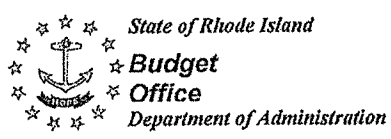


Rec'd 3/26/12



State Fiscal Note for Bill
Number: 2012-H-7377

Date of State Budget Office Approval:

Date Requested: Friday, March 09, 2012

Date Due: Monday, March 19, 2012

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2012	n/a	FY 2012	n/a
FY 2013	\$3,236,468	FY 2013	n/a
FY 2014	\$3,236,468	FY 2014	n/a

Explanation by State Budget Office:

This bill would allow deputy sheriffs, capitol police officers, environmental police officers, juvenile program workers and shift coordinators in the Department of Children Youth and Families, airport rescue and police personnel, and campus police officers at Rhode Island higher education facilities, to become members of the State Police retirement system have the same retirement benefits as State Police officers as outlined in Section 42-28-22 of the General Laws of Rhode Island.

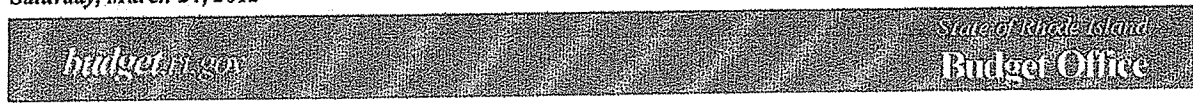
Comments on Sources of Funds:

Source of funds for the employer share for the sheriffs and the capitol police, currently part of the state employee component of the Retirement Trust, is entirely general revenue. The employer contribution piece for juvenile program workers and shift coordinators at the Training School is also entirely general revenue. Campus police officers at the higher education facilities are financed with university and college funds and general revenue. Across the three colleges, general revenue comprises an average of 32.0 percent of payroll expenses for campus police personnel. Source of funds for the employer contribution for the State Police is largely general revenue, with lesser amounts from federal grants, specifically the Motor Carrier Safety grant.

Summary of Facts and Assumptions:

The legislation would take effect upon passage, but would transfer the respective staff to the State Police Retirement Trust effective July 1, 2012.

Currently, the State Police Retirement Trust, which is held separate and apart from the State Employees' Trust, the Judicial Trust and the Municipal Employees' Retirement Trust in the Employees' Retirement System of Rhode Island, offers a specific retirement package for its members based on years of service, age at retirement, and allowance calculations based on date of hire and average compensation. The pension reform enacted in November, 2011 (11-S-6319) also adjusted the benefit structure for State Police Officers, which resulted in an actuarial change to the both the employer and the employee contribution rates. For the employer, the State of Rhode Island, the FY 2013 contribution rate decreased from 36.12 percent of salaries to 11.07 percent of salaries. Pension reform for the State Police did not include the addition of 1.0 percent for the employer piece of the new Defined Contribution Plan.



Summary of Fiscal
Impact:

Airport Crash and Rescue, and Airport Police Personnel are not paid with state dollars, and the legislation does not indicate that they would become state employees in order to be part of the State Police pension system. Therefore, no state fiscal impact is anticipated should the legislation pass, with the assumption that the employer contribution would be made by the Airport Corporation and not state funds.

To assess the fiscal impact of this bill, three components of current employer contribution expense for the employees listed in the bill is determined, based on the Governor's FY 2013 recommended budget. The components include the current state contribution of 21.18 percent, the 1.0 percent contribution for the defined contribution plan, and the retiree health contribution of 6.86 percent. Were these employees to become part of the State Police system, the employer contribution rate for the pension component would decrease to 11.07 percent of salaries, the 1.0 defined contribution piece would not be required, and the retiree health piece would increase to 33.18 percent of salaries. Using the FY 2013 salary base of \$21,278,544 for the groups affected by the legislation would yield a savings on the pension piece of \$2,151,261, a savings on the defined contribution piece of \$212,785, and an increase on the retiree health piece of \$5,600,513. Net impact in FY 2013 would be \$3,236,467 in all funds, and \$2,781,520 in general revenue assuming the campus police ratio of general revenue to college funds described above. For FY 2014, the same value is used as the fiscal impact since determining growth in the retirement rate from year to year is not reliable without actuarial or experience studies due to recent years' history of changes to the pension system.

Fiscal Advisor's Approval:

See attached comments
J. Kelly

Signature:

Thomas A. Mullany

Fiscal Advisor Comments on House Bill 7377

An actuarial study would be necessary to determine the fiscal impact of this bill, but the Budget Office did provide an estimate of \$3.2 million. This calculation uses the current employer rates for both state employees and State Police for both retirement and retiree health as shown in the table below. There are some issues with this estimate that bear noting.

	State		
Budget Office Estimate	Employees	State Police	Change
Employer Rate			
<i>Normal Cost Rate</i>	5.61%	11.07%	5.46%
<i>Unfunded Liability Rate</i>	15.57%	0.00%	-15.57%
<i>DC Cost</i>	1.00%	0.00%	-1.00%
Total Retirement	22.18%	11.07%	-11.11%
Retiree Health	6.86%	33.18%	26.32%
Employer Cost			
Retirement	\$4,719,581	\$ 2,355,535	\$ (2,364,046)
Retiree Health	1,459,708	7,060,221	5,600,513
Total Cost	\$6,179,289	\$ 9,415,756	\$ 3,236,467

The bill does not appear to extend retiree health benefits afforded to State Police to other employee groups. In fact, State Police retiree health benefits are not specified in the General Laws, rather provided through a collective bargaining agreement. Therefore that element of the fiscal impact estimate may be superfluous.

With respect to the retirement benefits, the Budget Office estimate reflects only the normal cost impact. The state system's unfunded liability cost equates to nearly 60 percent of the employer's cost, and would still need to be paid even if members leave the system. Based on a proposal to provide this same group of employees with a retirement age of 55 with 25 years considered during the fall pension session, the state's actuaries estimated that the cost would be an additional \$9.0 million on the unfunded liability and \$1.0 million in state contributions. If the \$9.0 million were spread equally over 25 years with no other changes this would add approximately \$360,000 to the annual cost to the employer. Based on the difference in the employer's share of the normal cost on the two plans as they are now contained in law, the additional state's cost would be \$1.2 million. This is shown in the table below.

	State		
Alternate Estimate	Employees	State Police	Change
<i>Normal Cost Rate</i>	5.61%	11.07%	5.46%
<i>DC Cost</i>	1.00%	0.00%	-1.00%
Employer Cost	\$1,193,726	\$ 2,355,535	\$ 1,161,809
Potential New UL Annual Paymnet			360,000
Total Annual Cost			\$ 1,521,809

Again, it is important to understand that these estimates are subject to substantial revision as they have not been actuarially tested.

