

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1980-02
Bill No.: HCS for HB 971
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: April 13, 2017

Bill Summary: This proposal modifies provisions related to disability benefits for members of the Department of Transportation and the Highway Patrol Employees' Retirement System.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	\$0	\$0 or (\$85,920)	\$0 or (\$84,240)
Total Estimated Net Effect on General Revenue	\$0	\$0 or (\$85,920)	\$0 or (\$84,240)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Highway Funds	\$0	\$0 or (\$565,640)	\$0 or (\$554,580)
Other State Funds	\$0	\$0 or (\$35,800)	\$0 or (\$35,100)
Total Estimated Net Effect on Other State Funds	\$0	\$0 or (\$601,440)	\$0 or (\$589,680)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Federal Funds	\$0	\$0 or (\$28,640)	\$0 or (\$28,080)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0 or (\$28,640)	\$0 or (\$28,080)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assumed the proposed legislation would, if enacted, modify the method for calculating the retirement benefits for disability benefit recipients under Section 104.110, RSMo. As proposed, the pre-disability salary used to calculate an individual's retirement benefit would be indexed by 80% of the increases in the consumer price index for the period of disability. The HCS for HB 971 would make the accruals retroactive to anyone disabled since August 28, 1999 (and who continues to be disabled after August 28, 2017). The effect of HCS for HB 971 would be to increase the amount of a member's retirement benefit following disability. It should be noted that there would be no change to the member's disability benefit subsequent to this amendment.

The provisions of Section 105.684 prevent the adoption of benefit increases when the plan's funded ratio is not at least 80%. As of the most recent actuarial valuation MPERS funded status is 55.5%, falling below the statutorily required minimum funded status. Consequently, these changes could not be adopted or implemented if passed by the legislature.

Actuarial methods and assumptions, except where otherwise noted, were the same as those used in the last regular annual actuarial valuation as of June 30, 2016. In particular:

- The assumed rate of interest was 7.75%.
- The valuation method was the entry-age actuarial cost method.
- The amortization period was 8 years for unfunded retiree liabilities and 23 years for unfunded active liability; amortization were calculated assuming payroll would increase 3.50% per year before the changes.
- Price inflation is assumed to be 3.00% per year.

The proposed changes do not apply to any members (active, retired, disabled, etc.) in the Year 2000 Plan or Year 2011 Tier. It does however apply to Closed plan members currently in receipt of disability benefits.

ASSUMPTION (continued)

Active Members in Closed Plan

Valuation Group	#	Covered Payroll	Average in Years	
			Age	Service
MoDOT Employees	1,916	\$95,929,116	50.5	22.7
Civilian Patrol Employees	358	\$16,914,802	51.7	23.0
Uniformed Patrol	601	\$47,698,276	47.9	22.8
Total	2,875	\$160,542,194	50.1	22.8
Disabled Members in Closed Plan	108	N/A	56.7	N/A

Current Provision Affected:

Disability Benefit for Closed Plan: Normal retirement benefits become payable at the time a disabled member becomes eligible for normal retirement, and are computed based on: i) the service that would have accrued to the member if active employment had continued; and ii) the member's rate of pay at the time of disability.

Proposed Provisions Under Consideration:

Disability Benefit for Closed Plan: Normal retirement benefits become payable at the time a disabled member becomes eligible for normal retirement, and are computed based on: i) the service that would have accrued to the member if active employment had continued; and ii) the member's rate of pay at the time of disability, increased by the increase in the consumer price index from the date of disability to the date of normal retirement.

ASSUMPTION (continued)

Impact on MPERS (in millions)

Valuation Results	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	\$1,992.1	\$1,992.1	-
Actuarial Accrued Liability (AAL)	\$3,761.7	\$3,765.1	-
Actuarial Value of Assets (AVA)	\$2,086.7	\$2,086.7	-
Unfunded Actuarial Accrued Liability (UAAL)	\$1,675.1	\$1,678.4	-
Percent Funded	55.5%	55.4%	(0.1%)

	FY 2018	FY 2019	FY 2020
Estimated increase in annual employer contributions to MPERS	\$0	\$716,000	\$702,000

Oversight assumes the contributions to MPERS will be 79% Highway Fund, 12% General Revenue, 5% Other State Funds and 4% Federal Funds.

MPERS	FY 2018	FY 2019	FY 2020
Highway Fund (79%)	\$0	(\$565,640)	(\$554,580)
General Revenue (12%)	\$0	(\$85,920)	(\$84,240)
Other State Funds (5%)	\$0	(\$35,800)	(\$35,100)
Federal Funds (4%)	\$0	(\$28,640)	(\$28,080)
TOTAL	\$0	(\$716,000)	(\$702,000)

ASSUMPTION (continued)

Officials from the **Department of Public Safety - Missouri Highway Patrol** and the **Department of Transportation** each defer to the MoDOT & Patrol Employees' Retirement System to estimate the fiscal impact of the proposed legislation on their respective organization.

Oversight notes MPERS is currently 55.5% funded before the plan change. Since Section 105.684 prohibits MPERS from adopting or implementing a plan change if the enhancement increases the plans accrued liability and the plan is not at least 80% funded, Oversight assumes these changes could not be adopted or implemented because of the funded status; therefore, the fiscal impact to Highway Funds, General Revenue, Other State Funds and Federal Funds will be reflected as \$0 or the estimated impact provided by MPERS.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Cost - MPERS</u>	<u>\$0</u>	<u>\$0 or (\$85,920)</u>	<u>\$0 or (\$84,240)</u>
Increase in employer contributions			
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 or (\$85,920)</u>	<u>\$0 or (\$84,240)</u>
HIGHWAY FUNDS			
<u>Cost - MPERS</u>	<u>\$0</u>	\$0 or <u>(\$565,640)</u>	\$0 or <u>(\$554,580)</u>
Increase in employer contributions			
ESTIMATED NET EFFECT TO THE HIGHWAY FUNDS	<u>\$0</u>	<u>\$0 or (\$565,640)</u>	<u>\$0 or (\$554,580)</u>
OTHER STATE FUNDS			
<u>Cost - MPERS</u>	<u>\$0</u>	<u>\$0 or (\$35,800)</u>	<u>\$0 or (\$35,100)</u>
Increase in employer contributions			
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	<u>\$0</u>	<u>\$0 or (\$35,800)</u>	<u>\$0 or (\$35,100)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2018	FY 2019	FY 2020
(continued)	(10 Mo.)		

FEDERAL FUNDS

Cost - MPERS	<u>\$0</u>	<u>\$0 or (\$28,640)</u>	<u>\$0 or (\$28,080)</u>
Increase in employer contributions			

ESTIMATED NET EFFECT TO THE FEDERAL FUNDS	<u>\$0</u>	<u>\$0 or (\$28,640)</u>	<u>\$0 or (\$28,080)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2018	FY 2019	FY 2020
	(10 Mo.)		

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal allows members of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System who are drawing disability benefits to be able to receive an annual increase in their disability benefits equal to the increase in the consumer price index. This increase will also be used to calculate their retirement benefits when they become eligible for retirement benefits.

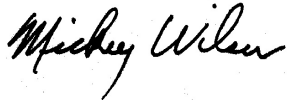
Members shall be eligible for this increase dating back to the original date of disability.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

MoDOT & Patrol Employees' Retirement System
Department of Transportation
Department of Public Safety
Missouri Highway Patrol



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April 13, 2017

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April 13, 2017