

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

**LS 6717**

**BILL NUMBER: SB 600**

**NOTE PREPARED: Jan 22, 2011**

**BILL AMENDED:**

**SUBJECT:** TRF and 1977 Fund Military Service Credit.

**FIRST AUTHOR:** Sen. Skinner

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED: X GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill grants, under certain conditions, up to six years of service credit in the Teachers' Retirement Fund (TRF) for a member's past active duty military service.

The bill grants, under certain circumstances, a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund up to six years of service credit for active duty military service.

The bill provides that, except for World War II veterans, the service credit may be used only in the computation of benefits to be paid after June 30, 2013. It provides that for World War II veterans the service credit may be used only in the computation of benefits to be paid after June 30, 2011.

**Effective Date:** July 1, 2011.

**Explanation of State Expenditures:** TRF: The impact would depend on the number of TRF members who might qualify for the credit. A survey was done in 2007 of male TRF members born before 1936 and were in the military. Based on that survey and extrapolating the potential cost to all participants, the impact on the fund would be the following.

	<b>Increase in Annual Cost</b>	<b>Increase in Unfunded Accrued Liability</b>
Pre-1996 Account (State)	\$2.9 M to \$3.4 M	\$40 M to \$57 M
1996 Account (Schools)	\$0.6 M to \$1.1 M	\$11 M to \$21 M
<b>Total</b>	\$3.5 M to \$4.5M	\$51 M to \$78 M

*1997 Police and Fire Fund:* The impact on the fund would depend on the number of members that apply for the service credit and the number of years they are eligible. The member is required to pay the employee's contribution for each year that credit is given. The payments by the employee are determined by the Public Employees' Retirement Fund (PERF) board, not to exceed five annual payments. The employer would also have to fund the increase in the actuarial liability over a time period determined by the board, not to exceed 10 years.

Based on the June 30, 2010, actuarial valuation, employer normal cost for each year of service was about 16.85% of salary and the average salary was about \$50,576. One year of service credit on average would cost about \$8,522. For each 1% of members of the 1977 Police and Fire Fund that would qualify and apply for 6 years of service credit, the cost would be about \$6.8 M ( $0.1685 * \$50,576 * 6 \text{ years} * 133 \text{ members}$ ).

**Explanation of State Revenues:**

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

**Explanation of Local Revenues:**

**State Agencies Affected:** Teachers Retirement Fund; Public Employees Retirement Fund.

**Local Agencies Affected:** Schools, cities, and towns.

**Information Sources:** John Dowell, Nyhart Group, actuaries for TRF, 317-845-3580, Cindy Fraterrigo; Amy Beert, Price Waterhouse Coopers, actuaries for PERF and the PERF-managed funds; Chicago, IL 312-298-2134; [www.pwc.com](http://www.pwc.com);

**Fiscal Analyst:** Chuck Mayfield, 317-232-4825.

**DEFINITIONS**

**Funded Status-** The ratio of the assets of a pension plan to its liabilities.

**Actuarial Liability-** The actuarial liability is the present value of benefits to be paid by the fund minus the present value of future contributions to be paid into the fund.

**Unfunded Actuarial Liability-** The 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.