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Economic Affairs Interim Committee
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MONTANA UNIVERSITY SYSTEM'S EXPERIENCES WITH PENSION, WORK COMP INDEPENDENCE

The Montana University System (MUS) has two experiences that are somewhat relevant to discussions related to the future of Montana State Fund. One relates to pension system changes. The other relates to MUS being able to obtain its workers' compensation insurance in whatever manner it chooses, rather than requiring purchase from Montana State Fund (MSF) as other state agencies are required to do under 39-71-403, MCA.

MUS Retirement System Experience

In 1987, the Legislature allowed the Montana University System to create what originally was termed an optional retirement plan that university system employees could use instead of the Teachers' Retirement System (TRS), which continued to cover some MUS employees. The situation set up by removing anticipated participants in the TRS resulted in an actuarial disturbance, particularly after the optional plan became required for new employees in the early 1990s. As a result, in 1997, the Legislature sought to shore up the TRS valuation by requiring employers of participants in the now-named university system retirement program to contribute a supplemental amount. (See 19-20-621, MCA.) That amount currently is 4.72% of the total compensation of employee participants. That rate remains the same as set in 2007, despite efforts to increase the amount to make the system amortize appropriately by July 1, 2033 (the date set in the statute). The proposed amount needed in 2017 as provided in HB 72 was 10.22% of the total compensation of employee participants.

Although the TRS-MUS separation is not specifically germane to any proposed separation of Montana State Fund (MSF) employees from the Public Employees' Retirement System (PERS), the issue was raised in the last EAIC study of MSF in 2013-2014 to point out the need for an infusion of funds to help the deprived pension system remain sound. One difference to keep in mind about the two situations is that the effort to make TRS amortize appropriately involves current public employees and current public entities (MUS) rather than a consideration of taking employees out of a public system entirely, as would happen to MSF employees if MSF became a private insurer. In the TRS case, there is a provision in law for continued payments until 2033. Another difference is the number of employees involved: about 330 people for MSF and thousands for MUS.

For separations that remove a group of public employees from a public pension system, in this case the Public Employees' Retirement System, PERS, the operative statute cited by the PERS actuary is 19-3-201, MCA, which implies that a lump-sum payment may be demanded by the Public Employees' Retirement Board before the board grants approval for a contract termination. Further, under Internal Revenue Service regulations a person who leaves public employment no longer can be active in the public retirement system (even if they can access benefits acquired while a public employee). Under 19-3-201, MCA, the board

> may withhold approval of the termination of contract until satisfactory arrangements are made to provide funding for the cost of the actuarial valuation to determine the terminating agency's liabilities to the retirement system and any excess accrued liabilities not previously funded by the terminating agency.

MUS Workers' Compensation Experience

In the 1999 legislative session, HB 57 exempted the Montana University System from 39-71-403, MCA, under which state agencies are required to obtain workers' compensation insurance from the Montana State Fund. Currently MUS self-insures its workers' compensation and uses a third-party administrator to handle claims. Reasons for separation were outlined in the preamble to HB 57, which stated, among other things:

> WHEREAS, the Board of Regents has identified the injection of competition into the University System's workers' compensation coverage as a positive step in controlling costs and in continuing the Board of Regents' efforts to operate as a public business.

Since 1999, the MUS workers' compensation program has both used a Plan 2 (private) insurer and been its own self-insurer, which is how the program currently operates. The latest independent audit conducted in 2015 indicated the following:

- For the fiscal year ending June 30, 2015, total program expenses were $4.13 million. This amount included benefits/claims expenses plus $afety $mart awards and payments to reinsurers.
- The program's self-insurance covers claims up to $750,000 for each occurrence, an increase from the $500,000 limit in effect up to July 1, 2013. Reinsurance with a commercial carrier handles claims in excess of the $750,000 (or $1 million for an aircraft-related claim).
- The program operates as an enterprise fund of the state, which means operating like a business.
- Premium revenues in FY 2015 were $4.6 million.
- Rates applied to payroll were unchanged between FY 2012 and FY 2015. A 6-month premium holiday was declared in FY 2014.
- The net position for FY 2015 was $10.87 million, about $500,000 higher than in FY 2014.

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