COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4391S.03C
Bill No.: SCS for HCS for HB 2431
Subject: Cities, Towns, and Villages; County Government; Law Enforcement Officers and Agencies; Political Subdivisions; Retirement - Local Government; Retirement - Schools; Retirement - State; Retirement Systems and Benefits - General; Saint Louis City; Teachers
Type: Original
Date: April 29, 2024

Bill Summary: This proposal modifies provisions relating to public employee retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	**$0**	**$0 or Unknown**	**$0 or Unknown**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state the proposal has no direct fiscal impact to the Joint Committee on Public Employee Retirement. According to actuarial information provided by the retirement system, this proposal would constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10). 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.

Section 70.605, 70.630, 70.655, 70.680, 70.690, 70.745, 70.746, 70.747 and 70.748 - LAGERS

In response to a similar proposal, HCS for HB 2431 (2024), officials from the **Local Government Employees Retirement System (LAGERS)** assumed the proposal would make multiple amendments to the system's board structure and governance practices as prescribed in RSMO 70.605, including:

- Changing the quorum requirement of the Board of Trustees to a simple majority,
- Expanding the eligibility requirements for Employer Trustees by allowing executive-level employer representatives, such as City Administrators, to serve as an Employer Trustee,
- Replacing one Employer Trustee with one Retiree Trustee,
- And removing specific statutory requirements of how trustee elections should be conducted thereby allowing the LAGERS Board of Trustees to establish rules governing board elections.

LAGERS estimated that these changes will have a de minimis fiscal impact, if any, on the system but will result in intangible benefits by updating and modernizing governance practices.

LAGERS further assumed that with the exception of RSMo 70.748, the additional modifications to provisions in RSMo 70.630-70.748 are technical clean-up to the system's existing statutes and are assumed to have no fiscal impact on the system.

LAGERS assumed the additional language in RSMo 70.748 will allow for the pooling of assets for investment purposes of LAGERS' legacy plan, as authorized by RSMo 70.621, and the system's staff plan. The pooling of assets is expected to create administrative efficiencies, which are estimated to reduce the staff plan contribution rate by approximately 5-10% points. Any reduction in the system's administrative costs will ultimately result in more efficient costs for LAGERS employers. At this time, that impact, while positive, is unknown.

Oversight will show a range of impact of $0 (no savings to member employers) to an unknown savings to employer members of LAGERS.

<u>Section 86.200 – Earnable Compensation – Police Retirement System of the City of St. Louis</u>

Officials from the **Police Retirement System of City of St. Louis** and the **City of St. Louis** did not respond to **Oversight's** request for fiscal impact for this proposal.

Oversight assumes this provision would have an impact on the Police Retirement System of the City of St. Louis. However, Oversight assumes the impact would be minimal and would not translate into a change in employer contributions into the retirement system by the City of St. Louis. Therefore, Oversight will reflect a zero impact on the fiscal note for the City of St. Louis.

<u>Section 105.688 – Closing Records</u>

Officials from the **Missouri State Employee's Retirement System**, the **MoDOT & Patrol Employees' Retirement System**, the **County Employees Retirement Fund**, the **Metro St. Louis Sewer District Employees Pension Plan**, the **Kansas City Civilian Police Employees' Retirement**, the **Kansas City Police Retirement System**, the **Kansas City Public School Retirement System**, the **Sheriff's Retirement System** and the **University of Missouri System** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the employer members of these retirement systems.

<u>Section 169.070 – Benefit Multiplier PSRS</u>

Officials from **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state, currently, members of PSRS who have 30 years or more of creditable service but less than 32 years of service and retire have their retirement benefit calculated using a multiplier of 2.50%. PSRS members with 32 or more years of services who retire have their retirement benefit calculated using a multiplier of 2.55%. The multiplier (also frequently referred to as the formula factor) is applied to the member's final average salary for each year of membership service.

This legislation amends RSMo Section 169.070 to provide PSRS members retiring with at least 33 years of membership service a benefit equal to 2.60% (versus 2.55%) of final average salary for each year of membership service.

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

Per PwC, the proposed changes would provide a higher benefit multiplier to members who earn 33 or more years of service, compared to the current benefit provisions. The fiscal impact of the proposed change therefore depends on whether or not member retirement patterns would change as a result of the 2.60% benefit multiplier being available (i.e., for members currently assumed to retire before 33 years of service, would they be willing to work longer to receive the 2.60% multiplier). Currently it is assumed that a percentage of members will continue to work until they earn 33 years of service or more before retiring. To the extent that retirement patterns do not change, the proposal would result in a fiscal cost since members currently assumed to retire with 33 or more years of service would receive a larger benefit. On the other hand, if a sufficient number of members are incentivized by the 2.60% multiplier to work longer and forego retirement at earlier ages (e.g., when they first qualify for unreduced benefits with 80 age + service points, or at 30 years of service) when the PSRS retirement allowance is typically the most valuable on a present value basis, the proposal would result in a fiscal gain.

