

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3825-06
Bill No.: SS for SCS for HCS for HB 1306
Subject: Retirement - State; Retirement Systems and Benefits - General; State Employees
Type: Original
Date: April 26, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue*	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund*	(Unknown)	(Unknown)	(Unknown)

***Unknown expected to exceed \$100,000.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various*	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds*	(Unknown)	(Unknown)	(Unknown)

***Unknown expected to exceed \$100,000.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 17 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>All</u> Federal Funds	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$3,809,252	\$3,809,252	\$3,809,252

FISCAL ANALYSIS

ASSUMPTION

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 **Transportation and Highway Patrol Employees Retirement System, Department of Labor and Industrial Relations, Department of Conservation and Missouri State University** assume no fiscal impact to their agency.

Officials from the **Missouri Highway Patrol** assume the Retirement System will be responding on their behalf.

Officials from the **Missouri State Employees Retirement System** assume the proposal would, if enacted, involve minor modifications to and clarifications to the Missouri State Employees' Plan (MSEP), the Judicial Plan, and the MoDOT and Patrol Employees' Retirement System (MPERS). These provisions are commonly referred to by the retirement systems as "clean-up" legislation. They are general in nature and carry no fiscal impact to the system.

ASSUMPTION (continued)

Section 70.655

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 **Local Government Employees Retirement System** assume this proposal would require programming adjustments in an amount of \$30,000 or less to amend programs providing for actuarial reports, benefit calculations and data administration.

Sections 86.254, 86.330, 86.337, 86.590, 87.325, 87.330, 87.335, 87.340, 87.345

The **Joint Committee on Public Retirement** indicates that this legislation does represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(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 State and 3) the Joint Committee on Public Employee Retirement as public information for at least (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 Retirement.

The provisions of this proposal affecting the St. Louis Police Retirement system would increase the employer contribution to the system by \$700,000 (1.0%) annually and decrease the employer contribution to the system would be \$2,400,000 (-3.6%) annually producing a net savings in annual employer contributions of \$1,700,000 (-2.6%).

The provision of this proposal affecting the St. Louis Firemen's Retirement System would decrease the employer contribution by \$2,109,252 (-5.997%) annually.

Officials from the **Police Retirement System of St. Louis** assume separating the two items, the benefit increase carries a \$700,000 increase in actuarial liability. The change in the actuarial method from aggregate to entry age normal is a decrease in City contributions of \$2.4 million. Net cost saving with this proposal is \$1.7 million annually.

ASSUMPTION (continued)

Officials from the **Firemen's Retirement System of St. Louis** assume the following:

- The City shall annually pay into the fund an amount equal to the "normal contribution" and an additional amount to be known as the "accrued liability contribution."
- "The normal contribution" shall be determined as the Normal Cost under the Entry Age Normal Funding Method.
- "The accrued liability contribution" shall consist of the amount that will be required to amortize as a level percentage of earnable compensation the unfunded Actuarial Accrued Liability, as determined under the Entry Age Normal Funding Method, over a 30-year period commencing October 1, 2006. Any future increase or decrease in the unfunded Actuarial Accrued Liability resulting from statutory changes shall be amortized as a level percentage of earnable compensation over a 30-year period commencing with the beginning of the fiscal year coincident with or next following the effective date of the statutory change. All other changes in the unfunded Actuarial Accrued Liability subsequent to October 1, 2006, including from experience gains and losses and from changes in actuarial assumptions and methods, shall be aggregated at each actuarial valuation subsequent to October 1, 2006, and shall be amortized as a level percentage of earnable compensation over a 30-year period commencing at that valuation date. The 30-year amortization period for the aggregated unfunded liability changes from experience gains and losses and from assumption and method changes shall be reestablished at each valuation date.

"The accrued liability contribution" will cease only when the accumulated reserve in the general reserve fund equals or exceeds the Actuarial Accrued Liability as determined by an actuarial valuation. The City will always be required to contribute "the normal contribution."

HCS for HB 1305

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 **Missouri State Employees Retirement System (MOSERS)** assume the cost to implement the two mandatory continuing education requirements would be minimal (less than \$20,000 annually). As it relates to education, MOSERS' trustees are presently provided with an educational manual regarding the roles and responsibilities of trustees immediately following

ASSUMPTION (continued)

appointment to the board. In addition, MOSERS' staff provides education training regarding the topics addressed in the legislation during annual board retreats. Trustees are also encouraged to obtain additional training at outside conferences and seminars held throughout the year.

