

Exhibit No. 7
Date 4-9-07
Bill No. HB 125

Montana Public Employee Retirement Administration

House Bill No. 125 Repay Loan for Startup Costs of the Defined Contribution Retirement Plan

- ❖ The Defined Contribution Retirement Plan (DCRP) was created by statute in 1999 following the passage of HB 79.
- ❖ The startup costs to design and implement the DCRP were \$1,535,695.00, which is less than the \$1,700,000.00 contemplated by the fiscal note.
- ❖ As introduced, HB 79 had a proposed funding source for those startup costs. Because of the tight state budget that year, however, that funding source was removed and a long-term loan was substituted to fund the startup costs.
- ❖ The repayment source for that loan is a portion of the contribution to each DCRP member's account.
- ❖ When introduced, the Legislature assumed that 15-25% of eligible employees would elect to participate in the DCRP. Based on that amount of participation, repaying the loan from contributions to the DCRP would have been feasible.
- ❖ That assumption was substantially higher than the number that actually chose the DCRP: only 3% of then-current defined benefit retirement plan members chose the DCRP option, and currently only 4% of those eligible for the DCRP actually participate in the DCRP.
- ❖ As a result, the contributions from the DCRP members are not sufficient to repay the loan. We have already had to renegotiate the loan once. It is now a variable interest loan with graduating payments and a termination date in 2018.
- ❖ Repaying the loan from DCRP member accounts would require the members to contribute 4.6% of their account balances. That is substantially greater than the 4.16% available employer contribution left over after deduction for the plan choice rate, education fund and disability benefit rate. That is also a substantial hardship for the DCRP members. Query whether we would have had any participation if the member received none of the employer contribution.
- ❖ The State is the plan sponsor, and should be responsible for sustaining a program it created with inadequate funding. I urge you to support HB 125. Thank you.



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