



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Pension Fund Fiscal Note 2017 Biennium

**Bill #** HB0483

**Title:** Raising pension benefit in VFCA

**Primary Sponsor:** Lieser, Ed

**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?

VFCA	July 1, 2014 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$37,975,000	\$49,437,000	\$11,462,000
Present Value of Actuarial Assets	\$31,281,000	\$31,281,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$6,694,000	\$18,156,000	\$11,462,000
Amortization Period (years) of UAAL	5.10	30.10	25.00
Change in normal costs	\$ 185,000.00	\$ 242,000.00	\$57,000
Amortization Over 20 years	\$ 645,000.00	\$ 1,748,000.00	\$1,103,000
Administrative Expense	\$ 61,000.00	\$ 61,000.00	\$0
Total Actuarial Funding Rate	\$ 891,000.00	\$ 2,051,000.00	\$1,160,000

## FISCAL SUMMARY

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
Other - VFCA Trust Fund	\$829,896	\$861,154	\$893,590	\$927,248
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
Other - VFCA Trust Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Description of fiscal impact:** HB 483 increases the full or partial pension benefit to an eligible member under the Volunteer Firefighters’ Compensation Act. In accordance with HB 483, a full pension benefit paid to an eligible member would be \$200 a month. A partial pension benefit paid to an eligible member would be calculated by multiplying the full pension benefit by a fraction, the numerator of which is the eligible member’s years of service and the denominator of which is 20.

## FISCAL ANALYSIS

**Assumptions:**

1. The fiscal impact presented assumes that HB 483 is the only amendment being considered. If other changes are adopted, the fiscal impact associated with HB 483 could be different.
2. 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.
3. The results of the impact statement do not include any potential effects on retirement trends due to the amended plan benefits.
4. The results of the impact statement do not reflect any benefit reductions from the amortization period exceeding 20 years.
5. To the extent that future experience deviates from the actuarial assumptions, the true cost of the proposed legislation could vary from the results of the impact statement.
6. Contributions for the VFCA are 5% of certain fire insurance premiums, are fully paid by the state, and are unchanged by this legislation.
7. Neither the volunteer fire departments nor the members contribute to the plan.
8. The proposed bill would increase the monthly benefit for the first 20 years of service from \$150 to \$200.
9. For service less than 20 years (partial benefit) the amended benefit would be based upon a fraction of \$200, the numerator of which is the number of years of service and the denominator of which is 20.
10. Monthly benefits based upon years of service in excess of 20 would be unchanged.
11. HB 483 would apply to all current and future retirees.
12. The effective date would be July 1, 2015.
13. The Unfunded Accrued Liability would be anticipated to increase by \$11,462,000.
14. The Normal Cost would be anticipated to increase by \$57,000.
15. The 20-year amortization would be anticipated to increase by \$1,103,000.
16. The actual contributions over the actuarially determined contribution would change from the current \$0.9 million surplus to a \$0.2 million deficit, based upon the current level of funding.

17. The amortization period increases from 5.1 years to 30.1 years.
18. Since the amortization period for the unfunded actuarial liability is greater than 20 years, benefit restrictions would go into effect for service over 30 years in accordance with 19-17-404(3)(a), MCA.
19. The VFCA trust fund would pay an increased amount of benefits each year.
20. In FY 2014, there were 1,332 retirees and the average benefit was \$145 per month.
21. A benefit of \$145 per month divided by the current \$7.50 per year of service equals and average of 19.3 years of service.
22. The annual amount of benefits paid per the FY 2014 valuation is \$2,314,170.
23. Based on HB 483, the increased average benefit paid would be \$193 per month (19.3 years of service times the new amount of \$10 per year of service equals \$193 as a new average monthly benefit paid).
24. The annual amount of benefits paid per HB 483 would be \$3,084,912 (1,332 retirees’ times \$193 per month times 12 months equals \$3,084,912).
25. The difference between the FY 2014 benefits paid of \$2,314,170 and the HB 483 benefits paid of \$3,084,912 is \$770,742.
26. The retiree membership for VFCA for the years 2010, 2011, 2012, 2013 and 2014 is 1149, 1183, 1242, 1285, 1332, respectively. The average increase in retirees for the time period is 4%.
27. The 4% has been applied to the increase in retiree benefits of \$770,742 beginning in FY 2014 and is shown below for FY 2016 through FY 2019.

2014	2015	2016	2017	2018	2019
770,742	799,772	829,896	861,154	893,590	927,248

Under existing law:

28. The additional pension benefit of a member who continued to be an active member after completing 20 years of service must be increased by 7.50 a month for each additional year of active service the member completed after 20 years of service, up to 30 total years of service.
29. The additional pension benefit of a member who continues to be a member after completing 30 years of credited service must be increased by \$7.50 a month for each additional year of credited service after 30 years if the pension trust fund is actuarially sound and amortization period for any unfunded liabilities remains 20 years or less.
30. A member does not have a contract right to any additional pension benefit over 30 years and the member’s monthly benefit must be reduced to the 30 year amount, if the amortization period for the unfunded liabilities is greater than 20 years.

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Benefits	\$829,896	\$861,154	\$893,590	\$927,248
<b>TOTAL Expenditures</b>	<u>\$829,896</u>	<u>\$861,154</u>	<u>\$893,590</u>	<u>\$927,248</u>
<b><u>Funding of Expenditures:</u></b>				
Other - VFCA trust fund	\$829,896	\$861,154	\$893,590	\$927,248
<b>TOTAL Funding of Exp.</b>	<u>\$829,896</u>	<u>\$861,154</u>	<u>\$893,590</u>	<u>\$927,248</u>
<b><u>Revenues:</u></b>				
Other - VFCA trust fund	\$0	\$0	\$0	\$0
<b>TOTAL Revenues</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
Other - VFCA trust fund	(\$829,896)	(\$861,154)	(\$893,590)	(\$927,248)

**Technical Notes:**

1. Since the amortization period for the unfunded actuarial liability is projected to be greater than 20 years, benefit restrictions would go into effect for service over 30 years in accordance with 19-17-404(3)(a), MCA.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*