

# RURAL SCHOOL DISTRICT PERA EMPLOYEE RETIREE ("CRITICAL SHORTAGE") REPORT HB17-1176

DECEMBER 2020



PREPARED FOR:

The Colorado General Assembly  
Finance Committee of the House of Representatives  
Finance Committee of the Senate

PREPARED BY:

Colorado Public Employees' Retirement Association (PERA)



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# I. INTRODUCTION

# INTRODUCTION

The Colorado Public Employees' Retirement Association (PERA), respectfully submits this report titled, "Rural School District PERA Employee Retiree ("Critical Shortage") Report," to the House and Senate Finance committees of the Colorado General Assembly pursuant to the following statute:

**C.R.S. §24-51-1101(1.9)(i)**

On or before December 1, 2020, the association shall submit a report to the finance committees of the house of representatives and the senate, or any successor committees, regarding the employment after service retirement provisions of this subsection (1.9). The employers in the school division of the association that employ teachers, school bus drivers, or school food services cooks pursuant to this subsection (1.9) shall provide information requested by the association for the purposes of the report. The report shall include:

- (I) The number of teachers, school bus drivers, and school food services cooks who have been employed after service retirement pursuant to this subsection (1.9) as of the date of the report;
- (II) The extent to which this subsection (1.9) has helped employers in the school division address teacher, school bus driver, and school food services cook shortages;
- (III) The costs, if any, to the association as a result of this subsection (1.9); and
- (IV) Any other information deemed relevant by the association.

## II. BACKGROUND

## BACKGROUND

Under current law, Colorado PERA benefits are temporarily reduced when a PERA retiree works for a PERA employer more than 110 days/720 hours in a calendar year (or 140 days/916 hours if designated by a school district or institution of higher education).

On June 6, 2017, House Bill 17-1176 was signed into law which modified the PERA working after retirement provisions for certain retirees hired by an employer in the School Division if the following conditions are met:

- » The employer that hires the PERA retiree is a rural<sup>1</sup> school district (as identified by the Colorado Department of Education).
- » The school district hires the PERA retiree to provide classroom instruction, school bus transportation, or as a school food services cook.
- » The school district determines that there is a critical shortage of qualified teachers, school bus drivers, or school food services cooks, and that the PERA retiree has specific experience, skills, or qualifications that would benefit the district.

A PERA retiree who meets these criteria would not be subject to a reduction in his or her benefit if the retiree works beyond the current working after retirement limits as long as the retiree does not work for a PERA employer during the effective month of retirement. The employer is required to make full payment of all PERA employer contributions, disbursements, and working retiree contributions during the time of employment, which may not exceed six consecutive years, and notify PERA of any service retiree hired under these provisions each calendar year. A working retiree may not receive a health care premium subsidy during their return to employment, but may participate in the health plan offered by the School Division employer. A teacher who retires before he or she has met the age and serve credit requirements for full retirement may not be employed by the school that was the teacher's last employer until two years after his or her retirement.

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<sup>1</sup> A Colorado school district is determined to be rural giving consideration to the size of the district, the distance from the nearest large urban/urbanized area, and having a student enrollment of approximately 6,500 students or less. Small rural districts are those districts meeting these same criteria and having a student population of less than 1,000 students. Rural and small rural school districts will be identified as simply "rural school districts" throughout this report.

### III. UTILIZATION DATA

## UTILIZATION DATA<sup>2</sup>

### SCHOOL DIVISION MEMBERSHIP DATA

The active membership data of the School Division as of December 31, 2019, and the active membership data for the school districts that have been identified by the Colorado Department of Education as rural school districts are shown in the table below.

Item	School Division	Rural School Districts
Number of Active Members	128,938	23,755
Average Age	44.6	45.1
Average Service	8.4	8.0
Annual Reported Payroll	\$5,104,430,888	\$754,984,738
Average Reported Payroll	\$39,588	\$31,782

The number of qualifying individual retirees filling the designated Critical Shortage positions of teachers, school bus drivers, and school food services cooks, is shown over the effective period of the program to-date (since June 2017), by effective year and job title, in the following table. Note that the effective year shown indicates the initial year of designation for each individual included in the summary.

Effective Year	Bus Driver	Food Service Worker	Teacher	Total
2017	13	0	54	67
2018	26	2	67	95
2019	14	1	57	72
2020	9	2	32	43
Total	62	5	210	277

<sup>2</sup> Census data collected for purposes of this Critical Shortage Report was captured by PERA as of October 6, 2020.



