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FISCAL IMPACT STATEMENT

LS 6960
BILL NUMBER: SB 275

NOTE PREPARED: Jan 25, 2024
BILL AMENDED:

SUBJECT: Pension Matters.

FIRST AUTHOR: Sen. Buchanan
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Employer Surcharge for Thirteenth Checks and COLAs:* The bill removes a provision that sets a maximum employer surcharge for the Legislators' Defined Benefit Plan (LE DB); State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C); Public Employees' Retirement Fund (PERF); and Indiana State Teachers' Retirement Fund (TRF).

The bill requires the board of trustees of the Indiana Public Retirement System (INPRS) to develop the technological and administrative capabilities sufficient to categorize fund members into separate groups in which:
(1) certain members receive a service based thirteenth check; and
(2) certain members receive a cost of living adjustment.

The bill also requires the board to set the surcharge rates at a level to actuarially prefund:
(1) annual indexed thirteenth checks for all current retired members and beneficiaries retired before a date to be determined by the General Assembly; and
(2) 1% annual cost of living adjustments to future in-payment members and beneficiaries retired after a date to be determined by the General Assembly.

It provides that the board shall not reduce the surcharge rates from the prior year. It also allows the board to increase the surcharge rates by not more than 0.1% of payroll from the prior year.

DROP Period: The bill increases the maximum date that a member or participant of certain retirement funds can participate in the deferred retirement option plan (DROP) from 36 to 60 months. It requires the member or participant to notify their employer if the member or participant elects to enter or extend the DROP.

Delinquent Local Pensions: The bill requires certain political subdivisions to present to the Interim Study Committee on Pension Management Oversight (PMOC) regarding a delinquent employee retirement plan offered by the political subdivision.

Effective Date: Upon passage; July 1, 2024.

Explanation of State Expenditures: *Employer Surcharge for Thirteenth Checks and COLAs:* INPRS will have additional workload and expenditures to develop the technological and administrative capabilities to provide thirteenth checks for certain members and a cost of living adjustment (COLA) for other fund members based on the date of retirement. This would apply to members of PERF, TRF, EG&C, and LE DB. The administrative costs of making those changes would come from the respective pension funds.

INPRS is also tasked with setting the employer contribution surcharge rate at a level to actuarially prefund an annual indexed thirteenth check for certain members and a 1% COLA for other members based on retirement date. The rate may only increase by up to 0.1% of payroll per year and may not reduce the surcharge rate. The timing and amount of the thirteenth checks, the timing of the COLAs, and the date of retirement which will determine whether a benefit recipient will receive the COLA or the thirteenth check will require further legislative action by the General Assembly.

There is sufficient margin in the employer contribution rate for PERF and for EG&C to increase the surcharge rate without increasing the overall employer contribution rate for state employers. The employer contribution rate for PERF is set at 11.2% through June 30, 2025. The employer contribution rate for the EG&C Fund is set at 20.75% for CY 2024 and will decrease to 17.9% for CY 2025.

The employer surcharge funds supplemental reserve accounts (SRAs) which were established by SEA 373-2018 for PERF, TRF, EG&C, and the Legislator's Defined Benefit Fund as a way to pre-fund COLAs and thirteenth checks. Under current law, the SRAs are funded by employer contributions as 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. Beginning on January 1, 2023, the surcharge rates are 0.66% of payroll for PERF employers, 0.21% of payroll for TRF '96 employers, and 1.00% of payroll for EG&C employers. Additionally, $30 M annually of surplus revenue from the State Lottery Commission is transferred to the SRA to pre-fund thirteenth checks and COLAs for members of the TRF Pre-'96 Fund. The INPRS Board has flexibility to use the lottery revenue for other SRAs funds as well, including for members of the Legislators' Defined Benefit Fund.

DROP Period: INPRS administers the 1977 Police Officers' and Firefighters' Pension and Disability Fund ('77 Fund) and may have increased administrative workload related to the change in the DROP for members of the '77 Fund which are made under the bill. The administrative costs of the '77 Fund are paid from the fund.

Any impact due to DROP changes by members of the 1925 Police Pension Fund, 1937 Firefighters' Pension Fund, and 1953 Police Pension Fund would be minor. As of January 2023 there were fewer than five active members remaining in these funds who would be eligible to enter the DROP. These police and firefighter funds are administered at the local level and are funded through General Fund appropriations to the Pension Relief Fund.

