GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill #	HB0454	**Title:**	Provide funding for the public employees' retirement system defined benefit plan
Primary Sponsor:	McChesney, Bill	**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	$5,661,281	$5,010,159	($651,122)
Present Value of Actuarial Assets	$3,816,920	$3,816,920	$0
Unfunded Actuarial Accrued Liability (UAAL)	$1,844,361	$1,193,239	($651,122)
Amortization Period (years) of UAAL	DNA	DNA	0.00
Change in normal costs	11.80%	10.80%	-1.00%
Amortization Period (years) of UAAL with CST FY2014	DNA	**15.2**	

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%	7.40%	6.90%	6.90%	6.90%
Employee Contr Rate 7/1/2011	7.90%	7.40%	6.90%	6.90%	6.90%
State and MUS Contribution Rat	7.17%	6.90%	6.90%	6.90%	6.90%
ER supplemental rate	0.00%	0.64%	0.00%	0.00%	0.00%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Govt Contribution Rate	7.07%	6.80%	6.80%	6.80%	6.80%
ER supplemental rate	0.00%	0.64%	0.00%	0.00%	0.00%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
School District Contribution Rat	6.80%	6.43%	6.43%	6.43%	6.43%
ER supplemental rate	0.00%	0.64%	0.00%	0.00%	0.00%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	14.07%	14.94%	13.80%	13.80%	13.80%

The additional employer and employee contribution rates are in effect from July 1, 2013 to December 31, 2013 according to the actuarial analysis of HB 454.

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$34,066,274	$33,149,000	$33,665,000	$34,208,000
State Special Revenue	$844,453	($502,000)	($522,000)	($543,000)
Federal Special Revenue	$574,829	($342,000)	($355,000)	($369,000)
Proprietary	$334,916	($199,000)	($207,000)	($215,000)
MUS tuition/other	$279,130	($205,000)	($213,000)	($222,000)
Other - Local Govt	$1,530,000	($1,177,000)	($1,224,000)	($1,273,000)
Other - School Distr	$400,000	($581,000)	($604,000)	($628,000)
Other - Members	$6,053,000	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$360,000
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other - TSEP/RRGL Interest	$0	$0	$0	($360,000)
Other - PERS	$47,082,602	$33,143,000	$33,540,000	$33,958,000
Net Impact-General Fund Balance:	($34,066,274)	($33,149,000)	($33,665,000)	($33,848,000)

Description of fiscal impact: HB 454 provides additional funding to amortize the unfunded liabilities of the Public Employee Retirement System (PERS) through increased contributions and revenue and interest earnings derived from natural resource development until such time that the plan amortizes within 25 years with the elimination of the additional contributions. HB 454 permanently revises and reduces the GABA for active and retired members to 1.5%. If the systems funding ratio is less than 90% it would further reduce the GABA by 0.1% for every 2% below the 90% funded level; if the amortization period is 40 years or greater the GABA would be reduced to 0.0%. The Unfunded Actuarial Accrued Liability (UAAL) of PERS is reduced from “Does Not Amortize” (DNA) to 15.2 years as a result of HB 454. Beginning in FY 2017, the bill allocates three-eighths of coal severance tax revenue to the coal tax permanent fund and eliminates the allocations to the Treasure State Endowment Fund and the Treasure State Endowment Regional Water System Fund. Over time, this will increase the amount of interest earnings that are transferred to the state general fund.

FISCAL ANALYSIS

Assumptions:

Public Employees’ Retirement System (PERS)

