

1 HOUSE BILL NO. 96

2 INTRODUCED BY R. JOHNSON

3 BY REQUEST OF THE DEPARTMENT OF ADMINISTRATION
45 A BILL FOR AN ACT ENTITLED: "AN ACT INCREASING THE NUMBER AND KIND OF INVESTMENT
6 OPTIONS AVAILABLE IN THE STATE AND POLITICAL SUBDIVISION DEFERRED COMPENSATION PLANS;
7 AMENDING SECTION 19-50-102, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A
8 RETROACTIVE APPLICABILITY DATE ."9
10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
1112 **Section 1.** Section 19-50-102, MCA, is amended to read:13 **"19-50-102. Deferred compensation programs permitted -- rules.** (1) The state or a political
14 subdivision may establish deferred compensation plans that are eligible under section 457 of the Internal
15 Revenue Code of 1954, as amended or superseded, and in compliance with regulations of the U.S.
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28 compensation plan funds may be invested. The investment options and entities may include:29 (a) ~~shares in~~ a state deferred compensation investment fund established pursuant to Title 17 for
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23 ~~(5)(6)~~ The administrator may allocate any necessary costs against the assets and interest earnings
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25 ~~(6)(7)~~ The department or appropriate officer of a political subdivision shall promulgate rules not
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29 NEW SECTION. Section 2. Retroactive applicability. [This act] applies retroactively, within the
 30 meaning of 1-2-109, to compensation deferred by employees, as defined in 19-50-101, and to deferred

1 compensation plans established before [the effective date of this act].

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3 NEW SECTION. **Section 3. Effective date.** [This act] is effective on passage and approval.

4

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0096, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act increasing the number and kind of investment options available in the state and political subdivision deferred compensation plans; and incorporating federal requirements that funds be held for the exclusive benefit of participants.

ASSUMPTIONS:

1. Since the State Deferred Compensation Plan is entirely funded by participant contributions and interest earnings, there is no fiscal impact to state government expenditures or revenues. The only impacts will be to the State Deferred Compensation Plan custodial account.
2. If the bill is passed and approved, the Department of Administration plans to offer independent mutual funds to State Deferred Compensation Plan members as variable investment options rather than the current arrangement under which members are invested in an insurance company variable annuity (with underlying mutual funds selected by the insurance company). This will eliminate the variable annuity mortality and risk charge which will be between 0.35% to 0.60% on deferred compensation assets invested in variable options -- depending on the underlying mutual funds.
3. The William M. Mercer Company, which has been retained by the Department of Administration to provide deferred compensation plan consulting services, estimates additional savings on mutual fund company fees and enhanced returns of between 0.20% and 0.35% from directly offering mutual funds as variable options rather than a variable annuity.
4. The amendment will reduce expenditures (paid entirely by plan members) for variable fund investment services and increase net investment returns by an estimated range of 0.55% (0.35% plus 0.20%) to 0.95% (0.60% plus 0.35%)
5. Variable fund assets have increased by an average of 33% per year over the past three fiscal years to a total of \$24,275,205 at the end of fiscal 1996. If the assets continue to grow at this rate, the projected total assets will reach \$42,940,000 by the end of fiscal 1998 and \$57,110,000 by the end of fiscal 1999.
6. If the provisions of the bill are applied to variable fund asset projections for fiscal 1998, deferred compensation plan expenditures will be reduced/net investments increased by an estimated range of \$236,170 (0.0055 x \$42,940,000) to \$407,930 (0.0095 x \$42,940,000).
7. If the provisions of the bill are applied to variable fund asset projections for fiscal 1999, deferred compensation plan expenditures will be reduced/net investments increased by an estimated range of \$314,105 (0.0055 x \$57,110,000) to \$542,545 (0.0095 x \$57,110,000).


FISCAL IMPACT:

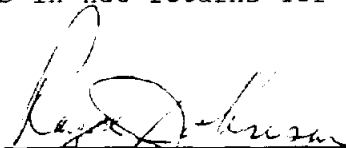
Expenditures:

There is no impact on state government expenditures.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The bill would allow counties and local governments to obtain independent mutual fund investment services for their deferred compensation plans and make similar savings on mortality and risk and mutual fund fees/increases in net returns for participants in the plans.


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


ROYAL JOHNSON, PRIMARY SPONSOR DATE

Fiscal Note for HB0096, as introduced

HB 96

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