Multiple Agency Fiscal Note Summary

Bill Number: 1197 HB	**Title:** Retirement annual increase

Estimated Cash Receipts

Agency Name						
	GF- State	**Total**	**GF- State**	**Total**	**GF- State**	**Total**
Total $						

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	**2003-05**			**2005-07**			**2007-09**		
	FTEs	**GF-State**	**Total**	**FTEs**	**GF-State**	**Total**	**FTEs**	**GF-State**	**Total**
Office of the State Actuary	.0	3,800,000	4,700,000	.0	4,400,000	5,500,000	.0	4,900,000	6,100,000
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Total	0.0	$3,800,000	$4,700,000	0.0	$4,400,000	$5,500,000	0.0	$4,900,000	$6,100,000

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/31/2003

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

Individual State Agency Fiscal Note

Bill Number: 1197 HB	Title: Retirement annual increase	Agency: 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

		FY 2004	FY 2005	2003-05	2005-07	2007-09
Fund						
All Other Funds-State	000-1	400,000	500,000	900,000	1,100,000	1,200,000
General Fund-State	001-1	1,800,000	2,000,000	3,800,000	4,400,000	4,900,000
Total $		2,200,000	2,500,000	4,700,000	5,500,000	6,100,000

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: 01/23/2003
Agency Preparation:	Robert Baker	Phone: 586-9237	Date: 01/23/2003
Agency Approval:	Matthew M. Smith	Phone: 360-753-9144	Date: 01/23/2003
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/24/2003

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 2004	FY 2005	2003-05	2005-07	2007-09
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:	$0	$0	$0	$0	$0

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**	**1/23/03**	**HB 1197/SB 5097**

SUMMARY:

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 and Teachers' Retirement System (TRS) Plan 1 by allowing those who have been retired for one year, and will be at least age 66 by December 31st, to receive the annual increase paid on July 1st of that year.

Effective Date: July 1, 2003.

CURRENT SITUATION:

The current provision requires the member to have been retired one year and to be at least age 66 on July 1st to be eligible for the annual increase paid that year. This means that some members will get their first COLA as early as age 66, while others will not get theirs until age 67. This bill would change the age eligibility so that members would get their COLA as early as age 65½, but no later than age 66½. This bill does not change the requirement that the member must be retired at least one year to receive the initial annual increase.

MEMBERS IMPACTED:

We estimate that 50% of the members who are under age 65 would be affected by this bill.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	10,438	32,195
Actives	13,784	13,971
Vested Terminated	1,957	1,990

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	11,482	53,538
Actives	23,205	23,981
Vested Terminated	3,151	3,310

We estimate that for a typical member impacted by this bill, the initial annual increase would be paid one year earlier. The annual increase for July 1, 2003 is $1.14 per month for each year of service. The annual increase is increased by 3% each year and by future "gain-sharing" amounts. The typical recipient of the Uniform COLA has 19 years of service in PERS and 25 years of service in TRS.

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 (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

Teachers' Retirement System and Public Employees' Retirement System (Plan 1):

(Dollars in Millions)	**System:**	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	PERS 1	$ 12,244	$ 33	$ 12,277
(The Value of the Total Commitment to all Current Members)	TRS 1	10,050	29	10,079
Unfunded Actuarial Accrued Liability	PERS 1	$ 860	$ 33	$ 893
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	400	29	429
Unfunded Liability (PBO)	PERS 1	$ 301	$ 30	$ 331
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 1	(22)	27	5
Required Contribution Rate - Employer/State	PERS	2.05%	**.02%**	2.07%
	SERS	1.74%	**.02%**	1.76%
	TRS	2.22%	**.05%**	2.27%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

	PERS/SERS	**TRS**
Increase in Contribution Rates:		
Effective 9/1/2003		
Employee (Plan 2)	0.00%	0.00%
Employer	0.02%	0.05%
Costs **(in Millions):**		
2003-2005		
State:		
General Fund	$ 0.8	$ 3.1
Non-General Fund	0.9	0.0
Total State	**$ 1.7**	**$ 3.1**
Local Government	$ 1.5	$ 0.6

	PERS/SERS	TRS
2005-2007		
State:		
General Fund	$ 1.0	$ 3.4
Non-General Fund	1.1	0.0
Total State	**$ 2.1**	**$ 3.4**
Local Government	$ 1.8	$ 0.7
2003-2028		
State:		
General Fund	$ 16.8	$ 56.1
Non-General Fund	18.5	0.0
Total State	**$ 35.3**	**$ 56.1**
Local Government	$ 31.3	$ 11.5

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Public Employees' Retirement System and 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:

   None.

