GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill #	SB0082	**Title:**	Require PERS new hires to be in DC plan
Primary Sponsor:	Lewis, Dave	**Status:**	As Introduced-Revised

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	$5,661,281	$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%

	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 7/1/2011	7.90%	7.90%	7.90%	7.90%	7.90%
Employer Contribution Rate CP&Univ	7.17%	7.17%	7.17%	7.17%	7.17%
Employer Contribution Rate LocGov	7.07%	7.07%	7.07%	7.07%	7.07%
State Contribution Rate LocGov	0.10%	0.10%	0.10%	0.10%	0.10%
Employer Contribution Rate SD	6.80%	6.80%	6.80%	6.80%	6.80%
State Contribution Rate SD	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	15.07%	15.07%	15.07%	15.07%	15.07%

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$221,552	$176,584	$21,626,582	$21,806,456
MUS General Fund	$114,130	$90,965	$11,140,637	$11,233,296
State Special Revenue	$200,095	$159,481	$19,532,010	$19,694,463
Federal Special Revenue	$136,207	$108,561	$13,295,683	$13,406,267
Proprietary	$79,359	$63,251	$7,746,528	$7,810,958
MUS Tuition/Other	$116,855	$93,137	$11,406,695	$11,501,568
Other - Local Govt	$555,333	$442,617	$54,208,232	$54,659,097
Other - School Dist	$192,469	$153,403	$18,787,633	$18,943,895
Revenue:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other- Pension DB	$1,616,000	$1,287,999	$157,744,000	$159,056,000
Other- Pension PCR/disability	$15,000,000	$21,000,000	$28,000,000	$34,000,000
Other- Pension DC Forfeitures	($269,400)	($269,400)	($269,400)	($269,400)
Net Impact-General Fund Balance:	($335,682)	($267,549)	($32,767,219)	($33,039,752)

Description of fiscal impact: SB 82 closes the current PERS Defined Benefit (DB) plan and requires that all PERS new hires be members of the Defined Contribution (DC) plan. It eliminates the Plan Choice Rate (PCR) of 2.64% (2.37% +.27%). It requires the following allocation of employer contributions to be made to the PCR or the DC Disability fund: employers contribute 0.27% for members with over 5 years of service and employers contribute 6.33% for members with less than 5 years of service. The elimination of the forfeitures will require plan membership fees to increase, thus providing less money to all member accounts. The closing of the DB plan will be a very costly proposal since liabilities do not go away until the last DB member or contingent annuitant dies.

FISCAL ANALYSIS

Assumptions:

Public Employee Retirement System

1. The presentation of the actuarial results for the Unfunded Liabilities is as if the bill had been effective as of June 30, 2012.
2. For purposes of the projections, the actuary assumed an effective date of July 1, 2013.
3. The number of active employees eligible for either PERS-DB or PERS-DC will remain constant from the June 30, 2012 actuarial valuation.
4. Non-vested members in PERS-DB would be eligible to elect and transfer to PERS-DC. It is assumed that transfers of existing non-vested members will be minimal and will not have a material impact on our results.
5. Employees hired after the effective date would no longer be eligible for the PERS defined benefit plan (PERS-DB), but would be eligible to become members of the PERS defined contribution plan (PERS-DC) unless optional per 19-3-412.

6. The current 5-year vesting for the PERS-DC is eliminated and members would be immediately vested. All current members of PERS-DC would become immediately vested in the employer contribution account.
7. Projections assume that future employer contributions will be equal to normal cost plus the amortization of the UAL according to sections 4 and 5 of the bill.
8. The current contribution rates for members of the PERS-DC include a contribution of 0.3% of compensation to the disability plan trust fund.
9. The employer contribution account in the PERS-DC plan is eliminated.
10. The contribution rate for employees, employers, and the state will remain the same; all excess costs (normal cost plus the unfunded actuarial liability above the statutory contribution rate) will be borne by the Governor's budget.
11. Allocations of the employer contribution in PERS-DC have been modified.
12. The sunset provisions related to the DB employer contribution of 0.27% of payroll are eliminated and this contribution amount has become permanent.
13. The plan choice contribution rate of 2.37% of payroll is eliminated. However, there will be a plan choice contribution on what will become a larger payroll in the PERS-DC plan. The allocation of employer contributions to the Plan Choice Rate (PCR) and disability fund will equal to 0.27% of payroll for those members who are vested and 6.33% for those members that have less than 5 years of service.
14. Additional contributions are allowed beyond the statutory contribution rate. This would require additional IT costs for programming a new file layout to accept the additional contributions.
15. If the Governor funds the annual required contribution, the employer rate for the DB plan would be expected to increase to 41.41% by 2030; if funding is not provided, the annual required contribution rate would be projected to increase to 200% by 2030.
16. DC plan forfeitures are eliminated, therefore, requiring increased fees for participants and providing less money to member accounts. Over the last 10 years the annual average amount of forfeitures has been $269,400.
17. Since the changes in benefits affect future employees only, there would be no effect in the normal cost rates or in the actuarial liability as of June 30, 2012.
18. There would be a change in the UAL contribution rate due to the closing of the plan to new employees.
19. The current amortization rate is based upon an "open" 30-year amortization of the UAL as a level percentage of future payroll assuming future annual payroll increases of 4%. By "open" amortization, it is meant that at each valuation date, a new 30-year period is established such that, in theory, the UAL would never be fully amortized. With the closing of the plan, there will no longer be an increasing payroll for this amortization, but rather a decreasing payroll. Therefore, the amortization method has been changed to a level dollar amortization.
20. Due to the closing of the plan, it would no longer be reasonable to use an open amortization method. Therefore, the amortization method has been changed to a fixed 30-year period starting on the effective date.
21. The total payroll will increase at the assumed rate of 4.0%.
22. All actuarial assumptions will be realized, including the investment return assumption of 7.75%.
23. The fiscal impact presented in the report 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.
24. 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.
25. The provisions would become effective upon receiving a favorable determination letter from the Internal Revenue Service.

