COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1294-02
Bill No.: HB 770
Subject: Retirement- State
Type: Original
Date: March 9, 2015

Bill Summary: This proposal modifies provisions relating to retirement benefit for the deceased.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue*	($2,760,000)	($2,704,800)	($2,785,800)
Total Estimated Net Effect on General Revenue	**($2,760,000)**	**($2,704,800)**	**($2,785,800)**

***This does not reflect the increase in the UAAL of $42,200,000.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Other State Funds	($828,000)	($811,440)	($835,740)
Total Estimated Net Effect on Other State Funds	**($828,000)**	**($811,440)**	**($835,740)**

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	($1,012,000)	($991,760)	($1,021,460)
Total Estimated Net Effect on All Federal Funds	**($1,012,000)**	**($991,760)**	**($1,021,460)**

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** 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 State Employee Retirement System (MOSERS)** state the proposed legislation described in Fiscal Note No. 1294-02 (HB 770) would, if enacted, provide survivor benefits for certain vested members who die prior to retirement. Presently, if a vested member dies prior to retirement, a survivor benefit is only payable if the member has a surviving spouse, or if there is no surviving spouse but there are children under the age of 21, then a survivor benefit would be paid to those children until age 21. The normal death prior to retirement benefit is based on the joint and 100% survivor option but if the death is duty-related, the service requirement is waived and the minimum survivor benefit is 50% of final average pay.

Under this proposal, if no such survivor annuity is payable to a surviving spouse or eligible surviving children under the age of 21, the designated beneficiary would receive the eligible benefit as if the member had elected the 120-month guaranteed optional form of payment. If no beneficiary has been designated by the member, the reserve for the 120-month period shall be paid as provided under subsection 3 of Section 104.620.

The normal cost of the plan for members employed before 2011 is expected to increase by 0.07% of payroll as a result of the change. For MSEP 2011 members, the normal cost is expected to increase 0.06% of payroll. Over time, the active membership of the plan is expected to be replaced by MSEP 2011 members. As a result, the impact on the normal cost is expected to gradually decline from 0.07% of payroll to 0.06% of payroll as the MSEP 2011 member population grows. In terms of contribution dollars, the proposal is projected to increase contributions by approximately $4.6 million per year.

ASSUMPTION (continued)

Impact on MOSERS
Defined Benefit Employer Contributions

FY 2015-16 Contribution	**Present Benefits**	**Proposed Benefits**	**Increase/(Decrease)**
Normal Cost	8.21%	8.28%	0.07%
Member Contributions	(1.32)%	(1.32)%	0.00%
UAAL% (20 year amortization)*	9.06	9.22	0.16
Total Employer Contribution Rate	15.95%	16.18%	0.23%
Employer Normal Cost ($ millions)	$139.1	$140.5	$1.4
Estimated Employer Contribution ($ millions)	$322.0	$326.6	$4.6

*The increase in the unfunded actuarial accrued liability as a result of the proposal would be amortized over a period of 20 years as required under Chapter 105.684, RSMo.

Valuation Results As of June 30, 2014	**Present Benefits**	**Proposed Benefits**	**Increase/(Decrease)**
Market Value of Assets (MVA)	$9,136.8	$9,136.8	0
Actuarial Accrued Liability (AAL)	11,494.6	11,536.8	42.2
Actuarial Value of Assets (AVA)	8,637.8	8,637.8	0
Unfunded Actuarial Accrued Liability (UAAL)	$2,856.8	$2,899.0	42.2
Percent Funded	75.1%	74.9%	0.2%

In September 2014, the board adopted a minimum funding policy such that the employer contribution rate will be no less than 16.97% of payroll (the rate determined in connection with the June 30, 2013 valuation) until such a time as the plan is at least 80% funded on an actuarial value of assets basis. However, since the minimum contribution rate does not reveal the financial impact of the proposal, this supplemental valuation does not reflect the minimum funding policy.

The funded ratio of the plan as of the June 30, 2014, was 75.1%, which is below the 80% threshold described in Chapter 105.684 regarding adopting or implementing certain benefit changes. As a result, if HB 770 were enacted, MOSERS would not be able to implement the benefit option until the plan reached an 80% funded level prior to implementation and 75% after implementation. That being said, the calculations shown in this report reflect the estimated impact of the proposed change as if it would be implemented.

Oversight will split the cost of this proposal as follows, 60% General Revenue, 18% Other State Funds and 22% Federal Funds.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE*			
Costs - MOSERS			
Increased Employer Contributions	($2,760,000)	($2,704,800)	($2,785,800)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($2,760,000)**	**($2,704,800)**	**($2,785,800)**
FEDERAL FUNDS			
Costs - MOSERS			
Increased Employer Contributions	($1,012,000)	($991,760)	($1,021,460)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**($1,012,000)**	**($991,760)**	**($1,021,460)**
OTHER STATE FUNDS			
Costs - MOSERS			
Increased Employer Contributions	($828,000)	($811,440)	($835,740)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($828,000)**	**($811,440)**	**($835,740)**

***This does not reflect the increase in the UAAL of $42,200,000.**

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 proposal provides that if a vested member of the Missouri State Employees Retirement System dies prior to receiving a retirement benefit and the member does not have a surviving spouse or children under the age of 21 that a benefit must be computed as if the member retired on the date of death with a normal retirement annuity based upon credited service and final average pay to the date of death, and without reduction if the member's age was younger than normal retirement eligibility, the benefit must be payable for a period of 120 months to a designated beneficiary to receive the remaining annuity payments. If a beneficiary has not been designated by the member then the reserve for the annuity for the remainder of the 120 month period must be paid as provided under Subsection 3 of Section 104.620, RSMo.

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
Missouri State Employees Retirement System

Mickey Wilson

Mickey Wilson, CPA	Ross Strope
Director	Assistant Director
March 9, 2015	March 9, 2015