

FINANCIAL ANALYSIS OF PENSIONS: A STATE & LOCAL CHALLENGE PART II

A Report Prepared for the
Legislative Finance Committee

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INTRODUCTION

As of June 30, 2011, there is a \$3.9 billion unfunded liability in Montana's public pension systems. The Actuarially Required Contribution (ARC) is approximately \$117.0 million per year higher than the current level of contributions to the systems. This gap in funding of the ARC is the responsibility of the State of Montana through the Governor and Legislature to resolve. The public pensions serve all levels of government in Montana and all levels of government share in this unfunded liability as described in the September report. The impacts by level are different and this report illustrates some of these differences.

The typical pension system is funded from three sources: employee contributions, employer and state contributions, and investment earnings. About 60% of the total funding comes from investment income, with the remainder coming from employees, employers and the state. This report uses employer contributions for calculating and comparing the gap in the ARC and the unfunded liability of each of the pension systems by government entity. Using employer contributions allocates the costs in a manner that is comparable across employer types: state, city, county, and school districts. Future study will continue to refine cost estimates and begin to address various solutions to the funding gap.

KEY ASSUMPTIONS

The gap in the ARC is defined as the difference between the current contribution level and the required contributions. The gap is calculated as a percentage of wages by system. The analysis contained in this report uses a calculated gap in ARC with the following assumptions:

- No increase in contributions or other changes will occur in FY 2012 and FY 2013 that have not already passed the Legislature. This is likely as the Legislature would need to meet and pass a law to change this assumption.
- All other actuarial assumptions, including the return on investments, wages, and other demographic data are as assumed in the respective actuarial valuations.

The gaps in the ARC used in this report are from the FY 2011 Actuarial Valuations for all systems except Teachers Retirement System (TRS). The actuaries of TRS produced a modified estimate based on an assumption of no increases in contributions for the 2013 biennium. The FY 2014 gaps for all systems—referred to throughout this report—are as follows:

Teachers Retirement System (TRS):	4.63% actuarially calculated
Public Employees Retirement System (PERS):	5.45% FY 2011 Actuarial Valuation
Sheriffs Retirement System (SRS):	4.33% FY 2011 Actuarial Valuation
Game Wardens Retirement System:	2.82% FY 2011 Actuarial Valuation
Highway Patrol Retirement System:	2.38% FY 2011 Actuarial Valuation
MUS Optional Retirement Plan (ORP):	3.82% David Senn (TRS) estimate

Perspective

This report examines the potential budget and property tax implications of meeting the Actuarially Required Contribution (ARC) of public pension systems in Montana. It uses employer contribution increases to allocate costs in a manner that is comparable across employer types: state, city, county and school districts.

It does not offer recommendations on how to close the current funding gap or reduce or eliminate the unfunded liabilities. Any such proposal will likely require a combination of corrective measures, including possible increases in employer and employee contribution rates, decreases in benefit rates, and other changes to pension plan structure.

Pension administrators are exploring a range of alternatives adopted by other states; see the appendix for further details.

BREAKOUT OF THE REPORT ELEMENTS

This report includes:

- FY 2011 updates to the September analysis
 - Wages and employer contributions obtained from the payroll reports of each system
 - Unfunded liability as presented in the FY 2011 Actuarial Valuation for each system, allocated by current wages and by current funding
- Local governments
 - Employer wages and contributions as a percent of budgets
 - An estimate of the effect on budgets of increasing employer contributions
 - Property tax implications of an increase in employer contributions
- School districts
 - Local share of wages and employer contributions as a percent of budgets
 - An estimate of the effect on budgets of increasing employer contributions
 - Property tax implications of an increase in employer contributions
- State government
 - Employer wages and contributions as a percent of budget
 - Allocation of costs by major fund type
- Summary of findings, including the implied state general fund share, property tax implications, and other comparisons
- Options for further research
- Appendix
 - Additional detailed information that supports report tables and charts
 - Stabilizing the TRS Fund: Considering the Alternatives

FY 2011 UPDATES

The tables below update the information provided in the September report with FY 2011 payroll data and FY 2011 data from the state accounting system (SABHRS). Wages and employer contributions decreased slightly from FY 2010, likely due to a pay period timing difference.

FY 2011 Wages by Retirement System			
Retirement System	Contributing Entities		Grand Total
	Local	State	
Fire	\$34,309,825	\$542,336	\$34,852,160
Game Wardens		38,306,496	38,306,496
Highway Patrol		12,471,575	12,471,575
Judges		5,645,110	5,645,110
Police	39,470,441		39,470,441
Public Employees	539,102,252	631,515,064	1,170,617,316
Sheriffs	54,242,459	2,799,012	57,041,471
Teachers	697,767,932	40,884,859	738,652,791
Grand Total	\$1,364,892,908	\$732,164,452	\$2,097,057,360

FY 2011 Funding by Retirement System			
Retirement System	Contributing Entities		Grand Total
	Local	State	
Fire	\$4,926,891	\$11,266,313	\$16,193,204
Game Wardens		3,447,585	3,447,585
Highway Patrol		3,261,317	3,261,317
Judges		1,457,003	1,457,003
MUS Optional Retirement		15,023,506	15,023,506
Police	5,687,691	11,592,469	17,280,160
Public Employees	32,930,805	43,938,916	76,869,721
Sheriffs	5,486,625	283,120	5,769,745
Teachers	43,996,984	37,140,027	81,137,011
Grand Total	\$93,028,996	\$127,410,256	\$220,439,252

FY 2011 Funding by Entity & Fund Source			
Funding Sources	Contributing Entities		Grand Total
	Local	State	
K-12			
Federal Funds Schools (11.9%)	\$7,927,872		\$7,927,872
GTB State Average (24.7%)		\$16,494,149	16,494,149
Local Schools (63.5%)	42,413,527		42,413,527
Statutory Appropriation		17,437,366	17,437,366
K-12 Total	50,341,399	33,931,515	84,272,914
Local			
Community Colleges	592,395		592,395
Local Government	42,095,202		42,095,202
Statutory Appropriation		23,701,708	23,701,708
Local Total	42,687,597	23,701,708	66,389,305
MUS			
Current Unrestricted - Education		16,587,792	16,587,792
Current Unrestricted - Research		1,356,079	1,356,079
MUS Other		8,533,130	8,533,130
MUS Total		26,477,002	26,477,002
State			
Federal Funds		5,979,578	5,979,578
General Funds		15,952,550	15,952,550
Other		337,653	337,653
Proprietary Funds		4,128,689	4,128,689
State Special Revenue		16,901,560	16,901,560
State Total		43,300,031	43,300,031
Grand Total	\$93,028,996	\$127,410,256	\$220,439,252

The overall responsibility for each of the Montana public employee retirement plans is held by the state. The September report examined wages, current funding and the source of unfunded liability. In that report, the unfunded liability was distributed to local government entities two ways: based on their share of current wages and based on the local share of current funding. The same charts are shown below, but updated with FY 2011 data.

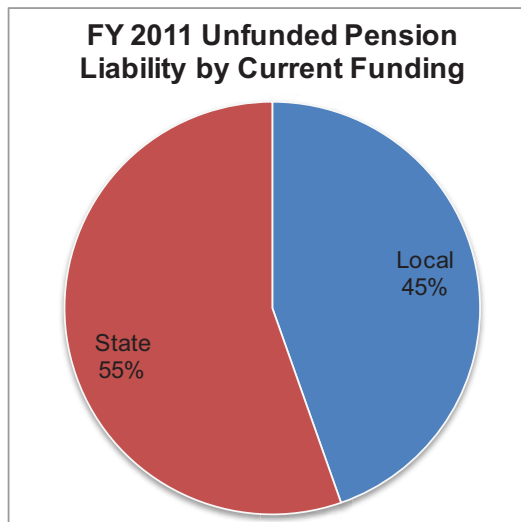
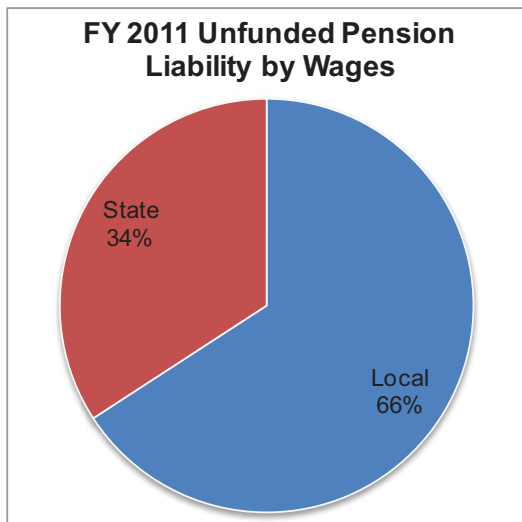
Unfunded liability increased from FY 2010 by \$304.3 million as financial losses of the plans from 2008 continued to be realized. Although the Judges Retirement System (JRS) is overfunded, the excess funds from that system cannot be shared with other underfunded systems; therefore, the total underfunded status of the pension systems is understated by \$17.9 million in the charts below.

FY 2011 Unfunded Pension Liability Allococated by Wages			
Retirement System	Contributing Entities		Grand Total
	Local	State	
Fire	\$133,124,771	\$2,104,304	\$135,229,075
Game Wardens		29,444,452	29,444,452
Highway Patrol		60,467,995	60,467,995
Judges		(17,860,211)	(17,860,211)
MUS Optional Retirement*		287,331,642	287,331,642
Police	179,711,358		179,711,358
Public Employees	741,296,356	868,369,246	1,609,665,602
Sheriffs	59,733,999	3,082,386	62,816,385
Teachers	1,421,488,006	83,290,352	1,504,778,358
Grand Total	\$2,535,354,491	\$1,316,230,165	\$3,851,584,656

*MUS ORP Unfunded Liability is from 2010 ORP Actuarial Valuation

FY 2011 Unfunded Pension Liability Alloc. by Current Funding			
Retirement System	Contributing Entities		Grand Total
	Local	State	
Fire	\$41,144,352	\$94,084,723	\$135,229,075
Game Wardens		29,444,452	29,444,452
Highway Patrol		60,467,995	60,467,995
Judges		(17,860,211)	(17,860,211)
MUS Optional Retirement		287,331,642	287,331,642
Police	59,151,226	120,560,132	179,711,358
Public Employees	689,576,906	920,088,696	1,609,665,602
Sheriffs	59,733,999	3,082,386	62,816,385
Teachers	868,634,581	636,143,777	1,504,778,358
Grand Total	\$1,718,241,064	\$2,133,343,592	\$3,851,584,656

