

HOUSE BILL NO. 234

INTRODUCED BY SPAETH, COCCHIARELLA, MANNING, WALKER,  
PETERSON, RASMUSSEN, SQUIRES, GRADY, CAMPBELL, NATHE,  
MENAHAN, J. BROWN, PAVLOVICH, QUILICI, MAZUREK, HARP,  
NISBET, R. NELSON, STRIZICH, BECK, DRISCOLL, STANG,  
B. BROWN, HARPER, RICE, CONNELLY, THOMAS, O'KEEFE,  
ANDERSON, IVERSON, MCCORMICK, SCHYE, EUDAILY, ECK,  
NORMAN, JACOBSON, O'CONNELL, VINCENT, GLASER,  
LYNCH, BROOKE, D. BROWN, MOORE

IN THE HOUSE

JANUARY 17, 1989

INTRODUCED AND REFERRED TO COMMITTEE  
ON STATE ADMINISTRATION.

FIRST READING.

FEBRUARY 15, 1989

COMMITTEE RECOMMEND BILL  
DO PASS. REPORT ADOPTED.

FEBRUARY 16, 1989

PRINTING REPORT.

FEBRUARY 18, 1989

SECOND READING, DO PASS.

FEBRUARY 20, 1989

ENGROSSING REPORT.

ON MOTION, REREFERRED TO COMMITTEE  
ON APPROPRIATIONS.

MARCH 20, 1989

COMMITTEE RECOMMEND BILL  
DO PASS. REPORT ADOPTED.

MARCH 21, 1989

PRINTING REPORT.

MARCH 22, 1989

SECOND READING, DO PASS.

MARCH 23, 1989

ENGROSSING REPORT.

THIRD READING, PASSED.  
AYES, 89; NOES, 7.

TRANSMITTED TO SENATE.

IN THE SENATE

MARCH 27, 1989

INTRODUCED AND REFERRED TO COMMITTEE  
ON STATE ADMINISTRATION.

FIRST READING.

MARCH 31, 1989

COMMITTEE RECOMMEND BILL BE  
CONCURRED IN. REPORT ADOPTED.

APRIL 1, 1989

SECOND READING, CONCURRED IN.

APRIL 4, 1989

THIRD READING, CONCURRED IN.  
AYES, 47; NOES, 0.

RETURNED TO HOUSE.

IN THE HOUSE

APRIL 5, 1989

RECEIVED FROM SENATE.

SENT TO ENROLLING.

REPORTED CORRECTLY ENROLLED.

1 *Peterson*  
2 *Halle* *House* BILL NO. *234* *Ragunathan*  
3 INTRODUCED BY *Smith* *Carlin* *Smith* *Hanning*  
4 *Smith* *Natke* *Menahan* *Carlson* *Lindero* *Mayfield*  
5 A BILL FOR AN ACT ENTITLED: "AN ACT INCREASING MEMBER AND  
6 EMPLOYER CONTRIBUTIONS TO THE PUBLIC EMPLOYEES' RETIREMENT  
7 SYSTEM, REVISING THE FORMULA FOR CALCULATING SERVICE AND  
8 MONTHLY-RELATED DISABILITY RETIREMENT ALLOWANCES UNDER THE  
9 RETIREMENT SYSTEM; AMENDING SECTIONS 19-3-701, 19-3-801,  
10 19-3-904, AND 19-3-1008, MCA; AND PROVIDING AN IMMEDIATE  
11 EFFECTIVE DATE AND AN APPLICABILITY DATE." *Norman* *Jacobson*  
12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA: *Clannell* *Vincent* *McLean* *Synch* *Brucke* *One Brain* *Moore*

13 **Section 1.** Section 19-3-701, MCA, is amended to read:

14 "19-3-701. Member's contribution to be deducted. (1)

15 ~~The On and before June 30, 1989, the normal contribution of~~  
16 ~~each member is 6% of his compensation. The normal~~  
17 ~~contribution of each member increases to:~~

18 (a) 6.15% of his compensation on July 1, 1989;

19 (b) 6.30% of his compensation on July 1, 1990;

20 (c) 6.417% of his compensation on July 1, 1991;

21 (d) 6.55% of his compensation on July 1, 1992; and

22 (e) 6.70% of his compensation on July 1, 1993.

23 (2) Payment of salaries or wages less the contribution  
24 shall be full and complete discharge and acquittance of all  
25 claims and demands whatsoever for the service rendered by

1 members during the period covered by the payment, except  
2 their claims to the benefits to which they may be entitled  
3 under the provisions of this chapter.

4 (2)(3) Each employer, pursuant to section 414(h)(2) of  
5 the federal Internal Revenue Code of 1954, as amended and  
6 applicable on July 1, 1985, shall pick up and pay the  
7 contributions which would be payable by the member under  
8 subsection (1) for service rendered after June 30, 1985.

9 (3)(4) The member's contributions picked up by the  
10 employer must be designated for all purposes of the  
11 retirement system as the member's contributions, except for  
12 the determination of a tax upon a distribution from the  
13 retirement system. These contributions must become part of  
14 the member's accumulated contributions but must be accounted  
15 for separately from those previously accumulated.

16 (4)(5) The member's contributions picked up by the  
17 employer must be payable from the same source as is used to  
18 pay compensation to the member and must be included in the  
19 member's wages as defined in 19-1-102 and his compensation  
20 as defined in 19-3-104. The employer shall deduct from the  
21 member's compensation an amount equal to the amount of the  
22 member's contributions picked up by the employer and remit  
23 the total of the contributions to the board."

