Legislative Policy Objectives for Montana's Public Employee Retirement Systems: 1999-2000 Interim

Presession consideration of retirement plan proposals

A Report to the 57th Legislature
by the
State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee: 1999-2000

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OVERVIEW

Scope of plans

Number and type of plans: The Montana Legislature has provided for nine defined benefit (DB) public employee retirement plans and two defined contribution (DC) retirement plans. The DB plans are traditional pension plans with guaranteed benefits based on years of service and salary. The DC plans (the University System's Optional Retirement Program and the Public Employees' Retirement System's optional DC plan to be operational by July 1, 2002) provide members with individual accounts and investment choices. Benefits depend on total contributions and investment earnings, minus administrative expenses.

Membership, assets, and liabilities: The DB public employee plans cover nearly 50,000 active state, university, school district, county, and city employees and more than 24,000 public retirees and beneficiaries. Annual public employee payrolls total about $1.3 billion. Public pension assets amount to more than $5.5 billion. Pension plan liabilities and benefit obligations nearly match pension assets and amount to nearly $5.5 billion. Recent investment gains in five of the pension plans have wiped out unfunded liabilities in the defined benefit plans, including the state's largest public pension plan, the Public Employees' Retirement System (PERS), which has more than 29,500 active members.

History of legislative oversight

A 1991-1992 interim legislative study revealed that 45 to 50 retirement bills were being introduced each regular session. These bills were being referred to different standing committees during sessions, which led to inconsistent policy decisions. The study also confirmed that the Legislature's decisions on retirement systems have irreversible long-term implications.

To address these issues and provide a framework whereby the Legislature could establish fair, consistent, and fiscally sound retirement policy, the Legislature in 1993 established a statutory interim committee, the Committee on Public Employees Retirement Systems (CPERS), to conduct a presession review of potential retirement plan legislation. By law, CPERS was to adopt policy principles and report and make recommendations to the next legislature.*

The CPERS was repealed in 1999 as part of an interim committee restructuring process; and the State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee (SAIC) inherited responsibility for monitoring public retirement issues.**

Report's purpose

This report fulfills the SAIC's commitment to continuing the duties and responsibilities previously assigned to CPERS, but which are no longer specifically defined in statute. In keeping with CPERS' tradition, the SAIC solicited retirement plan proposals from legislators, unions, retiree groups, agencies, and other interested persons. On August 4, 2000, the SAIC conducted public hearings on the 27 proposals submitted for the SAIC's consideration. On September 15, 2000, staff presented analyses of proposals No. 1 through No. 13 and the SAIC adopted policy statements relevant to many of the proposals.*** Minutes and exhibits from these meetings are available by contacting the Legislative Services Division (LSD).

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* Chapter 549, Laws of Montana, 1993.

** See State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee, *Minutes,* Montana Legislative Services Division, August 4, 2000.

*** Short on time and staff resources, the SAIC did not receive staff analysis on the other proposals.

Information about how to contact the LSD and a complete list of relevant SAIC meetings is provided in Appendix A.

Organization of report

The policy statements representing the SAIC's recommendations to the 57th Legislature are listed in Part 1.

A summary of each proposal submitted for the SAIC's consideration is provided in a chart in Part 2.

Tables summarizing the key features of and detailed fiscal data on each of Montana's public employee retirement plans are provided in Part 3. ***Please note:*** *These tables were updated using data reported in the June 30, 2000, actuarial valuations. These valuations were NOT completed until late October 2000. Thus, this data was not available to the SAIC when it considered the retirement proposals presented in Part 2.*

PART 1:
LEGISLATIVE POLICY STATEMENTS

Adopted on September 15, 2000, by majority vote of the
State Administration, Public Retirement Systems, and
Veterans' Affairs Interim Committee:
1999-2000 Interim

Please note: *This is a staff summary of the SAIC's actions. Also, the SAIC did not have access to the most recent actuarial reports on the fiscal situations of the DB retirement plans. A general summary of the actuarial findings is provided as a staff addendum following this list.*

Cost-of-living increases and minimum benefits

< <u>Postretirement benefit increases should not be indexed.</u> The SAIC does not support tying cost-of-living adjustments (COLAs) or the Guaranteed Annual Benefit Adjustment (GABA) to the Social Security COLA or to the Consumer Price Index (CPI). (See Proposal No. 1.)

< <u>An annual 2.5% postretirement benefit increase should eventually be provided.</u> The SAIC supports a 2.5% GABA as a target for each of the defined benefit retirement plans and authorizing the retirement boards to increase the current 1.5% GABA incrementally, to a maximum of 2.5%, as the financial soundness of each system allows but with the stipulation that the amortization schedule of a system may not exceed 25 years when a GABA increase is made. (See Proposal Nos. 2, 4, and 5.)[*]

< <u>One-time ad hoc benefit increases should not be enacted.</u> The SAIC does not support a one-time benefit increase (such as the $50-a-

[*] Proposal No. 2B and No. 3 was to simply increase the GABA to 3% and 2.5%, respectively, instead of setting a "target". The majority of SAIC members preferred setting the target rather than an outright increase.

month increase in Proposal No. 1) to boost retiree income. Rather, the SAIC supports establishing a minimum benefit amount.

< The responsibility for setting benefits should not be delegated. The Legislature, not the retirement boards, should set minimum benefit amounts.

< Minimum benefit increases should be supported. The SAIC supports an increase in the Teachers' Retirement System (TRS) minimum benefit amount from $500 to $600 for retirees with 25 years of service or more. (See Proposal No. 2.)

Plan membership changes

< Employees should belong to a retirement plan. Policies or proposals allowing a class or group of public employees to opt out of a retirement plan should be discouraged. (See Proposal No. 6.)

< The public safety retirement plans are designed for officers who risk life and limb in the line of duty. The SAIC does not support a 20-year retirement plan for emergency dispatchers now covered in PERS, which is a 30-year retirement plan. The PERS will soon offer members a choice between the traditional defined benefit plan and a new defined contribution plan that is not based on years of service. (See Proposal No. 7.)

< Firefighters should eventually be covered under the Firefighters' Unified Retirement System (FURS). The SAIC supports a policy allowing the Great Falls airport firefighters (National Guard employees) to transition from the PERS to the FURS, provided that the costs involved can be handled on an actuarially sound basis with no general fund responsibilities for retroactive expenses. (See Proposal Nos. 8 and 9.)

< Local governments should have the option of covering rural firefighters under FURS. The SAIC recognizes the need to allow rural firefighters to be covered under FURS instead of PERS, but also recognizes that other policy and fiscal issues must be considered. Thus, the SAIC supports allowing local governments the option of either continuing to cover their rural firefighters under PERS or of electing to cover these firefighters under FURS. The SAIC does not support a mandated change. (See Proposal No. 10.)

Changes in retirement benefit formulas and eligibility criteria

< Retirement benefit formulas in the public safety retirement plans should be similar. The SAIC endorses an increase in the retirement formula of the Game Wardens' and Peace Officers' Retirement System (GWPORS) from 2.0% per year of service to 2.5% per year of service in order to bring the system into parity with the other public safety retirement plans. If the cost of the benefit enhancement cannot be managed within the GWPORS unfunded liability, then employer and employee contributions should be increased. (See Proposal No. 12.)

< Retirement benefit formulas or retirement eligibility criteria should not encourage early retirement. Reducing the minimum years of service or minimum age required for normal retirement eligibility should be discouraged. (See Proposal No. 13.)

< Policy should promote parity among similar systems. The SAIC supports parity among similar systems (such as the public safety retirement systems) to avoid systems leap-frogging each other for benefit enhancements, which results in a "ratcheting up" of benefits. Amending the Highway Patrol Officers' Retirement System to provide a 20-year retirement regardless of age would bring this system into

parity with the Municipal Police and Firefighters' Unified Retirement Systems. (See Proposal No. 26.)

Return to work limits

< If retirees return to work they should be encouraged to return to active retirement plan membership. The SAIC does not support a policy encouraging employees to retire early and then return to work without participating in a retirement system. (See Proposal Nos. 16 through 19.)

