



INDEPENDENT FISCAL OFFICE

October 26, 2023

The Honorable Brad Roae
Minority Chairman
House State Government Committee
151 East Wing Capitol Building
Harrisburg, PA 17120

Re: Requested Actuarial Note for House Bill 1416, Printer's Number 1584 Amendment A02645

Dear Chairman Roae:

This letter responds to your October 20, 2023 request concerning an actuarial note for Amendment A02645 to House Bill 1416, Printer's Number 1584. The bill would amend Title 24 (Education) and Title 71 (State Government) of the Pennsylvania Consolidated Statutes to provide cost-of-living adjustments (COLAs) to certain annuitants of the State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) that retired prior to July 2, 2001. The COLAs range from 15% to 24.5% of current annuity values depending on year of retirement. The Independent Fiscal Office (IFO) determined that the bill would have a material cost impact and released an actuarial note on June 30, 2023. That note is available on the IFO's website, and a summary of the impacts is shown in the table below.

House Bill 1416, PN 1584 Impact Summary

	SERS	PSERS
Individuals impacted	25,334	43,475
Lifetime increase in benefits	\$566.4	\$1,220.2
Annual amortized costs (10 years)	\$52.5	\$125.1
<u>Initial change in:</u>		
Unfunded Actuarial Liability	\$371.0	\$821.1
Funded ratio	-0.46%	-0.44%
Employer contribution rate	0.74%	0.81%

Notes: Dollars in millions. Data from SERS and PSERS, calculations by the IFO.

Amendment A02645 would require the SERS and PSERS boards to:

1. No later than seven days after enactment of the legislation, transmit to the Legislative Reference Bureau the projected increase in the Unfunded Actuarial Liability (UAL) due to the COLAs prescribed in the base bill. The notice would be published in the subsequent issue of the Pennsylvania Bulletin.
2. Transmit notice to the Legislative Reference Bureau if an amount is appropriated to the system to offset the projected increase in UAL no later than 30 days after enactment of the legislation. The appropriation must be at least the amount noted in the first notice from the system.

The COLAs prescribed in the base bill would not become effective until 60 days after publication of the second item above. They would be retroactive to the start date established in legislation.

The amendment also:

- Removes the original funding methodology (10-year level dollar amortization).
- Requires the systems, by way of an appropriation enacted by the General Assembly, to pre-fund the COLAs prescribed in the base bill.
- Does not change the methodology used to compute the amount of the COLAs, and eligible recipients would receive retroactive payments from July 1, 2023.

It is possible for the projected increase in the UAL to change between the official projection of the UAL increase, the approval of a pre-funding appropriation and the date that COLAs begin to be disbursed. However, it is not expected that these changes would be material. The amendment also provides that the appropriation must be at least the amount certified by the systems, allowing the possibility to increase the amount if additional negative impacts to the UAL occur within the 30-day period.

Under section 615-B of the Administrative Code of 1929, the IFO reviews legislative changes that could affect public employee pension or retirement plans and provides actuarial notes for such legislation. The IFO determined that there is no material actuarial cost impact associated with Amendment A02645 to House Bill 1416, Printer's Number 1584 and no further actuarial analysis is required. The office reviewed the legislation for actuarial cost impact only, and not for potential legal, administrative or policy implications.

If you have further questions regarding this response, please contact my office (contact@ifo.state.pa.us).

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office

cc: Governor Josh Shapiro
Members of the General Assembly