

MINUTES OF THE MEETING
FINANCE AND CLAIMS COMMITTEE
MONTANA STATE SENATE

March 7, 1981

The 17th meeting of the Senate Finance and Claims Committee met on the above date in room 108 of the State Capitol Building with Senator Himsel, Chairman, having roll call and calling the meeting to order at 10:12 a.m. He said we would hear 3 bills, House Bills 639, 677 and 696.

CONSIDERATION OF HOUSE BILL 677: Representative Cozzens explained House Bill 677 and said the explanation would cover 639 and to some extent 696. He said this would allow trustees to earmark a portion of the comprehensive insurance fund end-of-the-year cash balance as a cash reserve fund for the ensuing school fiscal year. He said local school districts have budget funds under 7 categories: general, transportation, bus depreciation, tuition, retirement, comprehensive insurance, adult education and post secondary vo-tech centers. Three of the seven can have a reserve portion: general fund, 35%; Transportation, 20% and 25% for retirement reserve. This bill is comprehensive insurance, and would enable these funds to be better handled. As the money is collected twice a year from tax income and the payment obligations come due several times a year, it becomes necessary to put more money into it than needed in order to meet the obligations when they come due. This bill would set up the reserve and as the dollars come in it replenishes the reserve. We are asking 35% reserve and it will be drawn down and then replenished as the money comes in. It actually enables them not to have to over budget.

John Deany, Assistant Superintendent of Billings Public Schools spoke as a proponent of the bill. He said they have to inflate budgets in order to have enough money in July, then in the fall we get approximately $\frac{1}{2}$ of the funds in to keep us going. The inflated budget is not all paid out for insurance. We have checked with the DCA audit committee and they wondered why we had not done this long before now. We carry all of the insurance with the district with the exception of the health insurance. It is only the basic insurance for workman's comp and fire etc. This is insurance we are required to carry.

Bob Stockton, Office of Superintendent of Public Instruction, said his office supported the bill. At present there are only 2 ways to handle this, one is to inflate the budget to have enough cash to carry on, the other would be to write a warrant. If you write a warrant, you borrow money and pay interest on it.

There were no further proponents, no opponents, and questions from the committee follow.

Senator Himsl: In section 2-9-212, these are all earmarked funds and may not be spent for anything else? Cozzens: Yes. Deany: You borrow the funds until the cash comes in. Warrants are limited to 7% and not many banks want to lend it to schools for that percentage. There is no vote on this particular budget.

Representative Cozzens closed by saying that he had appreciated the time given to him on the bill, and their consideration. It will assist in cash management on the local level.

CONSIDERATION OF HOUSE BILL 639: In the absence of Representative Winslow, Representative Cozzens explained the bill. He said it does the same thing as 677 except for the category, which is adult education. By law it does not have a reserve account.

Mr. Deany spoke as a proponent of the bill. He said the same rationale dealt with this bill as the other one. This is general adult basic education and is set at 1 mill. The school board may levy up to one mill and last year Billings used about 3/4 of a mill. This had some federal money in it also, but was basically the mill levy. The money for this comes in to the district in December and in late June. This bill would help so they do not have to put in extra cash.

Bob Stockton spoke as a proponent of the bill. He said the OSPI supported this bill for the same reason they have supported the other bill.

There were no further proponents, no opponents, and questions from the committee follow:

Senator Stimatz: Would you say briefly just what is adult basic education? Mr. Deany: Regular adult education may be anything they want from basket weaving to whatever. This is only basic education--reading, spelling, the education needed to get the G.E.D.

Senator Van Valkenburg: You indicated some of the existing funds have some different percentages. How did you arrive at 35%? Stockton: This is what we are asking now, and is what most of them are now. We did a study of the cash flow which showed many districts need more than 35% to do the job. The ones below that will have to be raised, and what happens is they just don't pay a bill or something until the cash does come in.

Senator Himsl: In this one mill, is there a duplicate with Vo-Tech? Deany: 1.5 on the counties--the current statute says 1 mill. The High school levy of one mill takes care of adult education, the elementary levy takes care of the basic adult education.

Representative Cozzens closed by saying he would urge the

Minutes of Finance and Claims

March 7, 1981

Page three

consideration of the bill and hoped it would be favorable.

