

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1195-01
Bill No.: HB 346
Subject: Education, Elementary and Secondary Retirement - Schools Retirement Systems and Benefits - General Teachers
Type: Original
Date: February 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other 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 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	(\$3,171,203)	(\$3,171,203)

***Does not reflect an increase in unfunded accrued actuarial liability of \$93,405,000 to Public School Retirement System and \$14,502,000 to the Non-Teacher Retirement System.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education (DESE)** state there may be a minimal administrative impact; however, the impact is not expected to be significant. It assumed the impact would be less than \$100,000 per year

Oversight assumes a minimal administrative impact cost could be absorbed by the Department of Elementary and Secondary Education.

Officials from the **Public School Retirement System (PSRS)** state this proposal will change the current method of establishing the contribution rate for the Public School Retirement System of MO only by charging the Board of Trustees with establishing the contribution rate based on the annual actuarial valuation. The proposal prohibits the rate from increasing more than 1/2% per year (employer and employee contributions) and will enable the system to amortize the UAAL over a 30-year period as required by the GASB. It requires an independent actuarial valuation at least every 10 years. It will simplify current service credit purchase formulas in both systems and will provide a no cost option for retirees enabling them to take a partial lump sum option at retirement; providing certain requirements are met. The proposal also extends the 25 and out set

window to 2008 for both PSRS and NTRS.

ASSUMPTION (continued)

Officials from the Public School Retirement System (PSRS) also state this proposal will cause the Unfunded Actuarial Accrued Liability (UAAL) to increase in PSRS by \$8.6 million and cause the contribution rate to increase 0.02% to 22.24% from the 22.22% required to amortize the UAAL over 30 years. In the Non-Teacher Retirement System, the UAAL will increase \$3.315 million and the contribution rate will need to be increased to 10.83% from the 10.80% currently needed to amortize the UAAL over 30 years should 25 and out be extended to 2008.

The **Joint Committee on Public Employee Retirement** indicates that this legislation does represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least five (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has been filed with the Joint Committee on Public Employee Retirement.

The actuarial cost statement provided to the Joint Committee on Public Employee Retirement by the Public School Retirement System/Non-Teacher Retirement System indicates an annual increase in employer contributions of \$2,410,096 and \$761,107 respectively.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<u>Costs - School Districts</u>			
Teacher and Employee Contributions	<u>\$0</u>	<u>(\$3,171,203)</u>	<u>(\$3,171,203)</u>

***Does not reflect an increase in unfunded accrued actuarial liability of \$93,405,000 to Public School Retirement System and \$14,502,000 to the Non-Teacher Retirement System.**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This bill revises various provisions of the Missouri Public School Retirement System.

PUBLIC SCHOOL RETIREMENT SYSTEM

In school districts with 300,000 residents or less, the bill:

- (1) Requires the Board of Trustees to determine and certify to the employers the level rate of contribution and specifies the time period the rate should be established;
- (2) Requires the level rate of contribution for a fiscal year not to exceed the rate of contribution for the prior fiscal year by more than 0.5%;
- (3) Requires the board to determine and certify the level rate of contribution for a fiscal year based on an actuarial valuation;
- (4) Requires the board to have an actuary conduct an actuarial valuation of the system and additional valuations at least once every 10 years;
- (5) Requires a member who is reinstated with the retirement system to effect reinstatement by repaying to the system accumulated contributions which are withdrawn or refunded prior to termination with the retirement system;
- (6) Allows members who have accrued at least one year of membership service credit and who have covered employment with the system following the credit being purchased to purchase membership service credit or equivalent service credit under certain terms and conditions;
- (7) Allows a member who has served in the armed forces and who is no longer in service to purchase membership service credit equivalent to the period of active duty service;
- (8) Extends the period of a certain retirement allowance computation provision (Option 1) from July 1, 2003, to July 1, 2008; and
- (9) Allows a member eligible for retirement who has not previously received a retirement allowance to elect to receive a partial lump-sum distribution based on an option plan. This election is based on years of creditable service and age and is subject to certain terms and conditions.

DESCRIPTION (continued)

GENERAL RETIREMENT PROVISIONS

The bill:

- (1) Allows members of specified public school retirement systems who have previous credit in another public school retirement system to purchase equivalent service credit in their present retirement system;
- (2) Allows members of specified retirement systems who are within five years of retirement to purchase additional creditable service;
- (3) Revises the health insurance benefits provision by allowing employees one year from the date of last employment to qualify for the coverage; and
- (4) Contains a provision which allows school districts with a shortage of certificated teachers to employ retired certificated teachers for up to two years. The teachers would not lose retirement benefits.

NON-TEACHER SCHOOL RETIREMENT SYSTEM

The bill:

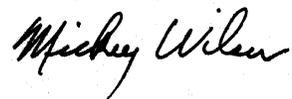
- (1) Requires a member who is reinstated with the retirement system to effect reinstatement by repaying to the system accumulated contributions which are withdrawn or refunded prior to termination with the retirement system;
- (2) Allows members who have accrued at least one year of membership service credit and who have covered employment with the system following the credit being purchased to purchase membership service credit or equivalent service credit under the terms and conditions;
- (3) Allows a member who has served in the armed forces and who is no longer in service to purchase membership service credit equivalent to the period of active duty service;
- (4) Revises a retirement allowance computation provision; and
- (5) Allows a member eligible for retirement who has not previously received a retirement allowance to elect to receive a partial lump-sum distribution based on an option plan. This election is based on years of creditable service and age and is subject to certain terms and conditions.

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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
Department of Elementary and Secondary Education
Public School Retirement System



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Director
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