COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6004-04
Bill No.: HCS for HB 1
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: June 29, 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	Less than $16,295,884	Less than $24,211,078	Less than $31,904,533
Total Estimated Net Effect on General Revenue Fund*	**Less than $16,295,884**	**Less than $24,211,078**	**Less than $31,904,533**

***Does not include actuarial study**.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other Funds	Less than $3,723,381	Less than $6,466,800	Less than $9,221,676
Total Estimated Net Effect on Other State Funds*	**Less than $3,723,381**	**Less than $6,466,800**	**Less than $9,221,676**

***Does not include actuarial study**.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 23 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Federal Funds	Less than $5,693,863	Less than $8,354,371	Less than $10,918,746
Total Estimated Net Effect on All Federal Funds*	**Less than $5,693,863**	**Less than $8,354,371**	**Less than $10,918,746**

***Does not include actuarial study**.

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.

In response to HCS for HB 1 (6004-02n), officials from the **Missouri State Employees's 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.

In response to HCS for HB 1 (6004-02n), 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%

ASSUMPTION (continued)

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 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

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
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.

Projected Employer Contributions MOSERS

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
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

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
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.

In response to HCS for HB 1 (6004-03n), 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. Also, there would be no apparent fiscal impact from the early retirement incentive portion of this proposal, as the MDC does not anticipate the Conservation Commission will choose to offer this incentive.

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.

Sections 104.405 &B 104.406

In response to HCS for HB 1 (6004-02n), officials from the **MoDOT & Patrol Employees' Retirement System** is unable to determine a fiscal impact of this proposal as they do not know whether or not the Missouri Highways and Transportation Commission would opt to participate in the incentive. Their assumption is that they would not since they have not participated in other retirement incentives offered in the past.

In response to HCS for HB 1 (6004-02n), officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note No. 4177-05N (HB 1583) would, if enacted, create the "2010 State Employee Retirement Incentive Program." As proposed, the legislation would allow retirement eligible general employees who

ASSUMPTION (continued)

have at least ten years of creditable service who retire on or after January 1, 2010 through September 1, 2010, to receive a service incentive benefit equivalent to $1,000 for each year of creditable service up to a maximum of 20 years. The Office of Administration (OA) would be required to pay a service incentive benefit to the member, or the member's beneficiary, in five equal installments beginning in September 2010, and each September thereafter until all the installments have been paid. Those members eligible for early retirement would not be allowed to participate.

The proposal also limits the number of employees that departments may hire to replace employees to no more than 50% of the personal service funds of those positions vacated. Exceptions to the 50% restriction may be made for positions which are entirely federally funded. Such determination would be made by rule and regulation promulgated by OA.

OA would also be responsible for administering the program and would be required to adopt rules on an emergency basis to implement the legislation. The legislation further requires the Missouri State Employees' Retirement System (MOSERS) to release records to OA that would allow them to administer and monitor the program. OA would be required to present an interim report to the general assembly, including copies to the legislative services agency and the fiscal committee of the legislative council, by December 31, 2010, concerning the operation of the program, and annually thereafter for the next four years. The reports are required to include information concerning the number of program participants, the cost of the program including any payments to participants, the number of state positions not filled under the program, and the number of positions vacated by a program participant that have been refilled.

MOSERS would also be required to make a report in writing to the commissioner of administration by October 31, 2010, regarding the number of state employees eligible to retire under the legislation and the actual number of employees who elected to retire and receive the service incentive benefit. The commissioner of administration is further required to furnish a report to the general assembly and the governor regarding the information presented by MOSERS, including a cost/savings analysis as the result of such retirements, the amount of payroll reduced, and the number of positions that are core cut as a result of such retirements. The proposal also prohibits any employee who elects to retire under the incentive from becoming reemployed with any state department.

The legislation further contains provisions that would allow the governing boards of Truman State University, Lincoln University, and the regional colleges and universities, and the commissions that govern the health plans of MoDOT and the Highway Patrol and the

ASSUMPTION (continued)

Department of Conservation to elect to offer the same service incentive benefit to their eligible employees.

Eligible Employees

MOSERS has no way of estimating the number of employees who might retire during the window provided by this proposal; however, the table that follows illustrates the number of employees who would be eligible to retire and receive the service incentive benefit.

Number Eligible	Group
5,961	**Total Employees potentially eligible for the incentive**
(227)	**Less Conservation Employees**
(1,031)	**Less Employees of the Colleges and Universities**
4,703	**Total General Employees potentially eligible for the incentive**

Oversight assumes the potential number of employees would be 26% based on the amount of employees using the retirement incentive in TAFP CCS for HS for HCS for SS #2 for SCS for SB's 100, 118, 247, 341 & 420 (0858-14) 2003.

26% of 4,703 = 1,223
1,223 x 1,000 per year = $1,223,000 x20 years = $24,460,000 / 5 years = $4,892,000

There will be five equal yearly installments paid every September until all five equal installments have been paid.

Oversight also assumes there will be a potential savings in a rehire percentage if 1,223 employees retire only ½ of personnel services expense would be to rehire.

