COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5554-02
Bill No.: HCS for HB 2202
Subject: Retirement - Local Government; Law Enforcement Officers
Type: Original
Date: February 13, 2018

Bill Summary: This proposal modifies provisions relating to retirement for police officers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	$2,900,000	$1,600,000	$200,000

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version, officials from the **St. Louis Police Retirement System (STLPRS)** assumed this legislation does the following:

(1) Members' final average compensation will be calculated based on the last three years of creditable service as a police officer whether or not they are participating in DROP;

(2) Members participating in the DROP, whose employment as a police officer terminates due to death or disability shall have their average final compensation calculated based on the last three years of creditable service;

(3) Members may terminate employment as a police officer and actually retire after completing at least 10 years of service and attaining age 55;

(4) Members may enter DROP after completing 20 years of creditable service;

(5) Members in DROP shall earn interest at the rate of return earned by the 10-year United States Treasury bill plus 1% not to exceed 6%;

(6) A member's service retirement allowance shall not exceed 70% of the member's average final compensation;

(7) Retired members will receive an annual COLA based on the increase in the consumer price index up to 3% max with total increases capped at 25% total increase;

(8) Members will not be eligible for the return of mandatory contributions upon retirement, but members terminating without being vested will receive the mandatory contributions back without interest;

(9) Members will not be eligible for the additional benefits available under Section 86.254, RSMo; and

(10) Members will not be 100% vested until completing 10 years of creditable service and attaining the age of 55.

(11) The contribution rate of each member not participating in the DROP will increase from 7% to 8%; however, these deductions will now be deducted prior to taxation.

ASSUMPTION (continued)

According to the STLPRS's actuarial study, the changes in this proposal should increase the funded ratio from 79.53% to 79.42% and lower the impact on annual contribution from 36.79% to 36.21%.

Officials from the **Joint Committee on Public Employee Retirement** indicate that such legislation may constitute a "substantial proposed change" in future plan benefits as defined in Section 105.660(10), RSMo. It is impossible to accurately determine the fiscal impact of this proposed legislation without an actuarial cost statement prepared in accordance with Section 105.665, RSMo.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the Missouri House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage of the bill. An actuarial cost statement for this legislation has not been filed with the JCPER.

St. Louis Police Retirement System as of October 1, 2017

		Funded Ratio
Assets: Market Value	$776,579,478	80.1%
Actuarial Value	$771,337,887	79.5%
Liabilities:	$969,815,612	

Actuarially Determined Contribution Rate (PY 17)

Employer:	39.37%	$29,601,871
Employee:	7.00%	$5,263,223 (estimate)
Total:	46.37%	$34,865,094 (estimate)

Total Expected Compensation: $75,188,904

Active Membership: 1,120
Inactive Membership: 2,049

ASSUMPTION (continued)

Officials from the **City of St. Louis** state that over the past 16 years, the City costs for the Police retirement system have increased from nearly $0 from when the system was fully funded to over $37 million in the most recent fiscal year. Contributing to this increase is the fact that investments, buffeted by recession and other swings in the markets have trailed the assumed rate of return by over $200 million in that period. Meanwhile, active membership in the plan represents only 40% of total membership as retirees and dependents outnumber active officers. While the system is currently funded on an actuarial basis at 79.5%, the cost of maintaining this funding level is high. The City's total current cost per active member is over $29,000. Furthermore, the economic cycle is entering its tenth year of expansion. At this point in previous cycles the system was fully funded and in a better position to weather an eventual recession. Meanwhile, the total cost of the system continues to consume Police department operating funds. Nearly 25% of the Police budget in FY18 is consumed by these costs leaving little discretionary funds to hire new officers, address pay issues and other needs of the department (e.g. equipment). Over the last 5 years alone, the increase in pension costs has totaled $5.6 million or by an amount that would be sufficient to fund about 90 new police officers.

The proposed legislation is an attempt to change the cost trajectory of the Police Pension System and make the system more fiscally sustainable over the long term. A summary of the proposed changes and fiscal impact is detailed below:

Current Retirees: No Changes

Current Employees: Increase in contributions from current 7% of pay to 8%. Contributions to be pre-tax so net impact on take home pay for most would be a slight increase.

