salary penalty" threshold	Teachers whose employers paid "excess salary" penalties	Teachers whose employers were exempt from "excess salary" penalties	To-date payments from school districts to TRS
2013	1,896	1,024	872	$3,981,910
2014	1,839	939	900	$2,943,489
2015	1,593	761	832	$2,434,320

SUBJECT MATTER: For purposes of calculating the "excess salary increase penalty" under P.A. 94-0004, HB 4984 utilizes the CPI-U as the measure of the maximum percentage of a participant's earning increases. For academic years beginning on or after July 1, 2016, if the percentage of a participant's earnings is higher than the unadjusted percentage increase in the CPI-U for that year (the earning increases cap), the participant's employer shall pay to the appropriate System the present value of the excess benefit in addition to requirement payments.

COMMENT:

Under the current law, a participant's employer is required to make the additional contributions for the cost of the present value of the increase in benefits resulting from the earning increases exceeding 6% to his or her System. This requirement was implemented by P.A. 94-0004, and is commonly known as the "excess salary increase penalty."

Under HB 4984, the maximum percentage of the increase in a participant's earnings for any academic year used to determine the final rate of earnings, compared to the previous academic year, is set forth depending on two different time periods. In the applicable time period outlined below, the participant's employer shall pay additional payments in addition to required payments to the retirement System for earnings that exceed the final average salary cap.

- For academic years beginning on or after June 1, 2005 and before July 1, 2016: the current rate of 6% (under the current law) would remain effective.
- For academic years beginning on or after July 1, 2016: the unadjusted percentage increase in the consumer price index-u, would start being used to indicate the excessiveness of a participant's earnings.

The additional payments would be assessed by the participant's System based on the most recent information available at the time of the computation. Also under HB 4984, the amount of earnings resulting from contracts or collective bargaining agreements entered into, amended, or renewed before the effective date of this bill shall be excluded when a participant's System assesses the additional payments due to the excess earnings.

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