Regarding ethics, the MOSERS board has adopted a governance policy that addresses a fiduciary code of conduct for members including provisions that prohibit self-dealing and acceptance of any gratuity, political contribution or compensation for the purpose of influencing action with respect to the retirement plan. Such actions are also subject to the penalties prescribed for bribery.

Oversight assume any cost to implement the education requirements would be minimal and could be absorbed by the agency.

Officials from the **Department of Labor, Department of Conservation, Kansas City Firefighters Retirement System, Local Government Employees Retirement System and Public School Retirement System** would assume no fiscal impact to their agency.

Officials from the **County Employees Retirement System (CERF)** assume the proposal will generate additional costs for CERF to implement and execute the comprehensive board member education program. These costs will be in the nature of travel and per diem for board members, costs to develop the training programs, and for professional and education fees and materials.

Oversight assume any costs to implement the education requirements would be minimal and could be absorbed by the agency.

Officials from the **Transportation and Highway Patrol Employees Retirement System (MPERS)** assume Section 105.684 and 104.1095 has the potential for a fiscal impact for MPERS. The funded status of MPERS was below 60% on June 30, 2005. Therefore, if an accelerated contribution schedule were to be prepared and implemented, there would be a fiscal impact depending upon the number of years to be used in the accelerated schedule.

Creditable Service

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).

The provisions associated with the MPERS non-uniformed service purchase is estimated to cost

ASSUMPTION (continued)

the system approximately \$20,049 per purchase with a total estimated cost of \$70,000 to \$100,000 annually, depending on utilization.

Oversight defers to the retirement systems assumptions.

Officials from the **Missouri Highway Patrol** assume the Department of Transportation will respond on their behalf.

Officials with the **Highway Employees and Patrol Retirement System** assume the proposal would subsidize the creditable service by certain employees of the Missouri Department of Transportation and Civilian Patrol. The unfunded liability of the retirement system will increase, and at some point, cause an increase in the MoDOT and Patrol Contribution rate.

Section 106.691 as it currently exists, allows members to purchase non-federal public employment service. Undersection 105.691, the cost to purchase service is the full actuarial cost. However, the language contained in the proposal allows for the purchase of service at a flat subsidized rate. The subsidy that is build into this calculation results in the system receiving generally less than \$.30 for every actual dollar of cost. A similar provision exists for employees covered by MOSERS in Section 104.344.) This provision also exists for Uniformed Patrol employees. The cost of purchasing this service is calculated using the base salary and contribution rate in effect on the date the member was first employed.

The interest expense is calculated at the rate of "simple interest" from the date of employment to the date of election to purchase.

It is anticipated the retirement system would subsidize the purchase cost by approximately \$20,00 for each employee who would take advantage of this purchase.

At this point, the question becomes:

1. How many MoDOT and Civilian Patrol employees have this type of service, and how much service is eligible for purchase?

The retirement system has no way to determine how much service is available for purchase. In addition, even if they knew how much service was eligible for purchase, they would have no way to determine just how many people would purchase the additional service.

ASSUMPTION (continued)

Therefore, at this time, there is no way for them to determine what impact passage of this proposal will have on the overall contribution rates. While they can say this proposal does absolutely have a cost to the system associated with the purchase of each piece of service, they do not have a way to estimate the total cost to the system. The only things that can be determined for certain are:

1. There is a cost to the system for each year of service purchased.
2. The more service purchased, the higher the cost to the system.
3. Over time, because this purchase increases the amount of the benefits paid, it will eventually increase the unfunded liability of the system.

Annual Fiscal Impact: Since the law currently allows for the purchase of this service under section 105.691, to determine the fiscal impact to the system you must calculate the difference between purchasing the service under the existing law and the proposed law.

- Assume an employee has an initial starting salary of \$635.00 per month. The contribution rate at the time of employment was 5.10%
- The calculation is for 24 months of service.

Cost to purchase service at the actuarially determined rate (105.691)	\$22,681.40
Cost to purchase at rate proposed	\$ 2,631.44
Difference to be subsidized by Retirement System	\$20,049.96

Currently, there are approximately 8,100 MoDOT and Civilian Patrol members. If they assume that 1% (81) of these members have this type of service and ½ of those eligible actually purchase the service (40), their actuary has estimated the cost will increase contributions between \$70,000 and \$100,000 annually.

