

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1495-01  
Bill No.: SB 462  
Subject: Retirement - State; Retirement Systems and Benefits - General; State Employees;  
Insurance - Medical  
Type: Original  
Date: February 25, 2003

FISCAL SUMMARY

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$1,357,853 to \$4,526,175	\$2,084,821 to \$6,949,403	\$2,084,821 to \$6,949,403
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$1,357,853 to \$4,526,175</b>	<b>\$2,084,821 to \$6,949,403</b>	<b>\$2,084,821 to \$6,949,403</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Conservation Commission	(Unknown less than \$100,000)	(Unknown less than \$100,000)	(Unknown less than \$100,000)
Highway Fund	(\$616,367 to \$1,674,298)	(\$468,753 to \$1,333,853)	(\$311,060 to \$963,808)
Other Funds	\$871,683 to \$2,905,611	\$1,364,223 to \$4,547,412	\$1,364,223 to \$4,547,412
<b>Total Estimated Net Effect on Other State Funds*</b>	<b>\$255,316 to \$1,231,313</b>	<b>\$895,470 to \$3,213,559</b>	<b>\$1,053,163 to \$3,583,604</b>

\* Excludes unknown costs under \$100,000 for the Conservation Commission Fund.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from **Linn State Technical College, Central Missouri State University, Truman State University, University of Missouri, Public School Retirement System, Sheriff's Retirement System, Southwest Missouri State University and Missouri Western State College** assume the proposal will have no fiscal impact on their organizations.

Officials from the **State Highway Employees & Patrol Retirement System** assume the incentive plan will not create a significant enough change in the retirement pattern to trigger a contribution impact.

The **Joint Committee on Public Employee Retirement (JCP)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5). The proposed legislation would not create a substantial change in future plan benefits.

Officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** state the Department of Transportation's (DOT) commission is named specifically in this legislation, but the MHP is not (even though the MHP is mentioned specifically in the legislation that established its medical plan). DOT's attorney has interpreted this to mean that only DOT employees could participate in this incentive, not MHP employees. Under this assumption, the MHP assumes the proposal will have no fiscal impact.

ASSUMPTION (continued)

Officials from **Lincoln University (LU)** state there could be a net cost savings of approximately \$1.35 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.

**Oversight** notes the proposal is optional for state supported colleges and universities and therefore, assumes there will be no **direct** fiscal impact.

Officials from **Missouri Southern State College (MSSC)** state the current cost of providing health insurance to retirees of MSSC would be \$3,936 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.

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.

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.

Officials from the **Missouri State Employees' Retirement System (MOS)** state MOS has no way of estimating the number of employees who might retire under this proposal. However, there are 5,078 general employees eligible for normal retirement and 3,710 eligible for early retirement. There are 32 Legislators, 67 Judges, and 6 Administrative Law Judges and Legal Advisors eligible for normal retirement. Therefore, there are a total 5,183 state employees eligible for normal retirement and 3,710 employees eligible for early retirement.

This proposal has no fiscal impact on the MOS.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state that while 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:

- 7,914 state employees would be eligible to retire under the proposal (excluding higher education institutions).
- Estimated savings are based on the varying assumption of use and replacement employees. Replacement is constant at 25% because this is specifically outlined in the proposal.
- 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 state.

If 15% 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 \$1,357,853 and All Other Funds would be \$871,683 for FY 04; savings to GR and All Other Funds would be \$2,084,821 and \$1,364,223, respectively, for FY 05 and FY 06.

If 30% 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 \$2,715,705 and \$1,743,367 respectively for FY 04. Savings to GR and All Other Funds would be \$4,169,642 and \$2,728,447 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 \$4,526,175 and \$2,905,611, respectively, for FY 04. Savings to GR and All Other Funds would be \$6,949,403 and 4,547,412, respectively, for FY 05 and FY 06.

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

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state the following projections assume 50% of the eligible employees take the retirement incentive and 25% of those are replaced.

