COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3374-02
Bill No.: SB 748
Subject: Insurance - Medical; Retirement; State Employees
Type: Original
Date: January 17, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	$5,321,015 to $15,134,113	$5,020,970 to $14,834,068	$4,682,891 to $14,495,989
Total Estimated Net Effect on General Revenue Fund*	**$5,321,015 to $15,134,113**	**$5,020,970 to $14,834,068**	**$4,682,891 to $14,495,989**

***This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by $62,021,000 to $103,368,000.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Other Funds	$3,336,305 to $9,490,218	$3,148,154 to $9,302,067	$2,936,153 to $9,322,067
Total Estimated Net Effect on Other State Funds*	**$3,336,305 to $9,490,218**	**$3,148,154 to $9,302,067**	**$2,936,153 to $9,322,067**

***This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by $62,021,000 to $103,368,000.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Federal Funds	$280,840	$354,090	$354,656
Total Estimated Net Effect on All Federal Funds	**$280,840**	**$354,090**	**$354,656**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
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 State, 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.

Officials from the **Missouri State Employees Retirement System** assume the proposal would, if enacted, allow certain eligible employees to retire under temporary health care retirement incentive. As proposed, it would allow employees who are currently active on the effective date of the act, and whose annuity commences on or after May 15, 2006 but no later than August 15, 2006 (the "window period"), to continue medical coverage for the member and eligible dependents at the active employee rate for a maximum of five years or until becoming eligible for Medicare, whichever occurs first, at which time the rate reverts to the applicable retiree rate

ASSUMPTION (continued)

The proposal further limits the number of employees departments may hire to replace those employees who retired during the window to no more than 25% of the positions vacated. Exceptions to the 25% restriction may be made for critical or seasonal positions or any positions impacting federal fund matches. The 25% restriction does not apply to Truman University, Lincoln University or the educational institutions described in Chapter 174, RSMo. Lastly, the proposal prohibits any reemployment with any department for a period of three years.

As it relates to the temporary health care retirement incentive, the boards that govern Truman University, Lincoln University, the colleges and universities, and the commissions that govern MoDOT and the highway patrol and the Department of Conservation may elect to offer the same medical retirement incentive to eligible employees (without necessarily being subject to the restriction and limitations applicable to other state employees).

MOSERS has no way of estimating the number of employees who might retire under this proposal; however, the table that follows illustrates the number of employees who would be eligible to retire.

Number Eligible	**Group**
4,922	Eligible to retire from May 15 to August 15

In addition, some members may be eligible to combine other types of prior government work with their MOSERS service by purchasing or transferring the other eligible service, which would also make them eligible to retire during this window. We have no way to determine how many members may have additional service that could be purchased or transferred.

As is relates to those employees eligible to participate in the healthcare incentive, 748 employees are presently age 65 or older and therefore would not be eligible to receive the health subsidy. (This number has been provided for informational purposes only -- the total number of eligible employees is 5,670.)

ASSUMPTION (continued)

Estimated Change in Payroll*
Including the Department of Conservation
And the Colleges and Universities
($ in Thousands)
30% Utilization

	Description	Present	30% Utiliz. 25% Replc.	30% Utiliz. 50% Replc
1	Normal Cost	8.84%	8.84%	8.84%
2	Amortization of UAAL			
	a) 31 year portion	3.94%	4.04%	4.01%
	b) 5 year portion		0.82%	0.81%
3	Total Contribution Rate (1 + 2)	12.78%	13.70%	13.66%
4	Change from Present	NA	0.92%	0.88%
5	Expected Total Payroll	$1,806,601	$1,761,414	$1,776,476
6	Change from Present	NA	($45,187)	($30,125)
7	Computed Retirement Contribution (3 x 5)	$230,884	$241,314	$242,667
8	Change from Present	NA	$10,430	$11,783
9	Total Change (6 + 8)	NA	($34,757)	($18,342)
	Less Normal Retirement Attrition	NA	($11,000)	($7,333)
	Net Change/Savings	NA	($23,757)	($11,009)

*Does not reflect impact on FICA and other payroll taxes or healthcare.

In assessing the potential savings from the retirement incentive program, no consideration should be given to individuals who would have retired without any such incentive. On average over the last three years, 125 MOSERS covered employees have retired from active service each month. Normal attrition (employees leaving the state workforce) including retirement and turnover has been approximately 4,600 employees per year over the last three years.

