COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0892S.02S
Bill No.: CCS for SB 20
Subject: Attorney General; Auditor, State; Boards, Commissions, Committees, and Councils; Domestic Relations; Education, Elementary and Secondary; General Assembly; Governor and Lieutenant Governor; Highway Patrol; Kansas City; Law Enforcement Officers and Agencies; Public Officers; Retirement - Local Government; Retirement - Schools; Retirement - State; Retirement Systems and Benefits - General; Secretary of State; Taxation and Revenue - General; Teachers; Transportation, Department of; Treasurer, State;
Type: Original
Date: May 8, 2023

Bill Summary: This proposal modifies provisions relating to retirement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	(Unknown, Could exceed $2,000,000)	(Unknown, Could exceed $2,000,000)	(Unknown, Could exceed $2,000,000)
Total Estimated Net Effect on General Revenue	**(Unknown, Could exceed $2,000,000)**	**(Unknown, Could exceed $2,000,000)**	**(Unknown, Could exceed $2,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Show-Me MyRetirement Savings Administrative Fund	$0 or Unknown	$0 or Unknown	$0 or Unknown
Total Estimated Net Effect on Other State Funds	**$0 or Unknown**	**$0 or Unknown**	**$0 or Unknown**

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
Show-Me MyRetirement Savings Administrative Fund – State Treasurer's Office	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
Total Estimated Net Effect on FTE	**0 or 2 FTE**	**0 or 2 FTE**	**0 or 2 FTE**

☒ 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 or Could exceed $10,400,000 to (Unknown)**	**$0 or Could exceed $10,400,000 to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Sections 57.952, 57.961, 57.967 and 57.991 - Sheriffs' Retirement System

In response to a previous version, officials from the **Sheriffs' Retirement System** stated the general assembly and the governing body of a county may appropriate funds for deposit to the retirement fund. It also allows the board to accept gift, donations, grants and bequests from public or private sources. These are not mandates; therefore, the net increase for the Missouri Sheriffs' Retirement System is estimating this as $0 to unknown.

The 5% member contribution from all active Sheriffs will generate revenue annually. The current year estimate is approximately $425,000. The increase in annuity to $1,000 monthly as the minimum would cost the system approximately $17,000 per month or approximately $204,000 annually in 2023. Therefore, the net increase for Missouri Sheriffs' Retirement Fund would be $221,000 to unknown.

Oversight notes the costs and gains assumed by the retirement system may or may not impact the employer contribution rate of local sheriffs. Oversight will show a range of impact to local sheriffs of $0 (no change in contribution rates) to an unknown savings (reduction in contribution rates) to an unknown cost (increase in contribution rates).

In response to a similar proposal, officials from the **County Employees Retirement Fund (CERF)** stated they are unsure as to how the language in section 57.991 subsection 2 would be interpreted and administered, in part due to a lack of definitions for some of the terms.

In order to provide a response to Fiscal Oversight, CERF will assume that subsection 2 might be interpreted to require another retirement system that an individual has been a member of to pay for a share of the member's disability retirement, death benefits and refund of contributions. However, CERF notes that subsection 2 does not specify the timing of the individual's membership in another retirement system as it relates to the individual's membership in the Sheriffs' Retirement System. CERF assumes that the use of the phrase "member of another state or local retirement or pension system" would apply to individuals who are active employee members of another retirement system concurrently with their membership in the Sheriffs' Retirement Fund as well as individuals who are no longer active employee members of another retirement system but have earned a vested pension benefit in the past.

Under current law, section 50.1000(8), county sheriffs covered by the Sheriffs' Retirement Fund do not participate in CERF. However, some county sheriffs have earned a vested pension benefit with CERF from having previously worked for a county as a deputy sheriff. CERF assumes that the language on page 4 lines 13 -18, in which eligibility for and calculation of disability retirement, death benefits, and refund of contributions is governed by the provisions of the retirement system to which the member last made contributions, might be interpreted to require CERF to pay a share of a member's disability retirement, death benefit, or refund of contributions because some sheriffs previously served as deputy sheriffs and made contributions to CERF.

Accordingly, if this language were interpreted and administered in this manner, CERF assumes that it would have an unknown but negative impact. It is difficult to quantify such impact in terms of dollars.

In response to a similar proposal, officials from the **Local Government Employees Retirement System** assumed the proposal would have no fiscal impact on their organization.

