COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1795H.01I
Bill No.: HB 867
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Teachers; Education, Elementary and Secondary
Type: Original
Date: April 10, 2023

Bill Summary: This proposal modifies provisions relating to public school retirement systems and exemptions for working after retirement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Total Estimated Net Effect on FTE	**0**	**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 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Local Government	**$0**	**$0**	**$0 or (Unknown, Could exceed $4,000,000 to $5,000,000)**	**$0 or (Unknown, Could exceed $4,000,000 to $6,000,000)**

FISCAL ANALYSIS

ASSUMPTION

Officials from **Joint Committee on Public Employee Retirement (JCPER)** state the proposal has no direct fiscal impact to the Joint Committee on Public Employee Retirement. The JCPER's review of this legislation indicates it will not affect retirement plan benefits as defined in Section 105.660(9).

Current Status of the Public School Retirement System (PSRS) as of June 30, 2022:

Active members: 78,973
Inactive members: 87,096 (includes retired, surviving beneficiary, disabled and terminated vested)

		Funded Ratio
Market Value of Assets:	$47,671,054,492	
Actuarial Value of Assets:	$47,185,300,000	85.2%
Liabilities:	$55,405,259,756	

Covered Payroll: $5,271,368,324

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

Percent	Dollars (Estimated)	
Employer	14.5%	$764,348,407 (estimated)
Employee	14.5%	$764,348,407 (estimated)
Total	29.0%	$1,528,696,814 (estimated)

Current Status of the Public Education Employee Retirement System (PEERS) as of June 30, 2022:

Active Members: 50,179
Inactive Members: 81,318 (includes retired, surviving beneficiary, disabled and terminated vested)

		Funded Ratio
Market Value of Assets:	$6,153,590,531	
Actuarial Value of Assets:	$6,113,154,000	87.3%
Liabilities:	$6,998,708,341	

Covered Payroll: $1,864,704,185

Recommended contribution rate for FY2022: 13.72%. Employers and employees contribute in equal amounts of 6.86%.

	Percent	Dollars
Employer	6.86%	$127,918,707 (estimated)
Employee	6.86%	$127,918,707 (estimated)
Total		$255,831,414 (estimated)

Officials from **Public Schools and Education Employee Retirement Systems (the Systems)** state 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.

This legislation makes changes to the working after retirement limits, for the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System (PEERS).

<u>Working After Retirement – Part time or Temporary Substitute Basis</u>

CCS#2 HCS SS SCS SBs 681 and 682 (SB 681) was signed by Governor Parsons on July 1, 2022. SB 681 currently allows individuals who are receiving a retirement benefit from PSRS or PEERS to substitute teach on a part-time or temporary substitute basis in a covered school district without a discontinuance of the person's retirement benefit through June 30, 2025. The provisions only apply to part-time or temporary substitute teaching. Employer contributions are paid to PEERS for these individuals. The members do not accrue additional retirement benefits.

This proposal as currently drafted extends this provision through June 30, 2027.

<u>Working After Retirement – Suspension of ALL Working After Retirement Limits for Non-Certified Positions</u>

This proposal adds a new subsection to 169.560. Subsection 169.560.3 suspends ALL working after retirement limits, beginning with the 2023-2024 school year until June 30, 2027, for both PSRS and PEERS retirees working in a non-certificated position. HB 867 does not require employer or member contributions and members do not accrue additional retirement benefits.

<u>Actuarial Cost Statement</u>

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. Their analysis of HB 867 is discussed below.

Last year, the Systems' actuaries emphasized the importance of the temporary nature of the suspension of working after retirement limits as related to part-time and temporary substitute teaching (through June 30, 2025, as implemented with SB 681) and its application to only part time or temporary substitute teaching. They further cautioned a permanent increase or removal of these limitations would likely come with a significant fiscal cost and would go against the fundamental goal of a pension system to provide income in retirement, not during active employment.

The Systems' actuaries cautioned against extending the suspension of the working after retirement limitations as doing so would give active members greater time and ability to plan their retirement to take advantage of the suspended limits. HB 867 would extend the time period of the suspension related to part-time and temporary substitute teaching, and also expand upon it to suspend the limitations for retired members who return to work in any capacity in non-certificated positions. Further extending the suspensions of the working after retirement limitations may lead to active members anticipating such extensions and more frequently deciding to retire earlier and then return to work.

