DISABILITY BENEFITS
IN THE NEW OPTIONAL DEFINED CONTRIBUTION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN

A Report to the 57th Legislature
by the
State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee: 1999-2000

Prepared by

Sheri S. Heffelfinger, Research Analyst
Office of Research and Policy Analysis

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Montana Legislative Services Division
P.O. Box 201706
State Capitol, Room 110
Helena, MT 59620-1706
Phone: (406) 444-3064
FAX: (406) 444-3036
http://www.leg.mt.gov

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1999-2000

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EXECUTIVE SUMMARY

Study objective

The State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee (SAIC) was assigned by the Legislative Council to examine "options for providing disability benefits for public retirees". This study directive was included in House Bill No. 79 (Ch. 471, L. 1999), which enacted a new optional defined contribution (DC) retirement plan in the Public Employees' Retirement System (PERS).

Issue origin

The SAIC inherited an issue left unresolved by the 1997-1998 Committee on Public Employee Retirement Systems and the 1999 Legislature, namely, how to provide disability benefits to PERS members who choose to join the new DC retirement plan. This question arose because disability benefits are typically an integral part of a defined benefit (DB) retirement plan, where benefits, including disability benefits, are defined by a formula based on years of service and salary and paid from a pooled trust fund. Under a DC plan, however, contributions and investment earnings are not pooled to provide defined benefits. Rather, in a DC plan, contributions are made to a member's individual account, the member directs the investments, and the employee's retirement benefit depends on the employee's account balance (i.e., total contributions and investment earnings, minus administrative expenses). Thus, disability benefits are not provided for as an integral part of the plan.

Conduct of the study

The SAIC appointed a subcommittee to conduct the study. The following SAIC members were appointed to the Subcommittee on Disability and Retiree Health Care:

Senator Pete Ekegren (Presiding Officer)
Senator Sue Bartlett
Representative Matt Brainard
Representative Tom Dell

The Subcommittee met several times during the interim, received staff reports, heard testimony from agency and union representatives, and worked through an issues and options checklist to develop its final recommendation.

Final recommendation

Based on the Subcommittee's findings and conclusions, the SAIC recommends that the 57th Legislature enact LC 199, which would provide for the following:

< PERS members who elect to join the DC plan (whether they are current DB plan members who transfer to the DC plan or new employees who elect to join the DC plan instead of the DB plan) would receive a disability benefit based on the same formula as is used to determine disability benefits for new members of the PERS DB plan, which is:

1/56th x final average salary x years of service*

< As in the DB plan, DC plan members would have to be vested (i.e., have at least 5 years of service) before being eligible for the disability benefit.

< As in the DB plan, the Public Employees' Retirement Board (PERB) will determine whether a DC plan member is totally disabled and

* This is the same formula used to calculated a PERS member's retirement benefit. Benefits are essentially reduced for each year of service or each year of age that the member is short of normal retirement eligibility, which is 30 years of service or age 60.

eligible to receive the benefit.

< The DC plan's disability benefit would be payable until the disabled member reaches age 60, which is the normal retirement age under the DB plan and when the disability benefit in the DB plan is converted to a retirement benefit. This provision is based on the Subcommittee's policy decision that, upon reaching age 60, a disabled DC plan member would then need to rely on the member's retirement plan account to provide income during the member's retirement years, just as a disabled DB plan member receives a retirement benefit from the DB plan. Also, a typical long-term disability insurance plan terminates at age 60 or 65.

< The DC disability benefit will be paid from the PERS trust fund, which will receive an employer contribution initially set at 0.43% of payroll, which is the historical cost of disability benefits under the DB plan. To avoid an increase in employer contributions and in recognition that current contributions to the DB plan fund the DB plan's disability benefits, this 0.43% of payroll contribution will come from current employer contributions to PERS. This will reduce by 0.43% the amount of the employer's contribution to individual DC plan accounts. The sufficiency of this amount to cover the cost of DC plan disability benefits will be regularly reviewed by the PERB's actuary and adjusted as part of the "plan choice rate" in the DC plan, which is also paid from employer contributions to a DC plan member's account. (The "plan choice rate" is designed to compensate the DB plan for past unfunded liabilities and normal cost changes caused by PERS members electing to join the DC plan instead of the DB plan.)

< As in the DB plan, disability benefit coverage in the DC plan would be mandatory.

