COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1839-02
Bill No.: #SB 481
Subject: Education–Elementary & Secondary; DESE; Employees–Employers; Retirement–Schools
Type: Corrected
Date: February 27, 2001
Corrected bill number.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0***	**$0***	**$0***

***Does not include elimination of surplus of $331 million and creation of the UAAL of $264 million, a total cost of $595 million for the PSRS. Does not include the $110 million reduction in the surplus for the NTRS. PSRS and NTRS funds are not considered local funds for fiscal note purposes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** indicates that the legislation represents a "substantial proposed change" in future plan benefits as defined by Section 105.660(5). As such, an actuarial cost statement must be provided before action may be taken on the legislation by either legislative body or committee thereof.

Officials with the **Office of Administration** note that the Public School Retirement System should determine the potential costs of the legislation.

Officials with the **Public School & Non-Teacher School Employee Retirement Systems** assume the proposal will:

Public School Retirement System (PSRS)

1. Change the COLA effective date to the second January 1st following retirement for members retiring on or after July 1, 2001.
2. Increase the formula factor for all years for those retirees with 31.0 years of credit or more who retire between July 1, 2001 and June 30, 2008. [Formula increases to 2.55%.]
3. Provide an increase for current retirees and beneficiaries of deceased retirees of $3 per month per year of service.

Officials with the PSRS obtained an actuarial cost report for the proposed changes. Officials note that the PSRS is overfunded by $331 million as of June 30, 2000. The effect of the proposal will be to create an unfunded actuarial accrued liability (UAAL), which PSRS states will be $264 million. This is based on an estimated cost of the provisions of $595 million. The actuarially required contribution (ARC) following the proposal is calculated at 20.93% of pay. This is less than the current contribution rate of 21.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be a long-term fiscal impact as a result of this legislation, since the elimination of the system's surplus, and the creation of the UAAL will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of $331 million is significantly less than the $1.16 billion reported in October, 2000 for the period ended June 30, 2000. The PSRS is calculating the surplus based on actuarial assumptions adopted January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

ASSUMPTION (continued)

Non-Teacher School Employee Retirement System (NTRS)

1. Increase the benefit formula factor from 1.51% to 1.61%.
2. Increase the formula under the 25-and-out provisions [by .1%].
3. Increase the COLA cap from 75% to 80%.
4. Across-the-board increase of 7.1% for retirees and beneficiaries of deceased retirees.
5. Increase from the current .4% to .8% the additional payment made for those retiring with either 30 years of credit or under the "rule of 80" who retire on or after July 1, 2001. This additional payment ends when the retiree reaches the minimum age for social security retirement eligibility.

Officials note that the NTRS is overfunded by $166 million as of June 30, 2000. NTRS officials state that the effect of the proposal will be to reduce the reduce this surplus to $56 million. This is based on the cost of the provisions estimated at $110 million. The actuarially required contribution (ARC) following the proposal is calculated at 9.96% of pay. This is less than the current contribution rate of 10.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be a long-term fiscal impact as a result of this legislation, since the reduction of the plan's surplus will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of $161 million is significantly more than the $127 million reported in October, 2000 for the period ended June 30, 2000. The NTRS is calculating the surplus based on actuarial assumptions adopted January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0*	**$0***	**$0***

***Does not include elimination of surplus of $331 million and creation of the UAAL of $264 million, a total cost of $595 million for the PSRS. Does not include the $110 million reduction in the surplus for the NTRS. PSRS and NTRS funds are not considered local funds for fiscal note purposes.**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

TEACHER MEMBER MODIFICATIONS - An additional option is provided for teacher members who have thirty-one years or more of creditable service, regardless of age. Such persons may elect a retirement allowance of two and fifty-five hundredths percent of the members' final average salary for each year of membership service. Members retiring between July 1, 2001, and June 1, 2008, may elect this option.

The cost of living (COLA) increase for members retiring on or after July 1, 2001 will become effective the second January first, following the member's retirement.

Members who retire prior to July 1, 2001, receive an additional amount equal to three dollars times the member's number of years of creditable service.

NON-TEACHER MEMBER MODIFICATIONS - The benefit factor for members is increased from 1.51% to 1.61%.

Members who participate in the Twenty-five and Out retirement option and retire between July 1, 2001 and July 1, 2003, receive a Benefit Factor Increase of 0.10%.

Members whose creditable service is thirty years or whose sum of age and years of service is eighty years or more and who retire on or after July 1, 2001, receive an increase in the temporary allowance. Qualifying members receive a temporary retirement allowance of eight-tenths of one percent of the member's final average salary multiplied by the member's year of service until the member reaches the minimum age for social security benefits. This is an increase from four-tenths (Increase from .4% to .8%) which was authorized in HB 1808 (2000).

The Cost of living increase (COLA) cap is increased from 75% to 80%.

Members retiring prior to July 1, 2001, receive an increase of seven and one-tenth percent of the previous month's benefit.

This act has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Office of Administration
Public School & Non-Teacher School Employee Retirement Systems

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