HOUSE BILL NO. 226

INTRODUCED BY T. MOORE, J. HAMILTON, D. FERN, S. VINTON, B. MERCER, T. MCGILLVRAY, D. LENZ, T. FALK, J. TREBAS

A BILL FOR AN ACT ENTITLED: “AN ACT GENERALLY REVISING LAWS RELATED TO THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM; REVISING CONTRIBUTIONS IN THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM; ~~REVISING CONTRIBUTIONS IN THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM TO PROVIDE FOR AN ACTUARIALLY DETERMINED CONTRIBUTION; CHANGING THE DEFAULT RETIREMENT PLAN TO THE PUBLIC EMPLOYEES' DEFINED CONTRIBUTION PLAN; REVISING THE EMPLOYER CONTRIBUTION TO THE DEFINED CONTRIBUTION PLAN OF THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM; PROVIDING DEFINITIONS;~~ CREATING A SPECIAL SELECT COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS; PROVIDING FOR COMMITTEE MEMBERS AND DUTIES; ~~CREATING A PENSION SPECIAL TRUST FUND; PROVIDING A STATUTORY APPROPRIATION;~~ AMENDING ~~SECTIONS 17-7-502, 19-2-303, 19-2-405, 19-2-409, 19-3-315, 19-3-316, 19-3-319, 19-3-1605, 19-3-2111, 19-3-2117, AND 19-21-214,~~ ~~SECTION~~ SECTIONS 19-2-407, 19-3-316, 19-3-2117, MCA; AND PROVIDING AN EFFECTIVE DATE AND A TERMINATION DATE.”

WHEREAS, Montana's current statutory funding approach to Montana's Public Employees' Retirement System (PERS) and the current funding policies adopted by the Public Employees' Retirement Board is based on a 30-year maximum single-layer amortization period for unfunded liabilities; and

WHEREAS, contribution rates are currently fixed rates set in statute, which means legislation is required to increase contributions if the contribution rates are insufficient to keep the amortization period under 30 years and continue to lower the amortization period each year; and

WHEREAS, a layered amortization funding policy and automatic adjustments in contribution rates to ensure contributions are sufficient to continue to pay down unfunded liabilities in a more expeditious and fiscally disciplined manner would significantly reduce the long-term costs of the Public Employees' Retirement System; and

WHEREAS, the Public Employees' Retirement System is the largest statewide public employee

~~increased by 0.1% each fiscal year through fiscal year 2024. For fiscal years beginning after June 30, 2024, the percentage of compensation amount to be allocated under subsection (2)(b) must be 1.27%.~~

~~(4) Effective the first full pay period in the month following the board's verification that the plan choice rate unfunded actuarial liability is paid off, amounts equal to the 2.37% of compensation in subsection (2)(a)(ii) and the percentage of compensation in subsection (2)(b), if any, must be allocated to the member's retirement account."~~

NEW SECTION. **SECTION 1. SPECIAL SELECT COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS -- MEMBERSHIP -- APPROPRIATION.** (1) THERE IS A SPECIAL SELECT COMMITTEE ON PUBLIC EMPLOYEE PENSIONS. THE COMMITTEE IS ALLOCATED TO THE LEGISLATIVE SERVICES DIVISION FOR STAFFING SERVICES AND ADMINISTRATIVE PURPOSES ONLY.

(2) THE COMMITTEE CONSISTS OF THE FOLLOWING MEMBERS:

(A) FOUR MEMBERS OF THE HOUSE OF REPRESENTATIVES, THREE OF WHOM MUST BE APPOINTED BY THE SPEAKER OF THE HOUSE AND ONE OF WHOM MUST BE APPOINTED BY THE HOUSE MINORITY LEADER; AND

(B) FOUR MEMBERS OF THE SENATE, THREE OF WHOM MUST BE APPOINTED BY THE PRESIDENT OF THE SENATE AND ONE OF WHOM MUST BE APPOINTED BY THE SENATE MINORITY LEADER.

(3) APPOINTMENTS UNDER SUBSECTION (2) MUST BE MADE WITHIN 60 DAYS AFTER [THE EFFECTIVE DATE OF THIS ACT].

(4) A VACANCY ON THE COMMITTEE MUST BE FILLED IN THE SAME MANNER AS THE ORIGINAL APPOINTMENT.

(5) THE COMMITTEE SHALL SELECT A PRESIDING OFFICER FROM AMONG ITS LEGISLATIVE MEMBERS.

