Summary of LCsa03
Revising Contribution Triggers in PERS

prepared by Sheri Scurr, Legislative Services Division
for the State Administration and Veterans' Affairs Interim Committee
June 5, 2014

Background

At its April 8, 2014, meeting, the Committee voted to draft for preliminary consideration LCsa03 to provide for adjustable contribution rates in the Public Employees' Retirement System (PERS), similar to the adjustable rates provided for in TRS under HB 377 from the 2013 Session. The Committee also requested a fiscal analysis for the bill.

Overview

The bill's provisions are essentially as follows:

- the 1% member contribution increase that would otherwise terminate when the PERS amortization schedule is 25 years or less becomes a 1% adjustable rate;

- 1% of the 1.27% rate that increases by 0.1% each fiscal year to 2.27% by FY 2024 and that would otherwise terminate when the PERS amortization schedule is 25 years or less becomes a 1% adjustable rate;

- after the termination of the additional employer contribution rate (0.27% increasing by 0.1% each FY), the board <u>may</u> decrease the adjustable 1% rates if:
  - average funded ratio for three years is 90% or greater; and
  - amortization period is less than 15 years;
  - employer rate may not be decreased until GABA is increased to max allowed.

- the board <u>may</u> increase the adjustable 1% rates if:
  - average funded ratio for three years is 80% or less; and
  - amortization period is great than 20 years;

- any adjustment of rates would not be effective until July 1 in the year after the annual valuation;

- the 1% employer contribution increase for PERS DC plan members that was directed to the DB plan unfunded liabilities becomes adjustable and is directed to the Plan Choice Rate (PCR) unfunded liability in the DB plan and, when the PCR is paid off, it goes to the member accounts;

- the 1% employer contribution increase for PERS members in the U-system retirement program (MUSRP) that was inadvertently not allocated so was allocated by MPERA rule to the PERS DB plan unfunded liabilities, is redirected to the PCR unfunded liability in the DB plan and, when the PCR is paid off, it goes to the member accounts; and

- provides that an adjustment by the PERS Board in the allocation of employer contributions for the PERS DC plan and the MUSRP would take effect January 1 following the Board's determination rather than January 1 after the end of the next legislative session.

Differences with TRS

PERS under LCsa03	TRS current law
New Section 1. Adjustable <u>member</u> contribution rate is 1% for all members No reference to normal cost	Section 19-20-608, MCA Tier 1 - 1% adjustable member contribution Tier 2 - member contribution may be adjusted in single 0.5% increments, total contributions are capped at 9.15% when added to the normal contribution rate under 19-20-602 (currently 8.15%). Adjustment allowed only on or after January 1, 2023.
New Section 2. Adjustable <u>employer</u> contribution rate is 1% Employer contribution of 0.27% increasing by 0.1% each FY to 1.27% by FY 2024 terminates when amortization schedule is 25 years or less	Section 19-20-609, MCA 1% adjustable employer contribution rate, increasing by 0.1% each FY to FY2024, rate capped at 2% No portion of employer contributions terminate
The adjustable contributions are also applicable to the DC plan and MUSRP	No DC plan
Adjustments effective July 1 in the year after the Board's determination	Same. Adjustments effective July 1 immediately following the Board's determination

Fiscal note

The PERS Board did not approve asking their actuary for an analysis of how the bill would affect the system's actuarial funding status. The Legislative Fiscal Division will be able to provide some fiscal information by the Committee's August 12 meeting. In the meantime, it may be helpful to know that, based on June 30, 2013, salary data, assuming 4% salary inflation:

- 1% of compensation under the DB plan is $10,890,053;
- 1% of compensation under the DC plan and MUSRP is $1,106,761;
- about 27% ($3 million) of the 1% compensation under the DB plan would be paid by the general fund; and
- about 32% ($3.5 million) of the 1% compensation under the DB plan would be paid by local governments, including school districts.

Some policy questions and decision points

1. Are the adjustable contribution rate amounts OK? (1% employer, 1% employee)

2. Does the Committee want to coordinate the cap on the employee contribution rate with normal cost?

3. Is the Committee comfortable with allowing the PER Board's adjustments to the allocation of the employer contributions in the DC plan and MUSRP to become effective January 1 following the Board's determination rather than January 1 following the next legislative session?

4. Is the Committee comfortable with making the employee and employer contribution rates adjustable in the DC plan and MUSRP and based on the DB plan's actuarial funding status? Or, should the contribution rates be fixed at the additional 1%, or eventually terminated?

Cl0134 4153shqa.