

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1811-02
Bill No.: HCS for HB 865
Subject: Retirement - Local Government; Political Subdivisions; Retirement - State
Type: Original
Date: April 18, 2017

Bill Summary: This proposal modifies provisions related to public employee retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue	\$0	\$0 to More than \$4,380,000	\$0 to More than \$4,380,000	\$0 to More than \$4,380,000
Total Estimated Net Effect on General Revenue	\$0	\$0 to More than \$4,380,000	\$0 to More than \$4,380,000	\$0 to More than \$4,380,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	FY 2028
Highway Fund	\$0	\$0 to More than \$790,000	\$0 to More than \$790,000	\$0 to More than \$790,000
Other State Funds	\$0	\$0 to More than \$1,328,000	\$0 to More than \$1,328,000	\$0 to More than \$1,328,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 to More than \$2,118,000	\$0 to More than \$2,118,000	\$0 to More than \$2,118,000

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	FY 2028
Federal Funds	\$0	\$0 to More than \$1,602,000	\$0 to More than \$1,602,000	\$0 to More than \$1,602,000
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0 to More than \$1,602,000	\$0 to More than \$1,602,000	\$0 to More than \$1,602,000

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	FY 2028
Total Estimated Net Effect on FTE	0	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 2018	FY 2019	FY 2020	FY 2028
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§104.1092 Lump Sum Payment Option

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the provisions contained in HCS for HB 865 (1811-02) would, if enacted, allow the MOSERS (& MPERS) Board to choose to establish a program to allow terminated vested members (currently 19,500) to make a one-time election to receive a lump sum payment equal to a percentage of the present value of the member's deferred annuity. The Board(s) may only offer this program until May 31, 2018.

Additionally, any member who takes advantage of the lump sum payment option shall forfeit all creditable or credit service and future rights to receive retirement annuity benefits and any long-term disability benefits from the system. If such member returns to state employment, such member shall be considered a new employee with no prior credited service and shall be considered a member of the MSEP 2011 tier within MOSERS and/or MPERS.

MOSERS' membership includes approximately 19,500 terminated vested members. The average MOSERS' terminated vested member is:

- Currently age 48,
- Left state employment at age 38,
- Worked approximately 9 years for the State, and
- Will receive an average monthly benefit at retirement of \$450 (at approximately age 62).

The fiscal impact to MOSERS is unknown because the MOSERS (& MPERS) Board of Trustees will have the authority to design the program offered to terminated vested members including the percentage of the present value of future benefits that will be offered as a lump sum payment with this program and there is no way to know how many members will elect to take such an option.

However, MOSERS' actuarial professionals completed an actuarial analysis under the scenario of a 50% participation rate of a lump sum distribution equivalent to 65% of the present value of future benefits which is reflected below. It is important to note that this scenario may not ultimately be the design selected by the MOSERS Board of Trustees should they choose to offer such program.

ASSUMPTION (continued)

Impact on MOSERS (in Millions)

Valuation Results As of June 30, 2016	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	\$8,109.2	\$7,916.6	(\$192.6)
Actuarial Accrued Liability (AAL)	\$12,751.2	\$12,454.9	(\$296.3)
Actuarial Value of Assets (AVA)	\$8,878.1	\$8,685.5	(\$192.6)
Unfunded Actuarial Accrued Liability (UAAL)	\$3,873.1	\$3,769.4	(\$103.7)
Percent Funded	69.6%	69.7%	0.1%

	FY 2018	FY 2019	FY 2020
Estimated decrease in annual employer contributions to MOSERS	\$0	\$7,100,000	\$7,100,000

*The change in the employer contribution rate is first reflected for FY19, since the FY18 contribution rate has already been certified by the MOSERS Board of Trustees.

For fiscal note purposes, **Oversight** will reflect a range of savings from \$0 (no terminated vested employee elects to receive a lump sum distribution and/or the MOSERS Board of Trustees chooses not to implement the changes) to "More than \$7,100,000" (more than 50% of terminated vested employees elect to receive a lump sum payment and/or the MOSERS Board of Trustees elects to increase the present value of future benefits).