Oversight is uncertain if section 57.991 subsection 2 of this proposal would impact other local retirement systems. For purposes of this fiscal note, Oversight assumes any impact to other retirement systems would be immaterial. If this assumption is incorrect, this could potentially change the fiscal impact as presented in this fiscal note.

Officials from the **Office of Administration - Budget and Planning** assumed this provision would have no fiscal impact on their organization.

Oversight assumes the General Assembly and the governing body of a county <u>may</u> appropriate funds to the Sheriffs' Retirement Fund.

<u>Section 86.253, 86.254, 86.283 and 86.287 – St. Louis Police Retirement System</u>

In response to a similar proposal, HCS HB 303 (2023), officials from the **Alternative Police Retirement System of St. Louis ("System")** stated the amendments would eliminate provisions which currently forfeit the survivors' benefits for surviving spouses of officer-members of the System if they remarry.

Their firm has been engaged as an actuary for the System to analyze the above amendments. Their understanding is that each of the events that will be impacted by the proposed legislative changes are rare in occurrence. Therefore, the actuarial assumptions used for the valuations of the plan make no provision for these potential future events. As such, it is their determination that the above described amendments, when valued using the same methods and assumptions as used in the most recent periodic valuation, will not increase the System's actuarial accrued liability. Additionally, the historical infrequency of the events in the proposed legislative changes are unlikely to have a material impact on the future annual funding of the System.

Oversight assumes the additional changes in the Substitute are also "rare in occurrence" and would have a minimal impact on the "System". Therefore, Oversight will reflect a zero impact in the fiscal note for these provisions. (Sections 86.253 – 86.287)

However, officials from the **Alternative Police Retirement System of St. Louis** did not respond to **Oversight's** request for fiscal impact for this proposal.

Section 104.160 – MPERS Board of Trustees

In response to a similar proposal, HCS HB 496 (2023), officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** stated Section 104.160 of the proposed bill, if enacted, would stagger the terms for MPERS' elected trustees. MPERS has four trustees elected by representative bodies (two active employees, one each from MoDOT and the Highway Patrol and two retirees, one each from MoDOT and the Highway Patrol) for four-year terms. At present, all four of these positions become eligible for reelection at the same time. In the event all four trustees had opposition and then were all replaced with new trustees, MPERS' board would have a significant turnover of trustees (4 out of 11 total trustees) and loss of institutional knowledge because some of the elected trustees have been on the board for several years.

If enacted, MPERS would hold the scheduled election in March of 2026. The active trustees elected at that time would serve a two-year term rather than four years. MPERS would hold a new election for the active trustees in March of 2028 and those newly elected active trustees would then serve a four-year term going forward, thereby staggering the terms.

The outcome will require MPERS to hold elections more often (every two years rather than every four years), but it is not a significant enough change to overshadow the benefit of not losing four elected trustees simultaneously. The MPERS Board of Trustees is going through several process improvements intended to improve the organization and its oversight. This proposal is supported by the board as one of those improvements.

Various Clean-Up Provisions

In response to a similar proposal, HB 1185 (2023), officials from **Missouri State Employee's Retirement System (MOSERS)** stated the proposed legislation would provide clarification relative to several statutory provisions related to the retirement systems, Missouri State Employees' Retirement System (MOSERS) and the Missouri Department of Transportation and Patrol Employees' Retirement System (MPERS). Most of these changes are minor modifications and clarifications of the retirement plans that are administrative in nature and intended to clarify and/or eliminate inconsistencies in the law.

There are a couple of proposed provisions that relate solely to MOSERS. First, the amount of service credit a member of the General Assembly or Statewide Elected Official can accrue while on long-term disability will be limited. This modification is to reflect the application of term limits and could result in a de minimis savings to the long-term disability plan. Second, the interest associated with employee contributions within the Judicial 2011 plan is changed from a fixed 4% to the 52-week Treasury bill rate (currently, less than 1%). This modification mirrors changes made to the General Employee plan under MOSERS in 2012 (SB 625). There is no fiscal impact from this proposal.

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** state the proposed bill, if enacted, is intended to cleanup a number of statutes related to the retirement systems, MoDOT and Patrol Employees' Retirement System (MPERS) and Missouri State Employees' Retirement System (MOSERS). The proposed legislation either corrects errors (e.g., missing subsections, incorrect cross-references, delete obsolete sections, etc.) or clarifies vague or unclear procedures, thereby improving the efficiency of the administration of benefits. There is no fiscal impact from these provisions.

