COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0673S.02I
Bill No.: SB 75
Subject: Education, Elementary and Secondary; Teachers; Retirement - Schools; Retirement Systems and Benefits - General
Type: Original
Date: January 30, 2023

Bill Summary: This proposal modifies provisions relating to Public School Retirement Systems, including retirement allowance multiplier and working after retirement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	**$0**	**$0 to $11,000,000**	**$0 to $11,000,000**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** have reviewed this proposal. This proposal has no direct fiscal impact to the JCPER.

The JCPER's review of this proposal 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.

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 the Public School Retirement System (PSRS) as of June 30, 2022:

Active members: 78,973
Inactive members: 87,096 (includes retired, surviving beneficiary, disabled and terminated vested)

		Funded Ratio
Market Value of Assets:	$47,671,054,492	
Actuarial Value of Assets:	$47,185,300,000	85.2%
Liabilities:	$55,405,259,756	

Covered Payroll: $5,271,368,324

Recommended Contribution for FY 2022: 29% - Employers and employees contribute in equal amounts of 14.5%.

Percent	Dollars (Estimated)	
Employer	14.5%	$764,348,407 (estimated)
Employee	14.5%	$764,348,407 (estimated)
Total	29.0%	$1,528,696,814 (estimated)

Current Status of the Public Education Employee Retirement System (PEERS) as of June 30, 2022:

Active Members: 50,179
Inactive Members: 81,318 (includes retired, surviving beneficiary, disabled and terminated vested)

		Funded Ratio
Market Value of Assets:	$6,153,590,531	
Actuarial Value of Assets:	$6,113,154,000	87.3%
Liabilities:	$6,998,708,341	

Covered Payroll: $1,864,704,185
Recommended contribution rate for FY2022: 13.72%. Employers and employees contribute in equal amounts of 6.86%.

	Percent	Dollars
Employer	6.86%	$127,918,707 (estimated)
Employee	6.86%	$127,918,707 (estimated)
Total		$255,831,414 (estimated)

Officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state 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. PWC has provided a cost statement for this legislation. The overall results and impacts of this legislation is discussed below.

This legislation, as currently drafted, has three specific components impacting Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System (PEERS) that are each addressed below.

Section 169.560 - Working After Retirement - PSRS Retiree in Non-Certificated Position

Currently, any retired teacher from PSRS can be employed in a non-certificated position covered under PEERS without impacting their retirement benefit up to certain limitations. Any certificated retiree may earn up to 60% of the minimum teacher's salary ($15,000) as established by Section 163.172, RSMo, and will not contribute to the retirement system or earn creditable service for that work. The employers would be required to contribute into the PEERS for such employment.

This legislation will allow a retired, certificated teacher, working in a non-certificated position covered under PEERS, to earn up to the annual earnings limit applicable to a Social Security limitation as set forth in 20 CFR 404.430, which will be $21,240 for the 2023-2024 school year.

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. PwC reviewed this portion of the proposed legislation and it is expected to have an insignificant fiscal impact to PSRS and result in an insignificant fiscal gain to PEERS.

Section 169.596 - Critical Shortage

The critical shortage employment exception found in Section 169.596, RSMo is a statutory provision which allows covered employers who meet certain requirements (as set forth in statute) to employ a limited number of PSRS/PEERS retirees up to full-time without affecting the payment of their retirement benefits. Each retired member is limited to two years working under the critical shortage employment exception.

During the two years of critical shortage employment, employer contributions must be made on all salary earned, including employer-paid medical insurance premiums and pay for additional duties. The retired members employed under this provision continue to receive benefits, but do not contribute to PSRS/PEERS or earn service. By statute, districts cannot use the critical shortage employment exception to fill the position of superintendent.

This legislation allows retirees to return to work under the critical shortage exemption statute up to four years versus the current two-year restriction. PwC reviewed this portion of the proposed legislation and it is expected to have an insignificant fiscal gain for both PSRS and PEERS.

Section 169.070 - 2.55% Formula Factor Provision

This legislation removes the expiration date of July 1, 2014, for the 2.55% Formula Factor Provision with 31 or more years of service for 169.070.1(8), RSMo for members of the Public School Retirement System of Missouri (PSRS). Additionally, this legislation amends the years of service requirement for the provision from 31 or more years of service to 32 or more years of service.

Currently, PSRS members who have 32 years or more of creditable service and retire have their retirement benefit calculated using a multiplier of 2.5%. The 2.55% Benefit Formula Factor Provision would allow for eligible members with 32 or more years of service to retire with an additional 0.05% Formula Factor.

