# Where We've Been: Public Employee Retirement Plan Legislative Studies & Legislation Concerning Actuarial Funding & Plan Design 2005-2012

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# Overview & Legal Considerations

## Purpose
This report summarizes legislative activities related to the actuarial funding and benefits in four of Montana's 11 public employee retirement plans. The plans included in this report are those that have unfunded liabilities that do not amortize as of the system's June 30, 2012, actuarial valuation.[1]

## Organization
This report is organized into the following sections:
- Executive Summary;
- At-A-Glance Tables;
- Detailed By Session Bill Summaries for the:
    - Legislative Studies & Recommendations;
    - Teachers' Retirement System (TRS);
    - Public Employees' Retirement System - Defined Benefit Plan (PERS-DB)[2];
    - Sheriffs' Retirement System (SRS); and
    - Game Wardens' and Peace Officers' Retirement System (GWPORS).

## Actuarial Basics
*Amortizing Unfunded Liabilities:*
The Montana Constitution requires that the public retirement systems be funded in an actuarially sound manner.[3] Based on accepted actuarial standards, Montana statute[4] interprets actuarial soundness to mean that funding must be sufficient to pay off (i.e., amortize) unfunded liabilities (i.e., system liabilities that cannot be covered by system assets) within 30 years. Actuaries estimate how much funding is needed to meet this amortization schedule by using assumptions about the future, such as what investment earnings will average over the 30 years, when will employees retire, what their salaries will be at retirement, and how long they will be receiving retirement benefits. If legislation changes affect these actuarial factors, estimates of funding needs will also change.

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[1] The Highway Patrol Officers' Retirement System is not included in this report because, as of its June 30, 2012, actuarial valuation, unfunded liabilities amortize within 45.1 years, which is greater than the 30-year target period but does not earn the actuarial determination of "does not amortize".

[2] PERS consists of two retirement plans, a DB or "defined benefit" plan and a DC or "defined contribution" plan.

[3] Art. VIII, Sec. 15, Mont. Const.

[4] Section 19-2-405 and section 19-2-409, Montana Code Annotated.

The legislature may not change actuarial assumptions. The actuarial assumptions are developed by actuaries and adopted by the retirement boards who administer the systems and have a constitutional and fiduciary responsibility to system members. However, benefit levels and contribution rates are legislatively set in statute.

*ARC Shortfall:*
Actuarial valuations are conducted each fiscal year. When actuaries conduct a valuation, which compares system assets and liabilities, and apply their assumptions to project future costs, they make an actuarial projection about what the "annual required contribution" must be in order to pay off the unfunded liabilities within 30 years. This "annual required contribution" is commonly called the ARC. An ARC shortfall means that current statutory contribution rates are insufficient to pay off the unfunded liabilities on schedule. The ARC shortfall is represented as the percentage of system member payroll on the date of the actuarial valuation. This ARC shortfall percentage may be converted to a dollar amount based on that payroll snapshot, but the dollar amount will change year by year as payroll increases or other changes are made that affect payroll assumptions.

*Funded Ratio:*
The funded ratio of a retirement system is the ratio of assets compared to liabilities. This is an important factor when considering a retirement system's fiscal health. About 70% of income to public retirement plans is from long-term investment earnings. Thus, contribution rates may be increased by the legislature, but if market returns continue to decline, assets compared to liabilities may also decline. A funded ratio of 80% is generally considered acceptable. However, 100% funded (or more) is ideal.

*Normal Cost:*
The normal cost of benefits is expressed as a percentage of covered payroll and represents the contributions required to fund benefits as the accrue (i.e., how expensive the system is). Contributions in excess of normal cost are available to fund any unfunded liabilities. If benefits are reduced, normal cost is reduced. However, benefit reductions for new employees may not be reflected in the normal cost rate until a significant number of new employees with the reduced benefits replace the previously hired employees with the unreduced benefits.

## Important Legal Considerations

Since 1998, legislative legal staff has produced several legal memorandums addressing the legal implications of reducing benefits for retirees and current members (which includes increasing contributions for current active members). These memorandums reviewed relevant case law and potential contract impairment issues.[5] In a nutshell, the legislature has been advised by its legal staff that, based on available case law, if legislation is considered that raises contract impairment issues by reducing benefits or increasing contributions for current members, courts considering whether to uphold or strike down the provision will likely consider the following questions and would look to the public record to determine the answers:

(1) Have all non-impairing alternatives been exhausted?

(2) Have less-impairing alternatives been seriously analyzed and considered, but proven to be insufficient?

(3) Is the questionable provision both "reasonable and necessary to serve an important public purpose"? [6]

[5] David Niss, Legal Memorandums dated May 21, 2012, January 5, 2012, August 14, 2009, August 28, 2009 (Addendum), and February 27, 1998, Montana Legislative Services Division, (406) 444-3064, or visit www.leg.mt.us and contact staff for the State Administration and Veterans' Affairs Interim Committee.

[6] See U.S. Trust Company of New York v. New Jersey, 431 U.S. 1 (1977) .

# EXECUTIVE SUMMARY

## Historical context

- A 1.5% GABA[7] in MPERA[8] plans was enacted in 1997 (HB 170). The GABA was increased to 3% in 2001 (HB 294).
- In 1999, a 1.5% GABA was enacted for TRS. (HB 72)
- The PERS-DB, SRS, and GWPORS were more than or nearly 100% funded between the FY 2000 and FY 2004 actuarial valuations.
- Financial markets peaked in 2000, began a sharp decline in 2001, bottomed in 2002, struggled between 2002 and 2005, peaked again in 2007, but declined sharply again and bottomed in 2009.[9]
- As of the FY 2004 actuarial valuations, the unfunded liabilities in PERS and SRS did not amortize. As of the FY 2006 actuarial valuation, the TRS unfunded liabilities did not amortize.

## What has the legislature done to address the growing unfunded liabilities?

- During the Dec. 2005 special session, the legislature appropriated from the general fund $25 million to PERS-DB and $100 million to TRS. (HB 1)
- During the 2005-06 interim, SAVA[10] examined pension funding and investments (HJR 42 from 2005 session), but developed no recommendations.
- During the 2007 regular session:
  - the 3% GABA in PERS, HPORS, SRS, GWPORS, MPORS, FURS, and JRS, was decreased to 1.5% for new hires (HB 131).

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[7] Guaranteed Annual Benefit Adjustment - an annual increase in benefits paid to retirees and their beneficiaries.

[8] Montana Public Employee Retirement Administration, which administers all of the retirement systems except TRS and the University Systems' Optional Retirement Program.

[9] E-Trade Market Data Express for S&P 500 index.

[10] State Administration and Veterans' Affairs Interim Committee responsible for legislative oversight of the retirement systems during the interim.

