

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **SB 788, as engrossed** July 7, 2008

SPONSOR (S): Harmon – Jones (Hannig)

SYSTEM(S): TRS, SERS, SURS, GARS, JRS

FISCAL IMPACT: An actuarial analysis is shown on pages 3-4.

SUBJECT MATTER: SB 0788, as engrossed, amends the General Obligation Bond Act by increasing the amount of bond authorization by \$16.0 billion for the purpose of selling pension obligation bonds. The bill also amends the Pension Code to change the funding plan established by P.A. 88-0593. The changes to the funding plan are summarized in the Comments Section below.

FISCAL IMPACT: An actuarial analysis is shown on pages 3-4.

COMMENTS:

Issuance of Pension Obligation Bonds

SB 0788, as engrossed, amends the General Obligation Bond Act by increasing the amount of bond authorization by \$16.0 billion for the purpose of selling pension obligation bonds. An actuarial analysis of the impact of the pension obligation bonds on the State-funded retirement systems is shown on pages 3-4.

Funding Schedule

Under current law, the state is obligated to make contributions to the five State-funded retirement systems so that by FY 2011, contributions are being made at a level percentage of payroll such that, by FY 2045, a 90% funding ratio is attained. SB 0788, as engrossed, requires that contributions be made such that a 90% funding ratio is attained by FY 2034. Furthermore, the bill states that for fiscal years 2010 through 2038, the State contribution will be increased by 3% each year. The bill stipulates that if in any given year this specified payment, when actuarially projected forward, should not be sufficient to achieve a 90% funding ratio by 2038, then that year's contribution shall be the amount necessary when taken as a level dollar increase, increased by 3% each year, to achieve 90% by FY 2038.

Requirements for Minority and Women-Owned Investment Firms

SB 0788, as engrossed, requires that the Boards of Trustees of the State-funded retirement systems must ensure that at least 19% of the proceeds from Pension Obligation Bonds are invested with the assistance of qualified financial consultants who are a “minority owned business” or a “female owned business” as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

Recertification of State Contributions for FY 2009

SB 0788, as engrossed, requires the Boards of Trustees of the State-funded retirement systems to recalculate and recertify to the Governor the amount of the required State contribution to the System for FY 2009, taking into account the changes in the funding plan made by this Amendatory Act.

ALL STATE RETIREMENT SYSTEMS CGFA Projections Based on Current Law (\$ in millions) (Assumes 0% Return on Assets for FY 2008)						
Fiscal Year	Regular State Contribution	2003 Debt Service	Total Pension Cost	Assets	Liabilities	Funded Ratio
2008	1,991.9	546.2	2,538.1	67,675.1	118,442.8	57.1%
2009	2,726.9	544.9	3,271.8	70,717.0	124,169.9	57.0%
2010	3,669.5	543.6	4,213.0	74,684.7	130,091.2	57.4%
2011	3,830.1	541.9	4,372.0	78,799.4	136,181.3	57.9%
2012	3,988.6	590.1	4,578.7	83,044.9	142,420.8	58.3%
2013	4,152.7	586.4	4,739.1	87,397.0	148,793.5	58.7%
2014	4,323.8	582.5	4,906.3	91,855.1	155,298.0	59.1%
2015	4,504.5	578.5	5,083.0	96,432.3	161,938.1	59.5%
2016	4,695.1	574.5	5,269.6	101,151.1	168,728.6	59.9%
2017	4,894.1	595.1	5,489.3	106,025.9	175,660.7	60.4%
2018	5,106.1	614.8	5,720.8	111,085.4	182,803.3	60.8%
2019	5,332.4	633.1	5,965.6	116,358.9	190,153.9	61.2%
2020	5,570.0	674.6	6,244.6	121,872.7	197,736.2	61.6%
2021	5,821.6	713.4	6,534.9	127,660.9	205,571.2	62.1%
2022	6,083.0	749.8	6,832.8	133,742.9	213,470.7	62.7%
2023	6,359.1	783.7	7,142.8	140,151.3	221,642.3	63.2%
2024	6,650.4	840.1	7,490.5	146,925.8	230,108.5	63.9%
2025	6,950.0	892.2	7,842.2	154,094.7	238,889.4	64.5%
2026	7,264.4	915.4	8,179.8	161,731.3	248,012.5	65.2%
2027	7,592.1	936.2	8,528.2	169,861.8	257,481.5	66.0%
2028	7,937.2	979.2	8,916.4	178,536.6	267,326.2	66.8%
2029	8,299.8	1,018.6	9,318.4	187,798.2	277,571.4	67.7%
2030	8,677.9	1,079.1	9,756.9	197,698.2	288,243.8	68.6%
2031	9,073.6	1,134.4	10,207.9	208,293.6	299,369.6	69.6%
2032	9,485.6	1,159.7	10,645.2	219,650.1	310,957.3	70.6%
2033	9,916.3	1,156.1	11,072.4	231,830.2	323,036.7	71.8%
2034	10,366.0	0.0	10,366.0	244,895.4	335,641.0	73.0%
2035	10,836.1	0.0	10,836.1	258,920.1	348,787.5	74.2%
2036	11,327.2	0.0	11,327.2	273,973.0	362,518.6	75.6%
2037	11,839.9	0.0	11,839.9	290,212.9	376,765.6	77.0%
2038	12,367.7	0.0	12,367.7	307,607.7	391,530.0	78.6%
2039	12,918.9	0.0	12,918.9	326,241.4	406,863.4	80.2%
2040	13,499.9	0.0	13,499.9	346,245.5	424,229.0	81.6%
2041	14,116.2	0.0	14,116.2	367,806.3	442,479.7	83.1%
2042	14,767.1	0.0	14,767.1	391,103.1	461,677.7	84.7%
2043	15,455.1	0.0	15,455.1	416,325.0	481,921.1	86.4%
2044	16,179.4	0.0	16,179.4	443,683.8	503,324.1	88.2%
2045	16,939.8	0.0	16,939.8	473,390.2	525,989.1	90.0%

