Individual State Agency Fiscal Note

Bill Number: 2085 HB	**Title:** Minimum retirement allowance	**Agency:** 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Fund					
Total					

Estimated Expenditures from:

	FY 2002	**FY 2003**	**2001-03**	**2003-05**	**2005-07**
Fund					
General Fund-State 001-1	50,000,000	50,000,000	100,000,000	116,000,000	132,000,000
Total	50,000,000	50,000,000	100,000,000	116,000,000	132,000,000

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☑ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 04/12/2001
Agency Preparation: Larry Risch	Phone: 586-7612	Date: 04/12/2001
Agency Approval: Gerald Allard	Phone: 586-7614	Date: 04/12/2001
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 04/16/2001

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures By Object Or Purpose

	FY 2002	FY 2003	2001-03	2003-05	2005-07
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:					

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**4/09/01**	**HB 2085**

SUMMARY:

This bill impacts the Teachers' Retirement System (TRS) plan 1 and the Public Employees' Retirement System (PERS) plan 1 by providing a minimum benefit of $50 for each year of service (30 years maximum), and without adjustment for the type of annuity selected, cash out of contributions (TRS 1) or early retirement reduction for vested terminations (PERS 1):

Effective Date: July 1, 2001.

BACKGROUND DISCUSSION:

The current minimum is $28.33 times all service and is scheduled to increase on July 1, 2001 to $29.44.

Both the current minimum and the proposed minimum are increased by the Uniform Cola increase on July 1 of each year.

MEMBERS IMPACTED:

16,374 of 28,920 TRS 1 members receiving a benefit and 35,777 of 52,515 PERS 1 members receiving a benefit would be affected by this bill.

254 of 18,737 TRS 1 active members and 7,708 of 28,168 PERS 1 active members are expected to be affected by the increase in the minimum benefit. Additional members would be affected by removal of the adjustment to the minimum benefit.

The table below compares the minimum benefit to that provided under the retirement allowance at various average final compensations (AFC).

	PERS 1	**TRS 1**
Current Minimum	18 yrs x 29.44 = 530 per month	24 yrs x 29.44 = 707 per month
Proposed Minimum	18 yrs x 50 = 900 per month	24 yrs x 50 = 1200 per month
AFC = 17,664	18 yrs x .02 x AFC /12 = 530 per month	24 yrs x .02 x AFC /12 = 707 per month
AFC = 30,000	18 yrs x .02 x AFC /12 = 900 per month	24 yrs x .02 x AFC /12 = 1,200 per month

The average service for those who would currently receive the proposed minimum benefit was used in the above table.

The above table does not include any adjustments to the retirement allowance or minimum benefit. The Table below shows some typical adjustments which would no longer apply to the minimum benefit. (These adjustments are multiplied with the benefit to get the resulting benefit with adjustment)

	PERS 1	TRS 1
100% J&S option (Member & spouse same age)	.822	.877
Cash Out of "annuity"	NA	.80
Early Retirement at age 60 (for vested terminations)	.5981	NA

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)	System	Current	Increase	Total
Actuarial Present Value of Projected	TRS1	$10,382	$ 465	$10,847
Benefits	PERS1	12,494	1,167	13,661
The Value of the Total Commitment to all Current Members				
Unfunded Actuarial Accrued Liability	TRS1	$ 1,263	$ 464	$ 1,727
The Portion of the Plan 1 Liability that is Amortized until 2017	PERS1	1,589	1,142	2,731
Unfunded Liability (PBO)	TRS1	$ 663	$ 462	$ 1,125
The Value of the Total Commitment to all Current Members Attributable to Past Service	PERS1	809	1,108	1,917
Required Contribution Rate	TRS	5.38%	1.13%	6.51%
	PERS/ SERS	3.21%	1.13%	4.34%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Increase in Contribution Rates:	TRS	PERS/ SERS
Employee	0.00%	0.00%
Employer State	1.13%	1.13%
Costs (in Millions):		
2001-2003		
State:		
General Fund	$ 59.7	$ 40.1
Non-General Fund	0.0	44.4
Total State	**$ 59.7**	**$ 84.5**
Local Government	$ 12.2	$ 74.9
2001-2005		
State:		
General Fund	$128.1	$ 87.9
Non-General Fund	0.0	98.0
Total State	**$128.1**	**$ 185.9**
Local Government	$ 26.2	$ 164.9
2001-2017		
State:		
General Fund	$679.8	$ 483.2
Non-General Fund	0.0	541.6
Total State	**$679.8**	**$1,024.8**
Local Government	$139.2	$ 908.8

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal bill are based on our understanding of the bill as well as generally accepted actuarial practices including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the December 31, 1999 actuarial valuation report of the Public Employees' Retirement System and the June 30, 1999 actuarial valuation report for the Teachers' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

    Currently beneficiaries of a 50% Joint & Survivor option receive half of the reduced minimum on death of the member. Survivors receive 100% of any increase in the minimum after the death of member. In valuing this bill we assumed current survivor's benefits would be increased to 100% of this minimum, even if they are a survivor from a 50% survivor benefit. Future beneficiaries' benefits were assumed to be reduced by the J&S percentage.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2001 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2017. Benefit increases to Plan 2 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2 utilizes the Aggregate Funding Method. The cost of Plan 2 is spread over the average working lifetime of the current active Plan 2 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Projected Benefits: Pension benefit amounts which are expected to be paid in the taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces. The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL. The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2017.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date(past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.