### III. UTILIZATION DATA

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The Critical Shortage data collected specifically for purposes of this report, contains a number of individuals who have been designated under the Critical Shortage provisions over multiple years during the effective period of the legislation. Each year the rural school districts must meet the Critical Shortage criteria prior to designating a position or re-designating a position as qualifying. Therefore, the 277 individuals summarized in the table above who have participated in the Critical Shortage program since 2017, have filled over 600 designated Critical Shortage positions within the qualifying rural school districts over the effective period. Provided below is a similar table detailing the number of critical shortage positions filled over the effective period (since June 2017) to date. As in the table above, the data is broken down by effective year and job title.

Effective Year	Bus Driver	Food Service Worker	Teacher	Total
2017	13	0	54	67
2018	39	2	109	150
2019	40	3	143	186
2020	44	5	151	200
Total	136	10	457	603



## **IV. SURVEY RESULTS OF SCHOOL DIVISION EMPLOYERS**

## SURVEY RESULTS OF SCHOOL DIVISION EMPLOYERS

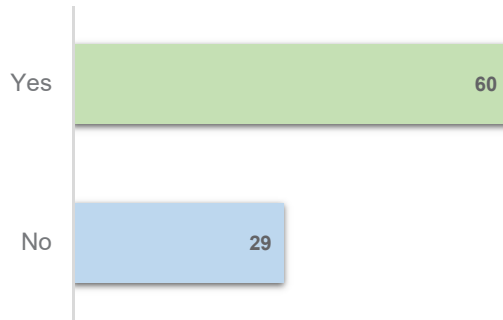
In order to determine the extent to which these provisions help employers in the School Division address teacher, school bus driver, and school food services cook shortages, all rural school districts were sent a survey and asked to respond to a series of questions regardless of participation in the Critical Shortage Program. Therefore, the survey format not only attempts to identify the reasons a rural school district may participate and the assistance provided, but also allows for identification of the reasons why a rural school district does not currently participate and/or has not yet participated.

The following Critical Shortage survey question and answer summary reflects responses submitted between October 30, 2020 and December 1, 2020, by 89 school districts. The most recent summary from the Colorado Department of Education, published March 9, 2020, reported 146 qualifying rural school districts, resulting in an approximate 61 percent qualifying employer response rate with regard to the Critical Shortage survey. The names of school districts, individual respondents, and contact information provided were omitted for purposes of this report.

### QUESTION #1

Does or has your school district/school participate(d) in the Critical Shortage Designation Program, pursuant to §24-51-1101(1.9)?

Answered: 89 Skipped: 0



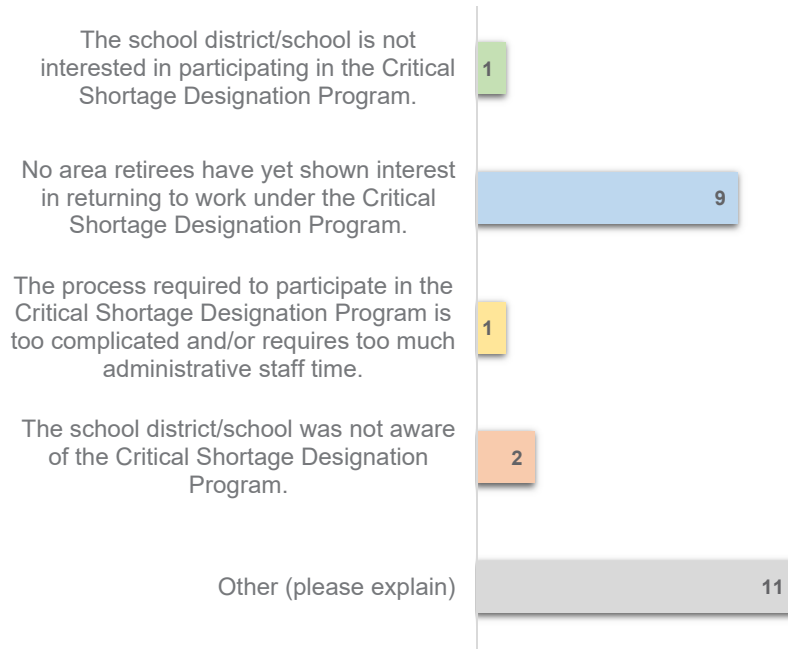
ANSWER CHOICES	RESPONSES	
Yes	67.42%	60
No	32.58%	29
<b>TOTAL</b>		<b>89</b>

IV. SURVEY RESULTS OF SCHOOL DIVISION EMPLOYERS

**QUESTION #2**

Please provide the reason your school district/school has not yet participated in the Critical Shortage Designation Program? Select all that apply.

