.COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4156-03
Bill No.: HB 2113
Subject: Retirement - State; Retirement - Local Government; Retirement - Schools; Retirement Systems and Benefits - General
Type: Original
Date: April 12, 2010

Bill Summary: Changes benefits for public retirement systems created by statute for persons hired on or after January 1, 2011.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	($24,500,000)	($25,200,000)	($26,600,000)
Total Estimated Net Effect on General Revenue Fund*	**($24,500,000)**	**($25,200,000)**	**($26,600,000)**

***According to MOSERS, this proposal would increase the annual employer contribution to MOSERS by approximately $41.6 million (2% of pay) for plan year ending 06/30/11. The increase in the annual employer contribution to the Judicial Retirement Plan by approximately $7.4 million (15.64% of pay) for plan year ending 06/30/11.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 22 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other Funds	($24,500,000)	($25,200,000)	($26,600,000)
Road Fund**	($39,857,464)	($33,919,927)	($27,543,429)
Total Estimated Net Effect on Other State Funds*	**($64,357,464)**	**($59,119,927)**	**($54,143,429)**

***According to MOSERS, this proposal would increase the annual employer contribution to MOSERS by approximately $41.6 million (2% of pay) for plan year ending 06/30/11. The increase in the annual employer contribution to the Judicial Retirement Plan by approximately $7.4 million (15.64% of pay) for plan year ending 06/30/11.**
****According to MPERS, this proposal would increase the annual required employer contribution to MPERS by approximately $39.6 to $39.8 million for plan year ending 06/30/11. MPERS is assuming an annual 3% and 6% employer contribution to the DC plan respectively.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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 2011	FY 2012	FY 2013
Local Government	**($331,700,000 to Unknown)**	**($468,180,000 to Unknown)**	**$602,670,000 to Unknown)**

*** Plan officials expressed concern relative to the members of this plan not participating in Social Security. Should members be required to enroll in Social Security, members would be required to contribute 6.2% of pay.**
**** Additional concerns were addressed by plan officials regarding disability benefits and survivor benefits for members killed in the line of duty.**

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Retirement (JCPER)** 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 State Employees' Retirement System (MOSERS)** assume the proposal would, if enacted, establish a defined contribution plan for employees hired for the first time on or after January 1, 2011, who participate in the County Employees' Retirement Fund (CERF), the Prosecuting Attorney and Circuit Attorneys Retirement System (PACARS), the Sheriff's Retirement Fund, the Local Government Employees' Retirement System (LAGERS), the Kansas City Police Retirement System and the Kansas City Civilian Police Retirement System, the St. Louis Police Retirement System, the St. Louis Firefighter's Fund, the Public School Retirement System (PSRS), the Public Employees' Retirement System (PEERS), the Kansas City Public School Retirement System, the St. Louis Public Employees' Retirement System, certain fire protection district retirement plans, the MoDot and Patrol Employees' Retirement system (MPERS), the Missouri State Employees' Retirement System (MOSERS), and the Judicial Retirement Plan administered by MOSERS.

As it affects MOSERS, the proposal would require the board of trustees to establish a defined contribution plan for state employees and judges that would provide for an individual account for each participant but the legislation is silent in regard to whether or not there would be any vesting requirement. As proposed, the annual contribution rate for each employee participating in the defined contribution plan would be paid by the employer and the contribution rate would not be less than 3% or more than 11% of the annual pay of each participating employee. Provisions pertaining to non-social security covered members would not apply to the plans administered by MOSERS. The proposal would also allow an employee to contribute to the plan; however, the annual amount contributed by the employer and employee could not exceed the maximum annual contribution amount provided by federal law.

ASSUMPTION (continued)

Estimated Costs

The proposed changes would have no effect on the current MSEP and MSEP 2000 benefit obligation for the active members currently covered under MOSERS. However, the proposal would have a substantial and material fiscal impact on the amortization of the unfunded actuarial accrued liability (UAAL) of the defined benefit plan.

The attached cash flow analysis illustrates the total dollars that would flow into MOSERS, and the effect of the declining population in the defined benefit plan and the increasing population in the defined contribution plan, over time. This cash flow analysis assumes a 6% employer contribution rate for any state employee or judge hired for the first time on or after January 1, 2011. The net impact shown reflects the change in the UAAL amortization to a 30-year closed period, level dollar amortization, the decrease in the defined benefit normal cost as the closed group shrinks, and the increase in contributions to the defined contribution for new hires on or after January 1, 2011 as the new open group expands.

As you can see in the analysis, the dollars initially required for the amortization of the UAAL are significant (a ten-year excerpt for the MSEP and Judicial Plan appears below for ease of reference). The actuary estimated that $41.6 million (for the MSEP) and $7.4 million (for the Judicial Plan) would be due in the first year after the defined contribution plan is enacted.

