COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6004-06
Bill No.: Truly Agreed To and Finally Passed CCS for SCS for HCS for HB 1
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: August 3, 2010

Bill Summary: Modifies provisions relating to retirement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	$3,103,348	$9,151,519	$15,016,226
Total Estimated Net Effect on General Revenue Fund	**$3,103,348**	**$9,151,519**	**$15,016,226**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other Funds	$3,103,348	$9,151,519	$15,016,226
Road Fund	$441,755	$1,606,625	$2,835,013
Total Estimated Net Effect on Other State Funds	**$3,545,103**	**$10,758,144**	**$17,851,239**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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 2011	FY 2012	FY 2013
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 the Senate 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 **Missouri State Employees's Retirement System (MOSERS)** assume the proposed legislation would, if enacted, create a new tier defined benefit plan for members of the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS) hired on or after January 1, 2011. As it affects MOSERS, the new tier plan would include all new employees hired on or after January 1, 2011, as members of the MSEP 2000 (which includes the General Employee Plan, the Legislative Plan, and the Statewide Elected Official Plan) and the Judicial Plan.

The tables that follow illustrate the differences in the current level of benefits afforded to state employees as compared to the proposed new tier defined benefit plan for members of the MSEP 2000 and Judicial Plan hired on or after January 1, 2011.

ASSUMPTION (continued)

New Tier for Future Hires
Employed On or After January 1, 2011
General Employee Plan

Present Benefits	**Alternative Proposed Benefits**
Normal Retirement Eligibility Age 62/5 yrs. service Age 48 (Rule of 80)	Normal Retirement Eligibility for General Employees Age 67/10 yrs. service Age 55 (Rule of 90) Normal Retirement Eligibility for Highway Patrol • Age 60 and active • Age 55/10 yrs. service
Early Retirement Eligibility Age 57/5 yrs. service	Early Retirement Eligibility for General Employees • Age 62/10 yrs. service (with reduction)
Vesting 5 years	Vesting 10 years
Member Contributions None	Member Contributions 4% of pay (with 4% interest on refunds)
Purchased Service Subsidized military and other full-time, nonfederal, governmental service	No Service Purchases
BackDROP Allows an employee to receive a lump sum payment at retirement in exchange for a reduced monthly benefit for life.	No BackDROP

ASSUMPTION (continued)

New Tier for Future Hires
Employed On or After January 1, 2011
Statewide Elected Official Plan

Present Benefits	Proposed Benefits
Normal Retirement Eligibility Age 55/4 yrs. service Age 50 (Rule of 80)	Normal Retirement Eligibility Age 62/4 yrs. service Age 55 (Rule of 90)
Member Contributions • None	Member Contributions • 4% of pay (with 4% interest on refunds)
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

New Tier for Future Hires
Employed On or After January 1, 2011
Legislative Plan

Present Benefits	Alternatives For Consideration
Normal Retirement Eligibility Age 55 with 3 biennial assemblies Age 50 (Rule of 80)	Normal Retirement Eligibility Age 62 with 3 biennial assemblies Age 55 (Rule of 90)
Member Contributions • None	Member Contributions • 4% of pay (with 4% interest on refunds)
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

ASSUMPTION (continued)

New Tier for Future Hires
Employed On or After January 1, 2011
Judicial Plan

Present Benefits	Proposed Benefits
Normal Retirement Eligibility Age 62/12 yrs. service Age 60/15 yrs. service Age 55/20 years service	Normal Retirement Eligibility Age 67/12 yrs. service Age 62/20 yrs. service
Early Retirement Eligibility Age 60 <15 yrs. service Age 62 <12 yrs. service	Early Retirement Eligibility Age 67<12 yrs. service Age 62<20 yrs. service
Normal Form of Payment Unreduced 50% Survivor Option	Normal Form of Payment Straight life (reduced survivor options)
Member Contributions None	Member Contributions 4% of pay (with 4% interest on refunds)
In-Service COLA Members who work beyond age 60 have increased benefits upon retirement.	In-Service COLA None
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

ASSUMPTION (continued)

This proposal would change the normal retirement eligibility for all classifications to coincide with the current ultimate eligibility age of 67 for unreduced social security benefits for those born after 1959. (The age for normal retirement for highway patrol officers would be set at age 55.) Rule of 80 would be changed to Rule of 90 and the corresponding minimum eligibility age would be increased from age 48 to age 55. The age for early retirement for general employees would increase from age 57 to age 62 (option available with a reduction).

The proposal would increase five-year vesting to ten year vesting for general employees and would establish member contributions for all classifications equivalent to 4% of pay on a pretax basis; 4% interest would be paid on member accounts at the end of the fiscal year based on the beginning fiscal year balance. Refunds would be payable within 90 days of termination for those qualifying for refunds. Member contributions and interest are fully refundable and portable, including for non-vested employees who terminate and leave state service.

The proposal would eliminate subsidized service purchases for all employee classifications. This would include elimination of purchases of military and other full-time nonfederal governmental service. In addition, the portability provision that was enacted in the Year 2000 Plan would also be eliminated as well as the BackDROP provision that was enacted in 2002.

