STATE ADMINISTRATION
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Bill No. SB-532

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Senate State Administration
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Montana Public Employee Retirement Administration

SB532 – Revise Firefighters' Unified Retirement System Laws

The Public Employees' Retirement Board (PERB) respectfully stands in opposition of this bill on three of the four provisions included in this legislation.

This bill proposes four provisions

1. Includes overtime in the definition of compensation – PERB opposes;
2. Allows other than first and second class cities to join the Firefighters' Unified Retirement System – PERB supports;
3. Allows working retirees – PERB opposes;
4. Establishes a Deferred Retirement Option Plan (DROP) – PERB opposes.

Compensation Definition

- Revising the definition of compensation creates immediate unfunded actuarial liability. Because the current members have not been paying contributions on their overtime over there entire career. The actuary has not included the proper salary calculations, the effects on benefits, nor have the contributions been coming in on a regular basis.
- Including overtime in the compensation definition also allows for salary "spiking" in the final compensation period; providing the member with a skewed salary and increased benefit that has not been funded over the member's working career.
- Including overtime in the compensation definition opens the door to leap-frogging by other public safety systems.
- Adding overtime to the definition of compensation increases the unfunded actuarial liability by $8.6, and the amortization period by 1.3 years.

Allows other Cities to Join the FURS

- The PERB supports this provision because new members do not create unfunded liability, **if** the new members pay the normal cost **and** the demographics are similar to the current membership.

- Also, new members can benefit the system because contributions above the normal cost received from new members will help to pay off the unfunded actuarial liability.
- Under this proposal, if a current member elects to join the FURS and wishes to transfer PERS service to FURS, the member will pay the actuarial cost for equal service in the FURS.
- The funded liability remains unchanged. The amortization period is decreased by 2.2 years.

Working Retirees

- Members working after retirement take the place of new hires and deprive the system of the member and employer contributions that would be made on the new hires compensation. Therefore, less contribution income would be available to amortize the unfunded actuarial liability.
- We are willing to work on an amendment that limits this provision and the subsequent impact to the system.

Deferred Retirement Option Plan (DROP)

- It is difficult to design a DROP that is cost neutral. This proposal models the MPORS DROP. The MPORS DROP was originally expected to be cost neutral. More members than originally estimated entered the DROP. An actuarial study, dated October 25, 2006 determined that the MPORS DROP was not cost neutral. The amortization period was extended 1.0 year. The contribution would have needed to be increased by 0.47% to finance the DROP.
- One technical problem with the DROP proposal is the interest paid to the DROP account is based on the retirement systems' annual investment earnings. This is a long-term rate. The DROP account is established for one month to 5 years; therefore, it would be more appropriate to earn interest at a short-term rate.
- The actuary has estimated that implementing a DROP would increase the unfunded actuarial liability by $2.6M and extend the amortization period 1.7 years.