Obviously, the actual cost to the system could be higher or lower if their estimate of the number of people who have and purchased service is incorrect.

Oversight assumes there would be minimal fiscal impact to HTEHPRS due to the service buy-back and earnings fund contribution of the uniformed Patrol member.

Officials from the **Department of Transportation** assume the amount of service available for purchase is unknown. In addition, the number of eligible persons that would actually buy the service is unknown. Therefore, we cannot estimate a fiscal impact for the legislation, however, based on the estimated provided by the MoDOT and Patrol Employees' Retirement System, the

ASSUMPTION (continued)

negative impact would exceed \$100,000.

Oversight assumes, as stated above, there would be minimal fiscal impact to HTEHPRS due to the service buyback and earnings fund contribution of the uniformed Patrol member.

Office Requirements

Officials from the **Department of Revenue** assume minimal fiscal savings to their agency.

Overtime - State Employees

Officials from the **Department of Public Safety, Missouri Highway Patrol** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Corrections, the Department of Labor and Industrial Relations** and the **Department of Public Safety, Office of the Director** assumed a previous version of this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning** deferred to the Division of Personnel as to the fiscal impact of this proposal.

Officials from the **Department of Public Safety, Division of Veterans Affairs (VETS)** assume this proposal would require additional expenditures from the Veterans Home Fund for staff overtime payments. VETS officials estimated a cost of \$3,694,429 for FY 2007, \$3,786,789 for FY 2008 and \$3,881,459 for FY 2009.

Officials from the **Office of Administration, Office of the Director and Division of Personnel (OA)** assumed a previous version of this proposal would define state agencies and employees for whom overtime must be paid and for whom a certain amount of compensatory time may be maintained. OA officials assume this proposal would have no fiscal impact on their organization but would have an impact on several other state agencies.

Officials from the **Department of Social Services (DOS)** assumed a previous version of this proposal would result in additional cost to the agency. Certain employees would receive annual payment for state and holiday overtime. Currently, the Division of Youth Services (DYS) may direct employees to utilize compensatory leave in lieu of a cash payment for state and holiday overtime balances. Additionally, the division currently does not pay state and holiday overtime balances annually. Those overtime balances are paid periodically as the budget allows.

ASSUMPTION (continued)

The division has a current appropriation of \$281,107 for payment of federal overtime liability. The addition of annual payment for state and holiday overtime balances would increase the payments made by the division. DOS officials provided an estimated General Revenue Fund cost of \$774,652 for FY 2007, \$953,203 for FY 2008, and \$977,033 for FY 2009.

Officials from the **Department of Mental Health** (DMH) assumed a previous version of this proposal would change the overtime pay-out from quarterly to monthly and would include the monthly pay-out of compensatory time and holiday time earned under state and federal laws, for direct care staff in 24 hour, 7-day a week facilities, which has traditionally been carried until utilized.

Based on current compensatory and holiday time balances and projected accruals in FY07, DMH has estimated the fiscal impact for FY07 would be \$2,659,277 in GR and \$12,000 in Federal Funds. It is difficult to project the rate of accrual of compensatory time and holiday time for future years. DMH has estimated the same amounts for FY08 and FY09. Those estimates were not adjusted to reflect possible pay increases.

Oversight assumes this proposal would result in unknown additional overtime payouts from several state funds by agencies with employees subject to the proposal's requirements. Oversight assumes the cost to the General Revenue Fund and Various State Funds would exceed \$100,000 per year; the cost to Various Federal Funds is unknown.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
<u>Cost</u> - state agencies			
Overtime payouts *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
VARIOUS STATE FUNDS			
<u>Cost</u> - state agencies			
Overtime payouts *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS *			
* Unknown expected to exceed \$100,000			
<u>FISCAL IMPACT -Federal Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
VARIOUS FEDERAL FUNDS			
<u>Cost</u> - State agencies			
Overtime payouts	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON VARIOUS FEDERAL FUNDS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
ST. LOUIS POLICE RETIREMENT SYSTEM & FIREMEN'S RETIREMENT SYSTEM			
<u>Savings - City of St. Louis</u>	<u>\$3,809,252</u>	<u>\$3,809,252</u>	<u>\$3,809,252</u>
TOTAL ESTIMATED NET EFFECT ON ST. LOUIS POLICE RETIREMENT SYSTEM & FIREMEN RETIREMENT SYSTEM	<u>\$3,809,252</u>	<u>\$3,809,252</u>	<u>\$3,809,252</u>

