

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3453S.03P  
Bill No.: Perfected SS for SB 898  
Subject: Cities, Towns, and Villages; County Government; Law Enforcement Officers and Agencies; Local Government Retirement; Schools Retirement; State Retirement; General Retirement Systems and Benefits; St. Louis City; Political Subdivisions  
Type: Original  
Date: April 9, 2024

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0 or Unknown</b>	<b>\$0 or Unknown</b>

## 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.

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state the proposal has no direct fiscal impact to the Joint Committee on Public Employee Retirement. According to actuarial information provided by the retirement system, this proposal would constitute a “substantial proposed change” in future plan benefits as defined in section 105.660(10). 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.

### Section 70.605, 70.630, 70.655, 70.680, 70.690, 70.745, 70.746, 70.747 and 70.748 - LAGERS

In response to a similar proposal, HCS for HB 2431 (2024), officials from the **Local Government Employees Retirement System (LAGERS)** assumed the proposal would make multiple amendments to the system’s board structure and governance practices as prescribed in RSMO 70.605, including:

- Changing the quorum requirement of the Board of Trustees to a simple majority,
- Expanding the eligibility requirements for Employer Trustees by allowing executive-level employer representatives, such as City Administrators, to serve as an Employer Trustee,
- Replacing one Employer Trustee with one Retiree Trustee,
- And removing specific statutory requirements of how trustee elections should be conducted thereby allowing the LAGERS Board of Trustees to establish rules governing board elections.

LAGERS estimated that these changes will have a de minimis fiscal impact, if any, on the system but will result in intangible benefits by updating and modernizing governance practices.

LAGERS further assumed that with the exception of RSMo 70.748, the additional modifications to provisions in RSMo 70.630-70.748 are technical clean-up to the system's existing statutes and are assumed to have no fiscal impact on the system.

LAGERS assumed the additional language in RSMo 70.748 will allow for the pooling of assets for investment purposes of LAGERS' legacy plan, as authorized by RSMo 70.621, and the system's staff plan. The pooling of assets is expected to create administrative efficiencies, which are estimated to reduce the staff plan contribution rate by approximately 5-10% points. Any reduction in the system's administrative costs will ultimately result in more efficient costs for LAGERS employers. At this time, that impact, while positive, is unknown.

**Oversight** will show a range of impact of \$0 (no savings to member employers) to an unknown savings to employer members of LAGERS.

Section 86.200 – Earnable Compensation – Police Retirement System of the City of St. Louis

Officials from the **Police Retirement System of City of St. Louis** and the **City of St. Louis** did not respond to **Oversight's** request for fiscal impact for this proposal.

**Oversight** assumes this provision would have an impact on the Police Retirement System of the City of St. Louis. However, Oversight assumes the impact would be minimal and would not translate into a change in employer contributions into the retirement system by the City of St. Louis. Therefore, Oversight will reflect a zero impact on the fiscal note for the City of St. Louis.

Section 105.688 – Closing Records

Officials from the **Missouri State Employee's Retirement System, County Employees Retirement Fund, Metro St. Louis Sewer District Employees Pension Plan** and the **University of Missouri 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 the employer members of these retirement systems.

In response to a similar proposal, Perfected HCS for HB 2431 (2024), officials from the **Kansas City Civilian Police Employees' Retirement, Kansas City Police Retirement System, Kansas City Public School Retirement System** 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 the employer members of these retirement systems.

In response to a similar proposal, HCS for HB 2431 (2024), officials from the **MoDOT & Patrol Employees' Retirement System** assumed the proposal would have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the employer members of this retirement system.

Section 169.070 – Benefit Multiplier PSRS (SA1)

Officials from **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state, currently, members of PSRS who have 30 years or more of creditable service but less than 32 years of service and retire have their retirement benefit calculated using a multiplier of 2.50%. PSRS members with 32 or more years of services who retire have their retirement benefit calculated using a multiplier of 2.55%. The multiplier (also frequently referred to as the formula factor) is applied to the member's final average salary for each year of membership service.

