


Fiscal Note Request – As Introduced

 <p style="font-size: small;">GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING</p>	<h2 style="margin: 0;"><u>Pension Fund Fiscal Note 2023 Biennium</u></h2>
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Bill # HB0323

Title: Generally revise pension laws

Primary Sponsor: Moore, Terry

Status: As Introduced

Retirement Systems Affected:
 Teachers
 Public Employees
 Highway Patrol
 Police
 Sheriffs
 Firefighters
 Volunteer Firefighters
 Game Wardens
 Judges

PERS

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?

	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$8,234,002,983	\$8,234,002,983	\$0
Present Value of Actuarial Assets	\$6,099,398,162	\$6,099,398,162	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$2,134,604,821	\$2,134,604,821	\$0
Amortization Period (years) of UAAL	35.00	30.00	0.00
Change in normal costs	9.81%	9.81%	0.00%

The Defined Benefit Plan -PERS

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
State & MUS Employer Contribution Rate	8.87%	9.48%	9.61%	10.92%	11.96%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Govt Contribution Rate	8.77% ↗	9.38% ↗	9.51% ↗	10.82%	11.86%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
School District Contribution Rate	8.50% ↗	9.11% ↗	9.24% ↗	10.55%	11.59%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	16.77% ↗	17.38% ↗	17.51% ↗	18.82%	19.86%

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The Defined Contribution Plan- PERS

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
State & MUS Employer Contribution R:	8.87%	8.87%	8.87%	8.87%	8.87%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Govt Contribution Rate	8.77%	8.77%	8.77%	8.77%	8.77%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
School District Contribution Rate	8.50%	8.50%	8.50%	8.50%	8.50%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	16.77%	16.77%	16.77%	16.77%	16.77%

TRS

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?

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
Employee Contribution Rate	8.15%	8.15%	8.15%	8.15%	8.15%
Employer Contribution Rate	9.17%	9.27%	10.74%	12.15%	13.07%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	19.81%	19.91%	21.38%	22.79%	23.71%

	July 1, 2020	July 1, 2020	Increase/
	Current System	With Changes	(Decrease)
Present Value of Actuarial Accrued Liability	\$6,310,005,000	#####	\$0
Present Value of Actuarial Assets	\$4,344,045,000	#####	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,965,960,000	#####	\$0
Amortization Period (years) of UAAL	29.00	29.00	0.00
Change in normal costs	0.00%	0.00%	0.00%

FISCAL SUMMARY

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	✓ \$1,236,779	✓ \$4,818,223	✓ \$11,314,540	✓ \$17,682,062
State Special Revenue	✓ \$1,008,109	✓ \$984,447	✓ \$3,298,278	✓ \$6,219,903
Federal Special Revenue	✓ \$674,173	✓ \$697,703	✓ \$2,297,134	✓ \$4,301,320
Proprietary	✓ \$439,694	✓ \$448,757	✓ \$1,504,198	✓ \$2,837,151
Other (MUS and Local)	✓ \$3,990,063	✓ \$13,294,308	✓ \$32,661,381	✓ \$53,838,687
Other (Pension Trust)	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Proprietary	\$0	\$0	\$0	\$0
Other (MUS and Local)	\$0	\$0	\$0	\$0
Other (Pension Trust)	✓ \$6,996,002	✓ \$20,243,438	✓ \$51,075,531	✓ \$84,879,123
Net Impact-General Fund Balance:	<u>✓ (\$1,236,779)</u>	<u>✓ (\$4,818,223)</u>	<u>✓ (\$11,314,540)</u>	<u>✓ (\$17,682,062)</u>

Description of fiscal impact: HB 323 provides automatic employer contribution increases in the Public Employees' Retirement System and the Teachers' Retirement System to pay off the existing unfunded liability over a closed 30-year period or less and any new unfunded liability over a layered 10-year period. Any future actuarial losses from assumption changes or market downturns would be funded in no more than 10 years which would result in fluctuations in employer contribution rates from one year to the next.

