

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4175-06
BILL NO.: SCS for HB 1808
SUBJECT: Retirement
TYPE: Original
DATE: April 25, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS *			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
City of St. Louis	(\$8,800,000)	(\$10,900,000)	(\$12,600,000)

***DOES NOT REFLECT INCREASE OF \$41,572,795 IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES OF THE KANSAS CITY POLICE AND CIVILIAN EMPLOYEES' RETIREMENT SYSTEMS WHICH ARE NOT CONSIDERED LOCAL FUNDS FOR FISCAL NOTE PURPOSES.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Joint Committee on Public Employee Retirement** have reviewed this proposal and have determined that it represents a “substantial proposed change” in future plan benefits as defined in section 105.660(5), RSMo. Therefore, an actuarial cost statement must be provided prior to final action on this legislation by either legislative body or committee thereof.

Officials of the **Office of Administration** assume fiscal impact would be determined by the various retirement systems affected by the proposal.

Officials of the **Firemen’s Retirement System of St. Louis** obtained an actuarial analysis which indicates that the cost of raising the minimum benefit for retirees and widows to 100% and 75% of the federal poverty level, respectively, would increase the system’s unfunded accrued actuarial liabilities and increase the contributions by the City of St. Louis by \$600,000 annually.

In response to a similar proposal, **St. Louis Police Retirement System** officials assumed the proposal would have no fiscal impact to their system, as none of the provisions represent benefit improvements.

Officials of the **Kansas City Police and Civilian Employees’ Retirement Systems** obtained an actuarial analysis of the proposal which indicated that the provisions that would result in costs to the systems are as follows:

- Increasing pension benefit multiplier to 2.5% of final compensation per year of service for a maximum of 30 years of 75% of final compensation (from present 2% for maximum of 60%). This would apply automatically to all members retiring on or after August 28, 2000 (Police only).
- Allowing cost-of-living adjustments (COLAs) up to 3% annually without regard to the Consumer Price Index (applies to Police and Civilian Employees).
- Permitting surviving spouses (including all current pension-entitled surviving spouses and all pension-entitled surviving spouses of current retirees) to remarry without loss of pension (Police only).
- Increasing the minimum base pension to \$600 without reduction by supplemental payments (Police only).

ASSUMPTION (continued)

The systems' actuary notes that the proposal would result in an increase of \$41,572,795 in the system's unfunded actuarial accrued liabilities (from \$521,600,003 to \$563,175,698) to be amortized over 24 years. The actuary concluded that the proposal would result in a required annual contribution by the City of Kansas City of 19.17% of pay. The City currently contributes 20.6% of pay annually. Therefore, no additional increase in City or member contributions would be necessary to fund this proposal.

Oversight notes that **while there is fiscal impact to the Police and Civilian Employees' Retirement Systems, there is no immediate cost to the City of Kansas City as a result of this proposal.** Funds of the retirement systems are not considered local funds for fiscal note purposes. There will be long-term fiscal impact as a result of this legislation, since an increase in the system's liabilities will contribute to any need for increased future contributions from the City of Kansas City.

Officials of the **Local Government Employees' Retirement System (LAGERS)** assume the proposal would have no fiscal impact to the system or result in increased contributions by employers, except for those employers who voluntarily adopt certain provisions.

In response to a similar proposal, officials of the **County Employees' Retirement Fund (CERF)** assumed the proposal would have no actuarial fiscal impact. They would expect to incur administrative costs to divide benefit payments between members and third parties and additional trustee fees for issuing payments to a third party of approximately \$5,000 to \$7,000 per year during the fiscal note period. **Oversight** assumes these costs would be absorbed by CERF and that counties would not be fiscally impacted.

In response to a similar proposal, **City of St. Louis** officials stated that the proposed legislation does not specify proposed salary increases for Police Officers beyond FY 2001; however, officials stated that the legislation does not specify an ending date. Therefore, officials assume that lacking additional legislation, the higher base pay resulting from the raises given in FY 2001 would continue in FY 2002 and beyond. Officials assume the cost of the proposal would therefore be multi-year.