As illustrated in the analysis, the dollars initially required for the amortization of the UAAL are significant (a ten-year excerpt for the MSEP and Judicial Plan appears below for ease of reference). The actuary estimated that $41.6 million (for the MSEP) and $7.4 million (for the Judicial Plan) would be due in the first year after the defined contribution plan is enacted. These amounts increase during the ensuing four years due to investment losses incurred in 2008 that are recognized and spread over a five-year period. Thereafter, you will see those amounts declining. (In part, this assumes there will not be sufficient offsetting future gains to mitigate the earlier loss which may or may not be the case.)

ASSUMPTION (continued)

10-Year Excerpt from 50-Year Cash Flow – MSEP

Years Out	Year Ending 6/30	Total Payroll ($Millions)	Current DB Contribution ($Millions)	Total DB & DC Contribution ($Millions)	Change ($Millions)	Change (% of Total Payroll)
1	2011	$2,082.5	$287.5	$329.1	$41.6	2.00%
2	2012	2,165.8	321.6	365.5	43.9	2.03
3	2013	2,252.4	358.8	406.4	47.6	2.11
4	2014	2,342.5	406.1	462.1	56.0	2.39
5	2015	2,436.2	448.6	508.5	59.9	2.46
6	2016	2,533.7	463.5	511.8	48.3	1.91
7	2017	2,635.0	477.0	515.4	38.4	1.46
8	2018	2,740.4	490.9	519.3	28.5	1.04
9	2019	2,850.0	505.1	523.6	18.5	0.65
10	2020	2,964.0	519.9	528.2	8.3	0.28

10-Year Excerpt from 50-Year Cash Flow – Judicial Plan

Years Out	Year Ending 6/30	Total Payroll ($Millions)	Current DB Contribution ($Millions)	Total DB & DC Contribution ($Millions)	Change ($Millions)	Change (% of Total Payroll)
1	2011	$47.3	$28.4	$35.8	$7.4	15.64%
2	2012	49.2	29.4	35.9	6.5	13.20
3	2013	51.2	30.4	36.0	5.6	10.98
4	2014	53.2	31.6	36.4	4.8	9.01
5	2015	55.4	32.7	36.6	3.9	7.05
6	2016	57.6	33.6	36.4	2.8	4.94
7	2017	59.9	34.5	36.2	1.7	2.85
8	2018	62.3	35.4	35.9	0.6	0.90
9	2019	64.8	36.3	35.7	(0.6)	-0.90
10	2020	67.4	37.3	35.5	(1.7)	-2.60

ASSUMPTION (continued)

Some additional points worth noting:

The state would begin recognizing savings in year 11 for the general plan; year 9 for the judicial plan.
The break even point for recouping dollars paid out for the UAAL would occur in year 19 for the general plan; year 16 for the judicial plan.
Significant savings would be recognized at the close of the 30-year amortization of the UAAL in the defined benefit plan.

As illustrated in the analysis, the closing of the defined benefit plan to new hires would likely result in very different net cash flows for the system. Close attention would need to be paid to any emerging negative net cash flows to maintain the integrity of the fund. Over time, as the remaining active members retire, a larger portion of the assets would need to be available for the payment of benefits – this could potentially limit the system's ability to sustain meeting the investment return assumption of 8.5% that is presently in place.

Officials from the **Office of Administration, Division of Budget and Planning** assume this proposal should not result in additional costs or savings to their department. The impact on state and local government will be estimated by the public retirement systems.

Officials from the **Missouri Department of Conservation (MDC)** assume the amount of impact of this proposal on MDC funds is unclear; therefore, MDC will defer to Missouri State Employees' Retirement System for the estimated amount of impact.

Officials from the **Department of Transportation** concur with MoDOT & Patrol Employees Retirement System response.

In response to a similar proposal, SB 896, fiscal note 4934-01, officials from the **Department of Labor and Industrial Relations (DOL)** assume this proposal amends Chapter 104 to authorize a Board to create a new retirement plan for the Highway Patrol, judges and certain other state employees. They would create a defined contribution plan, which differs from the current state retirement plans that are defined benefit plans. This will likely have a fiscal impact on the DOL; however it is not possible to determine the exact cost because the benefit plan is not defined in the bill. The fiscal impact would be unknown over $100,000.

ASSUMPTION (continued)

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume this proposal creates a single defined contribution plan for new state employees hired on or after January 1, 2011. These employees would have normally been members of MPERS or MOSERS; however, the bill lumps all future state employees together into one defined contribution plan. The bill does not identify the role of MPERS, MOSERS, or either board.

Section 104.1220.2 states that "Any employee hired on or after January 1, 2011, **shall not be eligible to receive a benefit under this chapter** but shall be eligible to receive a benefit as provided in **subsection 3 of this section** upon retirement." This is contradictory language since Subsection 3 is in Chapter 104.