Addendum:
Findings of the FY 2000 Actuarial Reports

This is a staff summary of data reported in the most recent actuarial valuations of the DB retirement plans. The valuations represent a snapshot of each plan as of June 30, 2000, and were completed in October 2000. Thus, the data was not available for the SAIC's consideration in September.

÷ Most of the pension plans experienced substantial actuarial gains, primarily due to investment returns higher than the actuarially assumed *realized* investment rate of return, which is 8%.

÷ The normal cost of benefits in each of the DB plans decreased, thus increasing the amount of contributions available to fund past unfunded liabilities.

÷ Current assets exceed actuarial liabilities in six of the nine DB pension plans, creating a surplus. Thus, these systems currently have no unfunded liabilities and contributions plus earnings are more than sufficient to meet expected obligations.

Plans with a surplus:
Public Employees' Retirement System (PERS)
Game Wardens' and Peace Officers' Retirement System (GWPORS)
Sheriffs' Retirement System (SRS)
Judges' Retirement System (JRS)
Highway Patrol Officers' Retirement System (HPORS)
Volunteer Firefighters' Compensation Act (VFCA)

Plans with unfunded liabilities	Amortization schedule
Teachers' Retirement System (TRS)	15.1 years
Municipal Police Officers' Retirement System (MPORS)	9.9 years
Firefighters' Unified Retirement System (FURS)	7.71 years

Actuary's analysis of options for reacting to surplus funding:[*]

Decrease contributions

< Which contributions?
- Member contributions
- Employer contributions
- State supplemental contributions

< Factors to consider:
- Need for a contingency reserve
- Normal cost as a floor
- Implications if contributions need to be raised later

Enhance benefits

< Consider adequacy of current benefits based on:
- salary replacement ratios
- adequacy of other income, such as Social Security and Deferred Compensation

< Compare pension benefits with other Montana systems and other states' public retirement systems

[*] Presented to the Public Employees' Retirement Board (PERB) on October 26, 2000, by Milliman & Robertson, Inc..

< Consider fiscal implications and impact on the PERS DC plan

PART 2:

RETIREMENT PROPOSALS SUBMITTED FOR REVIEW

1999-2000 Interim

No.	Requestor	System affected	Summary	Est. cost, funding sources
Proposals to increase the Guaranteed Annual Benefit Adjustment (GABA)				
1	Assoc. of MT Retired Public Employees	PERB-administered defined benefit plans	Increase GABA: Proposal A: Make GABA same as Social Security COLA increase Proposal B: Increase to 3% Proposal C: $50 per month one-time increase for pre-Jan. 1, 1981, retirees with 25 or more years of service Proposal D: Reduce waiting period from 3 years to 2 years	Increase systems' unfunded liabilities
2	MT Retired Teachers Assoc.	TRS	Biennial adjustment of GABA to a max. of 2.5%, based on TRS unfunded liability; increase min. benefit to $600 per month with 25 yrs service	Amount of adjustment to be based on TRS unfunded liability
3	MPEA	All defined benefit plans	Increase GABA to 2.5%	Use investment earnings (increase unfunded liabilities)
4	MEA	All PERB DB plans	Increase GABA to 2.5%	Set unfunded liability at no more than 26 years indefinitely, use amortization schedule to fund GABA

No.	Requestor	System affected	Summary	Est. cost, funding sources
5	MEA	TRS	Allow Teachers' Retirement Board to increase GABA as funding allows, but capped at 2.5%	Funded by biennial adjustments to amortization schedule of unfunded liabilities (set schedule at 25 years, any actuarial gains that would decrease that schedule would be used to fund GABA increases)
Proposals related to plan membership				
6	Jack Guipre	PERS	Make participation in PERS optional for law clerks and employees in similar situation of term contract	No cost anticipated
7	Sen. Christiaens (for a Great Falls dispatcher)	PERS (MPORS, SRS)	Allow dispatchers to move from PERS to a 20-year retirement plan	Not addressed
8	Great Falls Airport Fire Dept, Air National Guard	PERS and FURS	Cover all new members of the Air National Guard (ANG) Fire Dept at the Great Falls Airport in FURS rather than in PERS	Increase employee and employer contributions (employer contributions to be paid by federal government)
9	Great Falls Airport Air National Guard	State Deferred Comp Plan	Companion to proposal 8: Allow matching employer (federally paid) contribution to the state deferred comp plan for members of ANG Fire Dept. in Great Falls in lieu of moving these members to FURS	Employer contribution from Federal Government

No.	Requestor	System affected	Summary	Est. cost, funding sources
10	Keith Kober, Lockwood Rural Fire Dist.	PERS and FURS	Allow members in fire districts or departments not now eligible for FURS membership to transfer from PERS to FURS	Increase employer and employee contributions (use Social Security contribution, insurance premium tax)
11	Sheriffs' and Peace Officers' Assoc.	SRS	Define "detention officers" in statute, begin to consider 2003 legislation to include detention officers in SRS	To Be Determined (TBD)
Proposals related to change in retirement formulas, benefit amounts, or contributions				
12	MPEA and Game Wardens' Assoc.	GWPORS	Increase benefit formula multiplier in GWPORS from 2% to 2.5%	Increase system's unfunded liabilities, which currently show an "excess" of available funding to pay current liabilities
13	MPEA	PERS	Reduce eligibility for full retirement benefit (unreduced) from 30 years of service to 25 years of service	Requires actuarial cost projections. Increase employer and employee contributions or increase unfunded liabilities
14	Rep. Bob Lawson	Local Fire Relief Associations	Allow fire relief assoc. board of trustees to set amount of pension adjustment or raise the current statutory amount	No cost
15	MEA-MFT	ORP	Increase employer contribution from 6% to 7.47% and provide that the state assumes the cost of paying TRS unfunded liability associated with Optional Retirement Plan (ORP) members	Proposer estimates $3 million annual GF for state assumption of TRS unfunded liability

No.	Requestor	System affected	Summary	Est. cost, funding sources
Proposals related to returning to work and proposals related to deferring receipt of retirement				
16	Police Protective Association	MPORS (Supported by Sheriffs' and Peace Officers' Assoc.)	Create a Deferred Retirement Option Plan (DROP) allowing members to roll retirement benefits into a defined contribution DROP.	Actuarial cost projections would have to be done by the PERB
17	Teachers' Retirement Board	TRS	Provide a "back drop" benefit option to induce teachers to continue to work after they become eligible for full benefits at 30 years of service	No cost
18	MPEA and the Dept. of Admin.	PERS	Increase to 960 hours the current 640-hour limit on hours that may be worked after retirement before the benefit amount is reduced dollar for dollar	Proposers do not believe there is a significant cost that would require additional funding
19	MPEA	All defined benefit plans	Delete statutory language that precludes a retiree from receiving a GABA increase if the retiree goes back to work under another Title 19 retirement system	No cost (actuarial valuation of liabilities does not consider this provision)

No.	Requestor	System affected	Summary	Est. cost, funding sources
Proposals related to IRS qualification issues and/or housekeeping bills				
20	PERB	PERS	Amend defined contribution plan and 457 plan to comply with IRS qualification regulations	None
21	PERB	All PERB-administered systems	General revision, housekeeping, for all PERB systems	None
22	Teachers' Retirement Board	TRS	General revision for "housekeeping" (i.e., to clarify statutory language): - stagger board-member terms - clarify membership and other administrative requirements - clarify limits on administrative budget - simplify calculation of post-retirement earnings limitations	None
Proposals affecting revenue, budgeting, and contributions related to employee compensation and benefits				
23	MEA-MFT	School Districts, TRS and PERS members	Amend the school district retirement fund and associated budget calculations to allow provision for employer contributions to 401(k), 403(b), 457, and postretirement medical expense plans and programs	Source: county school retirement fund levy, supplemented by state guaranteed tax base aid. Est. cost: $5m per year ($4m from levy, $1m from state)
Other proposals related to public employee benefits				
24	MEA-MFT, MSBA	School Districts	Amend the existing school district voluntary "compensation absence liability fund" (CALF) to include severance pay	School district general fund, voluntary by district