24 **Section 2.** Section 19-3-801, MCA, is amended to read:

25 "19-3-801. Employer contribution rates -- actuarial

1 determination. (1) Each employer shall contribute to the  
 2 cost of benefits under the system. The amount of the  
 3 employer contributions shall be computed by applying to  
 4 member's compensation the sum of the current service  
 5 contribution rate and the unfunded liability contribution  
 6 rate. The sum of these rates ~~shall be~~ is 6.417% from July 1,  
 7 1983, ~~and-thereafter to June 30, 1992. The sum of the rates~~  
 8 increases to 6.55% on July 1, 1992, and to 6.70% on July 1,  
 9 1993.

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

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

1 normal contributions payable in respect of all such  
 2 persons."

3 **Section 3.** Section 19-3-904, MCA, is amended to read:

4 "19-3-904. Amount of retirement allowance. (1) The  
 5 annual amount of retirement allowance payable to a member  
 6 following his service retirement is the sum of (a), (b), and  
 7 (c) as follows:

8 (a) an annuity which is the actuarial equivalent of  
 9 his accumulated additional contributions on the day his  
 10 retirement allowance commences;

11 (b) one-sixtieth one fifty-sixth of his final  
 12 compensation multiplied by the number of years of his  
 13 creditable service;

14 (c) any retirement allowance payable under 19-3-905.

15 (2) If a member dies after retirement and has not  
 16 elected an optional retirement allowance provided for in  
 17 19-3-1101, his beneficiary will be paid the excess, if any,  
 18 of the member's accumulated contributions on the day his  
 19 retirement allowance commenced over the total of the  
 20 retirement allowance payments made to the retired member."

21 **Section 4.** Section 19-3-1008, MCA, is amended to read:

22 "19-3-1008. Allowance for nonduty-related disability.  
 23 (1) The annual amount of retirement allowance payable to a  
 24 member eligible for disability retirement for other than  
 25 duty-related reasons is the sum of (a), (b), and (c) as

1 follows:

2 (a) an annuity which is the actuarial equivalent of  
3 his accumulated additional contributions on the day his  
4 retirement allowance commences;

5 (b) an annuity which is the actuarial equivalent of  
6 his accumulated normal contributions with normal interest to  
7 the day his retirement allowance commences;

8 (c) if, in the opinion of the board, the disability is  
9 not due to intemperance, willful misconduct, or violation of  
10 law on the part of the member, a pension which is the  
11 greater of (i) or (ii) as follows:

12 (i) a pension which, together with the annuity  
13 provided under subsection (b), shall make the retirement  
14 allowance equal to 90% of ~~one-sixtieth~~ one fifty-sixth of  
15 his final compensation multiplied by his years of creditable  
16 service;

17 (ii) a retirement allowance equal to 25% of his final  
18 compensation.

19 (2) Except as provided in 19-3-1201, if a member dies  
20 after retirement and has not elected an optional retirement  
21 allowance provided for in 19-3-1101, his beneficiary will be  
22 paid the excess, if any, of the member's accumulated  
23 contributions on the day his retirement allowance commenced  
24 over the total of the retirement allowance payments made to  
25 the retired member."

1 NEW SECTION. **Section 5.** Extension of authority. Any  
2 existing authority to make rules on the subject of the  
3 provisions of [this act] is extended to the provisions of  
4 [this act].

5 NEW SECTION. **Section 6.** Effective date. [This act] is  
6 effective on passage and approval.

7 NEW SECTION. **Section 7.** Applicability. [This act]  
8 applies to members retiring on or after [the effective date  
9 of this act].

-End-

## STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB234, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act increasing member and employer contributions to the public employee's retirement system revising the formula for calculating service and nonduty-related disability retirement allowances under the retirement system; amending Sections 19-3-701, 19-3-801, 19-3-904, and 19-3-1008, MCA; and providing an immediate effective date and an applicability date.

ASSUMPTIONS:

1. This legislation will not create an additional retirement eligibility for any PERS member; therefore, no additional retirements will result from this bill. No additional staffing requirements are expected; however, contribution rate changes required by this bill must be programmed into the agency's computer system each year for 5 years, requiring increases in the Public Employees' Retirement Board's Operating Budget during each year of the next biennium.
2. The additional costs as a percentage of covered salaries to fund benefits as they accrue in the future and to amortize the costs of this benefit enhancement over 40 years would be .983% of total PERS salaries. The bill proposes a staggered phase-in for contribution rate increases; these costs will be amortized over 41.4 years instead of 40 years.
3. PERS membership profile (as of October 31, 1988):

<u>Employer Group</u>	<u>Annualized Payroll</u>	<u>Total Members</u>	<u>Percent of Membership</u>	<u>Average Salary</u>	<u>% of Total Contributions</u>	<u>Total FTE's</u>	<u>% of FTE's</u>
State	\$200,721,851	9,980	39%	\$20,112	47%	9,511	40%
University	36,086,983	2,213	8%	16,307	8%	2,143	9%
Local Gov't	192,686,769	13,717	53%	14,047	45%	12,401	51%
TOTAL	\$429,495,603	25,910		16,576 (avg)		24,055	

(FTE's have been calculated based upon the total hours reported on the October, 1988 PERS monthly payroll report, assuming 160 hours is one FTE.)

*Ray Shackleford* 1/24/89  
 RAY SHACKLEFORD, BUDGET DIRECTOR DATE  
 OFFICE OF BUDGET AND PROGRAM PLANNING

GARY L. SPAETH, PRIMARY SPONSOR DATE

Fiscal Note for HB234, as introduced

**HB 234**

Fiscal Note Request HB234 as introduced

Form BD-15

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4. Salaries for FY90 and FY91 are based upon the October 1988 payroll reports received by the Public Employees' Retirement Division for PERS-covered employees. A 2% average increase in salaries is assumed for each year of the next biennium.

