

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

301 State House
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FISCAL IMPACT STATEMENT

LS 7028
BILL NUMBER: HB 1573

NOTE PREPARED: Feb 18, 2003
BILL AMENDED:

SUBJECT: PERF COLA and 13th Check; Minimum Benefit.

FIRST AUTHOR: Rep. Scholer
FIRST SPONSOR: Sen. R. Meeks

BILL STATUS: As Passed - House

FUNDS AFFECTED: X **GENERAL**
 X **DEDICATED**
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for a cost of living adjustment (COLA) and a supplemental "thirteenth check" for members of the Public Employees' Retirement Fund (PERF) (or their survivors or beneficiaries) for 2004 and 2005. It provides for a minimum pension portion of the monthly benefit for a retired member with at least 12 years of creditable service, excluding members whose only creditable service was as an elected official.

Effective Date: July 1, 2003.

Explanation of State Expenditures: (Revised) *Summary:* For the state the total increase in unfunded accrued liabilities is **\$58,245,900**. This includes both the COLA and the 13th checks. The total increase in funding required by the state to fund the accrued liabilities is shown in the table below:

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
COLA	\$948,500	\$2,857,700	\$3,818,300
13 TH Check	\$247,900	\$263,200	\$0
Total	\$1,196,400	\$3,120,900	\$3,818,300

The funds affected are the state General Fund (approximately 55%) and various dedicated funds (approximately 45%). This split represents the amount each fund contributes to the Personal Services portion of the state budget.

Background Information: Current statute provides that any COLA applicable to PERF benefit recipients, as described above, is also applicable to the Excise Police and Conservation Officers' Retirement Plan benefit recipients and to the benefit recipients of the Legislators' Defined Benefit Plan. However, the 13th check is

not applicable to the Legislators' Defined Benefit Plan.

2004 COLA

The pension portion of monthly benefits payable after December 31, 2003, would increase by 2.6% for all members (or survivors) who retired or were disabled prior to January 1, 2003. The minimum increase as provided in the bill would be \$5. Furthermore, all members (or their survivors) who retired with at least 12 years of service and were entitled to a monthly benefit on December 1, 2003, shall have a pension portion not less than \$180.

2005 COLA

The pension portion of monthly benefits payable after December 31, 2004, would increase by the greater of (a) 2%, or (b) 80% of the CPI-U for the year ending September 30, 2004, for all members (or their survivors) who retired or were disabled prior to January 1, 2004. The minimum increase would be \$5. For purposes of this portion of the fiscal impact estimate, it has been assumed that 80% of the CPI-U will be 2.6%.

2003 13th Check (FY 2004)

A 13th check shall be payable on or before November 1, 2003, (FY 2004) for certain qualified benefit recipients. For those qualified, the 13th check shall equal the greater of \$125 or their monthly benefit multiplied by 12 and multiplied by a percentage based on their year of retirement as follows:

Calendar Year of Retirement	Applicable Percentage
1950-1984	5%
1985-1994	4%
1995-7/2/2002	2%

2004 13th Check (FY 2005)

A 13th check shall be payable on or before November 1, 2004, (FY 2005) for certain qualified benefit recipients. For those qualified, the 13th check shall equal the greater of \$125 or their monthly benefit multiplied by 12 and multiplied by a percentage based on their year of retirement as follows:

Calendar Year of Retirement	Applicable Percentage
1950-1984	5%
1985-1994	4%
1995-7/2/2003	2%

These fiscal impacts are based on the July 1, 2001, actuarial valuations.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Summary:* For the municipalities the total increase in unfunded accrued liabilities is **\$70,720,000**. This includes both the COLA and the 13th checks. The total increase in funding for the municipalities required to fund the accrued liabilities is shown in the table below:

	<u>CY 2003</u>	<u>CY 2004</u>	<u>CY 2005</u>
COLA	\$0	\$2,276,000	\$4,581,000
13 th Check	\$297,000	\$315,000	\$0
Total	\$297,000	\$2,591,000	\$4,581,000

Background Information:

2004 COLA

The pension portion of monthly benefits payable after December 31, 2003, would increase by 2.6% for all members (or survivors) who retired or were disabled prior to January 1, 2003. The minimum increase would be \$5. Furthermore, all members (or their survivors) who retired with at least 12 years of service and were entitled to a monthly benefit on December 1, 2003, shall have a pension portion not less than \$180.

2005 COLA

The pension portion of monthly benefits payable after December 31, 2004, would increase by the greater of (a) 2% or (b) 80% of the CPI-U for the year ending September 30, 2004, for all members (or their survivors) who retired or were disabled prior to January 1, 2004. The minimum increase would be \$5. For purposes of this portion of the fiscal impact estimate, it has been assumed that 80% of the CPI-U will be 2.6%.

2003 13th Check (FY 2004)

A 13th check shall be payable on or before November 1, 2003, (FY 2004) for certain qualified benefit recipients. For those qualified, the 13th check shall equal the greater of \$125 or their monthly benefit multiplied by 12 and multiplied by a percentage based on their year of retirement as follows:

Calendar Year of Retirement	Applicable Percentage
1950-1984	5%
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1995-7/2/2002	2%

2004 13th Check (FY 2005)

A 13th check shall be payable on or before November 1, 2004, (FY 2005) for certain qualified benefit recipients. For those qualified, the 13th check shall equal the greater of \$125 or their monthly benefit multiplied by 12 and multiplied by a percentage based on their year of retirement as follows:

Calendar Year of Retirement	Applicable Percentage
1950-1984	5%
1985-1994	4%
1995-7/2/2003	2%

These fiscal impacts are based on the July 1, 2001, actuarial valuations.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund as administrators of PERF, the Legislators Fund, and the Conservation and the Conservation and Excise Officers' Fund.

Local Agencies Affected: Units with members in the Public Employees' Retirement Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866; Al Gossard, 317-233-3546.

DEFINITIONS:

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

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.

Thirteenth Check - an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes.

Unfunded Actuarial 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.