Oversight assumes the contributions to MOSERS will be 60% General Revenue, 22% Federal and 18% Other State Funds.

ASSUMPTION (continued)

	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue Fund (60%)	\$0	\$0 to More than \$4,260,000	\$0 to More than \$4,260,000	\$0 to More than \$4,260,000
Other State Funds (18%)	\$0	\$0 to More than \$1,278,000	\$0 to More than \$1,278,000	\$0 to More than \$1,278,000
Federal Funds (22%)	\$0	\$0 to More than \$1,562,000	\$0 to More than \$1,562,000	\$0 to More than \$1,562,000
TOTAL SAVINGS	\$0	\$0 to More than \$7,100,000	\$0 to More than \$7,100,000	\$0 to More than \$7,100,000

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume the proposed legislation contained in HCS to HB 865 (1811-02) would, if enacted, allow terminated, vested members of the plan (currently 2,300 employees) who have not yet reached normal retirement age or eligibility to make a one-time election to receive a lump sum payment equal to a percentage of the present value of such member's deferred annuity, should the plan's board choose to do so.

MPERS assumes the proposed amendment would have a minimal positive impact to the funded status of the plan (assuming the MPERS board chooses to implement the changes).

Since the savings to MPERS is unknown, For fiscal note purposes, **Oversight** will reflect a range of savings from \$0 (no terminated vested employee elects to receive a lump sum distribution and/or the MPERS Board of Trustees chooses not to implement the changes) to "More than \$1,000,000."

Oversight also assumes the contributions to MPERS will be 79% Highway Fund, 12% General Revenue, 5% Other State Funds and 4% Federal Funds.

ASSUMPTION (continued)

	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue Fund (12%)	\$0	\$0 to More than \$120,000	\$0 to More than \$120,000	\$0 to More than \$120,000
Highway Fund (79%)	\$0	\$0 to More than \$790,000	\$0 to More than \$790,000	\$0 to More than \$790,000
Other State Funds (5%)	\$0	\$0 to More than \$50,000	\$0 to More than \$50,000	\$0 to More than \$50,000
Federal Funds (4%)	\$0	\$0 to More than \$40,000	\$0 to More than \$40,000	\$0 to More than \$40,000
TOTAL SAVINGS	\$0	\$0 to More than \$1,000,000	\$0 to More than \$1,000,000	\$0 to More than \$1,000,000

Officials from the **Joint Committee on Public Retirement (JCPER)** assume this legislation may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10), RSMo.

The Missouri State Employees' Retirement System has filed a supplemental actuarial valuation with the JCPER, which indicates the legislation, if passed and implemented by the board of trustees, may have a positive fiscal impact on the employer contribution rate. This supplemental actuarial valuation is available on the JCPER website.

Bill as a Whole

Officials from the **Missouri Local Government Employees' Retirement System** assume the proposal will have no fiscal impact on their organization.

Officials from the **Missouri Local Government Employees' Retirement System** and the **St. Louis Police Retirement System** each assume the proposal will have no fiscal impact on their respective organizations.

ASSUMPTION (continued)

Oversight assumes this proposal will not have a substantial fiscal impact on the St. Louis Police Retirement System, the St. Louis Employees Retirement System or Local Government Employee's Retirement System.

Section 70.631

Oversight assumes this section of the proposal allows each political subdivision to elect to cover jailers as police officer members of the system and emergency medical service personnel as firefighter members of the system if they so choose. For fiscal note purposes, Oversight will reflect a range of fiscal impact to local political subdivisions of \$0 (local political subdivisions do **not** elect to cover jailers as police officer members of the system and emergency medical service personnel as firefighter members of the system) to a negative unknown cost ((local political subdivisions do elect to cover jailers as police officer members of the system and emergency medical service personnel as firefighter members of the system).

