

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

301 State House
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FISCAL IMPACT STATEMENT

LS 7224
BILL NUMBER: SB 396

DATE PREPARED: Jan 4, 2000
BILL AMENDED:

SUBJECT: School corporation retirement plan conversion.

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

STATE IMPACT	FY 2000	FY 2001	FY 2002
State Revenues			
State Expenditures		22,800,000	22,600,000
Net Increase (Decrease)		(22,800,000)	(22,600,000)

LOCAL IMPACT	CY 2000	CY 2001	CY 2002
Local Revenues		22,800,000	22,600,000
Local Expenditures			
Net Increase (Decrease)		22,800,000	22,600,000

Summary of Legislation: This bill provides that a school corporation is entitled to a retirement plan conversion distribution if the school corporation establishes a defined contribution plan or a tax sheltered annuity for employees of the school corporation who: (1) were participants in a retirement plan or severance plan established by the school corporation before July 1, 1999; (2) integrate their benefits accrued under the retirement plan or severance plan with the defined contribution plan or tax sheltered annuity established by the school corporation; and (3) become participants in the defined contribution plan or tax sheltered annuity established by the school corporation. The bill provides that the distribution is initially equal to one-half of the amount contributed by the school corporation during the year to fund the present value of the benefits to which the employees were entitled, as of July 1, 1999, under the retirement plan or severance plan established by the school corporation before July 1, 1999. It transfers money from the Administrative Trust Fund of the Lottery to make the distributions. The bill phases out the distribution over ten years.

Effective Date: January 1, 2000 (retroactive); July 1, 2000.

Explanation of State Expenditures: This bill entitles school corporations to a distribution of funds if the school corporation establishes a defined contribution plan or a tax sheltered annuity for employees.

The distribution estimate is based benefits of the 1999 retirement plan or severance plan benefits established before July 1, 1999 times the estimated number of retirees each year. Currently only about 48 schools would qualify due to the establishment of a defined contribution plan or tax sheltered annuity. The estimate assumes that all 294 schools would adopt a defined contribution plan or tax sheltered annuity so they would qualify for a distribution. The actual expenditures from the **Pension Conversion Fund** established in this bill may be different from the transfers made from the Lottery Administrative Trust Fund depending on the numbers of schools who adopt the plans and the number of retirees. The following table shows the number of certified staff by age and the estimated percentage of employees that have retired at that age.

Age	Number Certified Staff for the 1998 - 1999 School Year	% Retired over Last 3 years
55	1996	10.75%
56	1946	7.73%
57	1438	10.77%
58	1154	13.71%
59	959	16.71%
60	736	18.80%
61	596	20.98%

This bill requires Lottery surplus revenues to be transferred from the Administrative Trust Fund to the **Pension Conversion Fund** each year beginning in FY 2001 through FY 2010. The annual transfers would be made in the amounts as shown below:

October Distribution Date	Amount (millions)
2000	\$22.8 M
2001	\$22.6 M
2002	\$21.6 M
2003	\$19.6 M
2004	\$17.1 M
2005	\$15.8 M
2006	\$12.8 M
2007	\$9.8 M
2008	\$6.8 M
2009	\$3.8 M

Currently, after paying prize money and operating expenses of the Lottery Commission, surplus Lottery revenue is transferred from the Administrative Trust Fund in the following manner:

- (1) The Indiana State Teacher's Retirement Fund receives the lesser of:
 - (A) \$30 M each year in quarterly transfers; or
 - (B) the quarterly contributions necessary so that the ratio of the unfunded liability of the Retirement Fund compared to active teacher payroll is as close as possible yet not greater than the ratio on July 1 of the previous year;
- (2) the "k" portion of the Pension Relief Fund receives \$10 M in quarterly transfers;
- (3) the "m" portion of the Pension Relief Fund receives \$20 M in quarterly transfers; and
- (4) remaining revenue is then transferred to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund.

Under this proposal, the amounts described above would be transferred to the **Pension Conversion Fund** before the remaining revenue is transferred to the LGSA (between Steps (3) and (4) above). This bill would reduce the amount that would otherwise have been transferred to the LGSA within the Build Indiana Fund. In FY 1999, \$175.2 M was transferred to the LGSA. However, this amount did not include the statutory \$20 M annual transfer to the "m" portion of the Pension Relief Fund which became effective July 1, 1999 (P.L. 273-1999).

There are two accounts within the Build Indiana Fund: the LGSA and the State and Local Capital Projects Account. Surplus lottery revenue, as well as revenue from the Riverboat Wagering Tax, the Pari-Mutuel Wagering Tax, and charity gaming is deposited in the LGSA. A statutorily determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account within the state General Fund. A portion of money remaining in the LGSA is then transferred to the State and Local Capital Projects Account. The State Budget Agency projects that as of June 30, 2001, the available balance of the Lottery and Gaming Surplus Account will be \$290.6 M.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: The local revenue assumes that all schools qualify for the new distribution by adopting a defined contribution plan or a tax sheltered annuity that is integrated with their current retirement plan or severance plan. The potential local revenue is equal to the state expenditures. See State Expenditures for more information.

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: Local School Corporations.

Information Sources: Department of Education databases, Nelson Miller, Indiana School Boards Association.