Oversight notes that the above mentioned agencies have stated theses provisions would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these provisions.

Sections 104.380 and 104.1039 - Benefit Eligible Position as a Legislator or Elected Official

In response to a similar proposal, HCS SS SB 75 (2023), officials from the **Missouri State Employee's Retirement System (MOSERS)** stated this proposal, if enacted, would allow a retired member of MOSERS or MPERS to serve as a member of the general assembly or hold an elected statewide office while continuing to receive a monthly retirement benefit from MOSERS or MPERS.

Currently, if a retired member of MOSERS or MPERS returns to employment in a MOSERS or MPERS-covered position that normally requires 1,040 or more hours annually, such retiree shall not receive a retirement annuity for any month in which such retiree is employed.

The fiscal impact to MOSERS for this proposal is an **unknown cost**. The proposed change would allow a retiree to continue to receive their retirement benefit if the retiree returns to a benefit eligible position as a legislator or elected official. Under current law, the retirement benefit would stop. The retiree would earn an additional benefit based on the service/salary credit earned while reemployed, if the member works for an additional year (which is the same as the current provision). Although MOSERS external actuarial professionals cannot directly value the impact of this proposed change in the actuarial valuation process, they have definitively indicated that this proposal increases the System's liability because it will increase benefits paid for certain MOSERS retirees, current and future, who are retired and return as legislators or elected officials.

This proposal exempts this provision change from the current law in Section 105.684, which requires a public pension plan in Missouri to be at least 80% funded prior to implementing a benefit change that increases plan liabilities. Without the exemption in the proposal, MOSERS would be prohibited from enacting such change as the plan was 58% funded as of June 30, 2022.

In response to a similar proposal, HCS SS SB 75 (2023), officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** stated Section 104.380 applies to MOSERS but it does not apply to MPERS. For clarification, MPERS Closed Plan provisions allow MPERS retirees to be reemployed by a MOSERS-covered employer, including the General Assembly, and not suspend the benefit.

Section 104.1039 would have the effect of allowing an MPERS retiree to serve in the General Assembly without suspension of the MPERS retirement benefit. This would have the same effect as described in the paragraph above. Typically when an individual in the Year 2000 reemploys, the retirement benefit is suspended, in which case MPERS is not paying out a benefit that would otherwise be owed. That would imply a savings. If the proposed is enacted and an MPERS retiree under this section can continue being paid a retirement benefit and can "reemploy" as a legislator, it would not provide MPERS the cost savings it would otherwise have had. Due to the very small number of individuals who this might apply to, MPERS does not expect more than a minimal fiscal impact. This fiscal impact for the changes above are minimal but impossible to determine.

Oversight notes MOSERS and MPERS indicated these provisions could result in increased costs. These costs assumed by the retirement system may or may not impact the employer contribution rate for state agencies. Oversight will show a range of impact of $0 (no change in employer contribution rates) to an unknown cost (increase in employer contribution rates) from these provisions. Oversight assumes these provisions would impact so few people that any potential cost would likely be less than the $250,000 threshold annually. For simplicity, Oversight will show a cost to the General Revenue fund but notes Federal Funds and various other state funds are also used to fund employee benefits.

<u>**Section 104.436 and 104.1066 - Level Percent-of-Payroll Amortization Method**</u>

In response to a similar proposal, SB 77 (2023), officials from the **Missouri State Employee's Retirement System (MOSERS)** stated the proposed legislation would remove the requirement that annual contributions for payment of the unfunded actuarial accrued liabilities (UAAL) be determined using the level percent-of-payroll amortization method for the Missouri State Employees' Retirement System (MOSERS), and the Missouri Department of Transportation and Patrol Employees' Retirement System (MPERS).

The removal of this requirement does not obligate the MOSERS or MPERS Board of Trustees to calculate the annual contribution payment on the UAAL in an alternate manner than as past practice. This would simply allow the Board to consider other actuarial funding methods relative to paying down the UAAL.

The statutory provisions outlining level percent of payroll amortization were initially passed in 1981 (Section 104.436) and 1999 (Section 104.1066). A level percent of payroll amortization incorporates a payroll growth assumption—essentially the payments are computed with the expectation that payments will increase as payroll grows in the future. In June 30, 2009, MOSERS covered payroll was approximately $2 billion. Since that time, covered payroll has remained below the 2009 level with little to no growth.

