

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3374-05  
Bill No.: SCS for SB 748  
Subject: Insurance - Medical; Retirement; State Employees  
Type: Original  
Date: January 31, 2006

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$853, 552 to \$6,742,964	\$629,911 to \$6,519,323	\$376, 794 to \$6,266,206
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$853, 552 to \$6,742,964</b>	<b>\$629,911 to \$6,519,323</b>	<b>\$376, 794 to \$6,266,206</b>

**\*This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$60,155,000.**

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Other Funds	\$536,868 to \$4,229,968	\$395,001 to \$4,088,101	\$236,178 to \$3,929,278
<b>Total Estimated Net Effect on <u>Other</u> State Funds*</b>	<b>\$536,868 to \$4,229,968</b>	<b>\$395,001 to \$4,088,101</b>	<b>\$236,178 to \$3,929,278</b>

**\*This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$60,155,000.**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 14 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
Federal Funds	\$264,819	\$453,588	\$400,051
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$264,819</b>	<b>\$453,588</b>	<b>\$400,051</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**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** assumes the proposal would, if enacted, allow certain eligible employees to retiree under a temporary health care retirement incentive, and would also allow unused sick leave to be converted to creditable service for purposes of determining eligibility for temporary retirement incentive.

The Missouri State Employees Retirement System assumes the proposal would allow employees who are currently active on the effective date of the act, eligible for normal retirement under

## Rule

### ASSUMPTION (continued)

of 80, and whose annuity commences on or after May 1, 2006 but no later than August 1, 2006 (the "window period"), to continue medical coverage for the member and eligible dependents at the active employee rate for a maximum of three years or until becoming eligible for Medicare, whichever occurs first, at which time the rate reverts to the applicable retiree rate at that time. In addition, eligible members would be allowed to convert unused sick leave to creditable service for purposes of determining eligibility for Rule of 80 .

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); however, the retirement incentive would be available to all eligible employees who are member of MOSERS.

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 assuming a window period beginning May 1 through August 1, 2006.

<b>Number Eligible</b>	<b>Group</b>
3,752	Members eligible to retire under Rule of 80 without using sick leave for eligibility
216	Members eligible to retire under Rule of 80 using sick leave for eligibility
3,968	Total member eligible to retire under Rule of 80 retirement incentives

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, 543 employees are presently age 65 or older and therefore would not be eligible to receive the health subsidy.

ASSUMPTION (continued)

(This number has been provided for informational purposes only -- the total number of eligible employees is 3,968.)

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

	<b>Description</b>	<b>Present</b>	<b>30% Utiliz. 25% Replc.</b>	<b>30% Utiliz. 50% Replc</b>
1	Normal Cost	8.84%	8.84%	8.84%
2	Amortization of UAAL			
	a) 31 year portion	<u>3.94%</u>	<u>4.03%</u>	4.00%
	b) 5 year portion		<u>0.84%</u>	<u>0.83%</u>
3	Total Contribution Rate (1 + 2)	12.78%	13.71%	13.67%
4	Change from Present	NA	0.93%	0.89%
5	Expected Total Payroll	\$1,806,601	\$1,768,074	\$1,780,917
6	Total Payroll Change from Present	NA	(\$38,527)	(\$25,648)
	Attributable to Normal Retirement Attrition		(\$14,700)	(\$ 9,800)
	Attributable to Retirement Incentive Plan		<u>(\$23,827)</u>	<u>(\$15,884)</u>
	Total		(\$38,527)	(\$25,684)
7	Computed Retirement Contribution (3 x 5)	\$230,884	\$242,403	\$243,451
8	Change from Present	NA	\$11,519	\$12,567
9	Total Change (6 + 8)	NA	(\$27,008)	(\$13,117)
	Less Normal Retirement Attrition	NA	<u>(\$14,700)</u>	<u>(\$ 9,800)</u>
	Net Change/Savings	NA	(\$12,308)	(\$ 3,317)

\*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.

ASSUMPTION (continued)

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 \$3,317,000 in payroll and retirement contributions. (Note: Prior experience under the medical retirement incentive in SB 248 enacted 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 this proposal would allow unused sick leave to be converted to creditable service for purposes of determining eligibility for a temporary retirement incentive. Realizing that 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 3,968 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 \$15,884,000 under the assumption that 30% of eligibles would retire, of which 50% would be replaced. The fringe savings portrayed below excludes fringe savings from eligible retirees of colleges and universities, as 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. Estimates provided are for all funds

ASSUMPTION (continued)

	<b>30/25</b>	<b>30/50</b>
Cost savings of Social Security Tax, Workers Compensation & Unemployment Tax, and Deferred Compensation using MOSERS assumptions:	\$1,748,584	\$1,157,072

30/25 - 30% Utilization; 25% Replacement

30/50 - 30% Utilization; 50% Replacement

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 and 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.