  - modest employer contribution increases were phased-in over two bienniums beginning July 1, 2007 (HB 63 for TRS and HB 131 for the MPERA[11] systems). However, a state supplement contribution from the general fund was used to offset the increases for local government and school district employers.

  - the legislature appropriated $50 million from the general fund to TRS as a second cash infusion (HB 63). The bill by request of the TRS Board initially provided for a $100 million cash infusion.

- During the 2007-08 interim, SAVA conducted a legislative study of pension plan funding and plan design alternatives (HJR 59), but produced no recommendations.

- The 2009 Legislature failed to enact any funding or plan design changes, except for a change to require employer contributions on the salaries paid to retired teachers who returned to work under TRS (HB 34).

- During the 2009-10 interim, SAVA hired an outside actuarial consulting firm to conduct a study of pension plan funding and plan design change alternatives. The study produced two competing recommendations concerning only TRS, but neither was enacted.

- During the 2011 session:
  - the legislature enacted benefit reductions and contribution increases for new hires in PERS-DB (HB 122), SRS (HB 135), and GWPORS (HB 134).

  - the legislature passed a bill to close certain loopholes and tighten provisions to improve actuarial soundness (HB 116).

## What proposals have failed?

<u>Bills to address the unfunded liabilities:</u>

- During the 2007 regular session, the following failed to pass the legislature:
  - a bill to divert state lottery proceeds to TRS (HB 293);

  - a bill to halt GABA increases for current and future retirees in PERS and TRS when system amortization schedules were greater than 30 years failed to pass committee (HB 792);
  - a bill requested by the PER Board to increase employee contributions by 1% for

[11] Montana Public Employees' Retirement Administration, which administers the following traditional DB systems under the PER Board: PERS-DB, HPORS, SRS, GWPORS, MPORS, FURS, and JRS.

current and new PERS members (HB 159); and

- a provision in a bill requested by the TRS Board that would have increased supplemental contributions to TRS from the state general fund (amendment to HB 116).
- During the 2009 regular session the following bills failed:
    - a PER Board bill to require employer contributions on salaries paid to working retirees (HB 12); and
    - a bill to revise the retirement age for new hires in PERS (SB 484).
- During the 2011 regular session, the following failed:
    - provisions in bills requested by the PER Board to increase employer contributions by 1% for PERS, SRS, and GWPORS. These employer contribution increases would not have fully funded the ARC shortfalls, but would have slowed the expected rate of growth in the funding shortfalls. However, the legislature stripped these increases from the bills (amendments to HB 122 for PERS, HB 135 for SRS, and HB 134 for GWPORS).
    - a PER Board bill to require employer contributions on salaries paid to working retirees (HB 85); and
    - a bill to increase employee contributions in TRS, PERS, SRS, and GWPORS, and to restrict retirees from returning to work and earning additional service credit (HB 597).
    - a bill reducing the cap on school district retirement fund operating reserves and transferring the one-year excess to TRS (SB 113).
    - a bill that would have diverted coal severance tax revenue to TRS, PERS, SRS, and GWORS (HB 632).

<u>Bills to redesign the plans for new members:</u>

- Bills establishing new DC or hybrid plans or requiring new hires to join the PERS-DC plan were introduced and failed in each session since the December 2005 special session:
    - HB 827 in 2007;
    - HB 679 in 2009; and
    - HB 608, SB 54, and SB 328 in 2011.

## At-A-Glance Tables

Table 1 - Historical Actuarial Data on Funding Progress

Source: TRS and MPERA

| System | Valuation Date | Unfunded Liability (UAAL) rounded | Funded Ratio (percentage) | Covered Payroll (rounded) | ARC Shortfall (% payroll) | ARC Shortfall (covered payroll x ARC shortfall) | Amortization period (years) |
|---|---|---|---|---|---|---|---|
| TRS | 6/30/2000 | $ 304,000,000 | 87.90% | $ 537,500,000 | 0.00% | $ - | 15.1 |
| | 6/30/2002 | $ 383,500,000 | 86.60 | $ 563,200,000 | 0.00% | $ - | 23.4 |
| | 6/30/2004 | $ 757,800,000 | 76.60 | $ 600,700,000 | 2.87% | $ 17,240,090 | 71.4 |
| | 6/30/2006 | $ 863,100,000 | 76.10 | $ 636,000,000 | 3.38% | $ 21,496,800 | does not amortize |
| | 6/30/2008 | $ 794,600,000 | 79.90 | $ 689,500,000 | 0.17% | $ 1,172,150 | 31.3 |
| | 6/30/2010 | $ 1,561,585,000 | 65.44 | $ 747,000,000 | 4.22% | $ 31,523,400 | 49.5 |
| | 6/30/2012 | $ 1,962,719,000 | 59.24 | $ 735,600,000 | 4.89% | $ 35,970,840 | does not amortize |
| PERS-DB | 6/30/2000 | $ (569,940,000) | 125.07% | $ 725,692,381 | 0.00% | $ - | 0 |
| | 6/30/2002 | $ 983,000 | 99.97 | $ 808,747,026 | 0.00% | $ - | 0 |
| | 6/30/2004 | $ 466,798,000 | 86.72 | $ 832,847,393 | 1.19% | $ 9,910,884 | does not amortize |
| | 6/30/2006 | $ 460,229,000 | 88.26 | $ 880,707,616 | 1.01% | $ 8,895,147 | does not amortize |
| | 6/30/2008 | $ 439,436,000 | 90.25 | 955112778 | 0.00% | $ - | 24.8 |
| | 6/30/2010 | $ 1,351,929,000 | 74.21 | $ 1,083,780,000 | 5.01% | $ 54,297,378 | does not amortize |
| | 6/30/2012 | $ 1,833,308,609 | 67.60 | $ 1,081,288,177 | 6.53% | $ 70,575,679 | does not amortize |
| SRS | 6/30/2000 | $ (126,338,000) | 143.83% | $ 21,559,395 | 0.00% | $ - | 0 |
| | 6/30/2002 | $ 138,590,000 | 113.95 | $ 24,521,275 | 0.00% | $ - | 0 |
| | 6/30/2004 | $ 141,022,000 | 94.90 | $ 27,272,575 | 2.15% | $ 586,360 | does not amortize |
| | 6/30/2006 | $ 8,838,000 | 94.86 | $ 34,242,000 | 1.84% | $ 630,053 | does not amortize |
| | 6/30/2008 | $ 5,096,000 | 97.51 | $ 47,196,418 | 0.00% | $ - | 16.3 |
| | 6/30/2010 | $ 45,995,000 | 81.36 | $ 54,681,000 | 4.03% | $ 2,203,644 | does not amortize |
| | 6/30/2012 | $ 73,023,918 | 74.30 | $ 59,582,678 | 5.85% | $ 3,485,587 | does not amortize |
| GWPORS | 6/30/2000 | $ (9,044,000) | 137.81% | $ 11,874,942 | 0.00% | $ - | 0 |
| | 6/30/2002 | $ (390,000) | 101.02 | $ 17,150,522 | 0.00% | $ - | 0 |
| | 6/30/2004 | $ 5,100,000 | 89.86 | $ 21,442,218 | 0.23% | $ 49,317 | 45.9 |
| | 6/30/2006 | $ 5,370,000 | 91.63 | $ 25,846,000 | 0.04% | $ 10,338 | 32.4 |
| | 6/30/2008 | $ 5,938,000 | 92.88 | $ 32,365,266 | 0.00% | $ - | 13.0 |
| | 6/30/2010 | $ 28,704,000 | 74.79 | $ 39,436,000 | 3.47% | $ 1,368,429 | does not amortize |
| | 6/30/2012 | $ 31,235,412 | 75.80 | $ 38,316,733 | 3.64% | $ 1,394,729 | does not amortize |

