Section-by-Section Analysis of MPSERS Reform Legislation
(Senate Bill 1040, As Introduced, March 22, 2012)

Section Number and Purpose	Proposed Change	Estimated Fiscal Impact*
Sec. 3a, Definition of Compensation	Beginning July 1, 2012, future compensation will no longer include merit pay, tax sheltered annuities, or longevity pay.	No estimated fiscal impact available because, until this point, compensation was not broken down into categories.
Sec. 4(12), Definition of Final Average Compensation	For new hires, compensation used to determine Final Average Compensation shall not exceed $100,000, adjusted annually by inflation.	Year 1: $1 million savings Year 2: $3 million savings Year 3: $5 million savings …Year 10: $18 million savings Long-term hybrid employer rate reduced by 0.33% of payroll.
Sec. 43a Existing Employee Contributions Sec. 43g Proposed Employee Contributions	Employees will be provided a choice to either 1) continue to pay existing contributions under Sec. 43a, but receive a reduced pension multiplier of 1.25% (rather than 1.5%) for future years of service, or 2) pay higher contributions under Sec. 43g in order to continue receiving the 1.5% pension multiplier. Basic Employees (hired before 1990) choosing option #2 would pay flat 5% of compensation (up from 0% current contribution) into pension system. Member Investment Plan (MIP) employees (hired between 1990 and 2010) would pay flat 8% of compensation (up from a graded system where contributions range from 3% to 6.4%, based on hire date and salary) into pension system. Hybrid members (hired after July 1, 2010) will remain in the hybrid plan, and will continue contributing existing amounts.	5% Across the Board for Basics = $74 million 8% Across the Board for MIP (non-hybrid) = $279 million Total Additional Employee Contributions = $353 million SFA estimate of long-term reduction in employer contribution rate if additional employee contributions are directed to reduce employer costs: between 2.5% and 2.8%.

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Sec. 59 Employee Choices: Higher Contributions/Retain 1.5% multiplier for future years of service Same Contributions/Reduced 1.25% multiplier for future years of service No Contributions/Freeze Pension Earned to Date/Switch to DC for future years	All existing employees hired before July 1, 2010 would be given a choice to either pay higher contributions and retain the 1.5% pension multiplier, or, if choosing not to pay the higher contributions, then a choice between the existing contributions and a reduced multiplier (1.25%) OR freezing earned pension and transferring to a Defined Contribution plan. An employee choosing to make the higher contributions to retain the existing 1.5% multiplier for future service would be given a further choice to pay the higher contributions until termination or until reaching "attainment date" (i.e., 30 years of service). For employees choosing to pay the higher contributions until attainment date, after reaching 30 years of service, they would return to the lower contribution levels, but at a 1.25% multiplier for years in excess of 30. An employee choosing not to pay the higher contributions who further chooses to freeze the earned pension to date and transfer to DC, the employer would contribute 4% of pay into the employee's 401k account.	This section is the implementation of the employee contribution sections referenced above, and therefore has no standalone fiscal impact.
Sec. 84b Pension Calculations Based on Choices Made in Section 59	Provides for the calculation of pensions based on the choices employees made in Section 59. People choosing to make the higher contributions under Sec. 43g will retain the 1.5% multiplier for future years of service, in the calculation of their pension. If they chose to make the increased contributions	This section is the implementation of the employee elections section referenced above, and therefore has no standalone fiscal impact.

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	only until attainment date, the 1.5% multiplier is used for service accrued until reaching the attainment date, and a 1.25% multiplier is used for years of service after reaching the attainment date. People choosing not to make the higher contributions under Sec. 43g, but choosing to continue making the contributions under Sec. 43a, will receive a 1.25% multiplier for future years of service, when calculating their pension. People choosing not to make any future contributions will be frozen at the pension accrued to date, and switched to DC for future years of service. All previously accrued service will be calculated at a 1.5% multiplier.	
Sec. 91 Retiree Health Care	<u>"80/20"</u> All existing retirees would have State retiree health, dental, vision, and hearing coverage of 80%, rather than the existing 90% coverage. <u>"Age 60"</u> All current employees who retire after July 1, 2012 would not be able to receive retiree health care until at least age 60. Current law allows Basic employees to receive retiree health at age 55 with 30 years of service, or age 60 with 10 years of service. Current law allows MIP members hired before July 1, 2010 to receive health care at any age with	<u>"80/20"</u> Year 1: $90 million savings Year 2: $100 million savings Year 3: $110 million savings …Year 10: $183 million savings Health UAL Reduction of $3.3 billion. <u>"Age 60"</u> Year 1: $5 million savings Year 2: $28 million savings Year 3: $48 million savings …Year 10: $128 million savings Health UAL Reduction of up to $1.3 billion. Note that the savings shown here for the "Age 60" changes likely will be reduced

