

# **PENSION FUNDS UPDATE**

A Report Prepared for the  
**Legislative Finance Committee**

By  
**Jon Moe**

October 1, 2010

**Legislative Fiscal Division**



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)

## INTRODUCTION

The purpose of this report is to provide a brief update on the status and condition of the unfunded actuarial liability (UAL) of the state's retirement systems. The market value of assets of Montana's retirement plans declined 22 percent during FY 2009, resulting in increased unfunded liabilities. Four of the nine pension plans had "negative" actuarial valuation reports as of the year ended June 30, 2009 and again as of June 30, 2010. Much of the loss in asset value has not yet been recognized in determining the unfunded actuarial liability. Both the TRS board and the PERS board have a policy that provides that if the board receives two consecutive "negative" reports, it has an obligation to recommend funding increases or other benefit changes to the legislature to address plan sustainability. Future legislatures will be faced with significant issues concerning the long-term health of the retirement systems. These fiscal issues are a part of the entire budget debate because the fiscal health of the retirement system is an important component of state and local government fiscal stability. There are two parts to this discussion. The first focuses on the actuarial valuations of each plan as the tool that reports whether or not a retirement plan is actuarially sound. This is an important discussion because of its relevance to a constitutional requirement. The second part focuses on the activities of the State Administration and Veterans' Affairs Committee (SAVA) which is charged with recommending changes to enhance the fiscal viability of pension plans and to review various proposals that the pension boards and other stakeholders bring to SAVA.

## ACTUARIAL VALUATIONS

Statute requires that an actuarial valuation be completed each year for each retirement plan. There are nine: 1) Teachers' Retirement System (TRS); 2) Public Employees' Retirement System (PERS - defined benefits plan); 3) Sheriffs' Retirement System (SRS); 4) Game Wardens and Peace Officers' Retirement System (GWPORS); 5) Highway Patrol Officers' Retirement System (HPORS); 6) Municipal Police Officers' Retirement System (MPORS); 7) Firefighters' Unified Retirement System (FURS); 8) Judges' Retirement System (JRS); 9) Voluntary Firefighters' Compensation Act (VFCA)

The valuations, which examine each plan as of June 30 of each fiscal year, typically are completed by about October 1. Key data, some from preliminary numbers, is summarized for the June 30, 2010 reports in Figure 1, accompanied by the same data from the previous year for comparison.

	TRS	PERS-DB	SRS	GWPORS	HPORS	MPORS	FURS	JRS	VFCA
<b>2010 Valuation (as of 6/30/2010)</b>									
Actuarial Accrued Liability (AAL)	\$4,518.2	\$5,241.8	\$246.7	\$113.9	\$151.2	\$380.4	\$335.5	\$42.5	\$34.5
Actuarial Value of Assets (AVA)	<u>2,956.6</u>	<u>3,889.9</u>	<u>200.7</u>	<u>85.2</u>	<u>97.2</u>	<u>217.5</u>	<u>213.8</u>	<u>61.3</u>	<u>26.6</u>
Unfunded Actuarial Liability/(Surplus)	\$1,561.6	\$1,351.9	\$46.0	\$28.7	\$54.0	\$162.8	\$121.7	(\$18.8)	\$7.9
Funded Ratio (AVA/AAL)	65.4%	74.2%	81.4%	74.8%	64.3%	57.2%	63.7%	144.1%	77.0%
Years to Amortize Unfunded Liability	49.5 yrs	Does not amortize	Does not amortize	Does not amortize	26.3 yrs	19.9 yrs	13.8 yrs	0 yrs	7.7 yrs
<b>2009 Valuation (as of 6/30/2009)</b>									
Actuarial Accrued Liability (AAL)	\$4,173.8	\$4,792.8	\$223.9	\$92.2	\$137.8	\$345.3	\$306.2	\$41.8	\$33.5
Actuarial Value of Assets (AVA)	<u>2,762.2</u>	<u>4,002.2</u>	<u>200.7</u>	<u>81.2</u>	<u>99.6</u>	<u>214.3</u>	<u>209.8</u>	<u>61.9</u>	<u>27.2</u>
Unfunded Actuarial Liability/(Surplus)	\$1,411.6	\$790.6	\$23.2	\$11.0	\$38.2	\$131.0	\$96.4	(\$20.1)	\$6.3
Funded Ratio (AVA/AAL)	66.2%	83.5%	89.6%	88.1%	72.3%	62.1%	68.5%	147.9%	81.2%
Years to Amortize Unfunded Liability	Does not amortize	Does not amortize	Does not amortize	Does not amortize	21.5 yrs	22.1 yrs	12.7 yrs	0 yrs	6.9 yrs

