COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0966S.01P
Bill No.: Perfected SB 247
Subject: Taxation and Revenue - Income
Type: Original
Date: March 22, 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)	(Unknown, could exceed $318,774,509)	(Unknown, could exceed $318,774,509)
Total Estimated Net Effect on General Revenue	**(Unknown)**	**(Unknown, could exceed $318,774,509)**	**(Unknown, could exceed $318,774,509)**

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 or (Unknown)**	**$0 or (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some 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 to publish a new fiscal note.

SA 3 - Section 137.1050 Property Tax Credit

Officials from the **Department of Revenue (DOR)** note this provision establishes a tax credit for seniors who own their own home. Any county is allowed to pass an ordinance or have an election to grant seniors this tax credit. If no county chooses to have an election or pass an ordinance, this provision will have no fiscal impact.

If a county chooses to pass an ordinance or have an election in which the measure passes, then they are allowed to grant a tax credit to eligible seniors. The eligible senior must be a resident of Missouri, eligible for social security benefits, be the owner of record of a residence and pay the property tax on that residence. No taxpayer can claim a credit for more than one property. The credit is equal to the difference between the amount of property tax liability owed in a year minus the property tax liability owed in the year they met all the eligibility requirements. This is creating a system that would prevent seniors from paying higher property taxes.

Based on information from the U.S. Census Bureau there are 517,086 seniors owning houses in Missouri. Using information pulled from the State Tax Commission 2021 Annual Report and the U.S. Census Bureau, the Department was able to estimate the median home price in Missouri is $163,600, the average real estate taxes paid is $1,690. Therefore, seniors paid approximately $873,875,340 in real property tax.

However, this proposal is a reduction of what is owed and not a total elimination. The Department is unable to estimate the number of counties that would adopt such a proposal and how many seniors may be located in that county. The loss of revenue per county will depend on the number of seniors who own homes in their county. For example, St. Louis City only has about 10% of its homeowners over 65 while Morgan County has 44% of their homeowners are over 65. Property tax is assessed and collected by the county assessors and State Tax Commission. This will result in an unknown loss to the locals of future increased revenue.

The only property tax collected by the State is the Blind Pension Fund. The Missouri Blind Pension Fund is a fund for payment of pensions for the blind. The tax, or collection for the fund, consists of 3 cents on each $100 valuation of taxable property in the State of Missouri. Since this is a constitutional created tax, the county would still be responsible for ensuring it was paid. It would appear this would cost the county the amount that the seniors owed.

The Department administers the Senior Property Tax Credit program which allows seniors based on their income to claim a tax credit based on the property tax they actually pay. Freezing the property tax rates will result in a savings of future lost revenue (due to increasing property tax rates).

In FY 2021, there were 50,895 seniors that checked the box on the PTC form indicating they were over the age of 65+ and owned their home. They claimed $32,069,167 in tax credits. Freezing the amount each senior would owe in property tax would result in the taxpayer qualifying for a smaller future amount of the Senior Property Tax Credit. This could potentially result in an unknown savings of future foregone revenue.

This provision will not have an administrative impact on the Department as DOR does not do property tax assessments.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would grant a property tax credit on the homestead of individuals who are eligible for Social Security Retirement benefits, own their home, and are responsible for making the property tax payment on the home.

B&P notes that this proposal does not require an individual to be eligible for full social security retirement payments in order to qualify. B&P further notes that individuals qualify for reduced payments as early as age 62. Therefore, B&P assumes that this proposal would apply to all individuals age 62 and older who own their home.

The tax credit shall equal the amount of real property tax liability in a year less the property tax liability in the year the individual became an eligible taxpayer. For example, if the property tax liability was $1,700 in tax year a, but $1,500 the year the individual become eligible, then the tax credit would be $200 ($1,700 - $1,500). The property tax credit amount must be included on the individual's property tax bill.

Any county that levies a property tax may grant this property tax credit by county ordinance or by voter approval. The county must include the property tax credit amounts as revenues collected. Therefore, the county will be unable to roll their tax levies up to account for the lost revenue from this proposal.

B&P notes that this proposal would become effective on August 28, 2023, in the middle of tax year 2023. For the purpose of this fiscal note, B&P assumes that any property tax credits would not be granted until at least tax year 2024. In addition, property taxes are due annually by December 31. Therefore, B&P assumes that this proposal will not begin affecting local revenues until at least FY25 (for tax year 2024 payments).

