

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2168-01
Bill No.: HB 1085
Subject: Retirement - Local Government; Saint Louis City
Type: Original
Date: April 7, 2017

Bill Summary: This proposal modifies provisions relating to the St. Louis Public School Retirement System.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2026)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2026)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2026)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2026)
Total Estimated Net Effect on FTE	0	0	0	0



Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2026)
Local Government	0	\$1,239,311	\$3,717,934	\$17,350,356

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal may constitute a substantial proposed change in future plan benefits as defined in Section 105.660(10) RSMo. It is impossible to accurately determine the fiscal impact of this proposed legislation without an actuarial cost statement prepared in accordance with Section 105.665 RSMo.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the Missouri 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 of the bill. An actuarial cost statement for this bill has not been filed with JCPER.

St. Louis Public School Retirement System (as of January 1, 2016)

Market Value:	\$868,679,049	Funded Ratio: 80.61%
Actuarial Value:	\$915,391,079	Funded Ratio: 84.94%
Liabilities:	\$1,077,693,143	

Annual Required Contribution Rate (2017):

Employer:	15.73%	\$39,657,956 (estimated)
Employee:	<u>5.00%</u>	<u>\$12,606,364</u> (estimated)
Total:	20.73%	\$52,264,320 (estimated)

Covered Payroll:	\$252,127,288	
Membership:	Active - 5,034	Inactive - 6,858

Officials from the **Public School Retirement System of the City of St. Louis (PSRSSTL)** believe that the proposals contained in HB 1085 constitute a “substantial proposed change” within the meaning of §§ 105.660 and 105.670, requiring a Cost Statement to be completed before final legislative action may be taken on the measure.

Currently, §169.460.1 provides that in order to be eligible for full retirement, a member must either attain 65 years of age, or a member’s age and credited service must total 85 (“Rule of 85”), which are mutually exclusive events. Under HB 1085, the retirement eligibility requirements for full retirement are reduced, allowing members to retire much earlier, when their age and service credit totals 80 (“Rule of 80”), if such member has attained 55 years of age, or when a member attains 62 years of age.

ASSUMPTION (continued)

The second “substantial proposed change” in HB 1085 will reduce the amount of pension benefits for all employed members beginning with service credit earned on and after January 1, 2018. Due to the different treatment of newly hired employees compared to current employees, and those current employees who elect the early retirement option, HB 1085 will cause a multi-tiered pension benefit calculation for these members due to the schism created by the reduced pension multiplier and retirement eligibility for certain members beginning on January 1, 2018.

The third “substantial proposed change” in HB 1085 largely removes the discretion of the board of trustees of the PSRSSTL to grant a cost-of-living adjustment (“COLA”), and instead a COLA must be provided if the “cost of living, as measured by generally accepted standards” increases at various rates.

The final “substantial proposed change” in HB 1085 reduces the amount of contributions paid to the PSRSSTL by its employers. While increasing the amount of contributions employees pay to the PSRSSTL, HB 1085 will at the same time lower the annual employer contribution to a rate not allowed to exceed 9% of covered compensation.

The PSRSSTL believes that HB 1085 constitutes a “substantial proposed change” in future benefits within the meaning of §105.660 and §105.670 RSMo. Since HB 1085 does not include a Cost Statement as required by §105.665 RSMo, before final legislative action may be taken, the additional costs of the proposed legislation are currently unknown.

The **City of St. Louis** did not respond to our request for fiscal impact.

Since an actuarial cost statement has not been completed regarding this proposal, **Oversight** will utilize information from the JCPER (Employer annual required contributions of \$39,657,956 at 15.73%) and calculate and estimated savings to the St. Louis School District when the contribution rate decreases per §169.490.5. Oversight will assume the current contribution rate of 15.73% is approximately equal to the 16% required in calendar 2018 and show no savings in 2018. For fiscal note purposes, Oversight will reflect a savings to Local School Districts in FY 2019, 2020 and fully implemented 2026.

ASSUMPTION (continued)

Calendar Year	Current Rate	Annual Required Employer Contributions	New Contribution Rate	New Required Employer Contributions	Savings in Employer Contributions
2018	16%	\$39,657,956	16%	\$39,657,956	\$0
2019	16%	\$39,657,956	15%	\$37,179,334	\$2,478,622
2020	16%	\$39,657,956	14%	\$34,700,712	\$4,957,244
2021	16%	\$39,657,956	13%	\$32,222,089	\$7,435,867
2022	16%	\$39,657,956	12%	\$29,743,467	\$9,914,489
2023	16%	\$39,657,956	11%	\$27,264,845	\$12,393,111
2024	16%	\$39,657,956	10%	\$24,786,222	\$14,871,734
2025	16%	\$39,657,956	9%	\$22,307,600	\$17,350,356

As the savings are on a calendar year basis, **Oversight** will assume a fiscal year impact would be:

Fiscal Year	Calendar Year	Calendar Year Savings	Savings in Employer Contributions
2018	2017 (July - Dec)	\$0	\$0
2018	2018 (Jan - June)	\$0	<u>\$0</u>
TOTAL 2018			\$0
2019	2018 (July - Dec)	\$0	\$0
2019	2019 (Jan - June)	½ of \$2,478,622	<u>\$1,239,311</u>
TOTAL 2019			\$1,239,311
2020	2019 (July - Dec)	½ of \$2,478,622	\$1,239,311
2020	2020 (Jan - June)	½ of \$4,957,244	<u>\$2,478,623</u>
TOTAL 2020			\$3,717,934

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2026)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2026)
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**LOCAL SCHOOL
DISTRICTS**

Savings - St. Louis
 City Public School
 Districts - Savings
 Change in
 Employer
 Contributions

<u>\$0</u>	<u>\$1,239,311</u>	<u>\$3,717,934</u>	<u>\$17,350,356</u>
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**ESTIMATED NET
EFFECT ON
LOCAL SCHOOL
DISTRICTS**

<u>\$0</u>	<u>\$1,239,311</u>	<u>\$3,717,934</u>	<u>\$17,350,356</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill modifies retirement benefits for members of the St. Louis Public Employee Retirement System.

For persons hired on or after January 1, 2018 they will be eligible to retire at age 62 or at age 55 and an age when added to the number of years of credited service equal at least 80 (80 and out). The annual pension payable at retirement will be calculated using a multiplier percentage of 1.75%.

FISCAL DESCRIPTION (continued)

Members hired prior to January 1 2018 who are still employed on or after such date will be able to elect to retire under this provision if they make such election within one year. Members electing to be eligible to retire under these provisions will have their annual pension calculated using a 2% multiplier for service prior to January 1, 2018 and 1.75% on or after such date.

The contribution rate for new members will be 9% of compensation and current members' contribution rate will increase .5% annually until their contribution rate equals 9%. The employers' contribution rate shall decrease by 1% annually until such rate equals 9%.

Retired members will begin receiving COLAs beginning January 1, 2018. If the cost of living as measured by generally accepted standards increase less than 2% then retirees will be eligible for a COLA in the amount of the increase. If the cost of living increases 2% or more the COLA shall be 2%. The total of the increases shall not exceed 80% of the retirement allowance established at retirement or as previously adjusted by other subsections. Any member retiring on or after January 1, 2018 will be eligible for the COLA on the 4th January first following the member's 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

Joint Committee on Public Employee Retirement
Public School Retirement System of the City of St. Louis

Mickey Wilson, CPA

Director
April 7, 2017



Ross Strope
Assistant Director
April 7, 2017