

HB 5418 (McCarthy-D) The Governor's Pension Proposal for Educators

IEA Position: OPPOSE

IEA's Position:

The real problem is the unfunded liability, not benefit levels.

The benefits have been studied repeatedly by outside consultants and are found to be average and in the mainstream nationally. Moreover, the lion's share of the cost is currently paid by the employees, not the state. **Teacher contributions currently are among the highest in the nation at 9.4 percent. The real problem is the debt, not benefit levels.**

State costs for pension benefits for new hires are among the lowest costs to any state government in the nation and will become even more affordable in the future. The cost of TRS alone will drop to 6.63% of salary in the coming years. That is almost the same cost of Social Security. In addition, the state saves billions every year by not having to pay an additional 6.2 percent for Social Security for TRS and SURS participants.

For members of TRS and SURS, their pension will be their sole source of income upon retirement. **They receive *NO* Social Security for their years of being an educator.**

Additionally, those in the retirement systems have always and will always pay their share to fund their pension benefits. These proposed benefit changes will make it harder to attract and retain high quality teachers and university employees. The proposal sends a message that quality will not be rewarded.

The Bottom Line:

The benefits earned on an annual basis for all state retirement systems amount to an annual cost to the state of \$1.6 billion. This year's pension payment the state owes is \$4.6 billion. However, roughly \$3.0 billion of that amount is not to pay for benefits; but to pay down the unfunded pension liability that has been allowed to accrue over the past 30 years. IEA members have always made their pension contribution regardless of the state's fiscal problems.

Mainstream benefits did not cause this problem -not funding them on an annual basis has created the pension funding mess.

OPPOSE CUTS To Reasonable Benefits

HB 5418 cuts Benefits for new education employees

- **Increases retirement age to 67 or 62 with 35 years of service.**
 - This would require individuals to work until age 67 to avoid a penalty for being unable to reach normal retirement age, unless 35 years of service has been attained. However, a COLA would not be paid until attainment of age 67.
 - Applying this to TRS would mean that a 22 year old going into teaching would max out their pension benefit by age 57 and then would be unable to retire until age 62.
- **Multiplier Change from the current 2.2 percent of salary for each year of employment to 2 percent for those that do not receive Social Security through their employment.**
- **Final Average Salary (FAS) would be calculated using the highest eight consecutive years in the last ten years of service, instead of four years, calculated on BASE pay. Additionally, FAS shall not exceed \$106,800.**
- **Cost of Living Adjustment in Retirement (COLA) adjusted to a simple COLA equal to half of CPI (capped at 3 percent). Payable only after age 67.**
 - Currently, COLAs are 3 percent of pay compounded.
 - The 10-year average for CPI is approximately 2.5 percent, resulting in an average COLA of 1.25 percent.
 - The governor's proposal will result in the immediate erosion of the worth of a retiree's annuity since inflation would destroy their ability to sustain their retirement on a stagnant annuity. **Social Security at least has a compounding COLA.**
- **Maximum annuity kept to 35 years, thus capping the maximum retirement amount to 70% of pensionable salary.** Currently, for TRS and SURS participants 2.2% is the multiplier and 75% and 80% are the maximums, respectively.
- **Eliminates the prefunding of survivor annuities. They would be paid for by a reduction of an annuity.** Currently, both TRS and SURS members prefund their survivor and disability benefits by contributing 1% of their salary throughout their career.
- **Eliminates use of sick leave for pension purposes. Also, eliminates purchase of all leaves of absences, including maternity leaves of absence.**
- **Places limitations on return to work.**