SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 1982

PRINTER NO. 2895

AMOUNT

No Fiscal Impact

FUND

State Employees' Retirement Fund

DATE INTRODUCED

October 25, 2019

PRIME SPONSOR

Representative Benninghoff

DESCRIPTION

House Bill 1982 amends the State Employees' Retirement Code to allow the State Employees' Retirement System (SERS) to enter in an agreement with certain employers participating in SERS under which the employer agrees to make one lump sum payment of all or a portion of the present value of its future actuarial accrued liability contributions.

The legislation includes the following provisions:

- The amount of the payment will be determined by the SERS actuary and approved by the SERS;
- The lump sum must be based on not less than 75% and not more than 100% of the employer's future actuarial accrued liability contributions as of the date on which the calculation is made;
- The agreement must establish a schedule of annual setoffs (credits) against future contributions of the employer to amortize the lump sum advance payment of the actuarial accrued liability contributions;
- 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;
- The agreement must provide a mechanism for crediting the setoff against actual future contributions on a periodic basis that coincides with the employer's existing schedule for making employer contributions to SERS.
- Once the lump sum payment is made, the annual setoff schedule and amounts established in the agreement cannot be changed;
- If the legislature changes the actuarial cost method under which employer contributions are determined, the board may change the schedule and or the amount of annual setoffs to conform to the changes;
- If the employer issues bonds or other financial instruments to pay the lump sum, SERS may not be involved in the issuance or advise the employer regarding the issuance;
- Any lump sum payment made may not be refunded to the employer;
- If the amount of a setoff for a given year exceeds the employer's scheduled payment of its actuarial accrued liability contribution, the overpayment will be applied to any supplemental annuity contributions that are due or any payments of employer normal cost contributions that are due, or added to future setoffs;

- The employer 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 employer that has entered in an agreement must pay costs incurred by SERS in estimating the lump sum and setoffs and formulating the agreement. SERS may require advance payment of costs prior to preparing an estimate and or formulating an agreement;
- Agreements under the provisions of this bill must be entered into by December 31, 2024, and any lump sum payment must be made by May 1, 2025; and
- Under the bill, the SERS board is not obligated to enter into any agreement for the prepayment of an employer's unfunded actuarial accrued liability contributions.

The bill excludes the following employers from participating in an agreement: 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 legislation is scheduled to take effect immediately.

FISCAL IMPACT:

The enactment of House Bill 1982 will have no fiscal impact on Commonwealth funds.

Based on analysis conducted by Milliman, the Independent Fiscal Office's consulting actuary, which considered a scenario where the largest eligible employer elected to prefund 75% of its unfunded liability, "if the assumptions are met, SERS will have roughly the same funded ratio and UAL [unfunded accrued liability] once all annual setoffs are recognized, as compared to a projection without the prefunding."

Additionally, to the extent that an employer can issue debt that costs less than the future contribution reductions, an employer can potentially reduce its overall cost to fund its pension liability.

SERS will not experience administrative costs as the legislation requires the employer to pay its costs related to a prefunding agreement.