Officials base their calculations on the City of St. Louis payroll records during FY 2000 as adjusted to assume a full strength force of 1,723 uniformed officers. The proposed legislation allows for an increase in the matrix amounts by a combined total of 8% (5% in matrix plus provision for 3% additional). The resulting increase in the matrix can be compared to the existing matrix to arrive at a cumulative cost for the year. The anniversary dates of hire that impact the matrix step are estimated to be normally distributed. The matrix step increases are

ASSUMPTION (continued)

estimated to cost about 62% of a full year's cost in the year in which they occur. Article XVIII, Section 31 of the City charter requires that uniformed firefighters receive pay in parity with police officers. Cost estimates are summarized below:

	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>
Uniformed Police			
Base Salary Increases	\$5.5 million	\$5.5 million	\$5.5 million
Matrix Step Increases	<u>0.7 million</u>	<u>1.8 million</u>	<u>2.9 million</u>
	\$6.2 million	\$7.3 million	\$8.4 million
Uniformed Firefighters			
Base Salary Increases	\$2.3 million	\$2.3 million	\$2.3 million
Matrix Step Increases	<u>0.3 million</u>	<u>0.7 million</u>	<u>1.3 million</u>
	\$2.6 million	\$3.0 million	\$3.6 million
Total Cost	<u>\$8.8 million</u>	<u>\$10.3 million</u>	<u>\$12.0 million</u>

	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>	\$0	\$0	\$0

	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>FISCAL IMPACT - Local Government**</u>			

CITY OF ST. LOUIS

Costs

Increased contributions to Firemen's Retirement System	\$0	(\$600,000)	(\$600,000)
Increased police and fire department pay*	<u>(\$8,800,000)</u>	<u>(\$10,300,000)</u>	<u>(\$12,000,000)</u>
Total <u>costs</u> - City of St. Louis	<u>(\$8,800,000)</u>	<u>(\$10,900,000)</u>	<u>(\$12,600,000)</u>

***Cost does not include pay increases for civilian personnel of the police department or increases in fringe benefits.**

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****DOES NOT REFLECT INCREASE IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES OF KANSAS CITY POLICE AND CIVILIAN EMPLOYEES' RETIREMENT SYSTEMS, WHICH ARE NOT CONSIDERED LOCAL FUND FOR FISCAL NOTE PURPOSES.**

FISCAL IMPACT - Small Business

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

DESCRIPTION

The proposal would change the minimum benefit for retirees and widows under the Firemen's Retirement System of St. Louis to 100% and 75% of the federal poverty level, respectively.

The proposal would make several revisions to the Local Government Employees' Retirement System (LAGERS). Employers may allow adoption of an existing benefit program for members also covered by Social Security and may add a new benefit program for members not also covered by social security. The proposal also includes several administrative changes.

The proposal would provide that benefits payable under the County Employees' Retirement Fund would not be subject to execution, garnishment, or attachment, except for the collection of child support after a member begins receiving payments.

This proposal extensively revises the provisions of the St. Louis Police Retirement System. Most of the changes are technical, making terminology consistent, updating out-of-date references, and eliminating obsolete provisions.

This proposal makes several changes and clarifications in statutes pertaining to the Kansas City Police and Civilian Employees' Retirement System. Among the changes are: (1) The Board may grant cost of living adjustments of up to three percent per year for both police and civilian retirees; (2) Surviving spouses of police officers will be permitted to remarry without loss of pension benefits; (3) The minimum base pension for police retirees will be \$600 per month; (4) Increased pension benefit multiplier to 2.5% of final compensation per year of service for maximum of 30 years or 75% of final compensation.

This act will establish a new pay schedule for St. Louis Police officers effective July 1, 2000. It also provides that the Board of Police Commissioners may provide additional compensation for commissioned employees not to exceed three percent of the maximum amount provided for in this act. Funding for any additional compensation for sergeant and above shall not be paid from

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DESCRIPTION (continued)

the general funds of either the City or the Board of Police Commissioners. These provisions contain 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
Office of Administration
Firemen's Retirement System of St. Louis
City of St. Louis
Kansas City Police and Civilian Employees' Retirement System
Local Government Employees' Retirement System
County Employees' Retirement Fund
St. Louis Police Retirement System



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April 25, 2000