FISCAL ANALYSIS

Assumptions:

Public Employees Retirement System (PERS)

1. Starting July 1, 2021 through June 30, 2022 the employer contribution rate will be 9.48% for the defined benefit plan with a portion allocated for educational programs as provided in 19-3-112 MCA.
2. Starting July 1, 2021, the employer contribution rate will be 8.87% for the defined contribution plan with a portion allocated for educational programs as provided in 19-3-112 MCA.
3. Starting July 1, 2022 each employer shall contribute to the defined benefit plan (PERS) the actuarially determined employer contribution that is determined by the actuary. The employer contribution is effective July 1, following the annual actuarial valuation completed in the prior calendar year.
4. There will be contribution rates determined for the legacy unfunded liability, contemporary unfunded liability, and normal cost of benefits.
 - a. **Legacy unfunded liability-** This will be the required level percent of compensation basis to amortize the legacy unfunded liability attributable to the employers covered employees over a closed 30-year amortization period beginning July 1, 2021.

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- b. **Contemporary unfunded liability** – This will be the amount required on a level dollar basis to pay the annual contemporary unfunded liabilities attributable to the employers covered employees over a layered amortization schedule for each fiscal year’s contemporary unfunded liability which is amortized over a closed 10-year period, starting for the fiscal year ending June 30, 2022 with a 5-year smoothing of losses beginning July 1, 2017.
 - c. **Normal cost of benefits** - as they accrue, they must be the amount required on a level percent of compensation basis to pay the normal cost of benefits as determined in the annual actuarial valuation.
5. Member and Employer contributions for the defined benefit plan (PERS) and the defined contribution plan will be reduced to 6.9% on January 1 following the defined benefit plans annual actuarial valuation showing the system is 100% funded and reducing the employee contribution and terminating the employer supplemental contribution pursuant to 19-3-319 would not cause the plans funded ratio to be less than 100%.
6. The actuarial analysis included in this fiscal note is based on the data, methods, assumptions, and plan provisions contained in the actuarial valuation of the system performed as of June 30, 2020. This analysis assumed that this is the only statutory amendment being considered. If other provisions are enacted, the actuarial impact associated with this proposal may be different.
7. Below are the actuarial determined contributions over the next 10 years. FY’s 2024 and 2025 have increases due to unrecognized asset losses that are built into the asset smoothing method. The numbers presented in the fiscal note recognize the change over the next 4 years for the Defined Benefit Plan which is listed in the table below.

Fiscal Year Ended June 30,	Current Plan Provisions	HB 323	Change
2021	8.87%	8.87%	0.00%
2022	8.97%	9.48%	0.51%
2023	9.07%	9.61%	0.54%
2024	9.17%	10.92%	1.75%
2025	9.17%	11.96%	2.79%
2026	9.17%	12.08%	2.91%
2027	9.17%	12.05%	2.88%
2028	9.17%	11.99%	2.82%
2029	9.17%	11.90%	2.73%
2030	9.17%	11.80%	2.63%
2031	9.17%	11.71%	2.54%

Teachers’ Retirement System

- 8. Existing employee, employer and State contributions would remain unchanged for FY 2022.
- 9. Employee contribution rates remain unchanged at 8.15%.
- 10. State general fund contributions of \$25 million per year, 2.49% for school districts, counties, community colleges and educational cooperatives, and 0.11% for State and MUS employers remain unchanged.
- 11. This bill establishes employer contribution rates that would automatically increase or decrease based on the previous year’s actuarially determined contribution beginning in FY 2023 for the “legacy” unfunded liability and FY 2024 for the “contemporary” liability. Actuarial Determined Contribution = Employer Normal Cost Rate + Legacy Unfunded Rate + Contemporary Unfunded Rate.
- 12. Any unfunded liability that exists on July 1, 2021, is considered a “legacy” unfunded liability and beginning July 1, 2022, must be funded as a level percent of pay over a closed 30-year period or over the closed amortization period as of July 1, 2021 if it is less than 30 years.
- 13. Any new unfunded liability realized after July 1, 2021, is considered a “contemporary” unfunded liability and beginning July 1, 2023, must be funded on a level dollar basis to pay the total contemporary unfunded liability over a 10-year layered amortization period starting with the contemporary unfunded liability for the fiscal year ending June 30, 2022.

