PUTTING STATE PENSION COSTS IN CONTEXT:

MISSOURI

2015 Normal Cost of Missouri Public Employee Pensions:	**$421,891,802**
2015 Cost of Missouri Subsidies and Corporate Tax Breaks:	**$472,654,134**
Percentage of Pension Costs to Subsidy Costs:	**89.3%**

Missouri's public employees are the lowest-paid in the nation. Seven years ago, Missouri enacted changes to its public pension system that required new employees to contribute 4 percent of their pay into the retirement system. Realizing that pensions are a valuable tool for recruitment and retention in the public workforce, Missouri lawmakers this year lowered considering the years required to fully vest in the pension system from ten to five years. This would be an important incentive for workers, but lawmakers will have to address the budget implications.

While many pension numbers are circulated in public discussion, 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 five main plans administered by the state: the Missouri State Employees' Retirement System (MOSERS), the MOSERS Judicial Plan (MOSERS – Judicial), 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 $157.5 million for MOSERS[1]; $11.1 million for MOSERS – Judicial[2]; $153.4 million for PSRS[3]; $50.9 million for PEERS[4]; and $31.6 million for MPERS.[5] The total is $421.9 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 good paying 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. The Missouri' Quality Jobs Program, which allows employers to keep – for a defined period of time - state personal income taxes paid by newly hired workers, cost $60 million last year.[6] Other subsidies include state supplemental tax increment financing, which costs $14.6 million, and Enhanced Enterprise Zones, which have a price tag of $6 million.

An archaic tax rule that allows retailers to keep a portion of the sales tax revenues they collect from customers costs Missouri about $68.6 million a year.[7]

Missouri is one of the states that allows corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. The last estimate of losses from single factor tax structure was $57 million a year in 2005; 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 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 November 2016 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 $161 million.[10]

The total these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than $472 million per year, as summarized in the following table.

Quality Jobs Program	$60,343,516
State Supplemental Tax Increment Financing	$14,638,149
Brownfield Remediation Tax Credits	$9,733,783
Missouri Works (4 programs)	$21,330,907
Enhanced Enterprise Zones	$6,492,202
BUILD – Business Use Incentives for Large Scale Development	$9,800,000
Manufacturing Jobs – Withholding Tax Diversion	$11,543,095
Missouri Downtown Economic Stimulus Act	$1,619,691
Development Tax Credit	$3,340,300
Business Facilities Tax Credit	$4,216,507
Vendor Discount (timely payment allowance)	$68,600,000
Single Sales Factor ($57 million as of 2005)	no recent estimate available
Failure to adopt combined reporting	$100,000,000
Revenue loss from corporate use of offshore tax havens	$160,995,984
TOTAL	$472,654,134

In other words, the annual taxpayer cost of funding the retirement benefits of current Missouri public employees in the main state-administered public pension systems is 89.3 percent of the cost of state economic development subsidies and corporate tax breaks and loopholes.

NOTES

[1] Derived from the 2015 Annual Valuation Report; https://www.mosers.org/~/media/Files/Adobe_PDF/About_MOSERS/Annual_Report/2016_AR/AR%20Actuarial%202016.ashx p 111.

[2] Derived from the 2015 Annual Valuation Report; https://www.mosers.org/~/media/Files/Adobe_PDF/About_MOSERS/Annual_Report/2016_AR/AR%20Actuarial%202016.ashx p 111.

[3] https://www.psrs-peers.org/Investments/2015-CAFR/CAFR-2015-Actuarial.pdf (derived by multiplying the covered payroll on page 91 of the 2015 report by the total normal cost rate on page 92 and subtracting the member contributions on page 17).

[4] https://www.psrs-peers.org/Investments/2015-CAFR/CAFR-2015-Actuarial.pdf derived by multiplying the covered payroll on page 91 of the 2015 report by the total normal cost rate on page 92 and subtracting the result by the payroll figure on page 19).

[5] http://www.mpers.org/wp-content/uploads/FY15-CAFR-1.pdf p. 66

[6] The figures in this paragraph are all from https://www.ded.mo.gov/sites/default/files/1099Reporting2016.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, *Picking Up the Tab: Small Businesses Bear the Burden for Offshore Tax Havens:* (November 2016); http://www.uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf

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