< The PERB would be given rulemaking authority to establish provisions necessary to administer the DC plan's disability benefits as provided for in LC 199.

< For startup costs incurred, the PERB would also be authorized to receive a long-term loan from the intercap revolving loan program adopted by the Board of Investments pursuant to 17-5-1605. The loan would be repaid through administrative expense fees assessed on the DC retirement plan.

< The effective date of the DC disability plan would be coordinated with the implementation schedule for the DC plan, which must be operational by no later than July 1, 2002. The DC plan's effective date is contingent on a favorable ruling from the Internal Revenue Service (IRS) that the plan meets tax-qualification standards under the Internal Revenue Code (IRC).

CHAPTER 1
BACKGROUND RESEARCH

The chances

The chances of becoming disabled are higher than most people realize. Statistics compiled by various disability insurance providers indicate that:

< people in their 30s are three times more likely to suffer a disability lasting 3 months or longer than they are likely to die;

< nearly 33% of the total population will suffer a serious disability between the ages of 35 and 65;

< the average disability will last more than 5 years, and for 30% of those disabled, the disability will persist for life; and

< the probability of disability, i.e., the risk and therefore the cost of disability insurance, increases with age, and that probability increases at a faster rate the older a person becomes.[1]

The consequences

The consequences of disability are significant and extend beyond the disabled person. The ability to earn a living is among a person's most valuable assets, and when disability occurs, not only is a person's future earning potential lost, so is the person's ability to save for retirement. Furthermore, a wage earner's disability is a financial crisis not only to the wage earner, but also for the wage earner's family, dependents, health care providers, and government as a provider of public assistance.[2]

Other available resources, such as workers' compensation (which is limited to work-related disability), social security, and any other benefits are often inadequate to replace the loss of income and potential retirement savings.

Moreover, the younger a person is when a disability occurs, the more resources are required to provide adequate income replacement.[3]

Current provisions

In the PERS defined benefit (DB) plan: For PERS DB plan members hired before February 24, 1991, the disability benefit formula used to calculate disability benefits is the greater of:

90% of 1/56 x final average salary x years of service

or

25% x final average salary

For PERS DB plan members hired on or after February 24, 1991, the disability benefit formula is:

1/56th x final average salary x years of service

To be eligible for a PERS DB plan disability benefit, the member must be vested in the retirement plan, which means the member must have at least 5 years of service. For PERS members hired on or after July 1, 1977, there is no current differentiation between a service-connected or nonservice-connected disability. For PERS members receiving a benefit granted for a duty-related disability prior to July 1, 1977, the benefit is 50% of the member's final average salary.

The PERB adjudicates disability claims under the DB plan and determines whether to approve applications for a PERS disability retirement benefit. The member must be determined to be totally disabled and unable to work in order to be eligible for the disability benefit; and the PERB may require disabled members to undergo a medical examination by a physician or surgeon appointed by the PERB. The disability benefit is converted to a service retirement benefit when the disabled member reaches age 60. However, this "conversion" does not alter the benefit amount paid.[4]

According to testimony provided to the Subcommittee in November 1999,

the PERB receives a yearly average of about 50 applications for PERS disability benefits and approves only about 25% of the claims.[5]

In the University System: In 1987, the Legislature authorized the Board of Regents to establish an Optional Retirement Program (ORP) for administrative officers and members of the faculty and scientific staff of the University System.[6] (Although originally "optional", in 1989 the plan became mandatory for all of the University System's administrative officers, faculty, and scientific staff.) These positions were previously covered under the Teachers' Retirement System (TRS), which, like PERS, is a DB plan with defined disability benefits.

Because the ORP was a DC plan, the question of how to provide disability benefits under the plan was also an issue faced by the Board of Regents. However, the Regents had provided for a separate long-term disability (LTD) insurance plan for all of its employees nearly 20 years before the ORP was established. Thus, while ORP members receive only the LTD benefits, TRS members are covered by both the LTD and the TRS disability plan. However, the amount of an LTD benefit payment to a TRS member is offset against (reduced by) the amount paid by the TRS disability plan.

