

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6590-01
Bill No.: SB 1045
Subject: Retirement - Schools
Type: Original
Date: March 6, 2018

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Public School & Education Employee Retirement Systems of Missouri (PSRS/PEERS)** assume this legislation allows any teacher retired from the Public School Retirement System of Missouri (PSRS) to be employed in a position covered under the Public Education Employee Retirement System (PEERS) without stopping their retirement benefit.

Such retired teacher may earn up to 50% of the minimum teacher's salary as set forth in Section 163.172, RSMo, (\$12,500) and such retired teacher will not contribute to the PEERS or earn creditable service.

The employer's contribution rate will be paid by the hiring employer. If such person is employed above these limitations, the person will not be eligible to receive their retirement allowance for any month the person is employed and such person shall contribute to the retirement system if he or she is in an eligible position.

The current statutory limitation is 550 hours and 50% of salary a retiree would have earned if they returned to work for a covered employer. As of June 30, 2018, the Systems have over 88,000 retirees, of those 8,575 retired PSRS members return to work for a covered employer (1,939 PEERS retirees return to work for a covered employer). Roughly 85 % of PSRS retirees who return to work earn, under working after retirement provision, less than \$15,000. The average earning per retiree who returns to work under the working after retirement provision is \$7,092.

According to the actuarial study prepared for HB 2335:

Currently, when PSRS retired members are rehired into positions covered by either PSRS or PEERS, they are generally subject to the following requirements of Section 169.560 of the Revised Statutes of the State of Missouri ("RSMo"):

- The retirement allowance be suspended for any such member who:
 - o Works more than 550 hours per school year, and /or
 - o Earns more than 50% of the annual compensation a full-time member would earn in the same position.

ASSUMPTION (continued)

- The member and their employer are required to contribute to PSRS or PEERS only to the extent the retirement allowance is suspended and the member satisfies other statutory eligibility requirements.

It is our understanding that there are two proposed changes to RSMo 169.560 in HB 2335. The first is to replace the word “district” with “employer” in the current text of RSMo 169.560. This change clarifies that all employers participating in PSRS, including teacher associations, community colleges, and other participating entities, are subject to the working after retirement provisions of RSMo 169.560.

The second proposed change would create new working after retirement provisions under RSMo 169.560 for retired PSRS members who return to work in positions that are covered by PEERS. A summary of the proposed provisions is as follows:

- The PSRS retirement allowance is suspended for any such member who:
 - o Earns more than 50% of the minimum teacher’s salary set forth in RSMo 163.172. (The current minimum teacher salary under RSMo 163.172 is \$25,000.)
- To the extent the member’s employment does not exceed this limitation and the PSRS retirement allowance is not suspended:
 - o The member shall not earn membership service in PEERS, and
 - o Only the hiring employer shall contribute to PEERS at the rate established by the PEERS Board.
- To the extent the member’s employment exceeds this limitation and the PSRS retirement allowance is suspended:
 - o The member shall become a member of PEERS, and
 - o Both the member and the hiring employer shall contribute to PEERS at the rates established by the PEERS Board.

It is our understanding that current PSRS retirees who have returned to work in PEERS positions and have had their PSRS retirement allowance suspended based on the current limitations of RSMo 169.560, but who would not have their PSRS retirement allowance suspended under the proposed working after retirement thresholds, would have their PSRS retirement allowance reinstated and would cease accruing additional benefits and contributing to the PEERS.

Finally, it is noted that HB 2335 does not modify the working after retirement provisions of RSMo 169.560 for retired PSRS members who return to work in PSRS positions.

ASSUMPTION (continued)

The first proposed change to RSMo 169.560 in HB 2335 and described above impacts PSRS only. As such, we estimate no fiscal impact to PSRS of the first proposed change of HB 2335.

