HCS HB 1305 -- PUBLIC EMPLOYEE RETIREMENT SYSTEMS

SPONSOR: Smith (118)

COMMITTEE ACTION: Voted "do pass" by the Committee on Retirement by a vote of 10 to zero.

This substitute changes the laws regarding several public employee retirement systems.

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (LAGERS)

Currently, a political subdivision cannot create a pension plan similar to LAGERS for its employees who are not police officers or firefighters unless it has an assessed valuation of $100 million or more. The substitute specifies that a political subdivision cannot create a pension plan similar to LAGERS for any employees unless it has an assessed valuation of $500 million or more.

After January 1, 2007, volunteer fire protection associations and fire protection districts must establish new pension plans under the provisions of Chapter 70, RSMo, unless the new plan is the result of consolidating the plans of two or more fire protection districts existing prior to January 1, 2006.

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM (MPERS)

If the actuary for MPERS determines that the funded ratio of the system is below 50% for three consecutive years, the plan will close to new members effective January 1 of the following year.

GENERAL PROVISIONS

The substitute:

(1) Defines "defined benefit plan," "defined contribution plan," "funded ratio," and "lump sum benefit plan";

(2) Changes the contribution period, from 40 to 30 years, for which plans may not exceed unfunded accrued liabilities;

(3) Requires retirement systems to establish mandatory board member education programs regarding responsibilities, ethics, governance, plan design, administration of benefits, investments, legal liability, and actuarial principles. Board members will be required to attend at least two continuing education programs each year;

(4) Prohibits appointing authorities, board members, or employees from receiving a gain or profit from funds or transactions of the plan except benefits which are common to all members of the plan. If political contributions or compensation are accepted to influence the investment of system funds, the person will forfeit his or her office and be subject to penalties prescribed for bribery;

(5) Specifies that any trustee, employee, or plan participant convicted of a plan-related felony directly connected with his or her duties will be ineligible for retirement benefits;

(6) Prohibits, after August 28, 2006, plans with a fund ratio of less than 80% from providing additional benefits. Plans with a fund ratio greater than 80% can adopt benefit enhancements if the ratio does not decrease more than 10% or below 75%. The unfunded actuarial accrued liabilities associated with these benefit changes will be amortized over a period not to exceed 15 years; and

(7) Requires plans with a ratio of less than 60% to have an actuary prepare an accelerated contribution schedule based on a descending amortization period. If a plan's actuary determines that the ratio is below 50% for three consecutive years or the ratio is below 60% and the plan is not meeting 100% of the actuarially required contribution payment, the plan will be closed to new members effective January 1 of the following year.

FISCAL NOTE: No impact on state funds in FY 2007, FY 2008, and FY 2009.

PROPONENTS: Supporters say that the bill is needed to ensure that public pension plans remain viable. Plans should be encouraged to act responsibly. It is also important that the board members of plans attend educational programs so that they can better understand the workings of a retirement plan.

Testifying for the bill was Representative Smith (118).

OPPONENTS: Those who oppose the bill say they understand the interest in safeguarding the assets of Missouri's public retirement plans and agree that education is particularly relevant given the turnover of public boards; however, while the MPERS board believes a sound funding policy is basic to ensuring the interests of plan participants, they oppose any legislation that removes responsibility for funding decisions from the hands of the plan fiduciaries.

Testifying against the bill was Missouri Department of Transportation and Highway Patrol Employees' Retirement System.

OTHERS: Others testifying on the bill say they agree with most of the bill; however, they would like the funding ratio requirement for new plan benefits to be at 70% or 75% instead of 80%. It would be better if the unfunded actuarial accrued liabilities associated with benefit changes could be amortized over a period of 20 years instead of 15 years.

Others testifying on the bill were the Missouri State Council of Firefighters; Black Jack Fire Protection District; and Florissant Fire Protection District.

Marc Webb, Legislative Analyst