Fiscal/Actuarial Note

Including Fiscal Note Impact

Agency: WV Consolidated Public Retirement Board

CBD Number: **Version:** **Bill Number:** **Resolution Number:**
Proposed West Virginia Student Success Act of 2019 (May 24, 2019 version)

Retirement System(s) Impacted by Legislation: **TRS**

Subject of Legislation: **Comprehensive Education Reform, including the creation of Charter Schools**

Date Requested: May 29, 2019

FUND(S)

TRS 2600 and TDC 2190

Sources of Revenue

[ ] General Fund
[X] Special Fund
[ ] Other Fund: (Specify)

Does the proposed legislation create:

[ ] A New Program
[ ] A New Fund
[X] Neither

Actuarial Note Summary

Summarize in a clear and concise manner what impact this measure will have on the liabilities and contributions associated with the retirement system(s).

The proposed West Virginia Student Success Act of 2019 would authorize the establishment of charter schools in the State of West Virginia. More specific, the proposed legislation establishes authorizers to review and approve charter school applications. County School Boards, accredited West Virginia public institutions of higher education and the State Board may act as authorizers.

Moreover, the proposed bill modifies the definition of a TRS Nonteaching member and a TRS Teacher member to allow the newly formed charter schools to join TRS provided the charter school includes in its approved charter contract a determination to participate in TRS. Also, the proposed bill modifies the Member definition for the Teachers Defined Contribution Retirement System (TDC) to allow newly formed charter schools to join TDC provided the charter school includes in its approved charter contract a determination to participate in TDC.

The number of members joining TRS or TDC from the newly formed charter schools is expected to be small relative to the total number of members in TRS and TDC, therefore we do not expect a material change in the normal cost or unfunded actuarial accrued liability from the inclusion of charter schools.

This bill modifies subsection 18-9A-2-(i)(5) of the "Public School Support" by stating that any county whose net enrollment is less than 1,400, the net enrollment of the county shall be adjusted for the purpose of determining the county's basic foundation program only. It is estimated that this provision would create approximately 110 new positions. In addition, the bill modifies subsection 18-9A-8(c) by stating each county shall receive an allowance for four and seventy hundredths state aid eligible professional student support personnel positions to each 1,000 students in net enrollment. This provision would create approximately 400 additional social and emotional support professionals, counselors and nurses.

The modifications to §18-9A mentioned in the previous paragraph would not increase the unfunded actuarial accrued liability for TRS as of the effective date of the proposed bill because the 510 new positions created would not have past service as of the effective date of the proposed bill. However, the 510 new positions would increase the employer normal cost for TRS by about $1.9 million dollars. The School Aid Formula (SAF) is about 94% of the total actuarially required contribution, therefore, the corresponding normal cost increase in the SAF from the 510 new positions would be about $1.8 million dollars.

The proposed bill would provide a $1,380 per year salary increase for service personnel, which depending on pay grade would be an annual increase between 3.35% and 6.47% in salary. For teachers, the proposed bill would provide a $2,120 per year salary increase and depending on the academic degree received, would be

an annual increase between 3.70% and 7.00% in salary.

The increase in salaries provided by the proposed bill would increase the actuarial accrued liability for TRS by approximately $120 million. The unfunded liability would be amortized on a level dollar basis for the remaining amortization period (until June 30, 2034) leading to an increase in the annual amortization amount of $14 million. The change in employer normal cost from the salary increases would increase the annual employer contribution by an additional $2.4 million. Therefore, the total increase to employer contribution in the first year as a result of salary increases would be approximately $16.4 million or 1.17% of payroll. The SAF is approximately 94% of the total actuarially required contribution, therefore, the corresponding increase in the School Aid Formula from the proposed salary increases would be about $15.4 million ($2.3 million SAF normal cost increase plus $13.1 million SAF amortization increase).

Fiscal Detail of Actuarial Impact

Show impact on current benefit costs, prior service benefit costs and ongoing contribution requirements following full implementation.

