COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0457-09
Bill No.: CCS for HCS for SS for SB 62
Subject: Retirement Systems and Benefits; Education, Higher; County Government
Type: Original
Date: May 10, 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	$122,400 to More than $4,502,400	$125,400 to More than $4,505,400	$314,520 to More than $4,694,520
Total Estimated Net Effect on General Revenue	**$0**	**$122,400 to More than $4,502,400**	**$125,400 to More than $4,505,400**	**$314,520 to More than $4,694,520**

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	$40,290 to More than $830,290
Other State Funds	$0	$36,720 to More than $1,364,720	$37,620 to More than $1,365,620	$95,070 to More than $1,423,070
Total Estimated Net Effect on Other State Funds	**$0**	**$36,720 to More than $2,154,720**	**$37,620 to More than $2,155,620**	**$135,360 to More than $2,253,360**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 32 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	(FY 2028)
Federal Funds	$0	$44,880 to More than $1,646,880	$45,980 to More than $1,647,980	$115,120 to More than $1,717,120
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$44,880 to More than $1,646,880**	**$45,980 to More than $1,647,980**	**$115,120 to More than $1,717,120**

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	**$2,089,104**	**$4,804,940**	**$6,058,403**	**$20,473,221**

FISCAL ANALYSIS

ASSUMPTION

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

Section 104.1091 - State Retirement

In response to a similar proposal (LR 1468-01, HB 729), officials from the **Missouri State Employee's Retirement System (MOSERS)** assumed the proposed legislation contained in SB 729 (1468-01) would, if enacted, reduce the vesting period relative to retirement benefit eligibility for current and future active members of the MSEP 2011 tier (those employees hired for the first time on or after January 1, 2011) from 10 years of service to 5 years of service.

Additionally, this proposal modifies benefits for MSEP 2011 tier members who achieve vested status (at least 5 years of service under this proposal) and leave state employment. These new terminated vested member benefits of the MSEP 2011 tier will be modified as follows:

1) Such member shall receive the first cost-of-living adjustment (COLA) beginning 24 months after the retirement annuity starting date (rather than the current 12 months after retirement annuity starting date),

2) If such member dies prior to his or her retirement date, the surviving spouse will receive a survivor benefit at the date that the member would have reached normal retirement eligibility rather than at the time of the member's death, and

3) Such member will not be allowed to convert unused sick leave accruals into service credit at retirement (currently for every 168 hours of unused sick leave, a member will receive one month of service credit at retirement).

The annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary is outlined below. Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date.

ASSUMPTION (continued)

In particular:
- The assumed rate of interest was 7.65%
- Payroll was assumed to increase 3% per year
- Unfunded Actuarial Accrued Liability is amortized over 30 years, beginning with the FY ending 2016

			Group Averages		
Valuation Group	**#**	**Payroll**	**Salary**	**Age**	**Service**
MSEP	14,551	$667,926,207	$45,902	53.6	22.7
MSEP 2000	17,975	$691,166,904	$38,452	46.9	10.3
MSEP 2011 (Impacted Group)	**16,938**	**$562,435,825**	**$33,206**	**37.2**	**2.2**
Total MOSERS	**49,464**	**$1,921,528,936**	**$38,847**	**45.5**	**11.2**

Current MSEP 2011 Plan Provisions Affected	**Proposed MSEP 2011 Plan Provisions Affected**
Normal Retirement Eligibility -Age 67 with 10 years of service -Age 55 with age plus credited service equal to 90 or more	Normal Retirement Eligibility -Age 67 with 5 years of service -Age 55 with age plus credited service equal to 90 or more
Early Retirement Eligibility - Age 62 with 10 years of credited service	Early Retirement Eligibility - Age 62 with 5 years of credited service
Vested Deferred - 10 years of service for general employees -Survivor annuity shall be payable immediately	Vested Deferred - 5 years of service for general employees -Survivor annuity shall not be payable until deceased member would have reached his or her normal retirement eligibility
Cost-of-Living Adjustment (COLA) - Annually beginning twelve months after the annuity starting date	Cost-of-Living Adjustment (COLA) - COLA will not commence until the second anniversary of a vested former member's annuity starting date

Service Credit for Unused Sick Leave - Credited service shall not be used in determining the member's eligibility for retirement or final average pay. Such credited service shall be added tot he credited service in the last position of employment held as a member of the system.	Service Credit for Unused Sick Leave - Will not apply to members unless the member terminates employment after reaching normal retirement eligibility or becomes eligible for an early retirement annuity

The estimated effect on annual determined employer contribution (ADEC) as recommended by the MOSERS' actuary, is outlined below.

