GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2009 Biennium

Bill #	HB0827	**Title:**	Revise pension plans for new hires
Primary Sponsor:	Himmelberger, Dennis	**Status:**	As Introduced

Retirement Systems Affected:

- [x] Teachers
- [x] 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?

Impact to the PERS-DBRP

	July 1, 2006 Current System	Impact of Changes
Present Value of Benefits	4,756,316,000	$0
Future Normal Costs	837,003,000	$0
Present Value of Actuarial Liability	3,919,313,000	-
Present Value of Actuarial Assets	$3,459,084,000	$0
Unfunded Actuarial Liability	$460,229,000 (1)	$0
Amortization Period of UAL **(as of July 1, 2009)**	Does not Amortize	30 years (2)

(1) Including PCR-UAL of $18,754

(2) The 30 year funding assumes a contribution increase of 5.32% effective July 1, 2009

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Employee Contribution Rate	6.90%	6.90%	6.90%	6.90%	6.90%
Employer Contribution Rate (State & University) *	6.90%	6.90%	6.90%	12.22%	12.22%
Employer Contribution Rate (Loc govt & school) *	6.80%	6.80%	6.80%	12.12%	12.12%
State Contribution Rate (Loc govt & school)	0.10%	0.10%	0.10%	0.10%	0.10%
TOTAL Contribution Rate	13.80%	13.80%	13.80%	19.12%	19.12%

* Established under Section 11 of HB827 and effective July 1, 2009, contributions would increase by 5.32% to maintain the plan's 30-year funding.

Impact to TRS

	July 1, 2006 Current System	Increase/ (Decrease)
Present Value of Actuarial Liability	$3,608,900,000	$0
Present Value of Actuarial Assets	$2,745,800,000	$0
Present Value of Increased Costs	$0	$0
Actuarial Accrued Liability (AAL) Unfunded/(F	$863,100,000	$0
Amortization Period of AAL	Does not Amortize	30 years (1)

(1) The 30 year funding assumes a contribution increase of 16.19% effective July 1, 2009

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Employee Contribution Rate	7.15%	7.15%	7.15%	7.15%	7.15%
Employer Contribution Rate	7.47%	7.47%	7.47%	23.66%	23.66%
State Contribution Rate	0.11%	0.11%	0.11%	0.11%	0.11%
TOTAL Contribution Rate	14.73%	14.73%	14.73%	30.92%	30.92%

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$1,000,000	$0	$39,992,948	$39,754,668
State Special Revenue	$0	$0	$7,639,920	$7,639,920
Federal Special Revenue	$0	$0	$5,211,519	$5,211,519
Other Proprietary			$2,928,737	$2,928,737
Other - Universities	$0	$0	$6,398,044	$6,224,075
Other - Pensions	$2,200	$1,600	$1,600	$1,600
Revenue:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other Proprietary	$0	$0	$0	$0
Other - Universities	$0	$0	$0	$0
Other - Pensions	$1,000,000	$0	$164,744,692	$164,332,443
Net Impact-General Fund Balance:	($1,000,000)	$0	($39,992,948)	($39,754,668)

Description of fiscal impact: HB 827 closes the Teachers' Retirement System (TRS), the University System Optional Retirement Program (ORP), the Public Employees' Retirement System (PERS)-Defined Benefit Retirement Plan (DBRP) and PERS-Defined Contribution Retirement Plan (DCRP) Systems to new members and moves all new hires to a newly created Deferred Compensation (DC) plan. Funding for the existing Defined Benefit (DB) plans' "excess unfunded actuarial liabilities" will come from future DC member forfeitures and additional employer contributions.

FISCAL ANALYSIS

Assumptions:

