COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0446-03
Bill No.: CCS for SB 17
Subject: Retirement - Schools; Retirement Systems and Benefits - General; Salaries; Teachers
Type: Original
Date: May 15, 2019

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	$0	$0	$464,765
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$464,765**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Various State Funds	$0	$0	$143,871
College & University Funds	$0	$0	$157,889
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$301,760**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Various Federal Funds	$0	$0	$173,271
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$173,271**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government	**Unknown to (Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints of less than 2 hours, **Oversight** was unable to receive some of the agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Section 169.560 Community College Exemption

In response to a previous version, Perfected SB 17 (2019), officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** assumed in 2018, legislation was enacted in Section 169.560, which allows any retired teacher 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 60% of the minimum teacher's salary as set forth in Section 163.172, RSMo, ($15,000) 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.

SB 17 (2019) would change the working-after-retirement provisions for retired PSRS members who are rehired by public community colleges (members of the System) in positions that do not require certification by DESE. Retired PSRS members who return to work for public community colleges would be subject to the same provisions as those PSRS members who are rehired into positions that do require certification by DESE:

- The retirement allowance is suspended for any such member who:
  - Works more than 550 hours per school year, and /or
  - Earns more than 50% of the annual compensation a full-time member would earn in the same position.
    - To the extent a retired PSRS member's employment at a public community college in a position that does not require certification by DESE exceeds the thresholds noted above (and the member satisfies other statutory eligibility requirements) resulting in suspension of the member's retirement allowance, both the member and their employer are required to contribute to PSRS and the member earns a retirement allowance from PSRS for such service.
- No contributions are required to either PSRS/PEERS.

ASSUMPTION (continued)

As of June 30, 2018, 821 PSRS retirees returned to work for public community colleges in positions that do not require certification by DESE, and 96 of them (12%) had earnings that exceeded 60% of the minimum teacher's salary, which would have required their PSRS benefit to be suspended if the provisions of SB 892 (2018) had been in effect. The 96 retired PSRS members potentially affected by SB 17 represent only 0.17% of the 55,930 PSRS retiree population and only 0.20% of the 48,549 PEERS active member population on behalf contributions would have been made to PEERS had this law already been in effect.

The Systems have an actuary firm, PricewaterhouseCoopers (PWC), that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. According to PWC, the changes to PSRS would result in fewer PSRS retirement allowance suspensions. Therefore, **PWC estimates no fiscal impact to PSRS under SB 17**. In addition, under the current law, PEERS experience an insignificant fiscal gain when retired PSRS members return to work in positions that do not require certification by DESE, since employers contribute to PEERS in those circumstances, but no PEERS benefits are earned. PWC expects no employer contributions to PEERS without corresponding benefit accruals for those PSRS retirees who return to work for community colleges. The number of members likely to be affected is very small, so **PWC estimates the impact of SB 17 to be an insignificant fiscal loss to PEERS**.

SB 17 contains an emergency clause. This emergency clause will ensure that those retirees working for community colleges will automatically revert to the previous working after retirement provision.

In response to a previous version, Perfected SB 17 (2019), officials from the **Joint Committee on Public Employee Retirement (JCPER)** assumed SB 17 has no direct fiscal impact to the JCPER. Our review of this legislation indicates that its 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.

In response to a previous version, Perfected SB 17 (2019), officials from the **Missouri Department of Transportation** assumed the proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

Oversight assumes this proposal exempts employees of community colleges from subsection 2 of section 169.560. This would result in fewer suspensions of PSRS retirement benefits and community colleges would not be required to contribute to the PEERS system for any PSRS retiree employed by the college.

Based on the actuarial review of the proposed changes, **Oversight** assumes this proposal will result in no fiscal impact to the PSRS system and an insignificant loss to the PEERS system.

Oversight notes that PSRS/PEERS is not a political subdivision therefore will not reflect an impact to their organization in the fiscal note. Oversight assumes there would be an unknown savings to the community colleges as they would no longer be required to contribute to the system for certain employees.

Sections 70.600 and 70.631 Public Safety Personnel
In response to a similar proposal, HB 568 (2019), officials from the **Joint Committee on Public Employees' Retirement** assumed the proposal has no direct fiscal impact to the Joint Committee on Public Employee Retirement. Our review of this legislation indicates it would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10).

In response to a similar proposal, HB 568 (2019), officials from **Local Government Employees Retirement System (LAGERS)** assumed this proposal would require modest programming changes to LAGERS' pension administration system that would result in a one-time cost to the LAGERS system of less than $5,000. There would be no other fiscal impact to LAGERS.

