

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1195-08
Bill No.: Truly Agreed to and Finally Passed SCS for HCS for HB 346 & 174
Subject: Education, Elementary and Secondary Retirement - Schools Retirement Systems and Benefits - General Teachers
Type: Original
Date: May 20, 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 9 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	(\$455,659)	(\$455,659)

***Does not reflect an increase in unfunded accrued actuarial liability of \$8,612,000 to Public School Retirement System and \$3,315,000 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 **Kansas City Public School Retirement System, St. Louis Public School Retirement System** and **St. Louis Public Schools** assume no fiscal impact to their agency.

Officials from the **Public School Retirement System (PSRS)** state this proposal will change the establishment and implementation of the contribution rate, modify the current method of service credit purchases, create a partial lump sum option, extend the 25 and out option to 2008, enable retirees to return to work for up to 2 years in a school district that has established a critical need to hire retirees, and changes the health insurance option timeframe for employees who leave a district. All of these provisions affect both the Public School and Non-teacher School Employee Retirement Systems of MO.

ASSUMPTION (continued)

The cost associated with the proposal pertains to the 25 and out option for both systems.

To extend 25 and out in PSRS, the actuarial accrued liability will increase \$8.61 million and cause the contribution rate to increase to 22.24% from a base contribution rate needed of 22.22% to amortize the UAAL over a 30 year period.

NTRS will see a 3.31% million increase of the AAL while the contribution rate of 10.80% needed to amortize over a 30 year period will increase to 10.83%.

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.

In regard to the Return to Work provisions (Section 169.596), it should be noted that the school district must pay the employer contribution. This change eliminates the fiscal impact to the retirement systems in relation to this part of the proposal.

Officials from the **Office of Secretary of State** assume this proposal provides for changes in the contribution rate, the purchase of credible service, lump sum distribution of benefits and allows retired teachers to return to employment without loss of benefits for a specified period of time and allows for job-sharing positions for classroom teachers. The Public School Retirement System of Missouri and the State Board of Education shall promulgate rules to implement this legislation. These rules will be published in both the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the Public School Retirement and the State Board of Education could require as many as 50 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27.

ASSUMPTION (continued)

The actual cost could be more or less than the numbers given the impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn. [(4x\$27)+(6x\$23)=\$246]

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Job-Sharing Provisions

Officials from the **Public School Retirement of Missouri** and the **Non-Teacher Retirement System of Missouri (PSRS/NTRS)** assumed this proposal will have no fiscal impact on the retirement system.

In a similar proposal, officials from the **Department of Elementary and Secondary Education (DESE)** indicated there would be no fiscal impact to their agency; however, local school districts could likely see increased administrative costs. DESE could not estimate to what extent administrative costs would increase. The increase would be contingent upon the level of participation in job-sharing by classroom teachers statewide.

Oversight assume administrative costs associated with the job-sharing program would not be material, and could be absorbed with existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2004	FY 2005	FY 2006
<u>Costs - School Districts</u>			
Teacher and Employee Contributions	<u>\$0</u>	<u>(\$455,659)</u>	<u>(\$455,659)</u>

***Does not reflect an increase in unfunded accrued actuarial liability of \$8,612,000 to Public School Retirement System and 3,315,000 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 substitute revises various provisions of the Missouri Public School Retirement System.

PUBLIC SCHOOL RETIREMENT SYSTEM

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

- (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. The valuation will be based on an entry age normal actuarial cost method and an asset valuation method, with the unfunded actuarial liability amortized over a period not to exceed 30 years;
- (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) Prohibits legislation from being enacted after July 1, 2003, which provides benefit increases to members and retirees unless there is a matching contribution rate which equals 10.5% as determined by an actuarial valuation. Legislation can be enacted after July 1, 2003, that provides an extension of time for a member to make an election for a retirement allowance;
- (6) Allows 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.
- (7) 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. Payment for the membership service credit is required prior to termination of membership with the retirement system;

DESCRIPTION (continued)

- (8) 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;
- (9) Extends the period of a certain retirement allowance computation provision (Option 1) from July 1, 2003, to July 1, 2008; and
- (10) Allows a member eligible for retirement who has not previously received a retirement allowance to elect to receive a partial lump-sum distribution. This election is based on years of creditable service and age and is subject to certain terms and conditions.

GENERAL TEACHER RETIREMENT PROVISIONS

The substitute:

- (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 any school district with a shortage of certificated teachers to employ retired certificated teachers for up to two years. The teachers would not lose retirement benefits. The proposal also allows persons who are receiving retirement benefits from the non-teacher school retirement system to be employed on a full-time basis for up to two years without losing benefits. A school district covered under this system is required to have a shortage of non-certificated employees.

NON-TEACHER SCHOOL RETIREMENT SYSTEM

The bill:

DESCRIPTION (continued)

- (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 0.25%;
- (3) Requires the board to determine and certify the level rate of contribution for a fiscal year based on an actuarial valuation. The valuation will be based on an entry age normal actuarial cost method and an asset valuation method, with the unfunded actuarial liability amortized over a period not to exceed 30 years;
- (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) Prohibits legislation from being enacted after July 1, 2003, which provides benefit increases to members and retirees unless there is a matching contribution rate which equals 5% as determined by an actuarial valuation. Legislation can be enacted after July 1, 2003, that provides an extension of time for a member to make an election for a retirement allowance;
- (6) 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;
- (7) 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;
- (8) 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;
- (9) Revises a retirement allowance computation provision; and
- (10) 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)

Job-Sharing

The bill requires the State Board of Education to develop rules to facilitate job-sharing positions for classroom teachers. The bill contains a definition for "job-sharing position" and entitles teachers in these positions to certain employment benefits and retirement benefits.

Retirement - General

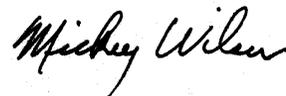
To allow school districts with a shortage of certified teachers or non-certified employees to hire retirees for up to two years without them losing their retirement benefits. The total number hired would be included in the State Directory of New Hires. Persons would not be employed until the affected retirement systems have implemented rules assuring the provisions are cost-neutral and that the system remains actuarially sound. All necessary costs would be paid by the hiring school district and would not exceed the districts statutory cost limitations. In order to hire teacher and non-certificated employees to fill such shortage the school is required to make certain findings which are specified.

The substitute contains an emergency clause for certain sections.

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
Kansas City Public School Retirement System
St. Louis Public School Retirement System
St. Louis Public School Board
Office of the Secretary of State



Mickey Wilson, CPA
Director

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