HOUSE BILL NO. 159

INTRODUCED BY C. LAMBERT

BY REQUEST OF THE PUBLIC EMPLOYEES' RETIREMENT BOARD

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR THE ACTUARIAL FUNDING OF THE PUBLIC EMPLOYEES', SHERIFFS', AND GAME WARDENS' AND PEACE OFFICERS' RETIREMENT SYSTEMS BY INCREASING EMPLOYER CONTRIBUTION RATES; PROVIDING THAT THE INCREASE WILL NOT BE IMPOSED IF CERTAIN ACTUARIAL CONDITIONS ARE MET; ALLOCATING A PORTION OF THE EMPLOYER CONTRIBUTION IN THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN TO PAY FOR THE PLAN'S STARTUP LOAN; AMENDING SECTIONS 19-3-316, 19-3-319, 19-3-2117, 19-3-2121, 19-7-404, 19-8-504, AND 19-21-214, MCA; AND PROVIDING AN EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 19-3-316, MCA, is amended to read:

"19-3-316. Employer contribution rates. (1) Each employer shall contribute to the system. Except as provided in subsection (2), the employer shall pay as employer contributions 6.9% of the compensation paid to all of the employer's employees plus any additional contribution under subsection (3), except for those employees properly excluded from membership. Of employer contributions made under this subsection for both defined benefit plan and defined contribution plan members, a portion must be allocated for educational programs as provided in 19-3-112. Employer contributions for members under the defined contribution plan must be allocated as provided in 19-3-2117.

(2) Local government and school district employer contributions must be the total employer contribution rate provided in subsection (1) minus the state contribution rate under 19-3-319.

(3) Subject to subsection (4), each employer shall contribute to the system an additional employer contribution equal to the following percentage of compensation paid to all of the employer's employees, except for those employees properly excluded from membership:

(a) beginning July 1, 2007, through June 30, 2009, 0.56%; and

(b) beginning July 1, 2009, 1.13%.

(4) (a) The board shall periodically review the additional employer contribution provided for under subsection (3) and recommend adjustments to the legislature as needed to maintain the amortization schedule

set by the board for payment of the system's unfunded liabilities.

(b) The employer contribution required under subsection (3) terminates on July 1 immediately following the system's actuarial valuation if:

(i) the actuarial valuation determines that the period required to amortize the system's unfunded liabilities, including adjustments made for any benefit enhancements enacted by the legislature after the valuation, is less than 25 years; and

(ii) terminating the additional employer contribution would not cause the amortization period as of the most recent actuarial valuation to exceed 25 years."

Section 2. Section 19-3-319, MCA, is amended to read:

"19-3-319. State contributions for local government and school district employers. (1) The state shall contribute monthly from the general fund to the pension trust fund a sum equal to 0.1% of the compensation paid to all employees of local government entities and school districts on and after July 1, 1997, except for those employees properly excluded from membership.

(2) In addition to the contribution required under subsection (1), the state shall contribute monthly from the general fund to the pension trust fund a sum equal to the following percentage of compensation paid to all employees of school districts, except for those employees properly excluded from membership:

(a) beginning July 1, 2007, through June 30, 2009, 0.56%; and

(b) beginning July 1, 2009, 1.13%.

(3) The board shall certify amounts due under this section on a monthly basis, and the state treasurer shall transfer those amounts to the pension trust fund within 1 week. The ~~payment is~~ payments in this section are statutorily appropriated as provided in 17-7-502."

Section 3. Section 19-3-2117, MCA, is amended to read:

"19-3-2117. Allocation of contributions and forfeitures. (1) The member contributions made under 19-3-315 and additional contributions paid by the member for the purchase of service must be allocated to the plan member's retirement account.

(2) Subject to adjustment by the board, as provided in 19-3-2121, of the employer contributions under 19-3-316 received:

(a) on or after July 1, 2002, an amount equal to:

~~(a)~~(i) 4.19% of compensation must be allocated to the member's retirement account;

~~(b)~~(ii) 2.37% of compensation must be allocated to the defined benefit plan as the plan choice rate;

~~(c)~~(iii) 0.04% of compensation must be allocated to the education fund as provided in 19-3-112(1)(b); and

~~(d)~~(iv) 0.3% of compensation must be allocated to the long-term disability plan trust fund established pursuant to 19-3-2141;

(b) on July 1, 2007, through June 30, 2009, 0.56% of compensation must be allocated in the following order:

(i) to the administrative account used by the board to meet the expenses of the plan's startup loan, until paid in full;

(ii) to the defined benefit plan to eliminate the plan choice rate unfunded actuarial liability; and

(iii) to the long-term disability plan trust fund to provide disability benefits to eligible members; and

(c) on July 1, 2009, until additional employer contributions terminate pursuant to 19-3-316, 1.13% of compensation must be allocated in the following order:

(i) to the administrative account used by the board to meet the expenses of the plan's startup loan, until paid in full;

(ii) to the defined benefit plan to eliminate the plan choice rate unfunded actuarial liability; and

(iii) to the long-term disability plan trust fund to provide disability benefits to eligible members.

