MINUTES OF MEETING
STATE ADMINISTRATION COMMITTEE
MONTANA STATE SENATE

JOINT MEETING WITH HOUSE January 11, 1979

The meeting was called to order by Acting Chairman, Representative Helen O'Connell in House Room 431 at 10 A.M.

Roll call: All members of the Senate Committee present.

Larry Nachtsheim, Administrator, PERS, handed out copies of written testimony. His opening remarks concerned the need for the information session and gave some background information. It was the intention of the meeting to discuss the basic consideration of the pension system - the funding.

Introduction was made of Tom Bleakney of the Seattle firm of Milliman & Robertson, consulting actuary for PERS, who is an expert on public pension plans.

Mr. Bleakney gave a slide presentation showing how pension plans work, using a series of charts indicating types of systems and future obligation for pay-out per retiree. He indicated the present pay-out by PERS is an annual pension of $2,600 to about 5,000 people, with another 10-14 years life expectancy. This picture is then changed by the current retiree who will be receiving approximately $3,300+, and future pensioners would perhaps be receiving $5,000 by 1988. Another consideration is that present retirees tend to live longer.

The problem of financing a pension plan is, essentially, how to fund this system to take care of future needs. If you are currently paying about $14 million per year in pensions and new pensions will cost more than that, with more people on the rolls getting higher payments, you can see the problem arising. The main obligation of handling a retirement system is how to manage this curve. The actuary's responsibility is to show you how much money has to be put in the system in order for the plan to work.

He defined the pay-as-you-go system as putting in money only as it is absolutely needed. Cash flow - money paid out to pensioners -- must be maintained. In this system, net member contributions help to pay the pensions now being paid out, in addition to the investment returns on existing assets. If the fund got in trouble financially, these investments could be sold, but sometime in the future, it would run into trouble and funds would simply not be available to meet obligations.

In order to keep pace with future needs the percentage of payroll contribution on a pay-as-you-go basis would increase greatly - perhaps twice as much as at present - with increases continuously. This is the major flaw in this type of system.

Level funding gives measure of what pension plan is costing. 6.2% is present level of employer contribution, which includes administration costs. There is no way that a legislative body or a corporation can appreciate how much a benefit program is costing unless you have to pay for it right now. Condideration of sound management must be done if you are looking at raising additional funds in the future. This holds true for any benefit improvement to an existing plan also. Otherwise, you would not be giving the employees proper protection.

It is most important to consider that you do not have a measure of how costly the particular benefit improvement is unless you have a current cost attached to it.

The group was reminded this slide presentation was just a sample system.

Mr. Nachtsheim advised his office has 7 retirement systems they administer besides PERS, being: Game Wardens', Judges', Sheriffs', Highway Patrolmens', Municipal Police Officers', Pension for Volunteer Firemen of Unincorporated Areas and Social Security program for public employees.

PERS is the largest invested fund in the State. In June, 1978, it was $186 million - this is a 16% increase over 1977 when the fund was $160.9 million.

He reminded the joint group that if they look at a benefit, they also look at the cost beside it as this type of expenditure will go on forever. Once a benefit has been granted, under our present law, it can't be taken away. The state would bear a cost of $2.5 million per year if a 1% increase in employer contributions were granted. Benefit increases also have an indirect cost. For instance, if one system asks for an increased benefit, the other groups also ask for increases.

In closing, Mr. Nachtsheim cautioned if a benefit is granted, that this legislature also fund it so that future obligations can be funded.

The meeting was then opened for questions by Acting Chairman O'Connell.

Mr. Nachtsheim responded to a question regarding the effect of federal ERSA that presently they do not cause problems; however, some regulations pertaining to states - funding and distribution - under the Public Employees Act are problems.

Mr. Bleakney added this was actually introduced last session to provide a mechanism whereby the states would have to make their own regulations and thereby not be subject to federal regulations.

Machtsheim replied that they had no plans to introduce anything this session regarding a move by the Firemen and Police in Great Falls from their present systems to PERS.

Responding to an inquiry regarding Social Security benefits being received by PERS people, he stated that he couldn't say how many; only that all poeple presently under PERS are also under SS coverage.

To a question relating to a movement to set a ceiling on pensions received and to fund them with social security with the difference to be made up with local pension plans, because of a problem where some people are retiring at over 100% of their salary, Mr. Nachtsheim replied Montana does not have that problem. In the PERS statutes, it is required that our actuary present us with a 40-year funding period.

