

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5386-01
Bill No.: HB 2460
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Teachers;
Elementary and Secondary Education
Type: Original
Date: March 9, 2020

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 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 9 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	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

At the time this fiscal note was completed, **Oversight** had not received an actuarial cost statement from the retirement system. Oversight has presented this fiscal note on the best current information available. Upon the receipt of an actuarial cost statement, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Officials from **Joint Committee on Public Employee Retirement (JCPER)** assume this proposal modifies multiple provisions relating to working after retirement for members of the PSRS and PEERS including the creation of an emergency substitute teacher pool track. JCPER assumes this proposal has no fiscal impact to the Joint Committee on Public Employee Retirement.

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, RSMo. 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.

Current Status of the Public School Retirement System (PSRS):

As of December 19, 2019

		Funded Ratio
Market Value of Assets:	\$40,593,758,865	84.6%
Actuarial Value of Assets:	\$40,498,478,562	84.4%
Liabilities:	\$47,973,829,236	

Covered Payroll, June 30, 2019: \$4,844,248,703

Recommended Contribution for FY 2020: 29% - Employers and employees contribute in equal amounts of 14.5%.

	<u>Percent</u>	<u>Dollars (Estimated)</u>
Employer	14.5%	\$702,416,062 estimated
Employee	14.5%	<u>\$702,416,062 estimated</u>
Total	29.0%	\$1,404,832,124 estimated

ASSUMPTION (continued)

Current Status of the Public Education Employee Retirement System (PEERS):

As of June 30, 2019

		Funded Ratio
Market Value of Assets:	\$5,018,523,615	86.4%
Actuarial Value of Assets:	\$5,019,868,477	86.4%
Liabilities:	\$5,809,484,699	

Covered Payroll: \$1,749,884,052

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

	<u>Percent</u>	<u>Dollars (Estimated)</u>
Employer	6.86%	\$120,042,046 estimated
Employee	6.86%	\$120,042,046 estimated
Total	13.72%	\$240,084,092 estimated

Officials from the **Wellsville-Middletown R-1 School District** assume the proposal will have an unknown fiscal impact on their organization.

Officials from the **Shell Knob School District** assume the proposal will have no fiscal impact on their organization.

Officials from **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** assume this legislation makes two significant changes to the Public School and Education Employees Retirement Systems (PSRS/PEERS):

1. Changes the Critical Shortage Exemption from two years to four years, and
2. Creates Missouri Emergency Substitute Teacher Pool.

The Systems have an actuary firm, PricewaterhouseCoopers (PWC), that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. PWC is still working on the completion of a cost statement on HB 2460. As soon as the cost statement is completed, we will be updating our fiscal note response to include their analysis and cost statement.

Critical Shortage Exemption Revision

This proposed legislation makes changes to the critical shortage statute, 169.596. As of last

ASSUMPTION (continued)

school year, PSRS/PEERS had around 150 retired teachers who have returned to work under the critical shortage statute. Their average earning was approximately \$47,400 for PSRS and around \$17,800 for PEERS.

The Critical Shortage Employment Exception found in Section 169.596, RSMo is a statutory provision which allows covered employers who meet certain requirements (as set forth in statute) to employ PSRS/PEERS retirees up to full-time without affecting the payment of their retirement benefits. In order to employ retirees up to full-time under this provision, the employer must:

- Not have offered early retirement incentives (not early retirement notification) for either of the previous two school years
- Post the vacancy or vacancies for at least one month
- Solicit applications through the local newspaper, other media, or teacher education programs
- Make a good faith effort to fill positions with non-retired employees
- Determine there is an insufficient number of eligible applicants for the advertised position(s)
- Declare a shortage of certificated or non-certificated employees

During the two years of Critical Shortage employment, employer contributions must be made on all salary earned, including employer-paid medical insurance premiums and pay for additional duties. The retired members employed under this provision continue to receive benefits, but do not contribute to PSRS/PEERS or earn service. By statute, districts cannot use the Critical Shortage Employment Exception to fill the position of superintendent.

If a covered district declares a critical shortage of either certificated or non-certificated employees, they can hire up to 10% of the certificated (or non-certificated) staff, not to exceed five individual PSRS retirees to teach, or five individual PEERS retirees to work, for up to two years under this provision (24 months). The two years of employment do not have to be consecutive - there can be breaks in the employment. However, the total time worked by each retiree cannot exceed two years at all covered districts.

HB 2460 allows retirees to return to work under the Critical Shortage Exemption statute up to four years (versus the current two-year restriction). PWC is still working on the completion of a cost statement on HB 2460 - Critical Shortage Exemption Change as seen in HB 2291). As soon as the cost statement is completed, we will be updating our fiscal note response to include their analysis and cost statement.

