

LC No. \_\_\_\_\_  
HB/SB \_\_\_\_\_<sup>1</sup>

REPORT AND RECOMMENDATION OF THE  
STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE (SAVA)  
TO THE 2013 LEGISLATURE AS OF NOVEMBER 2012<sup>2</sup>

Proposal No. 6

Proposing Entity: Senator Art Wittich

Short Title: Provide incentives for voluntary transfer to PERS-DC plan

Retirement system(s) affected

The systems with the greatest unfunded liabilities.

Proposal summary

This is a conceptual proposal to provide monetary incentives to public employees who voluntarily transfer to the PERS-DC plan within a defined window of time for the election. Sen. Wittich indicated he wanted to fund the proposal from the general fund.

Fiscal implications

No other details were provided in the proposal. Therefore the fiscal implications are unknown. Generally, financial risk would be shifted from employers to employees with respect to the employees who elect to transfer to the DC plan.

Effect on other Montana retirement systems

This proposal does not raise any "leapfrogging" issues.

Soundness as matter of retirement policy

This proposal relates to the following policy principle adopted by SAVA:

- I. Pensions should provide the base of financial security in retirement.

The policy issue for the legislature to consider is whether the DC plan will provide a sufficient base of financial security in retirement. The committee or legislature may wish to request a fiscal analysis of the DC plan contribution rates and expected long-term investment returns in the investment choices available to plan members to get a sense of whether contribution rates are sufficient for DC plan members to earn a "base of financial security in retirement".

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<sup>1</sup> This report summarizes SAVA's recommendation to the Legislature as of November 2012. The report is not a summary of a bill, but of a retirement proposal as presented to SAVA during the interim. The specifics of the proposal summarized may have changed during the subsequent drafting and legislative processes.

<sup>2</sup> Report issued pursuant to 5-5-228, MCA.

### Comparison with other states

Staff is unaware of any other states that have considered a similar proposal. However, six states, including Montana, offer state government employees a choice between a DB and DC plan when their employees are initially hired: Colorado, Florida, Indiana, North Dakota, Ohio, South Carolina, and Utah. A DC plan is mandatory in Alaska, Michigan, and Washington D.C.<sup>3</sup>

### Legal implications

This proposal does not raise contract impairment concerns as long as the transfer remains optional. However, the IRS may not look favorably on opening a window for election to transfer to the DC plan. MPERA will likely need to request information from its tax counsel to provide the legislature with information about whether there is an IRS plan qualification concern.

### Testimony received

Senator Wittich was unavailable to present his proposal and no one presented testimony.

### Committee discussion and recommendations

Due to the lack of testimony on the proposal, there were no questions from the committee.

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<sup>3</sup> Ron Snell, "Checklist of State Defined Benefit, Defined Contribution, and Hybrid Plans for State Employees and Teachers", National Conference for State Legislatures, August 2012.