FISCAL IMPACT REPORT

		ORIGINAL DATE	02/08/12		
SPONSOR	Egolf	**LAST UPDATED**		**HB**	226
SHORT TITLE	Public Employee Retirement Contributions			**SB**	
				ANALYST	Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**		
	Slightly Positive		Recurring	PERA Funding Ratio

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY12	FY13	FY14	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$42,600.0			Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB 228

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

House Bill 226 repeals the two existing contribution swaps imposed on state employees. Returns employee and employer contribution rates to statutory rates for state employee retirement plans, as follows:

Retirement Plans	Employee	Employer
State General Member Coverage Plan 3	7.42%	16.59%
State Police Member and Adult Correctional Officer Member Coverage State	7.60%	25.10%
Hazardous Duty Member Coverage Plan 2	4.78%	25.72%
Judicial	7.50%	12.00%
Magistrates	7.50%	11.0%

In an effort to balance the state budget, 2009 legislation increased the employee contribution rate 1.5% through June 30, 2012 and reduced the corresponding rate for this same period. In 2010, legislation added an additional 1.75 % to the employee contribution rate for the one-year period from July 1, 2011 to June 30, 2012 and further reduced the corresponding employer contribution rate for this same period by 1.75%. The contribution swaps excluded state employees whose annual salary is $20,000.00 or less per year.

Effective Date: July 1, 2012

FISCAL IMPLICATIONS

The current 1.75 percent swap is scheduled to be "unwound" because of contingent language in the General Appropriations Act of 2011. The fiscal impact reflects the increased cost of accelerating the 1.5 swap reverse.

In 2010, PERA's actuary stated:

As PERA contribution rates are considered in the budget discussions, it is important to point out that increases to employee contributions have an associated increase in the Plan's liability due to the corresponding increase in expected future refunds of contributions. As a rule of thumb, roughly 5% of the increase in employee contributions is needed to satisfy this increase in the Plan's liabilities. Therefore, a 1.00% of payroll employee contribution impacts funding the same as approximately a 0.95% payroll employer contribution. The current shift of 1.5% of payroll from the employer statutory contribution rate to the employee required contribution rate results in approximately 0.08% of payroll increase to the actuarially required funding. This again may not seem like a significant impact to the Plan for the short-term, however using the State General Division Plan to illustrate, the approximate 0.08% shortfall in funding resulting from the shift adds approximately $725,000 to the unfunded actuarial accrued liability each year it is in effect. The current two-year shift of 1.5% of payroll will require in total approximately $5 million in additional contributions over the next 30 years and represents nearly 20% of the total amount of the contributions shifted. An increase to the amount of contributions shifted from employers to employees or extending the period the shift is in effect further exacerbates the decline in the funded status of PERA.

HB 226's repeal of the existing contribution swaps will positively impact the PERA, MRA and JRA Funds.

OTHER SUBSTANTIVE ISSUES

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

This bill may be counter to the LFC tax policy principle of adequacy. According to the LFC staff General Fund Recurring Appropriation Outlook for FY14 and FY15, December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations

SS/svb