COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0420-03
Bill No.: HB 485
Subject: Retirement - State; Public Officers; General Assembly
Type: Original
Date: March 6, 2015

Bill Summary: This proposal establishes a hybrid retirement plan and requires all new members of the plan to participate in the defined contribution program for state employees and elected officials that become employed on or after January 1, 2016.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Highway Funds	$0	$0	$67,200
Other State Funds	$0	$0	$10,400
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$77,600**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Federal Funds	$0	$0	$2,400
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$2,400**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
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 2016	FY 2017	FY 2018
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** assume this legislation will result in a "substantial proposed change" in future plan benefits as defined in Section 105.660(10), RSMo. It is impossible to accurately determine the fiscal impact of this proposed legislation without an actuarial cost statement prepared in accordance with Section 105.665, RSMo.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume this proposal create a hybrid retirement plan for new employees hired for the first time on or after January 1, 2016. In this instance, the hybrid retirement plan is a defined benefit plan that includes a defined contribution plan component.

The long-term effect of the proposed hybrid plan is an increase in total employer contribution dollars of 0.68% of total MOSERS' payroll - in current day dollars, this would equate to approximately $13.7 million. The proposed hybrid plan essentially shifts an additional 1% of the plan cost to the employee, thereby increasing the total employee contribution to 5% of pay from the current level of 4% of pay.

These increases would emerge over time as employees replace the existing workforce. For purposes of this supplemental valuation, the change in the defined benefit contribution rate is reflected beginning July 1, 2016, since the employer contribution rate for the year ending June 30, 2015, has already been certified by the Board of Trustees. The change in the employer defined contribution rate is reflected beginning January 1, 2016. Since the defined benefit plan remains open in the hybrid plan, there is no change in the amortization of the unfunded accrued liability contributions.

While there are long-term costs associated with this proposal (approximately $13.7 million), the proposed removal of benefits for new hires has no effect on MOSERS' current benefit obligation or current employer contributions for the active members presently covered under the MSEP plan.

Officials from the **MoDOT and Patrol Employees Retirement System (MPERS)** assume this proposal would create a hybrid retirement plan for new employees (except uniformed patrol employees) hired for the first time on or after January 1, 2016. In this instance, a hybrid retirement plan is described as a defined benefit plan, which also has certain attributes normally associated with a defined contribution plan. The proposed hybrid plan would also include any member of the 2011 Tier who leaves state employment prior to becoming vested, or takes a

ASSUMPTION (continued)

refund of employee contributions, and later returns to work in a benefit eligible position - even if the member elects to restore this prior (forfeited) service.

Benefits payable under the Closed Plan and the Y2K Plan for members first hired prior to January 1, 2016, are not affected by the proposal; therefore, there is no immediate change in the employer contribution rates. The long-term employer contribution for the 2011 Tier (the current open plan provisions) is 6.74% of pay for non-uniformed members. The estimated long-term employer contributions for the proposed Hybrid plan are 5.75% of pay for non-uniformed members (including the DB and DC components) under the 10-year vesting/eligibility structure, and 5.61% under the 5-year vesting/eligibility structure (upon MPERS reaching a funding level of at least 90%). This represents a decrease over the 2011 Tier benefits for non-uniformed members of approximately 0.99% and 1.13% of pay, respectively.

It is important to note that most MPERS members are currently covered by older plans/tiers. The average long-term cost of benefits for the current members (based on their current benefits) is 12.46% of pay for non-uniformed members. The proposed plan represents a decrease in long-term employer costs over the average current level of approximately 6.71% of pay to 6.85% of pay. As discussed above, most of this decrease is attributable to the 2011 Tier. Changes in the employer contribution will evolve as new hires enter the plan.

Impact on MPERS Defined Benefit (DB) Employer Contributions

	Present Benefits	**Proposed Benefits**	**Increase/ (Decrease)**
FY2017-18 Contribution			
Total Normal Cost	14.01%	13.80%	(0.21) %
Member Contribution Rate	(0.80)	(0.80)	0.00
UAAL%	40.08	40.08	0.00
Total Employer Contribution Rate	53.29%	53.08%	(0.21) %
Employer Normal Cost ($ millions)	$ 50.3	$ 49.5	$ (0.80)
Estimated Employer Contribution ($ millions)	$ 203.1	$ 202.3	$ (0.80)
Valuation Results as of June 30, 2014 ($ millions)			
Market Value of Assets (MVA)	$1,937.3	$1,937.3	$ 0.00
Actuarial Accrued Liability (AAL)	3,650.2	3,650.2	0.00
Actuarial Value of Assets (AVA)	1,795.3	1,795.3	0.00
Unfunded Actuarial Accrued Liability (UAAL)	$1,854.9	$1,854.0	$ 0.00
Percent Funded	49.2%	49.2%	0.00

ASSUMPTION (continued)

Employer contributions for FYXX are determined from the 6/30/XX-2 (minus 2) valuation. Since the 6/30/2016 valuation will be the first valuation to include members covered under the proposed plan, the FY 2018 Employer Contribution will be the first to be affected (and is the one shown above).

Oversight assumes contributions to MPERS will be 84% Highway Fund, 3% Federal and 13% Other State Funds.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
FEDERAL FUNDS			
Savings - Decrease in Employer Contributions (MPERS)	$0	$0	$2,400
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0**	**$2,400**
HIGHWAY FUNDS			
Savings - Decrease in Employer Contributions (MPERS)	$0	$0	$67,200
ESTIMATED NET EFFECT ON HIGHWAY FUNDS	**$0**	**$0**	**$67,200**
OTHER STATE FUNDS			
Savings - Decrease in Employer Contributions	$0	$0	$10,400
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**$0**	**$0**	**$10,400**

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$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 creates a hybrid retirement plan under the Missouri State Employees' Retirement System and the Missouri Department of Transportation and Highway Patrol Employees' Retirement System for each person first becoming an employee, a member of the General Assembly, or a statewide elected official on or after January 1, 2016, including any member covered by Section 104.1091, RSMo, who terminated employment and is not entitled to receive a deferred annuity or has received a refund of member contributions and becomes an employee on or after January 1, 2016, excluding uniformed members of the highway patrol.

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 Retirement
MoDOT and Patrol Employees Retirement System
Missouri State Employees Retirement System

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March 6, 2015	March 6, 2015

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