(3) Forfeitures of employer contributions and investment income on the employer contributions may not be used to increase a member's retirement account. The board shall allocate the forfeitures under 19-3-2116 to meet the plan's administrative expenses, including startup expenses."

Section 4. Section 19-3-2121, MCA, is amended to read:

"19-3-2121. Determination and adjustment of plan choice rate and contribution allocations. (1) The board shall periodically review the sufficiency of the plan choice rate and shall adjust the allocation of contributions under 19-3-2117 as specified in this section. The board shall collect and maintain the data necessary to comply with this section.

(2) The plan choice rate set in ~~19-3-2117(2)(b)~~ 19-3-2117(2)(a)(ii) must be adjusted as provided in this section, taking into account:

(a) as determined under subsection (3), the change in the normal cost contribution rate in the defined benefit plan that is the result of member selection of the defined contribution plan; and

(b) as determined under subsection (4), the sufficiency of the plan choice rate to actuarially fund the defined contribution plan member's appropriate share of the defined benefit plan's unfunded liabilities.

(3) The change in the normal cost contribution rate must be an amount equal to the difference between the normal cost contribution rate in the defined benefit plan that would have resulted if all system members remained in the defined benefit plan and the normal cost contribution rate in the defined benefit plan for the actual members of the defined benefit plan, multiplied by the compensation paid to all of the members in the defined benefit plan, divided by the compensation paid to all of the members in the defined contribution plan. The measurements under this subsection must be based on the defined benefit plan in effect on the effective date of the defined contribution plan until the board determines that the defined benefit plan has been amended in a manner that significantly affects plan choices available to system members. After a board determination that the defined benefit plan has been significantly changed, the measurements in this subsection with respect to members entering the system after the significant change must be made on the basis of the defined benefit plan, as amended.

(4) The sufficiency of the plan choice rate to actuarially fund the appropriate share of the defined benefit plan's unfunded liabilities must be determined as follows:

(a) The board shall determine the number of years required to actuarially fund the defined benefit plan's unfunded liabilities as of the June 30, 1998, actuarial valuation, which must be the initial schedule for the defined contribution plan to actuarially fund the plan's share of the unfunded liabilities. The board shall reduce the schedule by 1 year each biennium.

(b) During each subsequent actuarial valuation of the defined benefit plan conducted pursuant to 19-2-405, the board shall determine whether the plan choice rate minus the amount provided in subsection (2)(a) of this section is sufficient to pay the unfunded liability obligations within the schedule determined under subsection (4)(a) of this section. If the amount is insufficient to fund the liability over a period of 10 years longer than the scheduled period or is more than sufficient to fund the liability over a period of 10 years earlier than the scheduled period, the board shall determine to the nearest 0.1% the amount of the ~~increase or decrease~~ change in the plan choice rate that is required to actuarially fund the liabilities according to the established schedule.

(5) If the board determines that the plan choice rate should be ~~increased or decreased~~ changed, the plan choice rate under ~~19-3-2117(2)(b)~~ 19-3-2117(2)(a)(ii) must be ~~increased or decreased~~ changed accordingly. If the plan choice rate is increased, the allocation of employer contributions to member accounts under ~~19-3-2117(2)(a)~~ 19-3-2117(2)(a)(i) must be decreased by that amount. If the plan choice rate is decreased, the allocation of employer contributions to member accounts under ~~19-3-2117(2)(a)~~ 19-3-2117(2)(a)(i) must be increased by that amount.

(6) If the board determines that the contribution rate to the disability plan under ~~19-3-2117(2)(d)~~ 19-3-2117(2)(a)(iv) should be increased, the employer contribution to each member's account under ~~19-3-2117(2)(a)~~ 19-3-2117(2)(a)(i) must be decreased by that amount. If the board determines that the contribution rate to the disability plan under ~~19-3-2117(2)(d)~~ 19-3-2117(2)(a)(iv) should be decreased, the employer contribution to each member's account under ~~19-3-2117(2)(a)~~ 19-3-2117(2)(a)(i) must be increased by that amount.

(7) By November 1 of the year of a determination pursuant to this section that the allocation of employer contributions under 19-3-2117(2) must be changed, the board shall notify system members, participating employers, employee and employer organizations, the governor, and the legislature of its determination and of the changes required.