MOSERS has no way of estimating the number of employees who might retire under this proposal; however, assuming a 30% utilization and 50% replacement scenario, this incentive would result in a net reduction of approximately $11,009,000 in payroll and retirement contributions. (Note: Prior experience under the medical retirement incentive in SB 248 enacted

ASSUMPTION (continued)

in 2003 suggests that a 30% utilization rate and 50% replacement scenario would be appropriate.)

It should be noted that there are two years remaining on the health care subsidy that must be budgeted and paid to members who retired under the previous retirement incentive.

Officials from the **Office of Administration - Division of Budget and Planning** assume that the Missouri State Employees' Retirement System is commenting on the retirement rate and payroll fiscal impact; and that Missouri Consolidated Health Care is commenting on the healthcare fiscal impact of this legislation. Budget and Planning's analysis only includes state fringe benefit issues not addressed by either of these groups. In determining cost savings for the state for state for the social security tax, workers compensation, unemployment insurance , and deferred compensation, we adopted MOSERS assumptions. MOSERS claims 4,922 employees are eligible to retire under the retirement incentive plan outlined in this legislation. According to MOSERS analysis, this resulted in a estimated payroll savings from this legislation of $22,792,000 under the assumption that 30% of eligibles would retire, of which 50% would be replaced. When computing other fringes, eligible retirees of colleges and universities must be extracted from this total because their fringe costs are not included in the state budget. The table below provides the estimated cost savings to the state for the various other fringes given the four scenarios MOSERS incorporated in their analyses. This fringe savings can only be realized if the estimated payroll savings MOSERS derived is cut from the budget. If agencies retain any payroll savings beyond what the replacement scenario suggests, fringe savings would be less than that shown on the table below.

	30/25	**30/50**	**50/25**	**50/50**
Cost savings of Social Security Tax, Workers Compensation & Unemployment Tax, and Deferred Compensation using MOSERS assumptions:	$2,650,490	$1,767,044	$4,986,055	$3,324,063

30/25 - 30% Utilization; 25% Replacement
30/50 - 30% Utilization; 50% Replacement
50/25 - 50% Utilization; 25% Replacement
50/50 - 50% Utilization; 50% Replacement

ASSUMPTION (continued)

Officials from the **Department of Labor and Industrial Relations (DOL)** obtained a listing of employees who would be eligible for retirement under the provisions of the bill. The current annual leave payout was calculated an totaled by fund source. The total annual leave payout was divided by the total number of annual leave hours (max 336 hours) and multiplied by 2,080 hours to reach an average salary for all employees eligible for retirement.

Salary savings were calculated by multiplying the number of eligible retirees by fund source by 75% (if the fund source is nonfederal) to determine the number of positions which will have to be left vacant. The number of vacant positions were multiplied by the average salary for the fund source, described in the previous paragraph, to obtain the salary savings.

The increased medical premium costs (shown as Other Costs (Medical Prem Costs)) were calculated by subtracting $29 (current active employee cost - employee only, lowest cost plan) from the current medical premium of $631 which equals $602 for employees eligible for 80 and out from the current medical premium of $631 multiplied by the employee's years of service multiplied by 2.5%, not to exceed 65%.

The cost savings reported is likely overstated as the fringe benefit rate built into the schedules of 44.06%, includes percentage amounts for the medical premium and deferred comp match which would not be paid on the annual leave payout.

Oversight assumes, based on the Office of Administration - Division of Budget and Planning's (BAP) response, that DOL costs and savings have been included in BAP's calculations. However, the costs and savings for federal funds provided by DOL will be included in the calculations.

Officials from the **Highway Employees and Patrol Retirement System** assume the proposal provides a retirement incentive plan for state employees. The key elements of the proposal are:

1. The retirement incentive "window" would be for retirements effective May 15, 2006 thru August 15, 2006.
2. For individuals retiring during the window under normal eligibility, their medical premium (for the member and eligible dependents) would be at the active employee rate for a maximum of 5 years or until becoming eligible for Medicare, whichever occurs first. Note: The proposal gives discretion to the Highway commission as to whether or not to offer the medical incentive to MoDOT and Patrol employees.
3. Individuals retiring under the window will be prohibited from being re-employed by any state agency for a period of 3 years. However, this prohibition could be considered an

ASSUMPTION (continued)

amendment by implication of sections 104.380 and 104.1039 in violation of Article III, section 28 of the Missouri Constitution.

4. The proposal would not impact the BackDROP.
5. According subsection 2 of 104.404, MoDOT and Patrol may not fill more than 25% of the positions vacated. Exceptions may be made for critical or seasonal positions or for positions entirely federally funded. Determinations for exceptions will be made by rules published by the Office of Administrations. Because we have no way to determine which positions will be exempted from either MoDOT or the Patrol, for valuation purposes we have assumed that only 25% may be refilled.
6. The proposal contains an emergency provision.

