

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

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6109

BILL NUMBER: HB 1080

NOTE PREPARED: Apr 22, 2013

BILL AMENDED:

SUBJECT: Pension Thirteenth Checks.

FIRST AUTHOR: Rep. Burton

FIRST SPONSOR: Sen. Boots

BILL STATUS: Enrolled

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a one-time 13th check based on service at retirement to eligible Public Employees Retirement Fund (PERF), Teachers Retirement Fund (TRF), and State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (C&E) members who retired or were disabled before December 2, 2012, and are entitled to a monthly benefit as of July 1, 2013.

The bill also provides a one-time 13th check to members of the State Police Fund who retired before July 2, 2012, and are eligible to receive a monthly benefit as of September 1, 2013.

The 13th checks in this bill are payable no later than October 1, 2013.

Effective Date: July 1, 2013.

Summary of NET State Impact: The provisions of the bill will result in a one-time cost increase of \$27.9 M. These costs will increase state employer contribution rates as well as the need for additional appropriations from the General Fund, Pension Stabilization Fund, and the Motor Vehicle Highway Account. The one-time costs associated with the bill will increase the unfunded actuarial liability by a corresponding amount.

Explanation of State Expenditures: *Pre-1996 TRF:* For the Pre-1996 TRF Fund, there will be a one-time payment of \$19.3 M in FY 2014, resulting in 47,000 retirees, beneficiaries, and survivors belonging to the Pre-1996 Fund receiving a one-time average payment of \$411. The Pre-1996 Fund is paid for through

appropriations from the state General Fund and payments from the Pension Stabilization Fund.

State PERF: One-time 13th check payments for all state PERF retirees, beneficiaries, and survivors would total \$8.4 M in FY 2014, resulting in 24,331 state PERF retirees, beneficiaries, and survivors receiving an average one-time payment of \$346. PERF is actuarially prefunded through employer contributions. Employer contribution rates are 9.7% of payroll for FY 2013. Increases to the state PERF annual employer contribution rate due to this provision would be reflected in contribution rates beginning in FY 2015.

C&E: One-time 13th check payments for C&E Fund retirees, beneficiaries, and survivors would total \$65,000 in FY 2014, resulting in 187 C&E members who would receive an average one-time payment of \$348. The C&E Fund is actuarially prefunded through employer contributions. The CY 2013 C&E employer contribution rate is 20.75% of payroll. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in CY 2015.

State Police Fund: One-time 13th check payments for State Police Fund employees and beneficiaries would total \$142,800 in FY 2014, resulting in 476 members receiving an average one-time payment of approximately \$300. The State Police Fund is funded by a combination of the state General Fund and allocations from the Motor Vehicle Highway Account.

| Summary of State-Funded Pension Plans Impacted | | | | |
|---|----------------------|---|----------------------------|--|
| | Beneficiaries | Average 13th Check Amount | Total One-Time Cost | Impacts |
| TRF Pre-1996 Fund | 47,000 | \$411 | \$19.3 M | Pension Stabilization Fund and General Fund |
| PERF (State) | 24,331 | \$346 | \$8.4 M | Employer Contribution Rates |
| C&E Fund | 187 | \$348 | \$65,000 | Employer Contribution Rates |
| State Police Fund | 476 | \$300 | \$142,800 | General Fund and Motor Vehicle Highway Account |

Background Information: 13th check amounts in the bill are based on service at retirement. Amounts for eligible PERF and TRF retirees are as follows:

- (1) \$150 for retirees with less than 10 years of service at retirement.
- (2) \$275 for retirees with more than 10 and less than 20 years of service at retirement.
- (3) \$375 for retirees with more than 20 and less than 30 years of service at retirement.
- (4) \$450 for retirees with more than 30 years of service at retirement.

Amounts for eligible C&E retirees are as follows:

- (1) \$125 for retirees with less than 10 years of service at retirement.
- (2) \$235 for retirees with more than 10 years and less than 20 years of service at retirement.
- (3) \$325 for retirees with more than 20 years and less than 30 years of service at retirement.
- (4) \$400 for retirees with more than 30 years of service at retirement.

The 13th check amounts for State Police retirees are based on 1% of the maximum basic annual pension amount payable to a retired State Police Trooper with 25 years of service.

Definitions- Thirteenth Check: A 13th check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment (COLA), the amount of this supplemental retirement allowance does not increase the pension base.

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.

Explanation of State Revenues:

Summary of NET Local Impact: The provisions of the bill will increase costs for local units by \$17.8 M, which will increase employer contribution rates. The one-time costs associated with the bill will increase the unfunded actuarial liability by a corresponding amount.

Explanation of Local Expenditures: *Local PERF:* One-time 13th check payments for all local PERF retirees, beneficiaries, and survivors would total \$16.7 M in FY 2014, resulting in 48,661 local PERF members receiving an average one-time payment of \$344. PERF is actuarially prefunded through employer contributions. Local employer contribution rates average 9.73% of payroll for CY 2013 (each of the local employers have their own individual PERF contribution rate). Increases to the local PERF annual employer contribution rates due to this provision would be reflected in contribution rates beginning in CY 2015.

1996 TRF Fund: For the 1996 Fund, 2,971 retirees, beneficiaries, and survivors belonging to the 1996 Fund will receive an average one-time payment of \$370. Total 13th check payments for members of the 1996 Fund will total \$1.1 M. The 1996 Fund is prefunded by employer contributions. The FY 2013 employer contribution rate paid by school corporations is 7.5% of payroll. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2015.

| Summary of Locally Funded Pension Plans Impacted | | | | |
|---|----------------------|---|----------------------------|-----------------------------|
| | Beneficiaries | Average 13th Check Amount | Total One-Time Cost | Impacts |
| TRF 1996 Fund | 2,971 | \$370 | \$1.1 M | Employer Contribution Rates |
| PERF (Local) | 48,661 | \$344 | \$16.7 M | Employer Contribution Rates |

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Units with members in PERF and school corporations with members in TRF.

Information Sources: Allison Karns, Indiana Public Retirement System, akarns@inprs.in.gov; Gregg Witter, Indiana Public Retirement System, gwitter@inprs.in.gov; Brad Scully, Indiana State Police, 317-232-8348.

Fiscal Analyst: Stephanie Wells, 232-9866.