Colorado Legislative Council Staff

HB17-1176

FISCAL NOTE

FISCAL IMPACT: ☐ State ☐ Local ☒ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 17-0297	**Date:**	March 2, 2017
Prime Sponsor(s):	Rep. Becker J. Sen. Sonnenberg	**Bill Status:**	House Finance
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BILL TOPIC: PERA RETIREES EMPLOYED BY RURAL SCHOOL DISTRICTS

Summary of Legislation

The bill permits a retiree to be hired by a rural school district and receive a salary without any reduction in the benefits the retiree receives from the Colorado Public Employees' Retirement Association (PERA). A school district may hire a retired employee only if the retiree has not worked for any PERA eligible employer during the effective month of retirement, and the school district:

- is rural, as identified by the Colorado Department of Education (CDE);
- determines there is a critical shortage of qualified employees and that the retiree possesses unique skills or qualifications needed by the district;
- hires the service retiree as a teacher, school bus driver, or food services cook; and
- notifies PERA of any service retiree hired under these provisions each calendar year.

Both the employing school district and the working retiree must provide full payment of all contributions and disbursements to PERA during the time of employment, which may not exceed six consecutive years.

The bill is repealed July 1, 2028.

Background

Under current law, employers in the school division may hire up to 10 PERA retirees in areas where there is a critical shortage of qualified candidates, and a service retiree is available with the unique skills necessary to fill the position. These employees may work up to 140 days or 916 hours per calendar year without a reduction in their benefits (140 days is about 7 months and public schools provide 180 days of instruction, or about 9 months). Both the employing school district and the working retiree must provide full payment of all contributions and disbursements to PERA during the time of employment. These contributions and disbursements do not change the calculation of the retiree's benefits, nor does the employee's salary during this period have an effect on the calculation of highest average salary.

Based on the October 2016 student count, 147 out of 178 school districts are designated as rural school districts. Of these, 108 are considered small rural school districts enrolling fewer than 1,000 students, and 39 are rural districts enrolling more than 1,000 students, but fewer than 6,500 students.

Statutory Public Entity Impact

The primary fiscal impact of this bill is additional revenue from employee contributions to Colorado PERA; however, there is also potential that the bill will extend PERA's unfunded actuarial accrued liability (unfunded liability), as discussed below.

Additional PERA revenue. This bill increases revenue from employee contributions and employer disbursements to Colorado PERA. For each retiree a rural school district hires, PERA will receive additional employee contributions and employer disbursements it would not have otherwise received, therefore increasing the association's revenue.

The bill allows a rural school district to hire and retain retired employees for the entire academic year, extending the allowed time of employment for these rehires, and the contributions and disbursements to PERA for two additional months. Because the bill requires that retirees fill a critical qualified staff shortage, this fiscal note assumes that, but for this bill, these vacancies would otherwise go unfilled. Unfilled positions contribute nothing in employee contributions or employer disbursements to PERA. Therefore, the payments received by the association for two additional months per rehired employee is revenue that would otherwise not be paid into the system. Payments to PERA for a non working retired employee rehired full time is also revenue that would otherwise not be paid into the system. School districts contribute 20.15 percent of an employee's salary amount, and employees contribute 8 percent of their pay.

PERA's unfunded liability. The increase in revenue to PERA may be offset if a PERA service member is induced by this bill to take an early retirement, and then be rehired via this new mechanism, without a reduction in retirement benefits. Under this bill, a member could begin receiving benefits earlier, increasing the number of retirement benefit payments, and therefore the cost to PERA. In this scenario, the member would have otherwise contributed revenue to the system without taking benefits for additional years and remained in regular employment with the rural school district. A working employee who is not yet receiving benefits contributes revenue to PERA, since the association is not yet paying out the retirement benefits for that employee, but is receiving contributions and disbursements.

Departmental Difference

As noted above, this fiscal note identifies the primary impact of this bill as increased revenue to Colorado PERA as a result of contributions and disbursements that would otherwise not accrue, but for this bill. Alternatively, PERA estimates that the bill increases the unfunded liability for the school division by $85.3 million, under the assumption that the bill will induce 50 current employees in the division to resign their position and be rehired under the mechanism provided in this bill, and that each year, another 50 employees will take advantage of this system, through the bill's repeal in 2028.

This fiscal note acknowledges the potential that the bill may induce individuals on the cusp of retirement to take advantage of the mechanism provided by the bill, retire from their current position, be rehired, and collect both a PERA retirement benefit and a working salary, thus extending PERA's unfunded liability. However, the fiscal note differs with the estimated size of this impact for the following reasons:

- There are about 23,000 PERA eligible employees in rural school districts, with an average employee age of 45, and average service of about 8 years. Although there certainly are some employees in rural districts on the cusp of retirement who could retire and be rehired, this number is assumed low, given the average age and years of service of school division employees in the rural districts affected by the bill.

- Current law allows districts to hire up to 10 service retirees for 140 days. This fiscal note assumes individuals filling these 10 positions are the principal population of retirees affected by the bill. Allowing these positions to extend beyond 140 days allows the districts to continue to employ these individuals for the entire academic year, therefore increasing contributions without any corresponding increase in liability.

- The next most likely population affected by the bill are currently retired individuals, and those individuals who retire during the next 10 years as matter of course, who live in geographic proximity to a rural district, and who are induced to take full-time employment as a result of the bill. As stated above, this employment increases revenue to PERA without a corresponding increase in liability, as these individuals are already receiving a PERA benefit, which is unchanged by this bill.

- The final population that may be affected by the bill are those currently working PERA members who are induced to retire and be rehired, functionally increasing PERA's unfunded liability. While this situation is possible, it assumes that some individuals are willing to take a reduced PERA retirement benefit and retire earlier than they would have without this bill.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Education   PERA   School Districts

Research Note Available

An LCS Research Note for HB17-1176 is available online and through the iLegislate app. Research notes provide additional policy and background information about the bill and summarize action taken by the General Assembly concerning the bill.