

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1648-06
Bill No.: HCS for SB 406
Subject: Highway Patrol; State Employees; Retirement - State; Transportation Dept.
Type: Original
Date: April 6, 2007

Bill Summary: Modifies several provisions regarding administration of MOSERS.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0	(\$80,000)	(\$80,000)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$80,000)	(\$80,000)

***This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) and will result in an increase of annual employer contributions.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Non-State Funds - CERF	(\$21,000)	(\$16,000)	(\$170,000)
Non-State Funds - MOSERS	(\$20,000)	(\$20,000)	(\$20,000)
Total Estimated Net Effect on Other State Funds	(\$41,000)	(\$36,000)	(\$190,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	0	(0.5)	(0.5)
Total Estimated Net Effect on FTE	0	(0.5)	(0.5)

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 2008	FY 2009	FY 2010
Local Government*	(\$1,515,156)	(\$1,818,188)	(\$1,818,188)

***Does not reflect an increase in Unfunded Actuarial Accrued Liability (UAAL) of \$51,600,000 to Public School Retirement System and \$3,200,000 to the Non-Teacher Retirement System.**

FISCAL ANALYSIS

ASSUMPTION

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).

Officials from the **Missouri State Employees' Retirement System (MOSERS)** assume this proposal would involve minor modifications to and clarifications of the Missouri State Employees' plan (MSEP) and the MoDOT and Patrol Employees' Retirement System (MPERS). These provisions are commonly referred to by the retirement systems as "clean-up" legislation. They are general in nature and carry no fiscal impact to the system.

Officials from the **Missouri Highway Patrol** assume the Retirement System will be responding on their behalf.

Officials from the **MoDOT and Patrol Employees Retirement System and Department of Transportation** assume no fiscal impact to their agencies.

Section 87.006

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).

Officials from the **Kansas City Firemen's Retirement System and City of Kansas City** assume no fiscal impact to their agencies.

Section 104.040

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).

Officials with the **Highway Employees and Patrol Retirement System** assume the proposal would subsidize the creditable service by certain employees of the Missouri Department of Transportation and Civilian Patrol. The unfunded liability of the retirement system will increase, and at some point, cause an increase in the MoDOT and Patrol Contribution rate.

ASSUMPTION (continued)

Oversight assumes there would be minimal fiscal impact to HTEHPRS due to the service buy-back and earnings fund contribution of the uniformed Patrol member.

Officials from the **Department of Transportation (DHT)** did not respond to Oversight's fiscal note request however in response to SB 791, in FY 2006, the DHT assumed the amount of service available for purchase is unknown. In addition, the number of eligible persons that would actually buy the service is unknown. Therefore, we cannot estimate a fiscal impact for the legislation, however, based on the estimated provided by the MoDOT and Patrol Employees' Retirement System, the negative impact would exceed \$100,000.

Oversight assumes, as stated above, there would be minimal fiscal impact to HTEHPRS due to the service buyback and earnings fund contribution of the uniformed Patrol member.

Section 104.320

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).

Officials from the **Department of Conservation (MDC)** assume this proposal does not appear to include the Conservation Employees' Benefits Plan Trust Fund; thus, it would not appear to have fiscal impact on MDC funds.

Officials from the **Missouri Consolidated Health Care Plan** and **MoDOT and Patrol Employees' Retirement System** assume this proposal will have no fiscal impact on their agency.

Officials from the **Missouri State Employees Retirement System** assume they will be able to absorb the additional investment and accounting duties described in this proposal through existing staff presently employed by their agency. As a result, no additional expenses are anticipated.

Section 104.805

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).

ASSUMPTION (continued)

Officials from the **Department of Transportation and MoDOT and Patrol Employees' Retirement System** assume no fiscal impact to their agencies.

Sections 105.660, 105.665, 105.666, 105.667, 105.683, 105.684 and 321.800

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).

