

HOUSE BILL 552

Introduced by Harrington

2/10	Introduced
2/10	Referred to State Administration
2/10	First Reading
2/10	Fiscal Note Requested
2/16	Hearing
2/16	Fiscal Note Received
2/17	Fiscal Note Printed
2/18	Tabled in Committee

1 House BILL NO. 552  
2 INTRODUCED BY Harvey  
3  
4 A BILL FOR AN ACT ENTITLED: "AN ACT REVISING ELIGIBILITY  
5 FOR THE PURCHASE OF CREDITABLE SERVICE UNDER THE TEACHERS'  
6 RETIREMENT SYSTEM; CLARIFYING THE BASE SALARY TO BE USED TO  
7 CALCULATE THE COST OF PURCHASING CREDITABLE SERVICE;  
8 ADJUSTING THE EMPLOYER CONTRIBUTION RATE TO FUND THE CHANGE;  
9 AMENDING SECTIONS 19-4-401, 19-4-402, 19-4-403, 19-4-408,  
10 AND 19-4-605, MCA; AND PROVIDING AN EFFECTIVE DATE."  
11

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

13 **Section 1.** Section 19-4-401, MCA, is amended to read:

14 "19-4-401. Creditable service. (1) The creditable  
15 service of a member begins on the date of his the member's  
16 employment in a capacity prescribed for his the member's  
17 eligibility in 19-4-302 and accumulates to the member's  
18 credit on the basis of the retirement board's policy  
19 governing creditable service.

20 (2) The creditable service of a member includes the  
21 following:

22 (a) each year of service for which contributions to the  
23 retirement system were deducted from his the member's  
24 compensation under the provisions of Chapter 87, Laws of  
25 1937, Chapter 215, Laws of 1939, this chapter, and their

1 subsequent amendments, except that no credit may not be  
2 awarded for those years of service for which the  
3 contributions have been withdrawn and not replaced;

4 (b) any service awarded by a prior service certificate  
5 issued under the provisions of Chapter 87, Laws of 1937,  
6 Chapter 215, Laws of 1939, and their subsequent amendments  
7 or under the provisions of 19-4-406;

8 (c) any out-of-state employment service awarded by the  
9 retirement board under the provisions of 19-4-402;

10 (d) any service awarded for employment while on leave  
11 under 19-4-403;

12 (e) any service in the military, red cross, or merchant  
13 marine awarded by the retirement board under 19-4-404;

14 (f) any employment service awarded by the retirement  
15 board under the provisions of 19-4-408;

16 (g) any service transferred after October 1, 1989, from  
17 the public employees' retirement system under 19-4-409;

18 (h) any service awarded by the retirement board for  
19 extension service employment under 19-4-410; and

20 (i) any service awarded for absence due to  
21 employment-related injury under 19-4-411.

22 (3) The retirement board's determination of creditable  
23 service under this section is final and conclusive for the  
24 purposes of the retirement system unless, at any time, the  
25 board discovers an error or fraud in the establishment of

creditable service, in which case the board shall redetermine the creditable service.

(4) For a member completing only part-time service during the qualifying period, the first fifth full year's teaching salary used to calculate the cost to purchase creditable service is the salary that he the member would have earned if his-first the member's fifth year part-time salary had been full-time."

**Section 2.** Section 19-4-402, MCA, is amended to read:

"19-4-402. Creditable service for out-of-state employment. (1) (a) A member who-became-a-member-before-July 17-1989, may apply for creditable service in the retirement system for out-of-state employment service that would have been acceptable under the provisions of this chapter if the service had been performed in the state of Montana. If the member contributed to a public retirement plan, other than social security, while performing the out-of-state service, he the member must receive a refund of his the member's contributions for the out-of-state service before qualifying service under this section. The member must be awarded creditable service, conditional upon his completing 5 years of active membership in Montana, for the number of years, not exceeding 5, that the retirement board determines to be creditable service, if he the member contributes to the retirement system as provided in subsection (2).

(b) For the purpose of this section, out-of-state employment includes service performed outside the United States in a federal or other public or private school or institution if the service would-have-been-acceptable--under this--chapter--if--performed--in--the--state--of-Montana was covered under another public retirement plan and the member's contributions for that service have been withdrawn.

