

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5784H.011
 Bill No.: HB 2846
 Subject: Retirement - Schools; Retirement Systems and Benefits - General; Teachers
 Type: Original
 Date: March 22, 2024

Bill Summary: This proposal modifies provisions relating to retirement benefits for certain teacher retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY 2033)
Local Government	\$0	(\$2,931,000)	(\$8,068,500)	(\$29,215,500)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** assume the bill has no direct fiscal impact to the Joint Committee on Public Employee Retirement. The JCPER's review of this proposal 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.

Officials from the **Public School Retirement System of the City of St. Louis** assume this proposal contains provisions that concern the Public School Retirement System of the City of St. Louis ("PSRSSTL" or "System"), which the System believes are necessary to preserve the long term viability of the System so that it may have the funding to adequately provide benefits to its members and beneficiaries.

The System was created by the Missouri legislature in 1944 and is organized under Sections 169.410 to 169.540 of the Missouri Revised Statutes. The System provides pension benefits to all personnel employed by the St. Louis Public Schools and Charter Schools operating in the City of St. Louis, which currently number at 15. As of 2023, the System has 13,818 members, which consist of 4,940 active members, 4,310 retired members/beneficiaries, and 4,568 inactive members.

1. Changes to §169.490 in 2017 Materially Harmed the Financial Viability of the System

In 2017, the Missouri legislature passed Senate Bill 62, which amended § 169.490 to cap the rate of employer contributions paid to the System at 16% for 2018, and thereafter the employer contribution rate is set to decrease by 0.5% per year until 2032, when the contribution rate will be capped at only 9.0% of member compensation. Currently for calendar year 2024, the employer contribution rate is set by § 169.490 at 13.0%.

Thus, effective for calendar year 2018, the employer contribution rate is no longer set by the actuary as a part of the annual actuarial valuation. Instead, the employer contribution rate is set at an arbitrary number and that is decreasing at 0.5% per year until it bottoms out and is capped at 9.0% in 2032 and every year thereafter.

Additionally, SB 62 in 2017 also increased contributions coming out of the System, as it lowered the Normal Retirement Age from the Rule of 85 to the Rule of 80. Thus, at the same time that contributions were decreasing to the System, the required pay out of benefits were increasing out of the System. Thus, this combination of decreasing money in and increasing money out has materially affected the actuarial soundness of the System and its ability to provide the promised benefits to its members and beneficiaries.

While SB 62 in 2017 increased employee contributions from 5% to 9% for new members beginning in 2018 and the contribution for existing active members is increasing by 0.5% each year from 5% to 9% in 2025, this has not led to a financial benefit to the System. Instead, member contributions are treated as liabilities in Missouri as members can withdraw their contributions with interest upon termination of employment from a member school.

One of the most important factors for a well-funded pension plan is the System receiving the full actuarially required contribution necessary to fund the benefits promised to members. Not paying the actuarially required contribution in one year simply “kicks the bucket” to following years, thereby exacerbating any pension plan underfunding. As a result of the changes to § 169.490 in 2017, the actuarially required contribution has consistently not been paid to the System and it has lost out on a total of \$29,391,556 in employer contributions alone between 2018 and 2022.

Thus, as a result of the changes to § 169.490 in 2017, the Market Value funding ratio of the System has decreased to 62.7% and in 2023, the System for the first time has been placed on the Joint Committee on Public Employee Retirement’s Watch List. If the funding ratio of the System is already at 62.7%, and the employer contribution rate is set to decrease further in § 169.490 all the way down to 9% in 2032, then there is no telling the continued financial harm that the System will suffer, threatening its ability to provide the promised pension benefits to its members.

2. Goal of HB 2846 is to Preserve the Long-Term Financial Viability of the System While Stabilizing Employer Contribution Costs

Therefore, HB 2846 is looking to preserve the long-term financial viability of the System to provide benefits to its members. The overall goal of HB 2846 is to move the System toward an actuarial funding ratio of 100% with all due expediency. While a ratio of less than 100% is not necessarily a problem or crisis, the combination of a decreasing funded ratio and contributions falling short of the actuarial required contribution would, over time, threaten the plan’s viability. In addition, the System is required to be at or close to 100% funded before the System may consider granting a cost-of-living increase to its retirees, who have gone without a COLA since 2006.

Indeed, if the status quo is maintained and if HB 2846 is not passed, the System’s retirees may go decades more without a COLA. Therefore, it is imperative that HB 2846 is passed, not only to preserve the financial standing of the System to provide existing benefits to its members, but

so that it may be in a position to potentially provide COLAs to its members in the future. Without HB 2846, that may never happen.

HB 2846 looks to stabilize the System's funding by setting the employer contribution rate at 14% for 2025. Thereafter, beginning in 2026, the employer contribution rate would be either the greater of 14% or the difference between the total Actuarially Required Contribution Rate and the applicable member contribution rate until the System's funded ratio equals 100%. However, under this arrangement, HB 2846 seeks to stabilize the employer contribution rate as any changes are limited to either an annual 1% increase or 0.5% decrease.

3. Fiscal Impact: HB 2846 is Necessary to Preserve the Financial Viability of the System

There is no state General Revenue impact from HB 2846 as the state of Missouri contributes no funds to the System. Indeed, this is reflected in § 169.540, which is not altered by HB 2846.