1. Member contribution rates for all active members would be set at 7.9%. The current rate is 6.9% for all members hired before July 1, 2011 and 7.9% for those members hired on or after July 1, 2011.
2. The member contribution rate would decrease to 6.9% for all members once the amortization period goes below 25 years and remains below 25 years following the reduction of the rate.
3. The total employer contribution rate for all employers including the state portion increases to 8.17%
4. The additional employer supplemental contribution would increase by 1% from 0.27% to 1.27% effective July 1, 2013. The supplemental contribution increases 0.1% every year for 10 years unless the amortization period drops below 25 years.
5. State and University

   a. The current employer contribution rate is 7.17% and would decrease to 6.9% effective 7/1/2013.
   b. The supplemental rate would be 1.27% effective 7/1/2013.
6. Local Governments
   a. The current employer contribution rate is 7.07% and would decrease to 6.9% effective 7/1/2013.
   b. The current state contribution for local governments is 0.1% and would remain the same.
   c. The employer supplemental rate would be 1.27% effective 7/1/2013.
7. School Districts
   a. The current employer contribution rate is 6.8% and would decrease to 6.43% effective 7/1/2013.
   b. The current state contribution for school district is 0.27% and would remain the same.
   c. The employer supplemental rate would be 1.27% effective 7/1/2013.
8. The additional 1% contribution would be eliminated including the current temporary contribution rate of 0.27% once the amortization period goes below 25 years and remains below 25 years following the reduction of the rate.
9. The termination of the temporary funding sources is applied at once for both the member and employer contributions when the system's amortization period goes below 25 years and remains below 25 years following the reduction of the rate.
10. An allocation of Coal Severance Tax revenues will be contributed to the plan each year.
11. 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 PERS as a result of HB 454.
12. Below are the projected GABA amounts for each calendar year based on the actuary's projected funded status of the plan:

Year	GABA
2014	0.9%
2015	1.0%
2016	1.0%
2017	1.10%

13. With the revised GABA of 1.5% for all members the funded ratio increases to 78% and the amortization period drops below 25 years immediately. Therefore the temporary employer and employee contributions would go away on January 1, 2014, only 6 months after the increase.
14. The projections do not reflect the incremental reductions in GABA when the funded ratio is below 90%.
15. 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.
16. 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.
17. 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.
18. 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.

Department of Agriculture (AGR)

19. Under current law, beginning July 1, 2013, the Growth through Agriculture program would receive a statutory appropriation of $1.25 million from the interest earnings of the coal tax permanent fund.
20. HB 454 would maintain the statutory appropriation for this purpose at the 2013 biennium level of $625,000 per year.

Department of Commerce (DoC)

21. Under current law, beginning July 1, 2013, the Research and Commercialization account would receive a statutory appropriation of $3.65 million from the interest earnings of the coal tax permanent fund.

22. Section 1 of the bill amends 15-35-108, MCA, and reduces the general fund transfer to the Research and Commercialization state special revenue account from $3.65 million each fiscal year to $1.275 million each fiscal year.
23. Section 2 of the bill stops the flow of coal severance tax bond fund revenues to the Treasure State Endowment Fund on June 30, 2016. Under current law coal severance tax bond fund revenues to the Treasure State Endowment Fund would have expired on June 30, 2020.
24. Beginning in FY 2014, this bill would statutorily appropriate coal severance tax revenue deposited in the general fund to the Public Employees Retirement System (PERS) trust fund. SJ 2 forecast of general fund revenue from the coal severance tax is $14.857 million for FY 2014 and $15.906 million for FY 2015. Using OBPP growth rates for FY 2016 and FY 2017, coal severance tax revenues are forecast to be $16.452 million for FY 2016 and $17.027 million for FY 2017.
25. Half of coal severance tax revenue is deposited in the coal tax trust funds. Under current law, through FY 2020 half of this revenue is deposited in the Treasure State Endowment Fund, one-fourth is deposited in the Treasure State Endowment Regional Water System Fund, and one-fourth is deposited in the Big Sky Economic Development Fund. Beginning in FY 2021, three-fourths is deposited in the Coal Tax Permanent Fund and one-fourth is deposited in the Big Sky Economic Development Fund. This bill makes this change in allocation formulas occur at the beginning of FY 2017.
26. The change in coal severance tax allocation at the beginning of FY 2017 would change the trust fund balances and interest earnings beginning in FY 2017. The following table shows the differences in allocation of coal severance tax and interest earning for FY 2014 through FY 2017.