No.	Requestor	System affected	Summary	Est. cost, funding sources
Proposals submitted after July 1				
25	Retired Teachers (Rep. Kitzenburg)	TRS	Change date for determining eligibility for GABA after 3 years of retirement from January 1 to July 1	TBD
26	Assoc. of Mt Hwy Patrolmen (AMHP)	HPORS	Allow full retirement benefits after 20 years of service regardless of age (striking requirement for "and age 50")	TBD
27	PERB	HPORS	Statutorily required report and recommendations on 25-cent vehicle registration fee and statutory appropriation to fund supplemental retirement benefits for certain HPORS retirees	N/A

PART 3: RETIREMENT PLAN SUMMARY DATA

TABLE 1
BENEFIT ELIGIBILITY AND BASIC BENEFIT FORMULA

	PERS DEFINED BENEFIT (DB) PLAN	TEACHERS' RETIREMENT SYSTEM (TRS)	SHERIFFS' (SRS)	MUNICIPAL POLICE (MPORS)	FIREFIGHTERS' UNIFIED (FURS)	HIGHWAY PATROL (HPORS)	GAME WARDENS' AND PEACE OFFICERS' (GWPORS)	JUDGES' (JRS)
Minimum service and age requirements to receive full (unreduced) normal retirement benefit	30 yrs service, any age or 5 yrs srvc and age 60 or age 65 regardless of service	25 yrs service, any age or 5 yrs srvc and age 60	20 yrs service, any age	20 yrs service, any age	20 yrs service, any age, or age 50 with 10 yrs service	Pre-7/1/85 hires: 20 yrs service, any age Post-7/1/85 hires: 20 yrs service and age 50	20 yrs service and age 50 or age 55 with 5 yrs	5 yrs service and age 65
Minimum service requirement before being vested	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Service retirement benefit formula	1/56 x FAS[1] x yrs of service (1/56 = 1.78571%)	1/60 x FAS x yrs of service (1/60 = 1.6666%)	2.5% x FAS x yrs of service	2.5% x FAC[2] x yrs of service Pre-7/1/77: FAC = avg monthly compensation of last year	2.5% x FAC x yrs of service Pre-7/1/81 who did not elect GABA: ***- with less than 20 yrs, greater of:*** 2.5% x FAC x yrs or 2% x FMC[3] x yrs ***- with more than 20 yrs:*** 50% x FMC plus 2% of FMC for each year over 20	2.5% x FAS x years of service	2% x FAS x years of service	3.33% x FAS x yrs of service to 15 yrs + 1.785% x FAS x years of service over 15 yrs Pre 7/1/97: FAS = monthly compensation at retirement Post 1/7/97: FAS = highest 36 months
Benefit formula is actuarially reduced for early retirement	Yes Actuarially reduced benefit at 25 years service any age or age 50	Yes	Yes Actuarially reduced benefit at age 50 with 5 yrs service	No	No	No	No	Yes: Actuarially reduced benefit at any age with 5 yrs service, if involuntarily terminated

Source: Title 19, Montana Code Annotated, 1999

[1] FAS = final average salary = average salary of the 3 highest consecutive years of service.
[2] FAC = final average compensation = average salary over the last 36 consecutive months of service.
[3] FMC = final monthly compensation = monthly salary last received by member.

TABLE 2

DISABILITY BENEFITS

	PERS DEFINED BENEFIT PLAN	TEACHERS' RETIREMENT SYSTEM (TRS)	SHERIFFS' (SRS)	MUNICIPAL POLICE (MPORS)	FIREFIGHTERS' UNIFIED (FURS)	HIGHWAY PATROL (HPORS)	GAME WARDENS' AND PEACE OFFICERS' (GWPORS)	JUDGES' (JRS)
Eligibility criteria for disability benefit	- at least 5 yrs of service - totally unable to perform essential tasks of covered position - permanent or of uncertain duration	same as in PERS DB plan	same as in PERS DB plan	same as in PERS DB plan	same as in PERS DB plan	same as in PERS DB plan	same as in PERS DB plan	same as in PERS DB plan
Non-duty-related disability benefit	Pre-2/24/91: greater of 90% of normal (1.786%) formula, or 25% of FAS Post-2/24/91 or election: normal retirement formula (based on age 60, no actuarial reduction)	Greater of: - normal (1.6667%) retirement formula or - 25% of Avg. Final Compensation (same as FAS)	Actuarial equivalent of normal (2.5%) retirement formula	Pre-7/1/77: Normal (2.5%) retirement formula, but minimum of 50% of base salary Post-7/1/77: 50% FAC for 20 yrs or less and 2.5% FAC for each year over 20	50% FAC for 20 yrs or less and 2.5% FAC for each year over 20	Actuarial equivalent of normal (2.5%) retirement formula	Actuarial equivalent of normal (2.0%) retirement formula	Actuarial equivalent of normal retirement formula (3.33% for first 15 yrs service and 1.785% after 15 years)
Duty-related disability benefit	Same as non-duty related	Same as non-duty-related	50% of FAS	Same as non-duty-related	Same as non-duty-related	50% of FAS	50% of FAS with at least 5 yrs of service	Non-GABA: 50% of current salary of sitting judge With GABA: 50% of FAS
Actuarial cost to plan (reported in June 30, 2000, actuarial valuation)	0.27%	0.19%	0.70%	1.56%	1.67%	0.55%	0.66%	0.44%

TABLE 3

RETIREE AND BENEFIT RECIPIENT DATA

(Based on June 30, 2000, Actuarial Valuations, except as noted.)

	PERS DEFINED BENEFIT (DB) PLAN	TEACHERS' RETIREMENT SYSTEM (TRS)	SHERIFFS' (SRS)	MUNICIPAL POLICE (MPORS)	FIREFIGHTERS' UNIFIED (FURS)	HIGHWAY PATROL (HPORS)	GAME WARDENS' AND PEACE OFFICERS' (GWPORS)	JUDGES' (JRS)
Number of benefit recipients	13,572	9,021	242	541	468	261	82	47
Average age of current retirees *(1998 valuation)	72 yrs	not reported	63 yrs	64 yrs	66 yrs	64 yrs	69 yrs	75 yrs
Average retirement age *(1998 valuation)	60 yrs	not reported	54 yrs	47 yrs	50 yrs	49 yrs	55 yrs	67 yrs
Average years of service at retirement *(1998 valuation)	19 yrs	not reported	18 yrs	19 yrs	23 yrs	24 yrs	27 yrs	16 yrs
Average monthly benefit (service retirement)	$621	$1,154	$1,185	$1,444	$1,518	$1,474	$1,441	$2,640
Post-retirement benefit adjustments	1.5% GABA* (after 3 years)	1.5% (after 3 years)	1.5% (after 3 years)	Pre-7/1/97 who did not elect GABA: ½ monthly salary of new officer All post- 7/1/97 or who elected GABA: 1.5% (after 3 years)	Pre-7/1/97 who did not elect GABA: ½ monthly salary of new firefighter All post- 7/1/97 or who elected GABA: 1.5% (after 3 years)	Pre-7/1/97 who did not elect GABA: 2% of base salary of probationary officer All post- 7/1/97 or who elected GABA: 1.5% (after 3 years) Pre-7/1/91: supplemental lump sum to certain eligible recipients, paid from 25 cents of motor vehicle registration fees	1.5% (after 3 years)	Pre-7/1/97: benefits increased same as salary of sitting judge All post-7/1/97: 1.5% GABA (after 3 years)
Social security coverage	Yes	Yes	Yes	No	No	No	Yes	Yes

* GABA = An automatic annual Guaranteed Annual Benefit Adjustment, or increase in a recipient's monthly benefit amount.

TABLE 4

MEMBERSHIP DATA

(NOT including retirees and other benefit recipients)

(Based on June 30, 2000, Actuarial Valuations, except as noted.)

