

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1026-05  
Bill No.: SS for HCS for HB 334 with SA 1  
Subject: Retirement - State; Retirement Systems and Benefits - General; State Employees  
Type: Original  
Date: May 11, 2005

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>                    |                                       |                                       |                                       |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| FUND AFFECTED  | FY 2006                               | FY 2007                               | FY 2008                               |
| General Revenue  | \$2,088,736 to<br>\$8,374,900         | \$1,614,105 to<br>\$7,900,179         | \$1,064,789 to<br>\$7,350,863         |
|  |                                       |                                       |                                       |
| <b>Total Estimated<br/>Net Effect on<br/>General Revenue<br/>Fund*</b> | <b>\$2,088,736 to<br/>\$8,374,900</b> | <b>\$1,614,105 to<br/>\$7,900,179</b> | <b>\$1,064,789 to<br/>\$7,350,863</b> |

**\*This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$48,568,000.**

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>                       |                                       |                                      |                                     |
|--|---------------------------------------|--------------------------------------|-------------------------------------|
| FUND AFFECTED  | FY 2006                               | FY 2007                              | FY 2008                             |
| Other Funds  | \$1,310,095 to<br>\$5,251,630         | \$1,012,166to<br>\$4,954,001         | \$667,698 to<br>\$4,609,533         |
|  |                                       |                                      |                                     |
| <b>Total Estimated<br/>Net Effect on <u>Other</u><br/>State Funds*</b> | <b>\$1,310,095 to<br/>\$5,251,630</b> | <b>\$1,012,166to<br/>\$4,954,001</b> | <b>\$667,698 to<br/>\$4,609,533</b> |

**\*This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$48,568,000.**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 16 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                  |                  |                  |                  |
|---|------------------|------------------|------------------|
| FUND AFFECTED   | FY 2006          | FY 2007          | FY 2008          |
| Federal Funds   | \$382,979        | \$479,060        | \$499,033        |
| Admin. Fund   | \$10,135         | \$12,755         | \$13,088         |
| <b>Total Estimated Net Effect on <u>All</u> Federal Funds</b> | <b>\$393,114</b> | <b>\$491,815</b> | <b>\$512,121</b> |

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |            |            |            |
|--|------------|------------|------------|
| FUND AFFECTED                              | FY 2006    | FY 2007    | FY 2008    |
| <b>Local Government</b>                    | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

**FISCAL ANALYSIS**

**ASSUMPTION**

The **Joint Committee on Public Retirement** indicates that this legislation does represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of State and 3) the Joint Committee on Public Employee Retirement as public information for at least five (5) legislative days before final passage of the bill.

Officials from the **Missouri State Employees Retirement System** assume the proposal would, if enacted, involve minor modifications to and clarifications of the Missouri State Employees’ Plan (MSEP), the Missouri State Employees’ Plan (MSEP 2000), the Administrative Law Judges and Legal Advisors’ Plan (ALJLAP), the Judicial Plan, and the MoDOT and Patrol Employees’ Retirement System (MPERS).

As proposed, the legislation would allow employees who are otherwise eligible to retire and who

ASSUMPTION (continued)

do retire on or after the effective date of the act but no later than September 1, 2005, to continue medical coverage for the member and eligible dependents at the active employee rate for a maximum of five years or until becoming eligible for Medicare, which occurs first, at which time the rate reverts to the applicable retiree rate in place at that time.

The proposal further limits the number of employees departments may hire to replace those employees who retired during the window to no more than 25% of the positions vacated. Exceptions to the 25% restriction may be made for critical or seasonal positions or any positions impacting federal fund matches. The 25% restriction does not apply to Truman University, Lincoln University or the educational institutions described in Chapter 174, RSMo. Lastly, the proposal prohibits any reemployment with any department for a period of three years.

As it relates to the temporary health care retirement incentive, the boards that govern Truman University, Lincoln University, the colleges and universities, and the commissions that govern MoDOT and the highway patrol and the Department of Conservation may elect to offer the same medical retirement incentive to eligible employees.

