

EXHIBIT _____
DATE 1/13/15
HB 107

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1/2/2015

House State Administration Committee
Montana House of Representatives
P.O. Box 200400
Helena, MT 59620-1706

RE: HB107 The Montana Public Employees Retirement Administration Defined Contribution Proposal

Dear Members of the House State Administration Committee,

The Montana Public Employees Retirement Administration's (MPERA) Defined Contribution Plan (DC Plan) has HB107 sponsored by Representative Rob Cook before you today.

The Defined Contribution Plan is facing four issues that need to be resolved this session. The first is a provision to make a timely transfer of Plan Choice Rate Contributions back into the DC Plan participants account once the payoff of the DC Plan's share of the Defined Benefit Plan's unfunded liability is fully paid. The second is a return of their additional 1% employer contributions from last session. Third is the deletion of the language that sends the Plan Choice Rate contributions to the DC Disability Plan. The fourth is the repeal of 19-3-2121 which for all practical purposes ends the Plan Choice Rate for the Defined Contribution Plan. There are two bills HB107 and SB42 that have been introduced in the 2015 Legislative Session, with minor amendments, will accomplish the goal of fair and equitable treatment of the current Defined Contribution Plan.

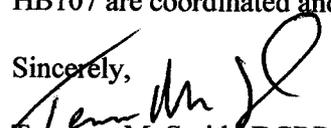
The last PERS actuarial report as of June 30, 2014 has the payoff of the DC Plan's unfunded liability paid in 2.0 years. As a result, in June of 2016 the unfunded liability owed to the DB Plan will be paid off. The language in HB107 would not make the transfer effective until January 1, 2017. I see that as a breach of duty to the DC Plan participants. There is no reason to wait six months or more when language could be drafted to make it effective on payoff. The excess funds after payoff should go to the DC Administrative account until the funds are deposited into the participant's accounts. The DC Plan should have a special report prepared by the actuary and not wait until the full report of the eight defined benefit plan reports are issued. The actuary's 6/30/2015 report will show twelve or fewer months to payoff and could be advised at that point when to prepare the final report verifying the payoff for the Montana Public Employees Board.

Last session in HB454 the additional 1% contributions made on behalf of DC Plan participants were sent directly to the Defined Benefit Plan bypassing the Plan Choice Rate. The Plan Choice Rate is the mechanism designed for taking the DC Plan employer contributions to pay the allocated unfunded liability and the normal cost adjustment. The State Administration and Veterans Affairs Committee characterized that as a mistake. They correct that mistake in SB42.

In both HB107 and SB42 the language that sends additional Plan Choice Rate contributions to the DC Disability Plan is lined out. The DC Disability Plan is adequately funded and does not need any additional employer contributions to keep it financially sound.

The repeal of 19-3-2121 is a practical response to the history and experience of the effects of the introduction of a Defined Contribution on the Defined Benefit Plan. The Plan Choice Rate has two parts, the unfunded liability and the normal cost adjustment. The \$20,461,000 in unfunded liabilities allocated to the DC Plan will be paid off in the first year of the next biennium. The normal cost adjustment has never been a significant issue for the Defined Benefit Plan. As a result, the Montana Public Employees Retirement Administration proposed repeal of 19-3-2121 and the committee should support that provision.

I submitted a letter to the Chair which included a markup of the current draft of HB107. My hope is that SB42 and HB107 are coordinated and the goals outlined above will pass in 2015 Legislative Session.

Sincerely,

Terrence M. Smith, DCRP Participant
Attachments

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Section 2. Section 19-3-2121, MCA, is amended to read:
"19-3-2121. Determination and adjustment of plan choice rate and contribution allocations.

(4) The sufficiency of the plan choice rate to actuarially fund the appropriate share of the defined benefit plan's unfunded liabilities must be determined as follows:

(a) The board shall determine the number of years required to actuarially fund the defined benefit plan's unfunded liabilities as of the June 30, 1998, actuarial valuation, which must be the initial schedule for the defined contribution plan to actuarially fund the plan's share of the unfunded liabilities. The board shall reduce the schedule by 1 year each biennium.

