COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0615-02
Bill No.: HB 305
Subject: Retirement - State; State Employees
Type: Original
Date: March 2, 2011

Bill Summary: This proposal establishes the 2011 State Employee Retirement Incentive Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	$11,200,000	$11,200,000	$11,200,000
Total Estimated Net Effect on General Revenue Fund*	**$11,200,000**	**$11,200,000**	**$11,200,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
All Other	$11,200,000	$11,200,000	$11,200,000
Total Estimated Net Effect on Other State Funds	**$11,200,000**	**$11,200,000**	**$11,200,000**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
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 2012	FY 2013	FY 2014
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).

In response to HCS for HB 1583, 4177-06 (2010), 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 of Budget and Planning. The proposal will have fiscal impact statewide.

A 50% cap on replacing personal service funds cannot be achieved without an exemption for mission critical staff positions. Such positions tend to be 24 hour employees, such as those in prisons, mental health, and youth facilities; state-run schools; child protective service workers; and public safety officers. More than one-forth (28%) of those estimated to be eligible for the retirement incentive are in these mission critical positions.

Furthermore, the proposal allows for employees to retroactively participate in the program as of January 1, 2011. These positions would likely be filled prior to the passage of this legislation, which could result in the 50% being exceeded on the implementation date of the proposal.

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 "years of service incentive benefit" to an employee eligible to retire with a normal annuity under Sections 104.080, 104.090, 104.100, 104.271, 104.400 or 104.1024 of an amount equal to one thousand dollars for each year of state employment service up to a maximum of twenty years of state employment service ($20,000) paid 20 per cent a year for five years. Departments could only replace nonfederal FTEs which would spend up to 50% of the retirees' total salaries.

The DOLIRs largest agency is 100% federally funded. It is assumed the DOLIR would be responsible for paying these employees their "years of service incentive benefit." The DOLIR estimates a fiscal impact to its federal programs since they are allowed to backfill positions of

ASSUMPTION (continued)

those that retire.

The DOLIR has 121 employees eligible to retire under this proposal.

Officials from the **Department of Transportation** concur with MoDOT and Patrol Employees' Retirement System response to this proposal.

Officials from the **MoDOT & Patrol Employees' Retirement System** are unable to determine a fiscal impact on this proposal as they do not know whether or not the Missouri Highways and Transportation Commission would opt to participate in the incentive.

However, should the Commission decide to offer the incentive, there are 884 active members eligible to retire during the incentive period (January 1, 2011 – September 1, 2011).

The assumptions regarding how many people will retire during the window period and how many people will be replaced on the payroll are illustrations intended to assist policy makers in forming judgment. It is not anticipated that the illustrated assumptions will be exactly realized. In estimating payroll, no adjustment was made for replacement pays differing from the pays of the individuals being replaced, or for associated promotions that could occur.

MPERS Members Eligible to Participate
in Proposed Incentive Program

Group	Number	Covered Payroll	Average Age	Average Service
MoDOT Employees	627	$31,409,576	57.9	26.6
Civilian Patrol Employees	171	6,997,385	59.1	24.1
Uniformed Patrol	86	6,839,819	55.5	31.3
Total	**884**	**$45,246,780**	**57.9**	**26.6**

Potential Cost of Incentive:
The average service of the eligible members exceeds 20 years. Therefore, it is likely that members electing to participate will receive the maximum incentive. If 33% of the eligible members participate, the incentive benefit is expected to be $5.9 million (884 x 0.333 x $1,000 x 20 = $5,887,440).

The incentive will be paid in 5 equal yearly installments of $1.2 million paid every September until all 5 installments have been paid ($5,887,440 / 5 = $1,177,488).

ASSUMPTION (continued)

Potential Payroll Savings:
The bill allows for the replacement of employees electing the incentive using no more than 50% of the personal service funds of the positions vacated. The *Actuarial Statement for HB 305* assumes a 25% replacement, both percentages are illustrated below.

The average salary of the 884 employees eligible for the incentive is $51,184. If one-third of the eligible employees elect to retire (294), that equates to a payroll of around $15 million (294 x $51,184 = $15,048,096). Depending on the number of employees hired to replace those retiring under this incentive, the potential payroll savings could range from $7.5 million to $11.3 million.

25% Replacement	**50% Replacement**
25% of 294 = 74 Average Salary of Eligible Group = $51,184 74 x $51,184 = $3,787,616 **Potential Savings: $11,260,480**	50% of 294 = 147 Average Salary of Eligible Group = $51,184 147 x $51,184 = $7,524,048 **Potential Savings: $7,524,048**

Effect on Contribution Rate and Unfunded Liability:
The Actuarial Statement for HB 305 assumes 33% of those eligible for this incentive will retire and 25% of the vacated positions will be filled. The passage of this proposed incentive would result in an increase in the contribution rate and the Unfunded Actuarial Accrued Liability (UAAL).

Based on these assumptions, it is estimated there could be an increase in the UAAL of $9.5 million ($1,892,563,517 - $1,883,022,352 = $9,541,165), which will increase the contribution rate. As such, the actuary would propose for FY2012 the contribution rate be modified upward to 47.10% for non-uniformed employees and 60.18% for uniformed employees.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note No. 0615-02n would, if enacted, create the "2011 State Employee Retirement Incentive Program." As proposed, the legislation would allow retirement eligible general employees who have at least ten years of creditable service who retire on or after January 1, 2011 through September 1, 2011, to receive a service incentive benefit equivalent to $1,000 for each year of creditable service up to a maximum of 20 years. The Office of Administration (OA) would be required to pay a service incentive benefit to the member, or the member's beneficiary, in five equal installments beginning in September 2011, and each September thereafter until all the installments have been paid. Those members eligible for early

ASSUMPTION (continued)

retirement would not be allowed to participate.

