LC No. _____
HB/SB _____[1]

REPORT AND RECOMMENDATION OF THE STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE (SAVA) TO THE 2013 LEGISLATURE AS OF NOVEMBER 2012[2]

Proposal No. 1
Proposing Entity: MEA-MFT
Short Title: Revising Normal and Early Retirement Benefits in TRS

Retirement system affected
Teachers' Retirement System (TRS)

Proposal summary
This proposal would apply only to TRS members hired after the effective date of the act (July 1, 2013) and would:

- increase the years of service required for full retirement from 25 years to 30 years and require the member to reach age 60 before being eligible for a full retirement;
- increase the average final compensation calculation from the highest 3-year average to the highest 5-year average;
- increase eligibility for early retirement from age 50 to age 55; and
- increase the benefit multiplier from 1.67% to 2% for members with 30 or more years of service

Fiscal implications
This proposal's changes in retirement eligibility and increase in the number of years used to calculate final average compensation will decrease the normal cost of benefits as they accrue to new members. The overall savings to TRS will increase with time as members hired before July 1, 2013, are replaced by the members hired after July 1, 2013.

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[1] This report summarizes SAVA's recommendation to the Legislature as of November 2012. The report is not a summary of a bill, but of a retirement proposal as presented to SAVA during the interim. The specifics of the proposal summarized may have changed during the subsequent drafting and legislative processes.

[2] Report issued pursuant to 5-5-228, MCA.

The proposal's increase in the benefit multiplier for those with 30 or more years of service will increase the normal cost of benefits as they accrue to new members, depending on how many teachers remain working for 30 years or more.

Effect on other Montana retirement systems

Eligibility for normal retirement in the Public Employees' Retirement System (PERS) is 30 yrs of service regardless of age or age 70 regardless of service. Thus, the proposed change would make the TRS retirement eligibility similar to what PERS provides, except with an age requirement (age 60). TRS would remain without a provision allowing normal retirement at age 70 regardless of service.

The proposal's increase in the TRS benefit multiplier to 2% for 30 or more years of service is similar to what is provided in PERS, except in TRS there will be two benefit multiplier tiers rather than three. In PERS, the three benefit multiplier tiers are:

- for less than 10 years of service, the multiplier is 1.5%;
- for more than 10 but less than 30 years of service, the benefit is the greater of 1.786% per year of service or the actuarial equivalent of double the member's accumulated contributions; or
- for 30 or more years of service, the benefit is the greater of 2% per year of service or the actuarial equivalent of double the member's accumulated contributions.

Regarding early retirement, this proposal's change in eligibility to 5 years and age 55 will make TRS the same as PERS.

Soundness as matter of retirement policy

The proposal relates to the following policy principle and policy guideline:

- Principle I - pensions should provide a financial base in retirement; and

- Guideline V - the legislature should resist changes to retirement benefit formulas or retirement eligibility criteria that would encourage early retirement.

The proposal would provide retirees who remain working for 30 years or more with a 60% income replacement ratio and would thus would encourage members to work longer rather retire early.

Comparison with other states

Many states are in the process of revising their public pension plans due to the national financial crisis that created record investment losses for pension plans throughout the country. According to a National Conference for State Legislatures (NCSL) report on public pension plans that revised retirement eligibility requirements between 2009 and 2011:

- most required members to reach a certain age in addition to meeting years of service criteria;

- most increased age requirements to age 65 or age 67; and
- most plans either changed to or retained a 30 years of service requirement.[3]

Of 43 states who enacted major pension plan changes between 2009 and 2011, 33 states enacted higher age and service requirements for normal retirement eligibility, 17 states reduced their benefit multipliers, and many states increased the number or months or years used to calculate final compensation, and 32 state reduced early retirement benefits.[4] Thus, the changes proposed by MEA-MFT fall into line with what many other states are doing, except with respect to increasing the benefit multiplier to 2%.

Legal implications[5]

The proposal applies only to new members, so does not raise contract impairment issues.

Testimony received

The proposal was presented on behalf of MEA-MFT by Director of Research Diane Fladmo. Her testimony indicated the proposal was being forwarded to improve the funding of the system and encourage teachers to remain working in Montana as a member of TRS. David Senn, executive director of TRS, testified as a proponent stating that the provisions of the proposal have been supported by the Teachers' Retirement Board since about 1993 when Marc Racicot was governor. Mr. Senn also testified that these provisions would be included in the TRS Board's proposal and Governor Schweitzer's proposal. There were no opponents to the proposal.[6]

Committee discussion and recommendations

At the initial hearing on August 8, 2012, Rep. Bennett asked how this proposal would interact with the TRS Board and Governor's proposal. Ms. Fladmo answered that MEA-MFT would like a comprehensive approach to addressing the funding shortfall in TRS and that this proposal is a piece of that comprehensive approach and will hopefully be included in either the TRS Board's bill or the Governor's bill, but if not, this proposal will still be part of the mix.

Rep. Ingraham asked whether an age 65 requirement was considered due to retirees living longer. Ms. Fladmo said it was, however for teachers who begin teaching right out of college,

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[3] Ronald K. Snell, "Changes in Age and Service Requirements for Normal Retirement in State Retirement Plans, 2009-2011", National Conference for State Legislatures, March 2012.

[4] Ronald K. Snell, "State Pension Reform, 2009-2011", National Conference for State Legislatures, March 2012.

[5] David Niss, Legal Memorandums dated May 21, 2012, January 5, 2012, August 14, 2009, August 28, 2009 (Addendum), and February 27, 1998, Montana Legislative Services Division, (406) 444-3064, or visit www.leg.mt.us and contact staff for the State Administration and Veterans' Affairs Interim Committee.

[6] State Administration and Veterans' Affairs Interim Committee meeting on August 8, 2012. Audio/video and summary minutes available from the Montana Legislative Branch website at http://www.leg.mt.gov.

waiting until age 65 would be a very long time to wait and that 30 years and age 60 did, according to actuarial analysis, reduce the cost of benefits. Thus, MEA-MFT chose to forward the age 60 criteria. Ms. Fladmo indicated that increasing the eligibility requirement to age 65 could be looked at in the future if deemed necessary at a later time.[7]

[7] Ibid.