

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7340
BILL NUMBER: HB 1506

DATE PREPARED: Dec 27, 2000
BILL AMENDED:

SUBJECT: 1977 Fund Cost of Living Adjustments.

FISCAL ANALYST: James Sperlik
PHONE NUMBER: 232-9866

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that cost of living adjustments (COLAs) for fund members and survivors under the 1977 Police Officers' and Firefighters' Pension and Disability Fund shall be based on increases or decreases in the Consumer Price Index (CPI) plus 1%. (Under current law, the COLAs are based on increases or decreases in the Consumer Price Index.) It retains the current overall limit of 3% on these increases or decreases.

Effective Date: Upon passage.

Explanation of State Expenditures: The Public Employees' Retirement Fund (PERF), as administrators of the 1977 Police Officers' and Firefighters' Fund, along with the actuaries for the Fund, would make the adjustments. This can be accomplished within the current budget of PERF. The fund affected for PERF is the Investment Earnings Fund.

Explanation of State Revenues:

Explanation of Local Expenditures: This proposed legislation would change the method used in calculating the cost of living adjustment for increasing pension benefits. The current calculation of the COLA uses the average increase in the CPI with a cap of 3%. The proposed method will use the average increase in the CPI plus 1% with the cap remaining at 3%. The changes in the CPI for the last five fiscal years has been as follows:

FISCAL YEAR	% Change CPI
FY 96	2.73%
FY 97	2.95%
FY 98	1.47%
FY 99	1.67%
FY 00	3.24%

Although the benefits may increase, it is anticipated that there would be no immediate impact on required contributions since the actuaries for the 1977 Police Officers' and Firefighters' Fund already assume a maximum CPI increase of 3%. [Note: The changes in the CPI for the years listed above would have resulted in increased benefit payments in four of the five years, had this bill been in effect during that period.]

The 1977 Police Officers' and Firefighters' Pension Fund is actuarially funded. The amount necessary to cover the normal cost and the amortization of the accrued liability is appropriated annually by each municipality.

Explanation of Local Revenues:

State Agencies Affected: The Public Employees' Retirement Fund as administrators of the 1977 Police Officers' and Firefighters' Pension Fund.

Local Agencies Affected: Those municipalities with members in the 1977 Police Officers' and Firefighters' Pension Fund.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for the 1977 Police Officers' and Firefighters' Pension Fund, 576-1508.

DEFINITIONS

Consumer Price Index- The name given in both the United States and Canada to the series of numbers whose ratios measure the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Cost of Living- The average cost of the goods and services required by a person or family.