COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION
FISCAL NOTE

L.R. No.: 0858-07
Bill No.: Perfected SS #2 for SCS for SB's 248, 100, 118, 233, 247, 341 & 420
Subject: Administrative Law; Retirement - State; Retirement Systems and Benefits - General; State Employees; Retirement - Schools; Highway Patrol; Education Elementary and Secondary; Transportation Dept.
Type: #Updated
Date: May 8, 2003
#To add Office of Administration - Division of Budget and Planning assumptions

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
#General Revenue	$5,020,327 to $13,825,877	$10,295,373 to $31,428,694	$10,286,261 to $31,419,582
#Total Estimated Net Effect on General Revenue Fund	**$5,020,327 to $13,825,877**	**$10,295,373 to $31,428,694**	**$10,286,261 to $31,419,582**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
#Other Funds	$3,595,022 to $11,983,340	$8,628,053 to $28,760,177	$8,628,053 to $28,760,177
Various State Funds - MOSERS	$0	($184,421)	($184,421)
#Total Estimated Net Effect on Other State Funds	**$3,595,022 to $11,983,340**	**$8,443,632 to $28,575,756**	**$8,443,632 to $28,575,756**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 21 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
UI Admin Fund	(Unknown in excess of $1,000,000)	(Unknown in excess of $1,000,000)	(Unknown in excess of $1,000,000)
Total Estimated Net Effect on All Federal Funds	**(Unknown in excess of $1,000,000)**	**(Unknown in excess of $1,000,000)**	**(Unknown in excess of $1,000,000)$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government*	**$0**	**($2,286,244)**	**($2,286,244)**

***Does not reflect unfunded accrued actuarial liability of $72,812,000 to Public School Retirement System and $8,615,000 to the Non-Teacher Retirement System.**

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement (JCPER)** indicated the above referenced legislation would indicate that such legislation is a "substantial proposed change" in future plan benefits as defined in Section 105.665(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 Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least five (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.

ASSUMPTION (continued)

ALJ and Legal Advisor's Retirement System (SB 248)

Officials from the **Division of Labor and Industrial Relations** assume the cost of paying the retiree's insurance at the active employee rate is calculated as follows: Current Retiree Medical Cost is calculated = years of service X 2.5% X number of employees X $487 monthly cost X 12 months. Years of service ranged from 6 to 30+; however, the contributions stay the same for 24-30+years. The proposed Retiree Medical Cost was calculated = $471 monthly cost X number of employees X 12 months. There was 10% cost increases estimated for both the second and the third year as medical premiums increased 13% and 23% in FY2002 and FY2003, respectively.

The cost savings was calculated by taking the 75% of the positions eliminated (26.25 GR) times the average salary per position for the department of $36,052. The average salary calculated by taking total PS spent in 2002 of $40,358,453/1119.45 FTEs.

The ALJLAP benefit calculations are based on 20.02 percent of a member's annual salary. For MOSEP 2000 plan benefits, calculations are based on 8.81 percent of a member's annual salary. For FY 2004, calculations are for six (6) months based on the implementation date of proposed §287.845, RSMo. The difference between the two (2) calculations above determines the fiscal impact for the period covered by this fiscal note.

During federal fiscal year 2002, the Division of Employment Security PS/PB cost per employee was approximately $45,800. As previously stated the Division of Employment Security is entirely funded by the federal administrative grants as determined by the RJM. It is estimated that one hundred and fifteen division employees would qualify under this proposal, and eighty-six (86) of those positions could not be filled. This would result in approximately $3.9 million in reduced PS/PB dollars being used in Missouri's RJM calculation. While the Department cannot determine the actual amount of the resulting loss of funding, it would be a substantially large loss of funding, potentially in excess of one million dollars.

Officials from the **Missouri State Employees Retirement Plan (MOSERS)** assume as it affects the ALJLAP, new language was added that has no material effect on the administration of the plan. The SCS for SB 248 would have required that any new administrative law judge, legal advisor, administrative hearing commissioner, labor commissioner or the chairman of the board of mediation, who is employed on or after January 1, 2004 (who has not been previously covered by the retirement system provided for under Chapter 287, RSMo), to participate in the Missouri

ASSUMPTION (continued)

State Employees' Plan (MSEP) which is provided for under Chapter 104, RSMo. This provision is no longer included in the SS#2 for SCS for SB 248, etc. SA #1 further states that notwithstanding any other law to the contrary, nothing contained in this act shall alter or revise the ALJLAP as previously established.

