

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4177-06  
Bill No.: HCS for HB 1583  
Subject: Retirement - State; State Employees  
Type: Original  
Date: April 27, 2010

Bill Summary: Changes the laws regarding the Missouri State Employees' Retirement System.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$9,793,000	\$9,793,000	\$9,793,000
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$9,793,000</b>	<b>\$9,793,000</b>	<b>\$9,793,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other	\$9,793,000	\$9,793,000	\$9,793,000
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$9,793,000</b>	<b>\$9,793,000</b>	<b>\$9,793,000</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **Department of Conservation** assume this proposal would not appear to have fiscal impact on their agency funds as they do not anticipate the Commission will choose to participate in this program.

Officials from the **Office of Administration - Division of Budget and Planning** has reviewed this proposal and defers to MOSERS for specific estimates for statewide cost/savings.

Officials from the **Missouri Highway Patrol** assume the Department of Transportation and the Retirement System will be responding on the behalf of the Highway Patrol.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume this proposal offers a retirement incentive of a medical insurance premium paid at the active employee rate until January 1, 2015 or until the employee becomes eligible for Medicare; whichever occurs first. This incentive excludes coverage or dependents. Departments could only replace FTEs which would spend up to 50% of the retirees' total salaries.

The DOLIR has 141 employees eligible to retire. These employees were sorted by budgeting org and ultimate funding source. All FTEs were multiplied by 50 percent to determine the positions that would be eliminated since salary amounts used in the calculation were the average salary by budgeting org. The average salaries were determined by using the FY 2009 actual Personal Services divided by the Actual FTE from the FY 2011 Budget Request. Department Director, Deputy Director and Division Directors positions and salaries were eliminated from the average salary calculation. The number of FTEs eliminated was multiplied by the average salary by fund source. These amounts were entered as Cost Savings/Avoidance – Salaries and 52.44% of those savings were entered as Fringe Benefit cost savings. Salaries were inflated by 3% each year.

Increased costs for the Retiree Medical Premium Fringe Benefit rate applied to current payroll was set at the same percentages as occurred after the last retirement incentive program – 3.26% First Year, 3.30% Second Year and 3.64% Third Year. These percentages were multiplied by the FY 2011 Personal Services by Fund remaining after the salary cost savings were subtracted.

Officials from the **Department of Transportation** assume their department anticipates no fiscal

ASSUMPTION (continued)

impact from the proposal as the department would at this time choose to not participate in the incentive program.

Officials from the **MoDOT & Patrol Employees' Retirement System** is unable to determine a fiscal impact of this proposal as they do not know whether or not the Missouri Highways and Transportation Commission would opt to participate in the incentive. Their assumption is that they would not since they have not participated in other retirement incentives offered in the past.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note No. 4177-05N (HB 1583) would, if enacted, create the "2010 State Employee Retirement Incentive Program." As proposed, the legislation would allow retirement eligible general employees who have at least ten years of creditable service who retire on or after January 1, 2010 through September 1, 2010, to receive a service incentive benefit equivalent to \$1,000 for each year of creditable service up to a maximum of 20 years. The Office of Administration (OA) would be required to pay a service incentive benefit to the member, or the member's beneficiary, in five equal installments beginning in September 2010, and each September thereafter until all the installments have been paid. Those members eligible for early retirement would not be allowed to participate.

The proposal also limits the number of employees that departments may hire to replace employees to no more than 50% of the personal service funds of those positions vacated. Exceptions to the 50% restriction may be made for positions which are entirely federally funded. Such determination would be made by rule and regulation promulgated by OA.

OA would also be responsible for administering the program and would be required to adopt rules on an emergency basis to implement the legislation. The legislation further requires the Missouri State Employees' Retirement System (MOSERS) to release records to OA that would allow them to administer and monitor the program. OA would be required to present an interim report to the general assembly, including copies to the legislative services agency and the fiscal committee of the legislative council, by December 31, 2010, concerning the operation of the program, and annually thereafter for the next four years. The reports are required to include information concerning the number of program participants, the cost of the program including any payments to participants, the number of state positions not filled under the program, and the number of positions vacated by a program participant that have been refilled.

MOSERS would also be required to make a report in writing to the commissioner of administration by October 31, 2010, regarding the number of state employees eligible to retire under the legislation and the actual number of employees who elected to retire and receive the

ASSUMPTION (continued)

service incentive benefit. The commissioner of administration is further required to furnish a report to the general assembly and the governor regarding the information presented by MOSERS, including a cost/savings analysis as the result of such retirements, the amount of payroll reduced, and the number of positions that are core cut as a result of such retirements. The proposal also prohibits any employee who elects to retire under the incentive from becoming reemployed with any state department.

