ATTACHMENT C

HB20-1044

Modify Pension Plans Administered By FPPA Fire And Police Pension Association

Concerning modifications to the pension plans administered by the fire and police pension association.

SESSION:
2020 Regular Session

SUBJECT:
Local Government

BILL SUMMARY

Pension Review Commission. The bill modifies various plans administered by the fire and police pension association (FPPA).

The bill modifies the **old-hire pension plans** as follows:

State-assisted old hire plans. There are 26 state-assisted old hire police officers' and firefighters' pension plans with 5 or fewer retirees or beneficiaries who are still receiving benefits. Current law states that the amount of annual local government contributions to those plans is an amount that will amortize the unfunded liabilities of the plan over a period not to exceed 20 years or the average remaining life expectancy of the pension fund's members. **Section 1** of the bill modifies the method by which the contribution is calculated to more precisely set contribution requirements as the plans' liabilities decrease. The bill allows the FPPA board of directors (board) to consider the following when determining the contribution amount: Stabilizing the amount of the annual required contributions over time; keeping the funded ratio of the pension fund from declining; and reducing or eliminating contributions as may be prudent based on actuarial experience.

The bill modifies the **statewide defined benefit plan** as follows:

Increase in employee and employer contributions. Current statute specifies that all members covered under the statewide defined benefit plan administered by the FPPA contribute 8% of their salary to the FPPA on a monthly basis. In addition, every employer employing members who are covered by the statewide defined benefit plan administered by the FPPA contributes 8% of the salary paid to such members to the FPPA on a monthly basis.

In 2014, the members and employers of the statewide defined benefit plan authorized a 4% increase in the member contribution rate to be implemented over 8 years with an increase of .5% per year for a total employee contribution rate of 12% of salary. The first .5% increase in the member contribution rate occurred in 2015 and the member contribution rate will continue to increase by .5% each year thereafter through 2022. **Sections 2, 3, and 4** of the bill codify the increases in the member contribution rates that are already in effect and make required conforming amendments.

Sections 2, 3, and 4 of the bill increases the employer contribution rate by 4%, to be implemented over 8 years with an increase of .5% a year for a total employer contribution rate of 12% of salary. The bill requires the first .5% increase in the employer contribution rate to occur in 2021, and requires an additional .5% increase each year thereafter through 2028.

Retirement eligibility. Currently, a member of the statewide defined benefit plan may retire with a full retirement benefit if the member has completed at least 25 years of service and is at least 55 years old. A member of the statewide defined benefit plan is eligible for an early retirement with a reduced benefit if the member has either completed at least 30 years of service or is at least 50 years old. **Section 2** of the bill would allow a member of the statewide defined benefit plan to retire with an unreduced retirement benefit if the member is at least 50 years old and has a combined age and years of service that is equal to at least 80.

To cover the cost of the new full retirement benefit eligibility, **section 2** of the bill increases the employer contribution rate, in addition to all other increases in the employer contribution rate, by 1% of base salary to be implemented over 2 years. In 2021, the bill requires the employer contribution rate to increase by .5% of base salary and in 2022, requires the employer contribution rate to increase by an additional .5% of base salary. The implementation of the increase may be deferred while other increases are being implemented.

Conforming amendment to current plan. Originally, the pension benefit for members of the statewide defined benefit plan was capped at 50% of a member's highest average salary, even when the member earned more than 25 years of service credit. In the 1990s, the cap was eliminated by an amendment to the plan approved by election of the members and employers. **Sections 3 and 4** of the bill eliminate the cap to conform to the current plan benefits.

Stabilization reserve account. When the statewide defined benefit plan was initially established, the revenue generated from the 8% member contribution rate and the 8% employer contribution rate was more than necessary to pay the normal costs of the defined benefit plan. Any money in excess of what was necessary to pay the normal costs of the plan was deposited into the stabilization reserve account. The stabilization reserve account consists of separate retirement accounts and upon retirement, members who have satisfied the vesting requirements of the plan are eligible for distributions from the account.

Since the stabilization reserve account was established, benefits allowed under the statewide defined benefit plan have increased to the extent that all of the revenue generated from the member and employer contributions are required to pay the normal costs of the plan and money is no longer deposited into the stabilization reserve account. **Sections 3, 5, and 6** of the bill change the nature of the separate retirement accounts in the stabilization reserve account to defined contribution accounts, subject to self direction by the member. In addition, the bill requires the board to transfer the balances of the separate retirement accounts in the stabilization reserve account to defined contribution accounts by a specified date.

Authorization to increase employer contribution rate. Current law authorizes the board to increase the member contribution rate for members in the statewide defined benefit plan. **Section 7** of the bill authorizes the board to increase the member and employer contribution rates in equal amounts above the rates established pursuant to law or eliminate an increase in the member and employer contribution rates if certain specified conditions are satisfied, including approval by members and employers at an election proposing such increase or decrease.

Continuing rate of contribution. Pursuant to current law, any county that does not cover, under the federal "Social Security Act", salaried employees whose duties are directly involved with the provision of law enforcement or fire protection may elect coverage under the statewide defined benefit plan and the statewide death and disability plan. **Section 9** of the bill specifies that the board may determine a continuing rate of contribution for all members who are active on the effective date of coverage to fund benefits to ensure that the affiliating employers' coverage does not have an adverse financial impact on the actuarial soundness of the plan.

Employers that have withdrawn from the statewide defined benefit plan but later reenter the plan are required to pay a continuing rate of contribution for all members who are active on the effective date of coverage. The continuing rate of contribution is a contribution in addition to the member and employer contribution and accounts for increased costs associated with members employed by employers who reenter the plan. The board established the continuing rate of contribution pursuant to law; however, the rate set by the board was higher than necessary to pay the costs of benefits for impacted members and current law does not authorize the board to decrease the rate. **Section 12** of the bill authorizes the board to decrease the continuing rate of contribution when it determines that the rate is higher than what is necessary to pay the costs of the benefits of members who are employees of employers who rejoined the plan.

The bill modifies the **death and disability plan** as follows:

Costs of death and disability benefits. For members hired on or after January 1, 1997, and who are eligible for death and disability coverage provided by the FPPA, current law requires a contribution to the death and disability account not to exceed 2.4% of the members salary; except that the board is authorized to increase the contribution rate every 2 years by .1%. The current rate is 2.8% of salary. **Sections 8, 10, and 11** of the bill increase the maximum contribution rate in 2021 to 3% of salary and authorizes the board to increase the contribution every year by up to .2% of the member's salary.

~~For members hired before January 1, 1997, the state previously payed the costs for those members' participation in the death and disability plan. In the mid 1990s, the general assembly determined that the costs associated with death and disability benefits should be covered by local governments. The general assembly made a lump-sum payment to cover the costs of participation in the death and disability plan for members hired before January 1, 1997, and implemented the system described above to cover the costs of death and disability benefits for members hired thereafter. The FPPA recently determined that the amount of the lump-sum payment from the state was insufficient to cover the death and disability benefits for members hired before January 1, 1997.~~ ~~**Section 11**~~ ~~of the bill requires the general assembly to make an additional lump-sum payment to the FPPA to fund the unfunded liabilities of the death and disability benefits for those members.~~

(Note: Italicized words indicate new material added to the original summary; dashes through words indicate deletions from the original summary.)

(Note: This summary applies to the reengrossed version of this bill as introduced in the second house.)