



The Million-Dollar Question:

Redesigning the State's Public Employee Retirement Systems and Other Interim Activities

The Final Report of the 2009-2010 State Administration and Veterans' Affairs Interim Committee

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Legislative Services Division
PO Box 201706
Helena, MT 59620-1706
PHONE: (406) 444-3064
FAX: (406) 444-3036
<http://leg.mt.gov/>

Prepared By Rachel Weiss
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**State Administration and Veterans' Affairs
Interim Committee Members**

Senator Joe Tropila, Presiding Officer
Senator Joe Balyeat
Senator Larry Jent
Senator Dave Lewis

Representative Gordon Hendrick, Vice
Presiding Officer
Representative Timothy Furey
Representative Pat Ingraham
Representative Robert Mehlhoff

Committee Staff

Rachel Weiss, Lead Researcher
Dave Bohyer, Lead Staff for the HJR 35
Study
David Niss, Attorney
Fong Hom, Secretary

Legislative Services Division

Susan Byorth Fox, Executive Director
Robert Stutz, Director, Legal Services
David D. Bohyer, Director, Office of
Research and Policy Analysis

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Executive Summary

At the dawn of the 2009 Legislative Session, several of Montana's public employee retirement systems faced a daunting situation: actuaries for the system estimated that the liabilities for system members' accrued benefits could not be paid off in the 30 years required by state statute. While several plans had a history of funding problems, the harsh economic climate of 2008 exacerbated the matter, causing investment losses of around 20% for the systems' portfolios. By the 2009 retirement system valuations, the state's two main retirement systems—the Teachers' Retirement System (TRS) and the Public Employees' Retirement System (PERS)—registered unfunded actuarially accrued liabilities of \$1.4 billion and \$790 million, respectively. While in no immediate danger of being unable to pay benefits or going broke, both systems still required legislators and administrators to consider tough decisions to ensure the long-term stability of the retirement funds.

With this situation in mind, the 2009 Legislature enacted House Bill No. 659 (HB 659), which required an interim committee to examine the retirement systems and recommend changes to TRS for the next legislative session. Thus, the stage for the interim was set with a million-dollar question: what should be done with the retirement systems with large unfunded liabilities that did not amortize in the required amount of time? The 2009-2010 State

Administration and Veterans' Affairs Interim Committee was that committee; this report documents their work throughout the interim, but particularly on the HB 659 study.

While the PERS and TRS are in no immediate danger of being unable to pay benefits or going broke, both systems still required legislators and administrators to consider tough decisions to ensure the long-term stability of the retirement funds.

Structure and organization

The State Administration and Veterans' Affairs Interim Committee (the SAVA Committee) is an interim committee established under section 5-5-228, MCA. Typical duties of an interim committee include reviewing administrative rules, conducting interim studies as assigned by the Legislature or Legislative Council, and monitoring the activities of the executive agencies under the committee's purview. Section 5-5-215, MCA, outlines those duties in detail:

5-5-215. Duties of interim committees.

- (1) Each interim committee shall:
 - (a) review administrative rules within its jurisdiction;
 - (b) subject to 5-5-217(3), conduct interim studies as assigned;
 - (c) monitor the operation of assigned executive branch agencies with specific attention to the following:
 - (i) identification of issues likely to require future legislative attention;

- (ii) opportunities to improve existing law through the analysis of problems experienced with the application of the law by an agency; and
- (iii) experiences of the state's citizens with the operation of an agency that may be amenable to improvement through legislative action;
- (d) review proposed legislation of assigned agencies or entities as provided in the joint legislative rules; and
- (e) accumulate, compile, analyze, and furnish information bearing upon its assignment and relevant to existing or prospective legislation as it determines, on its own initiative, to be pertinent to the adequate completion of its work.

(2) Each interim committee shall prepare bills and resolutions that, in its opinion, the welfare of the state may require for presentation to the next regular session of the legislature.

(3) The legislative services division shall keep accurate records of the activities and proceedings of each interim committee.

The SAVA Committee oversees a wide variety of state agencies that administer and provide an equally broad array of programs. Within these agencies are a number of entities that are attached for administrative purposes only to the agencies. Those agencies and entities include:

- the Office of the Secretary of State;
- the Department of Administration;
- the Department of Military Affairs;
- the Board of Veterans' Affairs;
- the Commissioner of Political Practices;
- the Public Employees' Retirement Board; and

- the Teachers' Retirement Board.

Work plan and meetings

The SAVA Committee met 14 times throughout the 2009-2010 interim. At its June 2009 organizational meeting, committee members elected officers, selecting Senator Joe Tropila as their presiding officer and Representative Gordon Hendrick as the vice presiding officer. The members also adopted a work plan that prioritized work on the study mandated by HB 659.

After the traditional poll of the legislators, Legislative Council assigned another study to the SAVA Committee: House Joint Resolution No. 35 (HJR 35). This study originated from the House State Administration Standing Committee, which faced—and ultimately tabled—three bills meant to address the controversial issue of bonus payments that an outgoing state officeholder attempted to have paid to the officeholder's personal, exempt staff. Instead, the State Administration Standing Committee voted to draft HJR 35 to study more thoroughly the issue of bonus payments.

Although the HB 659 study was always a priority, the SAVA Committee generally spent a portion of each committee meeting discussing at least one other topic related to its other interim duties. Veterans issues and related federal legislation, retention of paper records, a recent lawsuit filed to challenge Montana's campaign finance statutes,

and mail ballot legislation were among the topics featured. A summary of each meeting can be found in Appendix A.

Although the HB 659 study was always a priority, the SAVA Committee generally spent a portion of each committee meeting discussing at least one other topic related to its other interim duties.

Summary of recommendations and actions

The SAVA Committee made several recommendations and took various actions as a result of its interim work and studies.

House Bill No. 659

For the HB 659 study and redesign of state retirement plans, the SAVA Committee voted to send two possible redesigns of the TRS to the 2011 Legislature. Those alternative designs are encapsulated in committee bills LC 251 and LC 252.

- LC 251 would establish two money purchase plans for new hires into the TRS. A new hire would choose between the plans and would receive retirement benefits based on the member's account balance (contributions and interest) and an employer match of that balance. The level of the match would depend on the member's years of service in the system.

- LC 252 would establish a professional retirement option for new hires into the TRS. A new hire who worked 30 or more years would receive a 2% multiplier for all years of service, while current members and new hires who worked less than 30 years would receive the current 1.667% multiplier. In addition, LC 252 would raise the current retirement age, change the vesting time period for new hires, and extend the time period used to calculate the highest average compensation, which is one part of the retirement benefit formula.

Although it studied similar changes to the PERS, the SAVA Committee did not make a design recommendation to the Legislature as a result of this study.

A full discussion of the HB 659 study starts on page 5 of this report.

House Joint Resolution No. 35

The HJR 35 study did not result in any bill drafts forwarded to the 2011 Legislature. However, the SAVA Committee made several findings and recommendations related to state policy and practice and bonus pay and compensation "best practices." It also drafted a letter to the Department of Administration (DOA) to request the DOA take special notice of one recommendation in particular.

A summary of the HJR 35 study begins on page 15 of this report; a separate final report covers the study work in detail.

