

Report to Legislative Finance Committee on  
SAVA's Recent Work Related to the Retirement System

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The State Administration and Veterans' Affairs Interim Committee's (SAVA) duties are outlined in [section 5-5-228, MCA](#) and include:

- administrative rule review, draft legislation review, program evaluation, and monitoring functions for the public employee retirement plans;
- consideration of the actuarial and fiscal soundness of the state's public employee retirement systems;
- study and evaluation of the equity and benefit structure of the state's public employee retirement systems;
- establishment of sound fiscal and public policy guidelines for evaluating the retirement systems;
- development of legislation to keep the retirement systems consistent with sound policy principles;
- solicitation and review of proposed statutory changes to any of the state's public employee retirement systems;
- reporting to the Legislature on each legislative proposal reviewed by SAVA. The report must include a summary of the fiscal implications of the proposal, an analysis of the soundness of the proposal as a matter of public policy, any amendments proposed by the committee, and the committee's recommendation on whether the Legislature should enact the proposal.
- attaching the committee's report to any proposal that the committee considered and that has been introduced as a bill during the legislative session; and
- publishing information on the state's public employee retirement systems for legislator's use.

This report provides information on SAVA's recent work related to the retirement system and hyperlinks to the documents presented to SAVA during these studies. The first section includes an overview of what SAVA is planning for the current interim and a summary of the retirement studies assigned to SAVA in the 2009-2010, 2007-2008, and 2005-2006 interims. An electronic copy of this report is available at the Legislative Finance Committee Web site: [leg.mt.gov/lfc](http://leg.mt.gov/lfc).

**SAVA's Recent Retirement-Related Studies:**

2011-2012 Interim

The 2011 Legislature did not pass any resolutions or bills requesting retirement system interim studies. In fact, Legislative Council did not assign any studies to SAVA, leaving the committee free to study topics of interest to the committee members. At the June 24 organizational

meeting, SAVA voted to explore options to address the unfunded accrued actuarial liability of the retirement system by reviewing actions in other states and considering possible funding sources. The committee also wants to study how retirement system liabilities are handled in the budgeting process. Study plans for these topics will be available at [leg.mt.gov/sava](http://leg.mt.gov/sava) prior to SAVA's October 20, 2011 meeting.

### 2009-2010 Interim

The 2009 Legislature enacted House Bill No. 659 directing SAVA to examine and recommend to the 62nd Legislature funding and benefit changes in the statewide retirement systems, including redesigning the Teachers' Retirement System (TRS). The bill required SAVA to review current trends and best practices in public retirement plan design and funding and examine options for changes to each of the Public Employees' Retirement System (PERS) administered retirement systems. The TRS mandate was more specific, requiring the committee to compare and contrast options for redesigning TRS and to develop legislation to implement the redesign. The redesign also had to:

1. ensure members have a guaranteed benefit in retirement;
2. provide that employers and employees share the risk of actuarial gains and losses and allow for adjustment of contributions to meet that requirement;
3. be sustainable and funded on an actuarially sound basis;
4. provide benefits designed to attract qualified and competent employees;
5. comply with the Internal Revenue Code governing tax-qualified public pension plans;
6. keep the Teachers' Retirement Board as the administrator of the system and the Board of Investments as the investor of the plan's assets; and
7. provide a foundation for financial security.

The Legislature appropriated \$200,000 to support the HB 659 study.

SAVA work on the HB 659 study resulted in the committee voting to send two possible redesigns of TRS to the 2011 Legislature:

- LC 251 would have established two money purchase plans for new hires. The new hire would choose between the two plans and retirement benefits would be based on the member's account balance (employee contributions and interest) and an employer match of the account balance. The match level would depend on years of service.
- LC 252 would have established a professional retirement option for new hires. A new hire who worked 30 or more years would receive a 2% multiplier for all years of service. Current members and new hires who worked fewer than 30 years would receive the current 1.667% multiplier. LC 252 would also raise the retirement age, change the vesting period for new hires, and extend the time period used to calculate highest average compensation.

LC 251 was introduced as Senate Bill No. 54 during the 2011 legislative session. The bill passed the Legislature but was vetoed by the Governor. LC 252 became Senate Bill No. 56 and was tabled in the Senate State Administration Committee.

SAVA also studied design changes to PERS but did not make any recommendations to the Legislature.

A complete discussion of the 2009-2010 SAVA work on the HB 659 study can be found in: [The Million-Dollar Question: Redesigning the State's Public Employee Retirement Systems and Other Interim Activities: The Final Report of the 2009-2010 State Administration and Veterans' Affairs Interim Committee](#). The links below include materials provided to SAVA for the HB 659 study. The links relevant for HB 659 are mostly found in the "Evaluation of Equity and Benefit Structure" section.

### 2007-2008 Interim

The 2007-2008 SAVA committee was assigned the House Joint Resolution No. 59 study of the public employee retirement systems and production of a legislator's guide. The guide was to include:

- a brief history of Montana's retirement plans;
- a concise summary of the rationale for the current retirement plan features of Montana's public employee retirement systems;
- an overview and background on policy principles established by SAVA pursuant to section 5-5-228(2)(b), the retirement boards, and the Board of Investments;
- a review of current trends and best practices in public retirement plan design and funding;
- a comparison of Montana's public employee retirement systems with current trends and best practices and identification of viable alternatives to current structure and funding;
- a general analysis of the fiscal implications of potential plan design changes on employee and employer contributions, retirement savings, investment responsibilities, and funding obligations; and
- findings and recommendations on whether Montana's public employee retirement plans should be updated or changed and if so, how, to best serve public employers, public employees, and all people of Montana.