(6) THE COMMITTEE SHALL MEET AT LEAST QUARTERLY.

(7) DECISIONS OF THE COMMITTEE MUST BE MADE BY MAJORITY VOTE OF THE COMMITTEE MEMBERS.

(8) ~~MEMBERS OF THE COMMITTEE MUST BE COMPENSATED AS PROVIDED IN 2-15-124 AND MUST BE REIMBURSED FOR TRAVEL EXPENSES AS PROVIDED IN 2-18-501 THROUGH 2-18-503.~~ LEGISLATOR MEMBERS MUST BE COMPENSATED and reimbursed for travel expenses AS PROVIDED IN 5-2-302.

(9) THE LEGISLATIVE SERVICES DIVISION SHALL PROVIDE STAFF ASSISTANCE TO THE COMMITTEE. THE LEGISLATIVE FISCAL DIVISION, THE MONTANA PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION, AND THE TEACHERS'

<u>RETIREMENT SYSTEM SHALL PROVIDE INFORMATION ON REQUEST.</u>

<u>(10) THERE IS APPROPRIATED $45,000 FROM THE GENERAL FUND TO THE LEGISLATIVE SERVICES DIVISION FOR THE BIENNIUM BEGINNING JULY 1, 2023, FOR THE PURPOSES OF STAFFING THE STUDY AND COMMITTEE MEMBER COMPENSATION.</u>

<u>NEW SECTION.</u> <u>**SECTION 2. DUTIES OF SELECT COMMITTEE.**</u> <u>(1) THE COMMITTEE SHALL:</u>

<u>(A) ASSESS THE FINANCIAL STABILITY OF MONTANA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS;</u>

<u>(B) CALCULATE THE UNFUNDED LIABILITY OF THE SYSTEMS AND THE ANNUAL COST OF THE UNFUNDED LIABILITY;</u>

<u>(C) FORMULATE A PLAN TO RETIRE THE UNFUNDED LIABILITY, INCLUDING FREEZING THE GROWTH OF THE UNFUNDED LIABILITY;</u>

<u>(D) REVIEW ALL FUNDING STRUCTURE, PLAN DESIGN, AND AMORTIZATION POLICY OPTIONS WITH A LONG-TERM GOAL OF ENSURING THE FINANCIAL SOUNDNESS OF THE PUBLIC EMPLOYEE RETIREMENT SYSTEMS;</u>

<u>(E) ASSESS THE BENEFITS OF THE RETIREMENT SYSTEMS AND CONSIDER RECOMMENDATIONS FOR CHANGES FOR NEW EMPLOYEES;</u>

<u>(F) WORK WITH LOCAL AND NATIONAL RETIREMENT SYSTEM OFFICIALS WITH EXPERTISE IN PENSION REFORM;</u>

<u>(G) PREPARE A REPORT OF FINDINGS AND RECOMMENDATIONS FOR SUBMISSION TO THE 69TH LEGISLATURE; AND</u>

<u>(H) DRAFT LEGISLATION OR SELECT COMMITTEE RECOMMENDATIONS TO PRESENT TO THE 69TH LEGISLATURE.</u>

<u>(2) THE COMMITTEE MAY PROVIDE UPDATES TO THE STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE.</u>

<u>**SECTION 3.** SECTION 19-2-407, MCA, IS AMENDED TO READ:</u>

"**19-2-407. Reports.** (1) As soon as practical after the close of each fiscal year, the board shall file with the governor and with the ~~legislature~~ <u>legislative finance committee</u> <u>and the</u> <u>state administration and veterans' affairs interim committee</u> pursuant to 5-11-210 a report of its work for that fiscal year. The report must include but is not limited to:

(a) a statement as to the accumulated cash and securities in the pension trust funds as certified by the state treasurer and the board of investments;

(b) a summary of the most recent information available from the actuary concerning the actuarial valuation of the assets and liabilities of each system or plan; and

(c) an analysis of how market performance is affecting actuarial funding of each of the retirement systems or plans.

(2) The report required under subsection (1) must also provide information concerning the defined contribution plan, including a description of the plan, the number of members in the plan, plan contribution rates, the total amount of money invested by members, investment performance, administrative costs and fees, and other information required under applicable governmental accounting standards and as determined by the board."