The Constitution requires that the public retirement systems “be funded on an actuarially sound basis.” Statute (19-2-409, MCA) defines “actuarially sound basis” as meaning that contributions to each retirement plan must be sufficient to pay the full actuarial cost of the plan. Statute goes on to provide that, for a defined benefit plan, “the full actuarial cost includes both the normal cost of providing benefits as they accrue in the future and the cost of amortizing unfunded liabilities over a scheduled period of no more than 30 years”. Based upon the most recent valuations, these requirements are not being met for four retirement plans (the first four in the list).

Another important perspective, also shown in Figure 1, is the unfunded actuarial liability (UAL). As of June 30, 2009, the UAL for the 9 plans is nearly \$2.5 billion. As of June 30, 2010, the total UAL is \$3.3 billion. The last valuation that showed all pension plans “actuarially sound” was as of June 30, 2007. At that time, the UAL was nearly \$1.4 billion. This might suggest that to actuarially fund the plans 100 percent, \$3.3 billion would be needed as a one-time payment, and to make the plans actuarially sound, nearly \$2 billion would be needed.

There are two primary reasons for the increase in the UAL: 1) For all nine pension plans, they are in the second year of the 4-year smoothing cycle<sup>1</sup> for the losses that occurred in FY 2009 investment returns. The downturn was so significant that even with “smoothing”, the impact in each valuation is dramatic. 2) For the eight plans under the Public Employees Retirement Board, the assumption for investment returns for the FY 2010 actuarial valuation was reduced from 8 percent to 7.75 percent. The seemingly small change, when applied to pension plan values and spread over the 30-year amortization period, also has a dramatic impact.

Keep in mind that an actuarial valuation is a “snapshot” and does not reflect anything that has occurred since the valuation cutoff of June 30. It merely shows the fiscal condition of the plan at a single point in time and based upon a specified set of assumptions such as investment returns, wage growth, mortality, etc.

## **SAVA ACTIVITIES DURING THE 2009-10 INTERIM**

### **HB 659**

The State Administration and Veterans’ Affairs Interim Committee (SAVA) was assigned a study directed by HB 659 which directed that SAVA examine and recommend to the 62<sup>nd</sup> Legislature funding and benefit changes in the statewide public employees’ and teachers’ retirement systems. The committee approved the drafting of two bills:

- LC 251 to establish two money purchase plans in the Teachers’ Retirement System for new hires only
- LC 252 to establish a professional retirement option (PRO) for new hires into the Teachers’ Retirement System

Attachment A summarizes the elements of each proposed plan design.

### **Other Proposals Reviewed by SAVA**

A number of other pension proposals were reviewed by the SAVA committee during the interim. Some of these proposals will be introduced as bills in the regular session. By law, the SAVA committee is required to provide recommendations to the legislature. Attachment B is a list of these proposals for your information with their recommendation. They range for housekeeping bills to pension plan redesigns. The list is followed by some pages that provide a little more information on each item.

