

SENATE BILL 300

Introduced by Bianchi, et al.

2/03	Introduced
2/03	Referred to State Administration
2/03	First Reading
2/03	Fiscal Note Requested
2/10	Fiscal Note Received
2/12	Fiscal Note Printed
2/15	Hearing
2/15	Committee Report--Bill Passed as Amended
2/16	Revised Fiscal Note Requested
2/17	2nd Reading Do Pass Motion Failed
2/17	2nd Reading Indefinitely Postponed
2/18	Revised Fiscal Note Received
2/18	Revised Fiscal Note Printed

1 Senate BILL NO. 300
 2 INTRODUCED BY Branley Feltz
 3 David Yellowstone Robert Ripstein Carl King
 4 John Johnson Jim Rice Walter
 5 Bonnie Hamrick Steve
 6 A BILL FOR AN ACT ENTITLED: "AN ACT REVISING POSTRETIREMENT
 7 ADJUSTMENTS FOR CERTAIN BENEFIT RECIPIENTS UNDER THE PUBLIC
 8 EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS; ADJUSTING
 9 EMPLOYER AND EMPLOYEE CONTRIBUTIONS; AMENDING SECTIONS
 10 19-3-701, 19-3-801, 19-3-1109, 19-3-1110, 19-4-602,
 11 19-4-605, 19-4-711, AND 19-4-712, MCA; AND PROVIDING AN
 12 EFFECTIVE DATE."

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

14 NEW SECTION. Section 1. Guaranteed annual benefit
 15 adjustment. The monthly service, disability, or survivorship
 16 benefit provided to a benefit recipient under this chapter
 17 must be increased by 2% on January 1 each year after the
 18 benefits have been paid to the recipient for at least 36
 19 months on or before June 30 in the year the adjustment is
 20 made.

21 Section 2. Section 19-3-701, MCA, is amended to read:

22 "19-3-701. Member's contribution to be deducted. (1) On
 23 and--before--June--30--1989, July 1, 1993, the normal
 24 contribution of each member is 6% 7.65% of his the member's
 25 compensation. The--normal--contribution--of--each--member
 increases-to:

- 1 (a)--6.15%--of--his--compensation--on--July--1--1989;
- 2 (b)--6.30%--of--his--compensation--on--July--1--1990;
- 3 (c)--6.417%--of--his--compensation--on--July--1--1991;
- 4 (d)--6.55%--of--his--compensation--on--July--1--1992;--and
- 5 (e)--6.70%--of--his--compensation--on--July--1--1993;

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

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

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

24 (5) The member's contributions picked up by the
 25 employer must be payable from the same source as is used to



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

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

9 "19-3-801. **Employer contribution rates -- actuarial**
 10 **determination.** (1) Each employer shall contribute to the
 11 cost of benefits under the system. The amount of the
 12 employer contributions ~~shall~~ must be computed by applying to
 13 a member's compensation the sum of the current service
 14 contribution rate and the unfunded liability contribution
 15 rate. The sum of these rates is ~~6.417% from July 17, 1983, to~~
 16 ~~June 30, 1992. The sum of the rates increases to 6.55% on~~
 17 ~~July 17, 1992, and to 6.70% 8.59%~~ on July 1, 1993.

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

24 (3) The actuary shall determine the minimum unfunded
 25 liability contribution rate to be that level percentage of

1 the present value of the prospective compensation of all
 2 members for the 40-year period following the date of the
 3 determination which is equal to the unfunded liability on
 4 that date. The unfunded liability at any time is the excess
 5 of the present value of all future benefits payable in
 6 respect of all persons then entitled to benefits under the
 7 system over the sum of the retirement fund and the present
 8 values of the future current service contributions and
 9 normal contributions payable in respect of all such
 10 persons."

11 **Section 4.** Section 19-3-1109, MCA, is amended to read:

12 "19-3-1109. **Eligibility for postretirement adjustment.**
 13 ~~{1} Except as provided in subsection {2}, a member or~~
 14 ~~beneficiary is eligible to receive~~ A recipient of a service,
 15 disability, or survivorship benefit is eligible for a
 16 postretirement adjustment as provided in 19-3-1111 if he is
 17 receiving a:

18 ~~{a} service retirement allowance and is 55 years of age~~
 19 ~~or older on or before June 30 in the year that the~~
 20 ~~postretirement adjustment is made; or~~

21 ~~{b} disability or survivorship allowance;~~

22 ~~{2} A member or beneficiary is ineligible to receive a~~
 23 ~~postretirement adjustment under subsection {1} unless he has~~
 24 ~~been receiving a monthly service, disability, or~~
 25 ~~survivorship allowance~~ the benefit has been paid for at

1 least ~~24~~ 36 consecutive months on or before June 30 in the
2 year the adjustment is made."