Oversight notes that LAGERS is not a political subdivision therefore will not reflect an impact to their organization in the fiscal note.

Oversight notes the minimum retirement age for general employees is 60 years of age. Oversight assumes this proposal lowers the minimum retirement age to 55 years of age for certain employees defined as public safety personnel. Oversight assumes there could be an increase in employer contributions for local political subdivisions for employees they elect to cover under the retirement system as public safety personnel who retire at the age of 55 instead of 60. Oversight notes each individual employer electing to add certain employees as public safety personnel would have a actuarial cost statement done to determine if the change would require an increase in the employers contribution rate.

Oversight notes the limitation on increases in employer contribution rates does not apply to contribution increase resulting from this proposal. Additionally, Oversight notes the board can

ASSUMPTION (continued)

set different rates of contributions employers having policeman members or having fireman members (RSMo. 70.730.4). Oversight is uncertain "public safety personnel" would qualify as policeman members or fireman members which would allow for a different contribution rate than general employees.

Oversight notes language was added in the Conference Committee Substitute to restrict the provisions in section 70.631 to counties of the 3rd classification and the county of Cape Girardeau.

Oversight will show a range of $0 (no local political subdivisions elect to cover additional employees as public safety personnel) to an unknown cost to local political subdivisions if an increase in employer contributions were needed. Oversight assumes this proposal is discretionary and would have no local fiscal impact without action by the governing body.

Sections 215.030 and 260.035 MOSERS Eligible Members
In response to a similar proposal, HB 563 (2019), officials from the **Missouri State Employees' Retirement System (MOSERS)** assumed the proposal, if enacted, would allow for continued employer eligibility in the Missouri State Employees' Retirement System (MOSERS) for the Missouri Housing Development Commission (MHDC) and the Environmental Improvement and Energy Resources Authority (EIERA). It is important to note that in addition to these proposed provisions, both MHDC and EIERA would also need to receive state appropriations as criteria to participate in MOSERS.

Background:
Legislation passed in 2000 and 2001 require an employer that is a "body corporate or politic" to have express statutory language that provides eligibility for MOSERS coverage. In the course of review of an unrelated issue, MOSERS recently discovered in Chapters 215 and 260 covering MHDC and EIERA, respectively, that each was created as a "body corporate or politic," but no express statutory language provides for MOSERS coverage for these employers and their employees. MOSERS research yielded no evidence that the General Assembly specifically intended to exclude MHDC and EIERA as MOSERS-covered employers. In fact, based on subsequent legislative activity, it appears the General Assembly assumed MHDC and EIERA were so covered.

The MOSERS Board of Trustees held a special board meeting in 2018 relative to this topic and concluded that it has no alternative but to terminate participation by these employers and employees no later than August 31, 2019 unless curative legislation is passed by the General Assembly during the 2019 legislative session.

ASSUMPTION (continued)

Fiscal Impact:
Both MHDC and EIERA were included in MOSERS' most recent annual actuarial valuation for year ended June 30, 2018. As such, the passage of this proposal would not have a fiscal impact on MOSERS. Without the passage of curative legislation, any unfunded actuarial accrued liabilities associated with these employers will be dispersed through the other MOSERS-covered employers.

The projected FY 2020 MOSERS employer contributions for Environmental Improvement and Energy Resources Authority (EIERA) are $71,063 and the Missouri Housing Development Commission (MHDC) is $1,328,840 for a total of $1,399,903. Approximately 33% of this annual contribution ($457,846) would pay the normal cost of buying one year of service for the active members. The additional 67% ($942,057 - annually) would fund the payment on the Unfunded Actuarial Accrued Liability (UAAL). In the future, if there are no eligible employees at these employers (EIERA & MHDC), the normal cost portion would be saved by these two employers and the UAAL portion would be spread to the other MOSERS-covered employers. Approximately 83% of the UAAL payment amount, if spread to other employers, would result in the State of Missouri, as the largest MOSERS-covered employer, being charged $781,907. *These numbers are based upon projected payroll from FY 2018 figures and do not reflect changes in employee demographics, payroll, and plan experience that will occur over time.*

In response to a similar proposal, HB 563 (2019), officials from **Joint Committee on Public Employees' Retirement (JCPER)** assumed the proposal had no direct fiscal impact to JCPER. JCPER assumes such provisions would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10).

In response to a similar proposal, HB 563 (2019), officials from **Department of Economic Development - Missouri Housing Development Commission (DED-MHDC)** and **Department of Natural Resources - Environmental Improvement and Energy Resources Authority (DNR-EIERA)** each assumed the proposal would have no fiscal impact on their respective organizations.