MOSERS has no way of estimating the number of employees who might retire under this proposal; however, the table that follows illustrates the number of employees who would be eligible to retire.

| <b>Number Eligible</b> | <b>Group</b>                              |
|------------------------|---|
| 5,203                  | Eligible to retire by 9/1/05              |
| 148                    | Eligible using sick leave for eligibility |
| 5,353                  | Total eligible                            |

In addition, some members may be eligible to combine other types of prior government work with their MOSERS service by purchasing or transferring the other eligible service, which would also make them eligible to retire during this window. We have no way to determine how many members may have additional service that could be purchased or transferred.

As is relates to those employees eligible to participate in the healthcare incentive, 738 employees of the 5,205 eligible for retirement are presently age 65 or older and therefore would not be eligible to receive the health subsidy.

ASSUMPTION (continued)

**And Estimated Change in Payroll\***  
**(\$ in Thousands)**  
**25% Utilization**

|   | <b>Description</b>                          | <b>Present</b> | <b>25% Utiliz.<br/>25% Replc.</b> | <b>25% Utiliz.<br/>25% Replc.</b> |
|---|---|----------------|-----------------------------------|-----------------------------------|
| 1 | Normal Cost                                 | 8.81%          | 8.81%                             | 8.81%                             |
| 2 | Amortization of UAAL                        |                |                                   |                                   |
|   | a) 31 year portion                          | <u>3.78%</u>   | <u>3.87%</u>                      | <u>3.84%</u>                      |
|   | b) 5 year portion                           |                | <u>0.68%</u>                      | <u>0.67%</u>                      |
| 3 | Total Contribution Rate (1 + 2)             | 12.59%         | 13.36%                            | 13.32%                            |
| 4 | Change from Present                         | NA             | <u>0.77%</u>                      | <u>0.731%</u>                     |
| 5 | Expected Total Payroll                      | \$1,737,454    | \$1,698,009                       | \$1,711,158                       |
| 6 | Change from Present                         | NA             | (\$39,445)                        | (\$26,296)                        |
| 7 | Computed Retirement<br>Contribution (3 x 5) | \$218,745      | \$226,769                         | \$227,926                         |
| 8 | Change from Present                         | NA             | <u>\$8,024</u>                    | <u>\$9,181</u>                    |
| 9 | Total Change (6 + 8)                        | NA             | (\$31,421)                        | (\$17,115)                        |
|   | Less Normal Retirement<br>Attrition         | NA             | <u>(\$14,650)</u>                 | <u>(\$9,767)</u>                  |
|   | <u>Net Change/Savings</u>                   | NA             | <u>(\$16,771)</u>                 | <u>(\$7,348)</u>                  |

\*Does not reflect impact on FICA and other payroll taxes or healthcare.

Any potential payroll savings realized as a result of the retirement incentive needs to be offset by payroll reduction that would have been realized from those members who would have retired without any such incentive. On average over the last three years 125 MOSERS covered employees have retired from active service each month. Normal attrition (employees leaving the state workforce) including retirement and turnover is approximately 4,600 employees per year over the last three years.

MOSERS has no way of estimating the number of employees who might retire under this proposal: however, assuming a 25% utilization and 50% replacement scenario, this incentive would result in a net reduction of approximately \$7,348,000 in payroll and retirement

ASSUMPTION (continued)

contributions. (Note: In MOSERS previous fiscal note a 30% utilization factor was applied as an estimate of the number that might retire under the original window period. That utilization factor has been adjusted to 25% to reflect the shorter window period under this proposal)

It should be noted that there are three years remaining on the health care subsidy that must be budgeted and paid to members who retired under the previous retirement incentive.

Officials from the **Office of Administration - Division of Budget and Planning** assume that the Missouri State Employees' Retirement System is commenting on the retirement rate and payroll fiscal impact; and that Missouri Consolidated Health Care is commenting on the healthcare fiscal impact of this legislation. Budget and Planning's analysis only includes state fringe benefit issues not addressed by either of these groups. Additional retirements will produce savings to state fringe benefit costs appropriated in HB 5. In determining cost savings for the state for the social security tax, workers compensation, unemployment insurance, and deferred compensation, we adopted MOSERS assumptions. MOSERS claims 5,353 employees are eligible to retire under the retirement incentive plan outlined in this legislation.

