



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2023 Biennium

Bill #	SB0188	Title:	Revise school teacher retirement with pension
Primary Sponsor:	Lang, Mike	Status:	As Introduced

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?

	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$6,310,005,000	\$6,310,005,000	\$0
Present Value of Actuarial Assets	\$4,344,045,000	\$4,344,045,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,965,960,000	\$1,965,960,000	\$0
Amortization Period (years) of UAAL	29.00	29.00	0.00
Change in normal costs	9.75%	9.75%	0.00%

	FY 2021 July 1, 2020	FY 2022 July 1, 2021	FY 2023 July 1, 2022	FY 2024 July 1, 2023	FY 2025 July 1, 2024
Employee Contribution Rate	8.15%	8.15%	8.15%	8.15%	8.15%
Employer Contribution Rate	9.17%	9.27%	9.37%	9.47%	9.47%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	19.81%	19.91%	20.01%	20.11%	20.11%

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:				
Other - Pension Trust Fund	\$800	\$0	\$0	\$0
Revenue:				
Other - Pension Trust Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: SB 188 increases the number of years a retired teacher is eligible to work, with no limit on the compensation they can earn while receiving their full retirement benefit, from three years to seven years during their lifetime. In addition, the bill adds the position of Superintendent back into the definition of “Administrator” and allows them to work under this provision for up to three years in their lifetime. The increase in liability as a result of this provision is negligible and is not expected to change the overall funded status of the system.

FISCAL ANALYSIS

Assumptions:

1. Subject to the following restrictions, and previous experience with current law, the cost of this proposal is expected to be negligible.
 - a. The member has been separated from service for at least two months.
 - b. The member completed 27 or more years of service before retirement.
 - c. The position was advertised, and the employer was unable to fill it with a qualified non-retired teacher and the position will be advertised in each future year.
 - d. TRS will continue to collect the employer contributions required under 19-20-732, MCA (currently 19.81% of the salaries of working retirees under this provision).
 - e. Retirees working under this proposal will not pay any portion of the required contributions and this proposal would not increase their benefits due to service or salary while working under this arrangement.
 - f. The maximum number of years a retiree could be reemployed under this provision without any limitation on what they can earn is three for administrators and seven years for teachers. It is not clear how many years a specialist is eligible to work under this provision.
 - g. Superintendents are again eligible to work under this provision for up to three years during their lifetime.
 - h. Eligible employers are limited to second-class or third-class elementary or high school districts.
2. The programming cost to modify the TRS pension administration system would not exceed \$800 (8 hours at \$100 per hour) and the minimal cost to update TRS forms and other documentation would be absorbed within existing resources.
3. 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 July 1, 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.

	<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>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$800	\$0	\$0	\$0
TOTAL Expenditures	\$800	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
Other - Pension Trust Fund	\$800	\$0	\$0	\$0
TOTAL Funding of Exp.	\$800	\$0	\$0	\$0
<u>Revenues:</u>				
Other - Pension Trust Fund	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
Other - Pension Trust Fund	(\$800)	\$0	\$0	\$0

Effect on Local Governments:

1. The number of retirees who may work under this proposal cannot be accurately projected, therefore, it is not possible to calculate the cost school districts may incur. The normal employer contribution rate for a school district for an active member of the Teachers' Retirement System is currently 9.17% while the employer contribution rate required under 19-20-732, MCA, is 19.81% of earned compensation. To the extent that an employer utilizes this provision to hire working retirees instead of hiring active members of the system, the employer contribution rate is 10.64% higher and therefore costs the employer more.

Long-Term Impacts:

1. It is not possible to exactly determine the changes in future member behavior that might occur due to this proposal; therefore, the ultimate cost will be dependent on how the proposal changes active and retired members' behavior. §19-20-732, MCA was amended during the last legislative session to reduce the years of service requirement from 30 to 27 years of service. Since then, 22 members have been rehired under the provisions of §19-20-732 over the last 2 school years ending with the 2020-2021 school year. This has more than doubled the average number of reemployed retirees from 4.1 per year to 11 per year.
2. If a member retires earlier than they would have otherwise knowing that they can come back to work under this provision, TRS will pay out benefits for a longer period of time than they would have otherwise. The benefit payment amounts are greater than the contributions received on behalf of members working under this provision. From July 1, 2009 through June 30, 2021 (projected), TRS will have paid out approximately \$2,350,000 in benefits to retirees working under this provision while only collecting approximately \$570,000 in contributions. If these same members had decided to suspend their benefit and return to active member status, the system would not have paid out \$2,350,000 in benefits over this same time period.

Technical Notes:

1. It is not clear if a "specialist" is eligible to work for three years or seven years during their lifetime with the changes being made on page 1, line 15 of the bill.

NO SPONSOR SIGNATURE 2/9/21
 Sponsor's Initials Date

KA
 Budget Director's Initials

2/8/21
 Date