GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2025 Biennium

Bill information:	
HB0226 - Generally revise pension laws (Moore, Terry)	
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, 2022 Current System	July 1, 2022 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	$ 9,026,784,090.00	$ 9,026,784,090.00	$ -
Present Value of Actuarial Assets	$ 6,770,813,514.00	$ 6,770,813,514.00	$ -
Unfunded Actuarial Accrued Liability (UAAL)	$ 2,255,970,576.00	$ 2,255,970,576.00	$ -
Amortization Period (years) of UAAL	32.00	32.00	0.00
Change in normal costs	0.00%	0.00%	0.00%

	FY 2023 July 1, 2022	FY 2024 July 1, 2023	FY 2025 July 1, 2024	FY 2026 July 1, 2025	FY 2027 July 1, 2026
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
Employer Contribution Rate	9.07%	9.29%	12.75%	12.00%	14.41%
TOTAL Contribution Rate	16.97%	17.19%	20.65%	19.90%	22.31%

FISCAL SUMMARY

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$ 319,272	$ 9,834,511	$ 8,026,870	$ 15,345,504
State Special Revenue	$ 287,379	$ 8,852,125	$ 7,225,052	$ 13,812,615
Federal Special Revenue	$ 132,843	$ 4,091,945	$ 3,339,821	$ 6,384,959
Proprietary	$ 124,805	$ 3,844,351	$ 3,137,737	$ 5,998,621
Other- University	$ 152,694	$ 4,703,415	$ 3,838,900	$ 7,339,081
Other- City	$ 246,212	$ 7,584,035	$ 7,830,516	$ 8,085,008
Other- Consolidated Govt	$ 31,912	$ 982,988	$ 1,014,935	$ 1,047,921
Other- Counties	$ 356,092	$ 10,968,660	$ 11,325,142	$ 11,693,209
Other- Local Govt	$ 94,555	$ 2,912,581	$ 3,007,240	$ 3,104,975
Other- School Dist.	$ 231,839	$ 7,141,313	$ 5,828,698	$ 11,143,111
Total Funding of Exp.	$ 1,977,602	$ 60,915,925	$ 54,574,912	$ 83,955,005
Revenue:				
General Fund	$ -	$ -	$ -	$ -
State Special Revenue	$ -	$ -	$ -	$ -
Federal Special Revenue	$ -	$ -	$ -	$ -
Pension Trust Fund	$ 1,977,602	$ 60,915,925	$ 54,574,912	$ 83,955,005
Net Impact-General Fund Balance:	$ (319,272)	$ (9,834,511)	$ (8,026,870)	$ (15,345,504)

Description of fiscal impact: HB 226 changes the funding policy for the Public Employee Retirement System to a layered amortization and creates automatic employer adjustments in contribution rate effect July 1, 2024. In addition, this bill changes the default election to the defined contribution plan instead of the defined benefit plan.

FISCAL ANALYSIS

Assumptions:

1. Starting July 1, 2023, through June 30, 2024, the employer contribution rate will be 9.29% of compensation in the defined benefit plan and defined contribution plan. Of employer contributions made for members to 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.
2. Of employer contributions made to both defined contribution and defined benefit plan, a portion must be allocated for educational programs as provided in 19-3-112, MCA.
3. Starting July 1, 2024, each employer shall contribute to the defined benefit plan and defined contribution plan the actuarially determined employer contribution rate that is determined by the actuary. The employer contribution is effective July 1, following the annual actuarial valuation completed in the prior calendar year. Of the total amount, 7.9% must got to the defined contribution plan and the remaining amount must go to the defined benefit plan's legacy unfunded liability.
4. There will be contribution rate determined for the legacy unfunded liability, contemporary unfunded liability, and normal cost of benefits.
    a. **Legacy unfunded liability** - will be the required level dollar basis to amortize the legacy unfunded liability over a closed 30-year amortization period beginning July 1, 2023. If the June 30, 2023, valuation show the period is less than 30 years, then the closed amortization period must be that amortization period.

b. **Contemporary unfunded liability** - amount required on a level dollar basis to pay the annual contemporary unfunded liabilities attributable to the employer's 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, 2024, with a 5-year smoothing beginning July 1, 2019.

c. **Normal cost of benefits** - as they accrue must be the amount required on a level dollar basis to pay the normal cost of benefits as determined in the annual actuarial valuation.