*MUS ORP Unfunded Liability is from 2010 ORP Actuarial Valuation

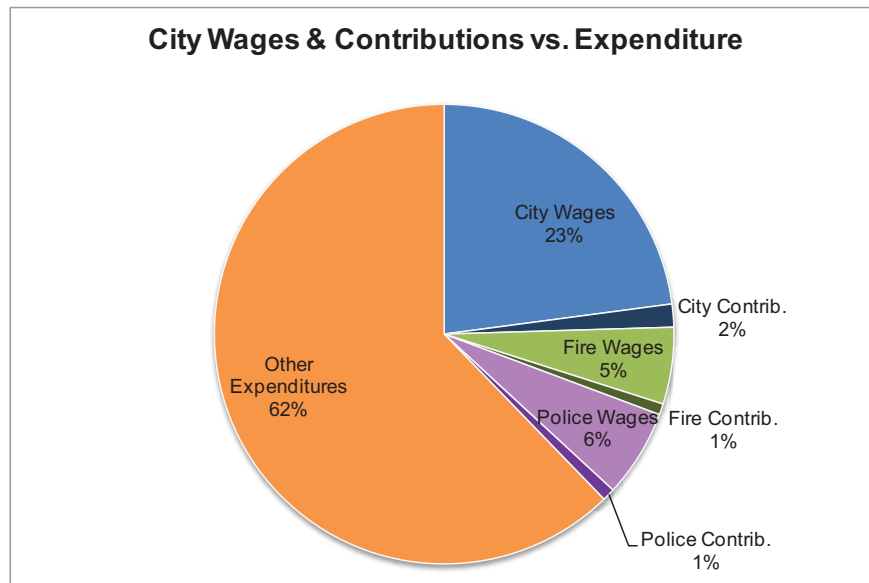


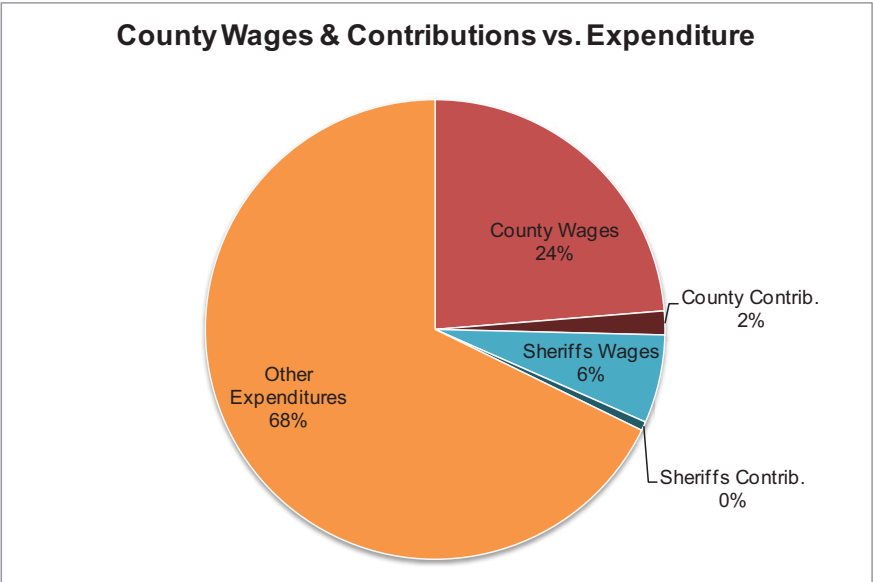
The pie charts on the previous page show an updated allocation between state and local liability from the September report. The local share of the pension liabilities by wages dropped from 72% to 66%. The main reason for this change is correcting the attribution of the liability to the Montana University System (MUS). The MUS changed to the ORP from TRS in the 1990's. The liability for this is calculated separately by the actuaries and cannot be allocated based on wages; therefore, it is removed from the total TRS liability. The remaining is allocated by wages, which is mostly based in local school districts.

LOCAL GOVERNMENTS

Wages as a portion of total spending demonstrate the relative importance of personal services costs relative to the total budgets of each type of government entity. Cities on average maintain 34% of their expenses as wages, while counties on average maintain 30% of their expenses as wages. See Tables 1 and 2 in the appendix for details of the FY 2010 wages and employer contributions for cities and counties participating in at least one of the state retirement systems. Table 3 in the appendix shows the FY 2010 expenditures by county, and wages and contributions as a percent of expenditure. Note that in this section only, FY 2010 wage and contribution data are used for comparison as FY 2011 local government expenditure data is not yet available.

The charts below show wages and employer contributions relative to total expenditure, averaged over participating entities. Although they do not show the total personal services costs to local governments (health insurance, workers compensation, unemployment insurance and social security are not included), they do illustrate a significant share of the personal services cost.





If the Key Assumptions on page 1 are used to fill the gap in ARC funding with employer contribution rate increases, the budgets in each county would see the following potential cost increases, shown as an amount and as a percent of total expenditures.

Cost of Increasing Employer Contributions for the Public Employees and Sheriffs Retirement Systems Based on FY 2010 Expenditure Data & FY 2010 Contributions						
	Cost			Cost as a % of All Expenditures		
	City	County	Total	City	County	Total
Beaverhead	\$34,715	\$135,663	\$170,378	0.74%	1.14%	1.03%
Big Horn	52,167	207,701	259,868	1.05%	1.28%	1.23%
Blaine	43,825	136,942	180,767	1.39%	1.91%	1.75%
Broadwater	15,406	96,105	111,512	1.11%	1.65%	1.55%
Carbon	52,050	147,232	199,282	0.73%	1.75%	1.28%
Carter	2,575	40,890	43,465	0.63%	1.06%	1.02%
Cascade	878,746	831,724	1,710,470	1.51%	2.00%	1.72%
Chouteau	27,148	121,651	148,799	1.02%	1.78%	1.56%
Custer	110,123	136,730	246,853	1.26%	1.83%	1.52%
Daniels	10,259	46,247	56,506	1.08%	1.79%	1.60%
Dawson	75,870	244,204	320,074	1.35%	2.10%	1.86%
Deer Lodge		145,003	145,003		0.97%	0.97%
Fallon	26,176	146,665	172,842	1.06%	1.35%	1.29%
Fergus	73,080	150,379	223,458	0.88%	1.91%	1.38%
Flathead	650,980	1,138,764	1,789,744	0.99%	1.83%	1.40%
Gallatin	750,511	897,465	1,647,976	1.09%	1.20%	1.15%
Garfield	-	42,380	42,380	0.00%	1.20%	1.10%
Glacier	57,004	153,808	210,812	1.74%	1.74%	1.74%
Golden Valley	1,049	14,267	15,315	0.21%	1.11%	0.86%
Granite	14,191	61,607	75,799	1.16%	1.71%	1.57%
Hill	117,748	223,151	340,899	1.24%	1.95%	1.63%
Jefferson	12,711	189,028	201,739	0.66%	1.83%	1.65%
Judith Basin	2,387	44,347	46,734	0.15%	1.58%	1.06%
Lake	6,745	315,532	322,277	0.10%	1.91%	1.38%
Lewis & Clark	556,915	910,204	1,467,119	1.13%	2.15%	1.60%
Liberty	11,472	61,861	73,334	1.40%	1.84%	1.75%
Lincoln	75,452	287,901	363,353	1.61%	1.27%	1.33%
Madison	26,044	300,592	326,636	1.24%	1.75%	1.69%
McCone	5,512	54,911	60,423	0.71%	1.80%	1.58%
Meagher	5,687	49,051	54,737	0.80%	0.89%	0.88%
Mineral	11,078	80,615	91,693	1.56%	1.95%	1.89%
Missoula	585,716	1,573,271	2,158,987	0.87%	2.10%	1.52%
Musselshell	17,519	67,865	85,385	0.90%	1.64%	1.40%
Park	123,064	194,309	317,373	1.20%	1.53%	1.39%
Petroleum	2,293	11,274	13,567	1.07%	1.10%	1.09%
Phillips	25,893	100,621	126,513	1.42%	1.74%	1.66%
Pondera	44,912	90,003	134,915	1.64%	1.82%	1.76%
Powder River	8,251	111,451	119,702	1.58%	1.59%	1.59%
Powell	25,419	88,858	114,277		1.40%	1.80%
Prairie	4,907	36,230	41,137	1.12%	2.00%	1.83%
Ravalli	103,091	418,318	521,409	1.63%	1.78%	1.75%
Richland	68,866	263,375	332,241	1.63%	0.82%	0.91%
Roosevelt	60,481	180,939	241,420	1.04%	2.48%	1.84%
Rosebud	89,871	166,559	256,429	1.43%	1.78%	1.64%
Sanders	37,934	166,175	204,109	1.24%	1.45%	1.41%
Sheridan	18,949	130,917	149,866	1.48%	1.94%	1.87%
Silver Bow		854,909	854,909		1.24%	1.24%
Stillwater	29,311	133,062	162,373	1.23%	1.89%	1.72%
Sweet Grass	14,534	190,414	204,948	0.77%	1.47%	1.38%
Teton	24,015	145,802	169,817	0.88%	1.97%	1.68%
Toole	43,673	330,923	374,596	0.86%	1.42%	1.32%
Treasure	-	23,576	23,576	0.00%	1.78%	1.29%
Valley	47,679	136,485	184,164	1.10%	1.65%	1.46%
Wheatland	8,960	43,805	52,765	0.97%	1.36%	1.28%
Wibaux	4,750	49,947	54,698	1.18%	1.56%	1.52%
Yellowstone	1,645,417	971,657	2,617,074	1.11%	2.07%	1.34%
Grand Total	\$6,743,132	\$13,893,364	\$20,636,497	1.11%	1.66%	1.43%

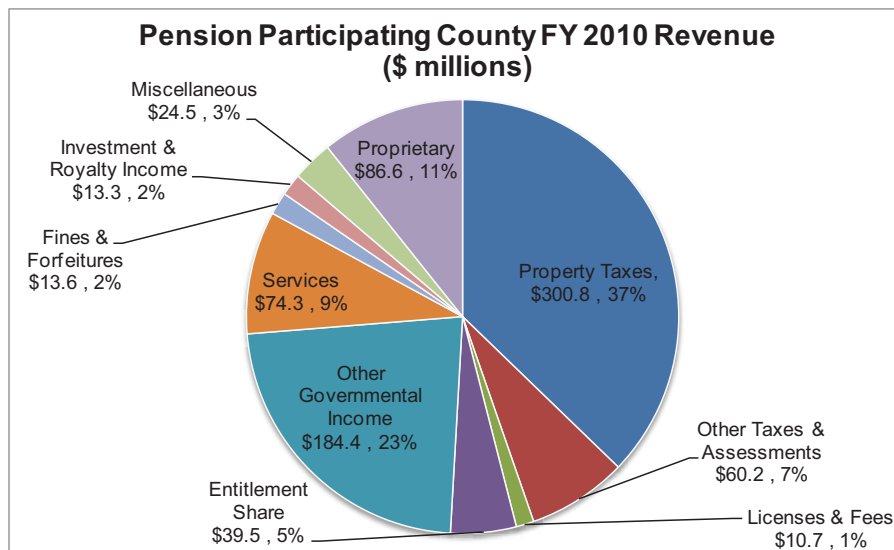
Butte-Silver Bow and Anaconda-Deer Lodge are combined city-county governments, and are shown in the county columns. Expenditures for the city of Deer Lodge in Powell County were not available, which explains the lack of cost percentage. Garfield and Treasure counties did not have cities with reported wage or employer contributions.