It is of course, extremely difficult to estimate the number of employees who will elect to retire due to the incentive. Based on knowledge of our retirement system and on overall experience with other retirement systems, our actuary has provided cost estimates for the separate utilization rates of: 20% utilization and 30% utilization. As previously mentioned, our actuary has further assumed that the employers will be allowed to replace no more than 25% of those employees who elect to retire. A recap of the increase in annual contribution to be made by MoDOT and Patrol to MPERS is as follows:

1. 20% Utilization, 25% employee replacement

Non-Uniformed (MoDOT & Civilian Patrol)	Uniformed Patrol	Total
$584,563	$115,716	$700,279

2. 30% Utilization, 25% employee

Non-Uniformed (MoDOT & Civilian Patrol)	Uniformed Patrol	Total
$902,338	$175,158	$1,077,496

NOTE: These figures do not reflect any additional costs that may be required from MoDOT and Patrol for the medical plan. Also, these figures do not reflect any salary payroll savings that may realized from an incentive program.

ASSUMPTION (continued)

Officials from the **Department of Conservation (MDC)** state this proposal, provided it was approved by the Commission, would have a fiscal impact on MDC funds. The amount would not exceed $100,000 annually.

Oversight assumes, based on the Office of Administration - Division of Budget and Planning's (BAP) response, that MDC costs and savings have been included in BAP's calculations.

Officials from the **Department of Transportation (MoDOT)** assume that MHTC/MoDOT would elect to provide the same benefits, except MHTC/MoDOT would replace 100% of those positions vacated due to employees retiring during this selected time period. MoDOT would not be able to comply with the 25% rehire provision of this proposal and still provide the vital transportation services for the citizens of Missouri.

Based on the numbers reported by the MoDOT and Patrol Employees Retirement System, there are 630 MoDOT and 234 Highway Patrol (MSHP) employees eligible to retire as of July 1, 2005. MoDOT is going to assume all 630 MoDOT and 234 MSHP employees would retire during this selected time period. Currently, the amounts employees and retirees receive differ between rate categories (i.e. Subscriber Only, Subscriber/Family, etc.).

The number of retirees in each rate category was based on the current overall participation ratios. Calculations were equal to (Number of Eligible Retirees x Percent of participation for the rate category) x (Employers Contribution for SB 748 Retirees - Retiree Employer Contribution based on current contribution Percentages).

Based on the above assumptions MoDOT would have an additional cost of $1,334,484 for FY07 and MSHP would have an additional cost of $522,222. Although the number of retirees eligible for this additional incentive decreases each year, the overall premiums increase due to utilization/trends.

Costs for FY2007, FY2008 and FY2009 are listed below. Due to the emergency clause within the bill that makes it effective upon Governor signing, some costs related to the legislation may be incurred in FY2006.

FY07: MoDOT $1,334,484, MHSP $522,222
FY08: MoDOT $1,478,834; MHSP $573,774
FY09: MoDOT $1,621,224, MSHP $655,392

ASSUMPTION (continued)

MoDOT has a few employees that would be eligible to retire under MOSERS, however, it is anticipated that the amount of the fiscal impact would be small, therefore it has not been included in this response.

MoDOT must rely upon the Missouri Department of Transportation and Highway Patrol Employees' Retirement System's fiscal note response dated December 22, 2005, in reference to the contribution rate analysis.

If the current provisions remain intact, MoDOT would likely have to opt-out of the early retirement incentive program due to the rehire provision. If this occurs, the fiscal impact of the legislation would be zero. The Missouri Highways and Transportation Commission would ultimately make the decision on this issue.

Officials from the **Missouri Highway Patrol** will defer to the Department of Transportation to respond on their behalf.

Officials with the **Department of Health and Senior Services (DHSS)** state they cannot predict the number of eligible state employees who may elect to retire under this proposal legislation. It is assumed the DHSS would incur increased costs due to paying off accrued leave time and higher MOSERS and MCHCP contribution rates for those employees choosing to retire. The DHSS would also incur savings due to the provision that restricts the replacement of employees retiring to 25% of the positions vacated except for critical positions or positions that are entirely federally funded. For the purposes of this fiscal note it is assumed that the savings realized from the payroll side would outweigh the costs of paying accrued leave balances. The resulting savings would be less than $100,000.

The provision that limits the replacement of positions vacated to 25% would impact the ability of the DHSS to provide services. It is assumed that the DHSS could request staff during the budget process if deemed necessary to meet its mission.

