

FISCAL NOTE

Bill #: HB0301

Title: State fund to use 40% of investment earnings

Primary

Sponsor: David Wanzenried

Status: As Introduced

Sponsor signature

Date

Chuck Swysgood, Budget Director

Date

Fiscal Summary

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
Expenditures:		
Proprietary	Cannot Determine	Cannot Determine
Revenue:		
Proprietary	Cannot Determine	Cannot Determine

Net Impact on General Fund Balance: Cannot Determine

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. Rate levels are established using assumptions that account for investment income earned on assets.
2. This bill will require disbursement of funds regardless of determination of adequate reserve funding.
3. Since the Montana Constitution allows the State Fund to invest up to 25% in capital stock (Constitutional Initiative 34 in November 2000), it is the intent of the State Fund to invest 16% of its long-term securities in an S&P 500 Index Fund. This index fund does not distribute dividends or realized capital gains. The index fund reinvests the dividends and realized capital gains.

4. As of June 30, 2000 the State Fund had approximately \$412 million in long-term securities. Sixteen percent would amount to \$65.9 million.
5. The Board of Investments estimates that the average dividend income on stocks comprising the S&P 500 is 1.2%. Should the State Fund directly hold \$65.9 million in stocks that have the same average dividend income as the stocks comprising the S&P 500, approximately \$791,000 would be earned.
6. Forty percent of the estimated dividend income would equate to \$316,400. This amount would be split equally and distributed to pay for enhancement of workers' compensation benefits (\$158,200) and to reduce employer premiums (\$158,200).
7. Because the dividends are reinvested in the S&P 500 Index Fund, funding for enhanced benefit payments and premium reductions would need to come from a source other than corporate stock earnings.
8. During the process of establishing premium rates, the investment income is considered. If, after rates are determined, premium were to be reduced for an accident year, that accident year's funding would remain insufficient in the future years by the amount of reductions.

FISCAL IMPACT:

Cannot determine.

TECHNICAL NOTE:

1. The bill does not give guidance on determining how future enhancements to benefits would be applied to injured workers.
2. The bill conflicts with 39-71-2330, MCA, which requires the State Fund to set premium at a level "when invested" that will carry the cost of losses and expenses to maturity. The bill will put the State Fund in non-compliance with this section of law.