

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6004-02
Bill No.: HB 1
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: June 28, 2010

Bill Summary: Modifies provisions relating to retirement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$3,103,348	\$9,151,519	\$15,016,226
Total Estimated Net Effect on General Revenue Fund	\$3,103,348	\$9,151,519	\$15,016,226

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other Funds	\$3,103,348	\$9,151,519	\$15,016,226
Road Fund	\$462,578	\$1,682,358	\$2,968,650
Total Estimated Net Effect on <u>Other</u> State Funds	\$3,565,926	\$10,833,877	\$17,984,876

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> 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	\$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 not been filed with the Joint Committee on Public Employee Retirement. It would be impossible to accurately determine the fiscal impact of this proposed legislation without the actuarial cost statement prepared in accordance with Section 106.665, RSMo.

Officials from the **Missouri State Employees’ Retirement System (MOSERS)** assume the proposed legislation would, if enacted, create a new tier defined benefit plan for members of the Missouri State Employees’ Retirement System (MOSERS) and the MoDOT and Patrol Employees’ Retirement System (MPERS) hired on or after January 1, 2011. As it affects MOSERS, the new tier plan would include all new employees hired on or after January 1, 2011, as members of the MSEP 2000 (which includes the General Employee Plan, the Legislative Plan, and the Statewide Elected Official Plan) and the Judicial Plan.

The tables that follow illustrate the differences in the current level of benefits afforded to state employees as compared to the proposed new tier defined benefit plan for members of the MSEP 2000 and Judicial Plan hired on or after January 1, 2011.

ASSUMPTION (continued)

**New Tier for Future Hires
 Employed On or After January 1, 2011
 General Employee Plan**

Present Benefits	Alternative Proposed Benefits
Normal Retirement Eligibility Age 62/5 yrs. service Age 48 (Rule of 80)	Normal Retirement Eligibility for General Employees Age 67/10 yrs. service Age 55 (Rule of 90) Normal Retirement Eligibility for Highway Patrol • Age 60 and active • Age 55/10 yrs. service
Early Retirement Eligibility Age 57/5 yrs. service	Early Retirement Eligibility for General Employees • Age 62/10 yrs. service (with reduction)
Vesting 5 years	Vesting 10 years
Member Contributions None	Member Contributions 4% of pay (with 4% interest on refunds)
Purchased Service Subsidized military and other full-time, nonfederal, governmental service	No Service Purchases
BackDROP Allows an employee to receive a lump sum payment at retirement in exchange for a reduced monthly benefit for life.	No BackDROP

ASSUMPTION (continued)

**New Tier for Future Hires
 Employed On or After January 1, 2011
 Statewide Elected Official Plan**

Present Benefits	Proposed Benefits
Normal Retirement Eligibility Age 55/4 yrs. service Age 50 (Rule of 80)	Normal Retirement Eligibility Age 62/4 yrs. service Age 55 (Rule of 90)
Member Contributions • None	Member Contributions • 4% of pay (with 4% interest on refunds)
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

**New Tier for Future Hires
 Employed On or After January 1, 2011
 Legislative Plan**

Present Benefits	Alternatives For Consideration
Normal Retirement Eligibility Age 55 with 3 biennial assemblies Age 50 (Rule of 80)	Normal Retirement Eligibility Age 62 with 3 biennial assemblies Age 55 (Rule of 90)
Member Contributions • None	Member Contributions* • 4% of pay (with 4% interest on refunds)
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

ASSUMPTION (continued)

**New Tier for Future Hires
 Employed On or After January 1, 2011
 Judicial Plan**

Present Benefits	Proposed Benefits
Normal Retirement Eligibility Age 62/12 yrs. service Age 60/15 yrs. service Age 55/20 years service	Normal Retirement Eligibility Age 67/12 yrs. service Age 62/20 yrs. service
Early Retirement Eligibility Age 60 <15 yrs. service Age 62 <12 yrs. service	Early Retirement Eligibility Age 67<12 yrs. service Age 62<20 yrs. service
Normal Form of Payment Unreduced 50% Survivor Option	Normal Form of Payment Straight life (reduced survivor options)
Member Contributions None	Member Contributions* 4% of pay (with 4% interest on refunds)
In-Service COLA Members who work beyond age 60 have increased benefits upon retirement.	In-Service COLA None
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

