Proposal for Retirement Plan Legislation
(for the 2007 Legislative Session)
RETURN TO: Dave Bohyer, Research Director
Legislative Services Division
Room 110, State Capitol
PO Box 201706
Helena, MT 59620-1706
Phone: (406) 444-3592 FAX: (406) 444-3036
email: dbohyer@mt.gov
http://www.leg.mt.gov/css/committees/interim/2005_2006/st_admin_vet_affairs/default.a
sp

PROPOSER'S NAME/TITLE: Jerry Williams, Executive Director

ORGANIZATION: Montana Police Protective Association

ADDRESS: P.O. Box 7, Butte, MT 59703

PHONE: 406 490-1947

FAX: 406 782-7024

E-MAIL: jerdeb@bresnan.net

1.   What is the problem or issue?
The DROP Plan as now implemented requires that the participants continue to
pay into the retirement system, although no further benefits are derived from the
retirement system (employee pays 9% and city/state pays 43.8%). The participant
no longer gets a 2.5% increase in the amount of retirement benefits for each
additional year of service.

The DROP program allows officers to work beyond the 20 year retirement date
thus giving employers access to valuable, experience and trained employees.

The concern was addressed last Session by HB586, which died in committee.

2.   What do you want the legislation to do?
The legislation would amend Section 19-9-1205 by eliminating the requirement
that a member of the Municipal Police Officers" Retirement System must
continue to pay contributions to the system while participating in the DROP
option.

The current statute wording is as follows:
**"19-9-1205. Retirement system contributions -- benefit payments to
individual accounts -- investment returns.** (1) During a member's participation
in the DROP, state contributions under 19-9-702, employer contributions under

19-9-703, and member contributions under 19-9-710 must continue to be made to the retirement system.

   (2) For each DROP participant, the board shall calculate a DROP accrual."

The new wording would be as follows:
"19-9-1205. Retirement system contributions -- benefit payments to individual accounts -- investment returns. (1) During a member's participation in the DROP, state contributions under 19-9-702~~,~~ and employer contributions under 19-9-703~~, and member contributions under 19-9-710~~ must continue to be made to the retirement system.

(2) For each DROP participant, the board shall calculate a DROP accrual."

3. If possible, please list the MCA (Montana Code Annotated) sections that would need to be amended.
As stated under # 2 above Sec. 19-9-1205, (1) would need to be amended.

4. Which retirement plan or plans would be covered by the legislation? (If the proposal is limited to certain plans, please indicate why.)
The Municipal Police Officers' Retirement System is the only one affected at this time. No other retirement system currently has the DROP program.

Proposal for Retirement Plan Legislation

5. If the proposed change requires additional funding, what funding sources do you propose (e.g., an increase in employer contributions, employee contributions, or both)?
For last Session's HB586, MPERS had their Consulting Actuary prepare an actuarial impact statement. Below is the fiscal impact analysis:

Bill: LC 2023
Provision: MPORS – DROP Amendment
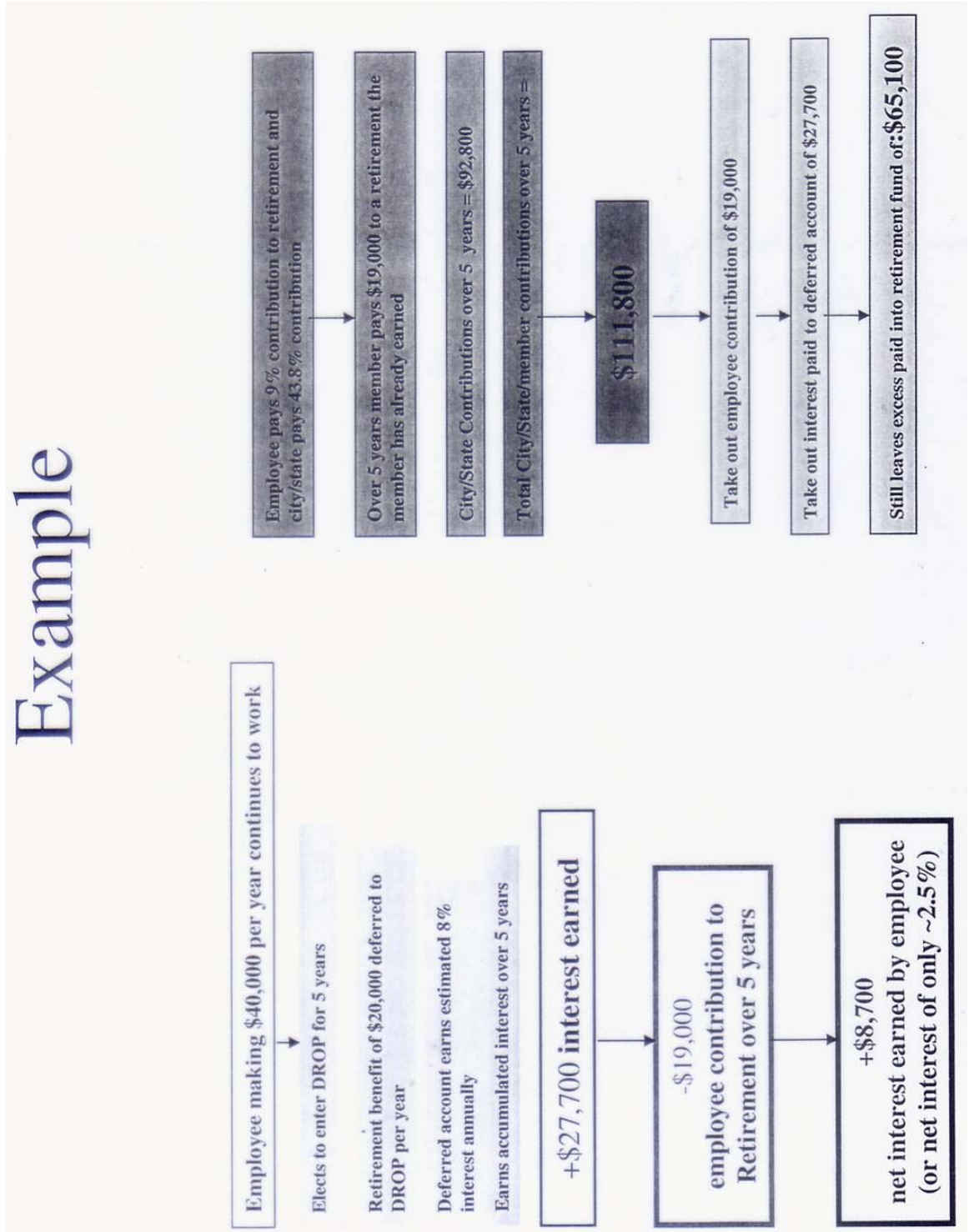Date: January 26, 2005

