COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1767-04
Bill No.: SCS for HCS for HB 831 with SA 1 and SA 3
Subject: St. Louis City; Retirement - Local Government; Retirement Systems and Benefits - General; Law Enforcement Officers and Agencies; Retirement - Schools; Retirement - State; Counties; Attorneys; County Officials; Education, Higher
Type: Original
Date: May 12, 2017

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Bill Summary: This proposal modifies provisions related to public retirement plans.

**FISCAL SUMMARY**

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | (FY 2028) |
| General Revenue Fund | $0 | Less than $122,400 to More than $4,380,000 | Less than $125,400 to More than $4,380,000 | Less than $314,520 to More than $4,380,000 |
| **Total Estimated Net Effect on General Revenue** | **$0** | **Less than $122,400 to More than $4,380,000** | **Less than $125,400 to More than $4,380,000** | **Less than $314,520 to More than $4,380,000** |

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 29 pages.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | (FY 2028) |
| Highway Fund | $0 | $0 to More than $790,000 | $0 to More than $790,000 | $40,290 to More than $790,000 |
| Other State Funds | $0 | $36,720 to More than $1,328,000 | $37,620 to More than $1,328,000 | $95,070 to More than $1,328,000 |
| **Total Estimated Net Effect on <u>Other</u> State Funds** | **$0** | **$36,720 to More than $2,118,000** | **$36,720 to More than $2,118,000** | **$135,360 to More than $2,118,000** |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | (FY 2028) |
| Federal Funds | $0 | $44,880 to More than $1,602,000 | $45,980 to More than $1,602,000 | $115,120 to More than $1,602,000 |
| **Total Estimated Net Effect on <u>All</u> Federal Funds** | **$0** | **$44,880 to More than $1,602,000** | **$45,980 to More than $1,602,000** | **$115,120 to More than $1,602,000** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | (FY 2028) |
| | | | | |
| | | | | |
| **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 | (FY 2028) |
| **Local Government*** | **$0** | **$0** | **$0** | **$0** |

*Income and expenses net to zero.

## FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Retirement (JCPER)** has reviewed the provisions of SCS/HCS/HB 831.

**County Employees' Retirement Fund (Sections 52.290, 137.280, 137.345, 140.100, including Senate Amendment 1):**

Officials from the **Joint Committee on Public Retirement** assume these provisions increase the fees and penalties that are used to fund County Employees' Retirement Fund (CERF). In addition, a new fee is created to fund CERF. A delayed effective date of January 1, 2018 is added to the bill.

| Current System Status<br>As of January 1, 2016 | | |
|---|---|---|
| Market Value | $432,504,491 | 68% (Funded Ratio) |
| Actuarial Value | $448,784,038 | 70% (Funded Ratio) |
| Liabilities | $640,399,679 | |
| Current Annual Required Contribution Rate | | |
| Employer (FY16/17) | 6.54% | $25,608,251 |
| Covered Payroll | $391,801,920 | |

Officials from the **County Employees' Retirement Fund (CERF)** assume the proposed legislation modifies provisions related to public employee retirement.

The estimated increase in revenues is as follows:

| | |
|---|---|
| Section 137.280 & 137.343 | $875,000 |
| Section 52.290 | $5,295,000 |
| Section 140.100 | $1,844,000 |
| **Total** | **$8,014,000** |

ASSUMPTION (continued)

**Prosecuting Attorneys & Circuit Attorneys 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 Retirement** assume 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.

The PACARS has filed an actuarial cost statement for these provisions with the JCPER. It is available on the JCPER website.

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)

Officials from the **Prosecuting and Circuit Attorney's Retirement System (PACARS)** state 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 similar proposal from this year (SB 309), 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)

**St. Louis Police Retirement System & St. Louis City Employees' Retirement System (Section 86.207):**

Officials from the **Joint Committee on Public Retirement** assume this legislation would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10). Therefore, an actuarial cost statement is not required.