The University System LTD plan allows employees to choose from the following types of coverage:

< Option 1 coverage:
  employer paid
  current rate is $4.70 per employee per month
  benefit payments up to 60% of monthly earnings

< Option 2 coverage:
  employer/employee shared contribution
  current rate is $7.25 per employee per month
  after a waiting period, benefit payments up to
  66 2/3% of monthly earnings

< Option 3 coverage:
employer/employee shared contribution
current rate is $9.05 per employee per month
benefit payments up to 66 2/3% of monthly earnings,
but with a shorter waiting period than under Option 2

Other features of the LTD policy include the following:

< benefits are paid to age 65, but not less than 5 years;
< contributions are pretax, benefits are taxable;
< the insurer determines whether the member is disabled; and
< benefits are offset against (reduced by) other deductible sources of income, such as social security, workers' compensation, and pension income.[7]

The key policy question

The key policy question for members of the Disability and Retiree Health Care Subcommittee in relation to the disability study was:

Should PERS employers continue to provide disability benefits for public employees covered by PERS and who elect to join the DC plan? And, if so, how?

Arguments for a disability benefit in the DC plan: The basic arguments (developed by staff research and analysis and through Subcommittee discussion) in favor of a DC disability plan were essentially the following:

< Most employees, especially younger employees, do not think about the possibility or consequence of becoming disabled and do not, therefore, take the initiative to seek supplemental disability insurance. Government, as a responsible employer and in the unique position of also being also responsible for public assistance to people and families unable to meet their basic needs, should ensure that their employees have some type of disability coverage.

< The cost for an individual employee to purchase disability insurance is significantly higher than the cost of participating in a group insurance plan where the risk is pooled. Public employers will find added value in providing a disability insurance benefit that is less costly than increasing salaries.

< If the disability insurance is offered as an additional benefit, employers may be aided in their effort to recruit and retain quality employees (which would lower the costs associated with high turnover or of having to increase entry-level salaries to hire qualified employees).

< Contributions to an employer-sponsored, tax-qualified disability plan are pretax contributions.[8]

Arguments against providing disability benefits for the DC plan: The basic arguments (developed by staff research and analysis and Subcommittee discussion) against providing disability coverage in the DC plan were as follows:

< Disability income is available through other sources, such as workers' compensation and social security, in conjunction with the money available from the members' employer-sponsored retirement account. The employer does not have an additional obligation to provide employees with disability coverage. Furthermore, under IRS regulations, a disabled DC plan member would be able to access the member's DC retirement account without a tax penalty.

< To avoid increasing employer contributions to PERS, contributions must be made from current employer contributions to the DC plan. This would directly reduce the employer contributions into each DC plan member's retirement account.

< Using the retirement plan to pay for disability benefits adds cost to the retirement plan and employees do not often perceive the disability benefit as an added value.

< Employees can purchase disability coverage on an individual basis and can, therefore, tailor their coverage to meet their individual needs within their means.[9]

CHAPTER 2
THE OPTIONS CONSIDERED

In general

There are basically two ways to provide disability benefits to employees: (1) by purchasing a policy from a life and disability insurance company, and (2) by establishing a self-insured disability trust. The University System's LTD plan is an example of purchasing a commercial policy, while the PERS DB retirement plan is essentially a self-insured trust approach.

Working group discussion

On March 7, 2000, legislative staff coordinated a working group meeting to discuss disability plan design options. The following people participated:

< Mr. Mike O'Connor, Executive Director, PERB
< Mr. Kelly Jenkins, Chief Legal Council, PERB
< Ms. Kathy Samson, DC Plans and Educational Services, PERB
< Mr. Dave Senn, TRS Executive Director
< Mr. John McEwen, State Personnel Division Administrator
< Ms. Joyce Brown, Benefits Bureau Chief
< Ms. Sheri Heffelfinger, Legislative Research Staff

Options identified

The following options and staff analyses of advantages and disadvantages are based on the working group's discussion and on additional staff research.

Option A:

Provide DC plan participants with the same benefit as provided in the PERS DB plan. (No change would be made to the DB plan; DC participants would get same disability benefit as in the DB plan.)

Advantages

Equality: Benefit paid to DB and DC plan members would be based on the same formula

Simplicity: Does not require any change to the current DB plan

No DB plan funding issues: Would not raise concerns about infringement of DB plan funding obligations

Lower administrative costs: Would not require new administrative procedures or contracting out

Disadvantages

Tied to retirement plan: A member with less than 5 years of service (in either retirement plan) would not be covered, and the benefit paid depends on years of service rather than on an income-replacement formula

Reduces funding for DC plan: Unless contributions are increased, the amount paid to DC plan member accounts will be reduced

Cost may change: Depending on the experience of the DC plan disability trust fund, the cost may fluctuate up or down, which would also impact funding going into the DC plan's accounts

Actuarial liabilities: As a self-insured plan paying a defined benefit amount, the disability trust would need actuarial determinations and would likely have unfunded liabilities

Option B:

Purchase (or self-insure) a long-term disability plan for all PERS participants similar to what the University System provides for all of its employees, regardless of retirement plan.

