Pension Fund Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0063	**Title:**	Actuarially fund teacher retirement system
Primary Sponsor:	Musgrove, J.	**Status:**	As Amended in House Committee

Retirement Systems Affected:

- [x] Teachers
- [ ] Public Employees
- [ ] Highway Patrol
- [ ] Police
- [ ] Sheriffs
- [ ] Firefighters
- [ ] Volunteer Firefighters
- [ ] Game Wardens
- [ ] Judges

Check the box if "Yes".

- [x] Has this legislation been reviewed by the legislative interim committee?
- [x] Has the cost of this legislation been calculated by the system's actuary?
- [x] Does this legislation include full funding for any benefit revisions?

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	$3,608,900,000	$0
Present Value of Actuarial Assets *	$2,745,800,000	$345,500,000
Present Value of Increased Costs	$0	$0
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	$863,100,000	($345,500,000)
Amortization Period of AAL	Does not amortize	**33.2 years**

***** Includes the $50 million cash infusion and the present value of future contribution increases.

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Employee Contribution Rate	7.15%	7.15%	7.15%	7.15%	7.15%
Employer Contribution Rate **	7.47%	9.47%	9.47%	9.85%	9.85%
State Supplemental Rate	0.11%	**2.11%	**2.11%	**2.49%	**2.49%
TOTAL TRS Contribution Rate	14.73%	16.73%	16.73%	17.11%	17.11%
University Supplemental ORP Rate	4.04%	4.72%	4.72%	4.72%	4.72%

** The state supplemental rate increase covers the K-12 & Communities colleges' employer contribution rate increases. The bill includes an appropriation for the State and University agency employer rate increases.

FISCAL SUMMARY

	FY 2007 Difference	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference
Expenditures:				
General Fund - HB 63	$50,000,000	$1,135,098	$1,116,640	$1,226,889
General Fund - statutory	$0	$12,092,526	$12,637,538	$15,716,181
State Special Revenue	$0	$2,240	$2,321	$2,873
Federal Special Revenue	$0	$29,794	$30,866	$38,200
Proprietary Funds	$0	$223,455	$221,913	$242,000
Revenue:				
General Fund	$0	$0	$0	$0
Other - Pension Trust Funds	$50,000,000	$13,683,883	$14,222,545	$17,457,221
Net Impact-General Fund Balance:	($50,000,000)	($13,227,624)	($13,754,178)	($16,943,070)

Description of Fiscal Impact: HB 63 includes a $50 million infusion from the State general fund in FY 2007; increased contributions of around $14 million per year paid by the state's general fund for state agencies, the Montana University system and K-12 districts and community colleges and $255,000 per year paid by other funds. The bill also closes loopholes to help keep the unfunded liability from continuing to grow unnecessarily in the future. This proposal does not enhance retirement benefits or result in a property tax increase.

FISCAL ANALYSIS

Assumptions:

1. The funding enhancements included in HB 63, as amended, will amortize the unfunded liability over 33.2 years as of July 1, 2006.
2. The contribution rate increase for school districts and community colleges will be totally paid by the state's general fund, thus no increase in property taxes will be required. The general fund costs to state agencies and the university system are funded through an appropriation included in the bill.
3. Closing loopholes that have allowed a few retirees to receive full TRS benefits while continuing to work essentially full time, and eliminating unrealistic statutory requirements, will help reduce the risks that additional funding increases will be necessary in the future.
4. Total membership is assumed to remain stable, while K-12, state agency and community college payroll is assumed to increase 4.5% per year, with university payroll continuing to decline. The decline in the university TRS payroll will result in a corresponding increase in the Optional Retirement Program (ORP) payroll.

	FY 2008	FY 2009	FY 2010	FY 2011
Total Payrolls	$647,014,600	$671,633,364	$697,467,377	$724,490,381

5. All calculations are based on the July 1, 2006, actuarial valuation. The valuation is available from the Teachers' Retirement System, or at: www.trs.mt.gov.
6. HB 63 creates a new statutory appropriation to fund the school district employer contributions rate increase. No school district property tax increase will be required as a result of HB63.
7. 17-1-508, MCA requires analysis of the statutory appropriation relative to the guidance in 17-1-508 (2) MCA to be published in the fiscal note. The guidelines and analysis are as follows.
    a. The fund or use requires an appropriation.

