

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1177 - SB 1371

February 21, 2019

SUMMARY OF BILL: Authorizes a retirement allowance be granted to a surviving spouse who is designated as a beneficiary of a deceased in-service member of Tennessee Consolidated Retirement System (TCRS) if they were a vested member rather than one who has 10 credible years of service.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – \$46,800/Each FY19-20 through FY23-24

Increase Federal Expenditures – \$13,400/Each FY19-20 through FY23-24

Increase Local Expenditures – \$4,500/Each FY19-20 through FY23-24*

Other Fiscal Impact – The total additional lump sum pension liability to the Tennessee Consolidated Retirement System is estimated to be \$323,000.

Assumptions:

General Assumptions

- Most TCRS members are vested after five years of service, though some political subdivisions have different vesting requirements.
- By reducing the majority of TCRS member's number of years of credible service for which their surviving beneficiary spouse may receive retirement benefits from 10 years to 5 years, it is estimated that a greater number of members' spouses will be eligible for death benefits. This will result in an increased amount of benefits being paid from the TCRS.
- Based on information provided by the TCRS, the applicable plans closed to new hires on June 30, 2014. Therefore, any impact to the pension system as a result of this legislation will cease after June 30, 2024, when all applicable members in the system have reached the 10-year service threshold.
- It is estimated that each year, FY19-20 through FY23-24, there will be approximately four deaths of active members who have five or more years of service, but less than ten years of service, whose spouses will become a beneficiary under this legislation.

- It is assumed these deaths will be even amongst teachers and state employees (including higher education), with the liability per beneficiary being \$26,700 relative to state employee deaths and \$5,600 relative to teacher deaths. The cost relative to teacher deaths will be lower because such teachers will have been contributory members, and their contributions will be used to fund portions of their beneficiary's retirement benefits.

Impacts related to beneficiaries of state employees

- The total increase in benefit funding relative to state employee deaths is estimated to be \$53,400 (\$26,700 per employee x 2 employees) each year FY19-20 through FY23-24.
- Retirement benefits for state employees are funded 75 percent with state funds and 25 percent with federal funds.
- The increase in state expenditures relative to state employee deaths, each year FY19-20 through FY23-24, is estimated to be \$40,050 (\$53,400 total liability x 75% state share).
- The increase in federal expenditures relative to state employee deaths, each year FY19-20 through FY23-24, is estimated to be \$13,350 (\$53,400 total liability x 25% federal share).

Impacts related to beneficiaries of teachers

- The total increase in benefit funding relative to teacher deaths is estimated to be \$11,200 (\$5,600 per employee x 2 employees) each year FY19-20 through FY23-24.
- Retirement benefits for teachers are funded 60 percent with state funds and 40 percent with local government funds, all of which will be a mandatory increase in local government expenditures.
- The increase in state expenditures relative to teacher deaths, each year FY19-20 through FY23-24, is estimated to be \$6,720 (\$11,200 total liability x 60% state share).
- The mandatory increase in local expenditures relative to teacher deaths, each year FY19-20 through FY23-24, is estimated to be \$4,480 (\$11,200 total liability x 40% local share).

Total Estimated Impacts for Legislation

- The increase in state expenditures, each year FY19-20 through FY23-24, is estimated to be \$46,770 (\$40,050 + \$6,720).
- The increase in federal expenditures, each year FY19-20 through FY23-24, is estimated to be \$13,350.
- The mandatory increase in local expenditures, each year FY19-20 through FY23-24, is estimated to be \$4,480.
- The total additional lump sum liability of TCRS is estimated to be \$323,000 [(\$46,770 + \$13,350 + \$4,480) x 5 years].

*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.

Handwritten signature of Krista Lee Carsner in black ink.

Krista Lee Carsner, Executive Director

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