Advantages

Flexibility: Could contract out for the type of coverage desired, or self-insure and set appropriate premium amounts

Choice: Could offer employees different options with different costs

Not tied to retirement plan: Benefits paid and eligibility would not depend on years of service; instead, the plan could provide for an income replacement percentage

No DB plan issues: DB plan funding could be left unchanged

No reduction in DC plan funding: DC plan funding could be left unchanged

No actuarial liabilities unless self-insured: If contracted out, there would be no employer actuarial liabilities

Disadvantages

Cost: Would likely require increased employer and/or employee contributions

Cost and coverage could change: The insurance provider (or a self-insured trust) could raise rates or cut benefits to keep pace with actual costs

Actuarial liabilities if self-insured: A self-insured fund would require actuarial funding and may result in actuarial liabilities (premiums or coverage would have to be adjusted from time to time to keep the fund sound)

Appendix A provides spreadsheets showing the benefit amounts that would be payable under Option A and Option B.

Option C:

Ask the PERB to develop and propose a disability plan; adopt only general policy guidance in areas of particular legislative concern.

Advantages	Disadvantages
PERB given latitude to apply expertise: Within guidelines adopted by the SAIC, the PERB could develop a plan they think would best serve the DB and DC plan members	Legislature in reactive mode: The 2001 Legislature would have to react to the PERB's proposal
Could integrate with DC plan implementation: The PERB could include disability plan considerations with its implementation of the DC plan	DC plan implementation is scheduled for July 1, 2002: If the Legislature does not pass PERB recommendations in the regular session, an alternative to the disability plan could not be developed in time to integrate it with the DC plan's implementation

Subcommittee discussion

Income replacement versus years of service and salary: Subcommittee members expressed support for Option B because it would provide disability benefits not based on years of service but on an income replacement target, such as 60% of salary. However, members were concerned about equity issues and wondered about how to provide an income replacement disability benefit under the PERS DB plan.

Access versus offset: Concerns were also raised about whether a DC plan member should be allowed to access the member's DC retirement plan

account in addition to receiving a disability benefit. If a DC plan member did access the member's DC plan account and if the disability benefit were to terminate at age 60, then the member would be left without an adequate retirement income. Therefore, Subcommittee members also discussed the possibility of reducing the disability benefit by any amount the member takes out of the DC plan account. However, concern was raised about the offset further reducing a disability benefit that may not be adequate to begin with. In addition, the philosophy underlying the DC plan is one of individual choice and responsibility.

As reflected in LC 199, which is the Subcommittee-recommended legislation, the Subcommittee decided to allow a disabled DC plan member to receive a disability benefit, but did not prohibit the member from accessing the member's DC retirement account. The Subcommittee opted not to reduce the disability benefit by any amount the member may withdraw from the member's DC retirement account before age 60 (when the disability benefit terminates).

The Subcommittee also discussed the feasibility of extracting disability benefits from the PERS DB plan, setting up a separate disability trust for all PERS members (DB and DC) and providing the same disability benefit to all PERS members under the Option B model. However, this approach would have required significant legal and actuarial analysis and would have ramifications for the entire DB retirement plan.

Initial decision

After considering the options and discussing Subcommittee member concerns, the Subcommittee voted to further develop the Option A approach to provide the PERS DC plan members with the same defined disability benefit as provided in the DB plan.

This decision turned on the following arguments, which were forwarded by various discussion participants during the Subcommittee's work session:

< Disability benefits provided as an integral part of a retirement plan become a vested right, which offers employees further protection, while benefits from an insurance policy can be reduced.

< It may not be feasible to extricate disability benefits from the DB plan unless the change is applied only to new members, and further consideration of this idea would require detailed legal and actuarial analysis.

