The purpose of this bill regarding PEIA is to create a new leave conversion option for policyholders of the Teachers Retirement System (TRS) and allow charter schools to participate in the non-State Agency Fund, a voluntary participation risk pool. The new leave conversion option will allow retirees to convert 10 days of sick leave into $500.

Currently, policyholders within TRS hired after July 1, 2001 are only able to convert their leave at retirement into additional years of service. With passage of this bill, current enrollment indicates 26,000 TRS policyholders with a hire date after July 1, 2001 will now be eligible to choose between increasing their years of service for pension benefits and a onetime cash payout. There are approximately 12,000 policyholders with a hire date prior to July 1, 2001 that also have the leave conversion into healthcare premium benefit.

Due to time restrictions, the following estimates have not been created by actuaries. PEIA has utilized current enrollment and past OPEB Actuarial Reports to create high level cost estimates. PEIA has adjusted the current assumptions per the current benefits to arrive at an estimated fiscal impact. PEIA is assuming early on that only the post July 1, 2001 hired policyholders would be interested in choosing this option.

PEIA has assumed that 15% of newly eligible policyholders will convert their leave for this payout. This is 20% lower than current assumptions. The lower assumption is due to the lower value conversion rate of 10 days of accrued leave = $500 versus an ongoing annuity value of increased service. PEIA has also assumed an average sick leave balance of 150 days at retirement.

By applying the above assumptions to existing TRS policyholders hired after July 1, 2001, the State can assume 3,900 of current policyholders will convert 10 days of sick leave for $500 resulting in a total future obligation of $29 million over the years as the policyholders retire. Assuming this group of policyholders retire at a rate of 20% per year, the state would pay out approximately $6 million per year.

In the future when all policyholders are post July 1, 2001 hires the state will have approximately 34,000 TRS policyholders eligible for this benefit. The State can assume 5,100 of the policyholders will convert 10 days of sick leave for $500 resulting in a total future obligation of $38 million over the years as the policyholders retire. Assuming this group of policyholders retire at a rate of 20% per year, the state would pay out approximately $8 million per year.

PEIA is unable to provide the overall fiscal impact to the state as this leave conversion payout would be in lieu of an increased pension annuity. Therefore, the comparison of the cost would be based on assumed mortality rates of the retirees. The most reasonable assumption is the conversion will result in a savings as an increased pension annuity will generally pay for a longer period.

Without knowledge of the charter school policyholder’s risk index, the impact to the non-State Agency Fund risk pool is unknown. The premiums for this Fund are adjusted annually as necessary per the experience of the Fund.