

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5203-01
Bill No.: HB 1783
Subject: Retirement - Local Government; Marriage and Divorce; Domestic Relations
Type: Original
Date: January 6, 2016

Bill Summary: This proposal changes the laws regarding retirement benefits being subject to domestic relations orders.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
	\$0	\$0	\$0
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposal would, if enacted, require all public employee retirement plans, except the Local Government Employees' Retirement System (LAGERS), to begin recognizing qualified domestic relations orders (QDROs) effective January 1, 2017. A QDRO would enable a court to divide retirement benefits as part of a property division in a divorce case. LAGERS would be authorized to accept a division of benefit order (DBO) to divide retirement benefits in a divorce case in lieu of a QDRO. Finally, the County Employees' Retirement Fund (CERF) would be required to recognize a domestic relations order to divide retirement benefits in certain circumstances under §§50.1000 to 50.1300 in addition to also being required to recognize QDROs.

Since 1994, MOSERS and the MoDOT and Patrol Employees' Retirement System (MPERS) have recognized DBOs in divorce cases pursuant to section 104.312 and more recently also under section 104.1051 under the year 2000 plan. The DBO process that applies to MOSERS and MPERS is very similar to the DBO process proposed for LAGERS.

This proposal would add complexity for MOSERS and MPERS because its current DBO process is substantially different than the QDRO process. For instance, a QDRO can require a payment to an ex-spouse before the member actually starts receiving his/her own retirement benefit. Currently, MOSERS's and MPERS's DBO process requires that a benefit to the ex-spouse begin no earlier than at the time of the member's retirement. Another example is that a QDRO necessitates that two separate annuity payments be calculated for the life of both the member and the ex-spouse. The current DBO process pays benefits to the member and the ex-spouse, in accordance with the terms of the order, from the date of retirement to the date of death of the member - that is, the ex-spouse is not entitled to a life time annuity.

This proposal would result in an unknown cost to MOSERS associated with the implementation of the QDRO process in addition to its current DBO process. These dual processes could create potential legal costs for MOSERS and the divorcing parties who are likely to advocate for one process or the other depending on the facts of each case.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume the current proposal would not fiscally impact their agency.

ASSUMPTION (continued)

Officials from the **Joint Committee on Public Employee Retirement** state that this legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

Officials from the **Missouri Local Government Employees Retirement System (LAGERS)** assume this proposal would require the System to develop and implement an alternate payee mechanism to their administrative distribution and records system, which would require additional technology and system programming. The anticipated system change costs are approximately \$50,000.

Officials from the **MoDOT and Patrol Employees Retirement System (MPERS)** assume the proposed legislation would, if enacted, establish a mechanism, commonly referred to as a qualified domestic relations order, for splitting retirement benefits in the event a divorce is realized for members covered by the County Employee Retirement Fund (CERF) and/or the Local Government Employees' Retirement System (LAGERS).

This proposal also requires all other public retirement plans, beginning January 1, 2017, to recognize qualified domestic relations orders (QDRO) issued by a court of competent jurisdiction. The proposal fails to recognize that some plans, like the MPERS already have a mechanism to split benefits, referred to as a division of benefits order, in its governing statutes. Furthermore, this existing mechanism is materially similar to the process proposed in this bill for LAGERS. Consequently, this proposal adds complexity for the retirement system in that it must now recognize two very different approaches to splitting benefits.

In conclusion, MPERS assume the specific cost is unknown but that there would be a fiscal impact to their system based on this proposal.

ASSUMPTION (continued)

Officials from the **County Employees Retirement Fund (CERF)** state this proposal will not generate additional benefit costs for the system but will result in administrative costs. Programming costs will be required to provide the ability to link separate member records to comply with the proposal. Estimated one time cost would be \$5,000 - \$10,000. Legal and staff costs associated with a division of benefits order would be \$200 - \$500 per order. Estimating 90 orders per year out of a plan population of 18,000 results in annual costs of \$22,500 - \$45,000. There will be some ongoing, incremental administrative costs involved with having more members than CERF would have otherwise had. The average administrative costs per member is approximately \$110/year. For 90 additional members, this would total approximately \$9,900.

For a total potential fiscal impact to CERF of up to \$10,000 in FY17, up to \$55,000 in FY18 and up to \$65,000 in FY19.

Oversight assumes that if the additional administrative costs created by this proposal are substantial enough it could increase the State's contribution rates, currently 16.97% to MOSERS and 58% to MPERS. This may also increase the local political subdivisions contributions into LAGERS and CERF. For fiscal note purposes, Oversight assumes this will not have a direct fiscal impact on the state or local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<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.

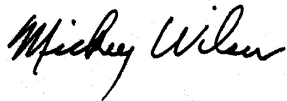
FISCAL DESCRIPTION

The proposed legislation appears to have no direct fiscal impact.

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

Missouri State Employees Retirement System
MoDOT and Patrol Employees Retirement System
Missouri Local Government Employees Retirement System
County Employees Retirement Fund
Department of Insurance, Financial Institutions and Professional Registration
Office of the State Courts Administrator
Joint Committee on Public Employee Retirement



Mickey Wilson, CPA
Director
January 6, 2016

Ross Strobe
Assistant Director
January 6, 2016