3 **Section 5.** Section 19-3-1110, MCA, is amended to read:

4 "19-3-1110. Funding for postretirement adjustment --
5 reserve fund. (1) At the end of each fiscal year, the board
6 shall determine the total investment income earned on the
7 retirement fund for that fiscal year. From this amount, the
8 board shall subtract the:

9 (a) actuarial amount required to fund the retirement
10 system for the fiscal year; and

11 (b) retirement system's administrative and investment
12 expenses for the fiscal year.

13 (2) (a) From the remainder obtained in subsection (1),
14 the board shall calculate the amount of investment income
15 earned on that portion of the retirement fund balance
16 representing retired members.

17 (b) The board shall deposit the amount calculated in
18 subsection (2)(a) in a reserve fund.

19 (3) Subject to the restrictions contained in
20 subsections (4) and (5), the board shall annually use 90% of
21 the amount in the reserve fund provided for in subsection
22 (2)(b) to pay a postretirement adjustment to eligible
23 ~~members-or-beneficiaries~~ benefit recipients under 19-3-1111.

24 (4) If the amount in the reserve fund is insufficient
25 to provide an average monthly postretirement adjustment of

1 at least \$1 under 19-3-1111, an adjustment may not be made
2 in that calendar year.

3 (5) The amount available for payment of the
4 postretirement ~~allowance adjustment~~ adjustment is limited to an amount
5 that would provide a percentage increase in the ~~average~~
6 service, disability, or survivorship ~~allowance benefit~~ benefit of
7 ~~all-eligible-members~~ each eligible recipient that, when
8 combined with the ~~postretirement--adjustment~~ guaranteed
9 annual benefit adjustment provided under [section 1], that
10 is equal to or less than the percentage increase for the
11 previous calendar year in the annual average consumer price
12 index for urban wage earners and workers compiled by the
13 bureau of labor statistics, United States department of
14 labor, or its successor agency."

15 **Section 6.** Section 19-4-602, MCA, is amended to read:

16 "19-4-602. Annuity savings fund -- member's
17 contribution. The annuity savings fund is a fund in which
18 the contributions for the members to provide for their
19 annuities ~~shall~~ must be accumulated in individual accounts
20 for each member. The normal contribution of each member is
21 ~~7.044%~~ 8.264% of his earned compensation. Contributions to
22 and payments from the annuity savings fund ~~shall~~ must be
23 made in the following manner:

24 (1) (a) Each employer, pursuant to section 414(h)(2) of
25 the federal Internal Revenue Code of 1954, as amended and

1 applicable on July 1, 1985, shall pick up and pay the
2 contributions which would be payable by the member under
3 this section for service rendered after June 30, 1985.

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

11 (c) The member's contributions picked up by the
12 employer must be payable from the same source as is used to
13 pay compensation to the member and must be included in the
14 member's wages, as defined in 19-1-102, and his earned
15 compensation as used to define his the member's average
16 final compensation in 19-4-101. The employer shall deduct
17 from the member's compensation an amount equal to the amount
18 of the member's contributions picked up by the employer and
19 remit the total of the contributions to the retirement
20 board.

21 (d) The deductions ~~shall~~ must be made notwithstanding
22 that the minimum compensation provided by law for a member
23 may be reduced thereby by the deductions. Every member is
24 considered to consent to the deductions prescribed by this
25 section, and payment of salary or compensation less the

1 deductions is a complete discharge of all claims whatsoever
2 for the services rendered by the member during the period
3 covered by the payment, except as to the benefits provided
4 by the retirement system.

5 (2) In addition to the normal contributions and subject
6 to the approval of the retirement board, any member may
7 redeposit in the annuity savings fund, by a single payment
8 or by an increased rate of contribution, an amount equal to
9 any accumulated contributions ~~which-he~~ that the member has
10 previously withdrawn, plus interest in the amount the
11 contributions would have earned had the contributions not
12 been withdrawn.

13 (3) The accumulated contributions of a member withdrawn
14 ~~by-him~~ or paid to his the member's estate or to his a
15 designated beneficiary in event of his the member's death
16 ~~shall~~ must be paid from the annuity savings fund. Upon the
17 retirement of a member, his the member's accumulated
18 contributions ~~shall~~ must be transferred from the annuity
19 savings fund to the pension accumulation fund."

20 **Section 7.** Section 19-4-605, MCA, is amended to read:

21 "19-4-605. Pension accumulation fund -- employer's
22 contribution. The pension accumulation fund is the fund in
23 which the reserves for payment of pensions and annuities
24 ~~shall~~ must be accumulated and from which pensions,
25 annuities, and benefits ~~in-lieu-thereof-shall~~ must be paid

1 to or on account of beneficiaries credited with prior
2 service. Contributions to and payments from the pension
3 accumulation fund ~~shall~~ must be made as follows:

4 (1) Each employer shall pay into the pension
5 accumulation fund an amount equal to ~~7.459%~~ 9.899% of the
6 earned compensation of each member employed during the whole
7 or part of the preceding payroll period.