St. Louis Police Retirement System as of October 1, 2015

| | | Funded Ratio |
|---|---|---|
| Assets: Market Value | $684,894,768 | 75.9% |
| Actuarial Value | $720,811,717 | 79.9% |
| Liabilities: | $901,758,011 | |

Actuarially Determined Contribution Rate (PY 16)

| | | |
|---|---|---|
| Employer: | 42.81% | $30,778,664 |
| Employee: | 7.00% | $4,670,736 (estimate) |
| Total: | 49.81% | $35,449,400 (estimate) |

Covered Payroll: $66,724,796

Active Membership: 1,077
Inactive Membership: 2,068

St. Louis Employees Retirement System as of October 1, 2015

| | | Funded Ratio |
|---|---|---|
| Assets: Market Value | $727,997,133 | 76.2% |
| Actuarial Value | $770,006,025 | 80.6% |
| Liabilities: | $955,120,641 | |

Actuarially Determined Contribution Rate (PY 16)

| | | |
|---|---|---|
| Employer: | 12.51% | $28,534,042 |

Covered Payroll: $228,422,585

Active Membership: 5,359
Inactive Membership: 6,888

ASSUMPTION (continued)

In response to a previous version, officials from the **St. Louis City Police Retirement System** assumed the proposal will have no fiscal impact on their organization.

In response to a previous version, officials from the **St. Louis Employees Retirement System** assumes this proposal will have no material effect on their organization.

The **City of St. Louis** did not respond to our request for fiscal impact.

**Oversight** assumes this proposal will not have a significant fiscal impact on the St. Louis Police Retirement System or the City of St. Louis.

**MOSERS/MPERS (Section 104.1091):**

The **Joint Committee on Public Retirement** review of the above-referenced 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.

MOSERS and MPERS have filed an actuarial cost statement for this legislation with the JCPER.

ASSUMPTION (continued)

| Current System | |
|---|---|
| MOSERS (as of 6/30/16) | MPERS (as of 6/30/16) |
| Market Value: $8,109,161,214 | Market Value: $1,992,073,946 |
| Actuarial Value: $8,878,057,191 | Actuarial Value: $2,086,654,348 |
| Liabilities: $12,751,162,753 | Liabilities: $3,761,733,004 |
| Funded Ratio<br>Market Value: 63.6%<br>Actuarial Value: 69.6% | Funded Ratio<br>Market Value: 53.0%<br>Actuarial Value: 55.5% |
| Contribution Rate<br>Employer (FY17/18): 19.45%<br>Employee: 4% | Contribution Rate<br>Uniformed: 58% ($51,556,310 est.)<br>Non-uniformed: 58% ($159,564,612 est.)<br>Employee: 4% |

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the proposed legislation contained in SCS for HCS for HB 831 would, if enacted, reduce the vesting period relative to retirement benefit eligibility for current and future active members of the MSEP 2011 tier (those employees hired for the first time on or after January 1, 2011) from 10 years of service to 5 years of service.

Additionally, this proposal modifies benefits for MSEP 2011 tier members who achieve vested status (at least 5 years of service under this proposal) and leave state employment. These new terminated vested member benefits of the MSEP 2011 tier will be modified as follows:

1) Such member shall receive the first cost-of-living adjustment (COLA) beginning 24 months after the retirement annuity starting date (rather than the current 12 months after retirement annuity starting date),

2) If such member dies prior to his or her retirement date, the surviving spouse will receive a survivor benefit at the date that the member would have reached normal retirement eligibility rather than at the time of the member's death, and

ASSUMPTION (continued)

3) Such member will not be allowed to convert unused sick leave accruals into service credit at retirement (currently for every 168 hours of unused sick leave, a member will receive one month of service credit at retirement).

The annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary is outlined below. Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date. In particular:

- The assumed rate of interest was 7.65%
- Payroll was assumed to increase 3% per year
- Unfunded Actuarial Accrued Liability is amortized over 30 years, beginning with the FY ending 2016

| | | | Group Averages | | |
|---|---|---|---|---|---|
| **Valuation Group** | **#** | **Payroll** | **Salary** | **Age** | **Service** |
| MSEP | 14,551 | $667,926,207 | $45,902 | 53.6 | 22.7 |
| MSEP 2000 | 17,975 | $691,166,904 | $38,452 | 46.9 | 10.3 |
| **MSEP 2011 (Impacted Group)** | **16,938** | **$562,435,825** | **$33,206** | **37.2** | **2.2** |
| **Total MOSERS** | **49,464** | **$1,921,528,936** | **$38,847** | **45.5** | **11.2** |

ASSUMPTION (continued)

| **Current MSEP 2011 Plan Provisions Affected** | **Proposed MSEP 2011 Plan Provisions Affected** |
|---|---|
| Normal Retirement Eligibility<br>-Age 67 with 10 years of service<br>-Age 55 with age plus credited service equal to 90 or more | Normal Retirement Eligibility<br>-Age 67 with 5 years of service<br>-Age 55 with age plus credited service equal to 90 or more |
| Early Retirement Eligibility<br>- Age 62 with 10 years of credited service | Early Retirement Eligibility<br>- Age 62 with 5 years of credited service |
| Vested Deferred<br>- 10 years of service for general employees<br>-Survivor annuity shall be payable immediately | Vested Deferred<br>- 5 years of service for general employees<br>-Survivor annuity shall not be payable until deceased member would have reached his or her normal retirement eligibility |
| Cost-of-Living Adjustment (COLA)<br>- Annually beginning twelve months after the annuity starting date | Cost-of-Living Adjustment (COLA)<br>- COLA will not commence until the second anniversary of a vested former member's annuity starting date |
| Service Credit for Unused Sick Leave<br>- Credited service shall not be used in determining the member's eligibility for retirement or final average pay. Such credited service shall be added tot he credited service in the last position of employment held as a member of the system. | Service Credit for Unused Sick Leave<br>- Will not apply to members unless the member terminates employment after reaching normal retirement eligibility or becomes eligible for an early retirement annuity |

The estimated effect on annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary, is outlined below.

| | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|
| Estimated **decrease** in annual employer contributions to MOSERS | $0 | $204,000 | $209,000 |

*The change in the employer contribution rate is first reflected for FY19, since the FY18 contribution rate has already been certified by the MOSERS Board of Trustees.

ASSUMPTION (continued)

**Impact on MOSERS (in millions)**

| Valuation Results | Present Benefits | Proposed Benefits | Increase/(Decrease) |
|---|---|---|---|
| Market Value of Assets (MVA) | $8,109.2 | $8,109.2 | 0% |
| Actuarial Accrued Liability (AAL) | $12,751.2 | $12,751.2 | 0% |
| Actuarial Value of Assets (AVA) | $8,878.1 | $8,878.1 | 0% |
| Unfunded Actuarial Accrued Liability (UAAL) | $3,873.1 | $3,873.1 | 0% |
| Percent Funded | 69.6% | 69.6% | 0% |

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume the proposed legislation contained in SCS for HCS for HB 831 would, if enacted, reduce the vesting period relative to retirement benefit eligibility for current and future active members of the Tier 2011 (those employees hired for the first time on or after January 1, 2011) from 10 years of service to 5 years of service.

Additionally, this proposal modifies benefits for Tier 2011 members who achieve vested status (at least five years of service under this proposal) and leave state employment. These new terminated vested member benefits of the 2011 Tier will be modified as follows:

1) Such member shall receive the first cost-of-living adjustment (COLA) beginning 24 months after the retirement annuity starting date (rather than the current 12 months after retirement annuity starting date),

2) If such member dies prior to the retirement date, the surviving spouse will receive a survivor benefit at the date the member would have reached normal retirement eligibility rather than at the time of the member's death, and

3) Such member who terminates prior to retirement eligibility will not be allowed to convert unused sick leave accruals into service credit at retirement (currently for every 168 hours of unused sick leave, a member will receive one month of service credit at retirement).

ASSUMPTION (continued)

The proposed changes to the 2011 Tier would pose no fiscal impact to MPERS.

| | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|
| Estimated **decrease** in annual employer contributions to MPERS | $0 | $0 | $0 |

| | FY 2021 | FY 2022 | FY 2028 |
|---|---|---|---|
| Estimated **decrease** in annual employer contributions to MPERS | $40,000 | $0 | $51,000 |

**Impact on MPERS (in millions)**

| Valuation Results | Present Benefits | Proposed Benefits | Increase/(Decrease) |
|---|---|---|---|
| Market Value of Assets (MVA) | $1,992.1 | $1,992.1 | - |
| Actuarial Accrued Liability (AAL) | $3,761.7 | $3,761.7 | - |
| Actuarial Value of Assets (AVA) | $2,086.7 | $2,086.7 | - |
| Unfunded Actuarial Accrued Liability (UAAL) | $1,675.1 | $1,675.1 | - |
| Percent Funded | 55.5% | 55.5% | 0% |

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will use the MOSERS and MPERS actuarial estimates. Oversight will reflect fiscal impact for the 3 years of the fiscal note, plus FY 2028 (farthest future year provided in the MOSERS & MPERS actuarial analysis); however, the long-term effect of the proposal is on-going.

**Oversight** assumes the contributions to MOSERS will be 60% General Revenue, 22% Federal and 18% Other State Funds.

| **MOSERS** | FY 2018 | FY 2019 | FY 2020 | FY 2028 |
|---|---|---|---|---|
| General Revenue (60%) | $0 | $122,400 | $125,400 | $308,400 |
| Federal Funds (22%) | $0 | $44,880 | $45,980 | $113,080 |
| Other State Funds (18%) | $0 | $36,720 | $37,620 | $92,520 |
| **TOTAL SAVINGS** | **$0** | **$204,000** | **$209,000** | **$514,000** |

**Oversight** also assumes the contributions to MPERS will be 79% Highway Fund, 12% General Revenue, 5% Other State Funds and 4% Federal Funds.

| **MPERS** | FY 2018 | FY 2019 | FY 2020 | FY 2028 |
|---|---|---|---|---|
| Highway Fund (79%) | $0 | $0 | $0 | $40,290 |
| General Revenue (12%) | $0 | $0 | $0 | $6,120 |
| Other State Funds (5%) | $0 | $0 | $0 | $2,550 |
| Federal Funds (4%) | $0 | $0 | $0 | $2,040 |
| **TOTAL SAVINGS** | $0 | $0 | $0 | **$51,000** |

ASSUMPTION (continued)

**MOSERS/MPERS (Section 104.1092):**

Officials from the **Joint Committee on Public Retirement** reviewed the above-referenced legislation and it indicates that such legislation may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10), RSMo.

For section 104.1092, the Missouri State Employees' Retirement System has filed a supplemental actuarial valuation with the JCPER, which indicates the legislation, if passed and implemented by the board of trustees, may have a positive fiscal impact on the employer contribution rate. This supplemental actuarial valuation is available on the JCPER website.

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the provisions would, if enacted, allow the MOSERS (& MPERS) Board to choose to establish a program to allow terminated vested members (currently 19,500) to make a one-time election to receive a lump sum payment equal to a percentage of the present value of the member's deferred annuity. The Board(s) may only offer this program until May 31, 2018.

Additionally, any member who takes advantage of the lump sum payment option shall forfeit all creditable or credit service and future rights to receive retirement annuity benefits and any long-term disability benefits from the system. If such member returns to state employment, such member shall be considered a new employee with no prior credited service and shall be considered a member of the MSEP 2011 tier within MOSERS and/or MPERS.

MOSERS' membership includes approximately 19,500 terminated vested members. The average MOSERS' terminated vested member is:

- Currently age 48,
- Left state employment at age 38,
- Worked approximately 9 years for the State, and
- Will receive an average monthly benefit at retirement of $450 (at approximately age 62).

The estimated effect, of the reduction of 10 year vesting period to 5 years and the associated offsets, on annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary, is outlined below.

ASSUMPTION (continued)

The fiscal impact, of the provisions contained in SCS for HCS for HB 831 is unknown because the MOSERS (& MPERS) Board of Trustees will have the authority to design the program offered to terminated vested members including the percentage of the present value of future benefits that will be offered as a lump sum payment with this program and there is no way to know how many members will elect to take such an option.