In response to a similar proposal, SB 77 (2023), officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** stated, if enacted, this proposal would modify the language related to the cost methods applicable to the actuarial amortization for the unfunded liabilities for MPERS and MOSERS. The change would allow either plan the flexibility to choose the appropriate cost method. MPERS assumes the proposal will have no fiscal impact on their organization.

Oversight assumes these provisions remove the prescribed method for determining contributions for payment of unfunded accrued liabilities and would allow for an alternative method which could result in higher or lower employer contributions than the level percent of payroll amortization method. **If** the retirement systems use an alternative method to pay down the UAAL to greater effect, Oversight assumes this could be a cost to the state from increased employer contributions. However, Oversight notes these provisions are permissive and a change in the method used would not occur without action from the Board of Trustees; therefore, Oversight will reflect a zero impact on the fiscal note for these sections of the proposal.

Section 143.114 - Employee Stock Ownership

Officials from the **Department of Revenue (DOR)** note this provision extends the Employee Stock Ownership Plan Deduction. This deduction was to sunset on December 31, 2022 and the sunset language is removed thereby assuring this deduction will be permanent. Extending or removing the sunset language of an existing program is not expected to have impact.

For informational purposes, this deduction began in 2017. No one claimed the credit in 2017. In 2018, 17 people claimed the credit. However, in 2019 & 2020, more than zero but less than the minimum reportable number filed for this deduction.

Under Section 32.057, the Department does not disclose the number of tax returns or amounts claimed if the number is so low it could identify the taxpayer. The minimum number of returns to report is 10. What DOR can provide is the grand total claimed from 2017-2020 which was $722,342.

Oversight is unable to estimate the amount to be claimed under this deduction in future years. However, using DOR's total of $722,342 in deductions claimed from 2017-2020 (4 years), we could estimate the average annual impact over that time period was $9,751 ($722,342 / 4 years x

5.4% individual income tax rate). Therefore, **Oversight** will show a negative unknown impact for this provision, not reaching the $250,000 threshold.

Section 168.082 - Speech Implementer

Oversight does not anticipate an impact from this provision.

Public Schools and Education Employee Retirement Systems

Officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state this legislation, as currently drafted, has multiple components impacting Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System (PEERS) that are each addressed below. PSRS and PEERS are separate trust funds and must be evaluated individually. This memo discusses the impacts on both plans but separate cost statements are provided by the Systems' actuaries.

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 reviewed each component of the proposed legislation for impacts to the System individually, as well as evaluated the fiscal impact of all components in aggregate. The impact of individual components and the aggregate fiscal impact of the legislation are discussed in more detail below. The fiscal impact of all provisions in aggregate are expected to be a fiscal savings to both PSRS and PEERS, if retirement behavior is similar to the assumptions utilized in the analysis. Please note individual components vary and are further discussed 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 133% the annual earnings limit applicable to a Social Security limitation as set forth in 20 CFR 404.430 through June 30, 2028. After June 30, 2028 the retired, certificated teacher, working in a non-certificated position covered under PEERS, would be able to earn up to the annual earnings limit applicable to a Social Security limitation as set forth in 20 CFR 404.430.

PwC reviewed this portion of the legislation and estimate the impact of the proposed change to increase the pay-based limit on working after retirement under RSMo 169.560 Paragraph 2, in particular the increase to 133% of the annual Social Security earnings exemption amount through

June 30, 2028 and then to 100% of the annual Social Security earnings exemption amount thereafter, to be a fiscal loss to PSRS if there is a change in active member retirement behavior to retire earlier as a result. This analysis is based on this provision in isolation and not the aggregate impact of all components of the legislation.

PwC indicated the proposed change to Section 169.560 Paragraph 2 is expected to result in an insignificant fiscal gain to PEERS.

Section 169.596 - Critical Shortage

4 Years instead of 2 Years

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.

Number of Positions Allowed

The critical shortage employment exception found in Section 169.596, RSMo, indicates the total number of retired certificated teachers hired under the critical shortage declaration shall not exceed the littlest of ten percent of the total teacher staff for that school district, or five certificated teachers. The proposed legislative would change this provision to be the greater of one percent of the total certificated teachers and noncertificated staff for that school district or five certificated teachers.

