

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0505-02
Bill No.: SB 228
Subject: Retirement - State; State Employees; General Assembly; Auditor, State;
 Treasurer, State; Governor & Lieutenant Governor; Secretary of State; Attorney
 General
Type: Original
Date: January 24, 2017

Bill Summary: This proposal modifies the Year 2000 Retirement Plan for state employees, members of the General Assembly, and statewide elected officials employed after January 1, 2018.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
General Revenue	(\$1,880,160)	(\$640,808)	(\$861,000)	(\$2,280,360)
Total Estimated Net Effect on General Revenue	(\$1,880,160)	(\$640,808)	(\$861,000)	(\$2,280,360)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Highway Fund	(\$172,220)	(\$714,160)	(\$154,050)	\$4,137,230
Other State Funds	(\$567,100)	(\$204,680)	(\$261,030)	(\$610,790)
Total Estimated Net Effect on Other State Funds	(\$739,300)	(\$918,840)	(\$415,080)	\$3,526,440

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 18 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Federal Funds	(\$688,520)	(\$231,080)	(\$314,920)	(\$857,080)
Total Estimated Net Effect on <u>All</u> Federal Funds	(\$688,520)	(\$231,080)	(\$314,920)	(\$857,080)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
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	(FY 2028)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the proposed provisions contained in SB 228 would, if enacted, create a hybrid retirement plan for new employees hired for the first time on or after January 1, 2018. In this instance, the hybrid retirement plan is a defined benefit plan that includes a defined contribution plan component.

Under the proposal, a member who first becomes an employee on or after January 1, 2018, would participate in a new hybrid retirement plan with the following changes in provisions.

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

Valuation Group	#	Payroll	Group Averages		
			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
Total MOSERS (w/ EO & L)	49,464	\$1,921,528,936	\$38,847	45.5	11.2

ASSUMPTION (continued)

Present Defined Benefit (DB) for General Employees	Proposed Defined Benefit (DB) for General Employees
Formula - 1.7% x service x final average pay (FAP) - 0.08% x service x FAP to Age 62 (for those retiring under Rule of 90)	Formula - 1.0% x service x final average pay (FAP) - 0.08% x service x FAP to age 62 (for those retiring under Rule of 90)
Vesting – 10 years	Vesting – 10 years until the plan’s actuary determines that the funded ratio of the most recent actuarial valuation is at least 90%, in which case the vesting period would decrease to 5 years for current and new members on January 1 of the following plan year.
Normal Retirement Eligibility -Age 67 with 10 years of service or at least age 55 (Rule of 90)	Normal Retirement Eligibility -Age 67 with 10 years of service or at least age 55 (Rule of 90)
Early Retirement Eligibility - Age 62 with 10 years of service with reduction in base benefit	Early Retirement Eligibility - Age 62 with 10 years of service with reduction in base benefit
Cost-of-Living Adjustment (COLA) - 80% of increase in Consumer Price Index (CPI) with annual maximum of 5%	Cost-of-Living Adjustment (COLA) - 80% of increase in CPI with annual maximum of 2%
Employee Contribution – 4% of pay	Employee Contribution – 4% of pay
Present Defined Contribution Component (DC)	Proposed Defined Contribution Component (DC)
None	Employer Contribution – 3% Employee Contribution – 1%

ASSUMPTION (continued)

Present Defined Benefit (DB) for members of the General Assembly	Proposed Defined Benefit (DB) for members of the General Assembly
Formula - (Active legislator pay divided by 24) x service capped at 100% of pay	Formula - (Active legislator pay divided by 48) x service capped at 50% of pay
Normal Retirement Eligibility - Age 62 and the completion of 3 full biennial assemblies or age 55 (Rule of 90)	Normal Retirement Eligibility - Age 62 and the completion of 3 full biennial assemblies or age 55 (Rule of 90)
COLA - Benefit adjustment based on increase in pay for an active member of general assembly	COLA - Benefit adjustment based on increase in pay for an active member of general assembly
Employee Contribution – 4% of pay	Employee Contribution – 4% of pay
Present Defined Contribution Component (DC)	Proposed Defined Contribution Component (DC)
None	Employer Contribution – 3% of pay Employee Contribution – 1% of pay