Other interim duties

The SAVA Committee completed its other interim duties including:

- reviewing legislation proposed by the agencies under its purview;
- adopting principles of sound fiscal and public policy for the public employee retirement systems as guidelines for the Legislature, legislators, stakeholders, and the public; and
- making recommendations to the 2011 Legislature on proposals to amend the state's various public employee retirement systems, as required by section 5-5-228(2)(d) through (2)(f), MCA.

The full list of principles and guidelines related to the retirement systems are available in Appendix B; the recommendations of the SAVA Committee on proposals to change the retirement systems are available in Appendix F.

Besides the two committee bills related to the HB 659 study, the SAVA Committee also requested two bills related to administrative rule review. Those requests are:

- LC 148 - Clarify sponsor notification for administrative rules; and
- LC 253 - Amend MAPA to change required language of an e-notice of proposed rule.

Materials related to the 2009-2010 SAVA Committee are available online at: http://leg.mt.gov/css/Committees/interim/2009_2010/State_Administration_and_Veterans_Affairs/

House Bill No. 659: Retirement Plan Study and Redesign

HB 659 background

HB 659 was enacted by the 2009 Legislature and became law without the signature of the Governor. It required the SAVA Committee to examine changes in the statewide public employees' and teachers' retirement systems. Specifically, HB 659 required the committee to recommend to the 62nd Legislature changes in the TRS. It took the form of a bill rather than a study resolution because it included an appropriation for the committee to use during the course of the study.

Essentially, HB 659 assigned the SAVA Committee four tasks:

- review current trends and best practices in public retirement plan design and funding;
- examine various options for changes to each of the statewide systems administered by the Public Employees' Retirement Board (PERB), such as changes in the multiplier used in the retirement benefit formula and the minimum age or years of service required for a plan member to receive a full, unreduced benefit or an early, reduced benefit;
- compare and contrast options for redesigning TRS; and
- develop legislation to implement that redesign.

Although HB 659 didn't require the SAVA Committee to change any of the PERB systems (as it did for TRS), it gave the committee discretion to do so. The bill also set out "sideboards" for the redesign of TRS. For example, the redesign must, among other things, ensure members have a guaranteed benefit in retirement, be funded on an actuarially sound basis, share risk of investment returns between employer and employee, and have assets that are invested by the Montana Board of Investments.

A copy of HB 659 is available in Appendix C of this report.

Summary of the SAVA Committee work

The SAVA Committee spent the fall of 2009 familiarizing themselves with the state's retirement systems, including how the systems are funded and the current fiscal situation faced by several of the plans. They also reviewed the structures of retirement systems in other states and system changes made in those states when faced with similar financial issues. Included in this background was a review of current and historical compensation (including benefits) of Montana state employees and teachers.

In the fall of 2009, the SAVA Committee contemplated hiring an outside

contractor to assist the members with the study. To gather more information about the services available from actuarial consultants and the costs of those services, the members issued a Request for Information, or RFI. The RFI asked contractors various questions related to the study design. Five consulting firms sent in responses to the RFI.

In December, the SAVA Committee considered a legal memo (entitled "Constitutionality of Potential Legislation Modifying GABA"¹) that discussed the legality of altering retirement benefits for current members, retirees, and beneficiaries. In the end, the SAVA Committee considered revising benefits for new hires only.

Also in December, the SAVA Committee chose to limit its HB 659 work to the two largest Montana retirement systems: PERS and TRS. (At present, neither system amortizes in any length of time.) The committee then issued a Request for Proposals, or RFP, based on information collected during the RFI process. Eventually, the SAVA Committee hired an actuarial consulting firm with significant experience in plan redesign: Buck Consultants.

In the end, the SAVA Committee considered revising benefits for new hires only.

¹ GABA is an acronym for "guaranteed annual benefit adjustment."

The consultants worked with the committee members throughout the winter and spring to consider and then narrow down the options for altering the current TRS and PERS structures. To organize its work with the consultant, SAVA outlined a four-meeting schedule with associated tasks for the consultants and decision points for the committee members. If completed, the schedule would allow the members to make recommendations in time for the 2011 Legislature. The tasks and decision points were:

- Task 1: Review and present information on plan design policy goals
 - ▶ Decision point 1: Establish plan design policy goals
- Task 2: Based on SAVA's policy goals, develop, analyze, and recommend potential design alternatives
 - ▶ Decision point 2: Select two or three potential design alternatives for TRS and PERS on which further analysis will be performed by the consultant
- Task 3: In-depth analysis of potential design alternatives
 - ▶ Decision point 3A: Select at least one TRS potential design alternative to forward to the TRS actuary for cost analysis; and
 - ▶ Decision point 3B: Select at least one PERS potential

design alternative to forward to the PERS actuary for cost analysis.

- Task 4: Confirm final cost analysis
 - ▶ Decision point 4: Make final recommendations to the Legislature; request that any necessary implementing legislation be drafted by legislative staff for the 2011 Legislative Session.

Consultants discussed the results of a survey of committee members. The results of the survey helped the consultants generate and rank a list of retirement program goals and retirement programs risks for the committee members' consideration. The goals were values that the SAVA Committee wanted to embody in its choice of redesign work, while the risks were problems the members wished to avoid or mitigate with a redesign.

Retirement program goals and risks

During the SAVA Committee's March and May 2010 meetings, Buck

Retirement Program Goals (after March 19 and May 19, 2010, meetings)

	Description	Rating
1	Retain experienced employees	9.75
2	Provide disability and death protection	8.5
3	Include professional investment management	7.25
4	Provide lifetime income security	7.25
5	Provide adequate income replacement at retirement age	7.25
6	Maintain adequate income throughout retirement	6
7	Provides tool to manage HR needs	6
8	Attract skilled and experienced employees	4.75
9	Attract entry-level employees	3.5
10	Reward career employees	1

Retirement Program Risks (after March 19 and May 19, 2010, meetings)

	Description	Rating
1	Costs not supported by tax revenue ²	9
2	Retirement patterns motivated by plan design increases to other costs (payroll, health, fringe)	8.5
3	Inefficient utilization of contributions to provide retirement benefits (low bang for buck)	8.5
4	Contribution rate volatility	6
5	High administrative and investment management costs	2.25
6	Higher contribution levels than other similar public employers	1
7	Higher contribution levels than other similar employers competing for the same employees	1
8	Negative impact to bond ratings	1

During the May 2010 meeting, the SAVA Committee considered how the various retirement plan design options might rank when evaluated in the context of the committee's decisions on goals and risks. Appendix D shows one of the several tables the members viewed as part of their decisionmaking process.

At its June meeting, the SAVA Committee requested actuarial cost analysis to be performed on several plan designs. From this analysis, they hoped to learn the estimated cost of these designs for new hires and also how the changes might affect the funding of the two retirement systems. The actuaries for each retirement system provided this information to the SAVA Committee and the analysis was confirmed by Buck Consultants.

Cost analysis for Teachers' Retirement System alternatives

For TRS, the SAVA Committee sought cost analysis on two redesign options: a money purchase plan and a revised defined benefit (DB) plan. The money purchase plan is also known as a cash balance plan and was often referred to by the consultants as an "individual account defined benefit" plan. In very basic terms, the money purchase plan gives members a benefit based on an account balance at the time of retirement or termination. A member has a credited account, the balance of which consists of a certain percentage of the employee's income along with interest earned on the contributions. In this case, the interest rate is set either by statute or by the retirement board and can vary from year

² Buck Consultants added the first risk and assigned it a tentative rating until they could generate committee comments on the importance of the risk. Though they made no formal motion, committee members agreed it was a substantial risk they would wish to avoid.

to year depending on actual investment returns. The size of the account balance depends on the employee's salary over all years of employment with that plan sponsor, plus the investment returns. Similar public employee retirement systems include the Texas County and District Retirement System and the State Employees' Pension Plan in Nebraska.

