

#	Description <i>(parenthetical denotes change from reengrossed bill and/or current law)</i>	Initial Fiscal Assessment <i>(prepared by Legislative Council Staff)</i>
L.028 amended by L.043	<p>Salary definition change effective July 1, 2020. Net to gross salary definition change applies only to members hired on or after July 1, 2020 (per L.043 amendment, originally January 1, 2020 in L.028). Allows an employer to request information from PERA to determine which salary definition to use depending on an employee's hire date.</p> <p><i>(In reengrossed bill, the salary definition change applies to all members effective in the current fiscal year.)</i></p>	<p>By modifying the effective date of the salary definition change, employers will not incur costs beginning in the current FY 2017-18 to modify their payroll structure and assess the PERA benefit on a modified amount of salary. These costs were not anticipated to impact the state and judicial divisions, where the gross pay definition is already used for budgeting purposes, but the amendment will remove the costs for the remaining divisions, estimated in FY 2018-19, FY 2019-20, and FY 2020-21, respectively, reducing costs shown in the fiscal note dated April 6, 2018 by:</p> <p style="padding-left: 40px;"><i>Local government division: \$2.7m, \$2.9m, and \$3.0m</i> <i>School division: \$19.5m, \$21.2m, and \$21.9m</i> <i>DPS division: \$9.1m, \$9.7m, and \$10.4m</i></p> <p>Modifying the effective date of the salary definition change also eliminates the related state income tax revenue reduction estimated at (\$0.7 million) in FY 2018-19, (\$0.9 million) in FY 2019-20, and (\$1.0 million) in FY 2020-21 from the General Fund, as shown in the fiscal note dated April 6, 2018.</p>
L.029 amended by L.044	<p>Amendment L.029 has three specific fiscal impacts as described below.</p> <p>1) Remove increase in employee contribution. Remove employee contribution increases.</p> <p><i>(The reengrossed bill increases employee contributions by 0.5% in July and 0.5% in January of FY 2018-19; 1.0% in FY 2019-20, and 1.0% in FY 2020-21, for a total contribution increase of 3%.)</i></p>	<p>1) Removing the employee contribution will remove the state income tax revenue reduction resulting from the decrease in state and local government employee's net pay, estimated at (\$3.1 million) in FY 2018-19, (\$10.7 million) in FY 2019-20, and (\$13.2 million) in FY 2020-21 from the General Fund.</p> <p>The amendment also removes the workload impact of creating this new payroll deduction amount, and removes the noted potential impact on participating employee behavior related to retention and retirement.</p>

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L.029 amended by L.044, cont.	<p>2) Automatic contribution rate adjustment for employers. Effective January 1, 2020, require employer contribution rate increases and decreases when certain thresholds are met, as follows:</p> <ul style="list-style-type: none"> o when the blended total contribution amount is less than 98% of the blended total actuarially required contribution, then the employer contribution rate may be increased up to 0.5% per year, not to exceed current statutory contribution rates plus 2% total; and, o conversely, when the blended total contribution amount is greater than or equal to 110% of the blended total actuarially required contribution, then the employer contribution rate may be reduced up to 0.5% per year, not to be less than current statutory contribution rates. <p><i>(Initially in the introduced bill; however, only the employee automatic adjustment mechanism remains in the reengrossed bill.)</i></p> <p>3) Create direct distribution to pay down unfunded liability. Create a direct distribution to PERA beginning in FY 2018-19 until there is no unfunded liability for the state, judicial, school, or DPS division's PERA trusts. The distribution is to be \$225 million in FY 2018-19 and \$255.6 million in FY 2019-20. Beginning in FY 2020-21, the amount is to be calculated at 3.0% using PERA's most current audited payroll. These amounts are paid to PERA from the General Fund, cash funds, and federal funds.</p> <p><i>(Not in any prior versions of the bill.)</i></p>	<p>2) The automatic adjustment provision for participating employers creates a future potential employer contribution rate increase of up to 2%. Future contribution rate adjustments will follow actuarial assessments, and be triggered for all participating employers when the blended total contribution amount is less than 98% of the actuarially required contribution. These potential expenditure increases will be addressed during the annual budget process if triggered.</p> <p>The decrease, if triggered, will not fall below current statutory rates and will also be addressed during the annual budget process.</p> <p>3) The direct distribution will be a set amount in FY 2018-19 and FY 2019-20, and then be an amount equal to 3% of PERA's most current audited payroll, not including the local government division payroll. This amount may be paid from General Fund and other funds.</p> <table border="1" data-bbox="1298 933 1862 1136"> <thead> <tr> <th>FY</th> <th>Direct Distribution*</th> </tr> </thead> <tbody> <tr> <td>FY 2018-19</td> <td>\$ 225,000,000</td> </tr> <tr> <td>FY 2019-20</td> <td>\$ 255,606,000</td> </tr> <tr> <td>FY 2020-21</td> <td>\$ 271,497,752</td> </tr> <tr> <td>FY 2021-22</td> <td>\$ 281,000,173</td> </tr> </tbody> </table> <p>*Uses 2016 CAFR Annual Payroll for Active Members (PERA 2016 CAFR, pp 174-175), excluding local government division, and assumes a 3.5% payroll growth rate.</p>	FY	Direct Distribution*	FY 2018-19	\$ 225,000,000	FY 2019-20	\$ 255,606,000	FY 2020-21	\$ 271,497,752	FY 2021-22	\$ 281,000,173
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L.031	<p>Eliminate defined contribution supplement payment and expansion. Eliminates the defined contribution supplement adjustment to the employer contribution rate set to begin January 1, 2021, in the reengrossed bill. The supplement represents the amount that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability, plus investment earnings on that amount, assessed by PERA's actuaries and paid on behalf of employees who begin employment on or after January 1, 2019.</p> <p>The amendment also eliminates the extension of the defined contribution plan option to other divisions.</p> <p><i>(Under current law, only state division employees, with certain exceptions, are eligible to elect the defined contribution plan.)</i></p>	<p>The employer-paid defined contribution supplement that the amendment removes is estimated to have a substantial but unquantified impact on participating employers, depending on many factors, in particular the rate of participation in the defined contribution plan (state division participation is currently about 12%) and the future financial health of the PERA trusts. The amendment removes this impact.</p> <p>The elimination of the defined contribution expansion will improve the future financial health of the PERA trusts. PERA will provide an updated actuarial assessment of the impact on the unfunded liability for a revised fiscal note.</p>
L.033	<p>No modification to earned service credit determination. The amendment removes the provision in the reengrossed bill that modifies the way service credit is earned for part-time work for PERA members who begin employment on or after January 1, 2020, specifically that a member working less than 8 months a year has his or her earned service credit determined by the ratio of part-time work to full-time work and the number of months for which contributions are remitted to the number of months required for a year of service credit.</p> <p><i>(Return to current law.)</i></p>	<p>The impact of the earned service credit modification has not been estimated in the fiscal note. The amendment will return the service credit determination to current law.</p>