Table 2 - Legislative Studies & Recommendations

| | **Legislative Studies** | **Committee Recommendations for TRS** | **Committee Recommendations for PERS** | **Committee Recommendations for SRS** | **Committee Recommendations for GWPORS** |
|---|---|---|---|---|---|
| 2005-06 Interim | HJR 42 - study of investments & actuarial soundness | None. | None. | None. | None. |
| 2007-08 Interim | HJR 59 - study of plan design and funding options - produce legislative guide | None.<br>Produced Guide | None.<br>Produced Guide | None.<br>Produced Guide | None.<br>Produced Guide |
| 2009-10 Interim | HB 659 - study of trends, best practices, benefit change options, new plan design for TRS, hired a consultant | SB -54 - hybrid cash balance (vetoed)<br><br>SB 56 - revise benefits for new hires (tabled in House committee) | None. | None. | None. |
| 2011-12 Interim | None. | Considering Gov. Schweitzer proposal - LCsa06 | Considering Gov. Schweitzer proposal - LCsa07 | Bill request on hold. | Bill request on hold. |

Table 3 - Enacted Funding Increases

| | **TRS** | **PERS** | **SRS** | **GWPORS** |
|---|---|---|---|---|
| Dec. 2005 Special Session | HB 1 - $100 million cash infusion from GF | HB 1 - $25 million cash infusion from GF | None. | None. |
| 2007 Regular Session | HB 63 - Employer contribution increase - school district and community college increases offset by state supplemental GF contribution<br>- 2% on 7/1/07<br>- 0.38% on 7/1/09<br>(Total of 2.38%)<br>- $50 million cash infusion from GF | HB 131 - Employer contribution increase - local employer increases offset by state supplemental GF contribution<br>- 0.135% on 7/1/07<br>- 0.135% on 7/1/09<br><br>(Total of 0.27%) | HB 131 - Employer contribution increase<br>- 0.29% on 7/1/07<br>- 0.29% on 7/1/09<br><br>(Total of 0.58%) | None. |
| 2009 Regular Session | None. | None. | None. | None. |
| 2011 Regular Session | None. | HB 122 - Employee contribution increases for new hires<br>- 1% on 7/1/11 | None. | None. |

Table 4 - Enacted Benefit Reductions For New Hires and Closing of Loopholes

| | TRS | PERS | SRS | GWPORS |
|---|---|---|---|---|
| Dec. 2005 Special Session | None. | None. | None. | None. |
| 2007 Regular Session | HB 63 - tighter compensation limits for working retirees<br>- removed statutory minimum for regular interest rate credits | HB 131 - GABA reduced to 1.5% for new hires | HB 131 - GABA reduced to 1.5% for new hires | HB 131 - GABA reduced to 1.5% for new hires |
| 2009 Regular Session | HB 34 - required employer contributions on wages paid to working retirees | None. | None. | None. |
| 2011 Regular Session | HB 116 - service purchases to cost actuarial rate<br>- true actuarial reductions for early retirement | HB 122 - For new hires:<br>- HAC[12] increased to 5 yrs<br>- retirement age to age 65 w/ 5 yrs or age 70 regardless of srvc<br>- early retirement to age 55<br>- 1.5% multiplier for less than 10 yrs of service | HB 135 - For new hires:<br>- HAC increased to 5 yrs | HB 134 - For new hires:<br>- HAC increased to 5 yrs |

[12] HAC means highest average compensation

Table 5 - Proposed Plan Design Changes That Failed

| | **TRS** | **PERS** | **SRS** | **GWPORS** |
|---|---|---|---|---|
| Dec. 2005 Special Session | None. | None. | None. | None. |
| 2007 Regular Session | HB 827 - New hires to new DC plan | HB 827 - New hires to new DC plan | None. | None. |
| 2009 Regular Session | HB 679 -New hires to PERS - DC plan | HB 679 - New hires to PERS - DC plan | HB 679 -New hires to PERS - DC plan | HB 679 -New hires to PERS - DC plan |
| 2011 Regular Session | HB 608- New hires to new annuity benefit plan<br><br>SB 54 - Cash balance hybrid tier for new hires | HB 608 - New hires to new annuity benefit plan<br><br>SB 328- New hires to PERS - DC | HB 608 - New hires to new annuity benefit plan | HB 608 - New hires to new annuity benefit plan |