However, MOSERS' actuarial professionals completed an actuarial analysis under the scenario of a 50% participation rate of a lump sum distribution equivalent to 65% of the present value of future benefits which is reflected below. It is important to note that this scenario may not ultimately be the design selected by the MOSERS Board of Trustees should they choose to offer such program.

**Impact on MOSERS (in Millions)**

| **Valuation Results As of June 30, 2016** | **Present Benefits** | **Proposed Benefits** | **Increase/(Decrease)** |
|---|---|---|---|
| Market Value of Assets (MVA) | $8,109.2 | $7,916.6 | ($192.6) |
| Actuarial Accrued Liability (AAL) | $12,751.2 | $12,454.9 | ($296.3) |
| Actuarial Value of Assets (AVA) | $8,878.1 | $8,685.5 | ($192.6) |
| Unfunded Actuarial Accrued Liability (UAAL) | $3,873.1 | $3,769.4 | ($103.7) |
| Percent Funded | 69.6% | 69.7% | 0.1% |

| | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|
| Estimated **decrease** in annual employer contributions to MOSERS | $0 | $7,100,000 | $7,100,000 |

*The change in the employer contribution rate is first reflected for FY19, since the FY18 contribution rate has already been certified by the MOSERS Board of Trustees.

For fiscal note purposes, **Oversight** will reflect a range of savings from $0 (no terminated vested employee elects to receive a lump sum distribution and/or the MOSERS Board of Trustees chooses not to implement the changes) to “More than $7,100,000" (more than 50% of terminated vested employees elect to receive a lump sum payment and/or the MOSERS Board of Trustees elects to increase the present value of future benefits).

ASSUMPTION (continued)

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume the proposed legislation would, if enacted, allow terminated, vested members of the plan (currently 2,300 employees) who have not yet reached normal retirement age or eligibility to make a one-time election to receive a lump sum payment equal to a percentage of the present value of such member's deferred annuity, should the plan's board choose to do so.

MPERS assumes the proposal would have a minimal positive impact to the funded status of the plan (assuming the MPERS board chooses to implement the changes).

Since the savings to MPERS is unknown, For fiscal note purposes, **Oversight** will reflect a range of savings from $0 (no terminated vested employee elects to receive a lump sum distribution and/or the MPERS Board of Trustees chooses not to implement the changes) to "More than $1,000,000."

**College & University Retirement Plan (CURP, section 104.1205):**

Officials from the **Joint Committee on Public Retirement** assume the changes to CURP will require employers to contribute 6% of payroll, employees hired on or after 7/1/18 to contribute 2% to CURP, and permit employees to contribute to a supplemental account. This provision contains a delayed effective date of July 1, 2018.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposed legislation would, if enacted, modify the employer contribution rate for the College and University Retirement Plan (CURP), which is a defined contribution plan administered by MOSERS for professors and administrators holding faculty rank at state colleges and universities (referred to by law as "outside employees"). As proposed, the employer contribution rate would be modified to a fixed 6% of payroll from the current rate of 1% of payroll less than the normal cost contribution rate of the defined benefit plan.

In addition, the proposal would require outside employees hired on or after July 1, 2018, to contribute 2% of payroll to the CURP. A provision of federal law is also referenced to allow the institutions to "pick-up" or treat certain contributions as employer contributions under the Internal Revenue Code in order to allow employee contributions to be made on a pre-tax basis.

Outside employees are allowed to contribute to a supplemental account established by the employer and such employees may elect to change the contribution rate.

ASSUMPTION (continued)

This proposal has an effective date of July 1, 2018.

Established in 2001 under Senate Bill 371, the CURP became effective July 1, 2002, for new employees holding a faculty rank within the state colleges & universities (excluding the University of Missouri). As of June 30, 2016, CURP covered approximately 2,600 participants with an average account balance of $26,461.

The chart below outlines the employer contribution rate to the CURP since its inception as well as the associated MOSERS annual normal cost. As depicted, the MOSERS annual normal cost has steadily decreased since the implementation of the MSEP 2011 new tier.*

It is important to note that employees do not currently contribute to CURP.

| Fiscal Year | MOSERS Normal Cost Rate | Resulting CURP Contribution Rate |
|---|---|---|
| FY 02/03 | 8.22% | 7.22% |
| FY 03/04 | 8.47% | 7.47% |
| FY 04/05 | 8.57% | 7.57% |
| FY 05/06 | 8.81% | 7.81% |
| FY 06/07 | 8.84% | 7.84% |
| FY 07/08 | 8.87% | 7.87% |
| FY 08/09 | 8.88% | 7.88% |
| FY 09/10 | 8.71% | 7.71% |
| FY 10/11 | 8.77% | 7.77% |
| FY 11/12* | 7.92% | 6.92% |
| FY 12/13* | 7.80% | 6.80% |
| FY 13/14* | 7.38% | 6.38% |
| FY 14/15* | 7.16% | 6.16% |
| FY 15/16* | 6.89% | 5.89% |
| FY 16/17* | 6.67% | 5.67% |
| FY 17/18^ | 7.19% | 6.19% |

^ MOSERS Board adopted actuarial assumptions resulted in an increase in the normal cost rate.

The provisions of this proposal would not have a fiscal impact on MOSERS.

ASSUMPTION (continued)

In response to a similar proposal (SB 62), officials from the **Missouri Southern State University (MSSU)** did not anticipate a significant fiscal impact since the proposed employer funding percentage of 5.5% does not vary significantly from the current funding percentage. The proposed uncoupling of the CURP funding formula from the MOSERS "normal cost contribution" component and establishment of a fixed rate would eliminate the downward trend in the CURP funding percentage that has been noted in recent years.

In response to a similar proposal (SB 62), officials from the **Missouri State University** assumed this proposal would result in a positive unknown fiscal impact.

In response to a similar proposal (SB 62), officials from the **Truman State University** assumed this proposal would result in a minimal positive fiscal impact.

In response to a similar proposal (SB 62), officials from the **University of Central Missouri** assumed a potential savings of $1.9 million to the University as a result of this proposal.

In response to a similar proposal (SB 62), officials from the **University of Missouri**, **Northwest Missouri State University** and the **State Technical College of Missouri** each assumed the proposal will have no fiscal impact on their respective organizations.

**Oversight** assumes this legislation would modify the employer contribution rate to a fixed 6% of payroll from the current rate of 1% of payroll less than the normal cost contribution rate of the defined benefit plan. In addition, the proposal would require outside employees hired on or after July 1, 2018 to contribute 2% of payroll to the CURP. In addition this proposal would allow outside employees to contribute to a supplemental account established by the employer.

**Oversight** notes that the 4 year average CURP employer contribution rate is 5.9775% and the 5 year average CURP employer contribution rate is 6.058%. Since this legislation would modify the employer contribution rate to a fixed 6%, Oversight assumes this proposal will not have a material fiscal impact to the contributions made by employer-institutions.

**Kansas City Public School Retirement System (KCPSRS) (169.324):**

The **Joint Committee on Public Retirement** review of this provision would indicate that such provisions would not create a "substantial proposed change" in future plan benefits as defined in section 105.660 (10).

ASSUMPTION (continued)

**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

Officials from the **Kansas City Public School Retirement System (KCPSRS)** assume the proposed provisions in section 169.324.2. SCS for HCS for HB 831 clarify that persons who are receiving a pension from the Kansas City Public School Retirement System (KCPSRS) and who are subsequently employed by a third party or is performing work as an independent contractor, if the services by such person are provided to or for the benefit of any KCPSRS participating employer, are required to provide documentation showing compliance with the hourly (i.e. 600 hours) and salary (i.e. 50% of annual salary last paid by participating employer before person's retirement) limitations of RSMO 169.324.2. In addition, this section in SCS for HCS for HB 831 requires the employer receiving such services, the third party employer, and the independent contractor to provide such documentation showing compliance with the hourly and salary limitations in this statute subsection.

KCPSRS assume the fiscal impact of SCS for HCS for HB 831 (1767-04) 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.

