COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4441-01
Bill No.: HB 1499
Subject: Insurance - Medical; Retirement - State; Retirement Systems and Benefits - General; Transportation Dept.
Type: Original
Date: March 30, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Highway	($863,480 to $1,104,240)	($863,480 to $1,104,240)	($863,480 to $1,104,240)
Total Estimated Net Effect on All State Funds*#	**($863,480 to $1,104,240)**	**($863,480 to $1,104,240)**	**($863,480 to $1,104,240)**

*** Does not reflect change in the Unfunded Actuarial Accrued Liability of $911,046.**
 # Does not include unknown savings for reduction in personal service costs.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All 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

Officials from the **Office of Administration - Division of Budget and Planning** and **Department of Insurance** assume the proposal will have no fiscal impact on their organizations.

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **Department of Public Safety - Missouri State Highway Patrol** defer to the Missouri Department of Transportation for response regarding the fiscal impact of the proposal on their organization.

Officials from the **State Highway Retirement Employees and Patrol Retirement System (HRS)** state the proposal would give DOT employees who retire between February 1, 2004 and January 1, 2005, a "retirement incentive" based on a medical premium benefit. Employees who are eligible for normal retirement, and who choose this incentive plan, will pay the same out-of-pocket medical premium cost as an active employee for five (5) years or until eligible for Medicare. The MHTC must approve this program by a majority vote.

ASSUMPTION (continued)

The proposal establishes a DOT hiring cap of 25% for positions that are vacated due to the election of the incentive program. Exceptions are allowed for critical and seasonal positions.

Officials from the **Missouri Department of Transportation (DOT)** provide the following assumptions relating to the proposal:

The DOT assumes that Missouri Highway and Transportation Commission (MHTC) would elect to provide the same benefits; however, the DOT also assumes that the DOT would re-hire 100% of vacated positions. Therefore, the DOT assumes that there will be a negligible change in salary costs.

Based on numbers reported by the Highway Retirement System, there are 530 DOT employees eligible to retire after 2/1/2004 and before 1/1/2005. These are the employees who would be eligible for the additional benefit if they retire within the selected 11 month period. The DOT is going to assume all 530 employees would retire during this 11 month period to take advantage of this benefit. Currently, the MHTC/DOT is paying an active employee's state contribution toward the employee's medical coverage for these 530 employees. The amounts received differ between rate categories (i.e.. Subscriber Only, Subscriber/Family etc.). The employees that retire in the selected 11 month period will continue to receive an equal state contribution amount towards their medical coverage that an active employee receives as of the date of their retirement.

The state contribution that each active employee receives differs between the rate categories (i.e. Subscriber Only, Subscriber/Family etc.). The employees that retire in the selected eleven-month period will continue to receive a state contribution equal to an active employee in the same rate category. The contribution will continue for five years or until the retiree becomes eligible for Medicare. For the purpose of this fiscal note, the DOT is assuming medical premiums would have a 14% annual increase in total premiums based upon utilization/trend and compounded annually. The DOT is also assuming that the percent MHTC/DOT currently contributes towards each rate category for an active and retired employee will stay consistent over the next five years. Lastly, the DOT is assuming that the percent participation the DOT has in each rate category will stay constant for the next five years. Currently, 46 percent of our subscribers are in a Subscriber Only Plan, 22 percent are in a Family Plan, 27 percent are in a Subscriber/Spouse Plan, 4 percent are in a Subscriber with 1 Child Plan, and 1 percent are in a Subscriber with 2 Children Plan.