The bill specifies that the employer shall contribute 3%, but not more than 11% of the employee's salary to the plan. The employer will determine the contribution rate. Currently, the "employers" for MPERS members are MoDOT and the Missouri State Highway Patrol. The "employer" for members of MOSERS is the Office of Administration. This language could result in different contribution amounts from different employers.

There is no limit to the amount the employee may contribute to the plan; however, the annual amount cannot exceed the maximum annual contribution amount provided by federal law.

Members of the MoDOT and Highway Patrol Employees' Retirement System (MPERS) hired prior to January 1, 2011, will remain in their respective Closed Plan or the Year 2000 Plan.

Fiscal Impact:

The proposed legislation would not have any effect on the current Unfunded Actuarial Accrued Liability (UAAL) that is owed by MPERS. As of the last valuation the Unfunded Actuarial Accrued Liability (UAAL) was $1.6 billion. To clarify, benefits payable under the Closed Plan and the Year 2000 Plan for members hired prior to January 1, 2011 are not affect by the proposal. The cost of the benefits accrued to date must be paid. However, new additional costs are incurred by closing the plan to new participants.

When you close a plan to new participants, changes must be made in the way you fund the liabilities of the plan. MPERS currently uses a level percent of payroll amortization method to fund the (UAAL). This method assumes that the payroll will continue to grow at the rate of the wage inflation assumption (3.75% annually). When a plan is closed to new hires, this method is no longer permitted under accounting standards. A change to level dollar amortization is a common solution to this issue. Although this change does not affect the computation of normal

ASSUMPTION (continued)

costs, accrued liabilities or UAAL, it will increase the amount of the computed contribution that funds the UAAL. The increase due to this change is detailed below:

	Non-Uniformed	Uniformed	Total
Current FY2011 Employer Contribution Rate			
Normal Cost + Expenses + Disability Insurance	12.51%	14.30%	12.84%
UAAL	26.95%	35.23%	28.43%
Total Illustrative $	**39.46%**	**49.53%**	**41.27%**
Proposed FY2011 Employer Contribution Rate			
Normal Cost + Expenses + Disability Insurance	12.51%	14.30%	12.84%
UAAL	36.78%	49.38%	39.07%
Total	**49.29%**	**63.68%**	**51.91%**
Increase			
Normal Cost + Expenses + Disability Insurance	0.00%	0.00%	0.00%
UAAL	9.83%	14.15%	10.64%
Total	**9.83%**	**14.15%**	**10.64%**

Simplified Projections of Possible Total Contributions (3%)

Non-Uniformed

				Proposed Contribution Rate			Dollar Contributions		
Fiscal Year	**Val Payroll Projected**	**DB Payroll**	**DC Payroll**	**Current**	**DB**	**DC**	**Current**	**Proposed**	**Difference**
2009	$310,049,427	$310,049,427	$0						
2010	$321,676,281	$321,676,281	$0						
2011	$333,739,142	$326,485,146	$7,253,996	39.46%	49.29%	3.00%	$131,693,465	$161,142,148	$29,448,683
2012	$346,254,360	$321,764,994	$24,489,366	41.29%	51.54%	3.00%	$142,968,425	$166,572,359	$23,603,934
2013	$359,238,899	$316,865,915	$42,372,984	45.00%	56.10%	3.00%	$161,657,505	$179,032,968	$17,375,463
2014	$372,710,358	$311,272,085	$61,438,273	45.00%	56.10%	3.00%	$167,719,661	$176,466,788	$8,747,127
2015	$386,686,996	$304,484,027	$82,202,969	45.00%	56.10%	3.00%	$174,009,148	$173,281,628	($727,520)
2016	$401,187,758	$296,950,834	$104,236,924	45.00%	56.10%	3.00%	$180,534,491	$169,716,525	($10,817,966)
2017	$416,232,299	$289,141,822	$127,090,477	45.00%	56.10%	3.00%	$187,304,535	$166,021,277	($21,283,258)
2018	$431,841,010	$280,727,462	$151,113,548	45.00%	56.10%	3.00%	$194,328,455	$162,021,513	($32,306,942)
2019	$448,035,048	$272,071,374	$175,963,674	45.00%	56.10%	3.00%	$201,615,772	$157,910,951	($43,704,821)
2020	$464,836,362	$263,166,881	$201,669,481	45.00%	56.10%	3.00%	$209,176,363	$153,686,704	($55,489,659)

ASSUMPTION (continued)

