COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0490H.03P
Bill No.: Perfected HCS for HB Nos. 735 & 686
Subject: Retirement - State; Retirement Systems And Benefits - General; Employees - Employers
Type: Original
Date: April 9, 2025

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

FISCAL SUMMARY

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

*Based on a review of various scenarios and actuarial outcomes for the lump sum payment option, Oversight assumes the impact from this proposal could exceed $250,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Various Other State Funds*	$0	$0 or Unknown	$0 or Unknown
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or Unknown**	**$0 or Unknown**

*Based on a review of various scenarios and actuarial outcomes for the lump sum payment option, Oversight assumes the impact from this proposal could exceed $250,000.

Numbers within parentheses: () indicate costs or losses.

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

*Based on a review of various scenarios and actuarial outcomes for the lump sum payment option, Oversight assumes the impact from this proposal could exceed $250,000.

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

Sections 104.490 and 104.1060 – Overpayments

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** state the bill, if enacted, would modify provisions related to how the retirement systems recover overpayments. Section 104.490 is MOSERS' MSEP (Closed Plan statute). The same change is reflected in section 104.1060, which applies to the Year 2000 Plan for both MPERS and MOSERS. These changes simply provide specifically that if an overpayment must be recovered from a member, it can be done either by single sum payment, installment payments, or by actuarial equivalent. No fiscal impact for this change.

Officials from **Missouri State Employee's Retirement System (MOSERS)** state the proposed changes to these sections would allow MOSERS to accept a single sum or installment repayment to recover benefit overpayments. Currently, in the case of overpayment or underpayment, this section requires MOSERS to correct the error by actuarially adjusting future payments to the extent practicable. The proposed changes are consistent with federal tax law governing public pension plans and payment correction. The change to sections 104.490 and 104.1060 would have no fiscal impact. There are so few overpayment or underpayment corrections at any given time and the amounts of such corrections are insignificant when taking into account the funding of the System, any related cost or savings from the use of one method over another would be immaterial.

Section 104.1092 – Lump Sum Payment Option

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** state section 104.1092.2 is modified to provide a payment option in lieu of retirement annuity benefits if the board of either system elects to exercise it. Previously, this option had been a one-time offering in 2018, but this modification provides for a "permanent" payment option beginning in January 2026. This payment option would be available to those members who are vested but no longer employed by a system sponsor and have not yet reached normal retirement eligibility.

A best-case scenario is paying out a small percentage of the eligible recipients at 50% of the present value, which provides for a cost savings to the plan. If they pay out 100% of the benefit's present value for 100% of the individuals eligible to receive it, the plan would see a small increase to contributions, approximately less than a percent for the first few years, then slightly more than one percent in the following years. Based on past experience with buyouts, it is extremely unlikely that 100% of those eligible to elect the buyout would actually do so.

Officials from **Missouri State Employee's Retirement System (MOSERS)** state the proposed change would authorize the MOSERS Board of Trustees to offer members a one-time election to receive a lump sum payment equal to a certain percentage of the present value of the member's deferred annuity in lieu of receiving retirement annuity benefits. MSEP and MSEP 2000 members who have terminated employment, are entitled to an annuity from the system, and have not reached normal retirement age or eligibility would be eligible for any buyout authorized by the Board under this section.

The proposed change to section 104.1092 could have no fiscal impact or a net positive fiscal impact to the System. The Board would be authorized to implement an annuity buyout if desired but is not required to do so. If the Board chose not to implement an annuity buyout, then there would be no fiscal impact.

If the Board decided to offer an annuity buyout, it would concurrently set the percentage of present value of future benefits to calculate the lump sum payment. MOSERS's actuaries currently value a terminated vested member's full present value of future benefits (PVFB). If the Board were to determine the buyout percentage to be 100% of the member's PVFB, there would be no fiscal impact to the System. If the Board determined a percentage less than 100% of PVFB, there would be a reduction in the unfunded actuarial accrued liability for each member who elected the one-time lump sum payment, resulting in a net positive fiscal impact to the System.

The MOSERS Board previously implemented an annuity buyout program with a buyout percentage of 60% of PVFB. The initial buyout was offered from October 1 through November 30, 2017, and it offered a second chance buyout in May 2018. The buyouts together eliminated $41 million in total net liability.

Oversight assumes this proposal authorizes the Board of either system to establish a lump sum payment option. Oversight assumes the ultimate impact is unknown depending on how the Board structures the payment option and the number of participants. Oversight assumes 100% participation paid at 100% of the present value of future benefits is an unlikely outcome. For purposes of this fiscal note, Oversight assumes there would be a positive net gain to employer contributions if either system established a lump sum payment option. Based on a review of various scenarios and actuarial outcomes, Oversight assumes the impact from this proposal could exceed $250,000.