The analysis prepared by PwC indicating, the proposed legislation would reduce the Plan's Actuarial Accrued Liability (AAL) by $234.4 million and result in an increase to the Plan's pre-funded ratio of 0.37%.

There are two components that impact the Actuarially Determined Contribution Rate (ADC) for a public retirement plan; the Normal Cost Rate (NC) and the Unfunded Actuarial Accrued Liability Rate (UAAL). The reduction of the AAL, results in a decrease in the annual UAAL rate resulting in annual savings of approximately $14 million for the next 30 years (for PSRS). There are additional annual savings of $7.2 million per year due to the reduction of the normal cost as a result of these provisions being made a permanent part of the benefit structure. The annual normal costs savings will continue as long as the new provisions are in force (this could extend beyond 30 years).

<u>The annual savings of $21.2 million per year for the next 30 years is due to the reduction of the UAAL Rate and the NC Rate of the Plan as a result of the 2.55% provision being made a permanent part of the benefit structure (for PSRS).</u>

PwC modeled two scenarios based on current information that result in a fiscal gain for PSRS. PwC's further notes that it is also possible for PSRS to experience no fiscal gain or a fiscal cost related to these changes, depending on whether or not active members and employers change their behavior as expected. <u>This portion of the legislation has no impact on PEERS.</u>

Oversight assumes the reduction in the Normal Cost Rate and the Unfunded Actuarial Accrued Liability will result in a decrease to the Actuarially Determined Contribution (ADC) Rate. Below are the Employer Contribution estimates provided by PricewaterhouseCoopers' actuarial cost statement.

Employer Contributions	**FY 2024**	**FY 2025**	**FY 2026**
Baseline	$773 million	$776 million	$768 million
Proposed	$762 million	$765 million	$757 million
Savings	$11 million	$11 million	$11 million

Oversight will show a range of impact of $0 (little or no change in the behavior of active members and employers) to a savings in employer contributions as provided by the actuarial cost estimate. Oversight assumes this proposal is effective August 28, 2023 (FY 2024). Given that actuarial-determined contribution rates will have already been determined for FY 2024 once this proposal is effective, Oversight will show a savings to local school districts beginning FY 2025. Oversight notes the estimated annual savings of $21.2 million is split between employer contributions and employee contributions. Oversight will reflect a potential savings to school districts for the employer contribution savings.

<u>FISCAL IMPACT – State Government</u>	FY 2024	FY 2025	FY 2026
	<u>**$0**</u>	<u>**$0**</u>	<u>**$0**</u>

FISCAL IMPACT – Local Government	FY 2024	FY 2025	FY 2026
SCHOOL DISTRICTS			
Cost Avoidance - reduction in actuarially determined contributions - §169.070	$0	$0 to $11,000,000	$0 to $11,000,000
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	**$0**	**$0 to $11,000,000**	**$0 to $11,000,000**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act modifies provisions relating to public school retirement systems.

RETIREMENT ALLOWANCE MULTIPLIER (SECTION 169.070)

Current law provides that between July 1, 2001 and July 1, 2014, a member of the Public School Retirement System of Missouri with thirty-one years or more of service, regardless of age, be provided a retirement allowance with a multiplier of 2.55% of the member's final average salary for each year of the membership service. This act modifies this provision by removing the expiration date and by providing that a member with thirty-two years or more of service may receive such retirement allowance.

WORKING AFTER RETIREMENT (SECTIONS 169.560 & 169.596)

Currently, any teacher retired from the Public School Retirement System of Missouri ("PSRS") can be employed in a position covered under the Public Education Employee Retirement System of Missouri ("PEERS") without stopping their retirement benefit. Such teachers may earn up to 60% of the minimum teacher's salary as set forth in law, but will not contribute to either retirement system nor earn creditable service. This act allows such teachers to earn up to the annual earnings limit applicable to a Social Security recipient before the calendar year of attainment of full retirement age under federal regulations. Additionally, this act shall not apply to retired members currently receiving benefits who are employed as a full-time teacher of certain state agencies and institutions.

Additionally, current law provides that a retired teacher or a retired noncertificated employee who is receiving a retirement benefit from PSRS is allowed to work full-time for up to two years for a PSRS-covered school district if there is a shortage of certified teachers or noncertificated employees. This act allows such employees to work full-time up to four years for such districts.

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

Julie Morff
Director
January 30, 2023

Ross Strope
Assistant Director
January 30, 2023