5. For members hired on or after July 1 2013, the Guaranteed Annual Benefit adjustment is 1.5% subject to certain limitations. The limitation regarding the amortization period exceeding 40 years must reduce the GABA to 0% has been eliminated.
6. The additional state contributions of .1% for local governments and .27% for school districts would change in this bill to terminate when the defined benefit plans actuarial valuation is at least 100% funded and terminating this contribution would not cause the funded ratio to be less than 100%.
7. If a member fails to make an election of the defined benefit or defined contribution plan within 12 months, the member will default to the defined contribution plan.
8. 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, 2022. 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.
9. Below are the actuarial determined contributions over the next 4 years. If all assumptions are met after 2024 the rate would remain at 14.41%.

Fiscal Year Ended June 30,	Current Plan Provisions	HB 226	Change
2024	9.17%	9.29%	1.27%
2025	9.17%	12.75%	3.58%
2026	9.17%	12.00%	2.83%
2027	9.17%	14.41%	5.24%

Fiscal Impact:

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Funding of Expenditures:				
General Fund (01)	$ 319,272	$ 9,834,511	$ 8,026,870	$ 15,345,504
State Special Revenue (02)	$ 287,379	$ 8,852,125	$ 7,225,052	$ 13,812,615
Federal Special Revenue (03)	$ 132,843	$ 4,091,945	$ 3,339,821	$ 6,384,959
Proprietary	$ 124,805	$ 3,844,351	$ 3,137,737	$ 5,998,621
Other- University	$ 152,694	$ 4,703,415	$ 3,838,900	$ 7,339,081
Other- City	$ 246,212	$ 7,584,035	$ 7,830,516	$ 8,085,008
Other- Consolidated Govt	$ 31,912	$ 982,988	$ 1,014,935	$ 1,047,921
Other- Counties	$ 356,092	$ 10,968,660	$ 11,325,142	$ 11,693,209
Other- Local Govt	$ 94,555	$ 2,912,581	$ 3,007,240	$ 3,104,975
Other- School Dist.	$ 231,839	$ 7,141,313	$ 5,828,698	$ 11,143,111
TOTAL Funding of Exp.	$ 1,977,602	$ 60,915,925	$ 54,574,912	$ 83,955,005
Revenues:				
General Fund (01)	$ -	$ -	$ -	$ -
State Special Revenue (02)	$ -	$ -	$ -	$ -
Federal Special Revenue (03)	$ -	$ -	$ -	$ -
Pension Trust Fund	$ 1,977,602	$ 60,915,925	$ 54,574,912	$ 83,955,005
TOTAL Revenues	$ 1,977,602	$ 60,915,925	$ 54,574,912	$ 83,955,005
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$ (319,272)	$ (9,834,511)	$ (8,026,870)	$ (15,345,504)
State Special Revenue (02)	$ (287,379)	$ (8,852,125)	$ (7,225,052)	$ (13,812,615)
Federal Special Revenue (03)	$ (132,843)	$ (4,091,945)	$ (3,339,821)	$ (6,384,959)
Other	$ (1,238,108)	$ (38,137,344)	$ (35,983,168)	$ (48,411,926)

Technical Notes:

1. Section 19-3-316, MCA states, "normal cost of benefits as they accrue must be the amount required on a level dollar basis to pay the normal cost of the benefits as determined in the annual actuarial valuation…". The current actuarial cost method is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The method noted in HB 226 would constitute a change in the actuarial cost method. The proposed method is not considered a best practice. The current cost method is also consistent with the prescribed methodologies for the disclosure of pension liabilities under Governmental Accounting Standards Numbers 67 & 68. For this fiscal note, we assumed this change was not intended and therefore did not change the actuarial cost method.

[signature]	1/20/23	[signature]	1-18-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*