MONTANA LEGISLATIVE BRANCH

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TO: Legislative Finance Committee

FROM: Jon Moe, Fiscal Specialist

RE: SAVA Committee Public Employee Retirement Legislation

The State Administration and Veterans' Affairs (SAVA) Interim Committee has prepared and approved draft legislation to be proposed in a potential special session or in the next regular session. These bill drafts address two key issues:

- How to generally monitor public employee retirement systems?
- How to address the current unfunded accrued actuarial liability of four public employee retirement systems that do not meet the statutory definition of actuarial soundness, meaning that the unfunded liability cannot be amortized with 30 years

LC2006-2

This bill would direct the SAVA interim committee to monitor the soundness of the state's public retirement systems and to review all legislative proposals for statutory changes.

Section 1 of the bill details the duties and responsibilities of the committee.

Section 2 would provide an appropriation to fund the increased costs for the committee to meet for an additional two days. The appropriation in the draft bill is $5,000 general fund.

LC2005-3

This bill would provide the statutory changes, primarily to increase employer contribution rates, and would appropriate funds necessary to achieve the actuarial soundness of the four public retirement systems:

- Public Employees Retirement System (PERS)
- Sheriffs Retirement System (SRS)
- Game Wardens and Peace Officers Retirement System (GWPORS)
- Teachers Retirement System (TRS)

Section 1 of the bill provides for increased employer contribution rates by PERS participating employers for the defined benefits plan. The rate that is currently 6.9 percent would increase to 7.72 percent for the period beginning July 1, 2006 through June 30, 2007, and to 8.54 percent beginning July 1, 2007. Based upon periodic actuarial valuations, the boards are to report back to the legislature as to the status of the retirement funds. Actuarial soundness is achieved if the valuation finds that the unfunded liability can be amortized within the 30-year period.

Section 2 provides the same increases for the PERS defined contribution plan and directs that the increased contribution be allocated to the defined benefit plan to reduce the unfunded liability.

Section 3 provides the PERS board with more flexibility in determining the need for adjustment of the plan choice rate of the defined contribution plan; to ensure that the rate is adequate to fund the liability, a longer period is allowed.

Section 4 provides an employer contribution rate increase for SRS participating employers, from 9.535 percent to 10.205 percent, beginning July 1, 2006.

Section 5 changes definitions, related to TRS, which clarify what constitutes "full-time service" versus "part-time service". This appears to be simply a housekeeping change.

Section 6 adds additional policy direction that is intended to limit the effects of end-of-career actions that result in a drain on the retirement funds in situations where increased benefits are not adequately funded. In essence, these changes are intended to protect the integrity of the retirement system by normalizing the calculation of benefits based upon salary and service, through strategies such as eliminating spikes that can occur in salary because of one-time salary enhancements.

Section 7 removes the minimum interest rate that TRS board can establish. This allows interest paid out by TRS to be consistent with the rate of investment earnings on those same funds when held by TRS.

Sections 8 and 13 provides a phased-in contribution rate increase for TRS employers from 7.47 percent to 8.62 percent beginning July 1, 2006, 9.77 percent beginning July 1, 2007, and 10.92 percent beginning July 1, 2009. Based upon periodic actuarial valuations, the boards are to report back to the legislature as to the status of the retirement funds. Actuarial soundness is achieved if the valuation finds that the unfunded liability can be amortized within the 30-year period.

Section 9 provides for employer contribution rate increases for the Montana University System optional retirement program supplemental contributions, designed to fund the past service liability for university system members of TRS. The rate would increase from 4.04 percent currently to 4.79 percent beginning July 1, 2006 and then 5.54 percent beginning July 1, 2007.

Section 10 further defines the maximum compensation that a retired member of TRS can earn without an adjustment to his or her retirement benefit. It clarifies what is included as earnings.

Section 11 provides the same employer contribution increases mentioned for sections 1 and 2 of the bill for university system members of the PERS defined contribution plan and directs that the increased contribution be allocated to the defined benefit plan to reduce the unfunded liability.

Section 12 directs school district trustees to negotiate employment contracts that limit compensation included in the calculation of average final compensation and limit compensation earnable in a post-retirement position. The intent is to keep retirement benefits of individual retirees from being paid at levels in excess of what was anticipated in actuarial projects.

Section 14 is an appropriations clause. It is drafted to provide funding two ways:

- Subsection 1 provides funding for state agencies to pay the increased cost of employer contributions to the retirement systems, costs which are not yet included in the draft bill (preliminary estimates suggest that appropriations under this subsection would total $15.3 million for FY 2007, of which $3.8 million would be general fund) with increasing amounts in future years as the higher employer contribution rates are phased-in and assumed growth in payroll costs are included
- Subsections 2 and 3 provide lump sum appropriations to the affected retirement systems, in the form of general fund appropriations totaling $125 million ($100 million to TRS, $11.5 million to SRS, $10.9 million to PERS, $1.2 million to GWPORS, and $1.4 million to be used for repaying the loan for startup costs of the defined contribution retirement plan)

Section 15 provides the codification instructions.

The fiscal impact will be clearer after the legislation is modified with the changes made by the SAVA committee, and an official fiscal note is prepared upon introduction of the legislation, but preliminary estimates have been developed as part of an effort to develop a "pension fund fiscal note" format. The following table displays those estimates:

Fiscal Impact of Proposed Solutions to Retirement Systems Unfunded Liabilities
Proposed Legislation LC2005-3
Fiscal Years 2006 through 2011 [1]

Source	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	$125,000,000	$3,781,696	$7,870,171	$8,139,135	$10,330,735	$10,892,750
State Special Rev		1,059,603	2,190,186	2,242,582	2,288,803	2,334,579
Federal Funds		795,922	1,645,803	1,685,175	1,736,767	1,771,501
Other Funds		814,671	1,682,451	1,722,704	1,794,131	2,057,813
Local Government		8,852,788	18,251,117	19,025,730	24,840,680	25,908,108
Total	$125,000,000	$15,304,680	$31,639,728	$32,815,326	$40,991,116	$42,964,751

Note: [1] - Fiscal impact would continue for several more years, until the retirement systems are actuarially sound

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