Individuals that would like to review the meeting materials related the HB 659 study and the other SAVA proposal can find those on the committee’s website at:

[http://www.leg.mt.gov/css/Committees/interim/2009\\_2010/State\\_Administration\\_and\\_Veterans\\_Affairs/default.asp](http://www.leg.mt.gov/css/Committees/interim/2009_2010/State_Administration_and_Veterans_Affairs/default.asp)

---

<sup>1</sup> “Smoothing” refers to the actuarial practice of spreading losses and gains out over a period of years (4 years in the case of TRS and PERS plans) rather than recognizing them in total in the year they occur.

Summary of the State Administration and Veterans' Affairs Interim Committee's  
recommendations to redesign the Teachers' Retirement System  
as of September 13, 2010

*Summary*

At its August 17, 2010, meeting, the State Administration and Veterans' Affairs Interim Committee (the SAVA Committee) requested legislation to draft two alternative designs for the Teachers' Retirement System (TRS). Both alternate designs would apply only to new hires after the effective date of the legislation.

TRS Option 1 is a choice between two money purchase (or cash balance) plans.

TRS Option 2 is a modification of the current defined-benefit TRS structure. Option 2 is also known referred to as the Professional Retirement Option, or PRO.

The following are general descriptions of each plan as requested by the SAVA Committee. Details may change during the drafting and legislative processes.

*Option 1: Choice between money purchase plans*

- establish two plans between which new hires can select membership
- both would be money purchase plans (also referred to as individual account defined-benefit plans or cash balance plans). The benefit would be an annuity at retirement age based on the accrued balance of the member's account.
- a member's account would be credited with their employee contributions (currently set at 7.15% of salary) and interest credits
- at retirement the vested member's accumulated account balance would be matched up to 100% by the employer and the total would be annuitized for a retirement benefit
- the TRS Board would grant a minimum interest rate of 5% and a maximum of 9%. The goal would be to average 7% over the member's career.
- 15-year graded vesting (The member would be 25% vested after 5 years, increasing 5% each year for years 6 through 10, and increasing 10% each year for years 11 through 15 until the member is fully vested after 15 years.)
- retirement eligibility age would be 60 and vested
- the second money purchase plan would have the same provisions as the first, except that a member would pay an additional one-half percent of salary into their account. If the member remained for 30 years, the employer would match the additional employee contribution at retirement, along with interest on the additional contribution.

*Option 2: Professional Retirement Option (PRO)*

- would keep general structure of existing TRS
- new employees' contribution rate would increase by 0.54%
- increase the number of years used to calculate a member's average final

compensation from 3 to 5 years

- revise the time to vest in the employer contributions to the benefit from a 5-year cliff vesting to a 15-year graded system. (The member would be 25% vested after 5 years, increasing 5% each year for years 6 through 10, and increasing 10% each year for years 11 through 15 until the member is fully vested after 15 years.)
- the benefit multiplier would be 1.667% for retirement before 30 years of service
- a 2.0% multiplier would apply for all years of service if the member retired with 30 or more years of service
- service retirement at any age with 30 or more years of service (currently it is 25 years of service) or age 60 and vested
- early retirement age would be 55 and vested, with a full actuarial reduction taken for early retirement