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

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

17 (4) If the employer is a county, the county
18 commissioners shall budget and pay for the employer's
19 contribution in the manner provided by law for the adoption
20 of a county budget and for payments under the budget.

21 (5) All interest and other earnings realized on the
22 moneys money of the retirement system ~~shall~~ must be credited
23 to the pension accumulation fund, and the amount required to
24 allow regular interest on the annuity savings fund ~~shall~~
25 must be transferred to that fund from the pension

1 accumulation fund.

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

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

8 **Section 8.** Section 19-4-711, MCA, is amended to read:

9 "19-4-711. Eligibility for postretirement adjustment.
10 ~~{1}--Except--as--provided--in--subsection--{2},--a--member--or~~
11 ~~beneficiary~~ A recipient of a service, disability, or
12 survivorship benefit is eligible to receive a postretirement
13 adjustment as provided in 19-4-713 if ~~he-is-receiving-a-~~
14 ~~{a}--service-retirement-allowance-and-is-55-years-of-age~~
15 ~~or--older--on--or--before--June--30--in--the--year--that--the~~
16 ~~postretirement-adjustment-is-made,-or~~
17 ~~{b}--disability-or-survivorship-allowance-~~
18 ~~{2}--A-member-or-beneficiary-is-ineligible-to-receive--a~~
19 ~~postretirement-adjustment-under-subsection-{1}-unless-he-has~~
20 ~~been---receiving---a---monthly---service,----disability,----or~~
21 ~~survivorship--allowance~~ the benefit has been paid for at
22 least ~~24~~ 36 consecutive months on or before June 30 in the
23 year the adjustment is made."

24 **Section 9.** Section 19-4-712, MCA, is amended to read:

25 "19-4-712. Funding for postretirement adjustment --

1 reserve fund. (1) At the end of each fiscal year, the board
2 shall determine the total investment income earned on the
3 retirement fund for that fiscal year. From this amount, the
4 board shall subtract the:

5 (a) actuarial amount required to fund the retirement
6 system for the fiscal year; and

7 (b) retirement system's administrative and investment
8 expenses for the fiscal year.

9 (2) (a) From the remainder obtained in subsection (1),
10 the board shall calculate the amount of investment income
11 earned on that portion of the retirement fund balance
12 representing retired members.

13 (b) The board shall deposit the amount calculated in
14 subsection (2)(a) in a reserve fund.

15 (3) Subject to the restrictions contained in
16 subsections (4) and (5), the board shall annually use 90% of
17 the amount in the reserve fund provided for in subsection
18 (2)(b) to pay a postretirement adjustment to eligible
19 ~~members-or-beneficiaries~~ benefit recipients under 19-4-713.

20 (4) If the amount in the reserve fund is insufficient
21 to provide an average monthly postretirement adjustment of
22 at least \$1 under 19-4-713, an adjustment may not be made in
23 that calendar year.

24 (5) The amount available for payment of the
25 postretirement ~~allowance~~ adjustment is limited to an amount

1 that would provide a percentage increase in the average
2 service, disability, or survivorship ~~allowance~~ benefit of
3 ~~all-eligible-members~~ each eligible recipient that, when
4 combined with the ~~postretirement--adjustment~~ guaranteed
5 annual benefit adjustment under [section 1], that is equal
6 to or less than the percentage increase for the previous
7 calendar year in the annual average consumer price index for
8 urban wage earners and workers compiled by the bureau of
9 labor statistics, United States department of labor, or its
10 successor agency."

11 NEW SECTION. Section 10. Codification instruction.
12 [Section 1] is intended to be codified as an integral part
13 of:

14 (1) Title 19, chapter 3, part 11, and the provisions of
15 Title 19, chapter 3, part 11, apply to [section 1]; and

16 (2) Title 19, chapter 4, part 7, and the provisions of
17 Title 19, chapter 4, part 7, apply to [section 1].

18 NEW SECTION. Section 11. Effective date. [This act] is
19 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 SB0300, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

Provides a guaranteed annual 2% increase in PERS and TRS retirement benefits each January 1, beginning 1994 to benefit recipients who have received benefits for at least 3 years and caps the combined effect of the post retirement adjustment and this increase by the change in the CPI. Cost of the proposal is paid 1/3 by active employees and 2/3 by their employers.