Uniform

					Proposed Contribution Rate			Dollar	
Contributions									
Fiscal Year	Val Payroll Projected	DB Payroll	DC Payroll	Current	DB	DC	Current	Proposed	Difference
2009	$67,602,818	$67,602,818	$0						
2010	$70,137,924	$70,137,924	$0						
2011	$72,768,096	$72,585,148	$182,948	49.53%	63.68%	3.00%	$36,042,038	$46,227,710	$10,185,672
2012	$75,496,900	$72,938,711	$2,558,189	52.30%	67.06%	3.00%	$39,484,879	$48,989,445	$9,504,566
2013	$78,328,034	$72,973,528	$5,354,506	57.90%	73.90%	3.00%	$45,351,932	$54,088,073	$8,736,141
2014	$81,265,335	$73,202,633	$8,062,702	57.90%	73.90%	3.00%	$47,052,629	$54,338,627	$7,285,998
2015	$84,312,785	$73,293,036	$11,019,749	57.90%	73.90%	3.00%	$48,817,103	$54,494,146	$5,677,043
2016	$87,474,514	$73,280,101	$14,194,413	57.90%	73.90%	3.00%	$50,647,744	$54,579,827	$3,932,083
2017	$90,754,808	$73,002,069	$17,752,739	57.90%	73.90%	3.00%	$52,547,034	$54,481,111	$1,934,077
2018	$94,158,113	$72,631,379	$21,526,734	57.90%	73.90%	3.00%	$54,517,547	$54,320,391	($197,156)
2019	$97,689,042	$71,951,691	$25,737,351	57.90%	73.90%	3.00%	$56,561,955	$53,944,420	($2,617,535)
2020	$101,352,381	$70,493,218	$30,859,163	57.90%	73.90%	3.00%	$58,683,029	$53,020,263	($5,662,766)

Total

					Proposed Contribution Rate			Dollar	
Contributions									
Fiscal Year	Val Payroll Projected	DB Payroll	DC Payroll	Current	DB	DC	Current	Proposed	Difference
2009	$377,652,245	$377,652,245	$0						
2010	$391,814,205	$391,814,205	$0						
2011	$406,507,238	$399,070,294	$7,436,944	41.27%	51.91%	3.00%	$167,735,503	$207,369,858	$39,634,355
2012	$421,751,260	$394,703,705	$27,047,555	43.26%	54.41%	3.00%	$182,453,304	$215,561,804	$33,108,500
2013	$437,566,933	$389,839,444	$47,727,489	47.31%	59.43%	3.00%	$207,009,437	$233,121,041	$26,111,604
2014	$453,975,693	$384,474,718	$69,500,975	47.31%	59.49%	3.00%	$214,772,290	$230,805,415	$16,033,125
2015	$470,999,781	$377,777,063	$93,222,718	47.31%	59.55%	3.00%	$222,826,251	$227,775,774	$4,949,523
2016	$488,662,272	$370,230,934	$118,431,338	47.31%	59.62%	3.00%	$231,182,235	$224,296,352	($6,885,883
2017	$506,987,107	$362,143,891	$144,843,216	47.31%	59.69%	3.00%	$239,851,569	$220,502,388	($19,349,181)
2018	$525,999,123	$353,358,842	$172,640,281	47.31%	59.76%	3.00%	$248,846,002	$216,341,904	($32,504,098)
2019	$545,724,090	$344,023,065	$201,701,025	47.31%	59.82%	3.00%	$258,177,727	$211,855,371	($46,322,356)
2020	$566,188,743	$333,660,098	$232,528,645	47.31%	59.86%	3.00%	$267,859,392	$206,706,967	($61,152,425)

ASSUMPTION (continued)

Simplified Projections of Possible Total Contributions (6%)

Non-Uniformed

				Proposed Contribution Rate			Dollar Contributions		
Fiscal Year	**Val Payroll Projected**	**DB Payroll**	**DC Payroll**	**Current**	**DB**	**DC**	**Current**	**Proposed**	**Difference**
2009	$310,049,427	$310,049,427	$0						
2010	$321,676,281	$321,676,281	$0						
2011	$333,739,142	$326,485,146	$7,253,996	39.46%	49.29%	6.00%	$131,693,465	$161,359,768	$29,666,303
2012	$346,254,360	$321,764,994	$24,489,366	41.29%	51.54%	6.00%	$142,968,425	$167,307,040	$24,338,615
2013	$359,238,899	$316,865,915	$42,372,984	45.00%	56.10%	6.00%	$161,657,505	$180,304,158	$18,646,653
2014	$372,710,358	$311,272,085	$61,438,273	45.00%	56.10%	6.00%	$167,719,661	$178,309,936	$10,590,275
2015	$386,686,996	$304,484,027	$82,202,969	45.00%	56.10%	6.00%	$174,009,148	$175,747,717	$1,738,569
2016	$401,187,758	$296,950,834	$104,236,924	45.00%	56.10%	6.00%	$180,534,491	$172,843,633	($7,690,858)
2017	$416,232,299	$289,141,822	$127,090,477	45.00%	56.10%	6.00%	$187,304,535	$169,833,991	($17,470,544)
2018	$431,841,010	$280,727,462	$151,113,548	45.00%	56.10%	6.00%	$194,328,455	$166,554,919	($27,773,536)
2019	$448,035,048	$272,071,374	$175,963,674	45.00%	56.10%	6.00%	$201,615,772	$163,189,861	($38,425,911)
2020	$464,836,362	$263,166,881	$201,669,481	45.00%	56.10%	6.00%	$209,176,363	$159,736,789	($49,439,574)