As it pertains to judges, in addition to the changes previously outlined regarding normal and early retirement eligibility, member contributions, and service purchases, the proposal would eliminate the unreduced joint and 50% survivor option and in-service cost-of-living adjustments (COLAs) that are presently available in the Judicial Plan in order to mirror the changes that were adopted in the MSEP 2000 for the general population. The proposal would also preclude a retired judge under the new tier plan under the closed plan or year 2000 plan under Chapter 104, RSMo., from receiving an annuity from the judicial plan while simultaneously working in a benefit eligible position. Such a retired judge would, however, be eligible to accrue service under the other plan. This change would also mirror the provisions adopted in the MSEP 2000 covering the general population.

Officials from the **MoDOT & Patrol Employees Retirement System (MPERS)** assume the proposed changes to benefits for new hires have no effect on the current benefit obligation or current employer contributions for the active members currently covered under the Missouri Department of Transportation and Highway Patrol Employees' Retirement System.

However, the employer's long-term cost of providing benefits (the employer funded normal cost) to new members hired after January 1, 2011 will be reduced by approximately 6.24% and 4.48% of payroll for Non-Uniform and Uniform employees respectively, if the proposal is implemented (or an average of 5.94% for MPERS, in total, weighted on payroll). This change would typically emerge

ASSUMPTION (continued)

gradually over a 20-year period.

The impact of eliminating the BackDROP provision for new hires covered under the proposed new tier to the Year 2000 Plan is unknown. While it is difficult to determine definitively, the indications are that the BackDROP was cost neutral to cost saving under the existing plan. The proposed plan pushes eligibility to a later age. It is possible that because of the later eligibility that the BackDROP feature will be less used. If that is the case, the elimination of that feature may not have a measurable effect on system costs. However, if that feature continues to be heavily used and results in member delaying their retirement even further (beyond the new eligibility requirements), then it is possible that the elimination of that feature could result in increase system costs.

It was initially thought that the elimination of the BackDROP feature would likely not have a large impact on the proposed new tier. However, there is a possible range when showing the sensitivity of the cost to the retirement pattern (and removal of the BackDROP). The actual effect on the retirement pattern would be a guess, but for purposes of sensitivity testing, we would probably increase the pattern by 5% in the first few years of eligibility and decrease it by 5% in the following few years of eligibility.

MPERS has just completed the installation of a new pension administration system. This new system will require in this proposal.

As the bill is currently written, our vendor has estimated that it will take at least 6 months to make the program changes at an estimated cost of approximately $150,000. Since we are currently a non-contributory system, adapting our system to accommodate the collection and refund of contributions is no small programming task. Once the programming is complete, the vendor and MPERS staff must test the entire system to ensure that the program changes have been correctly implemented. It could take at least one or two additional month, just to test the changes. MPERS would request that the sponsor consider incorporating an option for delayed assessment of employee contributions to July 2011 to provide MPERS, if needed, time to ensure that the program changes are adequately implemented and tested. Such an option would not impact MOSERS.

ASSUMPTION (continued)

Oversight assumes the following savings in this portion of the proposal .

Projected Employer Contributions MPERS

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
FY 11	$167,776,154	41.27%	$167,334,399	41.16%	$441,755
FY12	$182,453,304	43.26%	$180,846,679	42.86%	$1,606,625
FY13	$207,009,437	47.31%	$204,174,424	46.63%	$2,835,013

In FY14 the savings would be $4,128,358, FY15 the savings would be $5,537,429, FY16 the savings would be $7,034,821, FY17 the savings would be $8,603,687, FY18 the savings would be $10,254,833, FY19 the savings would be $11,981,041, and FY20 the savings would be $13,812,201.

Projected Employer Contributions MOSERS

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
FY11	$287,592,997	13.81%	$281,553,752	13.52%	$6,039,245
FY12	$321,621,017	14.85%	$303,861,473	14.03%	$17,759,544
FY13	$358,621,017	15.93%	$329,755,755	14.64%	$29,056,347

In FY14 the savings would be $40,525,721, FY15 the savings would be $51,404,417, FY16 the savings would be $62,835,201, FY17 the savings would be $73,780,687, FY18 the savings would be $85,227,234, FY19 the savings would be $96,616,442, and FY20 the savings would be $107,891,211.

ASSUMPTION (continued)

Projected Employer Contributions Judicial

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
FY11	$28,411,449	60.03%	$28,243,997	59.68%	$167,452
FY12	$29,442,829	59.82%	$28,896,335	58.71%	$546,494
FY13	$30,419,162	59.43%	$29,443,057	57.52%	$976,105

In FY14 the savings would be $1,428,645, FY15 the savings would be $1,894,730, FY16 the savings would be $2,353,072, FY17 the savings would be $2,882,045, FY18 the savings would be $3,414,560, FY19 the savings would be $3,936,824, and FY20 the savings would be $4,472,051.