DROP is an optional pension benefit that allows fund members who are eligible for an unreduced retirement benefit to continue to work and earn a salary and then retire with a pension benefit calculated as of the date the individual entered the DROP, plus receive an additional amount equal to the total of the pension benefits that the member would have been paid during the same period had the member retired at the time they entered the DROP. The DROP benefit is payable either in a lump sum or three equal annual payments. The bill would allow members currently in the DROP to extend their DROP period to 60 months total and allow new entrants into the DROP after June 30, 2024, to enter the DROP for up to 60 months.

Delinquent Local Pensions: INPRS would have increased workload to send delinquency notices to political subdivisions that have delinquent employee retirement plans. INPRS could likely fulfill that requirement within their current state General Fund appropriation to complete a local pension report. INPRS receives a state General Fund appropriation of $30,000 in FY 2024 and FY 2025 to complete a local pension report that identifies political subdivisions that are making insufficient contributions to their local pension plans.

If PMOC were to hold additional meetings to address political subdivisions with delinquent pensions, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council.

Explanation of State Revenues:

Explanation of Local Expenditures: *Employer Surcharge for Thirteenth Checks and COLAs:* Local employers with members in TRF '96 would have increased expenditures for teacher pensions if the employer surcharge rate for TRF '96 increases. Under the bill, the employer surcharge rate may increase by 0.1% of salary annually until the surcharge rate is sufficient to actuarially prefund future thirteenth checks and 1% COLAs. The employer contribution rate for TRF '96 is set at 6.0% through June 30, 2024, and is expected to increase in FY 2025 pending a vote by the INPRS board.

Local employers with members in the PERF hybrid plan would not experience an increase in the employer contribution rate for PERF because there is sufficient margin in the employer contribution rate for PERF to increase the surcharge rate without increasing the employer contribution rate. The employer contribution rate for PERF is set at 11.2% through June 30, 2025.

DROP Period: Based on an actuarial cost estimate provided by INPRS, increasing the DROP period from a maximum of three years to a maximum of five years could increase the present value of future benefits by an estimated $3.7 M, increase the actuarial accrued liability of the '77 Fund by an estimated $84.3 M, reduce the funded status of the '77 Fund by 0.95%, and increase the employer contribution rate by 1.1%. The estimate assumes that people would enter the DROP two years earlier than they do under current law (See Table 1).

Table 1. Estimated Fiscal Impact of Increasing the '77 Fund DROP Length Maximum from Three Years to Five Years.

$ Millions	Baseline under Current Law	Proposed	Change
Actuarial Accrued Liability	$8,281.9 M	$8,366.2 M	$84.3 M
Funded Status	94.7%	93.8%	(0.95%)
Employer Contribution Rate	19.1%	20.2%	1.1%

Source: Cavanaugh Macdonald Consulting. Results are shown as of June 30, 2022.

As of June 30, 2022 there were 824 active members of the '77 Fund who were in the DROP program. The '77 Fund is funded through employer and employee contributions. For calendar year 2024, the employer contribution rate is 19.1% of salary.

Any administrative impact to local employers due to DROP changes by members of the 1925 Police Pension Fund, 1937 Firefighters' Pension Fund, and 1953 Police Pension Fund would be minor.

Delinquent Local Pensions: Political subdivisions with delinquent local pensions would have increased workload to create a plan to address insufficient funding of the local pension and present to PMOC regarding their delinquent employee retirement plan. Political subdivisions who follow through on plans to sufficiently fund their local pension plan by contributing at least 95% of the actuarially determined contribution amount annually and ensure that the pension plan is at least 50% funded may have increased annual expenditures for employer contributions to their local pension plan.

Explanation of Local Revenues:

State Agencies Affected: Indiana Public Retirement System; PMOC.

Local Agencies Affected: Local units with active members in the 1925 Police Pension Fund, 1937 Firefighters' Pension Fund, or 1953 Police Pension Fund (Indianapolis); local employers with members in TRF '96.

Information Sources: Cavanaugh Macdonald Consulting. (2023, October 23). 1977 Police Officers' and Firefighters' Retirement Fund – Extend DROP Period. Cavanaugh Macdonald Consulting, LLC. Indiana Public Retirement System Local Public Safety Pension Relief Fund. Actuarial Valuation as of January 1, 2023. https://www.in.gov/inprs/files/2023Valuation_IndianaPensionReliefFund.pdf; INPRS. 2023 valuation pension database; INPRS. 2022-2023 Employer Contribution Rate Information. https://www.in.gov/inprs/employers/employer-communication/er-contribution-rate-info/

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