Changes in Revenue Allocations ($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
Coal Severance Tax				
Coal Trust Permanent Fund	0	0	0	24.180
Treasure State Endowment Fund	0	0	0	(16.120)
TSE Regional Water System Fund	0	0	0	(8.060)
Trust Fund Interest Earnings				
General Fund	0	0	0	0.360
TSE Income Fund	0	0	0	(0.240)
TSERWSF Income Fund	0	0	0	(0.120)

22. 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	

Fiscal Impact:	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Expenditures:				
Stat Approp to PERS	$35,857,000	$36,906,000	$37,452,000	$38,027,000
SA Approp to State Agencies	($3,000,000)	($3,000,000)	($3,000,000)	($3,000,000)
Employer (ER) Contributions	$5,172,602	($3,763,000)	($3,912,000)	($4,069,000)
Employee (EE) Contributions	$6,053,000	$0	$0	$0
TOTAL Expenditures	$44,082,602	$30,143,000	$30,540,000	$30,958,000
Funding of Expenditures:				
GF (01) - Stat Approp PERS	$35,857,000	$36,906,000	$37,452,000	$38,027,000
GF (01) - Stat Approp Agenc	($3,000,000)	($3,000,000)	($3,000,000)	($3,000,000)
GF (01) ER Contributions	$935,010	($556,000)	($578,000)	($601,000)
GF (01)-MUS ER Contributi	$274,264	($201,000)	($209,000)	($218,000)
SSR (02) ER Contributions	$844,453	($502,000)	($522,000)	($543,000)
FSR (03) ER Contributions	$574,829	($342,000)	($355,000)	($369,000)
Proprietary (06) ER Contrib.	$334,916	($199,000)	($207,000)	($215,000)
MUS Tuition/Other ER Con	$279,130	($205,000)	($213,000)	($222,000)
Other - Local Govt ER Contr	$1,530,000	($1,177,000)	($1,224,000)	($1,273,000)
Other - School Distr ER Con	$400,000	($581,000)	($604,000)	($628,000)
Other - Members EE Contrib	$6,053,000	$0	$0	$0
TOTAL Funding of Exp.	$44,082,602	$30,143,000	$30,540,000	$30,958,000
Revenues:				
General Fund (01)	$0	$0	$0	$360,000
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 D	$0	$0	$0	$0
Other - TSEP/RRGL Interest	$0	$0	$0	($360,000)
Other - PERS Trust	$47,082,602	$33,143,000	$33,540,000	$33,958,000
TOTAL Revenues	$47,082,602	$33,143,000	$33,540,000	$33,958,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($34,066,274)	($33,149,000)	($33,665,000)	($33,848,000)
State Special Revenue (02)	($844,453)	$502,000	$522,000	$543,000
Federal Special Revenue (03)	($574,829)	$342,000	$355,000	$369,000
Proprietary (06)	($334,916)	$199,000	$207,000	$215,000
MUS Tuition/Other	($279,130)	$205,000	$213,000	$222,000
Other - Local Govt	($1,530,000)	$1,177,000	$1,224,000	$1,273,000
Other - School Districts	($400,000)	$581,000	$604,000	$268,000
Other - TSEP/RRGL Interest	$0	$0	$0	($360,000)
Other - PERS Trust	$47,082,602	$33,143,000	$33,540,000	$33,958,000

Effect on Local Governments:

1. Local Governments and School Districts each pay an additional 1% in employer contributions for 6 months beginning July1, 2013 and ending January 1, 2014 because the FY 2013 valuation is projected to reflect the amortization dropping below 25 years and the additional 1% contribution is eliminated.

Long-Term Impacts:

1. For the members the 1% additional contribution is eliminated January 1, 2014.
2. For the employers the 1% additional contribution and the 0.27% contribution is eliminated January 1, 2014.
3. PERS becomes actuarial sound in the year 2014 when the unfunded liability is able to be paid within 15.2 years.

Technical Notes:

1. It is not clear if the GABA reduction is based on an assumed constant calculation of 1.5% or on an adjusted 1.5% less .1% for each 2% below the 90% funded ratio.

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