The difference between what an active employee receives and what a retired employee receives as the state contribution is the additional cost to MHTC/DOT. Currently, MHTC/DOT's monthly contributions towards active employees by categories are as follows: $285 for Subscriber Only; $719 for Subscriber/Family; $439 for Subscriber/Spouse; $500 for Subscriber/Child; and $510

ASSUMPTION (continued)

for Subscriber/2 Children. The MHTC/DOT's current monthly contributions towards retirees by categories are as follows: $165 for Subscriber Only; $374 for Subscriber/Family; $217 for Subscriber/Spouse; $245 Subscriber/Child; and $247 for Subscriber/2 Children. If participants were to retire after February 1, 2004 and before January 1, 2005, the MHTC/DOT's additional cost by categories would be as follows: 244 (530 x 46%) participants of the Subscriber Only category would cost an additional $29,280 per month in calendar year 2004 [244 x ($285-$165)]; 117 (530 x 22%) participants of the Subscriber/Family category would cost an additional $40,365 per month in calendar year 2004 [117 x ($719-$374)]; 143 (530 x 27%) participants of the Subscriber/Spouse category would cost an additional $31,746 per month in calendar year 2004 [(143 x ($439-$217]; 21 (530 x 4%) participants of the Subscriber/Child category would cost an additional $5,355 per month in calendar year 2004 [21 x ($500-$245)]; and 5 (530 x 1%) participants of the Subscriber/2 Children category would cost an additional $1,315 per month in calendar year 2004 [5 x ($510-$247)]. The total fiscal impact for FY 2005 was calculated by multiplying the monthly total in CY 2004 times 6 months and adding that amount to the monthly total in CY 2005 times 6 months.

Currently, a new actuarial assessment is in the process of being performed. The Highway and Transportation Employees' and Highway Patrol Retirement System responded to similar legislation for the 2003 legislative session. That response indicated that the change will not create a significant enough change in the retirement pattern to force a contribution rate change for the retirement system. This information will be updated, if necessary, once the study has been completed.

This fiscal note only represents the costs to Missouri Department of Transportation. It does not include any potential costs to the Highway Patrol. The DOT estimates the proposal will cost approximately $1,376,538 for FY 05 for all funds (General Revenue, Other DOT Funds, DOT Highway Fund and Federal Funds); $1,529,286 for FY 06 for all funds; and $1,650,744 for FY 07 for all funds.

Oversight notes the proposal provides that DOT will not fill more than twenty-five percent of vacated positions, with the exception of critical or seasonal positions. The DOT assumes all positions are critical.

Oversight assumes the DOT would experience savings in reduced personal service costs and fringe benefits as not all positions vacated by retirees would be filled. **Oversight** assumes that for the positions filled, the DOT could experience savings as a result of lower starting salaries and, therefore, lower fringe benefit costs, for new hires. **Oversight** also assumes these savings would exceed the additional insurance premium costs paid by DOT for the new hires. **Oversight**

ASSUMPTION (continued)

is not able to determine the potential savings, but assumes it would be unknown, greater than $100,000 annually.

Oversight obtained information from HRS stating the average number of retirees per month for DOT is 22.5. For the 12 month period in which retirement annuities must commence (employees retiring in January, 2004 would have annuities commencing on February 1, 2004 and therefore, be eligible for the medical insurance incentive), the DOT would have approximately 270 individuals retire. The actuary for HRS estimates the incentive will result in an additional 50 to 140 retirees. The medical incentive is estimated to be $222 per month per retiree. Therefore, **Oversight** assumes the DOT would experience an increase in health insurance premium costs between $852,480 (270 retirees + 50 additional retirees = 320 retirees X $222 medical benefit costs/month X 12 months) and $1,092,240 (270 retirees + 140 additional retirees = 410 retirees X $222 medical benefit costs/month X 12 months).

Officials from the **Office of the Secretary of State (SOS)** state this proposal provides medical insurance benefits for certain Missouri Department of Transportation (DOT) and Highway Patrol retirees. The DOT may promulgate rules to enact this proposal. Based on experience with other divisions, the rules, regulations and forms issued by the Department could require as many as 8 pages in the *Code of State Regulations*. For any given rule, roughly one-half again as many pages are published in the *Missouri Register* as are published in the Code because cost statements, fiscal notes and notices are not published in the Code. The estimated cost of a page in the *Missouri Register* is $23.00. The estimated cost of a page in the *Code of State Regulations* is $27.00. The actual costs could be more or less than the numbers given. The fiscal impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. The SOS estimates the cost of this legislation to be $492 [(8 pp x $27) + (12 pp x $23)].

