

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0973-02  
Bill No.: HB 347  
Subject: Retirement - State; Transportation Dept.  
Type: Original  
Date: March 4, 2009

Bill Summary: Specifies that overtime or compensatory time is not included in certain retirement benefit calculations for MPERS and MOSERS.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0	\$0	\$3,462,824
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,462,824</b>

**\*Provisions in this proposal relative to MOSERS would decrease the annual employer contribution rate by approximately \$5,771,373.**

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Other State Funds	\$0	\$0	\$2,308,549
Road Fund	\$0	\$0	\$2,900,000
<b>Total Estimated Net Effect on <u>Other</u> State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,208,549</b>

**\*Provisions in this proposal relative to MOSERS would decrease the annual contribution rate by approximately \$5,771,373.**

**Provisions in this proposal relative to MPERS would decrease the total Unfunded Actuarial Accrued Liability (UAAL) by \$25,000,000 and would decrease the employer contribution rate by \$2,900,000 (0.17%).**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## FISCAL ANALYSIS

### ASSUMPTION

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **Missouri Department of Conservation** assume there will be no fiscal impact for their agency.

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume this proposed legislation eliminates the use of overtime and compensatory pay that is received after June 30, 2010, when calculating the final average pay for members of MPERS. Final average pay is a component in the formula used to calculate the amount of any annuity or benefit paid by MPERS.

#### Impact on Members:

In a defined benefit plan, such as MPERS, the amount of the member's retirement benefit is based on a formula that is set by law. This formula consists of: 1) credited service, 2) final average pay, and 3) a multiplier. Obviously, the longer a member works and the higher his/her salary, the higher his/her retirement benefit. Eliminating the use of overtime and compensatory pay in calculating the member's final average pay will result in a lower benefit payment.

Changing this benefit provision for only MPERS members could create a recruiting disadvantage for MoDOT and the Highway Patrol. A reasonable assumption can be made that employees might choose to work for an agency covered by MOSERS, if the retirement benefits are higher in that system.

#### Impact on MPERS:

It is unknown what legal ramifications will develop with the passage of this legislation. Some state courts have ruled that a public employer is prohibited from modifying the plan for current members. This prohibition means that employees hired under a public plan have the right to earn benefits as long as their employment continues. The Missouri Constitution treats retirement benefits as contractual rights and protects them from diminishment.

ASSUMPTION (continued)

**Summary of Annual Fiscal Impact**

MoDOT		(\$1,100,000)
Patrol Civilian	(\$ 100,000)	
Uniformed	(\$1,700,000)	(\$1,800,000)
Total Annual Savings		(\$2,900,000)

<b>Actuarial Statement – Summary Results</b>					
	<b>Civilian Patrol</b>	<b>MoDOT</b>	<b>Total</b>	<b>Uniformed Patrol</b>	<b>Total</b>
<b>June 30, 2008 Valuation</b>					
Covered Payroll (\$ Millions)	\$40.02	\$261.2	\$301.4	\$68.0	\$369.4
Normal Cost Rate	11.15%	11.15%	11.15%	13.04%	11.50%
Unfunded Accrued Liability (\$ Millions)	n/a	n/a	\$946.2	\$289.5	\$1,235.7
Employer Contribution Rate	31.43%	31.43%	31.43%	39.98%	33.00%
<b>Change Due to Proposal</b>					
Covered Payroll (\$ Millions)	\$ (0.5)	\$ (4.8)	\$ (5.3)	\$ (5.2)	\$(10.5)
Normal Cost Rate	0.00%	0.00%	0.00%	0.01%	(0.01%)
Unfunded Accrued Liability (\$ Millions)	n/a	n/a	(8.7)	(16.3)	(25.0)
Employer Contribution Rate	0.17%	0.17%	0.17%	0.59%	0.17%
<b>June 30 Valuation With Proposal</b>					
Covered Payroll (\$ Millions)	\$39.7	\$256.4	\$296.1	\$62.8	\$358.9
Normal Cost Rate	11.15%	11.15%	11.15%	13.05%	11.49%
Unfunded Accrued Liability (\$ Millions)	n/a	n/a	937.5	273.2	1,210.7
Employer Contribution Rate	31.60%	31.60%	31.60%	40.57%	33.17%
<b>Dollar Increase in Employer Contributions (\$ Millions)</b>					
FY2010	\$ (0.1)	\$ (1.1)	\$ (1.2)	\$ (1.7)	\$ (2.9)

ASSUMPTION (continued)

The employer contribution rates increased from the valuation results, but the employer contributions in dollars have decreased due to the lower covered payroll.

