

Pension Fund Fiscal Note- Draft

Bill #	LC 2005	Short Title	Providing Actuarially Funding of Retirement Systems
Primary Sponsor		Status	Interim Committee SAVA
Sponsor signature/Date		Budget Director signature/Date	

Retirement Systems Affected:

- | | | | | |
|--|---|---|----------------------------------|---|
| <input checked="" type="checkbox"/> Teachers' Retirement | <input checked="" type="checkbox"/> Public Employees' | <input type="checkbox"/> Highway Patrol | <input type="checkbox"/> Police | <input checked="" type="checkbox"/> Sheriffs' |
| <input type="checkbox"/> Firefighters' | <input type="checkbox"/> Volunteer Firefighters' | <input checked="" type="checkbox"/> Game Wardens' | <input type="checkbox"/> Judges' | |

	Yes	No
Has this legislation been reviewed by the legislative interim committee?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Has the cost of this legislation been calculated by the system's actuary?	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- Technical Concerns Appropriation is included in the bill Appropriation needs to be added to HB 2

Changes in Contribution Rates and Amortization Period

Teachers' Retirement System	Current Rates	Effective July 1, 2006	Effective July 1, 2007	Effective July 1, 2009
State Contribution Rate	0.110%	0.110%	0.110%	0.110%
Employee Contribution Rate	7.150%	7.150%	7.150%	7.150%
Employer Contribution Rate	7.470%	8.620%	9.770%	10.920%
Total Contribution Rate	14.730%	15.880%	17.030%	18.180%
Amortization Period of AAL	does not amortize	see technical note		
Public Employees' Retirement				
Employee Contribution Rate	6.900%	6.900%	6.900%	6.900%
Employer Contribution Rate	6.900%	7.720%	8.540%	8.540%
Total Contribution Rate	13.800%	14.620%	15.440%	15.440%
Amortization Period of AAL	does not amortize	see technical note		
Sheriffs' Retirement				
Employee Contribution Rate	9.245%	9.245%	9.245%	9.245%
Employer Contribution Rate	9.535%	10.205%	10.205%	10.205%
Total Contribution Rate	18.780%	19.450%	19.450%	19.450%
Amortization Period of AAL	does not amortize	see technical note		
Game Wardens' Retirement				
Employee Contribution Rate	10.560%	10.560%	10.560%	10.560%
Employer Contribution Rate	9.000%	9.000%	9.000%	9.000%
Total Contribution Rate	19.560%	19.560%	19.560%	19.560%
Amortization Period of AAL	does not amortize	see technical note		

Summary of Fiscal Impacts –All Retirement Funds

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	125,000,000	3,781,696	7,870,171	8,139,135	10,330,735	10,892,750
State Special Revenue	-	1,059,603	2,190,186	2,242,582	2,288,803	2,334,579
Federal Special Revenue	-	795,922	1,645,803	1,685,175	1,736,767	1,771,501
Other	-	814,671	1,682,451	1,722,704	1,794,131	2,057,813
Local Government	-	8,852,788	18,251,117	19,025,730	24,840,680	25,908,108
Total	125,000,000	15,304,680	31,639,728	32,815,326	40,991,116	42,964,751

Teachers' Retirement System (TRS)

