# CSR Financial and Policy Notes on SB 1040 as Approved by Legislature

From CSR's perspective, the legislature's action on SB 1040 was a mixed bag. Our continued lobbying, grassroots, and public relations efforts in opposition of the bill bore some positive results. Compared to the bill as introduced, the version agreed upon by the legislature:

- Removed the exclusion from final average compensation (FAC) for longevity, tax-sheltered annuities, and merit pay.
- Eliminated a requirement that current employees be at least 60 years of age when they retire to receive retiree health care.
- Did not require that current employees had to retire after a set date (July 1, 2012 in the bill) to avoid being moved to the graded scale premiums coverage plan, which currently covers only employees hired since July 1, 2008.
- Reduced the proposed increase in contributions from the initial 5% for BASIC plan members and 8% for MIP to 4% and 7% respectively.
- Softened the impact on health care costs for current retirees so that those who have retired by January 1, 2013 and are Medicare eligible will pay 10% rather than 20% of their premium for retiree health care.

We were also successful in fending off a later and very serious effort to move new hires into a defined contribution plan rather than the current hybrid plan, mainly by emphasizing that this would increase costs by **$10 billion to school districts and colleges over the next 30 years**. And we were able to see that one of the causes for increased retirement costs was addressed by the steps in the bill to address prefunding, although we await a Supreme Court decision on the 3% contribution to know the final outcome on this issue.

However, the **elimination of retiree health care for newly hired school employees remains an unconscionable problem**. Also, the **lack of any link between ability to pay and employee contributions will exacerbate economic problems for lower income school employees, particularly support staff**.

Additionally, the legislation **did not affect one of the major cost drivers for the school employee retirement system-- stranded costs**. These stranded costs result from policies that have moved education away from neighborhood public schools to those public school academies that do not participate in our retirement system. They also stem from outsourcing school support services to employers who most often provide little or no retirement benefits to their employees.

Instead**, most of the cost reduction will be borne by school employees and retirees, either through increased contributions, increased costs, or reduced benefits**. In the first year, this savings is around **$300 million**—mainly as cost transfers to members of the system. Moreover, the battle on issues of concern is by no means over and we can expect to face another round on defined contribution after November 15.