



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: December 16, 2021  
TO: Legislative Finance Committee (LFC)  
FROM: Sam Schaefer  
RE: Pension Systems' Funding

The following table shows a summary of each pension systems' funded ratio and amortization period (measured in years) under the baseline return on investment (ROI) assumption of 7.50% for the Teacher's Retirement System (TRS) and 7.65% for the remaining systems. In addition, scenarios where the ROI is both 0.5% above the assumed rate of return and 0.5% below the assumed rate of return are also listed.

System	Baseline ROI Assumption		Assume 0.5% Higher ROI		Assume 0.5% Lower ROI	
	Funded Ratio	Amortization Period	Funded Ratio	Amortization Period	Funded Ratio	Amortization Period
PERS	76%	28	80%	17	72%	49
TRS	71%	24	75%	16	68%	35
SRS	83%	18	89%	9	78%	43
MPORS	74%	15	79%	10	70%	23
FURS	86%	6	92%	3	80%	10
HPORS	67%	26	71%	18	63%	41
GWPORS	85%	35	91%	10	80%	Does not amortize
JRS	177%	0	184%	0	169%	0

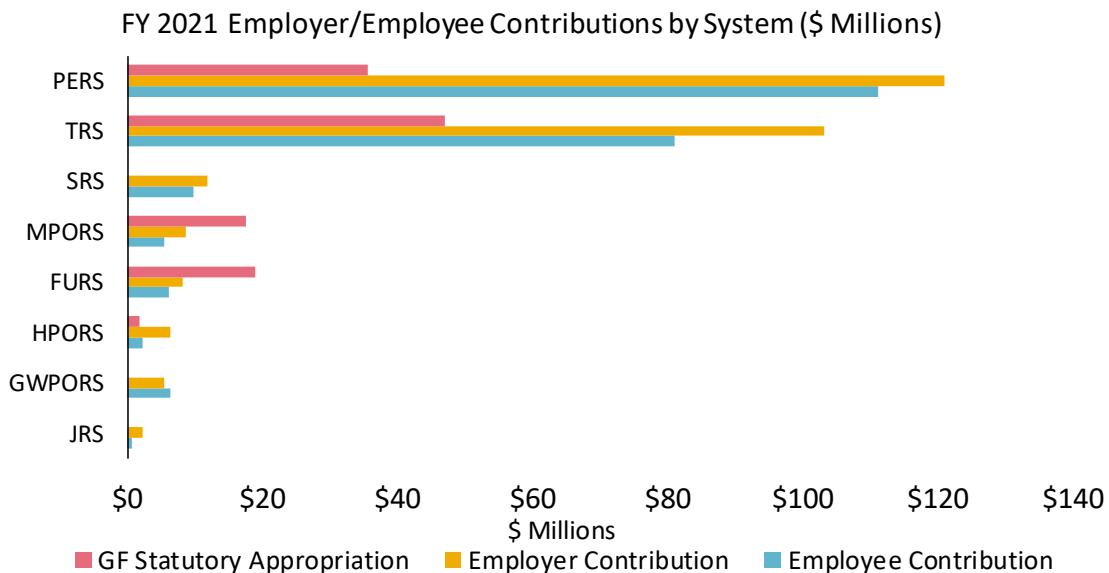
While investment earnings from the pension trust funds are used to pay retiree benefits, the systems are funded through contributions to the systems. These contributions include employer and employee contributions as well as state general fund supplemental contributions to select systems. Employer and employee contribution levels vary from system to system and are primarily funded through state and local funds.

The table below shows the general fund statutory appropriations that contribute to various pension systems' funding as well as the final FY 2021 amounts. Those listed in **bold** were most recently implemented in the 2013 Legislative Session to improve funding for the state's two largest systems, PERS and TRS.

General Fund (\$Millions)	2021 Actual
Retirement	
<b>19-3-320 Statutory Appropriation to PERS</b>	<b>\$34.291</b>
<u>19-3-319 Local Gov. Retirement Contribution</u>	1.204
<u>19-6-404 MHP Retirement Transfer</u>	1.837
<u>19-6-410 MHP Supplemental Retirement Transfer</u>	-
<u>19-9-702 Police Retirement Contribution</u>	17.387
<u>19-13-604 Firefighters' Association Contribution</u>	18.438
<u>19-17-301 Volunteer Firefighter Fund Contribution</u>	2.592
<u>19-18-512 Fire Department Relief Association Contribution</u>	0.394
<u>19-19-305 Police (Non-PERS) Retirement Contribution</u>	0.184
<u>19-19-506 Police Officer Pension Supplemental Contribution</u>	-
<u>19-20-604 Teacher's Retirement Supplemental Contribution</u>	0.996
<u>19-20-607 (1)(a) Teachers' Retirement System Contribution</u>	21.025
<b>19-20-607 (1)(b) Teachers' Retirement System Contribution</b>	<b>25.000</b>
<u>19-21-203 MUS Retirement Contribution</u>	1.802
Total	\$125.148

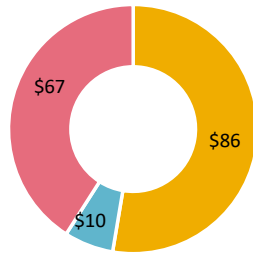
### Employer/Employee Contributions

While the general fund statutory appropriations listed above are a material source of funding for the pension systems, employer and employee contributions provide the most significant source of funding. In FY 2021 employer contributions totaled \$267 million while employee contributions totaled \$223 million. Employer and employee contributions by pension system are shown in the figure below.