<u>Employer Group</u>	<u>FY90</u>	<u>FY91</u>
	<u>Annualized Payroll</u>	<u>Annualized Payroll</u>
State	\$204,736,288	\$208,831,014
University	36,808,723	37,544,898
Local Gov't	196,540,504	200,471,314
TOTAL	\$438,085,515	\$446,847,226

5. PERS members retiring on or after the effective date of this bill will receive an average of 1.786% of FAS/year of service (as opposed to 1.667% under current law).
6. Employer contribution rates will not increase until FY93 and FY94.

FISCAL IMPACT:

1. Impact of Employee Contribution Rate Increases to the PERS Trust Fund during each year of the next biennium will be:

<u>Employee Group</u>	<u>Annualized Payroll</u>	<u>Current 6% Contribution Rate</u>	<u>FY90 6% Contribution Rate</u>	<u>Anticipated Increase to PERS Trust</u>
State	\$204,736,288	\$12,284,177	\$12,591,282	
University	36,808,723	2,208,523	2,263,737	
Local Gov't	196,540,504	11,792,430	12,087,241	
TOTAL	\$438,085,515	\$26,285,130	\$26,942,260	\$ 657,130

<u>Employee Group</u>	<u>Annualized Payroll</u>	<u>Current 6% Contribution Rate</u>	<u>FY91 6% Contribution Rate</u>	<u>Anticipated Increase to PERS Trust</u>
State	\$208,831,014	\$12,529,861	\$13,156,354	
University	37,544,898	2,252,694	2,365,329	
Local Gov't	200,471,314	12,028,279	12,629,693	
TOTAL	\$446,847,226	\$26,810,834	\$28,151,376	\$ 1,340,542

HB 234

2. Impact on operating budget on Public Employees Retirement Division:

<u>Expenditures:</u>	<u>FY90</u>			<u>FY91</u>		
	<u>Current</u> <u>Law</u>	<u>Proposed</u> <u>Law</u>	<u>Difference</u>	<u>Current</u> <u>Law</u>	<u>Proposed</u> <u>Law</u>	<u>Difference</u>
FTE	11	11	-0-	11	11	-0-
Personal Services	\$251,319	\$251,319	\$ -0-	\$251,684	\$251,684	\$ -0-
Operating Expenses	199,990	204,470	4,480	174,409	175,145	736
Equipment	8,688	8,688	-0-	2,089	2,089	-0-
TOTAL	\$459,997	\$464,477	\$ 4,480	\$428,182	\$428,918	\$ 736

Funding: Non-expendable Trust Fund

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

No impact in FY90 or FY91. There will be an impact in FY93 and FY94.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

Employer contribution rates will increase from 6.417% of PERS covered payroll to 6.55% for FY93 and to 6.7% for FY94 and after. Using FY91 payroll assumptions without any further increases projected, this would amount to a total additional employer contribution of \$594,306 in FY93 and an additional \$1,264,578 in FY94 (over current biennium).

Employee contribution rates will increase to 6.417% of salary in FY92; to 6.55% in FY93; and to 6.7% for FY94 and after. Using FY91 payroll assumptions without any further increases projected, this would amount to a total additional contribution increases of \$1,863,353 in FY92; \$2,457,659 in FY93; and \$3,127,930 in FY94. (All employee contributions, including interest, are guaranteed to be repaid either in the form of monthly benefits or a refund.)

All increases will accrue to the PERS trust fund to fund the benefits created by this bill.

TECHNICAL OR MECHANICAL DEFECTS OR CONFLICTS WITH EXISTING LEGISLATION:

If both HB234 and HB235 pass, these two bills must be coordinated as the contribution rate changes provided in this bill will affect the rates paid under HB235.

HB 234



## SPONSOR'S FISCAL NOTE

Form BD-155

There is hereby submitted a Sponsor's Fiscal Note for: HB 234, Version: Introduced

### DESCRIPTION OF PROPOSED LEGISLATION:

An act increasing member and employer contributions to the public employee's retirement system revising the formula for calculating service and nonduty-related disability retirement allowances under the retirement system; amending Sections 19-3-701, 19-3-801, 19-3-904, and 19-3-1008, MCA; and providing an immediate effective date and an applicability date.

### ASSUMPTIONS:

1. This legislation will not create an additional retirement eligibility for any PERS member; however, combined with HB 235 this legislation should result in 287 additional and accelerated retirements during the remainder of FY 89 and FY 90; 143 during FY 91; 74 during FY 92; 60 during FY 93 and 60 during FY 94. No additional staffing requirements are expected; however, contribution rate changes required by this bill must be programmed into the agency's computer system each year for 5 years, requiring increases in the Public Employees' Retirement Board's Operating Budget during each year of the next biennium.
2. The additional costs as a percentage of covered salaries to fund benefits as they accrue in the future and to amortize the costs of this benefit enhancement over 40 years would be .983% of total PERS salaries, of which the employees would contribute .7% and the employer .283%. The bill proposes a staggered phase-in for contribution rate increases; these costs would be amortized over 41.4 years instead of 40 years.
3. PERS membership profile (as of October 31, 1988):

Employer Group	Annualized Payroll	Total Members	Percent of Membership	Average Salary	% of Total Contributions	Total FTE's	% of FTE's
State	\$200,721,851	9,980	39%	\$20,112	47%	9,511	40%
University	36,086,983	2,213	8%	16,307	8%	2,143	9%
Local Gov't	192,686,769	13,717	53%	14,047	45%	12,401	51%
TOTAL	\$429,495,603	25,910		16,576 (avg)		24,055	

(FTE's have been calculated based upon the total hours reported on the October, 1988 PERS monthly payroll report, assuming 160 hours is one FTE.)

4. The PERS July 1, 1988 Actuarial Valuation shows that there are currently:
  - a) 329 members with 25 to 29 years of service under age 60, and;
  - b) 1773 members who are fully qualified to retire by either having 30 years of service or being age 60 with 5 or more years of service;The average salary for a) is \$27,439; b) is \$21,882 and the average salary of a member with 0 to 4 years of service is \$14,570.
5. The Total Annual Salaries of PERS members increased by .788% over the past two years.

