

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1108-01
Bill No.: HB 619
Subject: Retirement - Schools; Retirement Systems and Benefits - General; St. Louis City
Type: Original
Date: March 3, 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)** assume House Bill 619 contains provisions that concern the Public School Retirement System of the City of St. Louis (“PSRSSTL”). The proposal in HB 619 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 HB 619, 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”).

ASSUMPTION (continued)

The second “substantial proposed change” in HB 619 will reduce the amount of pension benefits for all employed members beginning with service credit earned 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. SB 409 reduces pension benefits for both current and 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. Further, HB 619 will cause a two-tiered pension benefit calculation for current employed members due to the schism created by the reduced pension multiplier beginning January 1, 2018.

The final “substantial proposed change” in HB 619 reduces the amount of contributions paid to the PSRSSTL by its employers. While increasing the amount of contributions employees pay to the PSRSSTL, HB 619 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 619 constitutes a “substantial proposed change” in future benefits within the meaning of §105.660(10) RSMo. Since HB 619 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.

In response to a similar proposal from this year (SB 409), officials from the **Office of Administration - Accounting Division** assumed the proposal will have no fiscal impact on their organization.

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.

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>
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>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

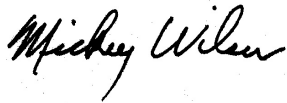
This proposal changes the laws regarding the Public School Retirement System of the City of St. Louis.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

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



Mickey Wilson, CPA
Director
March 3, 2017

Ross Strobe
Assistant Director
March 3, 2017