

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4825-08  
Bill No.: CCS for HCS for SB 639  
Subject: Retirement - General; Retirement - Schools; Retirement - State; Retirement Systems and Benefit - General; Courts  
Type: Original  
Date: May 11, 2016

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Bill Summary: This proposal modifies of various public retirement systems, as well as provisions relating to the forfeiture of retirement benefits due to a felony conviction.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Sections 56.363 - 56.840 - Prosecuting Attorneys' and Circuit Attorneys' Retirement System (PACARS):

Officials from the **Joint Committee on Public Employee Retirement System (JCPER)** stated the proposal may constitute a substantial proposed change in future plan benefits as defined in Section 105.660(10), RSMo. It is impossible to accurately determine the fiscal impact of this proposed legislation without an actuarial cost statement prepared in accordance with 105.665 RSMo.

#### PACARS (as of April 11, 2016)

Market Value:           \$36,717,347   Funded Ratio: 94%  
Actuarial Value:        \$36,717,347   Funded Ratio: 94%

#### Anticipated contribution for 2014/2015:

Expected Monthly County Contribution	\$ 579,540
Expected \$4 Surcharge Contribution	\$1,292,800
Interest Credit	<u>\$ 66,685</u>
Total Anticipated 2014 Contribution	\$1,939,025

#### Current Monthly County Contribution:

1st Class Counties	\$646
2nd Class Counties	\$271
3rd Class Counties	\$187
4th Class Counties	\$187

In response to a previous version of this proposal, officials from the **Prosecuting and Circuit Attorney's Retirement System (PACARS)** stated they have reviewed the bill, and based on that review, are of the view that the bill was intended by the drafters to be revenue neutral, provided the bill is enacted in its totality.

There are provisions in the bill which clearly increase the anticipated benefits payable to retired members upon their retirement. However, the drafters anticipated that the contributions required by the bill to be made by the members of the System would offset the increases in benefits ultimately payable to them.

ASSUMPTION (continued)

The bill also addresses certain issues presented by the current language of Sections 56.800 et seq. For example, the current language now allows members who qualified for a retirement benefit as a part-time prosecutor, and returned to serve as a full time prosecutor, to obtain a retirement benefit of 50% of the final average compensation as a full time prosecutor. These provisions in the bill would make the benefits and the payments into the System correspond. In this way the bill addresses a "loophole" which now allows certain members to qualify for a retirement benefit which costs the System more than the payments into the system would have "paid for".

The bill also addresses transfers of creditable service between the System, and other retirement systems of the State, and whether retirement benefits are payable to fully vested members who return to work as a prosecutor.

**Oversight** assumes, based on the response from PACARS, that the proposal will have no fiscal impact on PACARS but may require increased contributions from county governments.

Sections 70.600 - 70.615 and 70.630, 70.730, 86.200, 86.207, 86.210, 86.253, 86.267, 86.290, 86.360

In response to a similar proposal, HB 2383, officials from the **Office of Administration**, the **Joint Committee on Public Employee Retirement** and the **County of St. Louis** each assume the current proposal would not fiscally impact their respective organizations.

Section 70.621 - Missouri Local Government Employees Retirement System:

Officials from the **Missouri Local Government Employees Retirement System (LAGERS)** assumed the current proposal would not fiscally impact their agency. It is anticipated to have no cost, with a potential cost savings to the local governments by effectively transitioning legacy plan administration into the LAGERS system thereby taking advantage of the efficiencies of scale of LAGERS. The decision to elect LAGERS administration is voluntary to local governments.

All plans would be reviewed on an individual basis to assess administrative needs in transitioning them into the LAGERS administrative framework. Initial costs, if any, for programming, etc. as well as any additional administration work will be borne by the legacy plan and not the LAGERS system. These costs would be mutually agreed upon by LAGERS and the local employer prior to LAGERS administration election. It is anticipated that any legacy plan costs will be more than offset from realized cost savings by LAGERS overall administration.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **City of Columbia** and the **City of Kansas City** each assumed the proposal would not fiscally impact their respective local governments.

Section 105.669

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume this proposal would change certain provisions to the forfeiture of a pension benefit in connection with a felony conviction. The proposal modifies the conviction requirements as well as the manner of reporting the conviction. This proposal has no fiscal impact on MOSERS.

In response to a similar proposal from this session, HB 1472, Oversight received the following responses:

Officials from the **Public School and Education Employees Retirement System** assumed the proposal requires that the employer of any retirement plan must notify the appropriate retirement system and provide information in connection with the felony charge or conviction. It further clarifies the responsibilities of the employer in reporting felony convictions to the appropriate retirement system. This provision has no substantial fiscal or operational impact on the system.

Officials from the **Office of Administration** and the **Office of the State Courts Administrator** each assumed the proposal would not fiscally impact their respective agencies.

