



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill # HB0112

Title: Improve actuarial funding for teachers' retirement system

Primary Sponsor: Price, Jean

Status: As Introduced

Retirement Systems Affected:

Teachers
 Public Employees
 Highway Patrol
 Police
 Sheriffs
 Firefighters
 Volunteer Firefighters
 Game Wardens
 Judges

Check the box if "Yes".

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

(Dollar amounts in thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$4,814,700	\$4,816,000	\$1,300
Present Value of Actuarial Assets	\$2,852,000	\$2,852,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,962,700	\$1,964,000	\$1,300
Amortization Period (years) of UAAL	Infinite	37.00	0.00
Change in normal costs	9.65%	9.83%	0.18%

	FY 2013 July 1, 2012	FY 2014 July 1, 2013	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016
Employee Contribution Rate	7.15%	8.15%	8.15%	8.15%	8.15%
Employer Contribution Rate	7.47%	8.47%	8.47%	8.47%	8.47%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	17.11%	19.11%	19.11%	19.11%	19.11%

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	\$27,295,258	\$27,388,045	\$27,435,983	\$27,527,417
State Special Revenue	\$597	\$597	\$624	\$652
Federal Special Revenue	\$17,323	\$17,323	\$18,102	\$18,917
MUS Tuition / Other	\$165,905	\$165,905	\$123,034	\$113,435
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other - Pension Trust	\$40,562,389	\$41,225,153	\$41,735,921	\$42,422,021
Net Impact-General Fund Balance:	<u>(\$27,295,258)</u>	<u>(\$27,388,045)</u>	<u>(\$27,435,983)</u>	<u>(\$27,527,417)</u>

Description of fiscal impact: HB 112 provides for additional funding from members, employers, and the state. In addition, it creates a second tier of benefits for members hired after July 1, 2013, which is less expensive, requires members to work longer before they are eligible for benefits, and reduces benefits for most new hires. Over time, the savings from the new tier will also help to actuarially fund TRS.

FISCAL ANALYSIS

Assumptions:

- Salary data for state agencies and MUS TRS participants is from the Montana Budgeting and Reporting System (MBARS). This data is based on present law and could change depending upon the outcome of HB 13; however, for the purpose of this fiscal note no salary increases are assumed for fiscal years 2014 and 2015. Salary data for K-12 participating employees is based on actual salaries reported to TRS for FY 2012, plus assumed future salary increases.
- Actuarial assumptions of salary increases of 4.5% are utilized for out years.
- Employee salary data for MUS TRS participants includes both current unrestricted and restricted/other MUS funded employees. Approximately 67% of the TRS covered payroll for the MUS is funded with current unrestricted funds. The state portion of the current unrestricted fund is 81% general fund and the remaining 19% is funded with tuition and other revenue. The state portion of the current unrestricted fund is included in the state general fund row for expenditures and funding. The tuition and restricted or “other” MUS funds are recorded in the “MUS Tuition / Other” row for expenditures and funding.
- 50.8% of the Community College covered payroll is funded with state general fund and is included in the state general fund row for expenditures and funding. The remaining 49.2% of Community College covered payroll is included in the “MUS Tuition / Other” row for expenditures and funding.
- The required contribution rate increase of 4.89% excludes the effects of providing reduced benefits for employees hired after July 1, 2013.
- Employees participating in TRS and their employers will each contribute an additional 1.0% of the employees' salaries as follows:

Fiscal Year	2014	2015	2016	2017
Employee Contributions	\$7,686,884	\$8,018,266	\$8,293,940	\$8,633,659
Employer Contributions	\$7,686,884	\$8,018,266	\$8,293,940	\$8,633,659