Answered: 24 Skipped: 65



ANSWER CHOICES	RESPONSES	
The school district/school is not interested in participating in the Critical Shortage Designation Program.	4.17%	1
No area retirees have yet shown interest in returning to work under the Critical Shortage Designation Program.	37.50%	9
The process required to participate in the Critical Shortage Designation Program is too complicated and/or requires too much administrative staff time.	4.17%	1
The school district/school was not aware of the Critical Shortage Designation Program.	8.33%	2
Other (please explain)	45.83%	11
<b>Total Respondents: 24</b>		

*Detail provided regarding "Other" response selected in Question #2:*

- » Up to know we are fully staffed, but that may change in the future.
- » Unsure. Just learning about it.
- » Not needed to participate at this time.
- » The School District needs to participate, but was unaware of how to do so.
- » We do not have a need at this time. In the near future, it is possible that this need will arise.
- » Not sure we know enough yet about program and Also find we don't have a lot of retirees willing to come back to work
- » We do not have anyone interested in coming back to use it at this time...if we had someone, we would inact it.
- » We have not had the issue of critical shortages for any of these areas as of this date.
- » I do not have the details on how this program works.
- » We have been lucky in not needing it thus far when filling open positions.
- » The retirees we do have are part time or subs so we have not had the need as of yet to participate in the program. Right now we just designate them for the extra days.

## IV. SURVEY RESULTS OF SCHOOL DIVISION EMPLOYERS

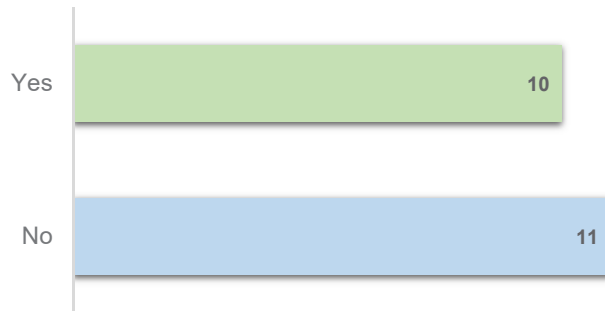
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### QUESTION #3

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Does your school district/school intend to participate in the Critical Shortage Designation Program, before the law sunsets on July 1, 2023?

Answered: 21 Skipped: 68

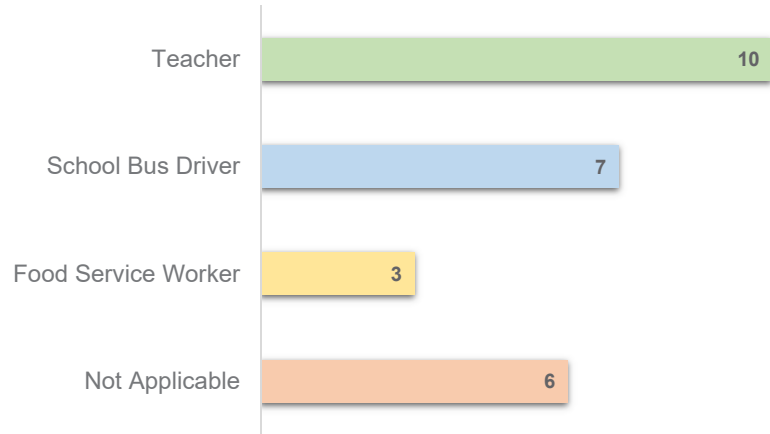


ANSWER CHOICES	RESPONSES	
Yes	47.62%	10
No	52.38%	11
<b>TOTAL</b>		<b>21</b>

**QUESTION #4**

If yes, please indicate which job categories you plan to fill with Critical Shortage designees?  
Select all that apply.