**List of Retirement Plan Legislative Concepts Received from Stakeholders, MPERA, and TRS**  
as of September 13, 2010

<b>SAVA No.</b>	<b>Proposer/Stakeholder</b>	<b>Summary of Proposal</b>	<b>SAVA Recommendation</b>
1	Assoc. of Public-Safety Communication Officials, Intl.	Include public safety dispatchers in SRS	The 2011 Legislature should not enact legislation based on this concept.
2	Montana Judges Assoc.	Increase retirement multiplier for JRS from 1.785% to 3 1/3% for years 15 through 30	The 2011 Legislature should not enact legislation based on this concept.
3	Montana State Firemens' Assoc.	Change definition of "compensation" in FURS	The 2011 Legislature should not enact legislation based on this concept.*
4	MEA-MFT	Competitive compensation and adequate funding of the Montana University System (MUS) Optional Retirement Program (ORP)	The 2011 Legislature should not enact legislation based on this concept.
5	MEA-MFT	Modified professional retirement option (PRO) for TRS, as defined in the proposal	The Committee did not make a recommendation on this concept.**
6	Assoc. of Montana Retired Public Employees (AMRPE)	Reduce "active employee" members of PERB from 3 to 2; increase "retired public employee" members from 1 to 2	The 2011 Legislature should not enact legislation based on this concept.
7	TIAA-CREF	Risk-managed defined contribution plan	The 2011 Legislature should not enact legislation based on this concept.
8	Public Employees' Retirement Board	General revisions (housekeeping)	The 2011 Legislature should enact legislation based on this concept.
9	Public Employees' Retirement Board	Rewrite of VFCA	The 2011 Legislature should enact legislation based on this concept.

## Attachment B

SAVA No.	Proposer/Stakeholder	Summary of Proposal	SAVA Action/Recommendation
10	Public Employees' Retirement Board	Require employer contributions on compensation paid to working retirees in PERS, GWPORS, and SRS	The 2011 Legislature should not enact legislation based on this concept.
11	Public Employees' Retirement Board	Benefit and funding changes to PERS	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
12	Public Employees' Retirement Board	Benefit and funding changes to SRS	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
13	Public Employees' Retirement Board	Benefit and funding changes to GWPORS	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
14	Teachers' Retirement Board	Proposals for actuarial funding of TRS: increase employer contribution rate; amend statutes relating to working retirees; repeal all or most exceptions to the 10% cap in increase in earned compensation rate; full actuarial reduction for early retirement; and actuarial interest rate on buy backs.	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
15	Teachers' Retirement Board	General revisions (housekeeping)	The 2011 Legislature should enact legislation based on this concept.
16	Teachers' Retirement Board	Increase University supplemental contribution rate	The 2011 Legislature should not enact legislation based on this concept.*

List of possible recommendations

- The 2011 Legislature should enact legislation based on this concept.
- The 2011 Legislature should not enact legislation based on this concept.
- The 2011 Legislature should enact legislation based on this concept *if* the following changes are included: [SAVA's suggested changes].

\* A motion to recommend that the Legislature should enact legislation based on this concept failed on a 4-4 vote of the committee. Per a ruling from the chair, tied votes resulted in a recommendation that the Legislature should not enact the proposal.

\*\* A motion to recommend that the Legislature should enact legislation based on this concept *with* the amendments contained in LC252 failed on a 2-6 vote of the committee. The committee did not vote on another recommendation to the Legislature.