According to

MOSERS analysis, this resulted in a estimated payroll savings from this legislation of \$16,529,000 under the assumption that 25% of eligibles would retire, of which 50% would be replaced. When computing other fringes, eligible retirees of colleges and universities (1,109 eligibles) must be extracted from this total because their fringe costs are not included in the state budget. This results in a net of 4,244 eligibles who have other fringe costs included in the state budget. The estimated cost savings to the state for the various other fringes given the two scenarios MOSERS incorporated in their analysis are as follows:

|   | <b>25/25</b> | <b>25/50</b> |
|---|--------------|--------------|
| Cost savings of Social Security Tax, Workers Compensation & Unemployment Tax, and Deferred Compensation using MOSERS assumptions: | \$2,414,452  | \$1,609,543  |

25/25- 25% Utilization; 25% Replacement

25/50 - 25% Utilization; 50% Replacement

Officials from the **Office of Administration - Division of Accounting** assume no impact to their division and are relying on MCHCP and MOSERS for an estimate of the state fiscal impact.

ASSUMPTION (continued)

In response to a previous proposal officials from the **Office of Administration - Division of Personnel** assume the proposal would result in each agency only being allowed to back fill 25% of the positions from which employees retired (with exceptions identified by rule promulgated by the Office of Administration). This legislation would ostensibly result in the retirement of the more senior, higher paid workers within an agency, whereas layoffs typically affect the least senior, lower paid employees by job class and division of service involved. The net result is that more expertise and institutional knowledge could be lost, but perhaps more positions could be retained than if layoffs are necessary to achieve the same amount of savings. Under the retirement proposed legislation only 25% of the positions can be refilled (subject to exceptions). In a layoff situation, none of the positions are refilled.

It is difficult to estimate a fiscal impact of the proposal as the number of employees who would be eligible to retire under the proposed legislation are not known. The Office of Administration Division of Personnel would have to defer to MOSERS for the eligible employee impact and to MCHCP for the potential health care impact.

Under the 2003 incentive, 1,595 employees retired, representing 42% of the 3,821 eligible. Of the 1,430 retiree positions being reported to OA, the 2003 retirement incentive legislation resulted in 563 positions being cut from core budgets. Overall the 2003 incentive resulted in net savings to the state of \$19.1 million, of which \$11.05 million was General Revenue.

Officials from the **Department of Labor and Industrial Relations (DOL)** obtained a listing of employees who would be eligible for retirement under the provisions of the bill.

Salary savings were calculated by multiplying the number of eligible retirees by fund source by 75% (if the fund source is nonfederal) to determine the number of positions which will have to be left vacant. The number of vacant positions were multiplied by the average salary for the fund source, described in the previous paragraph, to obtain the salary savings.

The increased medical premium costs (shown as Other Costs (Medical Prem Costs)) were calculated by subtracting \$20 (current active employee cost - employee only, lowest cost plan) from the current medical premium of \$568 which equals \$548 for employees eligible for 80 and out and then subtracting the current cost which would be the premium of \$568 multiplied by 2.5%, not to exceed 65%.

The cost savings reported is likely overstated as the fringe benefit rate built into the schedules of 42.66%, includes percentage amounts for the medical premium and deferred comp match which

ASSUMPTION (continued)

would not be paid on the annual leave payout.

**Oversight** assumes, based on the Office of Administration - Division of Budget and Planning's (BAP) response, that DOL costs and savings have been included in BAP's calculations. However, the costs and savings for federal funds provided by DOL will be included in the calculations.

