

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1213-11
Bill No.: Truly Agreed and Finally Passed HS for SCS for SB 290
Subject: Cities, Towns, & Villages; Kansas City; Law Enforcement Officers & Agencies; Retirement–Local Government; Retirement Systems & Benefits–General
Type: Original
Date: May 23, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government*	\$0	(\$211,000)	(\$216,000)

***Does not reflect unknown amount of increase in the UAAL of the PRS–KC officer and civilian employees' systems. Does not reflect \$9 million reduction in surplus of the PSR–StL. Does not include \$2.1 million increase in the UAAL of the St. Louis Firemen's Retirement System. System funds are not considered local funds for fiscal note purposes. Does not reflect unknown costs to the City of Saint Joseph for continuation of surviving spouse benefits upon remarriage.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement (JCPER)** indicate that the legislation represents a “substantial proposed change” in future plan benefits for the Saint Louis Police and Firemen's Retirement Systems. As such, an actuarial cost statement was required.

The committee indicated that the legislation does not represent a “substantial proposed change” in future plan benefits for the Prosecuting Attorney & Circuit Attorney Retirement System. As such, an actuarial cost statement was not required.

Finally, the JCPER notes that certain changes to the Kansas City Police Retirement System which were intended to be made by last session's House Bill 1808 were inadvertently not included. The specific costs for increases in duty, non-duty disability, and termination benefits were included in the actuarial cost statement for House Bill 1808. Therefore, the liabilities have already been accounted for and included in both the original cost statement and the current actuarial valuation for plan year 2000. Additionally, JCPER indicates that the plan's actuary has determined that the changes eliminating the termination of benefits for surviving spouses upon remarriage, and the inclusion of cost-of-living adjustments in the calculation of survivor benefits are not significant enough to be accounted for actuarially as a separate item. JCPER concludes that although there is an increase in benefit payments, that cost would be less than .25% of payroll, and under the provisions of Section 105.665, this would not require an actuarial cost statement.

Officials with the **Kansas City Police Retirement System (PRS-KC)** indicated that the proposal would have no fiscal impact, as current contribution rates would not have to be increased to fund the system under the provisions included in the legislation.

In response to previous similar legislation, officials with the PRS-KC obtained an actuarial analysis for the changes proposed that were not included in the analysis for the changes intended for House Bill 1808, indicating that the actuarially required contribution (ARC) under the officers' plan will be increased to 19.53%, which is less than the current actual contribution rate of 19.7%. The ARC under the civilian employees' plan will be increased to 7.14%, which is equal to the current actual contribution rate. Changes which were intended to be included in House Bill 1808 from the previous session are already reflected in the actuarially required contribution rate.

Oversight notes that the analysis provided by the PRS-KC did not indicate the amount by which the Unfunded Actuarial Accrued Liability (UAAL) for the retirement systems would be affected as a result of the proposal. Oversight assumes the UAAL will be increased. While there may be no immediate cost to the local government, since the required contribution rate would not exceed

ASSUMPTION (continued)

the current contribution rate, there is an unknown fiscal impact to the retirement systems. **There is a long-term fiscal impact as a result of the proposal, because an increase in the UAAL for both plans will affect the need for any future contribution increases.**

Officials with the **Saint Louis Police Retirement System (PRS–StL)** assume the proposal will allow one-time re-entry to the system from the DROP, change average final compensation to be based on the final two years, and refund contributions without interest. Currently, the PSR–StL is overfunded by \$36.8 million. The provisions in the legislation are expected, based on an actuarial study obtained by the system, to cost \$9 million and reduce the surplus to \$27.8 million. **Oversight** notes that, while there is no immediate cost to the local government as a result of the proposal, as contributions would not increase, there is a cost to the retirement system. **There is a long-term fiscal impact as a result of the proposal, since the reduction of the surplus will affect the need for any future contribution increases.** Officials with the **City of Saint Louis** did not respond regarding these provisions.

In response to previous similar legislation, officials with the **Saint Louis Firemen's Retirement System** assumed the proposal will adjust the full lump-sum sick leave benefit to pay one-half of the leave as a lump-sum, provide additional service credit for one-quarter of the leave, and add one-quarter of the leave to the final average compensation. An actuarial valuation obtained by the system indicated that the proposal would add \$2.14 million to the system's Unfunded Actuarial Accrued Liability. To amortize the additional liability and pay the increased normal cost of benefits, contributions must be increased by 0.65% of payroll, or \$206,000 annually. Officials state that the increased contributions would be effective beginning FY 2003. **Oversight** has adjusted this figure for 2.5% annual salary growth. Officials with the **City of Saint Louis** did not respond regarding these provisions.

