

MINUTES

MONTANA SENATE
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON STATE ADMINISTRATION

Call to Order: By Chairman William E. Farrell, on March 31, 1989,
at 10:00 a.m., Room 331, Capitol.

ROLL CALL

Members Present: Senator Hubert Abrams, Senator John Anderson,
Jr., Senator Esther Bengtson, Senator William
E. Farrell, Senator Paul Rapp-Svrcek, Senator
Tom Rasmussen, Senator Eleanor Vaughn

Members Excused: Senator Ethel Harding, Senator Sam Hofman

Members Absent: None

Staff Present: Eddy McClure

HEARING ON HB 234

Presentation and Opening Statement by Sponsor:

Representative Gary Spaeth stated this bill has had a most interesting hearing, that it has been heard by just everyone in the House, several times, and indicated the interesting thing, as it went through the process, is that, as people understood this bill, they had less and less concern about it, even to the point that Representative Bardanouve ultimately voted for the bill. He indicated he thinks that, in and of itself, is an indication that the bill is going in the right direction. He stated he is carrying this bill at the request of state employees and, in particular, at the request of the Montana Public Employees Association, and indicated one of the reasons he is happy to be carrying the bill is that it deals with retirement, and that it, ultimately, gives a 7% increase in retirement benefits to retirees, in the future.

Representative Spaeth stated the reason he thinks it is important is that he carried one of the bills which froze state salaries, as did Representative Bardanouve, noting that he thinks, under the circumstances, they had to do that, that it was necessary action in order to balance the budget during particular hard times. He indicated the thing he did not think about, and he does not think others thought about, was that this would not have just a two or three-year impact on state employees, but would have a life-long

impact because, as their pay is frozen, it impacts their retirement benefits. He noted that he does not think that was something he envisioned, even though he carried one of the freeze bills, and indicated this is why it is a pleasure for him to present this bill. He stated that the proponents will go into more detail than he will on the bill, that particularly Mr. Schneider will explain it in great detail, but indicated it will change the formula from 1/60 to 1/56, which means it is based upon a 20 year retirement, noting that does not mean they can retire within 20 years, as opposed to 30 years, that it does not change that part of the law, but the formula will change, which will result in a 70% benefit for all members.

Representative Spaeth stated that, unlike the bill which went through two years ago, this bill is one which is paid for, primarily, by the state employees. He again stated that it is funded primarily by them, that at least 72% of the funding is paid for by the state employees. He reported that, right now, the contribution of state employees is 6%, and the employer is 6.417%, which means that state employees are paying less than the employers. He referred the committee to page 1, line 18, and indicated that, under this bill, to fund at least 72% of the costs associated over the long-haul, the contributions of state employees into the retirement system will be increased, and pointed out that it will be phased in at 6.15% until, ultimately, it is raised to 6.7%. He indicated that, on July 1, 1993, the state employee contribution will be 6.7%. He then referred the committee to the top of page 3, noting the employer contribution will remain the same, but indicated those rates will increase to 6.55% on July 1, 1992, and then go to 6.7% on July 1, 1993, which is where the increase for the employer, particularly the state, is going to occur. He pointed out that, by that time, everything will be equalized out, noting he thinks that is fair, for both the employee and the employer.

Representative Spaeth indicated he thinks it will also result in some retirements occurring, noting it encourages people with several years in, because they are not penalized to retire in the near future. He further indicated there has been debate and discussion that this is advantageous to people who are going to retire, and to the State of Montana, noting that there is some savings when people retire and new people come in, as it allows some vitality to go into the system, new people will have opportunities arise, and younger people will have opportunities presented to them, which will keep people in state government, as a result of that. He noted that is not the official word of the sponsors, and he thinks they may not agree with it, but indicated that, because there will be the opportunity for more promotions, he thinks there is a better chance of keeping the more dynamic

employees in government, which is a side advantage to this bill that he does not think anyone can measure, and which he thinks is probably as important an advantage to this bill, in his eyes, as there is. He noted he thinks it is the fair thing to do, and he would urge passage of the bill.

List of Testifying Proponents and What Group They Represent:

Mr. Tom Schneider, Montana Public Employees Association
Terry Minow, Montana Federation of Teachers; Montana Federation of State Employees
Dave Milot, Public Employees Retirement Division
Dennis Hemmer, non-aligned state employees
Wayne Phillips, Governor Stephens' Office
David Evenson, Montana University System

Testimony:

Mr. Schneider's written testimony is attached as Exhibit 1. Mr. Schneider noted that Representative Spaeth has given the committee a lengthy explanation of the bill, and that he will not spend a lot of time saying the same things. Mr. Schneider then stated that this bill was presented to all legislators and legislative candidates at 30 meetings, last fall, after they spent two years with the PERD board coming up with figures to insure that the bill is workable and actuarially sound, and that the idea of a five-year phase-in funding would be acceptable with the board, and the actuary. He noted that, at that time, they were talking about a 1/55 formula, and also indicated they would not use a formula which required over a 1% increase in contribution, but that, subsequently, in working with the actuary, they determined it had to be changed to 1/56, which is why this bill is a little different than the one presented last fall. He reported they separated the contribution rates, not necessarily to make the employees pay more, but because they had a lot of requests, in the last session, when the bill was vetoed, to end up with a contribution rate where the employee and employers would both pay the same rate, noting that is where the percentage of funding came from, to end up with both sides paying the same amount.

Mr. Schneider indicated the bill really comes from the fact that, with the wage freeze, all salaries were 8 1/2% behind, after the two-year freeze, which is what the cost of living did over the last two years. He pointed out that it is hard enough to pick that up for people who are working but, when they apply that factor to people who retire, they are really 8 1/2% behind before they ever start, noting they do not seem to be able to do anything for retirees, or they do very little. He stated that they are trying

to at least put them back nearly where they would have been, had they received salary increases, when their benefits are calculated, which is what this bill is all about. He reported that, in the House, the question was asked if only the people who retire, right now, are affected. Mr. Schneider indicated that the example he used was, if a person invests \$1,000, and loses interest for two years, it really does not matter if it is the first two years, the middle two years, or the last two years, it will still affect the interest they would have received on the \$1,000, adding that the same thing happens with salaries. He indicated it does not matter where the freeze occurs, in their career, they will still be two years short of where they would have been, had they not been frozen, and that this bill really tries to put everybody back, for retirement purposes, where they would have been, had they not been frozen the last two years.

Mr. Schneider reported that HB235, which deals with penalties for people with 25 years, has passed and been signed by the Governor, but pointed out that bill really only affects about 300 people, currently, and does not provide much of a pool of people to retire, and do what the Governor wants, which is to give retirement incentives for people to move out, freeing-up jobs, and allowing reductions in force. He indicated this bill would benefit 2,100 people and that it, ultimately, will benefit everybody who ever retires. He stated that the press is having real problems understanding things and stated that, if the press is present, he does not want to hear that it only affects 2,100 people. He again stated that, today, it affects 2,100 people, that 2,100 people could retire tomorrow morning with a 7% better benefit, if this bill passes. He went on to say that, down the road, everybody who ever retires will receive a better benefit, because of this bill.

Mr. Schneider indicated the bill is very simple, that it simply reduces the formula, noting the formula is currently based on 30 years equalling 50% of salary, and that this bill reduces that to 28 equalling 50% of salary. He stated that it does not allow a person to retire with half pay, with 28 years, unless they are 60 years old, noting that is important, that it does not change the qualification for benefits, and they still have to either have 30 years, or be age 60, not to be penalized. He indicated that, if they have 28 years, and, with HB235, they buy two years, they can retire without being penalized, but that this bill, by itself, does not do that, which is why these two bills were a package retirement change, so that both of those things could occur, adding that this is the second half of the package. Mr. Schneider indicated he would be happy to answer any questions, and thanked the committee for their support.