< PERS members will soon be choosing either the DB or the DC plan, and unless the DC plan offers a disability benefit similar to the DB plan, the lack of a disability coverage in the DC plan could become a "flash point" and could override a PERS member's careful consideration of the other factors that should be weighed when a member makes a choice between a DB and DC plan.[10]

Issues and options checklist: final decisions

The Subcommittee made preliminary decisions during the March 31, 2000, meeting. After reviewing an initial bill draft at its August 4, 2000, meeting and engaging in further discussion of policy objectives, a further breakdown of the issues and options was required to help structure the Subcommittee's decisionmaking process. Thus, the major decision points were incorporated in the issues and options checklist (see Appendix B). During the September 14, 2000, meeting, the Subcommittee acted on each decision point in the checklist; and its decisions were drafted into LC 199 (see Appendix D).

A word about IRS qualification

During its work session on the checklist, the Subcommittee recognized that several questions remain about whether the disability plan crafted in LC 199 would meet federal tax-qualification standards. The two primary areas of concern regarding tax-qualification issues were as follows:

< whether providing that the amount contributed for DC plan disability benefits (initially set at 0.43% of payroll) could be increased or decreased as part of the plan choice rate depending on actual costs would meet IRS standards for a DC plan (because contributions to member accounts would also increase and decrease as the plan choice rate and disability rate increase or decrease); and

< whether paying the disability rate to the PERS trust fund and having the PERS DB plan trust fund pay disability benefits for DC plan members would compromise the tax-qualified status of the DB plan.

Despite these IRS issues, the Subcommittee's determination was to move forward with its recommendation and LC 199, integrate the disability plan with the current implementation schedule for the DC plan (which is to be operational by no later than July 1, 2002), and submit the disability plan provisions in concert with the PERB's submission of the DC plan to the IRS for a ruling on the plan's tax-qualification.

The effective date of LC 199 is contingent on a favorable IRS ruling. In the absence of a favorable ruling, a DC plan member would not be entitled to any disability benefits under the DC plan. However, under federal tax codes, a disabled DC plan member would still be able to access the member's DC plan account.[11]

ENDNOTES

1. TIAA-CREF, "A Primer on Insurance", *Library Series,* www.tiaa-cref.org/libser/poi/dis.html, February 2000.

2. United States Department of Commerce, "Disabilities Affect One-Fifth of All Americans", *Census Brief,* CENBR/97-5, December 1997.

3. TIAA-CREF, "A Primer on Insurance", February 2000.

4. Title 19, chapter 3, part 10, Montana Code Annotated (MCA); see also 19-2-406, MCA.

5. Subcommittee on Disability and Retiree Health Care of the State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee, *Minutes*, Montana Legislative Services Division, November 8, 1999, pp. 2-3.

6. Chapter 494, Laws of Montana, 1987.

7. UNUM, "Montana University System: Long Term Disability Plan Summary Grid", draft document, March 31, 1999.

8. Subcommittee on Disability and Retiree Health Care, *Minutes,* Montana Legislative Services Division, November 8, 1999, February 29, 2000, and March 31, 2000.

9. Ibid.

10. Subcommittee on Disability and Retiree Health Care, *Minutes,* Montana Legislative Services Division, March 31, 2000.

11. Subcommittee on Disability and Retiree Health Care, *Minutes,* Montana Legislative Services Division, September 14, 2000.

APPENDIX A

Spreadsheets on Disability Benefit Amounts That Would Be Paid under Option A and Option B as Presented in Chapter 2

APPENDIX B

Disability Issues and Options Checklist

Used to Structure the Subcommittee's Decisionmaking Process and the Provisions Included in the Subcommittee's Recommendation

LC 199

DISABILITY
ISSUES AND OPTIONS CHECKLIST

Revised to include September 14, 2000, decisions

PART I
PREVIOUS DECISIONS

ISSUE 1: **Should the Subcommittee move forward by recommending an employer-sponsored disability plan (keeping in mind that this question arises because there is not a disability plan for DC plan participants in PERS)?**

Options:

A. **X** **Yes *(adopted without objection 2/29/00)***

B. ____ No

ISSUE 2: **If yes, then who should the disability plan cover?**

Options:

A. ____ DC plan participants

B. ____ DB plan participants

C. ____ State employees regardless of retirement plan

D. **X** **Employees of all employers who participate in PERS *(adopted without objection 2/29/00)***

E. ____ Employees in other public retirement systems

ISSUE 3: **Which conceptual option [model] would the Subcommittee like to further consider?**

