

## MINUTES

### MONTANA SENATE 52nd LEGISLATURE - REGULAR SESSION

#### COMMITTEE ON STATE ADMINISTRATION

Call to Order: By Chairperson Eleanor Vaughn, on February 15, 1991, at 10: A.M. in room 331.

#### ROLL CALL

##### Members Present:

Eleanor Vaughn, Chairman (D)  
Bob Pipinich, Vice Chairman (D)  
John Jr. Anderson (R)  
Chet Blaylock (D)  
James Burnett (R)  
Bill Farrell (R)  
Harry Fritz (D)  
Bob Hockett (D)  
Jack Rea (D)

Members Excused: Senator Bernie Swift

Staff Present: David Niss (Legislative Council).

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: none

#### HEARING ON SENATE BILL 289

##### Presentation and Opening Statement by Sponsor:

Senator Harry Fritz, Senate District 28, Missoula, said Senate Bill 289 will remove the state librarian position from the statewide classification and pay plan. It adds the state librarian to the list of positions exempt from the statewide classification and pay plan. For a number of years the librarian salary was set by the library commission. The Attorney General ruled that the classification pay plan superseded the commission's ability to set salary.

##### Proponents' Testimony:

Lloyd Wallin, State Library Commission, believes the state librarian position should be removed from the statewide classification and pay plan. The Commission makes the policy for the State Library and, has responsibilities according to Section 221-102 MCA that reads as follows: "The Commission shall employ

as its executive office a librarian who is a graduate of an accredited library school and is not a member of the commission for such compensation as the commission considers adequate." He encouraged support of Senate Bill 289. (Exhibit 8)

Debra Schlessinger, Legislative Chair for the Montana Library Association, supports removing the state librarian from the statewide classification and pay plan. Before Richard was hired as state librarian, she served in that capacity for 6 months. It was necessary to get a pay exception to hire her. She received a higher salary than the departing state librarian who had served 8 or 9 years. There is a real problem when searching for a state librarian because of the salary that can be offered.

Richard Miller, State Librarian, said the Commission should be able to set the compensation level. The State Library has not asked for additional funds so there is no fiscal impact with this legislation this session. The tenure for State Librarians tends to be quite short because of competitive salaries. The career executive range begins at \$35,008.00, step 2 is \$37,752. He was making over \$40,000 in the position from which he came. If he leaves this position, the pay plan exception they had received to hire him will be null, because pay plan exceptions apply only to incumbents. Please support Senate Bill 289.

Gloria Hermanson, Montana Cultural Advocacy Board, which is a broad based group of Montana who are interested in preserving the historical cultural arts and public access to information in our State, stands in support of Senate Bill 289.

#### Opponents' Testimony:

Laurie Ekanger, Administrator of the State Personnel Division, defends the state classification and pay plan as fair to all the state employees. Each year the number who want to get added to the list of exceptions grows. She read her testimony into the record. (Exhibit 3)

#### Questions From Committee Members:

Senator Blaylock asked L. Ekanger how many more millions would it take to do what they recommend. L. Ekanger responded the pay committee's proposal costs 77.5 million dollars. That did not include the benefit for health insurance.

Senator Hockett asked how many positions are now vacant? L. Ekanger didn't know. It has about a 35% turn over rate. She can give you an average vacancy rate over the last year.

#### Closing by Sponsor:

Senator Fritz said there is only 1 state librarian. There is no other comparable position. It was a mistake to put this single position into the pay plan, because there are no others.

We need to return the hiring and the compensation to the Commission.

EXECUTIVE ACTION ON SENATE BILL 289

Motion:

Senator Pipinich moved to TABLE Senate Bill 289.

Discussion:

There was general discussion of the different departments and their salary problems, budgets, and their ability to fund salaries, etc.

Recommendation and Vote:

The ROLL CALL VOTE on the motion to TABLE Senate Bill 289 was 4 in favor of and 5 no. The motion failed. (Exhibit 6) Senator Fritz moved TO DO PASS SENATE BILL 289. The ROLL CALL VOTE was 2 in favor and 7 no. The motion failed. (Exhibit 7) Senate Bill 289 will go to the floor with an adverse committee report.

HEARING ON SENATE RESOLUTION 4

Presentation and Opening Statement by Sponsor:

Senator Vaughn opened the hearing on Senate Resolution 4 concurring in, confirming and consenting to the nominations and appointments of certain Boards.