Tom Snyder, Executive Director of PERS, made a statement which generally expressed the policy of the PERS, expressing the fear that any legislation presented may be killed merely because legislators are afraid of its impact; that PERS is not a pay-as-you-go program. He said another obligation of a pension system not mentioned here was to make recommendations for future benefits and to keep pace with the living standard. He also stated it was still possible to raise benefits without raising costs due to assumed rate of interest which can go up to provide funds in the system, but they could not assume an interest rate which would not logically continue for 40 years. Cost of living increase to the retirees is the only piece of legislation the PERS will bring up this session, he stated.

Ray Blehm, Billings Firemen representative, questioned Mr. Bleakney regarding unfunded liabliity. Mr. Bleakney responded that it is a very complex question, working somewhat like a mortgage, the amount depending upon basic acturarial cost method and changing acturarial assumptions which change from normal funds cost to unfunded liabilities.

Mr. Nachtsheim added that as PERS laws have changed every session, this would not be an exception.

The Chairman thanked Mr. Bleakney and Mr. Nachtsheim for their presentations. There being no further business, the meeting was adjourned by Acting Chairman O'Connell at 11 A.M.

Pete Story, Chairman

Date Jan. 11, 1979

ROLL CALL

STATE ADMINISTRATION COMMITTEE

46th LEGISLATIVE SESSION - 1979

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NAME	PRESENT	ABSENT	EXCUSED
Senator Pete Story, Chairman	✓		
Senator George F. Roskie, V. Chmn.	✓		
Senator Bob Brown	✓		
Senator A. T. (Tom) Rasmussen	✓		
Senator Patrick L. Ryan	✓		
Senator Greg Jergeson	✓		
Senator William F. Hafferman	✓		

Each Day Attach to Minutes.

SENATE

1-11-79
from Larry
Nachtsheim

I WOULD LIKE TO THANK SENATOR STORY AND REPRESENTATIVE BRAND FOR THIS OPPORTUNITY TO MEET WITH THE COMMITTEE THIS MORNING.

THE PURPOSE OF THIS MEETING IS TO GIVE THOSE OF YOU WHO ARE NOT FAMILIAR WITH THE RETIREMENT PLANS AND LEGISLATION A SHORT DISCUSSION ON RETIREMENT SYSTEMS AND THE EFFECT OF RETIREMENT BENEFITS AND THEIR RELATED COSTS.

WE ARE NOT PREPARED, AT THIS TIME, TO DISCUSS SPECIFIC RETIREMENT LEGISLATION. IT WOULD BE QUESTIONABLE FOR US TO GIVE YOU ANY OPINION ON UPCOMING LEGISLATION WITHOUT SPONSORS, PROPONENTS OR OPPONENTS, PRESENT TO STATE THEIR VIEWS.

AT THIS TIME I WOULD LIKE TO INTRODUCE TO THE COMMITTEE MR. THOMAS BLEAKNEY, A PRINCIPLE OF THE FIRM OF MILLIMAN & ROBERTSON, INC. SEATTLE, WASHINGTON, WHO IS THE CONSULTING ACTUARY FOR THE MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM. TOM IS NATIONALLY RECOGNIZED FOR HIS WORK IN THE PUBLIC PENSION AREA HAVING AUTHORED A TEXTBOOK IN THIS AREA FOR THE WHARTON SCHOOL OF FINANCE, UNIVERSITY OF PENNSYLVANIA AND SAT ON MANY NATIONAL COMMITTEES REVIEWING PUBLIC PENSION PLANS.

TOM IS GOING TO DISCUSS PENSION FINANCING IN GENERAL WHICH IS THE BOTTOM LINE OF ALL PENSION LEGISLATION.

WHEN TOM HAS FINISHED, I WOULD LIKE TO DISCUSS SOME SPECIFIC PROBLEMS RELATIVE TO MONTANA RETIREMENT LEGISLATION.

As the Administrator of the Public Employees' Retirement Division of the Department of Administration, I am charged with the administrative responsibilities for:

Public Employees' Retirement System

Game Wardens' Retirement System

Judges Retirement System

Sheriffs' Retirement System

Highway Patrolmen's Retirement System

Municipal Police Officers' Retirement System

Pension for Volunteer Firemen of Unincorporated Areas, and

The Social Security program for public employees.

NOTE: As of June 30, 1978, the P.E.R.S. is the largest invested fund in the State of Montana with invested assets of $186M, a 16% increase over the previous years' $160.9M.