Average Salary of retiree $39,000
1223 x $39,000 = $47,697,000
½ of $47,697,000 = $23,848,500
Average Salary of new employee $30,000
$23,848,500 / $30,000 = 794.95 (795)
795 x $30,000 = $23,850,000

ASSUMPTION (continued)

Oversight also assumes there will be a potential savings in the health care cost paid by the state for those employees electing to retire.

If only 795 were rehired with a salary of $30,000 the potential cost would be

795 x $678.48 = $539,391 x 12 = $6,472,699
$23,850,000 x .0991 (Fringe benefit percentage) = $2,363,535

The potential savings from the retirees would be

1223 x (678.48 - 410.89) 267.59 = $327,262.57 x 12 = $3,927,150.84 or $3,927,151

$3,927,151 Savings on insurance of retiree
($6,472,699) cost of new employee insurance
($2,545,548) net loss

$ 2,363,386 Savings on retiree fringe benefits (9.91%)
($2,545,500) net loss of new employee insurance
($2,363,535) cost of new employee fringe benefits
($2,545,649) net costs

Fund split percentages

64.3% = ($1,636,852) General Revenue
13.0 % = ($330,934) Other State Funds
22.7% = ($577,862) Federal Funds

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this proposal will have no fiscal impact to their agency.

ASSUMPTION (continued)

Oversight assumes there will be a potential cost on accrued annual leave paid over the next five years. The potential cost will be based in the annual leave payout for FY09.

Total annual leave $3,291,251

Fund split percentages

64.3% of $3,291,251 = $2,116,274 / 5 = $423,254 Savings $2,116,274 - $423,254 = $1,693,020
13.0% of $3,291,251 = $427,863 / 5 = $ 85,573 Savings $427,863 - $85,573 = $342,290
22.7% of $3,291,251 = $747,114 / 5 = $149,422 Savings $747,114 - $149,422 = $597,692

Potential savings

Total Year Payout	$3,291,251
5 year payout	$ 658,250
Savings	$2,633,001

Section 105.915 & 105.927

In response to a similar proposal in 2009, HB 597, 1326-02n, 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).

In response to a similar proposal in 2009, HB 597, 1326-02n, officials from **MoDOT & Patrol Employees' Retirement System, Department of Conservation,** and **Missouri Highway Patrol** assume there will be no fiscal impact to their agency.

In response to a similar proposal in 2009, HB 597, 1326-02n, officials from the **Missouri State Employees' Retirement System** assume the proposed legislation described in Fiscal Note No. 1534-01N (Senate Bill 290) would, if enacted, allow for automatic enrollment in the State of Missouri Deferred Compensation Plan, beginning September 1, 2009, for new employees. Under this proposal, eligible employees would automatically be enrolled in the plan and the employee would begin contributing an amount equal to the maximum appropriated state incentive contribution allowable under law (currently $35 a month). Employees who do not wish to participate may opt out when completing new employee information forms.

ASSUMPTION (continued)

Under the legislation, the contribution rate for employees who are automatically enrolled would also adjust automatically for any changes to the maximum appropriated state incentive contribution. Employees employed by colleges or universities would not be automatically enrolled under the proposal; however, they could elect to participate in the plan. Also, employees who opt out of automatic enrollment may elect at a later date to participate in the plan.

The legislation would also allow the plan administrator, the MOSERS Board of Trustees, to amend plan documents for consistency with federal law. Lastly, provisions exist which clarify that employees who are compensated under a local payroll system (such as MOSERS and MCHCP) are eligible to participate in the plan.

Under the current plan, employees must take action to participate. The plan's enrollment process is a three step procedure that requires an employee to (1) locate and provide their personal identification number (PIN), (2) call the plan administrator's toll free number or sign into the plan's website, and (3) make investment selections for their savings. Presently, 40% of state employees who are eligible to participate have not enrolled in the plan.

There are approximately 23,000 state employees who are eligible for the deferred compensation incentive who are not participating in the plan. The goal of the auto-enrollment provision is to encourage new hires to participate in the plan from their initial date of employment, and thus participate in the incentive arrangement one year from their date of hire.

Based on our research related to auto-enrollment provisions, we estimate that the net number of participants in the program would increase at the rate of $98 per month. Assuming the provision became effective for those hired September 1 or later of this year, and first becoming eligible for the incentive one year from their date of hire, the incremental amount of the state's incentive for fiscal year 2011 would be approximately $190,000, with the annual increment thereafter being approximately $680,000.

In response to a similar proposal in 2009, HB 597, 1326-02n, officials from the **Office of Administration - Division of Accounting** assume this proposal creates a very difficult scenario to determine fiscal impact. The intent is to enroll all new employees into the deferred compensation plan with a provision to opt out. This proposal is not intended to affect current or transferring employees. (See MOSERS cost amount)

In response to a similar proposal in 2009, HB 597, 1326-02n, officials from the **Office of Administration - Division of Budget & Planning** assume the proposal should not result in additional costs or savings to the Division of Budget & Planning. Budget & Planning defers to

ASSUMPTION (continued)

MOSERS for a specific estimate.