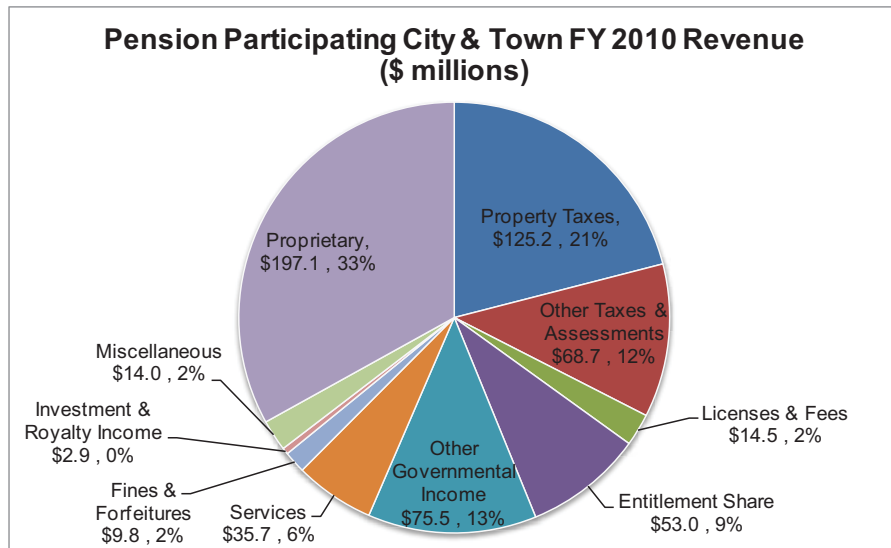
Increased Contributions Relative to the Tax Base by County

Local government data is grouped by pension participating counties, and cities and towns. All 56 counties participate in public pension programs, but only 96 of the state's 127 incorporated cities are participants. The data used in this analysis was obtained from the county and city annual reports filed with the Department of Administration (DOA), Local Government Services Division. Property tax and entitlement amounts are supplied by the Department of Revenue. The most recent data available is from FY 2010. All counties are included in the data, but the city data only contains 91 of the 96 pension participating governments. The cities not represented in the data are Browning, Deer Lodge, Poplar, Saco, and Sunburst. At the time of this analysis, they had not filed a 2010 report with DOA.

In FY 2010, counties had total revenues, less internal service funds, of \$808.0 million; cities and towns had \$596.0 million. Property taxes are 37% of total county revenues and 21% of city and town revenues, as illustrated in the pie charts below.

Other sources of revenue include licenses and fees, state transfers for entitlement shares, fines and forfeitures, services, investment and royalty income, and miscellaneous revenues. Other taxes and assessments include tax assessments for special projects such as streets, lighting and parks. Other governmental revenues include oil and gas taxes (in county government data), gas taxes, and state and federal grants. Proprietary funds are revenues obtained through local government business operations and include such services as water, sewer, and solid waste.





Included in 15-10-420, MCA, are the limits on the ability of local governments to raise property taxes. In many cases, counties and cities will not have the taxing authority to raise taxes to the levies shown in this analysis. Further study would be required to determine what flexibility currently rests in counties and cities to enact any level of property tax increase. Clearly the higher the property tax increase, the less likely the city or county will have the flexibility to pass the increased cost on to property taxpayers.

The following table on page 9 illustrates the impact to city and county governments of using increased employer contributions to fund the ARC for city and county public employees and sheriffs. Please refer to the callout box on page 1 for perspective on the usefulness of employer contributions for comparative purposes. While other options exist, if cost increases for employers were entirely funded with property tax mills, it would increase total property taxes by \$24.0 million.

Alternatively, if cost increases were shared among all of the revenue sources proportionally, then the property tax share would be \$7.5 million. Note that the proportional calculation assumed that personal services costs are evenly shared between all funding sources. This may not be accurate, but the detailed information is not available at this time. Under this assumption, some sources of revenue may not be able to be increased. Therefore, some reductions in services could be necessary to fund the increased costs. Further analysis could better identify these impacts.

This cost increase can be converted to a potential average mills increase by dividing by the net property value and multiplying by 1,000. For example, in Butte-Silver Bow, this would be: $\$1,056,861 / \$49,086,272 \times 1000 = 21.53$ mills. This increase as a percent of current mills can be obtained by dividing by current mills and multiplying by 100: $21.53 \text{ mills} / 734.59 \text{ mills} \times 100 = 2.93\%$. If cost increase were shared among all of the revenue sources in Butte-Silver Bow proportionally, then the property tax share would be 28.3% of the increase, or \$0.3 million.

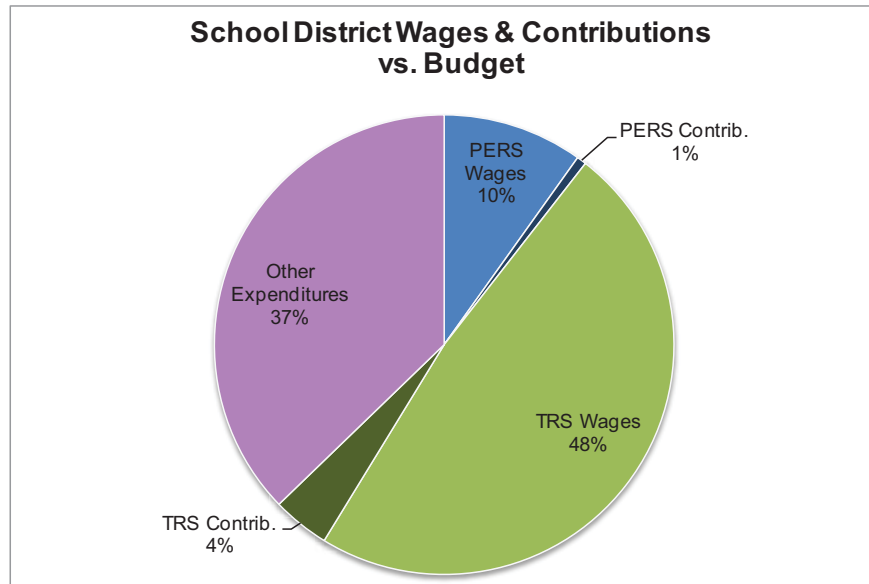
Please refer to the previous page for an explanation of this table.

Cost of Increasing Employer Contributions for the Public Employees and Sheriffs Retirement Systems Based on FY 2011 Property Tax Data & FY 2011 Contributions					
By County Impact on	PERS Contrib.	SRS Contrib.	Totals Mils	Net Taxable Value	Inc. Emp. Contrib.
Beaverhead	\$202,562	\$47,408	537.53	\$18,194,007	\$176,301
Big Horn	327,601	77,458	383.49	24,579,364	285,464
Blaine	215,082	40,982	499.55	13,115,420	183,221
Broadwater	111,851	68,297	477.70	12,557,866	115,256
Carbon	242,095	46,258	480.73	33,864,106	206,287
Carter	48,886	14,739	358.60	8,515,285	43,950
Cascade	2,200,577	403,787	596.82	127,613,147	1,867,998
Chouteau	170,803	46,006	560.34	20,978,920	151,223
Custer	394,291	47,508	719.04	15,303,726	324,141
Daniels	69,166	13,565	612.33	5,601,821	59,084
Dawson	382,508	166,170	663.93	17,257,428	365,502
Deer Lodge	221,114	17,321	581.90	11,579,290	177,812
Fallon	235,449	29,948	269.44	25,673,421	194,230
Fergus	268,793	54,989	569.77	26,006,159	230,579
Flathead	2,601,353	479,104	547.58	222,869,620	2,208,958
Gallatin	2,114,382	451,754	536.80	231,512,819	1,821,944
Garfield	60,053	7,048	518.90	5,367,368	49,289
Glacier	252,755	70,644	629.99	22,191,765	224,871
Golden Valley	17,262	6,280	460.19	5,240,410	15,976
Granite	230,843	25,619	527.94	10,179,643	188,839
Hill	386,103	82,175	523.50	30,155,927	332,566
Jefferson	229,229	89,264	559.38	22,630,865	214,651
Judith Basin	55,613	15,977	427.48	11,304,039	49,662
Lake	346,921	182,542	443.10	67,643,519	345,029
Lewis & Clark	1,964,745	367,148	685.35	113,247,370	1,670,627
Liberty	90,487	19,913	498.79	6,958,282	78,218
Lincoln	419,971	137,867	491.33	31,148,168	382,349
Madison	406,275	62,876	369.60	71,238,795	339,912
McCone	69,190	15,509	530.47	7,260,327	59,929
Meagher	63,609	17,659	474.00	7,728,304	56,541
Mineral	99,086	31,430	621.16	9,069,452	89,743
Missoula	2,943,476	610,963	695.89	191,906,342	2,528,743
Musselshell	108,363	37,648	556.60	10,487,935	99,538
Park	391,850	100,404	515.58	37,514,573	344,745
Petroleum	22,061	3,808	504.91	1,635,744	18,625
Phillips	175,957	35,858	391.66	16,814,958	150,883
Pondera	198,005	50,268	617.31	13,238,270	174,004
Powder River	156,473	14,775	607.98	4,677,281	126,900
Powell	163,896	40,528	463.65	13,298,377	143,570
Prairie	115,110	10,605	581.18	3,500,480	93,242
Ravalli	583,847	217,020	484.52	76,673,023	542,323
Richland	475,121	95,290	360.19	32,003,105	406,762
Roosevelt	315,529	53,649	538.20	23,725,702	266,036
Rosebud	297,142	83,886	247.34	95,326,442	264,717
Sanders	232,620	60,608	419.10	33,293,690	205,084
Sheridan	182,130	32,280	509.39	10,360,611	154,120
Silver Bow	1,322,791	87,438	734.59	49,086,272	1,056,861
Stillwater	198,361	33,712	447.80	27,648,945	167,240
Sweet Grass	263,128	27,821	463.13	13,484,226	214,663
Teton	281,331	39,128	562.28	15,732,534	233,501
Toole	471,864	71,600	479.96	18,911,919	394,181
Treasure	30,360	5,096	459.42	3,945,047	25,570
Valley	235,698	47,690	522.27	23,743,249	201,964
Wheatland	53,610	30,329	418.71	13,341,396	54,219
Wibaux	66,496	11,509	410.76	3,692,447	56,152
Yellowstone	4,348,390	547,470	600.57	283,362,738	3,584,748
Total/Average	\$28,132,267	\$5,486,625	513.39	\$2,253,991,939	\$24,018,544

SCHOOL DISTRICTS

Wages account for a much larger share of total expenditures for school districts than for local governments. On average, wages account for 58% of annual budgets, and retirement contributions make up an additional 5%. Details by county for wages, employer contributions, budgets, and wages and employer contributions as a share of the budget are shown in Tables 4 and 5 in the appendix. Note that FY 2011 wage and contribution data was used to determine the proportions since FY 2011 school district budget data is available.

