COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4370H.01I
Bill No.: HB 1881
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Education, Elementary and Secondary; Teachers
Type: Original
Date: February 18, 2022

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 2023	FY 2024	FY 2025
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from **Joint Committee on Public Employee Retirement (JCPER)** have reviewed this proposal and determined there is 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. 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:

As of June 30, 2021

		Funded Ratio
Market Value of Assets:	$50,620,519,084	95.8%
Actuarial Value of Assets:	$45,033,547,987	85.2%
Liabilities:	$52,834,296,831	

Covered Payroll: $5,039,838,429

Recommended Contribution rate for FY 2022: 29%

	Percent	Dollars (Estimated)
Employer	14.5%	$730,776,572 estimated
Employee	14.5%	$730,776,572 estimated
Total	29.0%	$1,461,553,144 estimated

Current Status of the Public Education Employee Retirement System:

As of June 30, 2021

		Funded Ratio
Market Value of Assets:	$6,453,161,951	98%
Actuarial Value of Assets:	$5,756,526,469	88%
Liabilities:	$6,560,854,343	

Covered Payroll: $1,758,535,339

Recommended Contribution rate for FY 2022: 13.72%

	Percent	Dollars (Estimated)
Employer	6.86%	$120,635,524 estimated
Employee	6.86%	$120,635,524 estimated
Total	13.72%	$241,271,048 estimated

Officials from **Public Schools and Education Employee Retirement Systems** state this legislation makes changes to the critical shortage statute, 169.596 for the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System (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.

This proposal allows retirees to return to work under the Critical Shortage Exemption statute up to four years versus the current two-year restriction.

For the 2020-2021 fiscal year, PSRS/PEERS had 125 retired members who returned to work under the critical shortage statute. Their average earnings were approximately $51,900 for PSRS and approximately $23,200 for PEERS.

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.

Due to the limiting conditions noted above, PWC expects the proposed changes to have little or no impact on active member retirement patterns or enable a significant change in hiring practices by employers to favor retirees over new employees. Contributions to PSRS due to 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, we estimate the impact of the proposed critical shortage modifications to be an **insignificant fiscal gain** to PSRS.

PWC expects the proposed changes to have little or no impact on active member retirement patterns or enable a significant change in hiring practices by employers to favor retirees over new employees. Contributions to PEERS due to 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 estimates the impact of the proposed critical shortage modifications to be an **insignificant fiscal gain** to PEERS.

Oversight assumes any fiscal impact resulting from this proposal would be insignificant and therefore will reflect a zero fiscal impact in this fiscal note.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
	$0	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
	$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

Currently, a retired teacher or a retired non-certificated employee who is receiving a retirement benefit from 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.

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

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February 18, 2022

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February 18, 2022