Governor's Office of Budget and Program Planning

26. Section 4 requires the Governor's Office of Budget and Program Planning to have "*detailed recommendations for the amount and source of funding necessary to amortize the unfunded liabilities of the*

retirement system provided for in title 19, chapter 3, within the time period determined by the public employees retirement board."

27. The fiscal note assumes a 30 year amortization period - however the public employees' retirement board would make the recommendation and it could be a lower amount.
28. There are no statutory employer contributions in the bill.
29. Either the state would have to fund the liability with general fund directly or seek statutory changes to employer contributions. This fiscal note assumes a statutory employer contribution increase starting in the 2017 biennium. However, legislation would be required to do so.
30. The following is the funding allocation that would apply if a employer contribution rate were to occur based upon the costs of SB 82:
    a. 45% of the costs would be attributable to state agencies, 9% to the Montana University System (MUS), and 46% would be for local governments and school districts.
    b. Utilizing MBARS data, PERS employees in state government are funded approximately 35% from the general fund, 32% from state special revenue, 21% from federal special revenue, and 12% from proprietary funds.
    c. Approximately 61% of the Montana University System employees are paid from the current unrestricted fund and 39% are paid from other funds.
    d. For the 2015 Biennium, the Executive Budget funds the current unrestricted funds 81% from the general fund and 19% from tuition for present law adjustments.
    e. Local Governments, including school districts would be expected to pay their own costs and not be borne by the state.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
Expenditures:				
Personal Services	$1,616,000	$1,287,999	$157,744,000	$159,056,000
TOTAL Expenditures	$1,616,000	$1,287,999	$157,744,000	$159,056,000
Funding of Expenditures:				
General Fund	$221,552	$176,584	$21,626,582	$21,806,456
MUS General Fund	$114,130	$90,965	$11,140,637	$11,233,296
State Special Revenue	$200,095	$159,481	$19,532,010	$19,694,463
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Proprietary	$79,359	$63,251	$7,746,528	$7,810,958
MUS Tuition / Other	$116,855	$93,137	$11,406,695	$11,501,568
Other - Local Govt	$555,333	$442,617	$54,208,232	$54,659,097
Other - School Dist	$192,469	$153,403	$18,787,633	$18,943,895
TOTAL Funding of Exp.	$1,616,000	$1,287,999	$157,744,000	$159,056,000
Revenues:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
Federal Special Revenue (03)	$0	$0	$0	$0
Proprietary	$0	$0	$0	$0
MUS Tuition / Other	$0	$0	$0	$0
Other - Local Govt	$0	$0	$0	$0
Other - School Dist	$0	$0	$0	$0
Other - Pensions DB	$1,616,000	$1,287,999	$157,744,000	$159,056,000
Other - Pension PCR/disabili	$15,000,000	$21,000,000	$28,000,000	$34,000,000
Other - DC Forfeitures	($269,400)	($269,400)	($269,400)	($269,400)
TOTAL Revenues	$16,346,600	$22,018,599	$185,474,600	$192,786,600
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($335,682)	($267,549)	($32,767,219)	($33,039,752)
State Special Revenue (02)	($200,095)	($159,481)	($19,532,010)	($19,694,463)
Federal Special Revenue (03)	($136,207)	($108,561)	($13,295,683)	($13,406,267)
Proprietary	($79,359)	($63,251)	($7,746,528)	($7,810,958)
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Other - DC Forfeitures	($269,400)	($269,400)	($269,400)	($269,400)

Effect on Local Governments:

1. The number of active employees eligible for either PERS-DB or PERS-DC will remain constant from the June 30, 2012 actuarial valuation.
2. The contribution rate for employers and the state will remain the same.
3. If the Unfunded Actuarial Accrued Liability (UAAL) were amortized and funded over 30 years, the following costs would be incurred by local governments.

FY 2014	FY 2015	FY 2016	FY 2017
$747,802	$596,021	$72,995,865	$73,602,992

Long-Term Impacts:

1. The liability for the current DB members does not go away and, in fact, the costs increase until the time that no benefits are due to retirees or their contingent annuitants.

Technical Notes:

1. It is unclear what would be included in the Governor's budget and what would be the responsibility of the employers. However, the actuary assumes the whole additional funding amount will funded by the Governor's budget.
2. Education will have to be provided for over 11,500 active, non-vested members. No funding is identified and it cannot be funded by the current plan.
3. A person in the PERS-DC plan with less than 5 years of service will see a decrease in the amount of employer contributions going to their member account. The amount decreases by 3.69%, from 4.19% to 0.5%.
4. The demographic composition of the disability plan will likely change over time thus changing the amount that would be sufficient to fund the disability trust.
5. If the plan does not obtain the funding assumed by the actuary, the DB plan will be insolvent by 2036 as a result of this bill.
6. The current plan choice rate unfunded actuarial liability (PCR-UAL) is $11,053,147.
7. "Additional contributions" that are allowed in the bill are undefined.
8. An election is allowed for "certain members" – non-vested members. This may be an equity issue.
9. There are technical drafting concerns that need to be addressed in order for the retirement plan to maintain its "qualified plan" status as set by the Internal Revenue Code.

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