The following chart shows wages and employer contributions relative to total annual budgets, averaged over all districts. As with the corresponding charts in the local government analysis, health insurance, workers compensation, unemployment insurance and social security costs are not included.



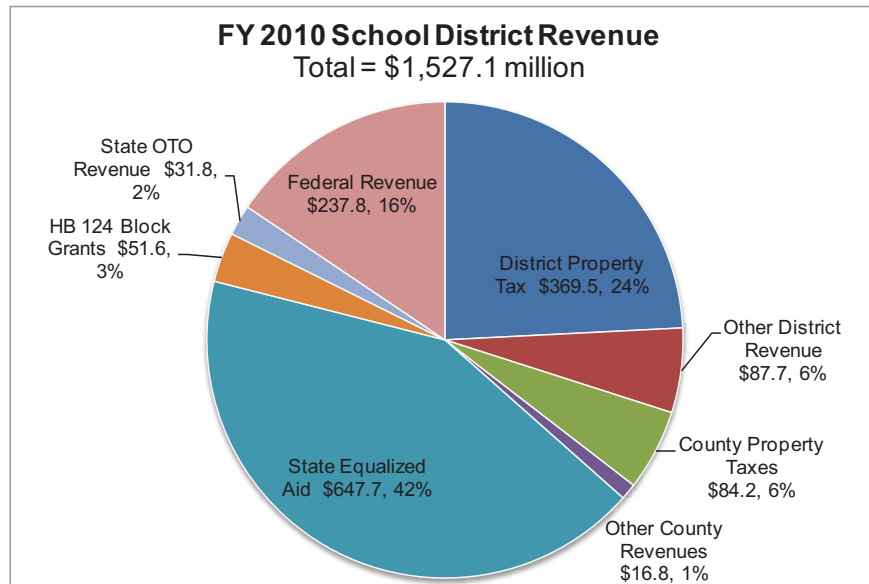
If the Key Assumptions on page 1 are used to fill the gap in ARC funding with employer contribution rate increases, the school district budgets in each county could see the following average potential cost increases. The increases are shown as an amount and as a percent of total annual county school district budgets.

Please refer to the previous page for an explanation of this table.

Cost of Increasing Employer Contributions for School District Public Employees and Teachers Based on FY 2011 District Budgets Data & FY 2011 Contributions						
	Cost			Cost as a % of Budgets		
	PERS	TRS	Total	PERS	TRS	Total
Beaverhead	\$55,419	\$263,501	\$318,919	0.42%	2.00%	2.42%
Big Horn	198,414	615,757	814,171	0.85%	2.63%	3.48%
Blaine	100,766	356,254	457,020	0.80%	2.82%	3.62%
Broadwater	25,177	140,676	165,853	0.42%	2.36%	2.79%
Carbon	78,150	323,203	401,353	0.42%	1.76%	2.18%
Carter	14,796	34,252	49,048	0.56%	1.29%	1.85%
Cascade	619,903	2,503,856	3,123,759	0.67%	2.71%	3.38%
Chouteau	61,376	164,127	225,503	0.62%	1.65%	2.27%
Custer	60,461	346,027	406,488	0.43%	2.46%	2.90%
Daniels	18,647	53,800	72,447	0.60%	1.72%	2.31%
Dawson	69,731	283,753	353,485	0.55%	2.24%	2.79%
Deer Lodge	45,606	226,180	271,786	0.46%	2.31%	2.77%
Fallon	43,266	161,706	204,972	0.15%	0.55%	0.70%
Fergus	125,825	402,242	528,068	0.55%	1.75%	2.30%
Flathead	485,914	2,808,746	3,294,660	0.41%	2.37%	2.78%
Gallatin	548,297	2,239,966	2,788,263	0.50%	2.06%	2.56%
Garfield	26,074	40,043	66,117	1.16%	1.78%	2.93%
Glacier	246,121	763,533	1,009,653	0.96%	2.98%	3.94%
Golden Valley	11,683	48,338	60,021	0.42%	1.73%	2.15%
Granite	19,517	102,795	122,311	0.42%	2.22%	2.64%
Hill	332,016	725,707	1,057,723	1.10%	2.41%	3.52%
Jefferson	67,670	314,217	381,888	0.47%	2.18%	2.65%
Judith Basin	27,007	85,810	112,817	0.51%	1.63%	2.14%
Lake	235,782	1,016,761	1,252,543	0.65%	2.78%	3.43%
Lewis & Clark	395,228	2,115,427	2,510,655	0.45%	2.43%	2.88%
Liberty	12,345	61,256	73,601	0.34%	1.68%	2.02%
Lincoln	108,529	551,609	660,138	0.48%	2.44%	2.92%
Madison	69,028	214,367	283,396	0.28%	0.86%	1.14%
McCone	12,083	68,660	80,743	0.33%	1.90%	2.23%
Meagher	14,482	63,322	77,804	0.51%	2.21%	2.72%
Mineral	32,723	176,864	209,587	0.40%	2.14%	2.53%
Missoula	622,585	2,895,860	3,518,445	0.52%	2.40%	2.92%
Musselshell	48,902	145,749	194,651	0.66%	1.96%	2.62%
Park	116,873	453,641	570,513	0.55%	2.12%	2.67%
Petroleum	7,965	21,564	29,529	0.59%	1.61%	2.21%
Phillips	50,992	192,977	243,969	0.43%	1.63%	2.07%
Pondera	57,963	256,727	314,690	0.51%	2.24%	2.74%
Powder River	14,198	174,990	189,188	0.39%	4.84%	5.24%
Powell	53,181	121,059	174,239	0.56%	1.28%	1.84%
Prairie	11,144	34,937	46,080	0.63%	1.96%	2.59%
Ravalli	246,905	1,187,413	1,434,317	0.51%	2.47%	2.98%
Richland	107,741	392,301	500,041	0.24%	0.88%	1.12%
Roosevelt	195,319	671,920	867,239	0.74%	2.55%	3.29%
Rosebud	179,991	542,007	721,998	0.79%	2.37%	3.16%
Sanders	81,284	334,046	415,329	0.50%	2.05%	2.55%
Sheridan	52,990	159,586	212,576	0.36%	1.08%	1.44%
Silver Bow	230,910	828,710	1,059,620	0.54%	1.93%	2.47%
Stillwater	206,391	340,474	546,865	1.26%	2.08%	3.35%
Sweet Grass	28,254	129,337	157,590	0.50%	2.28%	2.77%
Teton	55,057	267,117	322,174	0.39%	1.91%	2.30%
Toole	51,744	186,872	238,615	0.50%	1.82%	2.33%
Treasure	0	29,076	29,076	0.00%	1.75%	1.75%
Valley	110,652	325,744	436,396	0.73%	2.14%	2.87%
Wheatland	16,554	85,975	102,529	0.36%	1.88%	2.24%
Wibaux	10,352	44,859	55,210	0.41%	1.79%	2.20%
Yellowstone	974,973	4,846,281	5,821,254	0.53%	2.64%	3.17%
Grand Total	\$7,694,955	\$31,941,975	\$39,636,929	0.54%	2.23%	2.77%

Increased Contributions Relative to the Tax Base by County

In FY 2010, school districts had total revenues of \$1,527.1 million. District and county property taxes accounted for 30% of total revenues.



Unlike with local governments, there are no limitations on county mills for school districts. Current law distributes pension costs for districts on average as follows:

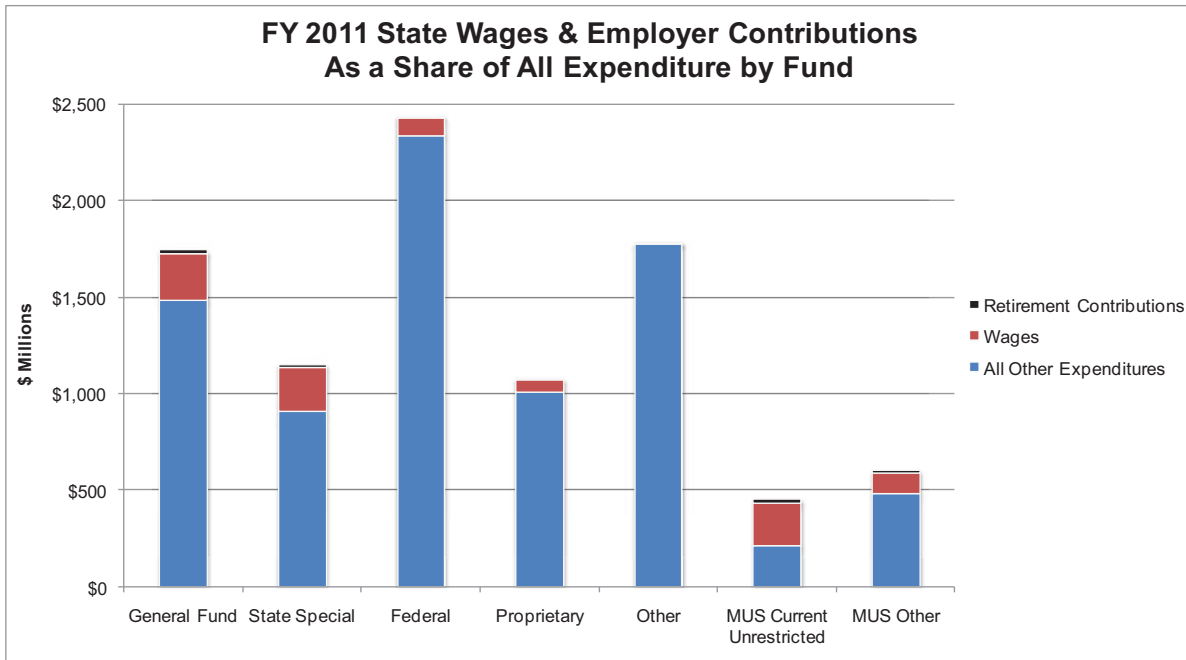
- Federal funds pay 11.9%
- State Guaranteed Tax Base (GTB) aid pays 24.7%
- Local property taxes pay 63.5%

The following table on page 14 shows the average property tax impact if the local share of the increased employer contributions to fund the ARC for school district employees were funded with the current law funding of employer pension contributions. Please refer to the callout box on page 1 for perspective on the usefulness of employer contributions for comparative purposes. Using current law, the statewide average increase in property taxes would be 2.26%.