1. There will be no new entrants in the PERS-DBRP, PERS-DCRP, TRS or the ORP plans on or after July 1, 2009. Through plan closures, HB 827 will decrease the number of future members participating in the systems and the total wages reported after July 1, 2009.
2. Since the provisions of HB 827 would result in no new members of the PERS-DBRP or TRS on or after July 1, 2009, there will be no Normal Cost in the PERS-DBRP or TRS for new members on or after July 1, 2009.
3. There would be no immediate impact on the Actuarial Balance Sheets. This is because there are no changes to the benefits of any current member.
4. The amortization payment has been calculated as a percentage of the payroll for the closed groups of defined benefit members producing a level rate as a percentage of the decreasing payroll of all active members over the remaining period.
5. There would be significant contribution rate increases needed or some other type of additional funding required for the defined benefit plans to make them actuarial sound as required by the Montana Constitution.
6. Employer contribution rate increases and/or additional funding required to make the systems actuarially sound will not occur until at least July 1, 2009. An actuarial valuation would be completed each year to determine the required employer contribution rates.
7. The Public Employee Retirement Board (PERB) will need to adopt a funding policy under Section 11 of HB 827 such that the entire unfunded actuarial liability excluding the Plan Choice Rate-Unfunded Actuarial Liability (UAL) as of June 30, 2009 will be amortized by June 30, 2036 as a level percentage of payroll for the closed group of members who established membership in the system prior to July 1, 2009, assuming all actuarial assumptions are met over the period.
8. Section 57 appropriates $1 million from the general fund to the PERB to pay the startup costs of the school and public employees' retirement plan for the 2009 biennium.
9. Section 27 and 28 authorizes the PERB to obtain a loan from the Department of Administration to pay the startup costs of local government units including school districts. The DOA shall provide for a long term loan from the investment fund type in 17-2-102, MCA. The money for repayment of the loan is statutorily appropriated as provided in 17- 7-502, MCA.
10. It is not possible to estimate the administrative expenses that will be incurred by local government employers, including school districts; thus, the local government expenses to be paid by the PERB are unknown.
11. The Information Technology Systems used to administer the defined contribution plan would need to be modified to handle the transition to a defined contribution plan for all new public employees. Recent IT system designs completed in other states cost between $6 and $12 million. This cost is not shown on the fiscal note.
12. Because of the legislation, PERB would add one board member for (12 study days 12*$50=$600)+(12 Board days 12*$50=$600)+ (meals and lodging @ $1,000).
13. For the purpose of this fiscal note, wages are assumed to remain unchanged after July 1, 2009, and that wages to be paid to new hires after July 1, 2009 is unknown.
14. The funding was for PERS was estimated at 36% general fund, 31% state special revenue, 21% federal and 12% state special.

General

15. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
16. No adjustments have been made for any actuarial gains or losses that may have emerged since the last valuation date, June 30, 2006.

17. It is assumed the plan changes in this legislation will not impact future patterns of retirement, termination of employment or any other actuarial assumption.

PERS Funding	FY 2008 Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State					
General Fund	$10,882,422	$0	$0	$8,747,101	$8,747,101
State Special	$9,481,583	-	-	$7,621,131	$7,621,131
Federal	$6,172,886	-	-	$4,961,658	$4,961,658
Proprietary	$3,607,463	-	-	$2,899,616	$2,899,616
State Subtotal	*$30,144,354*	*$0*	*$0*	*$24,229,507*	*$24,229,507*
Montana University System					
Current Unrestricted - General Fund	$1,522,027	$0	$0	$1,223,379	$1,223,379
Current Unrestricted - Other	2,016,960	-	-	$1,621,197	$1,621,197
Non Current Unrestricted - Other	3,323,276	-	-	$2,671,192	$2,671,192
Montana University System Subtotal	*$6,862,263*	*$0*	*$0*	*$5,515,768*	*$5,515,768*
K-12 Schools					
General Fund	$1,965,218	$0	$0	$1,544,047	$1,544,047
County Levy	5,313,565	-	.	$4,174,802	$4,174,802
Federal	1,503,819	-	-	$1,181,532	$1,181,532
K-12 Schools Subtotal	*$8,782,602*	*$0*	*$0*	*$6,900,381*	*$6,900,381*
Local Government	*$23,988,334*	*$0*	*$0*	*$19,759,575*	$19,759,575
Grand Total	**$69,777,552**	**$0**	**$0**	**$56,405,231**	**$56,405,231**

TRS Funding	FY 2008 Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State					
General Fund	$333,530	$0	$0	$751,118	$751,118
State Special	8,368	-	-	18,789	18,789
Federal	111,279	-	-	249,861	249,861
Proprietary	12,969	-	-	29,121	29,121
State Subtotal	*$466,146*	*$0*	*$0*	*$1,048,889*	*$1,048,889*
Montana University System					
Current Unr. - General Fund	$4,857,551	$0	$0	$2,884,049	$2,645,769
Current Unrestricted - Other	846,820	-	-	$508,950	$466,900
Non Current Unrestricted - Other	1,413,698	-	-	$1,596,705	$1,464,786
Montana University System Subtotal	*$7,118,069*	*$0*	*$0*	*$4,989,704*	*$4,577,455*
K-12 Schools					
General Fund	$10,968,236	$0	$0	$24,843,254	$24,843,254
County Levy	29,653,912	-	-	$67,166,651	$67,166,651
Federal	4,543,435	-	-	$10,290,963	$10,290,963
K-12 Schools Subtotal	*$45,165,583*	*$0*	*$0*	*$102,300,868*	*$102,300,868*
Grand Total	**$52,749,798**	**$0**	**$0**	**$108,339,461**	**$107,927,212**