(2) (a) Except as provided in subsection (2)(b), to qualify service under this section, the member must contribute an amount equal to the combined employer and employee contribution for his the member's first fifth full year's teaching salary earned in Montana after his the out-of-state service for each year of creditable service plus interest at the rate the contribution would have earned had the contribution been in his the member's account upon the completion of 5 years of membership service in Montana. The contribution rate must be the rate in effect at the time he the member is eligible for the service.

(b) To qualify service performed outside the United States in a federal or other public or private school or institution, the member must contribute for each year of service to be qualified an amount equal to the combined employer and employee contribution for his--first the member's fifth full year's teaching salary earned in Montana after his the out-of-state service or-after--July--17--1989,

whichever--date--is--later, plus interest at the rate the contribution would have earned had the contribution been in his the member's account from the date he the member was eligible to qualify the service. The contribution rate must be the rate in effect at the time he the member is eligible to qualify the service or the rate--in--effect--on--July--17, 1989, whichever date is later.

(3) The contributions required under subsection (2) may be made in a lump-sum payment or in installments as agreed between the member and the retirement board."

**Section 3.** Section 19-4-403, MCA, is amended to read:

"19-4-403. Creditable service for employment while on leave. (1) A member with 5 years or more of creditable service in the retirement system who became a member--before July---17---1989, may apply for creditable service for employment while on leave. If he the member contributes to the retirement system as provided in subsection (2), the member must be awarded creditable service in an amount not exceeding 2 years as determined by the board, conditional upon his having been provided that the member was a member prior to his the leave and upon--his that the member completing completed 1 year of active membership in Montana subsequent to his the member's return.

(2) To qualify service under this section, the member must contribute an amount equal to the combined employer and

employee contributions for his the member's first full year's teaching salary earned in Montana after his the member's return from leave for each year of creditable service plus interest at the rate the contribution would have earned had the contribution been in his the member's account. The contribution rate must be the rate in effect at the time he the member is eligible for the service. The contribution may be made in a lump-sum payment or in installments as agreed between the member and the retirement board."

**Section 4.** Section 19-4-408, MCA, is amended to read:

"19-4-408. Creditable service for employment in private schools. A person--applying--for-membership-before-July-17, 1989, may also member may apply for creditable service in the retirement system for employment service in a private elementary, secondary, or postsecondary educational institution. Employment service must be of an instructional nature or be employment as an administrative officer or a member of the scientific staff. Employment service does not include students employed by a private elementary, secondary, or postsecondary educational institution. The person-shall member must be awarded creditable service, conditional upon his the member completing 5 years of active membership in the retirement system, for the number of years, not exceeding 5, that the retirement board determines

1 to be creditable service, if he the member contributes to  
 2 the retirement system an amount equal to the combined  
 3 employer and employee contribution for his--first the  
 4 member's fifth full year's teaching salary earned after  
 5 becoming a member of the retirement system or returning to  
 6 the retirement system, whichever is later, for each year of  
 7 creditable service plus interest at the rate the  
 8 contribution would have earned had the contribution been in  
 9 his the member's account upon the completion of 5 years of  
 10 membership service. The contribution rate ~~shall~~ must be that  
 11 rate in effect at the time he the member is eligible for  
 12 such the service. The contributions may be made in lump-sum  
 13 payment or in installments as agreed between the person and  
 14 the retirement board. The provisions of 19-4-405 apply to  
 15 creditable service purchased under this section."

16 **Section 5.** Section 19-4-605, MCA, is amended to read:

17 "19-4-605. Pension accumulation fund -- employer's  
 18 contribution. The pension accumulation fund is the fund in  
 19 which the reserves for payment of pensions and annuities  
 20 ~~shall~~ must be accumulated and from which pensions,  
 21 annuities, and benefits in-lieu-thereof-~~shall~~ must be paid  
 22 to or on account of beneficiaries credited with prior  
 23 service. Contributions to and payments from the pension  
 24 accumulation fund ~~shall~~ must be made as follows:

25 (1) Each employer shall pay into the pension

1 accumulation fund an amount equal to ~~7.45%~~ 7.75% of the  
 2 earned compensation of each member employed during the whole  
 3 or part of the preceding payroll period.

4 (2) If the employer is a district or community college  
 5 district, the trustees shall budget and pay for the  
 6 employer's contribution under the provisions of 20-9-501.

