COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION
FISCAL NOTE

L.R. No.: 0858-13
Bill No.: HS for HCS for SS #2 for SCS for SB's 248, 100, 118, 233, 247, 341 & 420 with HA #1, HA #2 & HA #3
Subject: Administrative Law; Retirement - State; Retirement Systems and Benefits - General; State Employees; Retirement - Schools; Highway Patrol; Education Elementary and Secondary; Transportation Dept.
Type: Original
Date: May 14, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	$15,348,172 to $30,696,344	$25,189,540 to $50,402,365	$25,189,540 to $50,402,365
Total Estimated Net Effect on General Revenue Fund	**$15,348,172 to $30,696,344**	**$25,189,540 to $50,402,365**	**$25,189,540 to $50,402,365**

*** *If 50% of those eligible participate* - Does not reflect Unfunded Accrued Actuarial Liability pertaining to MOSERS that would increase $183,670,000. The annual increase to employer contributions would be $32,649,000 beginning in FY05. Unfunded Accrued Actuarial Liability pertaining to HEHPRS would increase $12,810,000. The annual increase to employer contributions would be $340,000. *If 25% of those eligible participate* - Unfunded Accrued Actuarial Liability pertaining to MOSERS would increase $91,835,000. The annual increase to employer contributions would be $16,345,000 Unfunded Accrued Actuarial Liability pertaining to HEHPRS would increase $6,410,000. The annual increase to employer contributions would be $170,000 beginning in FY05.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 20 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Other Funds	$8,074,592 to $16,149,184	$13,335,063 to $26,682,121	$13,335,063 to $26,682,121
Various State Funds - MOSERS	$0	($184,421)	($184,421)
Total Estimated Net Effect on Other State Funds	**$8,074,592 to $16,149,184**	**$13,150,342 to $26,497,700**	**$13,150,342 to $26,497,700**

*** *If 50% of those eligible participate* - Does not reflect Unfunded Accrued Actuarial Liability pertaining to MOSERS that would increase $183,670,000. The annual increase to employer contributions would be $32,649,000 beginning in FY05. Unfunded Accrued Actuarial Liability pertaining to HEHPRS would increase $12,810,000. The annual increase to employer contributions would be $340,000. *If 25% of those eligible participate* - Unfunded Accrued Actuarial Liability pertaining to MOSERS would increase $91,835,000. The annual increase to employer contributions would be $16,345,000 Unfunded Accrued Actuarial Liability pertaining to HEHPRS would increase $6,410,000. The annual increase to employer contributions would be $170,000 beginning in FY05.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

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.

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

Officials from the **Division of Labor and Industrial Relations** assume no fiscal impact to their agency.

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), participate in the Missouri State Employees' Plan (MSEP) which is provided for under Chapter 104, RSMo. This proposal would not impact anyone serving in (or who had served in) a position covered by the ALJLAP prior to January 1, 2004.

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.

ASSUMPTION (continued)

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 million 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 not 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 therefor, 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.

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.

ASSUMPTION (continued)

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 8,079 eligible for retirement. Under this proposal, a retiree who retires during the window may elect to continue healthcare coverage for him/herself and any eligible dependents at the same cost as if such retiree were an active employee for a maximum period of five years or until becoming eligible for Medicare, whichever occurs first, at which time the rate would revert to applicable rate of retiree coverage.

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.

Employees of the Division of Public Safety, who are transferred to MoDOT by virtue of executive order 03-05, would have 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:

- 7,411 state employees would be eligible to retire under the proposal (excluding higher education institutions).
- 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.

ASSUMPTION (continued)

Please note the following:

- Please note that all assumptions are the same as HCS/HB 583, except that more accurate numbers reflecting costs and savings to MCHCP have been used.
- 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 25% 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 $15,348,172 and All Other Funds would be $8,074,592 for FY 04; savings to GR and All Other Funds would be $25,189,540 and $13,335,063, 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 $30,696,344 and $16,149,184, respectively, for FY 04. Savings to GR and All Other Funds would be $50,402,365 and $26,682,121, 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.

25% restriction on replacement

- This version of the proposal includes a provision stipulating 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 exception as 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?

