

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1848H.02C
Bill No.: HCS for HB 828
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Education,
Elementary and Secondary; Teachers
Type: Original
Date: April 8, 2021

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

FISCAL SUMMARY

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

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

Numbers within parentheses: () indicate costs or losses.

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

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

- 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.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$9,000,000	\$9,000,000	\$8,000,000

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 32 or more years of service for 169.070.1(8), RSMo. This bill also contains an emergency clause.

Currently, PSRS members who have 32 years or more of creditable service and retire have their retirement benefit calculated using a multiplier of 2.5%. This legislation removes the expiration date of July 1, 2014, for the 2.55% Formula Factor Provision with 32 or more years of service for 169.070.1(8), RSMo. An active member must have 32 years or more of creditable service to have their retirement allowance calculated using the multiplier of 2.55%.

The 2.55% Benefit Formula Factor Provision allows for eligible members with 32 or more years of service to retire with an additional 0.05% Formula Factor. Eligible service retirees who have 32 or more years of service with PSRS are eligible for normal retirement under the benefit formula using the 2.55% factor. As of December 31, 2021, there are currently 578 members who are eligible to retire with 32 or more years of service.

The Systems have an actuary firm, PricewaterhouseCoopers (PWC), that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. (See Attachment)

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 an annual savings of \$6.02 million per year for the next 30 years 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 nearly \$181.2 million (or \$10.7 million annually) should the 2.55% benefit formula factor bill be adopted.

The annual savings of \$16.8 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.

The Unfunded Actuarial Accrued Liability and the Normal Cost Rate of the Plan will be reduced by 0.37% 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 \$16.8 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 0.31% from 84.01% to 84.32%.

Below are the estimates provided by PricewaterhouseCoopers' actuarial cost estimate of HB 828 with 32 years of service.

Employer Contributions	FY 2022	FY 2023	FY 2024
Baseline	\$751 million	\$779 million	\$810 million
Proposed	\$742 million	\$770 million	\$802 million
Savings	\$9 million	\$9 million	\$8 million

Oversight assumes this proposal reduces the actuarially determined employer contributions as noted above. Therefore, Oversight will show a savings to local school districts beginning FY 2022.

<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
SCHOOL DISTRICTS			
<u>Cost Avoidance</u> - reduction in actuarially determined contribution	<u>\$9,000,000</u>	<u>\$9,000,000</u>	<u>\$8,000,000</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	<u>\$9,000,000</u>	<u>\$9,000,000</u>	<u>\$8,000,000</u>

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 also changes the years of service in this provision from 31 to 32 years of service.

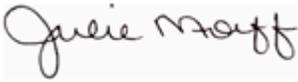
The bill contains an emergency clause.

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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



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Director
April 8, 2021



Ross Strobe
Assistant Director
April 8, 2021