Kansas City Police and Civilians Retirement Systems and Benefits (SB 341)

Officials with the **City of Kansas City** and **Police Retirement System of Kansas City** assume the proposal has no fiscal impact on their agency.

Medical Insurance Retirement Incentive for State Employees (SB 462)

Officials from **Linn State Technical College, Central Missouri State University, Truman State University, University of Missouri, Public School Retirement System, Southwest Missouri State University and Missouri Western State College** assume the proposal will have no fiscal impact on their organizations.

Officials from **Lincoln University (LU)** state there could be a net cost savings of approximately $1.35 to $1.39 million each year (FY 04 through FY 06) if all 44 employees eligible to retire under the proposal were given the opportunity to do so by LU.

Officials from **Missouri Southern State College (MSSC)** state the current cost of providing health insurance to retirees of MSSC would be $3,036 annually for the institution ($328 per retiring employee per month until the employee reaches age 65 or becomes eligible for Medicare X 12 months). Currently, MSSC does not contribute any amount towards a retiree's health insurance premium. Since MSSC would be required to offer this option, officials assume there would be no fiscal impact as a result of the proposal.

Oversight notes the proposal is optional for state supported colleges universities and there, assumes there will be no direct fiscal impact.

Officials from the **Missouri Department of Conservation** state this proposal, provided it was approved by the Commission, would have a fiscal impact on MDC funds. The amount would not exceed $100,000 annually.

Oversight notes the proposal is optional for the Missouri Department of Conservation and therefore, assumes there will be no direct fiscal impact until it is approved by the commission.

ASSUMPTION (continued)

Officials from the **Department of Insurance (INS)** state the INS has 22 FTE that would qualify for this incentive. Six of these would then be refilled. The remaining 16 positions would generate savings in salary and fringe benefits of $136,635 in the Insurance Examiners Fund and $622,974 in the Insurance Dedicated Fund. The INS does not pay for insurance on retirees from their designated funds. Costs to the retirement system on these positions are estimated at $94,264 annually based on current insurance rates.

Oversight assumes, based on the Office of Administration - Division of Budget and Planning's (BAP) response, that INS' costs and savings have been included in BAP's calculations.

Officials from the **Missouri Sate Employees' Retirement System (MOS)** state MOS has no way of estimating the number of employees who might retire under this proposal. However, there are 4,497 general employees eligible for normal retirement and 112 eligible for early retirement.

An additional provision has been included in the proposal that addresses overlapping service credit for members of the general assembly. Under present law, a member who has overlapping service credit as a member of the general assemble and as an employee in another position covered by a retirement plan administered by MOSERS will only receive service credit for that overlapping service in the general assembly plan. This proposal would give members the ability to elect to receive service credit in the retirement plan covering each position in lieu of receiving all of their service credit in the general assembly plan.

SA #4 would allow employees of the Division of Public Safety, who are transferred to MoDOT by virtue of executive order 03-05, the option of electing to remain in MOSERS or transferring their service to the HTEHPRS, who presently cover MoDOT employees. For any employee who elects to transfer their service to HTEHPRS, MOSERS would be required to pay to HTEHPRS an amount actuarially determined to equal the liability at the time of transfer (to the extent that liability is funded as of the most recent actuarial valuation, not to exceed 100%). MOSERS anticipates this provision to be cost neutral.

#Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume it is impossible to determine the number of eligible state employees who would elect to retire under this proposed legislation, BAP has estimated a range of savings based on a set of assumptions. The assumptions are as follows:

- 4,657 state employees would be eligible to retire under the proposal (excluding higher education institutions).

ASSUMPTION (continued)

- The number of eligible employees is different in SB 248 (all versions) than in SB 462 because SB 248 does not include those eligible for early retirement. SB 248 also excludes legislators, judges and ALJ's from participating in the medical incentive. The window in SB 248 is different. The number of retirees who have already reached age 65 are not included, but the 48 and out provisions add more eligibles.
- Estimated savings is based on the varying assumption of use and replacement employees. Replacement is constant at 25% because this is specifically outlined in the proposal.

