

LC No. \_\_\_\_\_  
HB/SB \_\_\_\_\_<sup>1</sup>

REPORT AND RECOMMENDATION OF THE  
STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE (SAVA)  
TO THE 2013 LEGISLATURE AS OF NOVEMBER 2012<sup>2</sup>

Proposal No. 7

Proposing Entity: Senator Dave Lewis

Short Title: Require that all new public employees hired into a PERS-covered position be covered in the PERS Defined Contribution (DC) plan.

Retirement system(s) affected  
PERS

Proposal summary

This is the same proposal that Sen. Lewis introduced in the 2011 Session in SB 328.

Fiscal implications

The covered payroll for the DB plan would steadily decrease, which would increase the percentage of pay required to fund the plan. A special actuarial analysis provided by MPERA's actuary is attached. If the annual required contributions (ARC) were made each year to fund the PERS Defined Benefit (DB) plan unfunded liabilities on a rolling 30-year amortization schedule, the amount required to fund the DB plan would steadily decrease each year from about \$200 million to \$139 million by 2036 and by then the system would be 93% funded. It is important to keep in mind that the actuarial assumptions are based on rolling 30-year amortization period, so no progress would be made toward a shorter amortization schedule. Also, this assumes an investment rate of return of 7.75%. However, as there are more retirees than active members in the DB plan, system assets would need to be more conservatively invested, so it is like that increased contributions would be required to offset any investment returns of less than 7.75%.

Effect on other Montana retirement systems

This proposal does not raise any "leapfrogging" issues, but may raise equity concerns because it covers only PERS members and not members of TRS.

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<sup>1</sup> 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.

<sup>2</sup> Report issued pursuant to 5-5-228, MCA.

### Soundness as matter of retirement policy

This proposal relates to the following policy principle adopted by SAVA:

- I. Pensions should provide the base of financial security in retirement.

The policy issue for the legislature to consider is whether the DC plan will provide a sufficient base of financial security in retirement. The committee or legislature may wish to request a fiscal analysis of the DC plan contribution rates and expected long-term investment returns in the investment choices available to plan members to get a sense of whether contribution rates are sufficient for DC plan members to earn a "base of financial security in retirement".

### Comparison with other states

Six states, including Montana, offer state government employees a choice between a DB and DC plan when their employees are initially hired: Colorado, Florida, Indiana, North Dakota, Ohio, South Carolina, and Utah. A DC plan is mandatory in Alaska, Michigan, and Washington D.C.<sup>3</sup>

### Legal implications

This proposal does not raise any legal or contract impairment concerns as long as the transfer of current DB plan members remains optional.

### Testimony received

#### *Proponents:*

Sen. Lewis testified that DB plans are dinosaurs rapidly heading toward extinction and that DC plans are the wave of the future. He said the fiscal note is what raises the controversy. Sen. Lewis referenced *Governing* magazine and a quote from an Indiana legislator related to how important it is to take a long-term view of pensions. Sen. Lewis also noted the changes to GASB accounting standards to make it easier to make a transition from a DB to DC plan. He noted that in a DB plan, 70% of the funding comes from investment earnings. However, the investment earning assumption is 7.75% and when they are less, it is the employer (i.e., taxpayer) who makes up the difference in a DB plan. He said we have to talk about serious changes and move toward a DC plan and that we need to be thinking about future generations and that a DC plan is a more viable plan for the long term.

#### *Opponents:*

Ms. Melanie Symons testified that the legislative committee of the PERS Board was opposed to the proposal because it does nothing to help the DB plan and that unfunded liabilities will actually escalate.

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<sup>3</sup> Ron Snell, "Checklist of State Defined Benefit, Defined Contribution, and Hybrid Plans for State Employees and Teachers", National Conference for State Legislatures, August 2012.

Mr. Diane Fladmow on behalf of MEA-MFT testified against the proposal saying that the proposal would make the DB plan liability worse.

Committee discussion and recommendations

In response to questions, Sen. Lewis said his idea is not to require full funding of the DB plan immediately but to spread the costs over a longer-term according to GASB standards.