

EXHIBIT 7
DATE 2-16-05
542

MONTANA PUBLIC EMPLOYEES' RETIREMENT BOARD
HB 542 – Revising MPORS Post-Retirement Benefit Increases

In fiscal year 1997, the retirement benefit paid to a retired police officer who was a member of the Municipal Police Officers' Retirement System (MPORS) could not be less than one-half of the compensation paid in FY 97 to a newly confirmed police officer in the city or town from which the member retired (§19-9-1007, MCA).

Over the last eight years this legislature has given several post-retirement benefit increases to retired MPORS members. Those increases include:

January 1, 1998 – An optional* 1.5% annual Guaranteed Annual Adjustment Benefit (GABA) in lieu of the half-salary of a newly confirmed officer (§ 19-9-1009, MCA).

January 1, 2000 – A second opportunity for an optional* 1.5% GABA (§ 19-9-1010, MCA).

April 28, 2001 – Retired MPORS members who had not elected the 1.5% GABA were given a one-time permanent ad hoc purchasing power adjustment designed to bring the current benefit up to no less than 75% of the purchasing power of the initial monthly benefit (§ 19-9-1020, MCA).

January 1, 2002 – An optional 3.0% GABA in lieu of the half-salary of a newly confirmed officer. The 3% option* had to be elected by December 31, 2001, and was available to those who had received the 75% purchasing power adjustment (§ 19-9-1013, MCA). Sections 19-9-1009 and –1013, MCA, were also amended to provide a 3% GABA rather than a 1.5% GABA.

*GABA was mandated for officers hired after July 1, 1997.

House Bill 644 seeks to retroactively provide all retired MPORS members (or their statutory beneficiaries) with:

- (1) the 75% purchasing power adjustment, whether they had elected the 1.5% GABA or not; **and**
- (2) the 3% GABA
- (3) one-half of the compensation paid to a newly confirmed police officer in the city or town from which the member retired if (1) and (2) are less than that amount.

The Board opposes this legislation for many reasons, including constitutionality issues and the cost to the system. The legislation is also contrary to the intent of previous legislatures, and results in an unintended, as well as unnecessary, increase in the benefit paid to MPORS retirees.

Board staff surveyed a sample of retired MPORS members regarding their current benefits. The following charts are instructive.

A. Three Retirees who did not elect the 1.5% GABA, received the 75% purchasing power, then elected the 3.0% GABA. All continue to receive benefits today.

Retiree #	Employee Contributions paid to MPORS	Years of Service	Age and Year Retired	Total Retirement Benefits as of 1/31/05
#1	\$3420.94	20 years	1971 at 44 years of age	\$261,709.00
#2	\$3693.00	23 years	1972 at 54 years of age	\$263,053.79
#3	\$4685.00	20 years	1976 at 41 years of age	\$269,600.00

B. One Retiree who elected the 1.5% GABA, did not receive the 75% purchasing power, then started receiving the 3% GABA. Benefits ceased in 2003.

Retiree #	Employee Contributions paid to MPORS	Years of Service	Age and Year Retired	Total Retirement Benefits as of 1/31/05
#4	\$4699.73	26 years	1972 at 65 years of age	\$243,005.00

C. One Retiree who has never elected GABA, received the 75% purchasing power and is entitled to one-half of the compensation paid to a newly confirmed police officer in the city or town from which the member retired. Benefits continue today.

Retiree #	Employee Contributions paid to MPORS	Years of Service	Age and Year Retired	Total Retirement Benefits as of 1/31/05
#5	\$5689.00	20 years	1977 at 50 years of age	\$259,735.49

CONSTITUTIONALITY

The technical notes contained in the Fiscal Note highlight the constitutional issues raised by this legislation. In particular, the legislation provides an additional, unexpected benefit to those retirees who chose the GABA; and fails to address those retirees who have passed away since the 2001 purchasing power adjustment went into effect.

ACTUARIAL IMPACT

Finally, retroactive payment of unexpected benefit increases must come from the MPORS Pension Trust Fund. The fiscal note documents an average retroactive monthly benefit **increase** of \$235 a month for 214 retirees (56% of 383), resulting in a \$2,764,657 retroactive cost to be covered in FY2006; an additional increase in FY06 benefits of \$721,590; an increase in FY07 benefits of \$743,238; and greater than expected benefit increases in each future year due to the inclusion of the purchasing power adjustment. The total increase in actuarial liability will exceed \$26,900,000 and will require a contribution increase of more than 6%. The bill provides for an increase of only 2%.

The Board urges a DO NOT Pass vote on HB 542.

Melanie Symons
PER Board Legal Counsel
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