



The Select Committee on Pension Policy

## School Administrator Contract Year

*Darren Painter, Senior Policy Analyst  
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Office of the State Actuary

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### What's The Issue?

- Contract year for Plans 2/3 school administrators differs from the school year
- Lack of alignment can impact their ability to qualify for subsidized early retirement
- Plans 2/3 school administrators seeking to access subsidized early retirement two months earlier



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## Today's Briefing

- First briefing on this issue
- Background and overview
- Policy considerations
- Stakeholder proposal



## Key Policy Considerations

- At least four different ways to view this issue
  - Retirement planning issue
  - Contracting issue
  - Health care access issue
  - Retirement eligibility issue
- Options to address this issue for each view
  - Some do not require any policy changes



## Years Don't Line Up

- School administrators include superintendents, principals, directors, coordinators, etcetera
  - Members of TRS or SERS
- Administrator contracts required by statute to end on June 30
- Service credit in Plans 2/3 granted on a September-August school year
- Administrator contracts end two months before they receive service credit for the school year



## Subsidized Early Retirement Provides Larger Benefit

- Plans 2/3 provide two kinds of early retirement
  - Subsidized
  - Actuarially reduced
- Subsidized early retirement provides a larger benefit than actuarially reduced early retirement
- Members need 30 years of service to qualify for subsidized early retirement



### Example: Administrator AI

- Teacher for 20 years, principal for ten years
  - Teaching contracts end on the school year
  - Administrator contracts end two months before school year
- At end of thirtieth contract year
  - Worked 29 years ten months
  - Received 29 years and ten months of service credit
- Two months short of 30 years needed for subsidized early retirement



### Options Under Current Policy

- Sign another one-year contract
  - Work 31 years and ten months
- Negotiate a two-month contract to carry them to the end of the school year
- Use supplemental service credit provisions to pick up two additional months of service credit
  - Convert unused sick leave
  - Out-of-state teaching experience
- Defer retirement and pick up two months of additional service credit under service credit rules for school employees
  - Wait until end of school year to retire
  - May impact Plan 2 members ability to access retiree health care under PEBB



## PEBB Eligibility For Separated Members Varies

- Plan 2 members who separate from service and do not immediately retire are not eligible for retiree health care insurance from PEBB
- Plan 3 members can separate from service and defer retirement and still be eligible for PEBB



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## Questions for Policy Makers

- Is a policy change needed?
  - Are options adequate under current law?
- If a change is needed, are the retirement statutes the best place to make that change?
- Answer depend on how policy makers view the issue



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## At Least Four Ways to View The Issue

- Retirement planning issue
- Contracting issue
- Health care access issue
- Retirement eligibility issue



## View 1: Individual Retirement Planning Issue

- Advise administrators to plan ahead
- Education on opportunities to work within current structure
- No need for statutory changes



## View 2: Treat as A Contracting Issue

- Align administrator contract year to school year
- Change education statutes instead of retirement statutes
  - End contract year in August?
  - Special contract provisions for administrators' thirtieth year?
  - Define contract year with more flexibility?



## View 3: Treat as Health Care Access Issue

- Change PEBB statutes to expand access for Plan 2 members who separate from service and defer retirement
  - Administrators only?
  - Limited deferral period?
- Expanded PEBB access may make deferral a more appealing option for Plan 2 administrators
- SCPP studied Plan 2 PEBB Access in 2007
  - Recommended providing PEBB eligibility for separated Plan 2 members who were age 55 with at least 20 years of service
  - Bill passed House but not full Legislature



### View 4: Treat as Retirement Eligibility Issue

- Change retirement statutes to better accommodate school administrators
- Allow administrators access to subsidized early retirement two months earlier than other Plan 2/3 members



### Stakeholder Proposal

- Stakeholders view this as a retirement eligibility issue
- Seeking access to subsidized early retirement after 29 years and ten months
  - Allows administrator to retire at the end of their thirtieth contract and qualify for subsidized early retirement
  - Avoids having to use supplemental service credit or contracts
  - Avoids PEBB access issue for Plan 2 members



## Pension Policy Implications Of Proposal

- Sets new precedent of providing different retirement eligibility for a specific group of members
- May lead to other Plans 2/3 members seeking earlier access to subsidized early retirement
- Modifies early retirement provisions that are currently subject to litigation
  - Subsidized early retirement provided as part of legislation that repealed gain sharing
  - Legislation is currently under litigation



## Conclusion

- Contract year is not aligned with the school year
  - Can impact ability to access subsidized early retirement
- At least four different ways to view this issue
  - Retirement planning issue
  - Contracting issue
  - Health care access issue
  - Retirement eligibility issue
- Options to address this issue for each view
- Stakeholders view this as retirement eligibility issue
  - Propose allowing administrators early access to subsidized early retirement



## Next Steps?

- Take no action
  - View as a retirement planning or contracting
- Recommend 2007 Plan 2 PEBB access legislation
  - View as the same health care access issue studied before
- Continue study in 2010 interim
  - View as retirement eligibility or health care access issue

