Pension Fund Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0377	**Title:**	Increase contributions and funding for TRS, revise GABA
Primary Sponsor:	Woods, Tom	**Status:**	As Amended in Senate Committee

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	$4,814,726	$4,483,400	($331,326)
Present Value of Actuarial Assets	$2,852,007	$2,852,000	($7)
Unfunded Actuarial Accrued Liability (UAAL)	$1,962,719	$1,631,400	($331,319)
Amortization Period (years) of UAAL	Infinite	22.00	
Change in normal costs	9.65%	9.25%	-0.40%

	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%	8.57%	8.67%	8.77%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	17.11%	19.11%	19.21%	19.31%	19.41%

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$27,295,471	$27,627,084	$27,912,112	$28,261,470
State Special Revenue	$597	$657	$749	$848
Federal Special Revenue	$17,323	$19,055	$21,723	$24,592
Other - MUS tuition/other	$165,693	$182,262	$158,924	$171,639
Revenue:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other TRS Pension Trust	$55,138,078	$41,942,100	$43,335,492	$44,957,973
Net Impact-General Fund Balance:	($27,295,471)	($27,627,084)	($27,912,112)	($28,261,470)

Description of fiscal impact: HB 377, as amended, provides for additional funding of $25 million annually from the state general fund, $14.7 million one-time-only from school district retirement reserves, a 1.0% supplemental contribution from active members, and a 1.0% employer supplemental contribution in FY 2014 plus 0.1% each year thereafter for 10 years. In addition, HB 377 creates a second tier of benefits for members hired after July 1, 2013, which reduces the employer's normal cost rate, requires members to work longer before they are eligible for benefits, and reduces benefits for most new hires. Over time, the employer's savings from the new tier will help to actuarially fund TRS.

FISCAL ANALYSIS

Assumptions:

1. Each year, TRS will receive a $25 million supplemental contribution from the general fund.
2. TRS will receive a one time transfer, under Section 22 of the bill, from the trustees of any school district maintaining a retirement fund as provided in 20-9-501, MCA, of reserves in excess of 20%. This one-time transfer is estimated to total $14,700,000.
3. Employees participating in TRS will contribute an additional 1.0% of the employees' salaries and employers will contribute an additional 1% in FY 2014 plus 0.1% each year thereafter for 10 years until the supplemental contribution reaches a maximum of 2.27% estimated 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	$8,820,092	$9,952,728	$11,223,757

4. Salary data for state agencies and MUS participants in TRS 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.
5. Salary increases of 4.5% are assumed for future years.

6. The increase in the TRS employer contribution rate is estimated 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
7. 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 rather than 3 years
    - Multiplier increased to 1.85% 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
8. The TRS Board must suspend up to 1.0% of the 1.5% GABA for both tier 1 and tier2 members (retirees and active employees), as follows:
    - If the funded ratio is less than 90%, the maximum GABA that can be granted by the board is 0.5%.
    - If the funded ration is at least 90%, and granting more than 0.5% will not reduce the funded ratio below 85%, the board can grant a GABA greater than 0.5%, but not greater than 1.5%.
9. The expected normal cost rates for future employees of both tiers compared to the current system are as follows:

HB377			
	Current TRS	**Tier 1**	**Tier 2**
Employee	7.15%	8.15%	8.15%
Employer	2.50%	1.10%	0.74%
Total	9.65%	9.25%	8.89%

10. The MUS Current Unrestricted Fund (CUF) salary data is from the Montana Budgeting and Reporting System (MBARS), is present law, and could change depending upon the outcome of HB 13. The balance of the salary data is paid from tuition and other sources.

MUS Salary Data	2014	2015	2016	2017
CUF	$135,596,917	$135,596,917	$141,698,778	$148,075,223
Tuition/Restricted	$ 57,308,083	$ 65,988,808	$ 68,958,304	$ 72,061,428
Total Salary Data	$192,905,000	$201,585,725	$210,657,083	$220,136,651

11. 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/Restricted" row for expenditures and funding.
12. 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/Restricted" row for expenditures and funding.
13. IT system changes necessary to implement HB 377 are projected to be $30,000.
14. 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.
15. All calculations are based on the July 1, 2012 actuarial valuation.

16. The actuarial valuations and experience studies are available on the TRS website: http://www.trs.mt.gov/Board/ActuarialValuations/ActuarialValuations.asp

17. 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	

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses	$30,000	$0	$0	$0
State Agencies 1% contrib	$59,733	$65,707	$74,906	$84,800
MUS 1% contrib	$357,419	$393,160	$316,585	$314,840
State Portion K-12 1% contri	$2,061,932	$2,370,191	$2,702,017	$3,058,909
To TRS Trust Fund	$25,000,000	$25,000,000	$25,000,000	$25,000,000
TOTAL Expenditures	$27,509,084	$27,829,058	$28,093,508	$28,458,549
Funding of Expenditures:				
General Fund (01)	$27,103,745	$27,416,186	$27,754,451	$28,118,269
MUS General Fund (01)	$191,726	$210,898	$157,661	$143,201
State Special Revenue (02)	$597	$657	$749	$848
Federal Special Revenue (03)	$17,323	$19,055	$21,723	$24,592
MUS Tuition/Restricted	$165,693	$182,262	$158,924	$171,639
Other- TRS	$30,000	$0	$0	$0
TOTAL Funding of Exp.	$27,509,084	$27,829,058	$28,093,508	$28,458,549
Revenues:				
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/Restricted	$0	$0	$0	$0
Other - TRS Trust Fund	$55,168,078	$41,942,100	$43,335,492	$44,957,973
TOTAL Revenues	$55,168,078	$41,942,100	$43,335,492	$44,957,973
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($27,295,471)	($27,627,084)	($27,912,112)	($28,261,470)
State Special Revenue (02)	($597)	($657)	($749)	($848)
Federal Special Revenue (03)	($17,323)	($19,055)	($21,723)	($24,592)
MUS Tuition/Restricted	($165,693)	($182,262)	($158,924)	($171,639)
Other - TRS Trust Fund	$55,138,078	$41,942,100	$43,335,492	$44,957,973

Effect on Local Governments:

1. The one-time contribution by school districts to the TRS payable on October 1, 2013, has been estimated to be $14.7 million.
2. School Districts participating in TRS contribute an additional 1.0% of the employees' salaries in FY 2014 plus 0.1% each year thereafter for ten years estimated as follows:

Fiscal Year	2014	2015	2016	2017
Employer Contributions	$5,302,110	$6,094,776	$6,948,045	$7,865,766

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