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Expenditures:				
Personal Services -Benefits	$0	$0	$35,783,867	$35,371,618
Personal Services - Per Diem	$1,200	$600	$600	$600
Operating Expenses	$1,000	$1,000	$1,000	$1,000
Local Assistance	$0	$0	$26,387,301	$26,387,301
Transfers	$1,000,000	$0	$0	$0
TOTAL Expenditures	$1,002,200	$1,600	$62,172,768	$61,760,519
Funding of Expenditures:				
General Fund (01)	$1,000,000	$0	$39,992,948	$39,754,668
State Special Revenue (02)	$0	$0	$7,639,920	$7,639,920
Federal Special Revenue (03)	$0	$0	$5,211,519	$5,211,519
Other - Proprietary	$0	$0	$2,928,737	$2,928,737
Other-Universities	$0	$0	$6,398,044	$6,224,075
Other-Pensions	$2,200	$1,600	$1,600	$1,600
TOTAL Funding of Exp.	$1,002,200	$1,600	$62,172,768	$61,760,519
Revenues:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
Federal Special Revenue (03)	$0	$0	$0	$0
Other - Proprietary	$0	$0	$0	$0
Other-Universities	$0	$0	$0	$0
Other-Pensions	$1,000,000	$0	$164,744,692	$164,332,443
TOTAL Revenues	$1,000,000	$0	$164,744,692	$164,332,443
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	-$1,000,000	$0	-$39,992,948	-$39,754,668
State Special Revenue (02)	$0	$0	-$7,639,920	-$7,639,920
Federal Special Revenue (03)	$0	$0	-$5,211,519	-$5,211,519
Other - Proprietary	$0	$0	-$2,928,737	-$2,928,737
Other-Universities	$0	$0	-$6,398,044	-$6,224,075
Other - Pensions	$997,800	-$1,600	$164,743,092	$164,330,843

Effect on Local Governments:

1. There are potentially large impacts to local government and school districts to pay the unfunded liability of the closed plans.

PERS additional contributions from employers beginning 7/1/2009	FY2010	FY2011
	$19,759,575	$19,759,575

TRS additional contributions from employers beginning 7/1/2009	FY2010	FY2011
	$77,457,614	$77,457,614

Long Range Impacts:

1. A continuation of the 30-year funding may not be appropriate after the close of the plans.

Technical Notes:

1. In defined contribution plans, the contributions must be defined per IRS code. This bill allows the employee contribution to be optional (zero up to the amount allowed by the IRC) and the employer contribution is on a sliding/matching scale (zero to 8%). This is not permissible under the IRC.
2. HB 827 does not appear to include a mechanism for funding of any actuarial losses in the defined benefit plans that might occur on or after July 1, 2009.
3. The funding rates computed as of July 1, 2009 may not actually be sufficient to fund the entire unfunded liability of the system by June 30, 2036 in the event that actuarial experience over the period is unfavorable.
4. The PERB funding policy required as stated in the assumptions, the "excess unfunded actuarial liability" as defined in HB 827 will be equal to zero. The mechanisms in Section 17 of HB 827 would be inoperative under these assumptions.
5. If the PERB were to adopt a funding policy different from that assumed, there could be an "excess unfunded liability" as defined in HB 827. In that event the allocations described in Section 17 of HB 827 would need to be performed. The language of HB 827 is not clear as far as how these allocations should be performed.
6. The bill allows members to make additional contributions for the purpose of purchasing various types of optional service credit but does not define optional service credit or the types of optional service credit members would purchase. Therefore, it is not possible to determine if these provisions are actuarially funded.
7. The Information Technology Systems used to administer the defined contribution plan would need to be modified to handle the transition to a defined contribution plan for all new public employees. Recent IT system designs completed in other states cost between $6 and $12 million.
8. Employers would also need to make changes to their payroll systems, a cost that is indeterminable. This cost is to be reimbursed by the retirement system.
9. Assuming the healthiest of the newest members work a maximum of 40 years and lives 30 - 35 years after retirement, the Boards' responsibilities devoted to the administration of DB plans would be minimal after 75 – 80 years. It may be possible to purchase annuities from an insurance carrier prior to this date, however, this final transfer of risk could not occur until the last active member retires and the benefits are known. It could be as long as 50 years from now before the last current active member retires.

10. Forfeitures, if any, will not provide any material funding toward making the systems actuarially sound during the period covered by this fiscal note.
11. It appears that the Plan Choice Rate for the remaining closed group of DCRP and ORP members who established membership in those systems prior to July 1, 2009, will need to be increased if HB 827 passes. This is because the rate will apply to a decreasing payroll base instead of an increasing payroll base. The actuary has not analyzed the impact of HB 827 on the Plan Choice Rate.
12. The current Plan Choice Rate (PCR) would not be sufficient to amortize the PCR-UAL as scheduled. As of July 1, 2006, the maximum amortization period for the PCR-UAL is 18.75 years.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*