

FISCAL NOTE

Requested by Legislative Council

02/12/2001

Bill/Resolution No.:

Amendment to: HB 1217

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures				\$418,692		\$247,528
Appropriations				\$250,000		\$247,528

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The "Technical Analysis" of the proposed bill that was prepared for the Legislative Employee Benefits Committee identified "Transactions Costs" and "Administrative Issues and Costs" associated with the implementation of the DC plan. The following excerpts from that report discuss these issues and costs.

Administration Issues

· Implementation Issues

The first administrative requirement is the calculation of the transfer amount, which is the present value of the accrued benefit or the actual employer and employee contributions plus interest. The member gets the higher of these calculations to transfer to the defined contributions system if they so elect. Last time the actual contributions

were higher for 78% of the eligible group and 90% of the members that elected the defined contribution plan. The calculation of the present value is done by the actuary and is expected to not take more than six weeks including auditing of the numbers. The calculation of the employer and employee contribution is much more extensive. For the original implementation of the new DC plan, the initial calculation took six weeks for the 640 eligible members. This means that it takes .375 hours per member. Expanding this to the entire eligible group under this bill means that it would take 21 months of effort or 3 people 7 months to complete this effort. This calculation needs to be complete before PERS can send the member a personal benefit comparison also required under the proposed legislation. Consequently, it must be completed before the educational meetings. Also a final calculation of these numbers needs to be done for those people electing the defined contribution plan prior to transfer. Similar to the first effort this does not take long for the present value calculation. However for the employer and employee contribution this took on average of 15 minutes for each electing member. If 38% would elect this, PERS would require an estimated 885 hours ($9316 \times .38 \times 15/60$) to complete the final calculation or three people 2 months to complete this effort.

The second administrative requirement is the educational meetings. The format for the previous optional program was to have two sets of meetings. The first set of meetings was Pension Education Meetings. The focus of these meetings was to provide greater detail on the two types of retirement plans, to review the personalized illustration, and to discuss what personal factors they may want to consider when selecting a plan. The second set of meetings was Investment Strategy Workshops. These interactive meetings were designed to help members develop a retirement investment strategy for the defined contribution plan. In order to be effective these meetings should have no more than 30 people in attendance. With approximately 9316 eligible this means PERS would need to conduct an estimated 311 Pension Education meeting. For the original implementation of the DC Plan, PERS conducted an equal number of Investment Strategy Workshops; however some people had made up their minds and did not attend the second set of meetings. Therefore, PERS has indicated that it could possibly reduce the number of Workshops by 20%. This means that PERS would need to conduct 250 of these Investment Strategy Workshop meetings. The total number of Pension Education and Investment Strategy Workshops would require an estimated 561 meetings. If PERS can average 3 meetings a day, it will require 187 days ($561/3$) to complete the required implementation meetings. If PERS uses two teams, it appears the meeting time frame could be reduced to 93.5 days. Recognizing that only 80% of the number of days in month ($21 \times .8 = 17$) could be devoted meeting days (the remainder would be for travel and other administrative activities) this would mean it would take two teams about 5.5 months ($187/2/17 = 5.5$) to complete this effort.

In addition to the above major activities numerous other activities must be done including: preparation of material, printing, mailing, coordination with agencies, scheduling of meetings, allowing the member time to consider what to do, time for one on one meetings, responding to member inquiries, correspondence, etc.

· Administrative Costs

The PERS Board will incur three types of costs for this proposed legislation. These are implementation, operation and consulting.

· Implementation: Concerning implementation PERS has indicated it would need an appropriation of \$282,524 added to this bill for the 2001 to 2003 biennium. These costs can be broken down into the following areas:

1. Calculation of employer and employee contribution.

Based upon the information presented under the *Implementation Issues* section of this memo it will take 3 people 7 months to do the initial calculation and 3 people 2 months to do the final calculation. PERS would hire 2 temporary employee to assist with this effort. However on an ongoing basis, PERS estimates there would be about 100 new eligible employees each month. A similar calculation would need to be done for them requiring PERS to need one permanent account tech. Therefore, PERS would need \$131,197 and authorization for one FTE to accomplish this effort.

2. Educational meetings

As discussed under *Implementation Issues* PERS will need to conduct about 561 meetings (Pension Education Meeting and Investment Strategy Workshops). To get this done in 5.5 months two teams would be needed. The teams would be composed of one PERS Benefits Specialist and a representative from its defined contribution plan administrator. PERS would need two additional specialists to assist with this effort. One would be temporary the second would be needed on a full time basis. This permanent FTE would be needed for new employees. As discussed above there would be about 100 new eligible members a month. Because of the dispersion of the membership and the need for timely meetings under the bill the average size of these meetings would 10 to 15. This means that each month there would be a need for 8 Pension Education Meeting and 8 Investment Strategy Workshops. One permanent Benefits Specialist would be required for this effort. The estimated appropriation authority for this effort for the 2001 to 2003 biennium is \$91,269 and an authorized FTE.

3. Travel

PERS estimates that for the 561 meetings PERS will need additional appropriation for travel, lodging and per diem of \$15,623.

4. Administrative support

To assist PERS staff with the additional requirements of correspondence, scheduling of meetings, working with agencies, etc., PERS estimates one additional secretarial position would be required during part of the 2001 – 2003 biennium and permanently in future bienniums. The needed appropriation authority for 2001 to 2003 is \$44,435 and one authorized FTE.

- Operation: Concerning cost for operating the plan, these will occur in future bienniums beginning in 2003. The costs in future bienniums would be for the account tech, benefits specialists and secretarial positions. The additional costs would be for travel, lodging, per diem, printing and other general support activities.

- Consulting Expenses: Consulting expenses are expected to be minimal since the 401(a) plan is already set up. The main costs for implementation will be the calculation of the present value of the accrued benefit. It is estimated that this will cost \$11,000. Last time PERS also had these numbers and the method audited by a second actuary. PERS would propose to do the same with implementation of this program. It is estimated that this would cost

\$8,800.

ESTIMATED TRANSACTION COSTS

Total Change in Equities	\$	29,526,316
Average Stock Price	\$	45
Estimated # of Stocks		656,140
Average Cost per Share	\$	0.06
Estimated Cost for Equities	\$	39,368.42

Total Change in Bonds	\$	22,000,000
Average Cost (2)		0.3500%
Estimated Cost for Fixed Income	\$	77,000.00

Total Estimated Cost \$ 116,368.42

(2) Bond Transaction Cost Assumptions

20% treasuries at 1/32 20% 0.031%

65% Corp at 1/2 65% 0.500%

15% agencies at 1/8 15% 0.125%

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name: Sparb Collins
Phone Number: 328-3901

Agency: Public Employees Retirement System
Date 02/13/2001
Prepared: