HB/SB _____

Recommendation of the State Administration and Veterans' Affairs Interim Committee (SAVA)
to the 2011 Legislature:
Enact / Do not enact / Enact with amendments
as of August 17, 2010

SAVA's Proposal Number: 1

Summary of Proposal
The Association of Public-Safety Communication Officials, International, proposes to include public safety dispatchers in the Sheriffs' Retirement System (SRS), which is a 20-year retirement system created for sheriffs, sheriffs' deputies, detention officers' hired by sheriffs, and investigators hired by the Department of Justice. The dispatchers currently are members of the Public Employees' Retirement System (PERS), a 30-year system that offers both a defined benefit and a defined contribution plan.

Fiscal Implications of the Proposal
Current actuarial analysis of this proposal was not available during SAVA's review. However, in the 2009 session, HB 31, a similar bill, was introduced. The fiscal note for HB 31 provides some information. Both employer (ER) and employee (EE) contribution rates would go up for new hires entering SRS and current employees electing to switch to SRS from PERS. The increase is due to the higher statutory contribution rates for SRS compared to PERS.

Currently, the ER rate for PERS is 7.17% for State/University employers. Local government employers pay 7.07% of salary with the state General Fund adding another 0.1%. The ER rate for SRS is 10.115%.

Currently, the EE rate for PERS is 6.9% of salary. The EE rate for SRS is 9.245%. (These EE and ER rates might change during the 2011 Legislature due to other retirement-related proposals working their way through the legislative process.)

The fiscal note for HB 31 stated that it would have a minimal effect on PERS, and would increase the amortization period for SRS from 16.3 years to 21.9 years. (Currently, neither SRS nor PERS do not amortize in any amount of time.)

The proposers predicted there would be savings to local government employers due to decreased employee turnover. High turnover rates can increase hiring and training costs. The 2009 fiscal

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note for HB 31 detailed savings to the General Fund if the legislation were enacted because the state currently pays 0.1% for local government employers who have members in PERS. That rate is not paid into SRS.

Effect of Proposal on Other Retirement Systems
Besides the effect on the PERS amortization period, it is hard to determine what effect, if any, the proposal would have on other retirement systems. However, it could encourage other groups of employees in high-stress positions to attempt to join 20-year public safety systems.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meet or fall short of the standards SAVA has set for retirement plan policy. The appropriateness of including dispatchers in a public safety system would be a policy question that falls under Principle IV. This principle governs how benefits should be allocated among beneficiaries, including that pensions should not "unreasonably differentiate" amongst different groups of employees, though it allows for different benefits based on different jobs if there is a rationale behind the formula. Public safety jobs are often viewed as higher-risk, high stress jobs that lead to higher rates of burnout and can be physically demanding. Thus, many public service systems have lower retirement ages and higher benefits than general employee retirement systems.

Also, although SAVA adopted Guideline U, providing that benefit formulas in the public safety retirement systems should be similar, neither it nor Principle IV address how to judge legislation that would change the eligibility requirements for those systems.

Other factors that might be considered when addressing legislation similar to this proposal are:

- are there other workers in PERS-covered positions that might be considered "high-stress" emergency positions that might also might want to switch to a 20-year system?
- current dispatchers wishing to move from PERS to SRS will have to purchase service in SRS because PERS and SRS years of service do not transfer on a one-to-one basis. The costs of purchasing those years of service may be prohibitively expensive.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 2

Summary of Proposal
The Montana Judges' Association proposes to change the current retirement multiplier in the Judges' Retirement System (JRS). Currently, the multiplier is 3 1/3% for up to 15 years of service and 1.785% for each year of service over 15. The proposal would set the multiplier at 3 1/3% for all years of service up to but not exceeding 30 years. The benefit would not be allowed to exceed the salary of an active judge or justice. As of the 2009 actuarial valuation, the JRS was funded at approximately 148% and the costs related to the increase in multiplier would be borne by the system.

Fiscal Implications of the Proposal
Current actuarial analysis of this proposal was not available during SAVA's review. Similar legislation was not introduced in recent legislative sessions so information could not be gathered from previous fiscal notes.

Effect of Proposal on Other Retirement Systems
Because no other defined benefit public employee retirement system in Montana provides income replacement of 100% on retirement after 30 years of service, this change might encourage members of others systems to try to increase their system's multiplier to provide higher retirement benefits. This effect is known as "racheting."

