# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 1271** February 6, 2013

SPONSOR(S): Thapedi

SYSTEM(S): General Assembly Retirement System (GARS), State Employees Retirement System (SERS), State Universities Retirement System (SURS), Teachers Retirement System (TRS), Judges Retirement System (JRS)

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FISCAL IMPACT: The fiscal impact on HB 1271 is presently indeterminable. This impact note will be updated when an actuarial cost study becomes available.

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SUBJECT MATTER: HB 1271 establishes a Tier-III retirement package for new members of each State Retirement System hired on or after July 1, 2014. Tier-III will include a choice between a defined-contribution and a defined-benefit annuity, and it will include employee/employer contributions and COLA's that fluctuate with the retirement system's ability to meet their assumed rate of return. This bill adjusts the State's contribution to each retirement system to include Tier-3 payments and a rolling 30-year amortization of unfunded liability.

COMMENT: HB 1271 includes two important facets: first, the introduction of a new benefit tier, and second, a new funding arrangement.

***Tier III***: Beginning July 1, 2014, new hires participating in any of the 5 State Retirement Systems will partake in the new Tier III benefit package.

- Final Average Salary: Average of the last 36 months of service.
- "Interest at the experience rate": "[T]he interest rate... determined by the Board... to represent the actual investment earning of the system..." or the least-volatile projection.
- Annuity Decision: Upon reaching *eligibility* for a retirement annuity, participants' retirement package will be the greater of the defined-benefit or the defined- contribution options.
    - DB: Annual retirement annuity equals the product of 1.6%, the Final Average Salary, and the years of service.
    - DC: The actuarial equivalent of the annuity based on the sum of employee and employer contributions (including interest).

- Annual post-retirement adjustments: a uniform percentage increase or decrease that is not guaranteed beyond the current fiscal year.
    - If the experienced rate of interest exceeds the assumed rate of return, retirees' annuities **may** increase.
    - If the experienced rate of interest is below the assumed rate of return, retirees' annuities **may** decrease.
- Contribution rates
    - Employees and employers contribute as required of their retirement system; however:
        - If the experienced rate of interest exceeds the assumed rate of return, contribution rates **may** increase.
        - If the experienced rate of interest is below the assumed rate of return, contribution rates **may** decrease.
    - Participants not coordinated with Social Security may contribute an optional 7.65% of salary, which the employer will match.

***Funding***:

- Each State-Funded Retirement System will change the minimum contribution to explicitly include the normal cost and the 7.65% match associated with the Tier III benefit package.
    - GARS and SERS require the State to contribute an additional amount according to a 30-year rolling amortization to bring unfunded liabilities to 90%.
    - SURS and TRS require the actual employers to contribute an additional amount according to a 30-year rolling amortization to bring unfunded liabilities to 90%.
- When debt service on bonds ends, those funds will be appropriated amongst the 5 systems proportionally.

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