Officials from the **Local Government Employees' Retirement System, Kansas City Public School Retirement System and Public School Retirement System** assume no fiscal impact to their agency.

Officials from the **County Employees Retirement System (CERF)** assume this proposal will generate additional costs for CERF to implement and execute the comprehensive board member education program. These costs will be in the nature of travel and per diem for board members, cost to develop training programs, and for professional and educational fees and materials. The figures provided are a broad estimate. Actual cost could differ substantially as the real-life requirements of proposed section 105.666 unfold.

Officials from the **MoDOT and Patrol Employees' Retirement System** assume no fiscal impact to their agency.

Officials from the **Missouri State Employees' Retirement System** assume the cost to implement the two mandatory continuing education requirements would be minimal (less than \$20,000 annually). As it relates to education, MOSERS' trustees are presently provided with an educational manual regarding the roles and responsibilities of trustees immediately following appointment to the board. In addition, MOSERS' staff provides educational training regarding the topics addressed in the legislation during annual board retreats. Trustees are also encouraged to obtain additional training at outside conferences and seminars held throughout the year.

Since 1991, MOSERS' funded status has fallen below 80% only once – immediately following passage of HB 356 in 1997 which granted an unreduced joint and 50% survivor option to all state employees retiring after 1984 (resulting from equal protection litigation) along with a permanent correction to the structure associated with post-retirement cost-of-living adjustments, at which time the funded status fell to 79.9%. As of June 30, 2006, MOSERS funded status was 85.3%. MOSERS is presently amortizing its UAAL over a 30-year period.

ASSUMPTION (continued)

Regarding ethics, the MOSERS board has adopted a governance policy that addresses a fiduciary code of conduct for members including provisions that prohibit self-dealing and acceptance of any gratuity, political contribution or compensation for the purpose of influencing action with respect to the retirement plan. Such actions are also subject to the penalties prescribed for bribery.

Lastly, the legislation would exclude the Judicial Plan from being subject to the funding restrictions associated with benefit enhancements. (Prior to 1998, the Judicial Plan was funded on a pay-as-go basis. In 1998, legislation was enacted that required the plan to be funded on an actuarial basis.) As of June 30, 2006, the Judicial Plan was 16.7% funded.

Section 105.910 and 105.915

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).

Officials from the **Department of Labor and Industrial Relations, Department of Transportation, MoDOT and Patrol Employees Retirement System, Missouri House of Representatives and Missouri Senate** assume no fiscal impact to their agencies.

Officials from the **Office of Administration - Division of Accounting** assume this proposal eliminates the Deferred Compensation Commission and transfers from the Office of Administration to MOSERS the responsibility to establish and administer a deferred compensation plan for the employees of the State of Missouri, effective August 28, 2007. The Office of Administration retains the responsibility for administration and reconciliation of payroll deductions from participants and the employer incentive match. 105.915 RSMo does not change the responsibility of OA to deem appropriate the investments included in the plan "including, but not limited to life insurance or annuity contracts or mutual funds". The competitive bidding responsibility for these investment options and any third party administrator contracts would be the MOSERS board.

The current contract with the third party administrator requires them to pay the state \$100,000 per year to reimburse the state for the administrative costs of the plan. The state costs include central payroll processing, reconciliation and controls, management staff oversight, involvement in day to day staff support of the plan and oversight of the third party administrator (currently CitiStreet). We anticipate that MOSERS will want the \$100,000 from the TPA and OA will retain most of the administrative cost they now have, including appropriate investment approvals

ASSUMPTION (continued)

and payroll administration of the state employer match.

Loss of Admin Reimbursement	(\$100,000)
Reduced Management Oversight (Loss of a part time position)	20,000
Net Loss to GR	(\$80,000)

Officials from the **Missouri State Employees Retirement System** assume this administrative change would appear seamless to the member of the deferred compensation program. The MOSERS board and staff would assume the monitoring function. It is our understanding that the plan currently requires the attention of approximately one FTE and we would not anticipate any initial staffing requirements beyond that level. Any need for additional future staffing would be assessed based on experience with the plan over time. The third party administration of individual accounts and the investment products available would continue to be handled by outside service providers paid from charges to the participants as is the current practice.

