



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Pension Fund Fiscal Note 2017 Biennium

**Bill #** SB0042

**Title:** Revise allocation of contribution in the Pers defined contribution plan

**Primary Sponsor:** Malek, Sue

**Status:** As Amended

**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?

PERS	<b>July 1, 2014 Current System</b>	<b>July 1, 2014 With Changes</b>	<b>Increase/ (Decrease)</b>
Present Value of Actuarial Accrued Liability	\$6,177,504,549	\$6,177,504,549	\$0
Present Value of Actuarial Assets	\$4,595,805,330	\$4,595,805,330	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,581,699,219	\$1,581,699,219	\$0
Less: PCR-UAL	\$5,903,188	\$5,903,188	\$0
Net Unfunded Liability	\$1,575,796,031	\$1,575,796,031	\$0
Amortization Period (years) of UAAL	29.30	29.30	0.00
Change in normal costs	11.63%	11.63%	0.00%

\*

\* Changes would only be realized in future years

PERS-DC Disability	<b>July 1, 2013 Current System</b>	<b>July 1, 2014 With Changes</b>	<b>Increase/ (Decrease)</b>
Present Value of Actuarial Accrued Liability	\$2,715,033	\$2,715,033	\$0
Present Value of Actuarial Assets	\$2,184,488	\$2,184,488	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$530,545	\$530,545	\$0
Amortization Period (years) of UAAL	DNA	0.00	0.00
Change in normal costs	0.33%	0.33%	0.00%

\*

\*Changes would only be realized in future years

PERS	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	7.90%	7.90%	7.90%	7.90%	7.90%
State & Univ. Contribution Rate	8.27%	8.37%	8.47%	8.57%	8.67%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Gov Contribution Rate	8.17%	8.27%	8.37%	8.47%	8.57%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
State Contribution Rate	7.90%	8.00%	8.10%	8.20%	8.30%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
<b>TOTAL Contribution Rate</b>	<b>16.17%</b>	<b>16.27%</b>	<b>16.37%</b>	<b>16.47%</b>	<b>16.57%</b>

### FISCAL SUMMARY

	FY 2016 <u>Difference</u>	FY 2017 <u>Difference</u>	FY 2018 <u>Difference</u>	FY 2019 <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

**Description of fiscal impact:** Under current law, a contribution equal to 1% of the compensation of members of Public Employees’ Retirement System Defined Contribution Retirement Plan (PERS-DC) and Montana University Retirement Plan (MUS-RP) is made to Public Employees’ Retirement System Defined Benefit Retirement Plan (PERS-DB) for purposes of reducing the unfunded actuarial liability (UAL). These contributions to PERS-DB are temporary and will no longer be paid to PERS-DB when the elimination of these and other temporary contributions would result in an amortization period of the UAL of less than 25 years. The amendment, as of July 1, 2015, moves this 1% contribution from being used for a general reduction of UAL, to being used for a reduction of the Plan Choice Rate Unfunded Actuarial Liability (PCR-UAL). Under SB42, if the PCR-UAL is paid off, these contributions would be made instead to members’ accounts.

Under current law the total contributions going to the PCR-UAL are 2.37% of PERS-DC and MUS-RP compensation, plus temporary contributions of 0.27% of such compensation, which was to be increased by 0.1% of compensation each year starting at July 1, 2014 (until a total additional increase of 1.27% was reached) These contributions are temporary and will no longer be paid to PERS-DB when the elimination of these and other temporary contributions would result in an amortization period of the UAL of less than 25 years. If the PCR-UAL was paid off prior to cessation of the temporary contributions, then these temporary contributions would be made to PERS-DC Disability. Under SB 42, after June 30, 2015, if the PCR-UAL is paid off, these temporary contributions would be made instead to members’ accounts.

SB 42, as amended, clarifies that the 2.37% portion of the PCR contributions go to the members’ accounts once the PCR-UAL is paid off. As this assumption was included in the original fiscal note, this amendment does not

change the fiscal impact reflected in the original note. Additionally, the repeal of 19-3-2121 would not impact the previous fiscal analysis.

### FISCAL ANALYSIS

**Assumptions:**

1. The calculations are based upon the data, actuarial methods, and assumptions as were used in the actuarial valuation as of June 30, 2014.
2. The actual results are dependent upon future experience conforming to the assumptions.
3. The number of active plan members will remain constant from the June 30, 2014 actuarial valuation.
4. Total payroll will increase by 4% annually.
5. Plan assets will earn 7.75% annually.
6. The fiscal impact assumes this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.
7. Contributions to pay off the PCR-UAL are made at a rate of 2.74% of PERS-DC and MUS-RP active member compensation for the fiscal year beginning July 1, 2014.
8. The contribution rate to pay off the PCR-UAL will increase to 2.84% for the year beginning July 1, 2015.
9. Projections from the June 30, 2014 actuarial valuation indicated that the PCR-UAL will become zero just prior to the end of the June 30, 2016 fiscal year.
10. With the additional contribution of 1% of PERS-DC and MUS-RP compensation, the PCR-UAL would become zero about three months prior to the end of June 30, 2016, at which time SB42 provides that all such contributions to the PCR-UAL would be discontinued and instead be contributed to the member accounts.
11. Regarding the total UAL of PERS-DB, over the next 15 years, with the redirection of the 1% of compensation, contributions is expected to:
  - a. Result in a decrease in the funded ratio of about 0.1%, and;
  - b. An increase in the amortization period of less than a third of a year.
  - c. These estimates assume the temporary contributions to PERS-DB would cease at January 1, 2019 in accordance with the estimates made with the June 30, 2014 actuarial valuation.
12. Regarding the PERS-DC Disability, this plan would no longer receive the temporary contributions from the time the PCR-UAL would be paid off (approximately June 2016), until the temporary contributions were projected to terminate at January 1, 2019, a period of about two and a half years.
13. The amount of contributions no longer directed to PERS-DC Disability as a result of the bill will be a little over \$2 million.
14. The last valuation of the PERS-DC Disability was as of June 30, 2013 and the unfunded actuarial liability was approximately \$530,000.

**Effect on Local Governments:**

1. Changes proposed in this legislation do not impact the contributions paid by employers.

**Long-Term Impacts:**

1. This legislation impacts the funding of the PERS-DC Disability fund because the contributions are directed to the members’ accounts.

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*Sponsor’s Initials*

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*Date*

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*Budget Director’s Initials*

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