The use of the general fund for this purpose does require an appropriation.

b. The money is not from a continuing, reliable, and estimable source.
The general fund is a continuing, reliable, and estimable source.

c. The use of the appropriation or the expenditure occurrence is not predictable and reliable.
The expenditures in HB 63 are reasonably predictable and reliable.

d. The authority does not exist elsewhere.
Authority does not exist elsewhere. Without this statutory appropriation county levies will increase by $8,706,619 (72%) per year and HB 2 appropriation for retirement levies will increase by $3,385,907 (28%) per year.

e. An alternative appropriation method is not available, practical, or effective.
The alternative method mentioned in d. above causes a direct property tax increase. A HB 2 appropriation may cause uncertainty in the actuarial analysis.

f. Other than for emergency purposes, it does not appropriate money from the state general fund.
This is a statutory appropriation from the general fund that is not an emergency, but it satisfies the constitutional provision for an actuarial sound pension system.

g. The money is dedicated for a specific use.
This is a statutory appropriation designated for the specific purpose of providing the employer contribution increases for school districts to actuarially fund the TRS.

h. The legislature wishes the activity to be funded on a continual basis.
The funding needs to be continued in order to maintain actuarial soundness.

i. When feasible, an expenditure cap and sunset date are included.
No sunset is included in the bill. Expenditures are limited by qualifying expenditures in school districts. The employer contribution will be evaluated on a regular basis.

	FY 2007 Difference	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference
Fiscal Impact:				
Expenditures:				
Personal Services		$1,591,357	$1,585,007	$1,741,040
Local Assistance		$12,092,526	$12,637,538	$15,716,181
Transfers	$50,000,000			
TOTAL Expenditures	$50,000,000	$13,683,883	$14,222,545	$17,457,221
Funding of Expenditures:				
General Fund (01)	$50,000,000	$1,135,098	$1,116,640	$1,226,889
General Fund (01) statutory	$0	$12,092,526	$12,637,538	$15,716,181
State Special Revenue (02)	$0	$2,240	$2,321	$2,873
Federal Special Revenue (03)	$0	$29,794	$30,866	$38,200
Proprietary Funds (06)	$0	$3,472	$3,597	$4,452
Univ. Funds - Tuition and Other	$0	$420,753	$431,583	$468,626
TOTAL Funding of Exp.	$50,000,000	$13,683,883	$14,222,545	$17,457,221
Revenues:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
Federal Special Revenue (03)	$0	$0	$0	$0
Proprietary Funds (06)	$0	$0	$0	$0
Univ. Funds - Tuition and Other	$0	$0	$0	$0
Other (09) Pension Trust	$50,000,000	$13,683,883	$14,222,545	$17,457,221
TOTAL Revenues	$50,000,000	$13,683,883	$14,222,545	$17,457,221
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($50,000,000)	($13,227,624)	($13,754,178)	($16,943,070)
State Special Revenue (02)	$0	($2,240)	($2,321)	($2,873)
Federal Special Revenue (03)	$0	($29,794)	($30,866)	($38,200)
Proprietary Funds (06)	$0	($3,472)	($3,597)	($4,452)
Univ. Funds - Tuition and Other	$0	($420,753)	($431,583)	($468,626)
Other	$50,000,000	$13,683,883	$14,222,545	$17,457,221

TRS Funding	FY 2008 Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State					
General Fund - HB 63	$333,530	$89,298	$92,788	$114,834	$119,428
State Special	8,368	2,240	2,321	2,873	2,987
Federal	111,279	29,794	30,866	38,200	39,728
Proprietary	12,969	3,472	3,597	4,452	4,630
State Subtotal	*$466,146*	*$124,805*	*$129,573*	*$160,359*	*$166,773*
Montana University System					
Current Unr. - General Fund HB 63	$4,857,551	$1,045,800	$1,023,853	$1,112,054	$1,103,898
Current Unrestricted - Other	846,820	182,803	178,821	194,227	192,575
Non Current Unrestricted - Other	1,413,698	237,949	252,761	274,399	303,334
Montana University System Subtotal	*$7,118,069*	*$1,466,553*	*$1,455,435*	*$1,580,680*	*$1,599,807*
K-12 Schools					
General Fund - statutory approp.	$10,968,236	$12,092,526	$12,637,538	$15,716,181	$16,424,211
County Levy	29,653,912	-	-	-	-
Federal	4,543,435	-	-	-	-
K-12 Schools Subtotal	*$45,165,583*	*$12,092,526*	*$12,637,538*	*$15,716,181*	*$16,424,211*
Grand Total	**$52,749,798**	**$13,683,883**	**$14,222,545**	**$17,457,220**	**$18,190,791**

Long Range Impacts:

1. To the extent actual experience will vary from that assumed in the preparation of this fiscal note, projected cost will be less than or greater than shown.

Technical Items

1. The amendments made in committee to reduce the cash infusion from $100 million to $50 million resulted in an amortization period as of July 1, 2006, of 33.2 years. Article VIII, section 15, of the Montana Constitution and Governmental Accounting Standards Board Statement No. 25, paragraph 36, requires public retirement systems be funded on an actuarially-sound basis. Board policy sets a maximum amortization period of 30 years for the employer and employee contributions and investment earnings to fund current employees' future benefits, and pay the unfunded actuarial accrued liability. If all actuarial assumptions are met, the TRS will be actuarially sound by mid September 2009.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*