	PERS DEFINED BENEFIT (DB) PLAN	TEACHERS' RETIREMENT SYSTEM (TRS)	SHERIFFS' (SRS)	MUNICIPAL POLICE (MPORS)	FIREFIGHTERS' UNIFIED (FURS)	HIGHWAY PATROL (HPORS)	GAME WARDENS' AND PEACE OFFICERS' (GWPORS)	JUDGES' (JRS)
Total active members	29,500	17,534	611	571	419	190	494	46
Average age of actives	45 yrs	45 yrs	40 yrs	37 yrs	40 yrs	38 yrs	68 yrs	55 yrs
Average years of service of actives	9 yrs	12 yrs	9 yrs	9 yrs	13 yrs	12 yrs	4 yrs	8 yrs
Average annual salary of actives	$25,079	$35,906	$34,610	$35,376	$37,823	$34,498	$26,253	$77,626
Number of participating employers	504	411	56	21	14	1	8	1
Employer's annualized payroll (1998 Valuation)	$680.3 million	$529.7 million	$20.7 million	$18.6 million	$15.2 million	$5.7 million	$1.12 million	$3.2 million

TABLE 5

CONTRIBUTIONS, COSTS, AND ACTUARIAL DATA

(Based on June 30, 2000, Actuarial Valuations)

	PERS DEFINED BENEFIT (DB) PLAN	TEACHERS' RETIREMENT SYSTEM (TRS)	SHERIFFS' (SRS)	MUNICIPAL POLICE (MPORS)	FIREFIGHTERS' UNIFIED (FURS)	HIGHWAY PATROL (HPORS)	GAME WARDENS' AND PEACE OFFICERS' (GWPORS)	JUDGES' (JRS)
Employer contribution as percentage of payroll	6.9% Political subdivisions: 6.8% State: 0.1% (to fund GABA)	7.47%	9.535%	14.41%	14.36%	26.15%	9%	25.81%
Employee contribution as percentage of salary	6.9%	7.15%	9.245%	***Non-GABA:*** Pre-7/1/75: 5.8% Pre-7/1/79: 7.0% Pre-7/1/97: 8.5% ***With GABA***: 9%	Pre-7/1/97 not electing GABA: 9.5% Post-7/1/97 and electing GABA: 10.7%	Pre-7/1/97 not electing GABA: 9.0% Post-7/1/97 and electing GABA: 9.05%	8.5%	7%
Additional funding from other sources as a percentage of payroll	None	State General Fund: 0.11%* For ORP: 3.73% to 7/1/00 4.04% to 7/1/01	None	State General Fund: 29.37%	State General Fund: 32.61%	Driver's license fees: 10.18%	None	None
Total available contributions as percentage of payroll	13.80%	14.73%	18.78%	52.70%	57.49%	45.38%	17.50%	32.81%
Normal costs as percentage of payroll	10.26%	9.71%	16.63%	23.52%	22.44%	17.72%	13.91%	24.46%
Percentage used to fund unfunded liabilities	3.11%	5.02%	2.15%	29.18%	35.05%	27.66%	3.59%	8.35%

(TABLE 5 continued on next page)

* This amount was enacted by the 1999 Legislature as part of the funding for the current 1.5% GABA. This terminates when amortization schedule is 10 years or less, based on the most recent actuarial valuation.

	PERS DEFINED BENEFIT (DB) PLAN	TEACHERS' RETIREMENT SYSTEM (TRS)	SHERIFFS' (SRS)	MUNICIPAL POLICE (MPORS)	FIREFIGHTERS' UNIFIED (FURS)	HIGHWAY PATROL (HPORS)	GAME WARDENS' AND PEACE OFFICERS' (GWPORS)	JUDGES' (JRS)
Actuarial value of accrued assets (rounded)	$2.8 billion	$2.2 billion	$126 million	$130 million	$123 million	$78 million	$33 million	$42 million
Actuarial accrued liabilities (rounded)	$2.3 billion	$2.6 billion	$88 million	$181 million	$162 million	$76 million	$24 million	$27 million
Unfunded liability (surplus) (rounded)	($570 million)	$401 million	($39 million)	$51 million	$39 million	($1.4 million)	($9 million)	($15 million)
Years to amortize unfunded liability	0 (surplus)	15.1 yrs	0 (surplus)	9.9 yrs	7.71 yrs	0 (surplus)	0 (surplus)	0 (surplus)
Funded ratio (rounded) (percentage of accrued liabilities covered by reported assets)	125%	82%	144%	72%	76%	102%	138%	154%

Sources: June 30, 2000, Actuarial Valuations

TABLE 6

INVESTMENT DATA

* Investment objective: Achieve a total rate of return that exceeds the CPI by 3% over any five-year rolling period, while outperforming the market indices for each asset class over any current 5-year period.

* CPI: Percentage change in the CPI in 1997, the year prior to the valuation: 2.3%

* Pension funds: as a percentage of all funds invested by the Board of Investments: 65%

	PERS DEFINED BENEFIT (DB) PLAN	TEACHERS' RETIREMENT SYSTEM (TRS)	SHERIFFS' (SRS)	MUNICIPAL POLICE (MPORS)	FIREFIGHTERS' UNIFIED (FURS)	HIGHWAY PATROL (HPORS)	GAME WARDENS' AND PEACE OFFICERS' (GWPORS)	JUDGES' (JRS)
Amount invested, rounded (market value, on June 30, 1999)	$2.7 billion	$2.0 billion	$120 million	$116.2 million	$111 million	$74.8 million	$30.4 million	$40.2 million
Market rate of return for composite index, FY 1999	13.20%	13.80%	13.28%	12.78%	12.94%	12.83%	13.24%	13.06%
Market rate of return on the fund in 1999, all assets	12.11%	12.22%	12.32%	11.82%	12.07%	11.78%	13.24%	11.88%
Objective relative to CPI met?	yes	not reported*	yes	yes	yes	yes	yes	yes
Market rate of return for composite index, 5-year period	15.93%	not reported	15.41%	15.29%	15.28%	15.36%	15.71%	15.38%
Rate of return on the fund, 5-year period	15.43%	not reported	15.06%	15.01%	14.96%	15.00%	15.21%	15.04%
Asset allocation objectives:	50% to 68% in equities and 32% to 50% in fixed income	not reported	57% to 76% in equities and 24% to 43% in fixed in come	same as Sheriffs'	same as Sheriffs'	same as Sheriffs'	same as Sheriffs'	same as Sheriffs'
Asset allocation objectives met?	yes	not reported	yes	yes	yes	yes	yes	yes
Percentage growth in total liabilities between 1998 valuation and 1996 valuation	23.77%	not reported	52.18%	60.66%	32.23%	11.86%	105.75%	0.21%
Percentage growth in total assets between 1998 valuation and 1996 valuation	29.67%	not reported	34.25%	35.45%	32.83%	25.79%	27.70%	26.87%

* Investment of TRS pension funds closely tracks investment practices for PERS funds.

Sources: Public Employees' Retirement Board, Teachers' Retirement Board, Financial and Actuarial Reports, and Title 19, Montana Code Annotated, 1999; the 1999 Annual Report of the Montana Board of Investments; the U.S. Census Bureau, Statistical Abstract of the United States.

TABLE 7

VOLUNTEER FIREFIGHTERS' COMPENSATION ACT

(Based on June 30, 2000, Actuarial Valuation)

PENSION PLAN FEATURES	VOLUNTEER FIREFIGHTERS' PENSION FUND
Minimum service and age for normal (unreduced) retirement	Age 55 and 20 years of service; or Age 60 and 10 years of service
Vested	10 years
Basic benefit formula	$5 per year of service, up to maximum of $100 per month
Disability	$5 per year of service, with a minimum of $50 per month up to a maximum of $100 per month
Death benefit	$5 per year of service
Membership	839 retirees and beneficiaries 2,502 active members <u>624 vested inactive (terminated) members</u> 3,965 total members
Average age of active members	43 years old
Average years of service of active members	9 years
Average benefit for service retirees	$86 per month
Contributions	5% of insurance premium taxes collected (See Section 19-17-301, MCA)
Actuarial liabilities	$16.7 million
Actuarial value of assets	$17.7 million
Unfunded liability	($1 million) surplus
Funded ratio	106%

TABLE 8

PERS DEFINED CONTRIBUTION PLAN
(Chapter 471, Laws of Montana, 1999)

To be operational no later than July 1, 2002.

