SB 1157 - HB 1296
FISCAL NOTE

Fiscal Review Committee
Tennessee General Assembly

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Fiscal Analyst: Elizabeth Bransford | Email: elizabeth.bransford@capitol.tn.gov | Phone: 615-741-2564

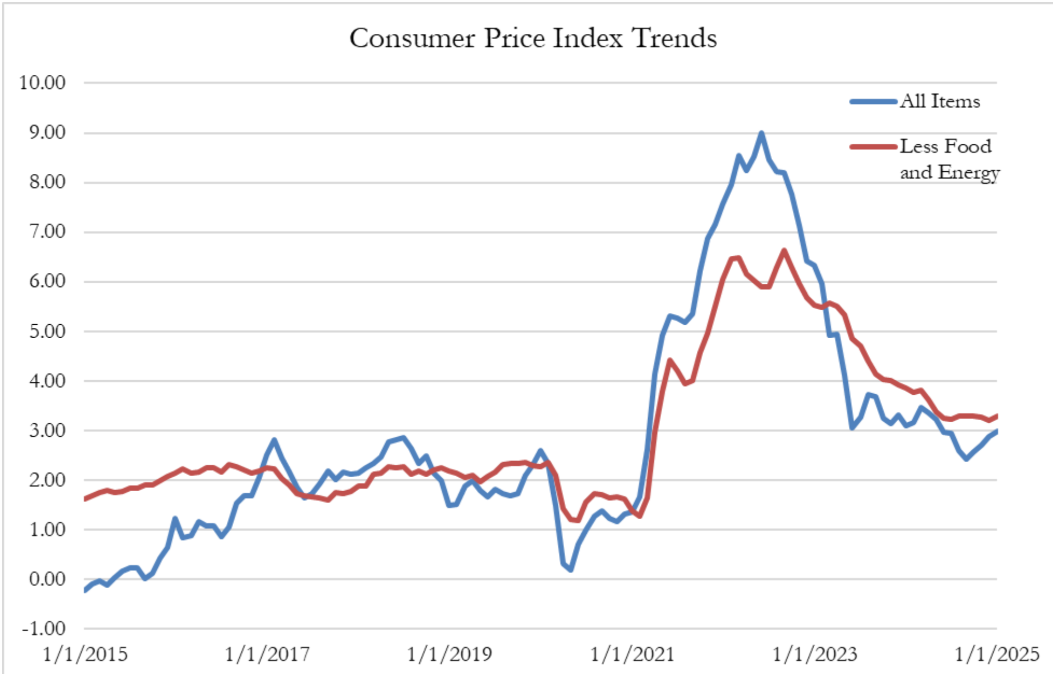
SUMMARY OF BILL: Removes the three percent maximum adjustment cap on the Tennessee Consolidated Retirement System's (TCRS) cost of living adjustment in fiscal years there are over-collections of state tax revenue and a minimum percentage increase in the consumer price index (CPI) of 0.5 percent.

FISCAL IMPACT:

OTHER FISCAL IMPACT
The extent and timing of which the cost of living adjustment will be impacted in future fiscal years is based on multiple unknown variables including, and cannot be reasonably determined. The earliest year in which the cost of living adjustment may be impacted is FY26-27. For every 0.25 percent increase in cost of living adjustments, there will be an increase in lump sum liability of $1,621,816,100.
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.

Assumptions:

- Pursuant to Tenn. Code Ann. § 8-36-701:
    - The cost of living adjustment in the retirement allowance is equal to the difference between the CPI as of the end of the applicable calendar year divided by the prior calendar year-end's price index, and 100 percent;
    - If the change in CPI is between 0.5 percent and 3.0 percent, the retirement system will provide retirees with a cost-of-living adjustment reflecting the actual CPI change;
    - If the percentage increase or decrease in the CPI is less than 0.5 percent, there will be no change in the retirement allowance; however, if the percentage change is between 0.5 and 1.0 percent, the adjustment will be rounded to 1.0 percent.
- The proposed legislation removes the 3.0 percent CPI cap for fiscal years in which there is an over-collection in state tax revenue.
- The inflationary rate changes annually, and does not recognize fixed growth or decline. The following chart reflects the CPI over the last 10 years:



Sources: U.S. Bureau of Labor Statistics, retrieved from FRED, Feb. 2025.

- The extent of the increase in state and local expenditures in a given year is dependent upon multiple factors including, but not limited to, the fluctuations in the CPI and consumer spending. Therefore, the timing and extent of any changes in the cost of living adjustments resulting from this legislation cannot be reasonably estimated. However, the earliest year in which the cost of living adjustment may be impacted is FY26-27.
- Year-to-date cash collections in FY24-25 are $10,484,325,900, a cumulative under-collection of $14,174,100 relative to the year-to-date target. General Fund year-to-date collections are $8,794,265,000, an under-collection of $23,190,800 relative to the year-to-date target. The current consumer price index is 3.0 percent.
- According to TCRS, if the cost of living adjustment increases by 0.25 percent, there will be an increase in lump sum liability of $1,621,816,100. Based on the current valuation of benefits, the first-year cost of such increase would be as follows:
    - Increase in state expenditures of $72,493,160;
    - Mandatory increase in local expenditures of $25,763,151;
    - Permissive increase in local expenditures of $47,269,265; and
    - Increase in federal expenditures of $11,282,811.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Bojan Savic, Executive Director