Testimony:

Ms. Minow stated that they rise in strong support of HB234. She further stated that it is a fair bill, and a very reasonable bill, adding that it improves the retirement benefits for all state employees, and also helps mitigate the result of the past pay freezes. She indicated they believe this bill is a bright spot in what has been a somewhat gloomy session, for state employees, and asked the committee to please give this ray of sunshine their support.

Testimony:

Mr. Milot reported he represents himself, and several hundred members of the retirement system, and reported that they strongly urge the committee's support of this bill.

Testimony:

Mr. Hemmer indicated he thinks the bill has been pretty well explained, and stated that he believes it will be a cost-effective bill, it will encourage some retirement, and give the state some opportunities. He reported that a number of his group fall into the category of people who probably would accelerate their retirement, and assured the committee there would be some retirements, as a result of this. He asked for the committee's favorable action.

Testimony:

Mr. Phillips stated that, as many of the committee members know, it is not often possible to provide the support for state employees they would like, in terms of money, and that this bill offers an opportunity to support them. He reported that the Governor lends his backing to the bill and that, if this committee, and the Senate, passes the bill, the Governor will sign it.

Testimony:

Mr. Evenson stated they support this bill, noting he thinks the reason is probably very easy to point out. He referred the committee to the fiscal note, and indicated the University System has 2,213 employees who are members of the Public Employees Retirement System, and the average salary for these people is \$16,307, noting this is roughly 56% of their work employee force. He indicated the members of the Public Employees Retirement System are typically their secretaries, food service workers, janitors and

technicians, they are the essential staff of the University System, and the people they often do not think of, but who are very necessary for a quality educational experience. He pointed out that, when they couple this with the knowledge that retirement is the largest asset most working-class Americans acquire over their life-time, the second being equity in their home, they realize how important this bill can be to the group of people who are not as highly paid as the average. He stated that, for those reasons, they support the bill, and urge the committee's support, as well.

List of Testifying Opponents and What Group They Represent:

None.

Questions from the Committee:

None.

Closing by Sponsor:

Representative Spaeth stated that the beauty of this bill is what he thinks the committee has seen in this hearing today. He noted they might think this bill is an easy bill, but indicated it has not been an easy bill, that a lot of work, by a lot of people, has gone into this bill and, in the House, there were hearings before three separate committees, and two floor debates. He indicated there were opponents, people who were opposed to it, but pointed out that, every step of the way, as people learned more about the bill, and what it did, noting there is a cost associated with the bill in 1992 and 1993, and as people became more aware of what the bill does, why they are doing it, what is all involved, and all the negotiations that went on, the bill, in its present state, has broad-based support, noting that is, in particular, what the bill stands for. He stated that it is one of those bills that is like fine wine, its time has come. He referred to the second page of Mr. Schneider's written testimony, and indicated that the employer contribution is presently 6.41%, that it does not have any impact this biennium, there is minimal impact in the next biennium and, in the next biennium, there is not an expensive price tag on this particular bill, noting that 6.7% is still a real bargain for the people in Montana. He stated that he thinks it does a lot of good things for a lot of people, and is one of the better bills, he thinks, for the management of state government. He urged passage of the bill.

Chairman Farrell announced the hearing on HB234 as closed.

DISPOSITION OF HB 234

Discussion:

Senator Rasmussen offered a motion that HB234 be concurred in.

Recommendation and Vote:

Motion passed by the committee that HB234 be concurred in.

HEARING ON HB 543

Presentation and Opening Statement by Sponsor:

Representative Mary Ellen Connelly indicated there is a revised fiscal note for HB543, noting it had been amended in the Appropriations Committee. She stated that the purpose of HB543 is to allow retired highway patrol officers to participate in the state employee group benefits plan, adding that it would cap new retirees, who come on after March, 1986, that anyone hired after that time would not be considered part of this program. She explained that, at that time, they will be able to get Medicare, but that current highway patrol retirees can not get Medicare. She further explained that they were not allowed, by federal law, to have Social Security until 1977, when they were finally allowed to apply, but there was an agreement, through the Justice Department, that they should not, because it would cost the state so much money. She noted that it would have cost about \$500,000, per year, for them to go on Social Security, so they did not do it at that time.

She reported that, now, because of the small pensions they are getting, noting the average pension is around \$700, they need some help with their medical costs, which is why she has brought this bill. She reported that it will put \$.50 on motor vehicles, which will go to the Department of Administration to pay part of the premium, that they will pay half of the premium up to 1989. She pointed out that there is a cap and, if the premium costs continue to go up, the state would only pay that portion, and the rest would have to be picked up by the retirees.

List of Testifying Proponents and What Group They Represent:

Representative Robert Clark
Al Rieron, Montana Highway Patrol Association
Senator John Harp
Buck Baldry, representing himself
Gene Miller, representing himself
Tom Schneider, Montana Public Employees Association

Testimony:

Representative Clark reported that he is currently a highway patrol officer, and that he went to work in 1968. He indicated that, at that time, and through 1977, as Representative Connelly testified, they were not allowed, by law, to participate in the Social Security System. He indicated that, after that time, when they were allowed, they did not participate, that they chose not to, and there was a two-fold reason for that. He reported that one reason was that it would have been an additional 7% they would have been paying, out of their paychecks, and, at the same time, the state would have been picking up a matching amount, which would have amounted to about a half a million, a year. He noted that, during that 12 year period of time, until now, had they chosen to go into the Social Security System, the State of Montana would have had to pay \$6 million.

Representative Clark indicated that most of those who are now eligible, who could apply for Social Security, and want to, would still not, due to the same reasons; that it is not economically feasible for them to do it at this time, the way things are, currently, and they can not afford it. He stated that he thinks this piece of legislation covers the people who really need this and, through no fault of their own, had no choice, back in the early 70's, prior to the mid-70's. He indicated that he thinks they should do what they can to help them out.

Testimony:

Mr. Rieron reported that HB543 allows retired officers to grandfather in, under the state administration health plan. He indicated that, as it was explained, they were not able to get into Social Security because of budgetary problems, and the Attorney General's opinion, noting they were caught in this bind, and were not able to come in on it. He indicated that this bill would cover the officers from March, 1986, back because, from March, 1986, forward, they are under Medicare and Social Security benefits, noting that they are paying for that benefit.

Mr. Rierson distributed materials to the committee members, a copy of which is attached as Exhibit 3. He indicated that, when a person is working, it is a lot easier to keep up with expenses but, when they are not working, they are on a fixed income and are caught in a financial bind. He pointed out the figures from the end of December of 1973, and indicated that health insurance was \$24 a month, then, and reported that it is \$164, today, on his wife. He referred to the other figures, and noted the pension of \$484 was what he received, when he went off patrol 15 years ago. He noted they did receive a cost of living raise about three years ago, but that it was not near enough to catch up with the inflation problem. He reported their buying power is \$112 a month, out of their pension, today, and stated that no way on God's Earth can they live on that, unless they have some other means of support. He indicated he noticed, in the manual on the study, a lot of public employees are on Medicaid, today, because of pension problems. He noted the average income of a retiree is \$762, per month, but that the people in his age group get \$518. He added that he retired as a sergeant, and receives a little more than the average patrolman.

He stated that this is an issue which has received a lot of attention nation-wide and, he thinks, state-wide. He noted that North Dakota has initiated a plan to pay \$75 per month towards each retired officer, and that the teachers, likewise, are phasing in benefits on health insurance retirement. He noted that, in his area, the teachers' retirement health insurance benefits are phased into their retirement system, adding that they have a cap, also, that, as the premium is raised, the retiree has to pay that increase.

Mr. Rierson reported that he did an analysis of the retirement system. He indicated that he had been on the force for 10 years, and was gravely concerned, at that time, that it was not adequate for retirement. He reported he was told, in 1959, that he would have to have \$1,000 a month, and a cost of living, in order to maintain a household at the same level as when he was active, at that time. He indicated that he brought it to the attention of the captain, the sergeants, and that he spoke loudly on it, trying to get their attention to do something about it, at that time. He noted that he was at the point of considering resigning, because he could see it was not a bright picture ahead. He reported they twisted his arm, and assured him they would have it corrected by the time he retired. He noted that, lo and behold, it has not been corrected, which is one of the things they encountered, as they moved along.

Mr. Rierson reported that the federal poverty level, today, is a household of four people, under \$14,000. He noted that, when a

person retires, there are only two members in the family, and that it will be a little less, but pointed out that it still costs the same for taxes, heating, etc., which is one of the crossroads they are faced with. He referred to the \$112 buying power, and indicated that is 40% to 50% of what it was in 1973, noting the buying power is depleting away from the dollar, which is another problem for older officers, noting the active people have presented their picture, here, today. He indicated about 42 officers and widows are working, today, and will not need to come under this plan, that, because they are in the work force, there is no need for them to come under the plan.

Mr. Rierson noted that the opponents expressed some opposition to the bill because vehicle registrations might decline, and reported that, in 1973, there were 686,339 and, in 1985, there were 850,954, noting that registration has climbed. He further reported that, in 1987, there were 940,102 vehicles and, in 1988, there were 980,039 vehicles, stating that there certainly has been a steady climb in vehicle registration. He indicated that he thinks that will prove that, as time goes on, there will be adequate funding, adding that, when and those officers and widows from 1986, back, pass on, the bill will sunshine itself out.

Mr. Rierson stated that he thinks it is easy to be an opponent to this bill, probably, because of administrative desires, but indicated that, if he was getting \$25,000, \$35,000 or \$40,000 a year, he would be an opponent, too, if he was administrative, and had his own philosophy or chains of thought on how to run that office. He added that he thinks there is a humanitarian need here, and that, regardless of what the opponents say, it is a challenge to him, as a representative of the retired and active association, to present this picture to the committee. He stated that he hopes the committee will give their support to this bill, noting that he thinks it is a vehicle which will help the retired people, and that he can not urge too strongly for the committee to support this plan.

Mr. Rierson noted that he went through the manual, that he saw the various philosophies and concerns of the people who made the study, and indicated the whole manual stressed the need for health insurance for retirees, almost from the front cover to the back cover, which is the picture they are representing here today. He pointed out that PERS, teachers, judges, sheriffs and game wardens have Social Security, and the police, fire and highway patrol are the only ones who do not, but added that the highway patrol does now, because they were phased-in in 1986. He urged the committee's support.

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Testimony:

Senator Harp reported that he is a co-signer of this bill, and indicated one of the reasons he supports this bill is that he has always looked at the highway patrol people in high regard. He indicated he has had difficulties, like we all have had, on highways, through accidents and violations. He noted that he has always been treated very professionally, and thinks it is only fair that this bill passes, to take care of those people who have really been good public servants, adding that is not to say that other state employees are not doing a good job, but indicated that, for some reason, he has always looked at the highway patrol as a group who is always there when needed, assisting in accidents, etc.

Senator Harp stated that the bill, after it was amended, has a narrowed scope, noting that the fiscal note points out that it is actuarially strong, it has a net balance, and would cover those people who have not been involved in Social Security. He indicated that, looking at the age of some of the former highway patrolmen, he thinks it is fair to do this. He noted the additional \$.50 is a fee, or tax, whatever they want to call it, but indicated that he thinks it is well worth it, and urged the committee to support it.

Testimony:

Mr. Baldry reported he is a retired highway patrolman residing in Ballantine, Montana, and is the president of the Retired Highway Patrol Association. He indicated they have their annual meeting each September, and, in recent years, the subjects and topics which have dominated the meetings, from the elderly officers, were health and welfare concerns, to the point where they felt obligated to get something going to come to their aid.

He reported that many of these officers spent their life employed with the State of Montana, as a highway patrolman and, under the law, had to retire when they reached the age of 60. He indicated that, during this time, they were not under any Social Security plan, and found, as time went by, that they were locked into a retirement system which did not provide adequate income to maintain a household, and left them without health insurance coverage or Social Security, adding that these people have been left in a financial bind. He stated that HB543 will allow retired Montana Highway Patrol officers an opportunity to come under the state plan, providing health insurance coverage, and indicated that he can not express seriously enough that the retired officers need the security of health insurance. He stated that they support

HB543, and that he is here to ask the committee for their vote and support.

Testimony:

Mr. Miller reported that he retired as a captain in the Montana Highway Patrol, and indicated that he wants to address some of the people who have fallen through the cracks regarding health insurance. He stated that, if they were not a member of the health insurance group plan, when they retired, they automatically could not get back in. He reported that the health insurance plan was not in effect, when a lot of these people retired, and they have been unable to get into the plan, noting they are trying, and hoping, to grandfather those people into this plan. He stated that he was unable to get into this plan because he did not belong, when he retired, that those who did not belong, prior to 1979, and who retired prior to that, were not under this plan, because there was no plan.

Mr. Miller noted that they are unable to get into the plan, and indicated the ones he really thinks about are the ones who could not, and are now unable to get into the plan, adding that, after they reach the age of 65, they can come under Medicare, if they pay the premiums to Medicare. He noted that anyone looking around to buy health insurance, from a private party, knows that it is almost getting prohibitive to buy, that the costs keep rising every day, or every year. He reported that his wife is not 65, that her insurance is tremendous, and they feel that, if they could get under this plan, they would be able to weather the storm a little bit, even if only half of his premium is paid. He indicated that some people with low retirement, at the bottom of the scale, are facing the probability of losing their homes, noting that, if these people lose their homes, and go into a nursing home where they could stay, under this plan, and get some health insurance, would be a step in the right direction.

Mr. Baldry stated that he sincerely urges the committee's support of this bill so they can come under the plan, and see a few of the benefits that they can get, as a group, rather than as a person.

Testimony:

Mr. Schneider stated that, in the beginning, this bill would have covered people who would retire in the future, noting they did support it because they represent highway patrolmen. He indicated he is still involved in trying to work with Representative Connolly and help her out, noting this bill, and the retirement bill, went through the same committees, and is the longest route a bill has

ever taken. He indicated there are some confusing things, and he would like to very quickly run over them for the committee.

He reported that, in 1955, the federal government had an option of putting state employees into Social Security, and Montana voted it in, but that the federal law precluded anyone who had a retirement system which was better than the retirement system for the average employee, which was, basically, the police, fire and highway patrolmen. He further reported that, in 1973, the federal government changed their law to allow law enforcement groups to come into Social Security, but that Montana still had a law which said they could not. He indicated that, in 1977, Montana changed the law so they could vote in, noting it was a majority vote situation and that, in 1977, everybody thought Social Security was going down the drain, so they made the decision not to do that.

Mr. Schneider reported that the 1986 date is the date mandated by federal law when they have to start paying Medicare for active people, noting the highway patrolmen are still not in Social Security, that they are only in the Medicare part, now. He pointed out that this bill is capped for cost, and for numbers, and that, as of the day the bill passes, the numbers and costs start downhill, not uphill, which is what the original bill did. He indicated that he wants to make it clear that it is a captive group of people, who are all retired, noting that, sadly enough, those groups of people start downhill, they do not increase. He reiterated that they are dealing with a select group of people, who have an identified problem, and indicated he thinks the committee should take a look at the bill.

