



State Administration and Veterans' Affairs Interim Committee

61st Montana Legislature

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November 3, 2009

TO: Legislative Council
FROM: Rachel Weiss, staff for the State Administration and Veterans' Affairs Interim Committee (SAVA)
RE: SAVA's work plan for the House Bill No. 659 study

House Bill No. 659 requires SAVA to examine and recommend changes to Montana's statewide public employee retirement systems. The bill provides a \$200,000 appropriation from the general fund to the Legislative Services Division for the purposes of the study.

On October 30, SAVA voted to issue a Request for Proposals (RFP) to suggest and analyze options to modify or redesign the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

The motion to issue an RFP required that the RFP comport with HB No. 659 requirements and be broad enough to include review of the eight design change elements SAVA chose to list in a recent Request for Information (RFI). Those elements are:

1. Apply the reduced early retirement benefit for an employee retiring before the age of 60, regardless of years of service.
2. Apply the reduced early retirement benefit for an employee retiring with less than 15 full-time years of service in the system.
3.
 - a. Change the timeframe used in the PERS DB plan to calculate the highest average compensation (HAC) from the three highest consecutive years of service to up to 15 consecutive years of service. [Section 19-3-108(6), MCA]
 - b. Change the timeframe used in TRS to calculate the average final compensation (AFC) from the three highest consecutive years of full-time service to up to 15 consecutive years of service. [Section 19-20-101(3), MCA]
4. Create a mechanism that would automatically adjust the full-benefit retirement age for members based on changes in life expectancy.

5. Alter the Guaranteed Annual Benefit Adjustment (GABA) to reduce costs, including but not limited to creating a GABA that would fluctuate based on investment returns. [Sections 19-3-1605 and 19-20-719, MCA]
6. Increase the state's contribution rate.
7. Create a hybrid DB/DC plan (as suggested by the Teachers' Retirement Board) in which:
 - a. fixed employee and employer contributions rates are set by the Legislature;
 - b. all assets are invested by the Montana Board of Investments;
 - c. employee contributions earn a guaranteed interest rate set by the Legislature;
 - d. at the time of retirement, an annuity is calculated based on the employee's account balance, which is then doubled to determine the benefit payable for the employee's lifetime;
 - e. the minimum age to start drawing the annuity is set by the Legislature;
 - f. a larger annuity is earned by a member who waits longer to apply for benefits;
 - g. if a member leaves covered employment and does not withdraw the account, the member's account earnings would continue to accrue on the account;
 - h. a refund in lieu of an annuity would include only the employee contributions plus earnings; and
 - i. a COLA provision, the design of which could range from a fixed adjustment similar to the current 1.5% to a COLA that fluctuates with investments returns.
8. For TRS only, create a professional retirement option (PRO) that would increase benefits for members who wish to extend their careers to 30 years.

The consultant hired at the end of the RFP process will work with SAVA to establish plan design goals and suggest and review design changes to PERS and TRS. The consultant will not provide actuarial cost estimates. Instead, SAVA anticipates that the hired consultant will work closely with the current actuaries of the retirement systems who will provide those estimates, with SAVA reimbursing the systems' actuaries for this work.

Accompanying this memo is a proposed timeline of RFP events. The timeline is subject to change based on the needs of SAVA and the State Procurement Bureau of the Department of Administration.

In order for the RFP to proceed as planned, SAVA needs to receive approval from the Legislative Council to use the \$200,000 appropriation for:

- (1) hiring a plan design consultant (amount will be capped in the RFP);
- (2) reimbursing the retirement systems' actuaries for actuarial cost analysis of plan design changes proposed by SAVA; and
- (3) if necessary, obtaining legal review of any proposed plan to ensure IRS compliance.

