



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill # HB0234

Title: Revise definition of compensation in police and fire retirement systems

Primary Sponsor: Fitzpatrick, Steve

Status: As Introduced-Revised

Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input type="checkbox"/> Public Employees	<input type="checkbox"/> Highway Patrol	<input checked="" type="checkbox"/> Police
<input 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?

MPORS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$427,257,000	\$455,384,000	\$28,127,000
Present Value of Actuarial Assets	\$234,025,000	\$234,025,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$193,232,000	\$221,359,000	\$28,127,000
Amortization Period (years) of UAAL	25.70	24.40	(1.30)
Change in normal costs	26.26%	26.54%	0.28%

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	\$389,773,000	\$12,562,000
Present Value of Actuarial Assets	\$233,121,000	\$233,121,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$144,090,000	\$156,652,000	\$12,562,000
Amortization Period (years) of UAAL	16.40	16.10	(0.30)
Change in normal costs	26.50%	26.52%	0.02%

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 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund on behalf MPORS	\$2,460,914	\$2,559,351	\$2,661,725	\$2,768,195
General Fund on behalf FURS	\$1,251,448	\$1,301,507	\$1,353,566	\$1,407,708
Federal Special Revenue-MilitaryAffair	\$10,534	\$10,956	\$11,394	\$11,850
Other - MPORS cities	\$1,207,415	\$1,255,712	\$1,305,940	\$1,358,178
Other - FURS cities	\$476,329	\$495,382	\$515,197	\$535,805
Other - FURS Rural fire districts	\$64,219	\$66,788	\$69,459	\$72,237
Other - MPORS pension benefits	\$23,000	\$77,000	\$166,000	\$293,000
Other - FURS pensions benefits	\$8,000	\$35,000	\$85,000	\$155,000
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other - MPORS pension	\$3,668,329	\$3,815,063	\$3,967,665	\$4,126,373
Other - FURS pension	\$1,802,530	\$1,874,633	\$1,949,616	\$2,027,600
Net Impact-General Fund Balance:	<u>(\$3,712,362)</u>	<u>(\$3,860,858)</u>	<u>(\$4,015,291)</u>	<u>(\$4,175,903)</u>

Description of fiscal impact: For both the Municipal Police Officers Retirement System (MPORS) and the Firefighters’ Unified Retirement System (FURS), HB 234 changes the definition of compensation from salary and vacation leave to also include overtime. This increases the amount of retirement contribution paid by the member, the employer, and the state because it increases the amount of compensation per member. Including overtime in the definition of compensation will also increase the highest average compensation (HAC) calculation for members which is used to calculate retirement benefits.

FISCAL ANALYSIS**Assumptions:**

1. HB 234 would be effective for pay received on or after July 1, 2013, but would be applied to all service. Therefore, after three years, the new definition of compensation would be fully phased in.
2. Additional payments would be included in the definition of compensation for benefits calculated on or after July 1, 2013.
3. State, employer, and member contributions would increase due to the increased compensation effective July 1, 2013.
4. The actuarial study does not include any potential effects on retirement trends due to the increased benefits.
5. Since HB 234 only affects future retirees, the benefit differences start out relatively low and then build up over time.
6. Increased compensation would be received evenly over all future years.
7. This legislation assumes that the employer, the state, and the employees will finance the entire cost of the proposal.
8. For MPORS the increase in compensation was based on information provided in aggregate for each employer. This data was for calendar years 2009, 2010, and 2011.
9. For FURS the increase in compensation was based on information provided from each employer for calendar year 2007, the timeframe of when this concept was last brought to the legislature. The actuary used the actuarial assumptions to update the compensation information from 2007 to current.
10. If the relationship between base pay and the other compensation elements is different for future years than as provided in the data, it could have a substantial effect upon the actuary's results.
11. For MPORS the aggregate compensation used to calculate benefits was anticipated to increase by 19.3%.
12. For FURS the aggregate compensation used to calculate benefits was anticipated to increase by 10.2%.
13. Expected contributions received from employers and from employees under both systems would be expected to increase by the same percentages.
14. With the increase in compensation both retirement systems would realize an increase in both:
 - a. actuarial liabilities, and
 - b. the surplus of statutory contribution rates in excess of the 30 year funding rates.
15. This is the only statutory amendment being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
16. No adjustments have been made for actuarial gains or losses that may have emerged since the last valuation date, June 30, 2012.
17. The actuary's study was based upon the data, actuarial methods and assumptions as used in the June 30, 2012 valuations for both MPORS and FURS.
18. The actuary's general wage growth assumption of 4% has been used.
19. As per the data provided in the actuarial study, the projected compensation was assumed to increase by the regular 4% plus an additional 19.3% for MPORS and the regular 4% plus an additional 10.2% for FURS in FY 2014. In future years it again is calculated at 4%.
20. For MPORS, the calculated increase in compensation is \$8,379,008 which equals the difference between the compensation projected at 4% and the compensation projected at 23.3% (4% + 19.3%).
21. For MPORS, in FY 2014 the additional payment from the general fund is \$2,460,914 which equals the increased compensation times the state rate (\$8,379,008 *29.37%).
22. For MPORS, in FY 2014 the additional payment from the employers is \$1,207,415 which equals the increased compensation times the employer rate (\$8,379,008 *14.41%).
23. For FURS, the calculated increase in compensation is \$3,837,662 which equals the difference between the compensation projected at 4% and the compensation projected at 14.2% (4% + 10.2%).

