



## Joint Committee on Public Employee Retirement

Jefferson City, Missouri



In an effort to keep local public employee retirement systems (PERS) informed of recent legislative changes on the state and federal level, the Joint Committee on Public Employee Retirement (JCPER) is providing this **Public Plan Update**.

### *From the Chairman*

On behalf of the JCPER members and staff, we are pleased to offer this *Public Plan Update* to Missouri's public pension plans. This *Update* is designed to provide important information regarding Missouri's recently concluded legislative session as well as Federal and Judicial actions. As mentioned further in this *Update*, I sponsored legislation during the 2006 session providing public pension reform. Among other provisions, this proposal would have prohibited various benefit enhancements for plans less than 80% funded. Although pension reform passed the Senate initially by a vote of 33-0, it unfortunately never came back up for a final vote to Truly Agree and Finally Pass. These provisions will certainly will be a consideration for the upcoming 2007 legislative session. While some public plans might contemplate benefit modifications in anticipation of 2007 pension reform, the JCPER must **emphasize** the concept behind Missouri's pension reform is not to harm any of our public plans but rather to be a catalyst for continued sustainability of the defined benefit plan structure. In the midst of daily negative pension reporting across the country, Missouri has maintained a positive defined benefit public plan environment.

The JCPER monitors all public retirement plans which are in good condition funded at an aggregate rate of 84.7%. There are 283,600 public employees and 184,000 retirees covered by defined benefit plans in Missouri receiving benefit payments in excess of \$2.24 billion. These payments are not only a vital part of our state's economy, they also provide general revenue for other state programs as mentioned in the JCPER News portion of this *Update*.

The JCPER recognizes the contribution our former public employees provided in service to our state and local governments and is committed to assuring their current benefit structure.

I hope you find this *Update* helpful and informative. If you have any questions or concerns, do not hesitate to contact myself or the JCPER staff.

Sincerely,

Representative Todd Smith, Chairman

# **PUBLIC PLAN UPDATE**

June, 2006

*“While some public plans might contemplate benefit modifications in anticipation of 2007 pension reform, the JCPER must emphasize the concept behind Missouri’s pension reform is not to harm any of our public plans but rather to be a catalyst for continued sustainability of the defined benefit plan structure.”*

## *End of Session Review*

At the conclusion of the 2006 Legislative Session of the Missouri General Assembly, 5 pension related bills were Truly Agreed To and Finally Passed. Upon signature of Governor Blunt, these bills will be enacted into law. In total, 4 pension systems will be affected by the passage of these bills.

### **HCS FOR HOUSE BILL 1138**

### **SCS FOR SENATE BILL 830**

#### *Kansas City Police Retirement System*

► Allows members to receive service credit while on leave of absence for active military duty. The employee contribution for this service will be made by the System.

### **HCS FOR HOUSE BILL 1344**

#### *St. Louis Firemen's Retirement System*

► Expands the investment authority of the St. Louis Firemen's Retirement System Board of Trustees.

### **HOUSE JOINT RESOLUTION 55**

#### *Missouri State Employees' Retirement System*

- Proposes constitutional amendment, upon voter approval, which would:
- Disqualify a public official from receiving a state pension if removed from office for misconduct, impeached or convicted of a felony while serving in office, and
  - Require a two-thirds majority vote of the General Assembly to disapprove pay increases for elected officials. No compensation schedule increase shall be effective until January 1, 2009.

### **SENATE BILL 871**

#### *St. Louis Police Retirement System*

► Provisions relative to conformance with the Internal Revenue Code. These provisions apply primarily to plan contributions and distributions.

There were several provisions viable for passage right up until the last few hours of the legislative session. Unfortunately, four pension bills expired on the calendars including pension reform contained in HB 1306. This omnibus legislation contained provisions from seven separate bills. Ultimately, the failure of HB 1306 was not due to the content of the provisions or time limitations, but rather to other political differences.

The JCPER monitored 11 proposals modifying taxation of pensions. None of the bills progressed beyond committee level.



*The Joint  
Committee on  
Public Employee  
Retirement  
monitored 60  
pension related  
bills, 22 requiring  
actuarial cost  
statements which  
were filed  
appropriately.*

## *Pension Reform Provisions Offered in 2006 Legislative Session*

Rep. Todd Smith (R-118), JCPER and House Retirement Committee Chairman proposed pension reform provisions during the 2006 legislative session. These provisions were based on private pension reform recommendations under consideration on the federal level. The intent of the state legislation was to assure the long-term sustainability of Missouri's public pension plans. Included in the proposal were:

### PLAN FUNDING

- ▶ Prohibition of new benefit enhancements including COLAs and DROPs for plans less than 80% funded
- ▶ Plans greater than 80% funded may adopt a benefit increase provided the funded ratio remains above 75% after adoption
- ▶ New benefit increases shall be amortized over 20 years
- ▶ Plans less than 60% funded shall have actuary prepare an accelerated contribution schedule
- ▶ Plans less than 60% funded not making 100% of the required contribution for 3 successive plan years shall have state funds withheld
- ▶ Reduces amortization period associated with unfunded accrued liabilities to a maximum of 30 years as recommended by the Governmental Accounting Standards Board (GASB)



### FIDUCIARY RESPONSIBILITY AND EDUCATION

- ▶ Prohibits board members from receiving gains or profit from any fund or plan transaction
- ▶ Prohibits board members from accepting political contributions or compensation to influence action with respect to plan investments
- ▶ Retirement benefits forfeited upon conviction of a plan-related felony after 08/28/06
- ▶ Requires plan to implement an education program for new board members, including fiduciary responsibility and sunshine law requirements
- ▶ Requires board members having served 1 or more years to attend at least 2 continuing education programs annually

### FIRE PROTECTION DISTRICT RETIREMENT PLANS

- ▶ Effective 01/01/07, fire protection districts are prohibited from establishing new defined benefit pension plans for volunteer members or district board of directors. Defined contribution plans are permissible. A plan formed from consolidation of districts existing prior to 01/01/06 is excluded from provisions.