By County Impact on Property Tax Mills of Increasing Employer Contributions to TRS and PERS Based on FY 2011 Property Tax Data & FY 2011 Contributions							
By County Impact on	Local TRS Contrib.	Local PERS Contrib.	Totals Mils	Net Taxable Value	Inc. Emp. Contrib.	Mils Req.	% Total Mils
Beaverhead	\$310,283	\$50,241	537.53	\$18,194,007	\$231,723	12.74	2.37%
Big Horn	537,506	121,499	383.49	24,579,364	399,580	16.26	4.24%
Blaine	307,836	63,073	499.55	13,115,420	229,271	17.48	3.50%
Broadwater	123,603	16,366	477.70	12,557,866	86,408	6.88	1.44%
Carbon	494,446	88,803	480.73	33,864,106	365,523	10.79	2.25%
Carter	51,748	16,857	358.60	8,515,285	44,786	5.26	1.47%
Cascade	2,149,969	388,156	596.82	127,613,147	1,567,644	12.28	2.06%
Chouteau	233,518	65,617	560.34	20,978,920	193,222	9.21	1.64%
Custer	304,664	32,101	719.04	15,303,726	207,024	13.53	1.88%
Daniels	86,801	23,266	612.33	5,601,821	72,447	12.93	2.11%
Dawson	390,387	53,594	663.93	17,257,428	265,312	15.37	2.32%
Deer Lodge	165,393	25,791	581.90	11,579,290	123,183	10.64	1.83%
Fallon	246,267	50,156	269.44	25,673,421	190,441	7.42	2.75%
Fergus	479,892	110,644	569.77	26,006,159	372,167	14.31	2.51%
Flathead	3,892,748	475,426	547.58	222,869,620	2,746,252	12.32	2.25%
Gallatin	3,568,344	624,967	536.80	231,512,819	2,547,196	11.00	2.05%
Garfield	57,785	29,099	518.90	5,367,368	59,138	11.02	2.12%
Glacier	468,616	109,409	629.99	22,191,765	359,720	16.21	2.57%
Golden Valley	75,245	13,305	460.19	5,240,410	54,783	10.45	2.27%
Granite	165,596	21,779	527.94	10,179,643	109,392	10.75	2.04%
Hill	582,117	192,496	523.50	30,155,927	491,498	16.30	3.11%
Jefferson	408,436	63,126	559.38	22,630,865	285,518	12.62	2.26%
Judith Basin	127,591	31,055	427.48	11,304,039	103,972	9.20	2.15%
Lake	1,133,122	189,080	443.10	67,643,519	805,034	11.90	2.69%
Lewis & Clark	2,290,919	280,758	685.35	113,247,370	1,429,416	12.62	1.84%
Liberty	88,779	15,403	498.79	6,958,282	73,601	10.58	2.12%
Lincoln	438,203	54,895	491.33	31,148,168	267,613	8.59	1.75%
Madison	344,288	78,885	369.60	71,238,795	259,567	3.64	0.99%
McCone	99,068	14,011	530.47	7,260,327	75,036	10.34	1.95%
Meagher	85,793	16,159	474.00	7,728,304	69,581	9.00	1.90%
Mineral	110,675	13,942	621.16	9,069,452	71,568	7.89	1.27%
Missoula	3,620,549	510,379	695.89	191,906,342	2,311,706	12.05	1.73%
Musselshell	170,978	42,706	556.60	10,487,935	136,238	12.99	2.33%
Park	727,301	123,385	515.58	37,514,573	482,727	12.87	2.50%
Petroleum	28,626	5,004	504.91	1,635,744	14,867	9.09	1.80%
Phillips	271,236	56,768	391.66	16,814,958	217,684	12.95	3.31%
Pondera	270,224	39,829	617.31	13,238,270	173,308	13.09	2.12%
Powder River	222,695	11,494	607.98	4,677,281	122,751	26.24	4.32%
Powell	148,715	47,678	463.65	13,298,377	125,197	9.41	2.03%
Prairie	51,790	12,401	581.18	3,500,480	41,098	11.74	2.02%
Ravalli	973,854	141,247	484.52	76,673,023	657,630	8.58	1.77%
Richland	540,200	122,415	360.19	32,003,105	455,355	14.23	3.95%
Roosevelt	497,957	109,279	538.20	23,725,702	388,881	16.39	3.05%
Rosebud	802,402	189,925	247.34	95,326,442	610,598	6.41	2.59%
Sanders	530,541	87,320	419.10	33,293,690	357,594	10.74	2.56%
Sheridan	227,939	57,624	509.39	10,360,611	185,271	17.88	3.51%
Silver Bow	813,922	146,146	734.59	49,086,272	537,503	10.95	1.49%
Stillwater	534,633	241,754	447.80	27,648,945	513,394	18.57	4.15%
Sweet Grass	267,698	31,958	463.13	13,484,226	142,866	10.60	2.29%
Teton	292,420	45,056	562.28	15,732,534	211,309	13.43	2.39%
Toole	274,345	59,252	479.96	18,911,919	218,994	11.58	2.41%
Treasure	47,229	-	459.42	3,945,047	26,296	6.67	1.45%
Valley	453,470	110,252	522.27	23,743,249	348,493	14.68	2.81%
Wheatland	141,004	18,611	418.71	13,341,396	92,388	6.92	1.65%
Wibaux	64,792	11,744	410.76	3,692,447	50,199	13.60	3.31%
Yellowstone	6,198,831	749,586	600.57	283,362,738	3,587,014	12.66	2.11%
Total/Average	\$37,992,984	\$6,301,768	513.39	\$2,253,991,939	\$26,166,978	11.61	2.26%

STATE GOVERNMENT

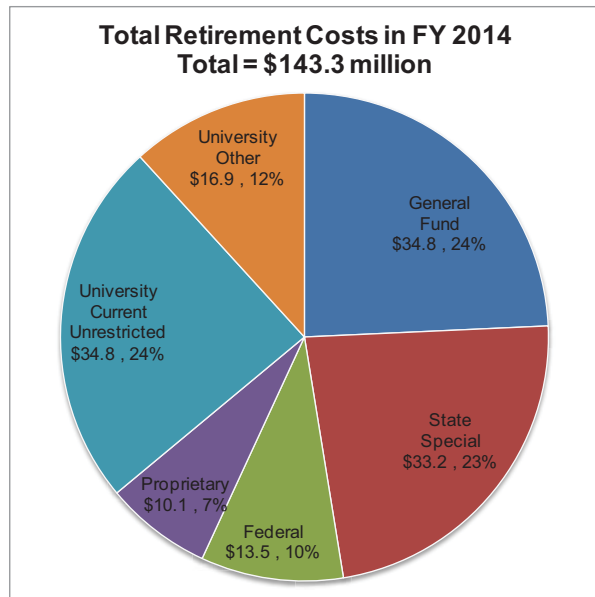
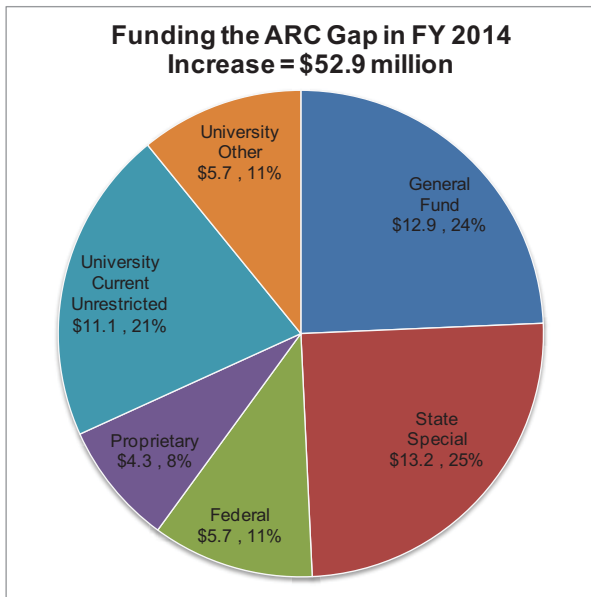
At the state level, wages account for a much smaller share of total expenditures than for local governments or school districts. Wages and retirement contributions accounted for 11.2% of total state spending in FY 2011. The chart below shows wages and employer contributions relative to all expenditures, by fund. As with local governments and school districts, health insurance, workers compensation, unemployment insurance and social security costs are not included.



Using the Key Assumptions on page 1 to fill the gap in ARC funding with employer contribution rate increases and assuming the current funding structure, the estimated impact to state government as an employer of meeting the ARC is \$52.9 million in FY 2014. The total impact to the general fund of \$19.3 million included in the table below. For purposes of comparison, the increase is also shown as a percentage of total FY 2011 expenditures by fund type.

FY 2014 Potential State Costs vs. FY 2011 Expenditures			
	FY 2014 ARC Gap	FY 2011 Total State Expenditures	FY 2014 Increase % of Expenditures
General Fund	\$12.9	\$1,747.3	0.74%
State Special	13.2	1154.3	1.14%
Federal	5.7	2442.7	0.23%
Proprietary-General Fund (35%)	1.4	377.5	0.37%
Proprietary-Other	2.6	701.1	0.37%
Other	0.3	1782.2	0.02%
MUS Current Unrestricted-General Fund	5.0	205.7	2.43%
MUS Current Unrestricted-Other	6.1	250.2	2.43%
MUS Other	5.7	602.7	0.95%
General Fund Total	19.3		
All Other Funds Total	33.6		
Total	\$52.9		

Assumptions for state government include allocating a general fund share for proprietary and MUS current unrestricted funds: 35% for proprietary funds and 40% for MUS current unrestricted. Note that FY 2011 expenditures include some duplication among general, state special, federal, and proprietary funds, so totals of the FY 2011 spending would not reflect unduplicated spending.



