

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

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6353**

**BILL NUMBER:** HB 1049

**NOTE PREPARED:** Nov 25, 2003

**BILL AMENDED:**

**SUBJECT:** TRF COLA and "Thirteenth Check".

**FIRST AUTHOR:** Rep. Herrell

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
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 Teachers Retirement Fund (TRF) (or their survivors or beneficiaries) for 2005.

**Effective Date:** July 1, 2004.

**Explanation of State Expenditures:** *COLA Provision:* The total increase in unfunded accrued liabilities for the cost-of-living adjustment is estimated to be \$57,108,220 for both the New Plan and the Closed Plan. The following tables describe the increase in annual payouts required by the bill.

The Closed Plan is funded on a pay-as-you-go basis. The fund affected for the Closed Plan is the state General Fund.

The New Plan is actuarially funded by a level percent applied to covered payroll. Currently, the percent is 9%. It is unlikely that the 9% will be increased to fund the provisions of this proposal. The totals below represent amounts which must be appropriated by the General Assembly.

NOTE: The COLA effective January 1, 2004, pursuant to the Budget Bill of the 2003 Session was taken into account prior to estimating the fiscal impact for this proposal.

**Closed Plan**

	<b>FY 2005</b>	<b>FY 2006</b>
Increase in Annual Payouts	\$3,236,519	\$6,473,038

**New Plan**

	<b>FY 2005</b>	<b>FY 2006</b>
Increase in Annual Payouts	\$39,128	\$78,256

**Combined Closed and New Plan (COLA Provision)**

	<b>FY 2005</b>	<b>FY 2006</b>
Increase in Annual Payouts	\$3,275,647	\$6,551,294

The above data represent the effective date of the COLA for January 1, 2005.

*13<sup>TH</sup> CHECK Provision:*

The bill also provides a “thirteenth check” to retired members, which will affect the Annuity Reserve Account. The total amount to be distributed is equal to 10% of the difference between the balance in the Annuity Reserve Account as of June 30, 2003, and the computed liability of the Account as of the same date. The amount of the “thirteenth check” does not affect the pension portion of the monthly benefit and is payable to members who had retired as of July 2, 2003, and who were eligible to receive a monthly benefit as of October 1, 2004). The individual distribution is to be determined for each eligible retiree by formula with a minimum payment of \$50. This check is payable November 1, 2004.

The balance in the Annuity Reserve Account as of June 30, 2002, was \$566,219,184, while the computed liability of the Account amounted to \$608,765,022, a negative balance of \$42,545,838. As of June 30, 2003, the balance in the Annuity Reserve Account amounted to \$553,185,298. The liabilities have not been computed as yet, but it is expected that they will exceed the assets by an amount similar to, or greater than that which existed as of June 30, 2002. It is likely that a similar condition will prevail as of June 30, 2004. The table below shows the impact of the 13<sup>th</sup> check provision based on the minimum payment of \$50.

<b>Closed Plan</b>	<b>Increase in Unfunded Accrued Liability</b>	<b>Increase in Payouts as of 11/1/2004</b>
<u>November 1, 2004, Check</u>	\$1,617,601	\$1,781,350
<b>New Plan</b>		
<u>November 1, 2004, Check</u>	<u>\$27,606</u>	<u>\$30,400</u>
<b>Total (Both Plans)</b>	\$1,645,207	\$1,811,750

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** See *Explanation of State Expenditures*. The data represents the January 1, 2005, effective date of the COLA.

**Explanation of Local Revenues:**

**State Agencies Affected:** Teachers' Retirement Fund.

**Local Agencies Affected:** School Corporations.

**Information Sources:** Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; Tom Abbett, Controller of the Teachers' Retirement Fund, 232-3826.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**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).

**Pay-As-You-Go Method**— sometimes called current disbursement cost method, is a method of recognizing the costs of a retirement system only as benefits are paid.

**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 at that time over the value of its cash and investments.