



Fiscal Policy

MEMORANDUM

To: Members and Friends of the Indiana Fiscal Policy Institute

From: Earl M. Ryan, President

Subject: Teacher Retirement Financing; Property Tax Assessing

Date: February 5, 1993

The detailed legislative program for 1993 recently issued by Governor Evan Bayh contains two significant recommendations that provide evidence of the growing impact of the Indiana Fiscal Policy Institute in moving the state toward sounder taxing and spending policies.

Financing Teacher Retirement. In late 1988, the Institute issued a report in which it recommended that the Teachers' Retirement Fund (TRF), which is among the most poorly funded major public employee retirement systems in the United States, be placed on an actuarially sound funding basis and that the Indiana Constitution be amended to permit state pension funds to improve their performance by investing in stocks.

Failure to adopt these measures will cost Hoosier taxpayers hundreds of millions of dollars per year in additional unnecessary expenditures beginning early in the next century. A 1990 Institute report indicated that the Indiana Public Employees' Retirement Fund was earning nearly \$60 million per year less than it could have if its portfolio were in stocks in the same proportion as other states. In addition, projections made for the Institute by TRF actuaries show that by the year 2017 TRF payments under the present pay-as-you-go policy would be approximately \$700 million per year higher than if the state adopted a policy of advance funding of teacher retirement benefits.

The Governor's proposal would 1) close the current plan to newly hired or rehired teachers after July 1, 1993. Those teachers would join a new plan with the same benefit structure, but which would be funded in accordance with a level-percent-of-payroll plan; 2) submit to the voters (again) a proposed amendment to the Indiana Constitution that would remove the prohibition against ownership of stocks by Indiana public employee retirement funds. (A similar proposal was defeated in 1986 and 1990.); 3) begin actuarial funding of the benefits for those teachers directly employed by the State; 4) restore the allocation of \$30 million per year from lottery revenues to control the growth of the over-\$5 billion TRF unfunded accrued liability beginning in the 1995-97 biennium.

Fiscal Policy **MEMORANDUM**

The estimates of cost of the new approach are \$2.9 million in FY94 and \$8.8 million in FY95. Although a major portion of the problem remains, the new proposal represents a sustainable plan that can be accommodated by this and future budgets and which will save future Hoosier taxpayers millions of dollars a year.

(In presenting this recommendation, Executive Assistant for Fiscal Policy, Frank Sullivan, Jr., publicly acknowledged the role of the Institute in demonstrating the need for these actions.)

Property Tax Assessing. In 1991, the Institute released a report that indicated that the Indiana property tax, which now raises about \$3 billion per year, was subject to such lack of uniformity in assessing practices and assessors had such wide latitude in applying current Indiana assessing standards that a significant program of reform was necessary in order to assure that similar properties are treated in similar fashion in the assessing process. One of the principal recommendations was that Indiana move to market value as the basis for determining assessed value.

Although it stopped short of recommending adoption of market value assessing, the Governor's program includes a recommendation that the State Board of Tax Commissioners be directed to conduct a study to determine the impact of moving to market value assessing. Legislation to authorize such a study is currently moving through the legislative process.

This is, of course, no guarantee that market value assessing will be adopted but, since it is unlikely that it would be adopted in the absence of such data, this probably represents a necessary first step.

(Portions of the Institute's 1991 report were quoted in the Governor's recommendation.)

**Indiana
Fiscal
Policy
Institute**

Indiana Fiscal Policy Institute

Capital Center
251 N. Illinois Street, Suite 980
Indianapolis, Indiana 46204
Phone: (317) 237-2890

Non-Profit
U. S. Postage
PAID
Permit #8
Indianapolis, IN