ASSUMPTION (continued)

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 1, 2006 thru August 1, 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 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:

ASSUMPTION (continued)

1. 20% Utilization, 25% employee replacement

<u>Non-Uniformed (MoDOT &amp; Civilian Patrol)</u>	<u>Uniformed Patrol</u>	<u>Total</u>
\$584,563	\$115,716	\$700,279

2. 30% Utilization, 25% employee

<u>Non-Uniformed (MoDOT &amp; Civilian Patrol)</u>	<u>Uniformed Patrol</u>	<u>Total</u>
\$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 be realized from an incentive program.

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 513 MoDOT and 198 Highway Patrol (MSHP) employees eligible to retire as of July 1, 2005. MoDOT is going to assume all 513 MoDOT and 198 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.).

ASSUMPTION (continued)

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 \$1,349,502 for FY07 and MSHP would have an additional cost of \$533,514. 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 \$1,349,502, MHSP \$553,514

FY08: MoDOT \$1,501,752; MHSP \$629,214

FY09: MoDOT \$1,689,600, MSHP \$727,308

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 January 24, 2006, 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

ASSUMPTION (continued)

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 retire under temporary medical and retirement incentives. The proposal would allow employees who are eligible to retire and who do retire on or after May 1, 2006 but no later than August 1, 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:

2,857 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 \$3,083,652 for FY 07, \$3,449,160 for FY 08 and \$3,861,000 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.

ASSUMPTION (continued)

Officials from the **Department of Economic Development - Professional Registration** assume any positive or negative fiscal impact would be unknown at this time. The Public Service Commission (PSC) is unable to determine who would take advantage of this proposal if passed. The PSC defers to the Office of Administration Division of Budget and Planning, Missouri Consolidated Health Care Plan and state retirement system for estimates on the impact of this proposal.

Some employees may be able to purchase retirement credit, but the agency would not know which employees are eligible to do so until notice is given to the agency by the employees that credit has been purchased..

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE**</b>			
<u>Savings - Office of Administration</u>			
Net reduction in personal service costs, fringe benefits, expense and equipment	\$2,038,628 to \$7,564,497	\$2,038,628 to \$7,564,497	\$2,038,628 to \$7,564,497
<u>Savings - Office of Administration</u>			
Net reduction in Social Security Tax, Workers' Comp. & Unemployment Tax, and Deferred Comp	\$711,136 to \$1,074,679	\$711,136 to \$1,074,679	\$711,136 to \$1,074,679
<u>Cost - Missouri Consolidated Health Care Plan</u>			
Net cost in retiree health insurance	( <u>\$1,896,212</u> )	( <u>\$2,119,853</u> )	( <u>\$2,372,970</u> )
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$853,552 to</u> <u>\$6,742,964</u></b>	<b><u>\$629,911 to</u> <u>\$6,519,323</u></b>	<b><u>\$376,794 to</u> <u>\$6,266,206</u></b>
<b>OTHER STATE FUNDS**</b>			
<u>Savings - Office of Administration</u>			
Net reduction in person service costs, fringe benefits, expense and equipment	\$1,278,372 to \$4,743,503	\$1,278,372 to \$4,743,503	\$1,278,372 to \$4,743,503
<u>Savings - Office of Administration</u>			
Net reduction in Social Security Tax, Workers' Comp. & Unemployment Tax, and Deferred Comp	\$445,936 to \$673,905	\$445,936 to \$673,905	\$445,936 to \$673,905
<u>Cost - Missouri Consolidated Health Care Plan</u>			
Net cost in retiree health insurance	( <u>\$1,187,440</u> )	( <u>\$1,329,307</u> )	( <u>\$1,488,130</u> )

<b>ESTIMATED NET EFFECT ON ALL OTHER FUNDS</b>	<b><u>\$536,868 to</u> <u>\$4,229,968</u></b>	<b><u>\$395,001 to</u> <u>\$4,088,101</u></b>	<b><u>\$236,178 to</u> <u>\$3,929,278</u></b>
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**\*This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$60,155,000.**

<u>FISCAL IMPACT - Federal Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
Federal Funds	<u>\$264,819</u>	<u>\$453,588</u>	<u>\$400,051</u>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<b><u>\$264,819</u></b>	<b><u>\$453,588</u></b>	<b><u>\$400,051</u></b>
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<u>FISCAL IMPACT - Local Government</u>	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.

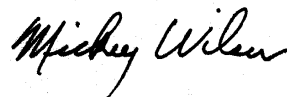
This act has an emergency clause.

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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



Mickey Wilson, CPA  
Director  
January 31, 2006