COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0457-07
Bill No.: HCS for SS for SB 62
Subject: Retirement Systems and Benefits - General; Education, Higher; County Government
Type: Original
Date: April 18, 2017

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
General Revenue	$0	$0 to More than $4,380,000	$0 to More than $4,380,000	$0 to More than $4,380,000
Total Estimated Net Effect on General Revenue	**$0**	**$0 to More than $4,380,000**	**$0 to More than $4,380,000**	**$0 to More than $4,380,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Highway Fund	$0	$0 to More than $790,000	$0 to More than $790,000	$0 to More than $790,000
Other State Funds	$0	$0 to More than $1,328,000	$0 to More than $1,328,000	$0 to More than $1,328,000
Total Estimated Net Effect on Other State Funds	**$0**	**$0 to More than $2,118,000**	**$0 to More than $2,118,000**	**$0 to More than $2,118,000**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 18 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Federal Funds	$0	$0 to More than $1,602,000	$0 to More than $1,602,000	$0 to More than $1,602,000
Total Estimated Net Effect on All Federal Funds	**$0**	**$0 to More than $1,602,000**	**$0 to More than $1,602,000**	**$0 to More than $1,602,000**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
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	(FY 2028)
Local Government*	**$0**	**$0**	**$0**	**$0**

Income and expenses net to zero.

FISCAL ANALYSIS

ASSUMPTION

Section 104.1205

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposed legislation with HCS for SS for Senate Bill 62 (0457-07) would, if enacted, modify the employer contribution rate for the College and University Retirement Plan (CURP), which is a defined contribution plan administered by MOSERS for professors and administrators holding faculty rank at state colleges and universities (referred to by law as "outside employees"). As proposed, the employer contribution rate would be modified to a fixed 6% of payroll from the current rate of 1% of payroll less than the normal cost contribution rate of the defined benefit plan.

In addition, the proposal would require outside employees hired on or after July 1, 2018, to contribute 2% of payroll to the CURP. A provision of federal law is also referenced to allow the institutions to "pick-up" or treat certain contributions as employer contributions under the Internal Revenue Code in order to allow employee contributions to be made on a pre-tax basis.

Outside employees are allowed to contribute to a supplemental account established by the employer and such employees may elect to change the contribution rate.

This proposal has an effective date of July 1, 2018.

Established in 2001 under Senate Bill 371, the CURP became effective July 1, 2002, for new employees holding a faculty rank within the state colleges & universities (excluding the University of Missouri). As of June 30, 2016, CURP covered approximately 2,600 participants with an average account balance of $26,461.

The chart below outlines the employer contribution rate to the CURP since its inception as well as the associated MOSERS annual normal cost. As depicted, the MOSERS annual normal cost has steadily decreased since the implementation of the MSEP 2011 new tier.*

ASSUMPTION (continued)

It is important to note that employees do not currently contribute to CURP.

Fiscal Year	MOSERS Normal Cost Rate	Resulting CURP Contribution Rate
FY 02/03	8.22%	7.22%
FY 03/04	8.47%	7.47%
FY 04/05	8.57%	7.57%
FY 05/06	8.81%	7.81%
FY 06/07	8.84%	7.84%
FY 07/08	8.87%	7.87%
FY 08/09	8.88%	7.88%
FY 09/10	8.71%	7.71%
FY 10/11	8.77%	7.77%
FY 11/12*	7.92%	6.92%
FY 12/13*	7.80%	6.80%
FY 13/14*	7.38%	6.38%
FY 14/15*	7.16%	6.16%
FY 15/16*	6.89%	5.89%
FY 16/17*	6.67%	5.67%
FY 17/18^	7.19%	6.19%

^ MOSERS Board adopted actuarial assumptions resulted in an increase in the normal cost rate.

The provisions of this proposal would not have a fiscal impact on MOSERS.

