FISCAL NOTE

Bill #:	SB444	**Title:**	Revise purchase of military service in certain public retirement systems
Primary Sponsor:	Frank Smith	**Status:**	As Introduced

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
Other	$0	$0
Revenue:		
Other	($684,000)	($684,000)
Net Impact on General Fund Balance:	$0	$0

☐ Significant Local Gov. Impact
☐ Included in the Executive Budget
☐ Dedicated Revenue Form Attached
☒ Technical Concerns
☒ Significant Long-Term Impacts
☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This is the only provision being considered. If other provisions are enacted, the cost associated with this provision may be different.
2. This provision affects the Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS) and Firefighters' Unified Retirement System (FURS).
3. This provision allows eligible members to purchase military service at the employee contribution rate, rather than paying the actuarial cost of the service.
4. The increase in unfunded liability in the PERS is $2.5 Million.
5. The employee contribution rate vs. the normal cost of service for each retirement system is shown in the following chart.

Employee Contribution Rate Compared to Normal Cost		
System	Employee Contribution Rate	Normal Cost of Service
PERS	6.900%	12.080%
HPORS	9.050%	22.090%
GWPORS	10.560%	18.540%
SRS	9.245%	19.440%
MPORS	9.000%	25.770%
FURS	10.700%	26.120%

6. All active and inactive vested members of the systems who retire after the effective date of the proposal will be eligible for these provisions.
7. Each purchase must be calculated on an individual basis considering the member's age, salary, years of service and normal retirement for the system.
8. Analysis is based on the data, methods and assumptions contained in the Actuarial Valuation of the systems performed as of June 30, 2004.
9. One-third of the PERS purchases will fall into each of three conditions with respect to the 25-year threshold:
   a. Total service after the purchase will be less than 25 years (all service is on the 1/56 formula)
   b. Total service without the purchase will be greater than 25 years (all service would have been on the 1/50 formula even without the purchase)
   c. Total service without the purchase will be less than 25 years, and total service after the purchase will be greater than 25 years (the service purchase triggers the increase in the retirement formula for all service from 1/56 to 1/50).
10. PERS Example: Member is age 50 at the time of the purchase, has a salary of $30,000 and retires at age 60, and purchases one year of military service. The following chart illustrates the difference between the actuarial cost and the member's cost under the three conditions above.

PERS Example Actuarial Cost vs. Member Cost				
Years of Service	Total Actuarial Cost	Member's Cost	Actuarial Loss to the System	Member's Cost as a Percent of Actuarial Cost
20	$11,010	$2,070	$8,940	18.8%
24	15,090	2,070	13,020	13.7%
27	17,550	2,070	15,480	11.8%

11. It is assumed that 20 PERS members will elect to purchase military service each year.
12. It is assumed that each member will choose to purchase two years of military service, near the time of retirement.
13. The average loss of revenue for PERS per year is projected to total $520,800 ($13,020 x 20 members x 2 years of service).
14. Public Safety System Example: Member is age 40 at the time of the purchase, has a salary of $30,000 and purchases one year of military service. The following chart illustrates the difference between the actuarial cost and the member's cost under three assumptions of years of service at the time of purchase.

Public Safety System Example Actuarial Cost vs. Member Cost				
Years of Service	Total Actuarial Cost	Member's Cost	Actuarial Loss to the System	Member's Cost as a Percent of Actuarial Cost
10	$12,930	$2,700	$10,230	20.9%
15	19,020	2,700	16,320	14.2%
19	25,110	2,700	22,410	10.8%

15. It is assumed that a total of five members from HPORS, GWPORS, SRS, MPORS and FURS will elect to purchase military service each year.
16. It is assumed that each member will choose to purchase two years of military service, near the time of retirement.
17. The average loss of revenue for public safety systems per year totals $163,200 ($16,320 x 5 members x 2 years of service).
18. Based on the assumptions and examples outlined above, the increase in actuarial liability to each of the public safety system will be significantly increased at a higher rate than to the PERS.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Revenues:		
Other (Retirement Systems)	($684,000)	($684,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
Other (Retirement Systems)	($684,000)	($684,000)

LONG-RANGE IMPACTS:
This legislation will increase the unfunded liability in each of the systems: Public Employees' Retirement System, Highway Patrol Officers' Retirement System, Game Wardens' and Peace Officers' Retirement System, Sheriffs' Retirement System, Municipal Police Officers' Retirement System and Firefighters' Unified Retirement System.

TECHNICAL NOTES:
1. The members in each system will benefit from purchasing this service at a reduced cost; however, the cost will be borne by all the members in each system.
2. In HB 148 we are attempting to actuarially fund the systems' liability over 30 years for the Public Employees' Retirement System, Game Wardens' and Peace Officers' Retirement System and Sheriffs' Retirement System. Creating an unfounded liability with this bill will create actuarially unsound system.
3. Based on the most recent funded status of each of the retirement systems and the expectation of emerging investment losses in the future, the Board's actuary recommends that all new legislative proposals include a provision for financing the entire cost of the proposal.