CONSIDERATION OF HOUSE BILL 696: Representative Kessler, sponsor of the bill, explained House Bill 696 as the same type of bill as the two previous ones. This one deals with reserve fund for sick leave by non-teaching personell. The district never knows how much they will have to pay back and they have to inflate thier budgets to handle it. (1) allows the trustees to do it, (2) money to be appropriated from the year end cash balance, and (3) gives the limitation. The same rationale applies to this bill as to the others.

Mr. Deany spoke as a proponent. He said they support this bill. On July 1, 1981 they have to approve the sick leave and this is approved on the same rate as a state employee. This is for the non certified support people, custodians, food service, etc. It is not as big a problem as it will be five years from now, and it is bigger than it was 5 years ago. We get people building up a longer list of days they have not used and this gets to be a problem. You cannot judge how much you will be going to pay when people leave. We will take this from the end of the year cash. It would not be an additional money levy to establish this. You would not have to put it all in at the same time. We are talking about a maximum.

Bob Stockton spoke as a proponent of the bill. He said the OSPI supports this bill as it is becoming increasingly concerned over what can happen. In state agencies we find now that sometimes we cannot fill a position for several months because we have used that money to pay the separation funds. This is a mandatory law.

There were no further proponents, no opponents, and the Chairman called for questions from the committee.

Senator Van Valkenburg: Is there already a reserve fund for sick leave for the teachers? Deany: No.

Senator Johnson: What you are saying is there is nothing in the contract to say you can carry just so many days of sick leave up to a certain time? Deany: With teachers, yes. There is 100 days (that was just raised, but we will call it 100) and that is the limit. If a teacher accrues more than that they just lose them.

Senator Johnson: In non-teaching, what about them? Is there no limitation? Deany: Yes, that is correct.

Senator Van Valkenburg: Why are the non-teaching employees of the school district state employees? Stockton: This is a result of an Attorney General opinion. Non-certified personell in a school district will be the same as all other state employees for the purpose of vacation and sick leave.

There were no further questions from the committee, and the hearing was closed.

DISPOSITION OF HOUSE BILL 696: Motion by Senator Regan that House Bill 696 BE CONCURRED IN. Voted and passed, unanimous with those present, Senators Story, Smith, Dover, and Keating were absent.

DISPOSITION OF HOUSE BILL 677: Motion by Senator Thomas that House Bill 677 BE CONCURRED IN. Voted, passed, unanimous of those present, Senators Story, Smith, Dover and Keating were absent.

DISPOSITION OF HOUSE BILL 639: Motion by Senator Thomas that House Bill 639 BE CONCURRED IN. Voted, passed, unanimous of those present, Senators Story, Smith, Dover and Keating were absent.

The meeting was adjourned at 10:39 a.m.



Senator Himsel, Chairman

ROLL CALL

FINANCE AND CLAIMS COMMITTEE

47th LEGISLATIVE SESSION - - 1981

Date

2-7-81

NAME	PRESENT	ABSENT	EXCUSED
Senator Etchart	✓		
Senator Story			
Senator Aklestad	✓		
Senator Nelson	✓		
Senator Smith			
Senator Dover			
Senator Johnson	✓		
Senator Keating			
Senator Boylan	✓		
Senator Regan	✓		
Senator Thomas	✓		
Senator Stimatz	✓		
Senator Van Valkenburg	✓		
Senator Haffey	✓		
Senator Jacobson	✓		
Senator Himsel	✓		

STANDING COMMITTEE REPORT

March 7

10:15

MR. President

We, your committee on Finance and Claims

having had under consideration House Bill No. 677

(Senator Thomas)

Respectfully report as follows: That House Bill No. 677

BE CONCURRED IN

EXECDY

DEPASST

G.A.

Senator Himsl

Chairman.

STANDING COMMITTEE REPORT

March 7 19.....

MR. **President**

We, your committee on **Finance and Claims**

having had under consideration **House** Bill No. **639**

(Thomas)

Respectfully report as follows: That **House** Bill No. **639**

BE CONCURRED IN

~~DO PASS~~

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STANDING COMMITTEE REPORT

March 7

19th

MR. President.....

We, your committee on..... **Finance and Claims**.....

having had under consideration **House**..... Bill No. **696**.....

(Begun)

Respectfully report as follows: That..... **House**..... Bill No. **696**.....

