COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1055-04
Bill No.: SS for SCS for HB 282 w/ SA 1 & SA 2
Subject: Retirement - State; State Employees
Type: Original
Date: May 9, 2011

Bill Summary: This proposal modifies provisions regarding public employee retirement.

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 14 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*	**$942,250**	**$1,130,699**	**$1,130,699**

***This proposal modifies the provisions associated with the disability retirement modifications. It increases the Unfunded Actuarial Accrued Liability (UAAL) by $2,951,098 and decreases the annual employer contribution by $1,130,669 (-2.772%).**

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. 1055-04N (SS for SCS for HB 282 with SA 1 and SA 2) 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

ASSUMPTION (continued)

"qualified participant" was deleted for consistency with the new automatic enrollment mechanism.

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

ASSUMPTION (continued)

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 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.

ASSUMPTION (continued)

Section 70.710, 70.720 & 70.730

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** or its employers assume there will be no fiscal impact to their agency.

Section 104.603

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 **Office of Administration - Division of Budget and Planning** assume the proposed legislation should not result in additional costs or savings to the Division of Budget and Planning. Budget and Planning defers to MOSERS and MPERS for fiscal impact.

Officials from the **Missouri State Employees' Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note No. 1055-03, (SCS for HB 282) would, if enacted, allow for a transfer of funds between the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS) in connection with service credit transfers between the two systems.

As proposed, upon a reciprocal transfer of creditable or credited serviced, the sending system from which the service is transferred would be required to pay the receiving system to which the service is transferred an amount equal to the member's actuarial accrued liability at the time of transfer using the same assumptions and member status used in performing the last regular actuarial valuation of the transferring plan. Under the proposal, the actuarial accrued liability is defined as the total accrued liability that was included in the last regular actuarial valuation of sending system attributable to the transferring member and is based on the entry age actuarial cost method or the actuarial cost method required by statute for funding. Any money collected by the receiving system to restore forfeited service accrued at the ending system would reduce the actual accrued liability of the sending system. However, in no event would the payment amount be less than the sum of the member's accumulated contributions and interest plus any purchased service payments from the member held on deposit by the sending system.

ASSUMPTION (continued)

In addition, the service transfer would not be deemed completed until the sending system makes payment to the receiving system and payment would be made within 90 days of the date that a completed transfer request is submitted by the member. When the transfer payment includes an amount identified as corresponding to a member's accumulated contributions, the accumulated contributions portion would be identified and the accumulated contribution balance as of the preceding July l would be identified and the receiving system would be responsible for crediting interest according to the terms of the receiving plan. Lastly, the systems would be required to coordinate their plan administration for reciprocal transfer and acceptance of corresponding division of benefits as well as allowing a survivor to obtain a reciprocal transfer.

Under the present law, when a MOSERS' member transfers to a position covered by MPERS, the accrued MOSERS' service credit is simply transferred to MPERS – that is, they take on the liability for the MOSERS' covered service and MOSERS has no further liability for that individual. When an MPERS' covered member transfers to a MOSERS' covered position, the service credit and related liability is assumed by MOSERS and it is removed from the MPERS books. With transfers of service credit in either direction, there is currently no corresponding transfer of assets.

Automatic Enrollment

As it relates to automatic enrollment in the Deferred Compensation Plan, 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

ASSUMPTION (continued)

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.

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 receives in the area of 60% of 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 $390a

ASSUMPTION (continued)

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 employees would be automatically enrolled and 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.

Fiscal Impact
The volume, magnitude and direction of transfers back and forth between MOSERS coverage and MPERS coverage are unknowable. Accordingly, the potential fiscal impact is unknowable. Regarding the auto enrollment provision, there would be no fiscal impact to the retirement system.

Officials from the **Department of Transportation** will concur with the MoDOT and Patrol Employees' Retirement System response.

Officials from the **MoDOT and Patrol Employees' Retirement System (MPERS)** assume this proposed bill would require the MoDOT and Patrol Employees' Retirement System (MPERS) and the Missouri State Employees' Retirement System (MOSERS) to transfer funds between the retirement systems when service is transferred between the systems.

For reciprocal transfers of service, pursuant to Sections 104.602 and Section 104.1021.8, that occur on or after September 1, 2011, the sending system will pay the receiving system an amount equal to the member's actuarial accrued liability at the time of transfer. Actuarial accrued liability is defined as "the total accrued liability that was included in the last regular actuarial valuation of the sending system attributable to the transferring member and is based on the entry age actuarial cost method or the actuarial cost method required by statute for funding." In no event shall the

ASSUMPTION (continued)

payment amount be less than the sum of the member's accumulated contributions and interest plus any purchased service payments from the member held on deposit by the sending system.

Payment of the funds shall be made within 90 days of the date that a completed transfer request is submitted by the member or survivor. If the transfer payment includes employee contributions, the amount of the contributions being transferred and the balance of the member's account of the preceding July 1 shall be identified. The receiving system will be responsible for crediting interest according to the terms of the receiving plan.

