

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1774-02
Bill No.: HCS for SB 394
Subject: Retirement Systems and Benefits - General; Attorneys; Counties; Retirement - State; Retirement - Schools
Type: Original
Date: April 28, 2017

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

FISCAL SUMMARY

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

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

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 32 pages.

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 All 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	\$2,089,104	\$4,804,940	\$6,058,403	\$20,473,221

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. 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	<u>\$ 63,462</u>
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 similar proposal from this year (SB 309), 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)

Missouri Local Government Employees Retirement System (LAGERS)
Sections 70.600 to 70.730

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).

Local Government Employee's Retirement System (LAGERS) as of July 1, 2015

		<u>Funded Ratio</u>
Market Value	\$6,381,353,861	100.9%
Actuarial Value	\$5,972,471,342	94.4%
Liabilities:	\$6,324,109,191	

Current Annual Required Contribution Rate

Employer: Determined separately for each participating political subdivision.

Employer: 0% to 4%

Covered Payroll: \$1,462,218,216

Active Membership: 33,310

Inactive Membership: 26,335

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

St. Louis Police Retirement System & St. Louis City Employees' Retirement System
Section 86.200 to 86.360

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.

ASSUMPTION (continued)

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

		<u>Funded Ratio</u>
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:	<u>7.00%</u>	<u>\$4,670,736 (estimate)</u>
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

		<u>Funded Ratio</u>
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
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Covered Payroll: \$228,422,585

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

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.

ASSUMPTION (continued)

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.

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
<u>Funded Ratio</u> Market Value: 63.6% Actuarial Value: 69.6%	<u>Funded Ratio</u> Market Value: 53.0% Actuarial Value: 55.5%
<u>Contribution Rate</u> Employer (FY17/18): 19.45% Employee: 4%	<u>Contribution Rate</u> Uniformed: 58% (\$51,556,310 est.) Non-uniformed: 58% (\$159,564,612 est.) Employee: 4%

ASSUMPTION (continued)

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the proposed legislation contained in SCS for HCS for HB 831, a similar proposal, 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
- 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

ASSUMPTION (continued)

Valuation Group	#	Payroll	Group Averages		
			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

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

ASSUMPTION (continued)

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.

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%

In response to a similar proposal from this year (HB 729), officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assumed 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:

ASSUMPTION (continued)

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).

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

ASSUMPTION (continued)

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%

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

ASSUMPTION (continued)

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

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.

ASSUMPTION (continued)

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.

The fiscal impact, of the provisions contained in SCS for HCS for HB 831, a similar proposal, 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.

ASSUMPTION (continued)

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).

In response to a similar proposal from this year (HB 729), officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assumed 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).

ASSUMPTION (continued)

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.”

All Pension Plans
Section 105.669

Officials from the **Joint Committee on Public Employee Retirement** indicate that such provisions would not create a “substantial proposed change” in future plan benefits defined in section 105.660(10).

In response to a similar proposal from this year (HB 996), officials from the **Missouri State Employee's Retirement System (MOSERS)** assumed HB 1217, enacted in 2014, contains provisions which provided that any participant of a public employee retirement plan covered under Chapter 105, who is found guilty of a felony offense committed in connection with or related to the participant's duties as an employee, would not be eligible to receive any retirement benefits from the respective plan based on service rendered on or after the effective date of the section. Upon a finding of guilt, the court would be required to forward a notice of the court's finding to the appropriate retirement system in which the offender was a participant. The court would be required to make a determination of the value of the money, property, or services involved in committing the offense. The finding of guilt for a certain felony offense or a substantially similar offense provided under federal law would result in the participant's ineligibility for retirement benefits.

The modifications proposed in HB 996 would address administrative implementation concerns, specifically:

1. Modifies "found guilty" to "convicted," because a conviction results in a final judgment that includes a finding of guilt whether by verdict or guilty plea. The requirement of a conviction is also consistent with what is required in other forfeiture provisions such as Section 104.1084.8 and Article XIII, Section 3.12 of the Missouri Constitution.
2. Modifies the manner of reporting the conviction and associated information relative to the offense to the affected retirement system. Such reporting shall be modified from a responsibility of "the court" to a responsibility of "the employer" of the convicted participant. The employer should have more readily available information relative to any charge or conviction and is better positioned to notify the appropriate retirement plan.

ASSUMPTION (continued)

The proposed legislation has no fiscal impact on MOSERS.

In response to a similar proposal from this year (HB 996), officials from the **Public School & Education Employee Retirement Systems** of Missouri (PSRS/PEERS) stated in 2014, the General Assembly passed a bill that specifies that any member or retiree of a public retirement plan such as PSRS/PEERS who is found guilty of certain felonies and committed those felonies in direct connection to the member's or retiree's employment will forfeit their retirement benefits based on service rendered on or after the effective date of this bill. Those felonies are: 1. Stealing under section 570.030 valued at \$5,000 or more; 2. Receiving stolen property under section 570.080 when valued at \$5,000 or more; 3. Forgery under section 570.090; 4. Counterfeiting under section 570.103; 5. Bribery of a public servant under section 576.010; or 6. Acceding to corruption under section 576.020. A member or retiree that is found guilty of any of those felonies may still request a refund of the contributions made and any interest credited to their account.

HB 996 (2017) 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 PSRS or PEERS of Missouri.