Please note the following:
- The Division of Budget and Planning has not addressed changes made to Chapters 84 and 86 (St. Louis and KC Police), 169 (PSRS) or 287 (ALJs and Legal Advisors) or 287 (Workers' Comp Law).
- Retirement window outlined in the legislation yields only 5 months savings in FY04. A full fiscal year's worth of savings is assumed in FY05.
- Both the Missouri State Employees' Retirement System and the Missouri Consolidated Health Care Plan would experience savings as well as incur costs that are associated with this proposal, resulting in the following estimated net savings to the sate.

If 15% of eligible employees utilized this opportunity to retire and 25% of the positions vacated were refilled, the net savings to General Revenue (GR) would be $3,773,807 and All Other Funds would be $$3,595,022 for FY 04; savings to GR and All Other Funds would be $9,057,137 and $$8,628,053, respectively, for FY 05 and FY 06.

If 30% of eligible employees utilized this opportunity to retire and 25% of the positions were refilled, the net savings to GR and All Other Funds would be $7,547,614 and $7,190,045 respectively for FY 04. Savings to GR and All Other Funds would be $18,114,275 and $17,256,106 respectively for FY 05 and FY 06.

If 50% of eligible employees utilized this opportunity to retire and 25% of the positions were refilled, the net savings to GR and All Other Funds would be $12,579,357 and $11,983,340, respectively, for FY 04. Savings to GR and All Other Funds would be $30,190,458 and $28,790,177, respectively, for FY 05 and FY 06.

Note: This was done in order to present a range of savings that could be realized should this proposal be enacted. Due to the uncertainty of early retirement proposals, cost/savings estimates should be used only as a guide in determining policy and not an indication of actual experience. The Division of Budget and Planning concurs with MOSERS that it is highly unlikely that the assumptions used in estimating savings gained from this proposal will yield exactly the results suggested in this response.

ASSUMPTION (continued)

25% restriction on replacement

- The SS#2 includes a provision that not more than 25% of positions vacated by this proposal can be refilled, excepting seasonal employees and positions called "critical." There is some confusion over the exceptionas it is currently written. Language is "Exceptions to the twenty-five percent restriction may be made for critical or seasonal positions which are entirely federally funded." Does the "federally funded" language apply just to seasonal positions or to "critical" positions as well? Are "critical" general revenue funded positions also an exception to the twenty-five percent restriction?
- If the general revenue positions vacated are subject to this "critical" definition, then obviously, the more positions defined as "critical" the less the savings the state will see in the end. What percent of the vacated positions will be defined as "critical?" Budget and Planning is of the opinion that more than 25% of positions, vacated by retirements (specified in the language) and on which these estimates are based will be replaced thereby reducing even more the estimated savings.

OA - Division of Personnel

- Changes proposed in this legislation affect the OA Division of Personnel. The following issues are briefly reiterated.
    - Personnel administers the positions classified under the UCP System. This proposal would require the Personnel Advisory Board to promulgate rules limiting the agencies to filling only 25% of the positions vacated under the proposal, with exceptions for critical or seasonal positions which are entirely federally funded. Personnel notes the difficulty promulgating rules under this language:
        - While class can define critical positions, depending upon how a position within a class is used, a position may or may not be critical to the operation of the agency. In many cases, Personnel would have to defer to the agencies to make the determination as to whether a position is critical or not. Also, many critical positions are not federally funded (e.g. Corrections Officers).
        - For the most part, seasonal positions are temporary positions which are not "benefit eligible" positions and from which employees do not retire.

Oversight will present the estimated net savings outlined by BAP as a range.

Officials from the **Department of Transportation (MoDOT)** assume this legislation permits persons who retire after 2/1/2003 and prior to 2/1/2004 to receive a state contribution for medical

<u>ASSUMPTION</u> (continued)

coverage in the Consolidated Health Care Plan at the same dollar amount as in effect for active employees as of the date of retirement. If the rate category for the retiree changes after his or her retirement date, the state's contribution for coverage would be equal to the dollar amount for such rate category for an active employee that was in effect as of the date of retirement. This benefit remains in effect until the retiree becomes Medicare eligible, turns age 65 or the amount being paid for a retiree who did not retire in the selected time period is more than what is being paid under this benefit. The benefit will also cease if the retiree is re-employed either full-time or part-time in a state covered position. The state contribution amounts will revert to what a retiree under the normal benefit receives. The legislation also contained a provision that the state may replace the employees who retire during the selected time period but not more than 25% of the vacated positions may be filled.

This legislation also changes the minimum age required for retirement from 50 to 48. Additionally, this legislation amends Section 104.040 to allow uniformed members of the Highway Patrol to purchase up to four years of non-federal time public employee service at the military rate (the initial salary as an employee).

