GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2017 Biennium

Bill #	SB0238		**Title:**	Create a deferred retirement option plan (DROP) in Hwy Patrol Retirement Plan
Primary Sponsor:	Blasdel, Mark		**Status:**	As Amended

Retirement Systems Affected: ☐Teachers ☐Public Employees ✓Highway Patrol ☐Police
☐Sheriffs ☐Firefighters ☐Volunteer Firefighters ☐Game Wardens ☐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?

	July 1, 2014 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$183,400,000	$185,020,000	$1,620,000
Present Value of Actuarial Assets	$117,226,000	$117,226,000	$0
Unfunded Actuarial Accrued Liability (UAAL)	$66,174,000	$67,794,000	$1,620,000
Amortization Period (years) of UAAL	30.30	33.40	3.10
Funding Rates			
Normal Cost Rate	24.46%	25.16%	0.70%
Amortization over 30 years	24.83%	25.44%	0.61%
Administrative Expense	0.23%	0.23%	0.00%
Total Actuarial Funding Rate	49.52%	50.83%	1.31%

HPORS	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016	FY 2018 July 1, 2017	FY 2019 July 1, 2018
Employee Contribution Rate hired prior 7/1/1997	11.00%	12.00%	13.00%	13.00%	13.00%
Employee Contribution Rate hired after 7/1/1997	11.05%	12.05%	13.05%	13.05%	13.05%
Employer Contribution Rate	28.15%	28.15%	28.15%	28.15%	28.15%
State Contribution Rate	10.18%	10.18%	10.18%	10.18%	10.18%
TOTAL Contribution Rate	49.38%	50.38%	51.38%	51.38%	51.38%

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Other - HPORS	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Other - HPORS	($24,058)	($54,212)	($84,570)	($117,271)
Net Impact-General Fund Balance:	$0	$0	$0	$0

Description of fiscal impact: SB 238, as amended, establishes a deferred retirement option plan (DROP) in the Highway Patrol Officers' Retirement System (HPORS); specifying eligibility and participation criteria; specifying contributions and the interest rate to be credited; and providing for survivorship benefits and distribution options. As amended, the fees to cover the administrative costs were removed and the GABA amount would be excluded during the time of the DROP.

FISCAL ANALYSIS

Assumptions:

1. This is the only provision being considered. If other provisions are enacted, the cost with this provision may be different.
2. There have been no adjustments for actuarial gain and losses or for changes in membership or financial data since the last valuation as of June 30, 2014.
3. The current employer and state contributions will continue to be paid into the Highway Patrol Officers' Retirement Trust Fund and will not be credited to a member's Deferred Retirement Option Plan (DROP) account.
4. The current member contributions will be credited to the members Deferred Retirement Option Plan (DROP) account.
5. Eligibility for DROP is when they have 20 years of membership service.
6. Plan implementation cannot happen without IRS approval.
7. For purposes of the fiscal note preparation, DROP implementation would be January 1, 2016.
8. 15% of active eligible members are assumed to elect to enter the DROP for each of the first six years. This is the same assumption that is used to value the DROP benefit in the Municipal Police Officers' Retirement System (MPORS).
9. Currently there are 23 members eligible for DROP.
10. Three members will go into the DROP each of the next six years.
11. DROP members are assumed to elect to participate in the DROP for five years.
12. The projected shortfall of the employee contributions that would go into the DROP instead of the trust fund would reduce trust fund revenues by $24,058 for FY16, $54,212 for FY17, $84,570 for FY18 and $117,271 for FY19.
13. Salaries for members participating in DROP are assumed to increase annually by 4%.

14. If a member becomes disabled during the DROP period, the member will not be eligible for HPORS disability benefits. If the member must terminate their service, their service retirement benefit will be paid to them rather than to their monthly DROP account. The members will also be eligible to receive their DROP account.
15. If a member dies before the end of their DROP period, the surviving spouse or dependent children are entitled to receive a lump sum payment equal to the member's DROP benefit minus any benefits paid from the member's DROP account, including monthly DROP accruals. If the member has no surviving spouse or dependent children, the member's designated beneficiary is entitled to receive a lump sum payment to the member's DROP benefit.
16. The benefit paid must include interest credited to the participant account at the actuarially assumed rate of return.
17. The proportionate interest must be credited for distributions taking place at other than fiscal year end.
18. The member receives DROP accruals equal to the retirement benefit calculated at DROP commencement made, added each month during the DROP period plus interest.
19. The DROP member is not eligible for Guaranteed Annual Benefit Adjustments during their DROP period but will be immediately eligible at end of the DROP period.
20. The normal cost would be anticipated to increase by 0.70%.
21. The 30-year amortization would increase by 0.61%.
22. Since the statutory contributions would not increase, the projected shortfall of the contribution would increase from 0.14% to 1.45%.
23. The amortization period for the unfunded actuarial liability would increase from 30.3 years to 33.4 years.
24. Fees to cover administrative costs were removed.

	FY 2016 Difference	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
Fiscal Impact:				
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	$0	$0	$0	$0
Other - HPORS	($24,058)	($54,212)	($84,570)	($117,271)
TOTAL Revenues	($24,058)	($54,212)	($84,570)	($117,271)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$0	$0	$0
Other	($24,058)	($54,212)	($84,570)	($117,271)

Technical Notes:

1. The actuary reflected in the impact study their understanding of how the MPORS DROP accounts are administered in regard to disability since this matter is not specifically addressed in the bill. See assumption # 14.
2. The IRS is holding 60 DROP Plans previously submitted for determination letters pending a determination on classification of DROPs going forward. If DROPS are determined to be defined contribution plans, this DROP may be subject to IRC 415(c) limits. Some participants' DROP accounts would exceed the current limit of $52,000/year even if the DROP account consisted only of the monthly retirement benefit and GABA increases, and not member contributions.
3. If DROPs remain classified as defined benefit plans, an issue may arise regarding whether the benefit would be considered definitely determinable since the "assumed rate of return" can be changed and the members' contributions increase 1% a year for the next few years.
4. Implementation cannot occur without IRS approval.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*