Gay H. Smith  
PRIMARY SPONSOR

Feb 2, 1989  
DATE

Fiscal Note for: HB 234 Version: INTRODUCED  
HB 234

6. Salaries for FY 90 and FY 91 are based upon the October 1988 payroll reports received by the Public Employees' Retirement Division for PERS-covered employees. A .788% average increase in salaries is assumed for each year of the next biennium.

<u>Employer Group</u>	<u>FY90</u>	<u>FY91</u>
	<u>Annualized</u> <u>Payroll</u>	<u>Annualized</u> <u>Payroll</u>
State	\$202,303,539	\$203,897,690
University	36,371,348	36,657,954
Local Gov't	194,205,140	195,735,477
TOTAL	432,880,027	436,291,121

7. PERS members retiring on or after the effective date of this bill will receive an average of 1.786% of FAS/year of service (as opposed to 1.667% under current law).  
8. Employer contribution rates will not increase until FY 93 and FY 94.

FISCAL IMPACT:

1. Savings resulting from additional and accelerated retirements.

FY 89 & 90 (combined)

- a) Additional Retirements 110 from 25-29 years of service group  
b) Accelerated Retirements 177

Assuming that 10% of the jobs being vacated from each group are left unfilled and the remaining retirements result in salary savings of 50% of the difference of the average salary of the member retiring and the average salary of the 0-4 group.

$$\begin{array}{rcl}
 (25-29) 11 \times \$27,439 & = & \$301,829 \\
 (other) 18 \times \$21,882 & = & \$393,876 \\
 & & \underline{\$695,705}
 \end{array}
 \qquad
 \begin{array}{rcl}
 99 \times \$27,439 - \$14,570 \div 2 & = & \$637,015 \\
 159 \times \$21,882 - \$14,570 \div 2 & = & \$581,304 \\
 & & \underline{\$1,218,319}
 \end{array}$$

$$\underline{\text{FY 89 \& 90 Savings}} = \$1,914,024$$

FY 91

- a) Additional Retirements 55 - from 25-29 years of service group  
b) Accelerated Retirements 88 -  
Same assumption as FY 90.

$$\begin{array}{rcl}
 6 \times \$27,439 & = & \$164,634 \\
 9 \times \$21,882 & = & \$196,938 \\
 & & \underline{\$361,572}
 \end{array}
 \qquad
 \begin{array}{rcl}
 49 \times \$27,439 - \$14,570 \div 2 & = & \$315,290 \\
 79 \times \$21,882 - \$14,570 \div 2 & = & \$288,824 \\
 & & \underline{\$604,114}
 \end{array}$$

$$\underline{\text{FY 91 Savings}} = \$965,686$$

**HB 234**

Fiscal Note Request HB 234 as introduced

Form BD-15

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2. Impact on operating budget on Public Employees Retirement Division:

Expenditures:	Current	FY90	Difference	Current	FY91	Difference
	Law	Proposed Law		Law	Proposed Law	
FTE	11	11	-0-	11	11	-0-
Personal Services	\$251,319	\$251,319	\$ -0-	\$251,684	\$251,684	\$ -0-
Operating Expenses	199,990	204,470	4,480	174,409	175,145	736
Equipment	8,688	8,688	-0-	2,089	2,089	-0-
TOTAL	\$459,997	\$464,477	\$ 4,480	\$428,182	\$428,918	\$ 736

Funding: Non-expendable Trust Fund

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES

No expenditure impact in FY 90 or FY 91. There will be salary savings in FY 90 and FY 91. Salary savings could offset impact in FY 93 and FY 94.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION

Employer contribution rates will increase from 6.417% of PERS covered payroll to 6.55% for FY 93 and to 6.70% for FY 94 and thereafter. Using FY 91 payroll assumptions without any further increases projected, this would amount to a total additional employer contribution of \$ 33,403 in FY 93 and an additional \$ 627,472 in FY 94 ( over current biennium). The savings in salary through retirements will total \$ 3,753,652 in FY 93 and \$ 4,072,062 in FY 94.

Employee contribution rates will increase to 6.15% of PERS covered salary in FY 90; to 6.30% in FY 91; to 6.417% in FY 92; to 6.55% in FY 93 and 6.70% in FY 94 and thereafter. ( All employee contributions, including interest are guaranteed to be repaid in the form of monthly benefits or a refund.)

All increases will accrue to the PERS trust fund to fund the benefits created by this bill.

TECHNICAL OR MECHANICAL DEFECTS OR CONFLICTS WITH EXISTING LEGISLATION:

None, If both HB 234 and HB 235 pass, they will be co-ordinated so as to provide the contribution necessary to purchase additional credit under HB 235 will be at the contribution rate in effect in FY 94.

HB 234

## STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Revised Fiscal Note for HB234, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act increasing member and employer contributions to the public employee's retirement system revising the formula for calculating service and nonduty-related disability retirement allowances under the retirement system; amending Sections 19-3-701, 19-3-801, 19-3-904, and 19-3-1008, MCA; and providing an immediate effective date and an applicability date.