MoDOT assumes that the Missouri Highway Transportation Commission MHTC/MoDOT would elect to provide the same benefits, except MHTC/MoDOT would replace 100% of those positions vacated due to employees retiring during this selected time period.

Based on numbers reported by the Highway Retirement System, there are 594 MoDOT employees eligible to retire after February 1, 2003 and before February 1, 2004. These are the employees who would be eligible for the additional benefit if they retire within the selected time period. MoDOT is going to assume all 594 employees would retire during this selected time period. to take advantage of this benefit. Currently MHTC/MoDOT is paying an active employee's state contribution toward the employee's medical coverage for these 594 employees. The amounts they receive differ between rate categories (i.e. Subscriber Only, Subscriber/Family, etc.). The employees that retire in the selected time period will continue to receive an equal state contribution amount towards their medical coverage that an active employee receives as of the date of their retirement.

This contribution will continue until the retiree is Medicare eligible, turns age 65, or until the contributions for a retiree in the same rate category and who did not retire in the selected time period exceeds the contribution of the retiree who did retire in the selected time period. For purposes of this legislation, MoDOT is going to assume that all employees would be in the same rate category at one time and give a range of cost from the lowest contribution amount for a

Subscriber Only rate category to the highest contribution amount for a Subscriber/Family rate

ASSUMPTION (continued)

category. In addition, MoDOT is assuming each rate category would have a 13% annual increase in total premiums based upon utilization/trend, compounded annually. MoDOT is also assuming that the percent MHTC/MoDOT currently contributes towards an active and retired employee will stay consistent over the next 15 years.

Currently MHTC/MoDOT contributes $250 per month towards an active employees Subscriber Only rate category, and $612 per month towards an active employees Subscriber/Family rate category. The other rate categories fall somewhere in between. Also, MHTC/MoDOT currently contributes $145 per month towards a retiree Subscriber Only rate category and $331 per month towards a retirees Subscriber/Family rate category. The other rate categories fall somewhere in between. If all 594 eligible employees would retire after February 1, 2003 and before February 1, 2004, MHTC/ MoDOT would have an additional cost of $62,370 per month in calendar year 2004 (594 x ($250-$145)), if all 594 employees were in the Subscriber Only rate category and an additional cost of $166,914 per month in calendar year 2004 (594 x ($612-$331)), and if all 594 employees were in the Subscriber/Family rate category.

Because MoDOT would probably never have all of the employees in the same rate category, it is more realistic that the costs would actually be somewhere in between. Without knowing which rate category these employees would be enrolled in we are calculating the impact as a range.

The proposal to lower the minimum age for retirement from 50 years to 48 years, would have a negligible impact. MoDOT analysis indicates an additional 10 individuals would be eligible for retirement. This figure consists of 6 MoDOT and 4 Civilian Patrol employees.

The retirement system has no way to determine how much service is available for purchase. In addition, even if we knew how much service was eligible for purchase, we would have no way to determine just how many people would purchase the additional service. However, at this time, there is no way for us to determine what impact passage of this proposal will have on the overall contribution rate. While MoDOT can say this proposal does absolutely have a cost to the system associated with the purchase of each piece of service, MoDOT does not have a way to estimate the total cost to the system or when the costs will cause an increase in the contribution rate. Therefore, MoDOT is not including the potential expense into the fiscal impact for FY04, FY05 and FY06.

MoDOT would not be able to comply with the 25 percent rehire provision of this proposal and

still provide the vital transportation services for the citizens of Missouri. Methodically, MoDOT has reduced spending over the past several years to reduce our costs. MoDOT's response to this proposal was based on the assumption that MoDOT would rehire 100 percent of those who might retire under the provisions of this proposal. If the current provisions remain intact, MoDOT would likely have to opt-out of the early retirement incentive program. The Missouri Highway and Transportation Commission would ultimately make the decision on this issue.
ASSUMPTION (continued)

Officials from the **Missouri State Highway Patrol** assume the patrol would only be able to replace one out of every four people that retired, they would anticipate a savings to the state, but are unable to estimate the dollar amount. However, in an effort to provide some idea of the impact, the MoDOT and Highway Patrol retirement system has indicated that 4 employees would be eligible to retire on September 1, 2003. Assuming that all four do retire and that the Patrol was only able to replace one of the four, the annual savings to the state would be approximately $100,000 (most likely from Highway Funds). This estimate only addresses what would happen for the month of September, and they do not know if that represents a typical month or not. It is only included here to provide some idea of the potential impact of this proposal.