As I mentioned earlier, it is not my intention today to affect your decision on any pending retirement legislation but rather to effect your thinking on all retirement legislation.

Retirement benefits cost money. An increase in benefits cost more money! Unlike any other kind of governmental expenditure, an increased benefit cost is forever. Under present law, once granted it cannot be decreased, even by a future Legislature.

This means that a 1% increase in employer contributions to the P.E.R.S. would cost the state about $2.5M this year, next year and each year thereafter and would increase in direct proportion to salary increase.

Not only does a benefit increase have a direct cost, it has a indirect cost. A benefit increase granted one segment of the public employees, say the police officers, is almost sure to result in a similar request for increased benefits for firemen, highway patrolmen, game wardens, etc.

Don't misunderstand what I am saying, the Retirement Division and Board is not in opposition to reasonable benefit increases but it has a great deal of concern for benefits that are granted without proper consideration for the necessary funding to continue payment of benefits increased. A benefit granted today must be paid today as well as 40 years down the road.

The resources of the Retirement Division are available to any member of this committee or the legislature and we will provide any information we have concerning the above listed retirement programs to any of you who are contemplating or deliberating retirement legislation.

FINANCING P.E.R.S.

Chart A

Present Pension Payroll
5,000 Pensioners, averaging $2,600 per year

Chart B

The pension payroll will grow

More Pensioners
Larger Pensions

1978 Retiree averaged $3,300 annually
1988 Retiree should average over $5,000 per year

Chart C

Pension payroll now $13 million per year. Total will grow.

Present pensions will taper off, but new pensions will be larger to more pensioners

Chart D

Without proper planning, employer contributions would start off deceptively low.

Member contributions carry a major share
Investment return, plus sale of assets, would carry rest of load for many years.

Ultimately, though, huge employer contributions would be needed, using this approach employer contributions, once started, will grow.

Chart E

Pay-as-you-go means large and growing employer contribution as percent of payroll. Actuary's job is to find level equivalent; employer's job is to keep up the payments.

NOTE: Using level funding method is just as important for plan improvements as for financing basic System.