This legislation amends RSMo Section 169.070 to provide PSRS members retiring with at least 33 years of membership service a benefit equal to 2.60% (versus 2.55%) of final average salary for each year of membership service.

The Systems have an actuary firm, PwC US (PwC), that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems.

Per PwC, the proposed changes would provide a higher benefit multiplier to members who earn 33 or more years of service, compared to the current benefit provisions. The fiscal impact of the proposed change therefore depends on whether or not member retirement patterns would change as a result of the 2.60% benefit multiplier being available (i.e., for members currently assumed to retire before 33 years of service, would they be willing to work longer to receive the 2.60% multiplier). Currently it is assumed that a percentage of members will continue to work until they earn 33 years of service or more before retiring. To the extent that retirement patterns do not change, the proposal would result in a fiscal cost since members currently assumed to retire with 33 or more years of service would receive a larger benefit. On the other hand, if a sufficient number of members are incentivized by the 2.60% multiplier to work longer and forego retirement at earlier ages (e.g., when they first qualify for unreduced benefits with 80 age + service points, or at 30 years of service) when the PSRS retirement allowance is typically the most valuable on a present value basis, the proposal would result in a fiscal gain.

It is noted that 2023 Senate Bill 75 (HCS/SS/SB 75) became effective August 28, 2023 and added a 2.55% benefit formula multiplier for PSRS members who have 32 or more years of service at retirement. This change was reflected in the June 30, 2023 valuation for PSRS and the assumed retirement rates were updated for the June 30, 2023 valuation to reflect lower retirement rates prior to 32 years of service and higher retirement rates on and after 32 years of service as a result. The assumed retirement rates were based on the retirement assumption in effect when the 2.55% multiplier was previously available at 31 years of service and reflect an expectation that some members would delay retirement in order to receive the 2.55% benefit multiplier at 32 years of service. It is also noted that 2022 SB 681 temporarily suspends the hours and compensation limitations for retired PSRS members working after retirement in substitute teaching positions on a part-time or temporary substitute basis. This change is temporary through June 30, 2025, but could temporarily incentivize members to retire earlier and return to work on a parttime or temporary basis. However, PWC have not observed significant changes in retirement rates attributable to SB 681, so PWC have not reflected any short-term changes in

retirement rates associated with SB 681 in their analysis of this proposal.

Given the similarity of the proposed change to the recently enacted 2023 Senate Bill 75 (HCS/SS/SB 75), and the temporary nature of 2022 SB 681, PWC would not expect significant incremental changes in retirement patterns if the proposal were enacted. Therefore, PWC expects the proposal would have **an insignificant fiscal impact on the System, which could be either a small fiscal cost or a small fiscal gain**. Since PWC expects the magnitude of the fiscal impact to be insignificant, they have not performed a detailed actuarial valuation of the impact.

**Oversight** assumes the impact to the System would be immaterial. Therefore, Oversight will reflect a zero impact in the fiscal note for the employer members of the retirement system.

#### Section 169.560 and 169.660 – Working After Retirement PSRS and PEERS

Officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state, currently, a retired member, except for those retired due to disability, of the Public School Retirement System ("PSRS") may work after retirement in a certified position with a covered employer without discontinuance of his or her retirement benefits if the member does not exceed 550 hours of work each school year and 50% of the annual compensation to the person who last held the position. This legislation expands the same provisions to include those retired due to disability. Disabled retirees must continue to meet all other requirements. This legislation also broadens the 50% annual compensation limit to include 50% of the annual compensation to the person who last held the position or 50% of the limit set by the employer's school board for the position.

Additionally, current law provides that if a member of PSRS or the Public Education Employee Retirement System ("PEERS") is in excess of the limitations, the member shall not be eligible to receive the retirement allowance for any month so employed. This legislation provides that either the member shall not be eligible to receive the retirement allowance for any month so employed or the retirement system shall recover the amount earned in excess of the limitations, whichever is less. This legislation also allows PEERS members retired due to disability to be employed under these provisions. Disabled retirees must continue to meet all other requirements.

