

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3973-01
Bill No.: HB 1560
Subject: Retirement – State; Retirement Systems and Benefits – General; State Employees
Type: Original
Date: February 26, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Various MoDOT Funds	\$0 to (\$1,324,395)	\$0 to (\$1,605,553)	\$0 to (\$1,946,696)
Various MSHP Funds	\$0 to (\$290,721)	\$0 to (\$352,439)	\$0 to (\$427,324)
Total Estimated Net Effect on <u>All</u> State Funds	\$0 to (\$1,615,116)	\$0 to (\$1,957,992)	\$0 to (\$2,374,020)

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	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** indicates that this legislation does not represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(5), and, as such, an actuarial cost statement is not required.

Officials with the **Missouri Highway and Transportation Employees and Highway Patrol Retirement System (HRS) and Missouri Consolidated Health Care Plan (HCP)** assume the proposal would have no fiscal impact.

Officials with the **Department of Transportation (MoDOT)** assume the proposal requires contributions by MoDOT to provide insurance benefits at a minimum base contribution equal to the level payable as of January 1, 2002 to all retired members and their dependents. Each retired member and his or her dependent may incur an increase in the portion of the medical benefit contribution beginning on the first day of the calendar year, but any increase in the member or dependent's portion of the medical contribution cannot exceed 50% of the COLA determined in January of the preceding year as determined under the Year 2000 Plan. In addition, the legislation prohibits any decrease in the level of medical benefits for the purpose of cost savings. This legislation would have a fiscal impact on MoDOT and the Highway & Patrol Medical Plan.

Currently the Medical Plan has three different contribution amounts that are contributed to a retiree's medical insurance based on the type of plan they are enrolled in. A one-person plan receives \$125/month, a multi-person plan receives \$254/month and a Medicare retiree receives \$110/month. Based on the proposed legislation MoDOT assumes these are the base amounts that would have to be contributed per month. The out of pocket costs for each of these plans are currently \$91/month for a one-person plan, \$331/month for the multi-person plan and \$88 for a Medicare retiree plan. Based on the proposed legislation, these amounts could only increase 50% of the retiree's COLA. (For example: If the retiree's COLA for the preceding year was 2%, then the retiree's contribution towards their medical insurance can only increase 1%). The legislation does not state whether they are referring to 50% of the dollar amount of the COLA or 50% of the COLA percentage. For purposes of this fiscal note, MoDOT assumes they are referring to a percentage.

In 2002 the Retirement System has 926 MoDOT retirees and 122 MSHP Civilian retirees that will receive a COLA in the amount of 80% of the CPI, which is 2.277%. The Retirement System also has 3,910 MoDOT retirees, 629 MSHP Uniform retirees and 366 MSHP Civilian retirees that will receive a 4% COLA and 247 MoDOT retirees will receive an average COLA of 3.2% $((2.277\% + 4\%)/2)$. For purposes of this legislation MoDOT assumes that the number of retirees receiving these COLA's will remain the same in future years. In reality, the number of retirees

ASSUMPTION (continued)

and COLA amount change annually. To calculate the fiscal impact for this legislation MoDOT calculated a weighted average COLA for each group (MoDOT, MSHP Uniform and MSHP Civilian) to reach the percent allowed to increase a retiree's out-of-pocket premiums per month (See TABLE 1 for calculations). MoDOT then calculated the retiree contributions allowed each year by multiplying their current contributions (CY 2002) by each agency groups allowed percent of increase (See TABLE 4 for calculations).

Secondly, MoDOT needed to know how many retirees by Agency Group (MoDOT, MSHP Uniform & MSHP Civilian) were in the three different Medical Plan Types. To calculate these numbers they found the percent of total retirees in each agency group and then multiplied that percentage by total number of retirees in each plan.

Thirdly, MoDOT needed to project what the total premiums for the three plan types will be for the next three years. To calculate the premiums they assumed annual increases would be the same as the actual increase in the plans from CY 2000 to CY 2001.

Finally, MoDOT was able to calculate the annual state contribution increases by plan type and per person and month. This calculation was figured by taking the new estimated total premium of each plan and subtracting the allowed amount of the retiree's contribution and the current state contribution. To calculate the total CY increase in state contributions by each agency group MoDOT multiplied the number of retirees in each plan by the monthly increase in contributions and then multiplied that amount by 12 months. Based on assumptions and calculations, MoDOT determined that their State Contributions for medical insurance would have to increase by \$1,198,056 the first year, \$1,453,044 the second year and \$1,760,532 the third year. MSHP Uniform State Contributions for medical insurance would have to increase by \$146,592 the first year, \$177,996 the second year and \$215,868 the third year. MSHP Civilian State Contributions for medical insurance would have to increase by \$115,032 the first year, \$139,512 the second year and \$169,032 the third year.

The increases each year, are in addition to the previous year state share contribution amounts. (For example: First year increases are in addition to the current state share contributions, second year increases are in addition to current year plus first year contributions and third year increases are in addition to current year plus first year plus second year increased contribution amounts.)

These are the amounts of the fiscal impact to MoDOT and Patrol where TABLE 8 shows a total increase in state contributions per fiscal year. TABLE 7 of the calculations shows a total increase in state contributions per calendar year for MoDOT and MSHP combined. In addition, there would be an impact to the Medical Plan due to the Medical Plan prohibited from decreasing medical benefits for cost saving reasons. The impact may not be a fiscal impact, but would make it very difficult to manage costs. In addition, the inability to manage costs through changes in

ASSUMPTION (continued)

benefits contributes to the significant increase in costs to both MoDOT and MSHP.

Oversight notes that per conversation with MoDOT officials, contrary to the increased contributions created by this proposal, MoDOT officials do not believe the proposal will result in the maximum amount of additional costs. MoDOT cites shifts in resources and funds, absorbing costs through appropriations, as well as possible costs being passed on to the active participants as the means that may be utilized to compensate for the increased contribution costs.

Oversight separated the estimated maximum fiscal year contributions for MoDOT and the MSHP. According to the tables, 82% of the contribution amounts were for MoDOT participants and the other 18% are for MSHP. Therefore, the maximum cost for MoDOT in FY 2003 is \$1,324,395 and \$290,721 for the MSHP. For FY 2004, \$1,605,553 for MoDOT and \$352,439 for the MSHP. For FY 2005, \$1,946,696 for MoDOT and \$427,24.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<u>Cost – Various MoDOT Funds</u>	\$0 to	\$0 to	\$0 to
Medical Contributions	(\$1,324,395)	(\$1,605,553)	(\$1,946,696)
<u>Cost – Various MSHP Funds</u>			
Medical Contributions	\$0 to (\$290,721)	\$0 to (\$352,439)	\$0 to (\$427,324)
ESTIMATED NET EFFECT TO VARIOUS MoDOT & MSHP FUNDS	<u>\$0 to</u> <u>(\$1,615,116)</u>	<u>\$0 to</u> <u>(\$1,957,992)</u>	<u>\$0 to</u> <u>(\$2,374,020)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal requires the Highways and Transportation Commission to contribute a minimum level contribution for health insurance for members of the Highway and Transportation Employees' and Highway Patrol Retirement System. Each retired member may also incur an increase in the portion of the medical benefit contribution beginning on the first of the calendar year, but the contribution may not exceed 50% of the cost-of-living adjustment determined in January of the preceding year. The proposal also prohibits a decrease in the level of medical benefits provided for the purpose of cost savings.

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 Consolidated Health Care Plan
State Highway Employees and Patrol Retirement System
Department of Transportation



Mickey Wilson, CPA
Acting Director
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