COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4093-06
Bill No.: HCS for HB 1139
Subject: Retirement - State; State Employees
Type: Original
Date: February 14, 2012

Bill Summary: This proposal establishes the 2012 State Employee Retirement Incentive Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	$12,544,200	$12,544,200	$12,544,200
Total Estimated Net Effect on General Revenue Fund*	**$12,544,200**	**$12,544,200**	**$12,544,200**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
All Other	$12,544,200	$12,544,200	$12,544,200
Road Fund	$10,948,905	$10,948,905	$10,948,905
Total Estimated Net Effect on Other State Funds	**$23,493,105**	**$23,493,105**	**$23,493,105**

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

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 **Missouri Consolidated Health Care Plan** assume there will be no fiscal impact to their agency.

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 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 ½ 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.

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 public as less staff would be available to perform these duties.

ASSUMPTION (continued)

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 943 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	665	$33,342,704	55.8	25.6
Civilian Patrol Employees	164	6,834,670	57.8	24.2
Uniformed Patrol	114	8,974,219	53.8	29.2
Total	**943**	**$49,151,593**	**55.9**	**25.8**

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 $6.3 million (943 x 0.333 x $1,000 x 20 = $6,280,380). The incentive will be paid in 5 equal yearly installments of $1.3 million. If 66% of the eligible members participate, the 5 year cost of the incentive payout is expected to be $12.5 million (943 x .666 x $1,000 x 20 = $12,560,760). Annual cost is $2.5 million (for 5 years). If 100% of the eligible members participate, the 5 year cost of the incentive payout is expected to be $18.9 million (943 x $1,000 x 20 = $18,860,000). Annual cost is $3.8 million for 5 years).

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. In addition to a 50% replacement MPERS is showing numbers for 25% replacement.

The average salary of the 943 employees eligible for the incentive is $52,123. If one-third of the eligible employees elect to retire (314), that equates to a payroll of around $16 million (314 x $52,123 = $16,366,622). Depending on the number of employees hired to replace those retiring under this incentive, the potential payroll savings could range from $8 million to $12 million.

25% Replacement	50% Replacement
25% of 314 = 79 Average Salary of Eligible Group = $52,123 79 x $52,123 = $4,117,717 **Potential Savings: $12,248,905**	50% of 314 = 157 Average Salary of Eligible Group = $52,123 157 x $52,123 = $8,183,311 **Potential Savings: $8,183,311**

Effect on Contribution Rate and Unfunded Liability:
The Actuarial Cost Statement values the incentive using three different assumptions. The first assumption assumes 33% of those eligible for this incentive will retire and 0% payroll replacement. There would be a 2.39% increase in contribution rate and $8.5 million increase in the UAAL. The second assumption assumes 66% of those eligible for this incentive will retire and 25% payroll replacement. There would be a 3.94% increase in the contribution rate and $17 million increase in the UAAL. The third assumption assumes 100% of those eligible for this incentive will retire and 50% payroll replacement. There would be a 4.54% increase in the contribution rate and $25.8 million increase in the UAAL.

Based on these assumptions, it is estimated there could be an increase in the UAAL of $8.5 million, which will increase the contribution rate. As such, the actuary would propose for FY2013 the contribution rate be modified upward to 43.0% for non-uniformed employees and 43.88% for uniformed employees.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note No. 4093-04 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

ASSUMPTION (continued)

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.

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

ASSUMPTION (continued)

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)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$12,544,200**	**$12,544,200**	**$12,544,200**

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)
ESTIMATED NET EFFECT ALL OTHER FUNDS	**$12,544,200**	**$12,544,200**	**$12,544,200**
ROAD FUND			
Savings - Department of Transportation			
Net reduction in personnel costs	$12,248,905	$12,248,905	$12,248,905
Cost - Retirement Incentive	($1,300,000)	($1,300,000)	($1,300,000)
ESTIMATED NET EFFECT ON ROAD FUND	**$10,948,905**	**$10,948,905**	**$10,948,905**

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 termination 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. 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.

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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