

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION
FISCAL NOTE

L.R. No.: 3641-09
Bill No.: Truly Agreed To and Finally Passed SS for SCS for HS for HB 1455
Subject: Retirement - State; Retirement Systems and Benefits - General; Transportation
 Dept.; Highway Patrol; Judges; Law Enforcement Officers and Agencies
Type: Corrected #
Date: June 3, 2002
 #Correction of Police Retirement System of St. Louis cost.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government*	(\$270,000)	(\$270,000)	(\$270,000)

***DOES NOT REFLECT UNFUNDED ACCRUED ACTUARIAL LIABILITY OF \$6,820,000 TO THE FIREFIGHTERS RETIREMENT SYSTEM WHICH IS NOT CONSIDERED A LOCAL GOVERNMENT FUND FOR FISCAL NOTE PURPOSES.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** indicates that changes included in the substitute would be a “substantial proposed change” in future plan benefits as defined in Section 105.660(5). This Substitute incorporates several material changes affecting seven separate retirement systems. Actuarial cost statements have been furnished and properly filed pursuant to the provisions of Section 105.670, RSMo for the changes incorporated in the Senate Substitute.

Officials with the **Missouri Employees Retirement System (MOSERS) and the Missouri Highway and Transportation Employees and Highway Patrol Retirement System (HRS)** assume that this proposal would have no fiscal impact on their retirement systems.

Officials with the **Police Retirement System of St. Louis** assume the proposal would have no fiscal impact on their retirement system.

Officials with the **Department of Transportation (MoDOT)** assume the proposal will have no impact on MoDOT. If reimbursement of medical claims paid by the Medical Plan for which there is a third-party liability is required, this legislation would have fiscal impact on the Medical Plan. However, due to the uncertainty of the requirement, the fiscal impact on the Medical Plan is unknown.

Officials with the **St. Louis Firefighters Retirement System (STLFRS)** assume the proposal would cost the city of St. Louis \$270,000 per year in increased contributions.

Officials with **St. Louis City (STL)** assume the proposal pertains to removing the current connection between the cost-of-living increases granted retirees after age 60 and the annual increase in the Consumer Price Index (CPI). Currently these retirees receive cost of living increases each year equal to the lesser of 5% or the annual increase in CPI up to a cap of 25%. The proposed legislation would remove the CPI connection and simply grant 5% increases for each of the first five years at which point the 25% cap would then be reached.

STL notes per letter from the Fire Retirement System actuary dated January 18, 2002, the proposed benefit “may accelerate the actual cost of living increases provided to retired members. However, the implementation of this change will not increase the contribution requirement for the System... because the actuarial valuation assumes the annual CPI increase will be 5% per year in future years.”

ASSUMPTION (continued)

However, STL notes that the current provision allows for increases at the lesser of 5% or the annual increase in CPI. So actual experience currently can either be at or lower than 5% per year. Over time this will result in actual experience below 5% annually. While the actuarial assumption may be 5%, it does not change the actual experience to which the assumption will need to be periodically reconciled. (See below 10 year CPI history) The proposed legislation serves to “lock in” the increases at 5% per year and thus will be increasing the actual experience. This in turn would ultimately have a negative impact on the assumptions and therefore increase the liabilities and required contributions to the system.

Officials with the **County Employees Retirement System** assume the proposal would add additional revenue if new CERF members contribute an additional 4% of compensation to the system.

Oversight assumes no short term fiscal impact will occur

10 Year CPI History
St. Louis

Year	MSA	% Increase
1991	132.1	
1992	134.7	2.0%
1993	137.5	2.1%
1994	141.3	2.8%
1995	145.2	2.8%
1996	149.6	3.0%
1997	152.5	2.2%
1998	154.5	1.0%
1999	157.6	2.0%
2000	163.1	3.5%
2001	167.3	2.6%

Officials with the **Department of Insurance (INS)** assume the proposal has no fiscal impact on their agency.

ASSUMPTION (continued)

Officials with the **Department of Public Safety - Missouri State Highway Patrol (MHP)** assume the proposal has no fiscal impact on their agency.

Officials with the **Department of Insurance** assume the proposal has no fiscal impact on their agency.