Public School and Non-Teacher Retirement

Officials from the **Public School Retirement System (PSRS)** state this proposal will cause the Unfunded Actuarial Accrued Liability (UAAL) to increase in PSRS by $8.61 million and cause the contribution rate to increase 0.02% to 22.24% from the 22.22% required to amortize the UAAL over 30 years. In the Non-Teacher Retirement System, the UAAL will increase $3.315 million and the contribution rate will need to be increased to 10.83% from the 10.80% currently needed to amortize the UAAL over 30 years.

In response to a similar proposal the actuary for the Public School Retirement System has also stated that under current provisions of the PSRS when a retiree returns to a position covered under PSRS and works over 550 hours, the following occurs:

1. The pension ceases until the person reenters retires status, and
2. The retiree makes contributions to PSRS. (These contributions can result in an increase in the person's pension when he or she reenters retired status, and

If the retiree returns to covered employment for less than 550 hours in a year and at less than half time pay, the pension continues. In this case, no additional service is earned and no contributions are made to the retirement system.

In general, there are two costs to the retirement system under such a proposal relative to retirees who return to work and earn between 550 and 825 hours:

1. The benefits paid during the period of reemployment which exceeds 550 hours, and
2. The fact that, in the absence of special provisions, the employer has a position for

which no contributions are made to the PSRS.

To measure that cost, they have made several assumptions:

- According to PSRS staff, there are currently 5,183 persons receiving retirement benefits under PSRS who also received compensation from an employer in the current fiscal year.

ASSUMPTION (continued)

- We have assumed that, out of this number half (about 2,600) will be affected by this legislation.

- It also made sense to assume that the average benefit of such members is somewhere between the current overall average benefit of about $2,300 per month and the average benefit of retirees in the 2001 fiscal year of $2,775 per month. Thus, we have assumed an average benefit of $2,500 per month for the affected retirees.

Based on an assumed 2,600 persons in this status in any year, we estimate that the addition to the actuarial accrued liability will amount to about $64 million. Based on the current contribution level, the period of amortization of the unfunded actuarial accrued liability ("AAL") is increased by nearly 8.2 years. The contribution rate, based on a 30 year amortization of the unfunded actuarial accrued liability ("UAAL"), increases from 20.69% of pay to 20.79%

A similar analysis for NTRS, assuming 1,000 retirees in this status, would result in an increase in UAAL of $5.3 million. The contribution rate, based on a 30 year amortization of the UAAL, would increase from 10.00% of pay to 10.05% of pay. Thus, the current contribution level would no longer cover the benefits of the system.

All of these costs would disappear if the employer contribution were to continue to be paid for each such employee. Thus, if the employer contributes 10.5% of pay for affected members of PSRS and 5.0% of pay for affected members of NTRS, there would be no additional increase in the contribution rate as a result of this proposal.

If the actual number of persons affected by this proposal were different from that assumed, the increase in the AAL will differ from the numbers above. However, the effect of continuing the employer contribution will be proportionately effective. That is, no matter how many people are affected by the proposal, continuation of the full level of employer contribution relative to the salaries of those people will offset the effect on the AAL.

The **Joint Committee on Public Employee Retirement (JCPER)** 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 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.

ASSUMPTION (continued)

An actuarial cost statement for this legislation has been filed with the Joint Committee on Public Employee Retirement.

The actuarial cost statement provided to the Joint Committee on Public Employee Retirement by the Public School Retirement System/Non-Teacher Retirement System indicates an annual increase in employer contributions of $321,346 and $134,313 respectively.

Officials from the **Department of Elementary and Secondary Education** assume no fiscal impact.

Job-Sharing

Officials from the **Public School Retirement System of Missouri** and the **Non-Teacher Retirement System of Missouri** assume this proposal will have no fiscal impact on the retirement system.

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 **Department of Elementary and Secondary Educational** indicated there would be no fiscal impact to their agency; however, local school districts could likely see increased administrative costs. DESE could not estimate to what extent administrative costs wold increase. The increase would be contingent upon the level of participation in job-sharing by classroom teachers statewide.

Oversight assumes administrative costs associated with the job-sharing program would not be material, and could be absorbed within existing resources.

