

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0993-03  
Bill No.: SCS for HCS for HB 304  
Subject: Retirement - Schools; Retirement Systems and Benefits - General  
Type: Original  
Date: April 18, 2017

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

**FISCAL SUMMARY**

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

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

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 9 pages.

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

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

☐ 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)
<b>Local Government</b>	<b>\$2,089,104</b>	<b>\$5,431,671</b>	<b>\$7,729,686</b>	<b>\$20,473,221</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state the review completed by JCPER indicates that sections 169.460 and 169.490, RSMo (St. Louis PSRS), may constitute a "substantial proposed change" in future plan benefits as defined in Section 105.660(10). 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 not been filed with the JCPER.

The review completed by JCPER indicates that sections 169.141 and 169.715, RSMo (PSRS/PEERS), indicate such provisions would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10).

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: <u>14.5%</u>	<u>\$660,639,906 est.</u>
Total : 29%	\$1,321,279,812 est.

Covered payroll: \$4,556,137,282

ASSUMPTION (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: <u>6.86%</u>	<u>\$104,208,967 est.</u>
Total: 13.72%	\$208,417,933 est.

Covered payroll: \$1,519,081,146

**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 (estimated)</u>
Total:	20.73%	\$52,264,320 (estimated)

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

ASSUMPTION (continued)

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

SCS for HCS for HB 304 allows for any retiree that selects a joint-and-survivor plan and has a subsequent divorce be allowed to return to a single life option upon receipt of the application by the System.

- This provision will only occur 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.

SCS HCS HB 304 would impact a very limited group of retired members. PSRS/PEERS members must be married and elect one of the joint and survivor payment options at retirement in order to be eligible to qualify for this statute. As of June 30, 2016, 22,938 of 53,069 PSRS service retirees, or 43%, are receiving a joint and survivor benefit option. As of June 30, 2016, 6,517 of 25,061 PEERS service retirees, or 26%, are receiving a joint and survivor annuity benefit option.

This proposed legislation also changes the time frame from 90 days to one year to file notification to the Systems of a remarriage for the purposes of changing the successor beneficiary.

Therefore, PSRS estimates that the proposed change will result in an insignificant fiscal savings to PSRS/PEERS of Missouri.

Officials from the **Public School Retirement System of the City of St. Louis (PSRSSTL)** assume SCS for HCS for HB 304 contains provisions that concern the Public School Retirement System of the City of St. Louis ("PSRSSTL"). The proposal in SCS for HCS for HB 304 constitutes a "substantial proposed change" to the retirement eligibility requirements and funding for members covered by the PSRSSTL.

A summary of the "changes in plan benefits" contained in SCS/HCS/HB 304 are as follows:

1. 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"), instead of the current Rule of 85.

ASSUMPTION (continued)

2. Changes the percent of pay benefit multiplier for new employees hired on or after January 1, 2018, from 2.0% of Average Final Compensation to 1.75% of Average Final Compensation.
3. Increases employee contributions from 5.0% of compensation by 0.5% annual increments to a cap of 9.0% of compensation. Employees hired on or after January 1, 2018, will contribute at 9.0% of compensation upon being hired.
4. The employer contribution rate will decrease from a rate of 16% of covered payroll for 2018, to 15% of covered payroll for 2019, 14% of covered payroll for 2020, 13% of covered payroll for 2021, 12% of covered payroll for 2022, 11% of covered payroll for 2023, 10% of covered payroll for 2024, and a cap of 9% of covered payroll for 2025 and thereafter.

The PSRSSTL believes that the proposals contained in SCS/HCS/HB 304 would materially affect the actuarial soundness of the plan and would cost the PSRSSTL over \$161.7 Million by 2028 and would decrease the PSRSSTL's funded percentage by at least 13.5 percent.

**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 2025.

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%	\$35,096,951	\$6,685,133
2020	17.78%	\$41,782,084	14%	\$33,007,846	\$8,774,238
2021	17.78%	\$41,782,084	13%	\$30,500,921	\$11,281,163
2022	17.78%	\$41,782,084	12%	\$27,993,996	\$13,788,088
2023	17.78%	\$41,782,084	11%	\$25,904,892	\$15,877,192
2024	17.78%	\$41,782,084	10%	\$23,397,967	\$18,384,117
2025	17.78%	\$41,782,084	9%	\$21,308,863	<b>\$20,473,221</b>

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	<u>\$2,089,104</u>
TOTAL 2018			<b>\$2,089,104</b>
2019	2018 (July - Dec)	½ of \$4,178,208	\$2,089,104
2019	2019 (Jan - June)	½ of \$6,685,133	<u>\$3,342,567</u>
TOTAL 2019			<b>\$5,431,671</b>
2020	2019 (July - Dec)	½ of \$6,685,133	\$3,342,567
2020	2020 (Jan - June)	½ of \$8,774,238	<u>\$4,387,119</u>
TOTAL 2020			<b>\$7,729,686</b>

<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>\$2,089,104</u>	<u>\$5,431,671</u>	<u>\$7,729,686</u>	<u>\$20,473,221</u>
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**ESTIMATED NET  
EFFECT ON  
LOCAL SCHOOL  
DISTRICTS**

<u>\$2,089,104</u>	<u>\$5,431,671</u>	<u>\$7,729,686</u>	<u>\$20,473,221</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 proposal modifies provisions relating to the Public School Retirement System and the Public Education Employees Retirement System and the St. Louis Public School Retirement System.

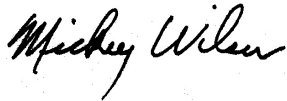


FISCAL DESCRIPTION (continued)

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  
Public School Retirement System of the City of St. Louis



Mickey Wilson, CPA  
Director  
April 18, 2017

Ross Strobe  
Assistant Director  
April 18, 2017