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meet or fall short of the standards SAVA has set for retirement plan policy.

The proposal raises policy questions related to two of SAVA's principles. The first is Principle I, which provides that pensions should provide the base of financial security in retirement. SAVA did not provided a definition of "base." Whether or not the changes suggested by this proposal affect the meaning of "base of financial security in retirement" is up to the Legislature to

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determine. Generally speaking, retirement planning experts discuss retirement funding as a three-legged stool, with an employer sponsored retirement plan (of any sort) as only one leg. Personal savings and social security make up the other two legs. Under the proposal, a member reaching 30 years of service would receive a benefit that replaces 100% of income, before factoring in income from the other two "legs," so to speak.

Another policy question relates to Principle II and Guideline E, which provide that pension funding should be a contemporaneous obligation undertaken by the person benefitting from the service (taxpayers) at the time the service is provided by the employee. Guideline E also states that any increase in pension benefits should be accompanied by a "corresponding and equal increase in employer and employee contributions." According to these principles, pension costs should not be shifted to future taxpayers and employees. If the JRS were to experience funding problems in the future because benefits were increased without a corresponding increase in contributions, it could violate that principle by requiring contributions from taxpayers and members who will not receive the benefit of their increased contributions, either in public service from a judge in the case of the taxpayer or in retirement benefits in the case of the member. Alternatively, current taxpayers and employees should not pay for benefits to be received by future employees and taxpayers, which might happen if the JRS continues to be funded well over 100%. Since 2000, the JRS has been funded at more than 100% each year, with the lowest funding level being 130% in 2004. However, the JRS experienced the same market declines in late 2008 that the other retirement systems, making future valuations of the system key in determining the health of its funding and benefit structures.

<u>Amendments Proposed by SAVA</u>
None.

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<u>SAVA's Proposal Number</u> 3

<u>Summary of Proposal</u>
The Montana Firemen's Association proposes to revise the definition used in the Firefighters' Unified Retirement System (FURS) to include overtime, holiday and shift differential payments, compensatory time payments, and payments in lieu of sick leave. *(Although the written proposal to SAVA listed additional payments beyond overtime payments, 2009 legislation to accomplish a similar purpose included only overtime. Since the Association indicated that it would only be seeking to add overtime, this report assumes the proposal would only add overtime payments to the definition of compensation in FURS.)* The proposal would align the definition more closely with those in the Highway Patrol Officers' Retirement System, the Sheriffs' Retirement System, and the Game Wardens' and Peace Officers's Retirement System -- all public safety employee systems. The Municipal Police Officers' Retirement System (MPORS) is similar to FURS in that it does not include overtime in the definition of compensation.

The proposers offered to work with the Montana Public Employees' Retirement Administration to address concerns of "salary spiking."

<u>Fiscal Implications of the Proposal</u>
Current actuarial analysis of this proposal was not available during SAVA's review. The proposer states employer and employee contribution rates will stay the same but will be paid on more compensation because of the expanded definition. A similar piece of legislation, HB33, was introduced in the 2009 session. The fiscal note for HB33 projected an increase in the FURS amortization period by 0.2 years. (The fiscal note was based only on including overtime payments.) As of the 2009 actuarial valuation, FURS would amortize its unfunded liability in 12.7 years.

<u>Effect of Proposal on Other Retirement Systems</u>
The proposal only covers FURS; however, MPORS has a similar definition of compensation, one that does not include overtime of the other payments listed above. Changing the definition for FURS but not MPORS might create an incentive for members of MPORS to lobby include

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overtime in the MPORS definition of compensation.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. The proposal raises several policy questions related to current principles and guidelines. The differences in the definition of "compensation" between the public safety retirement systems falls under at least one principle and two guidelines. Principle IV discourages provisions that "unreasonably differentiate" between group of employees. It does allow for different retirement provisions depending on the rationale behind the provision. For example, public safety retirement systems often have earlier retirement ages and larger benefits to compensate for the demanding, often stressful nature of the job. Determining whether or not there is a rationale for differences between public safety systems in terms of defining compensation is a policy question to be faced by the legislature. However, Guideline U states that the legislature should strive to ensure that the benefit formulas in the public safety retirement systems are similar, which is what the proposers seek to achieve with changes to the FURS.

