

MINUTES OF THE MEETING  
STATE ADMINISTRATION COMMITTEE  
MONTANA STATE SENATE

January 23, 1987

The eleventh meeting of the State Administration Committee was called to order by Chairman Jack Haffey on January 23, 1987 at 10:00 a.m. in Room 331 of the State Capitol.

ROLL CALL: All committee members were present.

The hearing was opened on Senate Bill 153.

CONSIDERATION OF SENATE BILL 153: Senator Mike Walker, Senate District 20, Great Falls, is the chief sponsor of this bill entitled, "AN ACT EXTENDING THE TIME FOR PURCHASING CERTAIN CREDITABLE SERVICE UNDER THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND FOR REDEPOSITING WITHDRAWN MEMBERSHIP CONTRIBUTIONS UNDER THE SHERIFFS', MUNICIPAL POLICE OFFICERS', AND FIREFIGHTERS UNIFIED RETIREMENT SYSTEMS; AMENDING SECTIONS 19-3-504, 19-3-505, 19-7-306, 19-9-603, and 19-13-603, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE." The bill was presented at the request of the Public Employee's Retirement Board. He noted the 24 month requirement would be removed and in its place language inserted that payments be made before termination of employment. It would be easier to understand and less cost prohibitive to buy creditable time such as that from another retirement such as military.

PROPOSERS: Beda Lovitt, Legal Counsel for the Department of Administration, represented the Public Service Employees' Retirement Board (PERS), stated they were in support of the bill. It would amend currently unenforceable provisions of law governing the length of time during which redeposits of withdrawn contributions or purchases of various types of retirement service credits must be made. It would help deal with an administrative problem and be easier to understand. (Exhibit 1)

Edward Flies, speaking for the Montana State Council of Professional Firefighters, spoke in favor of the bill.

OPPOSERS: There were none.

QUESTIONS ON SENATE BILL 153: Senator Haffey asked about the immediate effective date and was told it was so people could start buying time as quickly as possible.

Senator Walker then CLOSED on SB 153.

The hearing was then opened on Senate Bill 149.

CONSIDERATION OF SENATE BILL 149: Senator Dick Manning, Senate District 18, Great Falls, is the chief sponsor of this bill entitled, "AN ACT REDUCING THE NUMBER OF YEARS THAT A MEMBER OF THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM MUST SERVE BEFORE BECOMING ELIGIBLE FOR SERVICE RETIREMENT BENEFITS REGARDLESS HIS AGE; INCREASING EMPLOYEE CONTRIBUTIONS TO FUND THIS CHANGE; AMENDING SECTIONS 19-3-701; 19-3-901, 19-3-902, and 19-3-906, MCA; AND PROVIDING AN EFFECTIVE DATE." He noted this was being paid for by the employees and submitted written testimony for the committee. (Exhibit 2)

PROPOSERS: Dave Milot, from the Missoula area, representing himself and several hundred other members of PERS, stated they are all very much in favor of this legislation. He felt because of the times and the low moral of our employees at present, this would be very beneficial. He noted the teachers already have this in place and stressed no one is losing money because of this change. (Exhibit 3)

Tom Schneider, Executive Director of the Montana Public Employees spoke in support. He noted this had been a very important issue to members of the retirement system in the past. He noted he was not in total agreement that the employees should have to pay for this themselves but in view of the budget situation they had polled their members and found them to be 81% for this measure. He noted it would not help everyone who belongs but in the long run would benefit most employees. He felt if people could leave employment with their benefits, and if it would help the younger ones to remain at their jobs and away from welfare and unemployment it would be of benefit to everyone. This bill does not change the formula of retirement benefits but further benefits would not be reduced because of early retirements. It would just help remove the penalty for applying for retirement early.

Terry Minnow, Montana Federation of Teachers and the Montana Federation of State Employees, spoke in favor of SB 149. Since many others have this benefit already in place, she felt it was unfair to exclude PERS from this also. Phil Campbell, of the Montana Education Association, also supported the bill in the interest of fairness and equity for all.

OPPOSERS: Ellen Feaver, Director of the Department of Administration, stated that about half of the public employees would be hurt in the short run by decreasing take home pay if this measure were to pass. She opposed the bill because it would cause an immediate cost in the next biennium to state agencies. She was also fearful some of the best employees of the state would be leaving. She felt it was inequitable because only about half of the employees would ever be able to take advantage of it

and that it would provide an unhealthy incentive to quit work. She noted they had insufficient data to work with during special session to determine what effect sick leave and vacation payouts versus what the salary savings would be and working with the assumption that the employees leaving would be replaced. Assuming that the people leaving would be replaced she added there would still be a cost of \$420,000 in the next biennium to state agencies and about \$350,000 to local governments. She wondered how an agency could absorb such costs. She felt the taxpayers would be the ones to suffer also because of services that would not be provided. She then used a flip chart to explain more statistics.