ASSUMPTION (continued)

This proposal would change the normal retirement eligibility for all classifications to coincide with the current ultimate eligibility age of 67 for unreduced social security benefits for those born after 1959. (The age for normal retirement for highway patrol officers would be set at age 55.) Rule of 80 would be changed to Rule of 90 and the corresponding minimum eligibility age would be increased from age 48 to age 55. The age for early retirement for general employees would increase from age 57 to age 62 (option available with a reduction).

The proposal would increase five-year vesting to ten year vesting for general employees and would establish member contributions for all classifications equivalent to 4% of pay on a pretax basis; 4% interest would be paid on member accounts at the end of the fiscal year based on the beginning fiscal year balance. Refunds would be payable within 90 days of termination for those qualifying for refunds. Member contributions and interest are fully refundable and portable, including for non-vested employees who terminate and leave state service.

The proposal would eliminate subsidized service purchases for all employee classifications. This would include elimination of purchases of military and other full-time nonfederal governmental service. In addition, the portability provision that was enacted in the Year 2000 Plan would also be eliminated as well as the BackDROP provision that was enacted in 2002.

As it pertains to judges, in addition to the changes previously outlined regarding normal and early retirement eligibility, member contributions, and service purchases, the proposal would eliminate the unreduced joint and 50% survivor option and in-service cost-of-living adjustments (COLAs) that are presently available in the Judicial Plan in order to mirror the changes that were adopted in the MSEP 2000 for the general population. The proposal would also preclude a retired judge who returns to work in a benefit eligible position covered by another state-sponsored retirement plan from receiving an annuity from the judicial plan while simultaneously working in a benefit eligible position. Such a retired judge would, however, be eligible to accrue service under the other plan. This change would also mirror the provisions adopted in the MSEP 2000 covering the general population.

Officials from the **MoDOT & Patrol Employees Retirement System (MPERS)** assume the proposed changes to benefits for new hires have no effect on the current benefit obligation or current employer contributions for the active members currently covered under the Missouri Department of Transportation and Highway Patrol Employees' Retirement System.

However, the employer's long-term cost of providing benefits (the employer funded normal cost) to new members hired after January 1, 2011 will be reduced by approximately 6.24% and 4.48% of payroll for Non-Uniform and Uniform employees respectively, if the proposal is implemented (or an average of 5.94% for MPERS, in total, weighted on payroll). This change would typically emerge

ASSUMPTION (continued)

gradually over a 20-year period.

The impact of eliminating the BackDROP provision for new hires covered under the proposed new tier to the Year 2000 Plan is unknown. While it is difficult to determine definitively, the indications are that the BackDROP was cost neutral to cost saving under the existing plan. The proposed plan pushes eligibility to a later age. It is possible that because of the later eligibility that the BackDROP feature will be less used. If that is the case, the elimination of that feature may not have a measurable effect on system costs. However, if that feature continues to be heavily used and results in member delaying their retirement even further (beyond the new eligibility requirements), then it is possible that the elimination of that feature could result in increase system costs.

It was initially thought that the elimination of the BackDROP feature would likely not have a large impact on the proposed new tier. However, there is a possible range when showing the sensitivity of the cost to the retirement pattern (and removal of the BackDROP). The actual effect on the retirement pattern would be a guess, but for purposes of sensitivity testing, we would probably increase the pattern by 5% in the first few years of eligibility and decrease it by 5% in the following few years of eligibility.

MPERS has just completed the installation of a new pension administration system. This new system will require in this proposal.