When an employee retires, the benefit is an annuity based on the account balance and a set employer match of that balance. (Some plans provide options for lump-sum or partial lump-sum distributions.) The level of the match might depend on whether or not the member is fully vested in the benefit. The vesting schedule can vary, depending on the plan. The SAVA Committee sought information regarding a 15-year graded vesting period.

A key distinction between a money purchase or cash balance plan and a defined contribution (DC) plan is who invests the plan's assets. In a DC plan, each member is responsible for investment decisions. In a money purchase plan, contributions from all members would be pooled and invested by the Montana Board of Investments, as they are now in the existing DB plans. The plan would guarantee members a minimum return on investment. The option the SAVA Committee chose to explore would set a target interest rate of 7%, with a minimum rate of 5% and a maximum of 9%. In this type of plan, members share with the plan sponsor some of the risks of investing. The higher

the minimum, though, the more risk assigned to the sponsor because of the interest guarantee.

A key distinction between a money purchase or cash balance plan and a defined contribution (DC) plan is who invests the plan's assets.

The second option considered for TRS is known as the modified Professional Retirement Option (PRO). It would be a revision of the existing TRS structure. Currently, retirement benefits for TRS members are determined by formula:

average compensation of the member's 3 highest consecutive years of service (known in TRS as the AFC) X years of service X a multiplier

The multiplier in TRS is 1.67%, which replaces about 50% of income after a 30-year career and less after a 25-year career. Another key provision of TRS is that a member can draw full, unreduced retirement benefits after 25 years of service. The "25-and-out" provision can be very costly because it reduces the amount of time for interest to be earned on contributions and also allows benefits to be paid out for a longer period of time.

The PRO as considered by the SAVA Committee would offer a 2% multiplier after 30 years of service. The multiplier would apply to all years of service, not just those in excess of 30. Members working less than 30 years before retiring

would earn the current 1.67%. The proposal would keep the service retirement age at 60 and vested, but increase the minimum years of service required to earn a full, unreduced benefit to 30 years. Also, unlike previous versions of the PRO, this design would apply to new hires only. Current members would not be eligible for the 2% multiplier but would still be eligible to retire after 25 years.

The SAVA Committee also explored combinations of vesting and AFC changes as part of the PRO. For example, a member in the current TRS vests (becomes entitled to a retirement benefit) after 5 years. One option investigated was a 15-year graded vesting period. The employee would gradually become vested in more of the employer contributions to the plan as the 15-year period went on. Another option was to increase the amount of time used to calculate the AFC from 3 to 5 years, which would theoretically lower the member's benefit because the compensation average used in the

formula to determine the benefit would be lower.

Results

The SAVA Committee received results from costing analysis from the TRS actuary at its August 17, 2010, meeting. The main item considered by the members was the "normal cost rate" of the new plan designs. The normal cost rate is the percentage of salary that it would take to fund future benefits for new hires into the system. The normal cost rate does not take into account any additional sum of money required to amortize the system's unfunded accrued liability.

The actuaries performed the cost analysis using the TRS data from the most recent valuation, which was as of June 30, 2009. Thus, the data displayed in this report and in the reports from the actuaries and consultants will be out of date almost immediately. TRS will receive the results of the 2010 valuations in the fall of 2010 and any fiscal notes for legislation will be based on those results.

Normal cost rate of design options considered for TRS

<i>Design</i>	<i>Normal cost rate (percentage of salary)</i>	<i>Increase from current rate (percentage of salary)</i>
Current design	9.74%	--
PRO (3 AFC; 5-year vesting)	10.28%	0.54%
PRO (5 AFC; 5-year vesting)	9.89%	0.15%
PRO (3 AFC; 15-year vesting)	10.16%	0.42%
PRO (5 AFC; 15-year vesting)	9.80%	0.06%
Money Purchase Plan	9.09%	-0.65%

*Source: presentation to the SAVA Committee, August 17, 2010, Cavanaugh Macdonald, available from: http://leg.mt.gov/content/Committees/Interim/2009_2010/State_Administration_and_Veterans_Affairs/Meeting_Documents/August-2010-meeting/trs-sava-8-17-10-final-cavmac.pdf

Cost analysis for Public Employees' Retirement System alternatives

For PERS, the SAVA Committee also considered two different options: a money purchase plan resembling the one proposed for TRS and a modification of the existing PERS benefit design.

The modifications to the existing design were based on those suggested to the SAVA Committee by the PERB during its presentation of agency bill draft proposals. In the existing PERS design, the multiplier is 1.786%, which increases to 2% for all years of service after the member has worked for 25 years. The modification would:

- increase the normal retirement age from 60 with 5 years of service to 65 with 5 years of service;
- change the highest average compensation (HAC) calculation from 3 to 5 years; and

- implement a phased-in multiplier that would start out lower than the current 1.786% and increase more slowly to 2%.

For PERS, the SAVA Committee also considered two different options: a money purchase plan resembling the one proposed for TRS and a modification of the existing PERS benefit design.

The money purchase plan reviewed for PERS was similar to that proposed for TRS, except that the vesting schedule was a 5-year cliff, as it is for the other PERB-administered systems.

Results

The SAVA Committee received results from costing analysis from the PERS actuary at its August 17, 2010, meeting. The main item considered by the members was the "normal cost rate" of

the new plan designs. The normal cost rate is the percentage of salary that it would take to fund future benefits for new hires into the system. The normal cost rate does not take into account any additional sum of money required to amortize the system's unfunded accrued liability.

After agreeing that it might be impossible to agree on just one design to forward to the 2011 Legislature for its consideration, the SAVA Committee decided to draft two alternative plans for TRS.

The actuaries performed the cost analysis using the data from the most recent PERS valuation, which was as of June 30, 2009. The actuary then projected results for June 30, 2010, the date of the next valuation. The results were also updated to reflect changes in the plan assumptions that had occurred since the last valuation. The goal of using the updated data was to gain a better cost estimate for the new designs. However, the data displayed in this report will be out of date almost immediately. The PERB will receive the results of the 2010 valuations in the fall of 2010 and any fiscal notes for legislation will be based on those results.

Normal cost rate of design options considered for PERS

<i>Design</i>	<i>Normal cost rate (percentage of salary)</i>	<i>Ratio of normal cost to current</i>
Current DB design	11.87%	100.0%
Modified DB	9.50%	80.1%
Money Purchase Plan	11.20%	94.4%

*Source: presentation to the SAVA Committee by Cheiron, August 17, 2010, available from: http://leg.mt.gov/content/Committees/Interim/2009_2010/State_Administration_and_Veterans_Affairs/Meeting_Documents/August-2010-meeting/pers-sava-study-08122010-v9.pdf

Committee recommendations to the 2011 Legislature

After agreeing that it might be impossible to agree on just one design to forward to the 2011 Legislature for its consideration, the SAVA Committee decided to draft two alternative plans for TRS. The Legislature could then review both alternatives and make the final decision. Also, the SAVA Committee

decided not to make a recommendation for the PERS.

