COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4175-09
BILL NO.: Truly Agreed To And Finally Passed CCS for SS for SCS for HB 1808
SUBJECT: Pension Benefits and Compensation
TYPE: Original
DATE: May 30, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
All State Funds	($1,799,973)	($3,034,445)	($3,034,445)
Highway Fund	($168,912)	($341,916)	($346,104)
Total Estimated Net Effect on All State Funds	**($1,968,885)**	**($3,376,361)**	**($3,380,549)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS *			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
City of St. Louis	**($6,100,000)**	**($13,800,000)**	**($15,800,000)**
School Districts **	**($3,253,750)**	**($3,253,750)**	**($3,253,750)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

***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.**

****DOES NOT REFLECT REDUCTION IN SURPLUS OF PUBLIC SCHOOL RETIREMENT SYSTEM (PSRS) OF APPROXIMATELY $502,602,000. PSRS FUNDS ARE NOT CONSIDERED LOCAL FUNDS FOR FISCAL NOTE PURPOSES.**

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. However, they note that the City of St. Louis would have to adopt the provisions by ordinance before the benefits would become effective.

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:

ASSUMPTION (continued)

- 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).

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.

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 similar legislation, **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 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:

	FY2001	**FY2002**	**FY2003**
Uniformed Police			
Base Salary Increases	$3.6 million	$7.5 million	$7.5 million
Matrix Step Increases	0.7 million	2.0 million	3.5 million
	$4.3 million	$9.5 million	$11.0 million
Uniformed Firefighters			
Base Salary Increases	$1.5 million	$3.0 million	$3.0 million
Matrix Step Increases	0.3 million	0.7 million	1.2 million
	$1.8 million	$3.7 million	$4.2 million
Total Cost	$6.1 million	$13.2 million	$15.2 million

Officials of the **Missouri State Employees' Retirement System (MOSERS)** assume the proposal would allow a retired judge to receive additional cost-of-living adjustments (COLAs) based upon the difference between the judge's current benefit amount and the amount the judge would have received had the retired judge been eligible to accrue COLAs from the earliest date of retirement eligibility. An actuarial analysis indicates the proposal would require an increase in the state's contribution rate for the judicial retirement plan from 55.30% to 55.97% of covered

ASSUMPTION (continued)

payroll. Based on the valuation payroll of $34,162,013 as of June 30, 1999, the increase in the total annual contribution would be approximately $228,885. There are no retroactive payments included in this cost. MOSERS officials also assume that a provision that would allow a judge who is actively serving and has served ten years to receive additional credited service for previous public employment with the state covered by another retirement plan provided certain conditions are satisfied, would result in additional costs to the state in an unknown amount, estimated to be less than $100,000 annually.

In addition, the proposal would modify the basic life insurance provisions for state employees and would allow disabled members to also receive a temporary annuity under the MSEP 2000 (the new retirement plan enacted in the prior legislative session). MOSERS officials estimate the cost to implement the proposed basic life insurance benefit change for 48,606 active employees would be approximately $2.4 million per year. Increasing the present life insurance benefit from $15,000 to one times annual salary, with a $15,000 minimum, would increase the annual premium by $2,392,650. The State's current annual premium equals $2,554,731 (48,606 employees x $15,000 / $1,000 x .292 x 12 months). The new annual premium would be $4,947,381. Using the covered state payroll of $1,388,154,000, divided by $1,000 equals $1,388,154 in coverage in thousands, multiplied by a premium of .297 per $1,000 of coverage, multiplied by 12 months is $4,947,381. Assuming an effective date for this provision of January 1, 2001, costs for FY 2001 would be $1,196,325. The cost of providing for a temporary annuity to disabled members without regard to any prior receipt of federal Social Security Disability Benefits would result in an increase in the state's contribution rate to MOSERS from 11.59% to 11.61%. Based on a valuation payroll of $1,564,551,532, the annual increase in contributions would approximate $312,910.

The total cost to the state of the benefit provisions affecting plans administered by MOSERS would be approximately $3,034,445 annually. Costs for FY01 would approximate $1,799,973, representing six months' costs for the life insurance provisions (effective date January 1, 2001), ten months' costs for the judicial plan provisions (any monthly benefit increases to be effective September 1, 2000), and twelve months' costs for provisions increasing the benefit multiplier and disability benefits (emergency clause applies).

Officials of the **Missouri Consolidated Health Care Plan** assume the proposal would have no fiscal impact to the plan.

