COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3862-06
Bill No.: Truly Agreed To and Finally Passed SS for SCS for HB Nos. 1467 & 1934
Subject: Boards, Commissions, Committees and Councils; Cities, Towns and Villages; Counties; Education, Elementary and Secondary; Employees-Employers; Highway Patrol; Judges; Marriage and Divorce; Retirement - Local Government; Retirement - Schools; Retirement - State; Retirement Systems and Benefits - General; Salaries; State Employees; Teachers; Transportation, Department of
Type: Original
Date: June 1, 2020

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue*	$0	$0 or Unknown	$0 or Unknown
Total Estimated Net Effect on General Revenue	**$0**	**$0 or Unknown**	**$0 or Unknown**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Other Funds*	$0	$0 or Unknown	$0 or Unknown
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or Unknown**	**$0 or Unknown**

* Represents potential future savings from reduced employer contribution rates after eligible participants utilize the buy out program (§104.1089).

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Federal Funds	$0	$0 or Unknown	$0 or Unknown
Total Estimated Net Effect on All Federal Funds	**$0**	**$0 or Unknown**	**$0 or Unknown**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Section 70.705 - LAGERS Member Contributions

Officials from **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal has no direct fiscal impact to the JCPER. The JCPER's review of this legislation indicates that it would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10), RSMo.

Current Status of LAGERS:

As of February 28, 2019 actuarial valuation:

		Funded Ratio
Market Value of Assets:	$7,749,029,831	95.5%
Actuarial Value of Assets:	$7,698,244,648	94.9%
Liabilities:	$8,113,100,648	

Covered Payroll as of February 28, 2019: $1,682,772,357

Current Employee Contribution Rate Options: Section 70.705 permits each LAGERS member political subdivision to elect for its employees to contribute 0% of compensation or 4% of compensation to LAGERS.

Officials from **Local Government Employees Retirement System (LAGERS)** estimate that this proposal has one section that would create a fiscal impact to the system. LAGERS assumes that changes to RSMo 70.705 will expand the options available for employer election from a 0% or a 4% employee contribution option to a 0%, 2%, 4%, or 6% employee contribution option within the system. The implementation of this proposal would require programming changes to LAGERS' pension administration system that would result in a one-time cost of approximately $86,000 to the system. The additional programing within the system would be necessary to allow for the two new employee contribution options provided in the proposal as well as to provide the option for multiple employee contribution elections for any employer with both non-social security covered employees and social security covered employees who are covered under different benefit multipliers. LAGERS estimates no other on-going fiscal impact to the system.

LAGERS does not estimate any fiscal impact from any other portion of the bill as TAFP.

ASSUMPTION (continued)

In response to a similar proposal, SB 768 (2020), **LAGERS** stated should an employer in LAGERS elect an alternate employee contribution amount, the employer's contribution rate could be correspondingly impacted.

For example, currently employers in LAGERS have the option to require no employee contributions or a 4% contribution. Should an employer elect to go from a 4% employee contribution to a 0% employee contribution, we would generally expect the employer's contribution rate to increase to offset the removal of the employees' contribution. We would expect a similar impact with the addition of a 2% and 6% option. With that said, the actual amount that a rate may change will vary from employer to employer because every employer in our system is valuated separately and any changes to an employer's contribution rate are subject the experience of that unique employer.

As with all benefit options in LAGERS, the addition of a 2% and 6% contribution amount would be a strictly optional election at the local level.

Pursuant to RSMo 105.665, an employer's decision to change employee contribution amounts would be considered a substantial proposed change in benefits which would require the employer to first obtain an actuarial cost statement to assess the specific impact on the employer's contribution rate. Furthermore, pursuant to RSMo 105.675, the employer would be required to post the cost statement for public inspection for 45 calendar days prior to the employer's governing body approving any change.

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

Officials from the **City of Kansas City** assume the proposal will have no fiscal impact on their organization.

In response to a similar proposal, HB 1467 (2020), officials from the **City of Columbia** assumed the proposal would not have a fiscal impact on the City of Columbia. Our LAGERS plan is currently non-contributory. The City pays the entire contribution required to fund out LAGERS benefit.

It does give political subdivisions alternatives for contributory plans (where employees contribute a portion of their pay to fund the pension). Instead of 4% as the only option, we now could choose 2% or 6% contribution rates. And, if we moved back to a contributory plan, whatever

ASSUMPTION (continued)

percentage we would elect for employee contributions would theoretically lower the cost of pension contributions of the City.

In response to a similar proposal, HB 1467 (2020), officials from the **City of Springfield** assumed the proposal would have no fiscal impact on their organization.

