HOUSE BILL 553

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

House BILL NO. 553

INTRODUCED BY Harrington

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR RETIREMENT WITHIN THE PUBLIC EMPLOYEES RETIREMENT SYSTEM AFTER 25 YEARS OF CREDITABLE SERVICE; INCREASING THE EMPLOYER CONTRIBUTION RATES; AMENDING SECTIONS 19-3-801, 19-3-901, AND 19-3-902, 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~~ must 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. The sum of the rates increases to 6.55% on July 1, 1992, and to 6.70%~~ 7.94% 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~~ the 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~~ that 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 entitled to benefits."

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 while employed in a position covered by a public employee retirement system is eligible for service retirement regardless of ~~his~~ years of creditable service. A member who has completed ~~30~~ 25 years or more of creditable service is eligible for service retirement regardless of ~~his~~ age."

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

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"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 years-or--more--of--state--service--is--eligible--for--early retirement;~~"

NEW SECTION. **Section 4.** Effective date. [This act] is 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 HB0553, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:
A bill providing for retirement within the Public Employees Retirement System (PERS) after 25 years of creditable service; and increasing the employer contribution rates from 6.7% to 7.94% of salaries.

ASSUMPTIONS:
1. PERS payroll is projected to be $554,172,400 in FY 94 and $568,026,700 in FY 95. 40% of the payroll is paid by the state; 9% by the university system; and 51% by local governments. 40% of state PERS employees are funded through the general fund; 60% are funded through non-general fund sources.
2. Employer contributions will increase from 6.7% under current law to 7.94% of PERS payroll on 7/1/93 due to this bill.
3. PERS benefits will increase for members retiring after July 1, 1993 with between 25 and 30 years of service. Average benefits of affected retirees will increase from $9,750/year under current law to $13,900/year because of this bill.
4. Benefit adjustments pursuant to 19-3-105, MCA equal to 2.5% of previous calendar year PERS benefits will be paid by general fund.
5. Investment return on PERS Pension Trust Fund will average 6.5% during next biennium.
6. 382 PERS members could potentially retire with increased benefits during the next biennium due to this bill. Based on experience of the Teachers Retirement System, 0.25% of members, or 81 members, would actually retire. Of those 81, 40% work for state government, 9% for the university system, and 51% for local governments (including school districts). An average of 22 PERS members retire each year with between 25 and 30 years of service but less than age 60; of the 81 expected to retire during the next biennium, 35 are expected to retire earlier because of this bill (17 in FY 94 and 18 in FY 95).
7. Operating expenses. PERD will require additional budget expenditure authority of $7,500 in FY 94 for computer systems development and processing to implement this bill which will be funded from the PERS trust fund.
8. Positions will remain vacant an average of 400 hrs and will be refilled at an average cost which is 95% of the retiree's salary (including benefits). Lump sum payouts of sick annual leave to terminating employees include fringe benefits averaging 25% of the payout. Based on average sick and annual leave accumulations for state employees with between 25 and 30 years of service and less than age 60 as of January, 1992, assuming employees will continue to earn leave between the present time and when they actually terminate, and that those employees will use half of the new leave they earn in the future and accumulate the remainder, the average cost for payouts (including benefits) will be: $12,241 for FY 94 and $14,233 for FY 95.

(continued)

Dave Lewis 2-16-93
DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Dan Harrington 2/17/93
DAN HARRINGTON, PRIMARY SPONSOR DATE

Fiscal Note Request, HB0553 as introduced
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FISCAL IMPACT:

Expenditures:

	FY '94			FY '95		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
PERS Administration:						
FTE	21.00	21.00	0.00	21.00	21.00	0.00
Personal Services	622,852	622,852	0	624,702	624,702	0
Operating Expenses	536,276	543,776	7,500	516,287	516,287	0
Equipment	11,685	11,685	0	5,435	5,435	0
Total (Trust Fund)	1,170,813	1,178,313	7,500	1,146,424	1,146,424	0
PERS Benefits:						
PERS Retirement Benefits	$66,757,840	$66,925,915	$168,075	$72,098,467	$73,443,067	$504,225
19-3-105,MCA Supplement	1,545,320	1,545,320	0	1,668,946	1,681,552	12,606
Total	68,303,160	68,471,235	168,075	73,767,413	74,284,244	516,831

Statewide Vacancy Savings:
Based on the assumptions discussed in #8 above, vacancy savings and termination payouts would result in a net cost to PERS member entities. Estimated net costs for state agencies would be approximately $36,400 in FY94 and $36,900 in FY95; for the University System, approximately $5,200 in FY94 and $12,500 in FY95; for local governments, approximately $38,900 in FY94 and $39,400 in FY95.

Revenues:

	FY '94			FY '95		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
PERS:						
Employer contributions:						
State Agencies[1]	14,851,820	17,600,515	2,748,695	15,223,116	18,040,528	2,817,412
University System	3,341,660	3,960,116	618,456	3,425,201	4,059,119	633,918
Local Government	18,936,071	22,440,657	3,504,586	19,409,472	23,001,673	3,592,201
Employee Contributions	37,129,551	37,129,551	0	38,057,789	38,057,789	0
19-3-105,MCA Supplement (GF)	1,545,320	1,545,320	0	1,668,946	1,681,552	12,606
Investment earnings	90,000,000	90,217,500	217,500	95,000,000	95,674,000	674,000
Total	165,804,422	172,893,659	7,089,237	167,784,524	175,514,661	7,730,137

[1] 40% of state PERS employees are funded through the general fund; 60% are funded through non-general fund sources.

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Employer contributions of local governments with contracts for PERS coverage would increase 1.24% of covered payroll, or $3.5 million in FY94 and $3.6 million in FY95 (see table above).

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:
An actuarial valuation has determined that the funding contained in the proposal is sufficient to fund accruing benefits and to amortize unfunded liabilities over 30 years if less than .25% (.0025) of the PERS membership retires under these provisions each year. Retirements above this rate will require additional funding.

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