

MINUTES

MISSOURI COMMISSION ON TOTAL COMPENSATION JANUARY 28, 2003

Governor Office Building, Room 315

A meeting of the Missouri Commission on Total Compensation held in Jefferson City, Missouri on January 28, 2003 was called to order by Carol Fischer with the following members present: Gary Findlay, David Downs, Ron Meyer, Norm Robinson, Johnny See, Bill Shaw, Karen Touzeau and Jackie White. Members absent were Chair Steve Mahfood, Senator Wayne Goode, Representative B.J. Marsh and Representative Amber (Holly) Boykins.

Carol Fischer opened the meeting by asking for self-introductions of all in attendance.

Approval of the October 16, 2002 and December 4, 2002 Minutes

Motion was made by Gary Findlay to approve the minutes and Norm Robinson seconded the motion. The minutes were unanimously approved by the Commission.

Introduction of New Member Johnny See

Carol introduced Johnny See as a new member to the Commission. Mr. See is employed by the Department of Mental Health at the Fulton Mental Health Facility. He replaces Scott Wiley on the Commission.

Letter of Thank You to Scott Wiley for Serving on the Commission

Chair Steve Mahfood wanted the Commission to know that Scott Wiley had been sent a letter thanking him for serving on the Commission.

Subcommittee Report – Retirees Returning to Work – Norm Robinson

Norm handed out a progress report by the subcommittee. A final report will be forthcoming. The guidelines the subcommittee is proposing will apply to all retirement plans operating under Chapter 104, Chapter 287 and Chapter 476. These plans are ALJ (judges), MOSERS and MoDOT.

The subcommittee proposes that each agency determine whether a retired employee who returns to work for the state is to be employed in either a non-benefit eligible position (defined as less than 1,000 hours per year) or a benefit eligible position (defined as greater than or equal to 1,000 hours per year).

- a. If the employee/retiree returns to a non-benefit eligible position (defined as less than 1,000 hours) the monthly retirement benefit continues to be paid.

- b. If the employee/retiree returns to a benefit eligible position (defined as greater than or equal to 1,000 hours per year) the monthly retirement benefit ceases.

The second issue proposed by the subcommittee states any employee/retiree who returns to work for the state remains a “retiree” for benefit purposes. This means, regardless of the number of hours worked, the life insurance and health insurance premiums and coverage remain at the retiree rate. It would also mean the employee/retiree would not receive any further service credit for retirement. Finally, the employee/retiree would not receive any paid leave benefits (holidays, annual leave, sick leave) except those leave benefits that may be required under federal or state law.

A list of questions (see attached) to be addressed by the sub-committee in future meetings was handed out. Norm stated these questions, as well as background about how the subcommittee’s decisions were reached, will be part of the final report.

Allen Scott asked if the subcommittee discussed the \$25 match for deferred compensation. The subcommittee had not discussed this issue.

Jackie White asked if the subcommittee looked at the issue of retirees becoming an elected official and how that would be treated. The subcommittee had reviewed the matter and felt that everyone should be treated equally, as an active employee. If an employee returned to work as an elected official they could not work more than the 1,000 hours and still receive benefits.

Bill Shaw noted that he had not agreed to that decision in the subcommittee meeting. His feeling was that there is a difference in returning to work as an employee and returning as an elected official or being appointed by the Governor.

Gary Findlay stated there was a legal exception. Karen Stohlgren stated the legal exception needed to be reviewed before the final decision could be made.

The subcommittee will do the legal research and then see if they still want to take these steps.

Carol Fischer asked if other states have been surveyed regarding their retirees returning to work. Gary Findlay responded that what they found was the states “are all over the map”. No pun intended? Each state has different needs.

Presentation by Highway & Transportation Employee Association – Steve Cox & Larry Thompson

Steve Cox opened the presentation with some general comments about the association and turned over the presentation to Larry Thompson, Legislative Liaison for the association. The same presentation was given at the last Commission meeting. The Commission requested to hear the presentation again due to so many members being absent at the last meeting.