Oversight assumes this proposal would allow MHDC and EIERA to continue participating and paying employer contributions into MOSERS. This would result in a savings to other state agencies that may otherwise be required to increase their employer contributions to cover the unfunded actuarial accrued liability (UAAL) portion no longer paid by MHDC and EIERA.

Oversight assumes this proposal would result in a savings to MHDC and EIERA; however; MHDC and EIERA are not considered state entities; therefore, Oversight will not reflect a fiscal

ASSUMPTION (continued)

impact to their organizations.

Based on the fund break out in TAFP CCS SCS HCS HB 2005, Oversight will split the $781,907 in cost avoidance estimated by MOSERS as follows:

- 59.44% to General Revenue ($781,907 x 59.44% = $464,765)
- 22.16% to Federal Funds ($781,907 x 22.16% = $173,271)
- 18.40% Various State Funds ($781,907 x 18.40% = $143,871)

In addition, Oversight notes MOSERS estimated 83% of the UAAL would be saved by the State of Missouri. Oversight assumes 16.76% would be saved by colleges and universities (16.76% x $942,057 = $157,889).

Oversight notes the MOSERS board must terminate participation by these employers and employees no later than August 31, 2019 (FY 2020). Based on information from the MOSERS Actuarial Report, Oversight notes the actuarial valuation for FY 2021 would occur as of June 30, 2019, potentially before the termination of the employees and employers. Therefore, Oversight assumes EIERA and MHDC employees and employers would be included in the MOSERS employer contribution rate estimates for FY 2020 and FY 2021 and this proposal would not impact the affected funds until FY 2022 and for future fiscal years until the UAAL portion is paid off.

Sections 169.141 and 169.715 Increased Single Life Retirement Allowance
In response to a similar proposal, HB 723 (2019), officials from the **Public School and Education Employee Retirement Systems (PSRS/PEERS)** assumed, currently, Section 169.141 and 169.715 allows for any retiree that selects a joint-and-survivor plan and has a subsequent divorce be allowed to return to a single life option upon receipt of the application by the System.

- This provision will only occur if the divorce decree provides for sole retention of their retirement benefits.
- Retroactive benefits are not payable.
- The divorce must occur on or after September 1, 2017.

ASSUMPTION (continued)

This legislation in addition to the current law also allows for any retiree that selects a joint-and survivor plan and has a divorce after retirement but prior to September 1, 2017 to be allowed to return to a single life option upon receipt of the application by the System provided that they comply with the following criteria:

- For divorces that occurred before September 1, 2017, and the divorce decree clearly states that the retiree retains sole retention of his/her retirement benefit and the ex-spouse is relinquishing all rights, the following must occur:
  - The parties can obtain an amended or modified divorce decree after September 1, 2017; or
  - The nominated spouse consents in writing to his/her immediate removal as nominated beneficiary and disclaims all rights to future benefits to the satisfaction of the Board. (The Systems would develop a form to be used in this circumstance.)
- For divorces that occurred before September 1, 2017, and the divorce decrees does not provide for sole retention by the retired person, the parties must obtain an amended or modified divorce decree after September 1, 2017, which provides for sole retention by the retired person of all rights to the retirement allowance.

Retroactive benefits for divorce pop-up are not payable.

The Systems have an actuary firm, PricewaterhouseCoopers, that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. All annuity payment options (single, joint-and-survivor, term-certain) available to PSRS /PEERS members are actuarially equivalent in value based upon mortality and interest assumption adopted by the Board. Currently, there is a pop-up provision for divorces that occur after September 1, 2017 and a pop-up provision for our members after the death of a beneficiary. PWC cost statement indicates an **insignificant fiscal savings to PSRS and PEERS**.

In response to a similar proposal, HB 723 (2019), officials from the **Joint Committee on Public Employee Retirement** stated, upon review, HB 723 has no direct fiscal impact to the JCPER. HB 723 modifies the divorce pop-up provision in sections 169.141 (PSRS) and 169.715 (PEERS) that the General Assembly passed in 2017 (SB 62). The JCPER's 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)

Current Status of the Public School Retirement System of Missouri:

As of June 30, 2018:

		Funded Ratio
Market Value of Assets:	$39,259,545,410	84%
Actuarial Value of Assets:	$39,211,452,488	84%
Liabilities:	$46,702,001,872	

Covered Payroll, June 30, 2018: $4,759,665,456

Recommended Contribution Rate for FY2020: 29%. Employers and employees contribute in equal amounts of 14.5%.