Although the reform bill passed the Senate initially by a vote of 33-0, it unfortunately never came back up for a final vote to Truly Agree and Finally Pass. It is anticipated these provisions will be filed again in 2007.

## *Federal Legislative Highlights*

### **PENSION REFORM**

The 109th Congress is currently conferencing over the two versions of private pension reform passed by the House and Senate. The House version (HR 2830) and Senate version (S 1783) contain innovative approaches to addressing private pension plan funding issues and PBGC funding and protection. While it is still uncertain which provisions will ultimately be included in the conference version, the following provisions were included in the House version:

- ▶ Prohibits benefit increases and lump sum payments for plans less than 80% funded
- ▶ **Yellow Zone** - Plans 65% to 80% funded, **Red Zone** - Plans less than 65% funded and **Freezing Plans** - Plans less than 60% funded
- ▶ Any benefit change must be amortized over a 15 year period
- ▶ Plans less than 80% funded must improve status by 1/3 within 10 years
- ▶ Prohibits benefit increases if change results in a funded ratio below 65%
- ▶ Benefit accruals frozen if funded ratio less than 60%
- ▶ Requires annual notification to members of plan's funded status
- ▶ Phases in employer premium increase to the PBGC
- ▶ Provides a modified "yield curve" permanent interest rate to accurately measure current pension liabilities
- ▶ Allows retired public safety officers to make tax-free distributions (up to \$5,000 annually) from governmental pension plans to purchase health or long term care insurance

*Senate and House conferees are working toward a compromise on pension reform to be finalized prior to the July 4th break.*

### **TAXATION**

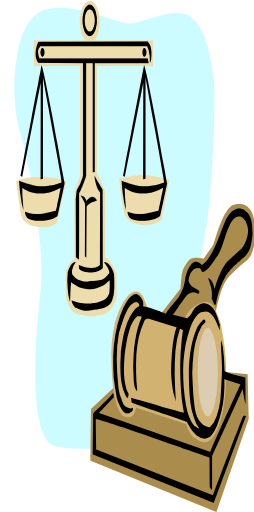
On May 17, 2006, President Bush signed into law the "Tax Increase Prevention and Reconciliation Act of 2005" (HR 4297). Contained in this tax package is a provision added in conference requiring federal, state and local governments to withhold 3% on payments for goods and services provided. This withholding would not be effective until 2011. The estimated effect by the Congressional Budget Office (CBO) of this provision is over \$6 billion in revenue in FY 2011. The provision exempts entities with less than \$100 million in annual expenditures for property and services. There are still several ambiguous areas relative to whether or not state and local retirement systems would be a separate entity or an instrumentality of the state under this provision. The JCPER will continue to monitor this provision and will provide updates on our website at [www.jcper.org](http://www.jcper.org).

*"The best time to start thinking about retirement is before your boss does." - Unknown*

## Recent Court Decisions

As conveyed in the 2006 JCPER Annual Report, the St. Louis County Circuit Court in 2005 issued a judgment and order citing violation of JCPER governing statutes relative to compliance with state statute in filing actuarial cost statements for benefit modifications. The affected plan was ordered to maintain current retirement and disability provisions without modification until further action.

Since that report, the original injunction was lifted. Once new benefit modifications were proposed to the plan, a request for preliminary injunction was again filed with the court. On May 25, 2006, a preliminary injunction was ordered prohibiting the plan board from implementing the proposed modifications and required the return of trust fund assets that had been transferred into the general revenue fund. Permanent injunctive relief is expected this fall.



*The JCPER continues to emphasize the importance of public disclosure and adherence to state statute regarding plan modifications and filing of cost statements with the JCPER and the general public at least 45 days prior to*

## JCPER News

The Joint Committee on Public Employee Retirement (JCPER) staff is currently reviewing the annual surveys returned by the public employee retirement systems (PERS). We appreciate the cooperation and prompt response to our request.

### ON-LINE REPORTING

The JCPER has implemented a pilot on-line reporting program in 2006. The largest 15 public plans were forwarded a username and password which enabled them to access reporting capabilities via the JCPER website. We will gradually incorporate additional plans into the new system each year. This program is designed to lessen time commitments involved in the reporting process and improve the overall efficiency of the process. We welcome any feedback regarding use of this new program.

*In February 2006, the JCPER surveyed Missouri's largest 20 public plans regarding state tax withholding from pension benefits.*

*Results indicate **\$53.8 million** was withheld in 2005 from pension benefits and provided to the state as a source of general revenue.*

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**Joint Committee on Public  
Employee Retirement**

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If you would like additional copies of this *Pension Plan Update*, it is posted on the JCPER website at [www.jcper.org](http://www.jcper.org) for informational purposes. You are welcome to distribute as needed.

If you have any questions regarding the information contained in this *Update*, please do not hesitate to contact our office.

To obtain legislative information regarding other areas of interest, the legislative bill tracking system can be accessed at <http://www.moga.mo.gov/>