<u>Section 105.695 – Prohibition on Expenditures</u>

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** state Section 105.695 is a new section that will prevent the contribution or expenditure of system funds to advocate, support, or oppose the passage or defeat of a ballot measure. This will not impact MPERS, as it is not authorized in the governing statutes to make such contributions or expenditures. <u>No fiscal impact.</u>

Officials from the **Missouri State Employee's Retirement System (MOSERS)** state the prohibition of using system funds to advocate, support, or oppose ballot measures or candidates in section 105.695 would have <u>no fiscal impact</u>.

Officials from **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state this bill in its current form, will not have a fiscal or operational impact on PSRS and PEERS of Missouri (the Systems). The Systems have a long-standing policy prohibiting expending funds for political purposes.

Officials from the **County Employees' Retirement Fund (CERF)** Board of Directors state they have made no contributions or expenditures, as described in proposed statute 105.695, from system funds. The Board has adopted a policy that is almost identical to the proposed statute 105.695.

Officials from the **Kansas City Civilian Police Employees' Retirement** and the **Kansas City Police Retirement System** state the new section in 105.695 significantly limits the ability of public pension systems to proactively protect their interests and ensure their long-term sustainability.

Public pension systems often play a critical role in advocating for legislative or policy changes that directly affect their operations, funding, and the benefits provided to members. This provision may prevent systems from using funds to advocate for necessary reforms or measures that ensure the system's sustainability, such as funding increases or structural adjustments.
For example, if a ballot measure proposed reductions to employer contributions, the inability to advocate against such a measure could leave the system vulnerable to underfunding and jeopardize its actuarial soundness.

Retirement systems are fiduciaries responsible for acting in the best interests of their members and retirees. Restrictions on advocating for or against measures that materially affect the system undermine this fiduciary duty and may result in adverse outcomes for members, such as reduced benefits or increased contributions. Educating stakeholders, including members, retirees, and the public, about ballot measures or legislative proposals impacting the retirement system could be interpreted as "advocacy." This restriction could limit the system's ability to ensure informed decision-making by those directly affected. A ballot initiative aiming to reduce or eliminate defined benefit plans might move forward without the system being able to clarify the long-term fiscal and economic consequences of such a change.

The prohibition against using system funds for committee debts or obligations could create ambiguity about permissible activities, including hiring consultants, actuaries, or legal advisors to analyze or challenge legislation or ballot measures with significant implications for the system. If a measure impacting the system's funding model passes, the system may face challenges in engaging external resources to address resulting compliance or legal issues.

Based on the majority of responses, **Oversight** assumes this provision would not have a material direct fiscal impact. Oversight assumes the potential negative impact as estimated by the Kansas City Civilian Police Employees' Retirement and the Kansas City Police Retirement System is speculative and, for purposes of this fiscal note, will not reflect the impact in the fiscal note.

Responses regarding the proposed legislation as a whole

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state their 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 **University of Missouri System** have reviewed this proposed legislation and notes it does not anticipate a significant financial impact.

Officials from the **Kansas City Public School Retirement System**, the **Local Government Employees Retirement System**, the **Metro. St. Louis Sewer District Employees Pension Plan**, **Northwest Missouri State University**, the **University of Central Missouri**, **City of Kansas City**, the **City of O'Fallon** and the **Sheriff's Retirement 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 these agencies.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
Cost Savings - §104.1092 from a decrease in employer contributions from a lump sum payout	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$0 or Unknown**	**$0 or Unknown**
OTHER STATE FUNDS			
Cost Savings - §104.1092 - from a decrease in employer contributions from a lump sum payout	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**$0**	**$0 or Unknown**	**$0 or Unknown**

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
FEDERAL FUNDS			
Cost Savings - §104.1092 - from a decrease in employer contributions from a lump sum payout	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0 or Unknown**	**$0 or Unknown**

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This bill authorizes a methodology for the board of trustees of the Missouri State Employees' Retirement System to recover any over payments made to a beneficiary in error, either in a single sum or in installment repayments. Under current law, the board's recovery of the over payments made to a beneficiary is permissive.

The bill reinstates the time period for a member to make an election to receive a lump sum payment of the member's deferred annuity in lieu of retirement annuity benefits, under the closed plan or year 2000 plan, to on or after January 1, 2026. Under current law, the election can be made by the member beginning on a date established by the board under such plan, but not after May 31, 2018.

The bill prohibits the contribution or expenditure of system funds by any public pension system to advocate, support, or oppose the passage or defeat of any ballot measure or the nomination or election of any candidate for public office. In addition, the system funds cannot be used to pay any debts or obligations of any committee supporting or opposing ballot measures or candidates. The bill includes a definition for the term "system".

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

JLH:LR:OD

SOURCES OF INFORMATION

MoDOT & Patrol Employees' Retirement System
Missouri State Employee's Retirement System
Joint Committee on Public Employee Retirement
Public Schools and Education Employee Retirement Systems
County Employee's 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
University of Missouri System
Local Government Employees Retirement System
University of Central Missouri
Northwest Missouri State University
City of Kansas City
City of O'Fallon

Julie Morff
Director
April 9, 2025

Jessica Harris
Assistant Director
April 9, 2025