



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Pension Fund Fiscal Note 2017 Biennium

**Bill #** HB0170

**Title:** Revise definition of compensation in police retirement system

**Primary Sponsor:** Moore, David (Doc)

**Status:** As Introduced

**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?

MPORS	<b>July 1, 2014</b>	<b>July 1, 2014</b>	<b>Increase/</b>
	<b>Current System</b>	<b>With Changes</b>	<b>(Decrease)</b>
Present Value of Actuarial Accrued Liability	\$474,307,953	\$504,314,789	\$30,006,836
Present Value of Actuarial Assets	\$298,721,780	\$298,721,780	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$175,586,173	\$205,593,009	\$30,006,836
Amortization Period (years) of UAAL	19.60	19.20	(0.40)
Change in normal costs	25.65%	25.94%	0.29%

MPORS	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016	FY 2018 July 1, 2017	FY 2019 July 1, 2018
Employee Contribution Rate hired after 6/30/75 & prior to 7/1/79, no GABA	7.00%	7.00%	7.00%	7.00%	7.00%
Employee Contribution Rate hired after 6/30/79 & prior to 7/1/97, no GABA	8.50%	8.50%	8.50%	8.50%	8.50%
Employee Contribution Rate hired after 6/30/97 and members electing GABA	9.00%	9.00%	9.00%	9.00%	9.00%
Employer Contribution Rate	14.41%	14.41%	14.41%	14.41%	14.41%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
<b>TOTAL Contribution Rate</b>	<b>52.78%</b>	<b>52.78%</b>	<b>52.78%</b>	<b>52.78%</b>	<b>52.78%</b>

### FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
<b>Expenditures:</b>				
General Fund	\$2,869,437	\$2,984,214	\$3,103,583	\$3,227,726
Other - Cities and Towns	\$1,407,851	\$1,464,165	\$1,522,732	\$1,583,641
Other - MPORS members	\$879,296	\$914,468	\$951,047	\$989,089
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
Other - Pension Fund (MPORS)	\$5,156,584	\$5,362,848	\$5,577,361	\$5,800,456
<b>Net Impact-General Fund Balance:</b>	<b><u>(\$2,869,437)</u></b>	<b><u>(\$2,984,214)</u></b>	<b><u>(\$3,103,583)</u></b>	<b><u>(\$3,227,726)</u></b>

Description of fiscal impact: HB 170 changes the definition of compensation for the Municipal Police Officers' Retirement System (MPORS) to include overtime, holiday payments, shift differential payments, compensatory time payments, and payments in lieu of sick leave and annual leave. This increases the amount of reportable compensation, and as a result, also increases the retirement contribution paid by the member, the employer and the State of Montana. Another result of this change is the increase in the final average compensation (FAC) for members, thereby increasing the final retirement benefit.

### FISCAL ANALYSIS

**Assumptions:**

1. Effective July 1, 2015, the definition of compensation changes to include more categories of compensation as reportable compensation for retirement purposes.
2. The increase in compensation has an impact on the retirement benefits calculated.