ASSUMPTION (continued)

- 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.
    - This proposal would also affect how annual leave is paid to an employee who retires under the proposed legislation.
        - Changes to the leave rules would be required, because under the current rule "an employee entitled to annual leave who has resigned or otherwise separated from the service shall be entitled to receive reimbursement for the amount of this accrued leave which does not exceed the maximum allowable accumulation."
        - The proposed legislation indicates that employees who retire with annual leave accruals in excess of two thousand dollars shall receive payment for such accruals over a two year period, with the first payment on July 1, 2004 and the second and final payment on July 1, 2005.

ASSUMPTION (continued)

- Procedurally, when employees separate from state service they are removed from active pay status once their annual leave is paid off. This bill would require that former employees be re-activated in a pay status that would allow the state to make an annual leave payoff after the employee separates.

BackDROP language

- MOSERS has indicated concern with the 50% utilization, 25% replace assumption. Budget and Planning wants to point out that more than 2,000 of the eligibles are also eligible for the BackDROP and the proposal specifies that an employee cannot take both options. The second breakdown above indicates a much lower savings based on the same number of eligible employees, assuming only 25% utilization and 25% replacement. Budget and planning is of the opinion that less than 50% of the eligibles will opt to retire under this proposal because they are already working toward a more valuable BackDROP option.

Free service credit vs. purchase option

- MOSERS has pointed out that it is generally more expensive to allow employees to purchase service credit than to give away years of service for free. This is clearly stated by MOSERS in their response. The service credit eligible employees are allowed to purchase under this proposal (the HCS) is very highly subsidized (military rate) and the money estimated that MOSERS would take in would not be enough to offset the incurred liability.

Window

- By extending the "window" period to one year, February 2003 through February 2004, the bulk of those eligible employees who choose this incentive will likely wait to retire until the end of the window. Typically much shorter periods or "windows," are offered in early retirement incentives. Because the window has been extended so far into fiscal year 2004, any savings realized for that fiscal year will be only for a five-month period.

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

In a similar proposal officials from the **Department of Transportation (MoDOT)** state they assume this proposal permits persons who retire after 1/1/2003 and prior to 2/1/2004 to receive a state contribution for medical coverage in the Consolidated Health Care Plan at the same dollar amount as in affect for active employees. If the rate category for the retiree changes after his or

ASSUMPTION (continued)

her retirement date, the state's contribution for coverage would be equal to the dollar amount for such rate category for an active employee. This benefit remains in affect for a maximum period of 5 years or upon becoming eligible for Medicare, which ever occurs first. The state contribution amounts will then revert to what a retiree under the normal benefit receives.

MHTC/MoDOT and the Highway Patrol (MSHP) may elect to provide the same benefits for its employees. If MHTC/MoDOT and MSHP elect to provide the same benefits this legislation will have a fiscal impact on MHTC/MoDOT and MSHP by increasing the cost of the state contributions for this class of retirees. This proposal would have no fiscal impact on the Highway and Patrol Medical Plan.

In addition this proposal requires the Highway and Transportation Employees' and Highway Patrol Retirement system to report in writing to the governor, commissioner of administration and the general assembly on 2/1/2004, of the affect of state employee retirements pursuant to this legislation. Employees eligible under §104.627 may purchase three (3) years of service. You may assume the purchase would require the employee to purchase the entire 36 months. The Retirement Systems Actuary based the impact on the assumption that 50% of eligible employees would retiree with only 25% being replaced.

MoDOT assumes that MHTC/MoDOT and the Highway Patrol would elect to provide the same benefits. MHTC/MoDOT and the Highway Patrol would also replace 100% of those positions vacated due to employees retiring during this period.

Based on numbers reported by the Highway Retirement System, there are 594 MoDOT and 183 MSHP employees eligible to retire after January 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 period. MoDOT is going to assume all 594 MoDOT and 183 MSHP employees would retire during this selected period to take advantage of this benefit. Currently MHTC/MoDOT and MSHP are paying an active employees state contribution toward the employees medical coverage for these 594 MoDOT and 183 MSHP employees. The amounts they receive differ between rate categories (i.e., Subscriber Only, Subscriber/Family, etc.) The employees that retire in the selected period will continue to receive an equal state contribution dollar amount towards their medical coverage that an active employee receives.