Answered: 17 Skipped: 72



ANSWER CHOICES	RESPONSES	
Teacher	58.82%	10
School Bus Driver	41.18%	7
Food Service Worker	17.65%	3
Not Applicable	35.29%	6
<b>Total Respondents: 17</b>		



## IV. SURVEY RESULTS OF SCHOOL DIVISION EMPLOYERS

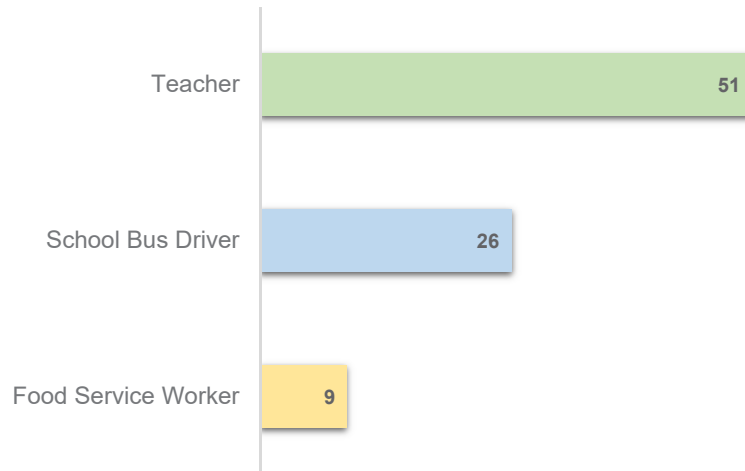
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### QUESTION #5

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Please indicate the job categories your school district/school has in the past and/or currently fills with Critical Shortage designees? Select all that apply.

Answered: 55 Skipped: 34

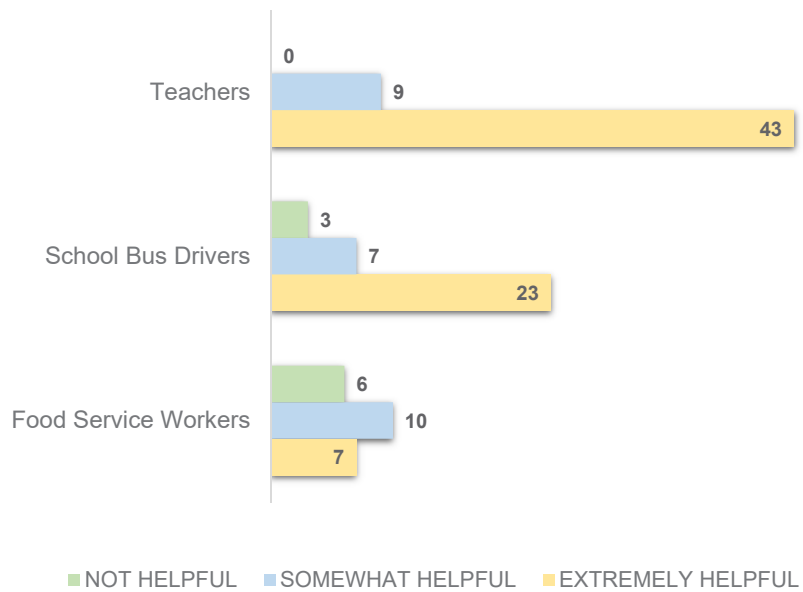


ANSWER CHOICES	RESPONSES	
Teacher	92.73%	51
School Bus Driver	47.27%	26
Food Service Worker	16.36%	9
<b>Total Respondents: 55</b>		

**QUESTION #6**

Please identify and comment on the extent to which the Critical Shortage provisions has helped your school district/school to fill essential positions.

