COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1108-02
Bill No.: Perfected HCS for HB 619
Subject: Retirement - Schools; Retirement Systems and Benefits - General; St. Louis City
Type: Original
Date: April 13, 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 2033)
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 2033)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

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 2033)
Total Estimated Net Effect on All 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 2033)
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 2033)
Local Government	**$2,089,104**	**$4,804,940**	**$6,058,403**	**$20,473,221**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal, as amended, 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:	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

Officials from the **Public School Retirement System of the City of St. Louis (PSRSSTL)** assume House Bill 619, as amended, 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.

ASSUMPTION (continued)

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" in HCS for HB 619 as amended 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. HCS for HB 619 as amended 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, HCS for HB 619 as amended 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" in HCS for HB 619 as amended reduces the amount of contributions paid to the PSRSSTL by its employers. While increasing the amount of contributions employees pay to the PSRSSTL, HCS for HB 619 will at the same time lower the annual employer contribution to a rate not allowed to exceed 9% of covered compensation.

Analysis

The new Cost Statement calculates that under HCS/HB 619 (as perfected) 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, under HCS/HB 619 (as perfected), 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. Under HCS/HB 619 (as perfected), the PSRSSTL would actually receive fewer contributions from the employers to pay benefits for current employees as the employer contribution rate drops to the 9% rate cap for employer contributions.

ASSUMPTION (continued)

1. "Rule of 80."
HCS/HB 619 (as perfected) 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 next provision of HCS/HB 619 (as perfected) 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
While HCS/HB 619 (as perfected) increases the employee contribution rate for employees beginning January 1, 2018, it also decreases the employer contribution rates. HCS/HB 619 (as perfected) 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 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).

ASSUMPTION (continued)

While HCS/HB 619 (as perfected) 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 HCS/HB 619 (as perfected), new 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.

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.

<u>ASSUMPTION</u> (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	<u>$2,089,104</u>
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	<u>$2,715,836</u>
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	<u>$3,342,567</u>
TOTAL 2020			**$6,058,403**

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2033)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2033)
LOCAL SCHOOL DISTRICTS				
Savings - St. Louis City Public School Districts - Savings Change in Employer Contributions	$2,089,104	$4,804,940	$6,058,403	$20,473,221
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS	**$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 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 Employee Retirement
Public School Retirement System of the City of St. Louis
Office of Administration

Mickey Wilson, CPA
Director
April 13, 2017

Ross Strope
Assistant Director
April 13, 2017

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