



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill # HB0382

Title: Provide coal tax funding for actuarially unsound retirement systems

Primary Sponsor: Bangerter, Liz

Status: As Introduced

Retirement Systems Affected:

<input checked="" type="checkbox"/> Teachers	<input checked="" type="checkbox"/> Public Employees	<input type="checkbox"/> Highway Patrol	<input type="checkbox"/> Police
<input checked="" type="checkbox"/> Sheriffs	<input type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input checked="" type="checkbox"/> Game Wardens
			<input type="checkbox"/> 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

	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
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(Dollar Amounts in Thousands)

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
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Employee Contr Rate prior 7/1/2011	6.90%	6.90%	6.90%	6.90%	6.90%
Employee Contr Rate 7/1/2011	7.90%	7.90%	7.90%	7.90%	7.90%
State and MUS Contribution Rat	7.17%	7.17%	7.17%	7.17%	7.17%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Govt Contribution Rate	7.07%	7.07%	7.07%	7.07%	7.07%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
School District Contribution Rat	6.80%	6.80%	6.80%	6.80%	6.80%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	15.07%	15.07%	15.07%	15.07%	15.07%

SRS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
(Dollar Amounts in Thousands)			
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%	9.245%	9.245%	9.245%
Employer Contribution Rate	10.115%	10.115%	10.115%	10.115%	10.115%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.36%	19.36%	19.36%	19.36%	19.36%

GWPORS	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
(Dollar Amounts in Thousands)			
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%
Employer Contribution Rate	9.000%	9.000%	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%

TRS (Dollar Amounts in Thousands)	July 1, 2012 Current System	July 1, 2012 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$4,814,726	\$4,814,726	\$0
Present Value of Actuarial Assets	\$2,852,007	\$2,852,007	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,962,719	\$1,962,719	\$0
Amortization Period (years) of UAAL	Infinite	88.00	0.00
Change in normal costs	9.65%	9.65%	0.00%

TRS	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%	7.15%	7.15%	7.15%	7.15%
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	17.11%	17.11%	17.11%	17.11%	17.11%

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Stat. Approp. PERS-TRS-SRS-GWPORS	\$16,874,184	\$17,967,736	\$18,593,014	\$19,251,245
Revenue:				
General Fund	(\$16,874,184)	(\$17,967,736)	(\$18,593,014)	(\$19,251,245)
Other - PERS	\$7,593,383	\$8,085,481	\$8,366,856	\$8,663,061
Other - SRS	\$843,709	\$898,387	\$929,651	\$962,562
Other - GWPORS	\$843,709	\$898,387	\$929,651	\$962,562
Other - TRS	\$7,593,383	\$8,085,481	\$8,366,856	\$8,663,060
Net Impact-General Fund Balance:	<u>(\$16,874,184)</u>	<u>(\$17,967,736)</u>	<u>(\$18,593,014)</u>	<u>(\$19,251,245)</u>

Description of fiscal impact: Effective July 1, 2013, HB 382 statutorily appropriates the coal severance tax collections that would be deposited in the general fund under 15-35-108(9)(a), MCA, to the Public Employee Retirement System (PERS), Teachers Retirement System (TRS), Sheriffs Retirement System (SRS), and Game Wardens and Peace Officers Retirement System (GWPORS). The statutory appropriation will cease on January 1 of the year following an actuarial valuation showing that the amortization period of the unfunded liability of these retirement systems is 30 years or less and that the termination of the statutory appropriation would not result in an amortization period of more than 30 years. In addition, there is a provision that would allow the 45% that is statutorily appropriated to either PRS or TRS to be appropriated to the other if one becomes actuarially sound and the other is not.

FISCAL ANALYSIS

Assumptions:

1. Coal severance tax projections were developed using OBPP revenue estimates for FY 2014 thru FY 2017 and are inflated 2% each year thereafter for the actuarial analysis of each retirement system.
2. Under HB 382, the portion of the coal severance tax revenue that currently is deposited in the general fund would be statutorily appropriated as follows:
 - a. 45% to PERS
 - b. 45% to TRS
 - c. 5% to SRS
 - d. 5% to GWPORS

PERS, SRS, and GWPORS

3. The active plan membership will remain demographically similar to the June 30, 2012 actuarial valuation.
4. Total payroll will increase at the assumed rate of 4%.
5. Plan assets will earn 7.75% per annum on market value.
6. 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.
7. 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.
8. The actuarial calculations are based upon the data, actuarial methods and assumptions as were used in the Actuarial Valuations of the systems as of June 30, 2012.
9. 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.