In response to a similar proposal, SB 768 (2020), officials from **Buchanan County** stated they do not have employee contributions. They are an employer contributing county in our LAGERS retirement.

Oversight notes this proposal would allow each political subdivision the option to choose an alternate member contribution rate of either 2% or 6% of the members' compensation. Currently, the member contributions can be either 0% or 4% of their compensation. Any decrease in the members' contributions could result in an increase in the employers' contributions, and any increase in the members' contributions could potentially decrease the employers' contributions.

Additionally, **Oversight** notes this proposal allows political subdivisions the option to elect one contribution plan for members covered by Social Security and a different contribution plan for those members who are not covered by Social Security.

Oversight will show a range of $0 (no local political subdivisions elect to change the member contribution rate) or an unknown savings to an unknown cost for local political subdivisions depending on the changes implemented by the governing body. Oversight assumes this proposal is discretionary and would have no local fiscal impact without action taken by the governing bodies.

Section 104.010, 104.395, and 104.1027 Joint & Survivor Benefit

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state it has reviewed the proposal and has determined no fiscal impact to the Joint Committee on Public Employee Retirement.

The JCPER's review of this proposal indicates that its provisions would not constitute a substantial proposed change in plan benefits.

ASSUMPTION (continued)

Current Status of MOSERS:

As of June 30, 2018

Market Value of Assets:	$8,034,508,424
Actuarial Value of Assets:	$8,830,410,210
Liabilities:	$13,612,763,961

Covered Payroll as of June 30, 2018: $1,915,143,022

Recommended Contribution Rate for FY 2020: 21.77% of payroll. Employees hired for the first time on or after January 1, 2011 contribute 4% of compensation to MOSERS. Estimated employer contribution is approximately $445.9 million.

Current Status of MPERS:

As of June 30, 2018

Market Value of Assets:	$2,314,530,148
Actuarial Value of Assets:	$2,274,248,122
Liabilities:	$3,981,838,941

Active Employee Payroll as of June 30, 2018: $351,496,555

Recommended Contribution Rate for FY 2020: 58% of payroll. Projected dollar contribution is $216,283,563. Employees hired for the first time on or after January 1, 2011 contribute 4% of compensation to MPERS.

Officials from **Missouri State Employees' Retirement System (MOSERS)** assume this proposal allows a retired MOSERS member divorced on or after January 1, 2021, to remove their former spouse as a survivor beneficiary upon divorce and receive an adjusted annuity amount. This option would only be available if the divorce dissolution decree provides for sole retention by the MOSERS member of all rights in the annuity and also provides that the former spouse is not entitled to any survivor benefit payments under MOSERS.

If a retired MOSERS member divorced prior to January 1, 2021, such member may remove their former spouse as a survivor and receive an adjusted annuity amount if the parties obtain an amended or modified dissolution decree, after January 1, 2021, which provides the MOSERS

ASSUMPTION (continued)

member all rights in the annuity and immediately removes the former spouse as the survivor beneficiary.

Current Divorce after Retirement Provisions
Currently, at the time of retirement, a married member must elect a form of annuity payment that provides for a survivor benefit if such member predeceases the spouse, unless the spouse consents to a form of annuity payment that does not provide a survivor benefit. A member may not change their retirement election after their first annuity payment. Consequently, if a MOSERS member becomes divorced after retirement, the former spouse continues to be eligible to receive survivor benefits upon the death of a member regardless of such divorce.

Because the provisions provide for an adjusted annuity amount that is the actuarial equivalent of the current annuity, this legislation is assumed to have no fiscal impact on MOSERS. Such individualized adjustment would ensure that each retirement benefit associated with this election would not increase the liabilities of the system.

Officials from **Missouri Department of Transportation & Highway Patrol Employees' Retirement System (MPERS)** assume the proposal, if enacted, proposes to allow MPERS' and MOSERS' retirees the option to "pop up" the retirement benefit to the actuarial equivalent of the life income annuity if the member elected a survivor option at retirement and divorces after retirement. The proposed legislation requires that the member requesting the pop-up provide to the system court documents that state the member will retain all rights to the benefits and that the former spouse shall not be entitled to any survivor benefit. Any benefit changes will be applied prospectively once the system receives the required court documentation.

There would be no fiscal impact to MPERS as it relates to the amendments to sections 104.010, 104.090, 104.1003 and 104.1027.

Officials from the **Department of Public Safety - Missouri State Highway Patrol** defer to MPERS for fiscal impact.

Officials from the **Missouri Department of Transportation** assume the proposal would have no fiscal impact on their organization.

Oversight notes that the responding agencies have stated this provision would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note.