Table 6 - History of Contribution Rates   Source: TRS and MPERA

| System | Valuation Date | Normal cost of benefits (percent of payroll) | Employee Contribution Rate (percent of payroll) | Employer Contribution Rate (percent of payroll) | Local Employer Contribution Rate | Supplemental State Contribution Rate for Local Gov't | School District/ Community College Contribution Rate | Supplemental State Contribution Rate for School Districts | Total Contributions (D +E) | Contributions Available for Unfunded Liabilities (J - C) |
|---|---|---|---|---|---|---|---|---|---|---|
| TRS | 6/30/2000 | 9.71 | 7.15 | 7.58 | 7.47 | 0.11 | 7.47 | 0.11 | 14.73 | 5.02 |
| | 6/30/2002 | 10.33 | 7.15 | 7.58 | 7.47 | 0.11 | 7.47 | 0.11 | 14.73 | 4.40 |
| | 6/30/2004 | 10.34 | 7.15 | 7.58 | 7.47 | 0.11 | 7.47 | 0.11 | 14.73 | 4.39 |
| | 6/30/2006 | 10.37 | 7.15 | 7.58 | 7.47 | 0.11 | 7.47 | 0.11 | 14.73 | 4.36 |
| | 6/30/2008 | 10.87 | 7.15 | 9.58 | 9.47 | 0.11 | 7.47 | 0.11 | 16.73 | 5.86 |
| | 6/30/2010 | 9.74 | 7.15 | 9.96 | 9.85 | 0.11 | 7.47 | 2.49 | 17.11 | 7.37 |
| | 6/30/2012 | 9.64 | 7.15 | 9.96 | 9.85 | 0.11 | 7.47 | 2.49 | 17.11 | 7.47 |
| PERS-DB | 6/30/2000 | 10.69 | 6.90 | 6.900 | 6.80 | 0.10 | 6.80 | 0.100 | 13.80 | 3.11 |
| | 6/30/2002 | 12.21 | 6.90 | 6.900 | 6.80 | 0.10 | 6.80 | 0.10 | 13.80 | 1.59 |
| | 6/30/2004 | 12.08 | 6.90 | 6.900 | 6.80 | 0.10 | 6.80 | 0.10 | 13.80 | 1.72 |
| | 6/30/2006 | 12.17 | 6.90 | 6.900 | 6.80 | 0.10 | 6.80 | 0.10 | 13.80 | 1.63 |
| | 6/30/2008 | 12.13 | 6.90 | 7.035 | 6.935 | 0.10 | 6.80 | 0.10 | 13.94 | 1.81 |
| | 6/30/2010 | 12.61 | 6.90 | 7.170 | 7.07 | 0.10 | 6.80 | 0.235 | 14.07 | 1.46 |
| | 6/30/2012 | 11.80 | 7.90 | 7.170 | 7.07 | 0.10 | 6.80 | 0.370 | 15.07 | 3.27 |
| SRS | 6/30/2000 | 16.63 | 9.245 | 9.535 | | | | | 18.78 | 2.15 |
| | 6/30/2002 | 19.41 | 9.245 | 9.535 | | | | | 18.78 | (0.63) |
| | 6/30/2004 | 19.44 | 9.245 | 9.535 | | | | | 18.78 | (0.66) |
| | 6/30/2006 | 19.45 | 9.245 | 9.535 | | | | | 18.78 | (0.67) |
| | 6/30/2008 | 19.24 | 9.245 | 9.825 | | | | | 19.07 | (0.17) |
| | 6/30/2010 | 19.02 | 9.245 | 10.115 | | | | | 19.36 | 0.34 |
| | 6/30/2012 | 18.73 | 9.245 | 10.115 | | | | | 19.36 | 0.63 |
| GWPORS | 6/30/2000 | 13.91 | 8.50 | 9.00 | | | | | 17.50 | 3.59 |
| | 6/30/2002 | 20.72 | 8.50 | 9.00 | | | | | 17.50 | (3.22) |
| | 6/30/2004 | 18.54 | 10.56 | 9.00 | | | | | 19.56 | 1.02 |
| | 6/30/2006 | 18.54 | 10.56 | 9.00 | | | | | 19.56 | 1.02 |
| | 6/30/2008 | 18.54 | 10.56 | 9.00 | | | | | 19.56 | 1.02 |
| | 6/30/2010 | 19.26 | 10.56 | 9.00 | | | | | 19.56 | 0.30 |
| | 6/30/2012 | 18.98 | 10.56 | 9.00 | | | | | 19.56 | 0.58 |

## LEGISLATIVE STUDIES & RECOMMENDATIONS

### December 2005 - Special Session

Enacted:

***HB 2 - By Request of SAVA - Require SAVA to consider actuarial and fiscal soundness and review retirement proposals prior to sessions.***

- Amended section 5-5-228, MCA to require SAVA to:

"(a) consider the actuarial and fiscal soundness of the state's public employee retirement systems, based on reports from the teachers' retirement board, the public employees' retirement board, and the board of investments, and study and evaluate the equity and benefit structure of the state's public employee retirement systems;

(b) establish principles of sound fiscal and public policy as guidelines;

(c) as necessary, develop legislation to keep the retirement systems consistent with sound policy principles;

(d) solicit and review proposed statutory changes to any of the state's public employee retirement systems;

(e) report to the legislature on each legislative proposal reviewed by the committee. The report must include but is not limited to:

(i) a summary of the fiscal implications of the proposal;

(ii) an analysis of the effect that the proposal may have on other public employee retirement systems;

(iii) an analysis of the soundness of the proposal as a matter of public policy;

(iv) any amendments proposed by the committee; and

(v) the committee's recommendation on whether the proposal should be enacted by the legislature.

(f) attach the committee's report to any proposal that the committee considered and that is or has been introduced as a bill during a legislative session; and

(g) publish, for legislators' use, information on the state's public employee retirement systems."

Failed: None.

## 2005-06 Interim - Legislative Studies and Recommendations

<u>Legislative Study:</u>

- ***HJR 42 - Study of Retirement Plan Investments, Benefits, and Actuarial Soundness***

<u>Key Reports (available on SAVA's 2005-06 website):</u>

- Retirement System Options and Cost Factors, by John Moe, LFD, December 5, 2005. Summary of options considered or enacted in other states:
  - → Shift from a defined benefit plan to a defined contribution plan for new hires.
  - → Modify retirement eligibility and benefit calculations for new hires, such as increasing age and service requirements, or reducing the multiplier applied in the calculation to arrive at the benefit level.
  - → Increase the number of years used for the final average salary calculation for new hires.
  - → Limit the percent increase in salary allowed for the benefit calculation for new hires.
  - → Increase the employee contribution for new hires.
  - → Increase the employer contribution for all active members.
  - → Avoid early retirement incentives.
  - → For early retirement incentives, have the employer pay the resulting unfunded liability.
  - → Have retirement system members contribute an additional percentage toward an early retirement plan (refundable if not used).
  - → Close loopholes, such as salary spiking and creative return to work provisions.
- Issues Pertinent to HJR 42 and Montana Public Employee Retirement Systems: A Discussion Paper, by Dave Bohyer, LSD, March 2006
  - → Historical recapitulation
  - → Payment options for unfunded liabilities
    - One lump-sum payoff
    - Periodic lump-sum payments
    - Employer contribution rates
    - Pension obligation bonds
  - → Plan change options
    - Close retirement plan, no new future retirement plan
    - Require new members join the DC plan
    - Amend benefits for future employees (new tier)

<u>Recommended legislation:</u>

- None related to redesign of retirement systems or to address actuarial funding shortfalls.

## 2007-08 Interim - Legislative Studies and Recommendations

<u>Legislative Study:</u>

- ***HJR 59 - Produce legislator's guide to retirement plans to include:***
  - → plan design comparisons
  - → funding options
  - → findings and recommendations

<u>Key Reports (available on SAVA's 2007-08 website):</u>

- A Legislator's Guide to Montana's Public Retirement Systems, 2008
- Selected States' Policies on Public Employee Retirement Systems
- Building the Foundations for New Retirement Systems
- Arizona State Retirement System
- Illinois Retirement Security Initiative - Jourlande Gabriel & Chrissy Mancini
- Comparison Study - State Employee Pension Programs - Indian Legislative Services
- TRS Comparisons
- Comparing Recent Historical Rates of Return - Dave Bohyer
- Selected State Actions - Dave Bohyer
- Memorandum re Participation of Local Governments in PERS - Dave Bohyer
- An Overview of Money Purchase Retirement Plans - Dave Bohyer
- Actuarial Analysis of a Money Purchase Retirement Plan - Milliman
- Actuarial Estimates of a Money Purchase Retirement Plan - Milliman

<u>Recommended Legislation:</u>

- None related to redesign of retirement systems or to address actuarial funding shortfalls.