## Summary of Stakeholder Legislative Concepts, 2010\*

for SAVA's August 2010 Meeting

Proposal Description	Proposer	Affected Systems	Estimated Cost/Source of Funding**	Estimated Savings**	2009 Legislation	Relevant SAVA Principles/Guidelines
<p>1) <u>Public safety dispatchers:</u> Include public safety dispatchers in Sheriffs' Retirement System, a 20-year retirement system, instead of PERS-DB, a 30-year system.</p>	<p>Association of Public-Safety Communication Officials, Intl.</p>	<p>SRS and PERS</p>	<ul style="list-style-type: none"> <li>▶ Current cost figures are not available.</li> <li>▶ FN09 details: Proposal would have a minimal impact to PERS and would increase the amortization period for SRS from 16.3 years to 21.9 years.</li> <li>▶ FN09 details: EE contribution rates would increase as percentage of salary for new hires and those current dispatchers moving to SRS. (Current rates: PERS EE = 6.9% of salary; SRS EE = 9.245%)</li> <li>▶ FN09 details: ER contribution rate would increase for new hires and those current dispatchers moving to SRS. (Current rates: State/University ER = 7.17%; Local Govt. ER = 7.07%; Gen. Fund to Local Govt. = 0.1%)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Proposer predicts there will be savings to local govt. employers due to decreased employee turnover and less liability. Examples of training costs experienced by two counties were provided at the April 22 meeting.</li> <li>▶ FN09 details: savings to the Gen. Fund because State pays additional 0.1% of salary for local govt. employees.</li> </ul>	<p>HB 31 - Failed in House State Administration Committee on 9-9 vote.</p>	<p>Principles: IV</p> <p>Guidelines:</p> <p>Other applicable Principles or Guidelines?</p>
<p>2) <u>Change JRS retirement multiplier:</u> Currently, the JRS multiplier is 3 1/3% up to 15 years of service and 1.785% for each year of service over 15 years. The proposal would increase the retirement multiplier for from 1.785% to 3 1/3% for all years (but not exceeding 30).</p>	<p>Montana Judges' Association</p>	<p>JRS</p>	<ul style="list-style-type: none"> <li>▶ The proposal states the additional cost to the system to increase the multiplier will be absorbed by the system since it is funded at 148% according to the June 30, 2009, valuation.</li> </ul>			<p>Principles: I, II</p> <p>Guidelines: E</p> <p>Other relevant Principles/Guidelines?</p>

Proposal Description	Proposer	Affected Systems	Estimated Cost/Source of Funding**	Estimated Savings**	2009 Legislation	Relevant SAVA Principles/Guidelines
<p>3) <u>Definition of "compensation"</u>: Change definition of "compensation" in FURS to include overtime, holiday and shift differential payments, compensatory time payments, and payments in lieu of sick leave. <i>(Although the current proposal lists additional payments beyond overtime payments, 2009 legislation to accomplish a similar purpose included only overtime.)</i></p>	<p>Montana Firemens' Association</p>	<p>FURS</p>	<ul style="list-style-type: none"> <li>▶ Proposal states EE and ER contribution rates will stay the same but will be paid on more compensation because the definition of compensation is expanded.</li> <li>▶ FN09 details: would increase amortization period by 0.2 years (only based on overtime payments).</li> </ul>		<p>HB33 - Tabled in House State Administration Committee</p>	<p>Principles:</p> <p>Guidelines: E, U</p> <p>Other relevant Principles/Guidelines?</p>
<p>4) <u>Funding of MUS ORP</u>: Increase MUS ER contribution by 1% to approximately 7% of salary. Raise the ER and EE combined contribution to individual accounts to 14% from 13%.</p>	<p>MEA-MFT</p>	<p>ORP</p>	<ul style="list-style-type: none"> <li>▶ The proposal estimates the cost of the 1% ER increase to be less than \$3 million in FY2012; \$3.5 million in FY2013; and around \$4 million in FY2014 and FY2015</li> <li>▶ The proposal suggests the cost would be financed by a statutory or other on-going appropriation from the General Fund.</li> <li>▶ FN09 details: approx. costs for FY2010 \$1.88 million; FY2011: \$2 million; FY2012: \$2.2 million; FY2013: \$2.4 million</li> </ul>		<p>HB87 - Tabled in House State Administration Committee</p>	<p>Principles: I</p> <p>Guidelines: E</p> <p>Other relevant Principles/Guidelines?</p>

