COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1732H.02P
Bill No.: Perfected HCS for HB 811
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Education, Elementary and Secondary; Teachers
Type: Original
Date: March 9, 2021

Bill Summary: This proposal modifies provisions relating to teacher and school employee retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
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 2022	FY 2023	FY 2024
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
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 2022	FY 2023	FY 2024
Local Government	**$0**	**$0 or Unknown**	**$0 or Unknown**

FISCAL ANALYSIS

ASSUMPTION

§169.560 - Pay Limit

Officials from the **Joint Committee on Public Employee Retirement** state the PSRS/PEERS has provided two cost studies to the JCPER that were prepared by its external actuary, PWC.

- For PSRS, PWC writes that "…the proposed change is expected to have an insignificant fiscal impact to PSRS."
- For PEERS, PWC writes that "…the proposed change is expected to be an insignificant fiscal gain to PEERS."

A cost estimate as requested by the **Public Schools and Education Employee Retirement Systems** states:

PEERS Analysis
RSMo 169.560 Paragraph 2, would be amended to increase the pay-based limit on working after retirement applied to members of the Public School Retirement System ("PSRS") who retire, commence their PSRS retirement allowance, and subsequently return to work in positions that do not require DESE certification and are otherwise covered by PEERS. The limit would be increased from 60% of the minimum teacher salary (currently 60% of $25,000, or $15,000) to the federal social security annual earnings exemption amount ($18,960 for 2021 and indexed in future years).

An increase to the pay-based limit on working after retirement under RSMo, 169.560 Paragraph 2, would provide greater incentive for retired PSRS members to return to work and greater ability for school districts to replace full-time PEERS employees with multiple part-time employees. This could impact the level of active membership in PEERS over time. However, contributions from school districts related to such employees are paid to PEERS without an accrual of benefits in PEERS. For these reasons, the proposed change is expected to be an insignificant fiscal gain to PEERS.

PSRS Analysis

RSMo 169.560 Paragraph 2, would be amended to increase the pay-based limit on working after retirement applied to PSRS members who retire, commence their PSRS retirement allowance, and subsequently return to work in positions that do not require DESE certification and are otherwise covered by the Public Education Employee Retirement System ("PEERS"). The limit would be increased from 60% of the minimum teacher salary (currently 60% of $25,000, or $15,000) to the federal social security annual earnings exemption amount ($18,960 for 2021 and indexed in future years).

An increase to the pay-based limit on working after retirement under RSMo, 169.560 Paragraph 2, would provide greater incentive for retired PSRS members to return to work and greater ability for school districts to replace full-time PEERS employees with multiple part-time employees. This could impact the level of active membership in PEERS over time, but is not expected to impact PSRS membership. Contributions from school districts related to such employees are also paid to PEERS, not PSRS. Finally, PSRS members who choose to return to work after retirement rarely exceed the limitations that would cause their retirement allowance to be suspended. For these reasons, the proposed change is expected to have an insignificant fiscal impact to PSRS.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this provision.

House Amendment (HA) 1: §169.596 – Critical Shortage

Officials from the **JCPER** state the PSRS/PEERS has provided two cost studies to the JCPER that were prepared by its external actuary, PWC.

- For PSRS, PWC writes that "…we estimate the impact of the proposed critical shortage modifications to be an insignificant fiscal gain to PSRS."
- For PEERS, PWC writes that "…we estimate the impact of the proposed critical shortage modifications to be an insignificant fiscal gain to PEERS."

A cost estimate as requested by the **Public Schools and Education Employee Retirement Systems** states:

PEERS Analysis
The critical shortage modifications proposed will increase the length of time that retired members can be rehired in any capacity from two years to four years. This proposal will expand the potential pool of eligible retired members that employers may hire, or retain, under an established critical shortage declaration.