Uniform

				Proposed Contribution Rate			Dollar Contributions		
Fiscal Year	**Val Payroll Projected**	**DB Payroll**	**DC Payroll**	**Current**	**DB**	**DC**	**Current**	**Proposed**	**Difference**
2009	$67,602,818	$67,602,818	$0						
2010	$70,137,924	$70,137,924	$0						
2011	$72,768,096	$72,585,148	$182,948	49.53%	63.68%	6.00%	$36,042,038	$46,233,199	$10,191,161
2012	$75,496,900	$72,938,711	$2,558,189	52.30%	67.06%	6.00%	$39,484,879	$49,066,191	$9,581,312
2013	$78,328,034	$72,973,528	$5,354,506	57.90%	73.90%	6.00%	$45,351,932	$54,248,708	$8,896,776
2014	$81,265,335	$73,202,633	$8,062,702	57.90%	73.90%	6.00%	$47,052,629	$54,580,508	$7,527,879
2015	$84,312,785	$73,293,036	$11,019,749	57.90%	73.90%	6.00%	$48,817,103	$54,824,739	$6,007,636
2016	$87,474,514	$73,280,101	$14,194,413	57.90%	73.90%	6.00%	$50,647,744	$55,005,659	$4,357,915
2017	$90,754,808	$73,002,069	$17,752,739	57.90%	73.90%	6.00%	$52,547,034	$55,013,693	$2,466,659
2018	$94,158,113	$72,631,379	$21,526,734	57.90%	73.90%	6.00%	$54,517,547	$54,966,193	$448,646
2019	$97,689,042	$71,951,691	$25,737,351	57.90%	73.90%	6.00%	$56,561,955	$54,716,541	($1,845,414)
2020	$101,352,381	$70,493,218	$30,859,163	57.90%	73.90%	6.00%	$58,683,029	$53,946,038	($4,736,991)

ASSUMPTION (continued)

Total

Contributions

Fiscal Year	Val Payroll Projected	DB Payroll	DC Payroll	Proposed Contribution Rate Current	DB	DC	Dollar Current	Proposed	Difference
2009	$377,652,245	$377,652,245	$0						
2010	$391,814,205	$391,814,205	$0						
2011	$406,507,238	$399,070,294	$7,436,944	41.27%	51.91%	6.00%	$167,735,503	$207,592,967	$39,857,464
2012	$421,751,260	$394,703,705	$27,047,555	43.26%	54.41%	6.00%	$182,453,304	$216,373,231	$33,919,927
2013	$437,566,933	$389,839,444	$47,727,489	47.31%	59.43%	6.00%	$207,009,437	$234,552,866	$27,543,429
2014	$453,975,693	$384,474,718	$69,500,975	47.31%	59.49%	6.00%	$214,772,290	$232,890,444	$18,118,154
2015	$470,999,781	$377,777,063	$93,222,718	47.31%	59.55%	6.00%	$222,826,251	$230,572,456	$7,746,205
2016	$488,662,272	$370,230,934	$118,431,338	47.31%	59.62%	6.00%	$231,182,235	$227,849,292	($3,332,943)
2017	$506,987,107	$362,143,891	$144,843,216	47.31%	59.69%	6.00%	$239,851,569	$224,847,684	($15,003,885)
2018	$525,999,123	$353,358,842	$172,640,281	47.31%	59.76%	6.00%	$248,846,002	$221,521,112	($27,324,890)
2019	$545,724,090	$344,023,065	$201,701,025	47.31%	59.82%	6.00%	$258,177,727	$217,906,402	($40,271,325)
2020	$566,188,743	$333,660,098	$232,528,645	47.31%	59.86%	6.00%	$267,859,392	$213,682,827	($54,176,565)

Officials from the **Missouri Highway Patrol** will concur with the response given by the MoDOT & Patrol Employees Retirement System.

Officials from the **Kansas City Police Employees' Retirement Systems (KCPDRS)** assume House Bill 2113, if enacted, closes the current defined benefit plans for the Police Retirement System of Kansas City, Missouri and Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri to new employees of the Kansas City, Missouri Police Department as of January 1, 2011. In place of the existing defined benefit retirement plans, the bill creates a new defined contribution plan that allows for employer contributions of between 3% and 11% of employee salary and unlimited employee contributions.

The proposed legislation would have no impact on the current Police or Civilian Employees' plan benefit obligations for active employees covered by the two defined benefit plans. However, the proposal would have a significant fiscal impact on the amortization of the unfunded actuarial accrued liability (UAAL) of the plans. The Police and Civilian Employees' plans use a level percent of payroll to amortize the UAAL. When a plan is closed to new hires this method is no longer permitted by accounting standards and the UAAL amortization schedule is changed to a level dollar amount. While this change does not affect the calculations for normal costs or the UAAL it will increase the amount of contributions to fund the UAAL.