<u>ASSUMPTION</u> (continued)

Officials from the **Department of Transportation (MoDOT)** assume there would be a fiscal impact to MoDOT. Currently, MoDOT pays monthly costs of $0.17 per $1,000 of coverage for the $15,000 state paid life insurance. Increasing the coverage to each employee's annual salary would result in total coverage for MoDOT employees of $216,872,767. Total premiums for this coverage would be $36,868 per month ($216,872,767 times $0.17/$1,000). MoDOT's currently monthly premiums are $16,863 ($15,000 in coverage times $0.17/$1,000 times 6,613 employees). Therefore, the annual increase in premium costs would be $240,060 ($36,868 less $16,863 equals $20,005 times 12 months). Assuming an effective date of January 1, 2001, the total fiscal impact to the Highway Fund would be $120,030 for FY 2001 and $240,060 for FY 2002 and FY 2003. Although the proposal allows the Highway Commission to elect whether or not to provide the insurance, MoDOT assumes the Commission would elect to do so.

In response to a proposal containing the life insurance provisions in this legislation, officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** assumed the proposal would increase premium costs. Total insurance coverage after increasing individual coverage to annual salary amounts would be $76,298,704. Currently MHP pays a premium of $0.17 per month per $1,000 in coverage, and they assume the rate would not change. MHP's currently monthly premiums are $5,480 ($15,000 in coverage times $0.17/$1,000 times 2,149 employees). Assuming a 2.5% annual inflation rate in the salary base, monthly premiums would increase by $8,147 in FY 2001 (to $13,627 per month), $8,488 in FY 2002 (to $13,968 per month), and $8,837 in FY 2003 (to $14,317 per month). Assuming an effective date of January 1, 2001, the total fiscal impact to the Patrol would be $48,882 for FY 2001, $101,856 for FY 2002, and $106,044 for FY 2003. For fiscal note purposes, the net impact to the Highway Patrol is reflected in the State Highway Fund since the majority of personal services costs for the Patrol are charged to that fund.

Public School Retirement System (PSRS) officials assume the proposal would provide the following benefit improvements for PSRS:

- Extend the 25-and-out retirement option for an additional three years.
- Change the first cost-of-living adjustment (COLA) effective date to the third January first following retirement for members retiring on or after July 1, 2000.
- Increase the COLA cap from 75% to 80%.
- Provide a 3.5% increase for retirees and beneficiaries of deceased retirees whose retirement date was prior to July 1, 2000.

ASSUMPTION (continued)

- Provide for current survivor benefit amounts to be paid to all beneficiaries receiving survivor benefits.

An actuarial study obtained by PSRS indicates that the total cost of these provisions would be $502,602,000. As of June 30, 1999, PSRS was overfunded by $836,726,000. Therefore, the total cost would represent a decrease in the system's surplus. There would be no additional contributions required of local school districts.

Oversight notes that **while there is significant fiscal impact to the retirement system, there is no immediate cost to local school districts since their contribution rates would not increase.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be long-term fiscal impact as a result of this legislation, since reduction of the system's surplus will contribute to any need for increased contributions in the future.

In addition, officials of PSRS assume the proposal would provide the following benefit improvements for the Nonteacher School Employee Retirement System (NTRS):

- A three-year final average salary period
- Increase the formula factor from 1.45% to 1.51%
- Provide for full retirement if age plus service equals 80
- Extend the 25-and-out provisions for three years
- Increase the formula under the 25-and-out provisions
- Increase the maximum employee contribution rate to 5%
- Across the board increase of 3.4% for retirees and beneficiaries of deceased retirees
- Provide a .4% increase for those retiring on or after July 1, 2000, who are less than minimum age for social security retirement eligibility and who have at least 30 years of credit or retire under the rule of 80. This additional payment would be made until the retiree reaches the minimum age for social security retirement eligibility.

PSRS officials obtained an actuarial analysis of the above provisions. The actuarial analysis indicates that the total cost of the provisions would be $101,467,000. As of June 30, 1999, the NTRS was overfunded by $166,796,000. However, because the normal cost component would exceed the current contribution rate, the contribution rate would be increased from the current 9.0% (4.5% each from local school districts and employee members) to a total of 9.95% (4.975% each from local school districts and employee members).

Based on a covered payroll as of June 30, 1999 of $685 million and the increase in the

<u>ASSUMPTION</u> (continued)

contribution required from local school districts of 0.475%, **Oversight** calculates that annual contributions by school districts would increase by $3,253,750. Because the proposal has an emergency clause, a full year of costs is reflected in FY 2001 as well.

Officials of the **Prosecuting Attorneys' and Circuit Attorneys' Retirement System** note that under current law, a prosecutor receives no benefit unless they serve a minimum of 12 years. Funding levels set by statute were set in recognition that a large number of prosecutors would not serve the required 12 years. The provision which would give reduced benefits for eight years of service would have negative impact on the financial health of the system unless funding levels were increased. Officials assume that an actuarial study could not likely be produced in the short time frame required. **Oversight** assumes that although the proposal may affect the system, it would have no fiscal impact to counties since it does not change the funding for the system which is set by statute.

