



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2015 Biennium

Bill # SB0376

Title: Executive budget proposal to include actuarial funding for pension systems

Primary Sponsor: Jent, Larry

Status: As Introduced

Retirement Systems Affected:

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

(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% | 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% |

| HPORS | July 1, 2012 | July 1, 2012 | Increase/ |
|----------------------------------------------|-----------------------|---------------------|-------------------|
| (Dollar Amounts in Thousands) | Current System | With Changes | (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 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | July 1, 2012 | July 1, 2013 | July 1, 2014 | July 1, 2015 | July 1, 2016 |
| Employee Contribution Rate | 9.050% | 9.050% | 9.050% | 9.050% | 9.050% |
| Employer Contribution Rate | 26.150% | 26.150% | 26.150% | 26.150% | 26.150% |
| State Contribution Rate | 10.18% | 10.18% | 10.18% | 10.18% | 10.18% |
| TOTAL Contribution Rate | 45.38% | 45.38% | 45.38% | 45.38% | 45.38% |

| SRS | July 1, 2012 | July 1, 2012 | Increase/ |
|----------------------------------------------|-----------------------|---------------------|-------------------|
| (Dollar Amounts in Thousands) | Current System | With Changes | (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 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | July 1, 2012 | July 1, 2013 | July 1, 2014 | July 1, 2015 | 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 | July 1, 2012 | Increase/ |
|----------------------------------------------|-----------------------|---------------------|-------------------|
| (Dollar Amounts in Thousands) | Current System | With Changes | (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 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | July 1, 2012 | July 1, 2013 | July 1, 2014 | July 1, 2015 | 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 | July 1, 2012 | July 1, 2012 | Increase/ |
|----------------------------------------------|-----------------------|---------------------|-------------------|
| (Dollar Amounts in Thousands) | Current System | With Changes | (Decrease) |
| Present Value of Actuarial Accrued Liability | \$4,814,700 | \$4,814,700 | \$0 |
| Present Value of Actuarial Assets | \$2,852,000 | \$2,852,000 | \$0 |
| Unfunded Actuarial Accrued Liability (UAAL) | \$1,962,700 | \$1,962,700 | \$0 |
| Amortization Period (years) of UAAL | Infinite | Infinite | 0.00 |
| Change in normal costs | 9.65% | 9.65% | 0.00% |

| TRS | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | July 1, 2012 | July 1, 2013 | July 1, 2014 | July 1, 2015 | 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

| | FY 2014 Difference | FY 2015 Difference | FY 2016 Difference | FY 2017 Difference |
|-----------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Expenditures: | | | | |
| General Fund | \$0 | \$0 | \$114,696,000 | \$114,470,000 |
| Other - Pension Trusts | \$0 | \$0 | \$0 | \$0 |
| Revenue: | | | | |
| General Fund | \$0 | \$0 | \$0 | \$0 |
| Federal Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Other - Pension Trusts | \$0 | \$0 | \$114,696,000 | \$114,470,000 |
| Net Impact-General Fund Balance: | \$0 | \$0 | (\$114,696,000) | (\$114,470,000) |

Description of fiscal impact: Beginning in the 2017 biennium, SB 376 will require the Governor to include any shortfall in the actuarial required contribution rate to amortize the public pension system’s unfunded liability in 30 years, based on the system’s latest annual actuarial valuation in the Executive Budget proposal.

FISCAL ANALYSIS

Assumptions:

Public Employees’ Retirement System (PERS)

1. The amount included in the Governor’s proposed budget will maintain a 30-year rolling amortization period.
2. SB 376 does not fund the ARC shortfall as of July 1, 2013.
3. SB 376 is effective for fiscal year ending June 30, 2016 (FY 2016).
4. If legislation to fund the retirement systems fails to pass in the 2013 legislative session, the estimated shortfall in the actuarial required contribution rate as of July 1, 2016, and the estimated annual contributions required to be included in the Governor’s budget to fund the retirement systems’ ARC in the 2016-2017 biennium are as follows:

| Fiscal Year | 2014 | 2015 | 2016 | 2017 |
|-------------|------|------|------|------|
| PERS | | | 5.6% | 5.2% |
| HPORS | | | 3.4% | 3.0% |
| SRS | | | 5.4% | 5.1% |
| GWPORS | | | 3.0% | 2.8% |

| Fiscal Year | 2014 | 2015 | 2016 | 2017 |
|-------------|------|------|--------|--------|
| PERS | | | \$72.9 | \$71.3 |
| HPORS | | | \$ 0.6 | \$ 0.5 |
| SRS | | | \$ 3.8 | \$ 3.8 |
| GWPORS | | | \$ 1.4 | \$ 1.4 |

