

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3862-01
Bill No.: HB 1467
Subject: Retirement Systems and Benefits - General; Retirement - Local Government;
Political Subdivisions; Counties; Cities, Towns and Villages
Type: Original
Date: January 9, 2020

Bill Summary: This proposal modifies provisions relating to Missouri LAGERS.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Section 70.705 - Member Contributions

Officials from **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal has no direct fiscal impact to the JCPER. The JCPER's review of this legislation indicates that it would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10), RSMo.

Current Status of LAGERS:

As of February 28, 2019 actuarial valuation:

		Funded Ratio
Market Value of Assets:	\$7,749,029,831	95.5%
Actuarial Value of Assets:	\$7,698,244,648	94.9%
Liabilities:	\$8,113,100,648	

Covered Payroll as of February 28, 2019: \$1,682,772,357

Current Employee Contribution Rate Options: Section 70.705 permits each LAGERS member political subdivision to elect for its employees to contribute 0% of compensation or 4% of compensation to LAGERS.

Officials from **Local Government Employees Retirement System (LAGERS)** estimate that the implementation of this proposal would require programming changes to LAGERS' pension administration system that would result in a one-time cost of approximately \$86,000 to the system. The additional programming within the system would be necessary to allow for the two new employee contribution options provided in the proposal as well as to provide the option for multiple employee contribution elections for any employer with both non-social security covered employees and social security covered employees who are covered under different benefit multipliers. LAGERS estimates no other on-going fiscal impact to the system.

In response to a similar proposal, SB 768 (2020), **LAGERS** stated should an employer in LAGERS elect an alternate employee contribution amount, the employer's contribution rate could be correspondingly impacted.

For example, currently employers in LAGERS have the option to require no employee contributions or a 4% contribution. Should an employer elect to go from a 4% employee

ASSUMPTION (continued)

contribution to a 0% employee contribution, we would generally expect the employer's contribution rate to increase to offset the removal of the employees' contribution. We would expect a similar impact with the addition of a 2% and 6% option. With that said, the actual amount that a rate may change will vary from employer to employer because every employer in our system is valuated separately and any changes to an employer's contribution rate are subject to the experience of that unique employer.

As with all benefit options in LAGERS, the addition of a 2% and 6% contribution amount would be a strictly optional election at the local level.

Pursuant to RSMo 105.665, an employer's decision to change employee contribution amounts would be considered a substantial proposed change in benefits which would require the employer to first obtain an actuarial cost statement to assess the specific impact on the employer's contribution rate. Furthermore, pursuant to RSMo 105.675, the employer would be required to post the cost statement for public inspection for 45 calendar days prior to the employer's governing body approving any change.

Oversight notes that LAGERS is not a political subdivision therefore will not reflect an impact to their organization in the fiscal note.

Officials from the **City of Columbia** assume the proposal will not have a fiscal impact on the City of Columbia. Our LAGERS plan is currently non-contributory. The City pays the entire contribution required to fund out LAGERS benefit.

It does give political subdivisions alternatives for contributory plans (where employees contribute a portion of their pay to fund the pension). Instead of 4% as the only option, we now could choose 2% or 6% contribution rates. And, if we moved back to a contributory plan, whatever percentage we would elect for employee contributions would theoretically lower the cost of pension contributions of the City.

Officials from the **City of Springfield** and the **City of Kansas City** each assume the proposal will have no fiscal impact on their organization.

In response to a similar proposal, SB 768 (2020), officials from **Buchanan County** stated they do not have employee contributions. They are an employer contributing county in our LAGERS retirement.

ASSUMPTION (continued)

Oversight notes this proposal would allow each political subdivision the option to choose an alternate member contribution rate of either 2% or 6% of the members' compensation. Currently, the member contributions can be either 0% or 4% of their compensation. Any decrease in the members' contributions could result in an increase in the employers' contributions. And any increase in the members' contributions could potentially decrease the employers' contributions.

Additionally, **Oversight** notes this proposal allows political subdivisions the option to elect one contribution plan for members covered by Social Security and a different contribution plan for those members who are not covered by Social Security.

Oversight will show a range of \$0 (no local political subdivisions elect to change the member contribution rate) or an unknown savings to an unknown cost for local political subdivisions depending on the changes implemented by the governing body. Oversight assumes this proposal is discretionary and would have no local fiscal impact without action taken by the governing bodies.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
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LOCAL POLITICAL SUBDIVISIONS

<u>Cost/Savings</u> - employer contributions - §70.705 - could change	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)
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ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (Unknown)</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill modifies the Local Government Employees Retirement system member employer contribution elections for retirement benefit funding. Currently, an employer can elect to cover the full cost of funding the retirement benefit of its eligible employees or require all eligible employees to contribute 4% of their gross wages to help pay for the retirement benefit. This bill expands the available contribution options by allowing employers to additionally elect a 2% or 6% contribution rate that all eligible employees would make to help pay for the retirement benefit.

The bill allows a political subdivision to elect one benefit program for members whose employment is concurrently covered by federal Social Security and a different benefit program for members whose employment is not concurrently covered by federal Social Security, as provided in Section 70.655, RSMo. The political subdivision is also allowed, by majority vote of the governing body, to make one election concerning member contributions for members concurrently covered by federal Social Security and one election concerning member contributions for members whose employment is not concurrently covered by federal Social Security.

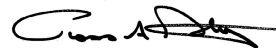
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Local Government Employees Retirement System
City of Springfield
City of Columbia
City of Kansas City
Buchanan County



Julie Morff
Director
January 9, 2020



Ross Strobe
Assistant Director
January 9, 2020