Proponents' Testimony:

The first board is the State Electrical Board. Senator Burnett asked for recommendations and got all positive response and general approval on all those people on that board.

Hail Insurance Board was researched by Senator Burnett. There was no problem on that board appointment.

The appointment of Mr. Sampson of Missoula to the Board of Sanitarians was researched by Senator Rea and he was approved.

Senator Pipinich researched all 5 appointments of the Board of Nursing and they all passed inspection. Senator Hockett asked who he had contacted? Senator Pipinich said he went to the recommendations given on the resumes and called. He also called the community where the person lived. To sit on the Board of Nursing you have to be licensed in Montana. One candidate is in

the active military, licensed in Montana and practicing her profession.

Senator Pipinich researched the Board of Occupational Therapy and the 2 appointments to the Board of Optometrist and found them all passing the inspection.

Senator Pipinich researched the Board of Pardons by calling Deer Lodge. He had some small negative remarks but after digging into the people, he found them widely accepted.

Senator Pipinich had the Board of Pharmacy to examine. He stated Robert Kelly is very well qualified and he spoke to him personally and he approves his nomination to the Board.

Senator Pipinich had the Board of Physical Therapy and he didn't find many who had any knowledge of the appointees. He called those named on the resume and found the individuals alright.

Senator Pipinich said the Board of Plumbers was difficult. There were 2 individuals to check. He called the labor people, the Missoula people and their qualifications are fine. The complaints were unsubstantiated, thus weren't considered.

Senator Rea had the Board of Radiologic Technologists and Board of Social and Rehabilitation Appeals and they were all approved.

Senator Anderson reported on the Aeronautics Board and had good reports.

Senator Anderson had the Air Pollution Control Board Advisory Board. Senator Hockett questioned the fact that they all came from the Butte area and all of these are ending at the same time. This is a large board. The governor has the responsibility of defending his appointments. Senator Farrell said these people are probably very well qualified.

Senator Anderson has the Board of Architects, and Montana Arts Council, and they were all fine.

#### Opponents' Testimony:

None

#### Questions From Committee Members:

Senator Blaylock asked how many were representative of industry, how many from general public, etc. The boards have to be made up of representatives from all the sides of a question.

#### Closing by Sponsor:

Senator Vaughn closed the hearing on Senate Resolution 4.

EXECUTIVE ACTION ON SENATE RESOLUTION 4

Motion:

Senator Pipinich moved that we DO PASS SENATE RESOLUTION 4.

Discussion:

None

Amendments, Discussion, and Votes:

None

Recommendation and Vote:

The VOTE was UNANIMOUS IN FAVOR OF SENATE RESOLUTION 4. This will go to the Senate floor and be a Preliminary Standing Committee Report. All Senators will have 3 days to contact Chairperson Vaughn to offer evidence against any appointment, if they care to do so. After 3 days, the committee will make a regular Standing Committee Report.

EXECUTIVE ACTION ON SENATE BILL 264

Motion:

Senator Fritz moved to AMEND SENATE BILL 264 as outlined in the amendment prepared by David Niss and is exhibit 4.

Discussion:

Senator Fritz said this amendment has both the approval of Mr. Schramm's office and Mr. Senn's office. All this set of amendments does is to call for an independent actuarial investigation of the unfunded liability. The University contributes 4.5% now and they will decide if that is a fair amount for both. Mr. Senn suggested one amendment to the amendment on the new language after the word shall insert "using independent actuarial assistance as necessary and". This amendment essentially guts the bill as originally proposed. Senator Hockett asked how much this is going to cost the university system? Leroy Schramm responded there may be a few thousand dollars additional cost in doing the study, but basically it remains the same. We won't know the cost until the study is done. Mr. Senn is satisfied that the amendment does what he thinks is right.

Amendments, Discussion, and Votes:

The VOTE on accepting the amendments to Senate Bill 264 was UNANIMOUS.

Recommendation and Vote:

Senator Pipinich moved that SENATE BILL 264 DO PASS AS AMENDED. The Vote was UNANIMOUS in favor of passing SB 264 as amended.

EXECUTIVE ACTION ON SENATE BILL 243

Motion:

Senator Burnett moved to accept the first amendment to Senate Bill 243 that takes the funds out of the Water Development Fund.