List of Testifying Opponents and What Group They Represent:

Joyce Brown, Employee Compensation Benefits Manager, Department of Administration

Testimony:

Ms. Brown's written testimony is attached as Exhibit 4.

Questions from the Committee:

Q. Senator Bengtson asked how many fees are they sticking onto motor vehicle registration, noting they have added an extra \$1.00 for noxious weeds.

A. Representative Connelly responded that is all.

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Q. Senator Bengtson asked, when they become 65 and are eligible for Medicare benefits, if there is any deduction, or if something happens which allows them to continue on the state health insurance program. She further asked how that works, noting there is a stop-gap between 50 and 65, and, when they are eligible for Medicare, if anything happens.

A. Ms. Brown responded that most retirees pay regular premiums, the same premiums as all other employees, up until they become Medicare eligible, at which time they receive a reduced premium, because Medicare is picking up part of the medical costs. She indicated that the group affected by this bill is not eligible for Medicare, and would be paying the regular employee premium for the entire time that they are not eligible for Medicare.

Q. Senator Bengtson asked if they will never be able to have Medicare.

A. Ms. Brown responded that, because they are not under Social Security, they will never be eligible for Medicare. She indicated that retirees covered by this bill, which are those hired before 1986, are not eligible for Medicare, unless they become employed with another employer, which many of them do because they retire so early.

Q. Senator Bengtson asked if this bill is comprehensive enough so that, two years from now, there will not be someone else who was missed in the highway patrol, and if they are going to get them all, once and for all, if they do this.

A. Ms. Brown responded that the major problem is not those people this will apply to, but every person that every retires. She noted that the precedent of providing the option of coming on to the state plan, because they do not have Medicare coverage, is the threat, that it will only apply to a few people, adding that she thinks there are only a few other retirees, out there, who do not have Medicare coverage.

Ms. Linda King indicated the issue is that they did not have Medicare coverage, under state employment, but noted that a great number of them are Medicare eligible and, if they allow people who are Medicare eligible, how can they screen someone else, who is also Medicare eligible, off.

Q. Senator Bengtson asked how can they screen that.

A. Representative Connelly responded they do that, that there is a provision that people working somewhere else in state government are not covered, they are excluded.

Ms. King indicated they are working but, as soon as they retire, they will, in fact, get it.

Q. Chairman Farrell asked if it would be better to use this money to increase their retirement by \$100 a month, noting that has been done, in other systems, with a premium tax.

A. Ms. Brown responded that the pension is not large enough to cover health care insurance costs, and that she thinks increasing their pension would cover it, that it would cover the argument that their pensions are not sufficient.

Q. Chairman Farrell asked if the problem is in tying it to the health program.

A. Ms. Brown responded the real problem, she thinks, is providing state subsidy of a retiree's premium, because this is the first time they have ever done that, and it sets a precedent that every retiree in the state system will want to have extended to them.

Mr. Rierson reported that he spoke to one of the legislators, who indicated he stayed with his own private insurance plan, but receives \$131, a month, from the state, to fund his insurance, his private insurance, which he carried before becoming a legislator. He indicated that he took it that the gentleman was honest, and told him the truth about that funding.

Mr. Rierson then stated that he thinks there is a hang-up on precedent setting. He indicated he realizes other agencies want this, but pointed out that he presented a list of those who are on Social Security, and that only the police and firemen are exempt, that the PERS, the judges, the sheriff and fish and game are there, noting that is a picture that should be clear. He then asked if he is correct that the legislator gets \$131 a month.

Ms. Brown responded that is correct, and indicated that, as she understands it, this group is the only one which does not have Social Security and Medicare. She noted that is the reason they need to come on the state plan, but is not a reason why the state needs to pay part of the premium.

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Ms. King reported that the three retirement systems, police, fire fighters and highway patrolmen, are not covered by Social Security, and indicated that is one of the major reasons, along with the fact that they have a dangerous profession, that their benefits are so much higher than the other retirement systems. She referred the committee to Exhibit 8, and pointed out that the average benefits paid to highway patrolmen are almost, although not quite, twice that of the average PERS retiree. She further indicated that it was understood they were not also covered by Medicare, therefore, the level of benefits was increased, and the amount of money the state pays in to fund benefits for highway patrolmen was increased, to make it equitable, because they did not also have Social Security. She pointed out that the highway patrolmen pay a little over 7% into their highway patrol retirement system, and get twice the benefits that people in PERS get, and that PERS members have to pay 6%, noting that may go up, plus 7.51% for Social Security, and they are paying 13.51% for the benefits they receive, for both Social Security and PERS. She added that highway patrol officers pay about half that much, and get twice the benefit. She stated that, if the committee wants to raise the benefit, that is their prerogative, but indicated she feels they should understand what is currently in place, and that a precedent would, in fact, be set, if they start paying the retirees' health costs, because that would affect well over 16,000 people.

- Q. Senator Vaughn asked Ms. King, if a highway patrol member reaches 50 years of age, and goes to work for another group which has Social Security, and if he is now retired from that, will he still be eligible for this highway patrol payment.
- A. Ms. King responded yes.
- Q. Senator Rasmussen indicated it was mentioned that the highway patrolmen have the option of going into Medicare and Social Security, and asked if that is the case.
- A. Mr. Rierson responded that is not true. He reported that he went to court, when he was 55 years of age and had 25 years in the service, and the Attorney General issued an opinion that he could no longer be a contributor to the account. He indicated he wanted to go into Social Security, but was told he could not, noting that, under the previous authority, the Highway Patrol Board, if he did not draw on his account, and worked beyond 25 years, that would add to his account, when he started to draw, like Social Security. He reported they did not have the opportunity to go into Social Security until 1977, when Montana passed a law that the state could go on

Social Security but, like Tom Schneider said, there was a shaky picture of Social Security, and the state, from an administrative level, as well as the personnel in the field, did not feel it was a wise move to go into it. He noted that any officer knows, when they have about 10 years left on their career, it would be a damn good investment to go into Social Security, because that is 7.5%, with the benefactor.

Mr. Rierson stated that, sure, the old officers have a lot better benefit, noting that, in the old days, they had a certain amount of match money on both sides, and did not fall into this category, but indicated that is the progress in all jobs. He pointed out that these are some of the issues confronting them and, to say they had the opportunity to go into Social Security, is totally in error. He added that he went to court twice, the Supreme Court, and it was a 3-2 decision.

Q. Chairman Farrell asked Mr. Rierson when he went to court, what year.

A. Mr. Rierson responded that he filed the case in the first part of 1974, before he actually resigned, noting he resigned on the 10th day of April, and reported that it was about a year and a half or two years later before they had the first ruling. He further reported they went back, that some technicalities were brought up, and it was a 3-2 decision, both times. He indicated that, the last time, the two judges very strongly addressed the issue that the other judges were not looking at the real facts of the case, that they were looking at it from a political standpoint, and a financial standpoint. He indicated an older officer, who was getting the 2% a year, was not allowed the opportunity to do this, and there is a retired lieutenant, in Kalispell, who 63 years old, and has no Social Security, noting he can think of another one who is 64 years old, and has no Social Security.

Mr. Rierson stated that, from an administrative standpoint, he can see their point, but indicated he does not think there is a clear understanding of the plea they are trying to make here, to the people who are saying they are setting a precedent. He stated he does not go for that, that the precedent was set when they revaluated the houses of people, and the taxes are going up. He indicated a precedent is set, every day, in the legislative process. He referred to the noxious weed bill, noting he supported it because he has some in his back yard, but indicated that, if they are not as much as the noxious weeds, then he does not think they deserve to be on the highway.