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	30 years of service, or age 60 with 10 years of service. Proposal includes one-year phase-in, whereby this would not impact people who, by July 1, 2013, have combined age plus years of service equal to at least 85. "Graded Premium" In addition, all current employees who retire after July 1, 2012 would become part of the graded health care premium coverage plan, which currently only covers employees hired since July 1, 2008. This plan would provide 30% premium coverage after 10 years of service, with an additional 3% coverage per year of service after 10 years, up to a maximum of 80%. Eliminates retiree health care coverage for any employee first hired on or after July 1, 2012.	downward somewhat due to the "Rule of 85" phase-in. "Graded Premium" Year 1: $5 million Year 2: $26 million Year 3: $48 million …Year 10: $222 million UAL Reduction of $2.8 billion. Note that there may be some overlap of savings that is being captured under both the "Age 60" and "Graded Premium" proposals. Therefore, note that these savings may be reduced somewhat when eliminating the overlap. The savings shown were estimated as independent events, and now need to be estimated concurrently.
Sec. 91a "401k" for Retiree Health	Combined with Sec. 91(15), retiree health care premium coverage is eliminated for new employees first hired on or after July 1, 2012. In place of retiree health care coverage, the employer would pay up to 2% in matching contributions to an employee's 401k account. New hires will not pay the 3% retiree health contribution required under Sec. 43e for all current employees, since they will not receive retiree health care upon retirement.	This would be a new cost in addition to paying the cash costs of existing retirees, which would grow until a break-even point was reached in roughly 30 years, after which costs would decline, with significant savings achieved in 60 years. Eventually, long-term costs for retiree health care would max out at 2% of payroll. Year 1: $11 million additional cost Year 2: $22 million additional cost Year 3: $31 million additional cost …Year 10: $110 million additional cost

SENATE FISCAL AGENCY

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Appropriation for ORS to Implement	$1.0 million appropriation to the Office of Retirement Services for implementation of the bill.	$1.0 million appropriated from the retirement system's assets.
Total Fiscal Impacts		SFA estimated first-year reduction in MPSERS employer contribution rate if all savings were used to reduce employer contributions: 3.5% **Note:** For employees hired before July 1, 2010, the FY 2011-12 MPSERS employer contribution rate is 24.46% of payroll, and, in the absence of any changes, the FY 2012-13 rate will be 27.37% (an increase of 2.91% of payroll over FY 2011-12) and the FY 2013-14 rate will be 31.21% (an increase of 3.84% of payroll over FY 2012-13).

***Note:** Estimates of fiscal impacts provided by the Office of Retirement Services (ORS) are based on earlier requests for information, except where noted as SFA estimates. The bill as introduced is not identical to those earlier requests, and therefore the estimates shown above are subject to change, as noted throughout the analysis, pending updated information from ORS, which is expected by March 30, 2012. Please use caution in quoting estimated fiscal impacts, as they will change when the updated estimates are provided.

Note: The reforms addressed in Senate Bill 1040 would not result in any State savings. Instead, they would produce short- and long-term reductions in costs in the retirement system, and would require additional employee contributions to the retirement system, if that option is chosen by the employees. The savings may be realized either by a lower-than-anticipated employer contribution rate, or by directing those savings toward the unfunded accrued liabilities, or some combination of both. As noted in the Total Fiscal Impacts above, if all of the proposed reforms were enacted and the savings were realized by lowering the otherwise anticipated contribution rate, then the employer contribution rate for FY 2012-13 would remain near the level for FY 2011-12, rather than increasing the anticipated nearly 3% of payroll.

March 22, 2012