

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4024-01
Bill No.: HB 1268
Subject: Retirement - State; Retirement Systems and Benefits - General; State Employees
Type: Original
Date: February 14, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$779,057)	(\$779,057)	(\$779,057)
Total Estimated Net Effect on General Revenue Fund	(\$779,057)	(\$779,057)	(\$779,057)

***The provisions affected MOSERS by increasing the Unfunded Actuarial Accrued Liability (UAAL) by \$10,671,071. The increase in employer contributions to MOSERS would have been \$1,315,205 (0.07%) annually. The provisions affected MPERS by increasing the Unfunded Actuarial Accrued Liability (UAAL) by \$2,567,595. The increase in employer contributions would be \$252,376 (0.07%) annually. These amounts would not create a "substantial proposed change" as defined in Section 105.660(5).**

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Other Funds	(\$492,658)	(\$492,658)	(\$492,658)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$492,658)	(\$492,658)	(\$492,658)

*The provisions affected MOSERS by increasing the Unfunded Actuarial Accrued Liability (UAAL) by \$10,671,071. The increase in employer contributions to MOSERS would have been \$1,315,205 (0.07%) annually. The provisions affected MPERS by increasing the Unfunded Actuarial Accrued Liability (UAAL) by \$2,567,595. The increase in employer contributions would be \$252,376 (0.02%) annually. These amounts would not create a "substantial proposed change" as defined in Section 105.660(5).

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Federal Funds	(\$295,866)	(\$295,866)	(\$295,866)
Total Estimated Net Effect on <u>All</u> Federal Funds	(\$295,866)	(\$295,866)	(\$295,866)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

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). It should be noted, however, that provisions contained in this proposal will increase the MOSERS and MPERS Unfunded Actuarial Accrued Liability (UAAL) and will result in an increase of annual employer contributions.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposal would change the provisions that allow for the conversion of unused accumulated sick leave into service credit at the time of an employee's retirement. As presently drafted, the proposal would allow one day of creditable service for every eight hours of unused accumulated sick leave earned by the member. Under the current law, a member is entitled to one-twelfth a year of creditable service for each 168 hour period of unused accumulated sick leave earned by the member.

Under this proposal, days of credit would be translated into months of service as required by state law and board rule. Using those combined requirements, 30 days of credit equals one month of service. As a result, the net effect of this proposal would be that members would get less service credit for unused sick leave than under the present policy (168 hours under the current law versus 240 hours under the proposal).

The proposal was valued to provide a member with one-twelfth of a year of creditable service for each one hundred sixty-eight hour period of unused accumulated sick leave earned by the member and one additional month of creditable service for any remaining hours of unused sick leave.

The following table illustrates the computed increase in the employer contribution rate that would be necessary to fund the proposed benefit on a level cost basis:

Valuation Payroll	Present Benefit (% of Payroll)	Proposed Benefit (% of Payroll)	Increase (% of Payroll)	Increase (Contributions)
\$1,878,864,582*	12.8%	12.85%	.07%	\$1,315,205

*Current annual payroll for the June 30, 2005 valuation has been projected forward two years (one year at 0% due to the state pay freeze and one year at 4%, the long-term assumed annual rate of payroll growth).

ASSUMPTION (continued)

Based upon the payroll for the June 30, 2005 valuation projected forward two years, the annual increase in total contributions necessary to fund the proposed benefit on an ongoing basis (assuming a 4% long-term rate of payroll growth) would be approximately \$1.3 million.

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

Officials from the **Department of Labor and Industrial Relations** assume the proposal amends law to allow one day credit for retirement calculation for eight hours of unused sick leave. The law currently grants 1/12th of a year for 168 hours of unused sick leave.

It would be difficult for the Department of Labor and Industrial Relations to determine a fiscal impact, if any due to all the variables in the proposal. MOSERS can provide the most accurate response.

Officials from the **Missouri Department of Conservation** assume this proposal would not appear to have any fiscal impact on their agency.

Officials from the **Office of Administration - Division of Budget and Planning** assume the proposal changes the provisions that allow for the conversion of unused accumulated sick leave into service credit at the time of an employee's retirement.

The proposal is to provide MOSERS members with on-twelfth of a year of creditable service for each one hundred sixty-eight hour period of unused accumulated sick leave earned by the member (as current law allows), and one additional month of creditable service for any remaining hours of unused sick leave (new provision).

MOSERS' computed increase in the employer contribution rate that would be necessary to fund the proposed benefit on a level cost basis would be .07% , or \$1,315,205.