ASSUMPTIONS:

1. This legislation will not create an additional retirement eligibility for any PERS member; therefore, no additional retirements will result from this bill. No additional staffing requirements are expected; however, contribution rate changes required by this bill must be programmed into the agency's computer system each year for 5 years, requiring increases in the Public Employees' Retirement Board's Operating Budget during each year of the next biennium.
2. The additional costs as a percentage of covered salaries to fund benefits as they accrue in the future and to amortize the costs of this benefit enhancement over 40 years would be .983% of total PERS salaries. The bill proposes a staggered phase-in for contribution rate increases; these costs will be amortized over 41.4 years instead of 40 years.
3. PERS membership profile (as of October 31, 1988):

<u>Employer Group</u>	<u>Annualized Payroll</u>	<u>Total Members</u>	<u>Percent of Membership</u>	<u>Average Salary</u>	<u>% of Total Contributions</u>	<u>Total FTE's</u>	<u>% of FTE's</u>
State	\$200,721,851	9,980	39%	\$20,112	47%	9,511	40%
University	36,086,983	2,213	8%	16,307	8%	2,143	9%
Local Gov't	192,686,769	13,717	53%	14,047	45%	12,401	51%
TOTAL	\$429,495,603	25,910		16,576 (avg)		24,055	

(FTE's have been calculated based upon the total hours reported on the October, 1988 PERS monthly payroll report, assuming 160 hours is one FTE.)

*Ray Shackleford* 1/28/89  
 RAY SHACKLEFORD, BUDGET DIRECTOR DATE  
 OFFICE OF BUDGET AND PROGRAM PLANNING

GARY L. SPAETH, PRIMARY SPONSOR DATE

Revised Fiscal Note for HB234, as introduced

**HB 234- Revised**

Revised Fiscal Note Request HB234 as introduced

Form BD-15

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4. Salaries for FY90 and FY91 are based upon the October 1988 payroll reports received by the Public Employees' Retirement Division for PERS-covered employees. A 2% average increase in salaries is assumed for each year of the next biennium.

<u>Employer Group</u>	<u>FY90</u>	<u>FY91</u>
	<u>Annualized</u> <u>Payroll</u>	<u>Annualized</u> <u>Payroll</u>
State	\$204,736,288	\$208,831,014
University	36,808,723	37,544,898
Local Gov't	196,540,504	200,471,314
TOTAL	\$438,085,515	\$446,847,226

5. PERS members retiring on or after the effective date of this bill will receive an average of 1.786% of FAS/year of service (as opposed to 1.667% under current law).
6. Employer contribution rates will not increase until FY93 and FY94.

FISCAL IMPACT:

1. Impact of Employee Contribution Rate Increases to the PERS Trust Fund during each year of the next biennium will be:

<u>Employee Group</u>	<u>Annualized</u> <u>Payroll</u>	<u>Current</u> 6% Contribution Rate	<u>FY90</u> 6.15% Contribution Rate	Anticipated Increase to PERS Trust
State	\$204,736,288	\$12,284,177	\$12,591,282	
University	36,808,723	2,208,523	2,263,737	
Local Gov't	196,540,504	11,792,430	12,087,241	
TOTAL	\$438,085,515	\$26,285,130	\$26,942,260	\$ 657,130

<u>Employee Group</u>	<u>Annualized</u> <u>Payroll</u>	<u>Current</u> 6% Contribution Rate	<u>FY91</u> 6.30% Contribution Rate	Anticipated Increase to PERS Trust
State	\$208,831,014	\$12,529,861	\$13,156,354	
University	37,544,898	2,252,694	2,365,329	
Local Gov't	200,471,314	12,028,279	12,629,693	
TOTAL	\$446,847,226	\$26,810,834	\$28,151,376	\$ 1,340,542

HB 234-R

2. Impact on operating budget on Public Employees Retirement Division:

<u>Expenditures:</u>	<u>FY90</u>			<u>FY91</u>		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
FTE	19	19	-0-	19	19	-0-
Personal Services	\$455,020	\$455,020	\$ -0-	\$456,514	\$456,514	\$ -0-
Operating Expenses	387,170	391,650	4,480	252,638	253,374	736
Equipment	3,763	3,763	-0-	1,463	1,463	-0-
TOTAL	\$845,953	\$850,433	\$ 4,480	\$710,615	\$711,351	\$ 736

Funding: Non-expendable Trust Fund

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

No impact in FY90 or FY91. There will be an impact in FY93 and FY94.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

Employer contribution rates will increase from 6.417% of PERS covered payroll to 6.55% for FY93 and to 6.7% for FY94 and after. Using FY91 payroll assumptions without any further increases projected, this would amount to a total additional employer contribution of \$594,306 in FY93 and an additional \$1,264,578 in FY94 (over current biennium).

Employee contribution rates will increase to 6.417% of salary in FY92; to 6.55% in FY93; and to 6.7% for FY94 and after. Using FY91 payroll assumptions without any further increases projected, this would amount to a total additional contribution increases of \$1,863,353 in FY92; \$2,457,659 in FY93; and \$3,127,930 in FY94. (All employee contributions, including interest, are guaranteed to be repaid either in the form of monthly benefits or a refund.)

All increases will accrue to the PERS trust fund to fund the benefits created by this bill.

TECHNICAL OR MECHANICAL DEFECTS OR CONFLICTS WITH EXISTING LEGISLATION:

If both HB234 and HB235 pass, these two bills must be coordinated as the contribution rate changes provided in this bill will affect the rates paid under HB235.

HB 234-R

1 *Peterson*  
2 *House* BILL NO. *234*  
3 INTRODUCED BY *Smith*  
4 *Study* NATHE *Menaker* *Barlow* *Lehrer*  
5 *Bohannon* *Bohannon* *Bohannon*  
6 *Bohannon* *Bohannon* *Bohannon*  
7 *Bohannon* *Bohannon* *Bohannon*  
8 RETIREMENT SYSTEM; AMENDING SECTIONS 19-3-701, 19-3-801,  
9 19-3-904, AND 19-3-1008, MCA; AND PROVIDING AN IMMEDIATE  
10 EFFECTIVE DATE AND AN APPLICABILITY DATE."  
11 *Clannell* *Vincent* *McDon* *Lynch* *Bohannon*  
12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA: *7/1/88*

13 **Section 1.** Section 19-3-701, MCA, is amended to read:

14 "19-3-701. Member's contribution to be deducted. (1)

15 The On and before June 30, 1989, the normal contribution of  
16 each member is 6% of his compensation. The normal  
17 contribution of each member increases to:

- 18 (a) 6.15% of his compensation on July 1, 1989;
- 19 (b) 6.30% of his compensation on July 1, 1990;
- 20 (c) 6.417% of his compensation on July 1, 1991;
- 21 (d) 6.55% of his compensation on July 1, 1992; and
- 22 (e) 6.70% of his compensation on July 1, 1993.