1. The system had a \$903.3 million unfunded actuarial liability as of July 1, 2005.
2. This bill does not eliminate the unfunded liability but simply increases employer contributions until such time as the TRS Board determines that the remaining unfunded liability can be amortized in less than 30 years with the current employer contribution.
3. Employer contribution rates will be phased in as follows: 1.15% July 1, 2006; an additional 1.15% July 1, 2007 and an additional 1.15% July 1, 2009.
4. It is assumed the employer contribution rate will return to 7.47% no earlier than July 1, 20XX. At that time, the supplemental 3.45% employer contribution imposed by this bill will be eliminated.
5. Employee contributions are not increased.
6. Employee benefits are not affected.
7. The numbers in this fiscal note are based on the July 1, 2005 actuarial Valuation of the Teachers' Retirement System. The following actuary assumptions are key over the anticipated period of time covered by this note:
 - Annual salary increases @ 4.5%
 - Average annual investment return of 7.75%
 - Normal costs in the system to remain at 10.35% of covered payroll
8. For calculating the cost of K-12 school districts, it was assumed that 90% of the increase would be charged to the retirement fund and 10% to federal funds. The retirement fund was split 23% state general fund and 73% local.
9. No unfunded benefit increases are granted during this legislative session. Future benefit enhancements must be fully funded or then may negatively impact the numbers included in this fiscal note.
10. When \$100.0 million is appropriated to the system on January 1, 2006, it will reduce the unfunded liability by the same amount.
11. If the bill passes, the increased contributions will fund the unfunded liabilities over 30 years; however, when the supplemental 3.45% contribution is eliminated, the amortization period will again increase to 30 years.
12. To the extent the system experience is greater or lesser than assumed, the unfunded liability pay-off date will change.

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	100,000,000	2,193,572	4,570,452	4,751,282	6,863,731	7,139,906
State Special Revenue		1,268	2,621	2,683	4,106	4,188
Federal Special Revenue		16,574	34,255	35,074	53,664	54,737
Other		581,116	1,200,121	1,228,836	1,290,385	1,316,194
Local Government		4,387,881	9,170,672	9,583,352	15,021,904	15,697,890
Total	100,000,000	7,180,411	14,978,121	15,601,227	23,233,790	24,212,914

Public Employees Retirement System (PERS)

13. The system had a \$541 million unfunded actuarial liability as of July 1, 2005.
14. This bill does not eliminate the unfunded liability but simply increases employer contributions until such time as the PER Board determines that the remaining unfunded liability can be amortized in less than 30 years with the current employer contribution.
15. The employer contribution increases will be phased in. On July 1, 2006 the employer contributions will increase 0.82% and on July 1, 2007 the employer contributions will increase another 0.82%.
16. It is assumed the employer contribution rate will return to 6.90% no earlier than July 1, 2024. At that time the additional employer contribution imposed by this bill will be eliminated.
17. Employee contributions are not increased.
18. Employee benefits are not affected.
19. The numbers in this fiscal note are based on the July 1, 2005 actuarial Valuation of the Public Employees' Retirement System. The following actuary assumptions are key over the anticipated period of time covered by this note:
 - Annual general wage growth increases @ 4.25%
 - Net annual investment earnings of 8.00%

- Normal costs to DBRP members to remain at 12.12% of covered payroll
- For calculating the cost of K-12 school districts, it was assumed that 90% of the increase would be charged to the retirement fund and 10% to federal funds. The retirement fund was split 23% state general fund and 73% local.
 - No unfunded benefit increases are granted during this legislative session. Future benefit enhancements must be fully funded or then may negatively impact the numbers included in this fiscal note.
 - When \$10.9 million is appropriated to the system on January 1, 2006, the unfunded liability as of the last valuation report will be reduced from \$541.0 million to 530.5 million.
 - \$1.4 million will be used to pay off the startup loan for the PERS-DCRP.
 - If the bill passes, the supplemental contributions will fund the unfunded liabilities over 30 years and on July 1, 2024 when the increased contributions are eliminated, the amortization period will again increase to 30 years.
 - Given the assumptions used in this note, assuming no other benefit enhancements are enacted and that all assumptions are realized, the PERS will not be full funded until approximately July 1, 2054.
 - To the extent any of the actuarial assumptions are greater or lesser than assumed, the unfunded liability pay-off date will change.

