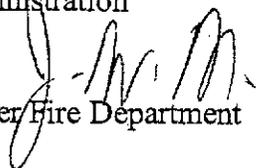


EXHIBIT 5  
DATE 4-8-05  
SB 197

Date: March 14, 2005

To: Rep. Larry Jent, Chair  
House State Administration

From: John W. Northey   
Birdseye Volunteer Fire Department  
Helena, Montana

Re: S.B. 197

This is in followup to the hearing on S.B. 197, and your request for a summarization of the issues and numbers addressed during the hearing. Current state law provides that a volunteer firefighter who draws a retirement benefit can no longer serve as a member of a volunteer department. SB 197 would remove the prohibition and allow a retired volunteer to continue to serve on a department with no increased benefit. The whole purpose is to retain trained firefighters which is becoming harder to do.

An issue at the hearing was the potential cost of the bill. The original fiscal note estimated the annual cost at \$97,000. A revised fiscal note after the bill was amended placed the annual cost at \$19,000. It is my understanding that these numbers were furnished by PERD through their actuary. I have no specific knowledge of these numbers, but have no reason to doubt their accuracy.

The issue is whether the bill would create a potential unfunded liability for the system. Current state law, section 19-2-405, MCA, requires that funding for a retirement system must be such that the actuarial liability will be amortized over a period not to exceed 30 years. The actuarial valuation at June 30, 2002, stated the unfunded liability for the Volunteer Firefighters was 21 years. The actuarial valuation at June 30, 2004, stated the unfunded liability had decreased to 20 years. By letter dated November 18, 2004, the actuary concluded "... the Unfunded Actuarial Liability for the Volunteer Firefighters' Compensation Act is expected to be amortized over less than 20 years." (Copy attached).

This retirement system is funded from two sources. The first is 5% of the fire insurance premium taxes collected in the state, and the second is investment income. The financial history for the last four years shows that the revenue to the system is increasing. Investment income is by nature unpredictable, but I believe over the long term will always be positive. The history of the premium tax revenue shows an average annual increase of 10%+ over the last four years. With inflationary increases in premiums and additional insurance for new construction it is reasonable to assume the tax revenues will continue to increase.

The following data is from the audited financial statements of the retirement system.

	5% Tax	% Increase	Investment Income	Total Revenue
2004	\$1.43	9.5	2.27	\$3.70
2003	1.31	15.5	1.26	2.57
2002	1.13	13.1	-.59	.54
2001	1.00		-.26	.74

(Data in millions)

The net assets held in the Volunteer Firefighters' Trust Fund at June 30, 2004, were just over 20 million dollars. Membership in the system has remained fairly constant with no significant changes expected, which indicates a relatively stable system.

I submit that even if the highest fiscal note cost is incurred, anticipated increased revenue to the system will more than cover such a cost. The unfunded liability is under 20 years and has been decreasing over the last three years. I do not believe the enactment of SB 197 will in any way cause the unfunded liability of the Volunteer Firefighter's retirement system to exceed the statutory 30 year limit.



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November 18, 2004

Public Employees' Retirement Board  
State of Montana

Dear Members of the Board:

Actuarial valuations are normally performed every two years, as of July 1st of each even-numbered year. The previous valuations were performed as of July 1, 2002. We have now completed actuarial valuations as of July 1, 2004 for the following retirement systems:

- Public Employees' Retirement System
- Municipal Police Officers' Retirement System
- Game Wardens' and Peace Officers' Retirement System
- Sheriffs' Retirement System
- Judges' Retirement System
- Highway Patrol Officers' Retirement System
- Firefighters' Unified Retirement System
- Volunteer Firefighters' Compensation Act

The member, employer, and state contributions are set forth in statute. Our findings indicate the projected income stream from the expected contributions will be sufficient to pay the Normal Costs and amortize the Unfunded Actuarial Liability as a level percentage of future payroll, for the following systems. The amortization periods are shown below.

- |  |            |
|--|------------|
| - Municipal Police Officers' Retirement System | 24.4 years |
| - Highway Patrol Officers' Retirement System   | 19.1 years |
| - Firefighters' Unified Retirement System      | 18.7 years |

Based on the assumed level of future revenue, the Unfunded Actuarial Liability for the Volunteer Firefighters' Compensation Act is expected to be amortized over less than 20 years. The Judges' Retirement System had an Actuarial Surplus as of July 1, 2004.

Our findings indicate the projected income stream from the expected contributions will not be sufficient to pay the Normal Costs and amortize the Unfunded Actuarial Liability for the following systems. The additional contributions necessary as of July 1, 2004 to amortize the Unfunded Actuarial Liabilities over 30 years are shown below.

- |   |                  |
|---|------------------|
| - Public Employees' Retirement System                 | 1.19% of payroll |
| - Game Wardens' and Peace Officers' Retirement System | 0.23% of payroll |
| - Sheriffs' Retirement System                         | 2.15% of payroll |

The general decline in the funded status for each system over the previous two years is primarily due to the fact that recent investment returns have been less than the long-term actuarial assumption of 8% per year.

In preparing the 2004 valuations, we relied upon the financial and membership data furnished by the Public Employees' Retirement Administration. Although we did not audit this