

For a hearing on AM2178

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2016-17		FY 2017-18	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	270,870			
CASH FUNDS			381,049	
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	270,870		381,049	

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

This fiscal note is for a hearing on AM2178 to LB655 which has not been adopted.

LB655 creates a Cash Balance Retirement Plan for first class city firefighters to be administered by the Public Employees Retirement Board. Participation in the plan is mandatory for a first class city firefighters hired on or after January 1, 2018. Current members may opt into the Cash Balance Plan. Currently, all first class city firefighters hired after 1984 are members of defined contribution plans administered by each first class city. All funds of the Plan are to be invested by the Nebraska Investment Council. Employee and employer contributions rates would remain the same as the rates for the current defined contribution plan. There are approximately 350 first class city firefighters.

An actuarial study is required for the new plan.

The fiscal impact is estimated as follows:

Nebraska Public Employees Retirement Board (NPERS)

	FY2016-17 General Funds			FY2017-18 Cash Funds		
	One Time	On Going	Total	One Time	On Going	Total
Initial Actuarial Study	20,000		20,000			
Annual Actuarial Study					44,000	44,000
1st Year Planning	26,870		26,870			
IRS Determination Letter	24,000		24,000			
IT Development (1.0 FTE)		171,000	171,000		171,000	171,000
Staff Positions (3.0 FTE)					152,520	152,520
Office Set-Up	9,000		9,000			
Additional Office Space					8,529	8,529
Recordkeeping	10,000		10,000			
Education & Training	10,000		10,000		5,000	5,000
Total	99,870	171,000	270,870		381,049	381,049

The number of additional staff positions appears high.

Nebraska Investment Council

The Investment Council indicates that the initial workload can be absorbed with existing resources. The long-term impact would have to be re-evaluated once the Plan has been established.

State of Nebraska

The State would be responsible for any shortfall in the actuarially required contribution

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 655	AM: 2178	AGENCY/POLT. SUB: Neb. Public Employee Retirement Systems	
REVIEWED BY: Gary Bush		DATE: 2/24/16	PHONE: 471-4161
COMMENTS: No basis to disagree with estimate of the impact to the agency to implement and manage a new retirement system for firefighters of cities of the first class in the state. The need for additional positions would be dependent on how many members actually become part of a new plan. The agency assumptions appear to be reasonable.			

Please complete ALL (5) blanks in the first three lines.

2016

LB⁽¹⁾ 655 AM 2178

FISCAL NOTE

State Agency OR Political Subdivision Name: (2)

Nebraska Public Employee Retirement Systems (NPERs)

Prepared by: (3) Randy Gerke

Date Prepared: (4) 2/23/2016

Phone: (5) (402) 471-9495

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2016-17		FY 2017-18	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	270,870			
CASH FUNDS			381,649	
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	270,870		381,649	

Explanation of Estimate:

LB 655 creates a new cash balance plan for municipal firefighters in 1st Class Cities. The startup costs for this plan cannot come from any of the plans or cash funds that are currently under the administration of NPERs. Starting a new plan is a complex undertaking and will take a considerable amount of planning time in addition to the time that will be needed to implement the provisions for startup. There are approximately 15 new employers that will need to be added as reporting agents to our record keepers system. The amendment does make participation mandatory for all new municipal firefighters in 1st Class Cities hired on or after January 1, 2018. NPERs has done it's best to estimate the costs to implement the provisions of this bill. For fiscal note purposes, FY 2016-17 is considered the year for development and implementation, FY 2017-18 is considered as costs for ongoing operations.

An actuarial study will be needed before implementation with an estimated cost of \$20,000. This study is a one-time cost, however there will also need to be an actuarial valuation done each year after implementation that is estimated to be \$44,000.

Considerable time will be needed for planning, development and implementation of the startup for this plan. Included is a one-time cost of \$26,870 for these administrative purposes which covers 160 hours of 4 key manager's salaries.

An IRS compliance audit will need to be performed. This will include a one-time cost for IRS filing fees of \$4,000 and legal fees for Groom Law Group estimated to be \$20,000.

After implementation, additional staff will be needed for conducting the day to day operations. Included are the costs for (2) Retirement Specialists and (1) Training Specialist. An estimate of hiring rates and benefits would be \$152,520 annually. (Retirement Specialists-\$95,698, Training Specialist I-\$56,822).

NPERs would need more office space for these additional employees. NPERs is currently paying approximately \$2,843/employee annually for office space. For estimation purposes this number is used to estimate the cost of additional office space needed. 3 employees x \$2,843 for total additional rent \$8,529 per year. This additional rent would be an ongoing expense.

There would also be computers and office set up for each of the new employees which is estimated to be \$3,000 per employee (\$9,000). This would be a one-time cost.

The current computer developers have reached production capacity. To hire a developer with a sufficient level of experience and ability to effectively work on an application as complex as NPRIS, it will likely be necessary to hire a contractor. The estimated annual cost of hiring a contract resource ranges and is estimated to be \$171,000. The OCIO office has estimated that the development work for this plan would take 12 to 15 months

to complete. Software changes, technology upgrades and system maintenance would continue for the lifetime of the program.

New handbooks, training and member education materials would be needed for the new employers and new plan members. The cost of these items is estimated to be \$10,000 for start-up and \$5,000 on going.

NPERS would use Ameritas as the record keeper for this plan. Start-up costs for the provisions of this bill would be \$10,000 from Ameritas. On-going costs to the participants would be \$24.60 per participant annually.

LB 655 AM2178 provides for a change in the makeup of the Public Employees Retirement Board. It increases the membership by 1 member to 9 voting members. NPERS is requesting an increase of \$600 in PSL for program 042 to cover the cost of the increase in per diems paid to the additional Board member. There likely will be costs associated with education, travel and communication supplies for an additional Board member.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2016-17</u>	<u>2017-18</u>
	<u>16-17</u>	<u>17-18</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Retirement Specialist I		2		64,363
Training Specialist I		1		39,975
Benefits.....				48,182
Operating.....			270,870	229,129
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....			270,870	381,649