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FISCAL IMPACT REPORT

ORIGINAL DATE 2/7/08

SPONSOR SCONC LAST UPDATED _____ HB _____

SHORT TITLE Public Peace, Health, Safety & Welfare SB 561/SCONCS

ANALYST Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY08	FY09	FY10	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		See narrative	See narrative	See narrative	Recurring	Educational Retirement Board Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

The Senate Conservation Committee Substitute for Senate Bill 561 addresses the type of investments that are allowed by higher education employees who choose the Alternative Retirement Plan (ARP). Current statute imposes limits on investments, allowing only annuities. According to the Educational Retirement Board, SB 561/SCONCS/SCONCS would expand the permissible investment universe to mutual funds and other investments that could be held in custodial accounts or in trusts.

FISCAL IMPLICATIONS

ERB notes that SB 561/SCONCS implies additional administrative work for ERB to keep track of the various investment vehicles that would be offered by the vendors and selected by ARP members. Typically, the investment companies offer a variety of plans that range from managed accounts -- where the host (ERB) would do little or no record keeping for a fee -- to other types of plans that would require ERB to be the trustee for the investments and bear the cost of the record keeping, with the vendor acting as a custodian. The additional fiscal impact to the operating budget is unknown, depending on the number of members who choose these investments and the mix of company-managed or ERB-administered accounts. However, the impact would appear to be minimal.

SIGNIFICANT ISSUES

Diversification is the key to optimum portfolio management. By allowing additional investments outside the envelope of annuities, ERB suggests that SB 561/SCONCS would open up a huge portion of the world of investments for ARP participants to maximize their retirement investment. In addition, ERB states that fees for these types of investments are traditionally lower and do not include a mortality charge.

ERB also suggests that allowing a wider variety of investments would make the ARP more competitive with other state plans and should help with recruiting of certain employees

TECHNICAL ISSUES

ERB states that SB 561/SCONCS erroneously references 403(b) as the section of the Internal Revenue Service (IRS) code for purposes of meeting IRS requirements. The ARP is actually a 401(a) plan and that is the portion of the IRS code that should be referenced. ERB suggests an amendment be made to correct the IRS code reference.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

ARP members will continue to be limited to investments in annuities.

QUESTIONS

1. What are the limitations imposed on investments according the IRS 401(a) plan requirements?

MA/mt