



State Administration and Veterans' Affairs Interim Committee
61st Montana Legislature

SENATE MEMBERS

JOE TROPILA--Chair
JOE BALYEAT
LARRY JENT
DAVE LEWIS

HOUSE MEMBERS

GORDON HENDRICK--Vice Chair
TIMOTHY FUREY
PAT INGRAHAM
ROBERT MEHLHOFF

COMMITTEE STAFF

RACHEL WEISS, Research Analyst
DAVID NISS, Staff Attorney
FONG HOM, Secretary

MINUTES

June 25, 2010

Room 137, Capitol Building
Helena, Montana

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

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COMMITTEE MEMBERS PRESENT

REP. GORDON HENDRICK, Acting Presiding Officer

SEN. JOE BALYEAT
SEN. LARRY JENT
SEN. DAVE LEWIS

REP. TIMOTHY FUREY
REP. PAT INGRAHAM
REP. ROBERT MEHLHOFF

COMMITTEE MEMBERS EXCUSED

SEN. JOE TROPILA

STAFF PRESENT

RACHEL WEISS, Research Analyst
DAVID NISS, Staff Attorney
FONG HOM, Secretary

Visitors

Visitors' list, Attachment #1.

COMMITTEE ACTION

- Members of the committee selected the Money Purchase Plan and the Professional Retirement Option plan for cost analysis by the Teachers' Retirement System's actuaries.
- Members of the committee voted to give Sen. Balyeat and Sen. Jent the authorization to trim down the extended request for cost analysis of the selected designs by the TRS and the PERS actuaries if the expenses went over the budget.
- Members of the committee selected the Money Purchase Plan with similar provisions in the TRS' plan and a revised Defined Benefit plan for cost analysis by the PERS' actuaries.
- Members of the committee approved to forward for purposes of bill drafting the Teachers' Retirement System's housekeeping proposal.

CALL TO ORDER AND ROLL CALL

00:00:01 REP. HENDRICK called the meeting to order at 8:02 a.m. The secretary called roll. Sen. Tropila was excused.

AGENDA

- **HB 659 STUDY AND REDESIGN: TASK 3 - David Slishinsky and Doug Fiddler, Buck Consultants**
 - **Retirement Program DESIGNER for Montana Teachers' Retirement System - David Slishinsky and Doug Fiddler, Buck Consultants**

00:08:47 Mr. Slishinsky presented the Teacher's Retirement System (**Exhibit 16**) using their software program.

Questions

00:15:13 REP. FUREY asked about the spike in benefits in the current plan from 50 to 60. Can Mr. Slishinsky tell them what that cost is for that 10 year period. **Mr. Slishinsky** said that from 50 to 60, it is continuous service and it is the value of that benefit available at that point in time.

00:22:22 SEN. LEWIS said that there are some attractive aspects to the Money Purchase. He still hasn't reconciled in his mind to what appears to him a significant risk on the part of the employer for guaranteeing interest rates. This assumes a guarantee of 7.15%. **Mr. Slishinsky** said this is 7.15% contribution by the member and a matching at 100% by the employer. SEN. LEWIS asked what the interest was. **Mr. Slishinsky** said it is 7% and it is if the plan can provide 7% return each year on interest credit.

00:23:16 SEN. LEWIS asked for Mr. Slishinsky's thoughts on what the impact would be on this proposal. **Mr. Slishinsky** said that the slide on display is just to show you what income replacement would be if 7% were earned every year throughout the

career of a member. The way these plans work is that, there may be some minimum interest credit rate level but it is going to be lower than 7% and that rate can change based upon the actuarial soundness of the plan. If the actual investment return isn't at the 7% level and is lower, then the flexibility of the plan would provide for an adjustment to the interest credit rate so that the plan sponsor, the employers, don't have to contribute more than the 7.15%. The level of guarantee is based upon where you set the minimum interest credit rate, not where the target interest credit rate is.

00:58:20 SEN. BALYEAT asked David Senn to comment on what the Teachers' Retirement System was envisioning. **Mr. Senn** said that what the Teachers' Retirement Board was envisioning was that the Legislature would set a minimum rate and then either a maximum rate and the Board would adopt some policy that would adjust within that as the market condition changes or that the Legislature would simply set a minimum rate and the formula for determining whatever the rate would be above that minimum.