Discussion:

Senator Farrell asked if this is an appropriation? Attorney Niss believes this is not an appropriation. Senator Hockett asked if anyone knows how much money this is going to cost? The fiscal impact says approximately \$19,400 per year to adequately fund the retirement benefits for the Chief Water Judge. Senator Farrell said the Judges' Retirement System was established for people who were elected to that position. This was an appointment. Senator Rea said all along you have to be vested. Does vesting apply to this job? No this does not apply. What happens to these monies if he returns to private practice after 4 years? It will stay in the fund, then at age 50 he can draw a retirement.

Amendments, Discussion, and Votes:

The Vote to accept amendment number 1 to Senate Bill 243 was 6 yes and 3 no. The no votes were cast by Senators Fritz, Hockett and Rea. The Amendment does pass.

The second amendment raises the court fees given toward retirement. Those amendments did not move for lack of a motion.

Recommendation and Vote:

Senator Burnett moved we DO PASS AS AMENDED SENATE BILL 243. Senator Burnett voted yes and everyone else voted no. Senate Bill 243 goes to the floor with an adverse committee report.

EXECUTIVE ACTION ON SENATE BILL 301

Motion:

Senator Hockett moved we DO PASS SENATE BILL 301.

Discussion:

None

Amendments, Discussion, and Votes:

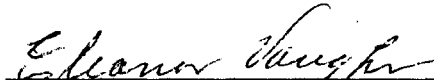
None

Recommendation and Vote:

The VOTE was UNANIMOUS in favor of passing Senate Bill 301.

ADJOURNMENT

Adjournment At: 11:30 A.M.

  
ELEANOR VAUGHN, Chairman

  
DOLORES HARRIS, Secretary

EV/dh

ROLL CALL

STATE ADMINISTRATION COMMITTEE

DATE Feb-15, 1991

52 LEGISLATIVE SESSION

NAME	PRESENT	ABSENT	EXCUSED
SENATOR ELEANOR VAUGHN	X		
SENATOR BOB PIPINICH	X		
SENATOR JOHN ANDERSON	X		
SENATOR CHET BLAYLOCK	X		
SENATOR JAMES BURNETT	X		
SENATOR "BILL" FARRELL	X		
SENATOR HARRY FRITZ	X		
SENATOR BOB HOCKETT	X		
SENATOR JACK "DOC" REA	X		
SENATOR BERNIE SWIFT			excused

Each day attach to minutes.



DATE Feb 15, 1991

COMMITTEE ON State Administration

# VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

SENATE STATE ADMIN.  
EXHIBIT NO. 1  
DATE 2-15-91  
BILL NO. SB264  
February 12, 1991

The Honorable Eleanor Vaughn  
Chairperson, State Administration Committee  
Montana State Senate  
Capitol Station  
Helena, Montana 59620

Subject: Senate Bill 264

Dear Senator Vaughn:

Because of a conflict I had, I was unable to appear before the Senate State Administration Committee in opposition to Senate Bill 264.

As a former member of the Teacher's Retirement Board, I am concerned with what appears to me to be fragmentation of the system.

Members of the TRS, former community people who are retired and public school people both retired and active, are concerned that the University System would attempt to renege on an agreement entered into by the TRS and the University System. Commissioner Krause and community officials knew the need for the 4.472% contribution by the University System.

Many of my votes over eight years on the TRS Board were influenced by any reduction in the unfunded liability. Much of the unfunded liability came about as different groups became members and eligible for retirement without having funds paid into the system.

I sincerely hope you give this bill a "do not pass" recommendation.

Sincerely yours,



J. Thomas Ryan  
907 Washington, Apartment 4  
Helena, Montana 59601

copies to: Members of the Senate State Administration Committee

SENATE STATE ADMIN.  
EXHIBIT NO. 2  
DATE 2-15-91  
BILL NO. SB 264

ACTUARIAL ANALYSIS  
OF THE IMPACT  
OF THE UNIVERSITY'S OPTIONAL RETIREMENT PROGRAM  
UPON THE TEACHERS' RETIREMENT SYSTEM  
AS OF JULY 1, 1990

## SECTION I

### INTRODUCTION

Until January 1, 1988, administrative officers and the instructional staff of the university units have been required to participate in the Montana Teachers' Retirement System (TRS). Since that date, these employees have been allowed the option of selecting membership in the Optional Retirement Program (ORP) established by the board of regents.