23 (2) Payment of salaries or wages less the contribution  
24 shall be full and complete discharge and acquittance of all  
25 claims and demands whatsoever for the service rendered by

1 members during the period covered by the payment, except  
2 their claims to the benefits to which they may be entitled  
3 under the provisions of this chapter.

4 {2}(3) Each employer, pursuant to section 414(h)(2) of  
5 the federal Internal Revenue Code of 1954, as amended and  
6 applicable on July 1, 1985, shall pick up and pay the  
7 contributions which would be payable by the member under  
8 subsection (1) for service rendered after June 30, 1985.

9 {3}(4) The member's contributions picked up by the  
10 employer must be designated for all purposes of the  
11 retirement system as the member's contributions, except for  
12 the determination of a tax upon a distribution from the  
13 retirement system. These contributions must become part of  
14 the member's accumulated contributions but must be accounted  
15 for separately from those previously accumulated.

16 {4}(5) The member's contributions picked up by the  
17 employer must be payable from the same source as is used to  
18 pay compensation to the member and must be included in the  
19 member's wages as defined in 19-1-102 and his compensation  
20 as defined in 19-3-104. The employer shall deduct from the  
21 member's compensation an amount equal to the amount of the  
22 member's contributions picked up by the employer and remit  
23 the total of the contributions to the board."

24 **Section 2.** Section 19-3-801, MCA, is amended to read:

25 "19-3-801. Employer contribution rates -- actuarial

SECOND READING

HB 234

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 ~~shall be~~ is 6.417% from July 1, 1983, ~~and thereafter to June 30, 1992. The sum of the rates~~ increases to 6.55% on July 1, 1992, and to 6.70% 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 3.** Section 19-3-904, MCA, is amended to read:

**"19-3-904. Amount of retirement allowance.** (1) The annual amount of retirement allowance payable to a member following his service retirement is the sum of (a), (b), and (c) as follows:

(a) an annuity which is the actuarial equivalent of his accumulated additional contributions on the day his retirement allowance commences;

(b) one-sixtieth one fifty-sixth of his final compensation multiplied by the number of years of his creditable service;

(c) any retirement allowance payable under 19-3-905.

(2) If a member dies after retirement and has not elected an optional retirement allowance provided for in 19-3-1101, his beneficiary will be paid the excess, if any, of the member's accumulated contributions on the day his retirement allowance commenced over the total of the retirement allowance payments made to the retired member."

**Section 4.** Section 19-3-1008, MCA, is amended to read:

**"19-3-1008. Allowance for nonduty-related disability.**

(1) The annual amount of retirement allowance payable to a member eligible for disability retirement for other than duty-related reasons is the sum of (a), (b), and (c) as



1 follows:

2 (a) an annuity which is the actuarial equivalent of  
3 his accumulated additional contributions on the day his  
4 retirement allowance commences;

5 (b) an annuity which is the actuarial equivalent of  
6 his accumulated normal contributions with normal interest to  
7 the day his retirement allowance commences;

8 (c) if, in the opinion of the board, the disability is  
9 not due to intemperance, willful misconduct, or violation of  
10 law on the part of the member, a pension which is the  
11 greater of (i) or (ii) as follows:

12 (i) a pension which, together with the annuity  
13 provided under subsection (b), shall make the retirement  
14 allowance equal to 90% of ~~one-sixtieth~~ one fifty-sixth of  
15 his final compensation multiplied by his years of creditable  
16 service;

17 (ii) a retirement allowance equal to 25% of his final  
18 compensation.

19 (2) Except as provided in 19-3-1201, if a member dies  
20 after retirement and has not elected an optional retirement  
21 allowance provided for in 19-3-1101, his beneficiary will be  
22 paid the excess, if any, of the member's accumulated  
23 contributions on the day his retirement allowance commenced  
24 over the total of the retirement allowance payments made to  
25 the retired member."

1 NEW SECTION. **Section 5.** Extension of authority. Any  
2 existing authority to make rules on the subject of the  
3 provisions of [this act] is extended to the provisions of  
4 [this act].

5 NEW SECTION. **Section 6.** Effective date. [This act] is  
6 effective on passage and approval.

7 NEW SECTION. **Section 7.** Applicability. [This act]  
8 applies to members retiring on or after [the effective date  
9 of this act].

-End-

Peterson

1 *Itallie* HOUSE BILL NO. 234 *Peterson*  
 2 INTRODUCED BY *Smith*  
 3 *Smith* NATHE MENAHAN *Barlow* *Smith*  
 4 A BILL FOR AN ACT ENTITLED: "AN ACT INCREASING MEMBER AND  
 5 EMPLOYER CONTRIBUTIONS TO THE PUBLIC EMPLOYEES' RETIREMENT  
 6 SYSTEM, REVISING THE FORMULA FOR CALCULATING SERVICE AND  
 7 NONDUTY-RELATED DISABILITY RETIREMENT ALLOWANCES UNDER THE  
 8 RETIREMENT SYSTEM; AMENDING SECTIONS 19-3-701, 19-3-801,  
 9 19-3-904, AND 19-3-1008, MCA; AND PROVIDING AN IMMEDIATE  
 10 EFFECTIVE DATE AND AN APPLICABILITY DATE."  
 11 *Clanell* *Vincent* *McGraw* *Lynch* *Brake* *One* *Brown*  
 12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

13 **Section 1.** Section 19-3-701, MCA, is amended to read:

14 "19-3-701. Member's contribution to be deducted. (1)  
 15 The On and before June 30, 1989, the normal contribution of  
 16 each member is 6% of his compensation. The normal  
 17 contribution of each member increases to:

- 18 (a) 6.15% of his compensation on July 1, 1989;
- 19 (b) 6.30% of his compensation on July 1, 1990;
- 20 (c) 6.417% of his compensation on July 1, 1991;
- 21 (d) 6.55% of his compensation on July 1, 1992; and
- 22 (e) 6.70% of his compensation on July 1, 1993.