Larry went over the bills the Highway & Transportation Employee Association is trying to get introduced to the legislature. The association feels that the proposed legislation, for the most part, is cost-neutral.

Eighty and Out – Remove the age requirement. Use accrued sick leave to qualify toward reaching the rule of eighty and out.

Flexible Benefit – Expunged annual leave to be rolled into a different plan such as share leave, purchase retirement credits or lump sum deferred compensation.

Sick Leave Conversion – Change from the current formula of 1/12 of a calendar year of creditable service for each 168 hours, to a day of creditable service for every eight hours of accrued sick leave.

PEHP Benefits Plan -Establish a new optional benefits package that would allow MoDOT makes a contribution into an approved Post Employment Health Care Plan on behalf of the employee.

All employees would have to participate. Contributions made on behalf of the employee would be paid to the health care provider and not the employee. Any funds remaining upon the death of the employee would be paid to the surviving spouse. Upon the death of the spouse, any remaining funds would be allocated to remaining retirees.

Bill Shaw asked if the purpose was to try to shield that from income tax. Larry stated it can be utilized for that but that is not the whole purpose.

Carol Fischer asked if the main purpose was to help defray the escalating costs on the retiree at the time they retire for health care purposes or is it to shelter income from taxes.

Larry stated the income is basically for contributions so there is no tax shelter to the salary.

Bill Shaw asked if the federal government now permits shielding of this money from federal taxes. Yes it does. Does that apply to existing retirees? No, it has to be in the form of a post employee health plan.

Gaston de la Torre stated the Department of Conservation looked at the post-employment health plan some time back. It was a two-tier program. The employer elected to provide the program and essentially sacrificed some of the benefits given to employees to provide it. In the second tier, the employee started participating and giving up additional benefits to put additional money into the plan. Gaston compared this program to the cafeteria plan that was never fully implemented with state employees having a choice related to benefits.

Salaries – Establish a comparable salary pay grade system for salaried MoDOT employees. The association wants to see employees be allowed to reach market rate within a two year period. A comprehensive job study should be completed at a maximum interval of every five years for all salaried employees of the department. There should be a maximum of three pay brackets per pay

grade. The agencies should apply the previous year CPI not to exceed 5% of the employees salary. The association feels this can be implemented without any increase in cost.

Resetting the Clock – The association wants to see the expungement of annual leave changed from October 31 to December 31 so that employees have more opportunity to use their leave during the holidays and deer season.

Gary Fogelbach explained that when this was implemented, the original intent was to expunge annual leave in January. After going to the agencies with that proposal, the agencies asked that it not be implemented in January because a large number of staff would want to use their annual leave during the holidays. This would compel the agencies to give employees with the maximum leave balances first choice of time off during the holidays. The agencies felt this would put additional pressure on them in managing leave taken during the holidays. The agencies also mentioned the end of the calendar year activities that occur that cause more work and having less staff to accomplish those tasks.

The Department of Conservation has always used December 31 as the cutoff. Planning and management of employee leave has been successful in using December 31 as their expungement date.

Jackie White stated that the association is not requesting an endorsement of the proposals from the Commission. The Commission appreciates hearing what agencies are proposing so that the Commission can possibly endorse proposals that works for all state employees at a future date.

Discussion on Proposed Early Retirement Budget Initiative – Linda Luebbering

Linda Luebbering, Director of Budget and Planning, began her presentation by saying that the Office of Administration is still working out some budget and legislative details regarding the Governor's early retirement budget initiative. The Governor's proposal includes employees who are already eligible to retire. Eligibility for retirement will not change. Employees will get an incentive of four additional years of service credit in their retirement calculation. For health care purposes those employees will be treated as though they are an active employee regarding how much the employee pays for health care versus the state until the employee/retiree is eligible for medicare.