01:02:25 REP. INGRAHAM said that in the current plan, we are subsidizing the quick growth of benefits because they have not been employed long enough to pay for the benefits. That is what is draining our resources because they haven't been in long enough to pay for all they are going to get for their longevity. **Mr. Slishinsky** said that when you think in terms of the current plan and you think in terms of the costs of the accruing benefit and when you look at the actuarial calculations in the actual report, there is what is called normal cost rate. That is the cost of the accruing benefit from date of hire until retirement and when it is displayed in the actuarial report, it is an aggregate of all the active members that are participating in the plan. Each member has their own normal cost rates. The younger they are when they enter the plan, the lower that rate because of compounding. The older that person is when they enter the plan, the higher their normal cost rate is because they have a shorter period of time to accumulate the assets and you don't get as much compounding on it.

01:05:08 **Mr. Slishinsky** said they looked at income replacement ratios for the different plans and varied the elements to focus on ration at retirement. He answered questions on the presentation as it was given.

BREAK

01:52:50 The meeting reconvened at 9:55 a.m.

01:53:21 **Mr. Slishinsky** discussed the graphs regarding Benefit Comparison Distributions.

02:10:44 **Mr. Slishinsky** discussed the cost analyzer.

Public Comment

- 02:20:54 **Tom Bilodeau, MEA/MFT**, referred the committee to page 6 of the presentation. First, the current plan here looks at the time of retirement and the replacement value. Under the revised defined benefit plan as presented here without PRO, he sees an incentive provided by the Money Purchase Plan for people to leave prior to 25 years because you actually have early opportunity for larger return on your accrued benefits than under current system. He hopes that it is possible to look at revised DB plan with PRO, with a 2% formula that kicks in with 30 years. Instead of age 50, you will see a spike occur at 55. His overall point is, as we look to the latter charts; i.e., those charts on page 21, as you move from the current plan to the MPP, someone starting at age 25 and working 30 years, is 4% short assuming the 7% credit which might be a greater shortfall depending on investment returns.
- 02:57:31 **Charlene Suckow, Montana Retired Educators**, said that history repeats itself even though the numbers would not. When we went from 30 to 25 it was because a lot of small school districts wanted incentives to get rid of the teachers. She didn't think that people could live on the annuity provided by the MPP.
- 03:01:11 **Mr. Slishinsky** discussed the revised DB plan with PRO.
- 03:12:00 **Mr. Slishinsky** discussed accruals in the first 15 years.
- 03:29:30 SEN. BALLYEAT asks Ms. Minnehan what the average entry age was. **Ms. Minnehan** said the average entry age is around 40.

LUNCH

- 04:18:46 The meeting reconvened at 12:21 p.m.
- ▶ **Retirement Program DESIGNER for Montana Public Employees' Retirement System - David Slishinsky and Doug Fiddler, Buck Consultants**
- 04:18:59 Mr. Slishinsky presented the PERS plan (**Exhibit 17**) using Buck Consultants software program.
- ▶ **Comments from PERS**
- 04:51:07 **Roxanne Minnehan, Executive Director, Montana Public Employees' Retirement Board**, said that this plan closely resembles what the Board proposed. She said that the PERS does have a money purchase segment to their current plan where they double the contributions plus interest. They compare and give the better of the benefit to the member when they retire.
- ▶ **Public Comment**

04:57:29 **David Senn, Executive Director, Teachers' Retirement System**, said that the committee's next action is to select at least one plan design for the Teachers' Retirement System. As we look at the contrast between the MPP and the Modified PRO is that one thing that we don't know is how expensive the MPP would be. His guess is that it is break even, which is what his former actuary was shooting for with similar contribution rates, the same interest rate, 7%, and 7.75% annuity factors. As you look at different plans, he would like the committee to consider asking the actuary to cost both the MPP and the PRO for the TRS to have something at the August meeting to compare those two. He also asked the committee to consider with the MPP to include a cost to cover the unfunded liability.

05:00:13 Roxanne Minnehan discussed what the costs would be to change plans and the funding of the unfunded actuarial liability of the current fund. Their average member service is only 19 years, retiring at age 59, and beginning at age 40. The retirement benefit now is not much and doesn't allow enough time for that money to compound.

- **DISCUSSION ON RETIREMENT FUND (Fund 14) ACCOUNTS**

05:05:07 SEN. JENT distributed a spreadsheet showing FY09 District Retirement Accounts (**Exhibit 18**), a copy of 20-9-501, MCA, (**Exhibit 19**) and discussed what 20-9-501, MCA, authorized. He wanted Buck Consultants to look at both PRO and MPP for TRS and that the committee should discuss at the next meeting any bills to address the costs of unfunded liability to include using the Reserve Fund.

05:21:06 **Tom Bilodeau, MEA/MFT**, explained Fund 14.

05:32:02 SEN. LEWIS said that the Finance Committee weighed their options and one of the options was recapturing excess reserves for the schools, lowering GTB payments, and offsetting with the reserves. He suggested that it would be premature for this committee to move ahead with any potential legislation on this issue.

