# Fiscal Note

*Fiscal Services Division*

HF 2630 – Teacher Compensation (LSB6327HZ.1)
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Fiscal Note Version – As amended and passed by the House

**Description**

House File 2630 relates to school funding, including the teacher salary supplement (TSS) cost per pupil and teacher and education support professional compensation. The Bill also relates to the Iowa Public Employees' Retirement System (IPERS), school district budget statement reporting, notifications required by each county auditor, appropriations, and effective date provisions.

The Bill provides that a licensed teacher who retires and begins receiving a retirement allowance under IPERS, effective July 1, 2024, through June 30, 2027, may return to IPERS-covered employment after one month of retirement benefits, instead of the current four months of retirement benefits, and continue to receive retirement benefits after reemployment with an IPERS-covered employer.

For FY 2025, the Bill increases the minimum teacher starting salary to $47,500. For FY 2026 and subsequent fiscal years, the Bill increases the minimum teacher starting salary to $50,000.

The Bill defines "education support personnel" (ESP) as regular and part-time employees of a school district who are not salaried.

The Bill requires the Department of Management to calculate a TSS district cost per pupil (DCPP), beginning in FY 2025, in an amount equal to the sum of the following:

- The amount necessary to allow the school district to provide the $47,500 minimum starting teacher salary.
- The amount necessary, not to exceed $14.0 million in the aggregate among all school districts, to allow each school district to provide a minimum ESP wage of $15 per hour along with the costs associated with the employer's share of contributions to IPERS and the employer's share of the tax imposed by the federal Insurance Contributions Act.
- The amount of $22.0 million, to supplement teacher salaries and ESP wages in a manner that promotes quality teaching and rewards experience, to be divided based on each school district's percentage of the statewide total FY 2024 budget enrollment.

The Bill requires the Department of Management to similarly calculate a TSS DCPP beginning in FY 2026 with an amount equal to the sum of the following:

- The amount necessary to allow the school district to provide the $50,000 minimum starting teacher salary.
- The amount calculated for FY 2025, not to exceed $14.0 million in the aggregate among all school districts, to allow each school district to provide a minimum ESP wage of $15 per hour along with the costs associated with the employer's share of contributions to IPERS and the employer's share of the tax imposed by the federal Insurance Contributions Act, plus an increase related to the categorical percent of growth under Iowa Code section 257.8(2).
- The amount of $22.0 million, to supplement teacher salaries and ESP wages in a manner that promotes quality teaching and rewards experience, to be divided based on each school

district's percentage of the statewide total FY 2024 budget enrollment, plus an increase related to the categorical percent of growth under Iowa Code section 257.8(2).

The Bill also requires that for budget years beginning with FY 2027, the amounts for teacher minimum salaries, ESP wage increases, and quality teaching and experience reward supplements must all grow by the categorical State percent of growth.

The Bill delays the school district budget statement reporting required by Iowa Code section 24.2A(2)(a) until 30 days after the effective date of 2024 Iowa Acts, HF 2613 (Supplemental State Aid), or successor legislation, if enacted, and delays the notifications required of each county auditor by Iowa Code section 24.2A(2)(b) until 35 days after the effective date of HF 2613, or successor legislation, if enacted.

The Bill takes effect upon enactment.

**Background**

Currently, Iowa Code chapter 284 (Teacher Compensation) provides that the minimum annual salary for an initial teacher who has successfully completed an approved practitioner preparation program or holds an initial or intern teacher license issued by the Board of Educational Examiners (BOEE) must be at least $33,500. The TSS is funded by the General Fund.

The Internal Revenue Service (IRS) requires public pension plans to impose a bona fide retirement (BFR) period. A BFR period is a set time when retirees demonstrate that they have ended their employment and are entitled to retirement benefits. The standard BFR period for IPERS is four months. For the first month, the retiree must not work, regardless of whether the job is covered by IPERS. A retiree also must stay out of an IPERS-covered job for an additional three months.

The current requirement to wait four months before returning to IPERS-covered employment means that from a practical standpoint, a teacher typically must wait one school year before returning to work. However, reducing the four-month waiting period to one month would allow teachers to retire and return to work in covered employment the following school year.