ALL STATE RETIREMENT SYSTEMS CGFA Projections Based Senate Bill 788 (\$ in millions) \$16 Billion in POB Proceeds Deposited July 1, 2008 (Assumes 0% Return on Assets for FY 2008)							
Fiscal Year	Regular State Contribution	2003 Debt Service	2008 Debt Service	Total Pension Cost	Assets	Liabilities	Funded Ratio
2008	1,991.9	546.2	0.0	2,538.1	67,675.0	118,442.8	57.1%
2009	1,435.1	544.9	864.6	2,844.7	86,730.0	124,169.9	69.8%
2010	1,660.3	543.6	964.8	3,168.7	89,957.4	130,091.2	69.1%
2011	1,972.9	541.9	987.6	3,502.4	93,426.7	136,181.3	68.6%
2012	2,246.8	590.1	1,009.2	3,846.0	97,092.1	142,420.8	68.2%
2013	2,584.0	586.4	1,029.6	4,200.0	100,994.5	148,793.5	67.9%
2014	2,908.2	582.5	1,074.0	4,564.6	105,124.0	155,298.0	67.7%
2015	3,271.1	578.6	1,090.5	4,940.2	109,534.1	161,938.1	67.6%
2016	3,646.7	574.5	1,105.8	5,327.0	114,263.8	168,728.6	67.7%
2017	4,036.1	595.2	1,094.2	5,725.4	119,348.4	175,660.7	67.9%
2018	4,438.5	614.7	1,082.6	6,135.8	124,833.4	182,803.3	68.3%
2019	4,829.3	633.2	1,096.1	6,558.5	130,739.3	190,153.9	68.8%
2020	5,262.5	674.6	1,056.9	6,993.9	137,142.5	197,736.2	69.4%
2021	5,659.8	713.4	1,069.2	7,442.4	144,047.0	205,571.2	70.1%
2022	6,099.4	749.8	1,055.0	7,904.2	151,525.2	213,470.7	71.0%
2023	6,530.4	783.7	1,065.9	8,380.0	159,609.0	221,642.3	72.0%
2024	6,979.6	840.1	1,050.3	8,870.0	168,365.1	230,108.5	73.2%
2025	7,184.3	892.2	1,034.7	9,111.2	177,584.4	238,889.4	74.3%
2026	6,233.6	915.4	1,069.2	8,218.1	186,127.1	248,012.5	75.0%
2027	6,630.0	936.1	1,075.8	8,641.9	195,311.5	257,481.5	75.9%
2028	7,023.0	979.2	1,081.0	9,083.2	205,178.6	267,326.2	76.8%
2029	7,433.8	1,018.6	1,084.7	9,537.1	215,783.1	277,571.4	77.7%
2030	7,864.0	1,079.0	1,061.4	10,004.4	227,193.4	288,243.8	78.8%
2031	8,300.1	1,134.4	1,038.0	10,472.5	239,468.5	299,369.6	80.0%
2032	8,735.0	1,159.7	1,064.7	10,959.3	252,670.1	310,957.3	81.3%
2033	9,198.7	1,156.1	1,113.4	11,468.2	266,885.4	323,036.7	82.6%
2034	9,700.4	0.0	2,257.7	11,958.1	282,211.8	335,641.0	84.1%
2035	10,231.8	0.0	2,258.4	12,490.2	298,752.4	348,787.5	85.7%
2036	10,784.2	0.0	2,253.3	13,037.5	316,597.5	362,518.6	87.3%
2037	11,338.3	0.0	2,267.4	13,605.6	335,908.7	376,765.6	89.2%
2038	7,778.8	0.0	2,249.1	10,027.9	352,377.0	391,530.0	90.0%
2039	4,656.0	0.0	0.0	4,656.0	366,177.0	406,863.4	90.0%
2040	6,072.5	0.0	0.0	6,072.5	381,806.1	424,229.0	90.0%
2041	6,317.1	0.0	0.0	6,317.1	398,231.8	442,479.7	90.0%
2042	6,540.0	0.0	0.0	6,540.0	415,510.0	461,677.7	90.0%
2043	6,775.1	0.0	0.0	6,775.1	433,729.0	481,921.1	90.0%
2044	7,022.3	0.0	0.0	7,022.3	452,991.6	503,324.1	90.0%
2045	7,281.2	0.0	0.0	7,281.2	473,390.2	525,989.1	90.0%