Officials from the **Department of Conservation (MDC)** assume the amount of impact of this proposal on MDC funds is unclear; therefore, MDC will defer to MOSERS for the estimated amount of the impact. The Conservation Commission has chosen to participate in MOSERS.

Officials from the **Missouri Highway Patrol** assume the MoDOT and Patrol Employees' Retirement System will be responding on behalf of the Highway Patrol.

Officials from the **State Auditor's Office** assume there will be no impact to their agency.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume the proposal should not result in additional costs or savings to BAP. BAP will defer to Missouri State Employees' Retirement System and MoDOT and Patrol Employees' Retirement System for a specific estimate on the statewide impact.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Savings - Net decrease in annual contributions	$3,103,348	$9,151,519	$15,016,226
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$3,103,348**	**$9,151,519**	**$15,016,226**
ALL OTHER FUNDS			
Savings - Office of Administration - Net decrease in annual contributions	$3,103,348	$9,151,519	$15,016,226
Savings - Department of Transportation & Highway Patrol - Net decrease in annual contributions	$441,755	$1,606,625	$2,835,013
ESTIMATED NET EFFECT ON OTHER FUNDS	**$3,545,103**	**$10,758,144**	**$17,851,239**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill changes the laws regarding public retirement systems. In its main provisions, the bill:

(1) Specifies that any person who first becomes a state employee on or after January 1, 2011, will be a member of the Missouri State Employees' Retirement System (MOSERS) Year 2000 Plan. To be eligible for normal retirement under this plan, an employee must be at least 67 years of age and have completed at least 10 years of credited service or be at least 55 years of age with the sum of the employee's age and credited service equaling at least 90. A uniformed member of the State Highway Patrol who is subject to the mandatory retirement provisions of Section 104.081, RSMo, must be at least 60 years of age or at least 55 years of age with 10 years of credited service. A member of the General Assembly must be at least 62 years of age and have completed at least three full biennial assemblies or be at least 55 years of age with the sum of the member's age and credited service equaling at least 90. A statewide elected official must be at least 62 years of age and have completed at least four years of credited service or be at least 55 years of age with the sum of the official's age and credited service equaling at least 90. A vested former member must be at least 67 years of age and have completed at least 10 years of credited service. An employee, except for a uniformed member of the patrol who is subject to the mandatory retirement provisions, will be eligible for early retirement upon reaching 62 years of age with at least 10 years of credited service. A vested former member will not be eligible for early retirement. An employee must work for the state for 10 years in order to be vested in the system. A member of this plan is required to contribute 4% of his or her pay to his or her individual account with the system. A member will not be able to purchase credit in the system for his or her previous non-federal, full-time public employment or military service or to transfer credit from another public retirement system. The employee contribution rate, the benefits under the Year 2000 Plan, and any other provision of the Year 2000 Plan may be altered, amended, increased, decreased, or repealed, but the change will only apply to service or interest credits after the effective date of the change. An employee under the plan will not be eligible for the backdrop option;

(2) Requires any person who first becomes a judge on or after January 1, 2011, to be at least 67 years of age and have at least 12 years of service as a judge or be at least 62 years of age and have at least 20 years of service as a judge before he or she is eligible for normal retirement benefits under the Judicial Plan with MOSERS. If a judge retires at 67 years of age with less than 12 years of service or at 62 years of age with less than 20 years of service, his or her retirement compensation will be reduced proportionately. A judge in this plan will be required to contribute 4% of his or her compensation to his or her individual account with the system. A judge will not be able to purchase credit in the plan for his or her previous non-federal, full-time public employment or military service. A judge under this plan who continues to work after his or her normal retirement date will not have cost-of-living increases added to his or her retirement compensation for the period of time between his or her eligibility for retirement and the actual retirement date. When a retired judge

DESCRIPTION (continued)

under this plan dies, his or her beneficiary will not receive an amount equal to 50% of the judge's retirement compensation. Instead, at the time of retirement, a judge will choose one of four payment options for his or her beneficiary. The employee contribution rate, the benefits under the plan, and any other provision of the plan may be altered, amended, increased, decreased, or repealed, but the change will only apply to service or interest credits after the effective date of the change; and

(3) Prohibits a judge retiring under the provisions of the bill who becomes employed as an employee eligible to participate in the MOSERS Closed Plan or in the Year 2000 Plan from receiving judicial retirement benefits while employed, and any judge who serves as a judge while receiving judicial retirement under these provisions is prohibited from receiving judicial retirement while serving as a judge. A judge who serves as a senior judge or senior commissioner while receiving judicial retirement may continue to receive judicial retirement and additional credit and salary for the service.

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
MoDOT & Patrol Employees' Retirement System
Local Government Employees Retirement System
County Employees Retirement System
Department of Conservation
Department of Labor and Industrial Relations
Missouri Highway Patrol
Missouri State Employees Retirement System
Public School Retirement System
Department of Transportation
Department of Financial Institutions and Professional Registration
Office of Administration
    Division of Budget & Planning

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VL:LR:OD (12/02)

Director
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