ASSUMPTION (continued)

Missouri Emergency Substitute Teacher Pool

Currently, there are limits on the employment of both PSRS and PEERS retirees with a PSRS- or PEERS-covered employer as established under section 169.560, RSMo. If the retiree exceeds these statutory limits, the retiree is no longer eligible to receive a PSRS/PEERS retirement benefit until working after retirement employment has stopped for the school year in any of the covered employers. PSRS had over 8,400 retirees return to work under the 550 hour/50% salary limitation last school year. Of those retirees, 92.2% earned less than \$25,000. PEERS had 2,006 retirees who returned to work under 550 hours of which 99.3% earned less than \$25,000. There are two limits on the retiree's certificated employment with all PSRS/PEERS-covered employers:

1. Certificated employment with a PSRS covered employer is limited to no more than 550 hours, during any school year without a loss of benefits, exactly the same as the limit for PEERS retirees in non-certificated employment; and

2. The PSRS retiree, through certificated employment, cannot earn more than 50% of pay the individual could have earned, based on education and experience, employed full time in that position with that particular employer. The PSRS retiree only has to exceed one of these limits, not both, to become ineligible for benefits. There is a separate limitation for PSRS retirees who return to work for a covered employer under non-certificated employment without losing their retirement benefit:

1. A PSRS retiree can earn up to \$15,000 each full school year (July 1 - June 30) for non-certificated employment.

2. The \$15,000 per school year statutory limit is 60% of the minimum teacher's salary as set by Missouri law (currently \$25,000 per year).

This proposal creates another alternative avenue for working after retirement for our PSRS and PEERS retirees without impacting their retirement benefit with the creation of the Missouri Emergency Substitute Teacher Pool.

Each school year each of PSRS/PEERS' employers must notify the Systems by September 10th of each school year of it's wishes to utilize the emergency substitute teacher pool. The pool allows any retired member of the Public School Retirement System or the Public Education Employee Retirement System to be employed as a temporary or long-term substitute under the provisions of the emergency substitute teacher pool without impacting their retirement benefit.

ASSUMPTION (continued)

- a. A PSRS/PEERS retiree can earn up to the federal social security annual earnings exemption amount applicable as of the preceding January (\$18,240)
- b. There is no hourly limitation on those hours worked under the Pool.
- c. Employers who utilize this Pool are required to pay the employer's contribution rate at 2/3's the rate.
- d. Retirees who work under the provision for the Pool do not contribute and do not earn memberships service.

PSRS/PEERS retiree can work under the 550/50% working after retirement restrictions, but a retiree will also have to comply with the Pool's salary limitations. School districts who don't elect the Pool will default into 550 hour /50% salary for their classroom substitute teacher positions. A PSRS/PEERS retiree may also work under the critical shortage exemption statute. Community colleges and education associations employers are exempt from this provision. The provisions in this section sunset on June 30, 2024. PWC is still working on the completion of a cost statement on HB 2460 - Missouri Emergency Substitute Teacher Pool. As soon as the cost statement is completed, we will be updating our fiscal note response to include their analysis and cost statement.

Oversight assumes this proposal would allow employees in critical shortage areas to continue to work full-time after two years for up to four years without losing their retirement benefits. Per PSRS/PEERS, there were 41 members who placed their benefits on hold for last school year. PSRS is uncertain if that is solely for those returning from critical shortage or if that is under the 550 / 50% limitation.

In addition, this proposal creates the Missouri Emergency Substitute Pool which allows retired employees to work as temporary or long-term substitutes without impacting their retirement benefits (within certain limitations).

Oversight assumes this proposal could have a negative impact on the retirement system, and subsequently, could require higher contributions by member employers, local school districts and community colleges. Oversight will show an unknown cost to local school districts and community colleges.

<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
SCHOOL DISTRICTS & COMMUNITY COLLEGES			
Cost - potential increased contributions to the PSRS/PEERS system	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS & COMMUNITY COLLEGES	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Currently, a retired teacher or a retired noncertificated 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 noncertificated employees. This bill allows these employees to work full time up to four years for such districts.

The bill also creates a Missouri Emergency Substitute Teacher Pool. By September 10th of each school year each participating district must notify the system of it's desire to utilize the emergency substitute teacher pool. The pool allows any retired member of the Public School Retirement System or the Public Education Employee Retirement System to be employed as a temporary or long-term substitute under the provisions of the emergency substitute teacher pool and still receive his or her monthly retirement benefit. The provisions in this section sunset on June 30, 2024.

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 School and Education Employee Retirement Systems
Wellsville-Middletown R-1 School District
Shell Knob School District



Julie Morff
Director
March 9, 2020



Ross Strobe
Assistant Director
March 9, 2020