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government*</u>	FY 2003	FY 2004	FY 2005
<u>Cost - City of St. Louis</u>			
Increased Contributions to Firefighters Retirement System	(\$270,000)	(\$270,000)	\$270,000
<u>Cost - City of St. Louis Increased</u> <u>Contributions to Police Retirement</u> <u>System #</u>	\$0	\$0	\$0
Total Increased Contributions	<u>(\$270,000)</u>	<u>(\$270,000)</u>	<u>(\$270,000)</u>

***DOES NOT REFLECT UNFUNDED ACCRUED ACTUARIAL LIABILITY OF \$6,820,000 TO THE FIREFIGHTERS RETIREMENT SYSTEM WHICH IS NOT CONSIDERED A LOCAL GOVERNMENT FUND FOR FISCAL NOTE PURPOSES.**

FISCAL IMPACT - Small Business

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

DESCRIPTION

Under current law, a retired employee electing to retire under the deferred retirement option must elect to take the entire amount of eligible service. This proposal allows the retiree to elect to take any portion of the eligible service in 12 month increments.

This bill prohibits cities, towns, villages, and counties from requiring that peace officers reside within the limits of the city, town, village, or county and prohibits discrimination against such non-residents.

The bill further allows political subdivisions to provide incentives to encourage peace officers to locate within the political subdivisions.

Provisions of the bill also allow political subdivisions to establish state residency requirements for peace officers. The bill applies only to the City of St. Louis and all first classification counties except Cole county.

Nothing in the bill applies to the use of department property as determined by the political subdivision.

This proposal removes outdated language regarding the distribution of the cost-of-living adjustment under the St. Louis Firefighters' Retirement Plan.

This act modifies provisions relating to the Missouri State Employees' Retirement System (MSEP), the Highway Employees and Highway Patrol Retirement System (HEHPRS) and the Judicial Plan.

HEHPRS: Employee leave taken by an employee without compensation pursuant to the Family Leave Act may be counted as continuous service. The board is authorized to contract for provision of disability benefits to members.

The act modifies payments and method of calculation to survivors, including surviving spouses and children under the age of twenty-one.

The act clarifies that any payments from the HEHPRS retirement system shall be subject to the

DESCRIPTION (continued)

collection of child support or spousal maintenance. The Highway Commission may contract with others for the provision of health and death benefits.

MSEP and MSEP 2000: Employees who have forfeited credited service may restore the forfeited service upon continuous employment for one year. The act clarifies the allowance of service credit for employees who have taken leave pursuant to the Family Medical Leave Act.

The act revises provisions relating to reemployment of retired members. Benefits would cease upon being hired in a position requiring at least 1000 hours per year. Retirees rehired prior to September 1, 2001, would receive creditable service. Retirees rehired after September 1, 2002, would not be allowed to receive creditable service for such employment or life insurance, except for retiree life insurance then in effect. Benefit restrictions for rehired retirees who are rehired between August 28, 2001, and September 1, 2002, are specified.

Eligible members who terminate employment and retire within 60 days are eligible for \$5,000 life insurance. Beneficiaries are allowed to assign life insurance proceeds. Reporting of sick leave is clarified for reporting to MOSERS. Members are allowed to designate a beneficiary for a final payment of a retirement benefit.

MSEP: Members who terminate employment on or after September 1, 2002, will no longer have the option of cashing out of the system.

MSEP 2000: The act defines responsibilities and obligations for persons employed by the Board to administer disability benefits and establishes appeals procedures. Employees may not receive creditable service in MSEP or MSEP 2000 for period in which the employee participated in a defined contribution plan of a college or university.

The beneficiary of any member who purchased creditable service shall receive a refund upon the members death and the method for calculation of the refund is provided.

JUDGES: Any judge who was a Commissioner or Deputy Commissioner of a Circuit Court prior to August 28, 1999, who has creditable service in MSEP and the judicial plan may consolidate the service under either plan or draw separate retirement benefits from each.

DESCRIPTION (continued)

This bill makes several changes regarding the St. Louis City police retirement systems. The bill:

- (1) Allows a member elected as chairman of the board of trustees to serve without limit;
- (2) Restricts board travel time, with compensation, to 30 days in any board fiscal year;
- (3) Clarifies the amount of service used in calculating survivors' benefits for members with less than two years of service in the deferred retirement option plan (DROP);
- (4) Allows for transportation fringe benefits to be included in the definition of earned compensation;
- (5) Clarifies when interest is to be added to a DROP distribution;

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

The proposal contains an emergency clause.

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
Department of Public Safety
 Missouri State Highway Patrol
Department of Insurance
City of St. Louis
St. Louis Firefighters Retirement System
Missouri State Employees Retirement System
Missouri State Highway Employees and Patrol Retirement System
Department of Transportation
Police Retirement of St. Louis
Missouri Local Government Employees Retirement System



Mickey Wilson, CPA
Acting Director
June 3, 2002