PwC reviewed this portion of the proposed legislation and noted it is expected to have an insignificant fiscal gain for 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 assumes this proposal is effective August 28, 2023 (FY 2024). Oversight notes the estimated annual savings of $21.2 million is split between employer contributions and employee contributions.

Aggregate Fiscal Impact to all Proposed Provisions for PSRS/PEERS

Officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state there are only two provisions that are expected to have a significant impact on the Systems. Those provisions are the changes to the annual earnings limit for PSRS retirees working in non-certificated positions and the reinstatement of the 2.55% formula factor for PSRS members that work at least 32 years. As discussed, the 2.55% formula factor provisions are a significant fiscal savings to PSRS. If, the change in the annual earnings limit for PSRS retirees working in non-certificated positions through June 30, 2028, incentivizes PSRS members to retiree earlier than expected the savings from the 2.55% provision would be diminished. However, since the increased annual earnings limit is for a very limited time the savings are not substantially diminished, resulting in a cost savings in total.

The analysis prepared by PwC indicated, that the proposed legislation could reduce the Plan's Actuarial Accrued Liability (AAL) by $213.7 million and result in an increase to the Plan's pre-funded ratio of 0.33%, under this scenario. It is further estimated that the actuarially determined contribution would decrease resulting in annual savings of $20.8 million per year for the next 30 years

The aggregate impacts to PEERS are not anticipated to be fiscally significant.

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.

Oversight notes the estimated annual savings of $20.8 million is split between employer contributions and employee contributions. The estimated employer contributions would decrease by $10.4 million per year. Oversight will reflect a potential savings to school districts for the employer contribution savings.

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.

Section 169.331 – Kansas City and St. Louis Public School Retirement Systems

Officials from the **Kansas City Public Schools Retirement System (KCPSRS)** state there is not enough information available for KCPSRS to determine whether the proposal will have a fiscal impact, therefore the cost/savings is unknown. The actuarial impact study would determine the financial impact to the pension system.

Officials from the **St. Louis Public Schools Retirement System** did not respond to **Oversight's** request for fiscal impact for this proposal.

Oversight will show a range of impact of $0 (no impact on employer contributions) to an unknown cost or savings on employer contributions.

Section 173.1205 – Confidentiality of Certain Investment Information Submitted to an Institution of Higher Education

In response to a similar proposal, SB 691 (2023), officials from **Missouri State University** assumed this proposal would have a negative fiscal impact of an undetermined amount.

Oversight does not have any information to the contrary. However, Oversight assumes this requirement would not have a significant fiscal impact on colleges and universities. Therefore, Oversight will reflect no fiscal impact for this agency.

In response to a similar proposal, SB 691 (2023), officials from the **Department of Commerce and Insurance**, the **Department of Higher Education and Workforce Development**, the **Office of Administration**, **St. Charles Community College** and the **University of Central Missouri** each assumed the proposal would have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies for this provision.

Sections 285.1000 to 285.1055 – Show-Me MyRetirement Savings

Officials from the **Office of the State Treasurer** did not respond to **Oversight's** request for fiscal impact for this proposal.

In response to a similar proposal, SCS HCS HB 1732 (2022), officials from the **State Treasurer's Office (STO)** stated their office does not currently deal with retirement savings nor have the capacity to take on the duties necessary to begin a program like the Show-Me MyRetirement Savings Board. The STO does not operate any similar programs and does not currently have the resources to absorb the duties assigned to support the startup of the Show-Me MyRetirement Savings Board. As such, the STO has estimated a minimum of two (2) FTEs being required to support the Board and the Program. STO has assigned these costs to the General Revenue Fund as these duties are beyond the scope of permitted expenditures from the State Treasurer's General Operations Fund pursuant to Section 30.605, RSMo, which authorizes the Treasurer to retain interest to fund the office functions pertaining to the management of state funds. The basis point cap included within this section cannot absorb additional functions without being raised above 15 basis points.

Oversight assumes the STO's administrative costs will be incurred in the new fund.

Officials from **Office of Administration - Budget and Planning (B&P)** assume these provisions would establish the Show-Me MyRetirement Savings Administrative Fund. Revenues deposited into the newly-created fund in the form of gifts, donations, grants or fees could increase Total State Revenue. Any new application, account, administrative, or other fees deposited into the fund could impact the calculation pursuant to Art. X, Sec. 18(e). Additionally, to the extent that individuals elect to make pre-tax contributions into a qualified retirement plan under this section, TSR could be impacted.

