2013-2014 Legislative Interim
Economic Affairs Interim Committee
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HJR 25 – Montana State Fund Restructuring

- State Fund contacted MPERA staff to discuss possible scenarios for State Fund employees currently covered under the PERS if the State Fund is restructured.
  - Continue to be a governmental entity,
  - All employees are no longer eligible and move to a new retirement system, or
  - Current employees stay in the PERS, and only new hires move to a new retirement system.

- At the request and expense of State Fund, the PERB's Actuary, Stephen McElhaney, Cheiron prepared a report under the third scenario above. Entitled *Actuarial Impact – Proposal to Close PERS to Future Hires at State Fund.*

- Whenever a group is removed from a plan there is a negative effect on the system's funding. The Unfunded Actuarial Accrued Liability Increases.

- State Law and the Montana Constitution require the retirement systems be funded on an actuarially sound basis.

- The privatization of a state agency is not addressed in statute. The closest situation is when a local governmental entity wishes to withdraw from PERS – Addressed in §19-3-201(3)(d), MCA discusses contracts with political subdivisions.

  Upon receipt of the termination resolution, the board may request an actuarial valuation of the liabilities of the terminating agency to the retirement system, and the board may withhold approval of the termination of contract until satisfactory arrangements are made to provide funding for any excess accrued liabilities not previously funded by the terminating agency.

- DB Plans expect a level percentage of covered payroll – the expectation is a stable membership with increasing payroll due to salary increases.

- Therefore, removing employees makes funding the Unfunded Actuarial Accrued Liability more difficult.

- The Actuarial Impact Study
  - Assumptions
    - 4% payroll growth
    - 7.75% assumed rate of return
    - GABA is assumed to be 1.5% per current state law [The reduction of the GABA (HB454) has been challenged with a law suit. Currently there is a court injunction maintaining the previous GABA pending the results of the lawsuit.]

Ex 10

  - State Fund Restructure effective June 30, 2016
- Impact
  - There is no impact until future hires of State Fund are not enrolled in PERS.
  - Payroll contributions decrease each year. The decrease increases each year due to a declining payroll. In 2031 the payroll contributions are $4.3M less than if all State Fund employees remained in PERS.
  - Every year there is a shortfall which accumulates over time.
  - By 2033, if all assumptions are met (including 1.5% GABA and the 7.75% assumed rate of return) PERS will be in a surplus status; however, that surplus is projected to be $101.6 M less than if State Fund employees remained in PERS.

❖ Remedy
- Payment each year into PERS based on new hire payroll after the effective date.
- Payment might be the difference of Required Contributions – Normal Cost (approx. 4% of pay)
- Employee Contributions fund a portion of the Normal Cost (average annual cost of membership).
- Employer Contributions fund the remaining portion of the Normal Cost plus the Unfunded Actuarial Accrued Liability.
- Normal Cost changes slightly with each annual valuation
- Currently PERS Employer contributions change based on the funding level (HB454)
- The total amount would increase each year as payroll increases
- Theoretically forever
- Board and actuary discussion to determine an end date
- Need to see the next valuation
- The outcome of the lawsuit

❖ We have two examples of how these type of situations were addressed in Montana:
- When ORP was implemented for the University System employees
  - Montana university system retirement program contributes a supplemental ER contribution sufficient to amortize, by 7/1/2033 past service liability for university system members.
- When the Defined Contribution Plan was implemented in the PERS
  - Employers contribute a percentage of compensation to the defined benefit plan for each defined contribution retirement plan member.

❖ Possible IRS Qualification Issue
- Approximately every five years our retirement plans are reviewed by the IRS to ensure they remain qualified governmental retirement plans.
- If State Fund is privatized and no longer a governmental employer, keeping State Fund employees in PERS may impact our qualified plan status.
- The retirement system must maintain its qualified status for our members and employers to enjoy certain aspects such as: tax-deferred contributions.
- Question for our tax attorney consultants, depending upon the outcome of this study.