SENATE COMMITTEE ON STATE ADMINISTRATION

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- Q. Chairman Farrell asked Ms. King if this is the average of all retirees, the current average.
- A. Ms. King responded it is the current average, depending on years of service.
- Q. Chairman Farrell asked if this is a group which got caught in a crack.
- A. Ms. King asked Chairman Farrell to explain his question.
- Q. Chairman Farrell asked if there are 139 people who are excluded from Social Security.
- A. Ms. King responded that, on March 11, 1974, the state law was changed to go along with the federal law, to allow them to elect it. She noted they may not have had an election until 1977, but they were allowed to elect it since 1974, in the State of Montana. She added that they elected not to be covered by Social Security.
- Q. Chairman Farrell indicated he would assume the Department of Administration did the fiscal note worksheet, and asked what is the \$455,000.
- A. Ms. Brown responded it is the claims cost.
- Q. Chairman Farrell asked if that is the cost of administering that program.
- A. Ms. Brown responded that is the cost of paying the medical benefits.
- Q. Chairman Farrell asked if that will go up in fiscal year 1991, although they may reduce the number of employees.
- A. Ms. Brown responded that is a misconception. She indicated someone has said the number of retirees affected will go down, but that is not correct. She stated that this bill includes all retirees hired before March 30, 1986, that those people will be retiring for a long time into the future, until the year 2006, and there will be an increasing number of new highway patrol retirees who get this benefit, until the year 2006, at least.
- Q. Chairman Farrell indicated he thought this was only for people who had retired before March, 1986.

- A. Ms. Brown responded that people who retired before then, who are already retired and not on the plan, will be allowed to come on the plan, but indicated it pays part of the premium for not only that group, but also for future retirees. She indicated the premium payment part affects highway patrol officers who are already retired, and who come on, under this bill, and also those who retire in the future, who were hired before March, 1986.
- Q. Senator Bengtson asked if that benefit is not extended to those hired after March, 1986.
- A. Ms. Brown responded no, because they are eligible for Medicare. She added that they are confining this to those who are not eligible for Medicare.

Closing by Sponsor:

Representative Connelly noted that the Department of Administration has talked about this being a piece-meal approach because it is only taking care of a small group of people, and stated, of course, because all they are concerned about is the small group of people who have fallen through the crack, which is why they are trying to take care of them. She noted that, if they are on the state plan, they will, hopefully, have a little better coverage than they are getting now. She referred to the fact that it is not available to other retirees, and sets a precedent, and noted there is a sunset provision in the bill, and those people hired after 1986 will not be covered, so it will phase itself out. She indicated they talked about the number of people increasing, but pointed out that they are not, apparently, considering the fact that some of those people are 80, or over, and will be dying off. She indicated the pool of people it will be covering is going to be smaller, that it is not going to stay, and grow and grow and grow, noting these people are not going to live to be 200 years old.

Representative Connelly indicated that, regarding the funding source, they put it on the cars because the highway, itself, is involved in cars, motor vehicles, and the safety of the highways, and it seemed, to her, a logical place to put it. She added that, referring to the comment regarding it not being convenient to do, she thinks maybe that is the real crux of the matter, noting it seems to her that people in state government want to get more pay, but sometimes do not want to do the job they are hired to do, adding that it bothers her a little bit that they come in here, and continue to criticize things they are trying to do, when they are doing their best to help people who have problems.

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Representative Connelly indicated that, when they were allowed to come on to Social Security, the union went to the department, and said they were interested in getting on Medicare. She reported that, at that time, Mr. Woodall, Attorney General, sent one of his people out to go all around the state and talk to all the groups, and told them they did not want them to vote come to come on Social Security because it was going to cost the state too much money, noting they figured, at that time, it would cost \$500,000, a year, to put them on the program, which is why they were told not to come on, and is why they did not.

She indicated the crux of the matter is that these people are not getting Social Security. She further indicated it has been capped, there is a sunset provision, and people who are out working, now, in jobs where they do get Social Security, are taken care of, and are not included in the plan. She noted that she thinks they have tried to answer all of the criticisms from the department, and indicated she hopes the committee will pass this bill, adding that she thinks it is very necessary.

Chairman Farrell announced the hearing on HB543 as closed.

HEARING ON SJR 20

Presentation by Sponsor:

Senator Esther Bengtson reported that the Senate Agriculture Committee has been confronted with a number of loan programs, and indicated that the discussion developed that the state is in the banking business. She indicated another bill came before the committee to establish a reserve account for the water development loan program, because some of the loans were going into default, and that the state wanted to have a process by which they could take over these water development projects. She further indicated she talked to another member of the committee, Senator Thayer, and asked if he thought there was any need for an investigation, or a study into this, noting she also talked with a number of the other Senators, who all responded that they did not know enough about it.

Senator Bengtson stated that she did not know enough about it, so she went to the fiscal analyst, and talked to some of the analysts, who said they could put together a lot of information on that and, yes, perhaps this might be a good idea. She then indicated she

visited with the Governor, who said it sounded pretty good, and he asked her to talk with Dave Lewis to see what he says about it. She reported he thought there was some merit in it, and this is the language they came up with; "A joint resolution of the Senate and House of Representatives of the State of Montana requesting an interim study of certain state loan programs, to review the purposes, objectives, and administration of those programs to determine the necessity for the programs, to assess the effectiveness of the programs, and to determine if certain programs can be modified, expanded, eliminated or consolidated, and requiring a report of the findings of the study to the 52nd Legislature."

She indicated she would go through it quickly, noting she thinks the language explains it all. At this point, Senator Bengtson read the resolution. Following the list of the programs to be included, she noted that is not really all, because they have the Growth through Agriculture program, and some other programs are not listed. She indicated that she does not think there is any complaint about what the departments are doing with it, that it is just that she does not know exactly what they are doing, and if there needs to be a review.

List of Testifying Proponents and What Group They Represent:

Dave Lewis, Executive Director, Board of Investments; B u d g e t
Director
Bill Leary, Montana Bankers Association
Steve Huntington, Executive Director, Science and Technology
Alliance
Jerry Hoover, Administrator, Health Facility Authority
Valerie Larson, Farm Bureau

Testimony:

Mr. Lewis stated that Senator Bengtson brought the idea to him two or three weeks ago, noting it was out of the blue, because he had not really thought about it. He indicated that, as he read through the resolution, he was not aware of some of the programs that agriculture, livestock and natural resources had. He noted that, within the Department of Commerce, Jerry Hoover, from the Hospital Financing Authority, Steve Huntington, from the Council of Science of Technology, and he have an informal relationship, where they are at least talking with each other, and kind of know what they are doing. He stated there are, indeed, other programs within state government that he had missed, and that he was not aware there were loan programs out there.

Mr. Lewis indicated that, at the present time, the Board of Housing is the largest bank in the State of Montana, noting he thinks they have almost \$1 billion in bonds issued and loans purchased. He reported the Board of Investments has about \$30 million in coal tax loans, and other pooled bond programs, which is one amendment he discussed with Senator Bengtson, to include all the Board of Investments programs, if this study were to pass. He stated there is a series of pool-bond programs for local governments, and for school districts, and they have, in the past, done stand-alone economic development bonds, adding that they are working on the conservation reserve bond program, which he thinks has been discussed with the Senate Agriculture Committee, and will be going to Senate Finance and Claims next week.

He indicated all of these programs serve a good purpose, that the target is to try and improve the Montana economy, noting that, however, he thinks there really is a need for, particularly, the executive branch, but the Legislature, as well, to sit down and look at how all of them fit together, if there are overlaps, if there are gaps they are trying to fill, noting that, once they add it all up, he thinks they will all be amazed at how big a total they will come to, as far as the total activity.