Officials from **Department of Revenue (DOR)** assume these provisions allow businesses to create a program similar to the state employee's deferred compensation system. It should be noted that businesses already have the ability to do so under current law. This would just create a system by which multiple businesses could band together to form this deferred compensation plan. Section 285.1015.2(7) allows that pretax contributions can be contributed and those pretax contributions could potentially have an impact on general revenue and TSR, DOR officials, given that current law allows these programs, are not sure this would result in any additional impact to the state.

These provisions have the potential to negatively impact DOR, but the extent of the impact is unclear. One section of the proposal (Section 285.1025) insulates employers against any adverse Missouri tax consequences as a result of participating in the Show-Me MyRetirement Plan, which would likely affect tax administration with respect to these employers in some situations. Section 285.1010.2 requires a state agency to cooperate with others and Section 285.1010 may give the board that oversees these plans the ability to alter Missouri withholding tax forms. Section 285.1015 authorizes the board to use state agency's infrastructure. If any of these requirements lead to affecting Missouri employer tax filings or authorize the use of DOR's infrastructure, these actions could have a negative fiscal impact on the Department. The impact is unknown but has the potential to be substantial.

Oversight assumes the DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass or if employer plans use of DOR infrastructure which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

In response to a similar proposal, HCS HB 155 (2023), officials from the **Office of the Governor** stated these provisions add to the governor's current load of appointment duties. Individually, additional requirements should not fiscally impact the Office of the Governor. However, the cumulative impact of additional appointment duties across all enacted legislation may require additional resources for the Office of the Governor.

Officials from the **Missouri Senate** assume the proposal will have no fiscal impact on their organization.

In response to a previous version, officials from the **Missouri House of Representatives** assumed the proposal would have no fiscal impact on their organization.

Oversight assumes these provisions create the Show-Me MyRetirement Plan and creates the Show-Me MyRetirement Plan Board comprised of nine members.

Oversight assumes these provisions allow employees enrolled in the program to contribute a minimum of 1% of their wages to the plan. (And, at the discretion of the Board, increase the minimum contribution rate for participants 1% per year for each additional year the participant is employed up to the maximum percentage that may be contributed under federal law.) The plan allows voluntary pre-tax or designated Roth 401(k) contributions and is only available to employers that currently do not offer specified tax-favored plan for their employees and employ less than fifty employees. Therefore, Oversight assumes this proposal could result in a revenue loss from pre-tax contributions that otherwise would have been taxed.

Oversight notes, in 2016, Oregon created a state-based retirement savings program called OregonSaves. The program allows employees and workers to enroll in an automatic payroll deduction to Roth IRAs for self-employed workers and employees that are not offered retirement savings options through their employer. Based on the OregonSaves 2018 Annual Report to the Legislature, the combined retirement savings of the program was approximately $10.9 million.

Oversight notes, based on a Supplemental Appropriation Request, the Oregon State Treasury was appropriated $1,021,497 (approximately $500,000 annually) for staffing and other costs during the 2015-2017 biennium with an additional appropriation for $252,372 for legal expenses. For the 2017-2019 biennium, the Oregon State Treasury was appropriated $2,187,774 with a supplemental request for an additional $1,834,033 for a total of $4,021,807 in General Funds (**approximately $2,000,000 annually**). Oversight notes the OregonSaves program was created with different groups being phased in over time. Based on the Annual Report, the program has a participation rate of 72.75%.

Oversight assumes the administrative impact of the proposal could be similar to the cost experienced by the OregonSaves program, approximately $2,000,000 per year. Oversight will show a cost that could exceed approximately $2,000,000 per year. Additionally, Oversight notes this program is subject to appropriation; therefore, Oversight will show the cost as $0 (no appropriation) to the cost estimated above as appropriated by the General Assembly.

Oversight assumes start-up costs would diminish over time as the fund becomes self-sustaining. The start-ups costs provided by the State would be repaid by the board with moneys on deposit which may have a positive impact on General Revenue in the future; however, Oversight is unsure when this would occur.

Oversight assumes these provisions creates the Show-Me MyRetirement Savings Administrative Fund which consists of moneys appropriated by the General Assembly, transferred from the federal government, state agencies or local governments, from the payment of fees, gifts, donations, or grants for administrative purposes for the Show-Me MyRetirement Savings Plan. Oversight assumes that costs and revenues would net to zero or revenues would exceed costs as the fund becomes self-sustaining.