- 24. For FURS, in FY 2014 the additional payment from the general fund is \$1,251,448 which equals the increased compensation times the state rate (\$3,837,662 *32.61%).
- 25. For FURS, in FY 2014 payment from the different employers is calculated similarly using 14.36% (employer rate).
- 26. The calculations are repeated similarly for FY 2015, FY 2016, and FY 2017.

	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Personal Services	\$1,758,497	\$1,828,838	\$1,901,990	\$1,978,070
Benefits MPORS & FURS	\$31,000	\$112,000	\$251,000	\$448,000
Transfers to MPORS & FUR	\$3,712,362	\$3,860,858	\$4,015,291	\$4,175,903
TOTAL Expenditures	<u>\$5,501,859</u>	<u>\$5,801,696</u>	<u>\$6,168,281</u>	<u>\$6,601,973</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$3,712,362	\$3,860,858	\$4,015,291	\$4,175,903
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$10,534	\$10,956	\$11,394	\$11,850
Other - MPORS cities	\$1,207,415	\$1,255,712	\$1,305,940	\$1,358,178
Other - FURS cities	\$476,329	\$495,382	\$515,197	\$535,805
Other - FURS Rural fire district	\$64,219	\$66,788	\$69,459	\$72,237
Other - MPORS pension benefits	\$23,000	\$77,000	\$166,000	\$293,000
Other - FURS pension benefits	\$8,000	\$35,000	\$85,000	\$155,000
TOTAL Funding of Exp.	<u>\$5,501,859</u>	<u>\$5,801,696</u>	<u>\$6,168,281</u>	<u>\$6,601,973</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other - MPORS pension	\$3,668,329	\$3,815,063	\$3,967,665	\$4,126,373
Other - FURS pension	\$1,802,530	\$1,874,633	\$1,949,616	\$2,027,600
TOTAL Revenues	<u>\$5,470,859</u>	<u>\$5,689,696</u>	<u>\$5,917,281</u>	<u>\$6,153,973</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(3,712,362)	(3,860,858)	(4,015,291)	(4,175,903)
Federal Special Revenue (03)	(10,534)	(10,956)	(11,394)	(11,850)
Other - MPORS Trust	3,645,329	3,738,063	3,801,665	3,833,373
Other - FURS Trust	1,794,530	1,839,633	1,864,616	1,872,600

Effect on Local Governments:

1. Local Governments will have to pay more in contributions due to increased compensation.

Long-Term Impacts:

1. For MPORS, the amortization period decreases by 1.3 years and the normal cost increases by 0.28%.
2. For FURS, the the amortization period decreases by 0.3 years and the normal cost increases by 0.02%.

Technical Notes:

1. Lump sum payouts (ie. comp time, sick leave, annual leave and banked holiday) before termination should be clarified to be excluded from the definition of compensation.

Sponsor's Initials

Date

Budget Director's Initials

Date