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

ASSUMPTION (continued)

**Public School and Education Emplyees Retirement System (PSRS) (169.560):**

The **Joint Committee on Public Retirement** review of this provision would indicate that 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

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:

- The divorce decree provides for sole retention of their retirement benefits
- Retroactive benefits are not payable
- The divorce occurs on or after September 1, 2017.

This proposal also allows for nomination of a successor beneficiary to be filed within one year, instead of the current 90 days, after remarriage.

ASSUMPTION (continued)

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, PSRS expects 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, 2016, 6,517 of 25,061 PEERS service retirees, or 26%, are receiving a joint and survivor annuity payment form.
        - As of June 30, 2016, 22,938 of 53,069 PEERS service retirees, or 43%, are receiving a joint and survivor annuity payment form.

- Only a portion of those members will dissolve their marriage after retirement.

- Only a portion of those members will retain sole rights to their retirement allowance.

- The joint-and-survivor payment options typically provide a monthly benefit amount that is 80%-90% of the amount payable under the single life annuity payment option. The actual reduction depends on the age of the member and spouse at the time of benefit commencement and the percentage of the benefit payable to the spouse upon the death of the member. In other words, the savings to the plan for such a member would be a small fraction, 10-20%, of the member's benefit.

- Payment of the reduced joint-and-survivor amount will only occur for a finite period of time, between the date of benefit commencement and date of divorce. In other words, the fraction of the benefit saved for such a member, would only be saved for a temporary period of time.

Therefore, PSRS estimates that the proposed change will result in an insignificant fiscal savings to PSRS/PEERS, such that there would be little or no impact on the actuarially determined contribution rate for the System after rounding to the nearest 0.01%.

ASSUMPTION (continued)

Senate Amendment 3

Section 476.521

Officials from the **Joint Committee on Public Retirement** assume this amendment excludes certain members of the Judicial Retirement System from the 2011 Tier of the Judicial Retirement System. Our review of this provision indicates that such provision 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 has not been filed with the JCPER.

Officials from the **Missouri State Employee's Retirement System** assume this provision would allow any person who filed as a candidate in 2010 to become a judge and was elected in 2010 and became a judge in 2011 as a result of such election, was eligible in 2010 to receive a future annuity under section 104.1084, and is a judge on the effective date of this section, shall not be subject to the provisions of the Judicial 2011 tier.

The provisions of this proposal will have an unknown cost to the Judicial Retirement Plan. The plan will experience an increase in actuarial accrued liability for any judge that is moved from the Judicial 2011 tier to the closed Judicial plan (pre-2011).

**Oversight** assumes this amendment will increase the actuarial accrued liability to the Judicial Retirement Plan; however, it may or may not increase the call from the state funds to MOSERS . Therefore, Oversight will reflect an impact of $0 or a negative unknown cost to the state. For simplicity, Oversight will only reflect this potential cost to the General Revenue Fund, starting in FY 2019.

| FISCAL IMPACT - State Government | FY 2018 (10 Mo.) | FY 2019 | FY 2020 | (FY 2028) |
|---|---|---|---|---|
| **GENERAL REVENUE FUND** | | | | |
| Savings - MOSERS Decrease in Employer Contributions §104.1091 | $0 | $122,400 | $125,400 | $308,400 |
| Savings - MOSERS Decrease in Employer Contributions §104.1092 | $0 | $0 to More than $4,260,000 | $0 to More than $4,260,000 | $0 to More than $4,260,000 |
| Savings - MPERS Decrease in Employer Contributions §104.1091 | $0 | $0 | $0 | $6,120 |
| Savings - MPERS Decrease in Employer Contributions §104.1092 | $0 | $0 to More than $120,000 | $0 to More than $120,000 | $0 to More than $120,000 |
| Cost - MOSERS Increase in plan liability §476.521 (SA3) | $0 | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| **ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND** | **$0** | **Less than $122,400 to More than $4,380,000** | **Less than $125,400 to More than $4,380,000** | **Less than $314,520 to More than $4,380,000** |

