COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1468-01
Bill No.: HB 729
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: March 10, 2017

Bill Summary: This proposal modifies provisions related to the retirement of state employees.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
General Revenue	$0	$122,400	$125,400	$314,520
Total Estimated Net Effect on General Revenue	**$0**	**$122,400**	**$125,400**	**$314,520**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Highway Fund	$0	$0	$0	$40,290
Other State Funds	$0	$36,720	$37,620	$95,070
Total Estimated Net Effect on Other State Funds	**$0**	**$36,720**	**$37,620**	**$135,360**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Federal Funds	$0	$44,880	$45,980	$115,120
Total Estimated Net Effect on All Federal Funds	**$0**	**$44,880**	**$45,980**	**$115,120**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Total Estimated Net Effect on FTE	**0**	**0**	**0**	**0**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the proposed legislation contained in SB 729 (1468-01) would, if enacted, reduce the vesting period relative to retirement benefit eligibility for current and future active members of the MSEP 2011 tier (those employees hired for the first time on or after January 1, 2011) from 10 years of service to 5 years of service.

Additionally, this proposal modifies benefits for MSEP 2011 tier members who achieve vested status (at least 5 years of service under this proposal) and leave state employment. These new terminated vested member benefits of the MSEP 2011 tier will be modified as follows:

1) Such member shall receive the first cost-of-living adjustment (COLA) beginning 24 months after the retirement annuity starting date (rather than the current 12 months after retirement annuity starting date),

2) If such member dies prior to his or her retirement date, the surviving spouse will receive a survivor benefit at the date that the member would have reached normal retirement eligibility rather than at the time of the member's death, and

3) Such member will not be allowed to convert unused sick leave accruals into service credit at retirement (currently for every 168 hours of unused sick leave, a member will receive one month of service credit at retirement).

The annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary is outlined below. Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date. In particular:

- The assumed rate of interest was 7.65%
- Payroll was assumed to increase 3% per year
- Unfunded Actuarial Accrued Liability is amortized over 30 years, beginning with the FY ending 2016

ASSUMPTION (continued)

			Group Averages		
Valuation Group	**#**	**Payroll**	**Salary**	**Age**	**Service**
MSEP	14,551	$667,926,207	$45,902	53.6	22.7
MSEP 2000	17,975	$691,166,904	$38,452	46.9	10.3
MSEP 2011 (Impacted Group)	**16,938**	**$562,435,825**	**$33,206**	**37.2**	**2.2**
Total MOSERS	**49,464**	**$1,921,528,936**	**$38,847**	**45.5**	**11.2**

Current MSEP 2011 Plan Provisions Affected	**Proposed MSEP 2011 Plan Provisions Affected**
Normal Retirement Eligibility -Age 67 with 10 years of service -Age 55 with age plus credited service equal to 90 or more	Normal Retirement Eligibility -Age 67 with 5 years of service -Age 55 with age plus credited service equal to 90 or more
Early Retirement Eligibility - Age 62 with 10 years of credited service	Early Retirement Eligibility - Age 62 with 5 years of credited service
Vested Deferred - 10 years of service for general employees -Survivor annuity shall be payable immediately	Vested Deferred - 5 years of service for general employees -Survivor annuity shall not be payable until deceased member would have reached his or her normal retirement eligibility
Cost-of-Living Adjustment (COLA) - Annually beginning twelve months after the annuity starting date	Cost-of-Living Adjustment (COLA) - COLA will not commence until the second anniversary of a vested former member's annuity starting date
Service Credit for Unused Sick Leave - Credited service shall not be used in determining the member's eligibility for retirement or final average pay. Such credited service shall be added tot he credited service in the last position of employment held as a member of the system.	Service Credit for Unused Sick Leave - Will not apply to members unless the member terminates employment after reaching normal retirement eligibility or becomes eligible for an early retirement annuity

ASSUMPTION (continued)

The estimated effect on annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary, is outlined below.

	FY 2018	FY 2019	FY 2020
Estimated **decrease** in annual employer contributions to MOSERS	$0	$204,000	$209,000

*The change in the employer contribution rate is first reflected for FY19, since the FY18 contribution rate has already been certified by the MOSERS Board of Trustees.

Impact on MOSERS (in millions)

Valuation Results	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	$8,109.2	$8,109.2	0%
Actuarial Accrued Liability (AAL)	$12,751.2	$12,751.2	0%
Actuarial Value of Assets (AVA)	$8,878.1	$8,878.1	0%
Unfunded Actuarial Accrued Liability (UAAL)	$3,873.1	$3,873.1	0%
Percent Funded	69.6%	69.6%	0%

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume the proposed legislation contained in HB 729 (1468-01) would, if enacted, reduce the vesting period relative to retirement benefit eligibility for current and future active members of the Tier 2011 (those employees hired for the first time on or after January 1, 2011) from 10 years of service to 5 years of service.