B&P notes that that the Blind Pension Trust Fund levies a tax of $0.03 per $100 on all property in Missouri. B&P assumes that because that tax levy is constitutional, this provision will not affect revenues to the Blind Pension Trust Fund. Therefore, local property tax revenues will decline by the full amount of the property tax credit, even though part of the credit cold be attributable to growth in the Blind Pension Trust Fund revenues through increased assessment values. B&P notes that this this interaction between state and local levies could result in a loss to local revenues over time.

B&P further notes that a county assessor handles property taxes assessments and billings. However, within that county may be multiple different property tax levy districts with multiple different boundaries. In addition, the county assessor would be responsible for calculating two assessments per qualifying property each year: one assessment for the current tax year and one assessment for the tax year that the individual became a qualifying taxpayer.

Therefore, B&P estimates that this provision will not impact state revenues. However, it could have a negative impact on local revenues, if they adopt the property tax credit.

In response to a similar provision in SB 715 (2022), officials from the **State Tax Commission** determined an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. The legislation allows a taxing district to exempt taxpayers sixty-five years or older from increases in the rate of property tax. Such exemption shall either be approved by the governing body of the taxing district or approved by the voters in the local taxing district. The agency would not have data to determine how many of the 1,061,775 Missourians over sixty five who meet the proposed criteria and eligibility or how many of the 2,900 taxing jurisdictions may choose to grant the exemption from increases in the rate of property tax.

Oversight assumes this proposal would grant qualifying individuals tax credits for the increases in property taxes.

Oversight notes, per Article III Section 38(b) of the Missouri Constitution, the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property ((Total Assessed Value/100)*.03). Oversight notes this proposal does not appear to alter a property's assessed value. Therefore, Oversight assumes this proposal would not impact the Blind Pension Fund.

However, **Oversight** notes the Blind Pension Fund receives increased property taxes from increases in assessed value. For example:

Assessed Value Year 1 = $100,000
Blind Pension Tax Liability = ($100,000 /100) * .03 = $30

Assessed Value Year 2 = $110,000
Blind Pension tax liability = ($110,000 /100) * .03 = $33

For purposes of this fiscal note, **Oversight** assumes qualifying taxpayers (or the taxing political subdivisions) would still pay the increases due to the Blind Pension Fund. If this assumption is incorrect, this could potentially change the fiscal impact as presented in this fiscal note.

Based on Demographic Characteristics for Occupied Housing Units from the United States Census Bureau, Oversight notes there are 517,775 owner occupied housing units where the age of the householder is 65 years of age or older. Oversight is uncertain how many of these homeowners would having qualifying income or how many taxing districts would approve the tax credits. Therefore, Oversight will show a range of impact of $0 (not voter approved) to an unknown loss in revenue to local political subdivisions.

In addition, **Oversight** assumes there could be costs to implement and monitor individual credits for local taxing entities which approve a property tax credit. Oversight will show a range of impact of $0 (no subdivision ordinance or voter approval) to an unknown cost to local political subdivisions for implementation.

Oversight will show a range of impact of $0 (not ordinance or voter approved) to an unknown savings to General Revenue from a reduction in Senior Property Tax Credit due the issuance of local property tax credits. Oversight does not anticipate the savings to exceed $250,000.

<u>Section 143.114 ESOP Tax Deduction</u>

Officials from the **Department of Revenue (DOR)** note this proposal 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.

<u>SA 3 - Section 143.124 & 143.125 Retirement Benefits</u>

Officials from the **Department of Revenue (DOR)** note that currently some retirement benefits are subtracted from a taxpayer's adjusted gross income for determining taxable income. State, federal and local government pensions are public pensions and when calculating taxable income, based on certain income limits part of the taxpayer's public pensions are not taxable. Additionally, some social security benefits are not considered taxable when determining taxable income. These subtractions phase out at $85,000 for single and HOH filers and phase out at $100,000 for married filing combined filers.

This proposal broadens that subtraction by removing the current income limits and allows all public pension and social security retirement income to be excluded from the calculation of taxable income.

The Department notes this additional subtraction begins January 1, 2024 (FY 2025 based on when the tax returns are filed).

Using the internal Individual Income Tax Database for Missouri DOR found the following distribution of filers of public and private pensions.