All regular members contribute 6.29% (40.0% of the total rate) of pay and employers contribute 9.44% (60.0% of the total rate), for a total contribution rate of 15.73% of pay. This provides enough contributions to fund the ongoing accrual of benefits (the normal cost rate) of 10.62% and the scheduled paydown of the UAL (the amortization rate) plus a 1.84% margin that helps pay down the Unfunded Actuarial Liability (UAL) more quickly. However, the 10.62% normal cost rate is an average across all regular members. The normal cost rate varies by age at hire, sex, and employer type (education, State, and other).

**Assumptions**

- The cost to provide a minimum ESP wage of $15 per hour will equal or exceed the FY 2025 General Fund appropriation cap of $14.0 million.
- Hourly wage data is not available to estimate the impact of changing the minimum ESP hourly wage.
- Any changes school districts may make to the pay scale because of the enactment of HF 2630 cannot be known.
- The State percent of growth will be 0.00% each year.
- A member who has an agreement to be rehired before the member begins taking retirement benefits does not qualify for IPERS' benefits.
- The IPERS members' and employers' contribution rates will absorb the cost of the change in the waiting period for licensed teachers.
- Retirement rates for licensed teachers who would not be subject to an early retirement penalty will increase by 50.0%.

- Retirement assumptions for other IPERS members who are not licensed teachers will be unaffected by the Bill.
- Teachers could retire in June and return in August rather than continuing employment, thereby increasing the probability of retirement at younger ages, which has cost implications.
- There is a likelihood that there will be fewer new teachers being hired, which in turn could affect IPERS contributions and, therefore, IPERS funding.
- Retired teachers who return to IPERS-covered employment between ages 57 and 65 have normal cost rates around 16.00%, so the total member and employer contributions may not cover the cost of their benefit accruals and no contributions are available to fund the UAL.
- If retirement patterns do not change, this Bill may simply accelerate by one school year each year's cohort of retirees who return to work under the current rules. If so, this will likely only increase the availability of licensed teachers in the first year of implementation.

**Fiscal Impact**

House File 2630 is estimated to increase the total FY 2025 General Fund appropriations by $63.4 million compared to estimated FY 2024. The increased costs include the following:

- An increase of $27.4 million (not including any adjustment to the pay scale a district may make) due to the increase to $47,500 in the minimum initial teacher salary.
- An increase of $14.0 million due to the cost to increase the minimum ESP wage to $15 per hour equaling or exceeding the General Fund appropriation cap of $14.0 million.
- An increase of $22.0 million due to the School District Funding Supplement General Fund appropriation of $22.0 million.

House File 2630 is estimated to increase the total FY 2026 General Fund appropriations by $19.8 million compared to estimated FY 2025 and $83.2 million compared to estimated FY 2024. The increased costs include the following:

- An increase of $19.8 million (not including any adjustment to the pay scale a district may make) due to increasing the minimum initial teacher salary to $50,000.
- No increase due to increasing the minimum ESP wage to $15 per hour because the State percent of growth is assumed to be 0.00%. However, if the State percent of growth exceeds 0.00%, the increase in the General Fund appropriation will be equal to the amount represented by the percent increase to the assumed $14.0 million FY 2025 appropriation.
- No increase due to the School District Funding Supplement General Fund appropriation of $22.0 million since the State percent of growth is assumed to be 0.00%. However, if the State percent of growth exceeds 0.00%, the increase in the General Fund appropriation will be equal to the amount represented by the percent increase to the $22.0 million FY 2025 appropriation.

House File 2630 will also increase the General Fund appropriations for teacher minimum salaries, ESP wage increases, and quality teaching and experience reward by the categorical State percent of growth in FY 2027 and each year thereafter.

Decreasing the IPERS waiting period from four months to one month for three years may result in members receiving additional retirement benefits annually that, under current law, would have been retained in the IPERS Trust Fund. This could result in the actuarial accrued liability increasing by as much as $48.0 million. The estimated change in retirement benefits is a nominal annual liability to the IPERS Trust Fund of approximately 0.18% of covered payroll. This could result in a decrease in the amount of the contribution rate that is used to reduce the UAL and, therefore, extend the time until the IPERS Trust Fund is 100.0% funded.

## Sources

Department of Management, School Aid File
Legislative Services Agency analysis and calculations
Iowa Public Employees' Retirement System (IPERS)

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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