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state that this legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

JCPER assumes the Senate Substitute increases the employer contribution to the CURP plan. The introduced version required 5.5% whereas the Senate Substitute requires 6%. In addition, employees will have the option to contribute an additional 2%.

ASSUMPTION (continued)

In response to a previous version, officials from the **Missouri Southern State University (MSSU)** did not anticipate a significant fiscal impact since the proposed employer funding percentage of 5.5% does not vary significantly from the current funding percentage. The proposed uncoupling of the CURP funding formula from the MOSERS "normal cost contribution" component and establishment of a fixed rate would eliminate the downward trend in the CURP funding percentage that has been noted in recent years.

In response to a previous version, officials from the **Missouri State University** assumed this proposal would result in a positive unknown fiscal impact.

In response to a previous version, officials from the **Truman State University** assumed this proposal would result in a minimal positive fiscal impact.

In response to a previous version, officials from the **University of Central Missouri** assumed a potential savings of $1.9 million to the University as a result of this proposal.

In response to a previous version, officials from the **University of Missouri**, **Northwest Missouri State University** and the **State Technical College of Missouri** each assumed the proposal will have no fiscal impact on their respective organizations.

Oversight assumes this legislation would modify the employer contribution rate to a fixed 6% of payroll from the current rate of 1% of payroll less than the normal cost contribution rate of the defined benefit plan. In addition, the proposal would require outside employees hired on or after July 1, 2018 to contribute 2% of payroll to the CURP. In addition this proposal would allow outside employees to contribute to a supplemental account established by the employer.

Oversight notes that the 4 year average CURP employer contribution rate is 5.9775% and the 5 year average CURP employer contribution rate is 6.058%. Since this legislation would modify the employer contribution rate to a fixed 6%, Oversight assumes this proposal will not have a material fiscal impact to the contributions made by employer-institutions.

ASSUMPTION (continued)

Sections 50.1190, 137.280, 137.345, 52.290 and 140.100

Officials from the **County Employees' Retirement Fund (CERF)** assume the proposed legislation modifies provisions related to public employee retirement.

The estimated increase in revenues is as follows:

Section 50.1190	$2,125,000
Section 137.280 & 137.343	$875,000
Section 52.290	$5,295,000
Section 140.100	$1,844,000
Total	**$10,139,000**

Officials from the **Joint Committee on Public Employee Retirement** assume the legislation indicates that the legislation serves to increase several existing fees and penalties that are used to fund the County Employees' Retirement Fund (CERF).

Current System Status As of January 1, 2016		
Market Value	$432,504,491	68% (Funded Ratio)
Actuarial Value	$448,784,038	70% (Funded Ratio)
Liabilities	$640,399,679	
Current Annual Required Contribution Rate		
Employer (FY16/17)	6.54%	$25,608,251
Covered Payroll	$391,801,920	

In response to a similar proposal from this year (HCS for HB 1151), officials from the **St. Louis County** assumed the proposal will have no fiscal impact on their organization.

In response to a previous version, officials from **Platte County Board of Elections** and the **Jackson County Election Board** each assume the proposal will have no fiscal impact on their respective organizations.

ASSUMPTION (continued)

CERF is not a local political subdivision; therefore, **Oversight** will not reflect a fiscal impact to their organization but will use the CERF estimate of fiscal impact to local political subdivisions.

Section 50.1190.1

Officials from the **Joint Committee on Public Retirement** assume this provisions requires that one dollar be collected and deposited into the statutory County Recorders Fund. This provisions will not affect retirement benefits.

Oversight assumes this proposal adds an additional $1 collection on the recording of any instrument to be deposited to the County Recorders Fund.

Section 104.1092

Officials from the **Missouri State Employee's Retirement System (MOSERS)** assume the provisions contained in HCS for SS for SB 62 would, if enacted, allow the MOSERS (& MPERS) Board to choose to establish a program to allow terminated vested members (currently 19,500) to make a one-time election to receive a lump sum payment equal to a percentage of the present value of the member's deferred annuity. The Board(s) may only offer this program until May 31, 2018.