Membership	All PERS members will have 12 months to make a one-time, irrevocable choice between the DB and DC plans.
Employee Contributions	6.9% of salary
Employer Contributions	6.9% of salary allocated as follows: -- 0.4% to an educational fund -- 2.37% to PERS DB plan as plan choice rate -- 4.49% to member accounts
Total contributions to member accounts	11.39% of salary
Investment choices	16 funds (the PERB is in the process of selecting the funds)
Vesting	5 years for employer contributions and investment earnings on those contributions, but members have immediate control over how employer and employee contributions are invested
Benefits	Contributions plus investment earnings, minus administrative expenses; payable at any time after termination, with a federal tax penalty for withdrawal before age 59 1/2.
Disability benefit	Member's account balance (The SAIC recommends the adoption of LC 199, which would provide a defined disability benefit based on a 1/56 x FAS x years of service formula, as is provided in the PERS DB plan.)
Death/survivorship benefit	Member's account balance
Plan administration and contracted vendors	- PERB is the plan's board of trustees - Great West is the plan's recordkeeper - Educational Technologies Inc. will provide educational services (to the DC plan as well as to the DB plan) - Investment fund manager bids are still being evaluated

TABLE 9

UNIVERSITY SYSTEM OPTIONAL RETIREMENT PLAN
(As of June 30, 2000)

PLAN FEATURES	OPTIONAL RETIREMENT PROGRAM (ORP) (A Defined Contribution Retirement Plan)
Membership	All administrative, scientific, and instructional staff of the University System. (When PERS DC plan is operational, University System employees in PERS will have option of joining PERS DC plan ***or*** the ORP.) Active membership: 1,115
Retirement eligibility	A plan member may "retire" (i.e., access the ORP account) any time after service is terminated. There are federal tax penalties for withdrawal prior to age 59 1/2.
Benefit	An ORP member's benefit depends on total contributions to the member's individual account, plus investment earnings, minus administrative expenses. The ORP is administered by TIAA-CREF, which offers eight investment options.
Disability benefits	All University System employees are covered under a long-term disability insurance plan. The basic plan is entirely employer-paid and provides disability payments up to 60% of monthly earnings, offset against other income, such as pension benefits, social security, workers' compensation insurance, etc.
Death and survivor benefits	The full current value in a member's annuity account is payable to the beneficiary before retirement. The benefit can be paid in a single sum, as an annuity income to the beneficiary for life, or as an annuity income for a fixed period of years. The annuity may also be deferred as federal law permits.
Total payroll covered	$31,475,709
Employer contribution as a percentage of payroll	4.956%
Employee contribution as a percentage of salary	7.044%
Total contributions to member accounts	12%
Contribution to TRS for unfunded liability	3.73% on 7/1/00 4.04% on 7/1/01 (to be reviewed and possibly adjusted on 7/1/2033)

APPENDIX A

MEETING DATES AND MAJOR AGENDA ITEMS

The following is a list of the meeting dates during which the SAIC considered retirement issues. This list is provided to aid readers interested in researching the meeting minutes and exhibits, which are available by contacting the Montana Legislative Services Division, P.O. Box 201706, Room 110, State Capitol, Helena, Montana, 59620-1706, (406) 444-3064, or on the Internet at http://leg.mt.gov.

June 14, 1999:	Organizational meeting
September 9-10, 1999:	Background information from agencies
May 9, 2000:	Background on and overview of the public employee retirement plans
August 4, 2000:	Retirement proposal hearings
September 15, 2000:	Final actions

<u>APPENDIX B</u>

STAFF ANALYSIS

OF RETIREMENT PROPOSALS

SUBMITTED FOR REVIEW

Staff Analysis

Retirement Proposal No. 1 through No. 5

Increasing the Guaranteed Annual Benefit Adjustment (GABA) for the Defined Benefit Retirement Plans

For the
State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee (1999-2000)

Prepared by
Sheri S. Heffelfinger, Research Analyst
Office of Research and Policy Analysis, Legislative Services Division

September 2000
(Edited for this report.)

Issue Summary

Five proposals: One goal

Five proposals: The State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee (SAIC) received five separate, but in many cases similar, proposals to increase the Guaranteed Annual Benefit Adjustment (GABA) now provided in the defined benefit (DB) retirement plans. This analysis addresses all five proposals.

What is GABA? The GABA in the Teachers' Retirement System (TRS) and the eight defined benefit (DB) systems administered by the Public Employee Retirement Board (PERB) provides a 1.5% automatic annual increase in the benefits paid to retirees and their beneficiaries. It is not tied to the Consumer Price Index (CPI) or otherwise indexed for inflation. There is a 3-year waiting period before the GABA begins.

Key issue, GABA's sufficiency: The underlying policy issue is the sufficiency of the 1.5% GABA. Postretirement benefit increases, such as a GABA, are supposed to help retirement benefits keep pace with inflation, or to at least slow the erosion of retiree benefits caused when the cost of living increases. This erosion of benefits is significantly exacerbated by an almost 11% inflation rate for health care costs, which hits retirees the hardest.

In Sum The five proposals may essentially be listed as follows:

- C Increase the GABAs to 3%
- C Increase the GABAs to 2.5%
- C Index the GABAs to the Social Security COLA
- C Increase the GABAs as actuarial funding allows, to a maximum of 2.5% biennially (every two years)

Costs and funding options are discussed in the analysis section.

Historical Perspective

1997 GABA *Eight retirement systems get GABA in 1997:* In 1997, the Legislature enacted the 1.5% GABA for each of the PERB-administered DB plans. House Bill No. 170 was the culmination of several interim studies (one dating back to 1980) and came only after similar GABA bills failed during the 1993 and 1995 Sessions. HB 170 was signed into law (Ch. 287, L. 1997) after passing Third Reading 85 to 13 in the House and 49 to 1 in the Senate. It became effective July 1, 1997.

Cost of 1997 GABA: The estimated biennial cost of the 1997 GABA was about $42.4 million. About $32 million was paid by increasing pension trust unfunded liabilities and extending amortization schedules, about $7.4 million was paid by "swapping" certain benefits for the GABA, and about $3 million was paid by increasing employer and employee contributions. A state supplemental contribution was also provided to offset the employer contribution rate increase for local governments. The net general fund impact, therefore, was estimated at just under $1 million for the biennium, which was primarily to restore the underfunded Judges' Retirement System to sound actuarial footing.

Costs continue past biennium: The costs to public employers caused by contribution rate increases continue past the biennium and increase as salaries increase. The following is based on the January 2, 1997, fiscal note for HB 170:

System	*Employer increase*	*Employee's increase*
PERS	0.2% (phased in)	0.2% (phased in)
SRS	0%	0%
GWPORS	0.85%	0.6%
HPORS	0.05%	0.05%
MPORS	0.3% (state)	0.5%
FURS	0.29% (state)	1.2%
JRS	19.8% (state)*	0%

Efforts to limit costs: By limiting the GABA to 1.5% annually, the Legislature provided for less than the 2.5% GABA initially considered by a 1991-1992 interim legislative committee. Also, the GABA legislation required a 3-year waiting period after retirement before the GABA could "kick in". However, the most significant "cost saving" measure was allowing the retirement systems to "absorb" the costs as an additional unfunded liability.

A GABA for TRS

A GABA for TRS fails in 1997, passes in 1999: A GABA for TRS was not enacted until the 1999 Legislative Session. A 1997 bill (HB 112) would have provided a TRS postretirement benefit increase, but, primarily because of cost, it failed. The pension trust fund could not, at that time, absorb new unfunded liabilities without pushing amortization schedules past the acceptable 30-year mark. However, by 1999, the TRS pension fund, through significant investment earnings and adjustments in actuarial assumptions, had made significant gains on the unfunded liabilities and the amortization schedule. The 1999 TRS GABA was modeled after the 1997 GABA for the other DB plans. The majority of the estimated cost was absorbed as a nearly $215 million increase in system unfunded liabilities and by pushing the amortization schedule out from about 9 years to 25.5 years. With the employer contribution rate increase and a state contribution to offset the increase for school districts, the biennial general fund impact was estimated to be about $12.7 million.

A minimum benefit: To address the needs of long-time retirees who would not be significantly helped by the 1.5% increase on already eroded benefits, the 1999 GABA legislation also set a minimum benefit of $500 a month for TRS retirees with at least 25 years of service.

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* Court fees were deposited to the state General Fund and the General Fund pays the employers' retirement plan contributions.

