

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7048

BILL NUMBER: SB 332

NOTE PREPARED: Jan 13, 2006

BILL AMENDED:

SUBJECT: Department of Correction Pension Benefits.

FIRST AUTHOR: Sen. Young R Michael

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill has the following provisions.

New Pension Fund Created: This bill provides that the Correctional Officers and Hazardous Duty Employees Pension Fund shall be established for Department of Correction (DOC) employees who work within a prison or juvenile facility or perform parole or emergency response operations and functions, if the Commissioner of the Department of Correction makes a finding that the Fund should be established and that there is sufficient funding for the Fund.

PERF Board Administers New Fund: The bill provides that the Public Employees' Retirement Fund (PERF) Board administers the Fund.

Asset Transfers: It provides that if an individual who is a member of PERF becomes a member of the Fund, the PERF board shall transfer to the Fund all money and years of creditable service standing to the credit of the member in PERF.

Full Pension: The bill provides that a member of the Fund is entitled to a full pension benefit if the member: (1) is at least 55 years of age and completes at least 25 years of creditable service in the fund; or (2) is at least 65 years of age and completes at least ten years of creditable service in the fund.

Reduced Pension Provided: It provides that a member of the Fund who is at least 45 years of age and completes at least 20 years of creditable service in the Fund is eligible for early retirement with a reduced pension.

Disability and Survivor Benefits: The bill provides for disability and survivor benefits.

Benefit Calculation: It provides that a member's annual benefit equals the product of: (1) the average of the member's five highest annual salary amounts; (2) the member's years of service; and (3) a multiplier of 2% (if the member has at least 20 years of service) or 1.1% (if the member has less than 20 years of service).

Prior Service: The bill provides that a member is entitled to service credit in the Fund for any prior service in PERF or the Indiana State Teachers' Retirement Fund (TRF).

Use of Certain Prior Service: It provides that prior service within a prison or juvenile facility or while performing parole or emergency response operations and functions may be used with the 2% multiplier in determining a member's retirement benefits. The bill provides that other prior service may be used with the 1.1% multiplier in determining a member's retirement benefits.

Purchase of Service: The bill allows a member to purchase prior PERF or TRF service credit at actuarial cost so that the prior service is used with the 2% multiplier, even if it was not for service within a prison or juvenile facility or while performing parole or emergency response operations and functions.

Fund Members Receive COLAs: It provides that retired members, survivors, and beneficiaries receive the same cost-of-living adjustment as is provided to PERF members, survivors, and beneficiaries.

DROP: The bill establishes a Deferred Retirement Option Plan (DROP) for members of the Correctional Officers and Hazardous Duty Employees Pension Fund.

DROP Eligibility: It provides that a member is eligible to participate in the DROP if the member may retire and receive an unreduced benefit. The bill provides that a member who wishes to participate in the DROP must make an irrevocable election and choose a retirement date that is not sooner than 12 months and not later than 36 months after the member enters the DROP.

DROP Active Service: It provides that a member in the DROP continues in active service and both the member and the member's employer continue to make contributions to the applicable fund.

Retiring From DROP: This bill provides that a member retiring from the DROP receives a monthly benefit plus an additional amount paid either in a lump sum or in installments.

Leaving DROP: The bill provides that if a member exits the DROP for any reason other than retirement on the member's chosen retirement date, the member's or the member's survivors' benefits are calculated as if the member never entered the DROP.

Special Death Benefit Fund: It specifies that if an employee of the Department of Correction: (1) works within a prison or juvenile facility or performs parole or emergency response operations and functions; and (2) dies in the line of duty; the employee's survivor is entitled to the \$150,000 death benefit from the Special Death Benefit Fund.

Waiver of Tuition/Fees: The bill provides that each child and surviving spouse of such an employee is eligible to attend any state-supported college, university, or technical school without paying tuition or mandatory fees.

Effective Date: July 1, 2006; January 1, 2007.

Explanation of State Expenditures: *New Pension Fund Created:* Currently, employees of the Department of Correction are covered under the Public Employees' Retirement Fund (PERF) or the Teachers' Retirement Fund (TRF). Below is a table which shows the estimated annual cost for the newly created Correctional Officers and Hazardous Duty Employees Pension Fund after accounting for reduced expenditures associated with PERF and TRF. The funds affected are the state General Fund, PERF, and TRF.

Increase in Annual Cost	\$24,165,170
Increase in Cost as a % of Payroll	11.3%
Increase in Unfunded Accrued Liability	\$162,027,209

Additional details regarding the above table are available from the Office of Fiscal and Management Analysis.

Purchase of Service: This provision allows a member to purchase prior PERF or TRF service credit at actuarial cost so that the prior service is used with the 2% multiplier, even if it was not for service within a prison or juvenile facility or while performing parole or emergency response operations and functions.

Background on Purchase of Service Credit: The bill provides that the purchase of service credits by a participant must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wants to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the fund. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the fund.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

DROP: Since this DROP was designed to mirror the DROP currently available to the members of the Police and Fire Funds and the current DROP is actuarially neutral, this legislation does not otherwise increase benefits and would not have any net fiscal impact.

\$150,000 Special Death Benefit: Adding a new group of potential recipient beneficiaries of the Special Death Benefit Fund may increase expenditures from this fund. Currently, there are approximately 9,010 individuals covered by the Special Death Benefit Fund. The average number of deaths for which benefits are paid is 3.25 per year.

IC 5-10-10-4 established the Special Death Benefit Fund, which receives funding from a \$5 fee collected for each bail bond issued. As of December 10, 2005, the balance in the Special Death Benefit Fund amounted to \$1,259,000. The payment for each line-of-duty death is \$150,000. The following table shows the annual payout from the fund and the number of deaths each year since FY 1998.

Special Death Benefit Fund Under IC 5-10-10-4.		
Fiscal Year Ending	Amount Paid	Number of Line-of-Duty Deaths
6/30/05	\$300,000	2*
6/30/04	\$600,000*	4*
6/30/03	\$150,000	1
6/30/02	\$750,000	5
6/30/01	\$450,000	3
6/30/00	\$900,000	6
6/30/99	\$300,000	2
6/30/98	\$450,000	3
TOTAL	\$3,900,000	26
Average/Year	\$487,500	3.25
*\$300,000 accrued on 6/30/04, but was actually paid in FY 2005.		

Waiver of Tuition/Fees: This past academic year (2004-2005 = FY 2005), the State Student Assistance Commission reported that they had 5 children and 1 spouse (of police or firefighters killed in the line of duty) receiving the fee remission under IC 20-12-19.5 for an average cost of \$3,415. They expect the cost to increase with public college tuition and fee increases of around 6% per year. The specific impact will depend upon the number of future students who claim this benefit.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Correction; Public Employees' Retirement Fund; Teachers' Retirement Fund; Institutions of Higher Education; State Student Assistance Commission.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508; Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; Col. Tom Parker, Public Employees' Retirement Fund, 317-233-4146; Nick Vesper, Director of Policy Research, State Student Assistance Commission (SSACI), 317-233-5094.

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

DEFINITION

Actuarial Cost Method– An actuarial cost method is a particular technique for establishing the amount and incidence of the actuarial cost of retirement system benefits, or benefits and expenses, and the related actuarial liabilities.