

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2349-01
Bill No.: HB 949
Subject: Highway Patrol; State Employees; Retirement - State; Retirement systems and Benefits - General; Transportation Dept.
Type: Original
Date: March 13, 2007

Bill Summary: Allows a person accruing creditable or credited service in a retirement system under Chapter 104, RSMo, to transfer such service to another retirement system within Chapter 104, RSMo.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on General Revenue Fund*	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Non-State Funds	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	\$0	\$0

***Net transfer in and out of MOSERS and MPERS.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
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).

Officials from the **Department of Transportation** and **Department of Labor and Industrial Relations** assume no fiscal impact to their agencies.

Officials from the **Department of Transportation** assume the proposal described in Fiscal Note No. 2348-01N (HB 949) would, if enacted, require the transfer of funds between the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS) in the event a service transfer occurs between the two systems. As proposed, the transferring system would calculate the dollar amount to be transferred based upon the amount by which the accrued liability of the transferring system would be reduced multiplied by the percent by which the less well funded system of the two is funded.

Under the present law, when a MOSERS' member transfers to a position covered by MPERS, the accrued MOSERS' service credit is simply transferred to MPERS – that is, they take on the liability for the MOSERS' covered service and MOSERS has no further liability for that individual. When an MPERS' covered member transfers to a MOSERS' covered position, the service credit and related liability is assumed by MOSERS and it is removed from the MPERS books. With transfers of service credit in either direction, there is no corresponding transfer of assets.

Over the past five years, these transfers have favored MOSERS financially. During that period, we transferred 350 members to MPERS whose service credit with us averaged about 7 years. MPERS transferred 160 of their members to us whose service credit with them averages about 6 years. Consequently, the years of service transferred favored MOSERS on the order of 2.5 to 1 (2,450 vs. 960). We estimated the financial impact of these transfers by assuming that the individuals involved were age 45 earning \$35,000 at the time of the transfer. Under those assumptions, our liability was reduced by the transfers out by \$12,022,000 and our liability was increased by the transfers in by \$4,671,000. The impact on MPERS was the approximate converse of those numbers under those assumptions.

Under the proposed legislation, the dollar amount transferred would equal the transferring system's accrued liability for the individual multiplied by the funded percent of the less well

ASSUMPTION (continued)

funded system – that factor is presently 55.5% for MPERS (compared with 85.3% for MOSERS). While the percent funded changes from year to year, we used the current percentage to approximate what the financial impact would have been on MOSERS, if this proposal had been in effect the last five years, again using the liability estimates stated earlier. That calculation showed a net loss to MOSERS of \$4,080,000 for the five year period under the stated assumptions.

Officials from the **MoDOT and Patrol Employees' Retirement System** assume this proposal would provide for funds to be transferred between MOSERS and MPERS for those employees who transfer creditable service between the two systems. the amount of assets transferred between the two systems for a member will be based on the accumulated liability multiplied by the percentage of the lower funded status of the two systems.

Currently, members may transfer between MPERS and MOSERS. While the accrued creditable retirement service is transferred, no assets are transferred between the two systems as a result of the activity. The current system is a financial disadvantage to MPERS. This is due to the fact that more members transfer from MOSERS to MPERS instead from MPERS to MOSERS.

Our actuary recently examined transfer activity for the three-year period ended June 30, 2006. Note: This is a more narrow time frame than the period examined by MOSERS officials for their fiscal note. The actuarial study revealed the following:

Transferred <u>from</u> MOSERS:	
88 employees @ 7.4 years	= 651 years
Transferred <u>to</u> MOSERS	
24 employees @ 8.5 years	= <u>204 years</u>
Net service assumed by MPERS	447 years

ASSUMPTION (continued)

The following chart demonstrates the financial impact on MPERS over the three-year period. Column (A) demonstrates the actual liability assumed by MPERS. Column (C) shows what the liability to MPERS would have been had the proposal been in place.

Increase to MPERS liability for transfers <u>from</u> MOSERS	\$3,915,487	x 55.5%	\$2,173,095
Decrease to MPERS liability for transfers <u>to</u> MOSERS	<u>\$1,539,919</u>	<u>x 55.5%</u>	<u>\$ 854,655</u>
Net Increase in MPERS liability	\$2,375,568	x 55.5%	\$1,318,440

Oversight assumes this would result in a net transfer in to one non-state fund and a net transfer out to the other non-state fund resulting in a net result of \$0. Any increase or decrease in the Unfunded Actuarial Accrued Liability (UAAL) to the two retirement systems is dependent upon the transfers between the two plans. Oversight is unable to calculate these transfers.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
NON-STATE FUNDS			
MOSERS - Transfer in	Unknown	Unknown	Unknown
MOSERS - Transfer out	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Total MOSERS	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>
MPERS - Transfer in	Unknown	Unknown	Unknown
MPERS - Transfer out	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Total MPERS	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>
ESTIMATED NET EFFECT ON NON-STATE FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<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.

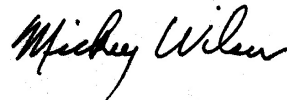
FISCAL DESCRIPTION

The proposed legislation appears to have no fiscal impact.

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
MoDOT and Patrol Employees Retirement System
Department of Transportation
Missouri State Employees' Retirement System
Department of Labor

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 13, 2007