Note that the state government charts above do not include the statutory appropriations that partially fund local public employees and teachers. The charts also do not include the cost associated with the amortized retirement systems (the police and fire systems are amortized). Although the amortized systems would not contribute to the increase, they do have an associated cost to the state, almost entirely through statutory appropriations.

SUMMARY

Meeting the ARC through employer contribution increases in FY 2014 is estimated at the following expenses for each level of government:

FY 2014 ARC Increases			
Funding Sources	Contributing Entities		Grand Total
	Local	State	
K-12			
Federal Funds Schools (11.9%)	\$4,702,775		\$4,702,775
GTB State Average (24.7%)		\$9,131,856	9,131,856
Local Schools (63.5%)	26,166,978		26,166,978
Statutory Appropriation		-	-
K-12 Total	30,869,754	9,131,856	40,001,610
Local			
Community Colleges	27,428		27,428
Local Government	24,018,544		24,018,544
Statutory Appropriation		-	-
Local Total	24,045,972	-	24,045,972
MUS			
Current Unrestricted - Education		10,200,792	10,200,792
Current Unrestricted - Research		876,516	876,516
MUS Other		5,748,024	5,748,024
MUS Total		16,825,333	16,825,333
State			
Federal Funds		5,696,851	5,696,851
General Funds		12,871,555	12,871,555
Other		327,264	327,264
Proprietary Funds		4,005,172	4,005,172
State Special Revenue		13,193,240	13,193,240
State Total		36,094,081	36,094,081
Grand Total	\$54,915,725	62,051,271	\$116,966,996

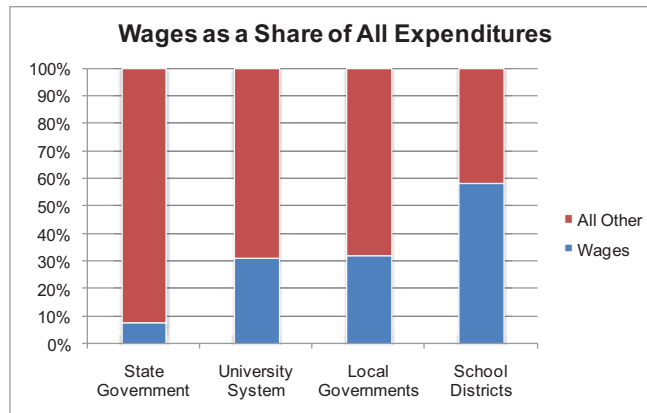
Summary

This report examines the potential costs of meeting the ARC of public pension systems in Montana.

It does not offer recommendations on how to close the current funding gap or reduce or eliminate the unfunded liabilities. Any such proposal will likely require a combination of corrective measures, including possible increases in employer and employee contribution rates, decreases in benefit rates, and other changes to pension plan structure.

Pension administrators are exploring a range of alternatives adopted by other states; see the appendix for further details.

Meeting the ARC through employer contribution increases would have a larger effect on local governments and school districts, as wages make up a larger share of overall budgets for those entities:



Funding the ARC in FY 2014 through additional employer contributions would increase general fund costs by \$28.4 million (includes school district GTB). All other state costs not including the University System would be \$16.8 million. Total increased costs to the Montana University System would be \$16.8 million. The effects on state special revenue, federal funds and MUS funds including tuition have not been considered in this report. Additional research will be needed to estimate these impacts.

Funding the ARC in FY 2014 through additional employer contributions would increase local government and school districts costs by \$24.0 million and \$40.0 million, respectively. If property taxes were to float for all city and county government impacts, and schools increased per current law process, then the average increase in property taxes state-wide would be 4.3% or \$50.2 million per year. If only the property tax share of local government funding paid for the additional employer contributions, the increase would be 3.0% or \$35.2 million per year.

As articulated in the introduction, this report uses employer contributions as a tool to calculate and compare the gap in the ARC and the unfunded liability of each of the pension systems by government entity. Please refer to the callout box on page 1 for perspective on the usefulness of employer contributions for comparative purposes. Future study will continue to refine cost estimates and begin to address various solutions to the funding gap.

ITEMS FOR FURTHER STUDY

- Continue refining potential costs and funding estimates
- How the employer contribution increases will impact state special, federal funding, and MUS funding in the next biennium: March meeting with big picture report
- Further study of local government and schools impacts: June meeting
- Options considered in other states and their application to Montana

APPENDIX

Table 1

Local government wages from PERS FY 2010 payroll data:

FY 2010 City & County Government Wages by County						
	City	County	Fire	Police	Sheriffs	Grand Total
Beaverhead	\$636,974	\$2,131,095			\$453,915	\$3,221,983
Big Horn	957,200	3,292,185			657,602	4,906,987
Blaine	804,127	2,174,755			428,320	3,407,202
Broadwater	282,687	1,226,677			680,263	2,189,627
Carbon	955,049	2,360,315	212,785	264,573	432,446	4,225,167
Carter	47,254	646,095			132,043	825,392
Cascade	16,123,786	12,130,819	4,381,983	5,023,175	3,967,310	41,627,073
Chouteau	498,128	1,882,535		160,936	443,091	2,984,689
Custer	2,020,605	2,157,894	540,005	561,670	444,759	5,724,933
Daniels	188,240	740,594			136,851	1,065,685
Dawson	1,392,110	3,130,680	202,226	419,926	1,711,209	6,856,150
Deer Lodge		2,544,705	419,722	827,727	146,902	3,939,056
Fallon	480,300	2,472,238		441,153	277,403	3,671,095
Fergus	1,340,913	2,333,249	323,803	674,315	539,920	5,212,201
Flathead	11,944,588	16,939,460	2,747,252	2,681,790	5,013,105	39,326,195
Gallatin	13,770,842	13,407,765	3,591,536	4,160,838	3,877,719	38,808,701
Garfield		721,528			71,091	792,619
Glacier	1,045,943	2,198,218			790,809	4,034,970
Golden Valley	19,240	213,160			61,618	294,018
Granite	260,391	974,335			197,815	1,432,540
Hill	2,160,507	3,419,091	692,026	667,524	856,059	7,795,208
Jefferson	233,228	2,863,328			766,903	3,863,460
Judith Basin	43,805	694,657			150,879	889,341
Lake	123,767	4,422,637			1,732,520	6,278,923
Lewis & Clark	10,218,615	14,024,223	2,104,296	2,668,851	3,392,653	32,408,639
Liberty	210,498	981,496			194,649	1,386,643
Lincoln	1,384,433	4,171,131		261,952	1,408,714	7,226,230
Madison	477,878	5,061,499			575,352	6,114,728
McCone	101,141	885,764			154,340	1,141,245
Meagher	104,340	755,721			182,881	1,042,942
Mineral	203,260	1,249,748			290,785	1,743,793
Missoula	10,747,079	24,328,926	6,734,518	5,515,083	5,752,192	53,077,799
Musselshell	321,457	978,554			338,004	1,638,015
Park	2,258,053	2,788,594	760,349	594,941	984,442	7,386,378
Petroleum	42,082	177,851			36,765	256,698
Phillips	475,092	1,566,630			354,405	2,396,127
Pondera	824,071	1,269,434			484,155	2,577,660
Powder River	151,391	1,920,275		359,930	158,053	2,589,648
Powell	466,406	1,322,925			389,729	2,179,060
Prairie	90,034	583,840			102,575	776,449
Ravalli	1,891,574	6,043,091		465,172	2,069,067	10,468,903
Richland	1,263,597	4,338,990			625,578	6,228,165
Roosevelt	1,109,744	2,971,282		310,028	441,953	4,833,007
Rosebud	1,649,003	2,407,238			822,427	4,878,668
Sanders	696,034	2,606,820		133,972	560,542	3,997,367
Sheridan	347,689	2,163,169			302,883	2,813,741
Silver Bow		15,063,502	1,753,891	2,316,912	789,497	19,923,801
Stillwater	537,823	2,188,930			320,126	3,046,879
Sweet Grass	266,687	3,297,944			248,275	3,812,906
Teton	440,639	2,375,192			380,321	3,196,152
Toole	801,346	5,495,796			730,277	7,027,419
Treasure		386,319			58,643	444,962
Valley	874,842	2,110,876		426,768	498,651	3,911,137
Wheatland	164,401	567,103			299,949	1,031,454
Wibaux	87,165	829,419			110,329	1,026,912
Yellowstone	30,191,140	13,805,021	8,267,478	8,461,637	5,099,606	65,824,882
Grand Total	\$138,790,702	\$198,731,810	\$32,731,869	\$37,398,873	\$52,128,368	\$459,781,622

Table 2

Local government employer contributions from PERS FY 2010 payroll data:

FY 2010 Employer Contributions by County						
	City	County	Fire	Police	Sheriffs	Grand Total
Beaverhead	\$45,034	\$150,668			\$45,914	\$241,616
Big Horn	67,674	232,757			66,516	366,948
Blaine	56,852	153,755			43,325	253,932
Broadwater	19,986	86,726			68,809	175,521
Carbon	67,522	166,874	30,556	38,125	43,742	346,819
Carter	3,341	45,679			13,356	62,376
Cascade	1,139,952	857,649	629,253	723,839	401,293	3,751,986
Chouteau	35,218	133,095		23,191	44,819	236,322
Custer	142,857	152,563	77,545	80,937	44,987	498,889
Daniels	13,309	52,360			13,842	79,511
Dawson	98,422	221,339	29,040	60,470	173,089	582,360
Deer Lodge		179,911	60,272	119,275	14,859	374,317
Fallon	33,957	174,787		63,570	28,059	300,374
Fergus	94,803	164,961	46,498	97,125	54,613	457,999
Flathead	844,482	1,197,620	394,505	386,446	507,076	3,330,129
Gallatin	973,599	947,929	515,745	599,577	392,231	3,429,080
Garfield		51,012			7,191	58,203
Glacier	73,948	155,414			79,990	309,353
Golden Valley	1,360	15,070			6,233	22,663
Granite	18,410	68,885			20,009	107,304
Hill	152,748	241,730	99,375	96,190	86,590	676,633
Jefferson	16,489	202,437			77,572	296,499
Judith Basin	3,097	49,112			15,261	67,471
Lake	8,750	312,680			175,244	496,675
Lewis & Clark	722,456	991,513	302,177	384,581	343,167	2,743,894
Liberty	14,882	69,392			19,689	103,963
Lincoln	97,879	294,899		37,747	142,491	573,017
Madison	33,786	357,848			58,197	449,831
McCone	7,151	62,624			15,611	85,386
Meagher	7,377	53,429			18,498	79,305
Mineral	14,370	88,357			29,413	132,141
Missoula	759,819	1,720,055	967,077	794,724	581,834	4,823,508
Musselshell	22,727	69,184			34,189	126,100
Park	159,644	197,154	109,186	85,727	99,576	651,287
Petroleum	2,975	12,574			3,719	19,268
Phillips	33,589	110,761			35,848	180,198
Pondera	58,262	89,749			48,972	196,983
Powder River	10,703	135,763		51,866	15,987	214,320
Powell	32,975	93,531			39,421	165,927
Prairie	6,365	41,277			10,375	58,018
Ravalli	133,734	427,247		67,031	209,286	837,298
Richland	89,336	306,767			63,277	459,380
Roosevelt	78,459	210,070		44,675	44,704	377,907
Rosebud	116,585	170,192			83,188	369,965
Sanders	49,210	184,302		19,305	56,699	309,516
Sheridan	24,582	152,936			30,637	208,154
Silver Bow		1,064,990	251,859	333,867	79,858	1,730,573
Stillwater	38,024	154,757			32,381	225,162
Sweet Grass	18,855	233,165			25,113	277,132
Teton	31,153	167,926			38,469	237,549
Toole	56,655	388,553			73,867	519,075
Treasure		27,313			5,932	33,245
Valley	61,851	149,239		61,497	50,439	323,026
Wheatland	11,623	40,094			30,340	82,057
Wibaux	6,163	58,640			11,160	75,962
Yellowstone	2,134,514	976,015	1,187,210	1,219,322	515,825	6,032,885
Grand Total	\$9,812,503	\$14,050,339	\$4,700,296	\$5,389,088	\$5,272,784	\$39,225,011