Pensions	Public	Private
Singles	39%	61%
Married Filing Joint	49%	51%
Head of Household (HOH)	42%	58%

DOR then used information reported by taxpayers on their federal returns to calculate the amount of additional revenue that would be exempt from tax. DOR notes that SB 3 (2022) set the individual income tax rate at 4.95% starting in tax year 2023. After that it will continue to reduce the tax rate over a period of several years until the rate equals 4.5%. At that time, it will remain the 4.5%. For fiscal note purposes only, DOR will show the loss at each of those tax rates. This will result in a loss to general revenue.

Retirement Income	Top Tax Rate				
	4.95%	4.8%	4.7%	4.6%	4.5%
Pensions/Annuities (Public)	($159,619,564)	($154,782,607)	($151,557,970)	($148,333,332)	($145,108,694)
Social Security	($159,154,945)	($154,332,068)	($151,116,816)	($147,901,565)	($144,686,314)
Total GR Loss	($318,774,509)	($309,114,675)	($302,674,786)	($296,234,897)	($289,795,008)

Administrative Impact
This proposal will would require modification to the MO-A form and to the MO-1040P form. Additionally, DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

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

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.124 would eliminate the income limits for the individual income tax exemption for public pensions beginning with tax year 2024. Currently taxpayers who are married filing joint may exempt 100% of their public pension income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than $100,000. All other taxpayers may exempt 100% of their public pension income if their MAGI is equal to or less than $85,000.

In order to estimate the potential impact from this provision, B&P utilized pensions and annuity data published by the IRS. However, B&P notes that the term "pensions and annuities" includes both public and private retirement funds. For the purpose of this fiscal note, B&P used tax year 2020 (the most recent complete year available) Missouri tax return data to estimate the percentage of payments from public pensions and annuities versus private pensions and annuities.

In tax year 2020, 61% of pension and annuity payments were from private funds and 39% were from public funds for individuals filing single. For married filing combined individuals, 51% of payments were from private funds, while 49% were from public funds. For taxpayers filing as head of household, 58% of pension and annuity payments were from private sources, while 42% were from public sources.

Based on data published by the IRS, B&P estimates that this provision may exempt up to $529,569,030 in public pension and annuity payments for taxpayers filing single, $144,198,054 for taxpayers filing head of household, and $2,550,768,784 for married filing joint taxpayers; for a total of up to $3,224,535,868 in public pension and annuity income exempted under this provision.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022).

Consequently, B&P estimates that exempting public pension and annuity payments could reduce TSR and GR by $159,614,525 (top tax rate 4.95%) or by $154,777,722 (top tax rate 4.8%) in

FY25. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $145,104,114 annually.

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.125 would eliminate the income limits for the individual income tax exemption for social security payments beginning with tax year 2024. Currently taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than $100,000. All other taxpayers may exempt 100% of social security income if their MAGI is equal to or less than $85,000.

Based on data published by the IRS, B&P estimates that this section may exempt $689,197,344 in social security payments for taxpayers filing single, $172,665,756 for taxpayers filing head of household, and $2,353,388,312 for married filing joint taxpayers; for a total of $3,215,251,412 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022).

B&P estimates that this section could reduce TSR and GR by $159,154,945 (top tax rate 4.95%) or by $154,332,068 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this section could reduce TSR and GR by $144,686,314 annually.

<u>Summary</u>
B&P estimates that this proposal could reduce TSR and GR by $318,769,470 (top tax rate 4.95%) or by $309,109,790 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this proposal could reduce TSR and GR by $289,790,428 annually. Table 1 shows the estimated loss by provision, while Table 2 shows the estimated loss by tax and fiscal year.

Table 1: Revenue Loss by Provision

Retirement Income	Top Tax Rate				
	4.95%	4.8%	4.7%	4.6%	4.5%
Pensions/Annuities	$159,614,525	$154,777,722	$151,553,186	$148,328,650	$145,104,114
Social Security	$159,154,945	$154,332,068	$151,116,816	$147,901,565	$144,686,314
Total GR Loss	$318,769,470	$309,109,790	$302,670,002	$296,230,215	$289,790,428

Table 2: Revenue Loss by Fiscal Year

	Tax Year (Fiscal Year)				
Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY 28)	2028 (FY29)
4.95%	$318,769,470	$318,769,470	$318,769,470	$318,769,470	$318,769,470
4.80%	$309,109,790	$309,109,790	$309,109,790	$309,109,790	$309,109,790
4.70%		$302,670,002	$302,670,002	$302,670,002	$302,670,002
4.60%			$296,230,215	$296,230,215	$296,230,215
4.50%				$289,790,428	$289,790,428

Oversight notes DOR's estimates include data from their internal Income Tax Model.

Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by DOR.

Oversight will utilize DOR's projected fiscal estimated impacts of this provision throughout the implementation of the tax rate reductions from SB 3 (2022) to show the impact of the proposal.

SA 1 - Section 169.070 - 2.55% Formula Factor Provision

In response to a similar provision in Perfected SS for SB 75 (2023), officials from the **Public Schools and Education Employee Retirement Systems** state 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).

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).

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. This portion of the legislation has no impact on PEERS.

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.

SA 1 - Section 169.560 - Working After Retirement - PSRS Retiree in Non-Certificated Position

In response to a similar provision in Perfected SS for SB 75 (2023), officials from the **Public Schools and Education Employee Retirement Systems** state, 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, which will be $21,240 for the 2023-2024 school year, 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.

<u>This provision has not yet been reviewed by the Systems actuary but is being submitted for a cost analysis.</u>

Oversight will show an unknown impact (positive or negative) to local political subdivisions for

<u>SA 1 - Section 169.596 - Critical Shortage</u>

In response to a similar provision in Perfected SS for SB 75 (2023), officials from the **Public Schools and Education Employee Retirement Systems** state 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 lesser 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 non-certificated staff for that school district or five certificated teachers.

<u>This provision has not yet been reviewed by the Systems actuary but is being submitted for a cost analysis.</u>

Oversight will show an unknown impact (positive or negative) to local political subdivisions for this provision.

<u>SA 1 – Sections 169.141 & 169.715 Same-Sex Domestic Partnership Pop-Up Provisions</u>

In response to a similar provision in SB 339 (2023), officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** stated, currently, Section 169.141 and 169.715 allows for any Public School Retirement System (PSRS) or Public Education Employee Retirement System (PEERS) 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.

In addition, 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:

- The dissolution decree provides for sole retention by the retired person of all rights in the retirement allowance, and the nominated spouse consents in writing to his or her immediate removal as the nominated beneficiary and disclaims all rights to future benefits.
- The dissolution decree does not provide for sole retention by the retired person of all rights in the retirement allowance and the parties obtain an amended or modified dissolution decree which provides for sole retention by the retired person of all rights in the retirement allowance.

Retroactive benefits for divorce pop-up are not payable.

This proposal relates to members of PSRS and PEERS who retired before September 1, 2015 and choose a joint-and-survivor plan and elected to list their same-sex domestic partner as a nominated beneficiary.

The Missouri Marriage Definition Amendment, also known as Amendment 2, was on the August 3, 2004 ballot in Missouri as a legislatively referred constitutional amendment, where it was approved.

The measure amended the Constitution so that only marriages between a man and a woman would be valid and recognized in the state. On June 26, 2015, the U.S. Supreme Court held in a 5 to 4 decision that the Fourteenth Amendment requires all states to grant same-sex marriages and recognize same-sex marriages granted in other states.

This proposal allows that a member who elected to receive reduced monthly payments on or before September 1, 2015, with his or her same-sex domestic partner as the nominated beneficiary may have the retirement allowance increased to the amount he or she would have received if he or she had not elected to receive reduced payments.

The member must do the following:

- The member must execute an affidavit, along with any supporting information and documentation required by the Board of Trustees, attesting to the existence of the domestic partnership at the time of the nomination and that the partnership has since ended.

- The nominated beneficiary must consent to the removal and disclaim all rights to future benefits in writing, or the parties must obtain a court order or judgment after September 1, 2023, removing the nominated beneficiary.
- If the member and beneficiary were legally married at the time of retirement or thereafter, the marriage must be dissolved, and the dissolution decree must provide for the sole retention of the allowance by the member.

A member who elected to receive reduced monthly payments on or before September 1, 2015, with his or her same-sex domestic partner as the nominated beneficiary may nominate a successor beneficiary. If the former nominated partner precedes the member in death, the member must execute an affidavit attesting to the existence of the partnership at the time of the former nomination.

