

Montana State Legislature

2011 Session

Exhibit 8

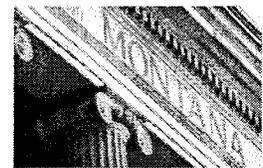
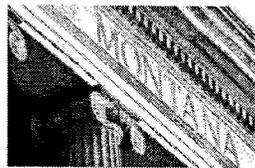
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Required Review of Proposed Statutory Changes to Montana's Retirement Systems



**A Compilation of Reports from the State Administration
and Veterans' Affairs Interim Committee
2009-2010**

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December 2010

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Overview of the Reports

▫ Background and Statutory Authority

The State Administration and Veterans' Affairs Interim Committee (the SAVACOM) is required to "solicit and review" proposed statutory changes to the state's public employee retirement systems. After the review, the SAVACOM must report to the Legislature on each proposal reviewed. Section 5-5-228(2), MCA, assigns this task to the SAVACOM and provides guidelines for the content of the reports:

5-5-228. State administration and veterans' affairs interim committee.

(1) The state administration and veterans' affairs interim committee has administrative rule review, draft legislation review, program evaluation, and monitoring functions for the public employee retirement plans and for the following executive branch agencies and the entities attached to the agencies for administrative purposes:

- (a) department of administration;
- (b) department of military affairs; and
- (c) office of the secretary of state.

(2) The committee shall:

(a) consider the actuarial and fiscal soundness of the state's public employee retirement systems, based on reports from the teachers' retirement board, the public employees' retirement board, and the board of investments, and study and evaluate the equity and benefit structure of the state's public employee retirement systems;

(b) establish principles of sound fiscal and public policy as guidelines;

(c) as necessary, develop legislation to keep the retirement systems consistent with sound policy principles;

(d) solicit and review proposed statutory changes to any of the state's public employee retirement systems;

(e) report to the legislature on each legislative proposal reviewed by the committee. The report must include but is not limited to:

(i) a summary of the fiscal implications of the proposal;

(ii) an analysis of the effect that the proposal may have on other public employee retirement systems;

(iii) an analysis of the soundness of the proposal as a matter of public policy;

(iv) any amendments proposed by the committee; and

(v) the committee's recommendation on whether the proposal should be enacted by the legislature.

(f) attach the committee's report to any proposal that the committee considered and that is or has been introduced as a bill during a legislative session; and

(g) publish, for legislators' use, information on the state's public employee retirement systems.

(3) The committee may:

(a) specify the date by which proposals affecting a retirement system must be submitted to the committee for the review contemplated under subsection (2)(d); and

(b) request personnel from state agencies, including boards, political subdivisions, and the state public employee retirement systems, to furnish any information and render any assistance that the committee may request. (emphasis added)

History: En. Sec. 30, Ch. 19, L. 1999; amd. Sec. 15, Ch. 210, L. 2001; amd. Sec. 1, Ch. 2, Sp. L. December 2005.

This document compiles all the reports for each proposal reviewed by the SAVA Committee. Because section 5-5-228(2)(f), MCA, requires that the report on a proposal to amend the retirement systems be attached to any related legislation that is introduced in the legislative session, the reports are formatted as stand-alone documents rather than a single, comprehensive report on all the proposals as a group. As a result, there will be duplication in some of the material presented in the reports.

Additional information related to the review, including the detailed proposals submitted to the SAVA Committee, can be found online at http://leg.mt.gov/css/Committees/interim/2009_2010/State_Administration_and_Veterans_Affairs/Staff_Reports/legislation.asp

A list of Principles and Guidelines for Public Employee Retirement Systems is included in Appendix B. The principles were adopted by the SAVA Committee, as required by section 5-5-228, MCA, at the Committee's December 2009 meeting.

▫ **Results**

A table containing a brief summary of each proposal and the recommendation of the SAVA Committee can be found in Appendix D of this report. The proposal numbers found throughout this report refer to the numbers assigned in that table.

The SAVA Committee solicited proposals from various retirement system stakeholders, including the retirement boards, groups representing public employees, and other interested parties, in late 2009 and early 2010. Most proposals were presented to the SAVA Committee at its April 22-23, 2010, meeting; proposals from the two retirement

boards were presented in June 2010.¹ Altogether, the SAVA Committee reviewed 16 proposals from various system stakeholders and the retirement boards. The retirement systems made nine proposals (including several housekeeping and general revision bills); stakeholders made the rest.

After considering the proposals through the remainder of the interim, the SAVA Committee made recommendations at its final September 2010 meeting. Because of the pressing financial situation facing the state of Montana, the members recommended that many of the proposals that proposed benefit enhancements or increased spending should not be enacted if presented to the 2011 Legislature as bills.

The members did not make a recommendation on one proposal--proposal 5 from the MEA-MFT to create a modified professional retirement option in the Teachers' Retirement System--mainly because of confusion on what such a recommendation might mean for a similarly titled proposal that the SAVA Committee made as part of its work on House Bill No. 659 during the 2009-2010 interim. The SAVA Committee also recommended that the 2011 Legislature should split the funding elements from the benefit changes contained in several proposals from the retirement boards.

Because the SAVA Committee consists of an even number of members, if a motion to make a recommendation on a proposal failed on a tie vote, the proposal received the recommendation that the 2011 Legislature should not enact the proposal. Two of the proposals received this recommendation as the result of a tie vote.