3. The increase in compensation was based upon information provided in aggregate from each employer for calendar years 2011, 2012, and 2013.
4. If the relationship between base pay and these other compensation elements is different for future years than as provided in the data, it could have a substantial effect upon these results.
5. The results do not include any potential effects on retirement trends due to the increased benefit.
6. It is assumed that increased compensation will be received evenly over all future years.
7. The general wage growth assumption is 4%.
8. MPORS uses FAC over the last 36 months to calculate retirement benefits.
9. The change will be effective for pay received after the effective date, but it would be applied to all service.
10. After three years, the new compensation would be fully phased in due to the use of FAC.
11. Retirement benefits would increase but would only include contributions based on the additional compensation since July 1, 2015. FAC could be a combination of data where additional compensation was included and not included.
12. Contributions as a percent of payroll are based on the current compensation definition for the original results and the proposed compensation definition for the alternative compensation results.
13. Based on the aggregate compensation provided by each city/town for calendar years 2011, 2012, and 2013, the aggregate compensation used to calculate benefits would be anticipated to increase by 19.9%.
14. Contributions received from employers and from employees under the system would also be expected to increase by 19.9%.
15. FY 2015 payroll is projected to be \$47,107,859; FY 2015 payroll including the statutory changes are projected to be \$56,502,050.
16. The projected FY 2015 additional payment from the General Fund of \$2,759,074 =  $(47,107,859 \times 29.37\%) - (56,502,050 \times 29.37\%)$ .
17. The projected FY 2015 additional payment from the employers of \$1,353,703 =  $(47,107,859 \times 14.41\%) - (56,502,050 \times 14.41\%)$ .
18. The projected FY 2015 additional payment from the employees of \$845,477 =  $(47,107,859 \times 9.0\%) - (56,502,050 \times 9.0\%)$ .
19. FY 2016 payroll is projected to be \$48,992,173 =  $(47,107,859 \times 1.04)$ ; FY2016 payroll including the statutory changes are projected to be \$58,762,132 =  $(56,502,050 \times 1.04)$ .
20. The projected FY 2016 additional payment from the general fund of \$2,869,437 =  $(48,992,173 \times 29.37\%) - (58,762,132 \times 29.37\%)$ .
21. The projected FY 2016 additional payment from the employers of \$1,407,851 =  $(48,992,173 \times 14.41\%) - (58,762,132 \times 14.41\%)$ .
22. The projected FY 2016 additional payment from the employees of \$879,296 =  $(48,992,173 \times 9.0\%) - (58,762,132 \times 9.0\%)$ .
23. Even though the actuarial liabilities would be increased, the surplus of the statutory contribution rates in excess of the 30-year funding rates would increase if this bill were to become adopted, which would reduce the amortization period for the unfunded actuarial liability.
24. This is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.
25. 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, 2014.
26. The results of the study are dependent upon future experience conforming to the actuarial assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the proposed legislation could vary from the actuary results.

**Fiscal Impact:**

**Expenditures:**

Local Assistance	\$5,156,584	\$5,362,847	\$5,577,362	\$5,800,456
<b>TOTAL Expenditures</b>	<b>\$5,156,584</b>	<b>\$5,362,847</b>	<b>\$5,577,362</b>	<b>\$5,800,456</b>

**Funding of Expenditures:**

General Fund (01)	\$2,869,437	\$2,984,214	\$3,103,583	\$3,227,726
Other - Cities and Towns	\$1,407,851	\$1,464,165	\$1,522,732	\$1,583,641
Other - MPORS members	\$879,296	\$914,468	\$951,047	\$989,089
<b>TOTAL Funding of Exp.</b>	<b>\$5,156,584</b>	<b>\$5,362,847</b>	<b>\$5,577,362</b>	<b>\$5,800,456</b>

**Revenues:**

General Fund (01)	\$0	\$0	\$0	\$0
Other - Pension Fund (MPORS)	\$5,156,584	\$5,362,848	\$5,577,361	\$5,800,456
<b>TOTAL Revenues</b>	<b>\$5,156,584</b>	<b>\$5,362,848</b>	<b>\$5,577,361</b>	<b>\$5,800,456</b>

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

General Fund (01)	(\$2,869,437)	(\$2,984,214)	(\$3,103,583)	(\$3,227,726)
Other - Pension Fund (MPORS)	\$5,156,584	\$5,362,848	\$5,577,361	\$5,800,456

**Effect on Local Governments:**

1. Local Governments and their employees would be required to pay more in contributions due to increased compensation of the employees.

**Long-Term Impacts:**

1. This bill would result in increased retirement benefits for MPORS members.

**Technical Notes:**

1. In 2013, the retirement law (19-2-1005, MCA) was amended to prevent salary spiking by not allowing compensation greater than 110% of the previous year when calculating a members Final Average Compensation (FAC). In the first year, this legislation, and its interaction with existing law, would be evaluated in accordance with PERB policy.
2. The consideration of any benefit adjustments should be evaluated in accordance with the PERB policy.

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Sponsor's Initials

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Date

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Budget Director's Initials

\_\_\_\_\_  
Date