The first design option the SAVA Committee voted to send to the 2011 Legislature was a choice for new hires between two money purchase plans. The second was a modified defined benefit plan based on the PRO concept. Option 1 was drafted as LC 251; Option 2 was drafted as LC 252.

Option 1: Choice between money purchase plans (LC 251)

- establish two plans between which new hires can select membership
- both would be money purchase plans. The benefit would be an annuity at retirement age based on the accrued balance of the member's account.
- a member's account would be credited with employee contributions (currently set at 7.15% of salary) and interest credits
- at retirement the vested member's accumulated account balance would be matched up to 100% by the employer and the total would be annuitized for a retirement benefit
- the Teachers' Retirement Board would grant a minimum interest rate of 5% and a maximum of 9%. The goal would be to average 7% over the member's career.
- 15-year graded vesting (The member would be 25% vested after 5 years, increasing 5% each year for years 6 through 10, and increasing 10% each year for years 11 through 15 until the member is fully vested after 15 years.)
- retirement eligibility age would be 60 and vested
- the second money purchase plan would have the same provisions as the first, except

that a member would pay an additional one-half percent of salary into the member's account. If the member remained for 30 years, the employer would match the additional employee contribution at retirement, along with interest on the additional contribution.

Option 2: Professional Retirement Option (PRO) (LC 252)

- would keep general structure of existing TRS
- new employees' contribution rate would increase by 0.54%
- increase the number of years used to calculate a member's average final compensation from 3 to 5 years
- revise the time to vest in the employer contributions to the benefit from a 5-year cliff vesting to a 15-year graded system. (The member would be 25% vested after 5 years, increasing 5% each year for years 6 through 10, and increasing 10% each year for years 11 through 15 until the member is fully vested after 15 years.)
- the benefit multiplier would be 1.667% for retirement before 30 years of service
- a 2.0% multiplier would apply for all years of service if the member retired with 30 or more years of service

- service retirement at any age with 30 or more years of service or age 60 and vested
- early retirement age would be 55 and vested, with a full actuarial reduction taken for early retirement

HB 659 work, including all reports from the consultants and actuaries are available online at
http://leg.mt.gov/css/Committees/interim/2009_2010/State_Administration_and_Veterans_Affairs/Assigned_Studies/hb659.asp

Study and meeting materials

A list of study reports and materials generated for the SAVA Committee's

House Joint Resolution No. 35: Study of State Employee Bonus Payments

The House State Administration Standing Committee of the 2009 Legislature requested HJR 35 as a response to a state constitutional officer attempting to pay bonuses to certain exempt personal staff at the end of the officer's term. The bonuses were never paid after the chief legal counsel for the DOA determined them to be illegal.

Although the House committee held public hearings on three pieces of legislation related to the controversy, none of the bills made it to the House floor. Instead, the committee had HJR 35 drafted to study some of the issues raised by the incident and the resulting legislation. A copy of the resolution is available in Appendix E.

The HJR 35 study ranked 9th out of 17 studies in the postsession poll of legislators. The Legislative Council assigned the study to the SAVA Committee. After determining that its priority for the interim would be the HB 659 study of public employee retirement systems, the SAVA Committee directed research staff to identify best practices regarding bonus pay, along with a comparison of the state's current policies to those "best practices." The results would be presented as a staff white paper and presented orally to the members at a later meeting date.

The SAVA Committee made two recommendations as a result of the HJR 35 study:

- that the primary statutes governing bonus pay, both those statutes that allow for bonus pay as part of the broadband pay plan and those that preclude illegal bonus pay, be retained intact; and
- that the Department of Administration exercise its authority to ensure that agencies are in compliance with section 2-18-301, MCA, and MOM Policy 3-05-1.

The committee also made the following findings regarding state policy and practice related to bonus pay:

- that current law is sufficient to preclude the payment of a bonus in the manner attempted by an elected official following an election defeat or by any other person, including an elected official, who is responsible for making pay decisions and who does not follow the law and pay rules; and

- that not all agencies are in compliance with section 2-18-301, MCA, and MOM Policy 3-05-1, specifically the requirements of all agencies to adopt pay rules and to file the pay rules with the DOA.

The SAVA Committee made the following findings regarding "best practices" in bonus pay and state employee compensation:

- Current law and written state pay policies are consistent with bonus pay "best practices," to the extent they exist.
- Although bonus pay as part of compensation in general among exempt (professional), civilian employees of the federal government and among salaried, exempt (professional) private sector employees has historically been a significant component of total compensation, bonus pay among Montana's state employees is very difficult to demonstrate, track, or analyze.

Although it did not make recommendations regarding other topics generated by committee members' questions during the study, the SAVA Committee did make several findings. The additional topics included:

- appropriate amounts or percentage adjustments to the

base pay of state employees, either in terms of "pay for performance" in general or specifically in terms of "bonus pay;"

- state employee pay;
- legislators' participation in the retirement systems;
- pensions paid to TRS and PERS retirees or beneficiaries;
- pay increases for state employees nearing retirement eligibility or for state employees in general; and
- establishing new or revising existing salary caps for employees covered by the state's retirement systems.

The SAVA Committee made the following findings regarding the additional topics:

- State employees covered by the PERS and paid at levels higher than most state employees have generally received higher average annualized increases in pay than state PERS-covered employees paid at levels below most state employees.
- In general, state employees covered by PERS have received higher average annualized pay increases than the increases assumed for the actuarial evaluation of the PERS or statutorily provided by the Legislature through generally applicable pay increases.

A complete summary of the SAVA Committee's work on the HJR 35 study is encapsulated in a separate report entitled, "Final Report for HJR 35: Bonus Pay Policy and Practices for Montana

State Government." In addition to the final report, staff research resulted in one white paper and two memos. Those writings are available on the SAVA Committee website.

Executive Agency Oversight

Retirement system oversight

Principles and guidelines for public employee retirement systems

In addition to its regular agency oversight duties, section 5-5-228(2), MCA, tasks the SAVA Committee with several functions related solely to the state's public employee retirement system. First, it must establish principles of "sound fiscal and public policy" to guide the Legislature, retirement systems' stakeholders and administrators, and the public when suggesting changes to the systems. The SAVA Committee should also "solicit and review proposed statutory changes" to the retirement systems and then make a recommendation to the next Legislature on whether or not the proposal should be enacted. Those duties are underlined in the text below:

5-5-228. State administration and veterans' affairs interim committee. (1) The state administration and veterans' affairs interim committee has administrative rule review, draft legislation review, program evaluation, and monitoring functions for the public employee retirement plans and for the following executive branch agencies and the entities attached to the agencies for administrative purposes:

- (a) department of administration;
- (b) department of military affairs; and
- (c) office of the secretary of state.

(2) The committee shall:

- (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.

(3) The committee may:

- (a) specify the date by which proposals affecting a retirement system must be submitted to the committee for the review contemplated under subsection (2)(d); and
- (b) request personnel from state agencies, including boards, political subdivisions, and the state public employee retirement systems, to furnish any information and render any assistance that the committee may request.

As required by statute, the SAVA Committee considered and adopted principles for public employee retirement systems. The members first considered the principles and guidelines at its

October 2009 meeting and later revised and adopted the draft principles at a December 2009 meeting. All principles and guidelines were largely based on work done for earlier SAVA committees. The four principles and accompanying 23 guidelines are included in Appendix B.