	Percent	Dollars (Estimated)
Employer	14.5%	$690,151,491 (estimated)
Employee	14.5%	$690,151,491 (estimated)
Total	29%	$1,380,302,982 (estimated)

Current Status of the Public Education Employee Retirement System of Missouri:

As of June 30, 2018:

		Funded Ratio
Market Value of Assets:	$4,769,765,289	86%
Actuarial Value of Assets:	$4,774,781,187	86.1%
Liabilities:	$5,542,477,610	

Covered Payroll, June 30, 2018: $1,636,007,948

Recommended Contribution Rate for FY2020: 13.72%. Employers and employees contribute in equal amounts of 6.86%.

	Percent	Dollars (Estimated)
Employer	6.86%	$112,230,145 (estimated)
Employee	6.86%	$112,230,145 (estimated)
Total	13.72%	$224,460,290 (estimated)

In response to a similar proposal, HB 723 (2019), officials from the **Missouri Department of Transportation** assumed the proposal would have no fiscal impact on their organization.

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

ASSUMPTION (continued)

These minimal savings assumed by the retirement systems may or may not impact the contribution rate of local school districts and public community colleges. **Oversight** will show a range of impact to local school districts and public community colleges of $0 (no change in contribution rates) to an unknown savings (reduction in contribution rates) from this proposal.

FISCAL IMPACT - State Government	FY 2020	FY 2021	FY 2022
GENERAL REVENUE			
Cost Avoidance - UAAL portion of the employer contribution that would continue to be paid by EIERA & MHDC - §215.030 & §260.035 p. 6 - 8	$0	$0	$464,765
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$0**	**$464,765**
VARIOUS STATE FUNDS			
Cost Avoidance - UAAL portion of the employer contribution that would continue to be paid by EIERA & MHDC §215.030 & §260.035 p. 6 - 8	$0	$0	$143,871
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	**$0**	**$0**	**$143,871**

FISCAL IMPACT - State Government	FY 2020	FY 2021	FY 2022
COLLEGE & UNIVERSITY FUNDS			
Cost Avoidance - UAAL portion of the employer contribution that would continue to be paid by EIERA & MHDC §215.030 & §260.035 p. 6 - 8	$0	$0	$157,889
ESTIMATED NET EFFECT ON COLLEGE & UNIVERSITY FUNDS	**$0**	**$0**	**$157,889**
FEDERAL FUNDS			
Cost Avoidance - UAAL portion of the employer contribution that would continue to be paid by EIERA & MHDC §215.030 & §260.035 p. 6 - 8	$0	$0	$173,271
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	**$0**	**$0**	**$173,271**

FISCAL IMPACT - Local Government	FY 2020	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
Savings - Community Colleges - reduced contributions to the PEERS system §169.560 p. 3 - 5	Unknown	Unknown	Unknown
Cost - increase in employer contribution rates for employers who elect to cover certain positions as public safety personnel - §70.600 & §70.631 p. 5 - 6	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
Savings - Schools and Community Colleges - potential small reduction in contribution rates - §169.141 & §169.715 p. 3 - 5	$0 to Unknown	$0 to Unknown	$0 to Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**Unknown to (Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

(Section 169.560). Under current law, any person retired from the Public School Retirement System of Missouri (PSRS) may be employed by an employer included in the retirement system in a position that does not normally require a Missouri teacher certification. Such a person may earn up to 60% of the statutory minimum teacher salary without a discontinuance of the person's retirement allowance.

If any such person is employed in excess of the limitations, the person shall not be eligible to receive the person's retirement allowance for any month during which the person is employed.

This act exempts any person retired and currently receiving a retirement allowance from PSRS employed by a public community college from such provisions of law.

FISCAL DESCRIPTION (continued)

This act has an emergency clause.

(Sections 70.600 & 70.631): Under this proposal, each political subdivision may, by majority vote of its governing body, elect to cover certain employee classes as public safety personnel members of lagers. If the election is made, the coverage provisions shall be applicable to all past and future employment with the employer by present and future employees.

(Sections 215.030 and 260.035). This proposal modifies employer eligibility for MOSERS for the Missouri housing development commission and the environmental improvement energy resource authority.

(Section 169.141 and 169.715). This proposal provides that any person receiving a retirement allowance through PSRS & PEERS, who elected a reduced retirement allowance with his or her spouse as the nominated beneficiary may have the retirement allowance increased to the amount the retired member would be receiving, if the marriage of the retired person and the nominated spouse was dissolved by September 1, 2017, and such dissolution satisfies certain criteria set forth in the proposal.

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 Schools and Education Employee Retirement Systems
Joint Committee on Public Employees' Retirement
Missouri Department of Transportation

Kyle Rieman
Director
May 15, 2019

Ross Strope
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May 15, 2019

JLH:LR:OD