Pension Fund Fiscal Note 2025 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill information:	
HB0226 - Generally revise pension laws (Moore, Terry)	
Status:	As Amended in House Committee

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	30.00	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
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%
State & MUS Employer Contribution R	9.07%	9.29%	9.79%	10.29%
Local Govt Contribution Rate	8.97%	9.19%	9.69%	10.19%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%
School District Contribution Rate	8.70%	8.92%	9.42%	9.92%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%
Pension Special Trust Fund	0.00%	0.00%	3.26%	2.01%
TOTAL Contribution Rate	35.11%	35.77%	40.53%	40.78%

FISCAL SUMMARY

		FY 2024 Difference		FY 2025 Difference		FY 2026 Difference		FY 2027 Difference
Expenditures:								
General Fund	$	300,299,489	$	1,547,360	$	2,795,230	$	4,043,101
State Special Revenue	$	269,572	$	1,392,791	$	2,516,010	$	3,639,229
Federal Special Revenue	$	124,611	$	643,826	$	1,163,040	$	1,682,254
Proprietary	$	117,071	$	604,869	$	1,092,667	$	1,580,465
Other- University	$	143,232	$	740,034	$	1,336,836	$	1,933,638
Other- City	$	230,956	$	1,193,270	$	2,155,585	$	3,117,900
Other- Consolidated Govt	$	29,935	$	154,663	$	279,391	$	404,120
Other- Counties	$	334,027	$	1,725,806	$	3,117,586	$	4,509,365
Other- Local Govt	$	88,696	$	458,265	$	827,833	$	1,197,401
Other- School Dist.	$	217,473	$	1,123,612	$	2,029,752	$	2,935,891
Pension Special Trust Fund	$	45,353,643	$	27,963,443	$	54,535,669	$	47,579,589
Total Funding of Exp.	$	347,208,707	$	37,547,940	$	71,849,599	$	72,622,952
Revenue:								
General Fund		$0		$0		$0		$0
State Special Revenue		$0		$0		$0		$0
Federal Special Revenue		$0		$0		$0		$0
Pension Special Trust Fund	$	312,390,000	$	276,352,855	$	256,123,489	$	208,186,193
Net Impact-General Fund Balance:	$	(300,299,489)	$	(1,547,360)	$	(2,795,230)	$	(4,043,101)

Description of fiscal impact: House Bill 226 changes the funding policy for the Public Employee Retirement System to a layered amortization, creates a pension special trust fund, revises contributions to both the defined benefit and defined contribution plans. This bill changes the default election to the defined contribution plan instead of the defined benefit plan.

FISCAL ANALYSIS

Assumptions:

1. 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.
2. July 1, 2023, the state shall transfer $300 million from the general fund to a pension special trust fund.
    a. The actuary assumed the pension special trust fund will earn a STIP rate of 4.13% in FY2024, 3.3% in FY 2025 and 3% in FY2026 and going forward.
3. Starting July 1, 2023, through June 30, 2024, the employer contribution rate will be 9.29% in the defined benefit plan and defined contribution plan.
    a. 7.9% of employer contributions must go to the defined contribution plan and the remaining amount must go to the defined benefit plan's legacy unfunded liability.
4. 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.

5. Starting July 1, 2024, each employer shall contribute to the defined benefit plan and defined contribution plan the actuarially determined employer contribution rate determined by the actuary or 9.79% (base rate) whichever is less.
    a. 7.9% of employer contributions must go to the defined contribution plan and the remaining amount must go to the defined benefit plan's legacy unfunded liability.
6. Beginning July 1, 2025, the employer base rate will increase by .50% each year.
7. The employer contribution is effective July 1, following the annual actuarial valuation completed in the prior calendar year.
    a. If the actuarially determined employer contribution amount is higher than the base amount, the pension special trust fund must be used to fund the difference as long as a balance is available in the fund.
    b. If all assumptions are met, the pension special trust fund would have enough assets to cover the difference in the actuarial determined contribution rate and the base rate until the rates converge.
    c.
8. The Employer & Employee contributions will be reduced January1 to 6.9% when plan is 100% funded.
9. 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.
10. 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%.
11. 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 has been eliminated.
12. 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. Using a level dollar amortization is equivalent to level percent of payroll with a 0.00% payroll growth assumption instead of using the current 3.25% payroll growth.
    a. The legacy and contemporary unfunded liabilities are calculated using a level dollar amortization schedule.
    b. 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.
13. The State statutory appropriation has not changed.
14. A contribution rate of 1.39% of compensation of members participating in the PERS defined contribution plan to the PERS defined benefit plan will go towards the liquidation of the defined benefit's legacy unfunded liability.
15. The actuarial determined contributions under HB 226 increases in fiscal years 2025, 2026 and 2027 due to amortizing unfunded actuarial accrued liability on a level dollar basis plus the unrecognized asset losses that are built into the asset smoothing method.
    a. These rates below given by the actuary would change for all years if the assumed rate of return, 7.3%, is not met.