Otherwise, the member must execute an affidavit, along with any supporting information and documentation required by the Board of Trustees, attesting to the existence of the domestic partnership at the time of the nomination and that the partnership has since ended, and the nominated beneficiary must consent to the removal and disclaim all rights to future benefits in writing or the parties must obtain a court order or judgment after September 1, 2023, removing the nominated beneficiary.

If the member and beneficiary were legally married at the time of retirement or thereafter, the marriage must be dissolved, and the dissolution decree must provide for the sole retention of the allowance by the member. Any nomination of a successor beneficiary must occur within one year of September 1, 2023, or within one year of marriage, whichever is later.

This legislation would impact a very limited group of retired members. PSRS/PEERS retirees must be in a same-sex domestic relationship, retired prior to September 1, 2015, and elected one of the joint and survivor payment options at retirement in order to be eligible to qualify for this statute.

The Systems have an actuary firm, PricewaterhouseCoopers (PWC), that prepares actuarial statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. PWC estimate the impact of the proposed provisions to be an **<u>insignificant fiscal gain</u>** to both PSRS and PEERS.

Oversight assumes the impact to the retirement systems would be immaterial. Therefore, Oversight will reflect a zero impact in the fiscal note for the employer members, School Districts and Community Colleges for this provision.

<u>Responses regarding the proposed legislation as a whole</u>

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed SB 247 as amended. SB 247 has no direct fiscal impact to the Joint Committee on Public Employee Retirement.

The JCPER's review of SB 247 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.

Officials from the **Department of Social Services** and the **State Tax Commission** each assume the proposal will 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.

Officials from the **County Employees Retirement Fund (CERF), Branson Police Department, St Louis County Police Department, Newton County Health Department** and the **Sheriff's Retirement System** each assume the proposal will 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.

Oversight received a limited number of responses from local political subdivisions related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional 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.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

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.

Officials from the **Office of the Secretary of State (SOS)** note 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			
Savings *- §137.1050 - Reduction in Senior Property Tax Credits due the issuance of local property tax credits p. (3-6)	$0	$0 or Unknown	$0 or Unknown
Revenue Loss ** - §143.114 - Employee Stock Ownership Deduction – extends sunset date p. (6)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction – §143.124 & §143.125 Allowance of maximum deduction to all taxpayers p. (6-9)	$0	Up to ($318,774,509)	Up to ($318,774,509)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Unknown)**	**(Unknown, could exceed $318,774,509)**	**(Unknown, could exceed $318,774,509)**

* **Oversight** assumes the revenue savings from the reduction of the claims for the Senior Property Tax Credit Program would *not* reach the $250,000 threshold
** **Oversight** assumes the revenue loss from the proposed income tax deductions would *not* reach the $250,000 threshold

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
Costs – §137.1050 – School Districts - Vote on implementing property tax credits p. (3-6)	$0	$0 or (Unknown)	$0 or (Unknown)

Costs – §137.1050 – School Districts - Implementation and monitoring of property credits p. (3-6)	$0	$0 or (Unknown)	$0 or (Unknown)
Revenue Loss – §137.1050 – School Districts - From property tax credit p. (3-6)	$0	$0 or (Unknown)	$0 or (Unknown)
Cost Avoidance - §169.070 - reduction in actuarially determined contributions p. (10-11)	$0	$0 to $11,000,000	$0 to $11,000,000
Loss/Gain - §169.560 - increase in earnings exemption p. (11)	$0	Unknown to (Unknown)	Unknown to (Unknown)
Loss/Gain - §169.596 - modified limit on number of teachers hired under the critical shortage declaration p. (11-12)	$0	Unknown to (Unknown)	Unknown to (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0 or (Unknown)**	**$0 or (Unknown)**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act modifies provisions relating to retirement.

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

Department of Revenue
Office of Administration - Budget and Planning
State Tax Commission
Department of Social Services
Joint Committee on Administrative Rules
Office of the Secretary of State

KLP:LR:OD

Joint Committee on Public Employee Retirement (JCPER)
County Employees Retirement Fund (CERF)
Branson Police Department
St Louis County Police Department
Newton County Health Department
Sheriff's Retirement System

Julie Morff
Director
March 22, 2023

Ross Strope
Assistant Director
March 22, 2023

KLP:LR:OD