COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0993-02
Bill No.: Perfected HCS for HB 304
Subject: Retirement - Schools; Retirement Systems and Benefits - General
Type: Original
Date: March 9, 2017

Bill Summary: This proposal modifies provisions relating to the teacher and school employee retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**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
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

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).

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

FISCAL DESCRIPTION (continued)

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

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 clearly states that the retiree retains sole possession of his or her retirement benefits and that the ex-spouse is relinquishing all rights to his or her benefit.
- 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.

FISCAL DESCRIPTION (continued)

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 PSRS 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.

- 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%.

KC:LR:OD

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$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

The proposed legislation appears to have no direct fiscal impact.

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 and Education Employees Retirement System

Mickey Wilson

Mickey Wilson, CPA
Director
March 9, 2017

Ross Strope
Assistant Director
March 9, 2017

KC:LR:OD