

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

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6370**

**BILL NUMBER: HB 1306**

**NOTE PREPARED: Feb 12, 2004**

**BILL AMENDED: Feb 2, 2004**

**SUBJECT:** PERF and TRF Cost-of-Living Adjustments.

**FIRST AUTHOR:** Rep. Kromkowski

**FIRST SPONSOR:** Sen. R. Meeks

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

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

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) 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. The bill also provides a 2% cost-of-living adjustment (COLA) for members, survivors, and beneficiaries of PERF after December 31, 2004.

The bill also provides a cost-of-living adjustment for members, survivors, and beneficiaries of the Teachers' Retirement Fund (TRF) after December 31, 2004.

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

**Summary of Net State Impact:** (Revised) This bill provides two cost-of-living adjustments to PERF members: one beginning July 1, 2004, and one beginning January 1, 2005. It also provides a cost-of-living adjustment for members, survivors, and beneficiaries of the TRF beginning January 1, 2005.

*Summary of State Fiscal Impact.*

*PERF COLA:* 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.

*TRF COLA:* For the Teachers' Retirement Fund, this proposal will increase annual funding requirements by an estimated \$5.24 M for the Closed Plan. The amount of the COLA for TRF, effective January 1, 2005, is 1% for members retired after July 1, 1996, and before July 2, 2002; 1.5% for members retired after July 1, 1978, and before July 2, 1996; and 2% for members retired before July 2, 1978.

*Summary of State Budget Impact.*

*PERF COLA:* 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.**

*TRF COLA:* Since the Closed Plan of the Teachers' Retirement Fund is funded on a pay-as-you-go basis, the state annually appropriates the amount necessary to fund the benefits due. Consequently, the budget impact to the state for the TRF COLA is the same as the fiscal impact described above.

**Explanation of State Expenditures:** (Revised) *2004 PERF 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 PERF 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.

*2005 TRF COLA Details:* This COLA will **increase annual funding requirements for FY 2005 by \$2.62 M. For FY 2006 and beyond, the additional annual funding requirement is about \$5.24 M.** The

adjustment results in an **additional unfunded accrued liability of approximately \$46.41 M** for the Closed Plan. The fund affected is the state General Fund.

**Explanation of State Revenues:**

**Summary of Net Local Impact:** (Revised)

*Summary of Local Fiscal Impact.*

*PERF COLA:* 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.**

*TRF COLA:* For school corporations, the adjustment will result in **additional annual funding of approximately \$71,861** for CY 2005 and every year thereafter. This affects the New Plan which is funded with a level percent of payroll by school corporations.

*Summary of Local Budget Impact.*

*PERF COLA:* 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:** (Revised)

*2004 PERF 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 PERF 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).**

*2005 TRF COLA Details:* For local school corporations, this will **increase annual funding requirements by an estimated \$71,861** for CY 2005 and every year thereafter. The increase in unfunded accrued liability for the New Plan from this adjustment is \$725,465.

**Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** Those political subdivisions with members in PERF; local school corporations.

**Information Sources:** Doug Todd of McCready & Keane, Inc., actuaries for PERF 576-1508; Ken Alberts, of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

**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.