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HB159 – An act providing actuarial funding of the retirement systems

This legislation is requested by the Public Employees' Retirement Board (Board).

- ❖ All public employee retirement systems must be funded on an actuarially sound basis as required by:
  - Montana Constitution (Article VIII, Section 15)
  - State Law (§19-2-405, MCA) *and*
  - Governmental Accounting Standards Board (GASB) (Statement #25)

To be “actuarially sound”, the employer and employee contributions coming in must cover **both** the cost of the benefits accrued today for each member of the system **and** the cost to amortize any unfunded liability over a period of 30 years or less. The unfunded actuarial liability is the excess of liabilities over assets.

- ❖ Three of the ten retirement plans administered by the Board are not actuarially sound:
  - Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS-DBRP)
  - Game Wardens' and Peace Officers' Retirement System (GWPORS)
  - Sheriffs' Retirement System (SRS)
  - The other defined benefit plans are all adequately funded, with actuarial liabilities that amortize within the 30 year limit.

The SRS is further complicated by the fact that the combined contributions do not even cover the benefits that are provided today for the members. Therefore, there is no portion of contributions to pay down the unfunded liabilities.

**Status of Unfunded Systems  
June 30, 2006**

	PERS	GWPORS	SRS
Unfunded Actuarial Liability	\$460.2M	\$5.4M	\$8.8M
Years to Amortize	Infinite	32.4	Infinite
Projected Contribution Shortfall	1.01%	0.04%	1.84%
Shortfall Deposit at June 30, 2007	\$185M	\$219,000	\$15M

- ❖ There are limited methods to meet the constitutional requirement of actuarial sound system:
  - Increase funding i.e. employer contributions
    - Existing employee contributions may NOT be increased without a corresponding increase in benefits.
  - Decrease benefits for new system members
  - Increase contributions for new system members
  - A combination.
  
- ❖ For reasons outlined below, the PERB is not proposing and, through their fiduciary charge, may not support proposals to decrease benefits thereby creating another tier. To meet the constitutional requirement, the PERB has previously and is continuing to request additional employer funding.
  
- ❖ Legislation seeking an increase in employer contributions in those three systems was sought in the 2003 and 2005 Legislative Sessions and drafted for the Special Session.
  - This legislative proposal was also reviewed and approved by the State Administration and Veterans' Affairs (SAVA) Interim Committee.
  - As a result of the Special Session, PERS received \$25M.
  - The Governor is not proposing any one-time money this session.
  - The legislative auditors have made a recommendation that legislation be enacted for funding changes to ensure the PERS-DBRP, SRS, and the GWPORS are funded on an actuarially sound basis, as required by the Montana Constitution, state law and GASB.

- ❖ The Board is, once again, proposing to increase employer contributions to address this funding situation.
- ❖ This bill proposing the following increases:

<b>Required Employer Increases To Actuarially Fund the Systems</b>			
	<b>PERS</b>	<b>GWPORS</b>	<b>SRS</b>
Increase 7/1/07	0.56%	0.04%	1.03%
Increase 7/1/09	0.57%	-	1.02%

- ❖ Phasing-in the contribution increases in PERS and SRS lessens the impact on employers, allows employers to plan their budgets and allows for an interim actuary valuation and adjustment to the second increase.
- ❖ The legislation also includes a statutory appropriation for the general fund to pick up the increase for school district employers to avoid direct impact to property taxes.
- ❖ This legislation also includes a sunset provision. The increase in employer contributions will be eliminated when the actuarial liability is able to be funded over 25 years or less.
- ❖ The Board has a constitutionally-imposed fiduciary responsibility to act in the sole interest of its members and beneficiaries.
- ❖ The Board also is charged under (§19-2-403 (9), MCA) with recommending changes to the legislature that will maintain a stable standard of living for its members.

- ❖ The Board has an obligation to request the legislature act to maintain the actuarial funding of the systems.
  
- ❖ To comply with these responsibilities and as a policy decision, the Board recommends increasing employer contributions to correct the funding status of the systems and does not advocate reducing benefits.
  
- ❖ Retirement plans are part of the benefit package provided by employers. Promoting a good retirement plan helps with:
  - Recruitment
  - Retention
  - Rewards Loyal Service
  - Reduces Employee Turnover
  - Makes Retirement possible
  
- ❖ Retirement Benefits are Essential to Montana's Economy
  - In 2006, \$182 Million dollars in benefits payments were made to residents of Montana counties.
  - Boosts Montana's Economy dollar for dollar on the main streets of your cities and towns.
  - For every \$1 of employer contributions, the fund pays out \$3 dollars in additional benefits.
  
- ❖ The Board respectfully requests that you consider the value of retirement as a benefit for attracting qualified public servants, the value of retirement benefits to Montana's economy and the constitutional and statutory requirement to maintain actuarially sound systems.