COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3954-02
Bill No.: Perfected HCS for HB 1509 & 1510
Subject: Retirement – State; Retirement Systems and Benefits – Law Enforcement
Type: Original
Date: April 17, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government*	**$0**	**($4,945,000)**	**($4,945,000)**

***DOES NOT REFLECT ACTUARIAL ACCRUED LIABILITY OF $79,203,000 TO THE POLICE RETIREMENT SYSTEM OF KANSAS CITY FUND WHICH IS NOT CONSIDERED A LOCAL GOVERNMENT FUND FOR FISCAL NOTE PURPOSES.**
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 4 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). 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 the 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 not been filed with the Joint Committee on Public Employee Retirement. It would be impossible to accurately determine the fiscal impact of this legislation without the actuarial cost statement prepared in accordance with Section 105.665.

Officials with the **Kansas City Police Retirement System (KCPRS)** assume via their actuary that an approach to providing this benefit in steps over a time is a feasible method to increase benefits to retirees. KCPRS's actuary assumes that 9.00% investment return would be sufficient to provide an increase to beneficiaries while remaining within GASB 27 guidelines that limits unfunded liability periods to be no longer than 30 years. KCPRS actuary also notes that the increased benefit to beneficiaries would increase the accrued liabilities by $80 million and increase the employer contribution rate to 27.6% of payroll (which is currently at 18.85% of payroll). Current yearly contribution expenses unknown.

Per KCPRS's actuary, after a new actuarial valuation was performed, it was determined the COLA would result in actual additional yearly contribution costs of $4,495,000 paid over a 24 year amortization period. The new contribution rate is 27.44%.

Oversight notes that KCPRS's actuary's assumption that a "1% increase in the retiree' benefit adds approximately $3.3 million to liabilities" is not the true increase in unfunded liabilities the system would experience as a result of the passage of this proposal. **Oversight** also notes that the proposal could raise the current contribution expenses for the UAL (unfunded accrued liability) by as much as 68.3%.

ASSUMPTION (continued)

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

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

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government*	FY 2003 (10 Mo.)	FY 2004	FY 2005
Cost - Kansas City Police Retirement System			
Increased Contributions	**$0**	**($4,945,000)**	**($4,945,000)**

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FISCAL IMPACT - Small Business

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

DESCRIPTION

This bill requires the Kansas City Police and Police Employees' Retirement Board to make certain changes. These changes are in compliance with the changes in the Internal Revenue Code due to the passage of the Economic Growth and Tax Relief Act of 2001.

The bill:

(1) Prohibits the board from adopting any policy that would impose an increase in contributions without the city's consent;

(2) Requires that any policy adopted by the board in contravention of any provision in the statutes to remain valid only until the close of the next regular session of the General Assembly, unless the statutes are amended during the session to adopt and incorporate the policy within statute;

DESCRIPTION (continued)

(3) Requires a member's benefits to be 100% vested and nonforfeitable upon the member's attainment of the normal retirement age;

(4) Requires the distribution of benefits to begin no later than April 1 of the year following the calendar year during which the member becomes 70 ½ years of age;

(5) Limits benefits to those set under Section 415 of the Internal Revenue Code;

(6) Limits the total salary taken into account for any purpose for any member to no more than $200,000 per year. This amount will change as permitted by the Internal Revenue Code;

(7) Gives the board authority to change actuarial assumptions at any time;

(8) Allows a member or beneficiary to transfer an eligible rollover distribution to another eligible retirement plan; and

(9) Give the board authority to provide fiduciary liability insurance.

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
Kansas City Police Retirement System

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