Passed and approved: House Bill No. 72 was passed on Third Reading by a vote of 90 to 10 in the House and 50 to 0 in the Senate. Chapter 360, Montana Laws of 1999, became effective July 1, 1999.

Life before GABA

Ad hoc COLAs: Prior to enactment of the GABAs, the Legislature had approached cost-of-living issues for retirees on a piecemeal basis, providing for certain minimum benefits in the smaller public safety retirement systems, an expensive minimum benefit in the Judges' Retirement System, and in other systems (PERS, TRS, and others) providing increases only when investment earnings exceeded 8%. The GABA bills replaced this patchwork quilt and established a uniform and more balanced approach.

Optional for some

GABA not better in all cases: Because in some cases, the GABA could not be considered an across-the-board improvement from the minimum benefit increases in some systems, GABA was made optional for the current members and retirees of the police, highway patrol, firefighters' and judges' retirement systems. Consequently, those who did not elect GABA continue to be eligible for the minimum benefit increases provided before they were replaced by GABA. The GABA was not optional for new members and retirees in TRS and PERS, or in the Game Wardens' and Peace Officers', and Sheriffs' Retirement Systems because GABA was deemed better in all cases than other postretirement adjustment provisions.

Unresolved Issues

Too little, too late for some: GABA was not a substantial benefit increase for longer-term retirees whose benefits had already been significantly eroded by inflation and sky-rocketing health care costs. Additionally, as a result of a 1989 U.S. Supreme Court ruling that states must be evenhanded in their tax treatment of federal and state pension benefits, pension benefits to Montana's public retirees started being taxed in 1991.

Attempts to make retirees "whole": Thus, in addition to the GABA bills, other bills proposed various other benefit increases to "make whole" longer-term retirees. However, except for the minimum benefit passed as part of the TRS GABA, none of these measures passed.

Some of the approaches in these other bills were:

C flat dollar increases;

C percentage increases (one key proposal would have provided a one-time 2.5% benefit increase);

- higher minimum benefits; and

- a benefit increase equal to what the 1.5% GABA would have provided if it had been in effect from the date the member retired.

Research Data

Consumer Price Index

During the last 25 years, the CPI-U has ranged from a low of 1.7% from 1997-98, to a high of 13.5% between 1979 and 1980. From 1975 to 1995, the average annual change is the CPI-U was 5.3%.[*]

Research provided by the Montana Education Association shows the CPI-U in the last 5 years has charged as follows:[**]

Year	CPI-U
1995-96	2.6%
1996-97	2.3%
1997-98	1.7%
1998-99	2.0%
1999-00	2.5%

Social Security COLAs

Social Security COLAs are automatic increases calculated by a complex formula that considers the CPI for Urban Wage Earners and Clerical Workers (CPI-W) as well as the benefit formula used to compute benefit amounts. Social Security COLAs in the past 10 years have ranged from a low of 1.3% in 1998 to a high of 5.4% in 1990. In the last 5 years the Social Security COLAs have been as follows:[***]

Year	SS COLA
1995	2.6%
1996	2.9%
1997	2.1%
1998	1.3%
1999	2.4%

[*] U.S. Census Bureau Statistics

[**] Data taken from a chart included with MEA-MFT Retirement Proposal #2 dated June 27, 2000, presented to the SAIC on August 3, 2000. See Exhibit #4, folder on Proposal No. 2, State Administration Interim Committee (1999-2000), Minutes, Montana Legislative Services Division.

[***] U.S. Social Security Administration, "History of Automatic Cost-Of-Living Adjustments", http://www.ssa.gov/OACT/COLA/COLA.misc.html

Other States[*]

There are 14 states that DO NOT have some type of automatic cost-of-living adjustments for state retirees.

Of the 36 states (including Montana) that DO have some type of automatic postretirement adjustments:

12 states provide a fixed percentage COLA
16 states tie the adjustments to the CPI

Of the 12 states that provide a fixed percentage COLA:

1 state (South Dakota) provides 3.1%
6 states provide 3%
2 states provide 2.5%
2 states provide 2.0%
1 state (Montana) provides 1.5%

Of the 16 states that tie their COLAs to the CPI:

1 state provides 2.5% up to the CPI or a maximum of 5%

3 states provide the CPI

12 states provide the CPI up to a set cap
Caps range from a high of 6% to a low cap of 3% (in 3 of these states, the COLA is a certain percentage of the CPI up to the cap; in Nevada, the cap ranges from 2% to 5% based on years of service)

No states provided COLAs based on the Social Security COLA.

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[*] WorkPlace Economics, Inc., *2000 State Employee Benefits Survey,* P.O. Box 33367, Washington DC 20033-0367, pp. 97-109

Policy Issues

Consistent policy

<u>*Consistency:*</u> A 1.5% GABA is provided in all the DB retirement plans. Unless there are special circumstances to be addressed in certain plans, to avoid the "leap frog" effect and keep postretirement benefit provisions and policy consistent, the same GABA changes should be considered for all of the DB plans.

<u>*No COLAs in a DC plan:*</u> A defined contribution (DC) plan type cannot provide for automatic cost-of-living increases because benefits depend on contributions and investment earnings. There is no guaranteed or set benefit amount promised and no unfunded liabilities. Montana has two DC plans, the Optional Retirement Plan (ORP), which covers University System faculty and administrators, and the new, optional PERS DC plan, which is now being implemented and will be operational by July 1, 2002.

DC plan implications

<u>*Effects on the new PERS DC plan:*</u> There may be concerns about the impact of changes in the PERS GABA on implementation of the new PERS DC plan. In the DC plan, the employer pays a "plan choice rate" to the PERS DB plan trust fund to pay off DB plan unfunded liabilities and to compensate the DB plan for any increased costs created by members choosing to join the DC plan. The amount paid is subtracted from employer contributions to members' individual accounts. The determination of the plan choice rate's sufficiency to pay off the DB plan past unfunded liabilities is based on the unfunded liabilities as of the June 30, 1998, actuarial valuation. Thus, the unfunded liabilities for which the DC plan choice rate is obligated to pay for were frozen in time by an actuarial "snapshot" taken on June 30, 1998. Consequently, no new unfunded liabilities created after that date will affect how the plan choice rate is calculated with respect to past DB plan liabilities.

Now or later?

<u>*The bottom line:*</u> With respect to the impact of a GABA proposal on the DC plan choice rate, there would be no adverse effect or "unintended consequence" caused by enhancing the PERS DB plan GABA. However, the GABA in the DB plan and what that GABA amount is will certainly be a factor for PERS members to consider when making choices about whether to join the DB plan or the DC plan. Because the choice between plans is one-time and irrevocable, and a GABA increase would be a significant change in the DB plan, it may actually be advisable to make the change *before* the DC plan becomes effective and PERS members begin making their choices.

Staff Analysis

Retirement Proposal No. 6 through No. 11

Proposals to Change Retirement Plan Membership Provisions

For the
State Administration, Public Retirement Systems, and
Veterans' Affairs Interim Committee
(1999-2000)

Prepared by
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September 2000
(Edited for this report.)

Issue Summary

Six proposals The State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee (SAIC) received six separate proposals related to changing plan membership provisions.

Current provisions: State statutes define what positions are covered under which retirement plans. There are nine different defined benefit retirement plans and two defined contribution retirement plans.

Key issues: The key policy questions can be stated as follows:

- Which retirement plan is most appropriate for the positions?
- Do the policy issues favoring the change outweigh the policy issues favoring the status quo?
- Is the change financially feasible?

Proposal No. 6

Allow law clerks who have year-to-year contracts of employment to "opt out" of PERS.

Pros:

- C Law clerks are contract employees of the Court and thus are different than full-time regular employees.

- C Optional membership is currently available to other employees and this has not jeopardized IRS qualification. A one-time irrevocable election is made by these employees and circumstances are provided under which the employee may make a new election about plan membership. (See Section 19-3-412, MCA.)

- C Other current statutory provisions allow a member to qualify service for which optional membership was previously declined. (See Section 19-3-505, MCA.)

- C A law clerk who is employed on a short-term contract may not remain employed long enough to become vested in the retirement plan (i.e., for at least 5 years). A non-vested retirement plan member is not entitled to a retirement benefit in the future. A nonvested member may be refunded his or her own contributions, but the contributions are only credited with 5% interest. (The actuarially assumed average rate of return on the entire pension fund's investments is 8%.)