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	12,300,000	1,583,561	3,295,007	3,383,028	3,462,083	3,747,824
State Special Revenue		1,055,559	2,184,697	2,236,962	2,281,701	2,327,335
Federal Special Revenue		776,731	1,608,844	1,647,332	1,680,279	1,713,884
Other		232,724	481,471	492,989	502,849	740,704
Local Government		4,267,512	8,874,662	9,227,850	9,595,130	9,977,067
Total	12,300,000	7,916,088	16,444,681	16,988,160	17,522,042	18,506,814

Sheriffs Retirement System (SRS)

- The system had a \$10.9 million unfunded actuarial liability as of July 1, 2005
- This bill eliminates the unfunded liability and increases employer contributions to pay the normal cost of SRS
- The employer contribution will increase 0.67% on July 1, 2006
- Employee contributions are not increased
- Employee benefits are not affected
- The numbers in this fiscal note are based on the July 1, 2005 actuarial Valuation of the Sheriff's Retirement System. The following actuary assumptions are key over the anticipated period of time covered by this note:
 - Annual general wage growth increases @ 4.25%
 - Net annual investment earnings of 8.00%
 - Normal costs of SRS to remain at 19.45% of covered payroll
- No unfunded benefit increases are granted during this legislative session. Future benefit enhancements must be fully funded or then may negatively impact the numbers included in this fiscal note.
- When \$11.5 million is appropriated to the system on January 1, 2006, the unfunded liability as of the last valuation report will be reduced to zero.
- Given the assumptions used in this note, assuming no other benefit enhancements are enacted and that all assumptions are realized, the SRS is fully funded.
- This fiscal note does not take into account any impact adding the detention officers will have on the Sheriff's Retirement System.

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	11,500,000	4,563	4,712	4,825	4,921	5,020
State Special Revenue		2,776	2,868	2,937	2,996	3,056
Federal Special Revenue		2,617	2,704	2,769	2,824	2,880
Other		831	859	879	897	915
Local Government		197,394	205,783	214,529	223,647	233,151
Total	11,500,000	208,181	216,926	225,939	235,285	245,022

Game Warden and Peace Officers Retirement System (GWPOS)

37. The system had a \$5.5 million unfunded actuarial liability as of July 1, 2005
38. This bill does not eliminate the unfunded liability but simply amortizes the unfunded liability over 30 years with the current employer contribution.
39. Employer contributions are not increased.
40. Employee contributions are not increased.
41. Employee benefits are not affected.
42. The numbers in this fiscal note are based on the July 1, 2005 actuarial Valuation of the Game Warden's & Peace Officers' Retirement System. The following actuary assumptions are key over the anticipated period of time covered by this note:
 - Annual general wage growth increases @ 4.25%
 - Net annual investment earnings of 8.00%
 - Normal costs of GWPRS to remain at 19.56% of covered payroll
43. No unfunded benefit increases are granted during this legislative session. Future benefit enhancements must be fully funded or then may negatively impact the numbers included in this fiscal note.
44. When \$1.2 million is appropriated to the system on January 1, 2006, the unfunded liability as of the last valuation report will be reduced to \$4.4 million.
45. Given the assumptions used in this note, assuming no other benefit enhancements are enacted and that all assumptions are realized, the SRS is fully funded.

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	1,200,000	-	-	-	-	-
Total	1,200,000	-	-	-	-	-

Technical Notes:

1. The bill does not amortize the TRS and PERS unfunded liability in 30 years as required by law. While the additional contributions are adequate to amortize the unfunded liability over 30 years, the sunset provisions in the bill as drafted eliminates the additional funding long before the liabilities are paid off.

A fair analogy would be a homeowner who takes out a 30 year mortgage on a home knowing at the time that after 15 years or so he/she will lower the monthly payment so refinances the house for another 30 years. He/she essentially has incurred a 45-year mortgage from the date of purchase.

2. This bill eliminates the unfunded liability and increases employer contributions to pay the normal cost (*rate necessary to cover the current benefits for current active members*) of Sheriff Retirement System, to ensure that an unfunded liability is not incurred in the future. This increased level of contributions will remain in effect until such time as the actuary determines that the normal cost rate has changed.