Guideline E seeks to outline how benefit increases should be funded, stating that any increase in benefits should be paid for by corresponding and equal increases in contributions from employers and employees. Although the proposal is to increase benefits by broadening the definition of what can be included as compensation, the proposal does not provide for contribution increases from either employer or employee.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 4

Summary of Proposal
The MEA-MFT proposes to increase the employer contribution to the Optional Retirement Program (ORP) of the Montana University System (MUS) by 1% to approximately 7% of salary. The proposal would raise the allowed employer and employee combined contribution to the individual accounts in the ORP to 14% of salary from the current 13%. The proposal suggests the additional cost be financed through a statutory or other on-going appropriation from the General Fund.

Fiscal Implications of the Proposal
Current actuarial analysis of this proposal was not available during SAVA's review. The proposal would require an increase in contributions to the retirement systems from MUS employers. The exact dollar amount of the increase would depend on the size of the MUS payroll. The proposal presented to SAVA estimated the cost of the 1% employer increase to be less than $3 million in FY2012; $3.5 million in FY2013; and around $4 million in FY2014 and FY2015. A similar bill was introduced to the 2009 legislature. The fiscal note for HB87 approximated costs for a 1% increase at $1.88 million for FY2010; $2 million for FY2011; $2.2 million for FY2012; and $2.4 million for FY2013. Because the ORP is a defined contribution plan, the members would have additional funds to invest. The final effect on members' benefits would depend on their investment choices.

Effect of Proposal on Other Retirement Systems
The PERS also contains a defined contribution plan. Currently, the employee pays 6.9% of salary to their account and the employer contributes 7.17% to the account, of which 4.19% is credited to member accounts. Increasing employer contributions to one defined contribution system might contribute to "ratcheting" up contributions to the other.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the

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proposals meets or falls short of the standards SAVA has set for retirement plan policy. SAVA's Principle I states that pensions should provide the base of financial security in retirement. SAVA did not provide a definition for "base," so the legislature should determine if the current level of funding to the ORP allows the members to obtain an account balance by retirement that is sufficient to provide that "base" or if an increase in contributions is required.

SAVA's guideline E provides that benefit increases should be paid for by a corresponding and equal increase in employer and employee contributions. The proposal would increase only employer contributions.

<u>Amendments Proposed by SAVA</u>
None.

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SAVA's Proposal Number 5

Summary of Proposal
The MEA-MFT proposes to create a modified professional retirement option (PRO) for the Teachers' Retirement System (TRS). This analysis is based on the PRO version presented to SAVA in April 2010. It is likely that the PRO proposal, especially the contribution concept, has been modified since that time based on updated information.

As presented to SAVA, the PRO would affect new hires only. The current TRS multiplier of 1.67% would apply for new hires retiring with less than 30 years of service. For new hires who retire with 30 or more years of service and 3 or more active membership years immediately preceding retirement, a 2% benefit multiplier for all years of service would apply. (Currently TRS members can retire after 25 years of service, regardless of age.) New hires would pay an additional 2% of salary to TRS; TRS employers would also pay an additional 2% of salary to TRS. The proposal leaves open the determination of where the additional 2% employer contribution would come from: GTB supported county retirement levies or the state General Fund.

Fiscal Implications of the Proposal
Current actuarial analysis of this proposal was not available during SAVA's review. The fiscal implications of the proposal depend, in part on the 2010 valuation, which will affect the amount of contribution increases to be paid by employers and new hires employees. The proposal as presented to SAVA estimated that an additional 2% of salary paid on all employees by the employer would amount to around $14 million per year or $28 million over the biennium. Because previous PRO legislation would have allowed active employees, not just new hires, to be eligible for the 2% multiplier, previous fiscal notes do not reflect the most accurate financial information. It is possible that the cost of providing the benefit for new hires will not require the full 2% employer and employee contribution. In fact, cost analysis done by the TRS actuary in 2008 estimated that the change in the normal cost rate for the PRO (for new hires and current employees) would be 0.61%. Using that figure, the cost of the proposal might be less than suggested by the proposers during the April presentation.

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Draft Note *RESULTS OF SAVA'S HB 659 COST ANALYSIS WITH THE TRS ACTUARIES WILL SHED ADDITIONAL LIGHT ON THIS SECTION.

Effect of Proposal on Other Retirement Systems

The TRS is the only Montana retirement system with a 25-year retirement provision. It also has a lower multiplier than PERS and the public-safety retirement systems, making it unlikely that leapfrogging or racheting will occur if this PRO or another version of it were enacted. PERS already has an enhanced multiplier for employees with 25 or more years of service.