The guide resulting from the HJ 59 study can be found at the following link: [A Legislator's Guide to Montana's Public Retirement Systems, 2008](#).

### 2005-2006 Interim

The House Joint Resolution No. 42 study was the top-ranked study of the 2005-2006 interim and directed the committee to:

- review constitutional and statutory language governing how public employee retirement plan funds are managed and invested;
- study the investment strategies, objectives, and asset allocation of public employee retirement funds managed by the Board of Investments;
- compare the asset allocation, investment performance, and actuarial assumptions regarding Montana's public employee retirement plan funds with asset allocation, investment performance, and actuarial assumptions used in other states;

- study how investments or asset allocation strategies are adjusted by the Board of Investments either in anticipation of changing needs or changing market conditions or after significant national and world events affect the market;
- study actual rates of return versus actuarial gains and losses in market value and how actuarially assumed rates of return adopted by the retirement boards relate to realized returns and the investment objectives set by the Board of Investments;
- examine how investments, retirement benefits, and legislative policy decisions interact to affect the actuarial soundness of the public employee retirement plans and employer funding obligations; and
- identify legislative policy issues and concerns, consider options, and develop recommendations.

Material distributed for this study can be found primarily in the "Actuarial and Fiscal Soundness" section of this report.

### **Actuarial and Fiscal Soundness:**

[Presentation of 2009 Actuarial Valuation Results \(PERB systems\)](#) -- October 2009

[Presentation of 2009 Actuarial Valuation Results \(TRS\)](#) -- October 2009

[Board of Investments Memo to SAVA](#) -- October 2009

[Memo: Pensions Bonding vs. Employer Rate Increases](#) -- January 2007

[Issues Pertinent to HJR 42 and Montana Public Employee Retirement Systems](#) -- March 2006

[Memo: Retirement Plans - Unfunded Liabilities](#) -- December 2005

[Pensions & Investments](#) -- September 2005, Montana Board of Investments

### **Evaluation of Equity and Benefit Structure:**

[State Retirement System Defined Contribution Plans](#) -- September 2009, Ron Snell, NCSL

[Public Retirement Benefit Plan Designs and Financing Arrangements](#) -- October 2009, Keith Brainard, NASRA

[Table: State Hybrid Retirement Benefit Plans](#) -- June 2008, Keith Brainard, NASRA

[Defined Benefit and Defined Contribution Discussion](#) -- March 2010, Buck Consultants

[Hybrid Plan Design, Survey of State Retirement Systems, What Other States Are Doing,](#)

[Possible Alternative Plan Designs](#) -- March 2010, Buck Consultants

[SAVA Survey Results](#) -- March 2010, Buck Consultants

[SAVA Retirement Plan Design Project Slides](#) -- May 2010, Buck Consultants

[Benefits/Individual Account Plans Presentation](#) -- May 2010, Buck Consultants

[Montana TRS Benefit Design Study](#) -- August 2010, Cavanaugh Macdonald

[Montana PERS Benefit Design Study](#) -- August 2010, Cheiron

[Confirmation of Final Cost Analysis TRS](#) -- August 2010, Buck Consultants

[Confirmation of Final Cost Analysis PERS](#) -- August 2010, Buck Consultants

[An Overview of Money Purchase Retirement Plans](#) -- April 2008

### **Reports to Legislature on Retirement Legislation:**

[Required Review of Proposed Statutory Changes to Montana's Retirement Systems](#) -- December 2010

[SAVA Action Regarding Retirement Plan Proposals](#) -- April 2008  
[Rep. MacLaren's Proposal](#) -- for 2009 Legislative Session

### **Retirement System Principles and Guidelines:**

[Principles and Guidelines for Public Employee Retirement Systems](#) -- as adopted by 2009-2010 SAVA

[Briefing Paper: Principles and Guidelines for Public Employees Retirement Systems](#) -- October 2009

[Principles and Guidelines for Public Employee Retirement Systems](#) -- tentatively adopted by 2007-2008 SAVA

[Pension Principles and Guidelines](#) -- June 2006

[Principles and Guidelines for Montana's Public Employee Retirement Systems](#) -- April 2006

### **Other States' Actions and Policies:**

[Selected States' Policies on Public Employee Retirement Systems](#) -- August 2008

[Arizona State Retirement System: A Comparative Analysis of Defined Benefit and Defined Contribution Retirement Plans](#) -- September 2006

[The Illinois Public Pension Funding Crisis: Is Moving from the Current Defined Benefit System to a Defined Contribution System an Option That Makes Sense?](#)

[Comparing Recent Historical Rates of Return on the Invested Assets of Montana's Public Employee Retirement Plans to the Rates of Return Experienced in Other States, in the Standard and Poor 500 Index, and in the Wilshire 5000 Index](#) -- February 2008

[Selected State Actions Undertaken to Address Challenges in Public Employee Retirement Systems](#) -- February 2008

### **Legal Issues Related to Retirement Systems:**

[Legal Memo: Constitutionality of Potential Legislation Modifying GABA](#) -- August 2009

[Legal Memo: Addendum to August 14, 2009, Memo Regarding GABA](#) -- August 2009  
[State Retirement Annuity Case Law](#)

### **Other Reports:**

[Understanding Montana's Public Employee Retirement Plans](#) -- November 2010