FISCAL IMPACT - Small Business

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

DESCRIPTION

This bill changes the laws regarding the Missouri State Employees' Retirement System (MOSERS). The bill:

- (1) Adds language allowing retirement boards to promulgate rules to accommodate changes in the state's payroll system as it relates to the final average compensation for retirement benefit calculation (Sections 104.010.7 and 104.1003(16), RSMo);
- (2) Changes the required hours for an employee to be eligible for benefits from 1,000 hours to 1,040 hours (Sections 104.010.1(20) and 104.1003(13));
- (3) Changes the definition of "employee" so that after August 28, 2006, part-time employees of the General Assembly working less than 1,040 hours per year will not be considered employees as it relates to retirement benefits (Sections 104.010.1(20)(b) and 104.1003(13));
- (4) Revises the definition of "member" as an employee, retiree, or vested former employee (Section 104.010.1(27));
- (5) Removes cash-out provisions for active employees (Section 104.335);

DESCRIPTION (continued)

- (6) Removes language that allows members to purchase contract service (Section 104.344);
- (7) Revises the provision allowing a survivor of a deceased member to receive or transfer creditable prior service for determining survivor benefits (Sections 104.378 and 104.1021(13));
- (8) Clarifies that members on long-term disability are to be treated like active employees as it relates to retirement benefits (Sections 104.410 and 104.1042);
- (9) Requires members on disability to pay their life insurance premium unless approved for a waiver (Sections 104.410 and 104.1042);
- (10) Requires that no error in benefit calculation be corrected unless it is discovered within 10 years of the date benefits began (Section 104.490);
- (11) Adds language that all retirees of the plans administered by MOSERS, including administrative law judges and legal advisors and judges, who become reemployed into a benefit-eligible position will terminate their retirement benefits while so employed. Upon re-retirement, after completing at least one year of service, an additional annuity will be calculated based on the position held while reemployed. The retirement system that paid the original annuity will be responsible for paying the additional annuity (Section 104.603);
- (12) Requires that members purchasing creditable service must apply and complete the purchase prior to applying for retirement benefits (Section 104.606);
- (13) Creates an excess benefit plan allowing MOSERS to pay benefits presently subject to Internal Revenue Code 415 limitations (Section 104.607);
- (14) Extends the final beneficiary payment provisions to judges and members of the Administrative Law Judges and Legal Advisors' Retirement Plan (ALJLAP) (Section 104.620);
- (15) Adds safe harbor provisions for the MOSERS board as it relates to education and advice given to members for retirement planning (Sections 104.1012 and 104.1205.2);
- (16) Changes the vesting requirement for service purchase transfers for legislators from two to three full biennial assemblies (Section 104.1021(11));
- (17) Clarifies that MOSERS can make beneficiary payments to the natural parent or the legal guardian of a minor child until age 18; thereafter, the benefit may be paid to the child until age 21 (Section 104.1030);

DESCRIPTION (continued)

(18) Allows judges and administrative law judges to vote and be a candidate for an elected position on the MOSERS board (Section 104.450); and (19) Clarifies that retirees, under the new plan, can retain optional life insurance coverage until age 62 (Section 104.1072).

This substitute changes the laws regarding several public employee retirement systems.

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (LAGERS)

Currently, a political subdivision cannot create a pension plan similar to LAGERS for its employees who are not police officers or firefighters unless it has an assessed valuation of \$100 million or more. The substitute specifies that a political subdivision cannot create a pension plan similar to LAGERS for any employees unless it has an assessed valuation of \$500 million or more.

After January 1, 2007, volunteer fire protection associations and fire protection districts must establish new pension plans under the provisions of Chapter 70, RSMo, unless the new plan is the result of consolidating the plans of two or more fire protection districts existing prior to January 1, 2006.

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL
EMPLOYEES' RETIREMENT SYSTEM (MPERS)

If the actuary for MPERS determines that the funded ratio of the system is below 50% for three consecutive years, the plan will close to new members effective January 1 of the following year.