- **ACTION ITEMS**

- ▶ **Select at least one TRS potential design alternative to forward to the TRS actuary for cost analysis**

05:32:52 **Motion by Sen. Balyeat**
SEN. BALYEAT **moved** to select the Money Purchase Plan and forward that to the actuaries for cost analysis.

05:33:39 **Discussion**
SEN. LEWIS was wondering about the possibility of asking the actuaries to look at the range on investment earnings, would that be part of the motion?

Amended motion

- 05:33:53 SEN. BALYEAT **amended** his motion to include a range between 5% minimum and 9% maximum in interest credits.
- 05:34:19 REP. FUREY asked to show it with a .5% employer contribution and without the .5% contribution.
- 05:35:49 SEN. BALYEAT said that he misunderstood the issue of dealing with the unfunded liability a separate issue from the design of new plan for new hires. **Mr. Senn** discussed the costing issue.
- 05:41:21 **SEN. BALYEAT's motion to forward the Money Purchase Plan to the TRS actuary was amended to include an analysis from the TRS actuarial on what a .5% increase would do.**
- 05:42:21 There was a discussion regarding the issue of cliff vesting. REP. FUREY asked if the committee should look at a 5-year versus a 3-year vesting period. SEN. BALYEAT said that based on the comments from the consultants, it would be better to not go with cliff vesting, but go with 15-years graded. SEN. JENT said he would like to stay with 5-year vesting. The members of the committee discussed 15-year graded vesting.
- 05:48:30 **Ms. Weiss** restated the motion: have the TRS actuary cost out a Money Purchase Plan that has a 5% to 9% interest crediting rate, with or without the .5% employer increase for x number of years to find out how long that would take, and be a 15-year graded. **Mr. Slishinsky** clarified that the contribution rate is 7.15% with 100% match by employer.
- 05:51:19 **Ms. Weiss** said the committee can have two motions, to say these are the two plans they would like to cost out, and vote on the two plans as one big group. She asked if the committee wanted to continue working with the version of PRO that they have been working with. As she understands it, there is a slightly modified plan that was presented to Teachers' Retirement Board.
- 05:51:27 **David Senn** said that the initial plan that was put forth by MEA/MFT was a plan for a 2% PRO at 30 years of service that would include a 2% increase in the employee and the employer contribution. Since that proposal was made, TRS has looked at the history of the PRO and what it costs, realizing that prior costs included unfunded liability, there would be no unfunded liability with the PRO as it was presented because it only applies to new hires. The costs would be around .61% which is what the committee is asking the actuaries to determine. That doesn't have to be in your motion.
- 05:53:49 The **motion by Sen. Balyeat** is to forward to the TRS actuary the Money Purchase Plan with the 5% to 9% interest crediting range, cost that out with and without the .5% employer increase and the 15-year graded with the employer rate at 7.15% and they would match 100%. The motion **passed** with Sen. Tropolia voting aye by proxy.

Motion by Sen. Jent

- 05:54:49 SEN. JENT **moved** to have a design alternative for TRS with a Professional Retirement Option (PRO).
- 05:55:11 There was a discussion over the expense of having actuaries cost out different plan designs.
- Amended motion**
- 06:07:29 SEN. JENT **moved** to have the Teachers' Retirement System's actuaries cost out the Professional Retirement Option that is 2% multiplier at 30 years for new hires only, using the current 3 years' highest average compensation; cost out the PRO with the 5-year highest average compensation; cost out PRO with the 15-year graded vesting; and cost out the PRO with 5-year highest average compensation and the 15-year vesting.
- 06:08:35 There was a discussion regarding whether there is enough funds available in the SAVA budget to pay for the TRS actuaries' analyses.
- 06:15:37 The motion **passed** with Sen. Tropila voting aye by proxy.
- Motion by Rep. Ingraham**
- 06:16:17 REP. INGRAHAM **moved** that as the committee goes forward with the proposal, that the committee authorize that Sen. Balyeat and Sen. Jent be able to trim down their extended request if the cost of analyses is too much. The motion **passed** with Sen. Balyeat voting no and Sen. Tropila voting aye by proxy.
- ▶ **Select at least one PERS potential design alternative to forward to the PERB actuary for cost analysis**
- 06:17:01 SEN. BALYEAT suggested that the PERS actuaries cost out a Money Purchase Plan with similar provisions to those in TRS, and a revised Defined Benefit plan with the design provision mentioned by the PERB that were the highest average compensation from the 3-year to 5-year; and the 10% cap.
- 06:19:20 REP. INGRAHAM said that she didn't see where a cap was proposed. **Ms. Minnehan** said that they have never talked about that as a board so she would have to present that to the Board.
- 06:20:28 SEN. LEWIS asked if a 6% increase employer contribution over a 6-year period was included in the PERS' report. He also asked if the Public Employees' Retirement Board could offer some options on that. **Ms. Minnehan** said that they have their own budget which doesn't have to go through the Office of Budget Program and Planning. They do, however, submit their proposals to the OBPP to get their input. OBPP did not approve that plan. SEN. LEWIS said that he wanted to see some options.
- Motion by Sen. Balyeat**
- 06:22:30 SEN. BALYEAT **moved** that the PERS actuaries cost out a Money Purchase Plan with similar provisions to those in TRS, and a revised Defined Benefit plan