In response to a similar proposal from this year (HB 996), officials from the **MoDOT & Patrol Employees' Retirement System** indicated this bill could create an indeterminable, but minor, cost savings for MPERS.

Officials from the **Office of the State Courts Administrator** assume the proposal will have no fiscal impact on their organization.

In response to a similar proposal from this year (HB 996), officials from the **Office of Administration** assumed the proposal will have no fiscal impact on their organization.

Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS)
Sections 169.141 and 169.715

Officials from the **Joint Committee on Public Retirement** state their 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).

ASSUMPTION (continued)

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

Kansas City Public School Retirement System (KCPSRS)
Section 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).

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:	<u>9.00%</u>	<u>\$16,111,216 est.</u>
Total :	20.18%	\$36,124,927 est.

Covered payroll: \$179,013,516

In response to a previous version, officials from the **Kansas City Public School Retirement System (KCPSRS)** assumed 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.

ASSUMPTION (continued)

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).

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:	<u>5.00%</u>	<u>\$12,606,364 (estimated)</u>
Total:	20.73%	\$52,264,320 (estimated)

ASSUMPTION (continued)

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

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.

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, a similar proposal, 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.”

ASSUMPTION (continued)

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.

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), a similar proposal, 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 this proposal.

ASSUMPTION (continued)

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 this proposal.

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 (Perfecting HCS for HB 619), officials from the **Office of Administration** assume the proposal, as amended, will have no fiscal impact on their organization.

ASSUMPTION (continued)

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.

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

ASSUMPTION (continued)

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	<u>\$2,089,104</u>
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	<u>\$2,715,836</u>
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	<u>\$3,342,567</u>
TOTAL 2020			\$6,058,403

Public School and Education Employees Retirement System (PSRS)
Section 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).

ASSUMPTION (continued)

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: <u>14.5%</u>	<u>\$660,639,906 est.</u>
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.

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:

ASSUMPTION (continued)

- 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%.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
GENERAL REVENUE FUND				
<u>Savings - MOSERS</u>				
Decrease in Employer Contributions §104.1091	\$0	\$122,400	\$125,400	\$308,400
<u>Savings - MOSERS</u>				
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
<u>Savings - MPERS</u>				
Decrease in Employer Contributions §104.1091	\$0	\$0	\$0	\$6,120
<u>Savings - MPERS</u>				
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
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>\$0</u>	<u>\$122,400 to More than \$4,380,000</u>	<u>\$125,400 to More than \$4,380,000</u>	<u>\$314,520 to More than \$4,380,000</u>

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				
<u>Savings - MOSERS</u>				
Decrease in Employer Contributions §104.1091	\$0	\$36,720	\$37,620	\$92,520
<u>Savings - MOSERS</u>				
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
<u>Savings - MPERS</u>				
Decrease in Employer Contributions §104.1091	\$0	\$0	\$0	\$2,550
<u>Savings - MPERS</u>				
Decrease in Employer Contributions §104.1092	<u>\$0</u>	<u>\$0 to More than \$50,000</u>	<u>\$0 to More than \$50,000</u>	<u>\$0 to More than \$50,000</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>\$0</u>	<u>\$36,720 to More than \$1,328,000</u>	<u>\$37,620 to More than \$1,328,000</u>	<u>\$95,070 to More than \$1,328,000</u>

FISCAL IMPACT -
State Government
 (continued)

	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
FEDERAL FUNDS				
<u>Savings - MOSERS</u>				
Decrease in Employer Contributions §104.1091	\$0	\$44,880	\$45,980	\$113,080
<u>Savings - MOSERS</u>				
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
<u>Savings - MPERS</u>				
Decrease in Employer Contributions §104.1091	\$0	\$0	\$0	\$2,040
<u>Savings - MPERS</u>				
Decrease in Employer Contributions §104.1092	\$0	\$0 to More than <u>\$40,000</u>	\$0 to More than <u>\$40,000</u>	\$0 to More than <u>\$40,000</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>\$44,880 to More than \$1,602,000</u>	<u>\$45,980 to More than \$1,602,000</u>	<u>\$115,120 to More than \$1,602,000</u>

FISCAL IMPACT -
 Local Government

FY 2018
 (6 Mo.)

FY 2019

FY 2020

Fully
 Implemented
 (FY 2033)

**LOCAL SCHOOL
 DISTRICTS**

Savings - St. Louis
 City Public School
 Districts - Savings
 Change in
 Employer
 Contributions
 §§ 169.460 and
 169.490

\$2,089,104

\$4,804,940

\$6,058,403

\$20,473,221

**ESTIMATED NET
 EFFECT TO
 LOCAL SCHOOL
 DISTRICTS**

\$2,089,104

\$4,804,940

\$6,058,403

\$20,473,221

FISCAL IMPACT - Small Business

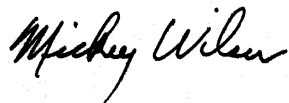
No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal modifies provisions related to public employee retirement plans

SOURCES OF INFORMATION

Joint Committee on Public Retirement
Prosecuting and Circuit Attorney's Retirement System
Public School and Education Employees Retirement System
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Kansas City Public School Retirement System
Public School Retirement System of the City of St. Louis
Missouri Local Government Employees Retirement System
Office of Administration
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



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April 28, 2017

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April 28, 2017