QUESTIONS ON SENATE BILL 149: Senator Lynch asked Ms. Feaver how the \$420,000 was figured and she explained it was taken from a sample of all employees leaving state service over a six-month period and then followed up by how many of those were replaced and then costs calculated on what the projections would be today for those who chose early retirement. Senator Lynch felt that administrators and bureau chiefs would not be the ones who would leave. He noted in the teachers retirement they had found most of the better teachers had stayed on and felt it was inaccurate to state the better employees would be the ones to leave. Senator Hofman asked about the 40% who would never benefit at all and was told it was because they either had more service time in or because they were older. Senator Lynch noted that 81% of the public employees were in favor of this measure and Ms. Feaver stated she felt perhaps all the employees did not know what the benefits would actually be and did not understand it. Tom Schneider responded that employees do care and understand. He felt it was an unfair assumption to say they did not know and that they were very willing to pay. He thought it was just a smokescreen put up because the governor did not like this bill. He felt passage of the measure would save the state money. If it was not working for other retirement systems there would be measures to repeal he felt. Senator Lynch wondered why Ms. Feaver felt people would leave. She stated she was concerned about the "bump" this might cause with high payouts in the coming biennium. Senator Lynch felt there were not that many other jobs to be leaving for. Senator Rasmussen stated if we are losing higher paid employees we are plugging in with lower paid employees and felt this would then equal things out. Tom Schneider noted that no one really knows what will happen. He felt there would be more policies of not replacing people in the future.

Senator Manning then CLOSED on SB 149 by stating that he did not feel large numbers would be taking early retirement and noted again the employees are paying for this and are desiring this action.

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EXECUTIVE ACTION ON SENATE BILL 153: Senator Rasmussen MOVED that SENATE BILL 153 DO PASS. Senator Vaughn seconded the motion. The motion passed unanimously.

EXECUTIVE ACTION ON SENATE BILL 132: Senator Lynch MOVED that SENATE BILL 132 DO NOT PASS. He stated that as a member of the legislative council, he did not feel it was the place for them to be checking people's receipts and was certainly not the place to be doing investigative work of this nature. It was meant to be a bipartisan committee to run the place while legislature was not in session. He felt it was not right to be putting this burden on the 56 county attorneys either. He felt the system was working well as it is presently and should remain in place. Senator Harding wished more time to consult with constituents and wished to defer action till later. Senator Lynch then WITHDREW his MOTION.

EXECUTIVE ACTION ON SENATE BILL 149: Senator Farrell asked that action be delayed until the fiscal note arrived and he could have someone from legislative auditor's office present.

The meeting was adjourned at 11 a.m.

cd

  
SENATOR JACK HAEFFEL, Chairman

ROLL CALL

SENATE STATE ADMINISTRATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 1/23/87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR JACK HAFLEY	X		
SENATOR WILLIAM FARRELL	X		
SENATOR LES HIRSCH	X		
SENATOR JOHN ANDERSON	X		
SENATOR J. D. LYNCH	X		
SENATOR ETHEL HARDING	X		
SENATOR ELEANOR VAUGHN	X		
SENATOR SAM HOFMAN	X		
SENATOR HUBERT ABRAMS	X		
SENATOR TOM RASMUSSEN	X		

Each day attach to minutes.

DATE \_\_\_\_\_

JANUARY 23, 1987

COMMITTEE ON

# VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

1  
1-23-87  
SB153

SB 153 - Bill to Expand Limitations on  
Redeposit or Purchase of Retirement Service Credits

TESTIMONY OF PUBLIC EMPLOYEES' RETIREMENT BOARD

This bill is being proposed by the Public Employees' Retirement Board in order to amend currently unenforceable provisions of law governing the length of time during which redeposits of withdrawn contributions or purchases of various types of retirement service credits must be made.

Currently, several retirement statutes (PERS, Sheriff, Police and Firefighters) specify periods of time from 12 to 24 months during which members may purchase service or redeposit previously withdrawn contributions.

Any active member of a retirement system may make additional contributions to their retirement without specifying the purpose of those additional contributions and may request and receive a refund of those additional contributions without having to terminate covered employment. Also there is nothing in the laws which requires a member to begin making payments to purchase service credits at any particular point in time. Therefore, members can begin making additional contributions and later use those to pay for service and not be affected by the statutory time limitations.

This bill proposes to change the current 12 to 24 month limitations by extending the limitation to be any point in time prior to termination of covered employment allowing the active member to redeposit or purchase service credits up until the time their employment is terminated. This will deal with an administrative problem and make it easier on the member.

This is an equitable approach to solving the problem of unenforceable provisions. We urge your favorable consideration of this legislations.

## SENATE BILL 149 - Senator Richard Manning

Senate Bill 149, as introduced, is the same bill as SB 195 of last session with the exception of how the bill will be funded.

SB 149 is a bill to remove the penalty placed on members of the Public Employees Retirement System for retiring with 25 years of service instead of 30. In addition it decreases the penalty for retiring with 20 to 25 years of service. This would change the PERD law to correspond with the current TRD law.

