COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1122-03
Bill No.: HCS for SCS for SB 309
Subject: Retirement Systems and Benefits - General; Attorneys; Retirement - Schools
Type: Original
Date: April 26, 2017

Bill Summary: This proposal modifies provisions relating to public employee retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2033)
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2033)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2033)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2033)
Total Estimated Net Effect on FTE	**0**	**0**	**0**	**0**

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

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2033)
Local Government	**Less than $2,936,784**	**Less than $5,652,620**	**Less than $6,906,083**	**Less than $21,320,901**

FISCAL ANALYSIS

ASSUMPTION

Prosecuting and Circuit Attorney's Retirement System (PACARS)
Sections 56.363, 56.805, 56.807, 56.814, 56.818, 56.833, 56.840

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.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the Missouri House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage of the bill. An actuarial cost statement for this legislation has not been filed with the JCPER.

PACARS Current System Status: (as of July 1, 2015)

Market Value:	$37,569,238	Funded Ratio:89.74%
Actuarial Value:	$37,569,238	Funded Ratio: 89.74%
Liabilities:	$41,865,453	

Recommended contribution for 2015/2016: $1,797,276

Anticipated contribution for 2015/2016:

Expected Monthly County Contribution	$ 607,080
Expected $4 Surcharge Contribution	$1,237,319
Interest Credit	$ 63,462
Total Anticipated 2015 Contribution	$1,907,861

Current Monthly County Contribution:

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

Covered Payroll: $9,615,411

ASSUMPTION (continued)

In response to a previous version, 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.

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. Oversight also assumes this proposal is **not** making changes to section 56.807 that would change the monthly contributions from counties or from the City of St. Louis into PACARS; therefore, Oversight will not show a fiscal impact to local governments.

Officials from the **Missouri Local Government Employees Retirement System** assume the proposal will have no fiscal impact on their organization.

In response to a previous version, officials from **St. Louis County**, **Platte County Board of Elections** and **Jackson County Elections Board** each assumed the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal (HCS/SB 639) from 2016, officials from the **City of Columbia** and the **City of Kansas City** each assumed the proposal will have no fiscal impact on their respective organizations.

ASSUMPTION (continued)

Kansas City Public School Retirement System (KCPSRS)
Section 169.324

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

KCPSRS
As of January 1, 2016

Market Value:	$636,109,506	71.0% Funded
Actuarial Value:	$694,641,248	77.6% Funded
Liabilities:	$895,230,295	

Current Annual Required Contribution Rate (15/16)

Employer:	11.18%	$20,013,711 est.
Employee:	9.00%	$16,111,216 est.
Total :	20.18%	$36,124,927 est.

Covered payroll: $179,013,516

In response to a similar proposal (HB 723), officials from the **City of Kansas City Public School Retirement System (KCPSRS)** assumed this proposal protects the solvency of the KCPSRS, however the fiscal impact is unknown. The long-term funding of KCPSRS is dependent on contributions from active members and KCPSRS-covered employers and investment earnings. If KCPSRS-covered employers fill jobs with workers for whom no retirement contribution is paid, a crucial funding source of the retirement system is undermined.

Officials from the **Public School & Education Employee Retirement Systems of Missouri** assume the proposal will have no fiscal impact on their organization.

Oversight assumes this proposal will not have a significant fiscal impact on the Kansas City Public School District.

ASSUMPTION (continued)

St. Louis Public School Retirement System
Sections 169.460 & 169.490

Officials from the **Joint Committee on Public Retirement (JCPER)** state that the JCPER review of this legislation indicates that such legislation 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 Section 105.665, RSMo.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the Missouri House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage of the bill.

An actuarial cost statement for this legislation was filed with the JCPER on April 12, 2017 and is available on the JCPER's website.

