COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1312-01
Bill No.: HB 426
Subject: Retirement–State; Retirement Systems & Benefits–General; Highway Patrol
Type: Original
Date: February 26, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Various State Funds	($1,655,850) to ($3,751,950)	($17,877,269) to ($34,734,884)	($18,324,201) to ($35,603,255)
Total Estimated Net Effect on All State Funds	**($1,655,850) to ($3,751,950)**	**($17,877,269) to ($34,734,884)**	**($18,324,201) to ($35,603,255)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Joint Committee on Public Employee Retirement** indicate that this legislation does not represent a "substantial proposed change" in future plan benefits, as defined by Section 105.660(5). As such, an actuarial cost statement is not required.

The **Office of Administration** notes that the retirement system should determine any possible cost of this proposal.

Officials with the **Missouri State Employees' Retirement System (MOSERS)** obtained an actuarial valuation to determine the cost of the proposed legislation. MOSERS assumes that the proposal would, if enacted, create a deferred retirement option plan (DROP) for general employees of the Missouri State Employees' Retirement System and members of the Highway and Transportation Employees' and Highway Patrol Retirement System. Specifically, the legislation would create a version of a deferred retirement option plan commonly referred to as a "back DROP" option.

MOSERS explains that a "back DROP" is an option given to a member at the actual date of retirement that would provide for a benefit to be computed as if the member had elected to retire at some previous date. Under such a scenario, the member could elect the back DROP option and would receive a distribution of the amount which would have accumulated had the member retired at the beginning of the DROP period. Recurring monthly benefit payments would then begin based upon the benefit the member would have been receiving had retirement actually occurred at the beginning of the DROP period.

MOSERS notes that the proposed legislation contains the following back DROP provisions:

· To be eligible to participate in the back DROP, a member must have been eligible to retire under normal age and/or service conditions for at least two years. A retroactive starting date is established for back DROP purposes which is the later of: 1) the member's normal retirement date or 2) five years prior to the annuity starting date.

· The back DROP period for the accumulation of the back DROP account is from the retroactive starting date to the annuity starting date. This results in a back DROP period of two to five years depending upon the individual situation.

· A theoretical back DROP account is accumulated that includes 90% of the value of the benefit payments that would have been paid during the back DROP period had the member retired at the retroactive starting date with their respective option election. These payments include applicable post-retirement benefit increases.

ASSUMPTION (continued)

· The back DROP account payments are credited with the actuarially determined rate of return for fund assets for the corresponding years that those back DROP payments would have existed in the back DROP account.

· The member is paid the resulting lump sum value of the back DROP account as of the annuity starting date or as three equal annual installments beginning at the annuity starting date.

· The annuity benefit payable from the actual retirement date is computed with years of service and Average Pay as of the retroactive starting date for the back DROP. Post-retirement benefit increases that occurred during the back DROP period are applied in the calculation of the monthly annuity.

MOSERS calculates the low cost estimate based on retirement rates that reflect lengthened careers that may occur due to back DROP utilization. Based upon the annual payroll for the June 30, 2000 valuation, the low cost estimate increase in total contributions would be approximately $16.2 million per annum in the first year after the benefit change. This estimate is based on a projected July 1, 2002 payroll of $1.84 billion, with a 0.88% increase in the contribution as a percent of payroll. The high cost estimate is based on the current rates of retirement as specified in the annual actuarial valuation. Based upon the annual payroll for the June 30, 2000 valuation, the high cost estimate increase in total contributions would be approximately $30.9 million per annum in the first year after the benefit change. This estimate is based on a projected July 1, 2002 payroll of $1.84 billion, with a 1.68% increase in the contribution as a percent of payroll.

Officials with the **Highway and Transportation Employees' and Highway Patrol Retirement System (HRS)** note that is very difficult to predict the impact of a "back DROP", where the key factor is how rates of retirement will be affected. HRS makes the same assumptions regarding the provisions of the proposal, and also provides a high and low cost estimate.

HRS estimates the low cost of the proposal would reflect individuals retiring before age 62 less frequently, and more frequently after age 62. This will increase the required contribution on the $228 million MoDOT payroll by 0.67%; the $40.5 million non-uniformed Patrol payroll by 0.67%; and will reduce contribution as a percentage of the $44.3 million uniformed Patrol payroll by 0.32%. The low estimate of the total cost to the system is $1.66 million per annum.

HRS estimates the high cost of the proposal would reflect current retirement rates. This will increase the required contribution on the $228 million MoDOT payroll by 1.23%; the $40.5 million non-uniformed Patrol payroll by 1.23%; and the $44.3 million uniformed Patrol payroll by 1.02%. The high estimate of the total cost to the system is $3.75 million per annum.

It is probable that the actual cost of the back DROP will fall between the provided estimates.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
Costs–Various State Agencies MOSERS Contributions	$0	($16,180,023) to ($30,889,135)	($16,584,524) to ($31,661,363)
Costs–MoDOT, Highway Patrol HRS Contributions	($1,655,850) to ($3,751,950)	($1,697,246) to ($3,845,749)	($1,739,677) to ($3,941,892)
ESTIMATED NET EFFECT TO STATE GOVERNMENT	**($1,655,850) to ($3,751,950)**	**($17,877,269) to ($34,734,884)**	**($18,324,201) to ($35,603,255)**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	**$0**	**$0**

DESCRIPTION

This bill creates a deferred retirement option that provides an annuity that may be distributed in a single lump sum or in 3 annual payments for members of the Missouri State Employees' Retirement System and the Highway and Transportation Employees' and Highway Patrol Retirement System in both the closed plan and the Year 2000 plan. Elected officials and members of the General Assembly are not eligible. Employees who have reached normal retirement age and continue to work for at least 2 more years may select a retroactive starting date, which would be the later of the date when a normal retirement benefit would have been payable if the member had retired or 5 years before the annuity starting date. The annuity would be the amount that would have been payable had the member actually retired on the retroactive starting date. The lump sum amount would be 90% of the annuity, plus interest based on the system portfolio's rate of return for the previous year, but not less than zero.

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
Missouri State Employees' Retirement System
Highway & Transportation Employees' and Highway Patrol Retirement System

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