Proposal Description	Proposer	Affected Systems	Estimated Cost/Source of Funding**	Estimated Savings**	2009 Legislation	Relevant SAVA Principles/Guidelines
5) <u>Modified Professional Retirement Option (PRO):</u> Normal, unreduced retirement for new hires only, would be set at age 60 with at least 5 years of service. The current TRS multiplier of 1.67% would apply for those new hires retiring with less than 30 years of service. For new hires with 30 or more years of service and 3 or more active membership years immediately preceding retirement, a 2% benefit would apply. New hires would pay additional 2% of salary to TRS; TRS employers would pay an additional 2% of salary to TRS. The proposal leaves open the determination of where the additional 2% ER contribution will come from: GTB supported county retirement levy or state general fund.	MEA-MFT	TRS	<ul style="list-style-type: none"> <li>▶ The proposal estimates the additional 2% of salary paid by the ER would be around \$14 million/year.</li> <li>▶ Previous PRO legislation included active employees as well as new hires. The current proposal is for new hires only. Thus, information on previous fiscal notes will not reflect the provisions of this proposal.</li> </ul>		<p>HB83 - Tabled in House State Administration Committee</p> <p><i>(This version included active employees as well as new hires; the current proposal is for new hires only.)</i></p>	<p>Principles: I, II</p> <p>Guidelines: E</p> <p>Other relevant Principles/Guidelines?</p>
6) <u>Change composition of PERB:</u> Reduce "active employee" members of PERB from 3 to 2; increase "retired public employee" members from 1 to 2.	Assn of Montana Retired Public Employees (AMPRE)	Affects the PERB rather than a specific system.	<ul style="list-style-type: none"> <li>▶ Does not increase/decrease size of PERB so there should be no additional cost/savings.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Does not increase/decrease size of PERB so there should be no additional cost/savings.</li> </ul>		<p>Principles:</p> <p>Guidelines: C</p> <p>Other relevant Principles/Guidelines?</p>
7) <u>Plan design suggestion:</u> Risk-managed design contribution plan	TIAA-CREF	Did not suggest a specific system, but design is flexible.	<ul style="list-style-type: none"> <li>▶ Costs and sources of funding would depend on plan design.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Savings would depend on plan design.</li> </ul>		<p>Principles: I, II, III</p> <p>Guidelines: K, M, N</p> <p>Other relevant Principles/Guidelines?</p>

\* Detailed information about the problem or issue that the proposer would like to solve with the legislation is available in the documents submitted for SAVA's April 22-23 meeting. Documents were distributed to SAVA before the meeting and are available at [http://leg.mt.gov/css/Committees/interim/2009\\_2010/State\\_Administration\\_and\\_Veterans\\_Affairs/Meeting\\_Documents/meetings.asp#april22](http://leg.mt.gov/css/Committees/interim/2009_2010/State_Administration_and_Veterans_Affairs/Meeting_Documents/meetings.asp#april22)

\*\* At its April 22-23, 2010, meeting SAVA did not request actuarial cost analysis of any proposal. Estimated costs/savings of each proposal are based on information provided in the proposal and any fiscal notes for similar legislation in previous legislative sessions.

List of Retirement System Acronyms

FURS = Firefighters' United Retirement System

GWPORS = Game Wardens' and Peace Officers' Retirement System

HPORS = Highway Patrol Officers' Retirement System

JRS = Judges' Retirement System

MPORS = Municipal Police Officers' Retirement System

MUS ORP = Optional Retirement Program (Montana University System)

PERS = Public Employees' Retirement System

PERS-DB = Public Employees' Retirement System-Defined Benefit

PERS-DC = Public Employees' Retirement System-Defined Contribution

SRS = Sheriffs' Retirement System

TRS = Teachers' Retirement System

Other Abbreviations

EE = Employee contributions

ER = Employer contributions

FN09 = Fiscal note for similar legislation in 2009 session

PERB = Public Employees' Retirement Board

C10425 0125rwx.