Officials from the **Kansas City Public School Retirement System** assume no fiscal impact to their agency.

MSEP, MSEP 2000 AND HTEHPRS

Officials with the **Missouri State Highway Patrol** state the Department of Transportation will respond on their behalf.

Officials with the **State Highway Employees and Patrol Retirement System (HRS)** assume an additional 10 employees covered under their system would be eligible for retirement before age 50 as a result of the legislation (6 MoDOT and 4 non-uniformed patrol). HRS determines that any fiscal impact as a result of the proposal would be negligible.

ASSUMPTION (continued)

The **Missouri State Employees Retirement System (MOSERS)** assumes the proposal will lower the minimum age for retirement under the "Rule of 80" from age 50 to age 48. MOSERS obtained an actuarial valuation for this proposal. According to the valuation, an annual increase in contributions of $184,421 will be required to fund the benefit in the first year after the benefit change. The contribution rate (as a percentage of payroll) will increase by 0.01%.

Officials from the **Missouri Consolidated Health Care Plan** assume the proposal revises various retirement plans. It lowers the minimum retirement age to 48. As of July 1, 2002, MCHCP initiated the tenure-based subsidy for retirees. The retirees receive 2 ½% of the low cost plan in their region for every year of service. This proposal could result in more retirees in the plan which would be a savings since the state contributes less for them than active employees. However, if those employees who retire are subsequently replaced the state contribution for the retiree coverage would be an additional cost.

Since it is not know exactly who will take advantage of this opportunity, the fiscal impact is very difficult to estimate. Therefore, our projected are based on the assumptions noted below:

161 eligible; not Medicare eligible; avg. state contribution (FY04) $367
Assuming 25% take it and all are replaced, 40 X $367 X 12 = $176,160.

Oversight will present the net savings as determined by OA-BAP for fiscal note purposes since BAP has included HCP's costs in its net savings.

Officials with the **Department of Conservation (MDC)**, assume the proposal appears to have a fiscal impact on MDC funds that would not exceed $100,000 annually. However, on similar legislation during the 2001 Legislative Session, the MDC assumed the proposal had no fiscal impact on their agency. Oversight assumes that the MDC possesses sufficient funding from its budget to absorb these costs.

Officials with the **Department of Health and Senior Services (DHSS)** assume the proposal would not be expected to significantly impact the operations of DHSS. If the proposal were to substantially impact any DHSS programs, then the Department would request funding through the legislative process.

Officials with the **Department of Transportation (MoDOT)** assume the proposal to lower the minimum age for retirement from 50 years to 48 years, would have a negligible impact. MoDOT's analysis indicates and additional 10 individuals would be eligible for retirement. This figure consists of 6 MoDOT and 4 Civilian employees.

The **Department of Economic Development (DED)** issued a statement indicating that it is

ASSUMPTION (continued)

unknown how many employees of the Department would take advantage of the benefits and what impact the proposals would have on health insurance and retirement rates. It is also unknown how many employees would be hired to replace those retiring under the medical insurance incentive. DED assumes this bill will have an impact on funds of the department, but the impact is unknown.

Officials from the **Public Service Commission (PSC)** assume:

A) Under the provisions of section 86.690, subsection 6, the payment of a funeral benefit of $1,000 for the death of a member in service or of a pensioned retiree who dies after August 23, 2003, is assumed to increase the overall cost of the retirement plan.

B) In accordance with the provisions of section 103.120, the state's portion of health insurance coverage for retirees would be more generous than it is currently, which is assumed to cost the state coverage for retirees would be more generous than it is currently, which is assumed to cost the state more than what would have been for those employees retiring during the period between January 1, 2003 and January 1, 2004.

C) Under section 103.120, section 3, limiting the number of positions vacated as a result of employees electing to retire during the time period between January 1, 2003 and January 1, 2004 to twenty-five percent (25%) could potentially reduce payroll costs, although the distribution of retirees' duties to other active staff could create high turnover, increased mistakes, increased training costs, increased health insurance, workers' compensation, and unemployment claims, or other factors that could decrease any potential savings.

D) The number of employees eligible to retire would increase under the proposed legislation, decreasing the age retirement in the eighty-and-out formula from fifty (50) to forty-eight (48) years. In addition, the ability to purchase additional creditable service as described in section 169.056 may increase the number of employees becoming eligible for retirement. See response above addressing section 103.120.