It is noted that 2023 Senate Bill 75 (HCS/SS/SB 75) became effective August 28, 2023 and added a 2.55% benefit formula multiplier for PSRS members who have 32 or more years of service at retirement. This change was reflected in the June 30, 2023 valuation for PSRS and the assumed retirement rates were updated for the June 30, 2023 valuation to reflect lower retirement rates prior to 32 years of service and higher retirement rates on and after 32 years of service as a result. The assumed retirement rates were based on the retirement assumption in effect when the 2.55% multiplier was previously available at 31 years of service and reflect an expectation that some members would delay retirement in order to receive the 2.55% benefit multiplier at 32 years of service.

It is also noted that 2022 SB 681 temporarily suspends the hours and compensation limitations for retired PSRS members working after retirement in substitute teaching positions on a part-time or temporary substitute basis. This change is temporary through June 30, 2025, but could temporarily incentivize members to retire earlier and return to work on a parttime or temporary basis. However, PWC have not observed significant changes in retirement rates attributable to SB 681, so PWC have not reflected any short-term changes in retirement rates associated with SB 681 in their analysis of this proposal.

Given the similarity of the proposed change to the recently enacted 2023 Senate Bill 75 (HCS/SS/SB 75), and the temporary nature of 2022 SB 681, PWC would not expect significant incremental changes in retirement patterns if the proposal were enacted. Therefore, PWC expects the proposal would have **an insignificant fiscal impact on the System, which could be either a small fiscal cost or a small fiscal gain**. Since PWC expects the magnitude of the fiscal impact to be insignificant, they have not performed a detailed actuarial valuation of the impact.

Oversight assumes the impact to the System would be immaterial. Therefore, Oversight will reflect a zero impact in the fiscal note for the employer members of the retirement system.

<u>Section 169.560 and 169.660 – Working After Retirement PSRS and PEERS</u>

Officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state, currently, a retired member, except for those retired due to disability, of the Public School Retirement System ("PSRS") may work after retirement in a certified position with a covered employer without discontinuance of his or her retirement benefits if the member does not exceed 550 hours of work each school year and 50% of the annual compensation to the person who last held the position. This legislation expands the same provisions to include those retired due to disability. Disabled retirees must continue to meet all other requirements. This legislation also broadens the 50% annual compensation limit to include 50% of the annual compensation to the person who last held the position or 50% of the limit set by the employer's school board for the position.

Additionally, current law provides that if a member of PSRS or the Public Education Employee Retirement System ("PEERS") is in excess of the limitations, the member shall not be eligible to receive the retirement allowance for any month so employed. This legislation provides that either the member shall not be eligible to receive the retirement allowance for any month so employed or the retirement system shall recover the amount earned in excess of the limitations, whichever is less. This legislation also allows PEERS members retired due to disability to be employed under these provisions. Disabled retirees must continue to meet all other requirements.

The provisions in this legislation provide administrative and operational efficiencies for the Systems, without additional fiscal impacts. The Systems' participating employers and members also benefit from these enhancements. <u>The impacts to the Systems are all positive in nature</u>.

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

Section 169.560 – As of June 30, 2023, it is PWC's understanding that there were only 23 retired PSRS members (of 63,262 service retirees) who had returned to work in a capacity that resulted in suspension of their retirement allowance, and only a subset of those members, if any, would have earnings in excess of the limits in an amount that is less than their retirement allowance. PWC also note that 2022 Conference Committee Substitute No. 2 for House Committee Substitute for Senate Substitute for Senate Committee Substitute for Senate Bills Nos. 681 & 662 ("2022 CCS#2 HCS SS SCS SBs 681 and 662", also abbreviated as "SB 681") temporarily suspends the hours and compensation limits for retired PSRS members working after retirement in substitute teaching positions on a parttime or temporary substitute basis through June 30, 2025. Finally, as communicated by System staff, it is PWC's understanding that the proposed changes could reduce the administrative and legal costs associated with appeals by retired members who inadvertently exceed the working after retirement limitations, which could offset the reduction in suspended benefits retained by the System.

For the reasons noted above, PWC estimates the proposed changes would have **an insignificant fiscal impact to PSRS.**

Section 169.660 – As of June 30, 2023, it is PWC's understanding that there were only 44 retired PEERS members (of 34,281 service retirees) who had returned to work in a capacity that resulted in suspension of their retirement allowance, and only a subset of those members, if any, would have earnings in excess of the limits in an amount that is less than their retirement allowance. Finally, as communicated by System staff, it is PWC's understanding that the proposed changes could reduce the administrative and legal costs associated with appeals by retired members who inadvertently exceed the working after retirement limitations, which could offset the reduction in suspended benefits retained by the System.

For the reasons noted above, PWC estimates the proposed changes would have **an insignificant fiscal impact to PEERS**.

Oversight assumes the impact to the System from these provisions would be immaterial. Therefore, Oversight will reflect a zero impact in the fiscal note for the employer members of the retirement system.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
	$0	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
Savings – from reduced employer contributions to LAGERS - §70.748	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0 or Unknown**	**$0 or Unknown**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act modifies provisions relating to public employee retirement systems.

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
Local Government Employees Retirement System
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System'
University of Missouri System
Public Schools and Education Employee Retirement Systems
County Employees Retirement Fund
Kansas City Civilian Police Employees' Retirement
Kansas City Police Retirement System
Kansas City Public School Retirement System
Metro St. Louis Sewer District Employees Pension Plan
Sheriff's Retirement System

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