COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1468-02
Bill No.: Perfected HCS for HB 729
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: April 13, 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 to More than $4,380,000	$125,400 to More than $4,380,000	$314,520 to More than $4,380,000
Total Estimated Net Effect on General Revenue	**$0**	**$122,400 to More than $4,380,000**	**$125,400 to More than $4,380,000**	**$314,520 to More than $4,380,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Highway Fund	$0	$0 or More than $790,000	$0 or More than $790,000	$40,290 to More than $790,000
Other State Funds	$0	$36,720 to More than $1,328,000	$37,620 to More than $1,328,000	$95,070 to More than $1,328,000
Total Estimated Net Effect on Other State Funds	**$0**	**$36,720 to More than $2,118,000**	**$36,720 to More than $2,118,000**	**$135,360 to More than $2,118,000**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 17 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Federal Funds	$0	$44,880 to More than $1,602,000	$45,980 to More than $1,602,000	$115,120 to More than $1,602,000
Total Estimated Net Effect on All Federal Funds	**$0**	**$44,880 to More than $1,602,000**	**$45,980 to More than $1,602,000**	**$115,120 to More than $1,602,000**

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 HCS for HB 729 (1468-02) 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%

In response to a previous version, officials from the **Department of Mental Health** assumed 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**

House Amendment 1

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the provisions contained in HA#1 for HCS for HB 729 would, if enacted, allow the MOSERS (& MPERS) Board to choose to establish a program to allow terminated vested members (currently 19,500) to make a one-time election to receive a lump sum payment equal to a percentage of the present value of the member's deferred annuity. The Board(s) may only offer this program until May 31, 2018.

Additionally, any member who takes advantage of the lump sum payment option shall forfeit all creditable or credit service and future rights to receive retirement annuity benefits and any long-term disability benefits from the system. If such member returns to state employment, such member shall be considered a new employee with no prior credited service and shall be considered a member of the MSEP 2011 tier within MOSERS and/or MPERS.

MOSERS' membership includes approximately 19,500 terminated vested members. The average MOSERS' terminated vested member is:

- Currently age 48,
- Left state employment at age 38,
- Worked approximately 9 years for the State, and
- Will receive an average monthly benefit at retirement of $450 (at approximately age 62).

The estimated effect, of the reduction of 10 year vesting period to 5 years and the associated offsets, on annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary, is outlined below.

The fiscal impact, of the provisions contained in House Amendment #1, is unknown because the MOSERS (& MPERS) Board of Trustees will have the authority to design the program offered to terminated vested members including the percentage of the present value of future benefits that will be offered as a lump sum payment with this program and there is no way to know how many members will elect to take such an option.

However, MOSERS' actuarial professionals completed an actuarial analysis under the scenario of a 50% participation rate of a lump sum distribution equivalent to 65% of the present value of future benefits which is reflected below. It is important to note that this scenario may not ultimately be the design selected by the MOSERS Board of Trustees should they choose to offer such program.

ASSUMPTION (continued)

Impact on MOSERS (in Millions)

Valuation Results As of June 30, 2016	**Present Benefits**	**Proposed Benefits**	**Increase/(Decrease)**
Market Value of Assets (MVA)	$8,109.2	$7,916.6	($192.6)
Actuarial Accrued Liability (AAL)	$12,751.2	$12,454.9	($296.3)
Actuarial Value of Assets (AVA)	$8,878.1	$8,685.5	($192.6)
Unfunded Actuarial Accrued Liability (UAAL)	$3,873.1	$3,769.4	($103.7)
Percent Funded	69.6%	69.7%	0.1%

	FY 2018	FY 2019	FY 2020
Estimated **decrease** in annual employer contributions to MOSERS	$0	$7,100,000	$7,100,000

*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.