Review of proposals to amend the retirement systems

In addition to typical interim committee oversight duties (reviewing administrative rules and draft legislation and evaluating and monitoring agency programs), the SAVA Committee has a unique task: review and make recommendations for proposals to amend the retirement systems' statutes. These recommendations are separate from the committee's other duties, including the task of authorizing agency legislation for drafting purposes.

The retirement systems, system stakeholders, and individual legislators all can submit proposals for review. In all, the SAVA Committee considered 16 various proposals to revise the retirement systems; seven of the proposals were from system stakeholders and 9 were from the two retirement boards. Retirement stakeholders presented their proposals at the April 2010 meeting, while the two retirement system boards presented at the June 2010 meeting.

When making recommendations, the SAVA Committee had three possible options:

1. The Legislature should enact the proposal;
2. The Legislature should not enact the proposal; or
3. The Legislature should enact the proposal with SAVA-suggested amendments.

In addition to typical interim committee oversight duties, the SAVA Committee has a unique task: review and make recommendations for proposals to amend the retirement systems' statutes.

The SAVA Committee made recommendations at its final meeting on September 13, 2010. A separate report to the Legislature contains the analysis required by section 5-5-228(2)(e), MCA, as well as a summary table of the proposals. That table is also available in Appendix F.

General interim committee duties

While the SAVA Committee focused the bulk of its meeting time on the HB 659 retirement study, it did devote attention to other interim committee duties.

Although administrative rule review was mostly handled at the staff level, the SAVA Committee decided at its final meeting to let the 2011-2012 SAVA Committee address a rule issue that cropped up late in the interim. The question revolves around the repeal by the DOA of several personnel rules and subsequent addition of that content to

the Montana Operations Manual. The next SAVA Committee will decide how much, if any, time to spend on the matter.

The SAVA Committee also reviewed agency legislative proposals, as required of all interim committees, at its June 2010 meeting. By its final meeting in September, the committee had authorized legislative staff to draft those proposals in order for the bills to meet the December 15 deadline for preintroduction of agency and committee bills.

Other agency oversight issues that appeared on SAVA Committee agendas were:

- updates on federal activities and legislation related to veterans' affairs;
- briefings on the Citizens United ruling by the U.S. Supreme Court and its possible effects on Montana's campaign finance regulations;
- a review of the successes of and challenges facing the Office of the Commissioner of Political Practices; and

- an update on record retention in the Office of the Secretary of State.

The budget crunch faced by the 62nd Legislature was also a topic on the SAVA Committee's August agenda. During that meeting, members heard from Legislative Finance Division (LFD) staff about possible options for the Legislature to reduce expenditures or raise revenues during the next biennium. LFD staff generated a list of options for the Legislative Finance Committee (LFC); various interim and subcommittees then considered the options and provided feedback to the LFD. The LFC considered the feedback when it was making its recommendations to the Legislature. The options presented to the SAVA Committee were relevant to its agency oversight assignments and included various policy issues such as pensions, state employee health benefits, military and veterans' programs, and general government structure and administration. The members provided the requested feedback and were given a preview of the difficult decisions that awaited them in the upcoming session.

Committee Legislation

In addition to legislation requested as a result of the HB 659, the SAVA Committee forwarded two committee bills to the next Legislature. Both bills amend the Montana Administrative Procedure Act (MAPA), which is contained in Title 2, chapter 4, MCA. Those bills are:

- LC 148 - Clarify sponsor notification for administrative rules; and
- LC 253 - amend MAPA to change required language of an e-notice of proposed rule.

The two bills requested from the HB 659 study are:

- LC 251 - Establish two money purchase plans in TRS for new hires only; and
- LC 252 - Professional retirement option for new hires into teachers' retirement system.

At its August meeting, the SAVA Committee assigned sponsors for all of the bills. (Assignments will change if the sponsors are not reelected in November.)

- LC 148 - Representative Furey (Senator Lewis as an alternate)
- LC 251 - Senator Balyeat
- LC 252 - Senator Jent
- LC 253 - Senator Balyeat

Appendix A

Summary of Meetings

Summary of Meetings

June 26, 2009

At this organizational meeting, the SAVA Committee adopted a work plan for the interim, along with general study plans to guide work on HB 659 and HJR 35 studies. Committee members heard introductions from the various agency representatives. They also heard general, introductory information about the state's retirement systems and took public comment about what approach they should take with the HB 659 study. Committee members elected Senator Joe Tropila as presiding officer and Representative Gordon Hendrick as vice presiding officer.

October 1, 2009

During this teleconference meeting, members heard a summary of a legal memo written by legal counsel discussing options for the SAVA Committee to obtain actuarial and consulting services for the purposes of HB 659. After some discussion, the SAVA Committee voted to issue a Request for Information (RFI) to establish what types of actuarial consulting services were available and at what cost before deciding on whether or not it should hire outside consultants. Also at this meeting, the SAVA Committee generated several plan design alternatives that it wanted to consider during the HB 659 study.

October 29-30, 2009

In late October, the SAVA Committee gathered background information on the retirement systems and looked at the role the retirement systems play within the overall context of state employee compensation. They also heard from actuaries for the retirement systems who presented the results of the 2009 actuarial valuations during this meeting. In addition, the Public Employees' Retirement Board (PERB) presented options it is considering to alter the retirement systems under its authority. After reviewing the results of the RFI, the SAVA Committee voted to issue a Request for Proposals (RFP) to obtain design consulting advice for its HB 659 work. It limited the RFP to a redesign of TRS and design changes to PERS-DB. In non-HB 659 work, the SAVA Committee heard updates from the Commissioner of Political Practices and the Secretary of State. Members also considered but did not adopt Principles and Guidelines for Public Employee Retirement Systems.

December 11, 2009

In December, the SAVA Committee received information about a Veterans' Day Roundtable held in Great Falls and current federal legislation affecting military families and veterans. Although members had earlier considered adopting principles and guidelines for public employee retirement systems, they formally amended and adopted those guidelines at this meeting. The SAVA Committee considered the benefits and

funding of the smaller retirement systems not included in the RFP, but took no action regarding these systems. Members also learned about the Optional Retirement Program of the University System, a defined-contribution system that might be affected by changes to TRS and the PERS-DB.

In addition, legal counsel presented a summary of court opinions relating to contract rights, particularly a potential modification of contract rights for current retirement system members and retirees. Committee members added language to the RFP to acknowledge they had not yet reached a decision on the issue. At the meeting's end, the SAVA Committee amended and adopted draft RFP language.

March 3, 2010

Committee members met to discuss the results of the RFP, which was issued on January 29, 2010, and due on February 19. They received three responses to the RFP. A scoring committee met in late February to consider and score those responses. At this meeting, the SAVA Committee voted to contract with the highest-scoring offeror to assist with the HB 659 study.

March 19, 2010

During this meeting, the SAVA Committee heard an update on the HJR 35 study of bonus payments. They also worked with the hired consultants for the first time, hearing about various types of plan designs, as well as working towards setting goals and objectives for the HB 659 study and redesign (Task 1). Members also were briefed about an ongoing performance audit of the retirement systems that looked at if "salary spiking" was an issue in the systems. The SAVA Committee approved a Memorandum of Understanding (MOU) with the Teachers' Retirement Board. The MOU allowed the SAVA Committee to use the Board's actuaries to provide cost analysis for the HB 659 study and other committee interim duties. Members heard a summary of the U.S. Supreme Court's decision in Citizens United v the FEC, as well as a related lawsuit pending in Montana District Court.