Soundness of the Proposal as a Matter of Public Policy

In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Policy questions to be considered about this proposal are found in Principles I and II. Principle I provides that a pension should provide the "base of financial security in retirement." SAVA did not provide a definition for "base" so the legislature should determine if the current level of benefits provided through TRS satisfy its definition of "base." Principle II provides that funding of pensions should be a contemporary obligation. The principle is fleshed out by Guideline E, which explains that pension costs should not be shifted to future taxpayers and that any increase in pension benefits should be accompanied by a corresponding and equal increase in employer and employee contributions. The proposal as presented to SAVA included 2% contribution increases on both employer and employee. Depending on how the proposal changes through the legislative process, the legislature might want to consider how proposed increases match the standards SAVA set out in Principle II and Guideline E.

Amendments Proposed by SAVA

None.

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SAVA's Proposal Number 6

Summary of Proposal

The Association of Montana Retired Public Employees (AMRPE) proposes to adjust the composition of the Public Employees' Retirement Board (PERB) that governs most of the state's retirement systems. Currently the board has seven members, all appointed by the governor. Three members must be active public employees, one of whom must be a member of the DC plan. One member is a retired public employee. Two are members-at-large. One member must have experience in investment management, counseling, or financial planning or similar experience. The proposal would reduce the "active" members from three to two and increase the retired public employee members from one to two.

Fiscal Implications of the Proposal

The proposal does not increase or decrease the size of the PERB, so there should be no additional cost or savings.

Effect of Proposal on Other Retirement Systems

The proposal is unlikely to affect the other retirement systems governed by the Teachers' Retirement Board or the Board of Regents.

Soundness of the Proposal as a Matter of Public Policy

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Amendments Proposed by SAVA

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None.

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SAVA's Proposal Number 7

Summary of Proposal
TIAA-CREF, a financial-services company that administers the Optional Retirement Program (ORP) of the Montana University System (MUS), proposes to create a risk-managed defined contribution plan. The general design is similar to that of the ORP, though the specifics of contribution rate, investment choices, distribution options, and other design features are flexible and could be changed to address the particular needs of a retirement systems' members. The proposal did not specify a particular system to redesign, but, instead, highlighted the flexibility of the plan design for various types of employees.

Fiscal Implications of the Proposal
The cost and sources of funding would depend on plan design and eligibility.

Effect of Proposal on Other Retirement Systems
The effect of the proposal on other retirement systems is impossible to gauge unless a particular system or systems were singled out to be changed.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. The proposal might involve Principles I, II, and III, although any determination of the soundness of the proposal would depend heavily on the specific structure of plan. Principle I specifies that a pension should provide a "base" of financial security in retirement. Principle II provides that pension funding should be a contemporary obligation. Principle III provides that investments should be governed by the Prudent Expert Rule.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 8

Summary of Proposal
The Public Employees' Retirement Board (PERB) proposes a biennial clean-up/housecleaning bill. The revisions reflect PERB and court decisions interpreting state and federal law; eliminate out-dated statutory provisions; address new areas of concern; replace incorrect or changed terminology; and clarify the intent of the statute for the reader. It can affect all systems governed by the PERB.

Fiscal Implications of the Proposal
Housekeeping measures generally do not have provisions in them that would affect costs or savings. The 2009 housekeeping measure had a fiscal note reflecting no cost or savings from the measure.

Effect of Proposal on Other Retirement Systems
A housekeeping measure is unlikely to affect other non-PERB-administered retirement systems.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Guideline P provides that the legislature should support retirement administrators in their efforts to comply with standards for system administration set out by the Public Pension Coordinating Council. Updating the retirement systems' statutes should help the PERB in their efforts to comply with those standards and others.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 9

Summary of Proposal
The Public Employees' Retirement Board (PERB) proposes a rewrite of the statutes governing the Volunteer Firefighters' Comepensation Act (VFCA). The changes would bring the system up-to-date with current processes and changes to fire company organizations. It would also streamline procedures for determining eligibility for benefits.

Fiscal Implications of the Proposal
According to the proposer, the rewrite shouldn't affect the funding of the system. There was no similar legislation in recent sessions so information from past fiscal notes is not available to use as a reference.