In response to previous similar legislation, officials with the **Prosecuting Attorneys' Retirement System** assumed the proposal will have no impact on the system or on local governments, as the provision applies only to counties which elect to designate the position of prosecuting attorney as full-time. If counties elected to do so, they would be required to make a larger contribution to the retirement fund; benefits for prosecutors in these counties would be increased accordingly.

In response to previous similar legislation, officials with the **City of Saint Joseph** assumed the proposal will allow surviving spouses to remarry without loss of benefits. This would have a direct cost to the city if approved by the city council. The city is unable to estimate the cost. Officials are uncertain if the proposal applies to beneficiaries of the surviving spouse, also. **Oversight** assumes there will be an insignificant cost to the city, interpreting the proposal as only allowing a continued payment of the death benefit to the surviving spouse upon remarriage.

ASSUMPTION (continued)

In response to previous similar legislation, officials with the **Missouri Local Government Employees' Retirement System (LAGERS)** assumed the proposal will have no fiscal impact on the system.

Regarding the provision requiring the general employee retirement plan of the **City of Saint Louis** to provide sufficient information to allow any retirement organization to contact the retirees, officials with the city indicated in response to previous similar legislation that any fiscal impact would be insignificant.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government*</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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CITY OF SAINT LOUIS

<u>Cost</u> –Increased Contributions to Firemen's Retirement System	<u>\$0</u>	<u>(\$211,000)</u>	<u>(\$216,000)</u>
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FISCAL IMPACT - Small Business

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

DESCRIPTION

This act revises the **Kansas City Police and Civilian Retirement Systems**. The Kansas City Police Retirement System is revised to increase the benefits to members disabled in the line of duty from 60 percent to 75 percent. Normal retirement benefits are increased from 2% per year of service to 2.5% per year of service.

The Kansas City Civilian Retirement System is revised to state that any lump sum or periodic payments, except those for medical treatment, which are paid for death or disability will be offset against any workers' compensation benefits payable but the total amount will not be less than what the worker would have received pursuant to the terms of the retirement system. The requirement that surviving spouses remain unmarried is deleted. A surviving spouse is entitled to receive a base pension along with a cost-of-living adjustment and payments will continue for the lifetime of the surviving spouse. However, after August 28, 2001, the surviving spouse must be married to a member who dies in service at the time of the member's death. The surviving spouse of a member who dies after retirement, who has not selected the optional annuity will receive half of the member's normal retirement with cost-of-living adjustments. However, the surviving spouse must have been married to the member at the time of the member's retirement. If a surviving spouse of a member who dies in service or who retired prior to August 28, 2001, has not remarried prior to August 28, 2001, but subsequently remarries, they will be entitled to receive benefits as a special consultant in an amount equal to the amount they would have received in absence of the remarriage.

In both retirement systems, members who are entitled to benefits by becoming the surviving spouse of more than one member are restricted to the largest benefit calculated, unless the retiree had selected the optional reduced annuity. The timing for the credit of income from investments is changed from one year to frequent intervals determined by the retirement board. The retirement board may also appoint investment managers to manage the investments of the retirement system.

This act modifies the **Saint Louis Police Retirement System**. The calculation of the average final compensation is to be based on the final 2 years of service rather than the final 3 years of service. Provisions are made for a one time re-entry into the system when participating in the DROP plan. The Board of Trustees may either use the city counselor as legal advisor or employ a legal advisor.

The act stipulates that members of the **Saint Louis Firemen's Retirement System** shall receive credit for their remaining sick leave by a 50% lump sum payment, 25% increase in creditable service, and 25% increase in final average compensation.

DESCRIPTION (continued)

This act requires counties which, after August 28, 2001, elect to have a full-time prosecuting attorney, to pay the same amount into the **Missouri Prosecuting Attorneys' and Circuit Attorneys' Retirement System Fund** as counties of the first classification. Benefits for prosecutors in these counties would be increased accordingly.

As amended, the act allows surviving beneficiaries of the **Saint Joseph Firemen's Retirement System** (non-LAGERS retirees) to continue to receive a benefits following remarriage.

As amended, the bill requires the **City of Saint Louis** to provide sufficient information to allow retirement organizations to contact retirees covered by their general employee plan.

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
Kansas City Police Retirement System
Saint Louis Police Retirement System
Saint Louis Firemen's Retirement System
Missouri Prosecuting Attorneys' and Circuit Attorneys' Retirement System
Local Government Employees' Retirement System
City of Saint Louis
City of Saint Joseph



Jeanne Jarrett, CPA
Director
May 23, 2001