ASSUMPTIONS:


Public Employees Retirement System (PERS)

1. The total PERS covered payroll is projected to be \$554,172,400 in FY94 and \$568,026,700 in FY95: 40% state employees; 9% university employees; and 51% local government employees. 40% of the PERS-covered state employee payroll is general fund.
2. The proposed legislation increases PERS employer contribution rate from 6.7% to 8.59% of covered payroll and PERS employee contribution rates from 6.7% to 7.65% of salary, effective July 1, 1993.
3. Under current law, annual PERS benefits paid are projected to increase at an average rate of 8% per year.
4. The proposed legislation would increase PERS benefits paid to 9,750 eligible benefit recipients with average benefits of \$5,410/year by 2% beginning January 1, 1994 and would increase PERS benefits paid to 10,167 eligible benefit recipients with average benefits of \$5,705/year beginning January 1, 1995.
5. An increase in pension benefits would increase the general fund adjustment provided under 19-3-105, MCA, calculated at 2.5% of previous calendar year PERS benefits.
6. PERS Pension Trust Fund investments will earn an average 6.5% annual rate of return during next biennium.

Teachers Retirement System (TRS)

1. The total TRS covered payroll is projected to be \$477,552,666 in FY94 and \$506,205,826 in FY95: 93.5% local school districts; 4.1% university system; and 2.4% state agencies.
2. The proposed legislation increases TRS employer contribution rate from 7.459% to 9.899% of covered payroll and TRS employee contribution rates from 7.044% to 8.264% of salary, effective July 1, 1993.
3. Under current law, annual TRS benefits paid are projected to increase at an average rate of 6% per year.
4. An increase in pension benefits would increase the general fund adjustment provided under 19-4-706, MCA, calculated at 2.5% of previous calendar year TRS benefits.
5. TRS Pension Trust Fund investments will earn an average 6.5% annual rate of return during next biennium.

(continued)


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


DON BIANCHI, PRIMARY SPONSOR DATE

Fiscal Note for SB0300, as introduced

SB300

FISCAL IMPACT:

Public Employees Retirement System

	FY '94			FY '95		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Expenditures:						
PERS Benefit Payments	\$66,757,840	\$67,285,315	\$527,475	\$72,098,467	\$73,733,444	\$1,634,977
19-3-105,MCA Supplement	<u>1,545,320</u>	<u>1,545,320</u>	<u>0</u>	<u>1,668,946</u>	<u>1,695,320</u>	<u>26,374</u>
Total	\$68,303,160	\$68,830,635	\$527,475	\$73,767,413	\$75,428,764	\$1,661,351
Revenues:						
Employer Contributions:						
General Fund	\$5,940,728	\$7,616,545	\$1,675,817	\$6,089,246	\$7,806,959	\$1,717,713
Non-General Fund	8,911,092	11,424,818	2,513,726	9,133,869	11,710,438	2,576,569
University System	3,341,660	4,284,307	942,647	3,425,201	4,391,414	966,213
Local Governments	18,936,071	24,277,739	5,341,668	19,409,472	24,884,682	5,475,210
Employee Contributions	37,129,551	42,394,189	5,264,638	38,057,789	43,454,043	5,396,254
19-3-105,MCA Supp. (GF)	1,545,320	1,545,320	0	1,668,946	1,695,320	26,374
Investment earnings	<u>90,000,000</u>	<u>90,490,000</u>	<u>490,000</u>	<u>95,000,000</u>	<u>95,470,000</u>	<u>470,000</u>
Total	\$165,804,422	\$182,032,918	\$16,228,496	\$172,784,523	\$189,412,856	\$16,628,333

Teachers Retirement System

	FY '94			FY '95		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Expenditures:						
TRS Benefit Payments	\$69,568,258	\$70,263,941	\$695,683	\$73,742,353	\$75,217,201	\$1,474,847
19-4-706,MCA Supplement	<u>1,640,761</u>	<u>1,640,761</u>	<u>0</u>	<u>1,780,225</u>	<u>1,797,618</u>	<u>17,392</u>
Total	\$71,209,019	\$71,904,701	\$695,683	\$75,522,579	\$77,014,818	\$1,492,239
Revenues:						
Employer Contributions:						
School Districts	\$33,308,702	\$44,204,698	\$10,895,996	\$35,307,224	\$46,856,979	\$11,549,755
University System	1,464,346	1,943,366	479,020	1,552,207	2,059,967	507,760
State Agencies	847,605	1,124,875	277,270	898,462	1,192,368	293,906
Employee Contributions	33,638,810	39,464,952	5,826,143	35,657,139	41,832,849	6,175,710
19-3-105,MCA Supp. (GF)	1,640,761	1,640,761	0	1,780,225	1,797,618	17,392
Investment earnings	<u>64,260,000</u>	<u>64,805,000</u>	<u>545,000</u>	<u>66,130,000</u>	<u>66,685,000</u>	<u>555,000</u>
Total	\$135,160,224	\$153,183,652	\$18,023,428	\$141,325,257	\$160,424,781	\$19,099,524

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Employer contributions from local governmental entities are shown in above tables.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The additional employer and employee benefits paid to the PERS and TRS in the 1995 biennium are projected to be actuarially sufficient to fund the benefit increases provided for in the proposed legislation.