	FY 2018	FY 2019	FY 2020
Estimated **decrease** in annual employer contributions to MOSERS	$0	$204,000	$209,000

*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.

Impact on MOSERS (in millions)

Valuation Results	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	$8,109.2	$8,109.2	0%
Actuarial Accrued Liability (AAL)	$12,751.2	$12,751.2	0%
Actuarial Value of Assets (AVA)	$8,878.1	$8,878.1	0%
Unfunded Actuarial Accrued Liability (UAAL)	$3,873.1	$3,873.1	0%
Percent Funded	69.6%	69.6%	0%

In response to a similar proposal (LR 1468-01, HB 729), officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume the proposed legislation contained in HB 729 (1468-01) would, if enacted, reduce the vesting period relative to retirement benefit eligibility for current and future active members of the Tier 2011 (those employees hired for the first time on or after January 1, 2011) from 10 years of service to 5 years of service.

ASSUMPTION (continued)

Additionally, this proposal modifies benefits for Tier 2011 members who achieve vested status (at least five years of service under this proposal) and leave state employment. These new terminated vested member benefits of the 2011 Tier will be modified as follows:

1) Such member shall receive the first cost-of-living adjustment (COLA) beginning 24 months after the retirement annuity starting date (rather than the current 12 months after retirement annuity starting date),

2) If such member dies prior to the retirement date, the surviving spouse will receive a survivor benefit at the date the member would have reached normal retirement eligibility rather than at the time of the member's death, and

3) Such member who terminates prior to retirement eligibility will not be allowed to convert unused sick leave accruals into service credit at retirement (currently for every 168 hours of unused sick leave, a member will receive one month of service credit at retirement).

The proposed changes to the 2011 Tier would pose no fiscal impact to MPERS.

	FY 2018	FY 2019	FY 2020
Estimated **decrease** in annual employer contributions to MPERS	$0	$0	$0

	FY 2021	FY 2022	FY 2028
Estimated **decrease** in annual employer contributions to MPERS	$40,000	$0	$51,000

ASSUMPTION (continued)

Current System	
MOSERS (as of 6/30/16)	MPERS (as of 6/30/16)
Market Value: $8,109,161,214	Market Value: $1,992,073,946
Actuarial Value: $8,878,057,191	Actuarial Value: $2,086,654,348
Liabilities: $12,751,162,753	Liabilities: $3,761,733,004
Funded Ratio Market Value: 63.6% Actuarial Value: 69.6%	Funded Ratio Market Value: 53.0% Actuarial Value: 55.5%
Contribution Rate Employer (FY17/18): 19.45% Employee: 4%	Contribution Rate Uniformed: 58% ($51,556,310 est.) Non-uniformed: 58% ($159,564,612 est.) Employee: 4%

In response to a similar proposal (LR 1468-01, HB 729), officials from the **Department of Mental Health** assume the proposal will have no fiscal impact on their organization.

Impact on MPERS (in millions)

Valuation Results	Present Benefits	Proposed Benefits	Increase/(Decrease)
Market Value of Assets (MVA)	$1,992.1	$1,992.1	-
Actuarial Accrued Liability (AAL)	$3,761.7	$3,761.7	-
Actuarial Value of Assets (AVA)	$2,086.7	$2,086.7	-
Unfunded Actuarial Accrued Liability (UAAL)	$1,675.1	$1,675.1	-
Percent Funded	55.5%	55.5%	0%

ASSUMPTION (continued)

In response to a similar proposal (LR 1468-01, HB 729), officials from the **Joint Committee on Public Retirement (JCPER)** assume the above-referenced legislation indicates that such legislation 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 legislation has been filed with the JCPER, the Office of the Secretary of State and the Chief Clerk of the Missouri House of Representatives.

For fiscal note purposes, **Oversight** will use the MOSERS and MPERS actuarial estimates. Oversight will reflect fiscal impact for the 3 years of the fiscal note, plus FY 2028 (farthest future year provided in the MOSERS & MPERS actuarial analysis); however, the long-term effect of the proposal is on-going.

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

MOSERS	FY 2018	FY 2019	FY 2020	FY 2028
General Revenue (60%)	$0	$122,400	$125,400	$308,400
Federal Funds (22%)	$0	$44,880	$45,980	$113,080
Other State Funds (18%)	$0	$36,720	$37,620	$92,520
TOTAL SAVINGS	**$0**	**$204,000**	**$209,000**	**$514,000**

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

ASSUMPTION (continued)

MPERS	FY 2018	FY 2019	FY 2020	FY 2028
Highway Fund (79%)	$0	$0	$0	$40,290
General Revenue (12%)	$0	$0	$0	$6,120
Other State Funds (5%)	$0	$0	$0	$2,550
Federal Funds (4%)	$0	$0	$0	$2,040
TOTAL SAVINGS	$0	$0	$0	**$51,000**

Section 104.1205 - State Retirement

In response to a previous version, officials from the **Missouri State Employees Retirement System (MOSERS)** assumed 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.

