

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

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6370

BILL NUMBER: HB 1306

NOTE PREPARED: Jan 29, 2004

BILL AMENDED:

SUBJECT: PERF Cost-of-Living Adjustment.

FIRST AUTHOR: Rep. Kromkowski

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

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

IMPACT: State & Local

Summary of Legislation: This bill provides a benefit adjustment after June 30, 2004, for members, survivors, and beneficiaries of the Public Employees' Retirement Fund (PERF) who would have been eligible to receive a "thirteenth check" in October 2003. It provides a 2% cost-of-living adjustment (COLA) for members, survivors, and beneficiaries of PERF after December 31, 2004.

Effective Date: July 1, 2004.

Summary of Net State Impact: This bill provides two cost-of-living adjustments to PERF members: one beginning July 1, 2004, and one beginning January 1, 2005.

Summary of State Fiscal Impact: Current statute already provides a 2% COLA for CY 2004 (enacted by the 2003 General Assembly and commencing January 1, 2004). No COLA is currently established in statute for CY 2005. This bill provides an additional adjustment to the CY 2004 benefits. The bill also establishes a 2% COLA for CY 2005. The estimated cost to the state over what is currently provided in statute is \$1.11 M for FY 2005 and \$2.00 M in FY 2006 and years thereafter. These estimates also include the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients.

Summary of State Budget Impact: P.L. 224-2003 (the budget bill) provided an appropriation for the 2% COLA established for CY 2004 and enacted in the 2003 session (P.L. 190-2003.) The budget bill also appropriated funds *in anticipation of passage* of a 2% COLA for CY 2005. The estimated additional funding required for COLA provisions in this bill over what is currently budgeted is \$258,000 for FY 2005 and \$301,000 for FY 2006 and years thereafter.

Explanation of State Expenditures: *2004 COLA Details:* The bill provides a benefit adjustment after June 30, 2004, for members, survivors, and beneficiaries of the Public Employees' Retirement Fund who would have been eligible to receive a "thirteenth check" in October 2003. The bill provides for members who retired or were disabled before July 2, 2002, and who were entitled to receive a monthly benefit on October 1, 2003

to received an increased benefit. The benefit is to be increased by either 2% for members who retired or were disabled prior to January 1, 1999, or 1% for members who retired or were disabled on or after January 1, 1999. The bill provides for a minimum monthly benefit increase of \$8.50.

Current statute already provides for a 2% COLA for 2004, enacted in the 2003 session in P.L. 190-2003. The 2004 adjustment provided in this bill, over what is in current statute and what is budgeted, is estimated to result in an **additional unfunded accrued liability of \$2.78 M**. This would require **additional annual funding of about \$214,000 (representing approximately 0.015% of payroll)**. [Note: All of these estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

2005 COLA Details: The bill also provides a 2% COLA for members, survivors, and beneficiaries of PERF after December 31, 2004, with a minimum monthly increase of at least \$5. Current statute has no provision for a COLA in 2005. Consequently, the 2005 adjustment provided in this bill, over what is in current statute, is estimated to result in an **additional unfunded accrued liability of \$22.63 M**. This represents an **additional annual cost of about \$1.79 M (representing approximately 0.116% of payroll)**.

Although a COLA for 2005 is not provided in current statute, the budget bill does contain an appropriation *in anticipation of passage* of a 2% COLA. Consequently, the 2005 adjustment provided in this bill, over what is budgeted, is estimated to result in an **additional unfunded accrued liability of \$1.13 M**. This would result in an **additional annual funding requirement of about \$87,000 (representing approximately 0.006% of payroll)**.

All estimates are based on the July 1, 2002, actuarial valuations.

The state General Fund contributes about 55% and various dedicated funds contribute approximately 45% of the personal services expenditures of the state budget.

Explanation of State Revenues:

Summary of Net Local Impact: *Summary of Local Fiscal Impact:* Current statute already provides a 2% COLA, enacted by the 2003 General Assembly, which commenced January 1, 2004. However, no COLA is currently established for CY 2005. This bill provides an additional adjustment to the 2004 benefits. The bill also establishes a 2% COLA for CY 2005. The estimated cost to political subdivisions over what is currently provided in statute is **\$134,000 M for CY 2004 and \$2.37 M in CY 2005 and years thereafter**.

Summary of Local Budget Impact: Future PERF funding requirements are calculated *in anticipation of passage* of a 2% COLA for CY 2005. The estimated additional funding required for this bill over what is currently calculated is **\$134,000 for CY 2004 and \$371,000 for CY 2005 and years thereafter**.

Explanation of Local Expenditures: *2004 COLA Details:* Current statute already provides for a 2% COLA for CY 2004. The 2004 adjustment provided in this bill, over what is in current statute and what is budgeted for political subdivisions, is estimated to result in an **additional unfunded accrued liability of \$3.48 M**. This would require **additional annual funding of about \$268,000 (representing approximately 0.012% of payroll)**.

2005 COLA Details: The bill provides a 2% COLA for members, survivors, and beneficiaries of PERF after December 31, 2004, with a minimum monthly increase of at least \$5. Current statute has no provision for a COLA in CY 2005. Consequently, the 2005 adjustment provided in this bill, over what is in current statute, is estimated to result in an **additional unfunded accrued liability of \$27.04 M**. This would result in an **additional annual funding requirement of about \$2.10 M (representing approximately 0.095% of payroll)**.

Although a COLA for 2005 is not provided in current statute, future PERF funding requirements are calculated *in anticipation of passage* of a 2% COLA for CY 2005. Consequently, the 2005 adjustment provided in this bill, over what is calculated for political subdivisions, is estimated to result in an **additional unfunded accrued liability of \$1.34 M**. This would result in an **additional annual funding requirement of about \$103,000 (representing approximately 0.005% of payroll)**.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Those political subdivisions with members in PERF.

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:

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.

Funding: 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.