COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1149-01
Bill No.: HB 660
Subject: Retirement–Schools; Retirement Systems & Benefits–General; Teachers
Type: Original
Date: February 26, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0***	**$0***	**$0***

***Does not include elimination of surplus of $331 million and creation of the UAAL of $264 million, a total cost of $595 million for the PSRS. Does not include the $110 million reduction in the surplus for the NTRS. PSRS and NTRS funds are not considered local funds for fiscal note purposes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement** indicates that the legislation represents a "substantial proposed change" in future plan benefits as defined by Section 105.660(5). As such, an actuarial cost statement must be provided before action may be taken on the legislation by either legislative body or committee thereof.

Officials with the **Office of Administration** note that the Public School Retirement System should determine the potential costs of the legislation.

Officials with the **Public School & Non-Teacher School Employee Retirement Systems** assume the proposal will:

Public School Retirement System (PSRS)

1. Change the COLA effective date to the second January 1st following retirement for members retiring on or after July 1, 2001.
2. Increase the formula factor for all years for those retirees with 31.0 years of credit or more who retire between July 1, 2001 and June 30, 2008. [Formula increases to 2.55%.]
3. Provide an increase for current retirees and beneficiaries of deceased retirees of $3 per month per year of service.

Officials with the PSRS obtained an actuarial cost report for the proposed changes. Officials note that the PSRS is overfunded by $331 million as of June 30, 2000. The effect of the proposal will be to create an unfunded actuarial accrued liability (UAAL), which PSRS states will be $264 million. This is based on an estimated cost of the provisions of $595 million. The actuarially required contribution (ARC) following the proposal is calculated at 20.93% of pay. This is less than the current contribution rate of 21.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be a long-term fiscal impact as a result of this legislation, since the elimination of the system's surplus, and the creation of the UAAL will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of $331 million is significantly less than the $1.16 billion reported in October, 2000 for the period ended June 30, 2000. The PSRS is calculating the surplus based on actuarial assumptions adopted January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

ASSUMPTION (continued)

Non-Teacher School Employee Retirement System (NTRS)

1. Increase the benefit formula factor from 1.51% to 1.61%.
2. Increase the formula under the 25-and-out provisions [by .1%].
3. Increase the COLA cap from 75% to 80%.
4. Across-the-board increase of 7.1% for retirees and beneficiaries of deceased retirees.
5. Increase from the current .4% to .8% the additional payment made for those retiring with either 30 years of credit or under the "rule of 80" who retire on or after July 1, 2001. This additional payment ends when the retiree reaches the minimum age for social security retirement eligibility.

Officials note that the NTRS is overfunded by $166 million as of June 30, 2000. NTRS officials state that the effect of the proposal will be to reduce the reduce this surplus to $56 million. This is based on the cost of the provisions estimated at $110 million. The actuarially required contribution (ARC) following the proposal is calculated at 9.96% of pay. This is less than the current contribution rate of 10.00%.

Oversight assumes that **while there is no immediate cost to the local school districts since the contribution rate would not increase, there is significant fiscal impact to the retirement system.** Funds of the retirement system are not considered local funds for fiscal note purposes. There will be a long-term fiscal impact as a result of this legislation, since the reduction of the plan's surplus will contribute to any need for increased contributions in the future. Additionally, Oversight notes that the reported surplus of $161 million is significantly more than the $127 million reported in October, 2000 for the period ended June 30, 2000. The NTRS is calculating the surplus based on actuarial assumptions adopted in January, 2001, not on the same assumptions used in preparing the most recent periodic actuarial valuation for the plan, as required by Section 105.665(2).

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0*	**$0***	**$0***

***Does not include elimination of surplus of $331 million and creation of the UAAL of $264 million, a total cost of $595 million for the PSRS. Does not include the $110 million reduction in the surplus for the NTRS. PSRS and NTRS funds are not considered local funds for fiscal note purposes.**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This bill makes several changes in the Public School Retirement System. The bill:

(1) Increases the benefit formula multiplier to 2.55% for retirees with service beyond 31 years beginning July 1, 2001, to July 1, 2008, regardless of age;

(2) Requires the cost-of-living adjustment to begin with the second, as opposed to the third, January following retirement after July 1, 2001; and

(3) Increases member benefits by $3 per year of creditable service for members retiring before July 1, 2001.

The bill also contains increases in benefits for the Non-Teacher School Employee Retirement System effective July 1, 2001. The bill:

(1) Increases the formula factor from 1.51% to 1.61%;

(2) Makes coordinating adjustments to the 25 and out formula factor (until 2003);

(3) Increases the temporary benefit from .4% to .8%;

(4) Raises the cost-of-living cap from 75% to 80% of the retirement allowance; and

(5) Increases the one-time benefit from 3.4% to 7.1%.

The bill has an emergency clause and is effective on July 1, 2001, or upon passage and approval, whichever occurs later.

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
Office of Administration
Public School & Non-Teacher School Employee Retirement Systems of Missouri

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