A member of MPERS may purchase up to four years of his or her prior creditable service as a nonfederal, full-time public employee as long as he or she is not receiving or eligible to receive credits or benefits from any other public plan for the service being purchased. The purchase of this service must be completed prior to retirement or termination of employment. If a member who purchased service dies prior to retirement, the surviving spouse can receive a refund of the amount contributed for the purchase if he or she is not eligible for survivor benefits.

GENERAL PROVISIONS

The substitute:

(1) Defines "defined benefit plan," "defined contribution plan," "funded ratio," and "lump sum benefit plan";

DESCRIPTION (continued)

(2) Changes the contribution period, from 40 to 30 years, for which plans may not exceed unfunded accrued liabilities;

(3) Requires retirement systems to establish mandatory board member education programs regarding responsibilities, ethics, governance, plan design, administration of benefits, investments, legal liability, and actuarial principles. Board members will be required to attend at least two continuing education programs each year;

(4) Prohibits appointing authorities, board members, or employees from receiving a gain or profit from funds or transactions of the plan except benefits which are common to all members of the plan. If political contributions or other compensations are accepted to influence the investment of system funds, the person will forfeit his or her office and be subject to penalties prescribed for bribery;

(5) Specifies that any trustee, employee, or plan participant convicted of a plan-related felony directly connected with his or her duties will be ineligible for retirement benefits;

(6) Prohibits, after August 28, 2006, plans with a fund ratio of less than 80% from providing additional benefits. Plans with a fund ratio greater than 80% can adopt benefit enhancements if the ratio does not decrease more than 10% or below 75%. The unfunded actuarial accrued liabilities associated with these benefit changes will be amortized over a period not to exceed 20 years;

(7) Requires plans with a ratio of less than 60% and the plan has not met 100% of the actuarially required contribution payment for three successive plan years, to be deemed delinquent in the contribution payment which will constitute a first lien on the funds of the political subdivision. Until the delinquency in the contribution payment is satisfied, the State Treasurer and Director of the Department of Revenue will withhold all moneys due the political subdivision from the state; and

(8) Removes the requirement that the Board of Public Buildings provide the Department of Revenue and the department director with suitable quarters in St. Louis City. Currently, the board is required to provide quarters in Jefferson City, Kansas City, and St. Louis City.

Section 70.655

Current law provides that a member of the Missouri local government employees' retirement system (LAGERS) with credited service covered by benefit program L-1 shall receive an allowance for life equal to one percent of the member's final salary multiplied by the years of

DESCRIPTION (continued)

credited service, if the member's employer elects to provide such benefits. This act provides that within the city of Lebanon, a member of LAGERS who has credited service of at least twenty years covered by benefit program L-1 shall receive an allowance for life equal to two percent of the member's final salary multiplied by the number of years of credited service accrued on or after the effective date of this act, if the member's employer elects to provide such benefits.

The provisions of this act shall not be applied retroactively.

Sections 86.254, 86.330, 86.337, 86.590, 87.325, 87.330, 87.335, 87.340, 87.345

Currently, retired St. Louis City police officers may be appointed as special advisors for the police retirement board and receive compensation of \$10 per month multiplied by the number of years the retired member is past the age of sixty years. This act increases the dollar amount to \$15 per month.

The proposal will also change the actuarial method from aggregate to entry age normal actuarial cost method.

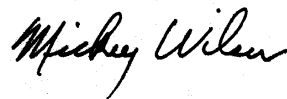
Overtime - State Employees

Under the act a state employee who has accrued compensatory time hours may request payment for such time if he or she has accumulated over 20 hours of compensatory leave time or use the time as leave time when available and agreed to by the employee's supervisor.

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

Joint Committee on Public Employee Retirement
Transportation and Highway Patrol Employees Retirement System
Missouri Highway Patrol
Missouri State Employees Retirement System
Department of Labor and Industrial Relations
Department of Conservation
Missouri State University
Local Government Employees Retirement System
Public Schools Retirement System
County Employees Retirement Fund
Department of Transportation
Department of Revenue
St. Louis Police Department Retirement System
St. Louis Firemen Retirement System
Office of Administration
 Division of Budget and Planning
 Division of Personnel
Department of Corrections
Department of Mental Health
Department of Social Services
Department of Public Safety
 Office of the Director
 Division of Veterans Affairs



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Director

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