

# Fiscal Note

**BILL #** SB 1329

**TITLE:** defined contribution; health subsidy; disability

**SPONSOR:** Livingston

**STATUS:** Senate Engrossed

**PREPARED BY:** Ryan Fleischman

## Description

The bill would make the following changes to the state retirement system benefits:

1) Health Insurance Subsidy - Allow retired participants of the Public Safety Personnel Retirement System (PSPRS) Defined Contribution Plan (DC Plan) and retired participants of the Corrections Officers' Retirement Plan (CORP) DC Plan to receive a monthly health insurance premium subsidy when reaching the typical retirement age. The subsidy amount would be at the same level provided to members on the PSPRS and CORP Defined Benefit Plans (DB Plans). This benefit change would impact the class of PSPRS and CORP members known as "Tier 3," who were hired after recent changes in those systems and specifically "Tier 3" employees who enrolled in the DC Plan.

2) Minimum Accidental Disability Benefit - The bill would change the formula used to calculate accidental disability pension benefits for PSPRS members by making the monthly amount no less than 50% of the member's average monthly benefit compensation.

3) Ordinary Disability Benefit - The bill would also change the formula used to calculate ordinary disability pension benefits for PSPRS members to a calculation that divides the member's actual years of credited service by his/her required credited service for the applicable normal retirement date.

## Estimated Impact

The bill would increase state government costs for PSPRS and CORP retirement contribution funds by \$32,700. This fiscal impact relates to creating a new contribution rate to fund retiree health insurance stipends for Tier 3 DC members of PSPRS and CORP. These costs would increase over time as more active members are from "Tier 3" and are enrolled in the DC Plans. The fiscal impact of the bill's other formula changes related to the accidental disability benefits formula and the ordinary disability benefits formula is expected to be minimal.

## Analysis

### Health Insurance Subsidy

#### Total Cost

The bill would allow PSPRS and CORP members on the Tier 3 DC retirement plan to qualify for a health subsidy. PSPRS estimates that the employer and employee would each contribute 0.14% of the employee salary for Tier 3 PSPRS members of the DC Plan (0.28% total) and .09% for Tier 3 CORP members of the DC Plan (0.18% total). These new contributions would be created in order to fund the new health subsidy for these members. The total number of PSPRS employees (state and local) that the new subsidy would apply to is 98 at an average salary of \$54,000, for a combined total yearly salary base of \$5,292,000. When the salary base is multiplied by the 0.14% employer contribution rate, the total additional cost for PSPRS Tier 3 DC employees is \$7,400. The total number of CORP employees (state and local) that the new subsidy would apply to is 1,421 at an average salary of \$37,000, for a combined total yearly salary base of \$52,577,000. When the salary base is multiplied by the 0.09% contribution rate, the total additional cost for CORP Tier 3 DC employees is \$47,300. Combined, the state and local cost for both systems would be \$54,700.

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### State Cost

The number of state PSPRS employees that this new health subsidy would apply to is 9 at an average salary of \$54,000, for a combined total yearly salary base of \$486,000. When the salary base is multiplied by the 0.14% contribution rate, the additional cost for state PSPRS Tier 3 DC employees is \$700. The number of state CORP employees that this new subsidy would apply to is 960 with an average salary of \$37,000, for a combined total yearly salary base of \$35,520,000. When the salary base is multiplied by the 0.09% contribution rate, the additional cost for state CORP Tier 3 DC employees is \$32,000. Combined, the state cost for both systems is \$32,700.

The estimated impact is higher for Corrections Officers because all new hires into CORP positions after July 1, 2018 must enroll in the Tier 3 DC Plan, excluding probation and surveillance officers hired by the courts. In contrast, Public Safety employees newly hired after July 1, 2017 have the option of selecting a DB or DC Plan. Current data indicates that for newly hired PSPRS positions, typically less than 5% elect to enroll in the DC Plan.

### Minimum Accidental Disability Benefit

The bill raises the floor for accidental disability benefits to a monthly amount no less than 50% of the member's average monthly benefit. Under current law, Tier 2 and Tier 3 members are only guaranteed an accidental disability benefit of 40% of the member's average monthly compensation. Given the number of new accidental disability claims in a given year, and that this change would only apply to member's claims at or near the minimum benefit level, PSPRS has indicated that this change would have a minimal impact.

### Ordinary Disability Benefit

The bill also changes the ordinary disability formula. Under current law, an ordinary disability pension is calculated as follows: A normal pension amount assuming 20 years of service is multiplied by actual years of service (not to exceed 20) divided by 20. SB 1329 would change that last step of the calculation to divide by the member's normal retirement service requirement. Because Tier 2 and Tier 3 have a service requirement that differs from 20 (15 or 25 years depending on the circumstance), this provision of the bill would have a varying impact. Given the number of new ordinary disability claims in a given year and the varying impact of this change, PSPRS has indicated that this change would have a minimal impact.

### **Local Government Impact**

The fiscal impact on local governments from the employer contribution rate associated with the new health insurance subsidy would be \$22,000. As noted above, any impact on local governments from the accidental and ordinary disability benefit changes would be minimal.

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