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14. Employers participating in TRS will contribute an additional 1.37% in FY 2023, 2.68% in FY 2024 and 3.60% in FY 2025 as follows:

Fiscal Year	2022	2023	2024	2025
Employer Contributions	\$ -	\$12,576,643	\$25,359,821	\$35,120,352

15. The actuarial determined contribution increases in FY 2023 through FY 2025 are due to amortization payments on the legacy liability not keeping up with interest accrual on the UAL in the beginning and the unrecognized asset losses that are built into the asset smoothing method which are recognized in the contemporary unfunded liability and amortized over a ten-year period.

16. Salary data for state agencies and MUS participants in TRS is from IBARS. This data is based on present law and could change depending upon the outcome of HB13; however, for the purpose of this fiscal note, zero salary increases are assumed for FY 2022 and FY 2023. Salary data for K-12 participating employers is based on actual salaries reported to TRS for FY 2020.

17. Salary increases of 3.25% are assumed for future years.

18. The increase in the TRS employer contribution rate is assumed to be funded as follows:

- a. K-12 employer contribution: 28% state general fund, 72% school district retirement fund
- b. State agency contribution: 67% state general fund, 3% state special revenue, 30% federal funds
- c. MUS contribution: 47% of CUF is state general fund, 53% MUS Tuition/Restricted
- d. Community College contribution: 50.8% state general fund, 49.2% MUS Tuition/Restricted

19. The impact presented in the fiscal note assumes that this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.

20. All calculations are based on the July 1, 2020 actuarial valuation.

21. The actuarial valuations and experience studies are available on the TRS website: <https://trs.mt.gov/TrsInfo/NewsAnnualReports>

Department of Administration (DOA)

22. DOA's impacts focus only on the employer contributions rates (Section 4) of the bill.

23. Only state employees' employer contributions are included in these calculations.

24. These calculations do not include Montana University System, local governments, or school districts.

25. The salary projections are based off an actuarial assumed payroll growth of 3.5% from FY 2020 to FY 2021.

26. The current employer rate is 8.87%

27. The fiscal impact for FY 2022 is estimated to be an increase of \$352,815.

28. The fiscal impact for FY 2023 and beyond is undeterminable given that DOA does not have the data used to derive the actuarial valuations. It is assumed Montana Public Employee Retirement Systems (MPERA) and Teachers' Retirement System (TRS) will prepare this calculation.

29. Calculations are based off State employer contributions for FY 2020 data obtained from MPERA.

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TRS	FY 2022	FY 2023	FY 2024	FY 2025
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
State Agencies contribution	\$0	\$107,257	\$216,635	\$300,460
MUS contribution	\$0	\$344,020	\$652,601	\$852,913
State Portion K-12 Contrib	\$0	\$3,395,313	\$6,857,788	\$9,511,343
Local Portion K-12 Contrib	\$0	\$8,730,053	\$17,632,797	\$24,455,636
Transfers	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$12,576,643	\$25,359,821	\$35,120,352
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$3,619,151	\$7,292,652	\$10,094,138
State Special Revenue (02)	\$0	\$2,789	\$5,633	\$7,812
Federal Special Revenue (03)	\$0	\$32,284	\$65,207	\$90,439
Proprietary (06)	\$0	\$752	\$1,515	\$2,103
MUS Tuition/Restricted	\$0	\$191,614	\$362,017	\$470,224
Local Portion K-12 Contrib		\$8,730,053	\$17,632,797	\$24,455,636
TRS Trust Fund	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$12,576,643	\$25,359,821	\$35,120,352
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Proprietary (06)	\$0	\$0	\$0	\$0
MUS Tuition/Restricted	\$0	\$0	\$0	\$0
TRS Trust Fund	\$0	\$12,576,643	\$25,359,821	\$35,120,352
TOTAL Revenues	\$0	\$12,576,643	\$25,359,821	\$35,120,352