The provisions in this legislation provide administrative and operational efficiencies for the Systems, without additional fiscal impacts. The Systems' participating employers and members also benefit from these enhancements. The impacts to the Systems are all positive in nature.

The Systems have an actuary firm, PwC US (PWC), that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems.

Section 169.560 – As of June 30, 2023, it is PWC's understanding that there were only 23 retired PSRS members (of 63,262 service retirees) who had returned to work in a capacity that resulted in suspension of their retirement allowance, and only a subset of those members, if any, would have earnings in excess of the limits in an amount that is less than their retirement allowance.

PWC also note that 2022 Conference Committee Substitute No. 2 for House Committee Substitute for Senate Substitute for Senate Committee Substitute for Senate Bills Nos. 681 & 662 ("2022 CCS#2 HCS SS SCS SBs 681 and 662", also abbreviated as "SB 681") temporarily suspends the hours and compensation limits for retired PSRS members working after retirement in substitute teaching positions on a parttime or temporary substitute basis through June 30, 2025. Finally, as communicated by System staff, it is PWC's understanding that the proposed changes could reduce the administrative and legal costs associated with appeals by retired members who inadvertently exceed the working after retirement limitations, which could offset the reduction in suspended benefits retained by the System.

For the reasons noted above, PWC estimates the proposed changes would have **an insignificant fiscal impact to PSRS.**

Section 169.660 – As of June 30, 2023, it is PWC's understanding that there were only 44 retired PEERS members (of 34,281 service retirees) who had returned to work in a capacity that resulted in suspension of their retirement allowance, and only a subset of those members, if any, would have earnings in excess of the limits in an amount that is less than their retirement allowance. Finally, as communicated by System staff, it is PWC's understanding that the proposed changes could reduce the administrative and legal costs associated with appeals by retired members who inadvertently exceed the working after retirement limitations, which could offset the reduction in suspended benefits retained by the System.

For the reasons noted above, PWC estimates the proposed changes would have **an insignificant fiscal impact to PEERS.**

**Oversight** assumes the impact to the System from these provisions would be immaterial. Therefore, Oversight will reflect a zero impact in the fiscal note for the employer members of the retirement system.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Savings</u> – from reduced employer contributions to LAGERS - §70.748	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>

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 employee retirement systems.

**LAGERS: BOARD OF TRUSTEES (SECTION 70.605)**

Currently, the governing bodies of the employers of the system elect three trustees to the Board of Trustees ("Board") of the Missouri Local Government Employees' Retirement System ("LAGERS"). Beginning on January 1, 2025, this act provides that the employer trustee with a term ending December 31, 2024, shall thereafter be replaced by a person elected by the retirants of the system.

This act also provides that not more than one trustee elected by the members shall be public safety personnel. Additionally, current law provides that the employer trustees shall be elected or appointed officials of the employers and shall not be members of the system and no more than one shall be from any one employer. This act provides that for terms beginning on or after January 1, 2025, employer trustees shall be either elected or appointed officials of the governing bodies of the employers or executive level employees certified by the governing bodies of the employers, but no more than one trustee shall be from any one employer, and no more than one trustee shall be a policeman, and no more than one trustee shall be a fireman, and no more than one trustee shall be public safety personnel.

Additionally, this act repeals the requirements on the annual meetings and elections of delegates. Furthermore, this act states that the elections of the trustees shall be arranged for and managed and conducted by the Board. Finally, this act provides that only four trustees shall constitute a quorum of the Board, instead of four trustees consisting of at least two member trustees and two employer trustees.



#### LAGERS: MEMBERSHIP (SECTION 70.630 & 70.690)

This act repeals the provision prohibiting membership in LAGERS for employees where continuous employment to the time of retirement eligibility will leave the employee with less than the minimum required number of years of credited service. Additionally, this act provides that in the event a member's membership terminates, any accumulated contributions unclaimed by the member within ten years, instead of three years, shall be transferred to the investment income fund of the system.

#### LAGERS: COST OF LIVING CPI (SECTION 70.655)

This act provides that cost of living adjustment for LAGERS shall be a measure of the Consumer Price Index as determined by the U.S. Department of Labor and adopted by the Board of LAGERS, instead of the Consumer Price Index for Urban Wage Earners and Clerical Workers.