Answered: 55 Skipped: 34



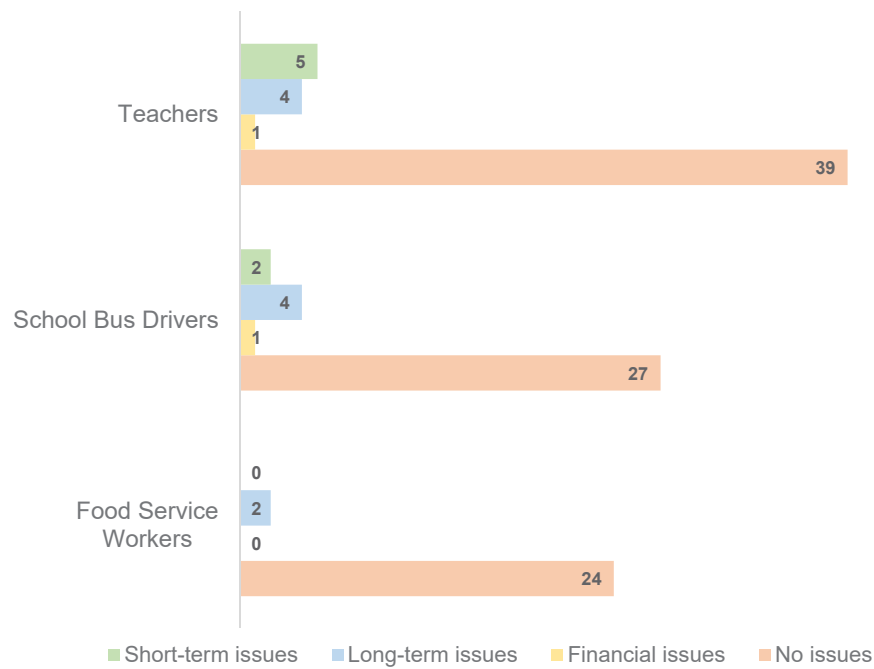
	NOT HELPFUL	SOMEWHAT HELPFUL	EXTREMELY HELPFUL	TOTAL
Teachers	0.00% 0	17.31% 9	82.69% 43	52
School Bus Drivers	9.09% 3	21.21% 7	69.70% 23	33
Food Service Workers	26.09% 6	43.49% 10	30.43% 7	23

## IV. SURVEY RESULTS OF SCHOOL DIVISION EMPLOYERS

### QUESTION #7

Please identify and comment on any issues your school district/school has experienced resulting from the rehire of retirees under the Critical Shortage provisions. For example, short term issues may be associated with the steps to getting the retiree on board, and long term issues may be any ongoing administrative complications.

Answered: 52 Skipped: 37

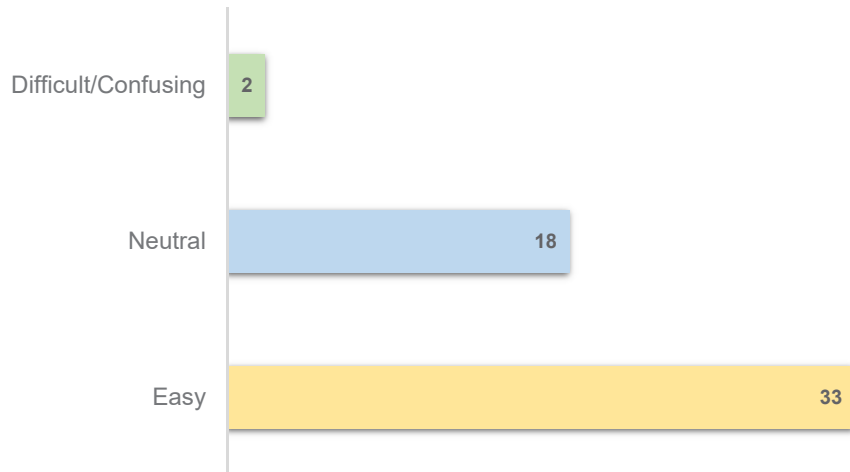


	Short-term issues	Long-term issues	Financial issues	No issues	Total
Teachers	10.20% 5	8.16% 4	2.04% 1	79.59% 39	49
School Bus Drivers	5.88% 2	11.76% 4	2.94% 1	79.41% 27	34
Food Service Workers	0.00% 0	7.69% 2	0.00% 0	92.31% 24	26

**QUESTION #8**

As a representative of your school district/school, please rate and comment on the process of designating retirees under the current Critical Shortage provisions.

Answered: 53 Skipped: 36



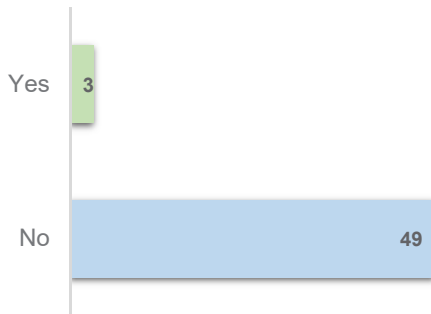
ANSWER CHOICES	RESPONSES	
Difficult/Confusing	3.77%	2
Neutral	33.96%	18
Easy	62.26%	33
<b>TOTAL</b>		<b>53</b>

**QUESTION #9**

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Do you believe the current complexities of the designation process has hindered your school district/school in any way from designating and rehiring the retirees who may be interested in participating in the Critical Shortage Designation Program?

