COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6710-01
Bill No.: HB 2660
Subject: Retirement - Schools; Boards, Commissions, Committees and Councils
Type: Original
Date: April 6, 2018

Bill Summary: This proposal modifies provisions relating to the public school retirement system.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on Other State Funds	**$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 2019	FY 2020	FY 2021
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	**Unknown**	**Unknown**	**Unknown**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Retirement (JCPER)** assume this legislation modifies the composition of the Public School Retirement System (PSRS) board of trustees and requires that employer contributions be refunded when an employee is paid his or her employee accumulated contributions with interest.

Section 169.020: Modifies the composition of the PSRS board of trustees. This provision will not affect retirement plan benefits as defined in section 105.660.

Section 169.070: Requires that employer contributions be refunded when an employee is paid his or her accumulated contributions with interest. The fiscal impact of this provision on the retirement system's actuarially determined contribution rate is unknown without a cost study from the system's actuary.

Current System Status

PSRS
As of June 30, 2017

Market Value: $37,280,246,064	83.7% Funded
Actuarial Value: $37,373,739,619	83.9% Funded
Liabilities: $44,501,771,291	

Current Annual Required Contribution Rate (17/18)

Employer	14.5%	$674,994,906
Employee	14.5%	$674,994,906
Total	29%	$1,349,989,812
Covered Payroll:		$4,655,169,121

ASSUMPTION (continued)

Current System Status

PEERS
As of June 30, 2017

Market Value:	$4,446,418,007	85.3% Funded
Actuarial Value:	$4,470,269,913	85.8% Funded
Liabilities:	$5,209,368,865	

Current Annual Required Contribution Rate (17/18)

Employer	6.86%	$106,891,383
Employee	6.86%	$106,891,383
Total	13.72%	$213,782,766

Covered Payroll: $1,558,183,433

Officials from the **Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS)** assume that there are two proposed changes to Chapter 169 of the Revised Statutes of the State of Missouri ("RSMo") contained in HB 2660. The first modifies the composition of the Board of Trustees of PSRS and PEERS of Missouri as defined in RSMo 169.020. The second modifies the payment made by PSRS when a member terminates their membership and elects a refund of the contributions paid into PSRS as defined in RSMo 169.070.

RSMo 169.020 currently defines the composition of the Board of Trustees of PSRS and PEERS of Missouri to include seven total trustees; three trustees appointed by the governor with the advice and consent of the senate, and four trustees elected by the members and retirees of both PSRS and the Public Education Employee Retirement System of Missouri ("PEERS"). Of the four elected members, three are to be members of PSRS and one is to be a member of PEERS. The first change proposed in HB 2660 would modify the composition of the four elected trustees to include two members of PSRS, one member of PEERS, and one member from the school board of a school district.

ASSUMPTION (continued)

RSMo 169.070 currently provides that if a PSRS member terminates their membership (rather than maintaining their membership in order to receive an annuity benefit at retirement, if vested), the member is to be paid the accumulated value of the contributions they paid to PSRS, with interest. The second proposed change in HB 2660 would modify the distribution upon termination of membership to also include a payment to the member's employer that is equal to the accumulated value of contributions the employer paid to PSRS on behalf of the member, with interest.

PSRS/PEERS assumes the proposed changes would be effective August 28, 2018.

The first proposed change in HB 2660 and described above would only affect the composition of the Board of Trustees of PSRS and PEERS of Missouri. It would not change the benefits provided to members of PSRS. Furthermore, the Board is responsible for administering the benefits prescribed in statute, but is not responsible for setting or influencing the level of benefits provided to members, beyond its current limited discretion in granting annual cost-of-living adjustments. Therefore, we estimate there to be no fiscal impact to PSRS associated with the first proposed change of HB 2660.

The second proposed change in HB 2660 would add an additional payment from the fund. The additional payment would be to the employer(s) of the member who terminates their membership in PSRS. Currently, when members terminate their membership, any contributions paid by their employer(s) on their behalf remain with PSRS and offset the cost of benefits for other members. This is result of PSRS' cost sharing arrangement, in which assets from one employer can be used to pay benefits of another employer. Therefore, increasing the payment from PSRS upon a member's termination to include a similar refund of contributions to the employer(s) would increase the Actuarial Accrued Liability ("AAL), Normal Cost, and Actuarially Determined Contribution Rate ("ADC Rate") of PSRS.

When viewed across all employers and members in aggregate, and ignoring the time value of money, the increase in the ADC Rate is expected to be offset by the additional refund of contributions paid back when members terminate their membership. In other words, a benefit that simply refunds the amount paid for it is expected to be cost neutral. The only anticipated impact is to the timing of the net cost. The increase in AAL and Normal Cost will get added to the contribution rate in a manner that spreads the cost evenly over time, but the refund of contributions back to members and employers will depend on when or how many members terminate their membership.

ASSUMPTION (continued)

At the individual employer and member level, we anticipate that the net cost for participation in PSRS will increase for some and decrease for others. How much net cost is shifted between and among members and employers will depend on how the impact to the ADC Rate is shared between employers and members and the relative number of members at each employer who terminate their membership. If the increase in contribution rate is shared equally between members and employers, then we would expect a decrease in net cost for employers (in aggregate) and an increase in net cost for members (in aggregate), since the benefit being added is solely paid to employers.

For fiscal note purposes, **Oversight** will use the analysis the PSRS/PEERS actuarial study stated above, and will assume the increase in contribution rate will be shared equally between members and employers, which would result in an unknown savings to local school districts (employers).

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOCAL SCHOOL DISTRICTS			
Income Refunds of retirement system contributions	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS	**Unknown**	**Unknown**	**Unknown**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill modifies the make-up of the board members of the Public School Retirement System. Instead of three of the seven member board being from the public school retirement system, it will now be two with the other member being a member of a school board of a school district.

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 Retirement
Public School and Education Employee Retirement Systems of Missouri

Ross Strope

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