Mr. Lewis stated, again, that they have informal working relationships, but do not have a formal grasp of all of the things they are doing at the present time. He indicated he thinks they have done some good work, that there is more good work to be done, but he certainly supports the need for an oversight of this, and a review of all the programs they have at the present time.

Testimony:

Mr. Leary reported that he appears in support of SJR20. He indicated that, just as the banking industry must be prudent in the granting of loans, and diligent in the collection of those loans in order to keep the loss from loans to a minimum, they also feel it behooves the state, particularly the legislature, to adopt the same attitude, when the lending of state funds is involved. He noted that SJR20 will require an interim study of a number of state loan programs, with a report back to the 1991 session.

Mr. Leary then indicated he would like to take that badge off, and put on his personal badge. He stated that he, personally, would like to see, and know, the track record of the Health Facility Authority effort since, when he served as president and chief executive officer of the Montana Hospital Association, he was somewhat directly involved in the 1983 session, and the creation of that act. He indicated he believes, personally, that it has

SENATE COMMITTEE ON STATE ADMINISTRATION

March 31, 1989

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gone a long way towards helping hospitals, nursing homes, and other health care facilities purchase the necessary equipment at a fairly low cost, adding that he believes that has helped hold down the ever-rising increases of health care costs. He noted that, on the other hand, he thinks that a study of this nature would bring out those kinds of facts, and would verify what they, a number of years ago, stood before the Legislature and said would happen. He stated that, in that respect, he would particularly like to see SJR20 adopted, and indicated he hopes the committee concurs.

Testimony:

Mr. Huntington stated that they support the concept of an interim study. He reported that their organization just went through the legislative process with HB683, and received overwhelming support, for which they are very grateful. He noted there was a lot of confusion regarding some of the things they do, versus what some of the other programs do, and how they inter-relate. He indicated he thinks a lot of people portray the financing business as a lot more complicated than it really is, and that it will probably serve both the executive branch and the legislature well to sort out what they are doing among the various programs, and also provide them an opportunity to tell their story about what they think they are doing right.

Testimony:

Mr. Hoover indicated he would like the committee to also consider those members of the capital advisory council, which is attached to the Department of Administration, and review the last report of the debt management plan for the State of Montana, noting they also might identify others which they might wish to include as part of the study.

Testimony:

Ms. Larson stated she is also speaking for Carol Moser, who could not be here, but wanted to testify that they think this is excellent idea, and they support it.

List of Testifying Opponents and What Group They Represent:

None.

Questions from the Committee Members:

None.

Closing by Sponsor:

Senator Bengtson noted that she asked Mr. Lewis to come and support her in this, but she was not aware there was other support for it. She asked the committee to allow her to prepare an amendment to add additional language making it a little more general, so that they cover all of their bases. She indicated that she thinks it will be an excellent educational tool for the Legislature, and that, as Mr. Huntington said, and was mentioned before, a lot of people are confused as to just how these programs work, noting she thinks the Legislature needs to understand it better. She added that she thinks, if there is media coverage at all, noting there probably will be, that it would be an education for people in the state to understand it, as well as the banking industry, and all groups in Montana. She indicated they keep passing these wonderful bills which allow them to help everybody in the state, but they do not really do a follow-up on it, at all, and that, sometimes, they put in place something which is not doing the job it was created for, and that maybe they need to review all of that.

Senator Bengtson stated she is not sure how the interim committee will be put together, or if, maybe, the Legislative Council will assign it to the Finance Committee to look at it. She indicated she does not really know what the appropriation is for interim committees, but that she thinks this is certainly not a frivolous study, at all, and that the information would be valuable to all of us. She added that she hopes the committee will accept the amendment, and pass the resolution.

Chairman Farrell announced the hearing on SJR20 as closed.

ADJOURNMENT

ADJOURNMENT AT: 11:40 a.m.


WILLIAM E. FARRELL, CHAIRMAN

ROLL CALL

STATE ADMINISTRATION COMMITTEE

51ST LEGISLATIVE SESSION

DATE: March 31, 1989

NAME	PRESENT	ABSENT	EXCUSED
HUBERT ABRAMS	✓		
JOHN ANDERSON, JR.	✓		
ESTHER BENGTSO	✓		
WILLIAM E. FARRELL	✓		
ETHEL HARDING			✓
SAM HOFMAN			✓
PAUL RAPP-SVRCEK	✓		
TOM RASMUSSEN	✓		
ELEANOR VAUGHN	✓		

SENATE STANDING COMMITTEE REPORT

March 31, 1980

RE. PRESIDENT:

We, your committee on State Administration, having had under consideration HB 234 (third reading copy -- blue), respectfully report that HB 234 be concurred in.

Sponsor: Spaeth (Rochester)

BE CONCURRED IN

Signed: William E. Farnell
William E. Farnell, Chairman

4/10
3/31/80
13/8/80

March 31, 1989

PUBLIC

EMPLOYEES

ASSOCIATION

SENATE STATE ADMIN.

EXHIBIT NO. 1DATE 3/31/89BILL NO. HB 234 pg 1

TO: Senate State Administration Committee
FROM: Thomas E. Schneider, Executive Director
Subject: House Bill 234

House Bill 234 has now passed out of the State Administration Committee, passed second reading and passed out of the Select Committee on State Employee Compensation. This bill is the result of two years of work with our membership and the PERD Board and Actuary. The bill was discussed with all legislative candidates who attended our meetings during this last fall. The only change was a decision to change our original 1/55 to 1/56 because we promised to keep the total cost to the 1% of salary required by SB 149 which was vetoed last session.

There are two reasons for the bill.

1. Because of the wage freeze the past two years, all employees retiring from now on will start 8 1/2% behind inflation. This is because the benefits are based on salary and salaries were frozen.
2. The new administration expressed a desire to reduce government through retirement incentive which has been used widely by the private sector with good results. This bill coupled with HB 235 gives the incentive to approximately 2112 PERD members to retire now with no loss because of the wage freeze.

As stated the bill changes the formula for the retirement system from 1/60 to 1/56. To give you an example of what that means to the average retirement benefit:

CURRENT FORMULA (Average PERD retiree is 62 years old and has 18 years of service)

18/60 = 30% of \$ 21,882* = \$ 6564.60 Annually or \$ 547.05 Monthly

HOUSE BILL 234

18/56 = 32.413% of \$ 21,882 = \$ 7092.61 Annually or \$ 586.13 Monthly

This bill increases retirement benefits for all members, whether they have 5 years or 35 years by approximately 7%.

The cost of the benefit change has been calculated by the PERD Actuary at .98%. As written, the bill will provide the additional contribution with the employees paying 70% of the cost and the employers paying 30%. The employee contribution will increase over the next five years from 6% to 6.7% and the employer contribution will increase starting in 1993 from 6.417% to 6.70%.

* Average salary of a PERD members qualified for retirement now.



<u>SYSTEM</u>	<u>EMPLOYEE CONT.</u>	<u>EMPLOYER CONT.</u>	<u>OTHER</u>	<u>YEARS TO FUND</u>
PERD	6.0%	6.417%		24.96 Yrs.
TRD	7.044%	7.428%		36.4 Yrs.
Police	7.50%	13.02%	15.06%	29.51 Yrs.
Firefighters	6%	13.02%	22.98%	34.25 Yrs.
Game Wardens	7.90%	7.15%	11.19%	11.27 Yrs.
Sheriff's	7.0%	7.67%		Full
Highway Patrol	7.59%	26.75%		36.65 Yrs.
Judges	7%	6%	25%	

SENATE STATE ADMIN.

