HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 1982 **PRINTERS NO**. 2895 **PRIME SPONSOR**: Benninghoff

COST / (SAVINGS)

FUND	FY 2019/20	FY 2020/21
State Employees' Retirement Fund	**See fiscal impact**	**See fiscal impact**

SUMMARY: House Bill 1982, printer's number 2895, amends Title 71 (State Government) to further provide for definitions, advance payment of accrued liability contributions, and for obligations of the State Employees' Retirement System board.

The effective date is immediately after enactment.

ANALYSIS: The bill amends Section 5102 of Title 71 (relating to the State Employees' Retirement (SERS) Code) by adding a definition of "eligible employer" as any employing unit, agency or department that employs State employees, other than the Pennsylvania Turnpike Commission, the Delaware River Port Authority, the Port Authority Transit Corporation, the Philadelphia Regional Port Authority, the Delaware River Joint Toll Bridge Commission, the State Public School Building Authority, the Department of General Services, the State Highway and Bridge Authority, the Delaware Valley Regional Planning Commission, the Delaware River Basin Commission, the Susquehanna River Basin Commission, and any separate independent public corporation created by statute.

The bill adds a new section (proposed as Section 5508.1) to the SERS Code to allow the SERS board to enter into an agreement with any participating eligible employer to make a single lump sum advance payment for all, or part of, the eligible employer's portion of the present value of its future actuarial accrued liability contributions. The eligible employer's lump sum payment must be not less than 75% and not more than 100% of its allocated portion of the unfunded actuarial accrued liability of SERS. The amount of the payment will be determined by the SERS actuary and approved by the SERS board, and any such agreement must be entered into by December 31, 2024. Any lump sum payment must be made by May 1, 2025.

The following additional provisions apply to any prepayment agreement between the SERS board and an eligible employer:

- If the eligible employer issues bonds or financial instruments or obligations to acquire funds to make the lump sum payment, the SERS board may not be involved in the issuance, service or administration of the bonds or financial instruments, nor may the SERS board provide financial advice or act as financial advisor.

- Any lump sum payment received by the SERS board as advance payment of accrued liability contributions shall be part of the general assets of the SERS fund, and may not be segregated or invested separately for the benefit of the eligible employer making the payment. A lump sum payment may not be refunded to the eligible employer.

- The agreement between the SERS board and the eligible employer must establish a schedule of annual setoffs against future actuarial accrued liability contributions of the eligible employer.

- The agreement must provide a mechanism for crediting the setoff against actual future contributions on a periodic basis that coincides with the eligible employer's existing schedule for making employer contributions to the system.

- The time period for amortizing the lump sum advance payment cannot be longer than the longest remaining amortization period for any unfunded liability that is included in the payment plan.

- Once the lump sum payment is made, the annual setoff schedule and amounts established in the agreement cannot be changed unless the General Assembly changes the actuarial cost method under which employer contributions are determined, in which case the SERS board may change the schedule and/or amount of annual setoffs to conform to the actuarial cost method changes.

- If the amount of a setoff for a given year exceeds the eligible employer's scheduled payment of its actuarial accrued liability contribution, the overpayment will be applied to any supplemental annuity (COLA) contributions that are due, or any payments of employer normal cost contributions that are due, or added to future setoffs.

- An eligible employer that has entered into a lump sum payment agreement with the SERS board will remain subject to all changes in employer contribution rates and contribution amounts caused by changes in assumptions, economic and financial factors and actual investment returns. The setoffs will be applied to the changed contribution amounts.

- An eligible employer that has entered in an agreement with the SERS board must pay costs incurred by SERS in calculating the lump sum payment and setoffs and formulating the agreement. SERS may require advance payment of costs prior to preparing an estimate and/or formulating an agreement.

The SERS board is not obligated by the bill to enter into any agreement for the prepayment of an eligible employer's unfunded actuarial accrued liability contributions.

FISCAL IMPACT: According to an actuarial note issued by the Independent Fiscal Office in conjunction with its consulting actuary, the enactment of this legislation will have no adverse impact on the SERS Fund. Assuming a lump sum payment of $1.0 billion by an eligible employer during 2020, with annual actuarial accrued liability contribution setoffs beginning in the 2021-2022 fiscal year, as calculated by SERS in 2021-2022 the actuarial value of SERS assets are estimated to increase by approximately $1.6 billion, the unfunded accrued liability is estimated to decrease by approximately $1.05 billion, and the funded ratio would increase due to the lump sum payment. The impact was greatest in the first year and declined over time as the annual payment setoffs for the eligible employer were recognized. Assuming actual investment returns meet SERS' 7.125% investment return assumption, the IFO's consulting actuary projects that once all the annual setoffs are recognized as compared to the projection without any lump sum prepayments, SERS is projected to have approximately the same funded ratio and the same unfunded accrued liability.

Information provided by SERS to the Independent Fiscal Office indicates that the largest eligible employer that could participate in a lump sum pre-payment agreement is the Pennsylvania State University (Penn State) with an estimated allocated unfunded accrued liability of $1.416 billion at December 31, 2019, or 5.9% of the SERS unfunded actuarial accrued liability. Penn State estimates that pre-paying $1 billion of its allocated unfunded accrued liability, would provide annual cost savings of approximately $36 million after paying debt service on a 30-year bond with an interest rate of 3.67%. The estimates assume that SERS achieves its investment return assumption of 7.125% each year and that SERS demographic and mortality assumptions are accurate so that SERS unfunded accrued liability does not increase.

PREPARED BY: Lisa Taglang
House Appropriations Committee (R)

DATE: November 18, 2019

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