7 (3) If the employer is the superintendent of public  
 8 instruction, a public institution of the state of Montana, a  
 9 unit of the Montana university system, or the Montana state  
 10 school for the deaf and blind, the legislature shall  
 11 appropriate to the employer an adequate amount to allow the  
 12 payment of the employer's contribution.

13 (4) If the employer is a county, the county  
 14 commissioners shall budget and pay for the employer's  
 15 contribution in the manner provided by law for the adoption  
 16 of a county budget and for payments under the budget.

17 (5) All interest and other earnings realized on the  
 18 ~~moneys funds~~ of the retirement system ~~shall~~ must be credited  
 19 to the pension accumulation fund, and the amount required to  
 20 allow regular interest on the annuity savings fund ~~shall~~  
 21 must be transferred to that fund from the pension  
 22 accumulation fund.

23 (6) All pensions, annuities, and benefits in--~~lieu~~  
 24 ~~thereof-shall~~ must be paid from the pension accumulation  
 25 fund.

LC 1262/01

1       (7) The retirement board may, in its discretion,  
2 transfer from the pension accumulation fund an amount  
3 necessary to cover expenses of administration."

4       NEW SECTION. **Section 6.** Effective date. [This act] is  
5 effective July 1, 1993.

-End-

## STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0552, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act revising the eligibility for the purchase of creditable service under the Teachers' Retirement System, clarifying the base salary to be used to calculate the cost and providing the actuarial required funding.

ASSUMPTIONS:

1. Effective July 1, 1993, all members of the Teachers' Retirement System, who meet the minimum eligibility requirements, may apply for creditable service for: out-of-state teaching service, private teaching service, or service while on leave.
2. The cost to purchase service under this proposal will be based upon the members full years teaching salary at the time they become eligible to purchase service.
3. Assume that 10% of all members who reach retirement age will elect to purchase 5 years of service.
4. Increases in TRS employer contributions from 7.459% to 7.759%, effective July 1, 1993, would be sufficient to maintain the current unfunded actuarial liability amortization period at 34.9 years.
5. Assume compensation reported to the TRS will increase 6% per year and will be reported in the following manner:

<u>Entity</u>	<u>FY 1994</u>	<u>FY 1995</u>
School districts	\$446,557,203	\$473,350,635
University System	19,631,938	20,809,854
State Agencies	<u>11,363,525</u>	<u>12,045,337</u>
Total	\$477,552,666	\$506,205,826

6. The fiscal impact on monthly retirement benefits paid by the TRS for any specific biennium are not subject to reasonable estimates. The long range fiscal impact identified below is based on total costs over a long period of time (eg. 30 years).
7. Assume TRS will not require any increase in current level appropriations for computer programming or processing.

(continued)

-  2-16-93

DAVID LEWIS, BUDGET DIRECTOR      DATE  
Office of Budget and Program Planning

 2/17/93  
DAN HARRINGTON, PRIMARY SPONSOR      DATE

Fiscal Note for HB0552, as introduced

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FISCAL IMPACT:

Expenditures:

Not subject to reasonable estimates.

Revenues:

	<u>FY '94</u>			<u>FY '95</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Contributions: (Employer)						
School Districts	33,308,702	34,648,373	1,339,672	35,307,224	36,727,276	1,420,052
University System	1,464,346	1,523,242	58,896	1,552,207	1,552,207	62,430
State Agencies	<u>847,605</u>	<u>881,696</u>	<u>34,091</u>	<u>898,462</u>	<u>934,598</u>	<u>36,136</u>
Total	35,620,653	37,053,311	1,432,658	37,757,893	39,276,510	1,518,617

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Local School District employer contribution to the Teachers' Retirement System will increase 0.3% effective July 1, 1993 (see above table).

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The increase in employer contributions of 0.3% is estimated to be sufficient to fund the proposed benefit enhancement. Therefore, the period of time required to amortize the existing unfunded liability (34.9 years) would not change. However, this conclusion is highly dependent upon the percentage of teachers currently being hired that will eventually be eligible to purchase services. Since the purchase will usually take place at retirement, it will be several years before the true costs emerge. The increase in employer contributions of 0.3% will be required through the year 2027 to maintain the current unfunded actuarial liability amortization schedule.

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