(8) Effective January 1 of the year after the regular legislative session that immediately follows a determination under this section, the plan choice rate and the allocation of contributions under 19-3-2117(2) must be adjusted according to the board's determination."

Section 5. Section 19-7-404, MCA, is amended to read:

"19-7-404. Employer contributions. (1) ~~The~~ Each employer shall pay 9.535% of the compensation paid to all of the employer's employees plus any additional contribution under subsection (3), except for those employees properly excluded from membership.

(2) If the required contribution to the retirement system exceeds the funds available to a county from general revenue sources, a county may, subject to 15-10-420, budget, levy, and collect annually a tax on the taxable value of all taxable property within the county that is sufficient to raise the amount of revenue needed to meet the county's obligation.

(3) Subject to subsection (4), each employer shall contribute to the system an additional employer contribution equal to the following percentage of compensation paid to all of the employer's employees, except for those employees properly excluded from membership:

(a) beginning July 1, 2007, through June 30, 2009, 1.03%; and

(b) beginning July 1, 2009, 2.05%.

(4) (a) The board shall periodically review the additional employer contribution provided for under subsection (3) and recommend adjustments to the legislature as needed to maintain the amortization schedule set by the board for payment of the system's unfunded liabilities.

(b) The employer contribution required under subsection (3) terminates on July 1 immediately following the system's actuarial valuation if:

(i) the actuarial valuation determines that the period required to amortize the system's unfunded liabilities, including adjustments made for any benefit enhancements enacted by the legislature after the valuation, is less than 25 years; and

(ii) terminating the additional employer contribution would not cause the amortization period as of the most recent actuarial valuation to exceed 25 years."

Section 6. Section 19-8-504, MCA, is amended to read:

"19-8-504. Employer's contribution. (1) ~~The~~ Each employer shall pay as employer contributions 9% of the compensation paid to all of the employer's employees plus any additional contributions under subsection (2), except for those employees properly excluded from membership. The department of fish, wildlife, and parks shall include in its budget and shall request for legislative appropriation an amount necessary to defray the state's portion of the costs of this section.

(2) Subject to subsection (3), each employer shall contribute to the system an additional employer contribution equal to 0.04% of compensation paid to all of the employer's employees, except for those employees properly excluded from membership.

(3) (a) The board shall periodically review the additional employer contribution provided for under subsection (2) and recommend adjustments to the legislature as needed to maintain the amortization schedule set by the board for payment of the system's unfunded liabilities.

(b) The employer contribution required under subsection (2) terminates on July 1 immediately following the system's actuarial valuation if:

(i) the actuarial valuation determines that the period required to amortize the system's unfunded liabilities, including adjustments made for any benefit enhancements enacted by the legislature after the valuation, is less than 25 years; and

(ii) terminating the additional employer contribution would not cause the amortization period as of the most recent actuarial valuation to exceed 25 years."

Section 7. Section 19-21-214, MCA, is amended to read:

"19-21-214. Contributions and allocations for employees in positions covered under ~~the~~ public employees' retirement system. (1) The contribution rates for employees in positions covered under the public employees' retirement system who elect to become program members pursuant to 19-3-2112 are as follows:

(a) the member's contribution rate must be the rate provided in 19-3-315; and

(b) the employer's contribution rate must be the rate provided in 19-3-316.

(2) Subject to subsection ~~(3)~~ (4), the employer's contribution under subsection (1)(b) must be allocated as follows:

(a) on or after July 1, 2002, an amount equal to:

~~(a)~~(i) 4.49% of compensation must be allocated to the participant's program account;

~~(b)~~(ii) 2.37% of compensation must be allocated to the defined benefit plan under the public employees' retirement system as the plan choice rate; and

~~(c)~~(iii) 0.04% of compensation must be allocated to the education fund pursuant to 19-3-112(1)(b)~~.~~;

(b) on July 1, 2007, through June 30, 2009, 0.56% of compensation must be allocated in the following order:

(i) to the administrative account used by the board to meet the expenses of the plan's startup loan, until paid in full; and

(ii) to the defined benefit plan to eliminate the plan choice rate unfunded actuarial liability; and

(c) on July 1, 2009, until additional employer contributions terminate pursuant to 19-3-316, 1.13% of compensation must be allocated in the following order:

(i) to the administrative account used by the board to meet the expenses of the plan's startup loan, until paid in full; and

(ii) to the defined benefit plan to eliminate the plan choice rate unfunded actuarial liability.

(3) The allocations under subsection (2) are subject to adjustment by the public employees' retirement board, but only as described in and in a manner consistent with the express provisions of 19-3-2121."

NEW SECTION. **Section 8. Effective date.** [This act] is effective July 1, 2007.

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