In response to a similar proposal in 2009, HB 597, 1326-02n, officials from the **Department of Labor and Industrial Relations (DOLIR)** currently has 712 full-time employees and only 46 employees are not enrolled in deferred compensation. If all the 46 employees did not opt out of the automatic enrollment, the annual cost to the department programs would be $19,320 at $35 per month per employee.

Oversight assumes this proposal is for all employees eligible to participate in the plan hired on or after September 1, 2009, and that each employee shall automatically be enrolled in the plan. **Oversight** assumes this proposal does not apply to current employees who have declined to participate in the plan. **Oversight** will defer to MOSERS for a specific estimate.

Due to time constraints, **Oversight** was not able to receive an actuarial study. The projected savings would be less than those in the original actuarial study.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Savings - Net decrease in annual contributions	$3,883,235	$11,419,387	$18,683,231
Savings - Net decrease in annual contributions - judges	$167,452	$546,494	$976,105
Savings (Section 104.405 & 104.406) - Office of Administration Net reduction in personnel cost	$15,334,585	$15,334,585	$15,334,585
Savings (Section 104.405 & 104.406) - Office of Administration Net savings annual leave payout	$1,693,020	$1,693,020	$1,693,020
Cost (Section 104.405 & 104.406) - Office of Administration Net cost of new employee fringe benefits	($1,636,852)	($1,636,852)	($1,636,852)
Cost - Office of Administration Early incentive payouts	($3,145,556)	($3,145,556)	($3,145,556)
ESTIMATED NET EFFECT ON GENERAL REVENUE*	**Less than $16,295,884**	**Less than $24,211,078**	**Less than $31,904,533**

***Does not include actuarial study.**

ALL OTHER FUNDS

Savings - Office of Administration - Net decrease in annual contributions	$785,102	$2,308,741	$3,777,325
Savings (Section 104.405 & 104.406) - Office of Administration Net reduction in personnel cost	$3,100,305	$3,100,305	$3,100,305
Savings (Section 104.405 & 104.406) - Office of Administration Net savings annual leave payout	$342,290	$342,290	$342,290
Savings - Department of Transportation & Highway Patrol - Net decrease in annual contributions	$462,578	$1,682,358	$2,968,650
Cost (Section 104.405 & 104.406) - Office of Administration Net cost of employee fringe benefits	($330,934)	($330,934)	($330,934)
Cost - Office of Administration Early incentive payouts	($635,960)	($635,960)	($635,960)
ESTIMATED NET EFFECT ON OTHER FUNDS *	**Less than $3,723,381**	**Less than $6,466,800**	**Less than $9,221,676**

***Does not include actuarial study.**

FISCAL IMPACT - Federal Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
FEDERAL FUNDS			
Savings (Section 104.405 & 104.406) - Office of Administration			
Net reduction in personnel cost	$5,413,609	$5,413,609	$5,413,609
Savings - Office of Administration			
Net decrease in annual contributions	$1,370,908	$4,031,416	$6,595,791
Savings (Section 104.405 & 104.406) - Office of Administration			
Net savings annual leave payout	$597,692	$597,692	$597,692
Cost - Office of Administration			
Early incentive payouts	($1,110,484)	($1,110,484)	($1,110,484)
ESTIMATED NET EFFECT ON FEDERAL FUNDS*	**Less than $5,693,863**	**Less than $8,354,371**	**Less than $10,918,746**

***Does not include actuarial study.**

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)

Section 104.405 & 104.406

Allows departments to rehire for positions that are vacated due to the election to retire; however, the departments will be limited to using no more than 50% of the personal service funds of those positions vacated. This provision will not apply to Truman State University, Lincoln University, or any educational institution listed in Section 174.020;

Allows the Office of Administration to pay any accrued annual leave to the member or member's beneficiary over a five year period in five equal installments beginning September 2010 and each September thereafter until all five equal installments have been paid.

Requires MOSERS and the Missouri Consolidated Health Care Plan (MCHCP) to report in writing by October 31, 2010, to the Commissioner of the Office of Administration on the number of state employees eligible to retire and the premium costs associated with those who retire under these provisions. The commissioner will report this information annually to the Governor and General Assembly by January 31, 2011, through January 31, 2015. The report will include an analysis of the costs and savings resulting from the retirements and the amount of payroll and positions reduced.

Section 105.915 & 105.927

Beginning September 1, 2010, this bill makes enrollment in the state deferred compensation program automatic for each eligible new employee hired, except an employee of a state college or university. Contributions to the program will be effective on or after the first day of the month following the date of hire, and the contributions must be at least $25 per month. An employee

DESCRIPTION (continued)

may change his or her contribution amount or opt out of the program at any time. The contribution rate for employees automatically enrolled will automatically adjust based on any increases in the state matching contribution, currently $35 per month.

A member's surviving spouse will automatically be designated as the primary beneficiary, unless the surviving spouse consented in writing to allow the participating member to designate someone else as the beneficiary.

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

Mickey Wilson

Mickey Wilson, CPA
Director
June 29, 2010