Effect of Proposal on Other Retirement Systems
The proposal is not intended to affect other retirement systems, including the Firefighters' Unified Retirement System (FURS).

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Guideline N provides that the legislature should ensure that plan participants are informed about plan provisions. The PERB intends that a rewrite should assist volunteer firefighters understand and apply for the benefits available to them.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 10

Summary of Proposal
The proposal by the Public Employees' Retirement Board (PERB) would require employer contributions on compensation paid to working retirees in the Public Employees' Retirement System (PERS), the Firefighters' Unified Retirement System (FURS), and the Sheriffs' Retirement System (SRS). Currently, agencies hiring retirees receiving benefits from the retirement systems do not have to pay employer contributions for those working retirees. Because agencies would otherwise be required to pay those contributions for new hires who are not retirees receiving benefits from the retirement systems, the source of the contributions would generally be the agency's regular funds budgeted for new hires. Working retirees do not pay employee contributions and would not be required to do so under the proposal.

Fiscal Implications of the Proposal
Current actuarial analysis of this proposal was not available during SAVA's review. A similar bill -- HB12 -- was introduced in the 2009 Legislature. The fiscal note for HB12 estimated the changes would reduce the amortization period of the unfunded liability of the PERS by about 0.2 years. The impact of the other two systems was negligible, because of the small number of retirees involved. The note estimated the PERS trust would receive around $168,000 in additional contributions and that it would have no net impact on the General Fund balance.

Effect of Proposal on Other Retirement Systems
The proposal should not affect other retirement systems because these three are the only systems that currently allow working retirees.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Guideline W states that the legislature should encourage retirees who return to work to return to active retirement plan membership. The bill does not require working retirees to return to active

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plan membership, but it does provide for employer contributions to the system to be paid on those working retirees.

<u>Amendments Proposed by SAVA</u>
None.

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SAVA's Proposal Number 11

Summary of Proposal
The Public Employees' Retirement Board (PERB) proposes several changes to the statutes governing benefits and eligibility for the Public Emplyees' Retirement System's (PERS). It also proposes employer and employee contribution increases.

The proposal would increase the time period used to calculate the highest-average-compensation figure for the benefit formula from three to five years. Another benefit formula change proposed would be a phased-in multiplier. The multiplier scale would be: 1.5% for 5-10 years of service; 1.7857% for at least 10 but less than 30 years of service; and 2% for 30 or more years. In terms of eligibility, it would also raise the retirement eligibility age from 60 years of age with 5 years of service to 65 years of age with 5 years of service.

The proposal is to increase employer and employee contributions 1% per year, for up to 6 years, depending on the funding of the PERS. The employer contributions would be paid on all compensation paid to PERS-eligible employees. The increase in employee contributions would apply to new hires only. The proposal at the time of SAVA review did not specify who would be responsible for deciding if contributions should go up and what criteria should be used to make that determination.

Additional funding would come from PERS-covered employers and employees.

Fiscal Implications of the Proposal
Current actuarial analysis of this proposal was not available during SAVA's review. The fiscal impact of the proposal would likely increase the funded level of PERS, but the timing and amount of the change would depend on many factors including: level of contribution increases, turnover in PERS covered positions, investment returns, results of the latest actuarial valuation, among other things.

Currently, employees in PERS contribute 6.9% of salary to the plan. Employers pay 7.17% of

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salary into PERS, with the state picking up .1% of the contribution paid by local governments and .37% for school districts. If all increases proposed were implemented, after six years, employees would pay 12.9% of salary and employers would pay 13.17%. (The proposal did not provide for increases in the state contributions for school district and local government employees.)

Effect of Proposal on Other Retirement Systems
The proposal does not propose changes to other retirement systems, but, just as increasing benefits for one systems may encourage higher benefits in other systems, so might reducing benefits and increasing contributions play a role in effecting similar changes in other systems.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Principle II provides that pension funding should be a contemporary obligation undertaken by the employee and the people benefitting from the service (taxpayers) at the time the service is provided by the employee. According to the principle, pension costs should not be shifted to future taxpayers, but paid for during the time the employee is providing the service. In the same vein, current taxpayers (and employees) should not pay more than is needed to fund pension benefits in the future for current employees. The Legislature will need to weigh the final provisions of the proposal against this principle to determine whether or not it is being followed.

Amendments Proposed by SAVA
None.

