

**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 24, 2004

BILL AMENDED: Feb 23, 2004

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

FIRST AUTHOR: Rep. Kromkowski

FIRST SPONSOR: Sen. R. Meeks

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a 2% cost-of-living adjustment (COLA) for members, survivors, and beneficiaries of the Public Employees' Retirement Fund (PERF) after December 31, 2004.

The bill also provides a COLA 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 a COLA to PERF members beginning January 1, 2005, as well as a COLA for members, survivors, and beneficiaries of the Teachers' Retirement Fund beginning January 1, 2005.

Summary of State Fiscal Impact.

PERF COLA: The bill establishes a 2% COLA for CY 2005. The estimated cost to the state over what is currently provided in statute is **\$894,000 for FY 2005 and \$1.79 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 for FY 2005 by \$3.25 M for the Closed Plan. For FY 2006 and beyond, the additional annual funding requirement is about \$6.5 M.** 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; 2.0% for members retired after July 1, 1978, and before July 2, 1996; and 3% for members retired before July 2, 1978.

Summary of State Budget Impact.

PERF COLA: PERF calculates the contribution requirement for the state *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 **\$44,000 for FY 2005 and \$87,000 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.

Additional details of the impacts are provided below.

Explanation of State Expenditures: (Revised) [Note: All 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 provides a 2% COLA for members, survivors, and beneficiaries of PERF after December 31, 2004. 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 (about \$894,000 for FY 2005 and \$1.79 M in fiscal years thereafter, representing approximately 0.12% of payroll).**

Although a COLA for 2005 is not provided in current statute, PERF calculates the contribution requirement for the state *in anticipation of passage* of a 2% COLA for CY 2005. 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 (about \$43,500 for FY 2005 and \$87,000 in years thereafter, 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 \$3.25 M for the Closed Plan. For FY 2006 and beyond, the additional annual funding requirement is about \$6.5 M**. The adjustment results in an **additional unfunded accrued liability of approximately \$56.3 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: The bill establishes a 2% COLA for CY 2005. The estimated cost to political

subdivisions over what is currently provided in statute is **\$2.1 M in CY 2005 and years thereafter.**

TRF COLA: For school corporations, the adjustment will result in **additional annual funding of approximately \$78,256** for CY 2005 and every year thereafter over what is currently provided in statute. 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 **\$103,000 for CY 2005 and years thereafter.**

Additional details of the impacts are provided below.

Explanation of Local Expenditures: (Revised)

2005 PERF COLA Details: The bill provides a 2% COLA for members, survivors, and beneficiaries of PERF after December 31, 2004. 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 \$27.0 M.** This would result in an **additional annual funding requirement of about \$2.1 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 \$78,256** for CY 2005 and every year thereafter. The increase in unfunded accrued liability for the New Plan from this adjustment is \$786,624.

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.