However, PWC would not expect a change in active member retirement patterns as a result of employers utilizing a critical shortage declaration to fill vacant positions due to the various limiting conditions established, including:

- Employers must first make the good faith efforts noted above to fill open positions with non-retired members.
- PEERS employers are required to contribute 6.86% of covered payroll for PEERS retirees that are rehired under critical shortage. So, in addition to good faith efforts to fill open positions with non-retired members required above, employers would have a financial incentive to seek new full-time members that are not limited in the term of their employment, or part-time retirees under the current WAR limitations where no contribution rate would be required.

In summary, due to the limiting conditions noted above, PWC would expect the proposed changes to have little or no impact on active member retirement patterns or enable a change in hiring practices by employers to favor retirees over new employees. As a result, contributions to PEERS as a result of the critical shortage modifications would result in an actuarial gain as no additional benefits would be accrued and since employer contributions would be made on all earnings for each retiree rehired under a critical shortage declaration. Therefore, PWC estimate the impact of the proposed critical shortage modifications to be an <u>insignificant fiscal gain to PEERS.</u>

<u>PSRS Analysis</u>
The critical shortage modifications proposed will increase the length of time that retired members can be rehired in any capacity from two years to four years. This proposal will expand the potential pool of eligible retired members that employers may hire, or retain, under an established critical shortage declaration.

However, PWC would not expect a change in active member retirement patterns as a result of employers utilizing a critical shortage declaration to fill vacant positions due to the various limiting conditions established, including:

- Employers must first make the good faith efforts noted above to fill open positions with non-retired members.

- PSRS employers are required to contribute 9.67% of covered payroll for PSRS retirees that are rehired under critical shortage. So, in addition to good faith efforts to fill open positions with non-retired members required above, employers would have a financial incentive to seek new full-time members that are not limited in the term of their employment, or part-time retirees under the current WAR limitations where no contribution rate would be required.

In summary, due to the limiting conditions noted above, PWC would expect the proposed changes to have little or no impact on active member retirement patterns or enable a change in hiring practices by employers to favor retirees over new employees. As a result, contributions to PSRS as a result of the critical shortage modifications would result in an actuarial gain as no additional benefits would be accrued and since employer contributions would be made on all earnings for each retiree rehired under a critical shortage declaration. Therefore, PWC estimate the impact of the proposed critical shortage modifications to be an <u>insignificant fiscal gain to PSRS.</u>

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this provision.

House Amendment (HA) 2: §169.070 Benefit Multiplier

Officials from the **JCPER** state the PSRS/PEERS has submitted a cost study to the JCPER that was prepared by its external actuary, PWC. The cost study estimates a decrease in the actuarially determined contribution rate of (0.37%) from the current ADC rate of 28.86% to 28.49%. The JCPER notes that this estimated change in the actuarially determined contribution rate would constitute a "substantial proposed change" as defined in section 105.660(10), which requires the preparation of an actuarial cost statement as provided in sections 105.665 and 105.670. An actuarial cost statement has not been provided to the JCPER as of 3/8/21.

A cost study as requested by the **Public Schools and Education Employee Retirement Systems** states:

Current Plan Provisions: Members who are eligible to receive a Normal (Unreduced) Retirement Benefit receive an amount equal to 2.50% of Final Average Salary for each year of Membership Service. A minimum benefit applies for Members with at least 15 years of Creditable Service and varies from $600/month at 15 years of Creditable Service to $1,200/month at 30 years of Creditable Service. Benefits are also subject to a maximum equal to 100% of the Member's Final Average Salary at the time of retirement.

Proposed modification to Plan Provisions: Members retiring with at least 32 years of Membership Service will receive a benefit equal to 2.55% of Final Average Salary for each year of Membership Service.