St. Louis Public School Retirement System (as of January 1, 2016)

Market Value:	$868,679,049	Funded Ratio: 80.61%
Actuarial Value:	$915,391,079	Funded Ratio: 84.94%
Liabilities:	$1,077,693,143	

Annual Required Contribution Rate (2017):

Employer:	15.73%	$39,657,956 (estimated)
Employee:	5.00%	$12,606,364 (estimated)
Total:	20.73%	$52,264,320 (estimated)

Covered Payroll:	$252,127,288	
Membership:	Active - 5,034	Inactive - 6,858

In response to a similar proposal from this year (Perfected HCS for HB 619) officials from the **Public School Retirement System of the City of St. Louis (PSRSSTL)** assumed the proposal contains provisions that concern the Public School Retirement System of the City of St. Louis ("PSRSSTL"). The proposal constitutes a "substantial proposed change" to the retirement eligibility requirements and funding for members covered by the PSRSSTL.

ASSUMPTION (continued)

Currently, §169.460.1 provides that in order to be eligible for full retirement, a member must either attain 65 years of age, or a member's age and credited service must total 85 ("Rule of 85"), which are mutually exclusive events. Under HCS for HB 619 as amended, the retirement eligibility requirements for full retirement are reduced, allowing members to retire much earlier, when their age and service credit totals 80 ("Rule of 80").

The second "substantial proposed change" will reduce the amount of pension benefits for all new employee members hired on and after January 1, 2018. Current employed members are earning a monthly retirement benefit based upon years of credited service multiplied by 2% of final compensation, up to 60% of final earnings. The proposal reduces pension benefits for new employees because the multiplier will be lowered from 2% to 1.75% for credited service earned on or after January 1, 2018, which changes the pension formula to years of service multiplied by 1.75% of final compensation, up to 60% of final earnings. Due to the different treatment of newly hired employees compared to current employees and will cause a multi-tiered pension benefit calculation for the PSRSSTL due to the schism created by the reduced pension multiplier beginning January 1, 2018.

The final "substantial proposed change" reduces the amount of contributions paid to the PSRSSTL by its employers. While increasing the amount of contributions employees pay to the PSRSSTL, the proposal will at the same time lower the annual employer contribution to a rate not allowed to exceed 9% of covered compensation.

Analysis

The new Cost Statement calculates that under the proposal the funded percentage of the PSRSSTL would decrease by 4.4% by 2030. Furthermore, these projections were based on an 8.0% assumed rate of return, which the Cost Statement noted was an overly optimistic assumption, and it would consider "an investment return assumption in the 7.0% - 7.5% range to be more reasonable in the current economic environment." The PSRSSTL currently assumes an investment return rate of 7.5%. Additionally, only employees hired on or after January 1, 2018, would earn their retirement benefits at a reduced pension multiplier of 1.75% of final compensation. The PSRSSTL would actually receive fewer contributions from the employers to pay benefits for current employees as the employer contribution rate drops to the 9% rate cap for employer contributions.

ASSUMPTION (continued)

1. “Rule of 80.”
The proposal converts the current “Rule of 85,” by which an employee is eligible to retire if their age and years of credited service equal 85, to a “Rule of 80.” It is expected that a substantially larger pool of current employees would be eligible to retire as a result of the decrease in the age requirement under a “Rule of 80.” It would also have to be assumed that a number of those employees would take advantage of the opportunity to retire earlier. An increase in retirements would necessarily result in decreased employee contributions and increased retirement benefit payments. These increased liabilities would require increased employer contributions, as it is not realistic that the increased employee contributions provided for in the proposed amendment to § 169.490 (discussed further herein) would cover the increased cost of total contributions required to cover the increase in payable retirement benefits. According to the Cost Statement this will result in a permanent cost increase to the PSRSSTL of around $71.2 million by 2028, which means it is known that this additional liability “would materially affect the actuarial soundness of the plan.”

2. Employee Contribution Rate Increases
The proposal which concerns the PSRSSTL is in § 169.490. Under the proposal, the employee contribution rate for current members would increase by 0.5% each year until the employee contribution rate equals 9%. All new employees hired for the first time on or after January 1, 2018, would immediately be required to contribute at the 9% rate.

