STATE ADMINISTRATION COMMITTEE JOINT MEETING January 11, 1979
House of Representatives

The meeting was called to order at 10:00 a.m. by Vice Chairman O'Connell in the absence of Chairman Brand. Representatives Brand and Staigmiller were excused.

O'Connell introduced Larry Nachtsheim, Administrator of the Public Employees Retirement System (PERS), who explained that this meeting had been arranged for both the House and Senate State Administration Committees due to the fact that these committees handle virtually all of the retirement bills that come through the Legislature. Nachtsheim then introduced Tom Bleakney, a Principal of the firm of Milliman & Robertson, Inc., Seattle, Washington, who is the consulting actuary for the Montana PERS.

TOM BLEAKNEY-I have a few charts that I am projecting (through the use of an overhead, opaque projector) to illustrate this discussion. (See Attachment #2) Let me qualify that these charts are a gross simplification, but should help you to see what is going on. 1978 is used as a base figure, and the rest of the figures are projections. We start with the current commitments and this holds for any retirement system. The present payout is for people currently on pensions, which is currently $2600 per year to approximately 5000 pensioners - with the average pensioner expected to live another 12 - 14 years; but we will also have future pensioners. The present pensioners retired last year back to ten years ago, so we have to look into the future and see what happens ahead. People who retired last year average $3300 plus. We have people who will retire next year, 10 years from now, etc.; these will tend to be drawing $5000 or more, depending upon inflation. As medicine improves, lifespans will get longer - the problem of financing a pension ties into how we make proper allowance for making proper payment. So let's look at what we expect disbursements to be. Presently, $13 million in pensions, but the new pensions will cost more than the present ones, because they are greater and because there will be more and more people on the roles. So, the main responsibility is to figure how to handle this curve. The actuary's responsibility is to show you how much money needs to be put in.

Char A

Cha B

Char C

Let us suppose you go to a pay-as-you-go basis -- you put in money (employer contributions) only as you need it. Massachusetts has done this, and created a monster. Members' contributions are about 6% of salary, so as the money comes in, there would be a constant build up. NET MEMBER CONTRIBUTIONS implies the factor of people quitting, so the amount deposited over the amount withdrawn. If you decided that you wouldn't put any more money in, you could live off the net and the money coming in and even if it really got tight you could live off your assets. But sometime in the future you would run out of money even with money still coming in, and that's when you would have to start putting state money in in large amounts.

Cha D

Here I've taken the information on Chart D and charted it in terms of percentage of participation -- the US Civil Service System also is having a problem with this. Somewhere down the line the cost would become astronomical---twice what you are paying now; but those contributions would continue to grow as long as the interest rates continue to go up and inflation continues at the present rate.

Cha E

You have thousands who are depending on the system to provide money when they can no longer provide salary on their own. If you were retiring on this basis, I don't think I would feel comfortable about it. There is a positive side to this, an actuary anticipates the unmanagability and translates the long term cash commitment into a level commitment -- the dashed line represents the present contributions. So, the level line is equivalent to the present system -- this is possible because of the investment return. Putting in money now is not needed for cash purposes. We have member contributions and interest on the assets - so the money in there now is building for the future. The one thing that is most important to level funding versus pay-as-you-go - it is giving you a measure as to what the plan is costing. There is no way anybody can appreciate how much a program is costing unless you have to put out the bucks for it right now. You are running PERS properly, but there is a corollary -- the information I have given you holds for now as well as any improvments. So, if you put in a benefit improvement down the road you have all the problems I have mentioned here: (1) no benefit protection, (2) no investment return, (3) you do not have a measure of how costly the improvement is unless you have an idea of the cost currently....which we do, but level funding relative to ultimate pay out puts a discipline on the legislature.

NACHTSHEIM-(Mr. Nachtsheim submitted written testimony, please see Attachment #3, contained on Page 2 of Attachment #1)

The hearing was then opened up for questions from the committee members.

There was a question from Rep. MAGONE relative to federal retirement systems, to which BLEAKNEY replied that the two programs are going through a possible unification; this is being heard in Congress now, and would provide a mechanism whereby states could make their own regulations without federal regulations being incurred upon them.

BARDANOUVE asked NACHTSHEIM how many PERS people were also receiving Social Security; to which NACHTSHEIM replied that he didn't have specific information on this because the PERS retirement age occurs before that of Social Security, but that with a few exceptions most PERS receivers were also getting Social Security. BARDANOUVE mentioned that there have been movements toward combining PERS and SS in order to help make up the Social Security deficit. NACHTSHEIM replied that such a movement had mostly occurred in states where people were receiving 70-80-100% of salary retirement benefits, which does not happen in Montana. He went on to say that the Montana statute requires the actuary to supply figures for a 40 year amortization, and it has been our position that they have supported cost of living increases as long as the funding period was less than 40 years. In about 10 days I will know what the PERS situation is, and we will require that there be a funding requirement for any increase.

TOM SCHNEIDER-Montana Public Employees Association - Since I have been with MPEA, we have brought in alot of PERS legislation, and we have always accompanied this with figures from Tom Bleakney. Anything that comes in here now, people are going to kill it. I want everybody to be aware that we are approaching full funding, so we're in good shape. There's nobody drawing 100% of salary. The other obligation of pension systems is to look at the benefit structure and revise it when it begins to fall behind. We can't be concerned all the way with cost. If a system begins to fall behind, the administrator needs to take action to restructure the benefits. There is a way to raise benefits without raising costs. The rate of interest was increased and that provided additional money.

RAY BLEHM-Montana Firefighters Association - Mr. Blehm brought up actuarial assumptions, with a particular question from Bleakney's book, which the two men decided would be better dealt with after the meeting since actuarial assumptions are a very complex subject requiring background knowledge to even begin to comprehend.

BLEHM-We will not be coming in asking for an increase. The main problem we see is that the formula is such that some cities don't have to contribute a cent. We have taken the actuaries at their word - that there be an ongoing contribution rate and raise the minimum contribution rate.

BARDANOUVE-We are talking about a 40 year concept - how much less than 40 years are we at the present time? NACHTSHEIM-That's what our evaluation is about and why Bleakney is here, I will supply that information to you upon completion of our evaluation. The PERS plan has been amended in every session; it has received cost of living increases in '71, '73, '75, and '77, and each one added years because there were no other funds put in.

Vice Chairman O'Connell closed the meeting, thanking Bleakney and Nachtsheim for the assistance, and Rep. Johnston moved to adjourn at 11:05 a.m.

Joe Brand

Joe Brand, Chairman

Nita Sierke

Nita Sierke, Secretary