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

FISCAL IMPACT - State Government	FY 2005 (12 Mo.)	FY 2006	FY 2007
HIGHWAY FUND			
Savings - Missouri Department of Transportation			
Reduction in personal service costs and fringe benefits	Unknown	Unknown	Unknown
Costs - Missouri Department of Transportation			
Increase in retirement contributions	($11,000 to $12,000)	($11,000 to $12,000)	($11,000 to $12,000)
Increase in health care premium costs	($852,480 to $1,092,240)	($852,480 to $1,092,240)	($852,480 to $1,092,240)
Total Costs - Missouri Department of Transportation	($863,480 to $1,104,240)	($863,480 to $1,104,240)	($863,480 to $1,104,240)
ESTIMATED NET EFFECT ON HIGHWAY FUND*#	**($863,480 to $1,104,240)**	**($863,480 to $1,104,240)**	**($863,480 to $1,104,240)**

*** Does not reflect change in Unfunded Actuarial Accrued Liability of $911,046.**
 # Does not include unknown savings from reduction in personal service costs.

FISCAL IMPACT - Local Government	FY 2005 (12 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

The proposal contains provisions pertaining to medical insurance incentives for employees of the Missouri Department of Transportation who are members of the Highway and Transportation Employees' and Highway Patrol Retirement System (HTEHPRS). In its main provisions, the proposal:

(1) Requires current employees who are receiving creditable service and are eligible to receive a normal annuity under HTEHPRS, or a life and any temporary annuity under Missouri State

DESCRIPTION (continued)

Employees' Plan 2000, and whose annuity begins no later than January 1, 2005, to be eligible to receive the medical coverage contained in the proposal;

(2) Does not prohibit employees who are eligible to receive lump-sum payments under Section 104.625, RSMo, or Section 104.1024, from electing to receive the payments authorized by these sections;

(3) Requires a retiree whose retirement annuity commenced on or after February 1, 2004, but no later than January 1, 2005, to be eligible to receive the medical coverage contained in the proposal;

(4) Establishes a department rehiring cap of 25% for positions that are vacated due to the election to retire. Critical positions and seasonal positions may be exempt from this provision;

(5) Requires the department and HTEHPRS to provide monthly tracking of the effects of the medical coverage provided to eligible retirees and the number of retirements resulting from the plan. In addition, the proposal requires the department and HTEHPRS to submit a written report to the Governor, the Commissioner of the Office of Administration, and the General Assembly by April 1, 2005. The report must examine required subject areas and the effects of the incentive provisions. The period the report must cover is February 1, 2004, to January 31, 2005;

(6) Requires the Highways and Transportation Commission to approve the retirement plan by a majority vote. The commission is required to accept or reject the plan within 30 days after the effective date of the proposal. Following the vote, the commission is required to notify all department employees and retirees since February 1, 2004, of their decision;

(7) Requires any member who retires under the provisions of the bill and who is eligible for medical coverage under the department's health care plan to be eligible to apply for coverage which allows a retiree to elect to continue coverage for himself or herself and eligible dependents at the same cost as if the retiree was an active employee. The election will cover a maximum period of five years or until the retiree is eligible for Medicare, whichever occurs first; and

(8) Requires the costs for medical coverage for eligible retirees to revert to the applicable rate after the five-year period expires or when the retiree becomes eligible for Medicare.

The proposal contains an emergency clause.

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

Office of Administration -
Division of Budget and Planning
Missouri Department of Transportation
Department of Public Safety -
Missouri State Highway Patrol
State Highway Employees & Patrol Retirement System
Department of Insurance
Joint Committee on Public Employees Retirement
Office of Secretary of State

Mickey Wilson

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Director
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