ASSUMPTION (continued)

Section 104.1089 Buyout Program for Judicial Retirement System

Officials from **Joint Committee on Public Employee Retirement (JCPER)** assume the proposal established a buyout program for certain members of MOSERS who have become judges and covered by the Judicial Retirement System under chapter 476.

This proposal has no direct fiscal impact to the Joint Committee on Public Employee Retirement. The JCPER's review of the proposal indicated 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 105.655, 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.

Current Status of MOSERS:

As of June 30, 2019		Funded Ratio
Market Value of Assets:	$7,916,465,279	56.7%
Actuarial Value of Assets:	$8,782,383,977	62.9%
Liabilities:	$13,957,626,309	

Covered Payroll as of June 30, 2019: $1,930,764,635

Recommended Contribution Rate for FY 2021: 22.88% of payroll. Estimated dollar amount is approximately $471 million. Employees hired for the first time on or after January 1, 2011, contribute 4% of compensation to MOSERS.

Current Status of the Judicial Retirement System as June 30, 2019:

		Funded Ratio
Market Value of Assets:	$158,332,990	25.6%
Actuarial Value of Assets:	$172,224,529	27.9%
Liabilities:	$617,482,705	

Active Employee Payroll as of June 30, 2019: $60,380,734

ASSUMPTION (continued)

Recommended Contribution Rate for FY 2021: 63.38% of payroll. Estimated dollar amount is approximately $40.3 million. Each person who first becomes a judge on or after January 1, 2011, contributes 4% of compensation to the Judicial Retirement System.

Officials from **Missouri State Employees' Retirement System** assume this provision allows an active member of the Judicial Retirement Plan to make a one-time election to receive a lump sum payment equal to no less than sixty percent of the present value of such member's deferred annuity under the Missouri State Employees' Plans (MSEPs). The MSEPs are the retirement plans that cover members of the retirement system created under Chapter 104 and administered by the Missouri State Employees' Retirement System (MOSERS). Any Judicial Retirement Plan active member who elects a buyout option of an MSEP benefit shall forfeit all creditable service and future rights to receive retirement annuity benefits from the MSEP. If such members subsequently become re-employed in an MSEP-covered position, such member shall be considered a new employee and subject to the MSEP 2011 plan provisions. The provisions allow the MOSERS Board of Trustees to promulgate administrative rules to facilitate the buyout program set forth under this legislation.

The fiscal impact to MOSERS relative to this legislation is an unknown savings because there is no way to know how many Judicial Retirement Plan active members will elect to take such an option. However, the lump sum payment of a deferred annuity at less than 100% of the present value of the benefit will result in a reduction of the MSEP unfunded actuarial accrued liability.

The Judicial Retirement Plan active employee membership as of June 30, 2019, was 414. Of those active members, approximately 50 members have vested service under an MSEP plan.

In response to a previous version, MOSERS stated, under the provisions of Senate Bill 62 (2017), MOSERS conducted a lump sum terminated-vested buyout program for terminated-vested MSEP members. Approximately 25% of eligible terminated-vested members elected participation in the buyout program. This program resulted in a total MSEP net liability elimination of $41 million.

Oversight notes for the previous buyout program, there were 17,005 members eligible and 4,371 applications paid (or 25.7%). The average net liability eliminated per application is estimated at $9,380 ($41 million / 4,371). Assuming a similar net liability per applicant and participation rate, the potential net liability eliminated is estimated at $120,533 (50 * .257 = 12.85 * $9,380 = $120,533).

ASSUMPTION (continued)

Oversight assumes the net liability eliminated is ultimately unknown and is dependent on the number of applicants and the plan benefits accrued by the applicants, as well as board decisions.

Oversight notes that MOSERS is not a state agency; therefore Oversight will not reflect an impact to their organization in the fiscal note. However, Oversight assumes any savings in system liabilities could potentially result in a reduction of employer contribution rates for state agencies.

For fiscal note purposes, **Oversight** will reflect an impact from $0 (no reduction in employer contribution rates) to an unknown savings (or reduced increase) to state funds due to a reduction in employer contribution rates.

Oversight assumes the contributions to MOSERS will be 60% General Revenue, 21% Federal and 19% Other State Funds.

Section 169.020 Public School Retirements System Salaries and Benefits Confidentiality

Officials from **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal had no fiscal impact to the JCPER. This proposal will not affect retirement plan benefits as defined in Section 105.660, RSMo.

Current Status of the Public School Retirement System (PSRS):
As of December 19, 2019

		Funded Ratio
Market Value of Assets:	$40,593,758,865	84.6%
Actuarial Value of Assets:	$40,498,478,562	84.4%
Liabilities:	$47,973,829,236	

Covered Payroll, June 30, 2019: $4,844,248,703

Recommended Contribution for FY 2020: 29% - Employers and employees contribute in equal amounts of 14.5%.

