MEA-MFT
Public Schools, Public Service

EXHIBIT 3
DATE 2-2-05
HB 338

PROFESSIONAL RETIREMENT OPTION (PRO) for EDUCATORS
HB338 – Rep. Larry Jent

Presented to: House State Administration Committee
February 2, 2005

The "Professional Retirement Option" (PRO) addresses the *retention issue* -- prominently raised by the current adequacy of state funding lawsuit – by offering Montana's public school teachers and administrators an enhanced retirement benefit if they postpone termination and retirement until they are age 55 or older and have 30 or more years of creditable service in TRS. The proposal is an outgrowth of study and recommendation of Governor Racicot's Task Force on Teaching (2000-01), long-discussion among educators, pension program and legislative policymakers. The TRS board and School Administrators of Montana have endorsed PRO and MEA-MFT stands in full support of Representative's Jent's 2005 PRO proposal. LC#HB__

Under PRO, TRS members age 55 or older with 30 years of TRS service credit who retire on or after July 1, 2007 would see their benefit formula factor improved from 1.677% x years of service to 2% x years of service. For example: a member with 30 years of creditable service would be eligible to receive a retirement benefit equal to 60% of his/her average final compensation, as opposed to 50% under current law.

PRO's advantages are:

- It encourages teachers and administrators to extend their educational career.
- It rewards those who spend an entire career (30+ years) teaching in Montana.
- It increases the number of available classroom teachers and administrators.
- It decreases "hiring pressure" and teacher recruitment problems in Montana.
- It reduces the period when a member is retired but not eligible for Medicare.
- It provides a superior level of replacement income in retirement.

PRO – *meeting the immediate need for position retention*

Currently, the average TRS member retires after 26 years of service and at age 57. During the 1990s and early 2000s, the number of annual teaching and administrative vacancies in Montana schools doubled. (See: "Who Will Teach," 2002 update, Dori Nielsen, Ed.D.) More than half of annual vacancies are the result of retirements -- the number of which has grown from an annual average of 300 in the late 80s and early 1990s, to more than 500 by the later 90s through 2004. School districts -- and the higher education system -- have encountered enormous problems in filling these annual vacancies with fully qualified staff. A half-dozen school administrators from large and small, east and west districts across the state testified at length during trial of the school funding adequacy lawsuit that the number of applicants in the hiring pool is markedly down in recent years and poses a clear and present threat to the quality of Montana's teaching workforce.

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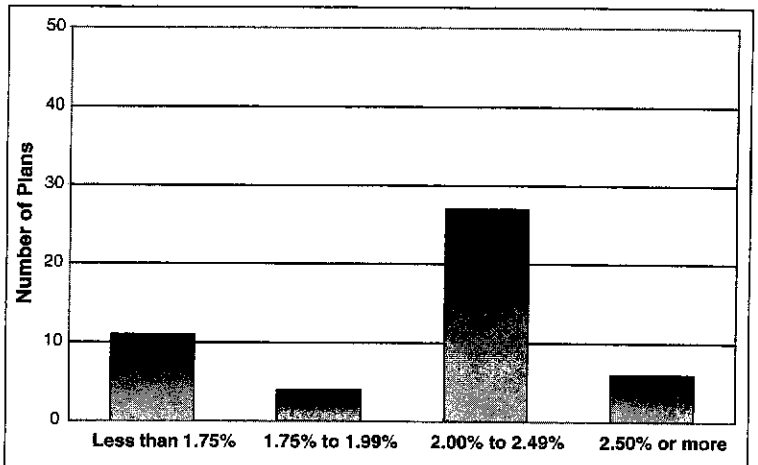
PRO is projected to "retain" nearly 20% of otherwise retiring teachers and administrators in Montana during the upcoming 4 to 5 years, and beyond. California adopted a similar proposal in 1999. Since adoption, California experienced nearly a 20 percent reduction in the number of retirees in the first and second years of application. PRO in Montana could reduce the number of our school annual retirements by 100+ teachers and administrators. During the first five years of PRO, as many as 400+ Montana teachers, administrators and some older university faculty, can be expected to postpone their retirement plans for up to five years. This delay in retirement rates will relieve a portion of vacancy placement and new hiring difficulties experienced by many Montana school districts.

PRO – *helping to meet the retirement income needs of future TRS retirees --*

Under current law, a new retiree with $40,000 average final compensation, applied to a 1.67% x 25 years formula would receive an annual TRS benefit of $16,700 (roughly 42% of AFC). PRO's 2% formula at 30 years with the same $40,000 AFC would yield an annual pension of $24,000 (or 60% of AFC). This represents a $7,300 PRO advantage may well be the additional retirement income needed by the retiree to pay for health care expenses during retirement leading up to and extending into Medicare eligibility.

A 2% benefit formula is also in line with national norms. It helps Montana maintain competitiveness with pension benefit levels offered by other states.

Benefit Formulas*



* Only plans with one formula under "Benefit Formula" column in Table 6 appear here. The 43 plans that are not included have multiple formulas or some other special features. Two plans are defined contributions, which have no formulas.

Characteristics of 100 Large Public Pension Plans, Nov. 2002, NEA.

PRO -- ***fiscal impact of PRO***

Full funding for PRO requires a state funded payroll contribution increase of nearly 2% of TRS covered payroll. HB338 proposes to phase-in PRO costs by raising the state's contribution to TRS by .99% (<1%) in on July 1, 2006 and by an additional .99% in FY07 and thereafter. Each 1% of contribution currently amounts to nearly $6 million per year. As proposed, PRO contribution costs would be entirely funded by additional state payments to TRS – i.e. increasing the State's current TRS pension contribution of .1% (for GABA) to 1.98% of salary for PRO as of FY07, plus the existing .11% for GABA. No increase in local property tax or employee pension wage contribution deduction would result from adoption of PRO. PRO's fully state-paid contribution costs have been carefully coordinated with increased employer contributions (combined state, local, school employer and state contributions) needed to fund TRS and PERS at actuarially sound and prudent levels.

PRO – ***part of the solution for adequate funding of quality education in Montana***

HB338 very directly addresses the issue of teacher of teaching hiring pools, adequacy of retirement income levels for career length educators, and maintenance of a quality educational workforce for Montana public school students.

Please vote "yes" to recommend passage and approval of PRO--HB338!

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