GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill #	HB0338
Title:	Provide funding for pension debts, all new hires to DC plan
Primary Sponsor:	Regier, Keith
Status:	As Amended

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?

PERS **(Dollar Amounts in Thousands)**	**July 1, 2012 Current System**	**July 1, 2012 With Changes**	**Increase/ (Decrease)**
Present Value of Actuarial Accrued Liability	$5,661,281	$5,661,281	$0
Present Value of Actuarial Assets	$3,816,920	$3,816,920	$0
Unfunded Actuarial Accrued Liability (UAAL)	$1,844,361	$1,844,361	$0
Amortization Period (years) of UAAL	dna	dna	0.00
Change in normal costs	11.80%	11.80%	0.00%

PERS	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 Contr Rate prior 7/1/2011	6.90%	7.90%	7.90%	7.90%	7.90%
Employee Contr Rate 7/1/2011	7.90%	8.90%	8.90%	8.90%	8.90%
Employee Tier 3			7.00%	7.00%	7.00%
State and MUS Contribution Ra	7.17%	7.17%	7.17%	7.17%	7.17%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
State & UN Tier 3			8.00%	8.00%	8.00%
Local Govt Contribution Rate	7.07%	7.07%	7.07%	7.07%	7.07%
Local Govt Tier 3			8.00%	8.00%	8.00%
State Contribution Rate Tier 1&	0.10%	0.10%	0.10%	0.10%	0.10%
State Contribution Rate Tier 3			0.00%	0.00%	0.00%
School District Contribution Ra	6.80%	6.80%	6.80%	6.80%	6.80%
School District Tier 3			8.00%	8.00%	8.00%
State Contribution Rate Tier 1&	0.37%	0.10%	0.10%	0.10%	0.10%
State Contribution Rate Tier 3			0.00%	0.00%	0.00%
TOTAL Contribution Rate	15.07%	16.07%	16.07%	16.07%	16.07%

JRS (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$46,190	$46,190	$0
Present Value of Actuarial Assets	$63,195	$63,195	$0
Unfunded Actuarial Accrued Liability (UAAL)	($17,005)	($17,005)	$0
Amortization Period (years) of UAAL	0.00	0.00	0.00
Change in normal costs	23.80%	23.80%	0.00%

	July 1, 2012	July 1, 2013	July 1, 2014	July 1, 2015	July 1, 2016
Employee Contribution Rate	7.000%	7.000%	7.000%	7.000%	7.000%
Employee Tier 3	0.000%	0.000%	7.000%	7.000%	7.000%
Employer Contribution Rate	25.810%	25.810%	25.810%	25.810%	25.810%
Employer Tier 3	0.000%	0.000%	25.810%	25.810%	25.810%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	32.81%	32.81%	32.81%	32.81%	32.81%

HPORS (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$167,824	$167,824	$0
Present Value of Actuarial Assets	$96,655	$96,655	$0
Unfunded Actuarial Accrued Liability (UAAL)	$71,169	$71,169	$0
Amortization Period (years) of UAAL	49.70	49.70	0.00
Change in normal costs	23.60%	23.60%	0.00%

HPORS	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	9.050%	9.050%	10.050%	10.050%	10.050%
Employee Tier 3	0.000%	0.000%	11.000%	11.000%	11.000%
Employer Contribution Rate	26.150%	26.150%	26.150%	26.150%	26.150%
Employer Tier 3	0.000%	0.000%	15.000%	15.000%	15.000%
State Contribution Rate	10.18%	10.18%	10.18%	10.18%	10.18%
TOTAL Contribution Rate	45.38%	45.38%	46.38%	46.38%	46.38%

SRS (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$284,559	$284,559	$0
Present Value of Actuarial Assets	$211,535	$211,535	$0
Unfunded Actuarial Accrued Liability (UAAL)	$73,024	$73,024	$0
Amortization Period (years) of UAAL	dna	dna	0.00
Change in normal costs	18.73%	18.73%	0.00%

SRS	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	9.245%	9.245%	10.245%	9.245%	9.245%
Employee Tier 3	0.000%	0.000%	9.000%	9.000%	9.000%
Employer Contribution Rate	10.115%	10.115%	10.115%	10.115%	10.115%
Employer Tier 3	0.000%	0.000%	10.000%	9.000%	9.000%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.36%	19.36%	20.36%	19.36%	19.36%

GWPORS (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$128,927	$128,927	$0
Present Value of Actuarial Assets	$97,691	$97,691	$0
Unfunded Actuarial Accrued Liability (UAAL)	$31,236	$31,236	$0
Amortization Period (years) of UAAL	dna	dna	0.00
Change in normal costs	18.98%	18.98%	0.00%

GWPORS	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	10.560%	10.560%	10.560%	10.560%	10.560%
Employee Tier 3	0.000%	0.000%	9.000%	9.000%	9.000%
Employer Contribution Rate	9.000%	9.000%	9.000%	9.000%	9.000%
Employer Tier 3	0.000%	0.000%	9.000%	9.000%	9.000%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.56%	19.56%	19.56%	19.56%	19.56%

MPORS (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$427,257	$427,257	$0
Present Value of Actuarial Assets	$234,025	$234,025	$0
Unfunded Actuarial Accrued Liability (UAAL)	$193,232	$193,232	$0
Amortization Period (years) of UAAL	25.70	25.70	0.00
Change in normal costs	26.26%	26.26%	0.00%

