HOUSE BILL 727

Introduced by Wyatt, et al.

| | |
|---|---|
| 2/08 | Introduced |
| 2/08 | Referred to State Administration |
| 2/09 | First Reading |
| 2/09 | Fiscal Note Requested |
| 2/18 | Fiscal Note Received |
| 2/19 | Hearing |
| 2/19 | Fiscal Note Printed |
| 2/22 | Committee Report--Bill Passed as Amended |
| 2/23 | 2nd Reading Passed |
| 3/12 | Hearing |
| 3/23 | Tabled in Committee |

House BILL NO. 727

INTRODUCED BY [handwritten signatures] J. Brown

A BILL FOR AN ACT ENTITLED: "AN ACT REDUCING THE NUMBER OF YEARS THAT A MEMBER OF THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM MUST SERVE BEFORE BECOMING ELIGIBLE FOR SERVICE RETIREMENT BENEFITS REGARDLESS OF HIS AGE; INCREASING EMPLOYER CONTRIBUTIONS TO FUND THE CHANGE; AMENDING SECTIONS 19-3-801, 19-3-901, 19-3-902, AND 19-3-906, MCA; AND PROVIDING AN EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

**Section 1.** Section 19-3-801, MCA, is amended to read:

"19-3-801. **Employer contribution rates -- actuarial determination.** (1) Each employer shall contribute to the cost of benefits under the system. The amount of the employer contributions shall be computed by applying to member's compensation the sum of the current service contribution rate and the unfunded liability contribution rate. The sum of these rates is 6.417% from July 1, 1983, to June 30, ~~1992~~ 1991. The sum of the rates increases to:

(a) 7.937% on July 1, 1991;

(b) ~~6.55%~~ 8.07% on July 1, 1992~~,~~; and

(c) ~~to 6.70%~~ 8.22% on July 1, 1993.

(2) The actuary shall determine the current service contribution rate to be that level percentage of the present value of the future compensation of the average new member entering the system which equals the then present value of the excess of all prospective benefits in respect of such member over the member's own normal contributions.

(3) The actuary shall determine the minimum unfunded liability contribution rate to be that level percentage of the present value of the prospective compensation of all members for the 40-year period following the date of the determination which is equal to the unfunded liability on that date. The unfunded liability at any time is the excess of the present value of all future benefits payable in respect of all persons then entitled to benefits under the system over the sum of the retirement fund and the present values of the future current service contributions and normal contributions payable in respect of all such persons."

**Section 2.** Section 19-3-901, MCA, is amended to read:

"19-3-901. **Eligibility for service retirement.** A member who has attained the age of 60 and completed 5 years of qualified service is eligible for service retirement. A member who has attained age 65 is eligible for service retirement regardless of his years of creditable service. A member who has completed ~~30~~ 25 years or more of state service is eligible for service retirement regardless of his





INTRODUCED BILL HB 727

age."

**Section 3.** Section 19-3-902, MCA, is amended to read:

"19-3-902. **Eligibility for early retirement.** A member who is not eligible for service retirement but has attained age 50 and completed 5 years of qualified service is eligible for early retirement. A member who has completed ~~25~~ 20 years or more of state service is eligible for early retirement."

**Section 4.** Section 19-3-906, MCA, is amended to read:

"19-3-906. **Early retirement allowance.** (1) The annual amount of retirement allowance payable to a member following his early retirement is the actuarial equivalent of the accrued portion of the service retirement allowance which would have been payable to him commencing at age 60 or upon completion of ~~30~~ 25 years of creditable service pursuant to 19-3-904.

(2) The early retirement allowance shall be determined as prescribed in 19-3-904 with the exception that the allowance must be reduced as follows:

(a) by 1/2 of 1% multiplied by the number of months up to a maximum of 60 months by which the retirement date precedes the date on which he would have retired had he attained 60 years of age or had he completed ~~30~~ 25 years of creditable service; and

(b) by 3/10 of 1% multiplied by the number of months in



LC 1764/01

excess of the 60 months in subsection (2)(a) but not to exceed 60 additional months that the retirement date precedes the date on which he would have retired had he attained 60 years of age or had he completed ~~30~~ 25 years of creditable service.

