GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill #	HB0167	**Title:**	Generally revise the teachers' retirement system
Primary Sponsor:	Bennett, Bryce	**Status:**	As Introduced

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?

(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	$4,814,700	$0
Present Value of Actuarial Assets	$2,852,000	$2,852,000	$0
Unfunded Actuarial Accrued Liability (UAAL)	$1,962,700	$1,962,700	$0
Amortization Period (years) of UAAL	Infinite	Infinite	0.00
Change in normal costs	9.65%	9.65%	0.00%

	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**
Tier 1 Employee Contr Rate	7.15%	7.15%	7.15%	7.15%	7.15%
Tier 2 Employee Contr Rate	7.70%	7.70%	7.70%	7.70%	7.70%
Employer Contribution Rate	7.47%	7.47%	7.47%	7.47%	7.47%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	17.66%	17.66%	17.66%	17.66%	17.66%

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Other-TRS	$20,000	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Other - TRS Pension Trust	$7,781,194	$8,112,576	$8,367,960	$8,711,010
Net Impact-General Fund Balance:	$0	$0	$0	$0

Description of fiscal impact: Changes which affect only future active members impact only the normal cost rate of the employer. The future normal cost would begin to decline as the new members with a lower normal cost comprise a material and growing percentage of all active members. Ultimately, the active membership is comprised entirely of members hired after the effective date for the new tier and the employer's normal cost rate would be expected to decrease 0.89% from 2.50% to 1.61%. Therefore, based on these results, the new benefit tier combined with the higher employee contribution rate is expected to reduce the long term normal cost of the plan by 0.89%.

FISCAL ANALYSIS

Assumptions:

1. The averaging period for determining final average compensation will increase from three years to five years;
2. The unreduced retirement eligibility date will change to either (a) age 55 with 30 years of service or (b) age 60 with 5 years of service;
3. The reduced retirement eligibility date will change from age 50 with 5 years of service to age 55 with 5 years of service;
4. The member contribution rate will increase from 7.15% to 7.70% of compensation
5. A member age 60 with at least 30 years of creditable service will receive a retirement allowance equal to 2% of the member's 5-year average final compensation (multiplier) multiplied by the sum of the number of years of creditable service. If the member is not yet age 60 or has less than 30 years of creditable service, the multiplier used to calculate the retirement allowance will be 1.67%
6. 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.
7. All calculations are based on the July 1, 2012 actuarial valuation.
8. The actuarial valuations and experience studies are available on the TRS website: http://www.trs.mt.gov/Board/ActuarialValuations/ActuarialValuations.asp
9. The one-time-only cost of the IT system changes necessary to implement HB 189 will not exceed $20,000.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses - TRS	$20,000	$0	$0	$0
TOTAL Expenditures	$20,000	$0	$0	$0
Funding of Expenditures:				
Other - TRS	$20,000	$0	$0	$0
TOTAL Funding of Exp.	$20,000	$0	$0	$0
Revenues:				
Other - TRS	$7,781,194	$8,112,576	$8,367,960	$8,711,010
TOTAL Revenues	$7,781,194	$8,112,576	$8,367,960	$8,711,010
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
Other - TRS	$7,761,194	$8,112,576	$8,367,960	$8,711,010

Effect on Local Governments:

1. None

Long-Term Impacts:

1. The new benefit tier combined with the higher employee contribution rate is expected to reduce the long term cost of the plan by 0.89%, which means that approximately 0.89% of new members' salaries will be available in the future to amortize unfunded liabilities of the current System. Projected reduction in unfunded liabilities are as follows:

Year	2014	2015	2016	2017
Projected Savings	$635,161	$1,121,095	$1,780,490	$2,353,094

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