This contribution will continue for 5 years or until the retiree becomes Medicare eligible, whichever comes first. For purposes of this proposal MoDOT is assuming 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 category. In addition, MoDOT is assuming each rate category would

ASSUMPTION (continued)

have a 13% annual increase in total premiums based upon utilization/trend and compounded annually. We are also assuming that the percent MHTC/MoDOT and MSHP currently contribution towards and active and retired employee will stay consistent over the next 5 years.

Currently MHTC/MoDOT and 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/DOT and MSHP currently contribute $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 January 1, 2003 and before February 1, 2004, MHTC/MoDOT would have an additional cost of $62,370/month in CY 2003 (574 emp. x($250-$145)) if all 594 employees were in the Subscriber Only rate category and an additional cost of $166,914/month in CY 2003 (183 emp. x ($612-$331)) if all 594 employees were in the Subscriber/Family rate category.

MSHP would also have a fiscal impact in the range of $19,215/month to $51,423/month in CY 2003. If all 183 MSHP eligible employees would retire after January 1, 2003 and before February 1, 2004 MSHP would have an additional cost of $19,215/month CY 2003 (183 emp. x($250-$145)) if all 183 employees were in the Subscriber Only rate category and an additional cost of $51,423/month in CY 2003 (183 emp. x($612-$331)) if all 183 employees were in the Subscriber/Family rate category.

Because you 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 MoDOT is calculating the impact in a range.

Based on 50% retirement with 25% replacement annual contribution cost increases will be $4,025,560 for MoDOT and $1,549,765 for Highway Patrol.

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.

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

ASSUMPTION (continued)

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.

Purchase Three Years of Service Credit

Officials from the **Missouri State Employees' Retirement System** assume the proposal would allow an eligible employee covered by the Missouri State Employees' Retirement System (MOSERS) and the Highway Transportation Employees and Highway Patrol Retirement System (HTEHPRS) who has been continuously employed for at least one year to purchase and receive three additional years of creditable service that may be added to total years of service or age or a combination of both to meet normal retirement eligibility. In order to be eligible to purchase service, an eligible employee or retiree must not have elected the backdrop option and must pay to the system an amount equal to 36 multiplied by the contribution rate in effect on the effective date of the legislation multiplied by the monthly final average compensation at date of termination. Such amounts shall be collected by the system making 24 monthly deductions from the retirement benefits paid during the first 24 months plus simple interest on the unpaid balance unless payment is made in cash or by using an eligible rollover distribution from a retirement plan in accordance with the provisions of the Internal Revenue Code, as amended..

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.

ASSUMPTION (continued)

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.

§104.040 - Under this proposal, the retirement system would subsidize the creditable service purchased by Uniformed Patrol members. The unfunded liability of the retirement system will increase and, at some point, will cause an increase in the MoDOT and patrol contribution rate.

New sections 1 & 2.

A. 50% retirement with 25% replacement annual cost impact

MoDOT		$4,025,560
Civilian Patrol	$ 497,550	
Uniformed Patrol	$1,052,215	$1,549,765
		$5,575,325

B. 25% retirement with 25% replacement annual cost impact

MoDOT		$2,008,335
Civilian Patrol	$248,220	
Uniformed Patrol	$526,260	$ 774,480
		$2,782,815

§104.110 - This proposal makes some changes to the disability statute in the closed plan. After 9/1/03, normal disability benefits will no longer be available. Other changes involve procedures if HRS contracts for disability benefits under the closed plan.

§104.806 - This proposal permits the election by employees who are transferred under executive order 03-05 of transferring from MOSERS to MoDOT/Patrol. If the employee does make such a transfer, MOSERS is to transfer an amount to MoDOT/Patrol to cover the liability at the time of the transfer.

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%.

Additional provisions exist that would allow for the state's payment of annual leave accruals in excess of $2,000 to be paid in two installments on July 1, 2004 and July 1, 2005. As proposed, these payments may be rolled over into an employee's or retiree's 457 deferred compensation plans.

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.

ASSUMPTION (continued)

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 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

ASSUMPTION (continued)

leave, etc.), and in reliability. Studies by Employment Opportunity Commission, offer that the 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.

