

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

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6860**

**BILL NUMBER: HB 1986**

**DATE PREPARED: Mar 29, 1999**

**BILL AMENDED: Mar 29, 1999**

**SUBJECT: Pension benefits.**

**FISCAL ANALYST: James Sperlik**

**PHONE NUMBER: 232-9866**

**FUNDS AFFECTED:  GENERAL  
 DEDICATED  
 FEDERAL**

**IMPACT: State & Local**

**Summary of Legislation:** (Amended) This bill provides a cost of living adjustment (COLA) in 1999 to members of the Public Employees' Retirement Fund (PERF) and members of the Indiana State Teachers' Retirement Fund (TRF) (or their survivors or beneficiaries) who retired or were disabled before July 2, 1994. It provides a COLA in 2000 to members of PERF or TRF (or their survivors or beneficiaries) who retired or were disabled before July 2, 1994. The bill provides a supplemental "thirteenth check" benefit to retired teachers and certain retired public employees (or their survivors or beneficiaries) on November 1, 1999, and on November 1, 2000.

**Effective Date:** July 1, 1999; July 1, 2000.

**Explanation of State Expenditures:** (Revised) This bill provides a COLA to all PERF and TRF benefit recipients effective July 1, 1999 and a similar COLA effective July 1, 2000 in accordance with the following table:

<u>Benefit Commencement</u>	<u>COLA Percent</u>
After 7/1/90, Before 7/2/94*	1.5%
After 7/1/80, Before 7/2/90	2.0%
After 7/1/70, Before 7/2/80	5.0%
After 7/1/60, Before 7/2/70	7.0%
Before 7/2/60	9.0%

\*7/2/94 for July 1, 2000 effective date.

**PERF**

Current statute provides that any COLA applicable to PERF benefit recipients also is applicable to the Excise Police and Conservation Officers' Retirement Plan benefit recipients and to the benefit recipients of the Legislators' Defined Benefit Plan. The latter are included in this analysis.

The bill also provides a 13th check to equal the greater of \$50 or a percentage of the annual benefit in accordance with the following table. A 13th check would be payable on November 1, 1999, and November 1, 2000.

<u>Calendar Year of Last Retirement of Member</u>	<u>Applicable Percentage</u>
1950 through 1969	7%
1970 through 1977	6%
1978 through 1981	5%
1982 through 1985	4%
1986 through 1989	3%
1990 through 1998**	2%

\*\*1990 through 1999 for the check payable November 1, 2000.

The 13th check would be payable to members of PERF and the Excise Police and Conservation Officers' Retirement Plan.

Below is a table which shows the impact of this bill on PERF, Excise Police and Legislators.

Effective July 1, 1999

	<b>State</b>	<b>Local</b>	<b>Total</b>	<b>Excise Police</b>	<b>Legislators</b>
Est. Increase In Unfunded Accrued Liability	\$(1,300,000)	\$(1,500,000)	\$(2,800,000)	\$29,300	\$(17,400)
Est. Increase in Annual Funding	\$(93,000)	\$(111,000)	\$(204,000)	\$2,120	\$(1,400)
Est. Increase In Annual Funding as a % of Payroll	(0.01%)	(0.01%)	(0.01%)	0.02%	N/A

For the state, the funds affected are the State General fund 55%, or a reduction of \$51,500 in annual funding, and various dedicated funds 45%, or a reduction of \$41,850 in annual funding. The split represents the percent each fund contributes for personal services in the State Budget. Because the PERF actuaries assume a 2% COLA in the valuation of the Fund, there is a reduction in liabilities and annual funding. For the Excise and Conservation Officers, the funds affected are the State General Fund, the Fish and Wildlife Fund, and the Enforcement Fund. For the Legislators' Plan, there is a reduction in unfunded liabilities and annual funding as well.

Effective July 1, 2000

	<b>State</b>	<b>Local</b>	<b>Total</b>	<b>Excise Police</b>	<b>Legislators</b>
Est. Increase In Unfunded Accrued Liability	\$(2,000,000)	\$(2,300,000)	\$(4,300,000)	\$20,300	(\$21,200)
Est. Increase in Annual Funding	\$(141,000)	\$(168,000)	\$(309,000)	\$1,470	\$(1,760)
Est. Increase In Annual Funding As a % of Payroll	(0.01%)	(0.01%)	(0.01%)	0.01%	N/A

For the state, the funds affected are the State General Fund 55%, or a reduction of \$77,550 in annual funding, and various dedicated funds 45%, or a reduction of \$63,450 in annual funding. The split represents the percent each fund contributes for personal services in the State Budget. For the Excise and Conservation Officers, the funds affected are the State General Fund, the Fish and Wildlife Fund, and the Enforcement Fund. For the Legislators' Plan, there is a reduction in unfunded liabilities and annual funding as well.

For the **Teachers' Retirement Fund**, the impact would be as follows:

The increase in payout for the first year and second year would be \$5.7 million. The fund affected is the State General Fund.

The increase in unfunded accrued liabilities is estimated at \$81.5 million

The 13th check is payable November 1, 1999 and November 1, 2000. The amount is based on the amount by which the Annuity Reserve exceeded the computed liability of the annuity portion of the normal allowance. On June 30, 1998, the annuity Reserve exceeded the computed liability by \$80.7 million. Ten percent of this amount is to be distributed to eligible recipients. The distribution is based on a formula.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** For local school corporations, there will be an impact only to the extent that the cost of payroll is increased to cover the new benefits for any retirees. This is for the 1996 Plan which is actuarially funded. The anticipated increase, if any, would be expected to be minimal. The current cost of payroll is 8.5%

**Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** Those local units with members in PERF. Local school corporations.

**Information Sources:** Doug Todd of McCready & Keene, Inc., actuaries for PERF, the Excise and Conservation Officers' Retirement Plan; Legislators' Defined Benefit Plan, 576-1508. Sandy Rodwan of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

The unfunded accrued liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.

A thirteenth 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, the amount of this supplemental retirement allowance does not increase the pension base.

Funding is 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.