



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill # HB0095

Title: Require contributions on working retiree compensation

Primary Sponsor: Wilmer, Franke

Status: As Introduced

Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input checked="" type="checkbox"/> Public Employees	<input type="checkbox"/> Highway Patrol	<input type="checkbox"/> Police
<input checked="" type="checkbox"/> Sheriffs	<input checked="" type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input type="checkbox"/> Judges

Check the box if "Yes".

- Has this legislation been reviewed by the legislative interim committee?
- Has the cost of this legislation been calculated by the system's actuary?
- Does this legislation include full funding for any benefit revisions?

PERS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$5,661,281,490	\$5,661,281,490	\$0
Present Value of Actuarial Assets	\$3,816,919,734	\$3,816,919,734	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,844,361,756	\$1,844,361,756	\$0
Amortization Period (years) of UAAL	dna	dna	0.00
Change in normal costs	11.80%	11.80%	0.00%

PERS	FY 2013 July 1, 2012	FY 2014 July 1, 2013	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016
Employee Contr Rate prior 7/1/2011	6.90%	6.90%	6.90%	6.90%	6.90%
Employee Contr Rate 7/1/2011	7.90%	7.90%	7.90%	7.90%	7.90%
State and MUS Contribution Rat	7.17%	7.17%	7.17%	7.17%	7.17%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Govt Contribution Rate	7.07%	7.07%	7.07%	7.07%	7.07%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
School District Contribution Rat	6.80%	6.80%	6.80%	6.80%	6.80%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	15.07%	15.07%	15.07%	15.07%	15.07%

SRS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$284,559,171	\$284,559,171	\$0
Present Value of Actuarial Assets	\$211,535,253	\$211,535,253	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$73,023,918	\$73,023,918	\$0
Amortization Period (years) of UAAL	dna	dna	0.00
Change in normal costs	18.73%	18.73%	0.00%

SRS	FY 2013 July 1, 2012	FY 2014 July 1, 2013	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016
Employee Contribution Rate	9.245%	9.245%	9.245%	9.245%	9.245%
Employer Contribution Rate	10.115%	10.115%	10.115%	10.115%	10.115%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.36%	19.36%	19.36%	19.36%	19.36%

FURS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$377,211,275	\$377,211,275	\$0
Present Value of Actuarial Assets	\$233,121,145	\$233,121,145	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$144,090,130	\$144,090,130	\$0
Amortization Period (years) of UAAL	16.40	16.40	0.00
Change in normal costs	26.50%	26.50%	0.00%

FURS	FY 2013 July 1, 2012	FY 2014 July 1, 2013	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016
Employee Contribution Rate	10.70%	10.70%	10.70%	10.70%	10.70%
Employer Contribution Rate	14.36%	14.36%	14.36%	14.36%	14.36%
State Contribution Rate	32.61%	32.61%	32.61%	32.61%	32.61%
TOTAL Contribution Rate	57.67%	57.67%	57.67%	57.67%	57.67%

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$45,331	\$47,260	\$49,028	\$51,118
MUS General Fund	\$8,112	\$8,457	\$8,774	\$9,148
State Special Revenue	\$41,446	\$43,210	\$44,826	\$46,737
Federal Special Revenue	\$27,199	\$28,356	\$29,417	\$30,671
Proprietary	\$15,542	\$16,204	\$16,810	\$17,526
MUS Tuition/Other	\$8,306	\$8,659	\$8,983	\$9,366
Other - Local Government	\$91,284	\$95,168	\$98,729	\$102,937
Other - School Districts	\$44,780	\$46,686	\$48,433	\$50,497
Other - Counties (SRS)	\$131	\$136	\$141	\$147
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other - PERS	\$282,000	\$294,000	\$305,000	\$318,000
Other - SRS	\$131	\$136	\$141	\$147
Net Impact-General Fund Balance:	<u>(\$53,443)</u>	<u>(\$55,717)</u>	<u>(\$57,802)</u>	<u>(\$60,266)</u>

Description of fiscal impact: Each employer shall submit required employer contributions on the compensation of retired members who have returned to covered employment, effective July 1, 2013. HB 95 will provide additional funding for the applicable retirement systems to offset the funding lost by the adverse affect of retirees returning to work in place of active contributing members.

