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## FISCAL IMPACT REPORT

**SPONSOR** Sanchez, M      **DATE TYPED** 01/27/05      **HB** \_\_\_\_\_

**SHORT TITLE** CYFD Corrections Officer Retirement      **SB** 266

**ANALYST** Geisler

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			.01 See Narrative		

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
		\$54.0	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with: SJM 18, HJM 5

### SOURCES OF INFORMATION

Public Employees Retirement Association (PERA)  
 Children, Youth & Family Department (CYFD)  
 American Federation of State, County, and Municipal Employees (AFSCME)

### SUMMARY

#### Synopsis of Bill

Senate Bill 266 amends the PERA Act to create a new coverage plan with enhanced retirement benefits for juvenile correctional officers employed by the Children, Youth and Family Department ("CYFD"). Under the newly created Hazardous Duty Plan 3, juvenile correctional officers

would be eligible for a 20% service credit enhancement benefit, a 3% pension factor and an 80% pension. Under the new plan, actual service in the position of juvenile correctional officer would be eligible for its benefit enhancements. The member's contributions under the proposed Hazardous Duty Plan 3 Member Coverage Plan 1 will be 7.6% of salary; the employer contributions are 25.1%. This is an increase in the member contribution of 2.82% and a .62% reduction in the employer contribution.

### Significant Issues

The primary policy issue raised by Senate Bill 266 is whether juvenile correctional officers (JCOs) should receive the increased benefits of 20% service credit enhancement retirement benefit. In addition, PERA is concerned the earlier actuarial study on the issue of an enhanced retirement for JCO's may be out-of-date, leading to the question if the increased contributions proposed in the bill will cover the cost of the enhanced benefit.

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. AFSCME supports this bill, pointing out it would provide the same level of retirement benefits to juvenile correction officers as adult correction officers receive. CYFD provides that the executive branch supports the PERA proposed moratorium of additional enhancements/changes to the system at this time.

### **FISCAL IMPLICATIONS**

If implemented the new plan would reduce the employer contribution slightly, resulting in \$54 thousand in general fund savings. The larger question remains as to whether or not the contribution increases contemplated in the bill will cover the increased cost of enhanced benefits.

### Recent History of Legislation and Actuarial Studies

During the 2003 legislative session, legislation provided adult correctional officers with the same benefits sought under Senate Bill 266. That legislation did not cover juvenile correctional officers. CYFD requested an actuarial study in January 2004 that determined a contribution increase of 3.92 over the existing contribution rate would be sufficient to fund the benefit increase contemplated by Senate Bill 266. However, the 2004 actuarial study contemplated moving the juvenile correctional officers into State Police and Adult Correctional Officer Plan 1, rather than creating a new Hazardous Duty 3 plan solely for juvenile correction officers.

In December 2004, PERA informed CYFD that its actuaries recommended an updated actuarial study if they were introducing legislation for the JCOs due to the significant experience loss of the State Police/Hazardous Duty division for the year ending June 30, 2004 (8.03 vs. 1.4 for State General plan). CYFD did not update its 2004 actuarial study to reflect: a) creating a new plan just for JCOs; and b) to determine whether the funding proposed by Senate Bill 266 is still sufficient to finance the unfunded accrued obligations associated with the proposed benefits given the actuarial experience of the hazardous duty fund over the past year. Without an updated actuarial study, PERA cannot determine whether this experience loss changed the contribution levels required to fund Senate Bill 266's benefit increases.

## **ADMINISTRATIVE IMPLICATIONS**

Senate Bill 266 will have some administrative impact on PERA as it will require changes to the new pension software system that PERA is in the process of implementing.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Joint Memorial 18 and House Joint Memorial 5 impose a two-year moratorium on proposed benefit enhancement legislation to the public employees retirement system and the educational retirement system through December 31, 2006.

## **TECHNICAL ISSUES**

See proposed amendments below.

## **OTHER SUBSTANTIVE ISSUES**

PERA provided additional background information:

### 1. Current Retirement Plan compared to Proposed Plan

Currently, under 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% pension factor for every year they earn service credit and are capped at 100% of their final average salary. For Hazardous Duty Plan 2, juvenile correctional officers pay 4.78% of their salary in contributions and their employer pays 25.72% of salary in contributions. Senate Bill 266 proposes an increase of 2.82% in member contributions and a .62% reduction in employer contributions.

Senate Bill 266 provides for an election by the juvenile correctional officers to decide whether they will accept the increased contributions for the enhanced benefits. If accepted by a majority of the affected membership, Senate Bill 266 will provide that juvenile correctional officers will have each year of service credit enhanced by 20%, effectively allowing its members to retire with 20 years of actual service, with a 3% pension factor and an 80% pension maximum.

Senate Bill 266 requires that juvenile correctional officers accrue 18 months of service credit subsequent to July 1, 2006 to be eligible for enhanced benefits. However, Senate Bill 266 provides that all actual service credit as a "juvenile correctional officer" be enhanced by 20%. As a result, all past service credit accrued under State Hazardous Duty Plan 2 is enhanced when transferred to the State Hazardous Duty Plan 3.

### 2. PERA Support for Retirement Benefits Enhancement Moratorium

For the period ending June 30, 2003, PERA's unfunded liability grew significantly, and the time to pay off its unfunded actuarially accrued liability (UAAL) increased from 10 years to 17 years. The June 30, 2004 actuarial valuation indicates that PERA funding resources are sufficient to fund the Normal Cost and finance the UAAL over an aggregate period of 21 years. It should be noted, however, that the funding of assets uses a smoothing technique that spreads investment gains and losses out over a 4-year period. One quarter of this year's investment gain has been recognized in last fiscal year's funding value and one quarter of it will be recognized in each of

the next 3 years. Past losses more than offset last year's gain. In aggregate, the system had an experience loss for the year ending June 30, 2004 of \$474 million, due to rate of return on funding value of assets less than assumed (3.8% vs. 8%) and retirements greater than assumed. PERA's actuaries report a loss of \$186 million for past investment losses will flow into the recognized gain/loss in next year's actuarial valuation. If a loss of this magnitude occurs next year, the effect would be that the overall PERA funding ratio will drop to 90% and PERA's overall UAAL will increase to approximately 30 years. This recent negative trend in actuarial position combined with the unknown financial impact of recent legislation on the fund has led the board to support a moratorium.

### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?**

Juvenile correctional officers employed by the Children, Youth and Family Department will continue to be 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% pension factor for every year they earn service credit and are capped at 100% of their final average salary. For Hazardous Duty Plan 2, correctional officers pay 4.78% of their salary in contributions and their employer pays 25.72% of salary in contributions.

### **AMENDMENTS**

PERA suggests:

1. Page 1, line 23 through 24, states that the retirement board shall certify, "a majority of the members voting of those members to be covered" under state hazardous duty member coverage plan 3 has voted to approve adoption of this plan at an election.

Line 23 through 24 should be corrected to state, "a majority of affected juvenile correctional officer members have voted to approve adoption of the plan" under state hazardous duty member coverage plan 3 has voted to approve adoption of this plan at an election.

2. Page 4, line 20 through 22, states that a "member shall have one and one-half years of service credit earned under state hazardous duty member coverage plan 3 subsequent to July 1, 2006."

Page 4, line 20 should be corrected to state "member shall have one and one-half years of actual service credit earned under state hazardous duty member coverage plan 3 subsequent to July 1, 2006."

**GG/lg**