Answered: 52 Skipped: 37



ANSWER CHOICES	RESPONSES	
Yes	5.77%	3
No	94.23%	49
<b>TOTAL</b>		<b>52</b>

## QUESTION #10

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Please provide any additional comments.

Answered: 10 Skipped: 79

- » If need be we would participate.
- » It has been helpful we would like to see it continue.
- » DO NOT get rid of the critical shortage provisions.
- » I hope it continues for many years to come.
- » I think having the option of a critical shortage position for our small, rural districts is a very valuable option. It has definitely helped our district!
- » Our participation will really depend on the current environment and the number of applicants.
- » Rural Colorado needs teachers, not just our district, but most out here.
- » We would like to participate in the Critical Shortage Designation Program, however, in our small community, we are unable to attract our retirees to return to work. If our small rural school district would receive more State funding to increase our base pay, this may help with recruitment.
- » We currently have a significant shortage. We have 3 student teachers this year that we are working with their universities and have gone ahead and hired them full-time for 3 teaching positions as we don't have anyone else to fill these positions. We have 6 bus routes with 2 drivers in their 70s 1 driver in her 60s and 3 drivers in their 50s.
- » We would participate for Teachers and bus drivers if we have a retiree that wants to work full time.

## V. ACTUARIAL ANALYSIS OF COSTS

## ACTUARIAL ANALYSIS OF COSTS

Working after retirement provisions which allow retirees to continue to work after retirement without a reduction in their retirement benefit are likely to encourage a greater number of retirements than expected, as individuals typically make decisions based on their own financial interests. Plan provisions which encourage and trigger this type of behavior, generally create a “cost” to the plan or rather an unexpected liability loss. The additional costs are generally driven by actual shorter accumulation periods regarding employer and member contributions and longer payout-periods of benefits granted to retirees and beneficiaries when compared to the actuarial expectations of those metrics. The exact cost varies by individual and is largely due to behavioral choices of individual members, which are difficult to anticipate and quantify.

To assist with assessing the potential impact of the Critical Shortage provisions under HB 17-1176, PERA staff requested the Board’s external actuarial service provider, Segal, to analyze the Critical Shortage provisions and collected data regarding both the pension and other postemployment benefit (OPEB) plans. Based upon this information Segal was asked to supply an estimate of impact to-date and further extrapolate the observed experience in order to provide an estimated actuarial impact<sup>3</sup> for the entire program from enactment, as of June 6, 2017, to the repeal date of July 1, 2023 (C.R.S. §24-51-1101(1.9)(i)).

As noted in the Data Utilization<sup>4</sup> section of this report, there were 277 individual PERA members who have participated in the Critical Shortage program, thus far. Also noted above, these 277 members filled approximately 603 designated critical shortage positions, including positions that are designated each year over multiple years. Excluding positions which were filled by members who retired prior to June 6, 2017, there were 206 remaining positions that were filled by members who retired on or after the enactment of HB 17-1176 and were rehired under the Critical Shortage provisions from 2017 through 2020, as is shown in the table below.

Effective Year/ Retirement Year	Bus Driver	Food Service Worker	Teacher	Total
2017	1	0	1	2
2018	8	1	28	37
2019	13	2	63	78
2020	14	2	73	89
Total	36	5	165	206

<sup>3</sup> The Critical Shortage provisions, data, and resulting impact estimates are with reference to HB 17-1176 only and do not reflect actual or anticipated experience of other recently enacted critical shortage statutes.

<sup>4</sup> Census data collected for purposes of this Critical Shortage Report was captured by PERA as of October 6, 2020.



## V. ACTUARIAL ANALYSIS OF COSTS

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Because most of the anticipated cost increases likely stem from a situation where the retirement patterns were influenced by the provisions of the Critical Shortage program, Segal focused their analysis on all members that retired and were rehired within the same year. Considering the Critical Shortage data, there were 76 individual members of the 277 individuals mentioned above who retired and were rehired under the Critical Shortage provisions during the same year. The table below shows this observed activity, by year, from 2017 through 2020.

Effective Year/ Retirement Year	Bus Driver	Food Service Worker	Teacher	Total
2017	1	0	1	2
2018	5	1	24	30
2019	3	1	28	32
2020	1	0	11	12
Total	10	2	64	76

These 76 individuals are most likely to adversely affect PERA, since their retirement decisions appear influenced by the existence of the program.