April 22-23, 2010

The April SAVA Committee meeting was abbreviated when the hired consultants missed a connecting flight to Helena and were unable to attend. Instead, the members heard a report from the Commissioner of Political Practices on the possible ramifications for Montana law after the Citizens United decision. Various retirement system stakeholders presented their proposals to amend the retirement systems in the 2011 legislative session. Members also approved an MOU with the PERB.

May 19, 2010

Added to the meeting schedule in late April 2010, the May meeting focused almost solely on the HB 659 work with the hired consultants. After hearing more about the

results of a risk/value analysis, the SAVA Committee selected a few alternative plans for the consultants to present in more detail at the June 2010 meeting (Task 2).

June 24-25, 2010

At the June meeting, the SAVA Committee considered options for a committee bill related to administrative rules and one to allow counties to conduct mail-ballot elections. Next, the members heard presentations about the legislative concepts the executive agencies intended to pursue for the next legislative session. The members authorized the drafting of most of those concepts. The retirement boards also presented the results of recent experience studies performed to analyze the validity of the key retirement plan assumptions. Before turning their attention solely to retirement plan work, the members heard about a request by the Legislative Finance Committee (LFC) for the SAVA Committee to review several options to cut spending that the LFC might recommend to the next Legislature. The SAVA Committee then spend most of a day analyzing the various redesign options, before voting to send several options to the retirement boards' actuaries for costing analysis (Task 3).

August 17, 2010

In August, the SAVA Committee received the costing results for the design options it chose at an earlier meeting (Task 4). After discussing the designs, costs, and various options, members voted to forward two alternative designs for the TRS only; the 2011 Legislature would then consider both options. The SAVA Committee heard a request for a committee bill related to administrative rules. Then, members were briefed on options before the LFC related to budget reductions for the next biennium and provided feedback to legislative staff for the LFC.

September 13, 2010

During the SAVA Committee's final meeting, they wrapped up a number of loose ends, including authorizing several bill drafts for the retirement boards, approving drafts of two committee bills, reviewing provisions for the HB 659 bills, commenting on a draft final report for the HJR 35 study, and making recommendations on the various proposals to changes the retirement systems. The members heard testimony on the mail ballot draft bill they had requested in June, but did not agree to send a committee bill should be sent to the Legislature. An administrative rule issue relating to the repeal of certain personnel rules was left for the next SAVA Committee.

Appendix B
Principles and Guidelines, As Adopted

Principles and Guidelines for Public Employee Retirement Systems

As adopted by the State Administration and Veterans' Affairs Interim Committee
December 11, 2009

Principles

- I. Pensions should provide the base of financial security in retirement.
- II. Pension funding should be a contemporary obligation.
- III. Pension investments should be governed by the Prudent Expert Rule.
- IV. Pension benefits should be equitably allocated among beneficiaries.

Guidelines

- A. The legislature should approve all changes of benefits.
- B. The legislature should approve the funding of the state's retirement systems.
- C. The legislature should regularly review the management of the state's public retirement systems and the investment of the systems' assets.
- D. The legislature should maintain permanent, pension-review bodies to analyze the problems of the state's public retirement systems on an ongoing basis and to make recommendations for state legislative actions.
- E. The legislature should require contemporaneous funding of pension benefits to ensure that pension costs are not shifted to future taxpayers or future employees, including that any increase in pension benefits be accompanied by a corresponding and equal increase in employer and employee contributions.
- F. The legislature should require a fiscal note when establishing or amending pension plan benefit provisions and the fiscal note should state whether the proposed revisions follow the principles and guidelines established under 5-5-228, MCA.
- G. The legislature should ensure that the full, long-term costs of early retirement programs and incentives have been calculated before such a program is adopted in order to allow the legislature to provide for the costs.
- H. The legislature should ensure that post-retirement benefit adjustments are independently funded and have a ceiling on the percentage of increase for a single year.
- I. The legislature should provide strict guidelines for disability coverage and should provide for periodic, follow-up screenings of disabled retirees.

- J. The legislature should make available but not pay for health insurance for retired employees. Health insurance is not a benefit available through the retirement systems administered by the Public Employees' Retirement Board or the Teachers' Retirement Board.
- K. The legislature should establish strict fiduciary standards and conflict of interest laws to govern the conduct of trustees as they manage the assets of the retirement system.
- L. The legislature should continue to require annual actuarial reports that use uniform actuarial assumptions to evaluate the financial soundness of the state's public retirement systems.
- M. The legislature should provide for reciprocity of benefits for workers who shift jobs within the state and its political subdivisions and portability for those who shift jobs across state lines.
- N. The legislature should ensure that pension plan participants are fully informed of plan provisions, including benefits, service and vesting requirements, assets and liabilities, investment performance and risk, actuarial assumptions and data, fiduciary requirements, and selection of plan trustees.
- O. The legislature should support coordination of state and local government retirement systems.
- P. The legislature should encourage and support the efforts of state retirement system administrators to comply with the principles of pension system administration established by the Public Pension Coordinating Council.
- Q. The legislature should not index postretirement benefit increases.
- R. The legislature should not enact one-time, *ad hoc* benefit increases.
- S. The legislature should require that public employees belong to a retirement plan.
- T. The legislature should authorize local governments to enroll rural firefighters under the Firefighters' Unified Retirement System, provided the local government pays the cost.
- U. The legislature should strive to ensure that retirement benefit formulas in the public safety retirement plans are similar.
- V. The legislature should resist changes to retirement benefit formulas or retirement eligibility criteria that would encourage early retirement.
- W. The legislature should encourage retirees who return to work to also return to active retirement plan membership.

Appendix C
Text of HB 659



HOUSE BILL NO. 659
INTRODUCED BY ROBERTS, STAHL

AN ACT DIRECTING THE STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE TO EXAMINE AND RECOMMEND TO THE 62ND LEGISLATURE FUNDING AND BENEFIT CHANGES IN THE STATEWIDE PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS; PROVIDING AN APPROPRIATION; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, Article VIII, section 15, of the Montana Constitution requires all public retirement systems to be funded on an actuarially sound basis; and

WHEREAS, the recent economic collapse of the financial markets in the United States has severely affected the market value of investments and adversely affected the funding of Montana's statewide retirement systems; and

WHEREAS, the July 1, 2008, actuarial valuation for the Teachers' Retirement System (TRS) showed that current contribution rates will not amortize the system's unfunded liability within the 30-year amortization period considered to be the benchmark for actuarial soundness; and

WHEREAS, if investment earnings for TRS continue to dramatically decline, even with contribution increases, the system's liabilities may not amortize in any length of time unless significant funding is provided and TRS is redesigned to reduce the accrual of benefit liabilities; and

WHEREAS, based on actuarial projections that take into consideration continued market declines since the actuarial valuation of July 1, 2008, for the retirement systems administered by the public employees' retirement board, the unfunded liabilities in the

public employees', game wardens' and peace officers', and sheriffs' retirement systems may also not amortize in any length of time without increased contributions and benefit or plan design changes; and

WHEREAS, an appropriate interim committee of the Legislature should examine the funding and benefits in all of the statewide retirement systems, which include the public employees', teachers', judges', game wardens' and peace officers', sheriffs', firefighters' unified, municipal police officers', and volunteer firefighters' retirement systems, review options for changing benefits and plan design, consider the purpose of retirement plans as a part of an overall compensation package for public employees, and develop legislation for consideration by the next Legislature; and

WHEREAS, such an examination and the development of legislation to implement plan redesign and funding changes will require that the committee be authorized to hire actuarial and other expert consulting services.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Interim committee to examine and recommend changes to statewide retirement systems. (1) In addition to fulfilling its duties under 5-5-228(2)(a), the state administration and veterans' affairs interim committee established in 5-5-228 shall:

(a) review current trends and best practices in public retirement plan design and funding;

(b) examine various options for changes to each of the statewide retirement plans administered by the public employees' retirement board, such as but not limited to changes in:

(i) the benefit formula multiplier for each year of service;

(ii) the minimum age at which a retirement plan member is eligible for full benefits or for reduced, early retirement benefits; and

(iii) the minimum years of service required for a retirement plan member to be eligible for full retirement benefits or for reduced, early retirement benefits.

