COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1346H.01I
Bill No.: HB 329
Subject: Retirement - Schools; Retirement Systems and Benefits - General; Education, Elementary and Secondary; Employees - Employers; Teachers
Type: Original
Date: February 26, 2025

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Bill Summary: This proposal modifies the total cost of living adjustments for members of the Public School Retirement System and the Public Education Employee Retirement System.

## 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 Other State Funds** | **$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 All 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** | **(Unknown)** | **(Unknown)** | **(Unknown)** |

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state the bill has no direct fiscal impact to the JCPER.

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 Schools and Education Employee Retirement Systems (PSRS/PEERS)** state this bill, as currently drafted, would amend RSMo Section 169.070 and Section 169.670 to allow the current 80% lifetime limitation on total cost-of-living increases granted to a retired member or beneficiary (the "COLA cap") to increase over time. Beginning December 31, 2025, and at each December 31 thereafter, an increase to the COLA cap of 1% shall be approved by the Board of Trustees if the System's investments earn 2% or greater returns in excess of the investment return rate adopted by the Board of Trustees in the immediately prior fiscal year (ending June 30 of such year). The annual increase to the COLA cap shall not exceed 1% per year, and the COLA cap shall not increase to more than 100%.

The Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS) 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. This legislation was submitted to them and the actuarial cost statements discuss in detail the estimated impact to the Systems. As currently proposed, the COLA cap increase is estimated to have a significant fiscal impact to both PSRS and PEERS and is further discussed in the following analysis.

Analysis of impact on PSRS and PEERS
To estimate the fiscal impact of HB 329 PwC assumed the current 80% COLA cap would increase prospectively by 1% (to 81%, then 82%, and so on) each year the System's investment return on a market value basis exceeded the expected rate of return on assets assumption by 2% or more. As of June 30, 2024, the expected rate of return on assets assumption used in the annual actuarial valuation of the System is 7.3%, so PwC assumed that any time the return on the market value of assets is 9.3% or more, the COLA cap would increase by 1% until the cap reaches 100%.

Based on an analysis provided by the Systems' investment advisor, the asset return on the market value of assets is expected to exceed the assumed return by 2% or more 40% of the time, or two out of every five years. Therefore, PwC assumed that in two years, the 80% COLA cap would increase to 81%, and then three years after that, the 81% COLA cap would increase to 82%, and so on until the COLA cap reached 100%.

The estimated fiscal impact analysis for PSRS and PEERS was illustrated by PwC using various alternative scenarios and comparing to the Baseline scenario. The Baseline scenario is defined as the June 2024 valuation results, which utilize the most recent member data and includes current plan provisions. PwC's estimates do not include any additional administrative costs that may be incurred by the System to implement this change.

For PSRS, the estimated fiscal impact to the Actuarial Accrued Liability ("AAL") ranges from $95.9 million based on the Systems current inflation and COLA assumptions (Scenario A) to $2.5 billion if higher inflation is a sustained economic trend resulting in changes to the Systems' inflation and COLA assumptions (Scenario B). For PEERS the estimated fiscal impact to the AAL ranges from $2.2 million to $292.6 million under the same Scenarios. Additional scenarios were provided within the actuarial cost statements with varying ranges of estimated impact to the AAL for both PSRS and PEERS.

Scenario A illustrates the estimated fiscal impact of HB 329, as currently drafted, compared to the Baseline scenario. Scenario B is the same as Scenario A, but the long-term COLA assumption for the Systems was increased by 50 basis points from 1.35% to 1.85% beginning January 1, 2026, and each January 1 thereafter. This scenario is provided to illustrate the sensitivity of the liabilities to the COLA assumption. The COLA assumption is directly correlated to the Systems inflation assumption. To the extent the Federal Reserve is unsuccessful in reducing current inflation to the 2.00% long-term inflation target, the Systems inflation and COLA assumptions could be impacted in the future.

Based on the information provided by PSRS and PEERS, **Oversight** notes the following:

| | PSRS Actuarially Determined Contribution (ADC) Rate |
|---|---|
| Baseline (Current Provisions) | 27.98% |
| Scenario A | 28.11% |
| Scenario B | 31.65% |

| | PEERS Actuarially Determined Contribution (ADC) Rate |
|---|---|
| Baseline (Current Provisions) | 13.22% |
| Scenario A | 13.23% |
| Scenario B | 14.33% |

**Oversight** assumes these provisions will increase employer contribution rates for school districts and community colleges beginning in FY 2026.

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

| FISCAL IMPACT – Local Government | FY 2026 (10 Mo.) | FY 2027 | FY 2028 |
|---|---|---|---|
| **LOCAL POLITICAL SUBDIVISIONS** | | | |
| | | | |
| Costs – School Districts - increase in employer contributions | (Unknown) | (Unknown) | (Unknown) |
| | | | |
| Costs – Community Colleges - increase in employer contributions | (Unknown) | (Unknown) | (Unknown) |
| | | | |
| **ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS** | **(Unknown)** | **(Unknown)** | **(Unknown)** |

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Currently, retired members of the Public School Retirement System ("PSRS") and the Public Education Employee Retirement System ("PEERS") may receive yearly cost of living adjustments on monthly retirement allowances, but the total of the cost of living adjustments must not exceed 80% of a member's original monthly retirement allowance.

Under the provisions of this bill, the 80% limitation will be subject to annual increases approved by the Board of Trustees beginning December 31, 2025, and every December 31st thereafter, except the increases to the limitation must not exceed 1% per year. Additionally, if the investments of the system earn 2% or greater returns than the investment return rate adopted by the Board, the limitation on the total cost of living adjustments must be increased by 1%. However, the cost of living adjustments must not exceed 100% of a member's original monthly retirement allowance.

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

Julie Morff
Director
February 26, 2025

Jessica Harris
Assistant Director
February 26, 2025