Table 3

The expenditures by city and county government were obtained from each entity's comprehensive annual financial report. In calculating wages and contributions as a percent of city and county expenditures, police and fire are included with city, and sheriffs are included with county.

FY 2010 All Expenditures and Wages & Contributions Percentage							
	All Expenditures		Wages		Contributions		Grand Total
	City	County	City	County	City	County	
Beaverhead	\$4,699,421	\$11,878,754	13.6%	21.8%	1.0%	1.7%	20.9%
Big Horn	4,948,360	16,213,338	19.3%	24.4%	1.4%	1.8%	24.9%
Blaine	3,158,901	7,184,579	25.5%	36.2%	1.8%	2.7%	35.4%
Broadwater	1,387,428	5,824,599	20.4%	32.7%	1.4%	2.7%	32.8%
Carbon	7,158,249	8,404,006	20.0%	33.2%	1.9%	2.5%	29.4%
Carter	407,614	3,857,800	11.6%	20.2%	0.8%	1.5%	20.8%
Cascade	58,127,895	41,516,399	43.9%	38.8%	4.3%	3.0%	45.5%
Chouteau	2,668,275	6,845,620	24.7%	34.0%	2.2%	2.6%	33.9%
Custer	8,773,369	7,463,770	35.6%	34.9%	3.4%	2.6%	38.3%
Daniels	950,846	2,577,909	19.8%	34.0%	1.4%	2.6%	32.5%
Dawson	5,615,303	11,624,056	35.9%	41.7%	3.3%	3.4%	43.1%
Deer Lodge		14,967,049		18.0%		1.3%	28.8%
Fallon	2,473,140	10,875,383	37.3%	25.3%	3.9%	1.9%	29.8%
Fergus	8,314,817	7,888,943	28.1%	36.4%	2.9%	2.8%	35.0%
Flathead	65,536,378	62,099,456	26.5%	35.4%	2.5%	2.7%	33.4%
Gallatin	69,082,096	74,739,326	31.2%	23.1%	3.0%	1.8%	29.4%
Garfield	314,480	3,533,910	0.0%	22.4%	0.0%	1.6%	22.1%
Glacier	3,270,437	8,858,619	32.0%	33.7%	2.3%	2.7%	35.8%
Golden Valley	500,508	1,284,510	3.8%	21.4%	0.3%	1.7%	17.7%
Granite	1,227,763	3,611,766	21.2%	32.5%	1.5%	2.5%	31.8%
Hill	9,515,664	11,433,919	37.0%	37.4%	3.7%	2.9%	40.4%
Jefferson	1,931,024	10,319,447	12.1%	35.2%	0.9%	2.7%	34.0%
Judith Basin	1,591,942	2,808,022	2.8%	30.1%	0.2%	2.3%	21.7%
Lake	6,785,575	16,513,636	1.8%	37.3%	0.1%	3.0%	29.1%
Lewis & Clark	49,388,784	42,256,055	30.4%	41.2%	2.9%	3.2%	38.4%
Liberty	821,962	3,364,669	25.6%	35.0%	1.8%	2.6%	35.6%
Lincoln	4,692,365	22,710,736	35.1%	24.6%	2.9%	1.9%	28.5%
Madison	2,103,393	17,187,551	22.7%	32.8%	1.6%	2.4%	34.0%
McCone	776,586	3,042,802	13.0%	34.2%	0.9%	2.6%	32.1%
Meagher	713,674	5,511,226	14.6%	17.0%	1.0%	1.3%	18.0%
Mineral	709,925	4,140,291	28.6%	37.2%	2.0%	2.8%	38.7%
Missoula	67,299,854	75,022,806	34.2%	40.1%	3.7%	3.1%	40.7%
Musselshell	1,952,140	4,146,652	16.5%	31.7%	1.2%	2.5%	28.9%
Park	10,237,965	12,659,035	35.3%	29.8%	3.5%	2.3%	35.1%
Petroleum	214,711	1,025,062	19.6%	20.9%	1.4%	1.6%	22.3%
Phillips	1,818,680	5,785,580	26.1%	33.2%	1.8%	2.5%	33.9%
Pondera	2,738,844	4,933,255	30.1%	35.5%	2.1%	2.8%	36.2%
Powder River	522,741	7,004,450	97.8%	29.7%	12.0%	2.2%	37.3%
Powell	-	6,333,434		27.0%		2.1%	37.0%
Prairie	439,575	1,813,256	20.5%	37.9%	1.4%	2.8%	37.0%
Ravalli	6,338,672	23,455,327	37.2%	34.6%	3.2%	2.7%	37.9%
Richland	4,222,001	32,287,459	29.9%	15.4%	2.1%	1.1%	18.3%
Roosevelt	5,798,821	7,295,621	24.5%	46.8%	2.1%	3.5%	39.8%
Rosebud	6,271,002	9,334,643	26.3%	34.6%	1.9%	2.7%	33.6%
Sanders	3,053,994	11,440,520	27.2%	27.7%	2.2%	2.1%	29.7%
Sheridan	1,283,460	6,744,422	27.1%	36.6%	1.9%	2.7%	37.6%
Silver Bow	-	68,927,743		23.0%		1.7%	31.4%
Stillwater	2,380,073	7,042,154	22.6%	35.6%	1.6%	2.7%	34.7%
Sweet Grass	1,882,786	12,989,302	14.2%	27.3%	1.0%	2.0%	27.5%
Teton	2,728,946	7,399,390	16.1%	37.2%	1.1%	2.8%	33.9%
Toole	5,065,687	23,280,564	15.8%	26.7%	1.1%	2.0%	26.6%
Treasure	509,181	1,322,699	0.0%	33.6%	0.0%	2.5%	26.1%
Valley	4,349,444	8,274,290	29.9%	31.5%	2.8%	2.4%	33.5%
Wheatland	920,240	3,210,749	17.9%	27.0%	1.3%	2.2%	27.0%
Wibaux	401,428	3,208,479	21.7%	29.3%	1.5%	2.2%	30.6%
Yellowstone	147,968,480	46,911,027	31.7%	40.3%	3.1%	3.2%	36.9%
Grand Total	\$606,044,897	\$838,219,125	34.5%	29.9%	3.3%	2.3%	34.6%

Table 4

School district wages and contributions from PERS and TRS FY 2011 payroll data:

FY 2011 School District Wages & Employer Contributions					
	Wages		Contributions		Total
	PERS	TRS	PERS	TRS	
Beaverhead	\$1,016,855	\$5,691,163	\$69,146	\$427,040	\$7,204,204
Big Horn	3,640,628	13,299,285	247,563	1,095,205	18,282,681
Blaine	1,848,924	7,694,466	125,727	613,628	10,282,745
Broadwater	461,971	3,038,359	31,414	237,247	3,768,990
Carbon	1,433,945	6,980,616	97,508	542,913	9,054,983
Carter	271,489	739,775	18,461	56,672	1,086,397
Cascade	11,374,359	54,078,963	773,456	4,284,125	70,510,904
Chouteau	1,126,165	3,544,869	76,579	272,532	5,020,145
Custer	1,109,374	7,473,580	75,437	586,861	9,245,252
Daniels	342,149	1,161,991	23,266	86,801	1,614,206
Dawson	1,279,474	6,128,579	87,004	509,162	8,004,220
Deer Lodge	836,815	4,885,098	56,903	364,917	6,143,734
Fallon	793,864	3,492,580	53,983	265,057	4,605,483
Fergus	2,308,717	8,687,742	156,993	680,919	11,834,370
Flathead	8,915,846	60,664,068	606,278	4,625,440	74,811,631
Gallatin	10,060,498	48,379,389	684,114	3,906,053	63,030,054
Garfield	478,429	864,855	32,533	64,605	1,440,422
Glacier	4,515,977	16,490,983	307,086	1,315,300	22,629,346
Golden Valley	214,364	1,044,020	14,577	82,439	1,355,400
Granite	358,101	2,220,189	24,351	185,153	2,787,794
Hill	6,092,037	15,674,018	414,259	1,252,739	23,433,053
Jefferson	1,241,659	6,786,548	84,433	546,293	8,658,934
Judith Basin	495,537	1,853,348	33,697	138,445	2,521,026
Lake	4,326,284	21,960,276	294,187	1,763,011	28,343,758
Lewis & Clark	7,251,890	45,689,569	493,129	4,023,816	57,458,403
Liberty	226,522	1,323,020	15,403	107,620	1,672,565
Lincoln	1,991,354	11,913,802	135,412	973,566	15,014,134
Madison	1,266,577	4,629,967	86,127	370,473	6,353,144
McCone	221,707	1,482,932	15,076	110,775	1,830,491
Meagher	265,719	1,367,647	18,069	102,163	1,753,598
Mineral	600,417	3,819,964	40,828	309,678	4,770,887
Missoula	11,423,576	62,545,573	776,803	5,511,659	80,257,612
Musselshell	897,293	3,147,923	61,016	235,149	4,341,381
Park	2,144,454	9,797,856	145,823	877,224	12,965,357
Petroleum	146,147	465,747	9,938	56,124	677,955
Phillips	935,632	4,167,979	63,623	324,310	5,491,544
Pondera	1,063,534	5,544,866	72,320	449,343	7,130,063
Powder River	260,509	3,779,488	17,715	351,663	4,409,374
Powell	975,794	2,614,659	66,354	210,073	3,866,880
Prairie	204,470	754,573	13,904	59,315	1,032,262
Ravalli	4,530,365	25,646,060	308,065	2,036,551	32,521,042
Richland	1,976,894	8,473,016	134,429	636,430	11,220,769
Roosevelt	3,583,834	14,512,318	243,701	1,114,545	19,454,397
Rosebud	3,302,587	11,706,407	224,576	931,954	16,165,524
Sanders	1,491,446	7,214,810	101,418	585,318	9,392,992
Sheridan	972,299	3,446,785	66,116	271,120	4,756,321
Silver Bow	4,236,889	17,898,694	288,108.44	1,494,423	23,918,115
Stillwater	3,786,986	7,353,660	257,515	589,733	11,987,893
Sweet Grass	518,414	2,793,450	35,252	297,867	3,644,983
Teton	1,010,227	5,769,256	68,695	436,583	7,284,761
Toole	949,425	4,036,105	64,561	303,340	5,353,430
Treasure		627,985		52,890	680,875
Valley	2,030,316	7,035,509	138,061	562,725	9,766,611
Wheatland	303,739	1,856,912	20,654	155,080	2,336,386
Wibaux	189,940	968,871	12,916	72,374	1,244,101
Yellowstone	17,889,415	104,671,301	1,216,480	10,109,481	133,886,678
Grand Total	\$141,191,828	\$689,891,464	\$9,601,044	\$57,625,922	\$898,310,258

