TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1723 - HB 1821

February 6, 2020

SUMMARY OF BILL: Requires an increase in retirement benefits to employees who have already retired from the state equal to any increase in compensation given to active employees of the state during any fiscal year.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – $19,572,800/FY20-21
Exceeds $19,572,800/FY21-22 and Subsequent Years

Increase Federal Expenditures – $6,524,300/FY20-21
Exceeds $6,524,300/FY21-22 and Subsequent Years

Other Fiscal Impact – Any increase in state employee salaries in FY21-22 and subsequent years will lead to an increase in benefit payments for retirees in addition to the increase in such payments from previous raises. The precise timing and extent of any increases in state and federal expenditures associated with additional retirement benefit payments beyond FY20-21 is dependent upon future action by the General Assembly and therefore cannot be reasonably determined at this time.

Assumptions:

- Pursuant to Tenn. Code Ann. § 8-36-701, the Tennessee Consolidated Retirement System (TCRS) currently provides cost of living (COLA) adjustments to retired state employees.
- It is assumed that COLA adjustments are applied separately from the required increase described in the proposed legislation, and that all increases required by this legislation will be funded through appropriations from the General Fund.
- The Governor's proposed budget for FY20-21 includes a compensation increase of 2.5 percent for state employees. This fiscal analysis assumes that such increase will be enacted.
- In FY18-19, TCRS paid out a total of $954,086,118 to retired state employees for whom this proposed legislation would apply. Over the past two fiscal years the payout has grown an average of 4.6 percent. It is therefore estimated that the total retirement benefits payable to retirees affected by this proposed legislation will be $1,043,880,887 ($954,086,118 x 1.046 x 1.046) in FY20-21 under current law.

- Therefore the total increase in expenditures as a result of this legislation will be $26,097,022 ($1,043,880,887 x 0.025) in FY20-21.
- Retirement benefits for state employees are funded 75 percent with state funds and 25 percent with federal funds.
- The increase in state expenditures in FY20-21 is estimated to be $19,572,766 ($26,097,022 x 75%) and the increase in federal expenditures in FY20-21 is estimated to be $6,524,256 ($26,097,022 x 25%) increase in.
- After the first fiscal year increase in FY20-21, the state will be required to appropriate that initial amount and any other increases in the budget; it is therefore estimated that state expenditures in FY21-22 and subsequent years will exceed $19,572,766 and that federal expenditures in FY21-22 and subsequent years will exceed $6,524,256.
- Any increase in state employee salaries in FY21-22 and subsequent years will lead to an increase in benefit payments for retirees in addition to the increase in payments from previous raises. The precise timing and extent of any additional raises above FY20-21 is dependent upon future action by the General Assembly, and therefore cannot be reasonably determined at this time.

CERTIFICATION:

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

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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