Active & Retired Missouri State Employees

P. O. Box 11
Jefferson City, MO 65102
Web Site: www.armse.org
E-Mail: Office@armse.org
Sue Cox, Executive Director

December 10, 2022

The Honorable
Governor Mike Parson
Missouri State Capitol
Room 218
Jefferson City, Missouri 65101

Dear Governor Parson:

THANK YOU!!!

Thank you for your leadership in serving Missouri state employees and Missouri state retirees! We are most appreciative of the efforts you and your team are making to do right by the Missouri state workforce. To that end – please consider continuing this direction, so that we might have the state workforce Missouri taxpayers deserve.

We are contacting you again this year, we well as, the Lt. Governor, the OA budget director and a variety of legislative leaders on issues important to the FY 2024 budget and the upcoming legislative session.

The Association of Active and Retired Missouri State Employees (ARMSE) is a non-partisan association working to keep active and retired state employees informed about the state's administration of health care and retirement programs.

This letter highlights the state employees' pay plan, salary issues and specific requests for the FY 2024 budget and 2023 legislative session.

STATE PAY PLAN – **ARMSE is 100 percent supportive of your proposal to reward state employees with competitive wages. We again thank you for your leadership and willingness to accept a long-standing challenge to providing Missourians a strong, efficient and effective state workforce.**

We believe it's important to provide a pay plan that meets or exceeds the recent 8.7% increase in Social Security. Missouri employees are among the lowest paid in the nation. The salary study completed several years ago recommended that the state start closing the gap. In addition, we should begin to address the other recommendations in the salary survey – bringing employees to at least the minimum pay rate for the job, providing within-grade pay increases to reduce compression, and providing pay increases for selected classes of positions where low salaries are significantly affecting recruitment and retention.

MOSERS and MPERS – We ask that the state fully fund the certified contribution rate submitted by the Missouri State Employees' Retirement System (MOSERS) Board of Trustees. MOSERS has always received the certified rate. Continuation of that practice is critical to maintenance of the state's Triple-A bond rating and an essential demonstration of the state's solvency and commitment to excellence in financial management. Similarly, we ask that the state fully fund the certified contribution rate for the Missouri Department of Transportation and Missouri State Highway Patrol Employees' Retirement System (MPERS).

MCHCP FY 2023 Budget – ARMSE supports full funding of the MCHCP budget request. In addition, we ask that the state ensure sufficient FY 2023 funding to cover health care cost increases. Any increase in the cost of health care should not consume the entire pay plan for active employees or the entire cost-of-living adjustment for retirees.

MCHCP Medicare retirees in 2019 were forced into a Medicare Advantage plan and the state should continually review the number and percentage of former state employees in the plan. The state and the MCHCP board should not operate the plan in a manner that drives former employees out of the plan due to cost or benefit increases in attempts to reduce MCHCP's budget.

For many years, MOSERS cost-of-living increases were less than 2 percent due to low inflation and health care cost increases on employees above that level jeopardized retired employees.

ARMSE appreciates that MCHCP reserves have been increasing. In past years, MCHCP reserves had plummeted. The MCHCP board has had a long-standing objective to have one month's unobligated reserves (net position) to at least match its monthly health care costs. Those reserves fell below that level in August 2017 and stayed below that level until May 2020. The improvement has been the result of a number of factors – better funding, lower costs due to employees putting off health care during Covid and changes to the plan made by the MCHCP being the most prominent.

We are attaching some thoughts, suggestions and analysis to this letter for your consideration as you move forward. If ARMSE can be of any service to accomplishing these goals, please call on us. Thank you for your continued support of both active and retired state employees!

Sincerely,

Roger Schwartze, ARMSE President
Jefferson City
573-690-4496

Cc: Lt. Governor Mike Kehoe,
Dan Haug, OA Budget and Planning
Sen. Caleb Rowden
Sen. Cindy O'Laughlin
Sen. Mike Bernskoetter
Rep. Rudy Veit
Rep. Jim Schulte
Rep. Barry Hovis
Rep. Dave Griffith
Rep. Dean Plocher
Rep. Mike Henderson

ARMSE COMPENSATION & BENEFITS PROPOSALS FOR FY 2024 BUDGET

Overview
Missouri salaries have been at or near the bottom of the salaries received in all of the other states. For years Missouri was 50th. Mississippi was close to being the worst and may have edged us out for the lowest in the country.

