

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

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7028**

**BILL NUMBER: HB 1573**

**NOTE PREPARED:** Jan 23, 2003

**BILL AMENDED:**

**SUBJECT:** PERF COLA and 13<sup>th</sup> Check; Minimum Benefit.

**FIRST AUTHOR:** Rep. Cochran

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X  
X

**GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides for a cost of living adjustment (COLA) and a supplemental "thirteenth check" for members of the Public Employees' Retirement Fund (PERF) (or their survivors or beneficiaries) for 2004 and 2005. It provides for a minimum pension portion of the monthly benefit for a retired member with at least 12 years of creditable service, excluding members whose only creditable service was as an elected official.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:** *Summary:* The following tables show the total state fiscal impacts for FY 2004, FY 2005, and FY 2006 for the COLAs and the 13<sup>th</sup> Check. FY 2006 does not include a provision for a 13<sup>th</sup> check.

<b>FY 2004 - Summary</b>	<b>State</b>	<b>Excise Police</b>	<b>Legislators</b>
Est. Increase in Unfunded Accrued Liability	\$5.93 M	\$76,900	\$8,250
Est. Increase in Annual Funding	\$440,000	\$5,750	\$625
Est. Increase in Annual Funding as % of Payroll	0.043%	0.063%	na

<b>FY 2005 - Summary</b>	<b>State</b>	<b>Excise Police</b>	<b>Legislators</b>
Est. Increase in Unfunded Accrued Liability	\$11.53M	\$133,000	\$25,250
Est. Increase in Annual Funding	\$859,000	\$9,900	\$1,910
Est. Increase in Annual Funding as % of Payroll	0.069%	0.084%	na

<b>FY 2006 - Summary</b>	<b>State</b>	<b>Excise Police</b>	<b>Legislators</b>
Est. Increase in Unfunded Accrued Liability	\$10.80 M	\$104,000	\$34,000
Est. Increase in Annual Funding	\$808,000	\$7,700	\$2,570
Est. Increase in Annual Funding as % of Payroll	0.052%	0.084%	na

*Background Information:* Current statute provides that any COLA applicable to PERF benefit recipients, as described above, is also applicable to the Excise Police and Conservation Officers' Retirement Plan benefit recipients and to the benefit recipients of the Legislators' Defined Benefit Plan. However, the 13<sup>th</sup> check is not applicable for the Legislators' Defined Benefit Plan.

#### 2004 COLA

The pension portion of monthly benefits payable after December 31, 2003, would increase by 2.6% for all members (or survivors) who retired or were disabled prior to January 1, 2003. The minimum increase as provided in the bill would be \$5.00. Furthermore, all members (or their survivors) who retired with at least 12 years of service and were entitled to a monthly benefit on December 1, 2003, shall have a pension portion not less than \$180.00.

The estimated total fiscal impact of this COLA is shown in the following table:

<b>PERF: FY 2004 - COLA</b>	<b>State</b>	<b>Excise Police</b>	<b>Legislators</b>
Est. Increase in Unfunded Accrued Liability	\$2.63 M	\$25,000	\$8,250
Est. Increase in Annual Funding	\$196,000	\$1,850	\$625
Est. Increase in Annual Funding as % of Payroll	0.026%	0.026%	na

#### 2005 COLA

The pension portion of monthly benefits payable after December 31, 2004, would increase by the greater of (a) 2%, or (b) 80% of the CPI-U for the year ending September 30, 2004, for all members (or their survivors) who retired or were disabled prior to January 1, 2004. The minimum increase would be \$5.00. For purposes of this portion of the fiscal impact, it has been assumed that 80% of the CPI-U will be 2.6%. The fiscal impact of this COLA is shown in the following table.

<b>PERF: FY 2005 - COLA</b>	<b>State</b>	<b>Excise Police</b>	<b>Legislators</b>
Est. Increase in Unfunded Accrued Liability	\$8.03M	\$77,000	\$25,250
Est. Increase in Annual Funding	\$600,000	\$5,700	\$1,910
Est. Increase in Annual Funding as % of Payroll	0.026%	0.027%	na

2003 13<sup>th</sup> Check (FY 2004)

A 13<sup>th</sup> check shall be payable on or before November 1, 2003, (FY 2004) for certain qualified benefit recipients. For those qualified, the 13<sup>th</sup> check shall equal the greater of \$125 or their monthly benefit multiplied by 12 and multiplied by a percentage based on their year of retirement as follows.