(3) The actuarial reduction provided for in this section must be adjusted for any additional service purchased under 19-3-513."

NEW SECTION. **Section 5. Effective date.** [This act] is effective July 1, 1991.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0727, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act reducing the number of years that a member of the Public Employees' Retirement System (PERS) must serve to become eligible for service retirement benefits regardless of age; increasing employer contributions to fund the change; amending existing statutes; and providing an effective date.

ASSUMPTIONS:

1. Employer contributions to the Public Employees' Retirement System will increase from 6.417% in FY91 to 7.937% in FY92 and 8.07% in FY93. The projected payroll subject to PERS contribution rates is $494,740,747 in FY92 and $517,004,081 in FY93.
2. Approximately 55% of total PERS contributions are paid by state employers and 45% by local employers. Approximately 48% of PERS members are state employees and 52% are local government employees.
3. For the purpose of extrapolating impact on local governments, local government PERS salaries average 83% of state and university PERS salaries.
4. Active PERS membership is 27,458 out of which 941 state and local PERS members would retire earlier with the proposed increased benefits during the 1993 biennium. In this population of potential retirees, 387 members are less than age 50 with 20-24 years of service and would become newly eligible for retirement; 212 members are less than age 55 with 20-24 years of service and would become eligible for increased benefits; and 342 members are less than age 60 with 25-29 years of service and would become eligible for increased, regular retirement benefits.
5. Currently approximately 700 members retire each year. The proposed legislation is assumed to generate an additional 182 retirements, approximately 48% of whom will be state employees and 52% will be local government employees.
6. Within the population of newly eligible retirees, approximately 20% will retire with 20-24 years of service and 80% will retire with 25-29 years of service.
7. The personal service costs of state and university employees affected by the proposed legislation are funded 50% with general fund and 50% with non-general fund.
8. Based on a January, 1991, state Personnel Division report, and assuming a 4.5% salary increase during each year of the next biennium, the average annual salary of state employees potentially effected by this legislation:

| | FY92 | FY93 |
|---|---|---|
| State PERS employees with 20-24 years of service less than age 55: | $28,853 | $30,151 |
| State PERS employees with 25-29 years of service less than age 60: | 28,835 | 30,132 |
| Local government PERS employees with 20-24 years of service less than age 55: | 23,948 | 25,026 |
| Local government PERS employees with 25-29 years of service less than age 60: | 23,933 | 25,010 |

9. An average retirement date of December 31, 1991, for those retiring during the first year of the next biennium and an average retirement date of December 31, 1992, for those retiring during the second year of the biennium is assumed.

(continued on next page

Rod Sundsted 2-18-91

ROD SUNDSTED, BUDGET DIRECTOR DATE

Office of Budget and Program Planning

Diana E. Wyatt 2/19/91

DIANA E. WYATT, PRIMARY SPONSOR DATE

Fiscal Note for HB0727, as introduced. HB 727

10. In accordance with state laws, employers make lump sum payments for 25% of accrued sick leave and 100% of accrued annual leave to employees upon retirement. In addition, the proposed legislation would increase the fringe benefits paid by employers from an average of 22% to 23.52% of the lump-sum payout for accrued sick and annual leave. The average cost for lump-sum payouts for accrued sick and annual leave under the proposed legislation are as follows:

| | FY92 | FY93 |
|---|---|---|
| State PERS employees with 20-24 years of service less than age 55: | $ 8,512 | $ 8,895 |
| State PERS employees with 25-29 years of service less than age 60:: | 10,127 | 10,583 |
| Local government PERS employees with 20-24 years of service less than age 55: | 7,065 | 7,383 |
| Local government PERS employees with 25-29 years of service less than age 60: | 8,405 | 8,784 |