ASSUMPTION (continued)

Cost Estimate

The proposed legislation would have no impact on the current Police or Civilian Employees' plan benefit obligations for active employees covered by the two defined benefit plans. However, the proposal would have a significant fiscal impact on the amortization of the unfunded actuarial accrued liability (UAAL) of the plans. The Police and Civilian Employees' plans use a level percent of payroll to amortize the UAAL. When a plan is closed to new hires this method is no longer permitted by accounting standards and the UAAL amortization schedule is changed to a level dollar amount. While this change does not affect the calculations for normal costs or the UAAL it will increase the amount of contributions to fund the UAAL.

Below is a 10 year projection of current and proposed employer contributions to the two plans assuming a 3.0% contribution rate to the new plans.

Police Retirement System of Kansas City, Missouri

Fiscal	Estimated Payroll ($M)			Contribution Rates			Contribution Amounts ($M)		
					Proposed				
Year End	DB	DC	Total	Current	DB	DC*	Current	Proposed	Difference
2012	94.86	2.73	97.59	38.95%	49.61%	3.00%	38.01	47.14	9.13
2013	95.73	5.71	101.43	38.94%	49.27%	3.00%	39.49	47.33	7.84
2014	96.34	8.97	105.31	38.99%	49.02%	3.00%	41.06	47.49	6.44
2015	96.67	12.44	109.11	39.07%	48.89%	3.00%	42.64	47.63	5.00
2016	96.75	16.32	113.07	39.14%	48.80%	3.00%	44.25	47.70	3.45
2017	96.33	20.62	116.95	39.32%	48.96%	3.00%	45.98	47.79	1.80
2018	95.76	25.31	121.07	39.45%	49.15%	3.00%	47.76	47.83	0.07
2019	94.64	30.70	125.34	39.55%	49.49%	3.00%	49.58	47.76	-1.82
2020	93.35	36.34	129.69	39.71%	49.95%	3.00%	51.49	47.72	-3.77
2021	91.90	42.45	134.34	39.81%	50.46%	3.00%	53.48	47.64	-5.84

ASSUMPTION (continued)

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

Fiscal	Estimated Payroll ($M)			Contribution Rates			Contribution Amounts ($M)		
					Proposed				
Year End	DB	DC	Total	Current	DB	DC*	Current	Proposed	Difference
2012	27.42	2.00	29.42	19.98%	26.16%	3.00%	5.88	7.23	1.35
2013	26.52	3.77	30.29	20.09%	26.79%	3.00%	6.08	7.22	1.13
2014	25.70	5.44	31.14	20.18%	27.36%	3.00%	6.29	7.20	0.91
2015	24.95	7.07	32.02	20.30%	27.93%	3.00%	6.50	7.18	0.68
2016	24.23	8.70	32.93	20.39%	28.47%	3.00%	6.71	7.16	0.45
2017	23.51	10.38	33.89	20.46%	29.02%	3.00%	6.93	7.13	0.20
2018	22.75	12.07	34.82	20.57%	29.67%	3.00%	7.16	7.11	-0.05
2019	21.97	13.87	35.84	20.66%	30.36%	3.00%	7.40	7.09	-0.32
2020	21.13	15.79	36.92	20.75%	31.18%	3.00%	7.66	7.06	-0.60
2021	20.31	17.76	38.07	20.79%	31.98%	3.00%	7.92	7.03	-0.89

In the first three years additional costs to local funds total $10.48 million in FY 2012, $8.61 million in FY 2013, and $7.35 million in FY 2014. The projected employer contributions for the defined benefit and defined contribution plans are less than current expected contributions by FY 2018 in the Civilian Employees' plan and FY 2019 in the Police plan. In FY 2024 both plans reach a break even point where the savings from contributions to the defined benefit and defined contribution plans exceed the increased contributions to the defined benefit plan.

If a defined contribution plan is enacted, new members starting after January 1, 2011 in the Police plan would be required to enroll in Social Security. Currently members of the Police defined benefit plan do not participate in Social Security. Both the member and employer would be required to contribute 6.2% of payroll to Social Security. For the ten years projected above, the employer contributions to Social Security would be $12.5 million.

The proposed legislation does not provide for disability benefits for police officers injured in the line of duty nor does it provide for surviving spouse and child benefits and for family members of police officers who die in the line of duty. Both of those benefits are provided to members of the Police Retirement System through the defined benefit plan but would not be available to members who start after January 1, 2011.

Officials from the **Local Government Employees' Retirement System (LAGERS)** assume Section 70.757 RSMo. would require LAGERS to close the existing defined benefit plan to all new employees hired after January 1, 2011. The closure of the existing defined benefit plan would impact future defined benefit contribution rates in two regards.

