

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1889-01
Bill No.: SB 587
Subject: Retirement - State; Retirement Systems and Benefits - General; Highway Patrol;
 Transportation Dept.
Type: Original
Date: March 28, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$34,302,395)	(\$34,302,395)	(\$34,302,395)
Total Estimated Net Effect on General Revenue Fund*	(\$34,302,395)	(\$34,302,395)	(\$34,302,395)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Highway Fund	(\$5,785,829)	(\$5,785,829)	(\$5,785,829)
Total Estimated Net Effect on Other State Funds*	(\$5,785,829)	(\$5,785,829)	(\$5,785,829)

***The provisions affecting the Missouri State Employees Retirement increases the Unfunded Actuarial Accrued Liability (UAAL) by \$384,264,203. The provisions affecting the Highway Employees & Highway Patrol Retirement System increases the Unfunded Actuarial Accrued Liability (UAAL) by \$64,000,000.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** indicated the above referenced legislation would indicate that such legislation is a “substantial proposed change” in future plan benefits as defined in Section 105.655(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 five (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 and it reflected in the attached pension impact statement.

ASSUMPTION (continued)

Officials from the **Missouri State Employees' Retirement System** assume based on the annual payroll for June 30, 2002 valuation projected forward two years (one year at 0% due to the state pay freeze and one year at 4%, the long-term assumed annual rate of payroll growth), the increase in total contribution would be \$34.4 million in the first year after the benefit change. MSEP provisions for members hired prior to August 28, 1997 are based on a 4.25% average minimum increase until an aggregate increase of 65% is reached.

The proposed legislation was valued as if the formula for calculating future COLAs in the MSEP and MSEP 2000 was changed from 80% of the increase in the CPI to 100% of the increase in the CPI up to a maximum of 5%. For purposes of clarification, it recommended that this proposal be amended to include section 104.415 to ensure that MSEP active employees and future survivors would be eligible to receive this benefit. Additionally, it is recommended that the Administrative Law Judges and Legal Advisors' Plan and the Judicial Plan, sections 287.820 and 476.601, respectively, be amended to include administrative law judges, legal advisors and judges because these groups are presently receiving the same COLA benefits that are being provided to state retirees under Chapter 104. (It should be noted that the cost associated with providing this benefit to administrative law judges, legal advisors, and judges is not included in this fiscal note.)

Officials with the **Missouri Highway and Transportation Employees and Highway Patrol Retirement System (HRS)** assumes the proposal would present the following effects:

Closed Plan

For active and inactive employees, the benefits of pensioners and their beneficiaries are increased annually by 80% of the increase in the Consumer Price Index (subject to a maximum increase of 5% and a minimum of 4%). The increases are made until the total of the increases reaches 65% at which time the increases will have the minimum removed. For employees hired after 8/27/97 and those hired prior to 8/28/97 and who have reached the 65% cap, the annual percentage increase will be equal to the lesser of : i) 100% of the CPI increase, and ii) 5%.

Year 2000

The annual percentage increase will be equal to the lesser of i) 100% of the CPI increase, and ii) 5%.

ASSUMPTION (continued)

MoDOT			\$3,842,000
Patrol			
	Non-Uniformed	\$ 557,000	
	Uniformed Patrol	\$1,997,000	<u>\$1,726,700</u>
Total			\$5,568,700

These calculations are based on annual payroll levels of:

MoDOT	\$226 Million
Non-Uniformed Patrol	\$ 31 Million
Uniformed Patrol	\$ 43 Million

Increased contribution rates of:

MoDOT	1.70%
Non-Uniformed Patrol	1.70%
Uniformed Patrol	2.79%

Oversight will present the net increase as determined by the Joint Committee on Public Employee Retirement plan since the Joint Committee on Public Employee Retirement has included more recent payroll cost in the net cost increase.

Officials from the **Department of Transportation** assume this proposal increases COLA for special consultants and retirees from 80% to 100% of consumer price index.

Closed Plan - For active and inactive employees, the benefits of pensioners and their beneficiaries are increased annually by 80% of the increase in the Consumer Price Index (subject to a maximum increase of 5% and an minimum of 4%. The increases are made until the total of the increases reaches 65% at which time the increases will have the minimum removed. For employees hired after 8/27/97 and those hired prior to 8/28/97 and who have reached the 65% cap, the annual percentage increase will be equal to the lesser of: i) 100% of the CPI increase, and ii) 5%.

Year 2000 - The annual percentage increase will be equal to the lesser of i)100% of the CPI

increase, and ii) 5%.

These calculations are based on annual payroll levels of:

MoDOT \$4,063,309

ASSUMPTION (continued)

Increased contribution rate of:

MoDOT \$3,842,000

Increased contribution rates of:

MoDOT 1.70%

Oversight will present the net increase as determined by the Joint Committee on Public Employee Retirement plan since the Joint Committee on Public Employee Retirement has included more recent payroll cost in the net cost increase and the non-uniformed and uniformed patrol is included in the net cost increase.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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GENERAL REVENUE

Cost - General Revenue

Increased Contributions to Retirement
 Plans

(\$34,302,395)	(\$34,302,395)	(\$34,302,395)
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**TOTAL ESTIMATED NET EFFECT
 ON GENERAL REVENUE FUNDS***

<u>(\$34,302,395)</u>	<u>(\$34,302,395)</u>	<u>(\$34,302,395)</u>
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HIGHWAY FUND

Cost - MoDOT

Increased Retirement Contributions

(\$5,785,829)	(\$5,785,829)	(\$5,785,829)
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**TOTAL ESTIMATED NET EFFECT
 ON HIGHWAY FUNDS***

<u>(\$5,785,829)</u>	<u>(\$5,785,829)</u>	<u>(\$5,785,829)</u>
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***The provisions affecting the Missouri State Employees Retirement increases the Unfunded Actuarial Accrued Liability (UAAL) by \$384,264,203. The provisions affecting the Highway Employees & Highway Patrol Retirement System increases the Unfunded Actuarial Accrued Liability (UAAL) by \$64,000,000.**

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<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.

DESCRIPTION

This act changes the cost-of-living assessment (COLA) for certain special consultants and retirees from 80% to 100% of the consumer price index for all adjustments after September 1, 2003, but in no more than 5% of the annuity amount payable immediately before the payment of the COLA.

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

Missouri State Employees Retirement System
Joint Committee on Public Employee Retirement
Missouri Highway and Transportation Employees and
Highway Patrol Retirement System
Missouri Highway Patrol
Department of Transportation

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A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large, prominent 'M' and 'W'.

Mickey Wilson, CPA
Director
March 28, 2003