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FISCAL IMPACT STATEMENT

LS 7446 | **NOTE PREPARED:** Apr 5, 2011
BILL NUMBER: SB 524 | **BILL AMENDED:** Feb 21, 2011

SUBJECT: Public Employees' Defined Contribution Plan.

FIRST AUTHOR: Sen. Walker | **BILL STATUS:** As Passed House
FIRST SPONSOR: Rep. Davis

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: (Amended) *Defined Contribution Plan:* This bill establishes a defined contribution plan (Plan) as an option for new state employees. A state employee who does not elect to become a member of the Plan becomes a member of the Public Employees' Retirement Fund (PERF).

The bill requires the PERF Board of Trustees to establish the same investment options for the Plan that are available for the investment of a PERF member's annuity savings account. It provides that a member's contribution to the Plan is 3% of the member's compensation and is paid by the state on behalf of the member. It also provides that the state's employer contribution rate for the Plan is equal to the state's employer contribution rate for PERF. It also provides that the amount credited from the employer's contribution rate to the member's account shall not be greater than the normal cost of PERF with any amount not credited to the member's account applied to PERF's unfunded accrued liability. The bill establishes a minimum state employer contribution of 3% of plan members' compensation.

The bill establishes a five-year vesting schedule for employer contributions, and requires a member who terminates state employment before the member is fully vested to forfeit amounts that are not vested. It establishes provisions for the withdrawal of amounts in member accounts. The bill also authorizes rollover contributions to the Plan.

Study Committee: The bill also urges the Legislative Council to assign to the Pension Management Oversight Commission the study of whether to create a defined contribution plan as an option for new employees of political subdivisions that participate in PERF and for new employees who are eligible to become members of the Teachers' Retirement Fund. It requires, if the Commission is assigned the topic, that the Commission issue a final report containing the Commission's findings and recommendations, including any recommended legislation, not later than November 1, 2011.

Effective Date: July 1, 2011.

Explanation of State Expenditures: (Revised) *Defined Contribution Plan:* The impact to the state would depend on how the defined contribution plan might affect the defined benefit plan's actuarial assumptions. The actuarial assumptions include such projections as mortality, interest rates, salary increases, and turnover. If the assumptions changed due the creation of the defined contribution plan, then there could be some change in the state costs. If turnover in the defined benefit plan is reduced because new employees who expect to be long-term employees tend to choose the defined benefit plan, then the cost to the state would increase. When the economy turns down and to the extent the assets of PERF are under a defined contribution plan, there would be no state fiscal impact. However, to the extent the assets are under a defined benefit plan, the unfunded accrued liability would increase as the value of assets decrease, and state costs would increase.

The state would contribute the same rate of contribution into the defined contribution plan as was contributed into the defined benefit plan. The employee amount credited from the employer's contribution rate to the member's account shall not be greater than the normal cost of the PERF defined benefit plan. The employer's contribution amount not credited to the member's account is applied to PERF's unfunded accrued liability. For FY 2011 the normal cost for the defined benefit plan is about 6.36% of payroll, and the total employer contribution rate is 8.6%. The bill would deposit 6.36% of a defined contribution plan employee's salary into their account and the remaining 2.24% of their salary would be used to reduce the unfunded accrued liability in the defined benefit plan.

Study Committee: The study of whether to provide an optional defined contribution plan for local PERF employers and the Indiana State Teachers' Retirement Fund for new employees would be done by the Pension Management Oversight Commission within the commission's budget as established by the Legislative Council. This provision should result in no additional expenditures unless an additional meeting is required in order to study the topic.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All; Legislative Council.

Local Agencies Affected:

Information Sources:

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