Present Defined Benefit (DB) for Statewide Elected Officials	Proposed Defined Benefit (DB) for Statewide Elected Officials
Formula - (Active elected official pay divided by 24) x service capped 50% of pay	Formula - (Active elected official pay divided by 48) x service capped at 25% of pay
Normal Retirement Eligibility - Age 62 with 4 years of service or age 55 (Rule of 90)	Normal Retirement Eligibility - Age 62 with 4 years of service or age 55 (Rule of 90)
COLA - Benefit adjustment based on increase in pay for statewide elected official	COLA - Benefit adjustment based on increase in pay for statewide elected official
Employee Contribution – 4% of pay	Employee Contribution – 4% of pay
Present Defined Contribution Component (DC)	Proposed Defined Contribution Component (DC)
None	Employer Contribution – 3% of pay Employee Contribution – 1% of pay

ASSUMPTION (continued)

The proposed removal of benefits for new hires has no effect on MOSERS' current benefit obligation for the active members currently covered under the MOSERS. The estimated effect on annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary, relative to the defined benefit and defined contribution components, is outlined below and is reflected in the actuarial projection provided in the last page of this response

	FY 2018	FY 2019	FY 2020
Estimated increase in annual employer contributions to MOSERS	\$3,090,000	\$886,000	\$1,396,000

*The long-term effect of the proposed hybrid plan is an increase in total employer contribution dollars of 0.30% of total MOSERS' payroll – in current day dollars, this would equate to an approximate \$5.8 million increase.

** The increase in FY 2028 (the last year provided by MOSERS actuarial) is \$4,848,000.

***The impact of this proposal is only applicable for six months of FY 2018.

Impact on MOSERS (in millions)

Valuation Results	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	\$8,109.2	\$8,109.2	0%
Actuarial Accrued Liability (AAL)	\$12,751.2	\$12,751.2	0%
Actuarial Value of Assets (AVA)	\$8,878.1	\$8,878.1	0%
Unfunded Actuarial Accrued Liability (UAAL)	\$3,873.1	\$3,873.1	0%
Percent Funded	69.6%	69.6%	0%

ASSUMPTION (continued)

These long- term increases would emerge over time as employees replace the existing workforce. For purposes of this supplemental valuation, the change in the defined benefit contribution rate is reflected beginning January 1, 2018, even though the employer contribution rate for the year ending June 30, 2018, has already been certified by the Board of Trustees. The change in the employer defined contribution rate is reflected beginning January 1, 2018. Since the defined benefit plan remains open in the hybrid plan, there is no change in the amortization of the unfunded accrued liability contributions.

The cost of the 5-year vesting is not shown in the projection due to not achieving 90% funded status. The long-term effect of this change is highly dependent on the assumptions and demographics in place at implementation, both of which may materially change in the future.

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assumes this proposal would create a Hybrid Plan for new hires as a non-uniformed MoDOT or Civilian Patrol State Employee on or after January 1, 2018.

The annual determined employer contribution (ADEC) as recommended by the MPERS' actuary is outlined below. Actuarial methods and assumptions, except where otherwise noted, were the same as those used in the last regular annual actuarial valuation as of June 30, 2016. In particular:

- The assumed rate of interest was 7.75%.
- The valuation method was the entry-age actuarial cost method.
- The amortization period was 8 years for unfunded retiree liabilities and 23 years for unfunded active liability; amortization were calculated assuming payroll would increase 3.50% per year before the changes.
- Price inflation is assumed to be 3.00% per year.