BE CONCURRED IN

~~DOCPASS~~

30

**The
State of
Montana
Deferred
Compensation
Plan**



Deferred compensation is a plan that allows employees to place a portion of their earnings into a tax deferred investment program. Taxes on money set aside and the interest accrued are deferred until the time of withdrawal. This allows employees the opportunity to defer present income for long term savings to supplement retirement and other benefits.

In 1974, the Montana Legislature authorized the establishment of a deferred compensation plan for public employees in the State of Montana. Following a favorable private letter ruling from the Internal Revenue Service, initial enrollment in the plan began in 1976. In 1978, Congress with the passage of the Revenue Act of 1978, endorsed by federal statute, the existence of deferred compensation for public employees. Hence, the Montana Deferred Compensation Plan operates under the sanction of both state and federal law.

The State of Montana, as owner of the Plan, has appointed a Deferred Compensation Committee to oversee the implementation of the Plan and to select the investment options available in the Plan. A Helena based firm, Montana Benefits, Inc., has been contracted to coordinate the enrollment in the Plan.

As a result of the Deferred Compensation Committee's efforts, the State of Montana has expanded its deferred compensation plan to include three investment options under which the employee may select up to nine different investment vehicles. The following investment options are now available:

- 1) Fixed Annuity Contract offered through Nationwide Life Insurance Company.
 - Guaranteed Fixed Annuity
- 2) Variable Annuity Contracts offered through Nationwide Life Insurance Company.
 - Putnam Investors Fund, Inc.
 - National Investors Corporation
 - Mutual Investing Foundation
 - M.I.F. Nationwide Money Market Fund
 - Massachusetts Capital Development Fund, Inc.
 - Massachusetts Financial High Income Trust
 - Massachusetts Investors Growth Stock Fund, Inc.
- 3) Life Insurance Contract offered through North American Life and Casualty Co.
 - Decreasing Term to Age 65

This offers a wide range of investment opportunities for helping you to meet your financial goals.

It's a plan that allows you to set aside a portion of your income and accumulate it on a tax deferred basis. That means, for tax purposes, the amount deferred may be treated as a salary reduction

. . . your deferred amount is not subject to current income tax. In addition, those dollars, and the interest you earn, accumulate on a tax deferred basis and are not taxed until you start drawing money out — normally at retirement. At that time, you'll probably be in a lower tax bracket, giving you more spendable income.

Your contributions, together with any investment earnings, are not taxable until you or your beneficiary start to receive benefits.

For example, assume you are in a 25 percent tax bracket and you want to set aside \$1,200 per year (\$100 monthly) for your future retirement. You could set money aside in a conventional savings program or in a deferred compensation plan. The following chart illustrates that with a deferred compensation plan you have an additional \$300 per year working for you. Money that would otherwise be paid in taxes.

	Without Deferred Compensation	With Deferred Compensation
Amount Set Aside	\$1,200	\$1,200
Less Tax	\$ 300	-0-
Net Amount Set Aside	\$ 900	\$1,200

In addition, with a deferred compensation plan, the interest on amounts you set aside each year is also tax deferred . . . allowing for a greater accumulation. The following example assumes a seven percent interest rate. It's neither a guarantee nor a projection of future results. Here's how your retirement savings could build over the years with and without a deferred compensation plan.

Accumulations	Without Deferred Compensation	With Deferred Compensation
After 5 years	\$ 5,139	\$ 7,160
10 years	11,776	17,202
15 years	20,349	31,286
20 years	31,420	51,041
25 years	45,720	78,747
30 years	64,188	117,606

The difference in retirement saving is significant. And, that's the dollars and sense of how a deferred compensation plan can reduce your taxes now and add to your future retirement income.

Income tax is paid only as you receive benefits and the following annual example to illustrate this:

Income tax is paid only as you receive benefits. This usually comes at a time when you are in a lower tax bracket, for example:

At retirement:
Social Security and part of your State retirement income are not taxable.

At death:
Your family's taxable income could be substantially reduced.

Unforeseeable emergency:

Expenses, such as medical and casualty losses, are usually tax deductible. These generally offset your family's taxable income.

Termination of employment:

A temporary reduction in income often results.

Who is eligible to participate?

All full or full-time part-time state employees and elected officials of the State of Montana.

What is the purpose of the plan?