MPORS	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	9.000%	9.000%	9.000%	9.000%	9.000%
Employee Tier 3	0.000%	0.000%	11.000%	11.000%	11.000%
Employer Contribution Rate	14.410%	14.410%	14.410%	14.410%	14.410%
Employer Tier 3	0.000%	0.000%	15.000%	15.000%	15.000%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
State Tier 3	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	52.78%	52.78%	52.78%	52.78%	52.78%

FURS (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$377,211	$377,211	$0
Present Value of Actuarial Assets	$233,121	$233,121	$0
Unfunded Actuarial Accrued Liability (UAAL)	$144,090	$144,090	$0
Amortization Period (years) of UAAL	16.40	16.40	0.00
Change in normal costs	26.50%	26.50%	0.00%

	July 1, 2012	July 1, 2013	July 1, 2014	July 1, 2015	July 1, 2016
Employee Contribution Rate	10.70%	10.70%	10.70%	10.70%	10.70%
Employee Tier 3	0.00%	0.00%	11.00%	11.00%	11.00%
Employer Contribution Rate	14.36%	14.36%	14.36%	14.36%	14.36%
Employer Tier 3	0.00%	0.00%	15.00%	15.00%	14.00%
State Contribution Rate	32.61%	32.61%	32.61%	32.61%	32.61%
State Tier 3	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	57.67%	57.67%	57.67%	57.67%	57.67%

VFCA (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$36,146	$36,146	$0
Present Value of Actuarial Assets	$26,531	$26,531	$0
Unfunded Actuarial Accrued Liability (UAAL)	$9,615	$9,615	$0
Amortization Period (years) of UAAL	9.30	9.30	0.00
Change in normal costs	73.40%	73.40%	0.00%

VFCA	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	0.00%	0.00%	0.00%	0.00%	0.00%
Employer Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
State Contribution Rate-of fire insurance premiums	5.00%	5.00%	5.00%	5.00%	5.00%
TOTAL Contribution Rate	5.00%	5.00%	5.00%	5.00%	5.00%

TRS (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	$4,541,300	($273,400)
Present Value of Actuarial Assets	$2,852,000	$2,852,000	$0
Unfunded Actuarial Accrued Liability (UAAL)	$1,962,700	$1,689,300	($273,400)
Amortization Period (years) of UAAL	Infinite	47.00	0.00
Change in normal costs	9.96%	9.96%	0.00%

TRS DB Plan	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
TRS DB Employee Contribution Ra	7.15%	7.15%	8.15%	8.15%	8.15%
Employer Contribution Rate:					
School Districts	7.47%	7.47%	7.47%	7.47%	7.47%
State Agencies & MUS	9.85%	9.85%	9.85%	9.85%	9.85%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	17.11%	17.11%	18.11%	18.11%	18.11%

TRS	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
HB 338 DC Plan	July 1, 2012	July 1, 2013	July 1, 2014	July 1, 2015	July 1, 2016
DC Employee Contribution Rate	na	na	7.00%	7.00%	7.00%
Employer Contribution Rate:	na	na	8.00%	8.00%	8.00%
State Contribution Rate	na	na	0.00%	0.00%	0.00%
TOTAL Contribution Rate	na	na	15.00%	15.00%	15.00%

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$86,650,000	$83,233,203	$77,868,021	$75,533,799
State Special Revenue	($600,000)	($470,000)	($260,000)	($130,000)
Federal Special Revenue	($410,000)	($580,000)	($970,000)	($1,440,000)
Proprietary	($240,000)	($190,000)	($100,000)	($50,000)
MUS Tuition/Other	($50,000)	($40,000)	($20,000)	($10,000)
Revenue:				
General Fund	($14,834,858)	($14,850,397)	($12,773,224)	($12,892,777)
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Proprietary	$0	$0	$0	$0
MUS Tuition/Other	$0	$0	$0	$0
Pension Systems	$98,325,923	$99,231,673	$89,743,468	$85,449,137
Net Impact-General Fund Balance:	($101,484,858)	($98,083,600)	($90,641,245)	($88,426,576)

Description of fiscal impact: HB 338 would close all plans to future employees as of July 1, 2014. All new hires after this date would participate in a statewide defined contribution plan. Certain plans would see increases in participants' contribution rates until the plans are 100% funded. Employers would contribute 3% of new hires' compensation towards amortization of the unfunded liability until the system is 100% funded. The bill terminates all future post-retirement Guaranteed Annual Benefit Adjustments for all current and future retirees as of January 1, 2014, until all of the retirement systems (under chapters 3, 5 through 9, 13, and 20 of Title 19) are 100% funded as of each system's latest annual actuarial valuation. HB 338 includes a statutory appropriation from coal severance tax revenues and the general fund to help pay the systems' unfunded liabilities by July 1, 2043 and requires the Legislative Finance Committee to biennially recommend to the legislature any additional appropriation required to ensure the System is 100% funded by July 1, 2043. As written, HB 338 does not provide adequate funding necessary to fund the PERS, TRS, SRS, GWPORS, and MPORS by July 1, 2043.