CHART A

PRESENT RETIREE

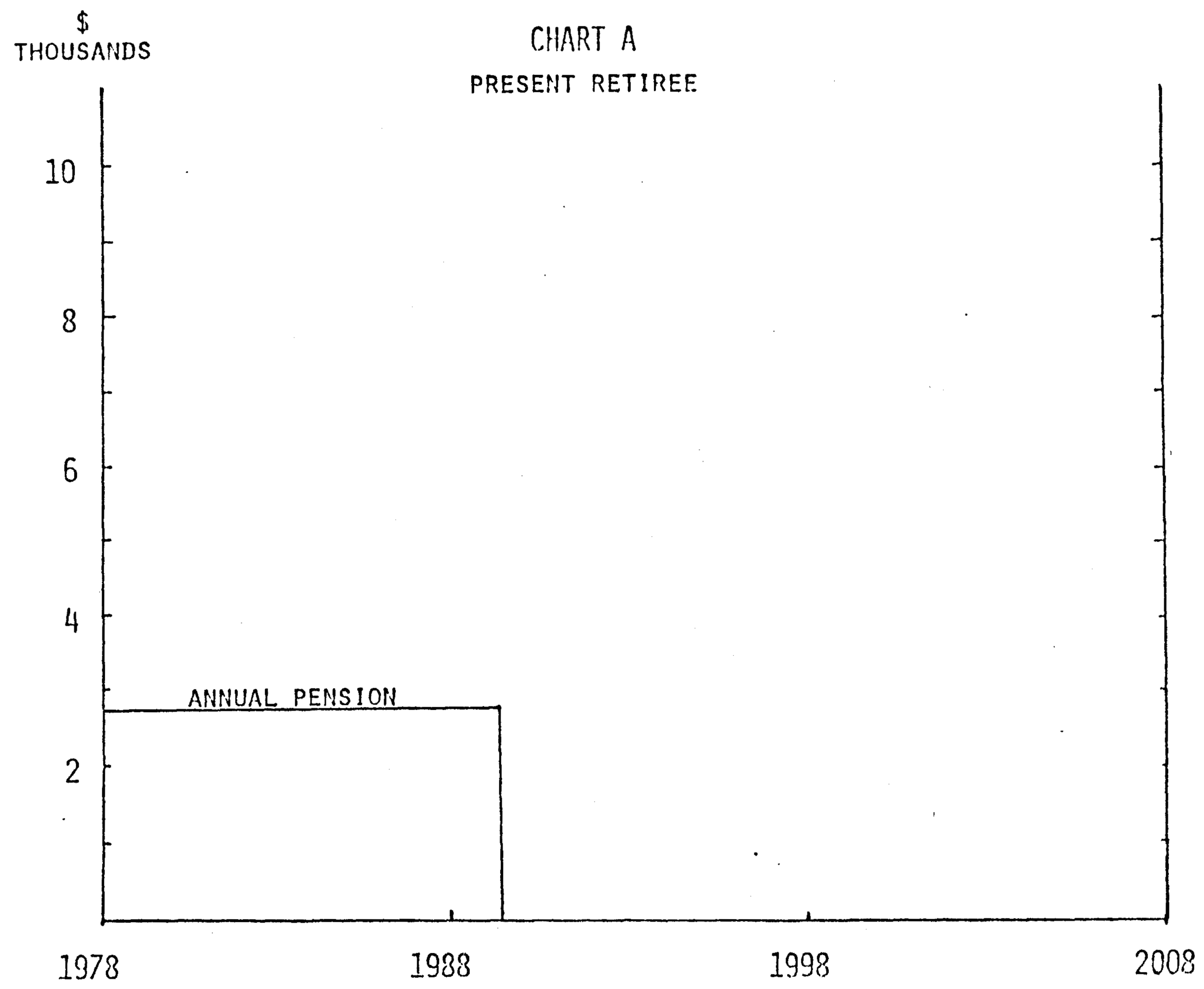

CHART B

1988 RETIREE

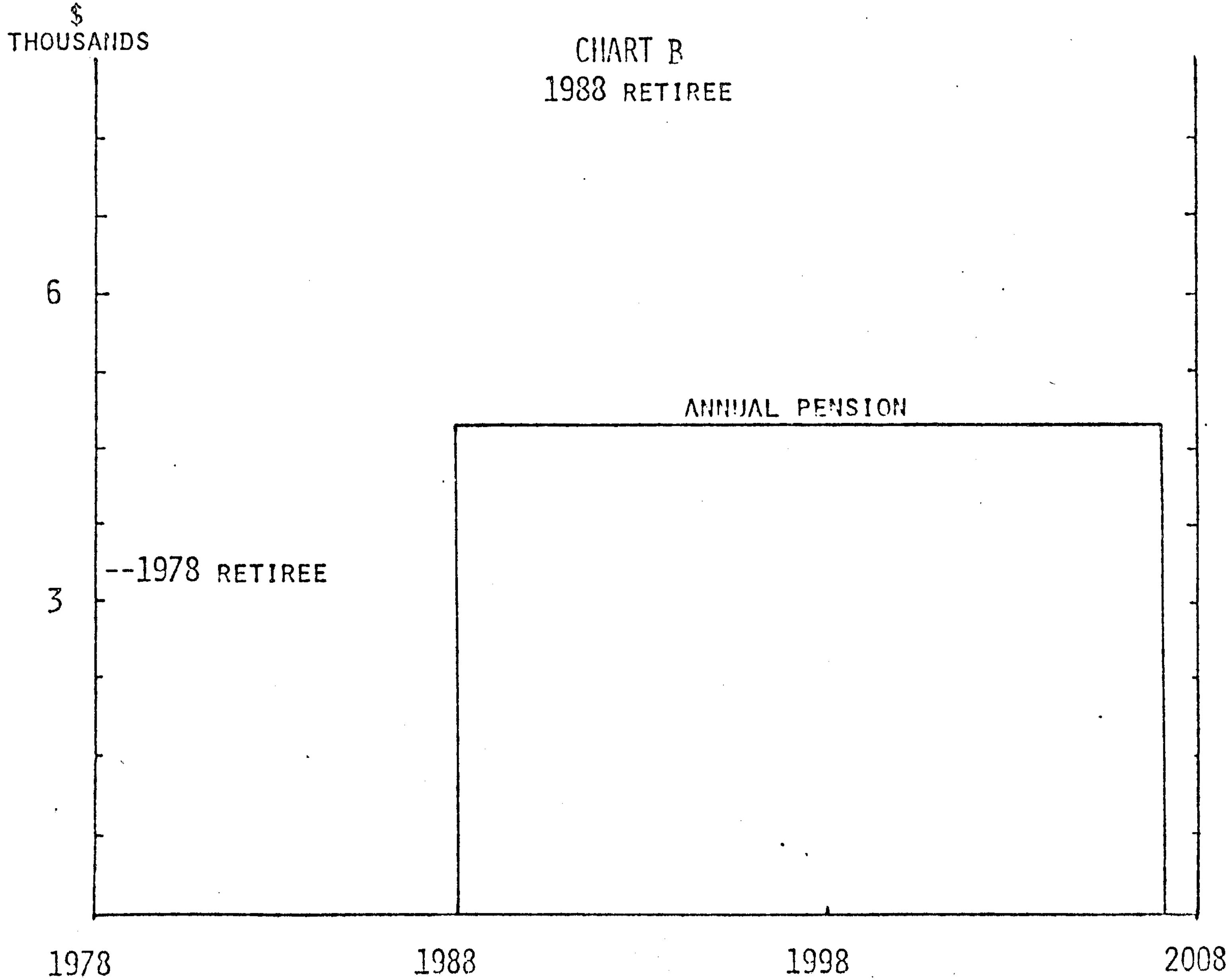