ASSUMPTION (continued)

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.*

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.

In response to a previous version, 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 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 137.280, 137.345, 52.290 and 140.100 - County Employee Retirement

In response to a previous version, officials from the **County Employees' Retirement Fund (CERF)** assumed the proposed legislation modifies provisions related to public employee retirement.

The estimated increase in revenues is as follows:

Section 137.280 & 137.343	$875,000
Section 52.290	$5,295,000
Section 140.100	$1,844,000
Total	**$8,014,000**

In response to a previous version, officials from the **Joint Committee on Public Employee Retirement** assumed 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 assumed 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 104.1092 - State Retirement

In response to a previous version, officials from the **Missouri State Employee's Retirement System (MOSERS)** assumed 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.

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.

ASSUMPTION (continued)

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**

In response to a previous version, officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assumed 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 assumed 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."

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

ASSUMPTION (continued)

	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**

In response to a previous version, 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 - Retirement and Marriage

In response to a previous version, 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).

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.

ASSUMPTION (continued)

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

In response to a previous version, 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.

ASSUMPTION (continued)

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%.

Section 169.324 and 169.560 - Retirement and Independent Contractors

In response to a similar proposal (LR 1961-01, SB 441), 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).

The JCPER assumes this proposal modifies working after retirement provisions to include retirees employed by a third party or independent contractor.

PSRS Current System Status:
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

ASSUMPTION (continued)

KCPSRS
As of January 1, 2016

Market Value:	$636,109,506	71.0% Funded
Actuarial Value:	$694,641,248	77.6% Funded
Liabilities:	$895,230,295	

Current Annual Required Contribution Rate (15/16)

Employer:	11.18%	$20,013,711 est.
Employee:	9.00%	$16,111,216 est.
Total :	20.18%	$36,124,927 est.

Covered payroll: $179,013,516

In response to a similar proposal (LR 1961-01, SB 441), officials from the **Public School & Education Employee Retirement System of Missouri (PSRS/PEERS)** assume this proposal requires that any retiree who is employed by a third party or is performing work as an independent contractor as a temporary or long-term substitute teacher be required to comply with existing statutory working after retirement requirements in 169.560 of 50% salary and 550 hours.

The provisions from Section 169.560, RSMo, have no measurable fiscal impact to PSRS/PEERS for the following reasons:

- The suspension of a member's retirement allowance when they return to work results in a temporary savings for the system.
- The accrual of a second retirement allowance during the suspension period can result in a small cost or savings to the system.
- For school year 2015-2016, there were 10,533 retirees for PSRS/PEERS that worked after retirement in some capacity for our covered employers.
- Historically, a very small percentage of retirees return to work in a capacity that exceeds the limitations noted above.
    - As of June 30, 2016, 57 of 53,069 PSRS service retirees, or 0.11%, had returned to work at some point prior, resulting in suspension of their retirement benefit.

This legislation would close a current gap in the working after retirement provisions for the System. Section 169.324 only applies to the Kansas City Public School Retirement System.

ASSUMPTION (continued)

In response to a similar proposal (LR 1961-01, SB 441), officials from the **City of Kansas City Public School Retirement System** assume the fiscal impact is unknown because their system does not differentiate between teachers/certified individuals and non-teachers/non-certified individuals and therefore doesn't have a current count of our retirees or active members by their position type.

Oversight assumes this proposal will not have a significant fiscal impact on the Kansas City Public School Retirement System (KCPSRS).

Section 169.460 and 169.490 - St. Louis City Public School Retirement System

In response to a similar proposal from this year (HCS for SCS for SB 309), officials from the **Joint Committee on Public Retirement (JCPER)** stated that the JCPER review of this legislation indicates that such legislation 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 legislation was filed with the JCPER on April 12, 2017 and is available on the JCPER's website.

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:	5.00%	$12,606,364 (estimated)
Total:	20.73%	$52,264,320 (estimated)

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

ASSUMPTION (continued)

In response to a similar proposal from this year (Perfected HCS for HB 619) officials from the **Public School Retirement System of the City of St. Louis (PSRSSTL)** assumed the proposal contains provisions that concern the Public School Retirement System of the City of St. Louis ("PSRSSTL"). The proposal constitutes a "substantial proposed change" to the retirement eligibility requirements and funding for members covered by the PSRSSTL.