In response to a previous proposal officials from the **Highway Employees and Patrol Retirement System** assume the proposal provides a retirement incentive plan for state employees. The key elements of the proposal are:

1. The retirement incentive "window" would be for retirements effective June 1 thru September 1, 2005.
2. For individuals retiring during the window under normal eligibility, their medical premium (for the member and eligible dependents) would be at the active employee rate for a maximum of 3 years or until becoming eligible for Medicare, whichever occurs first. Note: The proposal gives discretion to the Highway commission as to whether or not to offer the medical incentive to MoDOT and Patrol employees.
3. Individuals retiring under the window will be prohibited from being re-employed by any state agency for a period of 3 years.
4. The proposal would not impact the BackDROP.
5. MoDOT and Patrol may not fill more than 25% of the positions vacated. Exceptions may be made for critical or seasonal positions or for positions entirely federally funded. Determinations for exceptions will be made by rules published by the Office of Administrations.
6. Our retirement eligibility data shows:

|                | Projected to Be<br>Eligible for Ret. |
|----------------|--------------------------------------|
|                | <u>As of 9-1-05</u>                  |
| MoDOT          | 503                                  |
| Civilian Pat.  | 108                                  |
| Uniformed Pat. | 88                                   |
| Ret. System    | <u>2</u>                             |
| Totals         | 701                                  |

ASSUMPTION (continued)

NOTE: These figures do not reflect any additional costs that may be required from MoDOT and Patrol for the medical plan. Also, these figures do not reflect any salary payroll savings that may be realized from an incentive program.

Officials from the **Department of Conservation (MDC)** state this proposal, provided it was approved by the Commission, would have a fiscal impact on MDC funds. The amount would not exceed \$100,000 annually.

**Oversight** assumes, based on the Office of Administration - Division of Budget and Planning's (BAP) response, that MDC costs and savings have been included in BAP's calculations.

Officials from the **Department of Transportation (MoDOT)** assume that MHTC/MoDOT would elect to provide the same benefits, except MHTC/MoDOT would replace 100% of those positions vacated due to employees retiring during this selected time period. MoDOT would not be able to comply with the 25% rehire provision of this proposal and still provide the vital transportation services for the citizens of Missouri.

Based on the numbers reported by the MoDOT and Patrol Employees Retirement System, there are 472 MoDOT and 187 Highway Patrol (MSHP) employees eligible to retire as of July 1, 2005. MoDOT is going to assume all 472 MoDOT and 187 MSHP employees would retire during this selected time period. Currently, the amounts employees and retirees receive differ between rate categories (i.e. Subscriber Only, Subscriber/Family, etc.). The number of retirees in each rate category was based on the current overall participation ratios.

This contribution will continue for 5 years or until the retiree is Medicare eligible, whichever occurs first. In addition, MoDOT is assuming the rate category would have a 11% annual increase in total premiums based upon utilization/trend and compounded annually. MoDOT is also assuming that contributions for active employees and retirees in the future would be based on the same percentages as state contributions were calculated in 2005. This is based on recommendation from Watson Wyatt Worldwide, MoDOT's current actuarial consultants.

The number of retirees in each rate category was based on the current overall participation ratios. Calculations were equal to (Number of Eligible Retirees x Percent of participation for the rate category) x (Employers Contribution for SB 466 Retirees - Retiree Employer contribution based on current contribution Percentages).



ASSUMPTION (continued)

Based on the above assumptions MoDOT would have an additional cost of \$1,233,480 for FY06 and MSHP would have an additional cost of \$492,774. The cost increases each fiscal year based on an 11% annual increase. Although the number of retirees eligible for this additional incentive decreases each year, the overall premiums increase due to utilization/trends.

Costs for FY2006, FY2007 and FY2008 are listed below. Due to the emergency clause within the bill that makes it effective upon Governor signing, some costs related to the legislation may be incurred in FY2005.

FY06: MoDOT \$1,233,480, MHSP \$492,774  
FY07: MoDOT \$1,317,588; MHSP \$536,466  
FY08: MoDOT \$1,376,718, MSHP \$583,062

There could also be an increase in the retirement contribution rate due to the large number of employees participating in this medical benefit incentive program. The fiscal impact is unknown at this time.

If the current provisions remain intact, MoDOT would likely have to opt-out of the early retirement incentive program due to the rehire provision. If this occurs, the fiscal impact of the legislation would be zero. The Missouri Highways and Transportation Commission would ultimately make the decision on this issue.

Officials from the **Missouri Highway Patrol** will defer to the Department of Transportation to respond on their behalf.

