

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7394

BILL NUMBER: HB 1173

NOTE PREPARED: May 9, 2007

BILL AMENDED: Apr 28, 2007

SUBJECT: State Police Pension Benefits.

FIRST AUTHOR: Rep. Cochran

FIRST SPONSOR: Sen. Kruse

BILL STATUS: Enrolled

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill:

- (1) requires that the salary of a sixth-year trooper, rather than the salary of a third-year trooper, be used to compute the basic pension amount under the State Police Pre-1987 Benefit System;
- (2) provides a Cost-of-Living Adjustment (COLA) in each of the next two state fiscal years to retired or disabled members of the State Police 1987 Benefit System;
- (3) changes the manner in which the Supplemental Benefit for retired or disabled members of the State Police Pre-1987 Benefit System is calculated;
- (4) provides that the State Police Pension Advisory Board may meet at any time to compute the Supplemental Pension benefits for members of the State Police Pre-1987 Benefit System; and
- (5) requires the Board to meet at least one time each year.

Effective Date: Upon passage.

Explanation of State Expenditures: The fiscal impact of this proposal appears below.

| FY 2008 Fiscal Year | | | |
|--|----------------------|----------------------------|------------------------------|
| | Pension Trust | Police Benefit Fund | Supplemental Benefits |
| Increase in Actuarial Liability | \$3.51 M | \$1,080,000 | \$19.19 M |
| Increase in Annual Funding | \$301,000 | (see below) | (see below) |
| Increase in Annual Funding as a % of Payroll | 0.55% | (see below) | (see below) |

| FY 2009 Fiscal Year Pension Trust | |
|--|-----------|
| Increase in Actuarial Liability | \$4.75 M |
| Increase in Annual Funding | \$398,000 |
| Increase in Annual Funding as a % of Payroll | 0.72% |

Since the benefits from the Police Benefit Fund and the supplemental benefits are paid on a "pay-as-you-go" basis, the following table provides a rough estimate of the increase in supplemental benefits that would be payable over the next five years as a result of this bill.

| Change in Expected Benefit Payouts | | |
|---|----------------------------|------------------------------|
| Plan Year | Police Benefit Fund | Supplemental Benefits |
| FY 2008 | \$83,300 | \$776,000 |
| FY 2009 | \$87,200 | \$829,000 |
| FY 2010 | \$92,700 | \$890,000 |
| FY 2011 | \$96,300 | \$987,000 |
| FY 2012 | \$94,800 | \$1,071,000 |

The funds affected are the state General Fund (50%) and the Motor Vehicle Highway Account (50%).

Background Information: SECTION 1 of the bill would require the salary of a sixth-year trooper, rather than the salary of a third-year trooper, to be used to compute the basic pension amount under the State Police Pre-1987 Benefit System.

SECTIONS 2 and 3 provide a COLA in each of the next two fiscal years to retired and disabled members of the State Police 1987 Benefit System equal to 1% of the maximum basic monthly pension amount payable to a retired state police employee in the grade of a trooper who has completed 25 years of service as of July 1, 2007.

SECTIONS 4 and 5 change the way the supplemental benefit is calculated for members of the State Police

Pre-1987 Benefit System. This change would calculate an increase in the supplemental benefit by applying the appropriate percentage (between 50% and 100%) to the difference between the 20-year benefit immediately after a change in the salary used to compute the basic monthly pension and the 20-year benefit immediately before a change in the salary used to compute the basic monthly pension. This increase would be added to any previously computed supplemental benefit.

Requiring the Board to meet at least one time each year will have no fiscal impact as members of the State Police Pension Advisory Board receive no compensation for their work on the Board.

Background Information:

The Pension Trust pays retirement benefits. The Benefit Fund pays death and disability benefits until age 65, then reconstituted to the Pension Trust. The supplemental benefit is the COLA for the Pre-1987 Benefit System.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Police.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for the State Police, 317-576-1508.

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

DEFINITIONS

Actuarial Liability - The actuarial liability of a retirement system at any time is the excess of the present value of all benefits thereafter payable under the system over the present value of future normal costs.

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.

Pay-As-You-Go Method, sometimes called current disbursement cost method, is a method of recognizing the costs of a retirement system only as benefits are paid.

Supplemental Benefits - Benefits provided by a pension plan in addition to regular retirement benefits. Supplemental benefits vary according to the terms of a plan and include such items as the payment of benefits in the event of termination, death, disability, or early retirement.

Unfunded 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.