ASSUMPTION (continued)

			Average	
Valuation Group	#	Payroll	Age	Service
MoDOT Employees	5,039	\$210,473,695	44.6	13.0
Civilian Patrol Employees	1,148	\$46,345,740	44.6	12.0
Uniformed Patrol	1,254	\$82,979,944	40.3	14.9
Total	7,441	\$339,799,379	43.9	13.1

Present Defined Benefit (DB) MPERS	Proposed Defined Benefit (DB) MPERS
Formula - 1.7% x service x final average pay (FAP) - 0.08% x service x FAP to Age 62 (for those retiring under Rule of 90)	Formula - 1.0% x service x final average pay (FAP) - 0.08% x service x FAP to age 62 (for those retiring under Rule of 90)
Vesting – 10 years	Vesting – 10 years until the plan’s actuary determines that the funded ratio of the most recent actuarial valuation is at least 90%, in which case the vesting period would decrease to 5 years for current and new members on January 1 of the following plan year.
Normal Retirement Eligibility -Age 67 with 10 years of service	Normal Retirement Eligibility -Age 67 with 5 years of service
Early Retirement Eligibility - Age 62 with 10 years of service with reduction in base benefit	Early Retirement Eligibility - Age 62 with 5 years of service with reduction in base benefit
Cost-of-Living Adjustment (COLA) - 80% of increase in Consumer Price Index (CPI) with annual maximum of 5%	Cost-of-Living Adjustment (COLA) - 80% of increase in CPI with annual maximum of 2%
Present Defined Contribution Component (DC)	Proposed Defined Contribution Component (DC)
None	Employer Contribution – 3% Employee Contribution – 1%

ASSUMPTION (continued)

Benefits payable under the Closed Plan and the Y2K Plan for members first hired prior to January 1, 2018 are not affected by the proposal; therefore, there is no immediate change in the employer contribution rates. The long-term employer contribution for the 2011 Tier (the current open plan provisions) is 6.89% of pay for non-uniformed members. The estimated long-term employer contributions for the proposed Hybrid Plan are 5.86% of pay for non-uniformed members (including the DB and DC components) under the 10-year vesting/eligibility structure. This represents a decrease over the 2011 Tier benefits for non-uniformed members of approximately 1.03%.

	FY 2018	FY 2019	FY 2020
Estimated increase in annual employer contributions to MPERS	\$218,000	\$904,000	\$195,000

	FY 2021	FY 2022	FY 2028
Estimated decrease in annual employer contributions to MPERS	\$484,000	\$1,212,000	\$5,237,000

It is important to note that most MPERS members are currently covered by older plans/tiers. The average long-term cost of benefits for the current members (based on their current benefits) is 11.92% of pay for non-uniformed members. The proposed plan represents a decrease in long-term employer costs over the average current level of approximately 6.06%. As discussed above, most of this decrease is attributable to the 2011 Tier. Changes in the employer contribution will evolve as new hires enter the plan.

ASSUMPTION (continued)

Impact on MPERS (in millions)

Valuation Results	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	\$1,992.1	\$1,992.1	-
Actuarial Accrued Liability (AAL)	\$3,761.7	\$3,761.7	-
Actuarial Value of Assets (AVA)	\$2,086.7	\$2,086.7	-
Unfunded Actuarial Accrued Liability (UAAL)	\$1,675.1	\$1,675.1	-
Percent Funded	55.5%	55.5%	0%

The implementation of the Hybrid Plan has a short-term increase in Employer Contributions due to the 2-year lag described above. Employer contributions for the DC plan begin immediately upon the hiring of new participants beginning January 1, 2018.

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal establishes a hybrid retirement plan for members of Missouri State Employee's Retirement System (MOSERS) and MoDOT & Patrol Employees' Retirement System (MPERS) hired for the first time on or after January 1, 2018.

ASSUMPTION (continued)

Current System	
MOSERS (as of 6/30/16)	MPERS (as of 6/30/16)
Market Value: \$8,109,161,214	Market Value: \$1,992,073,946
Actuarial Value: \$8,878,057,191	Actuarial Value: \$2,086,654,348
Liabilities: \$12,751,162,753	Liabilities: \$3,761,733,004
<u>Funded Ratio</u> Market Value: 63.6% Actuarial Value: 69.6%	<u>Funded Ratio</u> Market Value: 53.0% Actuarial Value: 55.5%
<u>Contribution Rate</u> Employer (FY17/18): 19.45% Employee: 4%	<u>Contribution Rate</u> Uniformed: 58% (\$51,556,310 est.) Non-uniformed: 58% (\$159,564,612 est.) Employee: 4%

JCPER officials state this legislation will result in 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.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the Missouri House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage of the bill. An actuarial cost statement for this legislation has not been filed with the JCPER.