FISCAL ANALYSIS

Assumptions:

1. All retirement plans will be closed to all new hires, effective July 1, 2014.
2. Following closure of the plan, the UAAL must be funded over a fixed period of 30 years (by 2043) using a level dollar methodology – effective 7/1/2014.
3. Initially, HB 338 will front-load the funding with fixed dollar amounts, but as current active members retire, more and more of the funding will have to be provided by legislative appropriation pursuant to Section 4 of the bill. If future appropriations are not at least equal to the amount recommended by the actuary, or if the legislature fails to pass legislation required by HB 338 to actuarially fund the systems by 2043, UAAL will continue to increase.
4. The ARC projections increase substantially in the last several years due to the closed amortization period at June 30, 2043, combined with the decreases in the assumed rate of return.

5. The temporary funding sources are assumed to terminate when each respective system attains 100% funding and the determination would be based upon the previous year's actuarial valuation results.
6. Once a temporary funding source terminates due to 100% funding, it does not start again even if the system's funded ratio falls below 100%.
7. The coal severance tax is to be allocated each year based upon each applicable system's unfunded actuarial liabilities.
8. Revenues have not been reallocated after each system becomes 100% funded.
9. Coal severance tax projections were developed using SJ 2 revenue estimates for FY 2014 and FY 2015. OBPP growth rates were applied for FY 2016 and FY 2017 and beginning in FY 2018, revenue projections are inflated by 2% each year thereafter for the actuarial analysis of each retirement system.
10. As the closed systems become more heavily weighted to retired members, it is likely that the investment policy of these systems will become more conservative, thus causing a decrease in the actuarial assumed rate of return on investment. For this reason, the study has used 7.75% for 2012 to 2024; 6.625% for 2025 to 2036; and 5.5% for 2037 and beyond.
11. For VFCA it was assumed that the annual contribution to the plan would be reduced in proportion to the total number of active and retired members in the defined benefit and defined contribution plans.
12. Total payroll will increase at the actuarially assumed rate of 4% for systems administered by PERB and 4.5% for TRS.
13. The active plan membership will remain demographically similar to the June 30, 2012 actuarial valuation.
14. The fiscal impact presented by the actuary 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.
15. There have been no adjustments for actuarial gains and losses, or for changes in membership or financial data since the last valuation as of June 30, 2012.
16. The actuarial calculations are based upon the data, actuarial methods, and assumptions that were used in the actuarial valuations of the systems as of June 30, 2012.
17. The assumptions are based on the likely future experience of the systems and represent a best estimate for future experience. The results are dependent upon future experience conforming to the assumptions used.
18. The ORP rates in Section 43 would be the same as for PERS.

Public Employees' Retirement System (PERS)

19. Suspending the GABA for current and future PERS retirees is projected to reduce liabilities of the system by $1.1 billion.
20. The employers for PERS are state and university 53%; local governments 35%; and school districts 12%.
21. The 0.27% additional contribution ceases in 2014 when the amortization period drops below 25 years.
22. The state contribution on behalf of local govt. and school districts does not change.
23. The PERS DB plan would receive more due to the coal severance tax, statutory appropriation and 3% UAAL funding.
24. The PERS DB plan will receive 3% UAAL funding in 2015, 2016, and 2017, or $3,100,000, $7,800,000, and $11,200,000, respectively.
25. PERS will receive coal severance tax based on the system's proportionate unfunded liabilities compared to the total unfunded liabilities in all of the systems (Section 6). The amounts received in 2014, 2015, 2016 and 2017 are $4,600,000, $6,000,000, $6,300,000, and $6,700,000, respectively.
26. PERS will receive $55,000,000 each year until 100% funded from the General Fund to pay unfunded liabilities (Section 10).
27. The state & university contribution from employers decreases in 2014, 2015 and 2016 by $1,730,000, $1,210,000, and $370,000, respectively; in 2017 it increases by $190,000
28. The local govt. contribution from employers decreases in 2015, 2016 and 2017 by $1,130,000, $760,000, and $150,000, respectively; in 2017 it increases by $250,000.

29. The school district contribution from employers increases in 2015, 2016 and 2017 by $150,000, $390,000, and $560,000, respectively.
30. For PERS, the amortization period in 2013 is DNA; 2014 is 5.9 years and gradually decreases until it reaches zero in 2020; from 2020 to 2025 the plan is zero; and the plan is DNA from 2026 to 2043.
    a. In 2026, the total contributions from employees' and employers' cover the normal cost with insufficient additional contributions to actuarially pay the unfunded liability.

Teachers' Retirement System (TRS)

31. Effective July 1, 2014, public educators who would have become members of TRS must become members of a statewide, combined public employee DC plan, with the exception of professors and administrators within the University System who are required to participate in the optional retirement plan under Title 19, chapter 21.
32. Effective July 1, 2014, the current TRS DB member contribution rate will increase 1.0% (7.15% to 8.15%), and remain at 8.15% until TRS is 100% funded. It is not possible to determine when the rate will return to 7.15%. Employee contributions will increase as follows:

Fiscal Year	**2014**	**2015**	**2016**	**2017**
1.0% Rate Increase	NA	$6,752,919	$6,367,409	$6,067,085

33. Effective July 1, 2014, the employer's DC plan contribution rate will be 8.0%, allocated as follows:
    a. 5.0% of compensation allocated to each DC participant's retirement account; and
    b. 3.0% of compensation allocated to TRS for unfunded liabilities.
34. Under current law, 7.46% of compensation reported each year is allocated to unfunded liabilities. Allocating less of the employer's contribution to TRS unfunded liabilities (based on new hire compensation) will reduce total funds available to amortize unfunded liabilities as follows:

Fiscal Year	**2014**	**2015**	**2016**	**2017**
Current Law	NA	$10,190,879	$14,994,492	$ 19,816,702
HB 338	NA	4,078,972	6,001,653	7,931,777
Loss of Funding	NA	$(6,111,907)	$(8,992,839)	$(11,884,925)

35. Setting the employer contribution on new hires compensation to 8.0% for all employers (an increase from 7.47% for school districts and community colleges, and a decrease from 9.85% for state agencies) will increase expenditures for school districts and reduce expenditures for state agencies, as follows:

SCHOOL DISTRICTS & COMM. COLLEGES				
Fiscal Year	**2014**	**2015**	**2016**	**2017**
Current Law – 7.47%	NA	$10,049,181	$14,786,002	$19,541,162
HB 338 – 8.0%	NA	$10,762,175	$15,835,076	$20,927,616
Increased Employer Contrib.	NA	$ 712,994	$1,049,074	$1,386,455

STATE AGENCIES				
Fiscal Year	**2014**	**2015**	**2016**	**2017**
Current Law – 9.85%	NA	$141,699	$208,491	$275,541
HB 338 – 8.0%	NA	115,085	169,333	223,790
Decreased Employer Contributions	NA	$(26,614)	$(39,158)	$(51,751)

36. As TRS is closed to new hires, the state supplemental contributions required under 19-20-604 and 19-20-607, MCA, to amortize unfunded liabilities will be lost, as follows:

STATE SUPPLEMENT FUNDING – 19-20-604 & 19-20-607, MCA				
Fiscal Year	**2014**	**2015**	**2016**	**2017**
Loss of Funding	NA	($1,758,221)	($3,349,727)	($4,928,667)

37. Each year, effective July 1, 2013, $28,050,141 is statutorily appropriated to TRS until TRS is 100% funded. If the GABA suspension required by section 78 is found to be invalid by a court, this general fund appropriation will be voided.
38. Effective July 1, 2013, a portion of the severance taxes collected under 15-35-108, MCA, must be deposited to TRS until the System is 100% funded. The proportionate share TRS will receive each year will be based on the TRS unfunded liabilities compared to the total unfunded liability of all public pension systems covered by this section.
39. Beginning January 1, 2014, the 1.5% guaranteed annual benefit adjustment (GABA) paid to TRS retirees must be suspended until all of the retirement systems are 100% funded as of their most recent actuarial valuations.
40. If, based on the most recent actuarial valuation, TRS is not on schedule to be 100% funded by July 1, 2043, HB 338 requires the Legislative Finance Committee to recommend a statutory appropriation that will ensure the System is funded by July 1, 2043. As introduced, HB 338 will not amortize the UAAL by July 1, 2043, and the required additional annual contribution starting July 1, 2013 necessary to amortize the unfunded liability by July 1, 2043, is $5.7 million.
41. Disability benefits will be provided to DC plan participants through an insurance contract. The cost of the insurance must be shared equally by each employer and employee; however, the cost cannot exceed 0.5% of compensation. It is not possible to calculate the additional cost of purchasing disability insurance.
42. Employers may create a tax levy to pay their share of the cost for disability insurance. For employees, this will be an additional deduction from their paycheck. It is not possible to estimate the required tax increase or the employees' share of this cost.
43. Beginning January 1 of the year following an actuarial valuation showing TRS is at least 100% funded, the employer's DC plan contribution rate will decrease from 8.0% to 7.0% of compensation. At that time, the full employer's contribution allocated to each DC participant's account will increase from 5.0% to 7.0%. It is not possible to determine when this change will occur.
44. With the closing of the plan, there will no longer be an increasing payroll on which to amortize unfunded liabilities, but rather a decreasing payroll. Therefore, the necessary contribution to fund the System uses a assumption of level dollar methodology.

45. The closure of the TRS is expected to impact the asset allocation and, therefore, the investment return over time. As a result, the asset allocation will slowly transition from one that is more heavily weighted in equity investments to one that has a higher proportion of total portfolio assets allocated to fixed income investments. Therefore, we have assumed a graded investment return as follows.

Year	**Assumed Rate of Return**
2013 – 2024	7.75%
2025 – 2036	6.625%
2037 and beyond	5.5%

46. The normal cost of the new DC accounts, and the closed DB and the current DB pension plans are as follows:

	HB 338 DC Plan	Closed DB Plan	Current DB Plan
Employee	7.0%	8.15%	7.15%
Employer	7.0%	2.04%	2.50%
Total	14.0%	10.19%	9.65%