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HB/SB ____

Recommendation of the State Administration and Veterans' Affairs Interim Committee (SAVA) to the 2011 Legislature:
Enact / Do not enact / Enact with amendments
as of August 17, 2010

SAVA's Proposal Number 12

Summary of Proposal

The Public Employees' Retirement Board (PERB) proposes certain benefit and funding changes to the Sheriffs' Retirement System (SRS). The proposal would increase the time period used to calculate the highest average compensation (HAC) piece of the retirement benefit formula from 3 to 5 years. It also would increase funding from the General Fund and provide for a state contribution to SRS, similar to other public safety retirement systems.

Fiscal Implications of the Proposal

The fiscal implications of the proposal would depend on the size of the proposed increase in employer contributions and the results of calculations by actuaries to determine the long-term effect of modifying the HAC calculation.

Effect of Proposal on Other Retirement Systems

The proposal does not include changes to other retirement systems, but, just as increasing benefits for one system may encourage higher benefits in other systems, so might enacting benefit reductions for new hires and increasing contributions encourage similar changes in other systems. Alternatively, future legislators in improved financial times could still modify the HAC to conform with the formulas in other retirement systems. (The PERB has proposed a similar HAC change for the GWPORS.)

Soundness of the Proposal as a Matter of Public Policy

In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Principle II provides that pension funding should be a contemporary obligation undertaken by the employee and the people benefitting from the service (taxpayers) at the time the service is provided by the employee. An increase in contributions and a reduction in benefits that will be paid to a system member upon retirement increases the likelihood (but certainly does not guarantee) that benefits will be paid for by the employer and employee contributions.

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Principle IV discourages provisions that "unreasonably differentiate" between group of employees. It does allow for different retirement provisions depending on the rationale behind the provision. For example, public safety retirement systems often have earlier retirement ages and larger benefits to compensate for the demanding, often stressful nature of the job. Determining whether or not there is a rationale for differences between public safety systems in terms of defining highest average compensation is a policy question to be faced by the legislature. However, Guideline U states that the legislature should strive to ensure that the benefit formulas in the public safety retirement systems are similar.

Amendments Proposed by SAVA
None.

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HB/SB _____

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Enact / Do not enact / Enact with amendments
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SAVA's Proposal Number 13

Summary of Proposal
The Public Employees' Retirement Board (PERB) proposes certain benefit and funding changes to the Game Wardens' and Peace Officers' Retirement System (GWPORS). The proposal would increase the time period used to calculate the highest average compensation (HAC) piece of the retirement benefit formula from 3 to 5 years. It also would increase employer contributions into the system.

Fiscal Implications of the Proposal
The fiscal implications of the proposal would depend on the size of the proposed increase in employer contributions and the results of calculations by actuaries to determine the long-term effect of modifying the HAC calculation.

Effect of Proposal on Other Retirement Systems
The proposal does not include changes to other retirement systems, but, just as increasing benefits for one system may encourage higher benefits in other systems, so might enacting benefit reductions for new hires and increasing contributions encourage similar changes in other systems. Alternatively, future legislators in improved financial times could still modify the HAC to conform with the formulas in other retirement systems. (The PERB has proposed a similar HAC change for the SRS.)

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Principle II provides that pension funding should be a contemporary obligation undertaken by the employee and the people benefitting from the service (taxpayers) at the time the service is provided by the employee. An increase in contributions and a reduction in benefits that will be paid to a system member upon retirement increases the likelihood (but certainly does not guarantee) that benefits will be paid for by the employer and employee contributions.

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Principle IV discourages provisions that "unreasonably differentiate" between group of employees. It does allow for different retirement provisions depending on the rationale behind the provision. For example, public safety retirement systems often have earlier retirement ages and larger benefits to compensate for the demanding, often stressful nature of the job. Determining whether or not there is a rationale for differences between public safety systems in terms of defining highest average compensation is a policy question to be faced by the legislature. However, Guideline U states that the legislature should strive to ensure that the benefit formulas in the public safety retirement systems are similar.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 14

Summary of Proposal
The Teachers' Retirement Board (TRB) proposes several changes to help the funding of the Teachers' Retirement System (TRS). Many of the changes were conceptual in nature when they were presented to SAVA. The concepts may have changed during the drafting and subsequent legislative processes.

The proposals include: an increased employer contribution rate; changing statutes governing working retirees; changing statutes governing 10% cap exemptions for salary increases that will be counted towards a retirement benefit; applying the full actuarial reduction for early retirement; and changing the actuarial interest rate for buy backs.

