Fiscal/Actuarial Note

Including Fiscal Note Impact

Agency: WV Consolidated Public Retirement Board

CBD Number:	Version:	Bill Number:	Resolution Number:
2975	Introduced	SB 451	

Retirement System(s) Impacted by Legislation: TRS

Subject of Legislation: The creation of the West Virginia Intermediate Court of Appeals

Date Requested: January 28, 2019

FUND(S)

TRS 2600

Sources of Revenue

[X] General Fund
[ ] Special Fund
[ ] Other Fund: (Specify)

Does the proposed legislation create:

[ ] A New Program
[ ] A New Fund
[X] Neither

Actuarial Note Summary

Summarize in a clear and concise manner what impact this measure will have on the liabilities and contributions associated with the retirement system(s).

SB 451 would authorize the establishment of charter schools in the State of West Virginia beginning in 2019-2020. Moreover, the bill modifies the definition of a TRS Nonteaching member and a TRS Teacher member to allow the newly formed charter schools to join TRS provided the charter school includes in its approved charter application a determination to participate in TRS.

The number of members joining TRS from the newly formed charter schools is expected to be small relative to the total number of members in TRS, therefore we do not expect a material change in the normal cost or unfunded actuarial accrued liability from the inclusion of charter schools in TRS.

SB 451 also allows participants who are TRS members on or after July 1, 2019 to credit unused accrued sick leave toward the premium cost of insurance at the rate of one additional month of coverage for the retiree and his or her dependents for every ten days of sick leave which the employee has accrued as of the effective date of his or her retirement.

Crediting accrued sick leave toward the cost of insurance does not impact the TRS member's retirement benefit. Therefore, this provision of SB 451 would not impact the normal cost or unfunded actuarial accrued liability for TRS.

Finally, SB 451 would provide a $1,380 per year salary increase for service personnel in TRS, which depending on pay grade would be an annual increase between 3.35% and 6.47% in salary. For teachers in TRS, SB 451 would provide a $2,120 per year salary increase and depending on the academic degree received, would be an annual increase between 3.70% and 7.00% in salary.

The increase in salaries provided by SB 451 would increase the actuarial accrued liability for TRS by approximately $120 million. The unfunded liability would be amortized on a level dollar basis for the remaining amortization period (until June 30, 2034) leading to an increase in the annual amortization amount of $14 million. The change in normal cost from the salary increases would increase the annual employer contribution by an additional $2.4 million. Therefore, the total employer contribution in the first year would be approximately $16.4 million or 1.17% of payroll and the School Aid Formula would increase by about $15.4 million or about 1.10% of payroll in the first year.

Fiscal Detail of Actuarial Impact

Show impact on current benefit costs, prior service benefit costs and ongoing contribution requirements following full implementation.

Impact On	Following Full Implementation		
	Increase in Unfunded Actuarial Accrued Liability	Initial Impact on Annual Contribution Requirement of System(s)	Contribution Increase as a Percentage of Annual Payroll
Total Annual Costs	$120,000,000	$16,400,000	1.17%
Normal Cost of System	N/A	$2,400,000	0.17%
Past Service Liabilities	$120,000,000	$14,000,000	1.00%
Fiscal Year Past Service Amortization Period Ends	N/A	2034	N/A

Explanation of above estimates:

Please explain increases and decreases in Normal Cost and Actuarial Accrued Liabilities, including assumptions and data sources. Please also include a long-range schedule of contributions if fiscal impact is expected to vary in future years.

SB 451 would increase the unfunded liability of TRS by $120 million. In the first year of implementation, the normal cost would increase by approximately $2.4 million or 0.17% of payroll and the amortization of the additional unfunded liability would be about $14 million or 1.0% of payroll. Therefore, the additional annual employer cost in the first year would be approximately $16.4 million or 1.17% of payroll.

Going forward, the estimated increase to annual normal cost will remain a part of the plan's annual cost provided there are members in the plan who are accruing benefits. The increased payments toward amortizing the unfunded liabilities in the

plan will remain a part of the annual cost through the lifetime of the amortization period which ends on June 30, 2034.

Estimates given are based on actuarial results as of July 1, 2018, using the same assumptions and plan provisions from the July 1, 2017 funding valuation report. These estimates are based on assumptions of future events, which may not materialize. Future measurements may differ significantly due to plan experience differing from that anticipated by these assumptions, by the natural operation of the methodology used for these measurements, or by changes to plan provisions.

Analysis of Impact on Public Pension Policy

Please identify the direct and indirect expected impact on public pension policy for members covered under the retirement system(s). Also discuss any areas of vagueness, technical defects, and/or any special issues not captured elsewhere on this form.