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 2003 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 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 (i.e. interest rate, rate of salary increases, mortality, etc.)

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

Normal Cost: Completed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

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 2024.

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.

Individual State Agency Fiscal Note

Bill Number: 1197 HB	**Title:** Retirement annual increase	**Agency:** 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2004	FY 2005	2003-05	2005-07	2007-09
Fund					
Total $					

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: 01/23/2003
Agency Preparation: Jeff Wickman	Phone: (360) 664-7303	Date: 01/24/2003
Agency Approval: John Charles	Phone:	Date: 01/24/2003
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/30/2003

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.

As this bill takes effect July 1, 2003, the fiscal impact of $27,096 falls within Fiscal Year 2003. The legislation needs to pass the legislature and be signed into law by April 30, 2003, to provide sufficient time to complete the required system adjustments for the July 2003 Cost of Living Adjustment (COLA).

Currently, the Public Employees' Retirement System (PERS) Plan 1 and Teachers' Retirement System (TRS) Plan 1 annual Cost of Living Adjustment (i.e., uniform COLA) is given to a retiree on the first of July following their 66th birthday, provided they have been retired one year. Because of this requirement, a retiree may wait up to 12 months after his/her 66th birthday to get an annual increase. The result is that some members receive their first annual increase at age 66, while other members will not get an increase until age 67.

The proposed legislation would give a retiree, after being retired one year, the annual COLA adjustment in July, if the member turns 66 years of age anytime in the current calendar year. This change would eliminate the delays in applying the first COLA to those retirees who have a birthday in the last half of the calendar year.

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.

No impact.

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.

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2004	FY 2005	2003-05	2005-07	2007-09
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:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

No 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.

No impact.

II. C - Expenditures

Administrative Assumptions

Modifications to the TRS Plan 1 and PERS Plan 1 automated annual COLA system will be required. The changes will anticipate the 66^{th} birthday of a member anytime within the calendar year, rather than just verifying the member is age 66 prior to July 1, before applying the initial COLA adjustment. Reports will also be created to identify members who receive a COLA as a result of this legislation.

- The annual increase will be applied on July 1
- The legislation applies to PERS Plan 1 and TRS Plan 1 only
- A retiree must still be retired a full year prior to July 1 before they can receive the annual increase, irrespective of whether they turn 66 in the current calendar year

Business Unit

A Retirement Services Analyst will perform the following tasks to implement this bill:

- Perform user acceptance testing on modifications to DRS' automated systems
- Handle the anticipated increase in phone calls after the bill is passed
- Update business procedures and train other staff

Retirement Services Analyst 2 – 80 hours (salaries/benefits)	$1,891
Total Estimated Benefits Unit Costs	**$1,891**

Automated Systems

Modification of DRS' mainframe systems will require the following tasks to implement this bill:

- Modify the July COLA process to anticipate the 66^{th} birthday of a member anytime within the calendar year
- Create a new process to report retirees who received a COLA as a result of this legislation

Programmer time of 239 hours @ $95 per hour	$22,705
DIS cost of $500 per week (for 5 weeks)*	$ 2,500
Total Estimated Systems Development Costs	**$25,205**

**Cost for mainframe computer processing time and resources at the Department of Information Services. Actual implementation elapsed time will be 10 weeks but mainframe time will only be five.*

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL

	FY 2003	2003-05	2005-07
BENEFITS UNIT	**$ 1,891**		
AUTOMATED SYSTEMS	**$25,205**	**$0**	**$0**
ESTIMATED TOTAL COSTS	**$27,096**	**$0**	**$0**