Responses regarding the proposed legislation as a whole

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

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.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

In response to similar proposals, officials from the **Office of the Secretary of State (SOS)** noted many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Costs – any potential appropriation to the Sheriffs' Retirement Fund from the state – §57.952 – p.3-4	$0	$0 or (Unknown)	$0 or (Unknown)
Costs - increase in employer contributions for members now receiving benefits that otherwise would not have - §104.380 & §104.1039 – p.6-7	$0	$0 or (Unknown)	$0 or (Unknown)
Revenue Loss - Employee Stock Ownership Deduction – extends sunset date – §143.114 – p.8-9	(Unknown)	(Unknown)	(Unknown)
Revenue Loss - from pre-tax contributions that otherwise would have been taxed – §285.1000 to §285.1055 – p.13-16	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
Transfer Out - to Show-Me My-Retirement Savings Fund – to start up / administer the program – §285.1000 to §285.1055 – p.13-16	$0 to (Unknown, Could exceed $2,000,000)	$0 to (Unknown, Could exceed $2,000,000)	$0 to (Unknown, Could exceed $2,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Unknown, Could exceed $2,000,000)**	**(Unknown, Could exceed $2,000,000)**	**(Unknown, Could exceed $2,000,000)**

SHOW-ME MYRETIREMENT SAVINGS ADMINISTRATIVE FUND			
Revenue Gain - from fees, gifts, donations or other funds – §285.1000 to §285.1055 p.13-16	$0 or Unknown	$0 or Unknown	$0 or Unknown
Transfer In - from General Revenue – §285.1000 to §285.1055 - p.13-16	$0 to Unknown, Could exceed $2,000,000	$0 to Unknown, Could exceed $2,000,000	$0 to Unknown, Could exceed $2,000,000
Cost – STO – §285.1000 to §285.1055	$0 or …	$0 or …	$0 or …
Personal Service	($75,983)	($92,092)	($93,013)
Fringe Benefits	($48,572)	($58,618)	($58,953)
Expense & Equipment	($28,500)	($10,918)	($11,246)
Total Cost – STO	($153,055)	($161,628)	($163,212)
FTE Change – STO	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
Costs - Board - administrative, travel expenses, legal, IT, staff and other start-up costs – §285.1000 to §285.1055 - p.13-16	$0 or (Unknown, Could exceed $1,782,551)	$0 or (Unknown, Could exceed $1,760,327)	$0 or (Unknown, Could exceed $1,757,964)
ESTIMATED NET EFFECT ON SHOW-ME MYRETIREMENT SAVINGS ADMINISTRATIVE FUND	**$0 or Unknown**	**$0 or Unknown**	**$0 or Unknown**
Estimated Net FTE Change on the Show-Me My-Retirement Administrative Fund	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISION			
Costs – an appropriation from the governing body of a county - §57.952 – p.3-4	$0	$0 or (Unknown)	$0 or (Unknown)
Costs/Savings - from increased or reduced employer contributions - §57.952, §57.961 & §57.967 – p.3-4	$0	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)
Savings/Costs – Kansas City Public Schools & St. Louis Public Schools - reduction in actuarially determined contributions §169.331 – p.12-13	$0	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)
Cost Avoidance – School Districts - reduction in actuarially determined contributions for PSRS - §169.070 & §169.560 – p.12	$0	$0 to $10,400,000	$0 to $10,400,000
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0 or Could exceed $10,400,000 to (Unknown)**	**$0 or Could exceed $10,400,000 to (Unknown)**

FISCAL IMPACT – Small Business

This provision would positively impact small businesses that sell or exchange qualified employer securities. (Section 143.114)

FISCAL DESCRIPTION

This proposal modifies provisions related to retirement systems.

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

Office of the State Treasurer
Office of Administration - Budget and Planning
Office of the Governor
Department of Revenue
Missouri Senate
Missouri House of Representatives
Office of the Secretary of State
Joint Committee on Administrative Rules
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Public Schools and Education Employee Retirement Systems
Sheriffs' Retirement System
St. Louis Police Retirement System
Joint Committee on Public Employee Retirement
County Employees' Retirement System
Local Government Employees Retirement System

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May 8, 2023

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May 8, 2023