

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1679-01
Bill No.: HB 723
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Elementary and Secondary Education
Type: Original
Date: February 11, 2019

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Public School and Education Employee Retirement Systems (PSRS/PEERS)** assume, currently, Section 169.141 and 169.715 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 must occur on or after September 1, 2017.

This legislation in addition to the current law also allows for any retiree that selects a joint-and-survivor plan and has a divorce after retirement but prior to September 1, 2017 to be allowed to return to a single life option upon receipt of the application by the System provided that they comply with the following criteria:

- For divorces that occurred before September 1, 2017, and the divorce decree clearly states that the retiree retains sole retention of his/her retirement benefit and the ex-spouse is relinquishing all rights, the following must occur:
 - The parties can obtain an amended or modified divorce decree after September 1, 2017; or
 - The nominated spouse consents in writing to his/her immediate removal as nominated beneficiary and disclaims all rights to future benefits to the satisfaction of the Board. (The Systems would develop a form to be used in this circumstance.)
- For divorces that occurred before September 1, 2017, and the divorce decrees does not provide for sole retention by the retired person, the parties must obtain an amended or modified divorce decree after September 1, 2017, which provides for sole retention by the retired person of all rights to the retirement allowance.

Retroactive benefits for divorce pop-up are not payable.

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. All annuity payment options (single, joint-and-survivor, term-certain) available to PSRS /PEERS members are actuarially equivalent in value based upon mortality and interest assumption adopted by the Board. Currently, there is a pop-up provision for divorces that occur after September 1, 2017 and a pop-up provision for our members after the death of a beneficiary. PWC cost statement indicates an **insignificant fiscal savings to PSRS and PEERS**.

ASSUMPTION (continued)

Officials from the **Joint Committee on Public Employee Retirement** state, upon review, HB 723 has no direct fiscal impact to the JCPER. HB 723 modifies the divorce pop-up provision in sections 169.141 (PSRS) and 169.715 (PEERS) that the General Assembly passed in 2017 (SB 62). The JCPER's review of this legislation would indicate such provisions would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10).

Current Status of the Public School Retirement System of Missouri:

As of June 30, 2018:

		Funded Ratio
Market Value of Assets:	\$39,259,545,410	84%
Actuarial Value of Assets:	\$39,211,452,488	84%
Liabilities:	\$46,702,001,872	

Covered Payroll, June 30, 2018: \$4,759,665,456

Recommended Contribution Rate for FY2020: 29%. Employers and employees contribute in equal amounts of 14.5%.

	Percent	Dollars (Estimated)
Employer	14.5%	\$690,151,491 (estimated)
Employee	14.5%	\$690,151,491 (estimated)
Total	29%	\$1,380,302,982 (estimated)

Current Status of the Public Education Employee Retirement System of Missouri:

As of June 30, 2018:

		Funded Ratio
Market Value of Assets:	\$4,769,765,289	86%
Actuarial Value of Assets:	\$4,774,781,187	86.1%
Liabilities:	\$5,542,477,610	

Covered Payroll, June 30, 2018: \$1,636,007,948

Recommended Contribution Rate for FY2020: 13.72%. Employers and employees contribute in equal amounts of 6.86%.

	Percent	Dollars (Estimated)
Employer	6.86%	\$112,230,145 (estimated)
Employee	6.86%	\$112,230,145 (estimated)
Total	13.72%	\$224,460,290 (estimated)

ASSUMPTION (continued)

Officials from the **Missouri Department of Transportation** assume the proposal will have no fiscal impact on their organization.

Oversight assumes this proposal will have an insignificant fiscal savings to PSRS/PEERS; however; PSRS/PEERS is not a local political subdivision; therefore, Oversight will not reflect a fiscal impact to their organization.

These minimal savings assumed by the retirement systems may or may not impact the contribution rate of local school districts and public community colleges. Oversight will show a range of impact to local school districts and public community colleges of \$0 (no change in contribution rates) to an unknown savings (reduction in contribution rates) from this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
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**SCHOOL DISTRICTS AND PUBLIC
COMMUNITY COLLEGES**

<u>Savings</u> - potential small reduction in contribution rates	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
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**ESTIMATED NET EFFECT ON
SCHOOL DISTRICTS AND PUBLIC
COMMUNITY COLLEGES**

<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</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 bill allows a retired member of the Public School or Public Education Employees Retirement System who has elected a reduced retirement allowance to provide for survivor benefits for his or her spouse to have the retirement allowance increased to the single life annuity amount, with no survivor benefits, if the member and his or her spouse became divorced prior to September 1, 2017 or if they get a modified dissolution decree that provides for sole retention by the retired person of all rights in the retirement allowance after September 1, 2017.

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

Public Schools and Education Employee Retirement Systems
Joint Committee on Public Employee Retirement
Missouri Department of Transportation



Kyle Rieman
Director
February 11, 2019

Ross Strobe
Assistant Director
February 11, 2019