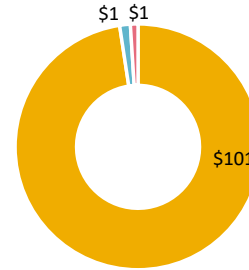
The employer varies across and within the pension systems listed above. Employers range from local government jurisdictions (school districts, counties, cities, etc.) to the state and university system. Nearly 98% of employer contributions from TRS are local government employers, primarily school districts. For MPERA systems, this percentage is nearly 53%.

FY 2021 MPERA Contributions by Employer Type  
(\$ Millions)



Local Government MUS State

FY 2021 TRS Contributions by Employer Type  
(\$ Millions)



Local Government MUS State

The chart below shows the breakdown of funding for the MPERA contributions shown above. Specifically, it lists the state funds that fund the contributions for state agency employers. Note that the primary source of funding for local government employers is in the form of local property taxes.

MPERA Employer Contributions FY 2021 (\$ Millions)		
Fund Type	Contributions	% of Total
Local Funds (Primarily Local Property Taxes)	\$86.0	53%
General Fund	24.8	15%
State Special Funds	24.5	15%
Federal Funds	11.5	7%
MUS Funds	10.0	6%
Other Funds	<u>6.1</u>	4%
Total	\$163.0	

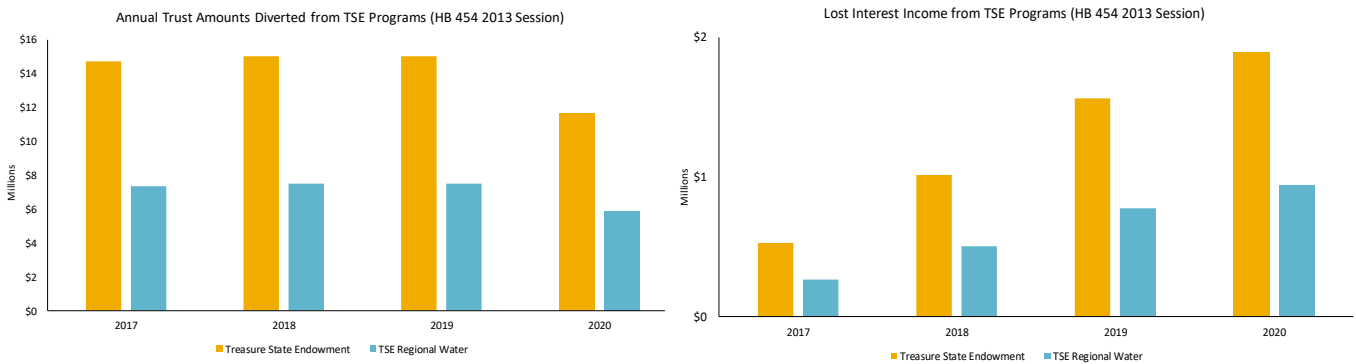
### HB 454 (2013 Session)

HB 454, from the 2013 Legislative Session, increased funding to the Public Employees' Retirement System (PERS). The legislation increased employer and employee contributions and supplemented these contributions with general fund revenues to PERS. For FY 2014 through FY 2017 these supplemental general fund revenues initially came from a diversion of coal severance taxes and interest income from the coal permanent fund. Beginning in FY 2018 (HB 648, 2017 Regular Session) this diversion from the coal trust stopped and those taxes were again retained within the coal trust. Replacing this supplemental funding for PERS was a direct general fund statutory appropriation, which was no longer tied to coal revenues, and totaled \$34.3 million in FY 2021, as seen on the table on page 1. SB 260 (2017 Regular Session) created a new school facilities sub-fund in the coal severance tax trust fund, into which 75% of coal severance taxes that fund the coal trust now are deposited.

To facilitate the supplemental contribution with coal severance tax revenues, HB 454 caused the sunset dates of coal severance tax dollars into the two Treasure State Endowment sub trusts to occur four fiscal years sooner than was current law. These two sub trust funds are the Treasure State Endowment (TSE)

Fund and the TSE Regional Water System Fund. The interest income from these trusts is used for local government infrastructure grants. While originally set to sunset at the end of FY 2020, coal severance tax deposits into these two subs trusts ended following FY 2016 as noted in the previous paragraph. As a result, the trust balances have not grown since FY 2016 and the interest income has remained relatively flat.

The following two figures illustrate the amounts that have been diverted from both TSE trusts due to the early sunsets as well as the corresponding lost interest income. Ultimately, the lost interest income would have been used for local infrastructure grants and instead has been used to help fund PERS. Assuming interest rates remain similar to those seen today, this reduction in funds available for local government infrastructure grants amounts to approximately \$2.8 million per year.



And this last figure shows the lost interest income from TSE programs due to HB 454, calculated in the previous chart, compared to the increased contribution to local government pension systems from FY 2017 (first year of coal severance tax diversion) to FY 2021 (current supplemental general fund statutory appropriation) due to the supplemental general fund contributions to PERS.

The figure below shows the ongoing lost interest income to the TSE programs compared to the additional general fund pension contributions to local governments employers within PERS, both a result of HB 454.

