

EXHIBIT 2  
DATE 1-19-05  
HB 181

**TEACHERS' RETIREMENT SYSTEM**  
**House Bill 181**  
**TRS Actuarial Funding Proposal**  
**Representative John Musgrove**

**January 19, 2005**  
**Hearing – (H) State Administration**

Presented by David L. Senn,  
Executive Director

**Actuarial Funding**

- The Montana Constitution, Article VIII, Section 15, requires that all public retirement systems be funded on an actuarially sound basis. A system is actuarially sound when the Actuarially Accrued Unfunded Liabilities can be amortized over a period not greater than 30 years.
- An employer contribution rate increase of 2.87% (estimated cost per year = \$17.1 million) or plan design changes would be required to maintain the actuarial funding of the Teachers' Retirement System. The TRS Board proposes to phase in the required rate increase over the next two to three biennia.

**Independent Audit Results**

- The Legislative Audit Division, and the Teachers' Retirement Board contracted with Mellon Human Resources to complete an independent actuarial review of the TRS actuarial valuation.
- Mellon concurred with the results of the July 1, 2004 actuarial valuation stating, that their full scope review of the TRS found that the actuarial valuation fairly represents the actuarial position and funding requirements of the retirement system. Mellon's full report is available on the TRS Website: [www.trs.mt.gov](http://www.trs.mt.gov)

**Legislative Audit Recommendation**

- The Legislative Audit Division in their findings they stated that, the results of the July 1, 2004 actuarial valuation shows the Teachers' Retirement System is not actuarially sound, contrary to the Montana Constitution, and recommended the Board seek legislation to ensure the Teachers' Retirement System is funded on an actuarially sound basis.

**Proposed Legislation** - HB 181, as drafted, proposes to actuarially fund the TRS with the following combination of benefit changes and employer contribution rate increases:

- \*Pay full benefits after 30 years of service and age 55, instead of 25 years of service at any age.
- \*Include the member's 5 highest consecutive years' earnings in the calculation of average final compensation instead of the 3 highest consecutive years' earnings.
- \*Increase the earliest age at which a member can receive an early retirement benefit from age 50 with 5 years of service, to age 55 with 5 years of service.
- The above benefit changes for new hires decreases the required employer contribution rate increase by 0.64%, from 2.87% to 2.23%. In lieu of a one-time increase, HB 181 would increase the employer contribution rate by 1.20% in each of the next two biennia, which could be reduced whenever the current rate of 7.47% would be sufficient to maintain the amortization period at 25 years or less.
- Section 19-20-501, MCA, requires that the rate of interest credited to members' accounts may not be less than 4.0%. Given market declines of the past few years, this rate should be replaced with a prudent standard. In addition, this is the rate charged to redeposit funds withdrawn and to purchase some types of additional service.
- Increase the University System's supplemental contribution rate from 4.04% to 5.09% to ensure amortization of the University System's past service liability by July 1, 2033 as required by 19-20-621, MCA. Again, in lieu of a one-time rate increase, HB 181 includes a contribution rate increase of 0.56% in each of the next two biennia.

**\* Because of the relatively small savings, 0.64%, of the first three proposed benefit changes for new hires, the Teachers' Retirement Board does not support these changes. Instead, the Board suggests that we continue to work with the TRS membership to design a long term solution that more fully addresses the future retirement needs of Montana educators, and the actuarial funding required by the Montana Constitution.**

**The proposed amendments would repeal the first three benefit changes listed above and increase the employer contribution rate 1.2% in each of the next two biennia (as provided in this bill draft) and another 0.75% contribution rate increase in the third biennia.**

## **HB 181 – TRS ACTUARIAL FUNDING PROPOSAL**

Section 1. 19-20-101. Definitions

Section 4. 19-20-215. Compensation limit

Section 5. 19-20-316. Termination pay &

Section 9. 19-20-305. Earned compensation – part-time service

Amendments change the definition of average final compensation to create a new tier whereby members hired after July 1, 2005 would receive benefits calculated on a 5 year average instead of the current 3 year average. The calculation of average final compensation in this new tier would not be limited under the 10% cap.

**Section 2. 19-20-501. Financial administration of money:** Eliminate the minimum rate of interest that may be credited by the Board. Given market declines of the past few years, this rate should be replaced with a prudent standard as adopted by the Board. In addition, this is the rate charged to redeposit funds withdrawn and to purchase some types of additional service, therefore, if the rate is too high members will be discouraged or not be able to purchase additional service.

**Section 3. 19-20-605. Pension accumulation fund – employer's contribution & Section 10. Appropriation**

The employer contribution rate must be increased to cover the cost to actuarial fund the System not covered by benefit changes. In lieu of a total increase of 2.33%, the employer contribution rate will be increased 1.2% on July 1, 2005 and another 1.2% on July 1, 2007. The increased rate must be reduced to 7.47% when this rate is sufficient to maintain the amortization period at 25 years or less. In addition, the Board will periodically review this rate and recommend reductions to the legislature. *(The proposed amendments would add a third increase of 0.75% effective July 1, 2009, in lieu of any benefit changes.)*

**Section 4. 19-20-621. Montana university system optional retirement program supplemental contributions:** The University System's supplemental contribution rate must increase from 4.04% to 5.09% to ensure amortization of the University System's past service liability by July 1, 2033 as required by 19-20-621, MCA. Again, in lieu of a one-time rate increase, HB 181 includes a contribution rate increase of 0.56% in each of the next two biennia.

Section 7. 19-20-301. Eligibility for service retirement. Amendments create a new service retirement eligibility requirement for members hired after July 1, 2005. Members who first become members after July 1, 2005 would have to have at least 30 years of service and be at least age 55 to be eligible to receive full retirement benefits. The eligibility requirements for current members would remain unchanged, i.e. full benefits payable after only 25 years of service regardless of age.

Section 8. 19-20-302. Early retirement. Amendments create new early retirement eligibility limits for members hired after July 1, 2005. Members who first become members after July 1, 2005 would have to have at least 5 years of service and be at least age 50 to be eligible to receive early retirement benefits. The eligibility requirements for current members would remain unchanged, i.e. early retirement benefits are payable after 5 years of service and at least age 50.

**PROPOSED AMENDMENTS WOULD STRIKE THE GRAY SECTIONS**