The proposal also limits the number of employees that departments may hire to replace employees to no more than 50% of the personal service funds of those positions vacated. Exceptions to the 50% restriction may be made for positions which are entirely federally funded. Such determination would be made by rule and regulation promulgated by OA.

OA would also be responsible for administering the program and would be required to adopt rules on an emergency basis to implement the legislation. The legislation further requires the Missouri State Employees' Retirement System (MOSERS) to release records to OA that would allow them to administer and monitor the program. OA would be required to present an interim report to the general assembly, including copies to the legislative services agency and the fiscal committee of the legislative council, by December 31, 2010, concerning the operation of the program, and annually thereafter for the next four years. The reports are required to include information concerning the number of program participants, the cost of the program including any payments to participants, the number of state positions not filled under the program, and the number of positions vacated by a program participant that have been refilled.

MOSERS would also be required to make a report in writing to the commissioner of administration by October 31, 2011, regarding the number of state employees eligible to retire under the legislation and the actual number of employees who elected to retire and receive the service incentive benefit. The commissioner of administration is further required to furnish a report to the general assembly and the governor regarding the information presented by MOSERS, including a cost/savings analysis as the result of such retirements, the amount of payroll reduced, and the number of positions that are core cut as a result of such retirements.

The proposal also prohibits any employee who elects to retire under the incentive from being reemployed with any state department.

The legislation further 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 the health plans of MoDOT and the Highway Patrol and the Department of Conservation to elect to offer the same service incentive benefit to their eligible employees.

Lastly, to address the current fiscal crisis, the legislation contains an emergency clause.

ASSUMPTION (continued)

Eligible Employees

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 service incentive benefit. For purposes of determining eligibility, MOSERS has not included terminated-vested members in the estimated provided.

Number Eligible	**Group**
6,935	**Total Employees potentially eligible for the incentive**
(158)	**Less Conservation Employees**
(1,391)	**Less Employees of the Colleges and Universities**
5,386	**Total General Employees potentially eligible for the incentive**

Oversight assumes the potential number of employees would be 26% based on the amount of employees using the retirement incentive in TAFP CCS for HS for HCS for SS #2 for SCS for SB's 100, 118, 247, 341 & 420 (0858-14) 2003.

26% of 5,386 = 1,400
1,400 x 1,000 per year = $1,400,000 x10 years = $14,000,000 / 5 years = $2,800,000

There will be five equal yearly installments paid every September until all five equal installments have been paid.

Oversight also assumes there will be a potential savings in a rehire percentage if 1,400 employees retire only ½ of personnel services expense would be to rehire.

50% of 1,400 = 700
Average Salary $36,000
700 x $36,000 = $25,200,000

Fund split percentages

62.25% of $25,200,000 = $15,687,000 General Revenue
24.32 % of $25,200,000 = $ 6,128,640 Other State Funds
13.43% of $25,200,000 = $ 3,384,360 Federal Funds

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
Savings - Office of Administration			
Net reduction in personnel costs	$12,600,000	$12,600,000	$12,600,000
Cost - Retirement Incentive	($1,480,000)	($1,480,000)	($1,480,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$11,200,000**	**$11,200,000**	**$11,200,000**
ALL OTHER FUNDS			
Savings - Office of Administration			
Net reduction in personnel costs	$12,600,000	$12,600,000	$12,600,000
Cost - Retirement Incentive	($1,480,000)	($1,480,000)	($1,480,000)
ESTIMATED NET EFFECT ALL OTHER FUNDS	**$11,200,000**	**$11,200,000**	**$11,200,000**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$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 establishes the 2011 State Employee Retirement Incentive Program which allows any employee who has not been a retiree of the Missouri State Employees' Retirement System (MOSERS), who is eligible to receive a normal or life annuity and terminates employment on or after December 31, 2010, after reaching normal eligibility and becomes a retiree within 60 days of the termination whose annuity commences on or after January 1, 2011, but no later than September 1, 2011, to be eligible to receive a years of service incentive benefit. Any employee terminated for cause will not be eligible to receive this incentive benefit.

For an eligible employee with at least 10 years of creditable service, the incentive benefit will be an amount equal to $1,000 for each year of creditable service up to a maximum of 20 years. The state, through the Office of Administration, will pay the benefit to the retiree or the retiree's beneficiary in five equal installments beginning in September of 2011 and each September thereafter until all five equal installments have been paid. An employee electing to take this retirement incentive is prohibited from any future employment with a state department.

The Office of Administration must submit an interim report to the General Assembly by December 31, 2011, and an annual update for four years thereafter regarding the number of program participants, the cost of the program, the number of positions not filled under the program, and the number of vacated positions that have been filled. MOSERS must submit a report to the Commissioner of the Office of Administration by October 31, 2011, regarding the number of state employees eligible to retire and the actual number of retirements under this program. The commissioner must then report this information to the Governor and General Assembly by January 31, 2012, along with a cost and savings analysis, the payroll reduction amount, and the number of positions that are core cut as a result of these retirements.

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
Division of Labor and Industrial Relations
MoDOT & Patrol Employees' Retirement System
Missouri State Employees' Retirement System

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