Instead, all funds to the System come from employer contributions, employee contributions, and investment gains. HB 2846 does not alter employee contributions. Instead, the only change proposed by HB 2846 is to stop the future decrease of employer contributions down to 9%.

The changes proposed in HB 2846, are similar to the changes pertaining to the Kansas City Public School Retirement System (KCPSRS) that were passed in 2018 in TAFP SB 892, and originally proposed in SB 856. At the time, the KCPSRS was under similar employer contribution caps (at 9%), its funding was suffering, and in 2017 it similarly ended up on the Joint Committee on Public Employee Retirement's Watch List. As a result, SB 892 was passed in 2018 to alleviate the employer contribution caps on the KCPSRS.

HB 2846 which is similar to SB 892, similarly seeks to alleviate the System of the employer contribution caps that threaten the System's viability and its ability to provide pension benefits to its members. The System has prepared a Cost Statement for HB 2846, which it has submitted to the Joint Committee on Public Employee Retirement, and a copy of which is also enclosed.

If HB 2846 is not passed, the System will suffer continued financial harm, including:

1. The System will remain below 70% funded through at least 2038, where it is projected to only be 69.1% funded.
 - a. This is even if the System meets its 7% yearly assumed rate of investment return.
2. The System is projected to lose over \$485 Million through 2038.
 - a. This is on top of the approximate \$30 Million that was lost from 2018 to 2022.

3. If there are adverse market conditions, and if the System does not meet its 7% yearly assumed rate of return, the System could lose over \$627 Million and it could only be 53.3% funded by 2038.

If HB 2846 is passed, the financial standing of the Retirement System will greatly improve:

1. The funded ratio of the System is projected to greatly increase to 98.3% in 2038.

2. The System will not lose over \$485 Million by 2038.

3. The actuarial value of assets of the System is projected to be \$1,308,406 in 2038 instead of only \$919,876.

Current Status of PSRSSTL:

As of December 31, 2022

Funded Ratio 73.7%

Market Value of Assets:	\$817,867,979
Actuarial Value of Assets:	\$943,201,853
Actuarial Accrual Liability:	\$1,279,847,074
Unfunded Actuarial Accrued Liability	\$336,645,221

Covered Payroll: \$259,440,417

Recommended Contribution Rate for FY 2022: 14.28% of covered payroll. Statutory employer contribution rate for FY 2022 was 14.0 %. Estimated employer contribution for FY 2022 were approximately \$41.0 million.

Oversight assumes the following employer contribution rates and contributions based on the provided actuarial cost estimate.

Employer Contributions	CY 2026	CY 2027	CY 2028	CY 2029
Current Rate	12.00%	11.50%	11.00%	10.50%
Current Contributions	\$35,553,000	\$34,393,000	\$33,260,000	\$32,165,000
Proposed Rate	15.00%	16.00%	17.00%	18.00%
Proposed Contributions	\$41,415,000	\$44,668,000	\$48,044,000	\$51,584,000
Difference	\$5,862,000	\$10,275,000	\$14,784,000	\$19,419,000

*Assuming expected return on assets is achieved.

Employer Contributions	CY 2030	CY 2031	CY 2032	CY 2033
Current Rate	10.00%	9.50%	9.00%	9.00%
Current Contributions	\$31,114,000	\$30,073,000	\$28,978,000	\$28,404,000
Proposed Rate	18.69%	18.63%	18.47%	18.28%

Proposed Contributions	\$55,000,000	\$57,161,000	\$57,735,000	\$58,078,000
Difference	\$23,886,000	\$27,088,000	\$28,757,000	\$29,674,000

*Assuming expected return on assets is achieved.

Oversight assumes these provisions will impact employer contribution rates beginning in calendar year 2026. Oversight notes the employer contributions rates are based on calendar years. Therefore, Oversight assumes the impact will be split between fiscal years with one half the impact to the employer (St. Louis Public Schools and Charter Schools) beginning in FY 2026.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2033)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2033)
PUBLIC SCHOOLS				
<u>Costs – St. Louis Public Schools and Charter Schools - increase in employer contributions - §169.410, 169.450 & 169.490</u>	<u>\$0</u>	<u>(\$2,931,000)</u>	<u>(\$8,068,500)</u>	<u>(\$29,215,500)</u>
ESTIMATED NET EFFECT ON PUBLIC SCHOOLS	<u>\$0</u>	<u>(\$2,931,000)</u>	<u>(\$8,068,500)</u>	<u>(\$29,215,500)</u>

FISCAL IMPACT – Small Business

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

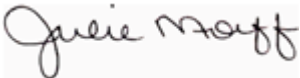
FISCAL DESCRIPTION

This bill adds definitions for "funded ratio", "total actuarially required contribution" and "total actuarially required contribution rate" for the Public School Retirement System of Saint Louis. The bill moves the current contribution rate payable by employers from 9% to 14% in 2025 and beginning in 2026 the rate will be determined by the System actuary as specified in the bill. The bill requires that such modifications to the rate not increase by more than 1% or decrease by more than 1/2% on a year to year basis.

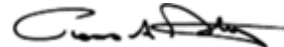
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Public School Retirement System of the City of St. Louis



Julie Morff
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March 22, 2024



Ross Strobe
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March 22, 2024