47. Even though the TRS DB plan is closed to all new hires after July 1, 2013, TRS covered employers will continue to submit monthly reports and contributions to TRS and TRS will be responsible for submitting DC plan participants wages and contributions to the statewide DC plan created under HB 338. The IT system changes required to the TRS wage and contribution reporting system are not expected to exceed $30,000. It is not possible to anticipate the fiscal impact on employers.
48. 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, zero 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.
49. Salary increases of 4.5% are assumed for future years.
50. Employee salary data for MUS TRS participants includes only the current unrestricted fund. The State's portion is 81% general fund and 19% tuition and other revenue.
51. TRS employer contribution rate increases and/or decreases are funded as follows:
    - K-12 employer contribution: 100% school district retirement fund
    - State agencies: 70% state general fund, 1% special revenue, 29% federal funds
    - MUS employers: 100% current unrestricted funds (81% general fund & 19% tuition and other funds.
52. 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.
53. The impact presented in this fiscal note assumes that the general fund appropriation provided for in Section 10 will not be voided through invalidation of the GABA suspension.
54. All calculations are based on the July 1, 2012 actuarial valuation. The actuarial valuations and experience studies are available on TRS website: http://www.trs.mt.gov/Board/ActuarialValuations/ActuarialValuations.asp

Judges' Retirement System (JRS)

55. The state is the only employer for JRS.
56. There is no fiscal impact on JRS.

57. HB338 was amended to reinstate GABA for JRS. The cost of the GABA is $46 million.
58. JRS continues to be 100% funded from current to 2043.

Highway Patrol Officers' Retirement System (HPORS)

59. The cost savings of eliminating the GABA for HPORS is $37 million.
60. The state is the only employer for HPORS.
61. The HPORS DB plan would receive more due to the coal severance tax, statutory appropriation, and 3% UAAL funding; member rates are also increased.
62. The employer contributions decrease in 2015, 2016, and 2017 by $110,000, $310,000, and $500,000, respectively. Besides a decreasing DB payroll, the employer rate for Tier 3 is decreased by 21.33% and further decreases by 1% when the plan is 100% funded in 2019.
63. The HPORS DB plan will receive 3% UAAL funding in 2017 of $100,000.
64. HPORS will receive coal severance tax based on the system's proportionate unfunded liabilities compared to the total unfunded liabilities in all of the systems (Section 6). The amounts received in 2014, 2015, 2016 and 2017 are $1,800,000, $2,400,000, $2,500,000, and $2,600,000, respectively.
65. HPORS will receive $609,107 each year until 100% funded from the General Fund to pay unfunded liabilities (Section 10).
66. The amortization period for HPORS is 49.7 years in 2013; in 2014 it decreases gradually until it reaches 0 in 2019; it remains zero until 2041 and is DNA in 2042 and 2043.
    a. In 2042 the total contributions from employee and employer covers the normal cost with insufficient additional contributions to actuarially pay the unfunded liability.

Sheriffs' Retirement System (SRS)

67. The cost savings of eliminating the GABA for SRS is $64.8 million.
68. The employer would pay less in contributions.
69. Based on covered payroll, 95% comes from the counties and 5% comes from the Department of Justice.
70. The SRS DB plan would receive additional revenue in 2014 and 2015 due to the coal tax, statutory appropriation, and 3% UAAL funding.
71. The employer contributions decrease in 2015, 2016, and 2017 by $30,000, $80,000, and $130,000, respectively due to a decreased employer rate for Tier 3 that further decreases in 2015 because of 100% funding of the plan.
72. The SRS DB plan will receive 3% UAAL funding in 2015 of $100,000.
73. SRS will receive coal severance tax based on the system's proportionate unfunded liabilities compared to the total unfunded liabilities in all of the systems (Section 6). The amounts received in 2014 and 2015 are $1,900,000 and $2,400,000, respectively.
74. SRS will receive $2.7 million in 2014 and 2015 from the general fund to pay unfunded liabilities (Section 10).
75. For SRS, the amortization period in 2013 is DNA; 2014 is 0.1 years; from 2015 to 2030 is zero; and the plan is again DNA from 2031 to 2043.
    a. In 2031, the total contributions from employee and employer covers the normal cost with no additional contributions to actuarially pay the unfunded liability.

Game Wardens' and Peace Officers' Retirement System (GWPORS)

76. The cost savings of eliminating the GABA for GWPORS is $29.3 million.
77. Employers for GWPORS are comprised of 14% FWP; 9% DOT; 3% Livestock; and 74% Corrections.
78. The employer contributions do not change for GWPORS.
79. The GWPORS DB plan will not receive 3% UAAL funding.

80. GWPORS will receive coal severance tax based on the system's proportionate unfunded liabilities compared to the total unfunded liabilities in all of the systems (Section 6). The GWPORS DB plan would receive coal severance funding of $800,000 in 2014.
81. GWPORS will receive $1,083,767 each year until 100% funded from the general fund to pay unfunded liabilities (Section 10).
82. For GWPORS, the amortization period in 2013 is DNA; from 2014 to 2031 is zero; and the plan is again DNA from 2032 to 2043.
    a. In 2032 the total contributions from employee and employer covers the normal cost with insufficient additional contributions to actuarially pay the unfunded liability.