FISCAL ANALYSIS

Assumptions:

1. Only PERS, SRS, and FURS allow working retirees. Other retirement systems administered by the PERB will not be impacted.
2. Salary projections are based on the actuarial assumed payroll growth assumption of 4%.
3. Anyone that exceeds the hour limitations is expected to return to active service since the benefit is reduced once the hour limitation is exceeded.
4. As the baby boomers retire, there will likely be more working retirees. In FY 2010 there were 459 working retirees reported. In FY 2012, there were 601 working retirees reported. However, the actuary’s impact study did not project working retiree increases.
5. The impact on all systems could change if more retirees return to limited employment.
6. Employee contributions are not required and will not be required for working retirees.
7. The employer does not have to pay contributions for those employees who are otherwise properly excluded.
8. A retire returning to work takes the place of a new member that would otherwise be hired to fill the position where employee and employer contributions would be paid; therefore, employers and the state are not paying contributions beyond what is normally budgeted for new hires.
9. The current number of working retirees reported to MPERA per statute is 602 (PERS-601; SRS-1; FURS-0). The likelihood of working retirees not being reported has diminished significantly with the automation of working retiree reporting. The figures reported by the actuary were used to calculate the contributions that would be paid by the employers.

10. The fiscal impact presented in the report assumes that this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.
11. There have been no adjustments for actuarial gains and losses or for changes in membership or financial data since the last valuation as of June 30, 2012.

Public Employees' Retirement System (PERS)

12. For PERS, it has been assumed that the additional contributions of 0.27% of payroll that became fully effective on July 1, 2009 will continue to be in effect.
13. For PERS, working retirees are employed by employers as follows: local governments employ 32.4%; school districts employ 15.9%; state agencies employ 45.9%; and universities employ 5.8%.
14. For FY 2014, the actuary reported additional contributions for PERS of \$282,000 multiplied by the appropriate employer rate in assumption number 13 equals the amount reported. $\$129,518 = \$282,000 * 45.9\%$ (percent of retirees employed by the state). The calculation can be repeated in similar fashion for the other employers.
15. State agencies fund PERS contributions at approximately 35% general fund, 32% state special revenue, 21% federal special revenue, and 12% proprietary funds.
16. Approximately 61% of MUS PERS participants are funded with current unrestricted funds and 39% are funded with restricted/other funds. The current unrestricted funds are funded with approximately 81% state general fund and 19% tuition. The 19% of tuition that makes up the current unrestricted fund is added to the restricted/other funds and is recorded on the fiscal note as MUS Tuition/Other.

Sheriffs' Retirement System (SRS)

17. For SRS, it has been assumed that the additional contributions of 0.58% of payroll that became fully effective on July 1, 2009 will continue to be in effect.
18. For SRS the impact is very minimal (only one retiree in 2012; the same as 2010).

Firefighters' Unified Retirement System (FURS)

19. For FURS there is not currently any impact (no such retirees in 2012; the same as 2010).

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Benefits	\$282,131	\$294,136	\$305,141	\$318,147
TOTAL Expenditures	\$282,131	\$294,136	\$305,141	\$318,147

<u>Funding of Expenditures:</u>				
General Fund (01)	\$45,331	\$47,260	\$49,028	\$51,118
MUS General Fund	\$8,112	\$8,457	\$8,774	\$9,148
State Special Revenue (02)	\$41,446	\$43,210	\$44,826	\$46,737
Federal Special Revenue (03)	\$27,199	\$28,356	\$29,417	\$30,671
Proprietary (06)	\$15,542	\$16,204	\$16,810	\$17,526
MUS Tuition/Other	\$8,306	\$8,659	\$8,983	\$9,366
Other - Local Govt	\$91,284	\$95,168	\$98,729	\$102,937
Other - School Districts	\$44,780	\$46,686	\$48,433	\$50,497
Other - County (SRS)	\$131	\$136	\$141	\$147
TOTAL Funding of Exp.	\$282,131	\$294,136	\$305,141	\$318,147

<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Proprietary (06)	\$0	\$0	\$0	\$0
MUS Tuition/Other	\$0	\$0	\$0	\$0
Other - PERS	\$282,000	\$294,000	\$305,000	\$318,000
Other - SRS	\$131	\$136	\$141	\$147
TOTAL Revenues	\$282,131	\$294,136	\$305,141	\$318,147

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$53,443)	(\$55,717)	(\$57,802)	(\$60,266)
State Special Revenue (02)	(\$41,446)	(\$43,210)	(\$44,826)	(\$46,737)
Federal Special Revenue (03)	(\$27,199)	(\$28,356)	(\$29,417)	(\$30,671)
Proprietary (06)	(\$15,542)	(\$16,204)	(\$16,810)	(\$17,526)

Effect on Local Governments:

1. The effect of HB 95 on school districts and local government is shown in the table below.

FY 2014	FY 2015	FY 2016	FY 2017
\$ 136,064	\$ 141,854	\$ 147,162	\$ 153,434

Sponsor's Initials

Date

Budget Director's Initials

Date