Prepared By Terrence M. Smith, Active Defined Contribution Plan Participant

What I expected when I signed up for the DC Plan using the UAL from the 1998 Actuarial Report

	1998	\$185,400,000	X 4.34%	\$8,046,360
*New DC Plan members UAL reduction reduced by benefit increase calculation 18.87%				\$3,554,476
PCR Payments		Interest @ 8%	PCR Contribution	
2003				\$4,491,884
2004			-\$579,000	\$3,912,884
2005		\$313,031	-\$1,425,000	\$2,800,915
2006		\$224,073	-\$1,221,000	\$1,803,988
2007 Paid Off		\$144,319	-\$1,481,000	\$467,307
		\$37,385	-\$1,918,000	-\$1,413,309

The Benefit Enhancement on the Eve of the new DC Plan's introduction

Total Increase in Actuarial Liability Due to the increase the GABA in 2001	2000	Old Formula 1.5%	New Formula 3%	Benefit Increase
		\$2,273,400,000		
Percentage Increase in DB Plan Liability Due to The Increase in the GABA in 2001.	2002	\$2,589,300,000	\$3,077,800,000	\$488,500,000 18.87%

Defined Contribution Share Of Defined Benefit Plan Unfunded Liabilities

Summary of Total Allocated to DC Plan
Losses Smoothed in through 6/30/2006

Unfunded Liability At 6/30/2003	DB UAL	DB Plan	Percent of DC Salaries	Amount Allocated To DC Plan
Allocated Losses:			4.34%	\$10,246,000
		\$236,353,000	X 4.34%	\$9,193,000
		\$211,820,276	X 4.34%	\$5,020,000
		\$115,668,203	X 4.34%	\$413,000
		\$9,516,129	X 4.34%	\$24,872,000
Total		\$573,357,608		\$4,381,000

Total of Actual Unfunded Liabilities Associated with members who Transferred To the New DC Plan by 6/30/2003-This amount was Deducted from total allocation

Total Unfunded Liabilities Allocated to the New DC Plan for their share of the increase in the GABA in 2001 from 1.5% to 3% for their coworkers who remained in the Defined Benefit Plan.

The above figures were taken directly from the MPERA Actuarial Reports. Copies available upon request or see Sheri Scurr for PDF. Files containing all actuarial supporting documents. * Estimate for DC Actuarial Liability for members who left the DB Plan.

Summary of Unfunded Liabilities Allocated to the Defined Contribution Plan
 Summary of the Plan Choice Rate Payments and Accrual
 Prepared By: Terrence M. Smith, Finance Officer, Big Sky County Water & Sewer District 363
 Updated Schedule Through 6/30/2014

Year of Inception: 7/1/2002-6/30/2003 Current employees could transfer to the new DC Plan 7/1/2002-6/30/2003

	GABA @ 1.5% Unfunded Liabilities Surplus*	GABA @ 3.0% Unfunded Liabilities	Allocated to DC Plan	Investment Losses Allocated to the DC Plan	Actuarial Gain on Transfer	Interest	PCR Contributions	Balance
	6/30/1998	\$185,400,000						
*	6/30/2000	\$569,900,000		\$9,193,000	\$0	\$423,000	-\$1,425,000	\$13,477,000
*	6/30/2002	\$487,500,000		\$5,020,000	\$0	\$1,078,000	-\$1,221,000	\$18,354,000
**	6/30/2003	\$236,353,000	\$10,246,000	\$413,000	\$0	\$1,468,000	-\$1,481,000	\$18,754,000
	6/30/2004				-\$4,381,000	\$1,500,000	-\$1,918,000	\$18,336,000
	6/30/2005				\$0	\$1,467,000	-\$2,303,000	\$17,500,000
	6/30/2006				\$0	\$1,295,726	-\$2,606,856	\$16,188,870
	6/30/2007				\$0	\$1,187,540	-\$2,689,242	\$14,687,168
	6/30/2008				\$0	\$1,030,235	-\$2,787,635	\$12,929,768
	6/30/2009				\$0	\$894,670	-\$2,771,291	\$11,053,147
	6/30/2010				\$0	\$738,714	-\$3,042,720	\$8,749,141
	6/30/2011				\$0	\$546,597	-\$3,392,549	\$5,903,189
	6/30/2012				\$0	\$368,798	-\$3,292,549	\$2,979,438
	6/30/2013				\$0	\$11,998,280	-\$29,509,842	\$2,979,438
	6/30/2014				\$0			
Estimated	6/30/2015				\$0	\$368,798	-\$3,292,549	\$2,979,438
Totals			\$10,246,000	\$14,626,000	-\$4,381,000	\$11,998,280	-\$29,509,842	\$2,979,438

Next Biennium-The PCR Unfunded Liability will be paid off.