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for SB0300, second reading.

DESCRIPTION OF PROPOSED LEGISLATION:

Provides a guaranteed annual 2% increase in PERS and TRS retirement benefits each January 1, beginning 1994 to benefit recipients who have received benefits for at least 3 years and caps the combined effect of the post retirement adjustment and this increase by the change in the CPI. Cost of the proposal is paid 1/3 by active employees and 2/3 by employers, effective July 1, 1995.

ASSUMPTIONS:

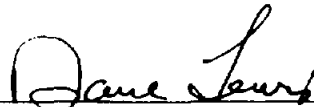
Public Employees Retirement System (PERS)

1. The total PERS covered payroll is projected to be \$554,172,400 in FY94 and \$568,026,700 in FY95: 40% state employees; 9% university employees; and 51% local government employees. 40% of the PERS-covered state employee payroll PERS is general fund. The covered payroll is assumed to grow by 4% from the 1995 biennium to the 1997 biennium. If work force downsizing occurs, the effect on employer/employee contributions would be reduced proportionally.
2. The proposed legislation increases PERS employer contribution rate from 6.7% to 8.89% of covered payroll and PERS employee contribution rates from 6.7% to 7.80% of salary, effective July 1, 1995.
3. Under current law, annual PERS benefits paid are projected to increase at an average rate of 8% per year.
4. The proposed legislation would increase PERS benefits paid to 9,750 eligible benefit recipients with average benefits of \$5,410/year by 2% beginning January 1, 1994 and would increase PERS benefits paid to 10,167 eligible benefit recipients with average benefits of \$5,705/year beginning January 1, 1995.
5. An increase in pension benefits would increase the general fund adjustment provided under 19-3-105, MCA, calculated at 2.5% of previous calendar year PERS benefits.

Teachers Retirement System (TRS)

1. The total TRS covered payroll is projected to be \$477,552,666 in FY94 and \$506,205,826 in FY95: 93.5% local school districts; 4.1% university system; and 2.4% state agencies. The covered payroll is assumed to grow by 4% from the 1995 biennium to the 1997 biennium. If work force downsizing occurs, the effect on employer/employee contributions would be reduced proportionally.
2. The proposed legislation increases TRS employer contribution rate from 7.459% to 9.826% of covered payroll and TRS employee contribution rates from 7.044% to 8.226% of salary, effective July 1, 1995.
3. Under current law, annual TRS benefits paid are projected to increase at an average rate of 7% per year.
4. An increase in pension benefits would increase the general fund adjustment provided under 19-4-706, MCA, calculated at 2.5% of previous calendar year TRS benefits.

(continued)

 2-18-93
DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

 2/18/93
DON BIANCHI, PRIMARY SPONSOR DATE

Fiscal Note for SB0300, second reading

SB 300 #2

FISCAL IMPACT:

Public Employees Retirement System

	<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>
Expenditures:						
TRS Benefit Payments	\$66,757,840	\$67,285,315	\$527,475	\$72,098,467	\$73,733,444	\$1,634,977
-3-105,MCA Supplement	<u>1,545,320</u>	<u>1,545,320</u>	<u>0</u>	<u>1,668,946</u>	<u>1,695,320</u>	<u>26,374</u>
Total	\$68,303,160	\$68,830,635	\$527,475	\$73,767,413	\$75,428,764	\$1,661,351
Revenues:						
-3-105,MCA Supp. (GF)	1,545,320	1,545,320	0	1,668,946	1,695,320	26,374

Teachers Retirement System

	<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>
Expenditures:						
TRS Benefit Payments	69,568,258	70,263,941	695,683	73,742,353	75,217,201	1,474,847
-4-706,MCA Supplement	<u>1,640,761</u>	<u>1,640,761</u>	<u>0</u>	<u>1,780,225</u>	<u>1,797,618</u>	<u>17,392</u>
Total	71,209,019	71,904,701	695,683	75,522,579	77,014,818	1,492,239
Revenues:						
-3-105,MCA Supp. (GF)	1,640,761	1,640,761	0	1,780,225	1,797,618	17,392

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Employer contributions from local governmental entities would increase in the 1997 biennium (see below).