| FISCAL IMPACT - State Government (continued) | FY 2018 (10 Mo.) | FY 2019 | FY 2020 | (FY 2028) |
|---|---|---|---|---|
| **HIGHWAY FUND** | | | | |
| Savings - MPERS Decrease in Employer Contributions §104.1091 | $0 | $0 | $0 | $40,290 |
| Savings - MPERS Decrease in Employer Contributions §104.1092 | $0 | $0 to More than $790,000 | $0 to More than $790,000 | $0 to More than $790,000 |
| **ESTIMATED NET EFFECT ON THE HIGHWAY FUND** | **$0** | **$0 to More than $790,000** | **$0 to More than $790,000** | **$40,290 to More than $790,000** |

| FISCAL IMPACT - State Government (continued) | FY 2018 (10 Mo.) | FY 2019 | FY 2020 | (FY 2028) |
|---|---|---|---|---|
| **OTHER STATE FUNDS** | | | | |
| Savings - MOSERS Decrease in Employer Contributions §104.1091 | $0 | $36,720 | $37,620 | $92,520 |
| Savings - MOSERS Decrease in Employer Contributions §104.1092 | $0 | $0 to More than $1,278,000 | $0 to More than $1,278,000 | $0 to More than $1,278,000 |
| Savings - MPERS Decrease in Employer Contributions §104.1091 | $0 | $0 | $0 | $2,550 |
| Savings - MPERS Decrease in Employer Contributions §104.1092 | $0 | $0 to More than $50,000 | $0 to More than $50,000 | $0 to More than $50,000 |
| **ESTIMATED NET EFFECT ON OTHER STATE FUNDS** | **$0** | **$36,720 to More than $1,328,000** | **$37,620 to More than $1,328,000** | **$95,070 to More than $1,328,000** |

| FISCAL IMPACT - State Government (continued) | FY 2018 (10 Mo.) | FY 2019 | FY 2020 | (FY 2028) |
|---|---|---|---|---|

**FEDERAL FUNDS**

| | | | | |
|---|---|---|---|---|
| Savings - MOSERS Decrease in Employer Contributions §104.1091 | $0 | $44,880 | $45,980 | $113,080 |
| Savings - MOSERS Decrease in Employer Contributions §104.1092 | $0 | $0 to More than $1,562,000 | $0 to More than $1,562,000 | $0 to More than $1,562,000 |
| Savings - MPERS Decrease in Employer Contributions §104.1091 | $0 | $0 | $0 | $2,040 |
| Savings - MPERS Decrease in Employer Contributions §104.1092 | $0 | $0 to More than $40,000 | $0 to More than $40,000 | $0 to More than $40,000 |
| **ESTIMATED NET EFFECT ON FEDERAL FUNDS** | **$0** | **$44,880 to More than $1,602,000** | **$45,980 to More than $1,602,000** | **$115,120 to More than $1,602,000** |

| FISCAL IMPACT - Local Government | FY 2018 (6 Mo.) | FY 2019 | FY 2020 | (FY 2028) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| **LOCAL POLITICAL SUBDIVISIONS** | | | | |
| Revenue - Increase in various existing fees and a creation of a new fee | $4,007,000 | $8,014,000 | $8,014,000 | $8,014,000 |
| Cost - Transfer to CERF | ($4,007,000) | ($8,014,000) | ($8,014,000) | ($8,014,000) |
| **ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS** | **$0** | **$0** | **$0** | **$0** |

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 related to public employee retirement plans

Section 104.1205 has an effective date of July 1, 2018.

Sections 50.1190, 52.290, 137.280, 137.345 and 140.100 have an effective date of January 1, 2018.

Section 86.207 has an emergency clause.

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 Retirement

KC:LR:OD

Public School and Education Employees Retirement System
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Kansas City Public School Retirement System
County Employees' Retirement Fund
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
St. Louis City Police Retirement System
St. Louis Employees Retirement System
City of St. Louis
Missouri Southern State University (MSSU)
Missouri State University
Truman State University
University of Central Missouri
University of Missouri
Northwest Missouri State University
State Technical College of Missouri

Mickey Wilson

| | |
|---|---|
| Mickey Wilson, CPA | Ross Strope |
| Director | Assistant Director |
| May 12, 2017 | May 12, 2017 |

KC:LR:OD