Requires legislation in 2015 to redirect PCR funding from the employer contribution to members account.

Estimated***	6/30/2016			\$0	\$0	\$179,891	-\$4,292,549	-\$1,133,220
Estimated	6/30/2017			\$0	\$0	\$0	\$0	\$0

Estimated****	6/30/2016			\$0	\$0	\$179,891	-\$3,292,549	-\$133,220
Estimated	6/30/2017			\$0	\$0	\$0	\$0	\$0

Source of the above information are the Actuarial Reports submitted to the Montana Public Employees Administration. Copies of all source documents are attached. Estimates are based on the prior year actual and using the computed interest for the prior period.

* 6/30/2000 Actual Surplus \$569,900,000 - 6/30/2002 Actual Surplus of \$487,500,000 without 3%GABA, Actual Unfunded Liability of \$1,000,000 with the 3% GABA

** 6/30/2003 Actual Unfunded Liability of \$236,353,000 used to allocate DCRP share of the Unfunded Liabilities to be paid by the PCR.

***6/30/2016 Includes additional 1% employer contribution

****6/30/16 Excludes additional 1% employer contribution.

Summary Of the Normal Cost Rate under the Plan Choice Rate
 Prepared By: Terrence M. Smith, Finance Officer, Big Sky County Water & Sewer District 363

Updated For 6-30-14 Actuarial Report

	Normal Cost Adjustment Factor	*PCR
6/30/2003	Not computed	
6/30/2004	0.01	0.20
6/30/2005	0.01	0.17
6/30/2006	0.00	0.00
6/30/2007	0.00	0.00
6/30/2008	-0.01	-0.12
6/30/2009	0.00	0.00
6/30/2010	0.00	0.00
6/30/2011	0.01	0.10
6/30/2012	0.00	0.00
6/30/2013	-0.01	-0.10
6/30/2014	0.00	0.00

*Since the DC Plan salaries are a fraction of the size of the DB Plan the factor is multiplied by the fraction.
 Actuarial pages showing the actuary's results attached.

MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2014

**SECTION II
LIABILITIES**

Table III-6 shows the development of the portion of the unfunded actuarial liability allocated to PERS members who are in alternative defined contribution plans. This liability is funded by the Plan Choice Rate (PCR) contributions.

Table III-6 Plan Choice Rate Unfunded Liability		June 30, 2014
1. PCR-UAL as of June 30, 2013		\$ 8,749,140
2. Assumed Interest at 7.75% per year		678,058
3. Less: PCR Contributions to DBRP reduced by Normal Cost		(3,392,549)
4. Interest at 7.75% on line 3		(131,461)
5. PCR – UAL as of June 30, 2014		<u>\$ 5,903,188</u>

Table III-7 determines the sufficiency of the Plan Choice Rate (PCR), which is used to determine the contributions made to the System for purposes of funding the PCR unfunded liability.

Table III-7 Plan Choice Rate		June 30, 2014
PCR – Normal Cost Rate		
Normal Cost Rate		
DBRP Members Only		11.63%
Including DCRP and ORP members		11.63%
Difference	(A)	0.00%
Payroll as of June 30, 2014		
DBRP Members Only	(B)	\$ 1,067,710,693
DCRP and ORP members	(C)	\$ 113,840,905
PCR – Normal Cost Rate	(A) X (B) ÷ (C)	0.00%
PCR – UAL Amortization		
PCR – UAL as of June 30, 2014		\$ 5,903,188
PCR Available for Amortization		
Current PCR Amortization Rate		2.74%
Less: PCR – Normal Cost Rate		0.00%
PCR Available for Amortization - 2014		2.74%
Years to Amortize PCR – UAL from June 30, 2014		2.0 years
Maximum Years for Amortization		14.75 years
Sufficient or Insufficient		Sufficient

MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 ACTUARIAL VALUATION AS OF JUNE 30, 2014

SECTION II
 ASSETS

Table II-1	
Changes in Market Values	
Value of Assets – June 30, 2013	\$ 4,299,238,343
<u>Additions</u>	
Member Contributions	\$ 92,041,676
Employer Contributions	95,737,273
State Contributions	886,408
Coal Tax Revenue	33,675,313
Investment Return	732,274,891
Other	179,667
Total Additions	\$ 954,795,228
<u>Deductions</u>	
Benefit Payments	\$ 307,741,308
Administrative Expenses	3,522,346
Total Deductions	\$ 311,263,654
Value of Assets – June 30, 2014	\$ 4,942,769,917