FISCAL IMPACT

Based on our understanding of this proposal and the data, methods and assumptions outlined above, we have developed the following estimated impact on the funding of the System, based on the 2004 Actuarial Valuation.

MPORS	2004 Actuarial Valuation	Results Including Proposal	Change due to Proposal
Actuarial Balance Sheet *($000)*			
Value of Projected Benefits	$ 317,141	$ 317,141	$ 0
Value of Future Normal Costs	57,047	57,047	0
Actuarial Liability	$ 260,094	$ 260,094	$ 0
Fair Market Value of Assets	148,411	148,411	0
Unfunded Actuarial Liability	$ 111,683	$ 111,683	$ 0
Increase in Actuarial Liability: Active and Inactive Members		$	0
Increase in Actuarial Liability: Retirees and Beneficiaries		$	0
Normal Cost Rate *(Percent of Members' Salaries)*	25.77%	25.77%	0.00%
Revenue Required to Fund this Proposal *(Percentage of Members' Salaries)*			
Revenue Available	52.78%	52.13%	
Normal Cost Rate	25.77	25.77	
Available for Amortization	27.01%	26.36%	0.65%
Amortization Period	24.8 yrs.	25.8 yrs.	1.0 yrs.
Rate of Amortization Contribution over a 30-Year Period	24.10%	24.10%	
30-Year Funding Sufficiency *(Normal Cost plus 30-Year Amortization)*	49.87%	49.87%	
Revenue Required to Fund this Proposal *($000)*			
Rate of Payroll as of July 1, 2004			$ 25,057
Projected Salaries for 2005-06 plan year (4.25% wage growth)			$ 26,671
Annual Revenue Required to Support Provision in 2005-06			$ 173

Based on our determination of the most recent funded status of the System, and the expectation of emerging investment losses in the future, we recommend that all new legislative proposals include a provision for financing the entire cost of the proposal

The cost of the change needs to be discussed further since MPPA had a slightly different analysis of cost. MPPA's analysis example is as follows:

Example

Employee making $40,000 per year continues to work

Elects to enter DROP for 5 years

Retirement benefit of $20,000 deferred to DROP per year

Deferred account earns estimated 8% interest annually

Earns accumulated interest over 5 years

+$27,700 interest earned

-$19,000 employee contribution to Retirement over 5 years

+$8,700 net interest earned by employee (or net interest of only ~2.5%)

Employee pays 9% contribution to retirement and city/state pays 43.8% contribution

Over 5 years member pays $19,000 to a retirement the member has already earned

City/State Contributions over 5 years = $92,800

Total City/State/member contributions over 5 years =

$111,800

Take out employee contribution of $19,000

Take out interest paid to deferred account of $27,700

Still leaves excess paid into retirement fund of: $65,100

6. Has similar legislation been requested in the past, been introduced in another state, or provided as a model act? If so, please provide a citation, reference, or point of contact.
As discussed above the Legislation was introduced during the last Session as HB586, which died in Committee.

7. If you are a holdover senator or a legislative candidate running unopposed, do you want the Legislative Services Division staff to consider this a bill draft request?
The request is coming from the Montana Police Protective Association and a sponsor has not been sought as of this date.

PLEASE RETURN THIS FORM BY JUNE 9, 2006
Cl2196 6041kkxa.

(mppadrop07)