

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

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7028
BILL NUMBER: HB 1573

NOTE PREPARED: Apr 9, 2003
BILL AMENDED: Apr 7, 2003

SUBJECT: PERF COLA.

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

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill provides for a cost of living adjustment (COLA) for members of the Public Employees' Retirement Fund (PERF) (or their survivors or beneficiaries) for 2004. It provides for a minimum pension portion of the monthly benefit for a retired member with at least ten 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 **\$21.99 M**. The total increase in funding required by the state to fund the accrued liabilities is shown below.

	<u>FY 2004</u>	<u>FY 2005</u>
COLA	\$816,500	\$1,633,000

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.

The accrued liabilities and the funding required to fund those liabilities as described above represent the total liability created by this bill. The current contribution level required by the state was determined based on an assumed annual 2% COLA. Of the amounts described above, the additional unfunded accrued liability in

excess of the current contribution level is \$1.79 M. The annual funding required in excess of the current contribution level is \$66,500 for FY 2004 and \$133,000 for FY 2005 and beyond.

2004 COLA

The pension portion of monthly benefits payable after December 31, 2003, would increase by 2.0% 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 ten years of service and were entitled to a monthly benefit on December 1, 2003, shall have a pension portion not less than \$180.

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 **\$26.89 M**. The total increase in funding for the municipalities required to fund the accrued liabilities is \$1.963 M for CY 2004 and beyond.

Background Information:

The accrued liabilities and the funding required to fund those liabilities described above represent the total liability created by this bill. The current contribution level required by local units was determined based on an assumed annual 2% COLA. Of the amounts described above, the additional unfunded accrued liability in excess of the current contribution level is \$2.19 M. The annual funding required in excess of the current contribution level is \$163,000 for CY 2004 and thereafter.

2004 COLA

The pension portion of monthly benefits payable after December 31, 2003, would increase by 2.0% 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 ten years of service and were entitled to a monthly benefit on December 1, 2003, shall have a pension portion not less than \$180.

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 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.

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.