ASSUMPTION (continued)

Per the LAGERS retained actuary, it would become necessary to change the actuarial method of the system from the "level percent of payroll method" to the "level dollar method". This immediate change would result in an increase in the contribution rate of 4% of payroll on those remaining employees participating in the closed defined benefit plan. As the number of active members continue to dwindle, this annual payment as a percent of payroll would continue to climb. In addition, the investment return assumption would be required to decrease to reflect more conservative investments; thereby, further increasing contribution rates. Section 70.730.6 RSMo. limits annual employer contribution rate increases to 1% of payroll increase for the next 7 plus years. LAGERS statutes limit employee contributions to 4% of payroll so the majority of these cost increases will fall upon the employers of the system. The 600 plus employers participating in the system receive in excess of 960 unique actuarial valuation rates each year making it impossible to calculate any whole dollars related to these actuarial methodology changes, though the cost would be real.

According to a study it is anticipated that local governments would be required to contribute an additional $125 million per year to provide comparable benefits for LAGERS members. Approximately, 4,000 new employees are added to the LAGERS rolls each year.

Officials from the **Public School Retirement of Kansas City** assume there are no direct costs to the Retirement System from this proposal. However, the new defined contribution program would need to be administered, and it is not clear by whom and at what cost.

This proposal would create losses to the Retirement System. Foregone employer and employee contributions and investment return on those contributions for employees hired on or after January 1, 2011 would exceed the value of benefits earned. Annual losses to the Retirement System in the first three years would be:

2011:	$1,054,114
2012:	$2,183,784
2013:	$3,411,437
2011 – 2013:	$6,649,335

While the proposal creates losses to the Retirement System each year, they are relatively small in early years. Note that the amount of losses increases each year. This would continue every year, and the cumulative net cost of the proposal to the system would eventually become extremely large.

ASSUMPTION (continued)

If new hires continue to be covered by the defined benefit program, the Retirement System will be able to make up its unfunded liabilities **at current contribution rates**, and would eventually reach a surplus asset position. If new hires are shifted into a defined contribution program instead, the system will be unable to make up its shortfall through continued operation. Becoming fully funded would then require large contribution increases or other additional funding.

Officials from the **County Employees Retirement System (CERF)** assume the proposal will reduce the amount of benefits that CERF will have to pay over time. The years 2010 through 2012 do not allow for an adequate appraisal of the impact of this proposal on CERF. The loss of benefits over a long period of time is $845 million. The present value is approximately $90 million.

Officials from the CERF indicate a loss of revenue in the first year of $1.9 million to $53 million in 2049 and a savings in benefit payments of $465,000 in the first year to $101 million in 2049.

Officials from the **Public School and Education Employee Retirement Systems (PSRS)** assume this legislation specifies that all new hires for PSRS/PEERS will move from a defined benefit plan to a defined contribution plan. Our employers and school districts will be required to contribute between 3% and 11% of an employee's salary to the employee's plan, and an employee can contribute any amount up to the maximum annual contribution allowed by federal law.

Benefits under PSRS/PEERS for employees hired prior to January 1, 2011 are not impacted directly by this proposal. This legislation also will not reduce the current PSRS/PEERS benefit obligations. As a result, this legislation would have a substantial financial impact on the amortization of the unfunded actuarial accrued liability (UAAL).

The financial impact on the PSRS will be cost our employers and school districts an additional $252 to $297 million for FY 2011, $340 to $407 million for FY 2012, and $435 to $526 million for FY 2013. This does not include the additional cost our employees will be required to pay for this proposal

The financial impact on the PEERS will be cost our employers and school districts an additional $10 to $34 million for FY 2011, $13 to $47 million for FY 2012, and $17 to $62 million for FY 2013. For a detailed projection of the cost, please refer to attachment.

ASSUMPTION (continued)

Based upon our actuary, should our annual limitation cap not be removed from statute, our current defined benefit plan would become insolvent by 2039.

Officials from the **Prosecuting Attorneys' & Circuit Attorneys' Retirement System (PACARS)** indicate the financial impact on PACARS cannot be fairly estimated without knowing the actual contribution associated with this proposal.

Officials from the **St. Louis Police Retirement System** indicate estimates show an increasing cost ranging from $2 million to $10 million per year over the next 10 years. Additionally, new hires would be placed in Social Security requiring a 6.2% of pay employer contribution for an additional cost of $3.75 million for the first year.