Deferred Retirement Option Plan - St. Louis City Police 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 **Local Government Employees Retirement System, St. Louis Police Retirement System and Kansas City Police Retirement System** assume no fiscal impact to their agency.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Savings - Office of Administration Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums	$15,348,172 to $30,696,344	$25,189,540 to $50,402,365	$25,189,540 to $50,402,365
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$15,348,172 to $30,696,344**	**$25,189,540 to $50,402,365**	**$25,189,540 to $50,402,365**

FISCAL IMPACT - State Government	FY 2004	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	$8,074,592 to $16,149,184	$13,335,063 to $26,682,121	$13,335,063 to $26,682,121
ESTIMATED NET EFFECT ALL OTHER FUNDS	**$8,074,592 to $16,149,184**	**$13,335,063 to $26,682,121**	**$13,335,063 to $26,682,121**
MOSERS			
Cost - MOSERS Increased Contributions	$0	($184,421)	($184,421)
ESTIMATED NET EFFECT ON MOSERS	**$0**	**($184,421)**	**($184,421)**
PSC FUND			
Savings - PSC Fund	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON PSC FUND	**Unknown**	**Unknown**	**Unknown**

*** *If 50% of those eligible participate* - Does not reflect Unfunded Accrued Actuarial Liability pertaining to MOSERS that would increase $183,670,000. The annual increase to employer contributions would be $32,649,000 beginning in FY05. Unfunded Accrued Actuarial Liability pertaining to HEHPRS would increase $12,810,000. The annual increase to employer contributions would be $340,000. *If 25% of those eligible participate* - Unfunded Accrued Actuarial Liability pertaining to MOSERS would increase $91,835,000. The annual increase to employer contributions would be $16,345,000 Unfunded Accrued Actuarial Liability pertaining to HEHPRS would increase $6,410,000. The annual increase to employer contributions would be $170,000 beginning in FY05.**

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.

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.

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.

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 February 1, 2003, and prior to February 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 rate is effective for a maximum period of five years or upon becoming eligible for Medicare, at which time the rate reverts to the applicable rate for retiree coverage. The retiree may elect to continue coverage for themselves and eligible dependents.

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

DESCRIPTION (continued)

those retiring under the normal age and service requirements and does not apply to elected officials, members of the general assembly and administrative law judges.

These provisions are similar to SB 462 (2003).

SERVICE PURCHASE INCENTIVE - Allows eligible MOSERS/HIGHWAY covered employees to purchase 3 years of creditable service. May be added to either years of service, or age, or any combination of both to meet normal retirement eligibility requirements, if retirement occurs after February 1, 2003 and prior to February 1, 2004.

Employees retiring under the service purchase provision would be prohibited from making an option for the BackDROP.

Employees would be restricted from returning to state employment for 3 years.

OTHER PROVISIONS - Allows uniformed members of the highway patrol to purchase certain prior service.

HEHPRS Board contracts with an outside provider for disability coverage. The denial and appeal process and liability for such are transferred to the outside provider.

Provides that Highway Safety employees transferred to MoDOT by Executive Order 03-05 may select either the MOSERS or HEHPRS retirement system and transfers fund payments.

Allows election of system to receive creditable service for those who would otherwise accrue service both as a member of the General Assembly and as a state employee or state officer. Service remaining as of August 29, 2003 as a member or former member of the general assembly would be credited on a pro-rata basis.

Effective 8/28/03, former members of the General Assembly with 2 terms but less than 3 terms are made special consultants and provided retirement benefits.

ALJ AND LEGAL ADVISOR'S RETIREMENT SYSTEM - This act provides that nothing contained in this act shall alter or revise the administrative law judge's and legal advisor's retirement system.

PROSECUTING ATTORNEYS' & CIRCUIT ATTORNEYS' RETIREMENT SYSTEM - Six dollar surcharge on all criminal cases filed in the courts of this state.

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 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
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
St. Louis Police Retirement System

NOT RESPONDING

City of St. Louis

Mickey Wilson

Mickey Wilson, CPA
Director

VAL:LR:OD (12/02)

May 14, 2003