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume the three-year average of new MCHCP employees that do not have prior State of Missouri service is 6 per year. MCHCP's average annual salary is \$45,519. Based on this historic number of new hires and the three percent additional employer contribution required by this proposed legislation, MCHCP estimates the fiscal impact to be \$8,200.

Oversight assumes MCHCP is provided with core funding to handle a certain amount of activity each year. Oversight assumes MCHCP could absorb the costs related to this proposal.

Officials from the **Joint Committee on Administrative Rules** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Public Safety (Capitol Police, Fire Safety, Missouri Veterans Commission, Directors Office)**, the **Missouri Lottery Commission**, the **Office of Administration - Budget and Planning**, the **Department of Higher Education**, the **Department of Economic Development**, the **Department of Natural Resources**, the **Office of Administration**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Missouri Department of Conservation**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Corrections** and the **Missouri House of Representatives** each defer to the Missouri State Employee's Retirement System to estimate the fiscal impact of the proposed legislation on their respective organization.

Officials from the **Department of Transportation** and the **Department of Public Safety - Missouri Highway Patrol** each defer to the MoDOT & Patrol Employees' Retirement System to estimate the fiscal impact of the proposed legislation on their respective organization.

ASSUMPTION (continued)

Officials from the **State Tax Commission**, the **Department of Public Safety (Alcohol and Tobacco Control, Missouri Gaming Commission)**, the **Office of the State Public Defender**, the **Department of Labor and Industrial Relations**, the **Office of the Governor**, the **Administrative Hearing Commission**, the **Office of the State Treasurer**, the **Missouri Ethics Commission**, the **Department of Revenue**, the **Missouri Senate**, the **Office of the State Auditor**, the **Office of Prosecution Services**, the **Department of Agriculture**, the **Department of Elementary and Secondary Education** and the **Office of the Lieutenant Governor** each assume the proposal will have no fiscal impact on their respective organizations.

For fiscal note purposes, **Oversight** will use the MOSERS and MPERS actuarial estimates. Oversight will reflect fiscal impact for the 3 years of the fiscal note, plus FY 2028 (farthest future year provided in the MOSERS & MPERS actuarial analysis); however, the long-term effect of the proposal is on-going.

Oversight assumes the contributions to MOSERS will be 60% General Revenue, 22% Federal and 18% Other State Funds.

MOSERS	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue (60%)	(\$1,854,000)	(\$531,600)	(\$837,600)	(\$2,908,800)
Federal Funds (22%)	(\$679,800)	(\$194,920)	(\$307,120)	(\$1,066,560)
Other State Funds (18%)	(\$556,200)	(\$159,480)	(\$251,280)	(\$872,640)
TOTAL	(\$3,090,000)	(\$886,000)	(\$1,396,000)	(\$4,848,000)

Oversight also assumes the contributions to MPERS will be 79% Highway Fund, 12% General Revenue, 5% Other State Funds and 4% Federal Funds.

MPERS	FY 2018	FY 2019	FY 2020	FY 2028
Highway Fund (79%)	(\$172,220)	(\$714,160)	(\$154,050)	\$4,137,230
General Revenue (12%)	(\$26,160)	(\$108,480)	(\$23,400)	\$628,440
Other State Funds (5%)	(\$10,900)	(\$45,200)	(\$9,750)	\$261,850
Federal Funds (4%)	(\$8,720)	(\$36,160)	(\$7,800)	\$209,480
TOTAL	(\$218,000)	(\$904,000)	(\$195,000)	\$5,237,000

FISCAL IMPACT - FY 2018
State Government (10 Mo.) FY 2019 FY 2020 (FY 2028)