Cons:

- C Contractual employment arrangements have been used by employers as a means of cutting costs and "ducking" their responsibility to pay benefits, including retirement plan contributions, for their employees. The employer has an obligation to cover these employees as regular employees who should be covered under the pension plan, in this case, PERS.

- C An employee who declines membership under an optional arrangement and who later decides to qualify that service must pay more than it would have cost if contributions had been made "up front" because of the time lost for the pension plan to earn income on the investment of those contributions.

- C The IRS "frowns" on optional membership provisions.

- C Other contract employees could also want optional membership, which could start a "slide".

Relevant MCA Sections

19-3-412. Optional membership. (1) The following employees in covered employment may become members of the retirement system at their option by filing an irrevocable, written application with the board within 180 days of commencement of their employment:

(a) elected officials of the state or local governments who are paid on a salary or wage basis rather than on a per diem or other reimbursement basis;

(b) employees serving in employment that does not cumulatively exceed a total of 960 hours of covered employment with all employers under this chapter in any fiscal year;

(c) employees directly appointed by the governor;

(d) employees working 6 months or less for the legislative branch to perform work related to the legislative session;

(e) the chief administrative officer of any city or county;

(f) employees of county hospitals or rest homes in counties of the third, fourth, fifth, sixth, and seventh class.

(2) Employees and officials described in subsections (1)(a) through (1)(f) who are employees or officials but not members on July 1, 1999, have until December 1, 1999, to file an irrevocable, written application with the board.

(3) If an employee declines optional membership, the employee shall execute a statement waiving membership and the employer shall retain the statement. An employee who declines optional membership may not receive membership credit or service credit for the employment for which membership was declined.

(4) An employee who declined optional membership but later becomes a member may qualify service credit for the period of time beginning with the date of employment in which membership was declined to the commencement of membership. Qualification of service pursuant to this subsection must comply with 19-3-505.

(5) Membership in the retirement system is not optional for an employee who is already a member. Upon employment in a position for which membership is optional:

(a) a member who was an active member before the employment remains an active member;

(b) a member who was an inactive member before the employment becomes an active member; and

(c) a member who was a retired member before the employment is subject to part 11 of this chapter.

(6) An employee who declines membership while employed in a position for which membership is optional may not later become a member while still employed in that position. If, after a break in service of 30 days or more an employee who was a member in an optional membership position is reemployed in the same position or is employed in a different position for which membership is optional, the employee shall again choose or decline membership. However, if the break in service is less than 30 days, an employee who declined membership is bound by the employee's original decision to decline membership.

(7) An employee accepting a position that requires membership shall become a member even if the employee previously declined membership and did not have a 30-day break in service.

(8) If an employee or official fails to file with the board an irrevocable, written application within the time allowed in this section, the employee or official waives membership.

19-3-505. Qualification of previous employment with employer. (1) Subject to the provisions of this section, a member who has employment for which optional membership was declined or employment with an employer prior to the employer's contract coverage may request to qualify all or a portion of the employment as membership service by filing written application with the board.

(2) (a) If the board approves the application, the member shall pay to the board the sum of the amount that the member and the member's employer would have contributed during the period of employment if the employment had been covered by the retirement system and the regular interest that would have accumulated on the amount to the time of payment. However, the employer may pay the employer's portion, including accrued regular interest as provided in subsection (2)(b).

(b) The employer shall establish a policy as to the payment of retroactive employer contributions and apply this policy indiscriminately for all employees and former employees. All employee appeals of discrimination are subject to the determination of the board. All successful appeals obligate the employer to pay the employer and employee contributions with accrued interest for that employee filing the appeal with the board. Each appeal must be heard on its individual merits and may not bind the employer to pay all retroactive payments for all former and present employees.

(3) A member may secure service credit not previously credited by submitting salary information certified by the member's employer or former employer to the board. The board shall determine the eligibility of all service credit requests.

Proposal No. 7

Allow emergency dispatchers to move from PERS to a 20-year public safety retirement plan.

Pros:

C Like public safety professionals who are police officers, sheriffs, highway patrol officers, and firefighters, emergency dispatchers are placed in high-stress emergency situations, which results in high turnover and burn out. Thus, it is more appropriate that these dispatchers be covered in a 20-year retirement plan rather than in PERS, which is a 30-year retirement plan.

C Dispatchers are working on the job and "side by side" with the public safety officers, who have a 20-year retirement and higher benefits. This creates employment tensions and a feeling among dispatchers of being "second-class citizens".

Cons:

C Any current dispatchers moving to a 20-year retirement plan will have to purchase higher-cost service in the new plan, meaning that there cannot be a direct year-for-year transfer of service to the new plan without higher contributions, plus interest, being paid on those past years of service.

C Any current and future dispatchers will have to pay higher contribution rates than what was required in PERS.

C The employers of the dispatchers will also have to pay higher contribution rates.

C Other employees in high stress but generally classified jobs may also want to "jump ship".

C Do the current members of the 20-year public safety retirement plans want to accept the new membership? (Typically, a system is stronger if it has more people in it, but there is also a protectiveness about keeping the system "pure". In other words, keeping the police officers' retirement system for police officers.

Proposal No. 8

Cover all <u>new</u> firefighters hired by the Great Falls Air National Guard in the Firefighter's Unified Retirement System (FURS) instead of continuing to cover them under PERS.

<u>Pros:</u>

- The Air National Guard firefighters protecting the Great Falls Airport are firefighters, not general classified employees, and should be covered by FURS, which has the disability, death, and retirement benefits that are appropriate for firefighters.

- The Great Falls Airport firefighters are federally funded with money from the National Guard Bureau that is passed through the state's Department of Military Affairs (DMA); thus the increase in employer contributions caused by covering these positions under FURS would not be an added cost to the state-funded portion of DMA's budget.

- The National Guard Bureau supports this proposal and will pay the employer costs.

- The proposal only covers all <u>future</u> firefighters, thus avoiding the cost for current members.

- The change is needed to help recruit and retain qualified firefighters at the Great Falls Airport.

<u>Cons:</u>

- There is a state General Fund impact caused because, to fund the higher benefits in the FURS (which is not covered by Social Security), there is a state contribution made (32.61% of compensation) that is in addition to the employee and employer contributions. This state contribution had been made directly from the insurance premium tax revenue as earmarked funds. However, those funds are now deposited directly to the General Fund.

Addendum to No. 8

During the hearing, a request was made for possible consideration of allowing <u>current</u> firefighters to roll over some or all of their PERS service into FURS and to cover their future service in FURS.

- One factor that leads to legislative debate during a session is the fiscal impact on the state. The state must contribute to FURS an amount equal to 32.61% of the firefighters' salaries. This contribution comes from the state General Fund.

Proposal No. 9

A companion to Proposal No. 8, allow a federally-funded employer contribution to the state deferred compensation (457) plan for current Great Falls firefighters who cannot transfer their retirement plan membership to FURS.

Pros:

- This is a means of compensating the current Great Falls Airport firefighters without the higher costs of transferring these firefighters to FURS.

- The contribution would be a match of employee contributions, thus the firefighters, too, would be placing additional savings aside to help supplement the lower PERS benefits.

- The employer contribution would be made with federal National Guard Bureau money passed through the DMA; thus, there would be no state-funded costs.

Cons:

- Currently, the state's deferred compensation (457) plan is not administratively "set up" to take employer contributions.

- There would be tax implications if employee and employer contributions exceeded maximum contribution limits.

- Other public employees may also want an employer match to their 457 plan contributions.

Proposal No. 10

Allow rural fire districts to be covered under FURS instead of PERS.

Pros:

- Current statutes allow only first- and second-class cities to participate in FURS, but firefighters in rural districts also do the same job. Thus, the "line of demarcation" is not an evenhanded treatment of firefighters. (See Section 19-13-210, MCA, and Section 7-1-4111, MCA.)

- Cities not automatically covered in FURS (third-class cities and towns) may "opt in" to FURS by passing an ordinance or adopting a resolution. Rural fire districts should also be allowed to "opt in", if not covered in FURS outright. (See Section 19-13-211, MCA)

- Participation in FURS is necessary to recruit and retain qualified firefighters.