Despite the effort to raise salaries in the FY 2023 budget, Missouri continues to have problems attracting and retaining employees.

- Missouri has more vacancies now than it did before the increased pay for FY 2023.
- Short staffing is a severe problem with Social Services children's workers.
- Fulton State Hospital cannot match the salaries paid at a local Dollar General warehouse.
- MODOT recently reported that it will not be able to run a second shift of snow removal crews with likely safety and economic effects on Missourians.
- Veterans Nursing homes are short-staffed, and beds are being kept empty that could go to needy veterans.
- Other examples have been reported regularly.

ARMSE Proposals
ARMSE recommends, for your consideration, the following changes for the FY 2024 budget. Analysis is provided below.

- Increase the minimum wage for hourly workers to $17.50 per hour from the current $15 per hour to improve competitiveness.

- Raise salaried employee pay by 8.7% to match the raise approved for seniors by the Social Security Administration for 2023 benefits.

- Review the MCHCP and MODOT/MSHP health care plans. The MODOT/MSHP plan provides lower rates, deductibles, and better benefits. In addition, the MODOT/MSHP shift to a Medicare Advantage plan for seniors is dramatically better than the MCHCP plan.

- Consider instituting a comprehensive review of state salaries and benefits. It has been about 25 years since such a review was completed. The Governor should appoint leaders from the private sector – both large and small business. Select state department directors should be added as members. The ad hoc commission should gather information on current practices, especially on pay. We are not recommending an expensive consulting contract. The last time this was done the Governor appointed the Lt. Governor as chair. The support was provided from the core budgets of the departments, retirement systems, and health care systems. The ad hoc commission could recommend changes in pay and benefits, and practices and procedures that can be implemented as soon as the FY 2025 budget.

- In the future, calculate/provide raises that at least minimally keep up with inflation. The ad hoc commission should further study methodologies to use in the future. Using the Social Security 8.7% buys into its methodology for FY 2024. However, perhaps other measures are more appropriate for state employee salary calculations.

- Begin to implement a plan to raise state salaries from 49th or 50th compared to other states no later than the FY 2025 budget. There has been discussion of raising teacher salaries for the same reason. An additional 2% each year above inflation would likely gradually start raising salaries from last place to perhaps 40th.

ANALYSIS

Personnel Advisory Board (PAB) recommendation for FY 2024

The PAB's recommendations for the FY 2024 pay plan can be found in the following link.

https://pers.oa.mo.gov/media/pdf/pay-plan-recommendations-personnel-advisory-board

The PAB reviewed its methodology and evaluated six indicators of inflation. It decided to focus on three economic indicators shown in Table 1. The data for these indicators compared 2021 data with early to mid-2022 data. The average of the indicators leads them to recommend a 4.9% to state salaries for FY 2024.

Table 1 - PAB SELECTED INFLATION INDICATORS

Index	% Change
Consumer Price Index (CPI)	5.1%
Employment Cost Index	4.0%
Poverty Guidelines	5.5%
Average of indicators	4.9%

- The short and inconsistent timeframes in the selected data result in the PAB underestimating the effect of inflation. For example, the Social Security Administration's calculations based on a longer timeframe are significantly higher and will add 8.7% to its 2023 benefits.
- Headline CPI inflation has been in the 8% level or more for months. Providing a salary increase that is at best 60% of what is happening in the real world will lead to more employees leaving state employment and fewer staying for any length of time.
- In addition, losing employees inflicts training costs on the state that are rarely considered.
- Plus, the PAB recommendation will not start the longer-term process necessary to bring state salaries up from the bottom of the states barrel.

In addition, the PAB notes that failure to fund pay raises at the necessary levels has resulted in employees being paid "well below" the market in their corresponding pay range. The PAB proposes to gradually increase pay range minimums as follows – to 60% of market in FY 2024, 70% in FY 2025, and 80% in FY 2026. However, failure to recognize the full cost of inflation will make the PAB plan completely ineffective.

Hourly wage example

Let us start with thinking about the $15 per hour minimum included in the FY 2023 budget. The argument was that it would bring those workers to a competitive wage. However, the state's growing vacancies proves that the market appears to reject $15/hour as a competitive wage. With elimination of the merit system and "at will" employment workers now know, if they didn't already, that working for state government no longer provides the "security" that workers were willing to exchange for a lower wage.