with the design provisions mentioned by the PERB, and at 10% cap that is the highest average compensation from the 3-year to 5-year, increasing the normal retirement age from 60 years with 5 years of membership service to 65 years with 5 years of membership service, and phase in a new multiplier which is 1.5% per year if membership service is between 5 and 10 years; 1.7857% per year if the membership service is greater than or equal to 10 years but less than 30 years; and 2% per year if membership service is greater than or equal to 30 years.

06:24:45 Ms. Minnehan said that when the Board and the Legislature implemented the Defined Contribution plan, they tried to make the eligibility similar. They do have 5-year vesting in the DB plan. She suggested keeping the vesting period similar for the Money Purchase Plan.

Amended motion

06:25:31 SEN. BALYEAT said he would **amend** his motion to include keeping the vesting period similar. The motion **passed** with Sen. Tropila voting aye by proxy.

06:25:59 Ms. Weiss suggest that the committee either extends Rep. Ingraham's motion to include PERS' work, or grant Ms. Weiss the authority to work with the chair and vice chair on costs.

Motion by Rep. Ingraham

06:26:58 REP. INGRAHAM **moved** to extend her previous motion for the TRS to include the PERS system. The motion **passed** with Sen. Tropila voting aye by proxy.

BREAK

06:50:41 The meeting reconvened at 2:53 p.m.

• **RECOMMENDATIONS FOR STAKEHOLDER, MPERA AND TRS**

06:51:12 Ms. Weiss referred the committee to Exhibit 14. REP. MEHLHOFF asked if this item could be discussed at the next meeting.

Motion by Rep. Mehlhoff

06:51:54 REP. MEHLHOFF **moved** to put off discussion on recommendations for proposed legislation from stakeholders until the August meeting in order for the committee to decide which recommendations to address.

06:52:45 There was a discussion on whether or not action was taken on some of the stakeholders' recommendations for bill drafts. Ms. Weiss gave an overview of what the committee had done at their June 24th meeting.

06:54:18 Ms. Weiss clarified that there are two sections of law that are working at cross purposes. One is the interim committee's review and the authorizing of drafting of legislation for the agencies, which is just a procedural thing and comes with no recommendations. The committee voted to proceed for bill drafting purposes the first three recommendations from the stakeholders. The remaining

recommendations are also retirement proposals that will change the retirement systems and thus, under 5-5-228, MCA, the committee needs to make a recommendation to the Legislature on what the Legislature should do, if and when it is faced with it. So far SAVA has not made any recommendations on any of the proposals.

SEN. BALYEAT said that the committee could take action on Number 8, the Teachers' Retirement Systems' housekeeping proposals, and hold off on Numbers 4, 5, 6, 7, and 9 (Legislative Concepts from MPERA and TRS, dated June 24-25, 2010).

Amended Motion

06:57:47 REP. MEHLHOFF **amended** his motion that the committee vote on Number 8 and hold off on Numbers 4, 5, 6, 7 and 9..

06:57:54 REP. HENDRICK asked Rep. Mehlhoff if his motion is on the TRS' housekeeping proposals that is item 8 (Legislative Concepts from MPERA and TRS, dated June 24-25, 2010).

REP. MEHLHOFF moved to approve for purposes of bill drafting, TRS' housekeeping proposal. The motion **passed** with Sen. Tropila voting aye by proxy.

Public Comment

None.

• **OTHER BUSINESS**

07:03:50 There was a discussion on the next committee meeting date. It was agreed to have a meeting on August 17, 2010, with Sen. Balyeat participating by phone, and moving the September 10th meeting to September 13th. REP. INGRAHAM asked that HJR 35 be addressed at the next meeting. She asked Dave Bohyer to summarize the crux of the three bonus bills, if the committee has addressed the bills, cite the statutory language if so, and if not, what is the recommended course.

• **ADJOURNMENT**

07:22:03 REP. HENDRICK adjourned the meeting at 3:25 p.m.

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