Options:

A. **X** **Option A: Current DB retirement plan disability provisions extended to DC plan *(adopted by majority vote on 3/31/00)***

B. ____ Option B: Provide separate long-term disability coverage for all PERS members (would supplement current DB and DC provisions)

C. ____ Option C: Ask PERB to develop a proposal for the 2001 Legislative Session

D. ____ Other (specify)

PART II
BENEFITS

<u>ISSUE 4:</u> **What should the disability benefit amount be under the DC plan?**

A. **<u>For new DC plan members</u> (i.e., those PERS members hired after the effective date of the DC plan and who elect to join the DC plan):**

Options:

1. **__X__** **The same benefit a new DB plan member would receive if the member had stayed in the DB plan (i.e., 1/56th x final average salary x years of service)**

2. ____ The disability benefit should not be defined, but should depend on available funding (i.e., the disability benefit would be whatever the statutorily set "premium" would "purchase")

3. ____ The PERB should determine the disability benefit to be paid and the amount of funding required and should adopt rules to implement the program

B. **<u>For current DB plan members</u> (i.e., PERS members *before* the effective date of the DC plan) who transfer to the DC plan:**

Options:

1. ____ The same benefit the member would have received if the member had remained in the DB plan *(see staff notes under 4A1 above)*

2. **__X__** **The same disability benefit provided to new DC plan members (i.e., the same benefit provided based on the decision under 4A above)**

3. ____ When making the election to transfer to the DC plan, a current PERS DB plan member should make a one-time irrevocable election for either the DB plan disability benefits or the DC plan disability benefits

4. ____ They should receive the greater of either the DB plan disability benefits or the DC plan disability benefits

5. ____ The PERB should determine the benefit amount to be paid and adopt rules to implement a disability plan

PART III
FUNDING

<u>ISSUE 5:</u> **What funding mechanism should be used to fund disability benefits?**

A. **<u>For new DC plan members</u> (i.e., those PERS members hired after the effective date of the DC plan and who elect to join the DC plan):**

Options:

1. **__X__** **A contribution should be made to the PERS DB trust fund, and that trust fund should cover the disability for DC plan members**

2. ____ A contribution should be made to a *new trust fund* that is used only for paying disability benefits

(a) ____ Only for DC plan disability benefits

(b) ____ For *both* the DB plan and the DC plan disability (i.e., all disability benefits)

3. ____ A contribution should be allocated to the PERB for the purposes of disability benefits for DC plan members and the PERB can account for costs and adjust this amount in whatever manner it provides for by rule

B. **<u>For current DB plan members</u> (i.e., PERS members *before* the effective date of the DC plan) who transfer to the DC plan:**

Options:

1. **__X__** **A contribution should be made to the PERS DB plan pooled trust fund**

(a) ____ And should be accounted for as part of the plan choice rate, thus payable by the DC plan

(b) ____ And should be accounted for as a separate contribution made to the DB plan trust (not as part of the plan choice rate), but be actuarially valued as a cost only attributable to the group of current DB plan members who elect the DC plan

(c) ____ And should be initially set by statute, but made adjustable by the PERB under a method to be adopted by rule

2. ____ A contribution should be made to a *new trust fund* that is used only for paying disability benefits

(a) ____ Only for the disability benefits of this group of employees (i.e., current PERS DB plan members who elect to transfer to the DC plan

(b) ____ For *both* the DB plan and the DC plan disability (i.e., all disability benefits)

3. ____ A contribution should be allocated to the PERB for the purposes of disability benefits for DC plan members and the PERB can account for costs and adjust this amount in whatever manner it provides for by rule

ISSUE 6: **What should be contributed to fund the disability benefits?**

A. From what source should the contribution be taken?

Options:

1. _X_ From the employer contribution to the DC plan

2. ____ It should be a separate contribution (i.e., a new contribution, not taken from employer contributions to the DC plan

(a) _____ As an additional employer contribution

(b) ____ As an additional employee contribution

(c) ____ As an additional shared contribution, split between the employer and employee

B. What amount should the contribution be and how should it be adjusted?

Options:

1. _X_ It should be the same amount as disability benefits in the DB plan have cost historically, 0.43%

(a) ____ To be adjusted by the PERB according to rules

(b) _X_ To be adjusted as part of the "plan choice rate" according to the methods prescribed in statute -- identify what portion of the rate is for disability

