

LC No. _____
HB/SB _____¹

REPORT AND RECOMMENDATION OF THE
STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE (SAVA)
TO THE 2013 LEGISLATURE AS OF NOVEMBER 2012²

Proposal No. 4

Proposing Entity: Montana Sheriff's and Peace Officer's Association (MSPOA)

Short Title: Revising Benefits Related to Beneficiaries Under the Sheriffs' Retirement System

Retirement system(s) affected

Sheriffs' Retirement System (SRS)

Proposal summary

Currently, members of SRS may choose to receive a lesser retirement benefit if they want to provide a continuing benefit to one or more designated beneficiaries, such as to a surviving spouse or to their children. There are three different options for calculating the reduced benefit depending on certain variables related to how much of a benefit reduction the member elects and how long the benefit is to be paid following the member's death. The MSPOA proposal would eliminate the current optional benefit provisions in SRS and replace them with a provision that would allow the designated beneficiary to continue to receive the same full retirement benefit the retired member was receiving (i.e., $2.5\% \times \text{FAC}^3 \times \text{years of service}$). The benefit would be paid for the life of the surviving spouse, or, if the surviving spouse died, to a dependent child (or children on a *pro rata* basis), for as long as the child or children was dependent.

Fiscal implications

An actuarial study was not conducted on this specific proposal. In general, this proposal will increase benefits and therefore increase plan costs. The proposal does not include a provision for funding the additional costs. Also, the change is applied to all members (current and future) and so will create an unfunded liability for past service. The system is currently considered actuarially unsound because its liabilities cannot be amortized in 30 years or less with current contributions.

¹ This report summarizes SAVA's recommendation to the Legislature as of November 2012. The report is not a summary of a bill, but of a retirement proposal as presented to SAVA during the interim. The specifics of the proposal summarized may have changed during the subsequent drafting and legislative processes.

² Report issued pursuant to 5-5-228, MCA.

³ Final Average Compensation.

Effect on other Montana retirement systems

The proposal will make the SRS benefit payable to designated beneficiaries the same as what is currently provided for in MPORS, FURS, and HPORS. The GWPORS will then be the sole public safety retirement system with the optional reduced benefit provisions. Each of these systems also has provisions related to how much is to be paid in the event of a member's death before retirement. These provisions vary among the public safety systems.

The following table compares benefits for designated beneficiaries and the death (or survivorship) benefits payable in each of the public safety retirement systems under current law:

System	Benefit to designated beneficiary (when a retired member dies)	Death Benefit (if member dies before retirement)
SRS	Member may elect optional reduced benefit in order to provide a survivorship benefit (<i>The proposal would change this to a continuation of the member's unreduced benefit</i>)	Non-duty related: <ul style="list-style-type: none"> • lump sum of accumulated contributions; or • 2.5% x HAC x yrs of service actuarially reduced from age 65 or as of the date the member would have completed 20. Duty-related: <ul style="list-style-type: none"> • 50% of member's HAC
GWPORS	Member may elect optional reduced benefit in order to provide a survivorship benefit	Non-duty related: <ul style="list-style-type: none"> • lump sum of accumulated contributions; or • actuarial equivalent of service retirement benefit formula. Duty-related: <ul style="list-style-type: none"> • with 25 yrs or less, 50% of member's HAC • with more than 25 yrs, 2% x HAC x yrs of service
MPORS	Continuation of member's unreduced benefit	Duty or non-duty related: <ul style="list-style-type: none"> • with less than 20 yrs, 50% of HAC • with 20 or more yrs, 2.5% x HAC x yrs of service
FURS	Continuation of member's unreduced benefit	Duty or non-duty related: <ul style="list-style-type: none"> • with less than 20 yrs, 50% of member's HAC • with 20 or more yrs, 2.5% x HAC x yrs of service
HPORS	Continuation of member's unreduced benefit	Non-duty related: <ul style="list-style-type: none"> • actuarial equivalent of early retirement Duty-related: <ul style="list-style-type: none"> • 50% of HAC

Soundness as matter of retirement policy

This proposal meets the philosophy underlying the following policy guideline adopted by SAVA:

- Guideline U - The legislature should strive to ensure that retirement benefit formulas in the public safety retirement plans are similar.

Because this proposal creates an unfunded liability for past service and provides no increased contribution to cover past or future costs associated with this benefit enhancement, it does not meet the following policy principle adopted by SAVA:

- Principle II - Pension funding should be a contemporary obligation.

Comparison with other states

A comparison of how other state laws handle benefits for designated beneficiaries and death or survivorship benefits in their public safety retirement systems was not readily available.

Legal implications⁴

This proposal does not raise any legal or contract impairment concerns.

Testimony received

A representative from MSPOA was unavailable to present the proposal for hearing.

Committee discussion and recommendations

There were no questions by the committee.

⁴ David Niss, Legal Memorandums dated May 21, 2012, January 5, 2012, August 14, 2009, August 28, 2009 (Addendum), and February 27, 1998, Montana Legislative Services Division, (406) 444-3064, or visit www.leg.mt.us and contact staff for the State Administration and Veterans' Affairs Interim Committee.