ASSUMPTION (continued)

Additionally, this proposal modifies benefits for Tier 2011 members who achieve vested status (at least five years of service under this proposal) and leave state employment. These new terminated vested member benefits of the 2011 Tier will be modified as follows:

1) Such member shall receive the first cost-of-living adjustment (COLA) beginning 24 months after the retirement annuity starting date (rather than the current 12 months after retirement annuity starting date),

2) If such member dies prior to the retirement date, the surviving spouse will receive a survivor benefit at the date the member would have reached normal retirement eligibility rather than at the time of the member's death, and

3) Such member who terminates prior to retirement eligibility will not be allowed to convert unused sick leave accruals into service credit at retirement (currently for every 168 hours of unused sick leave, a member will receive one month of service credit at retirement).

The proposed changes to the 2011 Tier would pose no fiscal impact to MPERS.

	FY 2018	FY 2019	FY 2020
Estimated **decrease** in annual employer contributions to MPERS	$0	$0	$0

	FY 2021	FY 2022	FY 2028
Estimated **decrease** in annual employer contributions to MPERS	$40,000	$0	$51,000

ASSUMPTION (continued)

Impact on MPERS (in millions)

Valuation Results	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	$1,992.1	$1,992.1	-
Actuarial Accrued Liability (AAL)	$3,761.7	$3,761.7	-
Actuarial Value of Assets (AVA)	$2,086.7	$2,086.7	-
Unfunded Actuarial Accrued Liability (UAAL)	$1,675.1	$1,675.1	-
Percent Funded	55.5%	55.5%	0%

Officials from the **Joint Committee on Public Retirement (JCPER)** assume the above-referenced legislation indicates that such legislation may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10), RSMo. It is impossible to accurately determine the fiscal impact of this proposed legislation without an actuarial cost statement prepared in accordance with section 105.665, RSMo.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the Missouri House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage of the bill. An actuarial cost statement for this legislation has not been filed with the JCPER.

ASSUMPTION (continued)

Current System	
MOSERS (as of 6/30/16)	MPERS (as of 6/30/16)
Market Value: $8,109,161,214	Market Value: $1,992,073,946
Actuarial Value: $8,878,057,191	Actuarial Value: $2,086,654,348
Liabilities: $12,751,162,753	Liabilities: $3,761,733,004
Funded Ratio Market Value: 63.6% Actuarial Value: 69.6%	Funded Ratio Market Value: 53.0% Actuarial Value: 55.5%
Contribution Rate Employer (FY17/18): 19.45% Employee: 4%	Contribution Rate Uniformed: 58% ($51,556,310 est.) Non-uniformed: 58% ($159,564,612 est.) Employee: 4%

Officials from the **Department of Mental Health** assume the proposal will have no fiscal impact on their organization.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will use the MOSERS and MPERS actuarial estimates. Oversight will reflect fiscal impact for the 3 years of the fiscal note, plus FY 2028 (farthest future year provided in the MOSERS & MPERS actuarial analysis); however, the long-term effect of the proposal is on-going.

Oversight assumes the contributions to MOSERS will be 60% General Revenue, 22% Federal and 18% Other State Funds.

MOSERS	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue (60%)	$0	$122,400	$125,400	$308,400
Federal Funds (22%)	$0	$44,880	$45,980	$113,080
Other State Funds (18%)	$0	$36,720	$37,620	$92,520
TOTAL SAVINGS	**$0**	**$204,000**	**$209,000**	**$514,000**

Oversight also assumes the contributions to MPERS will be 79% Highway Fund, 12% General Revenue, 5% Other State Funds and 4% Federal Funds.

MPERS	FY 2018	FY 2019	FY 2020	FY 2028
Highway Fund (79%)	$0	$0	$0	$40,290
General Revenue (12%)	$0	$0	$0	$6,120
Other State Funds (5%)	$0	$0	$0	$2,550
Federal Funds (4%)	$0	$0	$0	$2,040
TOTAL SAVINGS	$0	$0	$0	**$51,000**

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
GENERAL REVENUE FUND				
Savings - MOSERS Decrease in Employer Contributions	$0	$122,400	$125,400	$308,400
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$6,120
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$0**	**$122,400**	**$125,400**	**$314,520**
HIGHWAY FUND				
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$40,290
ESTIMATED NET EFFECT ON THE HIGHWAY FUND	**$0**	**$0**	**$0**	**$40,290**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
OTHER STATE FUNDS				
Savings - MOSERS Decrease in Employer Contributions	$0	$36,720	$37,620	$92,520
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$2,550
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**$0**	**$36,720**	**$37,620**	**$95,070**
FEDERAL FUNDS				
Savings - MOSERS Decrease in Employer Contributions	$0	$44,880	$45,980	$113,080
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$2,040
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$44,880**	**$45,980**	**$115,120**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act changes the vesting requirement for normal retirement eligibility from ten years to five for members of the state retirement benefit plan known as the Year 2000 Plan who first become employees on or after January 1, 2011.

Additionally, the act modifies the benefits of such members who have vested, but are no longer state employees. Members shall receive a cost of living adjustment twenty four months after retirement, rather than at twelve months following retirement. If a vested former member dies prior to his or her retirement date, his or her spouse will receive the member's retirement annuity at the date that the member would have retired had he or she not died, rather than at the time of death. Finally, a vested former member is not allowed to convert unused sick leave into credited service.

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 Retirement
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Department of Mental Health

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Mickey Wilson, CPA
Director
March 10, 2017

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