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 HCS for HB 619 as amended, 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").

The second "substantial proposed change" will reduce the amount of pension benefits for all new employee members hired on and after January 1, 2018. Current employed members are earning a monthly retirement benefit based upon years of credited service multiplied by 2% of final compensation, up to 60% of final earnings. The proposal reduces pension benefits for new employees because the multiplier will be lowered from 2% to 1.75% for credited service earned on or after January 1, 2018, which changes the pension formula to years of service multiplied by 1.75% of final compensation, up to 60% of final earnings. Due to the different treatment of newly hired employees compared to current employees and will cause a multi-tiered pension benefit calculation for the PSRSSTL due to the schism created by the reduced pension multiplier beginning January 1, 2018.

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

<u>Analysis</u>

The new Cost Statement calculates that under the proposal the funded percentage of the PSRSSTL would decrease by 4.4% by 2030. Furthermore, these projections were based on an 8.0% assumed rate of return, which the Cost Statement noted was an overly optimistic assumption, and it would consider "an investment return assumption in the 7.0% - 7.5% range to be more reasonable in the current economic environment." The PSRSSTL currently assumes an investment return rate of 7.5%. Additionally, only employees hired on or after January 1, 2018, would earn their retirement benefits at a reduced pension multiplier of 1.75% of final compensation. The PSRSSTL would actually receive fewer contributions from the employers to

ASSUMPTION (continued)

pay benefits for current employees as the employer contribution rate drops to the 9% rate cap for employer contributions.

1. “Rule of 80.”
The proposal converts the current “Rule of 85,” by which an employee is eligible to retire if their age and years of credited service equal 85, to a “Rule of 80.” It is expected that a substantially larger pool of current employees would be eligible to retire as a result of the decrease in the age requirement under a “Rule of 80.” It would also have to be assumed that a number of those employees would take advantage of the opportunity to retire earlier. An increase in retirements would necessarily result in decreased employee contributions and increased retirement benefit payments. These increased liabilities would require increased employer contributions, as it is not realistic that the increased employee contributions provided for in the proposed amendment to § 169.490 (discussed further herein) would cover the increased cost of total contributions required to cover the increase in payable retirement benefits. According to the Cost Statement this will result in a permanent cost increase to the PSRSSTL of around $71.2 million by 2028, which means it is known that this additional liability “would materially affect the actuarial soundness of the plan.”

2. Employee Contribution Rate Increases
The proposal which concerns the PSRSSTL is in § 169.490. Under the proposal, the employee contribution rate for current members would increase by 0.5% each year until the employee contribution rate equals 9%. All new employees hired for the first time on or after January 1, 2018, would immediately be required to contribute at the 9% rate.

The proposed employee contribution rate increases in HCS/HB 619 (as perfected) are unsubstantiated. To date, the PSRSSTL has not considered raising employee contributions to improve current funding of the plan because it has not been necessary. Since the PSRSSTL is not initiating any increases in employee contributions, the increases appear to be designed to substantiate the increased benefits as a result of the change to the “Rule of 80”, contained elsewhere in HCS/HB 619 (as perfected).

3. Employer Contribution Rate Decreases
The proposal increases the employee contribution rate for employees beginning January 1, 2018, it also decreases the employer contribution rates. The proposal states that the employer contribution shall decrease by a 0.5% on an annual basis, from 16% in 2018, until 2032 when the employer contribution rate shall be capped at 9%. However, the legislation contains no mechanism for ensuring the rate of reduction and cap of contributions is actuarially sound. According to the Cost Statement, it is clear this proposal will increase future pension liabilities

ASSUMPTION (continued)

by $65.5 million by 2030, primarily due to the unreasonableness of capping contribution rates when increasing benefits as stated elsewhere in HCS/HB 619 (as perfected).

The proposal lowers the amount of pension benefits new employee members will earn on or after January 1, 2018, at the same time, it also increases the dollar amount of required contributions employed members must pay from the current employee contribution rate of 5% of covered compensation to 9%, over eight (8) years. Under the proposal, members with a hire date on or after January 1, 2018, will pay 9% of covered compensation while only earning retirement benefits based on the new pension multiplier of 1.75% for each year of credited service earned.

Further, the final caps will be 9% of the employer contribution and 9% of the employee contribution for a total contribution rate of 18%. Not only is this lower than the yearly PSRSSTL total funding rate that has been set by the PSRSSTL for some time, which is currently above 20%, it also does not allow for any increase in contributions should actuarial tables or a down investment period require it. There would be no mechanism for the PSRSSTL to recoup losses to continue to provide promised benefits.

