LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7154 **DATE PREPARED:** Jan 26, 2000
BILL NUMBER: HB 1302 **BILL AMENDED:** Jan 26, 2000

SUBJECT: Public employee pensions and health benefits.

FISCAL ANALYST: James Sperlik
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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) (1) This bill permits the surviving spouse of a retired state employee to remain eligible for the retired employee's group health insurance until the surviving spouse remarries or becomes eligible for Medicare. (Current law terminates the surviving spouse's eligibility two years after the date of the employee's death.) It also permits the surviving spouse of a retired local unit employee to remain eligible for the retired employee's group health insurance until the surviving spouse remarries or becomes eligible for Medicare. (Current law terminates the surviving spouse's eligibility two years after the date of the retired employee's death.)

(2) This bill also provides that up to $5,000 (instead of $2,000) of compensation received by a member of the Public Employees' Retirement Fund (PERF) or the Indiana State Teachers' Retirement Fund (TRF) in contemplation of the member's retirement may be included in determining the average of the annual compensation for purposes of the PERF and TRF pension formulas.

(3) For a member of the TRF, the bill provides that the average of the three years of service in which the member's annual compensation was highest shall be used in computing the member's retirement benefit. (Current law bases the benefit on a five year average.)

(4) The bill increases the multiplier used to determine retirement benefits for members of the TRF from 1.1% to 1.3%.

(5) It provides military service credit under certain conditions for a member of TRF who completed his or her military service before beginning a four year approved teacher training program.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) (1) Currently, there are 51 families and 258 singles participating in the state retiree health insurance program. It is from this total group that the eligible spouses would emerge. Specific data on the number of potential spouses who would be eligible under the new guidelines is not known, although the number is expected to be small. A very few of the singles may be surviving spouses still eligible under the existing two year limit. State retirees pay both the employer and employee share of the health insurance premium. The annual cost for single coverage ranges from $2,831 per year to $3,050 per year, while the annual cost for family coverage ranges from $6,516 to $8,338 per year.

The Department of Personnel reports that retirees cost the state more than the actual premium paid due to adverse experience. For every $1 paid by a retire, the cost to the state is approximately $2.30. The estimated cost to the state for the proposed eligibility change would range between $3,680 and $10,839 per participant per year, depending upon individual or family coverage and the particular health care provider.

(2) The bill increases the amount from $2,000 to $5,000 of compensation received by a member of PERF or TRF in contemplation of the member's retirement that may be included in determining the average of the annual compensation for purposes of the PERF and TRF pension formulas. The impact is as follows for both PERF and TRF:

Public Employees Retirement Fund (PERF)

	State	Municipalities	Total
Increase in Unfunded Accrued Liability	$6.6 M	$11.7 M	$18.3 M
Increase in Annual Cost	$480,000	$850,000	$1,33 M
Increase in Annual Costs as a % of Payroll	0.04%	0.05%	0.04%

The funds affected are the State General Fund (55%), or $264,000, and various dedicated funds (45%), or $216,000. The percentage split represents the amount the State General Fund and various dedicated funds contribute to Personal Services in the State budget.

Teachers' Retirement Fund (TRF)

In general, for every $1,000 of average lump sums included in the average final compensation, actuarial accrued liabilities are increased by approximately $23 M. The increase in annual payout for the first two years is estimated to be $100,000 the first year and $200,000 the second year. The fund affected is the State General Fund.

(3) This part provides for a member of TRF that the average of the three years of service in which the member's annual compensation was highest shall be used in computing the member's retirement benefit. (Current law bases the benefit on a five year average.) PERF is not affected by this provision.

(4) Th part increases the multiplier used to determine retirement benefits for members of the TRF from 1.1% to 1.3%. The impact of provisions (3) and (4) are shown in the table below.

	3 Year FAS * (3)	1.3% Multiplier (4)	Total
Increase in Unfunded Accrued Liabilities	$369 M.	$975 M	$1,344 M.
Increase in Computed Contribution rate asa % of payroll	0.5%	1.4%	1.9%
40 year amortization	0.5%	1.2%	1.7%
Increase in payout first year	$1.3 M	$4.0 M	$5.3 M
Increase in payout second year	$1.4 M	$4.1 M	$5.5 M

*FAS Final Average Salary

(5) Military Service Credit Teachers' Retirement Fund (TRF)

This part only applies to the TRF. The TRF surveyed 30,000 TRF retirees, with 4,000 responding. The average teaching service of those who responded was 30.7 years, with the average military service amounting to 2.5 years. The average age of the respondents was 71.9 years and the average current pension was $11,184. The average increase in pensions if six years of military service were granted would be 7.8% and the increase in unfunded accrued liabilities would total $24.2 million. The increase in payout for the first year would be $2.5 million and $2.4 million in the second year. The fund affected is the State General Fund. This is for the pre-1996 Plan (Closed Plan).

The survey for active members of the TRF was sent to 84,000 active teachers, with 400 respondents. The average teaching service of those who responded was 23.1 years, with the average military service amounting to 3.1 years. The average age of the respondents was 53.6 years and the average current salary of those who responded was $53,765. If the six years of military service were granted, there would be an increase in the unfunded accrued liabilities of $49.4 million.

Below is a table that recaps the estimated costs of granting six years of military service to actives and retirees:

	Closed Plan	**New Plan**
Increase in Unfunded Accrued Liabilities:	(in millions)	
Actives	$49.4	$2.5
Retirees	$24.2	0.0
Total	$73.6	$2.5
Increase amortized over 40 years % of payroll	0.14%	0.02%
Increase in State Payout current retirees:		
First Year	$2.5	
Second Year	$2.4	

Explanation of State Revenues:

Explanation of Local Expenditures: (1) Data on the number of singles and families participating in retiree health insurance programs at the local level are available. Specific data on the number of surviving spouses of local unit employees who would be eligible for this benefit are available, although the number is expected to be small. Cost data for local unit employees are not readily available. It is assumed that local retirees mirror state retirees and that the adverse experience listed for retired state employees would apply here.

(2) See table above in Explanation of State Expenditures for the impact on municipalities for the Public Employees Retirement Fund (PERF). For TRF, the impact will depend upon the number involved. For local school corporations, it could increase the percent of payroll required to fund the new benefits.

(5) See table above for TRF. It is possible that there might be members of the 1996 Fund (New Plan) who would be eligible to retire with an increased benefit because of the provisions of this bill. The impact will depend upon the number of would be eligible for the benefit. For local school corporations, it could increase the percent of payroll required to fund the new benefit. The current cost of payroll is 8.5%.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund; Public Employees Retirement Fund.

Information Sources Denise Jones of Gabriel Roeder Smith & Co., actuaries for the Teachers' Retirement Fund, 1-800-521-0498; Doug Todd of McCready & Keene, Inc., actuaries for PERF, 576-1508.

DEFINITIONS

Unfunded Accrued Liability The Unfunded Accrued liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Amortization - A straight-line reduction of debt by means of periodic payments sufficient to meet current interest and liquidate the debt at maturity.