The proposed employee contribution rate increases in HCS/HB 619 (as perfected) are unsubstantiated. To date, the PSRSSTL has not considered raising employee contributions to improve current funding of the plan because it has not been necessary. Since the PSRSSTL is not initiating any increases in employee contributions, the increases appear to be designed to substantiate the increased benefits as a result of the change to the “Rule of 80”, contained elsewhere in HCS/HB 619 (as perfected).

3. Employer Contribution Rate Decreases
The proposal increases the employee contribution rate for employees beginning January 1, 2018, it also decreases the employer contribution rates. The proposal states that the employer contribution shall decrease by a 0.5% on an annual basis, from 16% in 2018, until 2032 when the employer contribution rate shall be capped at 9%. However, the legislation contains no mechanism for ensuring the rate of reduction and cap of contributions is actuarially sound. According to the Cost Statement, it is clear this proposal will increase future pension liabilities by $65.5 million by 2030, primarily due to the unreasonableness of capping contribution rates when increasing benefits as stated elsewhere in HCS/HB 619 (as perfected).

ASSUMPTION (continued)

The proposal lowers the amount of pension benefits new employee members will earn on or after January 1, 2018, at the same time, it also increases the dollar amount of required contributions employed members must pay from the current employee contribution rate of 5% of covered compensation to 9%, over eight (8) years. Under the proposal, members with a hire date on or after January 1, 2018, will pay 9% of covered compensation while only earning retirement benefits based on the new pension multiplier of 1.75% for each year of credited service earned.

Further, the final caps will be 9% of the employer contribution and 9% of the employee contribution for a total contribution rate of 18%. Not only is this lower than the yearly PSRSSTL total funding rate that has been set by the PSRSSTL for some time, which is currently above 20%, it also does not allow for any increase in contributions should actuarial tables or a down investment period require it. There would be no mechanism for the PSRSSTL to recoup losses to continue to provide promised benefits.

This is also significant because, unlike contributions from the employer, contributions from employees are considered a liability on the PSRSSTL's balance sheets. Therefore, while the Rule of 80 requires increased expenditures from the PSRSSTL, the increase in employee contributions and the reduction of employer contributions simultaneously increase the liabilities to the PSRSSTL.

In response to a similar proposal (Perfected HCS for HB 619), officials from the **Office of Administration** assume the proposal, as amended, will have no fiscal impact on their organization.

Oversight will utilize information from the PSRSSTL cost statement (Employer annual required contributions of $41,782,084 at 17.78%) and calculate and estimated savings to the St. Louis School District when the contribution rate decreases per §169.490.5. For fiscal note purposes, Oversight will reflect a savings to Local School Districts in FY 2018, 2019, 2020 and fully implemented 2032.

ASSUMPTION (continued)

Calendar Year	Current Rate	Annual Required Employer Contributions	New Contribution Rate	New Required Employer Contributions	Savings in Employer Contributions
2018	17.78%	$41,782,084	16%	$37,603,876	$4,178,208
2019	17.78%	$41,782,084	15.5%	$36,350,413	$5,431,671
2020	17.78%	$41,782,084	15%	$35,096,951	$6,685,133
2032	17.78%	$41,782,084	9%	$21,308,863	**$20,473,221**

As the savings are on a calendar year basis, Oversight will assume a fiscal year impact would be:

Fiscal Year	Calendar Year	Calendar Year Savings	Savings in Employer Contributions
2018	2017 (July - Dec)	$0	$0
2018	2018 (Jan - June)	½ of $4,178,208	$2,089,104
TOTAL 2018			**$2,089,104**
2019	2018 (July - Dec)	½ of $4,178,208	$2,089,104
2019	2019 (Jan - June)	½ of $5,431,671	$2,715,836
TOTAL 2019			**$4,804,940**
2020	2019 (July - Dec)	½ of $5,431,671	$2,715,836
2020	2020 (Jan - June)	½ of $6,685,133	$3,342,567
TOTAL 2020			**$6,058,403**

ASSUMPTION (continued)

Public School Retirement System (PSRS)
Section 169.560

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

PSRS Current System Status:
As of June 30, 2016

Market Value:	$34,303,969,835	82.2% Funded
Actuarial Value:	$35,419,277,279	84.8% Funded
Liabilities:	$41,744,618,662	

Current Annual Required Contribution Rate (15/16)

Employer: 14.5%	$660,639,906 est.
Employee: 14.5%	$660,639,906 est.
Total : 29%	$1,321,279,812 est.

