TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL MEMORANDUM

SB 1727 - HB 1806

June 15, 2020

SUMMARY OF ORIGINAL BILL: Requires, beginning July 1, 2020, local government entities not participating in the Tennessee Consolidated Retirement System (TCRS), who fail to fund their pension plan at 100 percent of the actuarially determined contribution (ADC) in any given fiscal year, to fund the pension plan at 100 percent in the subsequent fiscal year, plus the difference in actual funding from the previous fiscal year.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – Local government entities failing to make 100 percent ADC payments in any given fiscal year after FY20-21 may experience an increase in expenditures associated with payment of interest on such unfunded debt; however the timing and extent of such payments cannot reasonably be determined.

SUMMARY OF AMENDMENT (014559): Adds language to the original bill to (1) define benefit enhancement as it relates to changes in certain pension plans which must first be approved by the Treasurer; and (2) establishes parameters for what actions constitute a new pension plan for local government entities not participating in TCRS and require approval of the Treasurer prior to implementation.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

On February 26, 2020, a fiscal memorandum was issued for this bill as amended estimating the fiscal impact to be *Unchanged from the original fiscal note.* Given the fiscal note for the original bill was corrected on June 15, 2020 based on actuarial information provided by the Department of Treasury, the fiscal impact for the bill as amended is being corrected as follows:

(CORRECTED)
Unchanged from the corrected fiscal note.

Corrected assumptions for the bill as amended:

- The proposed language is applicable only to municipalities, counties, utility districts, school districts, public building authorities, housing authorities, emergency communications districts, and development districts who maintain a pension plan independent of the TCRS.
- Pursuant to Tenn. Code Ann. § 9-3-503 through 9-3-506:

- An ADC is the annual contribution that incorporates both the normal cost of benefits and the amortization of the pension plan's unfunded accrued liability;
    - An entity not participating in the TCRS is required to fund their pension plan at 100 percent of the ADC annually;
    - Entities not funding their pension plan at 100 percent as of June 30, 2015 are required to increase their contribution a percentage of the difference each year over a maximum of five years until the plan is funded at 100 percent;
    - Entities unable to meet this annual percentage progression are required to submit a plan of action to the State Treasurer detailing a plan for funding the pension plan at 100 percent by June 30, 2020;
    - For any pension plan funded below 60 percent, the entity is prohibited from establishing benefit enhancements unless approved by the Treasurer; and
    - For entities which had an existing plan as of May 22, 2014, the entity is prohibited from establishing a new pension plan until it has received written approval from the Treasurer.
- According to information provided by the Department of Treasury, since 2014, a benefit enhancement or new pension plan determination has not been made, and the proposed definitions are required to aid in the application of Tenn. Code Ann. § 9-3-506 due to receipt of an inquiry from an applicable entity.
- Based on information provided by the Department of Treasury:
    - In calculating an ADC under the proposed language, an actuary may use several methodologies when accounting for unfunded pension obligations from the previous year; and
    - One methodology could result in interest being applied to the unfunded debt obligation which would not have been calculated under current law.
- In the event interest is added to previously unfunded pension obligations it could result in an increase in local expenditures associated with payment of such interest; however due to multiple unknown factors such as the extent of unfunded obligation, the rate of interest assessed, and the frequency of such occurrences, a precise increase in local expenditures occurring after FY20-21 cannot reasonably be determined.

CERTIFICATION:

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

Krista Lee Carsner BS

Krista Lee Carsner, Executive Director

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