	Percent	Dollars (Estimated)
Employer	14.5%	$702,416,062 estimated
Employee	14.5%	$702,416,062 estimated
Total	29.0%	$1,404,832,124 estimated

ASSUMPTION (continued)

Officials from **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** assume this legislation amends Section 169.020, RSMo, which impacts the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System (PEERS) regarding the ability of the Systems to disclose personally identifiable information on staff. This change exempts the salaries and benefits of the executive director and employees of the Board from being confidential.

As currently drafted this bill has no substantial fiscal or operational impact on PSRS or PEERS of Missouri.

Oversight notes that the Joint Committee on Public Employee Retirement and Public School Retirement Systems have stated the proposal would not have a direct fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE			
Savings - from a potential reduction in employer contribution rates §104.1089 after buyout	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$0 or Unknown**	**$0 or Unknown**
OTHER STATE FUNDS			
Savings - from a potential reduction in employer contribution rates §104.1089 after buyout	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**$0**	**$0 or Unknown**	**$0 or Unknown**

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
FEDERAL FUNDS			
Savings - from a potential reduction in employer contribution rates §104.1089 after buyout	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0 or Unknown**	**$0 or Unknown**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
LOCAL POLITICAL SUBDIVISIONS			
Cost/Savings - employer contributions - §70.705 - could change between 0%, 2%, 4% and 6%	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**	**$0 or 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 70.705 - This bill modifies the Local Government Employees Retirement system member employer contribution elections for retirement benefit funding. Currently, an employer can elect to cover the full cost of funding the retirement benefit of its eligible employees or require all eligible employees to contribute 4% of their gross wages to help pay for the retirement benefit. This bill expands the available contribution options by allowing employers to additionally elect a 2% or 6% contribution rate that all eligible employees would make to help pay the retirement benefit.

FISCAL DESCRIPTION (continued)

The bill allows a political subdivision to elect one benefit program for members whose employment is concurrently covered by federal Social Security and a different benefit program for members whose employment is not concurrently covered by federal Social Security, as provided in Section 70.655, RSMo. The political subdivision is also allowed, by majority vote of the governing body, to make one election concerning member contributions for members concurrently covered by federal Social Security and one election concerning member contributions for members whose employment is not concurrently covered by federal Social Security.

Sections 104.010, 104.090, 104.395, 104.1003 and 104.1027 - Under this act, any member of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System and the Missouri State Employees' Retirement System receiving a reduced annuity with his or her spouse as the designated beneficiary may cancel his or her election and receive a monthly benefit, with no survivor benefits, equal to the actuarial equivalent of the joint and survivor benefit payment if the marriage is dissolved on or after January 1, 2021, and the dissolution decree provides for the sole retention of the annuity and that the spouse shall not be entitled to survivor benefits. In no event shall the monthly benefit be more than the single life annuity amount entitled to the member as if his or her spouse had died on the date of the dissolution.

Additionally, a member who divorced their designated spouse before January 1, 2021, may have their annuity adjusted if the dissolution decree provided for sole retention of the retirement benefits by the member and the member obtained an amended dissolution decree after January 1, 2021. If the dissolution decree did not provide for the sole retention by the member, the member may also adjust their retirement allowance if an amended dissolution decree providing for the member's sole retention is obtained.

Any increase shall be prospective and shall be effective the first of the month following the date of receipt by the system of a certified copy of the dissolution decree.

Section 104.1089 - This act allows vested members of the Missouri State Employees' Retirement System covered under the closed plan or Year 2000 plan who are no longer employees to elect to receive a lump sum payment equal to 60%, or a higher percentage chosen by the board, of the present value instead of a deferred annuity if the member is employed in a position covered by the judicial retirement plan. Any member making an election shall forfeit all creditable service, future rights in the annuity, and long-term disability benefits. If the member subsequently becomes an employee entitled to a benefit from the system, such a member shall be considered a new employee under the Missouri State Employees' Plan 2011.

FISCAL DESCRIPTION (continued)

Section 169.020 - This provision exempts information pertaining to the salaries and benefits of the executive director and employees of the Board of the Public School Retirement System of Missouri from being confidential.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Public Schools and Education Employee Retirement Systems
Missouri State Employees' Retirement System
Missouri Department of Transportation & Highway Patrol Employees' Retirement System
Local Government Employees Retirement System
Department of Public Safety - Missouri State Highway Patrol
Missouri Department of Transportation
City of Springfield
City of Columbia
City of Kansas City
Buchanan County

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June 1, 2020

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June 1, 2020

JLH:LR:OD