South Carolina Revenue and Fiscal Affairs Office
Statement of Estimated Fiscal Impact
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Bill Number:	H. 3620	Amended by House Ways and Means General Government Legislative Subcommittee on March 26, 2019
Author:	Pope	
Subject:	State Employee Return-To-Work	
Requestor:	House Ways and Means	
RFA Analyst(s):	Shuford	
Impact Date:	March 29, 2019	

Fiscal Impact Summary

The Public Employee Benefit Authority (PEBA) indicates that this bill requires the agency to perform activities that will be conducted in the normal course of agency business. Therefore, the bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds of PEBA.

An analysis performed by the retirement systems actuary suggests that this bill will not have any fiscal impact to the South Carolina Retirement System (SCRS) or the Police Officers Retirement System (PORS). Based on observed retirement behavior, the actuary concludes that the 12 consecutive month period required before a retiree is reemployed is long enough to not create an incentive for members to change current retirement behavior patterns and retire at an earlier age. Additionally, the actuary notes that requiring participating employers to remit employer contributions when an active, inactive, former, or retired member of the retirement system is employed will maintain the expected revenue to SCRS and PORS to finance the existing unfunded actuarial accrued liability.

Revenue and Fiscal Affairs anticipates that General Fund, Other Funds, and Federal Funds expenditures for employer contributions to SCRS and PORS will increase beginning in FY 2019-20. The amount of the increase is undetermined, as we have no data to estimate how many participating employers have utilized these employment practices to circumvent the income limitations and employer contribution requirements of SCRS and PORS.

Similarly, Revenue and Fiscal Affairs anticipates that expenditures on employer contributions to SCRS and PORS by local participating employers will increase by an undetermined amount beginning in FY 2019-20.

Explanation of Fiscal Impact

Amended by House Ways and Means General Government Legislative Subcommittee on March 26, 2019
State Expenditure
This bill requires employers participating in SCRS or PORS to remit employer contributions when an active, inactive, former, or retired member of the retirement system is employed. These contributions are required regardless of whether the member is classified as an employee, independent contractor, leased employee, joint employee, or other classification. Participating

employers may apply to PEBA for an exception to this rule. A retired employee is not considered an active member of a retirement system and does not accrue additional service credit. PEBA is authorized to audit participating employers to verify compliance. These employer contribution requirements do not change the existing exemptions for members with the following qualifications:

- Retired before January 2, 2013
- Attained age 62 in SCRS or age 57 in PORS at retirement
- Compensated for service in a public office when appointed by the Governor, appointed or elected by the General Assembly, or elected by the voters
- Returned to certain critical needs teaching or school resource officer positions.

The bill provides further that a retired member of SCRS or PORS is exempt from the $10,000 earnings limitation if a participating employer has not engaged the retiree in any capacity for at least 12 consecutive months after retirement.

PEBA indicates that this bill requires the agency to perform activities that will be conducted in the normal course of agency business. Therefore, the bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds of PEBA.

In addition, an analysis performed by the retirement systems actuary suggests that this bill will not have any fiscal impact to SCRS or PORS. The actuary anticipates that the 12 consecutive month period required before a retiree is reemployed is long enough to not create an incentive for members to change current retirement behavior patterns and retire at an earlier age. Additionally, the actuary notes that requiring participating employers to remit employer contributions when an active, inactive, former, or retired member of the retirement system is employed will maintain the expected revenue to SCRS and PORS to finance the existing unfunded actuarial accrued liability. The actuary reports that these assumptions are based on observed retirement behavior in South Carolina before and after the retirement reforms enacted in 2012 and retirement behaviors observed in other states.

Revenue and Fiscal Affairs anticipates that the enhanced audit and compliance verification requirement of the bill will increase PEBA's ability to require participating employers to remit employer contributions on retired members income regardless of whether the member is classified as an employee, independent contractor, leased employee, joint employee, or other classification. The new audit and compliance verification provisions of the bill may require State agencies to remit employer contributions for retired members presently hired through staffing agencies or third-party employers. We anticipate that the ability of these strategies to circumvent the income limitations and employer contribution requirements of SCRS and PORS will be reduced. Therefore, we anticipate that General Fund, Other Funds, and Federal Funds expenditures for employer contributions to SCRS and PORS will increase beginning in FY 2019-20. The amount of the increase is undetermined, as we have no data to estimate how many participating employers have utilized these employment practices to circumvent the income limitations and employer contribution requirements of SCRS and PORS.

State Revenue

N/A

Local Expenditure
Revenue and Fiscal Affairs anticipates that the enhanced audit and compliance verification requirement of the bill will increase PEBA's ability to require participating employers to remit employer contributions on retired members income regardless of whether the member is classified as an employee, independent contractor, leased employee, joint employee, or other classification. The new audit and compliance verification provisions of the bill may require State agencies to remit employer contributions for retired members presently hired through staffing agencies or third-party employers. We anticipate that the ability of these strategies to circumvent the income limitations and employer contribution requirements of SCRS and PORS will be reduced. Therefore, we anticipate that expenditures on employer contributions to SCRS and PORS by local participating employers will increase beginning in FY 2019-20. The amount of the increase is undetermined, as we have no data to estimate how many local participating employers have utilized these employment practices to circumvent the income limitations and employer contribution requirements of SCRS and PORS.

Local Revenue
N/A

Frank A. Rainwater, Executive Director