Officials from the **Department of Economic Development (DED)** assume any positive or negative fiscal or administrative impact would be unknown at this time. The DED defers to the Missouri Consolidated Health Care Plan (MCHCP) on estimates on the impact to health insurance.

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this proposal would allow certain eligible employees to retiree under temporary medical and retirement incentives. The proposal would allow employees who are eligible to retire and who do retire on

ASSUMPTION (continued)

or after May 15, 2006 but no later than August 15, 2006, to continue medical coverage for the member and eligible dependents at the active employee rate for a maximum of five years or until becoming eligible for Medicare, whichever occurs first, at which time the rate reverts to the applicable retiree rate in place at that time. The proposal also limits, in most cases, the number of employees department may hire to replace those who retired to no more than 25% of the vacant positions, unless they are identified as critical positions.

Since it is not known exactly who will take advantage of this proposal, the fiscal impact is very difficult to estimate. Therefore, MCHCP's costs are based upon the assumptions noted below:

3,817 eligible to retire by 8/1/2006;

Assuming 30% of all eligible employees take this option and 50% of those are replaced (based upon the results of last year's retirement incentive bill), this proposal could result in a cost of $4,118,724 for FY 07, $4,606,920 for FY 08 and $5,157,000 for FY 09. This does not account for any offsetting payroll savings that may be incurred by the state.

Oversight assumes these costs will only occur during the three year period indicated on the proposal.

Officials from **Missouri State University** assume while the number of retirement annually varies from year to year, on average, about 36 employees retire each year. Since the proposal limits the window during which the health insurance incentive would be made available to active employees to the period between May 15th and August 15th, we would estimate that about 1/3 of employees who do retire would retire during this period. The annual cost to insure one retiree would be $4,427, therefore, the cost to insure 12 would be $53,131 annually.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE**			
Savings - Office of Administration Net reduction in personal service costs, fringe benefits, expense and equipment	$6,766,131 to $14,601,052	$6,766,131 to $14,601,052	$6,766,131 to $14,601,052
Savings - Office of Administration Net reduction in Social Security Tax, Workers' Comp. & Unemployment Tax, and Deferred Comp	$1,086,252 to $3,064,429	$1,086,252 to $3,064,429	$1,086,252 to $3,064,429
Cost - Missouri Consolidated Health Care Plan Net cost in retiree health insurance	($2,531,368)	($2,831,413)	($3,169,492)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$5,321,015 to $15,134,113**	**$5,020,970 to $14,834,068**	**$4,682,891 to $14,495,989**
OTHER STATE FUNDS**			
Savings - Office of Administration Net reduction in person service costs, fringe benefits, expense and equipment	$4,242,869 to $9,155,948	$4,242,869 to $9,155,948	$4,242,869 to $9,155,948
Savings - Office of Administration Net reduction in Social Security Tax, Workers' Comp. & Unemployment Tax, and Deferred Comp	$680,792 to $1,921,626	$680,792 to $1,921,626	$680,792 to $1,921,626
Cost - Missouri Consolidated Health Care Plan Net cost in retiree health insurance	($1,587,356)	($1,775,507)	($1,987,508)
ESTIMATED NET EFFECT ON ALL OTHER FUNDS	**$3,336,305 to $9,490,218**	**$3,148,154 to $9,302,067**	**$2,936,153 to $9,322,067**

***This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by $62,021,000 to $103,368,000.**

FISCAL IMPACT - Federal Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
Federal Funds	$280,840	$354,090	$354,656
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$280,840**	**$354,090**	**$354,656**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$0	$0	$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

This act provides temporary retirement and medical incentives for active employees currently eligible to retire under the Missouri State Employee's Retirement System (MOSERS). The act provides that employees currently eligible to retire will receive medical coverage at the active employee rate, which will then revert to the regular retiree rate after five years or when the retiree becomes eligible for Medicare, whichever occurs first. The medical benefits will be available to any employee currently active on the effective date of this act whose annuity commences on or after May 15, 2006 but no later than August 15, 2006.

All of the vacated positions are held to a twenty-five percent rehire limitation, with exceptions for critical, seasonal, or federally-funded positions. The exceptions are defined by rules promulgated by the Office of Administration.

This act has an emergency clause.

DESCRIPTION (continued)

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
Department of Labor and Industrial Relations
Highway Employees and Patrol Retirement System
Missouri Highway Patrol
Office of Administration
    Division of Budget and Planning
Missouri Department of Conservation
Department of Health and Senior Services
Department of Economic Development
Missouri Consolidated Health Care Plan
Southwest Missouri State University

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Director
January 17, 2006

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