The contribution required by each member of ORP is 7.044% of compensation, the same rate as under TRS. The employer's contribution is also the same as under TRS, 7.459% of each member's compensation; however, this contribution is divided between ORP and TRS. The university's share of the employer's contribution is that amount required to provide a total employer and employee contribution rate of 10% of compensation, i.e., 2.956%. The balance of 4.503% is contributed to TRS to help fund the unfunded past service liability.

The share of regular contributions to TRS which are designated to fund the unfunded past service liability is 5.63% of compensation. From an actuarial standpoint, it is important to determine whether the smaller university contribution noted above is detrimental to TRS.

It is also important to determine whether the selection allowed to university members might detrimentally change the demographics of TRS.

Section 19-21-111, M.C.A. requires that an actuarial valuation be conducted as of June 30, 1990 to determine the effect on the amortization of the unfunded liability of Teacher's Retirement System caused by members of the Montana university system who elect to participate in ORP.

## TABLE OF CONTENTS

	<u>PAGE</u>
SECTION I	
Introduction	1
Certification	1
SECTION II	
Analysis of Valuation	3
SECTION III	
Schedule 1 - Unfunded Liability Schedule	6
Schedule 2 - Membership Distribution Tables	7
SECTION IV	
Actuarial Funding Method and Assumptions	11
SECTION V	
Summary of Benefit Provisions	18

In conducting the actuarial valuation, certain assumptions were made as to the future experience of the system. A summary and discussion of each of the assumptions is contained in Section IV.

A summary of the provisions of ORP and TRS is contained in Section V.

#### ACTUARIAL CERTIFICATION

Based upon the assumptions stated in this report and the employee data and other records provided by the Teachers' Retirement System and the Office of the Commissioner of Higher Education, the actuarial valuation contained in this report has been performed in accordance with generally accepted actuarial principles and techniques.



Alton P. Hendrickson, Member  
American Academy of Actuaries

## SECTION II

### ANALYSIS OF VALUATION

#### Results of Valuation

An actuarial valuation of the Teachers' Retirement System (TRS) was conducted as of June 30, 1990. The purpose of this valuation was to determine the effect on the amortization of the unfunded liability of TRS caused by members of the university system who elect to participate in the Optional Retirement Program (ORP). The information on these members was provided by the Office of the Commissioner of Higher Education.

ORP became available on January 1, 1988. As of June 30, 1990, 523 individuals were participating in this program. Of these individuals, 211 were employed prior to January 1, 1988 and joined the program at an average age of 38.1 years. The remaining 312 members were employed on or after January 1, 1988 and joined at an average age of 36.8 years.

The average age of those university members who selected TRS was 35.7 years.

The actuarial valuation was conducted both including and excluding those members who elected ORP. The valuation based on current membership determined a slight increase in the normal cost from 8.83% in 1989 to 8.87% in 1990. The balance available for the unfunded past service liability allowed it to be funded over 36.3 years in 1989 and 35.8 years in 1990.

The valuation based on full membership assuming no one had selected ORP, determined that the unfunded liability would be funded over 35.4 years.

The difference in funding periods of 35.8 years based on current membership and 35.4 years based on full membership is attributable to the difference between the 4.50% contributed to TRS on behalf of ORP members and the unfunded rate of 5.63% determined by the TRS actuarial valuation.

An additional valuation was conducted on the current TRS membership under the assumption that the contribution rate on behalf of ORP members would be 5.63% of compensation. Under that assumption, the funding period would be reduced, as expected, to 35.4 years.

### Demographic Changes

The demographics of a retirement system affect its financial requirements. Younger members with higher employment termination experience tend to have a more positive effect on the financial position of the system than older members. When membership is on a selective basis, the results can be detrimental to a system.

We have examined the statistics of the university members to determine the impact of this selection, and have found no basis to indicate that the selections have changed the membership's demographics adversely for TRS. The actuarial valuations including and excluding ORP members also indicated that, overall, the selections were not adverse to TRS.

### Contributions to TRS

It is important that the board of regents continue to contribute amounts in excess of 10% of each participant's compensation to the Teachers' Retirement System to assist in the funding of the existing past service liability. The required contribution rates are calculated on the premise that a portion of all Montana public school teachers' compensation will be applied to fund the past service liability. This premise is best understood by examining the source of the past service liability.