This program is primarily designed for long term savings and consequently should not be considered for most short term needs. Therefore, you should not participate if you can't afford to invest money in a long term plan, or if you haven't established a fund for emergencies.

How do I enroll in the plan?

Simply complete an application form authorized by the State of Montana Deferred Compensation Committee. Representatives of Montana Benefits, Inc. will schedule enrollment meetings throughout the State to explain the plan and accept enrollment.

How much can I contribute?

Under federal law, you may set aside up to 25 percent of your gross income, not to exceed \$7,500 per year. You may not defer less than \$10.00 per month for each investment option selected.



Are contributions tax deductible?

Yes. First, the maximum deferral is reduced by any amount you contribute to a tax sheltered annuity.



Second, additional amounts may be deferred if you are within three years of retirement and you have not deferred the maximum allowed (25%) for all years after January 1, 1979. In this case, during the three years prior to retirement you may "catch up" on the deferrals you were eligible to set aside.



The total deferral may not exceed \$15,000 for any taxable year.



Does my employer contribute to my contributions?

No. By law contributions are made only by a deferral of your income.



When will the deduction begin?

The first deduction begins the first full pay period 30 days after receipt of your application. The exact date will be entered on your application form. Your pay stub will indicate the amount deducted.



What happens to my contributions?

Your employer deposits your contributions in the investment option you select. A benefit record is maintained in your name. However, your employer is the owner of all amounts deferred, including the investment earnings attributable to such amounts deferred.



What is a deferred compensation plan?

Your account is held in your employer's name. Under the deferred compensation plan, your employer promises to pay the values in your account when you or your beneficiary become eligible to receive them.

What are the tax consequences?

If you were to hold title to the funds, the Internal Revenue Service would consider this to be "constructive receipt" of the funds. In this case, they would be subject to current income tax.

How often are statements provided?

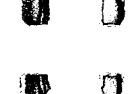
Statements are provided bi-annually. These statements reflect the total value of your deferred account.

What are the retirement and Social Security contributions and benefits?

No. Retirement and Social Security contributions and benefits are based on your income prior to your deferred compensation withholding.

How can I change my contribution?

You may change the amount of your contribution once in any calendar year, effective July 1st or January 1st. The change must be submitted by May 31st or November 30th. You may not request withdrawal of your money unless your situation meets one of the withdrawal conditions.



How can I change my contribution?

You may request a change form and discuss changes with the coordinator Montana Benefits, Inc. Changes apply to amounts withheld the first full pay period 30 days following receipt of the change.

What are the retirement and Social Security contributions and benefits?

This is a long-range plan, primarily designed to provide benefits for your retirement. However, in the event of your death, disability, termination of employment or unforeseeable emergency, you or your beneficiary are eligible to receive benefits at an earlier date.

How may I receive my benefits?

You or your beneficiary have the choice of receiving benefits in a lump sum, as a monthly income for a fixed number of years, as payment of equal percentage of deferred account each year, or as a monthly life income, including joint life incomes. All benefit options are fully explained at the time of enrollment.

What are the withdrawal conditions?

If you suffer an unforeseeable emergency you may apply to withdraw a portion of your account. The seriousness of your situation will be subject to review by the Administrator. Income taxes are due upon receipt of your money.

Expenses such as school tuition, purchase of a new car or home are not

considered unforeseeable emergencies. They do include such emergencies as impending personal bankruptcy, unreimbursed medical expenses, disability or major property loss, or other unbudgetable catastrophes.

You have two choices. You may elect to receive the entire benefit accumulated in your fund; or you may defer receiving the benefit until a later date. The entire amount you receive is taxable as you receive it.

Benefits, which would otherwise have been paid to you, are paid to your beneficiary.

Your beneficiary receives the remaining value of your account in accordance with the payment option you have selected.

At the time of enrollment you will select the beneficiary(s). You may change your beneficiary at any time. If you do not name a beneficiary, your spouse or estate will be your beneficiary.

With some options a monthly or annual administrative charge is deducted from your account. You should carefully review the informational brochures explaining each of the investment options for the specific charges. Any charges will be explained and illustrated by plan representatives. All current and accumulated charges will be reflected on your statements.

For further information

Contact the plan coordinator,
MONTANA BENEFITS, INC. (443-6398),
Box 603, Helena, Montana 59624