CHART C
HYPOTHETICAL ILLUSTRATION
OF TOTAL PAYOUT

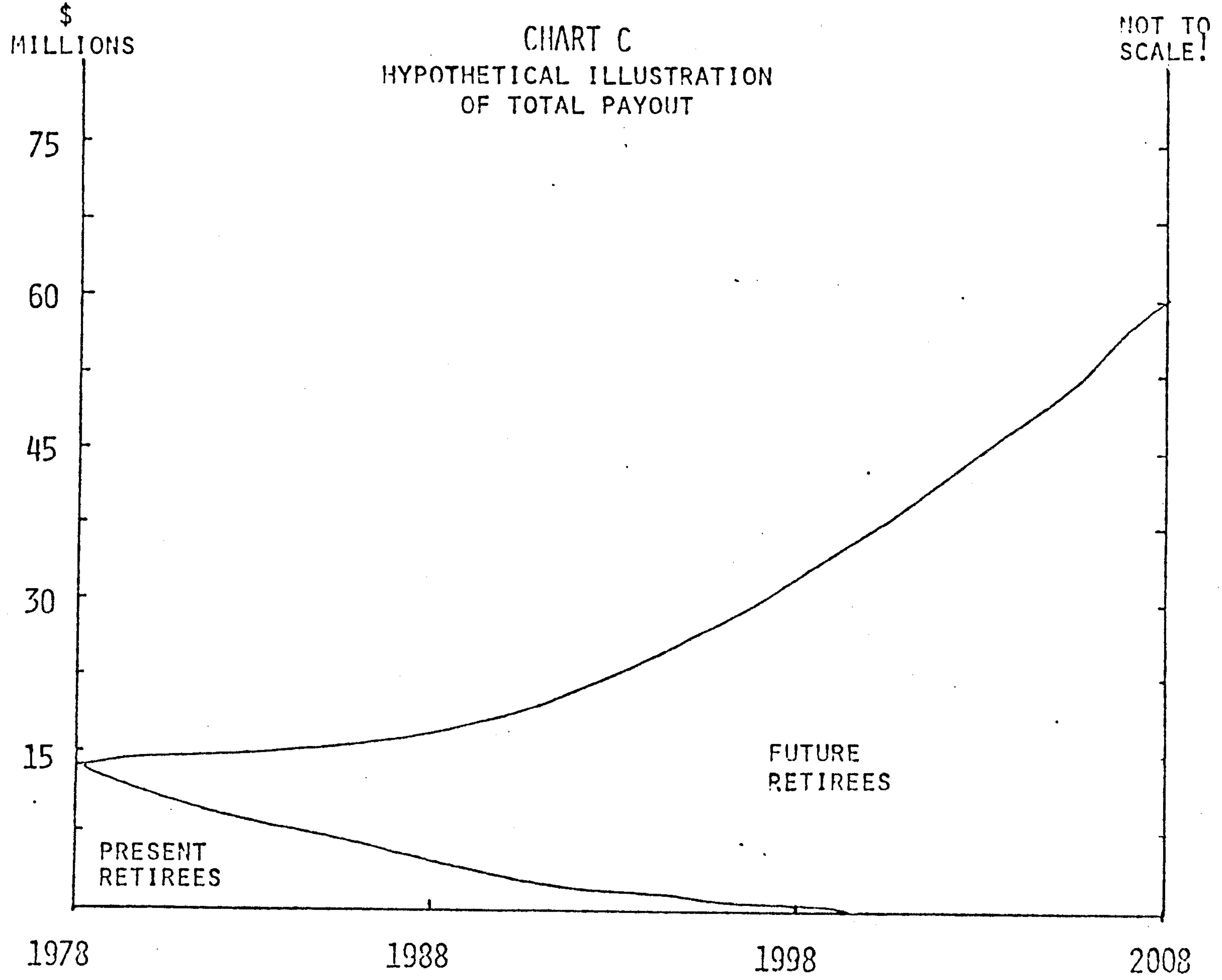

CHART D

SOURCE OF FUNDS