Officials with the **Department of Health and Senior Services (DHSS)** state they cannot estimate the effect this proposal will have on DHSS, as it is not possible to estimate the number of eligible employees who will opt to retire under this incentive plan. Furthermore, because it is not possible to estimate the number of employees who will take the incentive, it is also not possible to estimate the amount of annual leave payout DHSS will have to make to those retirees.

The proposal restricts agencies to filling only twenty-five percent of the positions vacated as a result of the retirement incentive unless they are federally funded. There will be an impact on DHSS; however, since it is not possible to estimate the number of people who will take advantage of this incentive, the impact on DHSS is unknown.

The retirees who take advantage of this incentive will be allowed to continue their health insurance coverage at the active employee rate. Though the direct cost of the health insurance

ASSUMPTION (continued)

coverage will not be paid by DHSS, it will be paid from the various funds used by DHSS.

**Oversight** notes in a previous proposal in 2003 (Truly Agreed to and Finally Passed CCS for HS for HCS for SS 32 for SCS for SB's 248, 100, 118, 233, 247, 341 and 420 (FN 0858-14)) officials with the DHSS assumed the proposal would not be expected to significantly impact the operations of DHSS. If the proposal were to substantially impact any DHSS programs, then the Department would request funding through the legislative process.

Officials from the **Department of Economic Development - Public Service Commission (PSC)** has thirty-seven (37) employees of which it is aware that will be eligible for retirement under normal or early retirement provisions between the time period of June 1, 2005 through September 1, 2005. Should all of the eligible employees decide to retire within the specified time frame, the agency would be impacted greatly for a number of reasons.

A) First, the agency is small with only 220 FTE. The number of eligible retirees represents approximately eighteen percent (17%) of the agency's workforce. Should the agency experience any core cuts to its authorized FTE, the ratio of eligible retirees to total FTE will increase. B) Second, the tenured employees who are eligible to retire possess a high degree of expertise, many of them specializing in selected areas of utility regulation. C) Third, retirees under proposed legislation are unable to work on a part-time basis, which would affect the Public Service Commission's ability to use retirees as resources.

Officials from the **Department of Economic Development (DED)** assume any positive or negative fiscal or administrative impact would be unknown at this time. DED has 178 employees that are eligible to retire between the dates of 6-1-05 and 9-1-05. Of those 89 are in federally funded positions and 89 are in non-federally funded positions. All federal positions could be refilled and 22 positions of the non-federal positions could be refilled. This would result in a maximum reduction of 67 positions. DED is unable to determine exactly who would take advantage of this bill if passed. The DED defers to the Missouri Consolidated Health Care Plan (MCHCP) on estimates on the impact to health insurance.

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this proposal would allow certain eligible employees to retire under temporary medical and retirement incentives. The proposal would allow employees who are eligible to retire and who do retire on or after the effective date by no later than September 1, 2005, to continue medical coverage for the member and eligible dependents at the active employee rate for a maximum of three years or until becoming eligible for Medicare, whichever occurs first, at which time the rate reverts to the applicable retiree rate in place at that time. Those retiring under this provision could maintain

ASSUMPTION (continued)

their medical coverage at the active rate for 3 years or until eligible for Medicare. The proposal also limits, in most cases, the number of employees department may hire to replace those who retired to no more than 25% of the vacant positions, unless they are identified as critical positions.

Since it is not known exactly who will take advantage of this proposal, the fiscal impact is very difficult to estimate. Therefore, MCHCP's costs are based upon the assumptions noted below:

4,142 eligible to retire by 9/1/2005;

Assuming 30% of all eligible employees take this option and 50% of those are replaced (based upon the results of last year's retirement incentive bill), this proposal could result in a cost of \$4,366,440 for FY 06, \$4,971,024 for FY 07 and \$5,672,640 for FY 08. This does not account for any offsetting payroll savings that may be incurred by the state.