The cost presented in this Actuarial/Fiscal Note only represent those incurred by the TRS defined benefit plan. Additional non-retirement cost associated with SB 451 are not included in this Actuarial Note. Note, the impact of the additional contribution required to the TDC plan has not been determined in this Actuarial Note apart from its inclusion in the calculation of the State School Aid Formula reimbursement for pension costs.

Fiscal Note Summary

Summarize in a clear and concise manner what impact this measure will have on costs and revenues of state government.

SB 451 would authorize the establishment of charter schools in the State of West Virginia beginning in 2019-2020. Moreover, the bill modifies the definition of a TRS Nonteaching member and a TRS Teacher member to allow the newly formed charter schools to join TRS provided the charter school includes in its approved charter application a determination to participate in TRS.

The number of members joining TRS from the newly formed charter schools is expected to be small relative to the total number of members in TRS, therefore we do not expect a material change in the normal cost or unfunded actuarial accrued liability from the inclusion of charter schools in TRS.

SB 451 also allows participants who are TRS members on or after July 1, 2019 to credit unused accrued sick leave toward the premium cost of insurance at the rate of one additional month of coverage for the retiree and his or her dependents for every

ten days of sick leave which the employee has accrued as of the effective date of his or her retirement.

Crediting accrued sick leave toward the cost of insurance does not impact the TRS member's retirement benefit. Therefore, this provision of SB 451 would not impact the normal cost or unfunded actuarial accrued liability for TRS.

Finally, SB 451 would provide a $1,380 per year salary increase for service personnel in TRS, which depending on pay grade would be an annual increase between 3.35% and 6.47% in salary. For teachers in TRS, SB 451 would provide a $2,120 per year salary increase and depending on the academic degree received, would be an annual increase between 3.70% and 7.00% in salary.

The increase in salaries provided by SB 451 would increase the actuarial accrued liability for TRS by approximately $120 million. The unfunded liability would be amortized on a level dollar basis for the remaining amortization period (until June 30, 2034) leading to an increase in the annual amortization amount of $14 million. The change in normal cost from the salary increases would increase the annual employer contribution by an additional $2.4 million. Therefore, the total employer contribution in the first year would be approximately $16.4 million or 1.17% of payroll and the School Aid Formula would increase by about $15.4 million or about 1.10% of payroll in the first year.

Fiscal Note Detail

Show over-all effect in Item 1 and 2 and, in Item 3, give an explanation of Breakdown by fiscal year, including long-range effect.

Effect of Proposal	Fiscal Year		
	2019 Increase/Decrease (use "-")	2020 Increase/Decrease (use "-")	Fiscal Year (Upon Full Implementation)
1. Estimated Total Cost	0	$16,400,000	$16,400,000

Personal Services	0	0	0
Current Expenses	0	$16,400,000	$16,400,000
Repairs and Alterations	0	0	0
Equipment	0	0	0
Other	0	0	0
2. Estimated Total Revenues	0	0	0

Explanation of above estimates:

Please explain increases and decreases in personal services, current expenses, repairs and alterations, equipment, other costs and revenues, including assumptions and data sources and delineation between start-up and ongoing costs. Please also include a long-range schedule of costs and revenues if fiscal impact is expected to vary in future years.

SB 451 would increase the unfunded liability of TRS by $120 million. In the first year of implementation, the normal cost would increase by approximately $2.4 million or 0.17% of payroll and the amortization of the additional unfunded liability would be about $14 million or 1.0% of payroll. Therefore, the additional annual employer cost in the first year would be approximately $16.4 million or 1.17% of payroll.

Going forward, the estimated increase to annual normal cost will remain a part of the plan's annual cost provided there are members in the plan who are accruing benefits. The increased payments toward amortizing the unfunded liabilities in the plan will remain a part of the annual cost through the lifetime of the amortization period which ends on June 30, 2034.

Estimates given are based on actuarial results as of July 1, 2018, using the same assumptions and plan provisions from the July 1, 2017 funding valuation report. These estimates are based on assumptions of future events, which may not materialize. Future measurements may differ significantly due to plan experience differing from that anticipated by these assumptions, by the natural operation of the methodology used for these measurements, or by changes to plan provisions.

Memorandum

Please identify any areas of vagueness, technical defects, reasons a bill would not have a fiscal impact, and/or any special issues not captured elsewhere on this form.

This Actuarial/Fiscal Note is being submitted by the Consolidated Public Retirement Board. It has been reviewed by the CPRB Actuary. Both the Board and the CPRB Actuary are available upon request for questions.

Person submitting Actuarial/Fiscal Note: ______________________________

Kenneth M. Woodson Jr.
Board Actuary
WV Consolidated Public Retirement Board

Date: January 28, 2019