Pursuant to the proposed legislation, the two systems are required to work together regarding the transfer and acceptance of any Division of Benefits Order on file for the transferring member.

Background:
Under current MPERS and MOSERS statutes, there is a reciprocal service arrangement that transfers the liability from one system to the other when covered employment changes. However, no assets are transferred. For either system, if reciprocal liabilities transferring in are not offset by reciprocal liabilities transferring out in a given year, a net liability loss will be experienced by that system that year (the reverse will result in a liability gain).

Simply put, when service transfers into a retirement system are not funded or offset by equivalent service transfers out, the retirement trust fund suffers a financial loss. This proposed bill will transfer funds accumulated for the member's service liability from the system where the service was earned. This practice will reduce the receiving systems financial loss associated with taking on the additional service liability.

In addition, this proposed bill resolves a problem created in the pension reform legislation passed in 2010 (HB 1, Special Session) enacting the 2011 Tier within the Year 2000 Plan. Under the new 2011 Tier, members employed for the first time on or after January 1, 2011, pay a 4% payroll contribution to assist in funding their retirement. The member contributions are kept in individual accounts. HB 1 did **NOT** include a mechanism to transfer the accumulated contributions in the member accounts between MPERS and MOSERS. As a result, these accounts would be stranded at one system or another when a member elects a reciprocal transfer. The proposed SB 410 includes language to transfer funds in the member's account as well as any funds paid by the member to purchase prior service credit.

ASSUMPTION (continued)

Oversight assumes this would result in a net transfer in to one non-state fund and a net transfer out to the other non-state fund resulting in a net result of $0. Any increase or decrease in the Unfunded Actuarial Accrued Liability (UAAL) to the two retirement systems is dependent upon the transfers between the two plans. Oversight is unable to calculate these transfers.

HCS/HB 665 (Sections 87.205 & 87.207)

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 **Local Government Employees' Retirement System** assume there will be no fiscal impact to their agency.

Officials from the **Firemen's Retirement System of St. Louis** assume this proposal will increase the Unfunded Actuarial Accrued Liability (UAAL) by $2,951,098 and decreases the annual employer contribution by $1,186,226 (-2.908%).

HB 183

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 Police Retirement System** assume all of these changes are expected to have a positive financial impact on the System's funding as they either result in less money being paid out of or more money coming into the System, there is no way to estimate the cost savings in a traditional cost study. The valuation process and the assumptions used are not specific and detailed with respect to these factors. Therefore, if these changes are enacting into

ASSUMPTION (continued)

law, they will not change any of the assumptions or methods used in the current actuarial valuation process. As a result, the cost savings cannot be quantifies by the traditional actuarial methodologies.

Missouri Development Finance Board

Officials from the **Missouri State Employees' Retirement System** assume provisions have been added that would require any person employed by the Missouri Development Finance Board (MDFB) on or after September 1, 2011, in a full-time position, to be both a state employee and a member of MOSERS. Lastly, provisions have been incorporated that would require all public employee defined benefit retirement plans covered under Chapter 105, RSMo., to submit quarterly reports to the Joint Committee on Public Employee Retirement (JCPER) in the form and manner requested by the committee.

Under the proposal, MDFB employees could purchase MOSERS' prior creditable service for their service with MDFB prior to September 1, 2011 and would be able to do so notwithstanding any vesting requirement to the contrary. The cost of the full amount of the creditable service allowed would be an amount determined to equal the actuarial accrued liability at the time of the purchase to the extent the system's actuarial accrued liability was funded as of the most recent actuarial valuation. If an employee pays less than the full amount so determined, the creditable service would be prorated accordingly. Employees could purchase service any time on or after September 1, 2011, but must do so before applying for retirement. Additional provisions exist that would allow MDFB employees who purchase service and subsequently terminate prior to being vested in the system to receive a refund equal to the purchase amount.

Provisions also exist that would preclude MDFB employees from having health care coverage under the Missouri Consolidated Health Care Plan (MCHCP), unless such coverage is requested by the MDFB and approved by the MCHCP board of trustees.

Fiscal Impact of the MDFB Provisions
These provisions carry no fiscal impact to the retirement system.

The initial fiscal impact of this proposal to General Revenue and Other State Funds is $0.

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
LOCAL GOVERNMENT			
Decrease in Contribution - City of St. Louis (Sections 87.205 & 87.207)	$942,250	$1,130,699	$1,130,699
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT*	**$942,250**	**$1,130,699**	**$1,130,699**

***This proposal modifies the disability retirement modifications. It increases the Unfunded Actuarial Accrued Liability (UAAL) by $2,951,098 and decreases the annual employer contribution by $1,130,669 (-2.772%).**

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 modifies provisions regarding public employee retirement.

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
Department of Transportation
MoDOT and Patrol Employees' Retirement System
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
Metropolitan Community College
Firemen's Retirement System of St. Louis

Mickey Wilson

Mickey Wilson, CPA
Director
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