## Summary of MPERA and TRS Legislative Concepts, 2010\*

for SAVA's August 2010 meeting

Proposal Description	Proposer	Affected Systems	Estimated Cost/Source of Funding**	Estimated Savings**	2009 Legislation	Relevant SAVA Principles/Guidelines
<p><u>8. General revisions/housekeeping bill:</u> The revisions reflect Board and court decisions interpreting state and federal law; eliminate out-dated statutory provisions; address new areas of concern; replace incorrect or changed terminology; and clarify the intent of the statute for the reader.</p>	PERB	All systems governed by PERB and administered by MPERA	According to the proposer, the proposal shouldn't affect funding of the system.	According to the proposer, the proposal shouldn't affect funding of the system.	HB109	<p>Principles:</p> <p>Guidelines: P</p> <p>Other applicable Principles or Guidelines?</p>
<p><u>9. Rewrite of VCFA:</u> Bring the system up-to-date with current processes and changes to fire company organizations. It will also streamline procedures for determining eligibility.</p>	PERB	VCFA	According to the proposer, the proposal shouldn't affect funding of the system.	According to the proposer, the proposal shouldn't affect funding of the system.	None similar to this proposal.	<p>Principles:</p> <p>Guidelines: N</p> <p>Other applicable Principles or Guidelines?</p>
<p><u>10. Working retirees:</u> Require employer contributions on compensation paid to working retirees in PERS, FURS, and SRS</p>	PERB	PERS, FURS, SRS	Employers would be required to pay contributions for these employees, while currently they do not have to. The rate will be the same as if the employer had hired a new employee instead of a working retiree.	<p>According to the proposer, the proposal should partially address the unsoundness of PERS and SRS by adding to the money paid into the systems.</p> <p>FN09 estimated that the proposal would reduce the amortization period for the unfunded liability in PERS by 0.2 percent. The effect on the other two systems was too small to be calculated. FN09 estimated no net impact to the General Fund and an increase of about \$168,000 to the PERS Trust Fund.</p>	HB12 - Failed 23-27 on 3rd reading in the Senate	<p>Principles:</p> <p>Guidelines: W</p> <p>Other applicable Principles or Guidelines?</p>

<b>Proposal Description</b>	<b>Proposer</b>	<b>Affected Systems</b>	<b>Estimated Cost/Source of Funding**</b>	<b>Estimated Savings**</b>	<b>2009 Legislation</b>	<b>Relevant SAVA Principles/Guidelines</b>
11. <u>Benefit and funding changes to PERS</u> : Increase HAC time period from 3 to 5 years; increase retirement age from 60 with 5 years to 65 with 5 years; phase in new multiplier for different years of service (1.5%/year with 5-10 years; 1.7857%/year with at least 10 years but less than 30 years; 2%/year with 30 or more years. The higher multiplier would apply to all years of service.). Increase ER and new EE contributions 1%/year for up to 6 years	PERB	PERS	ER and EE rates could go up 6% each over 6 years, if all rate increases were implemented. ER increases would affect all agencies with employees in the PERS, including local governments, school districts, and universities.	Normal cost savings estimated by PERB in 11/9/09 presentation for design changes only: new entrant normal cost would be 9.72% of salary compared to the current 11.59% (or 83.9% of current). Presumably the 1.87% savings would be applied towards the current unfunded liabilities, thus not reducing the ER or EE rates.	None similar to this proposal	Principles: II  Guidelines: B, E  Other applicable Principles or Guidelines?
12. <u>Benefit and funding changes to SRS</u> : Increase HAC time period from 3 to 5 years; increase funding from General Fund; provide a state contribution, similar to other public safety plans	PERB	SRS	Costs would depend on the size of the ER increase proposed and the amount of the state contribution. Proposer suggests that both elements of additional funding would come from General Fund.	Some savings would be garnered from HAC shift, though actual figures are not available at this time.	None similar to this proposal.	Principles: II  Guidelines: E, U  Other applicable Principles or Guidelines?
13. <u>Benefit and funding changes to GWPORS</u> : Increase HAC time period from 3 to 5 years; increase ER contributions	PERB	GWPORS	Cost would depend on the size of the ER increase proposed and the savings generated from the HAC shift. System employers include MUS, FWP, Transportation, Livestock, and Corrections.	Some savings would be garnered from HAC shift, though actual figures are not available at this time.	None similar to this proposal.	Principles: II  Guidelines: E, U  Other applicable Principles or Guidelines?

