COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 1224-01
Bill No.: HB 478
Subject: Retirement - State; State Employees
Type: Original
Date: February 18, 2009

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Bill Summary: Allows certain state employees to retire at a certain time and keep health insurance at the same rate as an active employee and changes provisions regarding the replacement of retiring employees

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue | $4,713,952 | $8,941,365 | $8,941,365 |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund*** | **$4,713,952** | **$8,941,365** | **$8,941,365** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| All Other | $4,713,952 | $8,941,365 | $8,941,365 |
| | | | |
| **Total Estimated Net Effect on Other State Funds*** | **$4,713,952** | **$8,941,365** | **$8,941,365** |

***Oversight used an average of the number of employees who elected this incentive in 2003, 1,590. If the total number of employees eligible to retire under this provision, 6,070, elected this incentive there would be a net savings of $68,269,290.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| **Total Estimated Net Effect on FTE** | **0** | **0** | **0** |

☐ 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).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| **Local Government** | **$0** | **$0** | **$0** |

## 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 **Department of Conservation** assume this proposal would not appear to have fiscal impact on their agency funds as they do not anticipate the Commission will choose to participate in this program.

Officials from the **Office of Administration - Division of Budget and Planning** assume this proposal should not result in additional costs or savings to the Division. They defer to MCHCP and MOSERS for a statewide impact.

A breakdown of personal services costs was provided by the Division of Budget and Planning. The assumptions include

| | |
|---|---|
| Average salary for a full time state employee | $36,203 |
| Fringe Benefits (blended rate) 47.18% | $17,080 |
| Total | $53,283 |

**Oversight** will assume an average rounded salary of $36,000 for calculations used in this fiscal note.

Officials from the **Missouri Highway Patrol** assume the Department of Transportation and the Retirement System will be responding on the behalf of the Highway Patrol.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume this proposal offers a retirement incentive of five years medical insurance premium paid at the active employee rate. Twenty-five percent of the positions becoming vacant as a result of the retirement incentive cannot be filled unless the positions are critical or paid from federal funds.

The DOLIR has 140 employees eligible to retire. These employees were sorted by budgeting org and funding source. All federally funded positions were excluded. If positions are cost allocated among GR, Other and Federal Funds, the FTEs which would have been allocated to federal funds were retained. All GR and Other Fund positions were multiplied by 25% to determine the number of positions which would be eliminated. Average salary by DOLIR budgeting org was

ASSUMPTION (continued)

determined by using the FY 2008 actual Personal Services divided by the actual FTE from the FY 2010 Budget Request. Department Director, Deputy Director, Division Directors and Administrative Law Judge positions and salaries were eliminated from the average salary calculation. The number of FTEs eliminated was multiplied by the average salary by fund source. These amounts were entered as Cost Savings/Avoidance – Salaries and 48.63% of those savings were entered as Fringe Benefit cost savings. Salaries were inflated by 3% each year.

Increased costs for the Retiree Medical Premium Fringe Benefit rate applied to current payroll was set at the same percentages as occurred after the last retirement incentive program – 3.26% First Year, 3.30% Second Year and 3.64% Third Year. These percentages were multiplied by the FY 2010 Personal Services by Fund.

Officials from the **Department of Transportation** assume their department anticipates no fiscal impact from the proposal as the department would at this time choose to not participate in the incentive program.

Officials from the **MoDOT & Patrol Employees' Retirement System** assume according to their records, 967 members could potentially take advantage of this proposal.

| | Eligible to Retire By 8/1/2009 | Eligible to Retire 9/1/2009 - 1/1/2010 |
|---|---|---|
| MoDOT | 632 | 83 |
| Civilian Patrol | 137 | 16 |
| Uniformed Patrol | 89 | 8 |
| MPERS | 2 | 0 |
| Total | 860 | 107 |

As written, the proposal gives discretion to the Highway Commission as to whether or not to offer themedical incentive to MoDOT and Patrol Employees. Since MoDOT management has advised MPERS that they will not offer the health care incentive to members, an actuarial valuation regarding the fiscal impact of this proposal on MPERS was not requested.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposal would, if enacted, create a healthcare retirement incentive plan for general state employees who are eligible to retire on or after February 1, 2009, through January 1, 2010. Under this proposal, an eligible retiree or employee who retires during the window may elect to continue healthcare coverage for him/herself and any eligible dependents at the same cost as if

ASSUMPTION (continued)

such retiree were an active employee for a maximum period of five years or until becoming eligible for Medicare, whichever occurs first, at which time the rate would revert to the applicable rate for retiree coverage.

As proposed, the health care incentive would only be available to general employees covered under Chapter 103, RSMo; however, the legislation also contains provisions that would allow the governing boards of Truman State University, Lincoln University, and the regional colleges and universities, and the commissions that govern MoDOT, the Highway Patrol and the Department of Conservation to elect to offer the same healthcare retirement incentive to their eligible employees.