11. Assuming all positions will be refilled, 57% will be refilled at lower salaries which will average 85% of the retiree's salary and 43% will be refilled at the same salary level as the retiree. Currently when a position become vacant, the average time required to refill the position is approximately two months.
12. An actuarial valuation has determined that the additional employer contribution of 1.52% of salaries will be sufficient to fund the proposed benefit enhancements on actuarially sound basis. If more members than projected retire, additional employer contributions will be required in order to maintain the actuarial soundness of the retirement system.
13. The PERD of the Department of Administration will require an increase in appropriation authority of $5,000 in FY92 for computer systems development and processing. The authority increase will be funded from the PERS trust fund.

| FISCAL IMPACT: | FY '92 | | | FY '93 | | |
|---|---|---|---|---|---|---|
| State/University System: | Current Law | Proposed Law | Difference | Current Law | Proposed Law | Difference |
| Personal Services: | | | | | | |
| Increased Employer PERS Contri. | 0 | 4,136,032 | 4,136,032 | 0 | 4,322,154 | 4,322,154 |
| Increased Lump-Sum Payouts | 0 | 431,053 | 431,053 | 0 | 450,460 | 450,460 |
| Less Salary Savings | 0 | (305,847) | (305,847) | 0 | (453,601) | (453,601) |
| Total Personal Services Expense | 0 | 4,261,238 | 4,261,238 | 0 | 4,319,013 | 4,319,013 |
| Funding: | | | | | | |
| General Fund | 0 | 2,130,238 | 2,130,238 | 0 | 2,159,506 | 2,159,506 |
| Other Funds | 0 | 2,131,000 | 2,131,000 | 0 | 2,159,507 | 2,159,507 |
| Total | 0 | 4,261,238 | 4,261,238 | | 4,319,013 | 4,319,013 |
| PERS Pension Trust Fund: | | | | | | |
| Expenditures: | | | | | | |
| Operating Cost | 0 | 5,000 | 5,000 | 0 | 0 | 0 |
| Additional Benefits | 0 | 552,280 | 552,280 | 0 | 1,681,690 | 1,681,690 |
| Total | 0 | 557,280 | 557,280 | 0 | 1,681,690 | 1,681,690 |
| Funding: | | | | | | |
| PERS Trust Funds | 0 | 557,280 | 557,280 | 0 | 1,681,690 | 1,681,690 |
| Revenues: | | | | | | |
| Increased Employer Contributions | 0 | 7,520,059 | 7,520,462 | 0 | 7,858,462 | 7,858,462 |
| Increased Interest Earnings | 0 | 270,000 | 270,000 | 0 | 810,000 | 810,000 |
| Total | 0 | 7,790,059 | 7,790,059 | 0 | 8,669,462 | 8,668,462 |

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
(Local governments and school districts)

| Personal Service Costs: | FY '92 | | | FY '93 | | |
|---|---|---|---|---|---|---|
| Increased Employer PERS Contrib. | 0 | 3,384,027 | 3,384,027 | 0 | 3,536,308 | 3,536,308 |
| Increased Lump-Sum Payouts | 0 | 382,975 | 382,975 | 0 | 400,239 | 400,239 |
| Less Salary Savings | 0 | (217,154) | (217,154) | 0 | (402,144) | (402,144) |
| Total | 0 | 3,549,848 | 3,549,848 | 0 | 3,534,403 | 3,534,403 |

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The average member retiring under this legislation will be age 47, while the normal PERS member retiring under current law is 60 years of age. Although only a very small percentage of PERS members are expected to retire earlier from state and local government employment, as the workforce in general ages, this could increase recruiting problems for public employers.

This bill will also increase both the number of persons covered and the ratio of retired to active members covered under employer group health insurance plans. This will increase the incidence of claims against employer group health plans and may increase premiums necessary to fund benefits or require reductions in benefits in order to keep these plans solvent.