16. Below are the actuarial determined contributions over the next 4 years. If all assumptions are met after 2027 the rate would remain at 14.71%.

FYE	ADEC	Base	Min	Diff	Payment Nov 1	Pension Trust Fund Balance	Assumed STIP
2023	9.07%	9.07%	9.07%	0.00%	$0	$300,000,000	
2024	9.29%	9.29%	9.29%	0.00%	$45,353,643	$265,796,061	4.13%
2025	13.05%	9.79%	9.79%	3.26%	$27,963,443	$245,992,028	3.30%
2026	12.30%	10.29%	10.29%	2.01%	$54,535,669	$197,750,788	3.00%
2027	14.71%	10.79%	10.79%	3.92%	$47,579,589	$155,156,827	3.00%
2028	14.71%	11.29%	11.29%	3.42%	$40,623,509	$118,379,562	3.00%
2029	14.71%	11.79%	11.79%	2.92%	$33,667,428	$87,593,494	3.00%
2030	14.71%	12.29%	12.29%	2.42%	$26,711,348	$62,978,360	3.00%
2031	14.71%	12.79%	12.79%	1.92%	$19,755,268	$44,719,287	3.00%
2032	14.71%	13.29%	13.29%	1.42%	$12,799,188	$33,006,957	3.00%
2033	14.71%	13.79%	13.79%	0.92%	$5,843,107	$28,037,773	3.00%
2034	14.71%	14.29%	14.29%	0.42%	$0	$28,878,906	3.00%
2035	14.71%	14.79%	14.71%	0.00%	$0	$29,745,274	3.00%
2036	14.71%	15.29%	14.71%	0.00%	$0	$30,637,632	3.00%
2037	14.71%	15.79%	14.71%	0.00%	$0	$31,556,761	3.00%
2038	14.71%	16.29%	14.71%	0.00%	$0	$32,503,463	3.00%
2039	14.71%	16.79%	14.71%	0.00%	$0	$33,478,567	3.00%
2040	14.71%	17.29%	14.71%	0.00%	$0	$34,482,924	3.00%

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Funding of Expenditures:				
General Fund (01)	$ 300,299,489	$ 1,547,360	$ 2,795,230	$ 4,043,101
State Special Revenue (02)	$ 269,572	$ 1,392,791	$ 2,516,010	$ 3,639,229
Federal Special Revenue (03)	$ 124,611	$ 643,826	$ 1,163,040	$ 1,682,254
Proprietary	$ 117,071	$ 604,869	$ 1,092,667	$ 1,580,465
Other- University	$ 143,232	$ 740,034	$ 1,336,836	$ 1,933,638
Other- City	$ 230,956	$ 1,193,270	$ 2,155,585	$ 3,117,900
Other- Consolidated Govt	$ 29,935	$ 154,663	$ 279,391	$ 404,120
Other- Counties	$ 334,027	$ 1,725,806	$ 3,117,586	$ 4,509,365
Other- Local Govt	$ 88,696	$ 458,265	$ 827,833	$ 1,197,401
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Pension Special Trust Fund	$ 45,353,643	$ 27,963,443	$ 54,535,699	$ 47,579,589
TOTAL Funding of Exp.	$ 347,208,707	$ 37,547,940	$ 71,849,629	$ 72,622,952
Revenues:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
Federal Special Revenue (03)	$0	$0	$0	$0
Pension Special Trust Fund	$ 312,390,000	$ 276,352,855	$ 256,123,489	$ 208,186,193
TOTAL Revenues	$ 312,390,000	$ 276,352,855	$ 256,123,489	$ 208,186,193
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$ (300,299,489)	$ (1,547,360)	$ (2,795,230)	$ (4,043,101)
State Special Revenue (02)	$ (269,572)	$ (1,392,791)	$ (2,516,010)	$ (3,639,229)
Federal Special Revenue (03)	$ (124,611)	$ (643,826)	$ (1,163,040)	$ (1,682,254)
Other	$ (11,696,327)	$ (272,768,879)	$ (249,649,209)	$ (198,821,610)

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.
2. If a member is automatically entered into the Defined Contribution plan and thereafter chooses to join the Defined Benefit plan within the statutory election period of 12 months, the member will have to pay the actuarial cost, if any, for commensurate service credit in the Defined Benefit plan due to investment loss incurred by the member in the Defined Contribution plan. This is necessary to prevent the creation of new unfunded liabilities in the Defined Benefit plan. In addition, new statutory language under Title 19 would be required to allow for such a service purchase.

NOT SIGNED BY SPONSOR

Sponsor's Initials *Date*

Budget Director's Initials

2-8-23

Date