Officials from the **Joint Committee on Public Employee Retirement** stated that the legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

Officials from the **MoDOT and Patrol Employees Retirement System** assumed the proposal, if enacted, would modify provisions regarding eligibility of a public employee who is convicted of a work-related felony to receive retirement benefits. This proposal would not have a fiscal impact on the system.

Sections 169.141 and 169.715

In response to a similar proposal from this session, HB 1709, Oversight received the following responses:

ASSUMPTION (continued)

Officials from the **Joint Committee on Public Employee Retirement** state that this legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

Officials from the **Public School and Education Employees Retirement System (PSRS)** estimate that this proposal will result in an insignificant fiscal savings to their agency.

Specifically, this proposal applies to members who elect to receive, or are currently receiving their retirement allowance payable as a joint-and-survivor annuity with their spouse as the beneficiary. In addition, this proposal provides that the member's retirement allowance will increase to the amount that would have been payable had they elected a single life annuity payment if:

- ▶ Their marriage is dissolved on or after September 1, 2016,
- ▶ The dissolution decree provides for sole retention by the retired member of all rights in the retirement allowance, and
- ▶ The retired member would otherwise receive a retirement allowance under subsection 3 of RSMo section 169.070

Allowing a reduced joint and survivor benefit to “pop up” to a life annuity payment sometime after commencement is equivalent to a member paying life insurance premiums for a benefit payable after they die, but then cancelling the life insurance policy prior to their death without receiving a refund of the premiums paid. This results in a savings to the system for the difference between the original life annuity amount and the reduced joint and survivor benefit amount during the period between commencement and divorce. However, we expect the magnitude of the cost savings to be very small, for the following reasons:

- ▶ PSRS anticipates this proposal impacting a very limited group of retired members.
  - Members must be married and elect one of the joint and survivor payment options at retirement.
    - As of June 30, 2015, 6,140 of 23,900 PEERS service retirees, or 26%, are receiving a joint and survivor annuity payment form.

Sections 169.324 and 169.560

In response to a similar proposal from this session, HB 1710, Oversight received the following responses:

ASSUMPTION (continued)

Officials from the **Joint Committee on Public Employee Retirement** stated that this legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

Officials from the **Public School and Education Employees Retirement System (PSRS)** stated this proposal will have no measurable fiscal impact to the system. This proposal creates a suspension of a member's retirement allowance when they return to work, which results in a temporary savings for the system. The accrual of a second retirement allowance during the suspension period can result in a small cost or savings to the system. Historically, a very small percentage of retirees return to work in a capacity that exceeds the limitations noted above. As of June 30, 2015, 77 of 51,345 PSRS service retirees, or .15%, have returned to work and had their retirement allowance suspended.

**Oversight** assumes this proposal will not have a significant fiscal impact on the Kansas City Public School Retirement System (KCPSRS) based on Joint Committee on Public Employee Retirement's assessment, as shown below.

**Kansas City Public School Retirement System (as of January 1, 2015)**

Market Value: \$698,523,480	Funded Ratio: 78%
Actuarial Value: \$712,391,611	Funded Ratio: 80%

**Current Annual Required Contribution Rate (2015)**

Employer: 11.06%      Dollars: \$18,895,471 (estimate)

Employee: 8.50%      Dollars: \$14,521,836 (estimate)

Total: 19.56%      Dollars: \$33,417,307 (estimate)

Covered Payroll: \$170,845,124

Officials from the **City of Kansas City Public School Retirement System** assume the fiscal impact is unknown because their system does not differentiate between teachers/certified individuals and non-teachers/non-certified individuals and therefore doesn't have a current count of our retirees or active members by their position type. They do know that thirty-six percent of our active members, as of January 1, 2015, are employed by Kansas City Charter Schools and another four percent by the Kansas City public library rather than the Kansas City school district.

ASSUMPTION (continued)

Bill as a Whole

Officials from the **Police Retirement System of St. Louis**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health and the Department of Economic Development** each assume the current proposal would not fiscally impact their respective agencies.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
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**POLITICAL SUBDIVISIONS**

Cost - Counties

Increased contributions to PACARS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

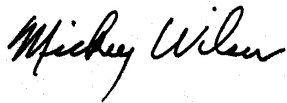
This proposal modifies sections relating to public employee retirement systems, with penalty provisions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.



SOURCES OF INFORMATION

City of Columbia  
County of St. Louis  
Missouri Local Government Employees Retirement System  
Joint Committee on Public Employee Retirement Systems  
Prosecuting and Circuit Attorney's Retirement System  
Missouri State Employees Retirement System  
Office of Administration  
Public School and Education Employees Retirement System  
Office of the State Courts Administrator  
MoDOT and Patrol Employees Retirement System  
City of Kansas City Public School Retirement System  
Police Retirement System of St. Louis  
Department of Insurance, Financial Institutions and Professional Registration  
Department of Mental Health  
Department of Economic Development



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