

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0333H.011
 Bill No.: HB 657
 Subject: Retirement Systems and Benefits - General; Retirement - Schools; Employees - Employers; Teachers
 Type: Original
 Date: January 29, 2025

Bill Summary: This proposal modifies provisions related to proxy voting and fiduciary investment duties for certain public employee retirement and pension systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>Other State Funds</u>	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state this proposal has no direct fiscal impact to the JCPER. The JCPER's review of this legislation indicates it will not affect retirement plan benefits as defined in Section 105.660(9).

Officials from the **Missouri State Employee's Retirement System, Kansas City Public School Retirement System, City of Kansas City, City of O'Fallon, County Employees' Retirement Fund, and the University of Central Missouri** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from **MoDOT & Patrol Employees' Retirement System** state this proposal, if enacted, would modify provisions related to proxy voting and fiduciary investment duties for public retirement plans. Specifically, the proposed provision addressing the approach to environmental, social, and governance (ESG) issues would exclude those issues from consideration if consideration would override the investment fiduciary's duty as otherwise defined in section 105.688.

The second proposed amendment to section 105.688 states that the investment fiduciary shall not be subject to divestment legislation.

Proposed section 105.692 defines how proxy voting should be handled, in general and specifically where (ESG) issues are a factor. In this case, voting shares for the purpose to further ESG is prohibited.

The changes proposed in this bill would have the effect of managing matters that are currently politically and socially important without the negative impact of more restrictive legislation on public retirement system investments. No fiscal impact.

Officials from **Public Schools and Education Employee Retirement Systems** state they do not anticipate a fiscal impact to the Systems on this bill as it is in line with their current practices.

Officials from the **Sheriffs' Retirement System** state this proposal may have a negative impact if this legislation passes. The Retirement system hires investment managers to invest its assets based on the investment policy. Setting constraints on investment guidelines has a potential of limiting investment earnings used to finance the retirement system.

Officials from the **Local Government Employees Retirement System (LAGERS)** assume as drafted, this legislation has no substantial fiscal impact to Missouri LAGERS.

Officials from the **University of Missouri System** have reviewed this proposed legislation and do not anticipate a significant financial impact.

Officials from the **Kansas City Employees' Retirement** and the **Kansas City Police Retirement System** assume the proposal could have an unknown loss in revenue. The Police Retirement System of Kansas City and the Civilian Employees' Retirement System of the Police Department of Kansas City state they are too small not to employ an investment fiduciary to manage pension system assets. It is not economically feasible for the plans to invest those funds internally. The managers selected by the Retirement Board may very well be index managers who will replicate the equity holdings of an appropriate index fund at a very low cost. Neither the investment manager nor the Retirement Board can dictate which investments are included in the index fund. The new provisions of section 105.688 RSMo., contained in HB 657, could prevent the Retirement Board from investing in funds that could add value to the plans.

In addition, the proxy voting provisions of HB 657 would require either additional internal staff for the Retirement Systems or hiring a firm specifically for proxy voting. There would be additional cost for either option, the cost of which cannot be determined at this time. Investment manager's fees would increase due to the potential liability implied in 105.692. RSMo.

In response to similar legislation, HB 1937 (2024), officials from the **Employees Retirement System of the City of St. Louis** stated, the money managers hired by the Board also vote proxies on the System's behalf. The System's only requirement for voting the proxies is that the vote be in the best interests of the System and its participants. By requiring or prohibiting certain considerations which could be viewed by the money managers as in the best interests of the System and its participants or creating economic value, you restrict the money manager's ability to vote the proxies in a manner that may enhance shareholder value. It is speculative to put a dollar amount on such considerations, but it will cost more to administer such considerations as money managers may be unwilling to accept the risk associated with voting the proxies. This would require the System to hire a proxy voting company and pay additional fees.

The representatives of Marquette Associates expressed their belief that requiring consideration of such matters may prevent some investment managers from managing assets of Missouri public pension plans and severely limit opportunities offered by commingled investment vehicles (which are much more cost effective for smaller public pension plans like the System). Proposed pieces of legislation which impose financial penalties on investment fiduciaries who take these matters into consideration may have a chilling effect on the number of money managers willing to provide services to Missouri public pension plans. The money managers may decide not to take on risk when public pension plans in other states don't have financial penalties.

In response to similar legislation, HB 1937 (2024), officials from the **City of Osceola**, **Northwest Missouri State University**, and the **Metro St. Louis Sewer District Employees Pension Plan** each assumed the proposal will have no fiscal impact on their organizations. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

In response to a similar proposal, SB 1113 (2024), officials from the **Kansas City Employees' Retirement System, Kansas City Firefighter's Pension System, Kansas City Supplemental Retirement Plan** and the **Rock Community Fire Protection District Retirement Plan** 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 these agencies.

Oversight assumes this proposal may limit investment decisions to already established fiduciary duties. Based on the majority of responses, Oversight assumes this proposal would not have a material direct fiscal impact.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

The proposed legislation appears to have no direct fiscal impact.

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
- Missouri State Employee's Retirement System
- MoDOT & Patrol Employees' Retirement System
- Public Schools and Education Employee Retirement Systems
- Kansas City Employees' Retirement System
- Kansas City Firefighter's Pension System

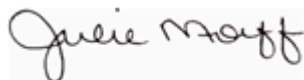
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Kansas City Civilian Police Employees' Retirement
Kansas City Police Retirement System
Kansas City Public School Retirement System
Rock Community Fire Protection District Retirement Plan
Sheriffs' Retirement System
Employees Retirement System of the City of St. Louis
Metro St. Louis Sewer District Employees Pension Plan
Local Government Employees Retirement System
County Employees Retirement Fund
City of Kansas City
City of O'Fallon
City of Osceola
University of Missouri
University of Central Missouri



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