PAY-AS-YOU-GO-BASIS

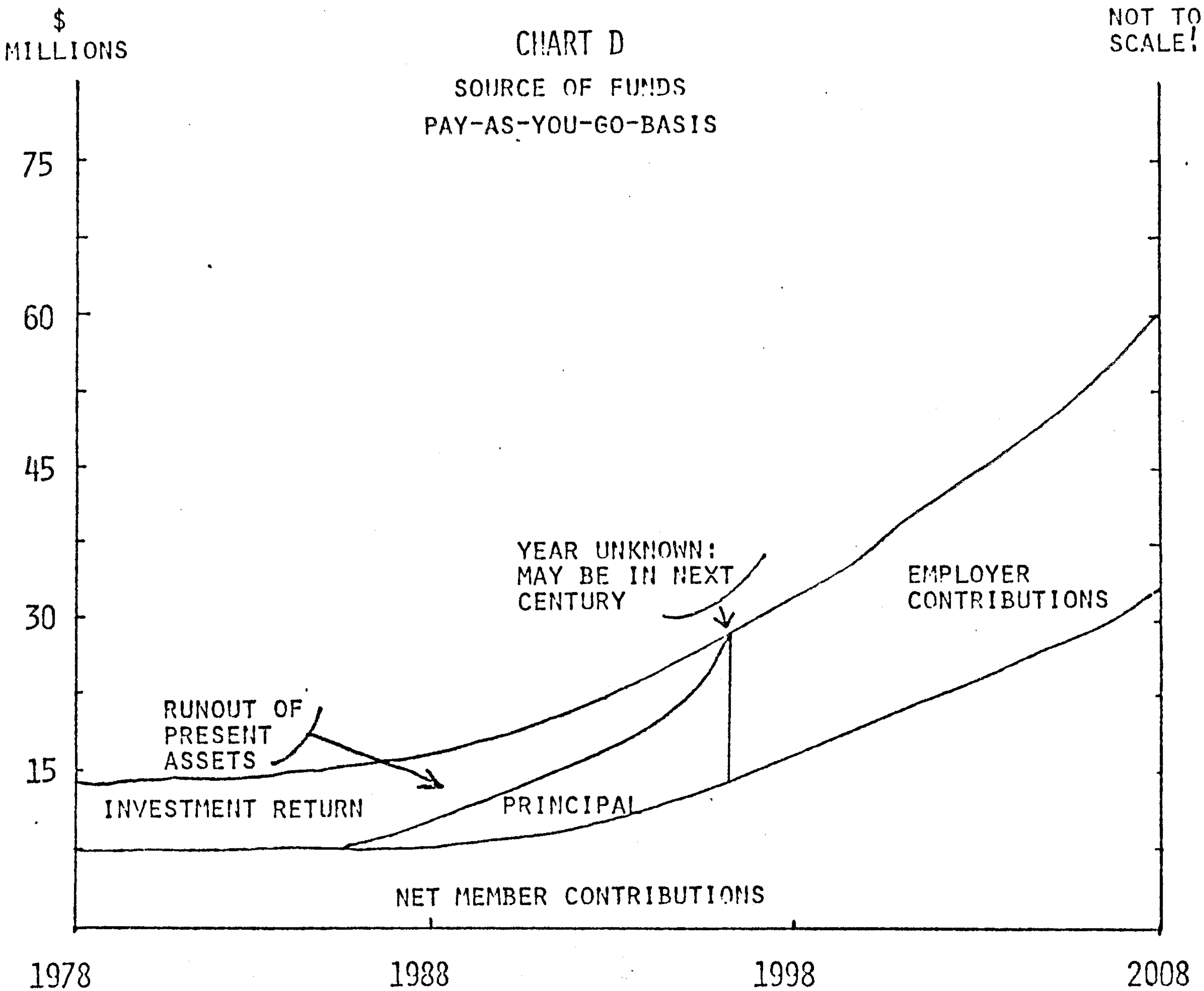

CHART E

EMPLOYER CONTRIBUTION RATES
STATE EMPLOYEES