## 2009-10 Interim - Legislative Studies and Recommendations

<u>Legislative Study:</u>

***HB 659 - Rep. Don Roberts (R) - Study retirement plan design change options***

- Required review of current trends and best practices;
- Required examination of various options for changes including but not limited to:
  - the benefit formula multiplier;
  - retirement age; and
  - years of service.
- Required more in-depth analysis of TRS redesign options, including:
  - money purchase plan design options; and
  - hybrid defined benefit plan options.
- Authorized hiring a consultant.

Key Reports (available on SAVA's 2009-10 website):

- The Million-Dollar Question: Redesigning the State's Public Employee Retirement Systems and Other Interim Activities, by Rachel Weiss, December 2010. Final Report.
- Montana TRS benefit design study -- Cavanaugh Macdonald
- Montana PERS benefit design study -- Cheiron
- Confirmation of cost analysis: TRS -- Buck Consultants
- Confirmation of cost analysis: PERS -- Buck Consultants

Recommended Legislation:

- SB 54 - Sen. Balyeat (R) - two money purchase plan tiers in TRS for new hires only
  - *vetoed by Governor Schweitzer*

- SB 56 - Sen. Jent (D) - revise TRS benefits for new hires, increases in contributions
  - *tabled in committee*

# TEACHERS' RETIREMENT SYSTEM (TRS)

## December 2005 - Special Session

Enacted:

***HB 1 - Cash infusion***

- Appropriated $100 million from the general fund to TRS

## 2007 Regular Session - TRS

Enacted:

***HB 63 - By Request of TRS - Provide actuarially required funding***

- Increased employer contributions by 2% beginning July 1, 2007, and by another 0.38% beginning July 1, 2009. (Total increase of 2.38%)
- Established a state supplemental contribution to offset the contribution increase for school districts and community colleges.
- Reduced future cost risks by limiting the compensation a retired member could earn after retirement without a reduction in benefits and by removing the 4% statutory minimum for the regular interest rate set by the board.
- Fiscal note stated changes expected to allow unfunded liabilities to amortize over 33.2 years.

Failed:

***HB 293 - Rep. Himmelberger (R) - Requiring state lottery proceeds be dedicated to TRS***

- Lottery proceeds estimated to have a present value of $112.4 million, as of July 1, 2006, and cost the general fund about $8.8 million in the first year, increasing each year thereafter.
- Would have reduced by the ARC shortfall by 1.03% and allowed amortization of unfunded liabilities over 79 years (assuming no other additional contributions).

***HB 792 - Rep. Himmelberger (R) - Revising Guaranteed Annual Benefit Adjustment (GABA)***

- Would have stopped GABA for retirees if amortization period was greater than 30 years.
- If amortization less than 30 years, board would only provide a GABA in the amount that would not cause the amortization period to exceed 30 years up to a maximum of 1.5%.
- Introduced too late in the session for a fiscal note to be prepared prior to the transmittal deadline, so no actuarial analysis was completed.

***HB 827 - Rep. Himmelberger (R) - School and Public Employees' Retirement System Act***

- Would have closed TRS to new hires.
- New hires required to join new system.
- Employees could choose contribution rate up to maximum allowed by IRS.
- Employer would match employee's contribution, up to a maximum based on the employee's years of service (max match ranged from 1% for up to 3 years of service to 8% for more than 25 years of service).
- Participating employers in TRS were required to adopt a schedule for paying off old TRS unfunded liabilities within 30 years or less.
- Bill introduced too late in session for a fiscal note to be prepared prior to the transmittal deadline, so no actuarial analysis was completed.

## 2009 - Regular Session - TRS

Enacted:

***HB 34 - By Request of TRS - Closed loopholes in return to work provisions***

- Required employer contributions on wages paid to retired members
- Reduced amortization period to 30.6 years.

Failed:

***SB 484 - Sen. Balyeat (R) - Revise retirement age for new hires***

- Would have raised the age for retirement eligibility from age 60 to age 65
- Fiscal note stated this would reduce future normal cost for new hires by 2.42%
- Fiscal note stated this would reduce amortization period from 31.3 years to 23.7 years

***HB 679 - Rep. Stahl (R) - Require new hires to join defined contribution plan***

- Would have closed the TRS defined benefit plan
- Would have required new hires become members of the PERS - DC plan

## 2011 Regular Session - TRS

Enacted:

***HB 116 - By Request of TRS - Tighten actuarial controls to improve actuarial funding***

- Increased the cost of purchasing service to the actuarial rate.
- Provided for true actuarial reductions for early retirement.
- Fiscal note stated these changes would reduce the unfunded liabilities by $6.8 million and the amortization period by 2.3 years.

Failed:

***HB 113 - By Request of TRS - Increase university system supplemental contribution to TRS***

- Increased the U-System's supplemental contribution to TRS for unfunded liabilities associated with establishing the ORP DC plan by 0.5% until July 1, 2019.
- Fiscal note stated this would decrease the amortization period from 49.5 to 41.3 years (a decrease of 8.2 years).

***HB 189 - Rep. Dick Barrett (D) - Revise TRS benefits and funding***

- Increased benefit multiplier to 2% for members with 30 or more years of service and increased member contributions by 0.54%, new hires only.
- Imposed age 55 requirement for retirement with 25 years of service, new hires only.
- Increased to age 55 eligibility for early retirement, new hires only.
- Reduced the school district retirement fund operating reserve cap from 35% to 20% and required that the one-time excess be transferred to TRS.
- Fiscal note stated reduced normal cost for new hires would eventually result in a 0.02% reduction in the normal cost of benefits.
- Fiscal note showed no change in the TRS amortization period.

***HB 597 - Rep. Scott Reichner (R) - Revising employer contributions for working retirees and employee contributions***

- Would have prohibited a retiree from any of the public employee retirement systems from receiving additional service credit if re-employed in any other public retirement system, but would have required employers to make contributions for those employees.
- Would have increased employee contributions by 1%.
- Fiscal note showed no impact related to employer contributions for working retirees.
- Fiscal note stated the increased employee contributions would decreased amortization period from 46.5 years to 38.1 years and would have a favorable affect on the funding of the system.