While not directly related to costs to the state, it is also possible that the total cost to plan participants might be reduced as the result of MOSERS being able to capitalize on the negotiating power that comes with managing a larger asset base. However, the magnitude of such possible cost savings is unknowable at this time.

Section 169.070 and 169.670

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 (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.

Officials from the **Public School Retirement System** assume this proposal makes three changes as follows:

ASSUMPTION (continued)

1. Extends the PSRS provision for retirement under 25-and-out with modified formula factors depending on the number of years of credit. Currently, that provision is set to expire July 1, 2008. This would extend the window to July 1, 2013. This provision would increase the unfunded actuarial accrued liability by \$8.6 million dollars which requires a .02% increase in the contribution rate.
2. Extends the PSRS provision for retirement with a 2.55% formula factor for members with 31.0 or more years of credit. Currently, that provision is set to expire July 1, 2008. This would extend the window to July 1, 2013. This provision would increase the unfunded actuarial accrued liability by \$25.4 million dollars which requires a .04% increase in the contribution rate.
3. For PSRS, this legislation would provide a temporary increase in monthly benefits of \$5 per month per year of credit for any member who has retired and is age seventy-five or older and who has reached the 80% COLA cap prior to January 1, 2008. The benefit would be payable through January 1, 2013. The proposed increase in retirement benefits for PSRS will increase the actuarial accrued liability of the system by \$17.6 million. This increase in liabilities will require a .03% total increase in the contribution rate for active members and school districts.
4. This legislation would also place a cap on the final average salary used in calculating PSRS benefits. See comment memo and letter from actuary regarding this amendment.
5. Extends the PEERS provision for retirement under 25-and-out with modified formula factors depending on the number of years of credit. Currently, that provision is set to expire July 1, 2008. This would extend the window to July 1, 2013. This provision would increase the unfunded actuarial accrued liability by \$1.3 million dollars which requires a .02% increase in the contribution rate.
5. For PEERS, this legislation would provide a temporary increase in monthly benefits of \$3 per month per year of credit for any member who has retired and is age seventy-five or older and who has reached the 80% COLA cap prior to January 1, 2008. The benefit would be payable through January 1, 2013. The proposed increase in retirement benefits for PEERS will increase the actuarial accrued liability of the system by \$1.9 million. This increase in liabilities will not require an increase in the contribution rate for active members and school districts.

Officials from the **Kansas City Public School Retirement System** assume no fiscal impact to their agency.

ASSUMPTION (continued)

Section 211.393

Officials from the **Office of State Courts Administrator, County Employees Retirement System** and **Local Government Employees Retirement System** assume no fiscal impact to their agencies.

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). It should be noted, however, that provisions contained in this proposal will increase the MOSERS Unfunded Actuarial Accrued Liabilities (UAAL) and will result in an increase of annual employer contributions.

Officials with the **Missouri State Employees Retirement System (MOSERS)** assume the proposal if enacted, treat:

Grant service as follows:

All prior and future grant service would be included in the definition of juvenile court employee.

- Juvenile officers covered by MOSERS in single county circuits would become eligible to receive prior service credit for all multi-county grant service after July 1999.
- Juvenile court employees covered by MOSERS in multi-county circuits would become eligible to receive prior service credit for all multi-county grant service after July 1999.
- Any MOSERS member who has multi-county grant service as a juvenile court employee after July 1999 would become eligible to receive prior service credit.

Single county service as follows:

- Juvenile officers covered by MOSERS in single county circuits would become eligible to receive prior service credit for single county service prior to July 1999.
- Juvenile court employees covered by MOSERS in multi-county circuits would become eligible to receive prior service credit for single county service prior to July 1999.