E) Section 103.120, subsection 4 states that the "coverage to a retiree pursuant to this section shall cease immediately upon the employment of such retiree re-employed either full-time or part-time in a state covered position." This provision may not be cost effective for the state.

Where agencies have hired retirees to work on a part-time basis, potential cost savings may occur because of a reduction in training costs, a reduction in benefit liability (such as annual leave, sick leave, etc.), and in reliability. Studies by Employment Opportunity Commission, offer that the

ASSUMPTION (continued)

benefits of hiring part-time older workers can be cost effective when considering a wide range of factors. More time and data would be needed to research the provision to determine the actual impact on state revenue.

F) It is important to note that any projected payroll savings to general revenue should be reduced by the number of employees who would retire but are not working for agencies paid from those funds.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Savings - Department of Labor and Industrial Relations			
Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums	$1,246,520	$1,238,236	$1,229,124
#Savings - Office of Administration			
Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums	$3,773,807 to $12,579,357	$9,057,137 to $30,190,458	$9,057,137 to $30,190,458

#ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$5,020,327 to $13,825,877**	**$10,295,373 to $31,428,694**	**$10,286,261 to $31,419,582**

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
ALL OTHER FUNDS			
#Savings - Office of Administration			
Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums	$3,595,022 to $11,983,340	$8,628,053 to $28,760,177	$8,628,053 to $28,760,177
#ESTIMATED NET EFFECT ALL OTHER FUNDS	**$3,595,022 to $11,983,340**	**$8,628,053 to $28,760,177**	**$8,628,053 to $28,760,177**
MOSERS			
Cost - MOSERS			
Increased Contributions	$0	($184,421)	($184,421)
ESTIMATED NET EFFECT ON MOSERS	**$0**	**($184,421)**	**($184,421)**

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006

PSC FUND

Savings - PSC Fund	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON PSC FUND	**Unknown**	**Unknown**	**Unknown**

Fiscal Impact - Federal Funds	FY 2004 (10 Mo.)	FY 2005	FY 2006
FEDERAL FUNDS			
Cost - UI Admin Fund	(Unknown in excess of $1,000,000)	(Unknown in excess of $1,000,000)	(Unknown in excess of $1,000,000)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**(Unknown in excess of $1,000,000)**	**(Unknown in excess of $1,000,000)**	**(Unknown in excess of $1,000,000)**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
SCHOOL DISTRICTS			
Cost - School Districts			
Teacher and Employee Contributions	$0	($2,286,244)	($2,286,244)
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	**$0***	**($2,286,244)***	**($2,286,244)***

***Does not reflect unfunded accrued actuarial liability of $72,812,000 to Public School Retirement System and $8,615,000 to the Non-Teacher Retirement System.**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This act revises various provisions regarding retirement systems and benefits.

KANSAS CITY POLICE AND CIVILIANS RETIREMENT SYSTEMS - This act provides active members of the system who are on the retirement board with up to 10 days paid leave to be able to attend meetings and educational seminars approved by the retirement board.

The act authorizes the retirement board and the city to administer early retirement incentives offered to employees in addition to other benefits such members may be entitled to. However, the
city shall agree to increase its contribution to provide for the full actuarial costs of the early retirement incentives.

DESCRIPTION (contribution)

The act also adds a funeral benefit of $1,000 for members as of August 28, 2003, who die in service or who die after retiring.

These provisions are similar to SB 342 (2003).

MSEP, MSEP 2000 AND HTEHPRS - This act changes the eligibility age for retirement from 50 to 48 for the Missouri State Employees Retirement System and the Highway and Transportation Employees' and Highway Patrol Retirement System.

These provisions are similar to SBs 100 & 118 (2003).

MEDICAL INSURANCE RETIREMENT INCENTIVE FOR STATE EMPLOYEES - This act provides a medical insurance incentive for state employees to retire. Employees who retire after January 1, 2003, and prior to January 1, 2004, and who are eligible for medical coverage, will be eligible to have portion of the cost of the insurance covered by the state. The retiree may elect to continue coverage for themselves and eligible dependents. The State of Missouri would continue to contribute the same dollar amount in effect for active employees as of the retiree's date of retirement. If the retiree's rate category changes after the date of retirement, the state's contribution shall be the same dollar amount in effect for the new rate category for active employees that was in effect on the retiree's date of retirement. The total amount of the state contribution will revert to the amount being paid by the state for retirees which is in place at that time if the retiree becomes eligible for Medicare, turns 65, or if the amounts that would otherwise be paid by the state under the provisions of the bill are less than the amount currently paid by the state towards the cost of retiree and dependent coverage.