The Division of Budget & Planning has calculated the breakdown of the impact of this increase by funding source as follows:

General Revenue	\$779,057
Federal Funds	\$295,866
Other Funds	<u>\$240,282</u>
Total	\$1,315,205

ASSUMPTION (continued)

Officials from the **Highway and Patrol Employees' Retirement System** assume the proposal deals with the conversion of excess sick leave to service credit at the time of retirement.

Under current statutes, retiring employees receive one month of creditable service for every 168 hours of unused sick leave. As an example, let's assume a retiring employee has a balance of 1,800 sick leave hours. Accordingly, he will receive credit for 10 months of service ($1,800 / 168 = 10.71$ months, rounding to 10 full months). The 10 months of service equates to 1,680, leaving 120 hours to "fall away". ($1,800 \text{ minus } 1,680 = 120 \text{ hours}$)

However, this proposal would revise the statutes to give the employee (in this particular case) a total of 11 months of service credit.

As indicated in the actuarial valuation, the annual fiscal impact of this proposal would be as follows:

MoDOT		\$180,613
Patrol		
Civilian	\$25,009	
Uniformed	\$46,754	\$ 71,763
Total		\$252,376

The proposal was valued to provide a member with one-twelfth of a year of creditable service for each one hundred sixty-eight hour period of unused accumulated sick leave earned by the member and one additional month of creditable service for any remaining hours of unused sick leave.

Officials from the **Department of Transportation (MoDOT)** assume in a similar proposal during the FY04 session (FN#3936-01/HB 1316) MoDOT's analysis showed that if this proposal is implemented, on average, MoDOT's retiring employees will receive an additional 7 days of creditable service. In FY04, the Highways and Transportation Employees' and Highway Patrol Retirement System's actuary calculated a contribution rate increase of .02%. Therefore, MoDOT's retirement expenses will increase by \$52,751 (estimated FY07 payroll \$263,755,076 x .02%).

Oversight assume that MoDOT's costs have been included in the Highway and Patrol Employees' Retirement System calculations.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE*			
<u>Cost - Office of Administration</u>			
Net increase in employer contributions	<u>(\$779,057)</u>	<u>(\$779,057)</u>	<u>(\$779,057)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$779,057)</u>	<u>(\$779,057)</u>	<u>(\$779,057)</u>
OTHER STATE FUNDS*			
<u>Cost - Office of Administration</u>			
Net increase in employer contributions	(\$240,282)	(\$240,282)	(\$240,282)
<u>Cost - Department of Transportation</u>			
Net increase in employer contributions	<u>(\$252,376)</u>	<u>(\$252,376)</u>	<u>(\$252,376)</u>
ESTIMATED NET EFFECT ON ALL OTHER FUNDS	<u>(\$492,658)</u>	<u>(\$492,658)</u>	<u>(\$492,658)</u>
FEDERAL FUNDS			
<u>Cost - Net increase in employer contributions</u>			
	<u>(\$295,866)</u>	<u>(\$295,866)</u>	<u>(\$295,866)</u>
ESTIMATED NET EFFECT ON ALL FEDERAL FUNDS	<u>(\$295,866)</u>	<u>(\$295,866)</u>	<u>(\$295,866)</u>

***The provisions affected MOSERS by increasing the Unfunded Actuarial Accrued Liability (UAAL) by \$10,671,071. The increase in employer contributions to MOSERS would have been \$1,315,205 (0.07%) annually. The provisions affected MPERS by increasing the Unfunded Actuarial Accrued Liability (UAAL) by \$2,567,595. The increase in employer contributions would be \$252,376 (0.02%) annually. These amounts would not create a "substantial proposed change" as defined in Section 105.660(5).**

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<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

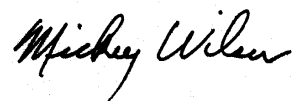
This bill changes the laws regarding credited service for unused sick leave accumulated by members under the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS), the Missouri State Employees' Retirement System (MOSERS), and the Missouri State Employees' Plan 2000 (MSEP 2000).

Currently, when calculating years of service, members retiring under MPERS, MOSERS, and MSEP 2000 receive one month of credited service for each 168 hours of unused accumulated sick leave. The bill repeals this calculation and requires that members retiring under each retirement system are entitled to one day of credited service for every eight hours of unused accumulated sick leave.

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
Highway Employees and Patrol Employees Retirement System
Missouri Highway Patrol
Missouri State Employees Retirement System
Department of Labor and Industrial Relations
Department of Conservation



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