For FY 04, this proposal could have a fiscal impact on HCP of \$2,418,736. This does not account for any offsetting payroll savings that may be incurred by the state. For FY 05, HCP projects a fiscal impact of \$2,201,328 and for FY 06, the projected impact is \$1,952,352.

ASSUMPTION (continued)

**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 from the **Department of Transportation (DOT)** state information provided by the Highway and Transportation Employees' and Highway Patrol Retirement System states that they assume this legislation will not create a significant enough change in the retirement pattern to force a contribution rate change.

DOT assumes that the Missouri Highway Transportation Commission (MHTC) would elect to provide the same benefits; however, DOT assumes that there will be a negligible change in salary costs.

Based on numbers reported by the Highway Retirement System, there are 550 DOT employees eligible to retire after January 1, 2003 and before November 1, 2003. These are the employees who would be eligible for the additional benefit if they retire within the selected 10-month period. DOT is going to assume all 550 employees would retire during this 10-month period to take advantage of this benefit. Currently MHTC/DOT is paying an active employee's state contribution toward the employee's medical coverage for these 550 employees. The amounts they receive differ between rate categories (i.e. Subscriber Only, Subscriber/Family, etc.). The employees that retire in the selected 10-month period will continue to receive an equal state contribution amount towards their medical coverage that an active employee receives as of the date of their retirement.

This contribution will continue until the retiree is Medicare eligible, turns age 65, or until the contributions for a retiree in the same rate category and who did not retire in the selected 10-month period exceeds the contribution of the retiree who did retire in the selected-10 month period. For purposes of this legislation, DOT is going to assume 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, DOT is assuming each rate category would have a 13% annual increase in total premiums based upon utilization/trend, compounded annually. DOT is also assuming that the percent MHTC/DOT currently contributes towards an active and retired employee will stay consistent over the next 15 years.

The difference between what an active employee receives and what a retired employee receives as the state contribution is the additional cost to MHTC/DOT. Currently MHTC/DOT 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 ASSUMPTION (continued)

between. Also, MHTC/DOT currently contributes \$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 550 eligible employees would retire after January 1, 2003 and before November 1, 2003, MHTC/DOT would have an additional cost of \$57,750 per month in calendar year 2003 ( $550 \times (\$250 - \$145)$ ), if all 550 employees were in the Subscriber Only rate category and an additional cost of \$154,550 per month in calendar year 2003 ( $550 \times (\$612 - \$331)$ ), and if all 550 employees were in the Subscriber/Family rate category.

#### Low End of Range Computations

The benefits section has provided the following calendar year (CY) monthly expenses for the Subscriber Only plan: \$57,750 for CY03; \$45,494 for CY04; \$33,024 for CY05; and, \$19,080 for CY06. These estimates include a 13% inflation rate for medical expense and is netted against the retiree no longer qualifies for this additional benefit.

#### High End of Range Computations

The benefits section has provided the following calendar year (CY) monthly expenses for the Subscriber/Family plan: \$154,550 for CY03; \$125,902 for CY04; \$97,524 for CY05; and, \$63,918 for CY06. These estimates include a 13% inflation rate for medical expense and is netted against the retiree no longer qualifies for this additional benefit.

Because DOT 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, DOT is calculating the impact in a range.

This fiscal note only represents the costs to DOT. It does not include any potential costs to the Highway Patrol.

**Oversight** will present only costs associated with the Highway Fund as the effect on other funds is immaterial.

#### FISCAL IMPACT - State Government

FY 2004  
(8 Mo.)