**CONSIDERING THE DIVISION TRUST FUNDS—PENSION COSTS**

To estimate the pension costs of the Critical Shortage provisions under HB 17-1176, Segal used the December 31, 2019, data of the 32 members from the 2019 retirements and calculated the increase in total liability due to their retirements. As a result, the cost per member varies from \$10,000 to \$120,000 depending on the member’s information, with the average of approximately \$50,000 per member.

When taking into account a potential 206 members who may have retired early due to the Critical Shortage provisions during the period from 2017 through 2020, the estimated cost is about \$10.30 million assuming the increase in liability is recognized immediately. For the period from 2021 through 2023, Segal included an additional 89 members per year assuming that member counts in those years would remain stable from 2020, for a total of 473 members over the six-year period. As a result, the estimated cost for 2021 through 2023 is about \$13.35 million, and the total estimated cost for 2017 through 2023 is about \$23.65 million.

As of December 31, 2019, the estimated effect on the School Division is shown in the table below (\$ millions).

School Division	With HB 17-1176	Without HB 17-1176	Increase/(Decrease)
Actuarial Accrued Liability	\$44,136.73	\$44,113.08	\$23.65
Actuarial Value of Assets (AVA)	25,412.01	25,412.01	0.0
Unfunded Actuarial Accrued Liability	18,724.72	18,701.07	23.65
Funded Percentage (AVA Basis)	57.58%	57.61%	(0.03)%

**CONSIDERING THE HEALTH CARE TRUST FUND (HCTF)—OPEB COSTS**

Similar to the analysis performed with respect to pension liability, to estimate the OPEB cost of the Critical Shortage provisions under HB 17-1176, Segal used the December 31, 2019, data of the 32 members from the 2019 retirements and calculated the increase in total liability due to their retirements. As a result, the average impact to accrued OPEB liability due to earlier than expected retirement is about \$2,900 per member; offset by an estimated \$1,200 (based upon 45% participation for one year of health care subsidy) reduction in OPEB subsidy. This results in an estimated net increase to liability of \$1,700 per member per year.

## V. ACTUARIAL ANALYSIS OF COSTS

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When taking into account a potential 206 members who may have retired early due to the Critical Shortage provisions during the period from 2017 through 2020, the estimated cost is about \$0.35 million assuming the increase in liability is recognized immediately. For the period from 2021 through 2023, Segal included an additional 89 members per year assuming that member counts in those years would remain stable from 2020, for a total of 473 members over the six-year period. As a result, the estimated cost for 2021 through 2023 is about \$0.45 million, and the total estimated cost for 2017 through 2023 is about \$0.80 million.

As of December 31, 2019, the estimated effect on the HCTF is shown in the table below (\$ millions).

Health Care Trust Fund	With HB 17-1176	Without HB 17-1176	Increase/(Decrease)
Actuarial Accrued Liability	\$1,408.23	\$1,407.43	\$0.80
Actuarial Value of Assets (AVA)	348.43	348.43	0.00
Unfunded Actuarial Accrued Liability	\$1,059.80	\$1,059.00	\$0.80
Funded Percentage (AVA Basis)	24.74%	24.76%	(0.02)%

### SUMMARY

The effect of the current bill is estimated to increase the unfunded pension actuarial accrued liability by \$23.65 million and decrease the funded percentage by 0.03%. The results are generally proportionate to the utilization of the current provision. Therefore, if the number of members who would retire early due to this provision in 2021-2023 increased from the 89 estimated number per year used in the current analysis to 110 per year, the unfunded pension liabilities would increase by an additional \$3 million.

If fully utilized under the projected participation noted above, the current bill has no measurable effect on the estimated number of years to reach 100% funding.

The corresponding effect of the current bill is estimated to increase the unfunded OPEB actuarial accrued liability by \$0.80 million and decrease the funded percentage by 0.02%. The HCTF impact will vary and depends upon the how many retirees who return to work are covered by PERACare and how many years they participate. This is because HCTF subsidies are not provided during reemployment.

The actuarial team from Segal who provided this cost analysis are experienced in performing work for public pension plans, are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render this actuarial opinion. A copy of the letter requested by and provided to PERA titled, *Actuarial Analysis of Critical Shortage Provisions under House Bill 17-1176, dated December 18, 2020*, is available upon request.