COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1055-01
Bill No.: Perfected HB 282
Subject: Retirement - State; State Employees
Type: Original
Date: March 14, 2011

Bill Summary: This proposal automatically enrolls state employees hired after July 1, 2012, into the deferred contribution program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
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 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

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 the proposed legislation described in Fiscal Note No. 1055-01N (HB 282) would, if enacted, allow for automatic enrollment in the State of Missouri Deferred Compensation Plan, beginning July 1, 2012, for new employees. The Deferred Compensation Plan is a voluntary state-sponsored program administered by the Missouri State Employees' Retirement System (MOSERS) that offers state employees the opportunity to save for retirement with before tax earnings.

Under this proposal, a newly hired employee would automatically be enrolled in the deferred compensation plan at 1% of their annual pay unless the employee elects not to participate within the first thirty days of employment. If the employee elects not to participate in the plan during that period, any amounts contributed and earnings thereon shall be refunded by the plan to the employee. (State college or university employees are excluded from the automatic enrollment feature but may elect to participate in the plan.)

Enrolling at a percent of pay rather than the present minimum deferral of $25 per month would not work to the disadvantage of lower paid employees and would provide a method for an automatic increase to employee personal savings as a result of possible future salary increases. A default target date fund would automatically be selected for each new employee based on his/her age at date of hire. Employees could choose to "opt out," if they so desire. In this context, "opting out" could involve electing not to participate, electing to participate but at a lesser amount, electing another fund, electing to defer more than 1% of their annual pay, or combinations of these possibilities.

Additional provisions in the proposal would allow a spouse to automatically be designated as a primary beneficiary unless the spouse consents in writing to allow the participant to designate a non-spouse beneficiary. The legislation would also allow the plan administrator (the MOSERS Board of Trustees) to amend plan documents for consistency with federal law. Lastly, provisions exist which clarify that employees who are compensated under a local payroll system (such as MOSERS and MCHCP) are eligible to participate in the plan. In addition, the definition of "qualified participant" was deleted for consistency with the new automatic enrollment mechanism.

ASSUMPTION (continued)

The Present Deferred Compensation Plan
Today, there are approximately 56,000 participants in the plan (38,300 active employees and 17,700 terminated or retired employees), which is down from over 58,000 participants a year ago. Total participant assets amount to approximately $1.4 billion. The current active employee participation rate is 56% (down from 59% a year ago).

Prior to July 1, 2010, the state would match employee contributions to the program up to $35 per month for all qualified employees. The state match was not appropriated in FY11 due to budget constraints. In order to have qualified for the state match, a worker must have been a state employee for at least 12 consecutive months and been making continuous contributions of at least $25 per month to the deferred compensation plan. Matching contributions were tiered at $25, $30, or $35 per month. By state law, the match could be as much as $75 per month subject to appropriations but has never been funded above $35 per month.

Employees Must Take Action to Participate under the Present Plan
Under the current plan, employees must take action to participate. The plan's enrollment process is a three step procedure that requires an employee to (l) locate and provide their Personal Identification Number (PIN), (2) call the third party administrator's toll free number or sign into the plan's website, and (3) determine a contribution amount and investment selections for their savings.

While these steps are not unreasonable, they may deter employees from becoming participants. The fact that 43% of state employees who are eligible to participate in the program have not enrolled reinforces the belief that the enrollment process may be an obstacle for many employees.

Low Savings Rate
Close to 50% of the active program participants contribute $50 or less a month. The program's average monthly savings deferral is $120, and the average balance at retirement is $32,000. The average State of Missouri employee may receive up to 65% pre-retirement salary replacement from their pension and social security benefits. To achieve 100% pre-retirement salary replacement, the employee with the average salary of $33,000 would need to save $390 a month over a twenty-year period in order to accumulate a required $180,000 in retirement savings (assuming an annualized return of 6%). To achieve that goal, an employee should begin saving early and then consistently and steadily increase their savings amounts throughout their careers.

Most people understand the need to save and doing it on a tax favored basis is the most cost efficient way to do so but, unfortunately, few take the steps to make it happen. Under automatic enrollment, what may have been viewed as the hassle of enrolling is made simple. New

ASSUMPTION (continued)

employees would be automatically enrolled, saving tax-deferred money from day one of employment. This has a psychological advantage relative to enrolling later when the amount being saved could appear to be a pay reduction.

Automatic enrollment is especially prominent in other states where such programs are available to very large numbers of public employees. Beliefs about the merits of automatic enrollment are further reinforced by the fact that other government and private sector retirement savings plans that use automatic enrollment have higher participation rates than Missouri's Deferred Compensation Plan.

Cost
Since the incentive match has been suspended, there is no cost associated with this proposal.

Officials from the **Office of Administration - Division of Budget & Planning (BAP)** assume this proposal should not result in additional costs or savings. This proposal could increase the general revenue expenditures for the state's match for deferred compensation but this is subject to appropriations; currently, in FY 2011, there is no matching appropriation for the program. Budget and Planning defers to MOSERS for a specific estimate.

Officials from the **State Treasurer's Office, Department of Conservation, Lincoln University, East Central College, Northwest Missouri State University, Missouri Southern State University, St. Louis Community College, Missouri State University, Missouri Western University, Truman State University, University of Missouri - Columbia, University of Central Missouri, Linn State Technical College, Metropolitan Community College** and **Department of Transportation** assume there will be no fiscal impact to their agencies.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$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

The proposed legislation appears to have no fiscal impact.

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
Missouri Department of Conservation
Office of Administration -
  Division of Budget & Planning
  Division of Accounting
State Treasurer's Office
University of Missouri - Columbia
Linn State Technical College
Central Missouri State University
Truman State University
Missouri Western State University
Missouri State University
St. Louis Community College
Northwest Missouri State University
Missouri Southern State University
East Central College
Lincoln University
Department of Transportation
Metropolitan Community College

Mickey Wilson

Mickey Wilson, CPA
Director
March 14, 2011