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PERS	FY 2022	FY 2023	FY 2024	FY 2025
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Personal Services	\$6,996,002	\$7,666,795	\$25,715,710	\$49,758,771
Operating Expenses	\$0	\$0	\$0	\$0
Equipment	\$0	\$0	\$0	\$0
Benefits	\$0	\$0	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$6,996,002</u>	<u>\$7,666,795</u>	<u>\$25,715,710</u>	<u>\$49,758,771</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$1,094,161	\$1,199,072	\$4,021,888	\$7,587,924
State Special Revenue (02)	\$895,770	\$981,658	\$3,292,645	\$6,212,091
Federal Special Revenue (03)	\$607,200	\$665,419	\$2,231,927	\$4,210,881
Proprietary	\$408,808	\$448,005	\$1,502,683	\$2,835,048
Other - University	\$583,311	\$639,240	\$2,144,117	\$4,045,215
Other- City	\$849,914	\$931,406	\$3,124,090	\$6,078,854
Other- Consolidated Govt	\$119,356	\$130,801	\$438,728	\$853,677
Other - Counties	\$1,286,337	\$1,409,675	\$4,728,284	\$9,200,294
Other - Local Govt	\$296,877	\$325,342	\$1,091,253	\$2,123,361
Other - School Dist	\$854,268	\$936,177	\$3,140,095	\$6,611,426
TOTAL Funding of Exp.	<u>\$6,996,002</u>	<u>\$7,666,795</u>	<u>\$25,715,710</u>	<u>\$49,758,771</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other-Pensions	\$6,996,002	\$7,666,795	\$25,715,710	\$49,758,771
TOTAL Revenues	<u>\$6,996,002</u>	<u>\$7,666,795</u>	<u>\$25,715,710</u>	<u>\$49,758,771</u>

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DOA	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
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Fiscal Impact:

FTE	0.00	0.00	0.00	0.00
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Expenditures:

Personal Services	\$352,815	\$0	\$0	\$0
Operating Expenses	\$0	\$0	\$0	\$0
Equipment	\$0	\$0	\$0	\$0
Benefits	\$0	\$0	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$352,815	\$0	\$0	\$0

Funding of Expenditures:

General Fund (01)	\$142,618	\$0	\$0	\$0
State Special Revenue (02)	\$112,339	\$0	\$0	\$0
Federal Special Revenue (03)	\$66,973	\$0	\$0	\$0
Proprietary	\$30,886	\$0	\$0	\$0
TOTAL Funding of Exp.	\$352,816	\$0	\$0	\$0

Revenues:

General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
General Fund (01)	(\$1,236,779)	(\$4,818,223)	(\$11,314,540)	(\$17,682,062)
State Special Revenue (02)	(\$1,008,109)	(\$984,447)	(\$3,298,278)	(\$6,219,903)
Federal Special Revenue (03)	(\$674,173)	(\$697,703)	(\$2,297,134)	(\$4,301,320)
Proprietary	(\$439,694)	(\$448,757)	(\$1,504,198)	(\$2,837,151)
Other (MUS and Local)	(\$3,990,063)	(\$13,294,308)	(\$32,661,381)	(\$53,838,687)
Other (Pension Trust)	\$6,996,002	\$20,243,438	\$51,075,531	\$84,879,123

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Technical Notes:

- Contributions rates will change based on the actuarial annual valuation completed in the prior calendar year and are put into effect July 1 each year. This could prove problematic within the context of a biennial budget.
- For TRS, employer contribution rates for FY 2022 are unclear the way the bill is drafted. An effective date of July 1, 2023 would clarify that the employer contribution rates for FY 2022 remain the same as current law. This is necessary because the legacy unfunded liability is determined as of July 1, 2021 but the actuarial determined employer contribution based on the July 1, 2021 valuation would not go into effect until July 1, 2022 in accordance with p. 12, lines 1-3 of the bill.

Effect on Local Governments:

- School Districts participating in TRS contribute additional employer contributions of 1.37% in FY 2023, 2.68% in FY 2024 and 3.60% in FY 2024 of employee salaries to TRS as follows:

Fiscal Year	2022	2023	2024	2025
Employer Contributions	\$ -	\$ 8,730,053	\$17,632,797	\$24,455,636

NOT SIGNED BY SPONSOR

_____ 2/16/21 _____ KA _____ 2/13/21
Sponsor's Initials *Date* *Budget Director's Initials* *Date*