FISCAL IMPACT - State Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
ALL STATE FUNDS			
Costs-State Agencies			
Increased basic life insurance coverage	($1,196,325)	($2,392,650)	($2,392,650)
Increased contributions to MOSERS	($603,648)	($641,795)	($641,795)
Total costs - State Agencies	**($1,799,973)**	**($3,034,445)**	**($3,034,445)**
HIGHWAY FUND			
Costs-MoDOT			
Increased basic life insurance coverage	($120,030)	($240,060)	($240,060)
Costs-MHP			
Increased basic life insurance coverage	($48,882)	($101,856)	($106,044)
ESTIMATED NET EFFECT ON HIGHWAY FUND	**($168,912)**	**($341,916)**	**($346,104)**

FISCAL IMPACT - Local Government**	FY 2001 (10 Mo.)	FY 2002	FY 2003
SCHOOL DISTRICTS * **	**($3,253,750)**	**($3,253,750)**	**($3,253,750)**
CITY OF ST. LOUIS			
Costs			
Increased contributions to Firemen's Retirement System	$0	($600,000)	($600,000)
Increased police and fire department pay*	($6,100,000)	($13,200,000)	($15,200,000)

FISCAL IMPACT - Local Government**	FY 2001 (10 Mo.)	FY 2002	FY 2003
Total costs - City of St. Louis	**($6,100,000)**	**($13,800,000)**	**($15,800,000)**

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

****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.**

*****DOES NOT REFLECT REDUCTION IN SURPLUS OF PUBLIC SCHOOL RETIREMENT SYSTEM (PSRS) OF APPROXIMATELY $502,602,000. PSRS FUNDS ARE NOT CONSIDERED LOCAL FUNDS 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

DESCRIPTION (continued)

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 legislation 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 the general funds of either the City or the Board of Police Commissioners.

The proposal contains provisions affecting the Missouri State Employees' Retirement System and the Highway and Transportation Employees' and Highway Patrol Retirement System, including increasing life insurance coverage for state employees from $15,000 to one times annual salary (with a $15,000 minimum) and providing for a temporary annuity for disabled members without regard to prior receipt of Social Security Disability Benefits. The proposal would allow a judge who retired prior to August 28, 1995 to receive additional cost-of-living adjustments (COLAs) based upon the difference between the judge's current benefit amount and the amount the judge would have received had the retired judge been eligible to accrue COLAs from the earliest date of retirement eligibility. Spouses or unemancipated children of deceased persons or persons receiving or entitled to receive an annuity or retirement benefit or disability benefit may elect health care coverage under certain conditions.

DESCRIPTION (continued)

The proposal would provide for reduced benefits after eight years of service under the Prosecuting Attorneys' and Circuit Attorneys' Retirement System.

The proposal would make various benefit improvements to the Public School Retirement System, including extending the 25-and-out retirement option for an additional three years, changing the first cost-of-living adjustment (COLA) effective date to the third January first following retirement for members retiring on or after July 1, 2000, increasing the COLA cap from 75% to 80%, providing a 3.5% increase for retirees and beneficiaries of deceased retirees whose retirement date was prior to July 1, 2000, and providing current survivor benefit amounts to be paid to all beneficiaries receiving survivor benefits.

The proposal revises the Nonteacher School Employee Retirement System, including revising the definition of final average salary from 5 years to 3 years, increasing the maximum allowable contribution rate from 4.5% to 5%, implementing the rule of 80 (retirement eligibility when age plus years of service equal 80), increasing the multiplier from 1.45% to 1.51% of final average salary, extending the window for the 25-and-out option from July 1, 2000, to July 1, 2003, and increases the multiplier for each year of service between 25 and 29 years by .06%, ranging from 1.41% at 25 years up to 1.49% at 29 years of service in contrast to the current 1.35% for 25 years and 1.43% for 29 years, providing a one-time benefit to members who retired before July 1, 2000, of 3.4%, and creating a temporary multiplier of .4% for members who retire when they are less than 62 years of age and have 30 years of service or who are eligible under the rule of 80, until the member reaches age 62.

Parts of the proposal have 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
Department of Transportation
Missouri Highway Patrol

SOURCES OF INFORMATION (continued)

Missouri State Employees' Retirement System
Local Government Employees' Retirement System
County Employees' Retirement Fund
St. Louis Police Retirement System
Public School Retirement System
Prosecuting Attorneys' and Circuit Attorneys' Retirement System
Missouri Consolidated Health Care Plan

Jeanne Jarrett, CPA
Director
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