#### LAGERS: REPEAL OF OBSOLETE STATUTORY PROVISION (SECTION 70.680)

This act repeals references to obsolete statutory provisions.

#### LAGERS: INVESTMENT DECISIONS (SECTIONS 70.745, 70.746 & 70.747)

This act provides that the Board of LAGERS may deliberate or make decisions on investments or other financial matters in a closed meeting if the disclosure of such deliberations or decisions would jeopardize the ability to implement a decision or to achieve investment objectives. Additionally, records that disclose such deliberations or decisions are not public records and the Board shall not be prohibited from closing records to the extent that such records relate to information in connection with investments in or financial transactions with business entities.

Furthermore, this act repeals the provision providing that the investment counselor of the Board be registered as an investment advisor with the U.S. Securities and Exchange Commission. Lastly, this act repeals the limitation that no more than 1/10th of the funds of the system be invested in real estate.

#### LAGERS: INVESTMENT FUNDS (SECTION 70.748)

This act provides that the Board may establish and maintain a local government employee retirement systems of Missouri investment fund account in which investments of LAGERS may be placed and be available for investment purposes. The funds may be combined with funds of any retirement plan administered by LAGERS and any retirement plan established for providing benefits to employees of LAGERS, but such funds shall be accounted for separately.

#### ST. LOUIS POLICE RETIREMENT: EARNABLE COMPENSATION (SECTION 86.200)

This act modifies the definition of "earnable compensation", as used by the Police Retirement System of St. Louis, by providing that the term shall not include any funds received through a judgment or settlement of a legal action or claim made or threatened by a member against the City of St. Louis if such funds are intended to retroactively compensate the member for the salary differential between the member's actual rank and the rank the member claims he or she should have received.

#### ALL PUBLIC PLANS: INVESTMENT FIDUCIARY CLOSURE OF RECORDS (SECTION 105.688)

This act provide that an investment fiduciary of a public employee retirement system established by the state or any political subdivision of the state shall not be prohibited from closing records related to information in connection with investments in or financial transactions with business entities.

#### PSRS: MULTIPLIER (SECTION 169.070)

Current law provides that the normal retirement allowance multiplier for a member of the Public School Retirement System of Missouri is 2.5% of the member's final average salary for each year of the membership service, except if the member has 32 years or more of service, then the multiplier shall be 2.55%. This act provides that for those members with 33 years of service or more the multiplier factor shall be 2.6%.

#### PSRS/PEERS: WORKING AFTER RETIREMENT (SECTIONS 169.560 & 169.600)

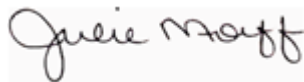
Currently, a retired member, except for those retired due to disability, of the Public School Retirement System ("PSRS") may work after retirement in a certified position with a covered employer without discontinuance of his or her retirement benefits if the member does not exceed 550 hours of work each school year and 50% of the annual compensation to the person who last held the position. This act provides that the member, including those retired due to disability, may earn up to 50% of the annual compensation to the person who last held the position or 50% of the limit set by the employer's school board for the position if submitted and approved by the Board of Trustees.

Additionally, current law provides that if a member of PSRS or the Public Education Employee Retirement System ("PEERS") is in excess of the limitations, the member shall not be eligible to receive the retirement allowance for any month so employed. This act provides that either member shall not be eligible to receive the retirement allowance for any month so employed or the retirement system shall recover the amount earned in excess of the limitations, whichever is less.

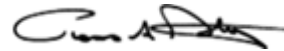
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement  
Local Government Employees Retirement System  
Missouri State Employee's Retirement System  
MoDOT & Patrol Employees' Retirement System'  
University of Missouri System  
Public Schools and Education Employee Retirement Systems  
County Employees Retirement Fund  
Kansas City Civilian Police Employees' Retirement  
Kansas City Police Retirement System  
Kansas City Public School Retirement System  
Metro St. Louis Sewer District Employees Pension Plan  
Sheriff's Retirement System



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