MONTANA LEGISLATIVE BRANCH

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DATE: June 25, 2008

TO: Members of the Joint LFC/RTIC Subcommittee

FROM: Terry W. Johnson, Principal Fiscal Analyst

RE: Interim Study Recommendation
Montana's Changing Demographics

During the conference call on June 4, 2008, the joint LFC/RTIC Subcommittee requested legislative staff prepare recommendations for an interim study plan on Montana's changing demographics and the implications for state and local government finances. Attached is a document that summarizes staff recommendations for this interim study. This document provides the following information:

1. Brief background of the issue
2. Proposed study requirements
3. Anticipated data requirements
4. Proposed study participants
    a. Committee participants
    b. Information participants
5. Proposed budget and other issues

Hopefully these recommendations will assist the workgroup in determining the components of a study bill to be presented to the 61st Legislature.

I look forward to discussing these recommendations with the subcommittee on July 9. Have a safe and Happy 4th of July.

Attachment

Interim Study Recommendation
Montana's Changing Demographics
Implications for State and Local Government Finances

Background

Many of state and local government services provided rely on the state's tax policy structure to raise sufficient revenues to fund those services. Most of these funds are raised from taxes, fees, investment earnings, and federal matching dollars. Public schools and higher education, human service programs, public safety functions, and many more services depend on state and local funds.

Unfortunately state revenues are not always stable and predictable. For example, during the late nineties, the gradual but significant increase in the equity markets contributed to unusual large increases in the state's revenue base. Since this occurred over a period of years, most state financial professionals felt these increases would continue into the future. Budget reductions, special sessions, and a significant budget deficit proved this premise to be false.

Montana's aging population or changing demographics is a similar issue that will begin to impact governmental finances between year 2010 and 2030. Every sector of Montana's economy will be impacted as the "baby boomer" population bubble begins to reach retirement age. Among the many concerns created by an aging population is the sustainability of state government services given a substantive change in the state's revenue base.

The trend of an aging America will increase dramatically as "baby boomers" (those individuals born between 1946 and 1964) begin to reach the age of 65 years, and in Montana the trend appears to be more acute. According to a report produced by the ninth district Federal Reserve Bank in March 2004, Montana ranked 14th in the states for populations age 65 and older. The same report refers to Census projections showing Montana ranking third or fourth in a relatively short 13 years, by 2020. This report highlights both the effects of a shrinking population of the 18 to 64 year age cohort (those of working age) and increases in the population of ages above 65 years (those in retirement).

Demographic shifts, away from wage earners and towards retirement earners, will cause changes to the state's revenue stream as well as the services required to care for this elderly population. As national trends have raised fears for the sustainability of the social security system, Montana's trend accentuates the state's ability to meet the obligations to its citizens.

Key Statistics of Montana's Aging Population							
	2000	2005	2010	2015	2020	2025	2030
Percent 65 and Older in Montana Population	13.41%	13.85%	14.97%	17.39%	20.71%	23.88%	25.80%
Percent of Workers in Montana Population	61.09%	63.07%	63.11%	61.00%	57.97%	55.34%	54.07%
Ratio of Workers to 65 and Older	4.80	4.75	4.38	3.64	2.91	2.41	2.18
Median Age in Montana	38	39	40	41	43	44	46

Future population projections, provided by the Department of Commerce, Bureau of Census, demonstrate the severity of Montana's changing demographics. Using several key statistics, as seen in the table above, assumptions can be drawn concerning the state revenue impacts. The population of retirees (those individuals 65 years of age or older) in Montana is projected to grow from 13 percent of the total population in 2000 to 26 percent by 2030. As the retired population increases, the working population (those between 18 and 64 years of age) is expected to decrease from 61 percent in 2000 to 54 percent in 2030. The median age in Montana is expected to increase by 8 years in the same period. In 2000, the taxes paid by 5 workers supported each retired individual, while in 2030 the taxes paid by 2 workers will support each retired individual. These statistics point to the potential for a financial crisis as Montanans citizenry become more elderly. Because Montana is required constitutionally to balance its budget even during revenue slowdowns, the state's budget may face a severe problem often referred to as a structural deficit or imbalance. In simple terms, this means the inability of state revenues to grow in tandem with the cost of providing governmental services.

Proposed Study Requirements

This study, as proposed by the Revenue and Transportation Committee and the Legislative Finance Committee, will require an in-depth analysis of both state and local revenues and disbursements. The following is a list of proposed study requirements:

- Tax policy analysis – inventory of current tax policies targeted for the elderly
- Services analysis - inventory of current services provided to the elderly
- Revenue analysis - impacts of population age shifts on revenue collections
- Disbursement analysis - impacts of population age shifts on the costs of providing services. Emphasis should be on human services, education, and public safety
- Consumption analysis – impacts of population age shifts on the purchases of goods and services. Identify sectors of the economy that may need to expand, retool, etc.
- Workforce analysis – impacts of population age shifts on workforce availability. Determine whether government as well as private industry will experience workforce shortages
- Retirement and health insurance systems analysis – impacts of population age shifts on the solvency of retirement and health insurance systems. Determine whether these systems will remain actuarial solvent with the influx of additional retirees

Anticipated Data Requirements

A study of this magnitude will require significant data needs. The following is a list of critical data needs:

- Population projections by age cohort. In-migration, out-migration, birth rates, and mortality rates will also be required
- Tax data by age (if applicable)
- Wage and non-wage income data by age
- State and local government services provided by age
- Consumption of goods and services by age
- Governmental and private workforce by age
- Long-term inflationary expectations

Proposed Study Participants

- **Committee participants and voting privileges(V or NV)**
  - (V) Legislators (8) (RTIC,LFC,Other Legislators)
  - (NV) Local government (1)
  - (NV) Human service (1)
  - (NV)Education (1)
  - (NV) Private sector (1)

- **Information participants**
  - Public safety
  - Labor
  - Revenue
  - Legislative staff
  - Retirement
  - Health insurance

Proposed Budget and Other Issues

- **Proposed budget - $200,000**
  - Travel, printing, communications, etc.
  - National economic analysis assistance/consulting
  - University system assistance/consulting (Appropriation or contract)
  - Database development
  - Simulation model development
  - Pre-session reporting

- **Other issues**
  - On-going budgeted study?
  - Study governance?(LFC,RTIC, Other, or new committee)
  - Legislative branch staff availability?