GOOD JOBS FIRST

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PUTTING STATE PENSION COSTS IN CONTEXT:

MISSOURI

IN 2010 THE STATE ENACTED A PUBLIC pension overhaul that tightened eligibility rules and required new employees to contribute 4 percent of their pay into the retirement system. Yet conservative groups such as the Show-Me Institute insist that the system is an "economic ticking time bomb" and are calling for more "reforms."[1]

While many pension numbers are bandied about, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Missouri there are four main plans administered by the state: the Missouri State Employees' Retirement System (MOSERS), the Public School Retirement System of Missouri (PSRS), the Public Education Employee Retirement System of Missouri (PEERS), and the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS). The most recent financial reports indicate annual employer normal costs of $134.6 million for MOSERS[2]; $198.3 million for PSRS[3]; $56.5 million for PEERS[4]; and $37.8 million for MPERS.[5] The total is $427.2 million.

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating family-wage jobs, this approach does provide an important perspective on public sector pensions.

Missouri has been willing to offer lucrative subsidy packages to large corporations. These packages are not the only way the state provides incentives to corporations in the name of job creation. Missouri's Quality Jobs Program, which allows employers to keep – for a defined period of time - state personal income taxes paid by newly hired workers, costs $42 million a year.[6] Other subsidies include state supplemental tax increment financing, which costs $10 million, and Enhanced Enterprise Zones, which have a price tag of nearly $7 million.

An archaic tax rule that allows retailers to keep a portion of the sales tax revenues they collect from customers costs Missouri about $37 million a year.[7]

Missouri is one of the states that allow corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. In its 2005 budget the state estimated that single sales factor was costing $57 million a year; more recent estimates are not available.[8]

Another way Missouri loses corporate income tax revenue is through its failure to adopt a reform known as combined reporting, which is designed to make it more difficult for large companies to export a substantial portion of their Missouri profits to passive investment companies in states such as Delaware or Nevada, thereby shielding a substantial portion of the their income from taxation. The Missouri Budget Project has estimated that combined reporting could net the state as much as $100 million per year in new revenue.[9]

Yet another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In January 2013 the U.S. PIRG Education Fund published a report in which it calculated the impact on this practice on each state. For Missouri, the estimated cost is $554 million.[10]

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than $840 million per year, as summarized in the table below.

In other words, the annual taxpayer cost of funding the retirement benefits of current Missouri public employees belonging to the main state administered public pension systems is only 51 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

Quality Jobs Program	$42,065,938
Customized Training Program	$13,838,293
State Supplemental Tax Increment Financing	$10,853,406
Brownfield Remediation Tax Credits	$9,684,548
New Jobs Training Program	$8,461,550
Enhanced Enterprise Zones	$6,927,788
vendor discount (timely payment allowance)	$37,400,000
single sales factor (as of 2005)	$57,000,000
Failure to adopt combined reporting	$100,000,000
Revenue loss from corporate use of offshore tax havens	$554,000,000
TOTAL	**$840,231,523**

NOTES:

1 http://showmeinstitute.org/document-repository/doc_download/410-one-page-summary-pdf.html

2 Derived by multiplying the payroll figure on page 34 of the 2013 annual report at https://www.mosers.org/en/About-MOSERS/Annual-Report.aspx by the employer normal cost rate reported in the contribution rate letter at https://www.mosers.org/en/Employers/CURP.aspx

3 https://www.psrs-peers.org/Investments/AnnualReport.html (derived by subtracting the member contribution rate on page 95 of the 2012 report from the total normal cost rate on page 90 and multiplying the result by the payroll figure on page 92).

4 https://www.psrs-peers.org/Investments/AnnualReport.html (derived by subtracting the member contribution rate on page 98 of the 2012 report from the total normal cost rate on page 90 and multiplying the result by the payroll figure on page 92).

5 Derived by multiplying the employer normal cost rate on page 4 of the 2013 actual valuation at http://www.mpers.org/default.aspx/MenuItemID/265/MenuGroup/_Publications.htm by the payroll figure on page 12 of the 2012 report at http://www.mpers.org/default.aspx/MenuItemID/213/MenuGroup/Home+New.htm

6 The figures in this paragraph are all from http://ded.mo.gov/upload/1099Reporting2013.pdf

7 Derived from multiplying the standard rate of 2 percent by the figure for total sales tax revenue for FY2012 at http://dor.mo.gov/pdf/financialstatreport12.pdf

8 The 2005 figure is cited in: *The Case for Combined Reporting* (Missouri Budget Project, April 2007), p.5; online at http://www.mobudget.org/files/Combined%20Reporting%20Benefits%20for%20_MO%20Apr%2007.pdf

9 *There is a Better Way: It's Time for Missouri to Take a Balanced Approach to Its Budget Challenges* (Missouri Budget Project, June 2010; online at http://www.mobudget.org/files/RevenueEnhancementSummaryJune2010.pdf

10 U.S. PIRG Education Fund, *The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse* (January 2013); http://uspirg.org/reports/usp/hidden-cost-offshore-tax-havens