As the bill is currently written, our vendor has estimated that it will take at least 6 months to make the program changes at an estimated cost of approximately \$150,000. Since we are currently a non-contributory system, adapting our system to accommodate the collection and refund of contributions is no small programming task. Once the programming is complete, the vendor and MPERS staff must test the entire system to ensure that the program changes have been correctly implemented. It could take at least one or two additional month, just to test the changes. MPERS would request that the sponsor consider incorporating an option for delayed assessment of employee contributions to July 2011 to provide MPERS, if needed, time to ensure that the program changes are adequately implemented and tested. Such an option would not impact MOSERS.

ASSUMPTION (continued)

Oversight assumes the following savings in this portion of the proposal .

Projected Employer Contributions MPERS

<u>Fiscal Year</u>	<u>Before Proposed Changes</u>		<u>After Proposed Changes</u>		<u>Difference</u>
FY 11	\$167,776,154	41.27%	\$167,313,576	41.16%	\$462,578
FY12	\$182,453,304	43.26%	\$180,770,946	42.86%	\$1,682,358
FY13	\$207,009,437	47.31%	\$204,040,787	46.63%	\$2,968,650

In FY14 the savings would be \$4,322,961, FY15 the savings would be \$5,798,453, FY16 the savings would be \$7,366,429, FY17 the savings would be \$9,009,248, FY18 the savings would be \$10,738,226, FY19 the savings would be \$12,545,804, and FY20 the savings would be \$14,463,282.
ASSUMPTION (continued)

Projected Employer Contributions MOSERS

<u>Fiscal Year</u>	<u>Before Proposed Changes</u>		<u>After Proposed Changes</u>		<u>Difference</u>
FY11	\$287,592,997	13.81%	\$281,553,752	13.52%	\$6,039,245
FY12	\$321,621,017	14.85%	\$303,861,473	14.03%	\$17,759,544
FY13	\$358,621,017	15.93%	\$329,755,755	14.64%	\$29,056,347

In FY14 the savings would be \$40,525,721, FY15 the savings would be \$51,404,417, FY16 the savings would be \$62,835,201, FY17 the savings would be \$73,780,687, FY18 the savings would be \$85,227,234, FY19 the savings would be \$96,616,442, and FY20 the savings would be \$107,891,211.

ASSUMPTION (continued)

Projected Employer Contributions Judicial

<u>Fiscal Year</u>	<u>Before Proposed Changes</u>		<u>After Proposed Changes</u>		<u>Difference</u>
FY11	\$28,411,449	60.03%	\$28,243,997	59.68%	\$167,452
FY12	\$29,442,829	59.82%	\$28,896,335	58.71%	\$546,494
FY13	\$30,419,162	59.43%	\$29,443,057	57.52%	\$976,105

In FY14 the savings would be \$1,428,645, FY15 the savings would be \$1,894,730, FY16 the savings would be \$2,353,072, FY17 the savings would be \$2,882,045, FY18 the savings would be \$3,414,560, FY19 the savings would be \$3,936,824, and FY20 the savings would be \$4,472,051.

Officials from the **Department of Conservation (MDC)** assume the amount of impact of this proposal on MDC funds is unclear; therefore, MDC will defer to MOSERS for the estimated amount of the impact. The Conservation Commission has chosen to participate in MOSERS.

State Audit of Public Employee Retirement Plans

Provisions are also included that would allow the state auditor to audit all public employee retirement plans once every three years. These provisions would expand the scope of the State Auditor's authority in this area and, at the same time, make the projects permissive rather than mandatory. The provision carries no fiscal impact to the system.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Savings - Net decrease in annual contributions	<u>\$3,103,348</u>	<u>\$9,151,519</u>	<u>\$15,016,226</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$3,103,348</u>	<u>\$9,151,519</u>	<u>\$15,016,226</u>
ALL OTHER FUNDS			
Savings - Office of Administration - Net decrease in annual contributions	\$3,103,348	\$9,151,519	\$15,016,226
Savings - Department of Transportation & Highway Patrol - Net decrease in annual contributions	<u>\$462,578</u>	<u>\$1,682,358</u>	<u>\$2,968,650</u>
ESTIMATED NET EFFECT ON OTHER FUNDS	<u>\$3,565,926</u>	<u>\$10,833,877</u>	<u>\$17,984,876</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2011 (10 Mo.)	 FY 2012	 FY 2013
	<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

This act modifies provisions relating to retirement.

