

**JBC STAFF FISCAL ANALYSIS
HOUSE APPROPRIATIONS COMMITTEE**

CONCERNING MODIFICATIONS TO THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION HYBRID DEFINED BENEFIT PLAN NECESSARY TO ELIMINATE WITH A HIGH PROBABILITY THE UNFUNDED LIABILITY OF THE PLAN WITHIN THE NEXT THIRTY YEARS, AND, IN CONNECTION THEREWITH, MAKING AN APPROPRIATION.

Prime Sponsors: Sens. Tate and Priola
Reps. Becker K. and Pabon

JBC Analyst: Alfredo Kemm
Phone: 303-866-2062
Date Prepared: April 18, 2018

Fiscal Impact of Bill as Amended to Date

The most recent Legislative Council Staff Revised Fiscal Note (attached) reflects the fiscal impact of the bill as of 04/06/18.

	No Change: Attached LCS Fiscal Note accurately reflects the fiscal impact of the bill
	Update: Fiscal impact has changed due to <i>new information or technical issues</i>
XXX	Update: Fiscal impact has changed due to <i>amendment adopted</i> after LCS Fiscal Note was prepared
	Non-Concurrence: JBC Staff and Legislative Council Staff disagree about the fiscal impact of the bill

The House Finance Committee Report (04/16/18) includes amendments to the bill. Legislative Council Staff and JBC Staff agree that the committee amendments change the fiscal impact of the bill as follows:

Changes the definition of "salary" (net to gross) only for members hired on or after July 1, 2020. By modifying the effective date of the salary definition change, employers will not incur costs beginning in FY 2017-18 to modify their payroll structure and assess the PERA benefit on a modified amount of salary. These costs were not anticipated to impact the State and Judicial Divisions, where the gross pay definition is already used for budgeting purposes. The amendment will remove the costs for the remaining divisions, estimated in FY 2018-19, FY 2019-20, and FY 2020-21, respectively, reducing costs shown in the fiscal note dated April 6, 2018 by:

- Local Government Division: \$2.7 million, \$2.9 million, and \$3.0 million;
- School Division: \$19.5 million, \$21.2 million, and \$21.9 million; and
- DPS Division: \$9.1 million, \$9.7 million, and \$10.4 million.

Modifying the effective date of the salary definition change also eliminates the related state income tax revenue reduction estimated at \$0.7 million in FY 2018-19, \$0.9 million in FY 2019-20, and \$1.0 million in FY 2020-21 from the General Fund, as shown in the fiscal note dated April 6, 2018.

Removes increase in employee contribution. Removes the state income tax revenue reduction resulting from the decrease in state and local government employee's net pay, estimated at \$3.1 million in FY 2018-19, \$10.7 million in FY 2019-20, and \$13.2 million in FY 2020-21 from the General Fund. The amendment also removes the workload impact of creating this new payroll deduction amount and removes the potential impact on participating employee behavior related to retention and retirement.

Restores automatic contribution rate adjustment for employers. The automatic adjustment provision creates a future potential employer contribution rate increase of up to 2.0 percent. Future contribution rate adjustments will follow actuarial assessments and be triggered when the blended total contribution amount is less than 98 percent of the actuarially required contribution. If triggered, automatic contribution increases will be addressed through the annual budget process. Decreases, if triggered, will not fall below current statutory rates and will also be addressed through the annual budget process.

Creates a direct distribution amortization payment to pay down the unfunded liability. The direct distribution will be a set amount in FY 2018-19 and FY 2019-20, equal to \$225.0 million and \$255.6 million, respectively, and then equal to 3.0 percent of PERA's most current audited payroll. The direct distribution includes all PERA divisions except the Local Government Division and is allocated for payment by division proportionate to the annual payroll of each division. This amount is paid from the General Fund in FY 2018-19 and may be paid from the General Fund and other funds in future years. Direct distributions are to be included in the Long Bill for informational purposes.

Eliminates the defined contribution supplement payment and expansion. The employer-paid defined contribution supplement was estimated to have a substantial but unquantified impact on participating employers, depending on many factors, in particular the rate of participation in the defined contribution plan (state division participation is currently about 12 percent) and the future financial health of the PERA trusts. The amendment removes this impact. PERA will provide an updated actuarial assessment of the impact this adjustment will have on the unfunded liability for a revised fiscal note.

Eliminates the modification to part-time earned service credit determination. The impact of the earned service credit modification has not been estimated in the fiscal note. The amendment will return the service credit determination to current law.

Changes to the Pension Review Committee. The amendment removes the bill's need for an appropriation of \$200,000 to the Legislative Department for purposes of conducting an independent review of PERA's assumptions. The existing Police Officers' and Firefighters' Pension Reform Commission (renamed the Pension Review Committee) and its staff can accomplish the new workload within existing appropriations.

Changes Highest Average Salary (HAS) to five years. Current law calculates HAS based on three years of salary and the reengrossed bill changed this to seven years. A calculation based on five years will continue to reduce PERA's obligation to beneficiaries and create a cost savings in PERA's trusts, but by a lesser amount than in the reengrossed bill. PERA will provide an updated actuarial assessment of the impact this adjustment will have on the unfunded liability in a revised fiscal note.

Changes retirement age for State Division to 60. PERA will provide an updated actuarial assessment of the impact this adjustment will have on the unfunded liability for a revised fiscal note.

Reclassification of certain peace officers to align with the benefits structure for state troopers for employees hired after January 1, 2020. Beginning in FY 2020-21, costs will increase for the Department of Corrections to pay an increased benefit for newly hired corrections officers. It currently pays 10.15 percent, and this will be increased to 12.85 percent under the amendment. The Department of Corrections identifies future fiscal impacts as \$147,557 in FY 2019-20, \$707,156 in FY 2020-21, and increased amounts in subsequent years. The amendment will also increase benefits and accelerate the retirement schedule for certain peace officers, while increasing the payment from these employees for these increased benefits, resulting in a neutral impact on the PERA trusts.

Amendments in This Packet for Consideration by Appropriations Committee

Amendment	Description
J.002	Staff-prepared appropriation amendment

Current Appropriations Clause in Bill

The bill includes an appropriation clause that appropriates \$200,000 General Fund to the Legislative Department for FY 2018-19. This is no longer necessary as the bill was amended by the House Finance Committee Report. Additionally, the bill requires the \$225.0 million General Fund payment for the direct distribution to be included in the Long Bill for informational purposes only.

Description of Amendments in This Packet

J.002 Staff has prepared amendment **J.002** (attached) to change the existing clause to remove the existing appropriation to the Legislative Department and to reflect a Long Bill appropriation for informational purposes only of \$225.0 million General Fund for the direct distribution in the Department of the Treasury for FY 2018-19.

Points to Consider

General Fund Impact

The Joint Budget Committee (JBC) has proposed a budget package for FY 2018-19 based on the March 2018 Office of State Planning and Budgeting revenue forecast. The JBC has included as part of its FY 2018-19 budget package a \$225.0 million General Fund appropriation for FY 2018-19 for implementation of this bill.