BILL # SB 1357 **TITLE:** special retirement plans; amortization

SPONSOR: Huppenthal **STATUS:** As Amended by House PIR

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FISCAL ANALYSIS

Description

SB 1357 allows for a change in the amortization period of unfunded liabilities in the Public Safety Personnel Retirement System (PSPRS), the Correctional Officer's Retirement Plan (CORP), and the Elected Official's Retirement Plan (EORP). It also raises the minimum employer contribution rate, with certain exceptions, from 5% in all plans to 8% in PSPRS, 6% in CORP and 10% in EORP, and requires 50% of excess assets to be put into a reserve fund.

Estimated Impact

The fiscal impact of the bill cannot be determined in advance. If the Fund Manager extended the amortization period to the full 30-year maximum permitted by this bill, it could generate General Fund savings of about $850,000 in FY 2007. An additional $900,000 could be saved in Other Appropriated Funds. However, the long run cost of extending the period over which the obligation is paid is greater than the short term savings. The other provisions have no immediate fiscal impact, but could have undetermined costs and savings in the future.

Analysis

Contribution rates have 2 components. The first component is the normal cost, which is the permanent cost associated with providing the benefit. The second component is the unfunded liability. Unfunded liability is created by adding benefits or changing assumptions and represents the cost of providing benefits to recipients who did not pay the full cost of the benefits as part of the normal cost. The main provision of the bill allows the Fund Manager to extend the period over which the unfunded liability is paid, from the 20 years required under current law to up to 30 years.

Actuaries under contract for PSPRS estimated that the average contribution rate decrease would be (133) basis points or (1.33)% in PSPRS, (12) basis points or (0.12)% in CORP, and (69) basis points or (0.69)% in EORP if the amortization period were extended to the full 30 years. The actual rate change for each employer depends on the amount of unfunded liability in individual plans. This would not change employee contribution rates, as those rates are set in statute. This decrease in the contribution rate would result in decreased Employee Related Expenditures for agencies. This would produce a savings of $850,000 in FY 2007 to the General Fund and $900,000 to Other Appropriated Funds. While this produces immediate savings, in the long term it costs more to pay off the unfunded liability over a longer period of time because there are lower investment earnings.

The other provisions of the bill have no immediate fiscal impact, but may produce both costs and savings in the future. One provision raises the minimum employer contribution rate, with certain exceptions, from 5% in each plan to 8% in PSPRS, 6% in CORP and 10% in EORP. All state employers currently have rates over the proposed minimums, so this would not increase current rates. In the future, however, this will limit how far the rate can decline. During periods where the system would require lower rates, the "floors" will generate higher costs to agencies than without the "floors." This also can create future savings, if the proceeds from the higher rates are held in reserve to pay future unfunded liabilities or otherwise reduce the contribution rate.

This bill also establishes reserve accounts with funding requirements. For employers that are more than 100% funded, 50% of the excess assets must be set aside in a separate account to be used to minimize the impact of future unfunded liability. These excess assets could otherwise be used to reduce the employer contribution rate. Currently, none of the state employers are more than 100% funded, so this has no immediate fiscal impact. During periods where the system is overfunded, not using the excess assets to lower rates will generate higher costs to agencies; however, these costs will be offset by future savings, as the reserves pay future unfunded liabilities.

Local Government Impact

As with the state impact, there is an immediate saving for underfunded employers associated with extending the amortization period. Assuming the amortization period was extended to the 30-year maximum, total local government and non-appropriated savings would be $13.1 million. However, unlike the state impact, some of the local employers have contribution rates less than the new minimum rates and some are more than 100% funded. The bill allows employers with lower contribution rates to keep the 5% minimum so that there is no fiscal impact from this provision. Beginning in FY 2008, however, all employers who are more than 100% funded will have to set aside 50% of excess assets, which may cause an increase in rates if those assets would have been used to lower the contribution rate. According to the June 30, 2005 valuations for each plan, 55 local employers are currently more than 100% funded.

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