COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4093-02
Bill No.: HB 1139
Subject: Retirement - State; State Employees
Type: Original
Date: January 24, 2012

Bill Summary: This proposal establishes the 2012 State Employee Retirement Incentive Program and provides an incentive for state employees who do not participate in the state's health care plan.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	$10,198,800	$10,198,800	$10,198,800
Total Estimated Net Effect on General Revenue Fund*	**$10,198,800**	**$10,198,800**	**$10,198,800**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
All Other	$10,198,800	$10,198,800	$10,198,800
Total Estimated Net Effect on Other State Funds	**$10,198,800**	**$10,198,800**	**$10,198,800**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
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).

O fficials 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.

The incentive for early retirement is driven by employee choice, rather than decisions by the state on which employment positions are critical to continue. A 50% cap on replacing personal service funds does not take into account positions that must be filled to maintain operations. The largest number of such positions tend to be employees in 24 hour institutions and public safety, 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 24 hour or public safety positions. These positions will largely not be fillable at the 1/2 the current salary level. Therefore, this provision would result in major understaffing in these areas. Budget and Planning defers to MOSERS for an estimate on cost.

Offering employees who do not currently participate in the state's health care plan one hundred dollars per month would increase costs to the state with no guarantee the recipient was not already covered by a non-state plan or would spend the $100 on healthcare. 3,909 state employees waived healthcare coverage for CY 2012. At $100 per non-member per month, the monthly costs would be an estimated $390,900 per month, or $4,690,800 for a full year. While the proposal is silent on the source of the funds for this initiative, current benefits are paid from the fund associated with an individual's payroll. Consequently, this proposal would impact numerous funds. Estimating that 60% of personal service is general revenue, the cost to general revenue for one year would be approximately $2,814,480. Also, employees who are participating in MCHCP would be more likely to drop that coverage for the $100 incentive if they have low health care costs. This will result in a more expensive MCHCP plan for the employees who remain in the system.

ASSUMPTION (continued)

In addition, it appears that employees of departments covered by other state health care plans may qualify for the $100 per month incentive just by not participating in MCHCP (for which they are not eligible). There are currently 7,801 MoDOT/MHP and 1,766 Conservation state employees who are not eligible for MCHCP. This would increase the above costs by an unknown amount.

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume that only active employees will be eligible for the incentive credit for non-participation in the state's health care plan. MCHCP also assumes the incentive credit paid to the employee would be considered taxable income to the employee.

Currently, the number of eligible employees who opt out of MCHCP coverage for calendar year 2012 is 3,909. The establishment of the incentive credit would bear an immediate fiscal impact to the state (employer) in the form of additional payroll costs, estimated based upon current opt out employees of $100 x 3,900 x 12 months or $4,690,800. MCHCP's actuary does not anticipate additional opt-outs as a result of the incentive credit. However, it is feasible that if an additional 4 to 5 percent of employees would opt out of the state's health care plan that MCHCP would then realize claims savings over the net cost of the incentive credit to the state (employer).

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.

Additionally, the patrol assumes an unknown impact in regard to Section 104.406.2. The patrol does not know how many employees would choose to participate, but for those who do, only 50% of the personal service funding would be available for a replacement. The patrol assumes the other 50% would be cut from their budget which would be an obvious savings to the state. However, it could have a detrimental impact on their efforts to provide law enforcement services to the publi as less staff would be available to perform these duties.

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

In response to a similar proposal, 0615-02n, Perfected HB 305 (2011), 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.

ASSUMPTION (continued)

However, should the Commission decide to offer the incentive, there are 884 active members eligible to retire during the incentive period.

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.

ASSUMPTION (continued)

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.

In response to a previous proposal, officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note No. 4093-04n would, if enacted, create the "2012 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, 2013 through March 1, 2013, to receive a cash 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 January 2013, and each January thereafter until all the installments have been paid. Those members eligible only for early retirement would not be allowed to participate, and in no event would the incentive be provided to any individual retiring outside the dates outlined in this section.

The proposal also limits the number of employees that departments may hire to replace employees who retire under the incentive program 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.

ASSUMPTION (continued)

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, by June 30, 2013 regarding the years of service incentive benefit payments, including an analysis of the costs and savings as a result of such retirements, the amount of payroll reduced, and the number of positions that are core cut as a result of such retirements, and annually thereafter for the next four years.

MOSERS would also be required to make a report in writing to the commissioner of administration by August 28, 2013, 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 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.

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**
7,706	**Total Employees potentially eligible for the incentive**
(200)	**Less Conservation Employees**
(1,476)	**Less Employees of the Colleges and Universities**
6,030	**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

ASSUMPTION (continued)

SB's 100, 118, 247, 341 & 420 (0858-14) 2003.

26% of 6,030 = 1,567
1,567 x 1,000 per year = $1,567,800 x10 years = $15,678,000 / 5 years = $3,135,600

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 1,567 employees retire only ½ of personnel services expense would be to rehire.

50% of 1,567 = 784
Average Salary $36,000
784 x $36,000 = $28,224,000

Fund split percentages

62.25% of $28,224,000 = $17,569,440 General Revenue
24.32 % of $28,224,000 = $ 6,864,076 Other State Funds
13.43% of $28,224,000 = $ 3,790,483 Federal Funds

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
Savings - Office of Administration			
Net reduction in personnel costs	$14,112,000	$14,112,000	$14,112,000
Cost - Retirement Incentive	($1,567,800)	($1,567,800)	($1,567,800)
Cost - Health Care Non Participation Credit	($2,345,400)	($2,345,400)	#($2,345,400)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$10,198,800**	**$10,198,800**	**$10,198,800**

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
ALL OTHER FUNDS			
Savings - Office of Administration			
Net reduction in personnel costs	$14,112,000	$14,112,000	$14,112,000
Cost - Retirement Incentive	($1,567,800)	($1,567,800)	($1,567,800)
Cost - Health Care Non Participation Credit	($2,345,400)	($2,345,400)	($2,345,400)
ESTIMATED NET EFFECT ALL OTHER FUNDS	**$10,198,800**	**$10,198,800**	**$10,198,800**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$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 state employee incentives. The 2012 State Employee Retirement Incentive Program is established 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 October 31, 2012, after reaching normal eligibility and becomes a retiree within 60 days of the ermination whose annuity commences on or after January 1, 2013, but no later than March 1, 2013, 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.

FISCAL DESCRIPTION (Continued)

The state, through the Office of Administration, must pay the benefit to the retiree or the retiree's beneficiary in five equal installments beginning in January 2013 and each January thereafter until all five installments have been paid. An employee electing to take this retirement incentive is prohibited from any future employment with a state department.

MOSERS must submit a report to the Commissioner of the Office of Administration by June 30, 2013, 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 June 30, 2013, 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 also specifies that any employee not participating in the Missouri Consolidated Health Care Plan will receive an additional $100 per month.

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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VL:LR:OD (12/02)

Director
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