

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6907
BILL NUMBER: HB 1419

NOTE PREPARED: Feb 21, 2005
BILL AMENDED:

SUBJECT: TRF Cost-of-Living Adjustment.

FIRST AUTHOR: Rep. Woodruff
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a cost-of-living adjustment (COLA) for members, survivors, and beneficiaries of the Teachers' Retirement Fund (TRF) after December 31, 2005.

Effective Date: July 1, 2005.

Explanation of State Expenditures: The estimated fiscal impact for this proposal appears in the table below.

Estimated Increases in Projected Benefit Payments					
	Increase in UAAL* as of 6/30/2004	FY 2005	FY 2006	FY 2007	FY 2008
Closed Plan	\$55,159,164	\$0	\$3,627,582	\$6,939,047	\$6,719,767
New Plan	\$1,127,928	\$0	\$ 63,384	\$ 123,998	\$ 120,797
Total (Both)	\$56,287,092	\$0	\$3,690,966	\$7,063,045	\$6,840,564
* UAAL - Unfunded Actuarial Accrued Liability					

The Closed Plan is a pay-as-you-go plan. The increase in projected benefit payments represents an increase in the amount the state will actually pay out in the years indicated. The cost of living is a separately budgeted line item in the state budget. For example, the TRF is requesting \$46.8 M in FY 2006 for the COLA account and \$45.4 M in FY 2007. These represent the cumulative amounts of the previous COLAs. This bill would

increase the COLA request each year of the biennium by the amounts listed in the table for the respective fiscal years.

The New Plan is actuarially funded by a level percent of payroll. Currently this amount is nine percent. The numbers in the New Plan total represent an increase in annual benefit payouts. It is unlikely that the payroll percent would be affected because of this proposal.

Both the Closed Plan and the New Plan assume a 36-year amortization of the unfunded actuarial accrued liability.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures* for table regarding New Plan benefit payments.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: Local School Corporations.

Information Sources: Ken Alberts, Gabriel Roeder Smith & Co., actuaries for the TRF, 1-800-521-0498; page A-3 TRF Annual Actuarial Valuation as of June 30, 2003; TRF funding request as presented to the State Budget Committee, December 7, 2004.

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DEFINITIONS

Actuarial Funding Method - Any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide pension benefits.

Amortization - The paying of a present value with periodic payments.

COLA - An across-the-board increase (decrease) in wages or pension benefits that rise or fall with 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, this is a method of recognizing the costs of a retirement system only as benefits are paid.

Unfunded Actuarial Accrued Liability (UAAL) - The 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.