

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

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**FISCAL IMPACT STATEMENT**

**LS 6393**  
**BILL NUMBER:** HB 1060

**NOTE PREPARED:** Feb 8, 2007  
**BILL AMENDED:**

**SUBJECT:** Teachers' Retirement Fund COLA.

**FIRST AUTHOR:** Rep. Avery  
**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

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

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides a cost-of-living adjustment (COLA) for certain members, survivors, and beneficiaries of the State Teachers' Retirement Fund (TRF) in 2008.

**Effective Date:** July 1, 2007.

**Explanation of State Expenditures:** This bill provides a one-time permanent COLA adjustment to eligible retired members of TRF effective January 1, 2008. The amount of the COLA as a percent of the pension portion (excluding the annuity) of a member's total benefit (including past post-retirement increases) is as follows:

- 2.0% for members retired before July 2, 1999.
- 1.0% for members retired after July 1, 1999 and before July 2, 2005.
- 0% for members retired after July 1, 2005.

The increase in the present value of benefits from the COLA provided in this bill totals \$67.6 M (\$65.3 M for the Pre-1996 Fund and \$2.3 M for the 1996 Fund).

<b>Increase in Present Value of Future Benefits (PVB) from COLA.</b>			
	<b>LS 6324 COLA (2%/1% on 1/1/2008)</b>	Amount Recognized in Valuation (1% on 1/1/2008)	Net Increase
Pre-1996 Fund	<b>\$65,348,822</b>	\$41,927,172	\$23,421,650
1996 Fund	<b>\$ 2,281,210</b>	\$ 2,014,878	\$ 266,332
<b>Total</b>	<b>\$67,630,032</b>	\$43,942,050	\$23,687,982

The increases in the present value of benefits are shown in column 2 of the table above. This represents the total fiscal impact attributable to the bill.

The June 30, 2006, valuation includes an assumed 1% annual compound COLA in accordance with IC 21-6.1-2-5. The third column in the table above shows the estimated increase in the present value of future benefits resulting from this 1% COLA assumption, and the final column shows the net increase in the present value of future benefits over the assumed 1% COLA that would be shown in the June 30, 2006, valuation upon passage of this bill.

[According to IC 21-6.1-2-5, “*The actuarial investigation and the board shall include in the determination of the liability, contribution rate, and appropriation the amount necessary to fully fund any past and estimated future cost of living increases for members of the pre-1996 account and the 1996 account, amortized over thirty (30) years. The actuary shall consult with the budget agency in making this determination.*”]

The increases in projected benefit payments through FY 2010 are shown below and represent the difference between the projected benefit payments with the proposed COLA and the projected benefit with no COLA. This table should be compared with the column 2 in the table above.

<b>Estimated Increase in Projected Benefit Payments</b>				
	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Pre-1996 Fund	\$0	\$4,158,287	\$8,083,913	\$7,841,140
1996 Fund	\$0	\$ 128,049	\$ 249,318	\$ 243,402
<b>TOTAL</b>	<b>\$0</b>	<b>\$4,286,336</b>	<b>\$8,333,231</b>	<b>\$8,084,542</b>

The fund affected for the Pre-1996 Fund is the state General Fund.

The 1996 Fund is supported by a level percent of payroll and is paid by local school corporations. The current contribution percentage is 7%.

*Background Information:*

<b>Retired Members and Beneficiaries As of June 30, 2006.</b>		
	<b>Pre-1996 Fund</b>	<b>1996 Fund</b>
Number	38,522	1,327
Total Annual Pensions*	\$545,840,516	\$22,958,881
Average Annual Pensions*	\$ 14,170	\$ 17,301
Average Age	72.1 years	64.0 years
*These figures do not include the COLA effective January 1, 2007, or the increase calculated in the estimated cost of this proposal.		

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** See *Explanation of State Expenditures*.

**Explanation of Local Revenues:**

**State Agencies Affected:** Teachers' Retirement Fund.

**Local Agencies Affected:** School corporations with members in the 1996 Fund.

**Information Sources:** Judith Kermans, Ken Ablerts, and Carrie Blakeslee, of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

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

**DEFINITIONS:**

**Cost-of-Living Adjustment** - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

**Unfunded Actuarial Liability** -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.