



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2017 Biennium

Bill # HB0574

Title: Revise compensation definition and funding in police and fire retirement systems

Primary Sponsor: Essmann, Jeff

Status: As Amended in House 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?

MPORS	July 1, 2014 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$474,308,000	\$487,936,000	\$13,628,000
Present Value of Actuarial Assets	\$298,722,000	\$298,722,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$175,586,000	\$189,214,000	\$13,628,000
Amortization Period (years) of UAAL	19.60	19.40	(0.20)
Funding Rates			
Change in normal costs	25.65%	25.78%	0.13%
Amortization over 30 years	20.57%	20.33%	-0.24%
Administrative Expense	<u>0.20%</u>	<u>0.20%</u>	<u>0.00%</u>
Total Actuarial Funding Rate	46.42%	46.31%	-0.11%

FURS	July 1, 2014 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$419,013,000	\$430,236,000	\$11,223,000
Present Value of Actuarial Assets	\$300,949,000	\$300,949,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$118,064,000	\$129,287,000	\$11,223,000
Amortization Period (years) of UAAL	11.30	11.50	0.20
Funding Rates			
Change in normal costs	26.51%	26.50%	-0.01%
Amortization over 30 years	15.61%	15.83%	0.22%
Administrative Expense	<u>0.19%</u>	<u>0.19%</u>	<u>0.00%</u>
Total Actuarial Funding Rate	42.31%	42.52%	0.21%

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
Effective 1/1/2016 Base and Additional Compensation:					
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%
Effective 1/1/2016 Only Base Compensation:					
Employer Contribution Rate	14.41%	14.41%	14.41%	14.41%	14.41%
Effective 1/1/2016 Only Base Compensation:					
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
Effective 1/1/2016 Only Additional Compensation:					
State Contribution Rate		43.78%	43.78%	43.78%	43.78%
TOTAL Contribution Rate on Base	52.78%	52.78%	52.78%	52.78%	52.78%
TOTAL Contribution Rate on Additional		52.78%	52.78%	52.78%	52.78%

FURS	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
Effective 1/1/2016 Base and Additional Compensation:					
Employee Contribution Rate hired prior 7/1/97, no GABA	9.50%	9.50%	9.50%	9.50%	9.50%
Employee Contribution Rate hired after 6/30/07 and members electing GABA	10.70%	10.70%	10.70%	10.70%	10.70%
Effective 1/1/2016 Only Base Compensation:					
Employer Contribution Rate	14.36%	14.36%	14.36%	14.36%	14.36%
Effective 1/1/2016 Only Base Compensation:					
State Contribution Rate	32.61%	32.61%	32.61%	32.61%	32.61%
Effective 1/1/2016 Only Additional Compensation:					
State Contribution Rate		46.97%	46.97%	46.97%	46.97%
TOTAL Contribution Rate on Base	57.67%	57.67%	57.67%	57.67%	57.67%
TOTAL Contribution Rate on Additional		57.67%	57.67%	57.67%	57.67%

FISCAL SUMMARY

	FY 2016 <u>Difference</u>	FY 2017 <u>Difference</u>	FY 2018 <u>Difference</u>	FY 2019 <u>Difference</u>
Expenditures:				
General Fund	\$3,583,160	\$3,726,486	\$3,875,546	\$4,030,567
Other - Pensions	\$22,500	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other - MPORS	\$1,951,845	\$2,029,918	\$2,111,115	\$2,195,559
Other - FURS	\$1,631,315	\$1,695,568	\$1,764,431	\$1,835,008
Net Impact-General Fund Balance:	<u><u>(\$3,583,160)</u></u>	<u><u>(\$3,726,486)</u></u>	<u><u>(\$3,875,546)</u></u>	<u><u>(\$4,030,567)</u></u>

Description of fiscal impact: HB 574, as amended, changes the definition of compensation for MPORS and FURS to include overtime and holiday payments. This increases the amount of reportable compensation and thereby also increases the retirement contribution paid by the member and the State of Montana as the State of Montana will pay both the current state contribution rate and the current employer contribution rate on the additional compensation. Also, the definition of compensation change increases for MPORS, the final average compensation (FAC) and, for FURS, the Highest Average Compensation (HAC) for members, thereby increasing the final retirement benefit. The bill defines “Base Compensation” as the compensation without the additional items, and “Additional Compensation” as the compensation covered by the additional items – overtime and holiday pay.

FISCAL ANALYSIS

Assumptions:

1. These are the only amendments being considered. If other changes are also adopted, the fiscal impact associated with this bill 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 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.
4. Effective January 1, 2016, the definition of compensation changes to include overtime and holiday pay as categories of reportable compensation for retirement purposes.
5. The increase in compensation has an impact on the retirement benefits calculated.
6. If the relationship between base pay and these other compensation elements is different for future years than as provided in this data, it could have a substantial effect upon the results.
7. The change will be effective for pay received after the effective date, but the increased compensation would be applied to all service when calculating final average and highest average compensation.
8. The new compensation would be fully phased in after 3 years for final average and highest average compensation purposes.
9. The increased compensation will be received evenly over all future years.
10. The results do not include any potential effects on retirement trends due to the increased benefit.
11. Retirement benefits would increase but would only include contributions based on the additional compensation since January 1, 2016. Benefits could be calculated on a combination of data where additional compensation was included and not included.

MPORS

12. For MPORS, the increase in compensation was based upon information provided in aggregate for each employer for calendar years 2011, 2012, and 2013.
13. For MPORS, aggregate compensation used to calculate benefits would be anticipated to increase by 9.1%.
14. This results in a decreased amortization period of 0.20 years for MPORS.
15. MPORS uses Final Average Compensation (FAC) over the last 36 months to calculate retirement benefits.
16. After three years, the new compensation would be fully phased in due to the use of FAC.