Impact On	Following Full Implementation		
	Increase in Unfunded Actuarial Accrued Liability	Initial Impact on Annual Contribution Requirement of System(s)	Contribution Increase as a Percentage of Annual Payroll
Total Annual Costs	$120,000,000	$18,300,000	1.31%
Normal Cost of System	N/A	$4,300,000	0.31%
Past Service Liabilities	$120,000,000	$14,000,000	1.00%
Fiscal Year Past Service Amortization Period Ends	N/A	2034	N/A

Explanation of above estimates:

Please explain increases and decreases in Normal Cost and Actuarial Accrued Liabilities, including assumptions and data sources. Please also include a long-range schedule of contributions if fiscal impact is expected to vary in future years.

The proposed bill would increase the unfunded liability of TRS by $120 million due solely to the proposed salary increases, leading to a $14 million increase in the amortization of the unfunded actuarial accrued liability. In the first year of implementation, the normal cost would increase by approximately $4.3 million ($2.4 million from salary increases and $1.9 million from new positions) Therefore, the additional annual employer cost in the first year would be approximately $18.3 million or 1.31% of payroll.

The SAF is approximately 94% of the total actuarially required contribution, therefore, the corresponding total increase in the SAF would be about $17.1 million ($4.0 million SAF normal cost increase plus $13.1 million SAF amortization increase).

Going forward, the estimated increase to annual normal cost will remain a part of the plan's annual cost provided there are members in the plan who are accruing benefits. The increased payments toward amortizing the unfunded liabilities in the plan will remain a part of the annual cost through the lifetime of the amortization period which ends on June 30, 2034.

Estimates given are based on actuarial results as of July 1, 2018, using the same assumptions and plan provisions from the July 1, 2017 funding valuation report. These estimates are based on assumptions of future events, which may not materialize. Future measurements may differ significantly due to plan experience differing from that anticipated by these assumptions, by the natural operation of the methodology used for these measurements, or by changes to plan provisions.

Analysis of Impact on Public Pension Policy

Please identify the direct and indirect expected impact on public pension policy for members covered under the retirement system(s). Also discuss any areas of vagueness, technical defects, and/or any special issues not captured elsewhere on this form.

The cost presented in this Actuarial/Fiscal Note only represent those incurred by the TRS defined benefit plan. Additional non-retirement cost associated with the proposed bill are not included in this Actuarial Note. Note, the impact of the additional contribution required to the TDC plan has not been determined in this Actuarial Note apart from its inclusion in the calculation of the State School Aid Formula reimbursement for pension costs.

Fiscal Note Summary

Summarize in a clear and concise manner what impact this measure will have on costs and revenues of state government.

The proposed West Virginia Student Success Act of 2019 would authorize the establishment of charter schools in the State of West Virginia. More specific, the proposed legislation establishes authorizers to review and approve charter school applications. County School Boards, accredited West Virginia public institutions of higher education and the State Board may act as authorizers.

Moreover, the proposed bill modifies the definition of a TRS Nonteaching member and a TRS Teacher member to allow the newly formed charter schools to join TRS provided the charter school includes in its approved charter contract a determination to participate in TRS. Also, the proposed bill modifies the Member definition for the Teachers Defined Contribution Retirement System (TDC) to allow newly formed charter schools to join TDC provided the charter school includes in its approved charter contract a determination to participate in TDC.

The number of members joining TRS or TDC from the newly formed charter schools is expected to be small relative to the total number of members in TRS and TDC, therefore we do not expect a material change in the normal cost or unfunded actuarial accrued liability from the inclusion of charter schools.

This bill modifies subsection 18-9A-2-(i)(5) of the "Public School Support" by stating that any county whose net enrollment is less than 1,400, the net enrollment of the county shall be adjusted for the purpose of determining the county's basic foundation program only. It is estimated that this provision would create approximately 110 new positions. In addition, the bill modifies subsection 18-9A-8(c) by stating each county shall receive an allowance for four and seventy hundredths state aid eligible

professional student support personnel positions to each 1,000 students in net enrollment. This provision would create approximately 400 additional social and emotional support professionals, counselors and nurses.

