

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5554-01
Bill No.: HB 2202
Subject: Retirement - Local Government; Law Enforcement Officers
Type: Original
Date: February 2, 2018

Bill Summary: This proposal modifies provisions relating to retirement for police officers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	\$2,900,000	\$1,600,000	\$200,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **St. Louis Police Retirement System (STLPRS)** assume this legislation does the following:

- (1) Members' final average compensation will be calculated based on the last three years of creditable service as a police officer whether or not they are participating in DROP;
- (2) Members participating in the DROP, whose employment as a police officer terminates due to death or disability shall have their average final compensation calculated based on the last three years of creditable service;
- (3) Members may terminate employment as a police officer and actually retire after completing at least 10 years of service and attaining age 55;
- (4) Members may enter DROP after completing 20 years of creditable service;
- (5) Members in DROP shall earn interest at the rate of return earned by the 10-year United States Treasury bill plus 1% not to exceed 6%;
- (6) A member's service retirement allowance shall not exceed 70% of the member's average final compensation;
- (7) Retired members will receive an annual COLA based on the increase in the consumer price index up to 3% max with total increases capped at 25% total increase;
- (8) Members will not be eligible for the return of mandatory contributions upon retirement, but members terminating without being vested will receive the mandatory contributions back without interest;
- (9) Members will not be eligible for the additional benefits available under Section 86.254, RSMo; and
- (10) Members will not be 100% vested until completing 10 years of creditable service and attaining the age of 55.
- (11) The contribution rate of each member not participating in the DROP will increase from 7% to 8%; however, these deductions will now be deducted prior to taxation.

ASSUMPTION (continued)

According to the STLPRS's actuarial study, the changes in this proposal should increase the funded ratio from 79.53% to 79.42% and lower the impact on annual contribution from 36.79% to 36.21%.

Officials from the **Joint Committee on Public Employee Retirement** indicate that such legislation may constitute 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.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the Missouri House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage of the bill. An actuarial cost statement for this legislation has not been filed with the JCPER.

St. Louis Police Retirement System as of October 1, 2017

		<u>Funded Ratio</u>
Assets: Market Value	\$776,579,478	80.1%
Actuarial Value	\$771,337,887	79.5%
Liabilities:	\$969,815,612	

Actuarially Determined Contribution Rate (PY 17)

Employer:	39.37%	\$29,601,871
Employee:	<u>7.00%</u>	<u>\$5,263,223 (estimate)</u>
Total:	46.37%	\$34,865,094 (estimate)

Total Expected Compensation: \$75,188,904

Active Membership: 1,120
Inactive Membership: 2,049

The **City of St. Louis** did not respond to our request for fiscal impact.

ASSUMPTION (continued)

Oversight assumes this proposal will have a significant fiscal impact on the St. Louis Police Retirement System (STLPRS). STLPRS is not a local political subdivision; therefore, **Oversight** will not reflect a fiscal impact to their organization.

Oversight also assumes, based on the STLPRS’s actuarial study, the Employer Contribution rate will lower the first 3 years of the fiscal note and will then have an increase in employer contributions thereafter as a result of the changes in this proposal. The table below shows the changes from the current plan projections to the proposed plan projections and the difference between the two in millions.

*In millions

	Employer Contribution - Current Plan Projections	Employer Contribution - with proposed changes	Difference
2019	\$33.5	\$30.6	\$2.9
2020	\$32.2	\$30.6	\$1.6
2021	\$30.9	\$30.7	\$.2
2036	\$31.3	\$41.7	(\$10.4)

FISCAL IMPACT - State Government

FY 2019
(10 Mo.)

FY 2020

FY 2021

\$0

\$0

\$0

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOCAL POLITICAL SUBDIVISIONS			
<u>Savings</u> - St. Louis Police Department Lower employer contribution rate	<u>\$2,900,000</u>	<u>\$1,600,000</u>	<u>\$200,000</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$2,900,000</u>	<u>\$1,600,000</u>	<u>\$200,000</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

- (1) Members' final average compensation will be calculated based on the last three years of creditable service as a police officer whether or not they are participating in DROP;
- (2) Members participating in the DROP, whose employment as a police officer terminates due to death or disability shall have their average final compensation calculated based on the last three years of creditable service;
- (3) Members may terminate employment as a police officer and actually retire after completing at least 10 years of service and attaining age 55;
- (4) Members may enter DROP after completing 20 years of creditable service;
- (5) Members in DROP shall earn interest at the rate of return earned by the 10-year United States Treasury bill plus 1% not to exceed 6%;
- (6) A member's service retirement allowance shall not exceed 70% of the member's average final compensation;
- (7) Retired members will receive an annual COLA based on the increase in the consumer price index up to 3% max with total increases capped at 25% total increase;
- (8) Members will not be eligible for the return of mandatory contributions upon retirement, but members terminating without being vested will receive the mandatory contributions back without interest;

FISCAL DESCRIPTION (continued)

(9) Members will not be eligible for the additional benefits available under Section 86.254, RSMo; and

(10) Members will not be 100% vested until completing 10 years of creditable service and attaining the age of 55.

Currently, six out of nine trustees of the retirement system constitute a quorum, this bill changes that to a majority of the trustees or five trustees. The board is allowed to use the entry age normal actuarial cost method for determining the annual valuation of the assets and liabilities of the system when St. Louis City adopts an ordinance to allow them. The actuarial valuation method is outlined in the bill.

Members retired due to nonduty disability will be limited in what they can earn if they are gainfully employed, an offset to the allowance will occur if the sum of the member's current salary plus allowance equals an amount in excess of 125% of the member's current salary.


The contribution rate of each member not participating in the DROP will increase from 7% to 8%; however, these deductions will now be deducted prior to taxation.

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
Police Retirement System of St. Louis

Ross Strobe



Acting Director
February 2, 2018