

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6447**  
**BILL NUMBER: SB 226**

**NOTE PREPARED:** Dec 9, 2005  
**BILL AMENDED:**

**SUBJECT:** State police pension benefits.

**FIRST AUTHOR:** Sen. Craycraft  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

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

**IMPACT:** State

**Summary of Legislation:** This bill provides a 1% cost-of-living adjustment (COLA) for retirees of the State Police 1987 Benefit System. It provides a COLA equal to the greater of: (1) the supplemental benefit; or (2) 1% of the retiree's monthly pension benefit; for retirees of the State Police Pre-1987 Benefit System. The bill revises the calculation of the supplemental benefit.

**Effective Date:** July 1, 2006.

**Explanation of State Expenditures:** The fiscal impact of this proposal appears below.

|  | <u>Pension Trust</u> | <u>Supplemental Benefits</u> |
|--|----------------------|------------------------------|
| Increase (Decrease) in Actuarial Liability   | \$930,000            | \$8,700,000                  |
| Increase in Annual Funding                   | \$75,000             | (see below)                  |
| Increase in Annual Funding as a % of Payroll | 0.1%                 | (see below)                  |

Since the supplemental benefits are paid on a "pay-as-you-go" basis, the following table provides a rough estimate of the increase in supplemental benefits that would be payable over the next five years as a result of this bill. (Note): The payouts will continue past the five years illustrated below.)

|           | <b><u>Change in Expected<br/>Benefit Payouts</u></b> |
|-----------|--|
| 2006-2007 | \$328,000  |
| 2007-2008 | \$432,000  |
| 2008-2009 | \$553,700  |
| 2009-2010 | \$727,147  |
| 2010-2011 | \$900,594  |

The funds affected are the state General Fund (50%) and the Motor Vehicle Highway Account (50%).

[NOTE: The estimates above are based on 2004 data. When the 2005 data become available, this estimate will be updated.]

*Background Information:* SECTION 1 of the proposal increases benefits paid to current retired members of the State Police 1987 Benefit System. The increase is effective July 1, 2006, and is equal to 1% of the participant's benefit, but not greater than 1% of the maximum basic monthly benefit payable to a retired trooper (\$1,900 effective December 8, 2002).

SECTIONS 2 and 3 change the way the supplemental benefit is calculated for members of the State Police Pre-1987 Benefit System. This change would calculate the supplemental benefit by applying the appropriate percentage (between 50% and 100%) to the difference between the current 20-year benefit and the 20-year benefit at the later of July 1, 1972, or the date of retirement. The benefit is currently calculated by applying the same percentage to the difference between the current 20-year benefit and the participant's actual monthly benefit.

SECTION 4 grants an increase of 1% of total benefit (monthly pension plan plus any supplemental benefits) to a retired or disabled member of the State Police Pre-1987 Benefit System. The increase will be effective July 1, 2006. This increase is a guaranteed minimum that will be effective for retired members who are not eligible for supplemental benefits or are eligible for supplemental benefits and receive an increase in supplemental benefits less than 1% of total benefits.

It has been assumed that the increase in SECTION 1 of this proposal would be payable from the Pension Trust and the increases in SECTIONS 2, 3, and 5 would be payable as supplemental benefits.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** State Police.

**Local Agencies Affected:**

**Information Sources:** Doug Todd of McCready & Keane, Inc., actuaries for the State Police, 317-576-1508.

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

**DEFINITIONS**

Actuarial Liability - The actuarial liability of a retirement system at any time is the excess of the present value of all benefits thereafter payable under the system over the present value of future normal costs.

Funding - A 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.

Pay-As-You-Go Method, sometimes called current disbursement cost method, is a method of recognizing the costs of a retirement system only as benefits are paid.

Supplemental Benefits - Benefits provided by a pension plan in addition to regular retirement benefits. Supplemental benefits vary according to the terms of a plan and include such items as the payment of benefits in the event of termination, death, disability, or early retirement.

Unfunded 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.