The modifications to §18-9A mentioned in the previous paragraph would not increase the unfunded actuarial accrued liability for TRS as of the effective date of the proposed bill because the 510 new positions created would not have past service as of the effective date of the proposed bill. However, the 510 new positions would increase the employer normal cost for TRS by about $1.9 million dollars. The School Aid Formula (SAF) is about 94% of the total actuarially required contribution, therefore, the corresponding normal cost increase in the SAF from the 510 new positions would be about $1.8 million dollars.

The proposed bill would provide a $1,380 per year salary increase for service personnel, which depending on pay grade would be an annual increase between 3.35% and 6.47% in salary. For teachers, the proposed bill would provide a $2,120 per year salary increase and depending on the academic degree received, would be an annual increase between 3.70% and 7.00% in salary.

The increase in salaries provided by the proposed bill would increase the actuarial accrued liability for TRS by approximately $120 million. The unfunded liability would be amortized on a level dollar basis for the remaining amortization period (until June 30, 2034) leading to an increase in the annual amortization amount of $14 million. The change in employer normal cost from the salary increases would increase the annual employer contribution by an additional $2.4 million. Therefore, the total increase to employer contribution in the first year as a result of salary increases would be approximately $16.4 million or 1.17% of payroll. The SAF is approximately 94% of the total actuarially required contribution, therefore, the corresponding increase in the School Aid Formula from the proposed salary increases would be about $15.4 million ($2.3 million SAF normal cost increase plus $13.1 million SAF amortization increase).

Fiscal Note Detail

Show over-all effect in Item 1 and 2 and, in Item 3, give an explanation of Breakdown by fiscal year, including long-range effect.

Effect of Proposal	Fiscal Year		
	2019 Increase/Decrease (use "-")	**2020** Increase/Decrease (use "-")	**Fiscal Year (Upon Full Implementation)**
1. Estimated Total Cost	0	$17,100,000	$17,100,000
Personal Services	0	0	0
Current Expenses	0	$17,100,000	$17,100,000
Repairs and Alterations	0	0	0
Equipment	0	0	0
Other	0	0	0
2. Estimated Total Revenues	0	0	0

Explanation of above estimates:

Please explain increases and decreases in personal services, current expenses, repairs and alterations, equipment, other costs and revenues, including assumptions and data sources and delineation between start-up and ongoing costs. Please also include a long-range schedule of costs and revenues if fiscal impact is expected to vary in future years.

The proposed bill would increase the unfunded liability of TRS by $120 million due solely to the proposed salary increases, leading to a $14 million increase in the amortization of the unfunded actuarial accrued liability. In the first year of implementation, the normal cost would increase by approximately $4.3 million ($2.4 million from salary increases and $1.9 million from new positions) Therefore, the additional annual employer cost in the first year would be approximately $18.3 million or 1.31% of payroll.

The SAF is approximately 94% of the total actuarially required contribution, therefore, the corresponding total increase in the SAF would be about $17.1 million ($4.0 million SAF normal cost increase plus $13.1 million SAF amortization increase).

Going forward, the estimated increase to annual normal cost will remain a part of the plan's annual cost provided there are members in the plan who are accruing benefits. The increased payments toward amortizing the unfunded liabilities in the plan will remain a part of the annual cost through the lifetime of the amortization period which ends on June 30, 2034.

Estimates given are based on actuarial results as of July 1, 2018, using the same assumptions and plan provisions from the July 1, 2017 funding valuation report. These estimates are based on assumptions of future events, which may not materialize. Future measurements may differ significantly due to plan experience differing from that anticipated by these assumptions, by the natural operation of the methodology used for these measurements, or by changes to plan provisions.

Memorandum

Please identify any areas of vagueness, technical defects, reasons a bill would not have a fiscal impact, and/or any special issues not captured elsewhere on this form.

This Actuarial/Fiscal Note is being submitted by the Consolidated Public Retirement Board. It has been reviewed by the CPRB Actuary. Both the Board and the CPRB Actuary are available upon request for questions.

Person submitting Actuarial/Fiscal Note: ________________________________

Kenneth M. Woodson Jr.
Board Actuary
WV Consolidated Public Retirement Board

Date: May 29, 2019