This is also significant because, unlike contributions from the employer, contributions from employees are considered a liability on the PSRSSTL's balance sheets. Therefore, while the Rule of 80 requires increased expenditures from the PSRSSTL, the increase in employee contributions and the reduction of employer contributions simultaneously increase the liabilities to the PSRSSTL.

In response to a similar proposal (Perfected HCS for HB 619), officials from the **Office of Administration** assume the proposal, as amended, will have no fiscal impact on their organization.

Oversight will utilize information from the PSRSSTL cost statement (Employer annual required contributions of $41,782,084 at 17.78%) and calculate and estimated savings to the St. Louis School District when the contribution rate decreases per §169.490.5. For fiscal note purposes, Oversight will reflect a savings to Local School Districts in FY 2018, 2019, 2020 and fully implemented 2032.

ASSUMPTION (continued)

Calendar Year	Current Rate	Annual Required Employer Contributions	New Contribution Rate	New Required Employer Contributions	Savings in Employer Contributions
2018	17.78%	$41,782,084	16%	$37,603,876	$4,178,208
2019	17.78%	$41,782,084	15.5%	$36,350,413	$5,431,671
2020	17.78%	$41,782,084	15%	$35,096,951	$6,685,133
2032	17.78%	$41,782,084	9%	$21,308,863	**$20,473,221**

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)	½ of $4,178,208	$2,089,104
TOTAL 2018			**$2,089,104**
2019	2018 (July - Dec)	½ of $4,178,208	$2,089,104
2019	2019 (Jan - June)	½ of $5,431,671	$2,715,836
TOTAL 2019			**$4,804,940**
2020	2019 (July - Dec)	½ of $5,431,671	$2,715,836
2020	2020 (Jan - June)	½ of $6,685,133	$3,342,567
TOTAL 2020			**$6,058,403**

FISCAL IMPACT - State Government	FY 2018 (6 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
Savings - MOSERS Decrease in Employer Contributions §104.1091	$0	$122,400	$125,400	$308,400
Savings - MPERS Decrease in Employer Contributions §104.1091	$0	$0	$0	$6,120
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$0**	**$122,400 or More than $4,502,400**	**$125,400 or More than $4,505,400**	**$314,520 or More than $4,694,520**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
HIGHWAY FUND				
Savings - MPERS Decrease in Employer Contributions 104.1091	$0	$0	$0	$40,290
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**	**$40,290 to More than $830,290**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
OTHER STATE FUNDS				
Savings - MOSERS Decrease in Employer Contributions 104.1091	$0	$36,720	$37,620	$92,520
Savings - MPERS Decrease in Employer Contributions 104.1091	$0	$0	$0	$2,550
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**	**$36,720 or More than $1,364,720**	**$37,620 or More than $1,365,620**	**$95,070 or More than $1,423,070**

FISCAL IMPACT - State Government (continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020	(FY 2028)
FEDERAL FUNDS				
Savings - MOSERS Decrease in Employer Contributions 104.1091	$0	$44,880	$45,980	$113,080
Savings - MPERS Decrease in Employer Contributions 104.1091	$0	$0	$0	$2,040
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**	**$44,880 or More than $1,646,880**	**$45,980 or More than $1,647,980**	**$115,120 or More than $1,717,120**

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	$4,007,000	$8,014,000	$8,014,000	$8,014,000
Savings - St. Louis City Public School Districts - Change in Employer Contributions 169.460 & 169.490	$2,089,104	$4,804,940	$6,058,403	$20,473,221
Cost - Transfer to CERF	($4,007,000)	($8,014,000)	($8,014,000)	($8,014,000)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**$2,089,104**	**$4,804,940**	**$6,058,403**	**$20,473,221**

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

KC:LR:OD

FISCAL DESCRIPTION (continued)

Section 104.1091
This act changes the vesting requirement for normal retirement eligibility from ten years to five for members of the state retirement benefit plan known as the Year 2000 Plan who first become employees on or after January 1, 2011.

Additionally, the act modifies the benefits of such members who have vested, but are no longer state employees. Members shall receive a cost of living adjustment twenty four months after retirement, rather than at twelve months following retirement. If a vested former member dies prior to his or her retirement date, his or her spouse will receive the member's retirement annuity at the date that the member would have retired had he or she not died, rather than at the time of death. Finally, a vested former member is not allowed to convert unused sick leave into credited service.

Section 169.460 and 169.490
This proposal changes the laws regarding the Public School Retirement System of the City of St. Louis.

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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KC:LR:OD