Cons:

- There will be an added employer, employee, and state General Fund cost.

Relevant MCA Sections

19-13-210. Participation in retirement system by first- and second-class cities. Cities of the first and second class that employ full-paid firefighters shall participate in the retirement system. If a city of the first or second class is reduced to a city of the third class or a town under 7-1-4118, it shall continue to participate in the retirement system as long as it has retired firefighters or survivors eligible to receive retirement benefits.

19-13-211. Election to join retirement system -- transfer of assets. (1) Except for cities with only volunteer firefighters, a city other than one described in 19-13-210 may, after July 1, 1981, elect to join the retirement system by passing an ordinance stating the election and the consent of the city to be bound by the provisions of this retirement system. The fire department relief association of the city may pass a resolution to the same effect. Upon the enactment of the ordinance and passage of the resolution, the provisions of this retirement system become applicable to the city. Any city that enacts an election ordinance and in which the fire department relief association passes a resolution shall send certified copies to the board and shall, as soon as possible, deposit into the pension trust fund all cash and securities held by its fire department relief association. The value of the securities must be determined by the board.

(2) The board of trustees of the fire department relief association as of the effective date of the election shall certify the proportion, if any, of the funds of the association that represents the accumulated contributions of the active members and the relative shares of the members as of that date. Following the transfer of the cash and securities required by subsection (1) and the certification required by this subsection, the fire department relief association may conclude its affairs. The shares of the members must be charged to the employer and credited to the respective members in the retirement system and administered as if the contributions had been made during membership in the retirement system. Any excess of employer credits over charges under this section must be offset, with interest, against future required employer contributions. Any excess of employer charges over credits under this section are payable by the employer, with interest, on a basis determined by the procedure described in 19-13-213.

7-1-4111. Classification of municipalities. (1) Every city having a population of 10,000 or more is a city of the first class.

(2) Every city having a population of less than 10,000 and more than 5,000 is a city of the second class.

(3) Every city having a population of less than 5,000 and more than 1,000 is a city of the third class.

(4) Every municipal corporation having a population of less than 1,000 and more than 300 is a town.

Proposal No. 11

Define "county detention officer" in statute during the 2001 Legislature, conduct an actuarial study of costs to move these officers and positions from PERS to the Sheriffs' Retirement System (SRS) during the 2001-2002 interim, and develop legislation to enact the move during the 2003 Legislative Session.

Pros:

- This incremental approach allows time for careful consideration and does not require an actual membership change unless or until it has been thoroughly researched and actuarial data made available.

Cons:

- Should "county detention officer" be defined now, or as part of the "study"?

<u>Staff Analysis</u>

Retirement Proposal No. 12

Change the Benefit Formula from 2% to 2.5% in the Game Wardens' and Peace Officers' Retirement System

For the
State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee (1999-2000)

Prepared by
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September 2000
(Edited for this report.)

Issue Summary

<u>*Background:*</u> During the past several years, the public safety retirement plans (Sheriffs', Firefighters' Unified, Municipal Police Officers', and Highway Patrol Officers' Retirement Systems) have been playing "leap frog" in their efforts to improve benefits in their respective retirement plans. This has actually moved the systems toward parity. Each system's benefit formula is now 2.5% of salary for each year of service. This formula is typical of public safety retirement plans and provides 50% of salary after a 20-year career. (A 20-year retirement regardless of age is also a typical feature of public safety retirement plans.)

The GWPORS is the only public safety retirement plan in Montana with a 2% formula (and a normal retirement of 20 years of service *and* age 50).

The GWPORS was originally established just for Game Wardens in 1963. In 1997, the Legislature enacted a bill expanding membership of the Game Wardens' Retirement System to include a "state peace officer" defined as a "person who by virtue of the person's employment with the state is vested by law with a duty to maintain public order or make arrests for offenses while acting within the scope of the person's authority or who is charged with specific law enforcement responsibilities on behalf of the state". *(Section 19-8-101(5), MCA.)* These peace officers had previously been covered under the general public employee retirement plan, PERS.

<u>*Social Security:*</u> One of the reasons that public safety retirement plans typically have higher benefit formulas is that they are generally not covered by Social Security. However, members of the SRS and the GWPORS are covered by Social Security.

Key issues: The key policy questions can be stated as follows:

- Should the GWPORS system be brought to par with all of the other public safety retirement plans that have a 2.5% formula?

- Is the enhancement financially feasible?

Pros and Cons

Pros:

- The officers who are covered in GWPORS perform duties similar to the officers covered under SRS, MPORS, FURS, and the HPORS.

- The difference caused by Social Security coverage does not make up for the difference in benefit formulas and, despite Social Security coverage in SRS, the Legislature recently increased the SRS benefit formula to 2.5%.

- The 2.5% benefit formula would help recruit and retain qualified state game wardens and peace officers who may otherwise seek job opportunities under the other public safety retirement plans that do have a 2.5% formula.

- The current actuarial funding of the GWPORS is more than adequate to meet current benefit obligations. The system has a "credit" (is 104% funded) and so has no unfunded liabilities.

Cons:

- The benefit enhancement will create unfunded liabilities in GWPORS, unless contributions are also increased.

- To really achieve parity, the GWPORS would also need a 20-year retirement *regardless of age* (essentially a repeal of "and age 50" provision). However, this will also add more cost to the plan.

Staff Analysis

Retirement Proposal No. 13

Reduce eligibility for normal retirement

For the
State Administration, Public Retirement Systems, and
Veterans' Affairs Interim Committee
(1999-2000)

Prepared by
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September 2000
(Edited for this report.)

Issue Summary

Current provisions

Normal retirement: The PERS retirement benefit formula is:

1/56 (1.786%) x FAS x years of service

PERS members are eligible to receive normal *(full or unreduced)* retirement benefits based on this formula at:

- age 60 with at least 5 years of service;
- 30 years of service regardless of age; or
- age 65, regardless of service.

If the person is eligible for full retirement benefits, this formula provides a benefit that amounts to about 53% of salary with 30 years of service. With 28 years, the member would receive 50% of salary, and with 25 years, the member would receive about 45% of salary.

Early retirement: Members of PERS may retire early, but only if they are either age 50 with at least 5 years of service or, regardless of age, have at least 25 years of service.

Early retirement benefits are "actuarially reduced" for each year the member is short of the eligibility criteria for normal retirement.

Proposal

<u>What the proposal would do:</u> This proposal (No. 13) seeks to change the eligibility for full normal retirement benefits from 30 years of service *regardless* of age to 25 years of service regardless of age.

Background Research

<u>PERS compared to TRS:</u> Eligibility for full normal retirement benefits is 25 years in TRS. However, their benefit formula is 1/60th (or 1.69%) for each year of service, which is slightly lower than the 1/56th (1.7857%) formula in PERS.

<u>Other states:</u>

- 23 other states have a 30-year retirement criterion
- 18 states require less than 30 years of service
- 4 states require more than 30 years of service
- 24 other states have higher multipliers than 1/56th (1.7857%) per year of service

<u>Retirees:</u>[*]

- The average PERS retiree:

  - has 19 years of service
  - retired at age 60
  - receives $563 per month

- The average TRS retiree:

  - has 26 years of service
  - retired at age 56
  - receives $987 per month

Fiscal notes

The earlier a member retires, the less money has been saved and invested and the longer benefits must be paid out. Thus, earlier normal retirement will have a significant actuarial impact.

Policy Issues

<u>Key issues:</u> The key policy questions can be stated as follows:

- Should the PERS become a 25-year retirement plan for full normal retirement benefits?

- Is this enhancement financially feasible?

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[*] Based on 1998 actuarial data.

Pros and Cons

Pros:

C The TRS is a 25-year retirement plan, why not PERS?

C Most PERS employees do not work for the full 30 years. Thus, the 30-year retirement is not necessarily a realistic expectation.

C Employee retention goals may be just as well served under a 25-year retirement plan.

Cons:

C The benefit enhancement will be costly. How is it to be paid for?

C Employees should be encouraged to work longer and save more for retirement, not vice versa.

C True parity with TRS will still not exist because of the lower benefit formula in TRS and other factors.

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