



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill # HB0097

Title: Cap highest/final average compensation in MPERA retirement systems

Primary Sponsor: Wilmer, Franke

Status: As Introduced

Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input checked="" type="checkbox"/> Public Employees	<input checked="" type="checkbox"/> Highway Patrol	<input checked="" type="checkbox"/> Police
<input checked="" type="checkbox"/> Sheriffs	<input checked="" type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input checked="" 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	\$5,661,281,000	\$5,661,281,000	\$0
Present Value of Actuarial Assets	\$3,816,920,000	\$3,816,920,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,844,361,000	\$1,844,361,000	\$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%

JRS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$46,190,000	\$46,190,000	\$0
Present Value of Actuarial Assets	\$63,195,000	\$63,195,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	(\$17,005,000)	(\$17,005,000)	\$0
Amortization Period (years) of UAAL	0.00	0.00	0.00
Change in normal costs	23.80%	23.80%	0.00%

JRS	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	7.000%	7.000%	7.000%	7.000%	7.000%
Employer Contribution Rate	25.810%	25.810%	25.810%	25.810%	25.810%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	32.81%	32.81%	32.81%	32.81%	32.81%

HPORS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$167,824,000	\$167,824,000	\$0
Present Value of Actuarial Assets	\$96,655,000	\$96,655,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$71,169,000	\$71,169,000	\$0
Amortization Period (years) of UAAL	49.70	49.70	0.00
Change in normal costs	23.60%	23.60%	0.00%

HPORS	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	9.050%	9.050%	9.050%	9.050%	9.050%
Employer Contribution Rate	26.150%	26.150%	26.150%	26.150%	26.150%
State Contribution Rate	10.18%	10.18%	10.18%	10.18%	10.18%
TOTAL Contribution Rate	45.38%	45.38%	45.38%	45.38%	45.38%

SRS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$284,559,000	\$284,559,000	\$0
Present Value of Actuarial Assets	\$211,535,000	\$211,535,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$73,024,000	\$73,024,000	\$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%

GWPORS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$128,927,000	\$128,927,000	\$0
Present Value of Actuarial Assets	\$97,691,000	\$97,691,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$31,236,000	\$31,236,000	\$0
Amortization Period (years) of UAAL	dna	dna	0.00
Change in normal costs	18.98%	18.98%	0.00%

GWPORS	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	10.560%	10.560%	10.560%	10.560%	10.560%
Employer Contribution Rate	9.000%	9.000%	9.000%	9.000%	9.000%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.56%	19.56%	19.56%	19.56%	19.56%

MPORS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$427,257,000	\$427,257,000	\$0
Present Value of Actuarial Assets	\$234,025,000	\$234,025,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$193,232,000	\$193,232,000	\$0
Amortization Period (years) of UAAL	25.70	25.70	0.00
Change in normal costs	26.26%	26.26%	0.00%

MPORS	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	9.000%	9.000%	9.000%	9.000%	9.000%
Employer Contribution Rate	14.410%	14.410%	14.410%	14.410%	14.410%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
TOTAL Contribution Rate	52.78%	52.78%	52.78%	52.78%	52.78%

FURS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$377,211,000	\$377,211,000	\$0
Present Value of Actuarial Assets	\$233,121,000	\$233,121,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$144,090,000	\$144,090,000	\$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

	FY 2014 <u>Difference</u>	FY 2015 <u>Difference</u>	FY 2016 <u>Difference</u>	FY 2017 <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other PERS	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other PERS	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

Description of fiscal impact: HB 97 impacts all of the defined benefit plans administered by MPERA with the exception of VFCA and is applicable only to new hires on or after July 1, 2013. The purpose of the bill is to prevent a practice called “pay spiking” where a member approaching retirement will cause his or her pay to increase substantially, usually by working additional overtime. For calculations of highest average compensation (HAC) or final average compensation (FAC), a member’s percentage increase in annual compensation will be limited to 15% during the years for which the average is based. There are currently no assumptions regarding “pay spiking” so the bill would have no effect on the actuarial valuations.

FISCAL ANALYSIS

Assumptions:

1. The effective date of the legislation would be July 1, 2013.
2. The limit on compensation increases is only for new hires on or after July 1, 2013.

3. For calculations of highest average compensation (HAC) or final average compensation (FAC), a member's percentage increase in annual compensation will be limited to 15% during the years for which the average is based.
4. Compensation increases in excess of 15% during this period would be disregarded for HAC or FAC.
5. Increases in final pay can cause a benefit to be paid greater than was anticipated through the regular actuarial funding.
6. This bill does not provide additional revenue but minimizes additional liabilities.
7. The fiscal impact presented by the actuary 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.
8. 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.
9. The actuarial calculations are based upon the data, actuarial methods and assumptions as were used in the Actuarial Valuations of the systems as of June 30, 2012.
10. The assumptions are based on the likely future experience of the systems and represent a best estimate for future experience. The results are dependent upon future experience conforming to the assumptions used.

Effect on Local Governments:

1. None

Long-Term Impacts:

1. There are currently no assumptions regarding “pay spiking” so the bill would have no effect on the actuarial valuations.
2. To the extent this bill affects benefits of future retirees, the financial effects will be recognized in the annual determination of actuarial gains and losses. It is not possible to estimate the amount of such gains and losses at this time.
3. Without this bill, “pay spiking” could create additional unfunded liability over and above the actuarial assumptions. This bill minimizes the unfunded liability caused by “pay spiking”.

Technical Notes:

1. The Legislative Audit Division performed an audit of “pay spiking” and recommended that MPERA consider legislation to revise the elements of compensation for the purpose of calculating retirement benefits.

Sponsor's Initials

Date

Budget Director's Initials

Date