

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 657 - SB 722

March 20, 2015

SUMMARY OF BILL: Requires state and local government employees to receive retirement service credit through the Tennessee Consolidated Retirement System (TCRS) for military service occurring during the following armed conflicts: Desert Storm, Operation Enduring Freedom, and Operation Iraqi Freedom.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$7,808,500

Increase Federal Expenditures - \$1,635,500

Increase Local Expenditures - \$8,212,600*

Other Fiscal Impact – The total additional lump sum pension liability to the Tennessee Consolidated Retirement System is estimated to be \$180,000,000.

Assumptions:

- TCRS provides retirement benefits for retired state employees, retired teachers, and retired local government employees.
- Pursuant to Tenn. Code Ann. § 8-34-605(b)(1), any member or retired member who served in the armed forces of the United States during any period of armed conflict, shall be entitled to establish retirement credit for such military service without charge under certain specified conditions. As a result, any employee of state or local government that served during Desert Storm, Operation Enduring Freedom, or Operation Iraqi Freedom will be authorized for retirement service credit for time served in any of the named conflicts.
- Based on information provided by TCRS, the total lump sum pension liability as a result of this bill will increase by approximately \$180,000,000. Of the \$180,000,000, \$66,691,000 is applicable to state employees; \$49,309,000 is applicable to teachers; and \$64,000,000 is applicable to local government employees.
- The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds.

- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent local government funds. There will be a mandatory increase in local expenditures for these retired teachers.
- Retirement benefits for retired non-teacher local government employees are funded 100 percent by local government. There will be a mandatory increase in local expenditures for these retired teachers.
- Pursuant to Tenn. Code Ann. § 3-9-103(b), TCRS utilizes a 20-year horizon for estimating the additional lump sum liability.
- Pursuant to Tenn. Code Ann. § 8-34-505, TCRS utilizes a 7.5 percent interest rate for estimating the additional lump sum liability.
- Assuming a 20-year horizon, a 7.5 percent interest rate, and the additional lump sum liability of \$66,691,000 applicable to state employees, the recurring increase in annual pension benefits is estimated to be \$6,541,900, which will be funded 75 percent by the state (or \$4,906,425) and 25 percent with federal funds (or \$1,635,475).
- Assuming a 20-year horizon, a 7.5 percent interest rate, and the additional lump sum liability of \$49,309,000 applicable to teachers, the recurring increase in annual pension benefits is estimated to be \$4,836,800, which will be funded 60 percent by the state (or \$2,902,100) and 40 percent with local funds (or \$1,934,700).
- Assuming a 20-year horizon, a 7.5 percent interest rate, and the additional lump sum liability of \$64,000,000 applicable to local government employees, the recurring increase in annual pension benefits is estimated to be \$6,277,900, which will be funded entirely by local government.
- The recurring increase in state expenditures is estimated to be \$7,808,525 (\$4,906,425 + \$2,902,100); the recurring increase in federal expenditures is estimated to be \$1,635,475; and the mandatory recurring increase in local expenditures is estimated to be \$8,212,600 (\$1,934,700 + \$6,277,900).

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

/tdb