Comments on Actuarial Statement:

1. The valuation results are as of June 30, 2008 and do not reflect the extraordinary low market performance since that time. As a result, the FY 2010 employer contributions will be different and quite probably higher if FY 2009 continues showing poor returns. This

calculation is based upon assumptions regarding future events, which may or may not materialize.

2. We have assumed that if the proposal were adopted, accrued benefits would be grandfathered (not reduced). We determined that the best way to model the effect of grandfathering current provisions was to use current valuation pays for members within 5 years of retirement. However, the actual administration of the change could affect the magnitude of the results.

Officials from the **Missouri State Employees' Retirement System (MOSERS)** assume this proposal would, if enacted, exclude overtime or compensatory time from the calculation of average compensation that is used in determining a retirement annuity for members of the Missouri State Employees' Retirement System (MOSERS), and members of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS).

Under present law, overtime and compensatory time are included in determining the final average pay (known as the highest 36 consecutive months of compensation) that is reported to MOSERS for purposes of calculating a retirement annuity.

During fiscal year ending June 30, 2008, approximately \$45.3 million dollars was paid in overtime and compensatory time, as reported to MOSERS by the Division of Personnel. This amount includes overtime and compensatory time paid to employees from fourteen executive departments (higher education and MoDOT are excluded), the judiciary, public defender, and the offices of the state-wide elected officials. The highest occurrences of overtime occurred in the Department of Mental Health (37%), the Department of Corrections (33%), and the Department of Public Safety (23%).

Elimination of this benefit is not estimated to result in a material reduction in the contribution rate; however, if the proposed legislation were adopted, it would be reasonable to assume that the annual contribution to MOSERS would be reduced as a result of an estimated reduction in payroll. In this instance, applying the present contribution rate to a reduced payroll would result in the state paying approximately \$5.7 million less in retirement contributions than otherwise

ASSUMPTION (continued)

would have been the case. It may be worth noting that for the largest group impacted by this provision the average pay is \$11.77 per hour (Department of Mental Health).

FISCAL IMPACT - State Government

FY 2010  
(10 Mo.)

FY 2011

FY 2012

**GENERAL REVENUE**

VL:LR:OD (12/02)

<u>Savings</u> - Decrease in Employer Contribution Rates	<u>\$0</u>	<u>\$0</u>	<u>\$3,462,824</u>
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE*</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$3,462,824</u></b>
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**OTHER STATE FUNDS**

<u>Savings</u> - Decrease in Employer Contribution Rates	<u>\$0</u>	<u>\$0</u>	<u>\$2,308,549</u>
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<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS*</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$2,308,549</u></b>
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**ROAD FUND**

<u>Savings</u> - Decrease in Employer Contribution Rates	<u>\$0</u>	<u>\$0</u>	<u>\$2,900,000</u>
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<b>ESTIMATED NET EFFECT ON ROAD FUND*</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$2,900,000</u></b>
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**\*Provisions in this proposal relative to MOSERS would decrease the annual employer contribution rate by approximately \$5,771,373.  
 Provisions in this proposal relative to MPERS would decrease the total Unfunded Actuarial Accrued Liability (UAAL) by \$25,000,000 and would decrease the employer contribution rate by \$2,900,000 (0.17%).**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

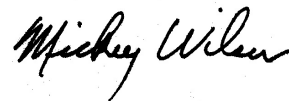
FISCAL DESCRIPTION

This bill specifies that any overtime or compensatory time paid to a state employee after June 30, 2010, will not be included in the calculation of average compensation for retirement purposes for members of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System or the Missouri State Employees' Retirement System.

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 Department of Conservation  
MoDOT & Patrol Employees' Retirement System  
Missouri State Employees' Retirement System



Mickey Wilson, CPA  
Director  
March 4, 2009