Municipal Police Officers' Retirement System (MPORS)

83. The cost savings of eliminating the GABA for MPORS is $96.5 million.
84. The employers for MPORS are cities that have contracted with the plan.
85. The employers would pay more in contributions in years 2015, 2016, and 2017 of $20,000, $50,000, and $70,000, respectively.
86. The MPORS DB plan will receive 3% UAAL funding in 2015, 2016 and 2017 of $100,000, $200,000 and $300,000, respectively.
87. MPORS will not receive coal severance tax based on the system's proportionate unfunded liabilities compared to the total unfunded liabilities in all of the systems (Section 6).
88. MPORS does not receive funding in the bill from the General Fund (Section 10) but does have a statutory state contribution to MPORS every year based on a percent of covered payroll. This state contribution will be reduced in 2015, 2016, and 2017 by $910,000, $2,310,000 and $3,330,000 respectively.
89. The MPORS DB plan would receive less in 2015, 2016 and 2017 due to the decrease of the state contribution being greater than the state contribution and 3% UAAL funding.
90. For MPORS, the amortization period in 2013 is 25.7 years; 2014 is 7 years; and it gradually reduces from 2015 to 2021. In 2022 to 2034 it is zero; in 2035 to 2037 it begins increasing; and the plan is again DNA from 2038 to 2043.
    a. In 2038 the total contributions from employee and employer covers the normal cost with insufficient additional contributions to actuarially pay the unfunded liability.

Firefighters' Unified Retirement System (FURS)

91. The cost savings of eliminating the GABA for FURS is $89.6 million.
92. The employers for FURS are cities 86%; rural fire districts 12% and Military Affairs 2%.
93. The employers would pay more in contributions in years 2015 and 2016 of $10,000, and $20,000, respectively, and less in 2017 of $10,000 when the contribution rate decreases due to 100% funding.
94. The FURS DB plan will receive 3% UAAL funding in 2016 and 2017 of $100,000 in each year.
95. FURS will not receive coal severance tax based on the system's proportionate unfunded liabilities compared to the total unfunded liabilities in all of the systems. (Section 6).
96. FURS does not receive funding in the bill from the General Fund (Section 10) but does have a statutory state contribution to FURS every year based on a percent of covered payroll. This state contribution will be reduced in 2015, 2016 and 2017 by $260,000, $790,000 and $1,350,000 respectively.
97. The FURS DB plan would receive less in 2015, 2016 and 2017 due to the decrease of the state contribution being greater than the state contribution and 3% UAAL funding.
98. For FURS, the amortization period in 2013 is 16.4 years gradually reducing to 0.7 years in 2016; from 2017 to 2043 it is zero.

Volunteer Firefighters' Compensation Act (VFCA)

99. The cost savings of eliminating the GABA for VFCA is $0. VFCA retirees do not receive GABA.

100. Fire companies in unincorporated areas "employ" unpaid volunteers. There are approximately 200 fire companies that report under VFCA.
101. The contributions come from the state and would be split between the DB and DC plans.
102. The VFCA DB plan would not receive coal severance, HB338 statutory appropriation, or 3% UAAL funding.
103. VFCA will not receive coal severance tax based on the system's proportionate unfunded liabilities compared to the total unfunded liabilities in all of the systems (Section 6).
104. VFCA does not receive funding in the bill from the general fund (Section 10) but does have a statutory state contribution to VFCA every year based on a percent of fire insurance premiums. This state contribution will be reduced in 2016 and 2017 by $100,000 each year.
105. For VFCA, the amortization period in 2013 is 9.3 years; from 2014 it gradually reduces to 0.6 years in 2022. The plan is zero years from 2023 to 2043.

Department of Commerce (DOC)

106. Under Section 6 of this bill, estimated FY 2014 revenues to the Coal Board would be increased by $1,725,908, while subsequent fiscal years would be reduced from current law to $764,768 per year, a reduction of $981,844 in FY 2015, $1,041,816 in FY 2016, and $1,104,891 in FY 2017.
107. This bill will reduce the amount of Coal Board grants available to local governmental entities in designated coal impact areas for impacts resulting from coal development.

Department of Natural Resources (DNRC)

108. DNRC estimates that the total reduction to the local impact (shared account) would be $688,873 in the 2015 biennium.
109. CARDD received 71% of the total budget allocation in the local impact shared account in the 2013 biennium.

Long Range Building Program (LRBP)

110. LRBP's allocation of coal severance tax will change from a 12% annual allocation of total taxes collected to an annual set amount of $6,329,115. This will result in a $1.5 million dollar reduction in the 2015 biennium.
111. If HB 338 is passed, HB 5 will need to be amended to reduce projects presently proposed, increase the general fund transfer, or authorize a different funding mechanism for the reduced revenue.

Legislative Branch (LEG)

112. HB 338 is one of several bills seeking to add to the duties of interim and administrative committees. The fiscal note for each bill is prepared based on the effect of the individual bill. However, when viewed as a package, the cumulative effect of passage of more than one bill will require additional analysis and may require additional resources.
113. Section 2 of the bill adds to the duties of the Revenue and Transportation Interim Committee by requiring that the committee develop and share information concerning the coal severance tax revenue allocated to the public employee retirement systems as requested by the Legislative Finance Committee.
114. Section 3 requires that the State Administration and Veterans' Affairs Interim Committee provide committee research and policy guidance on the retirement systems and collaborate with the Legislative Finance Committee.
115. Section 4, subsections 8 and 9, require the Legislative Finance Committee to examine the statutory appropriations to the public employee retirement systems and recommend any legislation necessary to adjust the appropriation amounts to provide the systems are 100% funded by July 1, 2043.
116. HB 338 was amended to also require the Legislative Finance Committee to monitor the potential fiscal impacts of reinstating the Guaranteed Annual Benefit Adjustments and recommend any legislation the committee determines necessary to ensure the retirement systems remain actuarially sound, as outlined in section 4, subsection 8(b) of the bill.
117. For the purposes of this fiscal note, it is assumed that the interim and administrative committees listed above will perform the work from existing resources; the Legislative Services Division and Legislative

Fiscal Division will evaluate resource needs after completing the first interim which includes the requirements of this bill.