Officials from the **St. Louis Firemen's Retirement System** indicate estimates show an increase in contributions between $7 million and $10 million over the next 10 years. Additionally, new hires would be placed in Social Security requiring 6.2% of pay employer contribution for an additional cost of $2.35 million administrative costs, investment manager fees and computer design and implementation would create an additional cost of approximately $1 million.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Cost - Office of Administration Increase in annual employer contribution*	($24,500,000)	($25,200,000)	($26,600,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE*	**($24,500,000)**	**($25,200,000)**	**($26,600,000)**
ALL OTHER FUNDS			
Cost - Office of Administration Increase in annual employer contribution*	($24,500,000)	($25,200,000)	($26,600,000)
Cost - Department of Transportation & Highway Patrol** Increase in annual employer contribution	($39,857,464)	($33,919,927)	($27,543,429)
ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS*	**($64,357,464)**	**($59,119,927)**	**($541,434,290)**

***According to MOSERS, this proposal would increase the annual employer contribution to MOSERS by approximately $41.6 million (2% of pay) for plan year ending 06/30/11. The increase in the annual employer contribution to the Judicial Retirement Plan by approximately $7.4 million (15.64% of pay) for plan year ending 06/30/11.**
****According to MPERS, this proposal would increase the annual required employer contribution to MPERS by approximately $39.6 to $39.8 million for plan year ending 06/30/11. MPERS is assuming an annual 3% and 6% employer contribution to the DC plan respectively.**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
LOCAL GOVERNMENT			
Cost - Kansas City Police Retirement System - Increase in Annual Employer Contribution * / **	$0	($9,130,000)	($7,840,000)
Cost - Kansas City Civilian Police Retirement System - Increase in Annual Employer Contribution	$0	($1,350,000)	($1,130,000)
Cost - Public School Retirement System (PSRS) - Increase in Annual Employer Contribution	($262,000,000)	($355,000,000)	($456,000,000)
Cost - Public School Retirement System (PSRS) - Increase in Social Security Contributions	($35,000,000)	($52,000,000)	($70,000,000)
Cost - Public School Retirement System (PEERS) - Increase in Annual Employer Contributions	($34,000,000)	($47,000,000)	($62,000,000)
Cost - Kansas City Public School Retirement System	($700,000)	($3,700,000)	($5,700,000)
Cost - Local Government Employees' Retirement System - Increase in Annual Employer Contributions	(Unknown)	(Unknown)	(Unknown)
Cost - County Employees' Retirement Fund - Increase in Annual Employer Contributions	(Unknown)	(Unknown)	(Unknown)
Cost - Prosecuting Attorneys' & Circuit Attorneys' Retirement System - Increase in Annual Employer Contributions	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
Cost - St. Louis Police Retirement System - Increase in Annual Employer Contributions	(Unknown)	(Unknown)	(Unknown)
Cost - St. Louis Police Retirement System - Increase in Social Security Contributions	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	**($331,700,000 to Unknown)**	**($468,180,000 to Unknown)**	**$602,670,000 to Unknown)**

*** Plan officials expressed concern relative to the members of this plan not participating in Social Security. Should members be required to enroll in Social Security, members would be required to contribute 6.2% of pay. An additional cost of $12.5 million would be incurred by the employer over the 10 year projected period above.**
**** Additional concerns were addressed by plan officials regarding disability benefits and survivor benefits for members killed in the line of duty.**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill changes certain public employee retirement systems from defined benefit plans to defined contribution plans as they apply to persons hired on or after January 1, 2011. The following plans are changed:

(1) County Employees' Retirement Plan under Chapter 50, RSMo;

(2) Prosecuting Attorneys and Circuit Attorneys Retirement Fund under Chapter 56;

(3) Sheriffs' Retirement Fund under Chapter 57;

(4) Missouri Local Government Employees' Retirement System under Chapter 70;

DESCRIPTION (continued)

(5) Police retirement systems under Chapter 86;

(6) Civilian employees' retirement systems of police departments under Chapter 86;

(7) Firemen's retirement systems under Chapter 87;

(8) Missouri Department of Transportation and Highway Patrol Employees' Retirement System under Chapter 104;

(9) Missouri State Employees' Retirement System under Chapter 104;

(10) Public school and public education employee retirement systems under Chapter 169; and

(11) Fire protection district retirement systems under Chapter 321.

An employer will be required to contribute between 3% and 11% of an employee's salary to the employee's plan, and an employee can contribute any amount up to the maximum annual contribution allowed by federal law.

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 Employees' Retirement System
Missouri Department of Conservation
Department of Labor and Industrial Relations
Office of Administration -
    Division of Budget & Planning
    Division of Accounting
Public School and Education Employee Retirement Systems
Kansas City Police Employees' Retirement Systems
Missouri Highway Patrol
Public School Retirement System of St. Louis
Kansas City Public School Retirement System
MoDOT & Patrol Retirement System

SOURCES OF INFORMATION (continued)

Local Government Employees Retirement System
County Employees Retirement Fund
Department of Transportation
Prosecuting Attorneys' & Circuit Attorneys' Retirement System
St. Louis Police Retirement System
St. Louis Firemen's Retirement System

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April 12, 2010