OUT-OF-RANGE EFFECTS OF PROPOSED LEGISLATION:

The additional employer and employee benefits paid to the PERS and TRS beginning in the 1997 biennium are projected to be actuarially sufficient to fund the benefit increases provided for in the proposed legislation. Additional employer and employer contributions in the 1997 biennium are estimated as follows:

(continued)

SB 300-#2

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

Public Employees Retirement System

	<u>FY '96</u>			<u>FY '97</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Employer Contributions:						
General Fund	\$6,332,816	\$8,412,248	\$2,079,432	\$6,589,129	\$8,748,738	\$2,162,609
Non-General Fund	9,499,224	12,618,372	3,119,148	9,879,193	13,123,107	3,243,914
University System	3,562,209	4,731,890	1,169,681	3,704,697	4,921,165	1,216,468
Local Governments	20,185,851	26,814,041	6,628,190	20,993,285	27,886,603	6,893,318
Employee Contributions	<u>39,580,100</u>	<u>46,078,326</u>	<u>6,498,225</u>	<u>41,163,304</u>	<u>47,921,459</u>	<u>6,758,154</u>
Total	\$ 79,160,200	\$ 98,654,877	\$19,494,676	\$ 82,326,608	\$102,601,072	\$20,274,463

Teachers Retirement System

	<u>FY '96</u>			<u>FY '97</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Employer Contributions:						
School Districts	36,715,775	48,366,966	11,651,192	38,184,406	50,301,645	12,117,239
University System	1,609,997	2,120,904	510,908	1,674,396	2,205,741	531,344
State Agencies	942,437	1,241,505	299,068	980,134	1,291,165	311,031
Employee Contributions	<u>37,083,424</u>	<u>43,306,111</u>	<u>6,222,687</u>	<u>38,566,761</u>	<u>45,038,355</u>	<u>6,471,594</u>
Total	76,351,632	95,035,487	18,683,855	79,405,698	98,836,906	19,431,208

APPROVED BY COMMITTEE
ON STATE ADMINISTRATION

SENATE BILL NO. 300

INTRODUCED BY BIANCHI, FRITZ, VAUGHN, DAVIS,

YELLOWTAIL, LYNCH, PIPINICH, PAVLOVICH,

J. JOHNSON, J. RICE, GERVAIS, HARRINGTON, MCCLERNAN, HARPER

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING POSTRETIREMENT
ADJUSTMENTS FOR CERTAIN BENEFIT RECIPIENTS UNDER THE PUBLIC
EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS; ADJUSTING
EMPLOYER AND EMPLOYEE CONTRIBUTIONS; AMENDING SECTIONS
19-3-701, 19-3-801, 19-3-1109, 19-3-1110, 19-4-602,
19-4-605, 19-4-711, AND 19-4-712, MCA; AND PROVIDING AN
EFFECTIVE DATE."

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

NEW SECTION. **Section 1.** Guaranteed annual benefit
adjustment. The monthly service, disability, or survivorship
benefit provided to a benefit recipient under this chapter
must be increased by 2% on January 1 each year after the
benefits have been paid to the recipient for at least 36
months on or before June 30 in the year the adjustment is
made.

Section 2. Section 19-3-701, MCA, is amended to read:

"19-3-701. **Member's contribution to be deducted.** (1) On
and--before--June--30--1989, July 1, 1993, the normal
contribution of each member is 6% ~~7.65%~~ 6.70% of his the

~~member's compensation. The--normal--contribution--of--each
member--increases--to: ON JULY 1, 1995, THE NORMAL
CONTRIBUTION OF EACH MEMBER IS 7.80% OF THE MEMBER'S
COMPENSATION.~~

~~(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 is 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

1 the member's accumulated contributions but must be accounted
2 for separately from those previously accumulated.

3 (5) The member's contributions picked up by the
4 employer must be payable from the same source as is used to
5 pay compensation to the member and must be included in the
6 member's wages as defined in 19-1-102 and his the member's
7 compensation as defined in 19-3-104. The employer shall
8 deduct from the member's compensation an amount equal to the
9 amount of the member's contributions picked up by the
10 employer and remit the total of the contributions to the
11 board."

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

13 "19-3-801. **Employer contribution rates -- actuarial**
14 **determination.** (1) Each employer shall contribute to the
15 cost of benefits under the system. The amount of the
16 employer contributions ~~shall~~ must be computed by applying to
17 a member's compensation the sum of the current service
18 contribution rate and the unfunded liability contribution
19 rate. The sum of these rates is ~~6.417% from July 1, 1983, to~~
20 ~~June 30, 1992, and to 6.70% on July 1, 1993, and~~
21 ~~8.59% 6.70% on July 1, 1993, AND~~
22 INCREASES TO 8.89% ON JULY 1, 1995.

23 (2) The actuary shall determine the current service
24 contribution rate to be that level percentage of the present
25 value of the future compensation of the average new member

1 entering the system which equals the then present value of
2 the excess of all prospective benefits in respect of such
3 the member over the member's own normal contributions.