New members, whether joining the Teachers' Retirement System or the Optional Retirement Program, are not the reason for the existing past service liability. This liability was created by past legislation and experience which affected current and retired members, including university members. While new members did not create the liability, it is necessary that their compensation and that of current members be used as a funding base. If the compensation of members electing the Optional Retirement Program is excluded from this base, a greater financial burden will be placed on the remaining members.

The present value of the contributions to TRS on behalf of ORP members is \$20 million. This value could possibly triple as more members join ORP in future years. If the contributions are discontinued, the liability would be placed on the remaining members.

### Conclusion

The data available for an analysis of the impact of the Optional Retirement Program are limited since the program has only been operating for 2 1/2 years. From our examination of the available data, we have concluded that the members who have selected ORP have been a representative group. There does not appear to be adverse selection against TRS.

The actuarial valuation indicated that the ORP did not have a detrimental impact upon TRS. However, the system's unfunded liability would be funded 4/10 years faster if the contribution rate to TRS on behalf of ORP members were 5.63% rather than 4.50%.

It is our conclusion that the contribution percentages established under Title 19, Chapter 21 have had no adverse effect on the amortization of the unfunded liability of the Teachers' Retirement System.

### SECTION III

#### UNFUNDED LIABILITY SCHEDULE

Four actuarial valuations were conducted to determine the impact of the Optional Retirement Program upon the Teachers' Retirement System. The first three valuations were based on the current membership of TRS, under the following conditions:

1. Using the required university contribution on behalf of ORP members of the statutory rate less 10% ( $14.503\% - 10\% = 4.503\%$ ).
2. Using the actuarially-determined rate of 5.63%.
3. Assuming no university contribution.

The fourth valuation was conducted under the assumption that there was no Optional Retirement Program.

The valuations were based upon the 523 out of 2,000 university employees who have selected ORP. The results would be changed if more members select ORP. The unfunded past service liability under each of the valuations was \$647,673,266. The impact upon this liability is illustrated below:

	Amort.	Present Value Of University	Annual
	Period	Contributions	Compensation
	-----	-----	-----
Current Membership with ORP Contrib. Based on Required Rate of 4.503%	35.8	19,873,498	396,235,432
Current Membership with ORP Contrib. Based on Valuation Rate of 5.63%	35.4	24,656,341	396,235,432
Current Membership with No University Contribution on behalf of ORP Members	37.3	0	396,235,432
Full Membership including ORP Members	35.4	0	411,650,242

Table 1  
Optional Retirement Program  
Number of Members

Years of Service	20-25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	OVER 60	Total
0-4	11	40	81	135	72	44	20	8	4	415
5-9			5	27	29	14	4	1		80
10-14				3	10	7	4			24
15-19					3					3
20-24							1			1
25-29										
30-34										
35-39										
40-UP										
TOTAL	11	40	86	165	114	65	29	9	4	523

Table 2  
Optional Retirement Program  
Average Salaries

Years of Service	20-25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	OVER 60	Total
0-4	17826	20249	26449	28686	29990	30735	31433	37721	36007	27969
5-9			24982	31536	33184	35754	53098	59000		33883
10-14				27944	36386	50553	33605			38999
15-19					42329					42329
20-24							34035			34035
25-29										
30-34										
35-39										
40-UP										
TOTAL	17826	20249	26364	29139	31688	33950	34810	40086	36007	29474

Table 3

Optional Retirement Program  
Annual Salaries In Thousands

Years of Service	20-25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	OVER 60	Total
0-4	196	810	2142	3873	2159	1352	629	302	144	11607
5-9			125	851	962	501	212	59		2711
10-14				84	364	354	134			936
15-19					127					127
20-24							34			34
25-29										
30-34										
35-39										
40-UP										
TOTAL	196	810	2267	4808	3612	2207	1010	361	144	15415

## SECTION IV

### ACTUARIAL FUNDING METHOD AND ASSUMPTIONS

The true cost of the Teachers' Retirement System will be determined by its future experience. In determining the financial requirement of the fund, certain assumptions were made as to the expected future experience. This section summarizes the funding method applied as well as the basic assumptions used.

