

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3831-01
Bill No.: HB 1545
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: January 30, 2008

Bill Summary: Increases the cost-of-living adjustment of certain special consultants and retirees from 80% to 100% of the federal consumer price index.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$20,672,359)	(\$24,806,832)	(\$24,806,832)
Total Estimated Net Effect on General Revenue Fund*	(\$20,672,359)	(\$24,806,832)	(\$24,806,832)

***This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$464,371,865 and increase employer contributions by \$41,344,719.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Road Fund*	(\$7,972,964)	(\$9,567,557)	(\$9,567,557)
Various Other Funds**	(\$13,781,574)	(\$16,537,887)	(\$16,537,887)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$21,754,538)	(\$26,105,444)	(\$26,105,444)

***Based on identical provisions offered in 2006 this proposal will increase the MoDOT and Patrol Employees Retirement System Unfunded Actuarial Accrued Liability by \$96,472,978 and increase the employer contributions by \$8,370,185. In 2008 officials with MoDOT and Patrol Employees Retirement System estimated the fiscal impact would be approximately \$9,567,557.**

****This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$464,371,865 and increase employer contributions by \$41,344,719.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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 the Senate 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 Employee Retirement

Officials from the **Missouri Highway Patrol** will defer their impact to the MoDOT and Patrol Employees Retirement System.

Officials from the **Department of Labor and Industrial Relations** will defer their impact to the Missouri State Employees Retirement System.

Officials from the **Department of Transportation (MoDOT)** defer to MPERS for a fiscal impact.

Officials from the **Missouri State Employees Retirement (MOSERS)** assume this proposal will increase the formula for calculating future COLAs in the MSEP and the MSEP 2000 from 80% of the increase in the CPI to 100% of the increase in the CPI up to a maximum of 5%.

Cost

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:

<u>Valuation Payroll</u>	<u>Present Benefit (% of Payroll)</u>	<u>Proposed Benefit (% of Payroll)</u>	<u>Increase (% of Payroll)</u>	<u>Increase (Contributions)</u>
\$1,997,329,426*	12.53%	14.60%	2.07%	\$41,344,719

*Current annual payroll for the June 30, 2007 valuation has been projected two years at 4%.

ASSUMPTION (continued)

Based upon the annual payroll for the June 30, 2007 valuation projected forward two years at 4% (the long-term assumed annual rate of payroll growth), the increase in total contributions would be \$41.3 million in the first year after the benefit change.

Funded Status of Plan

Section 105.684, RSMo prohibits any public retirement plan from adopting or implementing any additional benefit increase beyond current plan provisions in effect prior to August 28, 2007, unless the plan's actuary determines that the funded ratio prior to such adoption or implementation is at least 80% and will not be less than 75% after such adoption or implementation.

As illustrated in the table below, the proposed funded status after implementation is estimated to be 82.3%.

Present funded Status Before Increase (% Funded)	Proposed Funded Status After Increase (% Funded)	Percentage Increase (Decrease)
86.8%	82.3%	(4.5%)

Officials from the **MoDOT and Patrol Employees Retirement System (MPERS)** assume this proposal would, if enacted, increase the annual cost-of-living adjustment (COLA) for retirees and survivors from 80% to 100% of the increase in the Consumer Price Index (CPI).

Effective August 28, 2008 (for both the closed Plan and the Year 2000 Plan), the annual COLA increases shall be equal to 100% of the increase in the CPI, subject to the annual 5% maximum increase: Note: This proposal will not change the annual 4% minimum and 5% maximum of those in the Closed Plan who have not yet reached their 65% COLA cap.

Even though this proposal will not apply to MPERS, they have calculated the anticipated fiscal impact as if the proposal would apply.

Annual fiscal impact:

MoDOT		\$6,538,604
Patrol		
Civilian	\$1,002,276	
Uniformed	<u>2,026,677</u>	<u>\$3,028,953</u>
		\$9,567,557

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
<u>Increase - Employer Contributions</u>	<u>(\$20,672,359)</u>	<u>(\$24,806,832)</u>	<u>(\$24,806,832)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE**	<u>(\$20,672,359)</u>	<u>(\$24,806,832)</u>	<u>(\$24,806,832)</u>
OTHER VARIOUS FUNDS			
<u>Increase - Employer Contributions</u>	<u>(\$13,781,574)</u>	<u>(\$16,537,887)</u>	<u>(\$16,537,887)</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS**	<u>(\$13,781,574)</u>	<u>(\$16,537,887)</u>	<u>(\$16,537,887)</u>
ROAD FUND			
<u>Increase - Employer Contributions</u>	<u>(\$7,972,964)</u>	<u>(\$9,567,557)</u>	<u>(\$9,567,557)</u>
ESTIMATED NET EFFECT ON ROAD FUND*	<u>(\$7,972,964)</u>	<u>(\$9,567,557)</u>	<u>(\$9,567,557)</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2009 (10 Mo.)	FY 2010	FY 2011

\$0

\$0

\$0

***Based on identical provisions offered in 2006 this proposal will increase the MoDOT and Patrol Employees Retirement System Unfunded Actuarial Accrued Liability by \$96,472,978 and increasing the employer contributions by \$8,370,185. In 2008 officials with MoDOT and Patrol Employees Retirement System estimated the fiscal impact would be approximately \$9,567,557.**

****This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$464,371,865 and increase employer contributions by \$41,344,719.**

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 will reduce general revenue and other state funds. This proposal increases the cost-of-living adjustment of certain special consultants and retirees from 80% to 100% of the federal consumer price index.

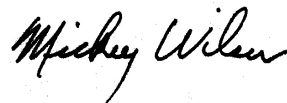
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Missouri State Retirement System
MoDOT and Patrol Employees' Retirement System
Missouri Highway Patrol
Department of Labor

NOT RESPONDING

Department of Transportation



Mickey Wilson, CPA
Director
January 30, 2008