This act creates a new retirement plan for any person who becomes a state employee on or after January 1, 2011. To be eligible for normal retirement under this plan, employees will be required to reach age sixty-seven and have at least ten years of service or reach age fifty-five with the sum of the member's age and service equaling at least ninety, uniformed members of the highway patrol with a mandatory retirement age of sixty will be required to reach age sixty or reach age fifty-five with ten years credited service, members of the general assembly will be required to reach age sixty-two and complete at least three full biennial assemblies or reach age fifty-five with the sum of the member's age and service equaling at least ninety, and statewide elected officials will be required to reach age sixty-two and complete at least four years of service or reach age fifty-five with the sum of the official's age and service equaling at least ninety. Employees, except for uniformed members of the highway patrol, are eligible for early retirement at age sixty-two with ten years of service.

Employees must work for the state for ten years to vest in the retirement system. Members of this retirement plan will be required to contribute four percent of their compensation to the retirement system. Members will not be able to purchase credit in the retirement plan for their past non-federal full-time public employment, their military service, or transfer credit from other public retirement plans. The employee contribution rate, the benefits under the year 2000 plan, and any other provision of the year 2000 plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change. Employees under this plan shall not be eligible for the Backdrop option, which provides a lump sum payment at retirement for those working at least two years beyond normal retirement eligibility. (Section 104.1091)

The act also creates a new retirement plan for any person who first becomes a judge on or after January 1, 2011. Judges will be required to reach age sixty-seven and have at least twelve years of service or reach age sixty-two and have twenty years of service before they are eligible for normal retirement. If a judge retires at age sixty-seven with less than twelve years of service, or at sixty-two with less than twenty years service, their retirement compensation will be reduced proportionately. Judges in this retirement plan will be required to contribute four percent of their compensation to the retirement system. Judges will not be able to purchase credit in the retirement plan for their past non-federal full-time public employment or their military service. Judges under this plan who continue to work after their normal retirement date will not have cost-of-living increases added to their retirement compensation for the period of time between their eligibility for retirement and their actual retirement date. When a retired judge under this plan dies, their beneficiary will not receive an amount equal to fifty percent of the judge's retirement compensation. Instead, judges will make a choice at retirement among the benefit payment options, that includes options for the amount

DESCRIPTION (continued)

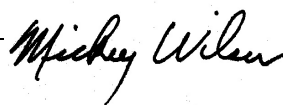
received by the beneficiary. The employee contribution rate, the benefits under the judicial retirement plan, and any other provision of the judicial retirement plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change. (Sections 476.521 and 476.529)

This act prohibits a retired judge who becomes employed after January 1, 2011, as an employee eligible to participate in the MOSERS retirement plan from receiving their judicial retirement benefits while they are employed. Any judge who serves as a judge while he or she is receiving their judicial retirement is prohibited from receiving their judicial retirement while serving as a judge. A judge who serves as a senior judge or senior commissioner while receiving judicial retirement will continue to receive judicial retirement and additional credit and salary for their service. (Section 476.527)

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 & Patrol Employees' Retirement System
Local Government Employees Retirement System
County Employees Retirement System
Department of Conservation
Department of Labor and Industrial Relations
Missouri Highway Patrol
Missouri State Employees Retirement System
Public School Retirement System
Department of Transportation
Department of Financial Institutions and Professional Registration
Office of Administration
Division of Budget & Planning



L.R. No. 6004-02
Bill No. HB 1
Page 14 of 14
June 28, 2010

Mickey Wilson, CPA
Director
June 28, 2010