

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington St., Suite 301
Indianapolis, IN 46204
(317) 233-0696
iga.in.gov

FISCAL IMPACT STATEMENT

LS 7177

BILL NUMBER: HB 1227

NOTE PREPARED: Feb 4, 2021

BILL AMENDED:

SUBJECT: Thirteenth Check and \$50 Increase Payment.

FIRST AUTHOR: Rep. Karickhoff

BILL STATUS: CR Adopted - 1st House

FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides for a thirteenth check in 2021 for certain members of the: (1) Indiana State Teachers' Retirement Fund (TRF); (2) Public Employees' Retirement Fund (PERF); (3) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C); (4) State Police Pre-1987 Benefit System; and (5) State Police 1987 Benefit System.

The bill also provides for a \$50 payment to members of TRF, PERF, and EG&C.

Effective Date: July 1, 2021.

Explanation of State Expenditures: *Summary* - Total state costs for the thirteenth check and the \$50 payments are estimated at \$38.2 M in FY 2022 and \$39 M in FY 2023.

Thirteenth Checks: The bill provides for a thirteenth check in FY 2022 and FY 2023. Pension benefit recipients of PERF (state), TRF, and EG&C will receive between \$150 and \$450 depending on their years of service while State Police pension benefit recipients will receive a percentage share of the maximum pension for a trooper with certain years of service. The total state cost is estimated at \$33.8 M in FY 2022 and \$34.4 M in FY 2023. The estimate is based on the cost of similar thirteenth checks provided during the last two bienniums. The bill states that the funds to pay the thirteenth checks will come from General Fund appropriations and from the respective funds, but that employer contribution rates will only pay for the thirteenth checks in the event that appropriations do not cover the cost of the thirteenth checks for the biennium (See Table 1).

Table 1. State Cost of Thirteenth Checks for Pension Recipients in FY 2022-FY 2023			
	Qualified Retirees/Beneficiaries (Approx.)	Total Cost FY 2022 (in Millions)	Total Cost FY 2023 (in Millions)
PERF (State)	34,000	\$10.8 M	\$11.1 M
TRF Pre-'96	57,000	\$22.5 M	\$22.9 M
EG&C Fund	270	\$0.1 M	\$0.11 M
State Police	1,600	\$0.36 M	\$0.37 M
Total (State)	92,870	\$33.8 M	\$34.4 M

\$50 Payments: The bill also provides for an additional \$50 payment in FY 2022 and FY 2023 to pension benefit recipients of PERF (state), TRF Pre-'96, and EG&C who receive a thirteenth check. The state cost for the \$50 payments are estimated to be \$4.4 M in FY 2022 and \$4.5 M in FY 2023. The \$50 payments will be paid from the Supplemental Reserve Accounts for the respective funds (See Table 2).

Table 2. State Cost for \$50 Payments for FY 2022-FY 2023			
	Qualified Retirees/Beneficiaries (Approx.)	Total Cost FY 2022 (in Millions)	Total Cost FY 2023 (in Millions)
PERF (State)	34,000	\$1.6 M	\$1.7 M
TRF Pre-'96	57,000	\$2.8 M	\$2.8 M
EG&C Fund	270	\$0.01 M	\$0.01 M
Total (State)	91,270	\$4.4 M	\$4.5 M

Indiana Public Retirement System (INPRS): INPRS administers PERF, TRF, EG&C funds as well as the Supplemental Reserve Accounts for the respective funds, and this bill will increase workload for INPRS to make additional payments to pension benefit recipients. The administrative costs of the funds are paid from the respective funds.

Additional Information - SEA 373-2018 established Supplemental Reserve Accounts for PERF, TRF, EG&C, and the Legislator's Defined Benefit Fund (LEDB). The Supplemental Reserve Accounts are funded by a surcharge as determined by the INPRS board, in an amount not to exceed 1% of the employers' payroll that is attributable to those employees who are members of PERF, TRF' 96, or EG&C. Additionally, \$30 M annually of surplus revenue from the State Lottery Commission is transferred to the Supplemental Reserve Accounts.

