COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2425-03
Bill No.: Perfected HCS for HB 1134
Subject: State Employees; Health Care
Type: Original
Date: April 15, 2015

Bill Summary: This proposal modifies provisions relating to state employee health care.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	Up to $5,385,665	Up to $11,505,823	Up to $12,726,276
Total Estimated Net Effect on General Revenue	**Up to $5,385,665**	**Up to $11,505,823**	**Up to $12,726,276**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Other State Funds	Up to $3,209,612	Up to $6,591,030	Up to $6,876,510
Total Estimated Net Effect on Other State Funds	**Up to $3,209,612**	**Up to $6,591,030**	**Up to $6,876,510**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Federal Funds	Up to $3,941,445	Up to $8,182,256	Up to $8,679,693
Total Estimated Net Effect on All Federal Funds	**Up to $3,941,445**	**Up to $8,182,256**	**Up to $8,679,693**

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** assume the current proposal would not fiscally impact their agency.

In response to a previous version of this proposal, officials from the **Missouri Department of Conservation**, the **Metropolitan Community College of Kansas City**, the **Missouri State University**, the **University of Central Missouri**, the **State Technical College of Missouri** and the **MODOT and Patrol Employees Retirement System** assumed the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Public Safety - Missouri Highway Patrol** defer to MoDOT and Patrol Employees Retirement System for fiscal impact.

In response to a previous version of this proposal, officials from the **Missouri State Employees Retirement System (MOSERS)** assumed the proposed legislation would, if enacted, create a healthcare retirement incentive for general state employees who retire after March 1, 2015, and before November 1, 2015.

Under the proposal, a retiree may elect to continue coverage for him or herself and any eligible dependents, at the same cost as that of an active employee for a maximum period of five years or upon becoming eligible for Medicare, whichever occurs first. The monthly dollar amount contributed by the employer for such benefit would not increase beyond the level paid during the first full calendar year after implementation. After five years or upon becoming eligible for Medicare, the cost for medical coverage for such retiree and any dependents would revert to the applicable rate in place at that time.

This proposal also adds provisions that clarify that (1) the legislation would not include members of the General Assembly or statewide elected officials; (2) it would commence the first of the month following the effective date of the act; (3) in no event would the monthly dollar amount contributed by a retiree exceed the amount such retiree would have contributed under the retiree subsidy calculations as established by Missouri Consolidated Health Care Plan (MCHCP); (4) the incentive would apply to those retiring between March 1, 2015, and November 1, 2015, to allow for the continuation of normal retirements to occur; and (5) would include a different reporting mechanism.

ASSUMPTION (continued)

Additional provisions would allow the governing boards of Truman State University, Lincoln University, and the educational institutions described in section 174.020, the Highway Commission that governs the healthcare plans of Department of Transportation and the state highway patrol, and the Conservation Commission to elect to provide the proposed incentive to their respective employees.

The proposal restricts the state from filling more than 25% of the positions vacated; exceptions to the 25% restriction may be made for critical or seasonal positions or positions which are entirely federally funded. Such determinations would be made by rules and regulations promulgated by the Office of Administration (OA). The hiring restriction would not apply to Truman University, Lincoln University or the educational institutions.

Lastly, the proposal requires the MOSERS and the MODOT and Patrol Employees' Retirement System (MPERS), if applicable, to issue a report in writing to the Governor and the Commissioner of Administration by December 1, 2015, and provide annual reporting to the effect of the healthcare retirement incentive. The report would include the number of retirements, the amount of payroll affected as a result of such retirements, and the financial effect of such retirements as expressed in a report by each system's actuary.

OA and the MCHCP are required to submit similar reports which would also include the number of positions core cut as a result of such retirements and any costs associated with payment of medical premiums by the state.

Retirement incentives are designed to achieve a voluntary reduction in the workforce during a specific window with the desired effect being a permanent reduction in payroll. Any costs incurred should be offset by a combination of 1) a reduction in the number of active employees; 2) lower pay levels for replacement employees; and/or 3) a reduction in other fringe benefits for replacement employees. The success of any retirement incentive plan in reducing payroll costs is largely dependent upon a long-term reduction in the workforce. Without that discipline, there will be no long-term reduction in payroll costs.

MOSERS has no way of estimating the number of employees who might retire during the window provided by this proposal; however, in a jointly issued report from OA, MOSERS, and MCHCP, which reported the results of similar healthcare retirement incentive that was enacted in 2003, approximately 42% of those eligible retired under the incentive.

MOSERS retires between 200 to 300 active employees per month.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assumed the proposal would create a healthcare incentive benefit for state employees who retire after August 28, 2015 and before November 1, 2015. The healthcare incentive benefit would allow a retiree to continue coverage for him or herself and any eligible dependents, at the same cost as that of an active employee for a maximum period of five years or upon becoming eligible for Medicare, whichever occurs first. Additionally, the monthly dollar amount contributed by the employer under this section shall not increase beyond the level paid the first full calendar year after implementation. Savings from this proposal are achieved through the reduction in the number of active employees. Costs from this proposal are realized due to reduced member contributions. In order to calculate the numbers below the following assumptions were made:

- MCHCP's projected trend from CY15 to CY16 is 6.3% for active employees and 7.6% for non-Medicare retirees. These same trend rates were used in projecting total premiums for CY17 through CY20.
- MCHCP currently contributes, on a weighted average across all rate tiers, 84.5% of total premium for actives and 61.1% for non-Medicare retirees. These same percentages were assumed for CY17 through CY20.
- MCHCP utilized the same uptake percentage (42%) and replacement rate (60.6%) that was realized in 2003 when a similar retiree incentive package was offered.
- Beginning in CY17, MCHCP's contribution for a non-Medicare retiree is projected to be greater than the flat-dollar amount contributed in CY16 for an active employee. Therefore, most retirees under this proposal would be paying more in monthly premium than they would have paid if they delayed retirement until after November 1, 2015.