The act also allows the Highway and Transportation Commission of the Department of Transportation and the Conservation Commission of the Department of Conservation to offer similar benefits to their employees.

While the State may hire employees to replace those retiring under the medical insurance incentive, in no event shall the state fill more than 25% of the positions vacated.

The benefits provided to retirees in this act will cease immediately upon the retiree being re-employed either full-time or part-time in a state covered position. The benefit is available to those retiring under the normal age and service requirements and does not apply to elected officials, member of the general assembly and administrative law judges.

These provisions are similar to SB 462 (2003).

PUBLIC SCHOOL AND NON TEACHER RETIREMENT SYSTEMS (SB 233) - This act revises provisions of the public school and non-teacher retirement systems. The act specifies that

<u>DESCRIPTION</u> (contribution)

the contribution rate shall be fixed by the board and certified to the employer. The level rate of contribution for any fiscal year may not exceed the prior year's rate of contribution by more than one half percent. However, no new benefits may be offered until the rate of contribution is reduced back to 10 and one-half percent. These provisions are similar to SB 233 (2003).

The act simplifies credit purchases under PSRS and NTRS systems. Payment for credit purchases must be completed prior to termination of membership with the retirement system. The act clarifies that the member must have covered employment with the retirement system following the purchase credit. The act also defines the calculation of payment for such credit purchases. These provisions are similar to SBs 233 & 247 (2003).

The act creates a partial lump sum option for PSRS and NTRS members whose age plus creditable service equal at least 86 or whose creditable service is at least 33 years. The election to receive a partial lump-sum distribution must be made at least 30 days prior to retirement. The member may make such election in a 12, 24 or 36 month increment of their entire retirement benefit. These provisions are similar to SBs 233 & 247 (2003).

The act extends the 25 and out provisions for PSRS and NTRS for five additional years from July 1, 2003 to July 1, 2008. These sections have an emergency clause. This provision is similar to SBs 233 & 247 (2003).

This act would allow school districts with a shortage of certified teachers or non-certificated employees to hire retirees for up to two years without them losing their retirement benefits. The total number hired will not exceed 10% or five certificated teachers or employees. Retired certificated teachers hired would be included in the State Directory of New Hires. The employer contributions would be made by the hiring school district eliminating fiscal impact. All necessary costs would be paid by the hiring school district and would not exceed the district's statutory cost limitations. In order to hire teachers and non-certificated employees to fill such shortage the school district is required to make certain findings which are specified. These provisions are similar to SB 247 (2003).

The act also changes the ability of a member to elect to continue to be a part of the school insurance program. Members must make this election within one year of the date last employed by the district. These provisions are similar to SB 247 (2003).

ALJ AND LEGAL ADVISOR'S RETIREMENT SYSTEM - This act provides that any Administrative Law Judge or Legal Advisor who is originally employed as such on or after January 1, 2004, are no longer eligible to participate in the Administrative Law Judge and Legal Advisor's Retirement System but rather are covered under the state employees' retirement system. However, no Administrative Law Judge or Legal Advisor who is employed before January 1, 2004, or who has retired before that date will be affected by this act.

DESCRIPTION (contribution)

The liabilities and assets of the Administrative Law Judge's and Legal Advisor's retirement system are transferred and combined with the state employees' retirement system. The contribution rate certified by the board shall include amounts necessary to cover the costs of the Administrative Law Judge's and Legal Advisor's retirement system.

St. Louis Police

Provides that members with 30 years or more of service and eligible to participate in the DROP shall receive six weeks annual paid vacation.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Missouri State Employees Retirement Plan
Division of Labor and Industrial Relations
Department of Elementary and Secondary Education
Highway Employees and Patrol Retirement System
Department of Transportation
Department of Conservation
Department of Health
Department of Economic Development
City of Kansas City

VAL:LR:OD (12/02)

Office of Administration -
Division of Budget and Planning
Kansas City Police and Civilians Retirement system
Department of Public Safety -
Missouri State Highway Patrol
Department of Insurance
Missouri Consolidated Health Care Plan

NOT RESPONDING

St. Louis Police Retirement System
City of St. Louis

Mickey Wilson

Mickey Wilson, CPA
Director
May 8, 2003