(c) ____ To be adjusted only by the Legislature through legislation

2. ____ Other, please specify as a percent of salary

(a) ____ To be adjusted by the PERB according to rules

(b) ____ To be adjusted as part of the "plan choice rate" according to the methods prescribed in statute

(c) ____ To be adjusted only by the Legislature through legislation

Notes: *Actuarial valuations show that PERS DB plan disability benefits for ALL current PERS members has been costing 0.43% of salary. This cost is not broken down by employer or employee contributions. But, as a defined benefit plan, costs fluctuate. If disability costs increase or decrease, that is considered part of the overall normal cost changes for all benefits provided in the DB plan. Unfunded liabilities in the DB plan also fluctuate. Thus, as long ALL available contributions are sufficient to cover normal costs AND, after normal costs are paid, the remainder is sufficient to amortize unfunded liability in 30 years or less, then the PERS DB plan is actuarially sound.*

PART IV
ADMINISTRATION AND STARTUP COSTS

ISSUE 7: **How should the disability program be administered?**

Options:

A. ____ As a self-insured trust

B. ____ An insurance company

C. ____ Through either a self-insurance program or by purchasing insurance, as determined by the PERB

D. X Have language needed to allow the PERB to administer

ISSUE 8: **Startup costs.**

A. How should the disability plan's startup costs be provided for?

Options:

1. X The PERB should be authorized to receive a long-term loan from the Department of Administration

2. ____ The PERB should be authorized to receive a long-term loan from the Board of Investments intercap loan program

3. ____ The cost should be considered part of the administrative costs for startup of the DC plan, which are being paid through an intercap loan to the PERB and which will be repaid from future administrative fees taken from the DC plan

4. ____ Through a direct appropriation (please specify)

B. Should the bill make specific provisions regarding the use of the DB plan trust funds?

Options:

1. _X_ No (i.e., the PERB would decide whether or not to authorize the use of DB plan trust funds)

2. ____ Yes

(a) ____ The legislation should specify that the disability plan's startup costs are NOT to be repaid from the DB plan's trust funds

(b) ____ Other, please specify

PART V
EFFECTIVE DATES

ISSUE 9: What should the disability bill's effective date be?

Options:

A. ____ It should be effective contingent upon a favorable IRS ruling

(1) ____ And the bill should direct the PERB to seek an IRS ruling by a certain date (please specify)

(2) ____ And the bill should NOT specify a date by which the IRS ruling should be sought, leaving the PERB to exercise its discretion as the fiduciary and administrator of the retirement and disability plans

B. _____ The bill's effective date should not be contingent on a favorable IRS ruling

(1) ____ Immediate (upon passage and approval)

(2) ____ On July 1, 2001

(3) ____ On October 1, 2001

(4) ____ Other, please specify

C. X Coordinate with implementation of the DC plan and contingent on IRS ruling

APPENDIX C

Meeting Dates and Major Agenda Items

The following is a list of the meeting dates during which either the full SAIC or its Subcommittee on Disability and Retiree Health Care discussed and acted on disability issues. This list is provided to aid readers interested in researching the meeting minutes and exhibits, which are available by contacting the Montana Legislative Services Division, P.O. Box 201706, Room 110, State Capitol, Helena, Montana, 59620-1706, (406) 444-3064, http://www.leg.mt.gov.

November 8, 2000:	*Subcommittee on Disability and Retiree Health Care:* Roundtable discussion of disability issues
February 29, 2000:	*Subcommittee on Disability and Retiree Health Care:* Staff background paper, initial discussion of options
March 31, 2000:	*Subcommittee on Disability and Retiree Health Care:* Presentation of options developed by a working group; initial decisions
August 4, 2000:	*Subcommittee on Disability and Retiree Health Care:* Review of initial bill draft
September 14, 2000:	*Subcommittee on Disability and Retiree Health Care:* Issues and options checklist: final actions
September 15, 2000:	*Full SAIC:* Receipt of Subcommittee report; adoption of recommended legislation (LC 199) based on the issues and options checklist decisions

APPENDIX D

Initial Draft of LC 199

The latest version of LC 199 will be available by accessing the Legislative Branch LAWS bill status system at:
http://www.leg.mt.gov/services/legal/01_session.htm

LC 199 will receive a bill number when it has been introduced for the 2001 Session

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