Current statute indicates that postretirement benefit increases, thirteenth checks, or other benefit changes or adjustments may be granted only if the benefit may be funded from the uncommitted balance in the Supplemental Reserve Account of the relative fund or plan. Also, increases or benefit changes must be paid in the same amount or percentage for all of the funds that have a Supplemental Reserve Account. The LEDB,

PERF, TRF, and EG&C all have Supplemental Reserve Accounts. Because this bill does not provide \$50 payments to members of the LEDB fund, based on current law, it is unclear whether the \$50 payments may be made from the Supplemental Reserve Accounts for PERF, TRF, and EG&C.

The actuarial models that fund the PERF, TRF, and EG&C assume a cost-of-living increase (COLA) of 0.4% for FY 2022 and FY 2023 for PERF, TRF, and EG&C pension funds. Funds to pay those assumed future pension increases are deposited into the Supplemental Reserve Accounts for the pension funds through an employer contribution surcharge and lottery revenue. If the thirteenth check is paid from the respective pension funds rather than from the supplemental reserve accounts, the unfunded liability of the funds and future actuarially determined employer contribution (ADC) rate would increase, potentially impacting future employer contribution rates for PERF, TRF '96, and EG&C. TRF Pre-'96 benefits are funded through General Fund appropriations to the Pensions Stabilization Fund. The long-term assumptions for COLA increases used in the actuarial models assume a 0.4% COLA beginning in FY 2022, 0.5% COLA beginning in FY 2034, and a 0.6% COLA beginning in FY 2039.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary* - Total local costs for the thirteenth check and the \$50 payments are estimated at \$28.4 M in FY 2022 and \$29.3 M in FY 2023.

Thirteenth Check: The local cost in pension benefits from thirteenth checks is estimated to be \$24.7 M in FY 2022 and \$25.5 M in FY 2023 for the local share of PERF and TRF '96. The checks will provide benefits to approximately 67,000 local PERF members and 9,900 TRF '96 members. The bill states that the funds to pay the thirteenth checks will come from General Fund appropriations and from the respective funds, but that employer contribution rates for PERF and TRF '96 will only pay for the thirteenth checks in the event that appropriations do not cover the cost of the thirteenth checks for the biennium (See Table 3).

Table 3. Local Cost for Thirteenth Checks for Pension Recipients for FY 2022-FY 2023			
	Qualified Retirees/Beneficiaries (Approx.)	Total Cost FY 2022 (in Millions)	Total Cost FY 2023 (in Millions)
PERF (Local)	67,000	\$21.6 M	\$22.2 M
TRF '96	9,900	\$3.1 M	\$3.3 M
Total (Local)	76,900	\$24.7 M	\$25.5 M

\$50 Payments: The bill also provides for an additional \$50 payment in FY 2022 and FY 2023 to benefit recipients of PERF (local) and TRF '96 who receive a thirteenth check. The state cost for the \$50 payments are estimated to be \$3.7 M in FY 2022 and \$3.8 M in FY 2023. The \$50 payments will be paid from the Supplemental Allowance Reserve Accounts for the respective funds (See Table 4).

Table 4. Local Cost for \$50 Payments for FY 2022-FY 2023			
	Qualified Retirees/Beneficiaries (Approx.)	Total Cost FY 2022 (in Millions)	Total Cost FY 2023 (in Millions)
PERF (Local)	67,000	\$3.3 M	\$3.4 M
TRF '96	9,900	\$0.5 M	\$0.5 M
Total (Local)	76,900	\$3.7 M	\$3.9 M

Explanation of Local Revenues:

State Agencies Affected: Indiana Public Retirement System; Indiana State Police; All.

Local Agencies Affected: Units with members in PERF or TRF.

Information Sources: IC 5-10.2-12.4; Andy Blough, INPRS, RBlough@inprs.in.gov.
 “2020 Comprehensive Annual Financial Report,” INPRS, <https://www.in.gov/inprs/annualreports.htm>.
 Legislative Services Agency. *Indiana Handbook of Taxes, Revenues, and Appropriations*, FY 2020.
 McCready and Keene, Inc. *Department of State Police of Indiana Pension Trust Agreement Actuarial Valuations*, July 1, 2020 and July 1, 2019.

Fiscal Analyst: Camille Tesch, 317-232-5293.