Table 2 shows the effect of inflation on the $15/hour minimum wage. At 8.5% inflation, consistent with current indicators, inflation has inflicted a $1.28/hour shortfall in the earnings anticipated when the FY 2023 budget was passed. The salary needed to be $16.28/hour just to keep up with inflation. This is a good demonstration of the Dollar General problem at Fulton State Hospital.

The FY 2024 budget for the minimum salary needs to be $17.50/hour just to keep up. Carrying that forward with the predicted inflation rates for the next several years (Federal Reserve Bank of Philadelphia – Survey of Professional Forecasters) the $15/hour minimum is going to need to be $18.06/hour in FY 2025 and $19.01 in FY 2027 just to keep up.

Table 2 - MINIMUM HOURLY SALARY TO KEEP UP WITH INFLATION

	Minimum hourly pay	Inflation	$ hour shortfall to inflation	Minimum salary needed to keep up with inflation
FY 2023 Budget	$15.00	8.50%	$1.28	$16.28
FY 2024 Budget	$16.28	7.50%	$1.22	$17.50
FY 2025 Budget	$17.50	3.20%	$0.56	$18.06
FY 2026 Budget	$18.06	2.70%	$0.49	$18.55
FY 2027 Budget	$18.55	2.50%	$0.46	$19.01

Pay for salaried state employees

Similarly, pay for salaried state employees has also fallen short of keeping up with inflation. The 5.5% increase in late FY2022 and the 2% increase in FY 2023 were better than provided in previous years. The late FY2022 increase was provided to help catch up for past low salaries. The 2% for FY2023 was provided for cost-of-living support, which is well below the 8.5% inflation rate.

It is appropriate and perhaps necessary to provide a catch up for current year inflation. However, it is insufficient to make a dent in state government's vacancy and retention problems. ARMSE recommends that state employees receive an 8.7% increase in the FY 2024 budget to match the increase provided to seniors by the Social Security Administration for its 2023 benefits. State employees would recognize and understand such a proposal.

Table 3 shows the cost of an 8.7% pay increase based on the total personal service and FTE approved in the final FY 2023 budget. A total of $233.8 million, including $115.5 million general revenue, would be required for an 8.7% pay increase in the FY 2024 budget. Additional contributions should be anticipated for pay related fringe benefits as the result of higher pay.

Table 3 - FY 2024 BUDGET COST FOR 8.7% PAY INCREASE

Fund type	FY 2023 Personal Service Budget (TAFP after vetoes)	8.7% to match Social Security inflation rate
GR	$1,327,633,701	$115,504,132
Federal	$542,457,448	$47,193,798
Other	$816,781,174	$71,059,962
Total	$2,686,872,323	$233,757,892

At some point, the Missouri needs to move from the bottom of the list ranking state employee salaries across the nation. This fact is trumpeted throughout the media and results in bad morale and turnover among current employees as they consider whether their positions are economically viable. In addition, recruitment is also severely harmed as possible employees consider whether they should join a failing organization. ARMSE proposes that the state begin trying to improve salaries to gradually move state salaries up in the rankings. This increase could await further study by the ad hoc commission recommended by ARMSE and be started in the FY 2025 budget.

Table 4 shows the cost of an additional two percent increase in salaries that when added to the 8.7% increase would perhaps begin a movement off the bottom of state worker salaries across the nation. A total of $53.8 million, including $26.6 million general revenue, would be required for a 2% pay increase in the FY 2024 budget to begin to close the gap. Additional funds would be needed for the retirement systems to reflect the higher pay.

Table 4 - FY 2024 BUDGET COST FOR 2% PAY INCREASE

Fund type	FY 2023 Budget	2.0% to begin closing gap to other states
GR	$1,327,633,701	$26,552,674
Federal	$542,457,448	$10,849,149
Other	$816,781,174	$16,335,623
Total	$2,686,872,323	$53,737,446

Table 5 shows the cost of a 10.7% increase for FY 2024 if the catch-up plan were to start next year. A total of $287.5 million, including $142.1 million general revenue, would be required for a 10.7% pay increase in the FY 2024. Additional funds would be needed for pay related fringe benefits.

Table 5 - FY 2024 BUDGET COST FOR 10.7% PAY INCREASE

Fund type	FY 2023 Budget	10.7% to match Soc. Security and begin catch up with other states
GR	$1,327,633,701	$142,056,806
Federal	$542,457,448	$58,042,947
Other	$816,781,174	$87,395,586
Total	$2,686,872,323	$287,495,339