EXHIBIT NO. 1
DATE 3/31/89
BILL NO. HB234 pg 2

STATE OF MONTANA
FISCAL NOTE WORKSHEET
Form BD-14

LEGISLATION: Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

Completed worksheets are due in the Office of Budget and Program Planning on or before 3-30-89.
Note: The copy of the proposed legislation must be returned to the Budget Director with the completed worksheets.

- Fiscal Note estimate and statement are requested for:
- As Originally Introduced Bill
 - Second Reading (yellow) Copy
 - Third Reading (blue) Copy
 - Salmon Reference Copy
 - Ivory Final Reference Copy
 - Senate Amendments (pink)
 - House Amendments (green)
 - Other, as described

S.B. _____

H.B. 543

TO: Ad 14/14
Agency or Unit

A. Effect on Revenue by Source: (List in Detail)	First Fiscal Year of Next Biennium - FY - 90		Second Fiscal Year of Next Biennium - FY - 91	
	Estimated Amount Under Current Law	Estimated Amount Under Proposed Law (Decrease)	Estimated Amount Under Current Law	Estimated Amount Under Proposed Law (Decrease)
Market Withheld Tax	2,505,000	517,500	2,505,000	2,322,500
Premium from New H.P. released in Plans	0	203,480	0	208,064
Discount from existing AF in Plans	65,100	(15,624)	22,168	567,544
TOTAL REVENUE		609,356		649,940
B. Effect on Expenditures by Category:				
Personal Services				
Operating Expenses				
Capital Outlay				
Local Assistance, Grants				
Benefits & Claims				
TOTAL EXPENDITURES				
NET EFFECT (A LESS B)		153,836		106,484
C. Fund Information:				
General Fund				
Marketed Special Revenue Fund				
Fed & Private Special Revenue				
Capital Project Fund				
Proprietary Fund				
Other (describe)				

The reason for the five year funding plan, which has been approved by the Actuary, is to phase in the employee funding as not to eat up any salary increases during this time of economic problems. This method has been used before by both the PERD and TRD.

DOES THIS BILL RESULT IN SAVINGS?

While we feel that it will, we are choosing to leave that up to you. If you think that employees who retire will be replaced by lower paid employees or not replaced at all - the bill will result in savings.

DOES THIS BILL COST MONEY?

While people have said that this bill will cost money because of the pay out of vacation and sick leave, remember, this bill does not create that pay out and it will occur anyway when these employees retire. This bill could save money, however, because the wage freeze has not increased the value of these pay outs. If these employees choose to wait until they receive a salary increase before they retire, they will be paid at that level of salary in addition to the increase number of days which are accrued.

In closing, I want you to know that this bill comes at the right time for everyone. The employees who retire make up for some of the loss to inflation, the state on the other hand may be able to save money and reduce numbers of employees particularly in the mid management levels. If you have any questions please call on me.

SENATE STATE ADMIN.

EXHIBIT NO. 1
DATE 3/31/89
BILL NO. HB234 pg 3



Association of Montana Highway Patrolmen and

Association of Retired Montana Highway Patrol Officers

DATE 3/31/89
BILL NO. HB 543



President — Michael G. Davis
Vice-President — Cal Wylie
Secretary-Treasurer — K. Scott Wyckman

HB 543

President — Buck Baldry
Vice-President — Robert Pike
Secretary-Treasurer — Frank Willems
Legislative Committee — Gene Miller
Al Rierson

The information in the following cap sheet makes it necessary for us to address the health needs of retired Highway Patrol Officers and their widows.

MONTHLY COST EXPENSE COMPARISON OF 1973 AND 1988

<u>ITEM -</u>	<u>1973</u>	<u>1988</u>
Health Insurance	\$ 24.00/mo.	\$164.00/mo. (for one person)
Mandatory Car Insurance	12.58	35.50
Car License	2.85	8.12
Home Taxes (47 yrs. old)	33.14	82.82
Home Insurance (47 yrs. old)	16.41	33.11
Electricity	14.64	69.17
Heating	18.90	57.50
Water	7.21	24.80
Telephone	8.40	16.25
Total	\$138.13	\$491.27
Pension	484.00	604.00
	- 138.13	- 491.27
Monthly Balance After Expenses	\$345.87	\$112.73

**MONTANA HIGHWAY PATROL OFFICERS ARE NOT COVERED BY SOCIAL SECURITY.

Additional Comparison of Expenses:

<u>ITEM</u>	<u>1973</u>	<u>1988</u>	<u>PERCENTAGE DIFFERENCE</u>
**Hospital Room	20.00 (day)	225.50 (day)	1,028%
**Doctor Visit	5.00	29.00	480%
**Dentist Visit	4.00	34.00	750%

MONTANA HIGHWAY PATROL SUMMARY OF RETIREES Number of Members in the Various Age Groups and Average Monthly Benefits

<u>Under 55</u>	<u>55-59</u>	<u>60-64</u>	<u>65-69</u>	<u>70-74</u>	<u>75-79</u>	<u>80-84</u>	<u>Over 84</u>	<u>Total</u>
38	37	17	14	8	14	10	1	139
\$856	\$861	\$944	\$640	\$518	\$489	\$519	\$373	\$762
								(Average)

**THE COST IS FUNDED BY 50 CENTS ON THE REGISTRATION FEE--WHICH IS
EQUIVALENT TO TWO 25-CENT POSTAGE STAMPS.

TESTIMONY ON HB543

BEFORE THE SENATE STATE ADMINISTRATION COMMITTEE

BY THE DEPARTMENT OF ADMINISTRATION

A. INTRODUCTION

We do not dispute the Highway Patrol retirees' claims that pensions are not keeping pace with inflation, particularly inflation in medical costs which is running three times the CPI.

We, nonetheless, oppose HB543 for the following reasons:

1. It provides a solution to these problems for only a handful of the state's retirees when all retirees have similar problems. It provides different treatment without adequate rationale.
2. It provides precedent setting new retiree benefits never before offered.
3. These precedents are potentially very costly because of the number of state retirees who will seek to have them extended to them.
4. It is a piecemeal approach to the big question of retiree health care.

B. NEW BENEFIT PRECEDENTS SET BY HB543

HB543 provides two new retiree benefits:

1. It gives existing Highway Patrol retirees' who are not on the State Employee Group Benefit Plan the right to join. This right is available to no other state retirees. All employees retiring since June 30, 1977, have the right to continue on the employee plan, but not to rejoin if they drop off.
2. It provides a state paid premium subsidy. All other retirees must pay their own premiums.

C. POTENTIAL COSTS OF SUCH PRECEDENTS

1. HB543 covers 169 individuals in one of the state's retirement systems. There are approximately 16,000 retirees in the state's other seven systems. Once these new benefits are granted to one group, the other retiree groups will seek them as well. Costs for expending the benefit will be closer to \$5 million than the \$400,000 per year for this bill. Costs could be closer to \$10 million if extended to school districts and local governments.
2. The precedents set by HB543 may be irreversible. Once a retirement benefit is granted, there are legal impediments to taking it away. In other words, if this bill passes, the legislature may have to fund a portion of unknown costs indefinitely for these benefits and live with pressures by other retiree groups to expend the benefits.
3. Although there is a convenient funding mechanism for this group of retirees, there may not be such a handy revenue source for judges, teachers, or PERS retirees.
4. If HB543 passes, the State of Montana will be taking on liability that corporate America is beginning to back away from. Please see the attached article.

D. INADEQUATE RATIONALE FOR THE DIFFERENCE IN TREATMENT

Highway Patrol retirees have indicated the reason this bill is before you is because Highway Patrolmen do not have Social Security benefits and those covered by the bill (those hired on or before March 31, 1986), do not have Medicare coverage. This is true, but the Committee should have an understanding of the background and implications of this issue.