FY 2005

FY 2006

#### **GENERAL REVENUE**

#### Savings - Office of Administration

HW-C:LR:OD (12/02)

Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums	<u>\$1,357,853 to</u> <u>\$4,526,175</u>	<u>\$2,084,821 to</u> <u>\$6,949,403</u>	<u>\$2,084,821 to</u> <u>\$6,949,403</u>
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<u><b>\$1,357,853 to</b></u> <u><b>\$4,526,175</b></u>	<u><b>\$2,084,821 to</b></u> <u><b>\$6,949,403</b></u>	<u><b>\$2,084,821 to</b></u> <u><b>\$6,949,403</b></u>
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**CONSERVATION COMMISSION  
FUND**

Costs - Missouri Department of  
Conservation

Increase in insurance premium costs	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>
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<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<u><b>(Unknown less than \$100,000)</b></u>	<u><b>(Unknown less than \$100,000)</b></u>	<u><b>(Unknown less than \$100,000)</b></u>
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**HIGHWAY FUND**

Costs - Department of Transportation

Increase in insurance premiums	<u>(\$616,367 to \$1,674,298)</u>	<u>(\$468,753 to \$1,333,853)</u>	<u>(\$311,060 to \$963,808)</u>
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<b>ESTIMATED NET EFFECT ON HIGHWAY FUND</b>	<u><b>(\$616,367 to \$1,674,298)</b></u>	<u><b>(\$468,753 to \$1,333,853)</b></u>	<u><b>(\$311,060 to \$963,808)</b></u>
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<u>FISCAL IMPACT - State Government</u>	FY 2004 (8 Mo.)	FY 2005	FY 2006
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**ALL OTHER FUNDS**

Savings - Office of Administration

Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums	<u>\$871,683 to</u> <u>\$2,905,611</u>	<u>\$1,364,223 to</u> <u>\$4,547,412</u>	<u>\$1,364,223 to</u> <u>\$4,547,412</u>
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**ESTIMATED NET EFFECT ON ALL  
OTHER FUNDS**

<u>\$871,683 to</u> <u>\$2,905,611</u>	<u>\$1,364,223 to</u> <u>\$4,547,412</u>	<u>\$1,364,223 to</u> <u>\$4,547,412</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2004 (12 Mo.)	FY 2005	FY 2006
	<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 provides a medical insurance incentive for state employees to retire. Employees who retire after January 1, 2003, and prior to November 1, 2003, and who are eligible for medical coverage, will be eligible to have portion of the cost of the insurance covered by the state. The retiree may elect to continue coverage for themselves and eligible dependents. The State of Missouri would continue to contribute the same dollar amount in effect for active employees as of the retiree's date of retirement. If the retiree's rate category changes after the date of retirement, the state's contribution shall be the same dollar amount in effect for the new rate category for active employees that was in effect on the retiree's date of retirement. The total amount of the state contribution will revert to the amount being paid by the state for retirees which is in place at that time if the retiree becomes eligible for Medicare, turns 65, or if the amounts that would otherwise be paid by the state under the provisions of the bill are less than the amount currently paid by the state towards the cost of retiree and dependent coverage.

DESCRIPTION (continued)

The proposal also allows Central Missouri State University, Southeast Missouri State University,

Southwest Missouri State University, Northwest Missouri State University, Missouri Western State College, Missouri Southern State College, Harris-Stowe State College, Linn State Technical College, Lincoln University, 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.

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

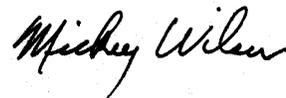
#### SOURCES OF INFORMATION

Office of Administration -  
Division of Budget and Planning  
Central Missouri State University

HW-C:LR:OD (12/02)

Department of Transportation -  
    Division of Resource Management  
    State Highway Employees and Patrol Retirement System  
Department of Public Safety -  
    Missouri Highway Patrol  
Missouri Consolidated Health Care Plan  
Department of Insurance  
Joint Committee on Public Employees Retirement  
Lincoln University  
Linn State Technical College  
Missouri Department of Conservation  
Missouri Western State College  
Missouri State Employees Retirement System  
Missouri Southern State College  
Public School Retirement Systems  
Southwest Missouri State University  
Truman State University  
University of Missouri  
Sheriff's Retirement System

**NOT RESPONDING: Southeast Missouri State University, Harris Stowe State College and Northwest Missouri State University**



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