The current provisions for working after retirement in sections 169.560 and 169.660 strike a delicate balance between creating a pool of qualified individuals that can be employed to provide part-time or temporary substitute teaching or other services, but without permitting or incentivizing employers to hire multiple retired members on a parttime basis in lieu of full-time employees, or permitting or incentivizing active members to retire early, commence their retirement allowance, and then return to work on a fulltime basis in order to effectively receive two incomes. Such behavior could have a significant impact on the cost of PSRS as earlier retirement by active members could increase the Unfunded Actuarial Accrued Liability and result in a decrease in covered payroll which would increase the Actuarially Determined Contribution Rate.

The changes proposed in this legislation could result in a significant change in behavior. Some active members may find these provisions to be an attractive opportunity to phase into retirement earlier than they had planned. In addition, the proposed changes to RSMo 168.036 and RSMo 169.560 would give employers a greater ability to replace full-time active employees with rehired retirees, allowing employers to save on the cost of contributions to PSRS (for part-time or temporary substitute teaching positions) or PEERS (for all non-certificated positions).

The cost statements show the estimated impact to the liabilities and the actuarially determined contribution rate of both PSRS and PEERS associated with possible behavior changes. While the actuaries show two scenarios with a fiscal cost, they note that it is also possible for PSRS and PEERS to experience no fiscal cost related to these changes depending on whether or not active members and employers change their behavior as a result. To the extent there is little to no change in behavior, the results would be consistent with the baseline results provided. It is important to review the attached cost statement in its entirety.

In addition, the Systems' actuaries have included the approximate fiscal impact if the suspension of the limitations were effectively permanent. For PSRS, if the suspension of the working after retirement limitations continue to be extended in future years beyond 2027 for rehired retirees in part-time or temporary substitute teaching positions and noncertificated positions, the PVFB would increase by approximately $61.2 million to $82.3 million and the ADC rate would increase by approximately 1.09% to 1.13% (assuming the retirement rates from Scenario A and Scenario B in all future years along with a 3% decrease in covered payroll), compared to the baseline results shown. For PEERS, if the suspension of the working after retirement limitations continue to be extended indefinitely beyond 2027 for rehired retirees in non-certificated positions, the PVFB would increase by approximately $20.8 million to $31.8 million and the ADC rate would increase by approximately 1.11% to 1.16% (assuming the retirement rates from Scenario A and Scenario B in all future years along with a 6% decrease in covered payroll), compared to the baseline results shown.

Oversight notes the actuarial analysis by PWC noted the following increase anticipated to the employer (school) contributions (in millions):

PSRS	2024	2025	2026	2027
Baseline	$773	$776	$768	$812
Scenario A	$773	$776	$771	$815
Scenario B	$773	$777	$772	$817

PEERS	2024	2025	2026	2027
Baseline	$130	$131	$130	$136
Scenario A	$130	$131	$131	$137
Scenario B	$130	$131	$131	$137

Oversight will show a range of impact to employer members (school districts and community colleges) of $0 (no-change in retirement behavior) to the costs provided in the actuarial cost statement beginning in FY 2026 and ending on June 30, 2027.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2027)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2027)
SCHOOL DISTRICTS & COMMUNITY COLLEGES				
Costs – School Districts – PSRS suspension of working after retirement limitations	$0	$0	$0 or (Unknown, Could exceed $3,000,000 to $4,000,000)	$0 or (Unknown, Could exceed $3,000,000 to $5,000,000)
Costs – Community Colleges – PEERS suspension of working after retirement limitations	$0	$0	$0 or (Unknown, Could exceed $1,000,000)	$0 or (Unknown, Could exceed $1,000,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS & COMMUNITY COLLEGES	**$0**	**$0**	**$0 or (Unknown, Could exceed $4,000,000 to $5,000,000)**	**$0 or (Unknown, Could exceed $4,000,000 to $6,000,000)**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

For all school years beginning 2023-24 and ending on June 30, 2027, any person, regardless of having a certificate of license, who retired and is currently receiving a retirement allowance, other than for disability, may work for any employer included in any retirement system under Chapter 168, RSMo, regardless of the laws governing certification of teachers in Missouri and without discontinuation of the person's retirement allowance.

Similarly, a person who is currently receiving retirement allowance and who is employed by a third party or works as an independent contractor, may work for any employer included in any retirement system under Chapter 168, RSMo, regardless of the laws governing certification of teachers in Missouri and without discontinuation of the person's retirement allowance.

During the period of the school year beginning 2023-23 and ending on June 30, 2027, a person is not required to contribute to any retirement system because of earnings during such period of employment.

Beginning on June 30, 2022, and ending on June 30, 2027, any person who is retired and currently receiving a retirement allowance, other than for disability, may be employed to substitute teach on a part-time or temporary substitute basis by an employer who is in the retirement system, without a discontinuation of the person's 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

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April 10, 2023

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April 10, 2023