MCHCP estimated 2,082 retirees would take advantage of this proposal. The estimated change in monthly contribution towards health care premiums, by MCHCP, would be as follows: FY16 ($1,537,987), FY 17 $285,341, FY 18 $1,791,562. MCHCP estimates there would be 820 fewer active employees as a result of this proposal. The estimated savings in benefit costs, as a result of a reduction in the work force, would be as follows: FY 16 $5,038,972, FY 17 $7,922,298, FY 18 $8,419,447. The net savings of this proposal would be $3,500,985 in FY16, $8,207,639 in FY 17, and $10,211,009 in FY 18, based on MCHCP's estimates and assumptions.

Oversight notes the (costs)/savings of will be distributed among the following:

- General Revenue Funds - 60.92%
- Federal Funds - 24.83%
- Other State Funds - 14.25%

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Office of Administration (OA)** assumed this proposal would give retiring employees an additional option for healthcare benefits. A similar option was available in 2003, at which time approximately 42% of employees eligible to retire and take the option, did so. Accordingly, OA provides data reflective of a 42% take rate. However, OA is unable to predict whether or how the take rate of this proposal would differ from that in 2003. Accordingly, OA assumes solely for purposes of responding to this fiscal note request that the take rate would be between 0 and 42%. There would be 4,265 employees eligible to retire. This proposal also restricts agencies from refilling no more than 25% of positions vacated by employees who chose this option, with the exception of critical or seasonal positions or positions which are entirely federally funded. Agencies would be responsible to make the determination as to whether a position is critical or not. Rules would need to be promulgated by the Personnel Advisory Board addressing the 25% restriction. OA estimates that 39% will not be replaced, approximately 527 employees. This could result in a savings to the state of $18,071,468 (527 X $34,281, average annual salary).

Oversight notes the (costs)/savings will be distributed among the following:

- General Revenue Funds - 36%
- Federal Funds - 34%
- Other State Funds - 30%

In addition, **OA** assumes the proposal requires their department to prepare a report to the governor and general assembly pertaining to the budgetary effect of state employee retirements including amount of payroll reduced as a result of such retirements, number of positions that are core cut as a result of such retirements, number of employees employed to replace those who retired, and the financial effect on the budget.

For fiscal note purposes, **Office of Administration - Division of Personnel** assumes the number of employees who choose to retire under this proposal would be small enough to absorb reporting and tracking costs with existing resources; however, Division of Personnel would require additional appropriations if the number of employees electing to retire under this proposal generated significant reporting and tracking obligations.

Oversight assumes for fiscal note purposes that some current employees eligible for retirement will retire regardless of this incentive. Oversight will show a savings, ranging up to the approximated amounts to each fund.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUNDS			
Savings - MCHCP Increase in Member Contributions	$0	$173,830	$1,091,420
Savings - MCHCP Reduction in Employer Contributions	Up to $3,069,742	Up to $4,826,264	Up to $5,129,127
Savings - OA Reduction in FTE from nonreplacement (6 months of impact in FY16)	Up to $3,252,865	Up to $6,505,729	Up to $6,505,729
Costs - MCHCP Decrease in Member Contributions	($936,942)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS	**Up to $5,385,665**	**Up to $11,505,823**	**Up to $12,726,276**
OTHER STATE FUNDS			
Savings - MCHCP Increase in Member Contributions	$0	$40,661	$255,298
Savings - MCHCP Reduction in Employer Contributions	Up to $718,054	Up to $1,128,928	Up to $1,199,771
Savings - OA Reduction in FTE from nonreplacement (6 months of impact in FY16)	Up to $2,710,721	Up to $5,421,441	Up to $5,421,441
Costs - MCHCP Decrease in Member Contributions	($219,163)	$0	$0
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**Up to $3,209,612**	**Up to $6,591,030**	**Up to $6,876,510**

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
FEDERAL FUNDS			
Savings - MCHCP Increase in Member Contributions	$0	$70,850	$444,845
Savings - MCHCP Reduction in Employer Contributions	Up to $1,251,177	Up to $1,967,107	Up to $2,090,549
Savings - OA Reduction in FTE from nonreplacement (6 months of impact in FY16)	Up to $3,072,150	Up to $6,144,299	Up to $6,144,299
Costs - MCHCP Decrease in Member Contributions	($381,882)	$0	$0
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**Up to $3,941,445**	**Up to $8,182,256**	**Up to $8,679,693**

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 changes the laws regarding the Missouri State Employees' Retirement System (MOSERS) to allow for a medical insurance and retirement incentive for certain state employees who are eligible for state-sponsored medical benefits.

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

Missouri State Employees Retirement System
Joint Committee on Public Employee Retirement
MODOT and Patrol Employees Retirement System
Missouri Consolidated Health Care Plan
Office of Administration
Missouri Department of Conservation
Department of Public Safety - Missouri Highway Patrol
Missouri State University
University of Central Missouri
State Technical College of Missouri
Metropolitan Community College of Kansas City

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