7. The increase in the TRS employer contribution rate is funded as follows:
 - K-12 employer contribution: 28% state general fund, 72% school district retirement fund
 - State agencies: 70% state general fund, 1% state special revenue, 29% federal funds
 - MUS Current Unrestricted: 81% general fund & 19% MUS tuition / other funds.
 - MUS Restricted / Other: 100% MUS tuition / other funds.
 - Community Colleges: 50.8% general fund and 49.2% MUS tuition / other funds.
8. The member and employer 1.0% supplemental contribution rates will decrease when the TRS average funded ratio of the previous three actuarial valuations is equal to or greater than 90%, and the amortization period is less than 15 years. Once reduced, the supplemental contribution rates can also increase if: (i) the average funded ratio of the system based on the last three annual actuarial valuations is equal to or less than 80%; and (ii) the period necessary to amortize all liabilities of the system based on the most recent annual actuarial valuation is greater than 20 years.
9. The annual state contribution of \$25 million per year comes from state land revenues in the guarantee account. Since the guarantee account is the first source of funding for base aid, this \$25 million is replaced with state general fund for K-12 base aid.
10. The following changes only apply to members hired on or after July 1, 2013:
 - Full benefits at age 60 with 5 full years - or age 55 with 30 or more years - of service
 - Early retirement eligibility at age 55 with at least 5 full years of service
 - Average final compensation calculated based on 5 years of compensation instead of 3 years
 - Multiplier increased to 2% for members age 60 and older with at least 30 full years of service
 - Eligibility for disability benefits would be limited to members not eligible for unreduced retirement benefits
 - Unreduced survivor benefits limited to beneficiaries of members who die while an active member or within one year of leaving active service
11. The impact presented in the fiscal note assumes that this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.
12. All calculations are based on the July 1, 2012 actuarial valuation.
13. The actuarial valuations and experience studies are available on the TRS website:
<http://www.trs.mt.gov/Board/ActuarialValuations/ActuarialValuations.asp>

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
State Agencies 1% contrib	\$59,733	\$59,733	\$62,241	\$65,230
MUS 1% contribution	\$357,419	\$357,419	\$263,821	\$242,184
State Portion K-12 1% contrib	\$2,061,932	\$2,154,719	\$2,251,681	\$2,353,007
To TRS Trust Fund	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000
Transfers	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$27,479,084	\$27,571,871	\$27,577,743	\$27,660,421

<u>Funding of Expenditures:</u>				
General Fund (01)	\$27,295,258	\$27,388,045	\$27,435,983	\$27,527,417
State Special Revenue (02)	\$597	\$597	\$624	\$652
Federal Special Revenue (03)	\$17,323	\$17,323	\$18,102	\$18,917
MUS Tuition / Other	\$165,905	\$165,906	\$123,034	\$113,435
TOTAL Funding of Exp.	\$27,479,083	\$27,571,871	\$27,577,743	\$27,660,421

<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
MUS Tuition / Other	\$0	\$0	\$0	\$0
TRS Trust Fund	\$40,562,389	\$41,225,153	\$41,735,921	\$42,422,021
TOTAL Revenues	\$40,562,389	\$41,225,153	\$41,735,921	\$42,422,021

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$27,295,258)	(\$27,388,045)	(\$27,435,983)	(\$27,527,417)
State Special Revenue (02)	(\$597)	(\$597)	(\$624)	(\$652)
Federal Special Revenue (03)	(\$17,323)	(\$17,323)	(\$18,102)	(\$18,917)
TRS Trust Fund	\$40,562,389	\$41,225,153	\$41,735,921	\$42,422,021

Effect on Local Governments:

- 72% of the increased K-12 employer contributions are paid by school districts, the balance of 28% is paid by the state general fund. Many school districts will be able to pay the additional cost from reserves in their retirement fund. School districts estimated contributions over the next four years are as follows:

Fiscal Year	2014	2015	2016	2017
Employer Contributions	\$ 5,302,110	\$5,540,705	\$5,790,037	\$6,050,589

Long-Term Impacts:

1. Even though there is no impact on current valuation results from the changes for future employees, the long term positive effects from these changes will gradually decrease the plan’s total normal cost rate, accelerating the amortization of unfunded liabilities, which if all the actuarial assumptions are met, should result in the TRS being fully funded in 31 years, or by July 1, 2044.

Technical Notes:

TRS:

1. Section 17 of HB 112, amending 20-9-501, MCA, is not included in the title of the bill and should be deleted from the bill.

Sponsor’s Initials

Date

Budget Director’s Initials

Date