***HB 608 - Rep. Stahl (R) - Require new hires to join a new annuity benefit DC plan***

- Closed TRS to new members.
- Required employee contributions of 7% or more, up to maximum allowed by the IRS.
- Required employer contributions of 7%.
- Required the Department of Administration to contract with a private company for the conversion of account balances to annuities.
- Fiscal note stated:
  - → Would require a change in the actuarial methods used.
  - → Payroll base of the plan will begin to decline immediately.
  - → Unfunded liabilities would have to be paid off in approximately 11 years (i.e., the remaining working lifetime of current active members), but the fiscal note did not provide an estimated annual dollar amount required.

***HB 632 - Rep. Janna Taylor (R) - Requiring coal severance taxes be used for unfunded liabilities***

- Would have allocated about $15.1 million to be split among TRS, PERS, SRS, and GWPORS, in proportion to their unfunded liabilities.
- Fiscal note showed no effect on amortization period for TRS.

***SB 54 - By Request of SAVA - Sen. Balyeat (R) - Establish new DB/DC hybrid tier for new hires - <u>VETOED</u>***

- New hires to elect contribution rate.
- Graded vesting for new hires to receive employer match.
- Established minimum and maximum interest credit rates on account balances.
- Fiscal note stated: "The future normal cost would begin to decline as the new members with a lower normal cost begin to comprise a material and growing percentage of all active members. Ultimately, the active membership is comprised entirely of members hired after the effective date for the new tier and the employer’s normal cost rate would be expected to decrease 0.69%, from 2.59% to 1.90%, if 15 year graded vesting is approved by IRS. If the contingent 10 year vesting schedule, pending an IRS ruling, is implemented as provided in section 23 of the bill, the employer’s normal cost rate would be expected to decrease 0.65% from 2.59% to 1.94%."
- The fiscal note did not show any impact on the amortization schedule for paying off unfunded liabilities.
- Required IRS ruling and contingent 10-year vesting.

***SB 56 - By Request of SAVA - Sen. Jent (D) - Revising TRS benefits for new hires***

- Increased average final compensation from 3-year to 5-year average for new hires.
- Increasing employee contribution by 0.54% to pay for 2% benefit multiplier after 30 years of service, new hires.
- Provided for a graduated vesting schedule for new hires.
- Required at least 15 full years of service for retirement eligibility for new hires.
- Required attainment of at least age 55 to be eligible for early retirement for new hires.
- Required an IRS ruling.
- Fiscal note stated: "Changes which affect only future active members impact only the normal cost rate of the employer. The future normal cost would begin to decline as the new members with a lower normal cost comprise a material and growing percentage of all active members. Ultimately, the active membership is comprised entirely of members hired after the effective date for the new tier and the employer’s normal cost rate would be expected to decrease 0.64% from 2.59% to 1.95%. Therefore, based on these results, the new benefit tier combined with the higher employee contribution rate is expected to reduce the long term cost of the plan by 0.64%."
- Fiscal note showed no impact on amortization period for unfunded liabilities.

***SB 113 - Sen. Jent (D) - Reduce school district retirement fund reserves, transfer excess to TRS and PERS***

- Reduced cap on school district retirement fund operating reserves from 35% to 20%.

- Provided for one-time transfer of the excess to TRS and PERS.
- Fiscal note stated:
  - → bill would provide about $13.1 million to TRS;
  - → would result in local tax increases; and
  - → would not have an impact on the amortization schedule for unfunded liabilities.

# PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

## December 2005 - Special Session

Enacted:

***HB 1 - Cash infusion***

- Appropriated $25 million from the general fund to PERS

## 2007 Regular Session - PERS

Enacted:

***HB 131 - By Request of Office of Budget and Program Planning - Reduce benefits for new hires and actuarially fund the system***

- Reduced the GABA from 3% to 1.5% for new hires.
- Increased the employer contributions by 0.135% effective July 1, 2007, and by another 0.135% effective July 1, 2009. (0.27% total increase)
- Contribution increase terminates if/when amortization period reaches 25 years or less.
- Contribution increase for local governments offset by supplemental state contribution from the general fund.
- Fiscal note stated that the phased-in contribution increases would fund PERS unfunded liabilities within 30.2 years and that the reduction in the GABA for new hires would mean that the normal cost of benefits would slowly decrease as new members replaced old members. No further details were provided regarding how much normal cost might be reduced over time and how much that cost decrease would increase the amount of the statutory contributions available to fund the unfunded liabilities.

Failed:

***HB 159 - By Request of the PER Board - Employer contribution increases for actuarial funding***

- Would have increased employer contributions by 0.56% on July 1, 2007, and by another 0.57% beginning on July 1, 2009 (total of 1.13%).
- Offset the employer increase for school districts with a state supplemental contribution from the general fund.
- Would have sunset the increase when the amortization period was 25 years or less.
- Fiscal note stated change would amortized unfunded liability in 30 years.

***HB 792 - Rep. Himmelberger (R) - Revising guaranteed annual benefit adjustments (GABA)***
- Would have stopped annual GABA increases for retirees if amortization period was greater than 30 years.
- If amortization less than 30 years, board would only provide a GABA in the amount that would not cause the amortization period to exceed 30 years up to a maximum of 1.5%.
- Introduced too late in the session for a fiscal note to be prepared prior to the transmittal deadline, so no actuarial analysis was completed.

***HB 827 - Rep. Himmelberger (R) - School and Public Employees' Retirement System Act***
- Would have closed PERS to new hires, new hires required to join new system.
- Employees could choose contribution rate up to maximum allowed by IRS.
- Employer would match employee's contribution, up to a maximum based on the employee's years of service (max match ranged from 1% for up to 3 years of service to 8% for more than 25 years of service).
- Participating employers in TRS were required to adopt a schedule for paying off old TRS unfunded liabilities within 30 years or less.
- Bill introduced too late in session for a fiscal note to be prepared prior to the transmittal deadline.

## 2009 Regular Session - PERS

Enacted:

***HB 659 - Rep. Don Roberts (R) - Study retirement plan design change options***
- Required review of current trends and best practices;
- Required examination of various options including changes in:
  - the benefit formula multiplier;
  - retirement age; and
  - years of service for eligibility.
- Required more in-depth analysis of TRS redesign options, including:
  - money purchase plan design options; and
  - hybrid defined benefit plan options.
- Authorized hiring a consultant.

Failed:

***HB 12 - By Request of PER Board - Require employer contributions on working retirees***
- Would have required employers to make contributions to PERS for working retirees
- Fiscal note showed 0.2 year decreased in the amortization period.

***HB 679 - Rep. Stahl (R) - Require new hires join defined contribution plan***

- Would have closed the PERS defined benefit plan, required new hires become members of DC plan

***SB 484 - Sen. Balyeat (R) - Revise retirement age for new hires***

- Would have raised the age for retirement eligibility from age 60 to age 65 for new hires
- Fiscal note stated this would reduce future normal cost for new hires by 1.04%
- Fiscal note stated that based on the actuarial value of assets and including market losses after the actuarial valuation, the amortization period for the system was 54.3 years and the bill would reduce the amortization period to 34.4 years, and that contributions would have to be increased by 0.3% for the system to be fully funded in 30 years.
- However, the fiscal note also stated that based on the market value of assets and including the market losses after the actuarial valuation, the unfunded liabilities did not amortize and that even with the SB 484 changes, the unfunded liabilities would not amortize.