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

16 **Section 4.** Section 19-3-1109, MCA, is amended to read:

17 "19-3-1109. **Eligibility for postretirement adjustment.**
18 ~~(1) Except as provided in subsection (2), a member or~~
19 ~~beneficiary is eligible to receive~~ A recipient of a service,
20 disability, or survivorship benefit is eligible for a
21 postretirement adjustment as provided in 19-3-1111 if he is
22 receiving a:

23 ~~(a) service retirement allowance and is 55 years of age~~
24 ~~or older on or before June 30 in the year that the~~
25 ~~postretirement adjustment is made; or~~

1 ~~(b)--disability-or-survivorship-allowance-~~
 2 ~~{2}--A-member-or-beneficiary-is-ineligible-to-receive--a~~
 3 ~~postretirement-adjustment-under-subsection-(1)-unless-he-has~~
 4 ~~been---receiving---a---monthly---service,---disability,---or~~
 5 ~~survivorship--allowance~~ the benefit has been paid for at
 6 least 24 36 consecutive months on or before June 30 in the
 7 year the adjustment is made."

8 **Section 5.** Section 19-3-1110, MCA, is amended to read:

9 "19-3-1110. Funding for postretirement adjustment --
 10 reserve fund. (1) At the end of each fiscal year, the board
 11 shall determine the total investment income earned on the
 12 retirement fund for that fiscal year. From this amount, the
 13 board shall subtract the:

14 (a) actuarial amount required to fund the retirement
 15 system for the fiscal year; and

16 (b) retirement system's administrative and investment
 17 expenses for the fiscal year.

18 (2) (a) From the remainder obtained in subsection (1),
 19 the board shall calculate the amount of investment income
 20 earned on that portion of the retirement fund balance
 21 representing retired members.

22 (b) The board shall deposit the amount calculated in
 23 subsection (2)(a) in a reserve fund.

24 (3) Subject to the restrictions contained in
 25 subsections (4) and (5), the board shall annually use 90% of

1 the amount in the reserve fund provided for in subsection
 2 (2)(b) to pay a postretirement adjustment to eligible
 3 ~~members-or-beneficiaries~~ benefit recipients under 19-3-1111.

4 (4) If the amount in the reserve fund is insufficient
 5 to provide an average monthly postretirement adjustment of
 6 at least \$1 under 19-3-1111, an adjustment may not be made
 7 in that calendar year.

8 (5) The amount available for payment of the
 9 postretirement ~~allowance~~ adjustment is limited to an amount
 10 that would provide a percentage increase in the average
 11 service, disability, or survivorship ~~allowance~~ benefit of
 12 ~~all--eligible--members~~ each eligible recipient that, when
 13 combined with the ~~postretirement--adjustment~~ guaranteed
 14 annual benefit adjustment provided under [section 1], that
 15 is equal to or less than the percentage increase for the
 16 previous calendar year in the annual average consumer price
 17 index for urban wage earners and workers compiled by the
 18 bureau of labor statistics, United States department of
 19 labor, or its successor agency."

20 **Section 6.** Section 19-4-602, MCA, is amended to read:

21 "19-4-602. Annuity savings fund -- ~~member's~~
 22 contribution. The annuity savings fund is a fund in which
 23 the contributions for the members to provide for their
 24 annuities ~~shall~~ must be accumulated in individual accounts
 25 for each member. The normal contribution of each member is

1 ~~7.044%~~ ~~8.264%~~ 7.044% of his earned compensation. ON JULY 1,
 2 1995, THE NORMAL CONTRIBUTION OF EACH MEMBER INCREASES TO
 3 8.226% OF EARNED COMPENSATION. Contributions to and payments
 4 from the annuity savings fund ~~shall~~ must be made in the
 5 following manner:

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

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

18 (c) The member's contributions picked up by the
 19 employer must be payable from the same source as is used to
 20 pay compensation to the member and must be included in the
 21 member's wages, as defined in 19-1-102, and his earned
 22 compensation as used to define his the member's average
 23 final compensation in 19-4-101. The employer shall deduct
 24 from the member's compensation an amount equal to the amount
 25 of the member's contributions picked up by the employer and

1 remit the total of the contributions to the retirement
 2 board.

3 (d) The deductions ~~shall~~ must be made notwithstanding
 4 that the minimum compensation provided by law for a member
 5 may be reduced ~~thereby~~ by the deductions. Every member is
 6 considered to consent to the deductions prescribed by this
 7 section, and payment of salary or compensation less the
 8 deductions is a complete discharge of all claims ~~whatsoever~~
 9 for the services rendered by the member during the period
 10 covered by the payment, except as to the benefits provided
 11 by the retirement system.

12 (2) In addition to the normal contributions and subject
 13 to the approval of the retirement board, any member may
 14 redeposit in the annuity savings fund, by a single payment
 15 or by an increased rate of contribution, an amount equal to
 16 any accumulated contributions ~~which-he~~ that the member has
 17 previously withdrawn, plus interest in the amount the
 18 contributions would have earned had the contributions not
 19 been withdrawn.

