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FISCAL IMPACT REPORT

SPONSOR Moore DATE TYPED 1/27/05 HB 274

SHORT TITLE LFC Actuarial Analysis of Retirement Funds SB _____

ANALYST Fernandez/Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	300.0			Non-Rec	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

House Bill 274 appropriates \$300.0 from the general fund to the Legislative Finance Committee for the purpose of performing an actuarial analysis of the state's retirement funds.

Significant Issues

Both PERA and ERB perform actuarial studies annually to determine if employer/employee contributions and expected investment income over the long-term are sufficient to maintain the defined benefit structure established by law. Especially for ERB, the estimate for unfunded liability has risen sharply over the last couple of years.

During the interim the pension and investment subcommittee of the Legislative Finance Committee heard testimony and reviewed reports raising concerns of validity of conventional actuarial studies. In particular, there are concerns that liabilities are understated for a variety of reasons including smoothing of investment losses during extended market downturns, overstating potential investment returns and underestimating salary increases of active members. For example, ERB's assumptions regarding employee raises may have not accounted for the extraordinary increases due to implementation of the three-tiered ladder.

The appropriation would provide for independent financial analysis for the legislature, public employees and public retirees.

During the 2004 session, ERB received \$100.0 BAR authority for an investment/actuarial study. Mellon Consultants was awarded the contract; their conclusions were similar to ERB's annual actuarial report.

FISCAL IMPLICATIONS

The appropriation of \$300.0 contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2006 shall revert to the general fund.

The total cost of the Mellon Consultants study was \$198.0.

CTF/yr