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L.035 as amended by L.045	<p>Pension Review Committee. The reengrossed bill replaces the existing Police Officers' and Firefighters' Pension Reform Commission, a standing legislative interim committee, with the Public Pension Legislative Oversight Committee, which is required to study and develop proposed legislation relating to the funding and benefit designs of both PERA and the Fire and Police Pension Association. The reengrossed bill also modifies committee membership and allows the committee to commission an independent review of the economic and investment assumptions used to model the PERA financial situation every three years.</p> <p>L.035 modifies the commission's name to the Pension Review Committee and adds the study and development of proposed legislation relating to PERA to its charge. L.045 adds to the committee's charge the ability to determine the necessity of continuing the direct distribution contemplated in L.029.</p> <p><i>(In the reengrossed bill, committee membership was modified to include four senators appointed by the Senate President, four representatives appointed by the House Speaker, and four non-voting members appointed by the State Treasurer. The committee charge included an ability to conduct an independent review of PERA's assumptions every three years.)</i></p>	<p>The amendment removes the bill's need for an appropriation of \$200,000 to the Legislative Department for purposes of conducting an independent review of PERA's assumptions. The Police Officers' and Firefighters' Pension Reform Commission and its staff can accomplish the new workload within existing appropriations.</p>

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L.041 as amended by L.049	<p>Amendment L.041 has three specific fiscal impacts as described below.</p> <p>1) Highest Average Salary to 5 periods. Under current law, the retirement benefit paid to a PERA member depends on his or her date of hire, years of service credit, and age at retirement, and is calculated using a percentage of the member's highest annual salary (HAS) over a period of time, including a base salary year. The amendment changes the number of years factored into the HAS calculation for members who are not vested by, or are hired on or after January 1, 2020, to 5 periods of 12 months.</p> <p><i>(Down from 7 periods in reengrossed bill; up from 3 periods in current law.)</i></p> <p>2) Auto adjustment begins July 1, 2019. L.049 clarifies that the first adjustment can be set on July 1, 2019, but will not occur until July 1, 2020.</p> <p><i>(Date was January 1, 2019 in L.041, and was January 1, 2020, in the reengrossed bill.)</i></p> <p>3) Retirement age for state division at 60. In the reengrossed bill, state division members, with the exception of state troopers, are eligible to retire at any age upon reaching 40 years of service, and at age 65 with at least 5 years of service. The amendment modifies the latter age so that state division members may retire at 60 with at least 5 years of service.</p> <p><i>(The retirement age for state division employees in current law is any age for 35 years of service, age 60 with 30 years of service, and at least 5 years of service, age 65.)</i></p>	<p>1) Decreasing the number of HAS periods from 7 to 5 will continue to reduce PERA's obligation to beneficiaries and create a cost savings in PERA's trusts, but by a lesser amount than in the reengrossed bill. It should be noted that no change from the status quo will occur until recent hires retire. PERA will provide an updated actuarial assessment of the cumulative impacts each adjustment will have on the unfunded liability in a revised fiscal note.</p> <p>2) The automatic adjustment provision for participating employers, employees, and the COLA, is discussed in the section on L.029. Amendment L.041 amended by L.049 clarifies the specific date that the auto adjustment will occur.</p> <p>3) Modifications to the retirement age impact benefit eligibility and timing. PERA will provide an updated actuarial assessment of the cumulative impacts each adjustment will have on the unfunded liability for a revised fiscal note.</p>

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L.042	Reclassification of certain peace officers similar to state troopers. Amendment L.042 classifies county sheriffs, undersheriffs, deputy sheriffs, noncertified deputy sheriffs, and detention officers hired by a local government division, and correctional officers hired by the state division in the same benefit structure as state troopers.	This amendment will increase benefits and accelerate the retirement schedule for certain peace officers. PERA will provide an updated actuarial assessment of the cumulative impacts each adjustment will have on the unfunded liability for a revised fiscal note.
L.043	See L.028.	
L.044	See L.029.	
L.045	See L.035.	
L.048	Technical clean-up in COLA section of reengrossed bill.	
L.049	See L.041.	