Any variations in the actual experience of the fund from those assumed in this valuation may cause changes in the projected future costs of the fund. It is therefore necessary that the actuarial assumptions be reviewed from time to time with adjustments as experience warrants. It is also important that regular valuations be performed to determine the financial effect of variations between the actual and assumed experience.

#### FUNDING METHOD

The method of funding employed is commonly referred to as the entry age normal cost method. This method establishes a normal cost of each fund as well as an unfunded accrued liability. The normal cost is the level percentage of total salaries required to fund the benefits, assuming this percentage has been contributed since each member's entry into the fund.

The unfunded accrued liability represents the excess of the present value of total liabilities over the present assets of the fund and the present value of expected future contributions for the normal cost.

In order to maintain the fund on an actuarially sound basis, the rate of contribution should be such as to meet the normal cost in addition to making progress towards the amortization of the unfunded liability.

## DISCUSSION OF ACTUARIAL ASSUMPTIONS

### Mortality Rates

The 1983 Group Annuity Mortality rates for males and females are applied to active members and those receiving benefits. The mortality rates were set back one year to reflect life expectancies of retired members and two years for active members.

### Disability Rates

The disability rates for males and females are based upon the 1983 Disability Table published in the Transactions of the Society of Actuaries, Volume XXXV, reduced 10% to reflect the more favorable disability experience of the system.

### Retirement Rates

The retirement rates are based upon the past experience of the system and projected future experience with a trend toward earlier retirements.

### Withdrawal Rates

The withdrawal rates are based upon the experience of the system. These rates were adjusted as of July 1, 1989 to reflect the reduced rate of termination among the system's members.

### Future Salaries

The rates of salary increase are based upon a level assumption of 6.5% per year compounded annually.



### Investment Earnings

The net investment earnings rate is assumed to be 8% per year compounded annually.

### Administrative Expenses

The administrative expenses of the system are assumed to be funded by excess investment earnings.

### Termination Benefits

Members terminating with less than five years of service are assumed to request an immediate withdrawal of their personal contributions with interest. Members with five or more years of service are assumed to select the benefits most advantageous to them under the given assumptions.

## ILLUSTRATION OF ACTUARIAL ASSUMPTIONS

### Mortality Rates

The mortality rates are based upon the 1983 Group Annuity Mortality Table. The rates shown below are to be set back one year for retired members and two years for active members. This adjustment reflects the favorable mortality experience of the system.

<u>Age</u>	Deaths Per 10,000	Deaths Per 10,000
	<u>Male Members</u>	<u>Female Members</u>
25	5	3
30	6	3
35	9	5
40	12	7
45	22	10
50	39	16
55	61	25
60	92	42
65	156	71
70	275	124
75	446	240
80	741	429
85	1,148	699

### Disability Rates

The disability rates are based upon the 1983 Disability Table, with rates reduced 10% to reflect favorable disability experience of the system.

<u>Age</u>	Disabilities per 10,000
	<u>Active Members</u>
25	1
30	2
35	4
40	7
45	12
50	19
55	41
60	86

### Retirement Rates

The retirement ages among members eligible to retire are based upon the actual experience of the system, and the anticipated experience from a new provision allowing members to retire with unreduced benefits after completing 25 years of creditable service. The expected annual rates of retirement among members eligible to retire are shown below:

<u>Age</u>	<u>Annual Rate of Service Retirement</u>
54 or less	20%
55-59	25
60	30
61	35
62	45
63	35
64-69	30

Immediate retirement is assumed for members who have attained age 70 or older.

#### Withdrawal Rates

The withdrawal rates illustrated below reflect the turnover experienced by the Teachers' Retirement System.

<u>Age</u>	<u>Annual Rate Of Withdrawal</u>
25	13.78%
30	11.41
35	8.30
40	5.84
45	3.63
50	2.43
55	1.80
60	1.33

### Future Salaries

The salary increases are based upon an assumption of 6.5% compounded annually.

### Investment Earnings

The annual rate of return is assumed to be 8% for future investment earnings.

### Administrative Expenses

The administrative expenses are assumed to be paid from investment earnings in excess of the assumed rate of 8%.

### Assets

Investments, except mortgages, are valued at amortized book value. Mortgages are valued at par value. Publicly traded securities are valued at market value, with gains and losses spread over a 3-year period to smooth short-term fluctuations.

Premiums and discounts are amortized using the straight-line method over the life on the securities. An average life of eight years is used for amortization of mortgage discounts.

