

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3770-01
Bill No.: HB 1357
Subject: Retirement - State; Retirement Systems and Benefits - General; State Employees
Type: Original
Date: March 9, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$33,482,716)	(\$33,482,716)	(\$33,482,716)
Total Estimated Net Effect on General Revenue Fund*	(\$33,482,716)	(\$33,482,716)	(\$33,482,716)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Highway Fund	(\$7,646,266)	(\$7,646,266)	(\$7,646,266)
Total Estimated Net Effect on Other State Funds*	(\$7,646,266)	(\$7,646,266)	(\$7,646,266)

***The provisions affecting the Missouri State Employees Retirement increases the Unfunded Actuarial Accrued Liability (UAAL) by \$364,693,759. The provisions affecting the Highway Employees & Highway Patrol Retirement System increases the Unfunded Actuarial Accrued Liability (UAAL) by \$90,891,382.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** indicated the above referenced legislation would indicate that such legislation is a “substantial proposed change” in future plan benefits as defined in Section 105.655(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least five (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has been filed with the Joint Committee on Public Employee Retirement and it reflected in the attached pension impact statement.

ASSUMPTION (continued)

Officials from the **Missouri State Employees' Retirement System** assume based on the annual payroll for June 30, 2003 valuation projected forward two years (one year at 1.67% due to the state pay freeze and one year at 4%, the long-term assumed annual rate of payroll growth), the increase in total contribution would be \$33.54 million in the first year after the benefit change. MSEP provisions for members hired prior to August 28, 1997 are based on a 4.25% average minimum increase until an aggregate increase of 65% is reached.

Officials with the **Missouri Highway and Transportation Employees and Highway Patrol Retirement System (HRS)** assume the proposal would present the following effects:

Closed Plan

For active and inactive employees, the benefits of pensioners and their beneficiaries are increased annually by 80% of the increase in the Consumer Price Index (subject to a maximum increase of 5% and a minimum of 4%). The increases are made until the total of the increases reaches 65% at which time the increases will have the minimum removed. For employees hired after 8/27/97 and those hired prior to 8/28/97 and who have reached the 65% cap, the annual percentage increase will be equal to the lesser of : i) 100% of the CPI increase, and ii) 5%.

Year 2000

The annual percentage increase will be equal to the lesser of i) 100% of the CPI increase, and ii) 5%.

An actuarial valuation has determined the proposal would result in the following increase in employer contribution rates:

MoDOT	2.25%
Non-Uniformed Patrol	2.25%
Uniformed Patrol	3.29%

Application of the increased contribution rates in an annual cost increase of:

MoDOT		\$5,381,764
Patrol		
	Non-Uniformed	\$ 763,368
	Uniformed Patrol	\$1,501,134
Total		<u>\$2,264,502</u>
		\$7,646,266

ASSUMPTION (continued)

These calculations are based on annual payroll levels of:

MoDOT	\$239 Million
Non-Uniformed Patrol	\$ 34 Million
Uniformed Patrol	\$ 46 Million

Officials from the **Department of Transportation** assume this proposal increases COLA for special consultants and retirees from 80% to 100% of consumer price index.

Closed Plan - For active and inactive employees, the benefits of pensioners and their beneficiaries are increased annually by 80% of the increase in the Consumer Price Index (subject to a maximum increase of 5% and a minimum of 4%. The increases are made until the total of the increases reaches 65% at which time the increases will have the minimum removed. For employees hired after 8/27/97 and those hired prior to 8/28/97 and who have reached the 65% cap, the annual percentage increase will be equal to the lesser of: i) 100% of the CPI increase, and ii) 5%.

Year 2000 - The annual percentage increase will be equal to the lesser of i) 100% of the CPI increase, and ii) 5%.

These calculations are based on annual payroll levels of:

MoDOT	\$4,063,309
-------	-------------

Increased contribution rate of:

MoDOT	\$3,842,000
-------	-------------

Increased contribution rates of:

MoDOT	1.70%
-------	-------

A new actuarial study is in the process of being performed, therefore the figures from FY03 are being used for this proposal. The figures will be updated, if necessary, once the study has been completed.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
---	---------------------	---------	---------

GENERAL REVENUE

<u>Cost - General Revenue</u>			
Increased Contributions to Retirement Plans	<u>(\$33,482,716)</u>	<u>(\$33,482,716)</u>	<u>(\$33,482,716)</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS*	<u>(\$33,482,716)</u>	<u>(\$33,482,716)</u>	<u>(\$33,482,716)</u>

HIGHWAY FUND

<u>Cost - MoDOT</u>			
Increased Retirement Contributions	<u>(\$7,646,266)</u>	<u>(\$7,646,266)</u>	<u>(\$7,646,266)</u>
TOTAL ESTIMATED NET EFFECT ON HIGHWAY FUNDS*	<u>(\$7,646,266)</u>	<u>(\$7,646,266)</u>	<u>(\$7,646,266)</u>

***The provisions affecting the Missouri State Employees Retirement increases the Unfunded Actuarial Accrued Liability (UAAL) by \$364,693,759. The provisions affecting the Highway Employees & Highway Patrol Retirement System increases the Unfunded Actuarial Accrued Liability (UAAL) by \$90,891,382.**

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

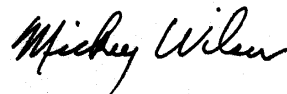
Effective August 28, 2004, this bill requires that the cost-of-living adjustment (COLA) for special consultants on retirement under the Missouri State Employees' Retirement System (MOSERS) be 100% of the increase in the Consumer Price Index for all adjustments on or after September 1, 2004. The COLA cannot be more than 5% of the annuity amount payable immediately before the payment of the COLA.

In addition, effective August 28, 2004, the COLA for members of the Missouri State Employees' Plan 2000 (MSEP 2000) who are receiving an annuity will be 100% of the increase in the Consumer Price Index for all adjustments on or after September 1, 2004. The COLA cannot be more than 5% of the annuity amount payable immediately before the payment of the COLA.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri State Employees Retirement System
Joint Committee on Public Employee Retirement
Missouri Highway Patrol
Missouri Highway and Transportation Employees and
Highway Patrol Retirement System
Department of Transportation



Mickey Wilson, CPA
Director
March 9, 2004