

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3452S.01I
Bill No.: SB 1113
Subject: Retirement - Local Government; Retirement - Schools; Retirement - State;
Retirement Systems and Benefits - General
Type: Original
Date: January 2, 2024

Bill Summary: This proposal modifies provisions relating to fiduciary duties for investments of public employee retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

Officials from the **Missouri State Employee's Retirement System (MOSERS), University of Missouri System, Kansas City Employees' Retirement System, Kansas City Firefighter's Pension System, Kansas City Public School Retirement System, Kansas City Supplemental Retirement Plan, Rock Community Fire Protection District Retirement Plan, Northwest Missouri State University** and the **University of Central Missouri** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** state this proposal, if enacted, would modify provisions related to proxy voting and fiduciary investment duties for public retirement plans. Specifically, the proposed provision addressing the approach to environmental, social, and governance (ESG) issues would exclude those issues from consideration if consideration would override the investment fiduciary's duty as otherwise defined in section 105.688.

The second proposed amendment to section 105.688 states that the investment fiduciary shall not be subject to divestment legislation.

Proposed section 105.692 defines how proxy voting should be handled, in general and specifically where (ESG) issues are a factor. In this case, voting shares for the purpose to further ESG is prohibited.

The changes proposed in this bill would have the effect of managing matters that are currently politically and socially important without the negative impact of more restrictive legislation on public retirement system investments.

Officials from **Public Schools and Education Employee Retirement Systems** state this legislation, as currently drafted, has no substantial fiscal or operational impact on PSRS or PEERS of Missouri.

Officials from the **Sheriffs' Retirement System** state this proposal may have a negative impact if this legislation passes. The Retirement system hires investment managers to invest its assets based on the investment policy. Setting constraints on investment guidelines has a potential of limiting investment earnings used to finance the retirement system. At this time, the negative impact is unknown.

Officials from the **Metro St. Louis Sewer District Employees Pension Plan (MSD)** state this legislation could have an impact on MSD and its ratepayers.

The MSD Employees' Pension plan does not consider investments or fiduciary partners based on ESG characteristics, however MSD is concerned that targeting these characteristics for exclusion may limit a fiduciary's ability to discharge his or her duties in the best interest of the participants in the system and their beneficiaries. As written, the legislation may not restrict a fiduciary's ability to invest and appropriately diversify but the addition of specific language to target certain characteristics for political reasons causes confusion that may prevent rational investment decisions that could enhance risk management and/or returns and creates concern that certain investment managers may become targets for offering products with ESG characteristics even if those products are not being used by the Plan. The existing legislation spells out a fiduciary's obligations well and is sufficient.

Officials from the **Employees Retirement System of the City of St. Louis** state, the money managers hired by the Board also vote proxies on the System's behalf. The System's only requirement for voting the proxies is that the vote be in the best interests of the System and its participants. By requiring or prohibiting certain considerations which could be viewed by the money managers as in the best interests of the System and its participants or creating economic value, you restrict the money manager's ability to vote the proxies in a manner that may enhance shareholder value. It is speculative to put a dollar amount on such considerations, but it will cost more to administer such considerations as money managers may be unwilling to accept the risk associated with voting the proxies. This would require the System to hire a proxy voting company and pay additional fees.

The representatives of Marquette Associates expressed their belief that requiring consideration of such matters may prevent some investment managers from managing assets of Missouri public pension plans and severely limit opportunities offered by commingled investment vehicles (which are much more cost effective for smaller public pension plans like the System). Proposed pieces of legislation which impose financial penalties on investment fiduciaries who take these matters into consideration may have a chilling effect on the number of money managers willing to provide services to Missouri public pension plans. The money managers may decide not to take on risk when public pension plans in other states don't have financial penalties.

Oversight assumes this proposal may limit investment decisions to already established fiduciary duties. Based on the majority of responses, Oversight assumes this proposal would not have a direct fiscal impact.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

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

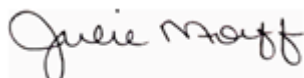
FISCAL DESCRIPTION

The proposed legislation appears to have no direct fiscal impact.

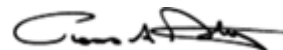
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
 Missouri State Employee's Retirement System
 MoDOT & Patrol Employees' Retirement System
 Public Schools and Education Employee Retirement Systems
 Kansas City Employees' Retirement System
 Kansas City Firefighter's Pension System
 Kansas City Supplemental Retirement Plan
 Kansas City Public School Retirement System
 Metro St. Louis Sewer District Employees Pension Plan
 Rock Community Fire Protection District Retirement Plan
 Sheriffs' Retirement System
 Employees Retirement System of the City of St. Louis
 University of Missouri System
 Northwest Missouri State University
 University of Central Missouri



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 January 2, 2024



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