Covered payroll: $4,556,137,282

In response to a similar proposal (HB 305), officials from the **Public School & Education Employee Retirement System of Missouri (PSRS/PEERS)** assumed this proposal requires that any retiree who is employed by a third party or is performing work as an independent contractor as a temporary or long-term substitute teacher be required to comply with existing statutory working after retirement requirements in 169.560 of 50% salary and 550 hours.

The provisions from Section 169.560, RSMo, have no measurable fiscal impact to PSRS/PEERS for the following reasons:

- The suspension of a member's retirement allowance when they return to work 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.
- For school year 2015-2016, there were 10,533 retirees for PSRS/PEERS that worked after retirement in some capacity for our covered employers.
- Historically, a very small percentage of retirees return to work in a capacity that exceeds the limitations noted above.

ASSUMPTION (continued)

- As of June 30, 2016, 57 of 53,069 PSRS service retirees, or 0.11%, had returned to work at some point prior, resulting in suspension of their retirement benefit.

This legislation would close a current gap in the working after retirement provisions for the System. Section 169.324 only applies to the Kansas City Public School Retirement System.

In response to a similar proposal (HB 305), 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.

Oversight assumes this proposal will not have a significant fiscal impact on the Kansas City Public School Retirement System (KCPSRS).

Green County, Court Fees, Justice Center
Section 488.2206

The **Joint Committee on Public Retirement** review would indicate that this provision will not affect retirement plan benefits as defined in Section 105.660.

In response to a similar proposal from this year (SB 83), officials at the **Office of the State Courts Administrator (OSCA)** assumed the proposed legislation allows any single noncharter county judicial circuit to collect a court surcharge to be used towards the maintenance and construction of judicial facilities. The 6th Circuit (Platte County), 7th Circuit (Clay County), 19th Circuit (Cole County), 29th Circuit (Jasper County), 31st Circuit (Greene County), 38th Circuit (Christian County), and 46th Circuit (Taney County) qualify. Based on FY 2015 data, there were 40,890 filed civil cases and 43,878 filed criminal cases. OSCA anticipates the surcharge could be up to approximately $847,680 (40,890 + 43,878 = 84,768 ($10) = $847,680).

Oversight assumes OSCA's response includes Greene County. This proposal adds single noncharter county judicial circuits, however, Greene County's surcharge was authorized in Truly Agreed To and Finally Passed CCS for SS for SCS for HCS for HB 1231 from FY 2014. Oversight can not back into Greene County's number from OSCA's response, therefore, Oversight assumes the revenue collected from this surcharge on noncharter county judicial circuits will be less than $847,680.

ASSUMPTION (continued)

Officials at the **Office of the State Treasurer** assume no fiscal impact from this proposal.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2033)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2033)
LOCAL POLITICAL SUBDIVISIONS				
Savings - St. Louis City Public School Districts - Savings Change in Employer Contributions	$2,089,104	$4,804,940	$6,058,403	$20,473,221
Revenue - $10 surcharge on cases in the single noncharter county judicial circuits	Less than $847,680	Less than $847,680	Less than $847,680	Less than $847,680
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**Less than $2,936,784**	**Less than $5,652,620**	**Less than $6,906,083**	**Less than $21,320,901**

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 provisions relating to public employee retirement systems.

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

Joint Committee on Public Employee Retirement
Public School Retirement System of the City of St. Louis
Office of Administration
Office of the State Courts Administrator
Office of the State Treasurer
City of Kansas City Public School Retirement System
Public School & Education Employee Retirement System of Missouri
Prosecuting and Circuit Attorney's Retirement System
Missouri Local Government Employees Retirement System
St. Louis County
Platte County Board of Elections
Jackson County Elections Board
City of Columbia
City of Kansas City

Mickey Wilson

Mickey Wilson, CPA	Ross Strope
Director	Assistant Director
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KC:LR:OD