With respect to the second proposed change to RSMo 169.560 in HB 2335 and described above, we note that historically a very small number of retirees have returned to work in a capacity that exceeds the current limitations noted above. As of June 30, 2017, 58 of 54,629 PSRS service retirees, or 0.11%, had returned to work in a capacity that resulted in suspension of their PSRS retirement allowance, and only a portion of those members had returned to work in PEERS positions.

Therefore, we estimate no impact on the number of retired PSRS members who return to work in PEERS positions, above and below the stated applicable limitations, and no fiscal impact to PSRS due to the second proposed change of HB 2335.

HB 2335 would require employers to contribute to PEERS on behalf of retired PSRS members who return to work in PEERS positions, whether or not the member's employment exceeds the proposed pay threshold. For retired PSRS members who return to work in a PEERS position and in a capacity below the pay threshold, contributions would be collected by PEERS without a corresponding accrual of additional benefits, resulting in a gain to PEERS. As noted above, we estimate no impact on the number of retired PSRS members who return to work in PEERS positions, above and below the stated applicable limitations. Therefore, we estimate an insignificant fiscal gain to PEERS, resulting from the collection of employer contributions on behalf of PSRS retirees who return to work in PEERS positions in a capacity that does not exceed the proposed pay threshold.

Officials from the **Joint Committee on Public Retirement (JCPER)** assumed this legislation would indicate such provisions may constitute a "substantial proposed change" in future plan benefits as defined in Section 105.660(10). It is impossible to accurately determine the fiscal impact of this 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 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.

ASSUMPTION (continued)

Current System Status

PSRS

As of June 30, 2017

Market Value: \$37,280,246,064 83.7% Funded
Actuarial Value: \$37,373,739,619 83.9% Funded
Liabilities: \$44,501,771,291

Current Annual Required Contribution Rate (17/18)

Employer	14.5%	\$674,994,906
<u>Employee</u>	<u>14.5%</u>	<u>\$674,994,906</u>
Total	29%	\$1,349,989,812

Covered Payroll: \$4,655,169,121

Current System Status

PEERS

As of June 30, 2017

Market Value: \$4,446,418,007 85.3% Funded
Actuarial Value: \$4,470,269,913 85.8% Funded
Liabilities: \$5,209,368,865

Current Annual Required Contribution Rate (17/18)

Employer	6.86%	\$106,891,383
<u>Employee</u>	<u>6.86%</u>	<u>\$106,891,383</u>
Total	13.72%	\$213,782,766

Covered Payroll: \$1,558,183,433

ASSUMPTION (continued)

Officials from the **Kansas City Public School Retirement System (KCPSRS)** assume the provisions of SB 1045 (6590-01) allows a retiree from PSRS to return to work in a PEERS position and continue to receive a PSRS pension benefit. There is no hour limitation. There is a limitation of the salary (up to 50% of the minimum teacher's salary as set forth in RSMO 163.172). The employer must contribute the current contribution rate to PEERS of that individual's salary. The individual does not contribute and does not accrue retirement service credit for such time worked.

This proposal would have no known fiscal impact on the Kansas City Public School Retirement System. The provisions do not impact the statutes for KCPSRS.

Officials from **Kirkville R-III Schools** assume the proposal will have no fiscal impact on their respective organizations.

Oversight assumes this proposal will have an insignificant fiscal impact on the PSRS/PEERS; however, PSRS/PEERS is not a local political subdivision. **Oversight** will not reflect a fiscal impact to their organization.

Oversight assumes only 0.11% (58 out of 54,629) PSRS service retirees have returned to work in a capacity that resulted in suspension of their PSRS retirement allowance and of those 58, only a portion had returned to work in PEERS positions, according to the actuarial study provided by PSRS/PEERS. These minimal additional expenses may or may not impact the contribution rate of local school districts to the retirement systems. For fiscal note purposes, Oversight will assume local school districts will not be impacted by this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposed legislation appears to have no direct fiscal impact.

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

Public School & Education Employee Retirement Systems of Missouri
Joint Committee on Public Retirement
Kansas City Public School Retirement System
Kirksville R-III Schools

Ross Strobe



Acting Director
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