# 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 6987** | **NOTE PREPARED:** Jan 1, 2004
**BILL NUMBER:** HB 1118 | **BILL AMENDED:**

**SUBJECT:** Reemployment of Retired TRF and PERF Members.

**FIRST AUTHOR:** Rep. Klinker | **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** X **GENERAL** | **IMPACT:** State
X **DEDICATED**
**FEDERAL**

**Summary of Legislation:** This bill: (1) removes the limit on the amount that a retired Teachers' Retirement Fund (TRF) member who is reemployed in a covered position may earn each year before the member's retirement benefits stop; (2) provides that if a retired member of TRF or the Public Employees Retirement Fund (PERF) is reemployed in a covered position not more than 30 days after the member retired, the member's retirement benefits stop and the member must resume making contributions. (Under current law, the period is 90 days.)

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

**Explanation of State Expenditures:** *Provision 1 - Elimination of "Exempt Amount":* The specific fiscal impact will depend upon the number of TRF members affected by this proposal. Based on the data and the assumptions below, the annual cost is estimated to range between $45,000 and $60,000 per year. The fund affected is the state General Fund.

*Background Information:* For FY 2002, 12 members had their benefits suspended because of the exempt amount provision as it currently exists. For FY 2003, the number having their benefits suspended was 30. For 2004, the TRF estimates between 6 and 8 would have their benefits suspended.

The proposal means that more benefits will be paid out each year than at the current level. Specific data are not available on which to base an estimate. The following assumptions are used for illustrative purposes.

> An average salary of $55,000 ( the approximate average salary for active members in the 50- to 65-year age range).

An average annual pension of $18,000 ( the approximate average for retirements from 1999 to 2001). This would be paid in monthly installments of $1,500 beginning July 1.

The school year (and thus the payroll period) begins September 1, two months into the fiscal year.

Based on the above, the pay for such a member would reach the current law's "exempt amount" of $25,000 toward the end of January. At that point, the member would have received seven months of benefit payments; and (assuming the member continues to teach) the remaining five months of payments would be suspended. At $18,000 per year, this would mean $7,500 of forgone benefit payments to the member.

Under the proposed change, the member's pay would continue, since the exempt amount limit has been removed. The estimated increase in annual cost to TRF, based on this example would range between $45,000 and $60,000. This represents less than 0.01% of the TRF active payroll.

*Provision 2 - Reemployment Date:* This provision means in some cases fewer benefits will be paid out each year to those reemployed in a covered position, while in other cases, additional benefits will be paid. For example, the PERF actuary examined four sample lives and determined the fiscal impact should each of the four retire for 31 days and then be permitted to be reemployed in a PERF-covered position at the same salary under the new provision.

It appears that the younger the member is, the less fiscal impact would occur and, in fact, perhaps a savings would occur. A cost savings was the result for a sample member age 51 with 15.25 years of service where the cost for the member decreased by about 13.5%. For sample members age 60 with 15.25 years of service and 64 with 15.25 years of service, the cost for each member would increase by approximately 50%. The situation where the fiscal impact would be the greatest would be for a member under the Rule of 85. For a sample member who was age 55 with 30.25 years of service, the cost for the member increased by 116%, more than doubling.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

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

**Local Agencies Affected:**

**Information Sources:** Brian Dunn of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; William Christopher, Director of TRF, 232-3869, for Part 1.

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