**Number of Employees Eligible During the Window**

MOSERS has no way of estimating the number of employees who might retire during the window provided by this proposal; however, the table that follows illustrates the number of employees who would be eligible to retire and receive the healthcare incentive.

| Number Eligible | Group |
|---|---|
| 7,444 | Total Employees (Eligible to Retire by January 1, 2010) |
| (237) | Less Conservation Employees |
| (1,137) | Less Employees of the Colleges and Universities |
| 6,070 | Total General Employees (Eligible to Retire by January 1, 2010) |

The legislation further limits the number of employees that departments may hire to replace those employees who retired during the window to no more than 50% of the personal service funds of those positions vacated. The proposal allows for exceptions to the 50% restriction that may be made for critical or seasonal positions or any positions that are entirely federally funded. Truman University, Lincoln University and the educational institutions are excluded from the hiring limitation. Lastly, provisions exist that would prevent an employee taking advantage of the provision from becoming reemployed with any department for a five year period from the date of election.

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this proposal allows certain state employees to retire at a certain time and keep health insurance at the same rate as an active employee and changes provisions regarding the replacement of retiring employees

ASSUMPTION (continued)

**Fiscal Impact of the Bill:**
When similar legislation allowing a retiree incentive program was signed into law in 2003 there were 5,078 MOSERS eligible retirees. Out of these eligible, 1,587 MCHCP covered employees elected the incentive. Over the five years this number averaged 1,314 MCHCP eligible employees. On average, this was 26% of the eligible retiree population. The actual cost to MCHCP for the incentive was:

CY03 – $ 996,403
CY04 – $ 3,791,704
CY05 – $ 4,321,352
CY06 – $ 3,728,623
CY07 – $ 3,247,143
CY08 - $ 1,801,581
**Total - $17,886,806**

Assuming similar uptake of 26%, MCHCP projects that out of 5,788 MCHCP covered employees eligible to retire 1,505 employees will take advantage of the incentive. Five year cost projections are as follows (this calculation does not assume inflation or trend):

CY 10 $ 1,140,790
CY 11 $ 4,341,925
CY 12 $ 4,948,440
CY 13 $ 4,269,685
CY 14 $ 3,718,855
CY 15 $ 2,063,355
**Total - $20,483,050**

MCHCP also assumes 50% of the positions will be filled with new employees resulting in 752 new employees. The average active employee subsidy is $ 8,436 per year x 752 employees x 5 years resulting in $31,719,360 for a total fiscal impact of **$52,202,410** over five years.

| FISCAL IMPACT - State Government | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---|---|---|
| **GENERAL REVENUE** | | | |
| Savings - Office of Administration Net reduction in personnel service costs, fringe benefits, expense and equipment, and health benefit premiums | $4,713,952 | $8,941,365 | $8,941,365 |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **$4,713,952** | **$8,941,365** | **$8,941,365** |
| **ALL OTHER FUNDS** | | | |
| Savings - Office of Administration Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums | $4,713,952 | $8,941,365 | $8,941,365 |
| **ESTIMATED NET EFFECT ALL OTHER FUNDS*** | **$4,713,952** | **$8,941,365** | **$8,941,365** |

***Oversight used an average of the number of employees who elected this incentive in 2003, 1,590. If the total number of employees eligible to retire under this provision, 6,070, elected this incentive there would be a net savings of $68,269,290.**

| FISCAL IMPACT - Local Government | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---|---|---|
| | **$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 bill changes the laws regarding the Missouri State Employees' Retirement System to allow for a medical insurance and retirement incentive for certain state employees who are eligible for state-sponsored medical benefits. In its main provisions, the bill:

(1) Allows a retiree to elect to continue coverage for himself or herself and any eligible dependents at the same cost as if the retiree was an active employee for a maximum period of five years or until the retiree is eligible for Medicare, whichever occurs first. The cost will revert to the applicable retiree rate after the five-year period or when the retiree becomes Medicare eligible;

(2) Requires the governing body of any participating member agency to provide the medical coverage contained in the bill so that employees or retirees will be eligible to apply the medical coverage to their current benefits;

(3) Allows the governing boards of Truman State University, Lincoln University, and any educational institution listed in Section 174.020, RSMo; the Highways and Transportation Commission; and the Conservation Commission to provide their employees or retirees the same medical coverage as that contained in the bill;

(4) Allows current employees who are receiving creditable service and are eligible to receive an annuity beginning on or after May 1, 2009, but no later than August 1, 2009, or a retiree whose retirement annuity commenced on or after February 1, 2009, but no later than August 1, 2009, to be eligible to receive the medical coverage contained in the bill;

(5) Allows current employees who otherwise would be eligible to receive a retirement annuity by January 1, 2010, who apply for retirement and whose annuity begins on or after May 1, 2009, but no later than August 1, 2009, to be eligible to receive the medical coverage contained in the bill;

(6) Allows employees who are eligible to receive lump-sum payments under Section 104.625 or Section 104.1024, by January 1, 2010, to receive these payments. However, these employees are prohibited from receiving a lump-sum payment under these sections after the effective date of the bill;

(7) Allows departments to rehire for positions that are vacated due to the election to retire; however, the departments will be limited to using no more than 50% of the personal service funds of those positions vacated. Critical positions, seasonal positions, or positions that are federally funded may be exempt from this provision. This provision will not apply to Truman

FISCAL DESCRIPTION (continued)

University, Lincoln University, and any educational institution listed in Section 174.020; and

(8) Prohibits any employee making an election under the retirement incentive plan from being employed with any state department for a period of five years from the date of election.

The bill contains 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
Department of Conservation
Missouri Highway Patrol
Office of Administration -
    Division of Budget & Planning
Department of Transportation
Missouri Consolidated Health Care Plan
Division of Labor and Industrial Relations

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