

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1848H.011  
Bill No.: HB 828  
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Education,  
Elementary and Secondary; Teachers  
Type: Original  
Date: March 23, 2021

---

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Local Government</b>	<b>\$5,661,672</b>	<b>\$5,661,672</b>	<b>\$5,661,672</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal has no fiscal impact to the Joint Committee on Public Employee Retirement.

The JCPER's review of this proposal indicates it will affect retirement plan benefits as defined in Section 105.660(9). The JCPER's review of this legislation indicates that its provisions 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 legislation without an actuarial cost statement prepared in accordance with section 105.665. Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the 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.

Current Status of the Public School Retirement System (PSRS) as of June 30, 2020:

Active members: 78,848  
Inactive members: 83,014 (includes retired, surviving beneficiary, disabled and terminated vested)  
Funded Ratio

Market Value of Assets:	\$40,710,304,168	84.6%
Actuarial Value of Assets:	\$41,705,058,666	84.4%
Liabilities:	\$49,641,020,407	

Covered Payroll: \$4,919,286,106

Recommended Contribution for FY 2022: 29% - Employers and employees contribute in equal amounts of 14.5%.

Percent	Dollars (Estimated)	
Employer	14.5%	\$713,296,485 estimated
Employee	14.5%	\$713,296,485 estimated
Total	29.0%	\$1,426,592,970 estimated

Officials from **Public Schools and Education Employee Retirement Systems** assume this legislation removes the expiration date of July 1, 2014 for the 2.55% Formula Factor Provision with 31 or more years of service for 169.070.1(8), RSMo. This bill also contains an emergency clause.

The 2.55% Benefit Formula Factor Provision allows for eligible members with 31 or more years of service to retire with an additional 0.05% Formula Factor. Eligible service retirees who have 31 or more years of service with PSRS are eligible for normal retirement under the benefit formula using the 2.55% factor. As of the January 1, 2020 there were 520 PSRS active members (currently PSRS has 78,971 active members) with 31 + years of service.

The Systems have an actuary firm, PricewaterhouseCoopers, that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. PWC completed a cost statement on HB 828. There are two factors which impact the Annual Required Contribution Rate (ARC) for a public retirement plan; Normal Cost Rate, and the Unfunded Actuarial Accrued Liability (UAAL).

There will be a savings of over \$27.1 million (\$4.04 million annually), which is due to the reduction of the normal cost as a result of these provisions being made a permanent part of the benefit structure. The Unfunded Actuarial Accrued Liability (UAAL) of the Plan will be reduced by over \$122.3 million (or \$7.3 million annually) should the 2.55% benefit formula factor bill be adopted. The annual savings of \$11.3 million per year for the next 30 years is due to the reduction of the Unfunded Actuarial Accrued Liability and the Normal Cost Rate of the Plan as a result of this 2.55% provision being made a permanent part of the benefit structure.

	Current	Permanent Extension of 2.55% Benefit	Difference Annually
Normal Cost Rate	\$859,537,572	\$855,495,971	(\$4,041,601)
UAAL Amortization Rate	\$560,501,741	\$553,219,998	(\$7,281,743)
Actuarially Determined Contribution Rate	\$1,420,039,913	\$1,408,715,969	(\$11,323,344)

The Unfunded Actuarial Accrued Liability and the Normal Cost Rate of the Plan will be reduced by 0.26% should the 2.55% benefit formula factor be adopted. This reduction in the Normal Cost Rate and the Unfunded Actuarial Accrued Liability will result in a decrease to the Actuarially Determined Contribution (ADC) Rate.

This bill will not only provide an annual savings to the System of \$10.9 million per year, the reduction in the Unfunded Actuarial Accrued Liability as well as the reduction in the Present Value of Future Benefits will result in an increase in the Plan's funded ratio of +0.20%.

HB 828 contains an emergency clause. On average, PSRS has roughly 85% of their members retire with a July 1 effective date. This emergency clause will ensure that those retirees will have this option available to them to use.

	Current	Permanent Extension of 2.55% Benefit
Normal Cost Rate	17.47%	17.37%
UAAL Accrued Liability Amortization Rate	11.39%	11.23%
Actuarially Determined Contribution Rate	28.86%	28.60%
Change in Actuarially Determined Contribution Rate		-0.26%

**Oversight** assumes this proposal reduces the actuarially determined contribution rate by -0.25% or \$11,323,344 annually. Therefore, Oversight assumes this proposal could save school districts approximately one half of the reduction in the actuarially determined contribution or approximately \$5,661,672 ( $\$11,323,344 / 2$ ).

<u>FISCAL IMPACT – State Government</u>	FY 2022	FY 2023	FY 2024
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023	FY 2024
<b>SCHOOL DISTRICTS</b>			
<u>Cost Avoidance - reduction in actuarially determined contribution</u>	<u>\$5,661,672</u>	<u>\$5,661,672</u>	<u>\$5,661,672</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICTS</b>	<b><u>\$5,661,672</u></b>	<b><u>\$5,661,672</u></b>	<b><u>\$5,661,672</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

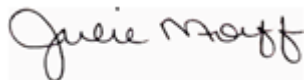
This bill repeals the July 1, 2014 termination date of a provision allowing members of the Public School Retirement System of Missouri who have 31 or more years of creditable service to have their retirement allowance calculated using a multiplier of 2.55%.

The bill contains an emergency clause.


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 Schools and Education Employee Retirement Systems



Julie Morff  
Director  
March 23, 2021



Ross Strobe  
Assistant Director  
March 23, 2021