

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4426-01
Bill No.: HB 1818
Subject: Retirement Systems and Benefits – State Employees
Type: Original
Date: March 6, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS*			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$25,672,391)	(\$25,672,391)	(\$25,672,391)
Highway	(\$723,600)	(\$723,600)	(\$723,600)
Total Estimated Net Effect on <u>All</u> State Funds	(\$26,395,991)	(\$26,395,991)	(\$26,395,991)

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.

***Does not reflect an increase in the UAAL of the Missouri State Employees' Retirement System of \$256 million.**

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** 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 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 proposed legislation without the actuarial cost statement prepared in accordance with Section 105.665.

The **Missouri State Employees Retirement System (MOSERS)** assumes the proposal would increase the formula for calculating future cost-of-living adjustments (COLAs) in the Missouri State Employees’ Plan (MSEP) and the Missouri State Employees’ Retirement Plan 2000 (MSEP 2000) from 80% of the increase in the Consumer Price Index (CPI) to 100% of the increase in the CPI up to a maximum of 5%. Based upon the annual payroll for the June 30, 2001, valuation projected forward two years, the increase in total contribution would be \$25.7 million in the first year after the benefit change. The UAAL(Unfunded Actuarial Accrued Liabilities) would also increase by \$256,279,290.

Officials with the **Highway and Transportation Employees’ and Highway Patrol Retirement System (HRS)** assume the proposal will result in additional contributions to their retirement system by MoDOT and the Highway Patrol. HRS has determined the proposal will affect members in both the Closed Plan and the Year 2000 plan. The effects are as follows:

Closed Plan

For active and inactive employees, the benefits of pensioners and their beneficiaries are increased annually by 80% of the increase in the Consumer Price Index (subject to a maximum increase of 5% and a minimum of 4%). The increases are made until the total of the increases reaches 65% at which time the increases will have the minimum removed. Under this proposed legislation for employees hired after 8/27/97 and those hired prior to 8/28/97 and who have reached the 65% cap, the annual percentage increase will be equal to the lesser of: *i*) 100% of the CPI increase, and *ii*) 5%.

ASSUMPTION (continued)

Year 2000

Under this proposed legislation, the annual percentage increase will be equal to the lesser of *i*) 100% of the CPI increase, and *ii*) 5%.

HRS has determined that the proposal would increase annual benefits by a total of \$5,867,300.

MoDOT		\$4,012,000
Patrol		
Non – Uniformed	\$ 544,000	
Uniformed Patrol	\$1,311,300	<u>1,855,300</u>
Total		<u>\$5,867,300</u>

These calculations are based on annual payroll levels of:

MoDOT	\$236 Million
Non-Uniformed Patrol	32 Million
Uniformed Patrol	47 Million

Increased contribution rates (as a percent of active payroll) of:

MoDOT	1.70%
Non-Uniformed Patrol	1.70%
Uniformed Patrol	2.79%

The proposal is estimated to change the employer contribution rate (expressed as a percentage of active member payments) by 0.26% for uniformed personnel and 0.27% for non-uniformed personnel. MoDOT plus Non-Uniformed Patrol payroll = \$268,000,000 x .27% = \$723,600 in increased contributions. Uniformed Patrol payroll = \$47,000,000 x .26% = \$126,900 in increased contributions.

Oversight assumes MOSERS contributions would be made from various state funds, but will show contributions as from the General Revenue Fund. Oversight will show increased contributions to the HRS as from the Highway Fund. Oversight assumes the increased contributions would begin the year after the new benefits go into effect.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
HIGHWAY FUND			
<u>Cost – MoDOT and Highway Patrol Increased Contributions</u>	\$0	<u>(\$723,600)</u>	<u>(\$723,600)</u>
ESTIMATED NET EFFECT ON HIGHWAY FUND	<u>\$0</u>	<u>(\$723,600)</u>	<u>(\$723,600)</u>
GENERAL REVENUE FUND			
Costs – Increased MOSERS contributions	\$0	<u>(\$25,672,391)</u>	<u>(\$25,672,391)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$25,672,391)</u>	<u>(\$25,672,391)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

This bill increases the retirement cost-of-living adjustment (COLA) for retirees covered under the Missouri State Employees' Retirement System and the Highway and Transportation Employees' and Highway Patrol Retirement System from 80% to 100% of the Consumer Price Index, but limited to not more than 5% of the annuity amount payable immediately before the payment of the COLA. The COLA increase is for both the closed and the Year 2000 Plan.

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

Missouri State Employees' Retirement System
Joint Committee on Public Employees Retirement
Highway and Transportation Employees and Highway Patrol Retirement System



Mickey Wilson, CPA
Acting Director
March 6, 2002