For fiscal note purposes, **Oversight** will reflect a range of savings from $0 (no terminated vested employee elects to receive a lump sum distribution and/or the MOSERS Board of Trustees chooses not to implement the changes) to “More than $7,100,000" (more than 50% of terminated vested employees elect to receive a lump sum payment and/or the MOSERS Board of Trustees elects to increase the present value of future benefits).

Officials from the **MoDOT & Patrol Employees’ Retirement System (MPERS)** assume the proposed legislation contained in House Amendment 1 to HCS to HB 729 would, if enacted, allow terminated, vested members of the plan (currently 2,300 employees) who have not yet reached normal retirement age or eligibility to make a one-time election to receive a lump sum payment equal to a percentage of the present value of such member’s deferred annuity, should the plan’s board choose to do so.

MPERS assumes the proposed amendment would have a minimal positive impact to the funded status of the plan (assuming the MPERS board chooses to implement the changes).

ASSUMPTION (continued)

Since the savings to MPERS is unknown, For fiscal note purposes, **Oversight** will reflect a range of savings from $0 (no terminated vested employee elects to receive a lump sum distribution and/or the MPERS Board of Trustees chooses not to implement the changes) to “More than $1,000,000."

Officials from the **Joint Committee on Public Retirement (JCPER)** assume this legislation may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10), RSMo.

The Missouri State Employees' Retirement System has filed a supplemental actuarial valuation with the JCPER, which indicates the legislation, if passed and implemented by the board of trustees, may have a positive fiscal impact on the employer contribution rate. This supplemental actuarial valuation is available on the JCPER website.

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 - MOSERS Decrease in Employer Contributions - HA1	$0	$0 or More than $4,260,000	$0 or More than $4,260,000	$0 or More than $4,260,000
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$6,120
Savings - MPERS Decrease in Employer Contributions - HA1	$0	$0 or More than $120,000	$0 or More than $120,000	$0 or More than $120,000
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$0**	**$122,400 to More than $4,380,000**	**$125,400 to More than $4,380,000**	**$314,520 to More than $4,380,000**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
HIGHWAY FUND				
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$40,290
Savings - MPERS Decrease in Employer Contributions - HA1	$0	$0 or More than $790,000	$0 or More than $790,000	$0 or More than $790,000
ESTIMATED NET EFFECT ON THE HIGHWAY FUND	**$0**	**$0 or More than $790,000**	**$0 or More than $790,000**	**$40,290 to More than $790,000**

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 - MOSERS Decrease in Employer Contributions - HA1	$0	$0 or More than $1,278,000	$0 or More than $1,278,000	$0 or More than $1,278,000
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$2,550
Savings - MPERS Decrease in Employer Contributions - HA1	$0	$0 or More than $50,000	$0 or More than $50,000	$0 or More than $50,000
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**$0**	**$36,720 to More than $1,328,000**	**$37,620 to More than $1,328,000**	**$95,070 to More than $1,328,000**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
FEDERAL FUNDS				
Savings - MOSERS Decrease in Employer Contributions	$0	$44,880	$45,980	$113,080
Savings - MOSERS Decrease in Employer Contributions - HA1	$0	$0 or More than $1,562,000	$0 or More than $1,562,000	$0 or More than $1,562,000
Savings - MPERS Decrease in Employer Contributions	$0	$0	$0	$2,040
Savings - MPERS Decrease in Employer Contributions - HA1	$0	$0 or More than $40,000	$0 or More than $40,000	$0 or More than $40,000
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$44,880 to More than $1,602,000**	**$45,980 to More than $1,602,000**	**$115,120 to More than $1,602,000**

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.

KC:LR:OD

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.

The proposed legislation would also, if enacted, allow terminated, vested members of the plan who have not yet reached normal retirement age or eligibility to make a one-time election to receive a lump sum payment equal to a percentage of the present value of such member's deferred annuity, should the plan's board choose to do so.

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

Mickey Wilson

Mickey Wilson, CPA	Ross Strope
Director	Assistant Director
April 13, 2017	April 13, 2017

KC:LR:OD