## SECTION V

### SUMMARY OF BENEFIT PROVISIONS

#### Optional Retirement Plan

Vesting Period	Immediate
Benefits	Full value of accumulated funds from member contributions, employer contributions and investment earnings.

#### Teachers' Retirement System

Vesting Period	5 years. No benefits are payable unless the member has a vested right, except the return of employee contributions with interest.
Final Compensation	Average of highest 3 consecutive years of earned compensation.
Normal Form of Benefits	Life only annuity. All benefits cease upon death; however, in no event will the member receive less than the amount of employee contributions with interest.
Normal Retirement Benefits	
Eligibility:	25 years of service or age 60.
Benefit:	The retirement benefit is equal to 1/60 of final compensation for each year of service.

### Early Retirement Benefits

Eligibility: 5 years of service and age 50.

Benefit: The retirement benefit is calculated in the same manner as described for normal retirement, but the benefit is reduced  $\frac{1}{2}$  of 1% for each of the first 60 months early and  $\frac{3}{10}$  of 1% for each of next 60 months early.

### Death Benefits

Eligibility: 5 years of service.

Benefit: The death benefit is equal to  $\frac{1}{60}$  of final compensation for each year of service accrued at date of death with an actuarial adjustment based on the relation of the member's age at death to the beneficiary's age. A monthly benefit of \$200 is paid to each child until age 18. In addition, a lump sum benefit of \$500 is paid upon the death of an active or retired member.

### Disability Benefits

Eligibility: 5 years of service.

Benefit: The disability benefit is equal to  $\frac{1}{60}$  of final compensation for each year of service accrued at date of disability. The minimum benefit is  $\frac{1}{4}$  of the final compensation.

#### Withdrawal Benefits

With less than 5 years of service, the accumulated employee contributions with interest are returned. With more than 5 years, the member may elect a refund of contributions with interest, or may leave the contributions and interest and retain a vested right to retirement benefits.

#### Tax Sheltered Annuity

The Teachers' Retirement System sponsors a tax-deferred annuity program for the benefit of its members. The policies of this program have been established in accordance with the guidelines set by the Internal Revenue Service. The benefits provided by this program are determined solely by the value of the member's account (voluntary contributions plus interest) using actuarial tables provided by the Retirement Board.

#### Contributions

Employee: 7.044% of compensation

Employer: 7.459% of compensation



2/91

## TESTIMONY OPPOSING SB 289 DEPARTMENT OF ADMINISTRATION

### I. Statewide Classification and Pay Act.

The purpose of this bill is to exempt the Librarian position from this Act. Although the bill does not address pay, the effect will be to enable the State Library Commission to provide pay rates and raises above and beyond those provided in the statewide pay matrix. The Act was passed in 1973 to bring order, equity, fairness and consistency to the state's pay practices.

Exempting a position from the general policy-setting provision is really not the issue since the state's policies are minimum standards necessary to comply with state and federal laws. The Library Commission will have to replicate these minimum standards.

### II. Problems with the Classification and Pay Act.

Past legislatures have purposely compressed and frozen the state salary ranges in order to save costs. Consequently, the salary ranges for the grade levels are well below the market, especially for professional salaries.

Because of compression and freezes, managers cannot reward employees with pay increases.

Turnover rates are now high and recruitment problems are severe and often require pay exceptions.

The state's pay system is deteriorating into a hodgepodge of exceptions and exemptions.

### III. Problems with Exemptions to the Act.

Each new exemption encourages others. This trend will send us back to pre-1973 pay practices, when salaries were based on each individual agency's funding source and management style and the state was not paying equal pay for similar work.

Exemptions are not fair to other managers who do not have resources or authority to seek exemptions.

Exemptions single out an occupation for special treatment. This is demoralizing and unfair to the rest of the state workforce. What makes the positions on this list in 2-18-103, M.C.A., more important than the Prison Warden, the Historical Society Director, the Executive Directors of the retirement boards, the Superintendent of the State Hospital, the Chief Medical Examiner, the Executive Secretary of the Board of Livestock?

IV. Enact a Comprehensive Solution for All Employees.

The administration opposes continuing to address chronic pay problems through exemptions and exceptions for a select few employees.