5. Upon completion of the annual actuarial valuation, the retirement board would be required to provide the Governor’s Budget Office with the amount of shortfall for each system.
6. The amount of the shortfall must be included in the Executive Budget.
7. The shortfall is assumed to be the difference between the “annual required contributions” for each system and the expected employer and employee contributions.
8. The “annual required contribution” is the amount required which would amortize the unfunded liabilities over a 30-year period.
9. Salaries are assumed to increase by the actuarial assumed rate of 4%.
10. The projections assume that plan assets will earn 7.75% per annum on market value.
11. 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.
12. 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.
13. 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.
14. 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.
15. The actuarial valuations and experience studies are available on the MPERA website: <http://mpera.mt.gov/actuarialvaluations.shtml>

Teachers’ Retirement System (TRS)

16. The amount included in the Governor’s proposed budget will maintain a 30-year rolling amortization period.
17. SB 376 does not fund the ARC shortfall as of July 1, 2013.
18. If legislation to fund TRS fails to pass in 2013, the estimated shortfall in the actuarial required contribution rate as of July 1, 2016, is 4.34%, and the estimated annual contributions required to be included in the Governor’s budget to fund the TRS ARC in the 2016-2017 biennium are as follows:

| Fiscal Year | 2014 | 2015 | 2016 | 2017 |
|-------------------------|------|------|--------------|--------------|
| Estimated ARC Shortfall | | | \$35,996,000 | \$37,470,000 |

19. 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.
20. Salary increases of 4.5% are assumed for future years.
21. 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.
22. 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.
23. All calculations are based on the July 1, 2012 actuarial valuation.
24. The actuarial valuations and experience studies are available on the TRS website: <http://www.trs.mt.gov/Board/ActuarialValuations/ActuarialValuations.asp>.

Governor’s Office of Budget and Program Planning

25. Section 2 of the bill states: “any shortfall in the annual required contribution for a public employee retirement system administered by the public employees’ retirement board or the teachers’ retirement board must be included in the executive budget.”
26. There are no additional statutory employer contributions in the bill.
27. The state would have to fund the liability with general fund directly or seek statutory changes to employer contributions as part of the Executive Budget.
28. This fiscal note assumes that the Executive Budget for the 2017 biennium would include direct general fund appropriations sufficient to cover the ARC of each public employee retirement system.

| | <u>FY 2014 Difference</u> | <u>FY 2015 Difference</u> | <u>FY 2016 Difference</u> | <u>FY 2017 Difference</u> |
|-----------------------------------------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <u>Fiscal Impact:</u> | | | | |
| <u>Expenditures:</u> | | | | |
| PERS ARC | \$0 | \$0 | \$72,900,000 | \$71,300,000 |
| HPORS ARC | \$0 | \$0 | \$600,000 | \$500,000 |
| SRS ARC | \$0 | \$0 | \$3,800,000 | \$3,800,000 |
| GWPORS ARC | \$0 | \$0 | \$1,400,000 | \$1,400,000 |
| TRS ARC | \$0 | \$0 | \$35,996,000 | \$37,470,000 |
| TOTAL Expenditures | <u>\$0</u> | <u>\$0</u> | <u>\$114,696,000</u> | <u>\$114,470,000</u> |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$114,696,000 | \$114,470,000 |
| Other | \$0 | \$0 | \$0 | \$0 |
| TOTAL Funding of Exp. | <u>\$0</u> | <u>\$0</u> | <u>\$114,696,000</u> | <u>\$114,470,000</u> |
| <u>Revenues:</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| PERS Trust | \$0 | \$0 | \$72,900,000 | \$71,300,000 |
| HPORS Trust | \$0 | \$0 | \$600,000 | \$500,000 |
| SRS Trust | \$0 | \$0 | \$3,800,000 | \$3,800,000 |
| GWPORS Trust | \$0 | \$0 | \$1,400,000 | \$1,400,000 |
| TRS Trust | \$0 | \$0 | \$35,996,000 | \$37,470,000 |
| TOTAL Revenues | <u>\$0</u> | <u>\$0</u> | <u>\$114,696,000</u> | <u>\$114,470,000</u> |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | \$0 | \$0 | (\$114,696,000) | (\$114,470,000) |
| PERS Trust | \$0 | \$0 | \$72,900,000 | \$71,300,000 |
| HPORS Trust | \$0 | \$0 | \$600,000 | \$500,000 |
| SRS Trust | \$0 | \$0 | \$3,800,000 | \$3,800,000 |
| GWPORS Trust | \$0 | \$0 | \$1,400,000 | \$1,400,000 |
| TRS Trust | \$0 | \$0 | \$35,996,000 | \$37,470,000 |

Sponsor’s Initials

Date

Budget Director’s Initials

Date