## 2011 Regular Session - PERS

Enacted:

***HB 122 - By Request of PER Board - Revise benefits for new hires, increase contributions***

- Changed highest avg. compensation to a 5-yr average instead of a 3- yr average.
- Increased contributions by 1% to 7.9%
- Increased retirement age to age 65 with 5 yrs service or age 70 regardless of service.
- Increased early retirement age to age 55 with 5 yrs service.
- Increased multiplier to 2% for 30 or more yrs of service.
- Reduced benefit for members with less than 10 yrs of service to get greater of 1.5% multiplier or the actuarial equivalent of double the member's accumulated contributions.
- Increased employee contributions by 1% for new hires starting July 1, 2012.
- The fiscal note on the revised bill stated normal cost for benefits for the new hires would be reduced by 2.37%.
- The fiscal note also stated: "The shortfall of 5.01% of payroll is the difference between the 30-year funding contribution rate and the statutory rate. The shortfall of the statutory rate is expected to widen to almost 12% of payroll over the next 15 years. If House Bill 122 was implemented as amended, this gap after 15 years would be reduced to about 7% of payroll. The funded ratio of the plan was 74% on June 30, 2010. The funded ratio is computed as the actuarial value of assets divided by the actuarial liability. This ratio is expected to decrease to about 50% over the next 15 years. If House Bill 122 was implemented as amended, the decrease in funded ratio over that time would be to about 55%. Even though there is no impact on current valuation results from the changes for future employees, there will be positive longer term effects from

these changes."

- Special note: The introduced bill included a 1% employer contribution increase starting July 1, 2011, and another 1% employer contribution starting July 1, 2012, but the legislature eliminated this from the bill. The fiscal note on the introduced bill stated that this would have reduced the projected ARC short fall to 4% after 15 years and the funded ratio of the plan would have decreased to about 61%.

Failed:

***HB 85 - By Request of PER Board - Require employer contributions on working retirees***

- Fiscal note stated: "HB 85 will provide a small amount of additional funding for the applicable retirement systems to offset the adverse affect of retirees returning to work in place of active contributing members."
- Fiscal note did not show any improvement in amortization schedule.

***HB 597 - Rep. Scott Reichner (R) - Revising employer contributions for working retirees and employee contributions***

- Would have prohibited a retiree from any of the public employee retirement systems from receiving additional service credit if re-employed in any other public retirement system, but would have required employers to make contributions for those employees.
- Would have increased employee contributions by 1%.
- Fiscal note showed no impact related to employer contributions for working retirees.
- Fiscal note stated: "The statutory rate [i.e., ARC shortfall] is expected to widen to almost 12% of payroll over the next 15 years if no changes are implemented. If HB 597 was implemented, this gap after 15 years would be reduced to about 9% of payroll.
- Fiscal note also stated: "The funded ratio of the plan was 74% on June 30, 2010. The funded ratio is computed as the actuarial value of assets divided by the actuarial liability. This ratio is expected to decrease to about 50% over the next 15 years if no changes are made. If HB 597 was implemented, the decrease in funded ratio over that time would be to about 55%."
- Fiscal note also stated: "Increasing the employee contribution for current employees is an impairment of contract."

***HB 608 - Rep. Stahl (R) - Require new hires to join a new annuity benefit DC plan***

- Closed PERS-DB plan to new members.
- Required employee contributions of 7% or more, up to maximum allowed by the IRS.
- Required employer contributions of 7%.
- Required the Department of Administration to contract with a private company for the conversion of account balances to annuities.
- Fiscal note stated:
  - → Would require a change in the actuarial methods used.
  - → The payroll base of the plan will begin to decline immediately.
  - → Approximately $160 million would be needed each year for 20 years to pay off old plan's unfunded liabilities.

***HB 632 - Rep. Janna Taylor (R) - Requiring coal severance taxes be used for unfunded liabilities***

- Would have allocated about $15.1 million to be split among TRS, PERS, SRS, and GWPORS, in proportion to their unfunded liabilities.
- Fiscal note showed no effect on amortization period for TRS.

***SB 328 - Sen. Lewis (R) - Require all new hires covered by PERS join the DC plan.***

- Closed PERS - DB to new hires, new hires to go to DC plan
- Allowed current DB members to transfer to DC plan.
- Allowed immediate vesting in DC plan.
- Required governor to include in the executive budget funding necessary to amortized the DB plan unfunded liabilities.
- Required an IRS ruling.
- Fiscal note showed a GF impact of $33.9 million in the first year.
- Fiscal note provided no further details on long-term effects but stated: "The closing of the DB plan will be a very costly proposal since liabilities do not go away until the last DB member or contingent annuitant dies."
- Fiscal note also stated: "If any funding required by Section 4 of the bill to be submitted by the Governor in the Executive Budget were not approved by the Legislature, the employer rate for the DB plan would be expected to increase to 60.1% by 2030. If no funding were provided – either by a Governor's proposal or by increasing the employer contribution rate, the employer rate would be projected to increase to over 200% by 2030." However, the percentages are based on the covered payroll of members still in the system. Because DB plan membership decreases as new members are hired and go into the DC plan, the percentage of payroll required increases, but the dollar amount required could actually decrease. This was not stated in the fiscal note.
- Fiscal note did state: "The current amortization rate is based upon an "open" 30-year amortization of the UAL as a level percentage of future payroll assuming future annual payroll increases of 4%. By "open" amortization, it is meant that at each valuation date, a new 30-year period is established such that, in theory, the UAL would never be fully amortized. With the closing of the plan, there will no longer be an increasing payroll for

this amortization, but rather a decreasing payroll. Therefore, the amortization method has been changed to a level dollar amortization."

- The fiscal note did not provide the level dollar amounts required.

# SHERIFFS' RETIREMENT SYSTEM (SRS)

## December 2005 Special Session

Enacted: None.
Failed: None.

## 2007 Regular Session - SRS

Enacted:
***HB 131 - Office of Budget and Program Planning - Reduce costs, actuarially fund the system***
- Increased employer contributions by 0.29% beginning July 1, 2007, and by another 0.29% beginning July 1, 2009. (Total increase of 0.58%)
- Contribution increase terminates if or when the amortization period reaches 25 years or less.
- Reduced the GABA from 3% to 1.5% for new hires.
- Fiscal note stated the changes would result in an amortization period of 30.6 years.

