F I S C A L   I M P A C T   R E P O R T

SPONSOR Sanchez, M **DATE TYPED** 2/14/2004 **HB**

SHORT TITLE Juvenile Correction Officer Retirement **SB** 500

ANALYST Garcia

REVENUE

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
			See Narrative	Recurring	PERA Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employees Retirement Association
Children Youth and Families Department

SUMMARY

Synopsis of Bill

Senate Bill 500 proposes to provide juvenile correctional officers employed by the Children, Youth and Families Department with the same benefits as provided under State Police and Adult Correctional Officer Member Coverage Plan 1. Specifically, juvenile correctional officers, if approved by an election of the affected membership, would be eligible for a 20 percent service credit enhancement benefit, a 3 percent pension factor and an 80 percent pension maximum now only available to state police officers and adult correctional officers.

Only actual service in the position of juvenile correctional officer under the new State Police Member, Adult Correctional Officer Member, and Juvenile Correctional Officer Member Coverage Plan 1 would be eligible for its associated benefit enhancements. The member's contributions under the proposed State Police Member, Adult Correctional Officer Member, and Juvenile Correctional Officer Member Coverage Plan 1 will be 7.6 percent of salary; the employer contributions are 25.1 percent.

Significant Issues

1) SB 500 proposes an increase of 2.82 percent in member contributions and a 0.62 percent reduction in employer contributions for juvenile correctional officers, pending an election among the membership. If accepted by an election of the affected membership, the bill will provide that juvenile correctional officers have each year of service credit enhanced by 20 percent, effectively allowing its members to retire with 20 years 10 months of actual service instead of 25 years, with a 3 percent pension factor and an 80 percent pension maximum.

2) Juvenile correctional officers employed by the Children, Youth and Families Department are currently covered by Hazardous Duty Plan 2. Juvenile correctional officers are eligible to retire at any age with 25 or more years of service credit. They receive a 3 percent pension factor for every year they earn service credit and are capped at 100 percent of their final average salary. For Hazardous Duty Plan 2, correctional officers pay 4.78 percent of their salary in contributions and their employer pays 25.72 percent of salary in contributions. Police and Adult Corrections Plan 1 has an employee contribution rate of 7.6 percent and an employer contribution rate of 25.1 percent.

3) The PERA Board has adopted a position to not endorse any benefit enhancement legislation until sufficient experience is gained to determine the actuarial impact of benefit enhancements passed during recent legislative sessions. It should be noted during the 2003 legislative session, legislation provided adult correctional officers with the same benefits sought under SB 500. That legislation did not cover juvenile correctional officers.

4) According to CYFD, there are approximately 400 juvenile correction officers that make on average $12.90 per hour, which is roughly $10.3 million.

5) The following table shows the current statutory contribution rate for Hazardous Duty plan (juvenile correction officer) versus State Police and Adult Corrections Plan 1:

Coverage Plan	**Employee Contribution rate**	**Employer Contribution Rate**
Police and Adult Corrections Plan 1	7.60 %	25.10%
Hazardous Duty (Juvenile Correctional Officer) Plan 2	4.78%	25.72%
Difference	2.82%	(0.62%)

FISCAL IMPLICATIONS

The Children, Youth and Families Department has worked with the PERA Board on the increase of benefits contained in SB 500. PERA's actuaries determined that a 3.92 percent increase in contributions in addition to what was currently included in Hazardous Duty Plan 2 was required to adequately fund the enhanced benefits. Considering the salaries for 400 juvenile corrections officers is roughly $10.3 million and PERA's actuaries calculate a 3.92 percent increase in contributions is necessary, the additional rough amount needed is $406.2 thousand.

Furthermore, State Police/Hazardous Duty Division has assets equal to 140 percent of its accrued liability or roughly $180 million in assets over liabilities. Given this funding status and the fact that the statutory contribution rate currently exceeds required contributions, PERA's actuaries have determined that the current statutory contribution rates contained in State Police and Adult Correctional Officer Member Coverage Plan 1 are sufficient to fund the proposed legislation in the future. Therefore, the current funding status and current contribution rate should likely be able to absorb the cost of the enhanced benefit, although the funding status of the plan will diminish slightly.

Nonetheless, the bill will require changes to the new pension software system that PERA is in the process of implementing. During FY04, PERA was required to incur approximately $50 thousand in change orders incorporating into the pension system benefit enhancement legislation from the 2003 legislative session. Future benefit enhancements amending the PERA Act will likewise result in a change order, with associated costs, to PERA's existing contract with the vendor. If further revisions to the system are necessary in FY05, PERA will be required to seek a BAR to cover the costs of these system changes around $50 thousand.

RELATIONSHIP

HB 167 moves motor transportation officers and investigation specialists employed by the Department of Public Safety into a newly created State Police, Adult Correctional Officer and Motor Transportation Officer and Investigation Specialists Member Coverage Plan 1. If approved by an election of the affected membership, HB 167 will allow for retirement at any age after 20 years of service, with a 3.0 percent pension factor and an 80% pension maximum.

HB 457 moves conservation officers employed by the Fish and Game Department into the newly created State Police, Adult Correctional Officer, and Conservation Officer Member Coverage Plan. If approved by an election of the affected membership, the bill will allow for retirement at any age after 20 years of service, with a 3.0 percent pension factor and an 80% pension maximum.

TECHNICAL ISSUES

Page 8, line 19, states that the retirement board shall certify, "a majority of the members voting have voted to approve adoption of that plan at an election." Line 19 should be corrected to state: "a majority of affected juvenile correctional officer members have voted to approve adoption of the plan."

OTHER SUBSTANTIVE ISSUES

1) It is important to note there are 2 other legislative proposals, HB 197 and SB 497, which contemplate moving specific employee groups into State Police and Adult Correctional Officer Plan 1. If all three of these legislative proposals become law, current statutory contribution rates contained in State Police and Adult Correctional Officer Member Coverage Plan 1 may not be sufficient to fund the proposed legislation. As a result, the associated cost may result in a future increase in contributions.

2) SB 500 requires that juvenile correctional officers accrue 18 months of service credit subsequent to July 1, 2005 to be eligible for enhanced benefits. However, SB 500 provides that all actual service credit as a "juvenile correctional officer" be enhanced by 20 percent. As a result, all past service credit accrued under State General Plan is enhanced when transferred to the State Police plan. Because State General Plan 3 is currently funded at an 85 percent rate, only assets totaling 85 percent of associated liabilities will be transferred from State General 3 to the new plan, negatively impacting the funded status of the State Police plan.

2) The June 30, 2003 actuarial valuation of PERA indicates the state general plan has an unfunded actuarial accrued liability (UAAL) of $667 million and a funding period of 35 years, up from 18 years last year. The Governmental Accounting Standards Board (GASB) sets a standard of 30 years for pension funds. In addition, the actuaries expect the funding period for the state general plan's funding period to increase to around 65 years. This increase is due to a four year smoothing process of recognizing investment gains and losses where the aggregate fund is due to recognize $511 million in losses next year if PERA gains an 8 percent return on investment in the current year.

Furthermore, the June 30, 2003 actuarial valuation indicates PERA funding sources are sufficient to fund the normal cost and finance the UAAL over an aggregate period of 17 years for all plans. In aggregate, the system had an experience loss for the year ending June 30, 2003 of $546 million due to rate of return on funding value of assets less than assumed (3 percent vs. 8 percent) and retirements greater than assumed. The actuaries expect a loss of around $511 million will flow into the fund's 2004 actuarial valuation and will result in an overall PERA funding ratio drop to 92 percent as well as a UAAL increase to approximately 36 years.

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