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
GENERAL REVENUE FUND				
<u>Savings - MOSERS</u>				
Decrease in Employer Contributions §104.1092	\$0	\$0 to More than \$4,260,000	\$0 to More than \$4,260,000	\$0 to More than \$4,260,000
<u>Savings - MPERS</u>				
Decrease in Employer Contributions §104.1092	<u>\$0</u>	\$0 to More than <u>\$120,000</u>	\$0 to More than <u>\$120,000</u>	\$0 to More than <u>\$120,000</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 to More than \$4,380,000</u>	<u>\$0 to More than \$4,380,000</u>	<u>\$0 to More than \$4,380,000</u>
HIGHWAY FUND				
<u>Savings - MPERS</u>				
Decrease in Employer Contributions §104.1092	<u>\$0</u>	\$0 to More than <u>\$790,000</u>	\$0 to More than <u>\$790,000</u>	\$0 to More than <u>\$790,000</u>
ESTIMATED NET EFFECT ON THE HIGHWAY FUND	<u>\$0</u>	<u>\$0 to More than \$790,000</u>	<u>\$0 to More than \$790,000</u>	<u>\$0 to More than \$790,000</u>

FISCAL IMPACT -
State Government
 (continued)

FY 2018
 (10 Mo.) FY 2019 FY 2020 (FY 2028)

OTHER STATE FUNDS

Savings - MOSERS

Decrease in Employer Contributions §104.1092	\$0	\$0 to More than \$1,278,000	\$0 to More than \$1,278,000	\$0 to More than \$1,278,000
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Savings - MPERS

Decrease in Employer Contributions §104.1092	<u>\$0</u>	<u>\$0 to More than \$50,000</u>	<u>\$0 to More than \$50,000</u>	<u>\$0 to More than \$50,000</u>
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ESTIMATED NET EFFECT ON OTHER STATE FUNDS

	<u>\$0</u>	<u>\$0 to More than \$1,328,000</u>	<u>\$0 to More than \$1,328,000</u>	<u>\$0 to More than \$1,328,000</u>
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FISCAL IMPACT -
State Government
 (continued)

	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
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FEDERAL FUNDS

Savings - MOSERS

Decrease in Employer Contributions §104.1092	\$0	\$0 to More than \$1,562,000	\$0 to More than \$1,562,000	\$0 to More than \$1,562,000
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Savings - MPERS

Decrease in Employer Contributions §104.1092	\$0	\$0 to More than <u>\$40,000</u>	\$0 to More than <u>\$40,000</u>	\$0 to More than <u>\$40,000</u>
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**ESTIMATED NET
EFFECT ON
FEDERAL FUNDS**

<u>\$0</u>	<u>\$0 to More than \$1,602,000</u>	<u>\$0 to More than \$1,602,000</u>	<u>\$0 to More than \$1,602,000</u>
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FISCAL IMPACT -
Local Government

	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
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**LOCAL
POLITICAL
SUBDIVISIONS**

**Cost - Increase in
employer
contributions**
 §70.631

<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
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**ESTIMATED NET
EFFECT TO
LOCAL
POLITICAL
SUBDIVISIONS**

<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal authorizes a political subdivision, by a majority vote of its governing body, to elect to cover jailers as policemen members and emergency medical service personnel as firemen members for purposes of coverage under the Missouri Local Government Employees' Retirement System.

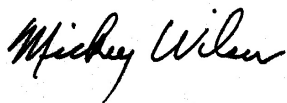
Limitations in current law that provide that an employer's total contribution to the system must not exceed the total contributions for the preceding fiscal year by more than 1% must not apply to an increase resulting from an employer's election for the coverage under the provisions of the proposal.

This proposal allows airport police officers in the Employees Retirement System of the City of St. Louis the option of remaining in that retirement plan or to transfer their creditable service to the St. Louis Metropolitan Police Department. Any member transferring is subject to the conditions and requirements of Section 105.691, RSMo, relating to agreements to transfer service between plans.

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 Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Missouri Local Government Employees' Retirement System
St. Louis Police Retirement System



Mickey Wilson, CPA

Ross Strobe

L.R. No. 1811-02
Bill No. HCS for HB 865
Page 12 of 12
April 18, 2017

Director
April 18, 2017

Assistant Director
April 18, 2017