¹Copies of memos to stakeholders and the retirement boards requesting proposals for review can be found in Appendices C and D of this report.

HB/SB _____

Recommendation to the 2011 Legislature:
The 2011 Legislature should not enact legislation based on this concept.

Proposal 1 - Public safety dispatchers to Sheriffs' Retirement System

▫ **Summary of Proposal**

The Association of Public-Safety Communications Officials - International proposes to include public safety dispatchers in the Sheriffs' Retirement System (SRS), which is a 20-year retirement system created for sheriffs, sheriffs' deputies, detention officers hired by sheriffs, and investigators hired by the Department of Justice. The dispatchers currently are members of the Public Employees' Retirement System (PERS), a 30-year system that offers both a defined benefit and a defined contribution plan.

▫ **Fiscal Implications of the Proposal**

Current actuarial analysis of this proposal was not available during the SAVA Committee's review. However, in the 2009 session, House Bill No. 31 (HB 31), a similar bill, was introduced. The fiscal note for HB 31 provides some information. Both employer (ER) and employee (EE) contribution rates would go up for new hires entering SRS and current employees electing to switch to SRS from PERS. The increase is due to the higher statutory contribution rates for SRS compared to PERS.

Currently, the ER rate for PERS is 7.17% for State/University employers. Local government employers pay 7.07% of salary with the state general fund adding another 0.1%. The ER rate for SRS is 10.115%.

Currently, the EE rate for PERS is 6.9% of salary. The EE rate for SRS is 9.245%. (These EE and ER rates might change during the 2011 Legislature due to other retirement-related proposals working their way through the legislative process.)

* This report summarizes the SAVA Committee's recommendation to the Legislature as of September 13, 2010. The report is not a summary of a bill, but of a proposal as presented to the SAVA Committee during the interim. The specifics of the proposal may have changed during the subsequent drafting and legislative processes.

Report issued pursuant to 5-5-228, MCA.

The fiscal note for HB 31 stated that it would have a minimal effect on PERS and would increase the amortization period for SRS from 16.3 years to 21.9 years. (Currently, neither SRS nor PERS amortize in any amount of time.)

The proposers predicted there would be savings to local government employers due to decreased employee turnover. High turnover rates can increase hiring and training costs. The 2009 fiscal note for HB 31 detailed savings to the general fund if the legislation were enacted because the state currently pays 0.1% for local government employers who have members in PERS. That rate is not paid into SRS.

□ **Effect of Proposal on Other Retirement Systems**

Besides the effect on the PERS amortization period, it is hard to determine what effect, if any, the proposal would have on other retirement systems. However, it could encourage other groups of employees in high-stress positions to attempt to join 20-year public safety systems.

□ **Soundness of the Proposal as a Matter of Public Policy**

In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by the SAVVA Committee at its December 11, 2009, meeting) to outline how the proposals meet or fall short of the standards the SAVVA Committee has set for retirement plan policy. The appropriateness of including dispatchers in a public safety system would be a policy question that falls under Principle IV. This principle governs how benefits should be allocated among beneficiaries, including that pensions should not "unreasonably differentiate" between different groups of employees, though it allows for different benefits based on different jobs if there is a rationale behind the formula. Public safety jobs are often viewed as higher-risk, high-stress jobs that lead to higher rates of burnout and can be physically demanding. Thus, many public service retirement systems have lower retirement ages and higher benefits than general employee retirement systems.

Also, although the SAVVA Committee adopted Guideline U, providing that benefit formulas in the public safety retirement systems should be similar, neither it nor

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Principle IV addresses how to judge legislation that would change the eligibility requirements for those systems.

Other factors that might be considered when addressing legislation similar to this proposal are:

- Are there other workers in PERS-covered positions that might be considered high-stress emergency positions who might also want to switch to a 20-year system?
- Current dispatchers wishing to move from PERS to SRS will have to purchase service in SRS because PERS and SRS years of service do not transfer on a one-to-one basis. The costs of purchasing those years of service may be prohibitively expensive.

□ **Amendments Proposed by the SAVVA Committee**

None.

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Report issued pursuant to 5-5-228, MCA.

Recommendation to the 2011 Legislature:
The 2011 Legislature should not enact legislation based on this concept.

Proposal 2 - Increase retirement multiplier in Judges' Retirement System

▫ **Summary of Proposal**

The Montana Judges' Association proposes to change the current retirement multiplier in the Judges' Retirement System (JRS). Currently, the multiplier is 3 1/3% for up to 15 years of service and 1.785% for each year of service over 15. The proposal would set the multiplier at 3 1/3% for all years of service up to but not exceeding 30 years. The benefit would not be allowed to exceed the salary of an active judge or justice. As of the 2009 actuarial valuation, the JRS was funded at approximately 148% and the costs related to the multiplier increase would be borne by the system.

▫ **Fiscal Implications of the Proposal**

Current actuarial analysis of this proposal was not available during the SAVA Committee's review. Similar legislation was not introduced in recent legislative sessions, so information could not be gathered from previous fiscal notes.

▫ **Effect of Proposal on Other Retirement Systems**

Because no other defined benefit public employee retirement system in Montana provides income replacement of 100% on retirement after 30 years of service, this change might encourage members of other systems to try to increase their system's multiplier to provide higher retirement benefits. This effect is known as "ratcheting".

▫ **Soundness of the Proposal as a Matter of Public Policy**

In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by the SAVA Committee at its December

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