TECHNICAL NOTES:

The effect of this bill also increases the actuarial cost of purchasing additional service under 19-3-513, MCA. However, this bill does not amend this section of the law to reflect this impact to the retirement system. If the bill is not amended, additional unfunded liabilities will accrue to the PERS.

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APPROVED BY COMMITTEE
ON STATE ADMINISTRATION

HOUSE BILL NO. 727

INTRODUCED BY WYATT, HARPER, STRIZICH, GALVIN, O'KEEFE,
J. BROWN, DOLEZAL, STANG, J. RICE, DRISCOLL,
COCCHIARELLA, G. BECK, D. BROWN

A BILL FOR AN ACT ENTITLED: "AN ACT REDUCING THE NUMBER OF YEARS THAT A MEMBER OF THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM MUST SERVE BEFORE BECOMING ELIGIBLE FOR SERVICE RETIREMENT BENEFITS REGARDLESS OF HIS AGE; INCREASING EMPLOYER CONTRIBUTIONS TO FUND THE CHANGE; AMENDING SECTIONS 19-3-801, 19-3-901, 19-3-902, AND 19-3-906, MCA; AND PROVIDING AN EFFECTIVE DATE."

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**Section 1.** Section 19-3-801, MCA, is amended to read:

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(a) ~~7.937%~~ 7.907% on July 1, 1991;

(b) ~~6.55%~~ ~~8.07%~~ 8.04% on July 1, 1992~~,~~; and

Montana Legislative Council



(c) ~~to~~ ~~6.70%~~ ~~8.22%~~ 8.19% on July 1, 1993.

(2) The actuary shall determine the current service contribution rate to be that level percentage of the present value of the future compensation of the average new member entering the system which equals the then present value of the excess of all prospective benefits in respect of such member over the member's own normal contributions.

(3) The actuary shall determine the minimum unfunded liability contribution rate to be that level percentage of the present value of the prospective compensation of all members for the 40-year period following the date of the determination which is equal to the unfunded liability on that date. The unfunded liability at any time is the excess of the present value of all future benefits payable in respect of all persons then entitled to benefits under the system over the sum of the retirement fund and the present values of the future current service contributions and normal contributions payable in respect of all such persons."

**Section 2.** Section 19-3-901, MCA, is amended to read:

"**19-3-901. Eligibility for service retirement.** A member who has attained the age of 60 and completed 5 years of qualified service is eligible for service retirement. A member who has attained age 65 is eligible for service retirement regardless of his years of creditable service. A



SECOND READING

member who has completed ~~30~~ 25 years or more of state service is eligible for service retirement regardless of his age."

**Section 3.** Section 19-3-902, MCA, is amended to read:

"19-3-902. **Eligibility for early retirement.** A member who is not eligible for service retirement but has attained age 50 and completed 5 years of qualified service is eligible for early retirement. ~~A member who has completed 25 20 years or more of state service is eligible for early retirement.~~"

**Section 4.** Section 19-3-906, MCA, is amended to read:

"19-3-906. **Early retirement allowance.** (1) The annual amount of retirement allowance payable to a member following his early retirement is the actuarial equivalent of the accrued portion of the service retirement allowance which would have been payable to him commencing at age 60 or upon completion of ~~30~~ 25 years of creditable service pursuant to 19-3-904.

(2) The early retirement allowance shall be determined as prescribed in 19-3-904 with the exception that the allowance must be reduced as follows:

(a) by 1/2 of 1% multiplied by the number of months up to a maximum of 60 months by which the retirement date precedes the date on which he would have retired had he attained 60 years of age or had he completed ~~30~~ 25 years of





creditable service; and

(b) by 3/10 of 1% multiplied by the number of months in excess of the 60 months in subsection (2)(a) but not to exceed 60 additional months that the retirement date precedes the date on which he would have retired had he attained 60 years of age or had he completed ~~30~~ 25 years of creditable service.

(3) The actuarial reduction provided for in this section must be adjusted for any additional service purchased under 19-3-513."

NEW SECTION. **Section 5. Effective date.** [This act] is effective July 1, 1991.

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