(2) With respect to the teachers' retirement system, the committee shall compare and contrast various options for redesigning the system, including money purchase plan

design options and other alternative and hybrid defined benefit plan options, and shall develop legislation to implement a redesign of the teachers' retirement system that:

- (a) ensures members will have a guaranteed benefit in retirement;
 - (b) provides that the employer and employee shall share in some manner the risk of actuarial gains and losses and allows for the adjustment of employer and employee contributions accordingly;
 - (c) is sustainable and funded on an actuarially sound basis;
 - (d) provides benefits designed to attract and retain qualified and competent employees in a competitive labor market and to facilitate effective workforce management;
 - (e) complies with the federal Internal Revenue Code governing tax-qualified public pension plans;
 - (f) provides that the system is administered by the teachers' retirement board and provides that system assets are invested by the board of investments, as required by the Montana constitution; and
 - (g) provides a foundation for financial security in retirement, taking into consideration that:
 - (i) a retirement plan is only one part of an employee's compensation package that also includes salary, health insurance benefits, and other benefits;
 - (ii) an employer-sponsored public retirement plan is not intended to be the sole provider of income to an employee in retirement; and
 - (iii) deferred compensation, personal savings and investments, and social security should be part of an employee's financial planning for retirement.
- (3) (a) The committee may hire consulting services as needed.
- (b) The public employees' retirement and teachers' retirement boards and their respective staffs shall provide requested information and actuarial analysis to the extent feasible within the framework of the retirement boards' fiduciary and constitutional responsibilities.
- (c) The board of investments and its staff shall also provide requested information and analysis to the extent feasible and consistent with its fiduciary and constitutional responsibilities.

(4) The committee shall involve public employers, public employees, members of the current public employees' retirement systems, public employee and retiree representative organizations, public retirement plan administrators, and other interested parties in the process of developing options and recommendations.

(5) Subject to 5-5-211, the speaker of the house and the senate committee on committees are encouraged to:

(a) consult with the legislative council to determine the most appropriate number of members and support staff for the state administration and veterans' affairs interim committee; and

(b) appoint members from the 61st legislature's standing house and senate state administration committees, house appropriations committee, and senate finance and claims committee to the extent feasible.

Section 2. Appropriation. There is appropriated from the general fund to the legislative services division \$200,000 for the purposes of [section 1].

Section 3. Effective date. [This act] is effective July 1, 2009.

- END -

I hereby certify that the within bill,
HB 0659, originated in the House.

Chief Clerk of the House

Speaker of the House

Signed this _____ day
of _____, 2010.

President of the Senate

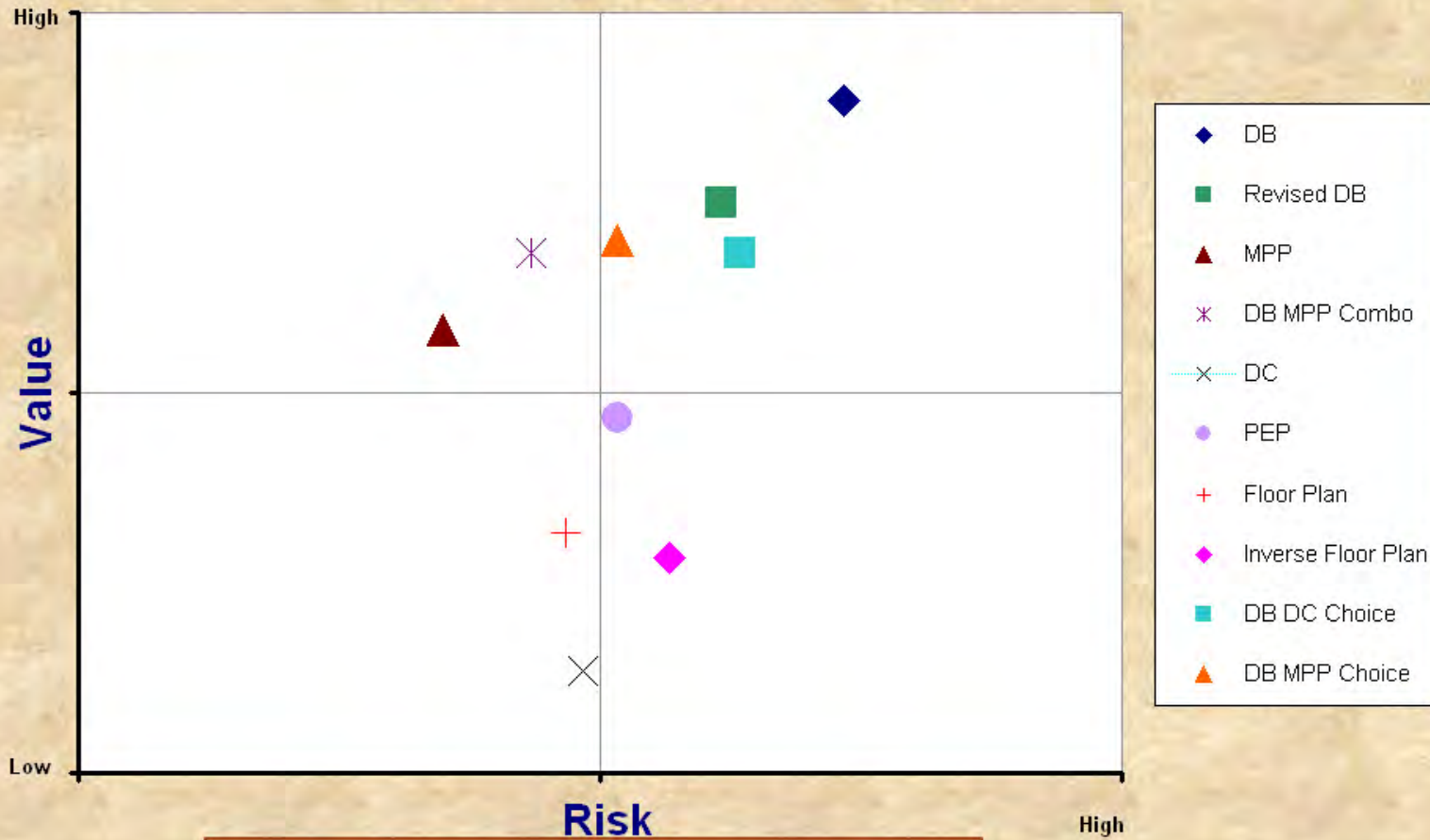
Signed this _____ day
of _____, 2010.