**Oversight** assumes these costs will only occur during the five year period indicated on the proposal.

| <u>FISCAL IMPACT - State Government</u>  | FY 2006<br>(10 Mo.)                                 | FY 2007   | FY 2008   |
|--|---|---|---|
| <b>GENERAL REVENUE**</b>   |   |   |   |
| <u>Savings - Office of Administration</u>  |   |   |   |
| Net reduction in personal service costs, fringe benefits, expense and equipment            | \$4,516,080 to<br>\$10,307,457                      | \$4,516,080 to<br>\$10,307,457                      | \$4,516,080 to<br>\$10,307,457                      |
| <u>Savings - Office of Administration</u>  |   |   |   |
| Net reduction in Social Security Tax, Workers' Comp. & Unemployment Tax, and Deferred Comp | \$989,225 to<br>\$1,483,922                         | \$989,225 to<br>\$1,483,922                         | \$989,225 to<br>\$1,483,922                         |
| <u>Cost - Missouri Consolidated Health Care Plan</u>                                       |   |   |   |
| Net cost in retiree health insurance   | ( <u>\$3,416,569</u> )                              | ( <u>\$3,891,200</u> )                              | ( <u>\$4,440,516</u> )                              |
| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>  | <b><u>\$2,088,736 to</u><br/><u>\$8,374,900</u></b> | <b><u>\$1,614,105 to</u><br/><u>\$7,900,179</u></b> | <b><u>\$1,064,789 to</u><br/><u>\$7,350,863</u></b> |
| <b>OTHER STATE FUNDS**</b>   |   |   |   |
| <u>Savings - Office of Administration</u>  |   |   |   |
| Net reduction in person service costs, fringe benefits, expense and equipment              | \$2,831,920 to<br>\$6,463,543                       | \$2,831,920 to<br>\$6,463,543                       | \$2,831,920 to<br>\$6,463,543                       |
| <u>Savings - Office of Administration</u>  |   |   |   |
| Net reduction in Social Security Tax, Workers' Comp. & Unemployment Tax, and Deferred Comp | \$620,318 to<br>\$930,530                           | \$620,318 to<br>\$930,530                           | \$620,318 to<br>\$930,530                           |
| <u>Cost - Missouri Consolidated Health Care Plan</u>                                       |   |   |   |
| Net cost in retiree health insurance   | ( <u>\$2,142,443</u> )                              | ( <u>\$2,440,072</u> )                              | ( <u>\$2,784,540</u> )                              |
| <b>ESTIMATED NET EFFECT ON ALL OTHER FUNDS</b>   | <b><u>\$1,310,095 to</u><br/><u>\$5,251,630</u></b> | <b><u>\$1,012,166 to</u><br/><u>\$4,954,001</u></b> | <b><u>\$667,698 to</u><br/><u>\$4,609,533</u></b>   |

**\*This proposal will increase the Missouri State Employees Retirement System Unfunded Actuarial Accrued Liability (UAAL) by \$48,568,000.**

**\*The percentage of General Revenue and Other State Funds is based on what was budgeted in 2005**

| <u>FISCAL IMPACT - Federal Government</u>        | FY 2006<br>(10 Mo.)     | FY 2007                 | FY 2008                 |
|--|-------------------------|-------------------------|-------------------------|
| Federal Funds                                    | \$382,979               | \$479,060               | \$499,033               |
| Admin. Fund                                      | <u>\$10,135</u>         | <u>\$12,755</u>         | <u>\$13,088</u>         |
| <b>ESTIMATED NET EFFECT ON<br/>FEDERAL FUNDS</b> | <b><u>\$393,114</u></b> | <b><u>\$491,815</u></b> | <b><u>\$512,121</u></b> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2006<br>(10 Mo.) | FY 2007 | FY 2008 |
|---|---------------------|---------|---------|
|   | \$0                 | \$0     | \$0     |

FISCAL IMPACT - Small Business

Yes. Employees who retire from state government have a source of income. If employees who are laid off don't find another job in the area, they receive income only from unemployment insurance for a limited period of time and may need to leave the area to secure employment. This could have an economic impact on small business in areas of the state where there are significant concentrations of state employees.