TRS

10. HB 382 has no impact on the liabilities of the system. It only provides for additional funding to TRS.
11. The data, methods and assumptions used to determine the impact of HB382 are the same as those used in the July 1, 2012 actuarial valuation. The actuarial valuations and experience studies are available on the TRS website: <http://www.trс.mt.gov/Board/ActuarialValuations/ActuarialValuations.asp>

	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Stat. Approp. PERS-TRS-SRS-GWPORS	\$16,874,184	\$17,967,736	\$18,593,014	\$19,251,245
TOTAL Expenditures	\$16,874,184	\$17,967,736	\$18,593,014	\$19,251,245
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Other-Coal Severance Tax Re	\$16,874,184	\$17,967,736	\$18,593,014	\$19,251,245
TOTAL Funding of Exp.	\$16,874,184	\$17,967,736	\$18,593,014	\$19,251,245
<u>Revenues:</u>				
General Fund (01)	(\$16,874,184)	(\$17,967,736)	(\$18,593,014)	(\$19,251,245)
Other - PERS Trust	\$7,593,383	\$8,085,481	\$8,366,856	\$8,663,061
Other - SRS Trust	\$843,709	\$898,387	\$929,651	\$962,562
Other - GWPORS Trust	\$843,709	\$898,387	\$929,651	\$962,562
Other - TRS Trust	\$7,593,383	\$8,085,481	\$8,366,856	\$8,663,060
TOTAL Revenues	\$0	\$0	\$0	\$0

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$16,874,184)	(\$17,967,736)	(\$18,593,014)	(\$19,251,245)
Other - PERS Trust	\$7,593,383	\$8,085,481	\$8,366,856	\$8,663,061
Other - SRS Trust	\$843,709	\$898,387	\$929,651	\$962,562
Other - GWPORS Trust	\$843,709	\$898,387	\$929,651	\$962,562
Other - TRS Trust	\$7,593,383	\$8,085,481	\$8,366,856	\$8,663,060

Long-Term Impacts:

PERS

1. The system does not amortize.
2. The funded ratio decreases over time due to the ARC shortfall. The short term increase is due to certain investment gains phasing into the smoothed asset value.
3. Normal cost is projected to decrease over time because new hires after July 1, 2011 are at a lower benefit structure.
4. The ARC shortfall decreases until approximately year 20 and then begins to increase again. This is due to the liabilities increasing at the assumed salary growth rate of 4% per year but the coal tax increases are only 2% per year. As a result the coal tax becomes progressively less significant in the funding.

SRS

5. The system does not amortize.
6. The funded ratio increase is a result of the recognition of certain investment gains phasing into the smoothed asset value in the short term and the slower growth in the long term due to the additional funding.
7. Normal cost is projected to decrease over time.
8. The ARC shortfall decreases in the short term and then begins to increase again. This is due to the liabilities increasing at the assumed salary growth rate of 4% per year but the coal tax increases are only 2% per year. As a result the coal tax becomes progressively less significant in the funding.

GWPORS

9. The amortization period comes to be actuarially sound within 10 years.

10. The funded ratio increase is a result of the recognition of certain investment gains phasing into the smoothed asset value and due to the additional funding.
11. Normal cost is projected to decrease over time.
12. The ARC shortfall is eliminated within 10 years; then becoming a surplus.

TRS

13. The amortization period under HB 382 is 88 years; under current law it is infinite.

Technical Notes:

1. The statutory appropriation needs clarification. The revenue should be deposited into the general fund or another fund, and then statutorily appropriated.

Sponsor's Initials

Date

Budget Director's Initials

Date



17-1-508(2), MCA.

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.

	<u>YES</u>	<u>NO</u>
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	