23 (2) Payment of salaries or wages less the contribution  
 24 shall be full and complete discharge and acquittance of all  
 25 claims and demands whatsoever for the service rendered by

1 members during the period covered by the payment, except  
 2 their claims to the benefits to which they may be entitled  
 3 under the provisions of this chapter.

4 (2)(3) Each employer, pursuant to section 414(h)(2) of  
 5 the federal Internal Revenue Code of 1954, as amended and  
 6 applicable on July 1, 1985, shall pick up and pay the  
 7 contributions which would be payable by the member under  
 8 subsection (1) for service rendered after June 30, 1985.

9 (3)(4) The member's contributions picked up by the  
 10 employer must be designated for all purposes of the  
 11 retirement system as the member's contributions, except for  
 12 the determination of a tax upon a distribution from the  
 13 retirement system. These contributions must become part of  
 14 the member's accumulated contributions but must be accounted  
 15 for separately from those previously accumulated.

16 (4)(5) The member's contributions picked up by the  
 17 employer must be payable from the same source as is used to  
 18 pay compensation to the member and must be included in the  
 19 member's wages as defined in 19-1-102 and his compensation  
 20 as defined in 19-3-104. The employer shall deduct from the  
 21 member's compensation an amount equal to the amount of the  
 22 member's contributions picked up by the employer and remit  
 23 the total of the contributions to the board."

24 **Section 2.** Section 19-3-801, MCA, is amended to read:

25 "19-3-801. Employer contribution rates -- actuarial

1 determination. (1) Each employer shall contribute to the  
 2 cost of benefits under the system. The amount of the  
 3 employer contributions shall be computed by applying to  
 4 member's compensation the sum of the current service  
 5 contribution rate and the unfunded liability contribution  
 6 rate. The sum of these rates ~~shall be~~ is 6.417% from July 1,  
 7 1983, ~~and thereafter to June 30, 1992. The sum of the rates~~  
 8 increases to 6.55% on July 1, 1992, and to 6.70% on July 1,  
 9 1993.

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

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

1 normal contributions payable in respect of all such  
 2 persons."

3 **Section 3.** Section 19-3-904, MCA, is amended to read:

4 "19-3-904. Amount of retirement allowance. (1) The  
 5 annual amount of retirement allowance payable to a member  
 6 following his service retirement is the sum of (a), (b), and  
 7 (c) as follows:

8 (a) an annuity which is the actuarial equivalent of  
 9 his accumulated additional contributions on the day his  
 10 retirement allowance commences;

11 (b) ~~one-sixtieth~~ one fifty-sixth of his final  
 12 compensation multiplied by the number of years of his  
 13 creditable service;

14 (c) any retirement allowance payable under 19-3-905.

15 (2) If a member dies after retirement and has not  
 16 elected an optional retirement allowance provided for in  
 17 19-3-1101, his beneficiary will be paid the excess, if any,  
 18 of the member's accumulated contributions on the day his  
 19 retirement allowance commenced over the total of the  
 20 retirement allowance payments made to the retired member."

21 **Section 4.** Section 19-3-1008, MCA, is amended to read:

22 "19-3-1008. Allowance for nonduty-related disability.

23 (1) The annual amount of retirement allowance payable to a  
 24 member eligible for disability retirement for other than  
 25 duty-related reasons is the sum of (a), (b), and (c) as

1 follows:

2 (a) an annuity which is the actuarial equivalent of  
3 his accumulated additional contributions on the day his  
4 retirement allowance commences;

5 (b) an annuity which is the actuarial equivalent of  
6 his accumulated normal contributions with normal interest to  
7 the day his retirement allowance commences;

8 (c) if, in the opinion of the board, the disability is  
9 not due to intemperance, willful misconduct, or violation of  
10 law on the part of the member, a pension which is the  
11 greater of (i) or (ii) as follows:

12 (i) a pension which, together with the annuity  
13 provided under subsection (b), shall make the retirement  
14 allowance equal to 90% of ~~one-sixtieth~~ one fifty-sixth of  
15 his final compensation multiplied by his years of creditable  
16 service;

17 (ii) a retirement allowance equal to 25% of his final  
18 compensation.

19 (2) Except as provided in 19-3-1201, if a member dies  
20 after retirement and has not elected an optional retirement  
21 allowance provided for in 19-3-1101, his beneficiary will be  
22 paid the excess, if any, of the member's accumulated  
23 contributions on the day his retirement allowance commenced  
24 over the total of the retirement allowance payments made to  
25 the retired member."

1 NEW SECTION. **Section 5.** Extension of authority. Any  
2 existing authority to make rules on the subject of the  
3 provisions of [this act] is extended to the provisions of  
4 [this act].

5 NEW SECTION. **Section 6.** Effective date. [This act] is  
6 effective on passage and approval.

7 NEW SECTION. **Section 7.** Applicability. [This act]  
8 applies to members retiring on or after [the effective date  
9 of this act].