The legislation further contains provisions that would allow the governing boards of Truman State University, Lincoln University, and the regional colleges and universities, and the commissions that govern the health plans of MoDOT and the Highway Patrol and the Department of Conservation to elect to offer the same service incentive benefit to their eligible employees.

Lastly, to address the current fiscal crisis, the legislation contains an emergency clause.

Eligible Employees

MOSERS has no way of estimating the number of employees who might retire during the window provided by this proposal; however, the table that follows illustrates the number of employees who would be eligible to retire and receive the service incentive benefit.

<b>Number Eligible</b>	<b>Group</b>
<b>5,961</b>	<b>Total Employees potentially eligible for the incentive</b>
<b>(227)</b>	<b>Less Conservation Employees</b>
<b>(1,031)</b>	<b>Less Employees of the Colleges and Universities</b>
<b>4,703</b>	<b>Total General Employees potentially eligible for the incentive</b>

**Oversight** assumes the potential number of employees would be 26% based on the amount of employees using the retirement incentive in TAFP CCS for HS for HCS for SS #2 for SCS for SB's 100, 118, 247, 341 & b 420 (0858-14) 2003.

$$26\% \text{ of } 4,703 = 1,223$$

$$1,223 \times 1,000 \text{ per year} = \$1,223,000 \times 10 \text{ years} = \$12,230,000 / 5 \text{ years} = \$2,446,000$$

There will be five equal yearly installments paid every September until all five equal installments have been paid,

ASSUMPTION (continued)

**Oversight** also assumes there will be a potential savings in a rehire percentage of 50%.

50% of 1,223 = 612

Average Salary \$36,000

612 x \$36,000 = \$22,032,000

**Oversight** also assumes there will be a potential savings in the health care cost paid by the state for those employees electing to retire.

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this proposal will have no fiscal impact to their agency.

<u>FISCAL IMPACT</u> - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
<u>GENERAL REVENUE</u>			
<u>Savings</u> - Office of Administration Net reduction in personnel costs	\$11,016,000	\$11,016,000	\$11,016,000
<u>Cost</u> - Retirement Incentive	<u>(\$1,223,000)</u>	<u>(\$1,223,000)</u>	<u>(\$1,223,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$9,793,000</u></b>	<b><u>\$9,793,000</u></b>	<b><u>\$9,793,000</u></b>
<b>ALL OTHER FUNDS</b>			
<u>Savings</u> - Office of Administration Net reduction in personnel costs	\$11,016,000	\$11,016,000	\$11,016,000
<u>Cost</u> - Retirement Incentive	<u>(\$1,223,000)</u>	<u>(\$1,223,000)</u>	<u>(\$1,223,000)</u>
<b>ESTIMATED NET EFFECT ALL OTHER FUNDS</b>	<b><u>\$9,793,000</u></b>	<b><u>\$9,793,000</u></b>	<b><u>\$9,793,000</u></b>
FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

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

### FISCAL DESCRIPTION

This bill changes the laws regarding the Missouri State Employees' Retirement System (MOSERS) to allow for a medical insurance and retirement incentive for certain state employees who are eligible for state-sponsored medical benefits. In its main provisions, the bill:

Allows departments to rehire for positions that are vacated due to the election to retire; however, the departments will be limited to using no more than 50% of the personal service funds of those positions vacated. This provision will not apply to Truman State University, Lincoln University, or any educational institution listed in Section 174.020; and

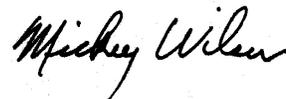
Requires MOSERS and the Missouri Consolidated Health Care Plan (MCHCP) to report in writing by October 31, 2010, to the Commissioner of the Office of Administration on the number of state employees eligible to retire and the premium costs associated with those who retire under these provisions. The commissioner will report this information annually to the Governor and General Assembly by January 31, 2011, through January 31, 2015. The report will include an analysis of the costs and savings resulting from the retirements and the amount of payroll and positions reduced.

The bill 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 Conservation  
Missouri Highway Patrol  
Office of Administration -  
    Division of Budget & Planning  
Department of Transportation  
Missouri Consolidated Health Care Plan  
Division of Labor and Industrial Relations  
MoDOT & Patrol Employees' Retirement System  
Missouri State Employees' Retirement System



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