Fiscal Implications of the Proposal
Current actuarial analysis of this proposal was not available during SAVA's review. The fiscal impact of the proposal would likely increase the funded level of the TRS, but the timing and amount of the change would depend on many factors including: level of employer and possibly employee contribution increases, turnover in TRS covered positions, future investment returns, and the results of the latest actuarial valuation, among other things.

Effect of Proposal on Other Retirement Systems
The proposal is not intended to change other retirement systems, but modifications in one state system can often influence or inspire changes to another.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Principle II provides that pension funding should be a contemporary obligation undertaken by the employee and the people benefitting from the service (taxpayers) at the time the service is provided by the employee. According to the principle, pension costs should not be shifted to

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future taxpayers, but paid for during the time the employee is providing the service. Guideline E, in part, provides that any increase in pension benefits should be accompanied by a "corresponding and equal increase in employer and employee contributions." The legislature should weigh the final provisions of the proposal against Principle II and Guideline E to determine the soundness of the proposal as a matter of public policy.

Guideline V and W address early retirement (the legislature should resist changes that would encourage early retirement) and working retiree provisions (working retirees should return to active plan membership). Some of the proposed changes would attempt to address certain methods used by a few employers to skirt existing laws regulating working retirees. Also, the proposed changes would assist TRS in monitoring of working retirees. Another proposed change would apply a full actuarial reduction for early retirement, thus decreasing the benefits given to early retirees. The current method essentially subsidizes early retirement, which can be costly to a retirement system.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 15

Summary of Proposal
The Teachers' Retirement Board (TRB) proposes its biennial "housekeeping" measure. A housekeeping proposal will address any possible IRS rule changes or changes related to a request for a determination letter, clarifications to the amendments to the Family Law Order provisions, definitions, and other statutory clarifications.

Fiscal Implications of the Proposal
Housekeeping measures generally do not have provisions in them that would affect costs or savings. The 2009 housekeeping measure had a fiscal note reflecting no cost or savings from the measure.

Effect of Proposal on Other Retirement Systems
A housekeeping measure is unlikely to affect other non-TRB-administered retirement systems.

Soundness of the Proposal as a Matter of Public Policy
In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Guideline P provides that the legislature should support retirement administrators in their efforts to comply with standards for system administration set out by the Public Pension Coordinating Council. Updating the retirement systems' statutes should help the TRB in their efforts to comply with those standards and others.

Amendments Proposed by SAVA
None.

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SAVA's Proposal Number 16

Summary of Proposal

The proposal from the Teachers' Retirement Board (TRB) would increase the supplemental contribution rate for the Montana Unversity Systems' Option Retirement Program (ORP). The supplemental rate is required to be paid to the Teachers' Retirement System (TRS) employers in the University System in order to amortize the past service liability for University System employees participating in TRS. The law requires the liability to be amortized by July 1, 2033. To keep with this date, the TRB proposes and increase from the current rate of 4.72%. The rate will depend on the results of the actuarial valuation for 2010, which will not be complete until mid-fall.

Fiscal Implications of the Proposal

Current actuarial analysis of this proposal was not available during SAVA's review. The fiscal implications will depend on the size of the rate increase. The increase will be paid by employers in the University System.

Effect of Proposal on Other Retirement Systems

If the increase is not made or is not sufficient to amortize the past service liability of University System employees remaining in TRS, the unfunded liability of the teachers' system might increase because less money will be coming into the system to amortize the unfunded liability.

Soundness of the Proposal as a Matter of Public Policy

In this section, proposals are measured against the Principles and Guidelines for Public Employee Retirement Systems (as adopted by SAVA at its Dec. 11, 2009, meeting) to outline how the proposals meets or falls short of the standards SAVA has set for retirement plan policy. Principle II and Guideline E provide that the legislature should require contemporaneous funding of pension plans to ensure costs are not shifted to future taxpayers. Previous legislatures provided for the supplemental rate and set a date by which the liability should be amortized, measures that help ensure the costs of paying for benefits earned by members are not shifted to future taxpayers who did not receive the benefits of the employees' service. If the past service liability does not

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amortize within a certain period, at some point costs will be shifted to future taxpayers, violating Principle II and Guideline E.

Amendments Proposed by SAVA
None.

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