FURS

17. For FURS, the data was provided only for calendar year 2007.
18. Care should be taken in relying upon the FURS results since the data is based upon a single year of additional compensation which is seven years old.
19. Aggregate compensation used to calculate benefits would be anticipated to increase by 8.0% for FURS.
20. This results in an increased amortization period of 0.20 years for FURS.
21. FURS uses Highest Average Compensation (HAC) over 36 months to calculate retirement benefits.
22. After three years, the new compensation would be fully phased in due to the use of HAC.
23. From the impact statement, the projected base payroll for FY2015 is as follows:
 - a. MPORS \$47,108,000
 - b. FURS \$41,744,000
24. From the impact statement, the projected additional payroll for FY2015 is as follows:
 - a. MPORS \$4,266,000
 - b. FURS \$3,350,000
25. The general wage growth assumption is 4%.
26. The assumption for the growth of additional payroll over base is:
 - a. MPORS – 9.1% of base compensation
 - b. FURS – 8.0% of base compensation

27. The calculated payroll for FY 2016 is as follows:
 - a. MPORS base of: $\$48,992,320 = \$47,108,000 * 1.04$
 - b. MPORS additional of: $\$4,458,301 = \$48,992,320 * 9.1\%$
 - c. FURS base of: $\$43,413,760 = \$41,744,000 * 1.04$
 - d. FURS additional of: $\$3,473,101 = \$43,413,760 * 8.0\%$
28. For FY 2016 the contributions for the employer and the state were calculated on the current rates:
 - a. MPORS employer contributions on the base of: $\$7,059,793 = \$48,992,320 * 14.41\%$
 - b. MPORS State contributions on the base of: $\$14,389,044 = \$48,992,320 * 29.37\%$
 - c. MPORS State contributions on the additional of: $\$0$
 - d. FURS employer contributions on the base of: $\$6,234,216 = \$43,413,760 * 14.36\%$
 - e. FURS State contributions on the base of: $\$14,157,228 = \$43,413,760 * 32.61\%$
 - f. FURS State contributions on the additional of: $\$0$
29. For FY 2016 the contributions for the employer and the state were calculated on the future rates:
 - a. MPORS employer contributions on the base of: $\$7,059,793 = \$48,992,320 * 14.41\%$
 - b. MPORS State contributions on the base of: $\$14,389,044 = \$48,992,320 * 29.37\%$
 - c. MPORS State contributions on the additional of: $\$1,951,844 = \$4,458,301 * 43.78\%$
 - d. FURS employer contributions on the base of: $\$6,234,216 = \$43,413,760 * 14.36\%$
 - e. FURS State contributions on the base of: $\$14,157,228 = \$43,413,760 * 32.61\%$
 - f. FURS State contributions on the additional: $\$1,631,315 = \$3,473,101 * 46.970\%$
30. The difference between the contributions under the future rate and the current rate is reported as the fiscal impact. The only impact for the employers and the State is that the State pays the employer contribution rate on the additional contribution.
31. Similar calculations are performed for FY 2017, FY 2018, and FY 2019.
32. The cost to implement the system changes per HB574 is: $\$22,500 = 180 \text{ hours} * \125 per hour .

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Equipment	\$22,500	\$0	\$0	\$0
State Contribution to Trusts	\$3,583,160	\$3,726,486	\$3,875,546	\$4,030,567
TOTAL Expenditures	\$3,605,660	\$3,726,486	\$3,875,546	\$4,030,567
<u>Funding of Expenditures:</u>				
General Fund (01)	\$3,583,160	\$3,726,486	\$3,875,546	\$4,030,567
Other - Pension	\$22,500	\$0	\$0	\$0
TOTAL Funding of Exp.	\$3,605,660	\$3,726,486	\$3,875,546	\$4,030,567
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Other - MPORS	\$1,951,845	\$2,029,918	\$2,111,115	\$2,195,559
Other - FURS	\$1,631,315	\$1,696,568	\$1,764,431	\$1,835,008
TOTAL Revenues	\$3,583,160	\$3,726,486	\$3,875,546	\$4,030,567
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$3,583,160)	(\$3,726,486)	(\$3,875,546)	(\$4,030,567)
Other - Pensions	\$3,560,660	\$3,726,486	\$3,875,546	\$4,030,567

Effect on Local Governments:

1. The local governments would submit the same percentage based on an increasing covered payroll as they do today.
2. Additional employee contributions estimated as a result of this bill are listed below. These contributions will be paid to the MPORS and FURS pension trusts, respectively:

	<u>Additional Employee Contributions</u>			
	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019
MPORS	401,247	417,297	433,989	451,348
FURS	371,622	386,487	401,946	418,024

Long-Term Impacts:

1. Increased retirement benefits for MPORS and FURS members.

Technical Notes:

1. The actuary urges care in reliance upon the FURS results since the data is based upon a single year of additional compensation which is seven years old.
2. HB 574 will have an impact on how unfunded liabilities are reported under Governmental Accounting Standards Board (GASB) 68. Under GASB 68 the unfunded liabilities of each system are allocated to the employers and to the State in proportion to their contributions. Currently, each employer's allocation will be

in proportion to its covered payroll. But under the proposed changes in HB 574, each employer's relative contribution toward its own covered payroll will vary depending upon the level of additional compensation, adding complexity to the calculations required to comply with the accounting standard.

3. In 2013, the retirement law 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). Reference 19-2-1005, MCA.
4. The consideration of any benefit adjustments shall be evaluated in accordance with the PERB policy.

Sponsor's Initials

Date

Budget Director's Initials

Date