1. Highway Patrol Officers have had the option of contributing to Social Security and Medicare and receiving benefits from these programs since the Spring of 1977, but chose not to. Effective March 1, 1977, Mike Mansfield successfully amended the Social Security Act to allow Highway Patrol Officers to join Social Security and subsequent state legislation effective later that month made that possible in Montana.

2. Most Highway Patrol Retirees become eligible for both Social Security and Medicare through other employment. The average Highway Patrol Officer retires at 50 years of age and has 15 years before reaching age 65. During this period, most return to work in Social Security covered jobs and are eligible for both Social Security and Medicare benefits at age 65.
3. Highway Patrol retirees are in no greater need of state paid premium subsidies than other retirees. Non Medicare eligible Highway Patrol retirees may need State Employee Health Insurance more than Medicare eligible retirees, but in most cases they are better able to pay for it.

Since Highway Patrol Officers do not have Social Security, the state makes larger contributions to their pension fund and they receive greater average benefits after fewer years of service than PERS retirees. Please see attached comparisons.

Non Medicare eligible retirees also avoid the tax surcharge imposed on Medicare eligible retirees by the Catastrophic Medicare Act. Several Medicare eligible retirees have indicated that they would prefer to drop Medicare and its costs in favor of State Employee Group Benefits Coverage only, but cannot.

E. PIECEMEAL APPROACH

In the 1985 Legislative Session, the Legislature determined that the issue of retiree health care should not be approached piecemeal but required careful study and consideration. The Select Committee on Health Insurance for Retired Public Employees was formed and studied this issue for two years.

The Committee concluded that "it cannot support a post-retirement health care program that would financially obligate the state."

Careful, comprehensive consideration of this issue is even more crucial today in light of the continued rise in health care costs over the past two years and the impact on the State Employee Benefit Plan.

SENATE STATE ADMIN.

EXHIBIT NO. 5

DATE 3/3/89

BILL NO. HB 543 pg 1

RETIREE HEALTH INSURANCE

A REPORT TO THE 50TH LEGISLATURE

SELECT COMMITTEE ON HEALTH INSURANCE FOR
RETIRED PUBLIC EMPLOYEES

December 1986

Published by

MONTANA LEGISLATIVE COUNCIL

Room 138

State Capitol

Helena, Montana 59620

(406) 444-3064

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RETIRED PUBLIC EMPLOYEES

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Committee Staff

Researcher

Lois Menzies

Attorney

M. Valencia Lane

Secretary

Helen MacPherson

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Based on the Committee's research and testimony received during public hearings, the Select Committee on Health Insurance for Retired Public Employees concludes that the cost of health insurance premiums can pose a considerable financial burden on retired public employees living on fixed incomes. However, given the significant economic problems facing Montana, the Committee finds that responsibly it cannot support a postretirement health care program that would financially obligate the state. The Committee recommends that, if the economic conditions improve, future Legislatures review the extensive data compiled by the Committee and consider enacting legislation to assist current and future retirees meet their health care needs.

The Postretirement Time Bomb

**Can corporate America
continue to shoulder retiree
health-care benefits?
Rising medical costs may
make it impossible.**

BY HILARY ROSENBERG

Illustration by Devis Grebu

Fred Van Remortel is not a threatening man. Actually, he's an ingratiating fellow in his late forties whose cloud of white hair and wire-rimmed glasses suggest a high school math teacher. But as a managing director at the benefits consulting firm Brown Bridgman & Company in Burlington, Vermont, he helps corporations confront and deal with a yawning black hole in their back yards—postretirement health-care liabilities. And given the dreadful nature of that subject, it's no surprise that he has at times been the target of a certain amount of animosity.

Consider the visit Van Remortel paid a few years ago to a communications company with huge retiree health costs: "I saw the CFO and the treasurer and I said, 'You guys have got a hell of a problem.' And the treasurer said, 'No. We don't.' And when I asked him what he meant by that, he looked me in the eye and said: 'I think you

should leave. We don't have a problem, so we're not going to talk about it with you or anybody.'"

Reflecting on that incident and others like it, Van Remortel concludes, "Back then the prevailing thought was that if they ignored the problem, it would go away. Deny, deny, deny."

Unfortunately, there is no denying that while companies have been hiding their heads in the sand, the medical benefits they've long been promising their retirees have mushroomed out of control. Estimates of the total benefits owed to current and future retirees nationwide range from \$500 billion to a mind-blowing \$2 trillion. To be sure, the retiree health load averages only 25 percent of pension liabilities at major companies. But unlike pensions, almost all these obligations are unfunded, which makes them a ghastly drain on earnings. Indeed, these costs have helped drive such companies as Allis-

Retirement System	# of Retirees	Average Monthly Benefit
PERS	9,224	\$ 396
Teachers	6,300	597
Game Wardens	50	910
Highway Patrol	164	762
Judges	21	1,699
Sheriffs	74	503
Municipal Police	400	876
Firefighters	365	893

SENATE STATE ADMIN.

EXHIBIT NO. 8

DATE 3/31/89

BILL NO. H6543

Retiree Health Insurance

A Report to the 50th Legislature
Select Committee on Health Insurance
For Retired Public Employees

December 1986



Montana Legislative Council

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WITNESS STATEMENT

EXHIBIT NO. 9
DATE 3/31/89
BILL NO. SJR 20

To be filled out by a person testifying or a person who would not like to stand up and speak but wants their testimony entered into the record.

NAME: Bill LEARY DATE: 3/31/1989

Address: 1330 9th Ave.
Helena, MT. 59601

Phone: 443-3076

Representing whom?
MT. BANKERS ASSOCIATION

Appearing on which proposal?
SJR 20

Do you: SUPPORT? AMEND? OPPOSE?

Comments:

The banking industry must be prudent in the granting of loans and diligent the collection of those loans in order to keep the loss from loans to a minimum. I believe the legislature do adopt the same attitude when the lending of state funds is involved. SJR 20 will require an interim study of a number of state loan programs with a report back to the 1991 session. I personally would like to know the track record of the HEALTH FACILITIES Authority effort since I was president of the Montana Hospital Association and was directly responsible for that legislative vehicle that was kept on hold down the ever rising cost of health care.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

Montana Hospital Association and was directly responsible for that legislative vehicle that was kept on hold down the ever rising cost of health care.

CARL.

I encourage your support of S&R 20.

VISITORS' REGISTER

STATE ADMINISTRATION COMMITTEE

DATE: March 31, 1989

NAME	REPRESENTING	BILL #	Support	Oppose
Al Pierson	M.H.A. Assoc.	543	✓	
Buck Baldry	Retired Highway Patrol	543	✓	
Gene E. Miller	Retired MHP	543	✓	
FRANK E. WILLEMS	RETIRED MHP	543	✓	
Dennis Hemmer	Nonaligned State Employees	234	✓	
DAVE MILOT	PERD membership ^{MSTA} from	234	✓	
Bill Leary	MT. Bankers Ass.	SDR 20	✓	
Joe Williams	OBPP	HB26	✓	
RC CRANK	DIST 31	543	✓	
Tom Schneider	MPEA	234	✓	
Don Lewis	Board of Investments	SDR 20	✓	
J. Nachtsheim	PERD	234	gms	—
Larry MUNDW	MFT	234	✓	
Harold Heis	Retired Highway Patrol	543	✓	
Jay Br	Dept. of Admin	543		✓
Ray Hickman	Potential Retiree	234	✓	
Ed Phillips	Gov	"	"	
DAVE EVANSON	MT U System	234	✓	
Stan Huntford	MSTA	SDR 20		
Valerie Jansen	Farm Bureau	SDR 20	✓	

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY