COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5979S.01I
Bill No.: SB 1504
Subject: Education, Elementary and Secondary; Retirement - Schools; Retirement Systems and Benefits - General; Saint Louis City; Teachers
Type: Original
Date: April 2, 2024

Bill Summary: This proposal modifies the contribution rate for the Public School Retirement System of the City of St. Louis.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
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 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
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 2025	FY 2026	FY 2027	Fully Implemented (FY 2033)
Local Government	**$0**	**($2,931,000)**	**($8,068,500)**	**($29,215,500)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** assume the bill has no direct fiscal impact to the Joint Committee on Public Employee Retirement. The JCPER's review of this proposal indicates that its provisions may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10). It is impossible to accurately determine the fiscal impact of this legislation without an actuarial cost statement prepared in accordance with section 105.665. Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage.

Officials from the **Public School Retirement System of the City of St. Louis** assume this proposal contains provisions that concern the Public School Retirement System of the City of St. Louis ("PSRSSTL" or "System"), which the System believes are necessary to preserve the long term viability of the System so that it may have the funding to adequately provide benefits to its members and beneficiaries.

The System was created by the Missouri legislature in 1944 and is organized under Sections 169.410 to 169.540 of the Missouri Revised Statutes. The System provides pension benefits to all personnel employed by the St. Louis Public Schools and Charter Schools operating in the City of St. Louis, which currently number at 15. As of 2023, the System has 13,818 members, which consist of 4,940 active members, 4,310 retired members/beneficiaries, and 4,568 inactive members.

1. Changes to §169.490 in 2017 Materially Harmed the Financial Viability of the System

In 2017, the Missouri legislature passed Senate Bill 62, which amended § 169.490 to cap the rate of employer contributions paid to the System at 16% for 2018, and thereafter the employer contribution rate is set to decrease by 0.5% per year until 2032, when the contribution rate will be capped at only 9.0% of member compensation. Currently for calendar year 2024, the employer contribution rate is set by § 169.490 at 13.0%.

Thus, effective for calendar year 2018, the employer contribution rate is no longer set by the actuary as a part of the annual actuarial valuation. Instead, the employer contribution rate is set at an arbitrary number and that is decreasing at 0.5% per year until it bottoms out and is capped at 9.0% in 2032 and every year thereafter.

Additionally, SB 62 in 2017 also increased contributions coming out of the System, as it lowered the Normal Retirement Age from the Rule of 85 to the Rule of 80. Thus, at the same time that contributions were decreasing to the System, the required pay out of benefits were increasing out of the System. Thus, this combination of decreasing money in and increasing money out has materially affected the actuarial soundness of the System and its ability to provide the promised benefits to its members and beneficiaries.

While SB 62 in 2017 increased employee contributions from 5% to 9% for new members beginning in 2018 and the contribution for existing active members is increasing by 0.5% each year from 5% to 9% in 2025, this has not led to a financial benefit to the System. Instead, member contributions are treated as liabilities in Missouri as members can withdraw their contributions with interest upon termination of employment from a member school.

One of the most important factors for a well-funded pension plan is the System receiving the full actuarially required contribution necessary to fund the benefits promised to members. Not paying the actuarially required contribution in one year simply "kicks the bucket" to following years, thereby exacerbating any pension plan underfunding. As a result of the changes to § 169.490 in 2017, the actuarially required contribution has consistently not been paid to the System and it has lost out on a total of $29,391,556 in employer contributions alone between 2018 and 2022.

Thus, as a result of the changes to § 169.490 in 2017, the Market Value funding ratio of the System has decreased to 62.7% and in 2023, the System for the first time has been placed on the Joint Committee on Public Employee Retirement's Watch List. If the funding ratio of the System is already at 62.7%, and the employer contribution rate is set to decrease further in § 169.490 all the way down to 9% in 2032, then there is no telling the continued financial harm that the System will suffer, threatening its ability to provide the promised pension benefits to its members.

2. Goal of SB 1504 is to Preserve the Long-Term Financial Viability of the System While Stabilizing Employer Contribution Costs

Therefore, SB 1504 is looking to preserve the long-term financial viability of the System to provide benefits to its members. The overall goal of SB 1504 is to move the System toward an actuarial funding ratio of 100% with all due expediency. While a ratio of less than 100% is not necessarily a problem or crisis, the combination of a decreasing funded ratio and contributions falling short of the actuarial required contribution would, over time, threaten the plan's viability. In addition, the System is required to be at or close to 100% funded before the System may consider granting a cost-of-living increase to its retirees, who have gone without a COLA since 2006.

Indeed, if the status quo is maintained and if SB 1504 is not passed, the System's retirees may go decades more without a COLA. Therefore, it is imperative that SB 1504 is passed, not only to preserve the financial standing of the System to provide existing benefits to its members, but so that it may be in a position to potentially provide COLAs to its members in the future. Without SB 1504, that may never happen.

SB 1504 looks to stabilize the System's funding by setting the employer contribution rate at 14% for 2025. Thereafter, beginning in 2026, the employer contribution rate would be either the greater of 14% or the difference between the total Actuarially Required Contribution Rate and the applicable member contribution rate until the System's funded ratio equals 100%. However, under this arrangement, SB 1504 seeks to stabilize the employer contribution rate as any changes are limited to either an annual 1% increase or 0.5% decrease.

3. Fiscal Impact: SB 1504 is Necessary to Preserve the Financial Viability of the System

There is no state General Revenue impact from SB 1504 as the state of Missouri contributes no funds to the System. Indeed, this is reflected in § 169.540, which is not altered by SB 1504.

Instead, all funds to the System come from employer contributions, employee contributions, and investment gains. SB 1504 does not alter employee contributions. Instead, the only change proposed by SB 1504 is to stop the future decrease of employer contributions down to 9%.

The changes proposed in SB 1504, are similar to the changes pertaining to the Kansas City Public School Retirement System (KCPSRS) that were passed in 2018 in TAFP SB 892, and originally proposed in SB 856. At the time, the KCPSRS was under similar employer contribution caps (at 9%), its funding was suffering, and in 2017 it similarly ended up on the Joint Committee on Public Employee Retirement's Watch List. As a result, SB 892 was passed in 2018 to alleviate the employer contribution caps on the KCPSRS.

SB 1504 which is similar to SB 892, similarly seeks to alleviate the System of the employer contribution caps that threaten the System's viability and its ability to provide pension benefits to its members. The System has prepared a Cost Statement for SB 1504, which it has submitted to the Joint Committee on Public Employee Retirement, and a copy of which is also enclosed.

If SB 1504 is not passed, the System will suffer continued financial harm, including:

1. The System will remain below 70% funded through at least 2038, where it is projected to only be 69.1% funded.
    a. This is even if the System meets its 7% yearly assumed rate of investment return.

2. The System is projected to lose over $485 Million through 2038.
    a. This is on top of the approximate $30 Million that was lost from 2018 to 2022.

3. If there are adverse market conditions, and if the System does not meet its 7% yearly assumed rate of return, the System could lose over $627 Million and it could only be 53.3% funded by 2038.

If SB 1504 is passed, the financial standing of the Retirement System will greatly improve:

1. The funded ratio of the System is projected to greatly increase to 98.3% in 2038.

2. The System will not lose over $485 Million by 2038.

3. The actuarial value of assets of the System is projected to be $1,308,406 in 2038 instead of only $919,876.

Current Status of PSRSSTL:

As of December 31, 2022 Funded Ratio 73.7%

Market Value of Assets:	$817,867,979	
Actuarial Value of Assets:	$943,201,853	
Actuarial Accrual Liability:	$1,279,847,074	
Unfunded Actuarial Accrued Liability	$336,645,221	

Covered Payroll: $259,440,417

Recommended Contribution Rate for FY 2022: 14.28% of covered payroll. Statutory employer contribution rate for FY 2022 was 14.0 %. Estimated employer contribution for FY 2022 were approximately $41.0 million.

Oversight assumes the following employer contribution rates and contributions based on the provided actuarial cost estimate.

Employer Contributions	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Current Rate	12.00%	11.50%	11.00%	10.50%
Current Contributions	$35,553,000	$34,393,000	$33,260,000	$32,165,000
Proposed Rate	15.00%	16.00%	17.00%	18.00%
Proposed Contributions	$41,415,000	$44,668,000	$48,044,000	$51,584,000
Difference	$5,862,000	$10,275,000	$14,784,000	$19,419,000

*Assuming expected return on assets is achieved.

Employer Contributions	**CY 2030**	**CY 2031**	**CY 2032**	**CY 2033**
Current Rate	10.00%	9.50%	9.00%	9.00%
Current Contributions	$31,114,000	$30,073,000	$28,978,000	$28,404,000
Proposed Rate	18.69%	18.63%	18.47%	18.28%
Proposed Contributions	$55,000,000	$57,161,000	$57,735,000	$58,078,000
Difference	$23,886,000	$27,088,000	$28,757,000	$29,674,000

*Assuming expected return on assets is achieved.

Oversight assumes these provisions will impact employer contribution rates beginning in calendar year 2026. Oversight notes the employer contributions rates are based on calendar years. Therefore, Oversight assumes the impact will be split between fiscal years with one half the impact to the employer (St. Louis Public Schools and Charter Schools) beginning in FY 2026.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2033)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2033)
PUBLIC SCHOOLS				
Costs – St. Louis Public Schools and Charter Schools - increase in employer contributions - §169.410, 169.450 & 169.490	$0	($2,931,000)	($8,068,500)	($29,215,500)
ESTIMATED NET EFFECT ON PUBLIC SCHOOLS	**$0**	**($2,931,000)**	**($8,068,500)**	**($29,215,500)**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act modifies provisions relating to contribution rates for the Public School Retirement System of the City of St. Louis ("PSRSSTL"). Currently, the member contribution rate for those members hired before January 1, 2018, was 5% with an annual 0.5% increase until the contribution rate reaches 9% and for members hired after January 1, 2018, is set at 9%. This act provides that the current member contribution rate shall be applicable unless a lower member contribution rate applies as the result of the funded ratio equaling or exceeding 100% with a total actuarially required contribution rate less than 18%.

Current law provides that the employer contribution rate shall be 16% in 2018 with yearly 0.5% decreases until the rate is 9% of the total compensation of all members employed. This act provides that the employer contribution rate shall be 14% in 2025 and shall be subsequently determined annually based on the funded ratio, which is defined as the ratio of the actuarial value of assets to the actuarial accrued liability based on the entry age normal cost method with normal cost expressed as a level percentage of covered compensation.

If the funded ration is less than 100%, the employer contribution rate shall be the greater of 14% or the difference between the total actuarially required contribution rate, as defined in the act, and the member contribution rate. If the funded ratio equals or is greater than 100% and the total actuarially required contribution rate is greater than 18%, then the employer contribution rate shall be the difference between the total actuarially required contribution rate and the member contribution rate. If the funded ratio equals or is greater than 100%, but the total actuarially required contribution rate is less than 18%, then the total actuarially required contribution rate shall be allocated equally between the employer and employee and adjusted depending on changes to the total actuarially required contribution rate as provided in the act.

Furthermore, the employer contribution rate and the member contribution rate shall not increase by more than 1% or decrease by more than 0.5% for any period from the corresponding rate in effect.

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 School Retirement System of the City of St. Louis

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