

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0404-01
Bill No.: SB 141
Subject: Retirement - State; General Assembly; Insurance - Life; Insurance - Medical; Public Officer; Governor and Lieutenant Governor; Secretary of State; Attorney General; State Auditor; State Treasurer
Type: Original
Date: January 18, 2017

Bill Summary: This proposal modifies retirement benefits for newly elected members of the General Assembly and statewide elected officials.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (Unknown)
General Revenue	\$0	\$147,283	\$294,565	\$1,196,858
Total Estimated Net Effect on General Revenue	\$0	\$147,283	\$294,565	\$1,196,858

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (Unknown)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (Unknown)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (Unknown)
Total Estimated Net Effect on FTE	0	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (Unknown)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement** state that their review of the proposal indicates that such may constitute a substantial proposed change in future plan benefits as defined in Section 105.660(10), RSMo. It is impossible to accurately determine the fiscal impact of this proposed legislation without an actuarial cost statement prepared in accordance with Section 105.665, RSMo.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the provisions of SB 141 (0404-01) would, if enacted, require any member of the general assembly and any statewide elected official, who first serves as a member of the general assembly or as a statewide elected official on or after January 1, 2018, who has not been previously employed in a position under either system, to participate in a 401(a) defined contribution plan to be administered as part of the deferred compensation program pursuant to Chapter 105. As proposed, both the employer and the participant's contribution, in addition to any contributions made under Section 105.927, would be equivalent to 4% (8% total) of the participant's pay. Participants in the defined contribution plan would be vested immediately and contributions made to the plan would not be subject to forfeiture. In addition, members of the general assembly and statewide elected officials would remain eligible to receive healthcare benefits pursuant to Chapter 103, RSMo, and life insurance benefits under the MSEP 2000; however, they would not be eligible for disability income benefits (LTD) available under the MSEP 2000

MOSERS officials state that the proposed removal of benefits for new hires has no effect on MOSERS' current benefit obligation or current employer contributions for the active members currently covered under the MSEP 2000.

The annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary is outlined below. Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date. In particular:

- The assume date of interest was 7.65%
- Payroll was assumed to increase 3% per year
- Unfunded Actuarial Accrued Liability is amortized over 30 years, beginning with the FY ending 2016

ASSUMPTION (continued)

Group Averages					
Valuation Group	#	Payroll	Salary	Age	Service
Elected Officials (EO)	6	\$659,977	\$109,996	47.7	8.7
Legislators (L)	194	\$6,978,820	\$35,973	52.7	5.1

Fiscal Impact			
	FY 2018*	FY 2019	FY 2020
Estimated decrease in annual employer contributions to MOSERS	(\$133,000)	(\$780,000)	(\$1,605,000)

*The long term effect (approximately 10 years) of the proposed change on the defined benefit contributions is a decrease in employer normal cost of approximately .15% of total MOSERS' payroll (or approximately \$2.94 million in today's dollars). It is important to note that unfunded actuarial accrued liability contributions for MOSERS are assumed to be made on total payroll, including those members hired on or after January 1, 2018.

FY16-17 Contributions	Present Benefits	Proposed Benefits	Increase/(Decrease)
Normal Cost	8.60%	8.60%	0.00%
Member Contributions	(1.41)%	(1.41)%	0.00%
UAAL% (30yr amortization)	<u>12.26</u>	<u>12.26</u>	<u>0.00</u>
Total Contribution Rate	19.45%	19.45%	(0.00)%
Employer Normal Cost (\$mil)	\$146.6	\$146.6	-
Estimated Employer Contribution (\$mil)	\$396.5	\$396.5	-

ASSUMPTION (continued)

There is no change in the Unfunded Actuarial Accrued Liability (UAAL) valuation from the present benefits to the proposed benefit changes.

Oversight assumes the actuarial study date of the valuation was June 30, 2016 and takes into account an 8% turnover rate for all General Assembly members and statewide elected officials.

Oversight assumes all current members will retain their seats for the 2017-2018 session. Oversight also assumes the vacancies that will occur in the Missouri Senate and state-wide elected officials may be filled with current elected officials (who are already under the year 2000 plan).

Oversight notes that salaries for elected officials and contribution rates could change from year-to-year. For fiscal note purposes, it is assumed that salaries and contribution rates will be stable.

Oversight assumes this proposal will have a positive fiscal impact to the State by reducing employer contributions made to Missouri State Employees Retirement System for the future General Assembly members and statewide elected officials. For fiscal note purposes, Oversight assumes the fiscal impact will be up to \$1,196,858. This number was calculated by taking into account the salary (\$35,973) for each of the 197 General Assembly members, as well as the average salary for each of the 6 elected officials (\$109,996) multiplied by the employer contribution rate of 15.45% (difference between 19.45% to MOSERS and 4% required in this bill). It could potentially be many years until all current elected officials (who remain under the year 2000 plan) are no longer in some elected office, resulting in an unknown fully implemented fiscal year.

For FY 2019, Oversight assumed the 53 members of the House of Representatives that are term limited out in 2018 would be replaced by candidates who are not already under the year 2000 plan. The anticipated savings for FY 2019 is \$147,283 (53 members x \$35,973 x (19.45% - 4% for six months)).

Eventually, all 197 General Assembly members and 6 state-wide elected officials will be replaced by persons that are not eligible under the year 2000 plan, but depending upon future elections, that could be many years into the future.

ASSUMPTION (continued)

Oversight assumes the eventual savings could be up to \$1,196,858.

House of Representatives:	163 x \$35,973 x (19.45% - 4%) =	\$905,926
Senate:	34 x \$35,973 x (19.45% - 4%) =	\$188,966
Statewide Elected Officials:	6 x \$109,996 x (19.45% - 4%) =	<u>\$101,966</u>
TOTAL		\$1,196,858

Officials from the **Missouri House of Representatives** and the **Missouri Senate** each assume the current proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Budget and Planning (B&P)** state this proposal will not impact total state revenues. B&P will defer to MOSERS for fiscal impact to their plan.

<u>FISCAL IMPACT - State Government</u>	FY 2018	FY 2019 (6 Mo.)	FY 2020	Fully Implemented (Unknown)
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GENERAL REVENUE FUND

<u>Savings - Retirement Contributions</u>	<u>\$0</u>	<u>\$147,283</u>	<u>\$294,565</u>	<u>\$1,196,858</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$147,283</u>	<u>\$294,565</u>	<u>\$1,196,858</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2018	FY 2019	FY 2020	Fully Implemented (Unknown)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal provides that statewide elected officials and members of the General Assembly serving for the first time on or after January 1, 2017, who have not been employed in a position covered by the Missouri Department of Transportation and Highway Patrol Employees' Retirement System or the Missouri State Employees' Retirement System, shall not be eligible to participate in the Year 2000 Retirement Plan. Such elected officials shall participate in a 401(a) defined contribution plan established by the proposal.

Each plan participant and employer shall contribute four percent of the participant's pay to the participant's account. Employers must also pickup and pay the participant's contributions in accordance with federal law.

Newly elected officials shall remain eligible for life insurance and health benefits, but will not be eligible for disability income benefits otherwise available for participants in the Year 2000 Retirement Plan.

Elected officials who subsequently become employed in a position covered by either the Missouri Department of Transportation and Highway Patrol Employees' Retirement System or the Missouri State Employees' Retirement System shall participate in the designated plan, but shall not receive service credit for time served as an elected official.

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 House of Representatives
Missouri Senate
Office of Administration - Budget and Planning



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