



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 1379

PRINTER'S NO. 3780

PRIME SPONSOR: Malagari

COST / (SAVINGS)

FUND	FY 2024/25	FY 2025/26
General Fund	See fiscal impact	See fiscal impact
Municipal Pension Aid Fund	\$0	See fiscal impact

SUMMARY:

House Bill 1379 provides cost-of-living adjustments for qualified local police and firefighter annuitants and certain beneficiaries of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS).

ANALYSIS:

House Bill 1379 provides for supplemental annuities, also known as cost-of-living adjustments (COLAs), for most beneficiaries of PSERS and SERS who retired prior to July 2, 2001. As shown in the chart below, these COLAs would amount to increases of between 15 and 24.5 percent of the current annuities of eligible beneficiaries depending on the beneficiary's year of retirement.

Effective Date of Retirement	Percentage Factor
Prior to July 2, 1982	24.5%
July 2, 1982 - July 1, 1983	24.0%
July 2, 1983 - July 1, 1984	23.5%
July 2, 1984 - July 1, 1985	23.0%
July 2, 1985 - July 1, 1986	22.5%
July 2, 1986 - July 1, 1987	22.0%
July 2, 1987 - July 1, 1988	21.5%
July 2, 1988 - July 1, 1989	21.0%
July 2, 1989 - July 1, 1990	20.5%
July 2, 1990 - July 1, 1991	20.0%
July 2, 1991 - July 1, 1992	19.5%
July 2, 1992 - July 1, 1993	19.0%
July 2, 1993 - July 1, 1994	18.5%
July 2, 1994 - July 1, 1995	18.0%
July 2, 1995 - July 1, 1996	17.5%
July 2, 1996 - July 1, 1997	17.0%
July 2, 1997 - July 1, 1998	16.5%
July 2, 1998 - July 1, 1999	16.0%
July 2, 1999 - July 1, 2000	15.5%
July 2, 2000 - July 1, 2001	15.0%

The COLAs authorized by the legislation would commence July 1, 2025 for PSERS and January 1, 2025 for SERS. The liabilities associated with the supplemental annuities provided for by the legislation would be amortized in equal dollar annual installments over a period of ten years beginning July 1, 2025. Individuals whose credited service includes Class T-D, Class D-4, or Class AA service are not eligible for the benefit.

House Bill 1379 provides a special ad hoc postretirement adjustment for qualifying retired police and firefighters. The additional amounts a municipal retirement system shall pay are based upon how many years an individual has been retired, as depicted in the chart below.

Years of Retirement	Monthly Adjustment
5-10 years	\$75
10-20 years	\$150
More than 20 years	\$300

The 2025 COLA provided in the bill is reduced by 65% of a COLA paid in the previous year for annuitants that received a COLA after January 1, 2002. The bill provides a reimbursement process from the commonwealth to municipal systems for a portion of the amortized cost of the COLA.

House Bill 1379 would take effect immediately.

FISCAL IMPACT:

The Independent Fiscal Office’s (IFO) actuarial note projects that the supplemental annuities in House Bill 1379 will have an annual amortized cost for 10 years of \$47.1 million for SERS and \$93.6 million for PSERS. These costs will impact the employer contribution rate (ECR) beginning in 2025/26. The overall amount added to the unfunded liability is \$332.4 million for SERS and \$614.3 million for PSERS, which in terms of the funded ratio, represents a decrease of less than half of one percent for both systems.

The initial ECR for SERS, which impacts many state general fund appropriations, is estimated to increase 0.63% (from 32.39% to 33.01%). For PSERS, which impacts school entities, the initial ECR is anticipated to increase 0.60% (from 34.72% to 35.32%). The state general fund appropriation for PSERS reimburses school entities about 58% in aggregate for PSERS costs.

For the ad hoc COLAs for police and firefighter annuitants, the IFO’s actuarial note, using assumptions to account for reduced benefit annuities, estimates an annual amortized cost of \$42.6 million for 10 years. While the costs will vary by municipal system, the average annual amortization cost per eligible annuitant is estimated to be \$1,627 with 26,181 eligible annuitants.

House Bill 1379 requires the state to assume a portion of the police and firefighter COLA cost through the Municipal Pension Aid Fund, which supports the existing General Municipal Pension System State Aid Program. According to the IFO’s analysis, the state aid program provided \$411.2 million in state pension aid in 2023/24, which was 23.5% of the \$1.75 billion in total municipal system contributions. Under the bill, the portion of the COLA the state will reimburse municipal systems for is equal to the municipal system’s local share of contributions. Therefore, the 2025/26 cost to the Municipal Pension Aid Fund for the COLA reimbursement is expected to be 76.5% (aggregate local share) of \$42.6 million (estimated annual amortized cost), or \$32.6 million. This amount will either have to be supported by revenue growth for the fund or come out of the baseline funding in the existing state aid program, which could cause funding gaps for municipal pension systems.

The Auditor General administers the General Municipal Pension System State Aid Program, and its ad hoc postretirement adjustment system has not been modernized to effectively administer the volume of adjustments provided for in this bill. Therefore, additional information technology costs may be incurred.

PREPARED BY: Sean Brandon, Assistant Executive Director
House Appropriations Committee (D)

DATE: October 22, 2024

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.