<b>Calendar Year of Retirement</b>	<b>Applicable Percentage</b>
1950-1984	5%
1985-1994	4%
1995-7/2/2002	2%

The total FY 2004 fiscal impact of the 13<sup>th</sup> check is shown in the following table.

<b>PERF: FY 2004 - 13<sup>th</sup> Check</b>	<b>State</b>	<b>Municipalities</b>	<b>Total</b>	<b>Excise Police</b>
Est. Increase in Unfunded Accrued Liability	\$3.3 M	\$4.0 M	\$7.3 M	\$51,900
Est. Increase in Annual Funding	\$244,000	\$297,000	\$541,000	\$3,900
Est. Increase in Annual Funding as % of Payroll	0.017%	0.014%	0.015%	0.037%

2004 13<sup>th</sup> Check (FY 2005)

A 13<sup>th</sup> check shall be payable on or before November 1, 2004, (FY 2005) for certain qualified benefit recipients. For those qualified, the 13<sup>th</sup> check shall equal the greater of \$125 or their monthly benefit multiplied by 12 and multiplied by a percentage based on their year of retirement as follows.

<b>Calendar Year of Retirement</b>	<b>Applicable Percentage</b>
1950-1984	5%
1985-1994	4%
1995-7/2/2003	2%

The total fiscal impact of this 13<sup>th</sup> check is shown in the following table:

<b>PERF: FY 2005 - 13<sup>th</sup> Check</b>	<b>State</b>	<b>Municipalities</b>	<b>Total</b>	<b>Excise Police</b>
Est. Increase in Unfunded Accrued Liability	\$3.5 M	\$4.2 M	\$7.7 M	\$56,000
Est. Increase in Annual Funding	\$259,000	\$315,000	\$574,000	\$4,200
Est. Increase in Annual Funding as % of Payroll	0.017%	0.014%	0.016%	0.031%

This fiscal impacts are based on July 1, 2001, Actuarial Valuations.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Summary:* The following table shows the impact on municipalities for the 2004 and 2005 COLAs and the 2003 and 2004 13<sup>th</sup> checks.

<b>Summary - COLAs and 13<sup>th</sup> Checks</b>	<b>CY 2003</b>	<b>CY 2004</b>
Est. Increase in Unfunded Accrued Liability	\$10.39 M	\$21.32 M
Est. Increase in Annual Funding	\$773,000	\$1,296,000
Est. Increase in Annual Funding as % of Payroll	0.036%	0.058%

*Background Information:*

2004 COLA

The pension portion of monthly benefits payable after December 31, 2003, would increase by 2.6% for all members (or survivors) who retired or were disabled prior to January 1, 2003. The minimum increase would be \$5.00. Furthermore, all members (or their survivors) who retired with at least 12 years of service and were entitled to a monthly benefit on December 1, 2003, shall have a pension portion not less than \$180.

The estimated total fiscal impact for municipalities of this COLA is shown in the following table:

<b>CY 2004</b>	<b>Municipalities</b>
Est. Increase in Unfunded Accrued Liability	\$6.39 M
Est. Increase in Annual Funding	\$476,000
Est. Increase in Annual Funding as % of Payroll	0.022%

2005 COLA

The pension portion of monthly benefits payable after December 31, 2004, would increase by the greater of (a) 2% or (b) 80% of the CPI-U for the year ending September 30, 2004, for all members (or their survivors) who retired or were disabled prior to January 1, 2004. The minimum increase would be \$5.00. For purposes of this portion of the fiscal impact, it has been assumed that 80% of the CPI-U will be 2.6%. The fiscal impact for municipalities of this COLA is shown in the following table.

<b>CY 2005</b>	<b>Municipalities</b>
Est. Increase in Unfunded Accrued Liability	\$13.12 M
Est. Increase in Annual Funding	\$981,000
Est. Increase in Annual Funding as % of Payroll	0.044%

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund.

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

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

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**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.

**Thirteenth Check** - an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes.

**Unfunded Actuarial 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.