Additionally, any member who takes advantage of the lump sum payment option shall forfeit all creditable or credit service and future rights to receive retirement annuity benefits and any long-term disability benefits from the system. If such member returns to state employment, such member shall be considered a new employee with no prior credited service and shall be considered a member of the MSEP 2011 tier within MOSERS and/or MPERS.

MOSERS' membership includes approximately 19,500 terminated vested members. The average MOSERS' terminated vested member is:

- Currently age 48,
- Left state employment at age 38,
- Worked approximately 9 years for the State, and
- Will receive an average monthly benefit at retirement of $450 (at approximately age 62).

The estimated effect, of the reduction of 10 year vesting period to 5 years and the associated offsets, on annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary, is outlined below.

ASSUMPTION (continued)

The fiscal impact, of the provisions contained in HCS for SS for SB 62, is unknown because the MOSERS (& MPERS) Board of Trustees will have the authority to design the program offered to terminated vested members including the percentage of the present value of future benefits that will be offered as a lump sum payment with this program and there is no way to know how many members will elect to take such an option.

However, MOSERS' actuarial professionals completed an actuarial analysis under the scenario of a 50% participation rate of a lump sum distribution equivalent to 65% of the present value of future benefits which is reflected below. It is important to note that this scenario may not ultimately be the design selected by the MOSERS Board of Trustees should they choose to offer such program.

Impact on MOSERS (in Millions)

Valuation Results As of June 30, 2016	**Present Benefits**	**Proposed Benefits**	**Increase/(Decrease)**
Market Value of Assets (MVA)	$8,109.2	$7,916.6	($192.6)
Actuarial Accrued Liability (AAL)	$12,751.2	$12,454.9	($296.3)
Actuarial Value of Assets (AVA)	$8,878.1	$8,685.5	($192.6)
Unfunded Actuarial Accrued Liability (UAAL)	$3,873.1	$3,769.4	($103.7)
Percent Funded	69.6%	69.7%	0.1%

	FY 2018	FY 2019	FY 2020
Estimated **decrease** in annual employer contributions to MOSERS	$0	$7,100,000	$7,100,000

*The change in the employer contribution rate is first reflected for FY19, since the FY18 contribution rate has already been certified by the MOSERS Board of Trustees.

For fiscal note purposes, **Oversight** will reflect a range of savings from $0 (no terminated vested employee elects to receive a lump sum distribution and/or the MOSERS Board of Trustees chooses not to implement the changes) to “More than $7,100,000" (more than 50% of terminated vested employees elect to receive a lump sum payment and/or the MOSERS Board of Trustees elects to increase the present value of future benefits).

ASSUMPTION (continued)

Oversight assumes the contributions to MOSERS will be 60% General Revenue, 22% Federal and 18% Other State Funds.

	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue Fund (60%)	$0	$0 to More than $4,260,000	$0 to More than $4,260,000	$0 to More than $4,260,000
Other State Funds (18%)	$0	$0 to More than $1,278,000	$0 to More than $1,278,000	$0 to More than $1,278,000
Federal Funds (22%)	$0	$0 to More than $1,562,000	$0 to More than $1,562,000	$0 to More than $1,562,000
TOTAL SAVINGS	**$0**	**$0 to More than $7,100,000**	**$0 to More than $7,100,000**	**$0 to More than $7,100,000**

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume the proposed legislation contained in HCS for SS for SB 62 would, if enacted, allow terminated, vested members of the plan (currently 2,300 employees) who have not yet reached normal retirement age or eligibility to make a one-time election to receive a lump sum payment equal to a percentage of the present value of such member's deferred annuity, should the plan's board choose to do so.

MPERS assumes the proposal would have a minimal positive impact to the funded status of the plan (assuming the MPERS board chooses to implement the changes).