<b>Proposal Description</b>	<b>Proposer</b>	<b>Affected Systems</b>	<b>Estimated Cost/Source of Funding**</b>	<b>Estimated Savings**</b>	<b>2009 Legislation</b>	<b>Relevant SAVA Principles/Guidelines</b>
14. TRS funding proposal: Increase ER rate; change statutes governing working retirees; change statutes governing 10% cap exemptions; apply full actuarial reduction for early retirement; change actuarial interest rate for buy backs.	TRB	TRS	Cost would depend on the size of the ER increase proposed and the savings generated from the various other changes.	Some savings would be generated from the working retiree, 10% cap exemptions, early retirement, and interest rate change, though the actual effects are not known at this time.	None similar to this proposal.	Principles: II Guidelines: E, V, W Other applicable Principles or Guidelines?
15. General revisions/housekeeping: A housekeeping proposal will be necessary to address any possible IRS rule changes or changes related to our request for a determination letter, clarifications to the amendments to the Family Law Order provisions, definitions, and other statutory clarifications.	TRB	TRS	According to the proposer, the proposal shouldn't affect funding of the system. The 2009 housekeeping measure did not affect system's funding.	According to the proposer, the proposal shouldn't affect funding of the system. The 2009 housekeeping measure did not affect system's funding.	HB59	Principles: Guidelines: P Other applicable Principles or Guidelines?
16. Increase University supplemental rate: ER rate increase to amortize past service liability left over from creation of ORP. Liability must amortize by July 1, 2033.	TRB	TRS	The cost to each MUS employer will depend on the size of the rate increase, which cannot be determined until the 2010 actuarial valuation is complete. The 2009 valuation reflected a 3.8% increase in the ER rate (from 4.72% to 8.52%), which equates to around \$7.7 million per year.	None anticipated.		Principles: II Guidelines: E Other applicable Principles or Guidelines?

\* Detailed information about the problem or issue that the proposer would like to solve with the legislation is available in the documents submitted for SAVA's June 24-25, 2010 meeting. Documents were distributed to SAVA before the meeting and are available at [http://leg.mt.gov/css/Committees/interim/2009\\_2010/State\\_Administration\\_and\\_Veterans\\_Affairs/Meeting\\_Documents/meetings.asp#june24](http://leg.mt.gov/css/Committees/interim/2009_2010/State_Administration_and_Veterans_Affairs/Meeting_Documents/meetings.asp#june24)

\*\* At its June 24-25, 2010, meeting SAVA did not request actuarial cost analysis of any proposal. Estimated costs/savings of each proposal are based on information provided in the proposal and any fiscal notes for similar legislation in previous legislative sessions.

List of Retirement System Acronyms

FURS = Firefighters' United Retirement System

GWPORS = Game Wardens' and Peace Officers' Retirement System

HPORS = Highway Patrol Officers' Retirement System

JRS = Judges' Retirement System

MPORS = Municipal Police Officers' Retirement System

MUS ORP = Optional Retirement Program (Montana University System)

PERS = Public Employees' Retirement System

PERS-DB = Public Employees' Retirement System-Defined Benefit

PERS-DC = Public Employees' Retirement System-Defined Contribution

SRS = Sheriffs' Retirement System

TRS = Teachers' Retirement System

VFCA = Volunteer Firefighters' Compensation Act

Other Abbreviations

EE = Employee contributions

ER = Employer contributions

FN09 = Fiscal note for similar legislation in 2009 session

FWP = Fish, Wildlife and Parks

HAC = Highest average compensation

MUS = Montana University System

PERB = Public Employees' Retirement Board

TRB = Teachers' Retirement Board

Notes

The number of each proposal corresponds to the number on SAVA's List of Retirement Plan Legislative Concepts received from both stakeholders and agencies. It is posted on the Internet and referred to as the "hot pink sheet."

CI0425 0211rwx.a.