New Employees: (As of October 1, 2018)
-Vesting reduced to 10 years

-Early retirement is deferred to age 55 DROP remains available at 20 years but no reentry after

-DROP Change in DROP interest rate to 10 yr. T-Bill plus 1%

-Employee contribution set to 9%

-No return of contributions at retirement

No interest on return of contributions

ASSUMPTION (continued)

-Increase final average compensation to 3 years

-Cap on service retirement at 70%

-Cap on COLA at 25%

-No Special Advisor benefit / ("10$ bill")

Actuarial Valuation Method:
-Provides PRS ability to switch to Entry Age Normal upon passage of City ordinance.

-Valuation change does not impact "cost" of plan but how that cost is paid over time. EAN would reduce payments in early years but raise payments in later years.

-Over the longer term (e.g. 30+ years) the present value of contribution payments should be about the same regardless of valuation method used.

Given that most of the changes relate to new employees savings from changes in plan benefits would be small at first and gradually increase over time. If the valuation method ordinance is enacted the contributions would drop in early years but then rise in later years. This latter change however does not constitute "savings" as it only changes pattern of payments over time. To isolate true savings from changes related to the valuation method, a comparison can be made between the impact of the switch to EAN before and after changes in benefits. The projected impact over the next 3 fiscal years is presented below. Over the next 20 years, the net present value of savings due to changes in the benefit structure are estimated at $20 million.

Oversight assumes this proposal will have a significant fiscal impact on the St. Louis Police Retirement System (STLPRS). STLPRS is not a local political subdivision; therefore, **Oversight** will not reflect a fiscal impact to their organization.

Oversight also assumes, based on the STLPRS's actuarial study and the City of St. Louis' response, the Employer Contribution rate will lower the first 3 years of the fiscal note and will then have an increase in employer contributions thereafter as a result of the changes in this proposal. The table below shows the changes from the current plan projections to the proposed plan projections and the difference between the two in millions.

ASSUMPTION (continued)

*In millions

	Employer Contribution - Current Plan Projections	Employer Contribution - with proposed changes	Difference
2019	$33.5	$30.6	$2.9
2020	$32.2	$30.6	$1.6
2021	$30.9	$30.7	$.2
2036	$31.3	$41.7	($10.4)

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOCAL POLITICAL SUBDIVISIONS			
Savings - St. Louis Police Department Lower employer contribution rate	$2,900,000	$1,600,000	$200,000
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$2,900,000**	**$1,600,000**	**$200,000**

FISCAL IMPACT - Small Business

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

KC:LR:OD

FISCAL DESCRIPTION

This bill modifies retirement benefits for members of the police retirement system of St. Louis who commence employment on or after October 1, 2018, as follows:

(1) Members' final average compensation will be calculated based on the last three years of creditable service as a police officer whether or not they are participating in DROP;

(2) Members participating in the DROP, whose employment as a police officer terminates due to death or disability shall have their average final compensation calculated based on the last three years of creditable service;

(3) Members may terminate employment as a police officer and actually retire after completing at least 10 years of service and attaining age 55;

(4) Members may enter DROP after completing 20 years of creditable service;

(5) Members in DROP shall earn interest at the rate of return earned by the 10-year United States Treasury bill plus 1% not to exceed 6%;

(6) A member's service retirement allowance shall not exceed 70% of the member's average final compensation;

(7) Retired members will receive an annual COLA based on the increase in the consumer price index up to 3% max with total increases capped at 25% total increase;

(8) Members will not be eligible for the return of mandatory contributions upon retirement, but members terminating without being vested will receive the mandatory contributions back without interest;

(9) Members will not be eligible for the additional benefits available under Section 86.254, RSMo; and

(10) Members will not be 100% vested until completing 10 years of creditable service and attaining the age of 55.

Currently, six out of nine trustees of the retirement system constitute a quorum, this bill changes that to a majority of the trustees or five trustees. The board is allowed to use the entry age normal actuarial cost method for determining the annual valuation of the assets and liabilities of the system when St. Louis City adopts an ordinance to allow them. The actuarial valuation method is

FISCAL DESCRIPTION (continued)

outlined in the bill.

Members retired due to nonduty disability will be limited in what they can earn if they are gainfully employed, an offset to the allowance will occur if the sum of the member's current salary plus allowance equals an amount in excess of 125% of the member's current salary.

The contribution rate of each member not participating in the DROP will increase from 7% to 8%; however, these deductions will now be deducted prior to taxation.

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 Retirement
Police Retirement System of St. Louis
City of St. Louis

Ross Strope

Acting Director
February 13, 2018

KC:LR:OD