Failed:
*HB 159 - By Request of the PER Board - Employer contribution increases for actuarial funding*
- Would have increased employer contributions by 1.03% on July 1, 2007, and by another 1.02% beginning on July 1, 2009. (Total increase of 2.05%).
- Would have sunset the increase when the amortization period was 25 years or less. Fiscal note stated change would amortized unfunded liability in 30 years.

## 2009 Regular Session - SRS

Enacted: None.

Failed:
***HB 12 - By Request of PER Board - Require employer contributions on working retirees***
- Would have required employers to make contributions to SRS for working retirees
- Fiscal note showed no impact to the amortization period.

***HB 679 - Rep. Stahl (R) - Required new hires join defined contribution plan***
- Would have closed the SRS defined benefit plan
- Would have required new hires become members of the PERS - DC plan

## 2011 Regular Session - SRS

Enacted:

***HB 135 - By Request of PER Board - Revise benefits for new hires, increase employer contribution***

- Increased highest average compensation calculation from 3-year to 5 year period.
- Special note: As introduced, the bill would have increased employer contributions by 1% beginning July 1, 2011, and another 1% beginning July 1, 2012, but the legislature took these increases out. The fiscal note on the introduced bill stated the additional funding would have reduced the projected ARC shortfall after 15 years from 9% to 5% and that the projected decrease in the funded ratio would be to about 75% rather than 70%.

Failed:

***HB 85 - By Request of PER Board - Require employer contributions on working retirees***

- Fiscal note stated: "HB 85 will provide a small amount of additional funding for the applicable retirement systems to offset the adverse affect of retirees returning to work in place of active contributing members.
- Fiscal note did not show any improvement in amortization schedule.

***HB 597 - Rep. Scott Reichner (R) - Revising employer contributions for working retirees and employee contributions***

- Would have prohibited a retiree from any of the public employee retirement systems from receiving additional service credit if re-employed in any other public retirement system, but would have required employers to make contributions for those employees.
- Would have increased employee contributions by 1%.
- Fiscal note showed no impact related to employer contributions for working retirees.
- Fiscal note stated: "The shortfall of 4.03% of payroll [i.e., the ARC shortfall]... is expected to widen to about 9% of payroll over the next 15 years if no changes are implemented. If House Bill No. 597 was implemented, this gap after 15 years would be reduced to about 6% of payroll.
- Fiscal note also stated: "The funded ratio of the plan was 81% on June 30, 2010. The funded ratio is computed as the actuarial value of assets divided by the actuarial liability. This ratio is expected to decrease to about 70% over the next 15 years if no changes are made. If House Bill No. 597 was implemented, the decrease in funded ratio over that time would be to about 74%."
- Fiscal note also stated: "Increasing the employee contribution for current employees is an impairment of contract."

***HB 608 - Rep. Stahl (R) - Require new hires to join a new annuity benefit DC plan***

- Closed SRS to new members.
- Required employee contributions of 10% or more, up to maximum allowed by the IRS.
- Required employer contributions of 10%.
- Required the Department of Administration to contract with a private company for the conversion of account balances to annuities.
- Fiscal note did not provide details specific to SRS.

***HB 632 - Rep. Janna Taylor (R) - Requiring coal severance taxes be used to for unfunded liabilities***

- Would have allocated about $15.1 million to be split among TRS, PERS, SRS, and GWPORS, in proportion to their unfunded liabilities.
- Fiscal note showed no effect on amortization period for TRS.

# GAME WARDENS' & PEACE OFFICERS' RETIREMENT SYSTEM (GWPORS)

## December 2005 Special Session

Enacted: None.
Failed: None.

## 2007 Regular Session - GWPORS

Enacted:
***HB 131 - Office of Budget and Program Planning (Rep. Sesso) - Reduce costs to actuarially fund the system***
- Reduced the GABA from 3% to 1.5% for new hires.
- Fiscal note stated the change would result in an amortization period of 13.4 years.

Failed:
***HB 159 - PER Board (Rep. Lambert) - Employer contribution increases for actuarial funding***
- Would have increased employer contributions by 0.04% on July 1, 2007.
- Would have sunset the increase when the amortization period was 25 years or less.
- Fiscal note stated change would amortized unfunded liability in 30 years.

## 2009 Regular Session - GWPORS

Enacted: None.

Failed:
***HB 679 - Rep. Stahl (R) - Required new hires join defined contribution plan***
- Would have closed the GWPORS defined benefit plan
- Would have required new hires become members of the PERS - DC plan

## 2011 Regular Session - GWPORS

<u>Enacted:</u>

***HB 134 - By Request of PER Board - Revise benefits for new hires, increase employer contribution***

- Increased highest average compensation calculation from 3-year to 5 year period.
- <u>Special note:</u> Would have increased employer contribution by 1% beginning July 1, 2011, and another 1% beginning July 1, 2012, but the legislature took these increases out. If enacted, the increases were expected to close the projected ARC shortfall from 6% over the next 15 years to 1.5% and that the projected funding ratio would have about 82% after 15 years rather than about 75%.

<u>Failed:</u>

***HB 597 - Rep. Scott Reichner (R) - Revising employer contributions for working retirees and employee contributions***

- Would have prohibited a retiree from any of the public employee retirement systems from receiving additional service credit if re-employed in any other public retirement system, but would have required employers to make contributions for those employees.
- Would have increased employee contributions by 1%.
- Fiscal note showed no impact related to employer contributions for working retirees.
- Fiscal note stated: "The shortfall of 3.47% of payroll is the difference between the 30-year funding contribution rate and the statutory rate [i.e. the ARC shortfall]. The statutory rate [i.e., ARC shortfall] is expected to widen to almost 6% of payroll over the next 15 years if no changes are implemented. If House Bill No. 597 was implemented, this gap after 15 years would be reduced to about 3% of payroll.
- Fiscal note also stated: "The funded ratio of the plan was 75% on June 30, 2010. The funded ratio is computed as the actuarial value of assets divided by the actuarial liability. This ratio is expected remain approximately at this same level over the next 15 years if no changes are made. If HB 597 was implemented, the funded ratio over that time would increase to about 80%."
- Fiscal note also stated: "Increasing the employee contribution for current employees is an impairment of contract."

***HB 608 - Rep. Stahl (R) - Require new hires to join a new annuity benefit DC plan***

- Closed TRS to new members.
- Required employee contributions of 10% or more, up to maximum allowed by the IRS.
- Required employer contributions of 10%.
- Required the Department of Administration to contract with a private company for the conversion of account balances to annuities.
- Fiscal note did not provide details specific to GWPORS.

***HB 632 - Rep. Janna Taylor (R) - Requiring coal severance taxes be used to for unfunded***

***liabilities***

- Would have allocated about $15.1 million to be split among TRS, PERS, SRS, and GWPORS, in proportion to their unfunded liabilities.
- Fiscal note showed no effect on amortization period for TRS.