DESCRIPTION

This bill changes the laws regarding the Missouri State Employees' Retirement System (MOSERS). The bill:

(1) Adds language allowing retirement boards to promulgate rules to accommodate changes in the state's payroll system as it relates to the final average compensation for retirement benefit calculation (Sections 104.010.7 and 104.1003(16), RSMo);

(2) Changes the required hours for an employee to be eligible for benefits from 1,000 hours to 1,040 hours (Section 104.010.1(20));

DESCRIPTION (continued)

- (3) Revises the definition of "member" as an employee, retiree, or vested former employee (Section 104.010.1(27));
- (4) Removes cash-out provisions for active employees (Section 104.335);
- (5) Removes language that allows members to purchase contract service (Section 104.344);
- (6) Revises the section allowing a survivor of a deceased member to receive or transfer creditable prior service for determining survivor benefits (Sections 104.378 and 104.1021(13));
- (7) Clarifies that members on long-term disability are to be treated like active employees as it relates to insurance and retirement benefits (Sections 104.410 and 104.1042);
- (8) Requires errors made on a member's or beneficiary's retirement or survivor's benefit calculation be corrected within a 10-year period (Section 104.490);
- (9) Adds language that all retirees of the plans administered by MOSERS, including administrative law judges and legal advisors and judges, who become reemployed into a benefit eligible position would terminate their retirement benefits while so employed. Upon re-retirement, an additional annuity would be calculated based on the position held while reemployed. The retirement system that paid the original annuity will be responsible for paying the additional annuity (Section 104.603);
- (10) Requires that members purchasing creditable service must apply and complete the purchase prior to applying for retirement benefits (Section 104.606);
- (11) Creates an excess benefit plan allowing MOSERS to pay benefits presently subject to Internal Revenue Code 415 limitations (Section 104.607);
- (12) Extends the final beneficiary payment provisions to judges and members of the Administrative Law Judges and Legal Advisors' Retirement Plan (ALJLAP) (Section 104.620);
- (13) Clarifies language regarding the transfer of service between MOSERS and the Highways and Transportation Employees' and Highway Patrol Retirement System (HTEHPRS) (Section 104.800);
- (14) Adds safe harbor provisions for the MOSERS board as it relates to education and advice given to members for retirement planning (Sections 104.1012 and 104.1205.2);

DESCRIPTION (continued)

VL:LR:OD (12/02)

(15) Changes the vesting requirement for service purchase transfers for legislators from two to three full biennial assemblies (Section 104.1021(11)); and

(16) Clarifies that MOSERS can make beneficiary payments to the natural parent or the legal guardian of a minor child until age 18; thereafter, the benefit may be paid to the child until age 21 (Section 104.1030).

This act provides temporary retirement incentives and medical incentives for employees currently eligible to retire under the Missouri State Employees' Retirement System (MOSERS).

This act provides that employees currently eligible to retire will receive medical coverage at the active employee rate. The active employee rate will then revert to the regular retiree rate after three years or Medicare eligibility, whichever occurs first.

This act also provides a temporary retirement incentive on or after June 1, 2005 through September 1, 2005, for employees whose age and service total eighty years. Unused sick leave will be credited towards eligibility. Currently, the employee's age and service must total eighty years. In addition, the act allows for a seventy percent health care subsidy to be provided to the retiree for three years or until Medicare eligibility. Also, the retiree will be prohibited from any employment with any department for a period of three years from the date of election.

All of the vacated positions are held to a twenty-five percent re-hire limitation, with exceptions for critical, seasonal or federally funded positions. The exceptions are defined by rules promulgated from the Office of Administration.

This act has an emergency clause.

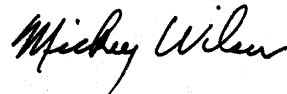
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement  
Missouri State Employees Retirement System

L.R. No. 1026-05  
Bill No. SS for HCS for HB 334 with SA 1  
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Department of Labor and Industrial Relations  
Highway Employees and Patrol Retirement System  
Missouri Highway Patrol  
Office of Administration  
    Division of Budget and Planning  
Missouri Department of Conservation  
Department of Health and Senior Services  
Department of Economic Development  
Missouri Consolidated Health Care Plan  
Southwest Missouri State University



Mickey Wilson, CPA  
Director  
May 11, 2005