Based on the retirement experience observed prior to July 1, 2014 when the 2.55% benefit formula multiplier was previously available to members after 31 years of service, we expect a larger percentage of active members to continue working and delay retirement until they earn 32 years of service if the proposed changes are enacted. Delaying retirement until after 32 or more years of service in order to receive the 2.55% benefit formula multiplier would result in a higher monthly benefit for PSRS members who do so. However, the present value of the delayed monthly benefit is less than the present value of an unreduced benefit commencing immediately upon reaching 30 years of service under the 2.50% benefit formula multiplier based on the current discount rate, salary growth, cost-of-living increase, and mortality assumptions. The reasons are that delaying retirement would:

- result in the member forgoing receipt of benefit payments and reduce the period of time that the participant would receive pension payments; and
- delay future cost-of-living adjustments, to the extent future cost-of-living increases are offered

As such, the PVFB for current PSRS members is estimated to decrease when the 2.55% benefit formula is available because a larger percentage of members are assumed to delay retirement until they earn 32 years of service or more. To the extent members do not change retirement behavior and the assumptions are unchanged, the impact of the benefit change would be an increase in PVFB, as those that are currently assumed to retire on or after 32 years of service will receive a larger benefit after the amendment.

Based on the analysis by PWC, **Oversight** assumes this proposal increases the benefit payout for those with 32 years of service which could result in a reduction in the employers' contribution rate. The decrease in the contribution rate is based on a reduction in the present value of future benefits (PVFB) because members delay retirement which reduces the period of time a member would receive benefits and delays potential cost of living adjustments. Oversight will show a possible reduction in the employer contribution rate for this provision.

<u>Responses regarding the proposed legislation as a whole</u>

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

Current Status of the Public School Retirement System (PSRS) as of June 30, 2020:

Active members: 78,848
Inactive members: 83,014 (includes retired, surviving beneficiary, disabled and terminated vested)
Funded Ratio

Market Value of Assets:	$40,710,304,168	84.6%
Actuarial Value of Assets:	$41,705,058,666	84.4%
Liabilities:	$49,641,020,407	

Covered Payroll: $4,919,286,106

Recommended Contribution for FY 2022: 29% - Employers and employees contribute in equal amounts of 14.5%.

Percent	Dollars (Estimated)	
Employer	14.5%	$713,296,485 estimated
Employee	14.5%	$713,296,485 estimated
Total	29.0%	$1,426,592,970 estimated

Current Status of the Public Education Employee Retirement System (PEERS) as of June 30, 2020

Funded Ratio

Market Value of Assets:	$5,118,843,873	84%
Actuarial Value of Assets:	$5,257,846,689	86%
Liabilities:	$6,089,401,204	

Covered Payroll: $1,732,243,294

Recommended Contribution for FY 2021: 13.72%. Employers and employees contribute in equal amounts of 6.86%.

Percent	Dollars (Estimated)	
Employer	6.86%	$118,831,890 estimated
Employee	6.86%	$118,831,890 estimated
Total	13.72%	$237,663,780 estimated

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
	$0	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
SCHOOL DISTRICTS & COMMUNITY COLLEGES			
Savings - decrease in the actuarial determined contribution rate	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS & COMMUNITY COLLEGES	**$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

§169.560 - Pay Limit

Currently, any teacher retired from the Public School Retirement System of Missouri can be employed in a position covered under the Public Education Employee Retirement System (PEERS) without stopping their retirement benefit. Such teacher may earn up to 60% of the minimum teacher's salary as set forth in Section 163.172, RSMo, and will not contribute to the retirement system or earn creditable service.

This bill will allow such teacher to earn up to the annual earnings amount applicable to a Social Security recipient before the calendar year of attainment of full retirement age under 20 CFR 404.430.

§169.596 Critical Shortage
Currently, a retired teacher or a retired non-certificated employee who is receiving a retirement benefit from the Public School Retirement System of Missouri or the Public School Retirement System of Missouri is allowed to work full time for up to two years for a school district covered by such retirement system if the system has a shortage of certified teachers or non-certificated employees. This bill allows these employees to work full time up to four years for such districts.

§169.070 Benefit Multiplier
This provision repeals the July 1, 2014, termination date of a provision allowing members of the Public School Retirement System of Missouri who have 31 or more years of creditable service to have their retirement allowance calculated using a multiplier of 2.55%.

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
March 9, 2021

Ross Strope
Assistant Director
March 9, 2021