The Division of Budget and Planning believes there are approximately 5,000 individuals who would meet the eligibility criteria. About half of those individuals are expected to choose to retire and only 25% of those positions would be filled. That's where the payroll savings comes in. There is obviously a long-term cost to the retirement system and the health care system. The savings comes from salaries. The window of eligibility is still one of the pieces they are working out but they are looking at a four month window from possibly July 1, 2003 through the end of September. The details are still being worked out. In FY'04 the savings are approximately \$24 million. FY'05 will not produce quite as much savings due to the extra cost to the retirement system.

Basically the state would lose 1,500 state employees. The big question is going to be where those retirees fall.

Marty Drewel, Senate Appropriations, requested a list of those positions by department. Karen Stohlgren agreed to get a list to Marty. Marty also requested information regarding employees who are eligible, as well as those expected to take the proposal, and calculated savings in salaries. He also requested calculations of the cost to the consolidated health care plan, as well as a 10 year projection. Of the positions that are vacated, what is the plan? Will they be cut, reorganized, have their duties changed?

Linda stated the short-term plan is to work with the departments in the '05 budget to actually core cut out 75% of the positions, depending on where they fall. Some departments may have to reorganize.

Of the 25% to be backfilled, the assumption is that those who will fill those positions will start at a lower salary than those who have left the positions. Linda commented that generally that will be true, however in some of the positions there will not be a great difference, therefore they did not assume those savings in their estimates.

Referring to the special consultant issue, how many of those employees retiring will be rehired? Linda stated they would talk to the departments to see if they can get a generic response. General Revenue positions alone cannot be targeted.

Bill Shaw commented he felt the medical insurance part of the approach was valid. He does not see the justification of placing the financial burden of the extra four years of credit onto the retirement system. In the case of the Missouri Highway Patrol Retirement System, it is a substantial cost. This will increase the risk of not being able to meet the obligation in the future.

Linda asked if his concern was that they revisit the issue for everyone or propose a difference between MOSERS retirees and other retirees.

Bill said he'd like to see everyone treated the same, however there are some state agencies that have reduced their personnel over the last several years. This could affect their ability to do their job. For example, MoDOT reduced the size of their personnel and he's not sure they can afford to lose more staff. Several agencies are concerned about this issue.

Linda feels that one of the reasons individuals may not choose the proposal is that the four years does not count toward the BACKDrop. They would have to choose between the BACKDrop provision and this proposal. The Governor's proposal does not add four years to the calculated lump sum BACKDrop amount.

Introduction of OA Legislative Liaison and Presentation of Compensation Legislation

Jackie White introduced Craig LeFabvre as the new Legislative Liaison for the Office of Administration.

Craig handed out a list of bills filed that are moving through the system that may be of interest to the Commission. There are four bills that deal with unions and collective bargaining. One of those is moving which is SB 60, which is Senator Russell's bill. It allows division directors to exempt themselves and their employees from union membership and prohibits payroll reductions.

One bill would increase state employee salaries annually by the CPI. Another would allow MoDOT and Highway Patrol employees to purchase certain retirement credits. There is a bill to grant a \$150,000 death benefit to Public Safety workers killed in the line of duty and another to allow certain school districts to avoid salary compliance provisions. Finally, Senator Mary Bland has refiled a version of her Universal Health Care proposal. Craig will be watching these bills and keep the Commission informed about actions taken.

Other Items

Gary Fogelbach spoke about the Governor's pay plan recommendation and the impact of the proposed \$600 pay increase for employees earning less than \$40,000 per year.

The total cost of the increase is estimated at \$36.2 million, of which \$17.6 million is General Revenue. The \$600 represents an average increase of 2.2% for employees receiving the increase. The increase equates to about 1.6% of total salaries for all employees.

In the UCP system, \$40,000 occurs within nine pay ranges: Range 22 – 30.

In these nine pay ranges there are 441 classes with 7,223 employees.

It would cost approximately another \$5 - \$6 million to provide this same raise to all employees.

Next Meeting Date

Jackie mentioned moving the meeting date to Thursdays during session.

Carol will talk with Steve regarding replacements needed on the Commission, such as Senator Larry Rohrbach.

Meeting was adjourned at 10:55 a.m.