



## Montana Teachers' Retirement System

### HB 377 Summary of Legislative Changes

Sponsor: Rep. Tom Woods  
Title: Increase Contributions and Funding for TRS, Revise GABA  
Effective: July 1, 2013

The primary goal of HB 377 was to return the system to a position of actuarially sound funding without raising contract impairment issues for current members.

Membership in TRS is now divided into two tiers. A Tier One member is a person who (a) became a member before July 1, 2013 *and* (b) has not withdrawn their member's account balance. A Tier Two member is a person who (a) first becomes a member on or after July 1, 2013 *or* (b) after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

#### Tier One Member Changes

- *Annual Contribution Rate:* 7.15% of the member's earned compensation.
- *Supplemental Contribution Rate:* 1%.
  - The TRS Board may decrease the supplemental rate when certain criteria are met for improving the actuarial valuation of the system.
  - Any changes to the supplemental contribution rate are effective the first day of July following the TRS Board's determination.
- *Average Final Compensation:* calculation is the average of the earned compensation paid in 3 consecutive years of full-time service that yields the highest average.
- *Guaranteed Annual Benefit Adjustment:*
  - may be decreased to 0.5% if the most recent actuarial valuation shows that retirement system liabilities are less than 90% funded. This was determined to be a contract impairment in district court and was never implemented.
  - If the most recent actuarial valuation shows that retirement system liabilities are at least 90% funded and the provision of the increase is not projected to cause the system's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the retirement board.
- *Service Retirement:* eligible to receive if:
  - the member has been credited with at least 5 full years of creditable service and has attained the age of 60; *or*
  - has been credited with full-time or part-time creditable service of 25 or more years.
- *Early Retirement:* if the member is not eligible for service retirement but has (a) been credited with 5 years of creditable service *and* (b) attained the age of 50 they are eligible for an early retirement allowance.

## Tier Two Member Changes

- *Annual Contribution Rate*: 8.15% of the member's earned compensation.
- *Supplemental Contribution Rate*: On or after January 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  - The average funded ratio of the system based on the last three annual actuarial valuations is equal to or less than 80%; and
  - The period necessary to amortize all liabilities of the system based on the latest annual actuarial valuation is greater than 20 years; and
  - A state or employer contribution rate increase or a flat dollar contribution to the retirement system trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- *Average Final Compensation*: calculation is the average of the earned compensation paid in 5 consecutive years of full-time service that yields the highest average.
- *Guaranteed Annual Benefit Adjustment*:
  - may be decreased to 0.5% if the most recent actuarial valuation shows that retirement system liabilities are less than 90% funded.
  - If the most recent actuarial valuation shows that retirement system liabilities are at least 90% funded and the provision of the increase is not projected to cause the system's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the retirement board.
- *Service Retirement*: eligible to receive if:
  - member has been credited with at least 5 full years of creditable service and has attained the age of 60; *or*
  - has been credited with full-time or part-time creditable service in 30 or more years and has attained the age of 55.
- *Professional Retirement Option*: if the member has been credited with 30 or more years of creditable service *and* has attained the age of 60 they are eligible for an enhanced allowance.
- *Early Retirement*: if the member is not eligible for service retirement but has (a) at least 5 years of creditable service and (b) attained the age of 55 is eligible for an early retirement allowance.
- *Disability Retirement*: if the member is or will be eligible for service retirement on or before the member's date of termination, they are not eligible disability retirement. A disability retirement application filed by a member who is ineligible for disability retirement will be processed as an application for a service retirement allowance.

## Employer Supplemental Contributions

In addition to the normal employer contribution rate, HB 377 requires each employer to contribute a supplemental amount to TRS equal to a specified percentage of total earned compensation of each member.

- FY 2014: 1%
- FY 2014-2024: increases by 0.1% each year
- FY 2025 and forward: 2%
- The TRS Board may increase or decrease the employer supplemental contribution rate if the certain conditions are met.

## Supplemental Contribution Rate Triggers

The supplemental contribution rates may increase or decrease when the following criteria are met:

- The Board may decrease the employee and/or employer\* supplemental rates if TRS is 90% funded and amortization is less than 15 years.
- Once the supplemental rate has decreased, the Board may increase the supplemental rates not to exceed 1.0%, if TRS is 80% or less funded and amortization is more than 20 years.

*\*The **employer** supplemental rate may be decreased only after GABA has been returned to 1.5%.*

All changes to the supplemental employee and/or employer contribution rates are effective on the first day of July following the TRS Board's determination.

## State Supplemental Contributions

In addition to contributions currently made by the state to fund TRS, HB 377 requires the state contribute \$25 million annually to TRS.

## Operating Reserve Limit (20%) for School District Retirement Funds

HB 377 lowers the retirement fund operating reserve for school districts. The previous limit was 35% and the new limit is 20%. In a one-time payment, no later than October 1, 2013, each school district is required to pay TRS the greater of:

- The amount earmarked as an operating reserve on the adopted retirement fund budget for fiscal year 2013 minus 20% of the adopted retirement fund budget for fiscal year 2013; or
- The retirement fund balance for fiscal year 2013 minus the allowable retirement fund operating reserve for fiscal year 2014.