SB 149 is different from SB 195 of last session in that it is totally funded by EMPLOYEE CONTRIBUTION. This means that in these days of tight budgets there will be no cost to the state or the local governments of Montana. There will be the possibility of savings because of the hiring of employees at lower salaries to replace those retired and in times of layoffs there is the chance of employees leaving with monthly benefits instead of unemployment and welfare payments.

According to the PERD Actuary, Mr. Hendriksen, the current valuation determines that 14,297 PERD members could benefit from passage of this bill, with 1401 being eligible during the next two years. He, further, calculated the cost necessary to properly fund the bill at 1% of salary. This means that the employees contribution will increase from 6% to 7%.

In these days of tight budgets it only makes sense to look at the methods used by the private sector to reduce cost while not hurting the employees any more than necessary. The private sector has used early retirement to great advantage for both the employer and employee and we should to.



## WHAT DOES THE BILL DO?

1. It does not change the formula of  $1/60$ . Currently if you complete 30 years of service you receive  $30/60$  or 50% of your final average salary (three year average). However, if you complete 25 years you may receive  $25/60$  or 41.666% but that benefit is reduced 6% each year for each year under 30 years. This means that a person who retires with 25 years of service will 41.66% of salary reduced by 30%.  
EXAMPLE:  $41.66\% \times \$ 1000.00$  average salary = \$ 416.66 monthly benefit reduced by 30% so the final benefit is \$ 291.66

The change of language on page 3, Section 4 (2) (a) does the above.

2. If you work 20 years and retire under the present law your benefit is reduced by 6% each year down to the 25th year and then an additional 3.6% for each year from 25 to 20 years. This bill removes the penalty down to 25 years and provides that your benefit with 20 years would be reduced by 30 % instead of 48% .

EXAMPLE:  $33.33\% (20/60) \times \$ 1000.00 = 333.33$  per month.  
Current reduction is  $\$ 333.33 \times 48\% = \$ 173.33$  per month.  
SB 149 changes to:  $\$ 333.33 \times 30\% = \$ 233.33$  per month.  
The change of language on page 3, Section 4,(2) (b) does the above.

3. The benefit change is funded by an increase in the employee contribution of 1%. (From 6% to 7%) This change is not excessive when you consider that the contribution rate for the other state systems are in the same general area.

Teachers RD	- 7.044%
Sheriff's	- 7%
Game Warden	- 7.9%
Police	- 7.5%
Highway Pat.	- 7.59%

6. Does this bill benefit a person who retires at less than SB149 60 years of age? A person who currently age 55 and retires with 20 years of service receives a 30% penalty, under this bill that penalty will be reduced to 18%. Currently a person age 50 with 20 years could retire with a 48% reduction, this bill would allow the person to retire with an 18% reduction.
7. The administration cost on payout of vacation and sick leave is nothing but a smokescreen. These benefits are owing to the employees anyway. If the budget proposal of the governor goes through and 900 positions are cut, this money will be paid whether you have this bill or not.

## QUESTIONS

1. What about the young people who will not stay to retire, should they pay more? Anyone one who leaves receives the contribution paid plus interest.
2. When the Teachers Retirement System added this benefit not too many teachers took advantage of it? The average number of years of members who retired from the teachers system was 26.5 while PERD is only 18.5 so this shows that many more teachers are closer or above the 30 years when they can retire without penalty. In addition, teachers have also gone through the dramatic reductions that public employees have faced for the past year and will continue to face.
3. Do the employees support this method of financing? The MPEA polled its 5600 members and 80% voted in favor of financing the bill this way.
4. Can we really save money this way? Last session during the arguments on SB 195 the claim was made that it would save money. That bill had an employer cost and the claim was made it would save as much as it cost. People were skeptical of the figures. The nice thing about SB 149 is that it doesn't cost the state or local governments any money so any money saved is to our advantage but we don't have to say it does to sell the bill. The answer is that it probably does but only time will tell.
5. Why should we allow the employees to retire after 25 years? The state has 8 retirement systems and currently PERD is the only one that penalizes employees for retiring with 25 years of service. This will made them equal not ahead of any other system.

NAME: DAVE. MILOT DATE: 1-23-87

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REPRESENTING WHOM? Mrs. H. & others

APPEARING ON WHICH PROPOSAL: S.B. 149

DO YOU: SUPPORT? yes AMEND? \_\_\_\_\_ OPPOSE? \_\_\_\_\_

COMMENTS: \_\_\_\_\_

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

# STANDING COMMITTEE REPORT

JANUARY 23

87

19.....

MR. PRESIDENT

We, your committee on **SENATE STATE ADMINISTRATION**

having had under consideration..... **SENATE BILL** No. **153**

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color

## **EXTEND TIME FOR REDEPOSITING CONTRIBUTIONS IN CERTAIN RETIREMENT SYSTEMS**

**SENATE BILL** **153**

Respectfully report as follows: That..... No.....

~~DO PASS~~

~~DO NOT PASS~~

*Jack Haffey*  
.....  
**SENATOR JACK HAFFEY**

Chairman.