

# JLBC Fiscal Note

**BILL #** SB 1504

**SPONSOR:** Gowan

**PREPARED BY:** Jacob Cross Mayhew

**TITLE:** PSPRS; service requirement; cost-of-living adjustment

**STATUS:** As Introduced

## Description

The bill would modify the normal retirement date for Tier 2 (hired on or after 1/1/12) and Tier 3 (hired on or after 7/1/17) members of the Public Safety Personnel Retirement System (PSPRS) by allowing an employee to retire after completing 25 years of service, regardless of age. The bill would also allow a Tier 3 member to be eligible for a cost-of-living adjustment (COLA) after 3 years, rather than 7.

## Estimated Impact

### State Government

We estimate the bill would affect state PSPRS employer groups and their employees as follows:

- A. Increase one-time state employer costs by \$14.9 million in FY 2027 due to statutory prefunding requirements.
- B. Increase one-time state employee pension benefit costs by \$13.9 million in FY 2027. This amount is associated with the requirement that Tier 3 employees pay an equal prefunding requirement, as Tier 1 and 2 employees are exempt from the requirement. We would note, however, that there is currently no clear statutory mechanism to collect the required amount from Tier 3 employees.
- C. Because the technical assumptions in the pre-funding calculation do not capture all actuarial changes, the bill would also increase ongoing state employer costs by \$485,300 annually beginning in FY 2029 to address any remaining unfunded liability being paid through higher employer contribution rates.

### Local Government

We estimate the bill would affect local PSPRS employer groups and their employees as follows:

- D. Increase one-time local employer costs by \$228.6 million in FY 2027 due to statutory prefunding requirements.
- E. Increase one-time local employee pension benefit costs by \$216.6 million in FY 2027 for the employee pre-funding requirement. This amount reflects the Tier 3 employee prefunding requirement.
- F. The bill would also increase ongoing local employer costs by \$6.8 million annually beginning in FY 2029 to address any remaining unfunded liability being paid through higher employer contribution rates.

## Analysis

Our estimate is based on actuarial analysis provided by PSPRS and the following assumptions:

- 1) Statute requires any future benefit increases adopted by the Legislature to be fully funded in the year of enactment. For Tier 1 and 2 members the full cost of this "prefunding" is borne by employers. For Tier 3 members prefunding is split equally between employers and employees. This prefunding requirement uses a statutory formula different from PSPRS' standard method of actuarial valuation, including a different assumed rate of return.
- 2) PSPRS is comprised of multiple discrete employer groups with individually calculated funded statuses and contribution rates. We assume prefunding costs will be allocated to each employer group based on the employer's share of the total actuarial accrued liability (AAL) in the plan. For Tiers 1 and 2, state employer groups represent 8.01% of total statewide AAL. For Tier 3, we assume the state employer groups represent 6.03% of total AAL.
- 3) The Tiers 1 and 2 prefunding would be insufficient to cover the full cost of the increased benefit as calculated under standard actuarial valuations. The resulting decrease in funded status would increase Tier 1 and 2 employer contribution rates by 0.49%. This contribution rate change is applied to the Tier 1 and 2 state government salary base of \$90.9 million and the Tier 1 and 2 local government salary base of \$1.25 billion.
- 4) The statutory prefunding process does not impact the retiree health benefit. Due to Tier 3 experiencing the most significant retirement age change in the bill, the Tier 3 retiree health contribution rate would increase by 0.10% as members would receive the health benefit for more years. This contribution rate change is applied to the Tier 3 state government salary base of \$39.7 million and the Tier 3 local government salary base of \$678.0 million.
- 5) Based on the standard method by which PSPRS calculates employer contribution rates, the provisions of the bill would not be incorporated into the contribution rate calculation until FY 2029.
- 6) To the extent the actuarial experience of PSPRS and agency salary base changes between now and June 30, 2027 (the date from which PSPRS collects the data for the FY 2029 valuation), the actual costs for both state and local employer groups from higher contribution rates may vary.