Analysis of Statutory Appropriation:

1. 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. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines.

	YES	NO
a. The fund or use requires an appropriation.	x	
b. The money is not from a continuing, reliable, and estimable source.		x
c. The use of the appropriation or the expenditure occurrence is not predictable and reliable.		x
d. The authority does not exist elsewhere.	x	
e. An alternative appropriation method is not available, practical, or effective.		x
f. Other than for emergency purposes, it does not appropriate money from the state general fund.	x	
g. The money is dedicated for a specific use.	x	
h. The legislature wishes the activity to be funded on a continual basis.	x	
i. When feasible, an expenditure cap and sunset date are included.	x	

Comments: Section 6 of the bill statutorily appropriates coal severance tax revenue to various pension system trust funds.

	YES	NO
a. The fund or use requires an appropriation.	x	
b. The money is not from a continuing, reliable, and estimable source.		x
c. The use of the appropriation or the expenditure occurrence is not predictable and reliable.		x
d. The authority does not exist elsewhere.	x	
e. An alternative appropriation method is not available, practical, or effective.		x
f. Other than for emergency purposes, it does not appropriate money from the state general fund.		x
g. The money is dedicated for a specific use.	x	
h. The legislature wishes the activity to be funded on a continual basis.	x	
i. When feasible, an expenditure cap and sunset date are included.	x	

Comments: Section 10 of the bill appropriates general fund to various pension system trust funds.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
Expenditures:				
Statutory Approp - General Fun	$87,500,000	$86,412,387	$83,694,319	$83,694,319
Statutory Approp - Coal Sev Ta	$14,151,132	$17,352,520	$15,755,330	$16,379,700
State Agencies - Coal Sev Tax	$683,726	($2,502,123)	($2,982,106)	($3,486,923)
ER/State Contributions	(2,150,000)	(4,459,184)	(7,176,298)	(9,790,520)
Operating	$0	$0	$0	$0
Transfers	$0	$0	$0	$0
TOTAL Expenditures	$100,184,858	$96,803,600	$89,291,245	$86,796,576
Funding of Expenditures:				
General Fund (01) - SA	$87,500,000	$86,412,387	$83,694,319	$83,694,319
General Fund (01) - Contributic	($850,000)	(3,179,184)	(5,826,298)	(8,160,520)
Coal Severance Tax	$14,834,858	$14,850,397	$12,773,224	$12,892,777
State Special Revenue (02) - Contrib.	($600,000)	($470,000)	($260,000)	($130,000)
Federal Special Revenue (03) -Contrib	($410,000)	($580,000)	($970,000)	($1,440,000)
Proprietary (06) - Contributions	($240,000)	($190,000)	($100,000)	($50,000)
MUS tuition/other - Contributions	($50,000)	($40,000)	($20,000)	($10,000)
TOTAL Funding of Exp.	$100,184,858	$96,803,600	$89,291,245	$86,796,576
Revenues:				
General Fund (01)	($14,834,858)	($14,850,397)	($12,773,224)	($12,892,777)
State Special Revenue (02)	$0	$0	$0	$0
Federal Special Revenue (03)	$0	$0	$0	$0
Proprietary (06)	$0	$0	$0	$0
MUS tuition/other	$0	$0	$0	$0
Other - Local Govt/School Districts	$0	$0	$0	$0
Other - PERS Trust	$56,330,000	$58,710,000	$60,600,000	$62,060,000
Other - TRS Trust	$33,084,981	$33,474,498	$28,984,361	$24,600,030
Other - JRS Trust	$0	$0	$0	$0
Other - HPORS Trust	$2,409,107	$3,119,107	$3,419,107	$3,709,107
Other - SRS Trust	$4,618,068	$5,088,068	($80,000)	($130,000)
Other - GWPORS Trust	$1,883,767	$0	$0	$0
Other - MPORS Trust	$0	($910,000)	($2,310,000)	($3,330,000)
Other - FURS Trust	$0	($250,000)	($770,000)	($1,360,000)
Other - VFCA Trust	$0	$0	($100,000)	($100,000)
TOTAL Revenues	$83,491,065	$84,381,276	$76,970,244	$72,556,360

Fiscal Impact - *Continued*:	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($101,484,858)	($98,083,600)	($90,641,245)	($88,426,576)
State Special Revenue (02)	$600,000	$470,000	$260,000	$130,000
Federal Special Revenue (03)	$410,000	$580,000	$970,000	$1,440,000
Proprietary (06)	$240,000	$190,000	$100,000	$50,000
MUS tuition/other	$50,000	$40,000	$20,000	$10,000
Other - PERS Trust	$56,330,000	$58,710,000	$60,600,000	$62,060,000
Other - TRS Trust	$33,084,981	$33,474,498	$28,984,361	$24,600,030
Other - JRS Trust	$0	$0	$0	$0
Other - HPORS Trust	$2,409,107	$3,119,107	$3,419,107	$3,709,107
Other - SRS Trust	$4,618,068	$5,088,068	($80,000)	($130,000)
Other - GWPORS Trust	$1,883,767	$0	$0	$0
Other - MPORS Trust	$0	($910,000)	($2,310,000)	($3,330,000)
Other - FURS Trust	$0	($250,000)	($770,000)	($1,360,000)
Other - VFCA Trust	$0	$0	($100,000)	($100,000)

