



 SENATE BILL 484

An Act Establishing a Minimum Retirement Age of 65 for New Members of PERS and TRS

The Montana Public Employees' Retirement Board's (PERB's) Legislative Committee, after significant discussion, determined to oppose this bill with respect to the Public Employees' Retirement System (PERS).

The decision to oppose was difficult as the bill would reduce the normal cost rate for future hires, thus permitting a larger portion of the future employer contributions to be used to decrease the systems' Unfunded Actuarial Accrued Liability. However, the reduction of the UAAL, and ultimate reduction of the retirement system's amortization period, comes at too great a cost to future members of PERS.

PERB's constitutionally-imposed fiduciary duty is two-fold: (1) to ensure the retirement systems are funded on an actuarially sound basis; and (2) to administer the retirement systems for the benefit of the participants and their beneficiaries. While this bill would help to meet the first duty, it would come at the expense of the duty owed PERS members and their beneficiaries.

In addition to the adverse impact on new PERS members, the Board has identified several other concerns.

- ✓ The retirement benefit is based solely on age, with no recognition of years of service by our public employees.
- ✓ Age 65 with 5 years of service is unusually restrictive.
 - According to information from NASRA (National Association of State Retirement Administrators), only Washington Teachers' Plan 2/3 and Washington School Employees have an absolute requirement that members be 65 in order to receive an unreduced retirement benefit.
 - Oregon PERS requires retirees to be age 60 with 5 years of service.
 - New Jersey PERS requires their retirees to be age 60 with 10 years of service.
- ✓ The early retirement benefit is significantly reduced for new members - anywhere from 18% less to 28% less, depending on age or years of service at retirement. This reduction will render even more difficult a retiree's ability to pay for their health insurance.

- ✓ Because this bill does not decrease a new member's disability benefit, PERS members will likely file significantly more claims for disability retirement in order to retire at an earlier age with a larger benefit than that offered under the early retirement statutes. A significant increase in disability benefits could offset the positive actuarial impact otherwise realized by the proposed change in retirement age.
- ✓ Survivorship benefits are also not decreased; resulting in a retirement system member's beneficiary possibly receiving a benefit greater than the member would have received had the member not died prior to age 65.
- ✓ The higher retirement age may result in the perception that the defined contribution plan would be more desirable than the defined benefit plan. A significant increase in defined contribution participants could adversely impact the funding of the defined benefit plan.
- ✓ The second sentence of Section 1 - Section 19-3-901(1)(a), MCA, conflicts with new 19-3-901(a)(c), MCA. PERB is not certain whether a new member first hired at age 62 could retire at age 65, with only 3 years of service credit, or whether that member would have to become vested prior to being eligible to retire. If the member must be vested, he or she would need to work until age 67.

Finally, while not related to retirement issues, PERB is concerned with the impact of this bill on public employers.

- ✓ Retirement system members will more often be forced to work until age 65 in order to maintain an adequate standard of living following retirement, and in order to afford health insurance.
- ✓ Employers will be forced to continue paying these long-time employees at a higher rate of salary than they could pay new employees.
- ✓ The cost to the employer of long-term employees could be far greater than the cost of a possible increase in the employer's contributions to PERS.
- ✓ More retirement system members will terminate and take refunds of their account balances rather than waiting to become eligible for a life-long retirement benefit. These people may ultimately require substantial public assistance, at a far great impact to our tax payers than an increase in employer contributions.

PERB urges a "Do Not Pass" on SB 484. Thank you.

PERS EARLY RETIREMENT FACTORS

<u>PROPOSED FACTORS for Vested* Members at Specified Age</u>	<u>CURRENT FACTORS for Vested* Members at Specified Age</u>	<u>CURRENT FACTORS for Members of any age with Specified Years of Membership Service</u>
Age 65	1.0	30 Years of Service
Age 64	0.94	29 Years of Service
Age 63	0.88	28 Years of Service
Age 62	0.82	27 Years of Service
Age 61	0.76	26 Years of Service
Age 60	0.70	25 Years of Service
Age 59	0.664	24 Years of Service
Age 58	0.628	23 Years of Service
Age 57	0.592	22 Years of Service
Age 56	0.556	21 Years of Service
Age 55	0.52	20 Years of Service
Age 54	0.484	
Age 53	0.448	
Age 52	0.412	
Age 51	0.376	
Age 50	0.34	

(and so on)

*Vested = 5 years membership service