20 (3) The accumulated contributions of a member withdrawn
 21 ~~by-him~~ or paid to his the member's estate or to his a
 22 designated beneficiary in event of his the member's death
 23 ~~shall~~ must be paid from the annuity savings fund. Upon the
 24 retirement of a member, his the member's accumulated
 25 contributions ~~shall~~ must be transferred from the annuity

1 savings fund to the pension accumulation fund."

2 **Section 7.** Section 19-4-605, MCA, is amended to read:

3 "19-4-605. Pension accumulation fund -- employer's
4 contribution. The pension accumulation fund is the fund in
5 which the reserves for payment of pensions and annuities
6 ~~shall~~ must be accumulated and from which pensions,
7 annuities, and benefits ~~in-lieu-thereof-shall~~ must be paid
8 to or on account of beneficiaries credited with prior
9 service. Contributions to and payments from the pension
10 accumulation fund ~~shall~~ must be made as follows:

11 (1) Each employer shall pay into the pension
12 accumulation fund an amount equal to ~~7.459%~~ ~~9.899%~~ 7.459% of
13 the earned compensation of each member employed during the
14 whole or part of the preceding payroll period. ON JULY 1,
15 1995, THIS AMOUNT INCREASES TO 9.826% OF THE EARNED
16 COMPENSATION OF EACH MEMBER.

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

20 (3) If the employer is the superintendent of public
21 instruction, a public institution of the state of Montana, a
22 unit of the Montana university system, or the Montana state
23 school for the deaf and blind, the legislature shall
24 appropriate to the employer an adequate amount to allow the
25 payment of the employer's contribution.

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

5 (5) All interest and other earnings realized on the
6 moneys money of the retirement system ~~shall~~ must be credited
7 to the pension accumulation fund, and the amount required to
8 allow regular interest on the annuity savings fund ~~shall~~
9 must be transferred to that fund from the pension
10 accumulation fund.

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

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

17 **Section 8.** Section 19-4-711, MCA, is amended to read:

18 "19-4-711. Eligibility for postretirement adjustment.
19 ~~(1) Except as provided in subsection (2), a member or~~
20 ~~beneficiary~~ A recipient of a service, disability, or
21 survivorship benefit is eligible to receive a postretirement
22 adjustment as provided in 19-4-713 if ~~he is receiving a~~
23 ~~(a) service retirement allowance and is 55 years of age~~
24 ~~or older on or before June 30 in the year that the~~
25 ~~postretirement adjustment is made, or~~

~~(b) -- disability or survivorship allowance.~~

~~(2) -- A member or beneficiary is ineligible to receive a postretirement adjustment under subsection (1) unless he has been receiving a monthly service, disability, or survivorship allowance the benefit has been paid for at least 24 ³⁶ consecutive months on or before June 30 in the year the adjustment is made."~~

Section 9. Section 19-4-712, MCA, is amended to read:

"19-4-712. Funding for postretirement adjustment -- reserve fund. (1) At the end of each fiscal year, the board shall determine the total investment income earned on the retirement fund for that fiscal year. From this amount, the board shall subtract the:

(a) actuarial amount required to fund the retirement system for the fiscal year; and

(b) retirement system's administrative and investment expenses for the fiscal year.

(2) (a) From the remainder obtained in subsection (1), the board shall calculate the amount of investment income earned on that portion of the retirement fund balance representing retired members.

(b) The board shall deposit the amount calculated in subsection (2)(a) in a reserve fund.

(3) Subject to the restrictions contained in subsections (4) and (5), the board shall annually use 90% of

the amount in the reserve fund provided for in subsection (2)(b) to pay a postretirement adjustment to eligible members or beneficiaries benefit recipients under 19-4-713.

(4) If the amount in the reserve fund is insufficient to provide an average monthly postretirement adjustment of at least \$1 under 19-4-713, an adjustment may not be made in that calendar year.

(5) The amount available for payment of the postretirement ~~allowance~~ adjustment is limited to an amount that would provide a percentage increase in the average service, disability, or survivorship ~~allowance~~ benefit of ~~all eligible members~~ each eligible recipient that, when combined with the ~~postretirement adjustment~~ guaranteed annual benefit adjustment under [section 1], that is equal to or less than the percentage increase for the previous calendar year in the annual average consumer price index for urban wage earners and workers compiled by the bureau of labor statistics, United States department of labor, or its successor agency."

NEW SECTION. **Section 10.** Codification instruction.

[Section 1] is intended to be codified as an integral part of:

(1) Title 19, chapter 3, part 11, and the provisions of Title 19, chapter 3, part 11, apply to [section 1]; and

(2) Title 19, chapter 4, part 7, and the provisions of

SB 0300/02

1 Title 19, chapter 4, part 7, apply to [section 1].

2 NEW SECTION. **Section 11.** Effective date. [This act] is

3 effective July 1, 1993.

-End-