Section 4. 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 subsections (3) and (4), of the employer contributions under 19-3-316 received:~~The employer's contribution received under 19-3-316 must be allocated as follows:

~~(a) an amount equal to:~~

~~(i)~~(a) ~~4.19%~~ the percent of compensation specified under 19-3-316 minus the amounts specified in subsections (2)(b) and (2)(c) of this section must be allocated to the member's retirement account;

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

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

~~(iv)~~(c) 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, 2009, continuing until the additional employer contributions terminate pursuant to 19-3-~~

~~316(4)(b), the percentage specified in subsection (3) of this section of compensation must be allocated to the defined benefit plan to eliminate the plan choice rate unfunded actuarial liability;~~

~~(c) on July 1, 2013, and continuing until June 30, 2015, an amount equal to 1% of compensation must be allocated to the defined benefit plan unfunded liabilities; and~~

~~(d) on July 1, 2015, and continuing until the plan choice rate unfunded actuarial liability in the defined benefit plan is fully paid, an amount equal to 1% of compensation must be allocated to the defined benefit plan as part of the plan choice rate. Effective the first full pay period in the month following the board's verification that the plan choice rate unfunded actuarial liability is paid off, the amount equal to 1% of compensation must be allocated to the member's retirement account until the additional employer contributions terminate pursuant to 19-3-316(4)(b).~~

~~(3) The percentage of compensation to be contributed under subsection (2)(b) is 0.27% for fiscal year 2014 and increases by 0.1% each fiscal year through fiscal year 2024. For fiscal years beginning after June 30, 2024, the percentage of compensation to be contributed under subsection (2)(b) is 1.27%.~~

~~(4) Effective the first full pay period in the month following the board's verification that the plan choice rate unfunded actuarial liability is paid off, the 2.37% of compensation in subsection (2)(a)(ii) and the percentage of compensation in subsection (3), if any, must be allocated to the member's retirement account.~~

~~(5)~~(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 5. 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 rates under 19-3-319.~~

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

~~(b) The percentage of compensation to be contributed under subsection (3)(a) is 1.27% for fiscal year 2014 and increases by 0.1% each fiscal year through fiscal year 2024. For fiscal years beginning after June 30, 2024, the percentage of compensation to be contributed under subsection (3)(a) is 2.27%.~~

~~(4) (a) The board shall annually 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 January 1 following the board's receipt of the system's actuarial valuation if the actuarial valuation determines that terminating the additional employer contribution pursuant to this subsection (4)(b) and reducing the employee contribution pursuant to 19-3-315(2) would not cause the amortization period to exceed 25 years.~~(1) (a) Beginning July 1, 2023, through June 30, 2024, each employer shall contribute an amount equal to 9.29% of the compensation of all the employer's employees in the defined benefit plan and the defined contribution plan, except for those properly excluded from membership. Of employer contributions made under this subsection (1)(a) for both defined benefit plan and defined contribution plan members, a portion must be allocated for educational programs as provided in 19-3-112. Of employer contributions made for members of the defined contribution plan, 7.9% must go to the defined contribution plan, and the remaining amount must go to the defined benefit plan's legacy unfunded liability.

(b) The employer contribution of 7.9% under subsection (1)(a) must be allocated as provided in 19-3-2117.

(2) (a) Beginning July 1, 2024, each employer shall contribute an amount equal to 9.39% of the compensation of all the employer's employees in the defined benefit plan and the defined contribution plan, except for those properly excluded from membership. Of the employer contributions made under this subsection (2)(a) for both defined benefit plan and defined contribution plan members, a portion must be

allocated for educational programs as provided in 19-3-112. Of employer contributions made for members of the defined contribution plan, 7.9% must go to the defined contribution plan, and the remaining amount must go to the defined benefit plan's legacy unfunded liability.

(b) The employer contribution of 7.9% under subsection (2)(a) must be allocated as provided in 19-3-2117.

(3) The employer contribution rate for the defined contribution plan may not be lower than 7.9%.

(4) For the purposes of this section, "legacy unfunded liability" means the unfunded liability of the defined benefit plan as of June 30, 2023."

~~NEW SECTION. **SECTION 15. CODIFICATION INSTRUCTION.** [SECTION 1] IS INTENDED TO BE CODIFIED AS AN INTEGRAL PART OF TITLE 19, CHAPTER 3, PART 3, AND THE PROVISIONS OF TITLE 19, CHAPTER 3, PART 3, APPLY TO [SECTION 1].~~

NEW SECTION. **Section 6. Effective date.** [This act] is effective July 1, 2023.

NEW SECTION. **Section 7. TERMINATION.** [SECTIONS 1 AND 2] TERMINATE JUNE 30, 2025.

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