

****REVISED****

BILL # SB 1129

TITLE: CORP; members; normal retirement;

SPONSOR: Bundgaard

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Gretchen Logan

FISCAL YEAR

	2001	2002	2003
EXPENDITURES			
General Fund	\$-0-	\$-0-	\$-0-
Other Appropriated Funds	-0-	-0-	-0-
Total	\$-0-	\$-0-	\$-0-

Note: In FY 2004, there will be a total fiscal impact of \$4.4 million, which includes \$4.3 million from the General Fund and \$29,700 from Other Appropriated Funds. Depending on the total number of enacted CORP changes, this cost could be partially offset, because the system is currently collecting 0.64% more than is actuarially required due to the establishment of a 2.0% minimum for employer contributions.

FISCAL ANALYSIS

Description

SB 1129 would decrease the age for normal retirement from 25 years to 20 years of service for members of the Correctional Officers Retirement Plan (CORP). Members who retire with 20 years of credited service, but less than 25 years, would receive a pension that is equal to 50% of the member's average monthly salary plus 2.0% of the member's average monthly salary multiplied by the marginal number of years above 20 years. Members' retiring with 25 or more years of credit service would receive a pension that is equal to 2.5% of the member's average monthly salary multiplied by the number of years of credited service. SB 1129 also raises the cap on the pension amount that a member can receive from 75% to 80% of final average earnings.

Estimated Impact

Contribution rates have been established for FY 2002 and FY 2003; therefore, any fiscal impact associated with this proposal will not occur until FY 2004. Relative to current law, the estimated impact to the General Fund in FY 2004 is approximately \$4.3 million. Other Appropriated Funds would also experience an impact of approximately \$29,700 in FY 2004. Actuaries contracted by the retirement system estimate that SB 1129 would increase the contribution rate by approximately 1.50% (150 basis points) in FY 2004. Employers would therefore need to contribute another 1.50% of employees' salaries to CORP through the Employee Related Expenditure line item in FY 2004. CORP employee contribution rates are set in statute at 8.5% of employees' salaries. It is important to note that the actual cost of the proposed legislation could vary from the estimates provided, which are dependent on the accuracy of the underlying actuarial assumptions.

For informational purposes, we would like to note that the CORP contribution rate for employers has been dropping in recent years as is depicted in the table below:

Year	CORP CONTRIBUTION	
	Employer*	Employee
FY 1999	6.95%	8.5%
FY 2000-2001 biennium	5.00%	8.5%
FY 2002-2003 biennium	2.00%**	8.5%

* Employer contributions provided reflect the rates paid by the Department of Corrections.

**Without the establishment of the 2% floor, the CORP contribution rate for DOC would be 1.36%; however, the average contribution rate paid by CORP employers would be 1.15% in the absence of the 2% floor.

(Continued)

Estimated Impact (Continued)

CORP assets exceed liabilities by \$204 million. These monies are used to reduce the total amount contributed by current employers from an average of 10.8% to 1.15% of employees' salaries. Therefore, benefit enhancements have a corresponding cost impact if they cause the retirement rate to increase. When the actual CORP contribution rate is below the established floor of 2.0%, it is possible to enact benefit enhancements without having an impact to the General Fund (*provided that they do not raise the contribution rate above the 2.0% floor.*) Without the 2% floor, the average rate for the FY 2002-2003 biennium would be 1.15%. Therefore, according to current actuarial projections, only benefit enhancements that total 85 basis points or less could potentially be enacted without having an impact to the General Fund. This 85 basis point "cushion" could be available to reduce the 150 basis point impact of this benefit enhancement, depending on the total package of CORP retirement changes enacted during the session.

The cost increase associated with this bill has two components. The first component addresses the cost associated with providing the benefit enhancement to future years of service. Of the total impact reported above, 78 basis points represents the portion that is built into the cost of the program permanently. In addition, when a benefit enhancement is enacted all current members of the system had not previously been paying for the new benefit; therefore, when enacted it increases liabilities by \$52.9 million. This amount is recovered over 15 years through the contribution rate. Of the total reported above, 72 basis points represents the portion to fund this liability for existing years of service.

From an actuarial perspective, this increased liability of \$52.9 million will reduce the \$204 million in "excess" assets.

Local Government Impact

The changes proposed by SB 1129 would result in an estimated local government and non-appropriated fund impact of approximately \$3 million.