Since the savings to MPERS is unknown, For fiscal note purposes, **Oversight** will reflect a range of savings from $0 (no terminated vested employee elects to receive a lump sum distribution and/or the MPERS Board of Trustees chooses not to implement the changes) to "More than $1,000,000."

ASSUMPTION (continued)

Oversight also assumes the contributions to MPERS will be 79% Highway Fund, 12% General Revenue, 5% Other State Funds and 4% Federal Funds.

	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue Fund (12%)	$0	$0 to More than $120,000	$0 to More than $120,000	$0 to More than $120,000
Highway Fund (79%)	$0	$0 to More than $790,000	$0 to More than $790,000	$0 to More than $790,000
Other State Funds (5%)	$0	$0 to More than $50,000	$0 to More than $50,000	$0 to More than $50,000
Federal Funds (4%)	$0	$0 to More than $40,000	$0 to More than $40,000	$0 to More than $40,000
TOTAL SAVINGS	**$0**	**$0 to More than $1,000,000**	**$0 to More than $1,000,000**	**$0 to More than $1,000,000**

Officials from the **Joint Committee on Public Retirement (JCPER)** assumed this legislation may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10), RSMo.

The Missouri State Employees' Retirement System has filed a supplemental actuarial valuation with the JCPER, which indicates the legislation, if passed and implemented by the board of trustees, may have a positive fiscal impact on the employer contribution rate. This supplemental actuarial valuation is available on the JCPER website.

Section 169.141

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** stated that this legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

ASSUMPTION (continued)

The JCPER assumes this proposal extends notification period from 90 days to 1 year relative to nominating a successor beneficiary after death or divorce and allows the retired member's allowance to "pop-up" if divorced after retirement under certain circumstances.

Current System Status:

PSRS
As of June 30, 2016

Market Value:	$34,303,969,835	82.2% Funded
Actuarial Value:	$35,419,277,279	84.8% Funded
Liabilities:	$41,744,618,662	

Current Annual Required Contribution Rate (15/16)

Employer: 14.5%	$660,639,906 est.
Employee: 14.5%	$660,639,906 est.
Total : 29%	$1,321,279,812 est.

Covered payroll: $4,556,137,282

PEERS
As of June 30, 2016

Market Value:	$4,007,330,673	83.3% Funded
Actuarial Value	$4,157,426,545	86.4% Funded
Liabilities:	$4,809,665,957	

Current Annual Required Contribution Rate (15/16)

Employer: 6.86%	$104,208,967 est.
Employee: 6.86%	$104,208,967 est.
Total: 13.72%	$208,417,933 est.

Covered payroll: $1,519,081,146

ASSUMPTION (continued)

Officials from the **Public School and Education Employees Retirement System (PSRS)** estimate that this proposal will result in an insignificant fiscal savings to their agency.

Specifically, this proposal applies to members who elect to receive, or are currently receiving their retirement allowance payable as a joint-and-survivor annuity with their spouse as the beneficiary. In addition, this proposal provides that the member's retirement allowance will increase to the amount that would have been payable had they elected a single life annuity payment if:

- The divorce decree provides for sole retention of their retirement benefits
- Retroactive benefits are not payable
- The divorce occurs on or after September 1, 2017.

This proposal also allows for nomination of a successor beneficiary to be filed within one year, instead of the current 90 days, after remarriage.

Allowing a reduced joint and survivor benefit to "pop up" to a life annuity payment sometime after commencement is equivalent to a member paying life insurance premiums for a benefit payable after they die, but then cancelling the life insurance policy prior to their death without receiving a refund of the premiums paid. This results in a savings to the system for the difference between the original life annuity amount and the reduced joint and survivor benefit amount during the period between commencement and divorce. However, PSRS expects the magnitude of the cost savings to be very small, for the following reasons:

- PSRS anticipates this proposal impacting a very limited group of retired members.
    - Members must be married and elect one of the joint and survivor payment options at retirement.
        - As of June 30, 2016, 6,517 of 25,061 PEERS service retirees, or 26%, are receiving a joint and survivor annuity payment form.
        - As of June 30, 2016, 22,938 of 53,069 PEERS service retirees, or 43%, are receiving a joint and survivor annuity payment form.