Table 5

School district budgets obtained from the Office of Public Instruction and combined by county:

FY 2011 Budgets and Wages & Employer Contributions Percentage						
	Total Budget	Wages		Contributions		Total
		PERS	TRS	PERS	TRS	
Beaverhead	\$13,161,639	7.7%	43.2%	0.5%	3.2%	54.7%
Big Horn	23,396,292	15.6%	56.8%	1.1%	4.7%	78.1%
Blaine	12,618,457	14.7%	61.0%	1.0%	4.9%	81.5%
Broadwater	5,949,625	7.8%	51.1%	0.5%	4.0%	63.3%
Carbon	18,409,586	7.8%	37.9%	0.5%	2.9%	49.2%
Carter	2,645,560	10.3%	28.0%	0.7%	2.1%	41.1%
Cascade	92,423,002	12.3%	58.5%	0.8%	4.6%	76.3%
Chouteau	9,928,493	11.3%	35.7%	0.8%	2.7%	50.6%
Custer	14,040,940	7.9%	53.2%	0.5%	4.2%	65.8%
Daniels	3,130,671	10.9%	37.1%	0.7%	2.8%	51.6%
Dawson	12,675,477	10.1%	48.3%	0.7%	4.0%	63.1%
Deer Lodge	9,808,562	8.5%	49.8%	0.6%	3.7%	62.6%
Fallon	29,459,132	2.7%	11.9%	0.2%	0.9%	15.6%
Fergus	22,967,624	10.1%	37.8%	0.7%	3.0%	51.5%
Flathead	118,316,831	7.5%	51.3%	0.5%	3.9%	63.2%
Gallatin	108,960,612	9.2%	44.4%	0.6%	3.6%	57.8%
Garfield	2,252,832	21.2%	38.4%	1.4%	2.9%	63.9%
Glacier	25,651,091	17.6%	64.3%	1.2%	5.1%	88.2%
Golden Valley	2,793,315	7.7%	37.4%	0.5%	3.0%	48.5%
Granite	4,637,752	7.7%	47.9%	0.5%	4.0%	60.1%
Hill	30,075,475	20.3%	52.1%	1.4%	4.2%	77.9%
Jefferson	14,415,156	8.6%	47.1%	0.6%	3.8%	60.1%
Judith Basin	5,270,594	9.4%	35.2%	0.6%	2.6%	47.8%
Lake	36,542,882	11.8%	60.1%	0.8%	4.8%	77.6%
Lewis & Clark	87,148,035	8.3%	52.4%	0.6%	4.6%	65.9%
Liberty	3,639,012	6.2%	36.4%	0.4%	3.0%	46.0%
Lincoln	22,585,511	8.8%	52.7%	0.6%	4.3%	66.5%
Madison	24,912,823	5.1%	18.6%	0.3%	1.5%	25.5%
McCone	3,619,133	6.1%	41.0%	0.4%	3.1%	50.6%
Meagher	2,864,699	9.3%	47.7%	0.6%	3.6%	61.2%
Mineral	8,272,043	7.3%	46.2%	0.5%	3.7%	57.7%
Missoula	120,493,403	9.5%	51.9%	0.6%	4.6%	66.6%
Musselshell	7,429,864	12.1%	42.4%	0.8%	3.2%	58.4%
Park	21,406,552	10.0%	45.8%	0.7%	4.1%	60.6%
Petroleum	1,339,169	10.9%	34.8%	0.7%	4.2%	50.6%
Phillips	11,813,970	7.9%	35.3%	0.5%	2.7%	46.5%
Pondera	11,465,616	9.3%	48.4%	0.6%	3.9%	62.2%
Powder River	3,612,214	7.2%	104.6%	0.5%	9.7%	122.1%
Powell	9,466,870	10.3%	27.6%	0.7%	2.2%	40.8%
Prairie	1,781,984	11.5%	42.3%	0.8%	3.3%	57.9%
Ravalli	48,068,839	9.4%	53.4%	0.6%	4.2%	67.7%
Richland	44,612,102	4.4%	19.0%	0.3%	1.4%	25.2%
Roosevelt	26,322,226	13.6%	55.1%	0.9%	4.2%	73.9%
Rosebud	22,854,757	14.5%	51.2%	1.0%	4.1%	70.7%
Sanders	16,257,327	9.2%	44.4%	0.6%	3.6%	57.8%
Sheridan	14,730,680	6.6%	23.4%	0.4%	1.8%	32.3%
Silver Bow	42,959,069	9.9%	41.7%	0.7%	3.5%	55.7%
Stillwater	16,345,641	23.2%	45.0%	1.6%	3.6%	73.3%
Sweet Grass	5,679,577	9.1%	49.2%	0.6%	5.2%	64.2%
Teton	14,000,303	7.2%	41.2%	0.5%	3.1%	52.0%
Toole	10,261,403	9.3%	39.3%	0.6%	3.0%	52.2%
Treasure	1,661,261	0.0%	37.8%	0.0%	3.2%	41.0%
Valley	15,212,325	13.3%	46.2%	0.9%	3.7%	64.2%
Wheatland	4,583,290	6.6%	40.5%	0.5%	3.4%	51.0%
Wibaux	2,507,631	7.6%	38.6%	0.5%	2.9%	49.6%
Yellowstone	183,580,241	9.7%	57.0%	0.7%	5.5%	72.9%
Grand Total	\$1,431,019,165	9.9%	48.2%	0.7%	4.0%	62.8%

TRS Funding: Exploring the Alternatives

The Montana Teachers' Retirement System (TRS) has a \$1.8 billion unfunded liability that must be addressed, sooner rather than later. The options are to (1) raise revenues into the fund by increasing contribution rates, or (2) reduce costs by paring back benefits, or (3) some combination of the two. Unless the 2013 Legislature enacts corrective measures, the unfunded liability will grow, doubling in the next 20 years, and the TRS pension fund will run out of money by 2055.

Prudent, relatively small changes now can avert the need for more drastic measures later. TRS is looking at all reasonable alternatives (keeping contract rights in mind). TRS has identified a number of corrective measures adopted by other states, and actuaries have calculated the likely effects of implementing them here in Montana (see table below). Any such changes can be phased in gradually and be subject to triggers so that contribution and benefit rates are responsive to the funded status of the plan.

At this stage, TRS is not recommending any one alternative over another. TRS is seeking input from a wide range of interests—TRS members and retirees, taxpayers, policy advisors, and legislators—and asking them which alternatives they can live with. The goal is to identify a mix of alternatives to restore the fund to sound footing—a package that Montanans will support and the 2013 Legislature can enact.

TRS Wants to Hear From You!

The ultimate decision on how to address TRS's unfunded liability rests with Montana lawmakers. The legislature statutorily sets contribution and benefit rates for the TRS fund. Any proposed legislation should be based on the best alternatives with broad support from the diverse interests with a stake in this issue. Your input is welcome.

1. Study the table below to understand the impact each alternative has on reducing the unfunded liability.
2. Consider which alternatives you would combine to create a package you can live with.
3. Spread the word. Talk with your colleagues and friends. Encourage them to learn about this issue and to send their input to TRS.

TRS welcomes your questions, comments, and insights on the unfunded liability, possible alternatives, and the ongoing outreach effort. Contact:

Will Harmon, TRS Communications Manager
Phone: 406-444-0139
Email: wharmon@mt.gov
TRS toll-free number: 1-866-600-4045.

Based on strategies adopted by comparable pension plans in other states, TRS has identified the following alternatives (see table below) for consideration as we explore ways to eliminate the unfunded liability. Actuaries Cavanaugh MacDonald, LLC, calculated the impact each alternative would have on reducing TRS's current 3.53% funding shortfall (as of July 1, 2011). As time passes, the actual numbers may change due to market gains or losses and other factors, but the information provided here provides a reasonable basis for weighing the alternatives.

Alternative	Existing Plan	Change to:	Reduces Shortfall By:
Raise Employee Contribution Rate	7.15%	7.65% (+0.5%)	0.37%
		Or 8.15% (+1.0%)	0.81%
Raise Employer Contribution Rate	7.47%	8.47% (+1.0%)	1.0%
Raise State General Fund Rate	2.49%	3.49% (+1.0%)	1.0%
Raise Average Final Compensation	3 years	5 years	0.91%
Reduce Multiplier	1.667%	1.50%	2.17
Reduce Guaranteed Annual Benefit Adjustment	1.50%	1.25%	0.39%
Raise Vesting Period	5 years	10 years	0.10%
Raise Early Retirement	Age 50 & 5 yrs	Age 55 & 5 yrs	0.05%
Raise Regular Retirement	Age 60 & 5 yrs, or 25 yrs	Age 60 & 5 yrs, or 30 yrs	0.87%
		Or Age 65 & 5 yrs, or 30 yrs	1.94%