ASSUMPTION (continued)

- Any MOSERS member who has single county service as a juvenile court employee would become eligible to receive prior service credit for single county service prior to July 1999.

All of the above provisions would apply retroactively to terminated-vested members and retirees and allows for refunds if service was purchased in MOSERS.

By way of background, in 1999, HB 971 provided that juvenile court employees in 35 multi-county circuits (comprised of 105 counties) would be considered state employees for all purposes, with the state assuming the costs of their salaries, retirement, health insurance, and other fringe benefits. This proposal also stipulated that juvenile court employees employed in single county circuits would be county employees as of July 1, 1999 (except that juvenile officers in those circuits covered by MOSERS would continue to be covered by MOSERS). In 2004, legislation was enacted that included grant service prior to July 1999 in the definition of juvenile court employee thus allowing certain juvenile court personnel covered by MOSERS to receive prior service credit for grant service which occurred prior to July 1999.

Cost

MOSERS is unable to determine the costs associated with this proposal since we have no way of determining those members who may have multi-county grant service after July 1999 or creditable prior service in single and multi-counties prior to July 1999.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Loss - Admin Reimbursement</u>	\$0	(\$100,000)	(\$100,000)
Reduced Management Oversight - Loss of a part time position			
Salary (0.5 FTE)	\$0	\$13,883	\$13,883
Fringe Benefits	<u>\$0</u>	<u>\$6,117</u>	<u>\$6,117</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(\$80,000)</u>	<u>(\$80,000)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
Estimated Net FTE Change for General Revenue	0	(0.5)	(0.5)
NON-STATE FUNDS			
Cost - County Employees Retirement System - Various Expenses	(\$21,000)	(\$16,000)	(\$170,000)
Cost - MOSERS - Continuing Education	<u>(\$20,000)</u>	<u>(\$20,000)</u>	<u>(\$20,000)</u>
ESTIMATED NET EFFECT ON NON-STATE FUNDS	<u>(\$41,000)</u>	<u>(\$36,000)</u>	<u>(\$190,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
Costs - School Districts Teacher and Employee Contributions*	<u>(\$1,515,156)</u>	<u>(\$1,818,188)</u>	<u>(\$1,818,188)</u>

***Does not reflect an increase in Unfunded Actuarial Accrued Liability (UAAL) of \$51,600,000 to Public School Retirement System and \$3,200,000 to the Non-Teacher Retirement System.**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposed legislation appears to have no fiscal impact.

Section 87.006

The proposed legislation appears to have no fiscal impact.

FISCAL DESCRIPTION (continued)

Section 104.040

The proposed legislation appears to have no fiscal impact.

Section 104.320

The proposed legislation appears to have no fiscal impact.

Section 104.805

The proposed legislation appears to have no fiscal impact.

Sections 105.660, 105.665, 105.666, 105.667, 105.683, 105.684 and 321.800

The proposed legislation appears to have no fiscal impact.

Section 105.910 and 105.915

The proposed legislation transfers administration of the deferred compensation fund to the board of trustees for the Missouri State Employees Retirement System.

Section 169.070 and 169.670

The proposed legislation extends the termination date for certain alternative retirement provisions in the teacher and school employee retirement systems and does appear to have a fiscal impact to local government.

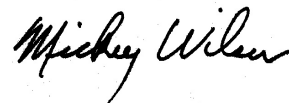
Section 211.393

The proposed legislation appears to have no fiscal impact. However, the proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Liability (UAAL) and will result in an increase of annual employer contributions.

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
MoDOT and Patrol Employees Retirement System
Department of Transportation
Missouri Highway Patrol
Kansas City Firemen's Retirement System
Department of Conservation
Missouri Consolidated Health Care Plan
Department of Labor and Industrial Relations
Missouri House of Representatives
Missouri Senate



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Director
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