- Only a portion of those members will dissolve their marriage after retirement.

- Only a portion of those members will retain sole rights to their retirement allowance.

ASSUMPTION (continued)

- The joint-and-survivor payment options typically provide a monthly benefit amount that is 80%-90% of the amount payable under the single life annuity payment option. The actual reduction depends on the age of the member and spouse at the time of benefit commencement and the percentage of the benefit payable to the spouse upon the death of the member. In other words, the savings to the plan for such a member would be a small fraction, 10-20%, of the member's benefit.

- Payment of the reduced joint-and-survivor amount will only occur for a finite period of time, between the date of benefit commencement and date of divorce. In other words, the fraction of the benefit saved for such a member, would only be saved for a temporary period of time.

Therefore, PSRS estimates that the proposed change will result in an insignificant fiscal savings to PSRS/PEERS, such that there would be little or no impact on the actuarially determined contribution rate for the System after rounding to the nearest 0.01%.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
GENERAL REVENUE FUND				
Savings - MOSERS Decrease in Employer Contributions §104.1092	$0	$0 or More than $4,260,000	$0 or More than $4,260,000	$0 or More than $4,260,000
Savings - MPERS Decrease in Employer Contributions §104.1092	$0	$0 or More than $120,000	$0 or More than $120,000	$0 or More than $120,000
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$0**	**$0 or More than $4,380,000**	**$0 or More than $4,380,000**	**$0 or More than $4,380,000**
HIGHWAY FUND				
Savings - MPERS Decrease in Employer Contributions §104.1092	$0	$0 or More than $790,000	$0 or More than $790,000	$0 or More than $790,000
ESTIMATED NET EFFECT ON THE HIGHWAY FUND	**$0**	**$0 or More than $790,000**	**$0 or More than $790,000**	**$0 to More than $790,000**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
OTHER STATE FUNDS				
Savings - MOSERS Decrease in Employer Contributions §104.1092	$0	$0 or More than $1,278,000	$0 or More than $1,278,000	$0 or More than $1,278,000
Savings - MPERS Decrease in Employer Contributions §104.1092	$0	$0 or More than $50,000	$0 or More than $50,000	$0 or More than $50,000
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**$0**	**$0 or More than $1,328,000**	**$0 or More than $1,328,000**	**$0 or More than $1,328,000**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
FEDERAL FUNDS				
Savings - MOSERS Decrease in Employer Contributions §104.1092	$0	$0 or More than $1,562,000	$0 or More than $1,562,000	$0 or More than $1,562,000
Savings - MPERS Decrease in Employer Contributions §104.1092	$0	$0 or More than $40,000	$0 or More than $40,000	$0 or More than $40,000
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0 or More than $1,602,000**	**$0 or More than $1,602,000**	**$0 or More than $1,602,000**

FISCAL IMPACT - Local Government	FY 2018 (6 Mo.)	FY 2019	FY 2020	(FY 2028)
LOCAL POLITICAL SUBDIVISIONS				
Revenue - Increase in various existing fees and a creation of a new fee	$5,069,500	$10,139,000	$10,139,000	$10,139,000
Cost - Transfer to CERF	($5,069,500)	($10,139,000)	($10,139,000)	($10,139,000)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal modifies provisions related to public employee retirement.

Section 104.1205 has an effective date of July 1, 2018.

Sections 50.1190, 52.290, 137.280, 137.345 and 140.100 have an effective date of January 1, 2018.

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 Retirement
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Missouri Southern State University
Missouri State University
Truman State University
University of Central Missouri
University of Missouri
Northwest Missouri State University
State Technical College of Missouri
County Employees' Retirement Fund
Platte County Board of Elections
St. Louis County
Jackson County Election Board
Public School and Education Employees Retirement System

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