

NOTE: As provided in LFC policy, this report is intended only for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used for other purposes.

The most recent FIR version (in HTML & Adobe PDF formats) is available on the Legislative Website. The Adobe PDF version includes all attachments, whereas the HTML version does not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR: McSorley DATE TYPED: 02/24/03 HB _____

SHORT TITLE: Allow Purchase of 5years of Service Credit SB 716

ANALYST: Gilbert

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			\$0.1 See Narrative	Recurring	PERA

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Relates to SB 378, SB 644

LFC Files

Response Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Bill 716 amends the Public Employees Retirement Act to allow PERA members with fifteen or more years of service credit to purchase up to five years of service credit. The purchase cost for each year of service credit under this bill is equal to the increase in present value of the pension the member would receive as a consequence of such purchase, as determined by PERA.

Significant Issues

SB 716 will effectively implement a 20-year retirement plan for PERA members with sufficient resources to purchase service credit, regardless of their member coverage plan.

According to PERA, the primary policy issue raised by SB 716 is whether a PERA member should be able to purchase 5 years of service credit for time not earned. Current law requires that all other service credit in the public employees retirement systems must be earned either through service to a public employer, military or prisoner of war service. The service credit in

Senate Bill 716 is not tied to any service requirement. There is no provision currently in law to allow service credit purchase for time that is not served in some manner.

FISCAL IMPLICATIONS

SB 716 requires PERA members to pay the full actuarial present value for purchased service credit. Therefore, even in the absence of an actuarial determination, this bill appears to be cost-neutral.

PERA's actuaries will charge a fee for each actuarial present value request. PERA does not know how many of their 44,030 active members will seek to purchase service credit, but it is logical to assume that most PERA members would request a service credit purchase estimate, at considerable expense to PERA.

Additionally, since the full actuarial cost of the service credit will be based on the member's salary at the time of purchase, PERA members may purchase service credit earlier in their careers when it is less costly.

ADMINISTRATIVE IMPLICATIONS

Currently, requests for the purchase of service credit are limited to those who have served in the military or who meet very specific criteria. SB 716 expands the group of persons eligible to purchase service credit and will thus increase demands on PERA staff in responding to membership inquiries relating to the purchase of service credit.

Additionally, PERA would be required to amend its regulations to address the statutory changes to the PERA Act.

OTHER SUBSTANTIVE ISSUES

SB 716 provides that 75 % of the purchase cost shall be considered employer contributions and not be refunded to the member in the event of cessation of membership. This is contrary to the PERA Act, which sets each member's employee and employer contributions by statute according to his or her applicable member coverage plan.

SB 716 would allow a PERA member in a 20-year plan to retire with only 15 years of actual service.

SB 716 does not provide for the purchase of service credit by members of the Judicial Retirement Act or the Magistrate Retirement Act.

RELATIONSHIP

SB 644 would allow PERA members who have 15 or more years of service credit to purchase up to 5 years of service credit. However, SB 644 proposes a one-year period for purchase from July 1, 2004 through June 30, 2005.

SB 378 would allow PERA members who have 5 or more years of service credit to purchase up to 5 years of service credit. RLG/prr/njw