Appendix D

Quadrant Chart

State of Montana SAVA

Value / Risk Quadrant Chart



Zoom

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Appendix E
Text of HJR 35



HOUSE JOINT RESOLUTION NO. 35
INTRODUCED BY D. HIMMELBERGER

BY REQUEST OF THE HOUSE STATE ADMINISTRATION STANDING COMMITTEE

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING AN INTERIM LEGISLATIVE STUDY OF PAY POLICIES AND PRACTICES ON BONUSES FOR STATE GOVERNMENT EMPLOYEES; ARTICULATING POLICY GOALS; AND REQUIRING A REPORT OF FINDINGS AND RECOMMENDATIONS TO THE 62ND LEGISLATURE.

WHEREAS, controversy over bonuses called attention to the topic of bonus payments for state employees and resulted in the introduction of three bills to restrict bonuses for certain types of employees and at certain times; and

WHEREAS, the three bills were House Bill No. 358 by Representative Bergren, House Bill No. 576 by Representative Warburton, and House Bill No. 594 by Representative Hunter; and

WHEREAS, each bill took a different approach to restricting bonuses and was aimed at a different issue related to bonus payments; and

WHEREAS, the House State Administration Committee heard each bill, tabled each bill because of unresolved questions on the bill, conducted informational and discussion sessions about pay and bonuses in state government, and decided that an interim legislative study on bonuses should be requested to encompass the issues raised by the tabled bills; and

WHEREAS, an interim legislative study will enable a thorough examination of pay policies and practices concerning bonuses paid to state employees and facilitate a systematic approach to drafting legislation for the next legislative session; and

WHEREAS, if interim committee workload precludes a full-fledged committee study, the study objectives outlined in this resolution can be accomplished through a staff white paper.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

(1) That the Legislative Council be requested to designate an appropriate interim committee, pursuant to section 5-5-217, MCA, or direct sufficient staff resources to:

(a) review each state agency's policies and practices on providing bonuses and compare and contrast how bonuses are paid to classified versus nonclassified employees within and among the agencies;

(b) examine how money appropriated for the 2008-2009 biennium under section 2-18-303(2), MCA, for purposes including but not limited to market progression, job performance, or employee competencies was used;

(c) examine whether any bonuses paid since July 1, 2007, were paid according to established guidelines and procedures and whether bonuses are considered an effective or necessary pay administration tool;

(d) identify and analyze issues and options related to how bonuses are or should be paid; and

(e) develop conclusions and offer recommendations, including any necessary implementing legislation, on how best to meet the policy goals listed in subsection (2) with respect to bonuses.

(2) That the legislative study of bonuses described in subsection (1) be conducted in the context of the following policy goals:

(a) transparency to avoid possible impropriety or the appearance of impropriety;

(b) accountability and oversight to ensure established procedures are followed and that there is ongoing monitoring and periodic review of policies and practices;

(c) equity within and among agencies to ensure that there is a sound rationale for flexible policies, variable practices, and exceptions; and

(d) definition and clarity in statewide as well as agency standards and guidelines governing how and why bonuses are to be given to employees in classified as well as nonclassified positions.

BE IT FURTHER RESOLVED, that the study include an examination of the pay and bonuses of only those employees whose compensation is within the scope of House Bill No. 13, the pay plan bill covering both classified and nonclassified positions in state government.

BE IT FURTHER RESOLVED, that if the study is assigned to staff, the study's findings and conclusions, including any suggested legislation, be presented to and reviewed by an appropriate committee designated by the Legislative Council.

BE IT FURTHER RESOLVED, that all aspects of the study, including presentation and review requirements, be concluded prior to September 15, 2010.

BE IT FURTHER RESOLVED, that the final results of the study, including the study's findings, conclusions, recommendations, and suggested legislation, be reported to the 62nd Legislature.

- END -

I hereby certify that the within joint resolution,
HJ 0035, originated in the House.

Chief Clerk of the House

Speaker of the House

Signed this _____ day
of _____, 2010.

President of the Senate

Signed this _____ day
of _____, 2010.

Appendix F

Table of Recommendations

List of Retirement Plan Legislative Concepts Received from Stakeholders, MPERA, and TRS
as of September 13, 2010

SAVA No.	Proposer/Stakeholder	Summary of Proposal	SAVA Recommendation
1	Assoc. of Public-Safety Communication Officials, Intl.	Include public safety dispatchers in SRS	The 2011 Legislature should not enact legislation based on this concept.
2	Montana Judges Assoc.	Increase retirement multiplier for JRS from 1.785% to 3 1/3% for years 15 through 30	The 2011 Legislature should not enact legislation based on this concept.
3	Montana State Firemens' Assoc.	Change definition of "compensation" in FURS	The 2011 Legislature should not enact legislation based on this concept.*
4	MEA-MFT	Competitive compensation and adequate funding of the Montana University System (MUS) Optional Retirement Program (ORP)	The 2011 Legislature should not enact legislation based on this concept.
5	MEA-MFT	Modified professional retirement option (PRO) for TRS, as defined in the proposal	The Committee did not make a recommendation on this concept.**
6	Assoc. of Montana Retired Public Employees (AMRPE)	Reduce "active employee" members of PERB from 3 to 2; increase "retired public employee" members from 1 to 2	The 2011 Legislature should not enact legislation based on this concept.
7	TIAA-CREF	Risk-managed defined contribution plan	The 2011 Legislature should not enact legislation based on this concept.
8	Public Employees' Retirement Board	General revisions (housekeeping)	The 2011 Legislature should enact legislation based on this concept.
9	Public Employees' Retirement Board	Rewrite of VFCA	The 2011 Legislature should enact legislation based on this concept.

SAVA No.	Proposer/Stakeholder	Summary of Proposal	SAVA Action/Recommendation
10	Public Employees' Retirement Board	Require employer contributions on compensation paid to working retirees in PERS, GWPORS, and SRS	The 2011 Legislature should not enact legislation based on this concept.
11	Public Employees' Retirement Board	Benefit and funding changes to PERS	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
12	Public Employees' Retirement Board	Benefit and funding changes to SRS	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
13	Public Employees' Retirement Board	Benefit and funding changes to GWPORS	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
14	Teachers' Retirement Board	Proposals for actuarial funding of TRS: increase employer contribution rate; amend statutes relating to working retirees; repeal all or most exceptions to the 10% cap in increase in earned compensation rate; full actuarial reduction for early retirement; and actuarial interest rate on buy backs.	The 2011 Legislature should amend the bill to remove the funding provisions. The funding provisions should be considered in a stand-alone bill.
15	Teachers' Retirement Board	General revisions (housekeeping)	The 2011 Legislature should enact legislation based on this concept.
16	Teachers' Retirement Board	Increase University supplemental contribution rate	The 2011 Legislature should not enact legislation based on this concept.*

List of possible recommendations

- The 2011 Legislature should enact legislation based on this concept.
- The 2011 Legislature should not enact legislation based on this concept.
- The 2011 Legislature should enact legislation based on this concept *if* the following changes are included: [SAVA's suggested changes].

* A motion to recommend that the Legislature should enact legislation based on this concept failed on a 4-4 vote of the committee. Per a ruling from the chair, tied votes resulted in a recommendation that the Legislature should not enact the proposal.

** A motion to recommend that the Legislature should enact legislation based on this concept *with* the amendments contained in LC252 failed on a 2-6 vote of the committee. The committee did not vote on another recommendation to the Legislature.