**GENERAL
 REVENUE FUND**

Change - MOSERS
 Increase in
 Employer
 Contributions (\$1,854,000) (\$531,600) (\$837,600) (\$2,908,800)

Change - MPERS
 Change in
 Employer
 Contributions (\$26,160) (\$108,480) (\$23,400) \$628,440

**ESTIMATED NET
 EFFECT ON THE
 GENERAL
 REVENUE FUND (\$1,880,160) (\$640,080) (\$861,000) (\$2,280,360)**

FISCAL IMPACT -

<u>State Government</u> (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
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HIGHWAY FUNDS

Change - MPERS

Change in Employer Contributions	<u>(\$172,220)</u>	<u>(\$714,160)</u>	<u>(\$154,050)</u>	<u>\$4,137,230</u>
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ESTIMATED NET EFFECT ON THE HIGHWAY FUNDS

	<u>(\$172,220)</u>	<u>(\$714,160)</u>	<u>(\$154,050)</u>	<u>\$4,137,230</u>
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OTHER STATE FUNDS

Change - MOSERS

Increase in Employer Contributions	<u>(\$556,200)</u>	<u>(\$159,480)</u>	<u>(\$251,280)</u>	<u>(\$872,640)</u>
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Change - MPERS

Change in Employer Contributions	<u>(\$10,900)</u>	<u>(\$45,200)</u>	<u>(\$9,750)</u>	<u>\$261,850</u>
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ESTIMATED NET EFFECT ON OTHER STATE FUNDS

	<u>(\$567,100)</u>	<u>(\$204,680)</u>	<u>(\$261,030)</u>	<u>(\$610,790)</u>
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FISCAL IMPACT -

<u>State Government</u>	FY 2018			
(continued)	(10 Mo.)	FY 2019	FY 2020	(FY 2028)

FEDERAL FUNDS

Change - MOSERS

Increase in Employer Contributions	(\$679,800)	(\$194,920)	(\$307,120)	(\$1,066,560)
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Change - MPERS

Change in Employer Contributions	(\$8,720)	(\$36,160)	(\$7,800)	\$209,480
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**ESTIMATED NET
EFFECT ON
FEDERAL FUNDS**

	<u>(\$688,520)</u>	<u>(\$231,080)</u>	<u>(\$314,920)</u>	<u>(\$857,080)</u>
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FISCAL IMPACT -
Local Government

	FY 2018			
	(10 Mo.)	FY 2019	FY 2020	(FY 2028)
	<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 modifies the Year 2000 Retirement Plan for state employees, members of the General Assembly, and statewide elected officials employed after January 1, 2018

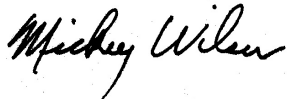
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Agriculture
Department of Economic Development
 Public Service Commission
 Office of the Public Council
 Division of Energy
Department of Elementary and Secondary Education
Department of Higher Education
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Mental Health
Department of Natural Resources
Department of Corrections
Department of Labor and Industrial Relations
Department of Revenue
Department of Public Safety
 Office of the Director
 Capitol Police
 Alcohol & Tobacco Control
 Fire Safety
 Gaming Commission
 Missouri Highway Patrol
 Veterans Commission
Office of the Governor
Joint Committee on Administrative Rules
Joint Committee on Public Employee Retirement
Missouri Lottery Commission
Missouri Consolidated Health Care Plan
Missouri Department of Conservation
Missouri Ethics Commission
Missouri House of Representatives
Office of the Lieutenant Governor
Department of Transportation
Office of Prosecution Services
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Office of Administration
 Administrative Hearing Commission
 Office of Administration - Budget and Planning
Office of the State Auditor

SOURCES OF INFORMATION (continued)

Missouri Senate
Office of the Secretary of State
Office of the State Public Defender
Office of the State Treasurer
State Tax Commission



Mickey Wilson, CPA
Director
January 24, 2017

Ross Strobe
Assistant Director
January 24, 2017