Effect on Local Governments:

TRS

1. The employer contribution on new entrants' compensation will increase from 7.47% to 8.0% until TRS is 100% funded, and then decrease to 7.0%. It is not possible to estimate when the rate might decrease to 7.0%. The immediate impacts of the rate increase on school districts and community colleges are as follows:

SCHOOL DISTRICTS & COMM. COLLEGES				
Fiscal Year	**2014**	**2015**	**2016**	**2017**
Increased Employer Contributions	NA	$712,994	$ 1,049,074	$ 1,386,455

2. It is not possible to estimate the costs of any changes that may be required by local governments to enhance their payroll systems.

PERS

3. Local Governments for Tier 1 & 2 continue paying the rate of 7.07% until the year 2014 when the plan's amortization drops below 25 years. The additional contribution terminates and the rate is reduced to 6.8% of compensation paid for Local Governments.
4. Local Governments for Tier 3 continue paying the rate of 8% until the year 2020 when the plan is 100% funded. The rate is then reduced to 7% of compensation paid.
5. School Districts for Tier 1 & 2 continue paying the rate of 6.8%.
6. School Districts for Tier 3 continue paying the rate of 8% until the year 2020 when the plan is 100% funded. The rate is then reduced to 7% of compensation paid.
7. Additional contributions:

LOCAL GOVERNMENT & SCHOOL DISTRICTS				
Fiscal Year	**2014**	**2015**	**2016**	**2017**
Local Government	($1,130,000)	($760,000)	($150,000)	$250,000
School Districts	NA	$150,000	$390,000	$560,000

Department of Commerce (DOC)

8. The Coal Board provides grants to local governments, including municipalities and counties, to address the impacts resulting from coal development. This bill would permanently reduce the amount of funding available to the Coal Board, and would therefore reduce this source of funding to governments in coal-impacted areas to address the impacts from coal development.

<u>Long-Term Impacts:</u>

TRS:

1. Closing TRS to new entrants does not immediately reduce the annual cost of the system. Even with the additional revenue sources included in HB 338 the amortization period of a closed TRS is 40 years. As a result, the legislature will need to immediately appropriate an additional $4.1 million annually in order to amortize the unfunded liabilities by July 1, 2043.
2. The employer contribution to the Retirement System consists of the employer's portion of the System's normal cost and the amount to amortize the unfunded liability. The normal cost is the cost of benefits accruing to the active participants during a given year. The normal cost is funded by both employee and employer contributions. The DC plan proposed in HB 338 has an initial employer contribution rate of 5.00% accruing to active DC participants, compared to long term cost of the current plan, which is 2.50%. However, once TRS is 100% funded, the employer contribution to a DC plan participant's account will increase to 7.0%.

PERS

3. For the members, the 1% additional contribution is eliminated in the year 2020.
4. For the local government employers and the state, the 0.27% contribution is eliminated in the year 2014.
5. For the employers, the 1% additional contribution is eliminated in the year 2020 when the plan is 100% funded.
6. The state experiences a savings immediately due to the reducing payroll in the DB plan for state employees and for the on-behalf payments made for local governments and school districts.
7. The state experiences a savings beginning in 2014 for the 0.27% that is paid on behalf of the school districts.
8. PERS becomes actuarial sound in the year 2014 when the unfunded liability is able to be paid within 5.9 years.

DNRC

9. Long-term impacts would include CARDD being unable to fund stream bank stabilization and watershed inventories for rivers and streams which can be affected by flood and natural erosion.

<u>Technical Notes:</u>

1. Section 6 of the bill redirects the portion of the coal severance tax that under current law goes to the general fund, directly into each retirement system's trust funds. The deposits would be made in a proportion of the system's unfunded liabilities compared to the total unfunded liabilities of all the systems as of the last actuarial analysis. The actuarial analysis of HB 338 did not reallocate this funding between systems, once a system becomes funded. For the purposes of this fiscal note, the portion of the coal severance tax that is no longer needed by the systems with relatively small unfunded liabilities (SRS and GWPORS) has been

diverted back to the general fund. This amounted to $1.0 million in FY 2015, $3.7 million in FY 2016, and $3.9 million in FY 2017 that within the fiscal note is returned to the general fund.

PERS

2. All Defined Benefit systems are required to be 100% funded by 2043 (Section 12 & 74). It is unclear whether this is this January 2043, or June 30, 2043.
3. Employers can levy taxes to meet employer's obligation *Effective 7/1/2014* (section 44).
4. The VFCA receives their funding once a year from the general fund. The money would be distributed once a year. Initially, VFCA members may not have enough funds in there member accounts to cover fees.
5. Section 79, when providing the ORP allocation of the employer contribution, refers to section 41. Section 41 provides the PERS allocation for the employer contribution and includes a disability allocation. An amendment is necessary because ORP has its own disability through the university.

TRS

6. Section 80 requires that TRS 1.5% GABA be "suspended", which implies there is a possibility that at some point it will be reinstated. HB 338 fails to include the necessary language to address when and how the GABA might be reinstated. Without contingent language to reinstate the GABA, HB 338 effectively terminates the GABA for all current and future retirees.

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