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FISCAL IMPACT STATEMENT

LS 7365	**NOTE PREPARED:** Mar 26, 2007
BILL NUMBER: SB 568	**BILL AMENDED:** Mar 26, 2007

SUBJECT: PERF Matters.

FIRST AUTHOR: Sen. Meeks	**BILL STATUS:** As Passed House
FIRST SPONSOR: Rep. Kuzman	

FUNDS AFFECTED:	X	**GENERAL**	**IMPACT:** State & Local
	X	**DEDICATED**	
		FEDERAL	

Summary of Legislation: This bill:

(1) provides for a 2% cost-of-living adjustment for a retired member of the Public Employees' Retirement Fund (PERF) (or a survivor or beneficiary of a member). It also provides for a thirteenth check based on the complete years of service credited to a member at retirement, with a provision to include a member receiving disability retirement benefits with at least 5 years, but less than 10 years of service.

(2) permits former state employees who left state employment not more than six months before vesting to purchase not more than a year's service time in PERF.

(3) reduces from ten to eight the number of years of creditable service a member of PERF must earn to obtain vested status.

Effective Date: July 1, 2007.

Explanation of State Expenditures: [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.]

Summary of State Fiscal Impact for PERF COLA: The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2007. Current statute has no provision for a COLA in 2008. Consequently, the fiscal impact of the 2008 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of $27.715 M. This represents an additional annual funding requirement of about $2.139 M (about $1.069 M for FY 2008 and $2.139 M in fiscal years thereafter, representing approximately a 0.13% increase in annual funding as a percent of payroll).

Summary of State Budget Impact for PERF COLA: Although a COLA for 2008 is not provided in current statute, PERF is currently calculating the contribution requirement for the state *in anticipation of passage* of a 1.5% COLA for CY 2008. Consequently, the budgetary impact from the 2008 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of $7.015 M. This represents an additional cost of about $0.269 M in FY 2008, and $0.539 M in years thereafter, representing approximately 0.03 % of payroll.

Summary of Fiscal Impact of 13th Check Provision: This bill also provides for a 13th check to be paid on or before December 1, 2007, to any member (or survivor or beneficiary) who retired before January 1, 2007, and was entitled to receive a monthly benefit on November 1, 2007. The amount shall be equal to $75 if the retired member had at least 10 years of service but less than 20 years, $150 for at least 20 years of service but less than 30 years, and $200 for at least 30 years of service. This benefit is payable only to PERF members and does not become part of the base for pension calculations.

The estimated increase in unfunded accrued liability for FY 2008 is $3.4 M due to the 13th check provision. The increase in annual funding required is $262,000, representing 0.02% of payroll. This impact is in addition to the state fiscal impact for the COLA described above and is paid from general assets of the pension fund.

The inclusion of a 13th check for a member with at least 5 years but less than 10 years of service (for a member receiving disability retirement benefits) will increase the unfunded accrued liability by an estimated $12,147, and increase in annual funding of an estimated $936. This is estimated to affect 486 people. The increase in employer funding as a percent of payroll and the decrease in funded status are immaterial.

There will be an administrative cost to PERF to accomplish the payment of 13th checks based on years of service rather than based on monthly payments.

All estimates are based on the July 1, 2006, 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.

Purchase of Service Credit to Allow Vesting: The bill also allows a state employee who terminated employment with at least 9½ years of service to purchase up to 12 months of service credit in PERF. It is not known how many people may be affected by this provision. As an illustration for the cost associated with one individual, it is assumed that the member is 45 years of age, with a $45,000 salary at the time of termination. It is further assumed that the member had 9½ years of service and wished to purchase an additional six months of service.

The cost to the member to purchase six months of service credit is estimated to be about $669, while the cost to the plan would be $16,625 (equal to $17,194 in present value of benefits after the purchase minus the $669 cost to the member). The plan would experience a net loss because there was zero value of benefits prior to the purchase since the member was not vested in any accrued benefit. The overall impact will depend upon the number of eligible people who participate in this benefit.

Reduction of PERF Vesting Requirement: The bill also reduces from ten to eight the number of years of creditable service a member of PERF must earn to obtain vested status. Reducing the number of years of creditable service a member must earn to obtain vested status will mean an increase in annual expenditures as shown in the table below.

	State	Municipalities	Total
Increase (Decrease) in Unfunded Accrued Liability	($1.013 M)	$1.108 M	$0.095 M
Increase in Annual Cost (Funding)	$1.619 M	$3.746 M	$5.365 M
Increase in Annual Cost as % of Pay	0.102%	0.145%	0.129%

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary of Local Fiscal Impact of PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2007. Current statute has no provision for a COLA in CY 2008. Consequently, the fiscal impact of the 2008 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of $36.3 M. This would result in an additional annual funding requirement of about $2.8 M in CY 2008 and years thereafter (representing approximately 0.11 % of payroll) over what is provided for in current statute.

Summary of Local Budget Impact of PERF COLA: Although a COLA for 2008 is not provided in current statute, future PERF funding requirements are currently calculated in anticipation of passage of a 1.5% COLA for CY 2008. Consequently, the budgetary impact from the 2008 adjustment provided in this bill over the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of $9.1 M. This represents an additional cost of $0.7 M in CY 2008 and years thereafter (representing approximately 0.03% of payroll).

Summary of Fiscal Impact of 13th Check Provision: The 13th Check provision results in an estimated increase in unfunded accrued liability for CY 2008 of $4.5 M. The increase in annual funding required is $344,000, representing 0.01% of payroll. This impact is in addition to the fiscal impact to local units for the COLA described above.

The inclusion of a 13th check for a member with at least 5 years, but less than 10 years of service (for a member receiving disability retirement benefits) will increase the unfunded accrued liability by an estimated $16,103, and increase annual funding by an estimated $1,240. This is estimated to affect 644 people. The increase in employer funding as a percent of payroll and the decrease in funded status are immaterial.

Reduction of PERF Vesting Requirement: See *Explanation of State Expenditures* for local impact from this provision.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Units with members in the Public Employees' Retirement Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508.

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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).
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.
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.
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.