-End-

## HOUSE BILL NO. 234

INTRODUCED BY SPAETH, COCCHIARELLA, MANNING, WALKER,  
PETERSON, RASMUSSEN, SQUIRES, GRADY, CAMPBELL, NATHE,  
MENAHAHAN, J. BROWN, PAVLOVICH, QUILICI, MAZUREK, HARP,  
NISBET, R. NELSON, STRIZICH, BECK, DRISCOLL, STANG,  
B. BROWN, HARPER, RICE, CONNELLY, THOMAS, O'KEEFE,  
ANDERSON, IVERSON, MCCORMICK, SCHYE, EUDAILY, ECK,  
NORMAN, JACOBSON, O'CONNELL, VINCENT, GLASER,  
LYNCH, BROOKE, D. BROWN, MOORE

A BILL FOR AN ACT ENTITLED: "AN ACT INCREASING MEMBER AND  
EMPLOYER CONTRIBUTIONS TO THE PUBLIC EMPLOYEES' RETIREMENT  
SYSTEM; REVISING THE FORMULA FOR CALCULATING SERVICE AND  
NONDUTY-RELATED DISABILITY RETIREMENT ALLOWANCES UNDER THE  
RETIREMENT SYSTEM; AMENDING SECTIONS 19-3-701, 19-3-801,  
19-3-904, AND 19-3-1008, MCA; AND PROVIDING AN IMMEDIATE  
EFFECTIVE DATE AND AN APPLICABILITY DATE."

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

**Section 1.** Section 19-3-701, MCA, is amended to read:

**"19-3-701. Member's contribution to be deducted. (1)**  
**the On and before June 30, 1989, the normal contribution of**  
**each member is 6% of his compensation. The normal**  
**contribution of each member increases to:**

**(a) 6.15% of his compensation on July 1, 1989;**

**(b) 6.30% of his compensation on July 1, 1990;**

**(c) 6.417% of his compensation on July 1, 1991;**

**(d) 6.55% of his compensation on July 1, 1992; and**

**(e) 6.70% of his compensation on July 1, 1993.**

**(2)** Payment of salaries or wages less the contribution  
shall be full and complete discharge and acquittance of all  
claims and demands whatsoever for the service rendered by  
members during the period covered by the payment, except  
their claims to the benefits to which they may be entitled  
under the provisions of this chapter.

**(3)** Each employer, pursuant to section 414(h)(2) of  
the federal Internal Revenue Code of 1954, as amended and  
applicable on July 1, 1985, shall pick up and pay the  
contributions which would be payable by the member under  
subsection (1) for service rendered after June 30, 1985.

**(4)** The member's contributions picked up by the  
employer must be designated for all purposes of the  
retirement system as the member's contributions, except for  
the determination of a tax upon a distribution from the  
retirement system. These contributions must become part of  
the member's accumulated contributions but must be accounted  
for separately from those previously accumulated.

**(5)** The member's contributions picked up by the  
employer must be payable from the same source as is used to  
pay compensation to the member and must be included in the

member's wages as defined in 19-1-102 and his compensation as defined in 19-3-104. The employer shall deduct from the member's compensation an amount equal to the amount of the member's contributions picked up by the employer and remit the total of the contributions to the board."

**Section 2.** 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 ~~shall be~~ is 6.417% from July 1, 1983, ~~and thereafter to June 30, 1992. The sum of the rates~~ increases to 6.55% on July 1, 1992, and to 6.70% 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 3.** Section 19-3-904, MCA, is amended to read:

"19-3-904. Amount of retirement allowance. (1) The annual amount of retirement allowance payable to a member following his service retirement is the sum of (a), (b), and (c) as follows:

(a) an annuity which is the actuarial equivalent of his accumulated additional contributions on the day his retirement allowance commences;

(b) one-sixtieth one fifty-sixth of his final compensation multiplied by the number of years of his creditable service;

(c) any retirement allowance payable under 19-3-905.

(2) If a member dies after retirement and has not elected an optional retirement allowance provided for in 19-3-1101, his beneficiary will be paid the excess, if any, of the member's accumulated contributions on the day his

1 retirement allowance commenced over the total of the  
2 retirement allowance payments made to the retired member."

3 **Section 4.** Section 19-3-1008, MCA, is amended to read:

4 "19-3-1008. Allowance for nonduty-related disability.

5 (1) The annual amount of retirement allowance payable to a  
6 member eligible for disability retirement for other than  
7 duty-related reasons is the sum of (a), (b), and (c) as  
8 follows:

9 (a) an annuity which is the actuarial equivalent of  
10 his accumulated additional contributions on the day his  
11 retirement allowance commences;

12 (b) an annuity which is the actuarial equivalent of  
13 his accumulated normal contributions with normal interest to  
14 the day his retirement allowance commences;

15 (c) if, in the opinion of the board, the disability is  
16 not due to intemperance, willful misconduct, or violation of  
17 law on the part of the member, a pension which is the  
18 greater of (i) or (ii) as follows:

19 (i) a pension which, together with the annuity  
20 provided under subsection (b), shall make the retirement  
21 allowance equal to 90% of ~~one-sixtieth~~ one fifty-sixth of  
22 his final compensation multiplied by his years of creditable  
23 service;

24 (ii) a retirement allowance equal to 25% of his final  
25 compensation.

1 (2) Except as provided in 19-3-1201, if a member dies  
2 after retirement and has not elected an optional retirement  
3 allowance provided for in 19-3-1101, his beneficiary will be  
4 paid the excess, if any, of the member's accumulated  
5 contributions on the day his retirement allowance commenced  
6 over the total of the retirement allowance payments made to  
7 the retired member."

8 NEW SECTION. **Section 5.** Extension of authority. Any  
9 existing authority to make rules on the subject of the  
10 provisions of [this act] is extended to the provisions of  
11 [this act].

12 NEW SECTION. **Section 6.** Effective date. [This act] is  
13 effective on passage and approval.

14 NEW SECTION. **Section 7.** Applicability. [This act]  
15 applies to members retiring on or after [the effective date  
16 of this act].

-End-