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FISCAL IMPACT STATEMENT

LS 6208

BILL NUMBER: HB 1232

NOTE PREPARED: Feb 6, 2007

BILL AMENDED: Jan 29, 2007

SUBJECT: Pension Relief Fund Distributions.

FIRST AUTHOR: Rep. Moses

FIRST SPONSOR: Sen. M. Young

BILL STATUS: As Passed House

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill: (1) extends until January 1, 2011, additional distributions from the Pension Relief Fund ensuring that at least 50% of the pension liability of each unit of local government is paid from the Pension Relief Fund; (2) provides that a member of the Public Employees' Retirement Fund (PERF), previously employed by a state quasi-governmental entity not affiliated with PERF that is absorbed by a PERF affiliated entity, may purchase service credit at the full actuarial cost.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2007.

Explanation of State Expenditures: (1) Extending until January 1, 2011, additional distributions from the Pension Relief Fund will result in additional Pension Relief Fund distributions of approximately \$9.4 M in CY 2009 (from \$113.0 M to \$122.4 M) and \$11.2 M in CY 2010 (from \$113.9 M to \$125.1 M).

The present value of these additional Pension Relief Fund distributions as of January 1, 2007, at 6% is about \$17.2 M.

The total Pension Relief Fund distribution for 2006 was \$129,363,434.

(Revised) (2) *Purchase of Service - Background Information for Purchase of Service Credit:* The bill provides that the purchase of service credits must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that

approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member may wish to purchase service credit and the potential impact to the fund are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to PERF. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to PERF.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary at the time of purchase before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to PERF.

Explanation of State Revenues:

Explanation of Local Expenditures:

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

State Agencies Affected: Public Employees' Retirement Fund as administrators of the Pension Relief Fund.

Local Agencies Affected: Recipients of Pension Relief Fund distributions.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the Police and Fire Funds, 317-576-1508.

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

DEFINITIONS:

Present Value– The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.