We strongly urge that the legislature address all state employees' pay in a comprehensive manner and adopt a rational philosophy for state pay practices. Such a philosophy was developed by the State Employee Compensation Committee, which recommended that the state adopt a market-based pay philosophy and establish pay ranges that reflect the market. The Committee's recommended philosophy was adopted by the Governor and is in HB509.

In summary, the Department of Administration urges you DO NOT PASS SB289. For more information call Laurie Ekanger, State Personnel Division, 444-3871.

Amendments to Senate Bill No. 264  
First Reading Copy

Requested by Sen. Fritz  
For the Committee on State Administration

Prepared by David S. Niss  
February 14, 1991

1. Title, lines 4 through 8.

Strike: "PROVIDING" on line 4 through "LIABILITIES" on line 8

Insert: "DIRECTING THE LEGISLATIVE AUDITOR TO DETERMINE THE VALUE  
OF PAST SERVICE LIABILITY OF TEACHERS RETIREMENT SYSTEM  
MEMBERS OF THE MONTANA UNIVERSITY SYSTEM"

2. Title, line 9.

Strike: "SECTION 19-21-203, MCA; REPEALING"

3. Title, line 10.

Following: "AN"

Insert: "IMMEDIATE"

4. Pages 1 and 2.

Strike: everything following the enacting clause

Insert: "Section 1. Section 19-21-111, MCA, is amended to read:

"19-21-111. Actuarial investigation to determine unfunded past service liability compared to contributions required. (1) On June 30, 1990, the teachers' retirement board shall make an actuarial investigation of the teachers' retirement system to determine the past service unfunded liability of active, inactive, and retired members of the Montana university system. The valuation must determine the effect on the amortization of the unfunded liability of the teachers' retirement system caused by persons electing to participate in the optional retirement program. The legislative auditor shall, in cooperation with the teachers' retirement board and the board of regents, determine the dollar value of past service liability of active, inactive and retired teachers' retirement system members of the Montana university system as compared to contributions required of the Montana university system on behalf of teachers' retirement system members pursuant to 19-4-605. The board legislative auditor shall report its his findings to the 52nd 53rd legislature.

*using independent actuarial analysis as necessary and*

(2) If the valuation determines that the percentage contribution established in 19-21-203(2)(b) has an adverse effect on the amortization of the unfunded liability, then the board of regents shall pay an additional sum over a period of 40 years to rectify the adverse effect.

(3) Changes in the teachers' retirement system occurring after July 1, 1987, that create additional unfunded liabilities may not be considered in the valuation, and the board of regents may not be required to pay any additional sum on that account except to the extent that those changes benefit members of the teachers' retirement system who are employees of the Montana university system.

(4) If the valuation determines that the board of regents is paying an amount in excess of that needed to amortize the unfunded liability, the teachers' retirement board shall credit the board of regents for the excess payments. The board of regents shall credit the active participants in the optional retirement program with the excess payments."

NEW SECTION. Section 2. {standard} Effective date. [This act] is effective upon passage and approval."

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NEW SECTION. Section 2. {standard} Effective date. [This act] is effective upon passage and approval."

ROLL CALL VOTE

SENATE STATE ADMIN.

EXHIBIT NO. 6

DATE 2-15-91

BILL NO. SB 289

SENATE COMMITTEE STATE ADMINISTRATION

52st LEGISLATIVE SESSION

Date 2-15-91 Bill No. 289 Time 11:00

NAME	YES	NO
Chairman Eleanor Vaughn		X
Vice Chairman Bob Pipinich	X	
Senator John Anderson		X
Senator Chet Blaylock		X
Senator James Burnett	X	
Senator "Bill" Farrell	X	
Senator Harry Fritz		X
Senator Bob Hockett		X
Senator Jack "Doc" Rea	X	
Senator Bernie Swift		

Dolores Harris  
Secretary Dolores Harris

Eleanor Vaughn  
Chairman Eleanor Vaughn

Motion: Table, motion failed

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ROLL CALL VOTE

SENATE STATE ADMIN.

EXHIBIT NO. 7

DATE 2-15-91

BILL NO. SB-289

SENATE COMMITTEE STATE ADMINISTRATION

52st LEGISLATIVE SESSION

Date 2-15-91 Bill No. SB289 Time 11:05

NAME	YES	NO
Chairman Eleanor Vaughn		X
Vice Chairman Bob Pipinich		X
Senator John Anderson	X	
Senator Chet Blaylock		X
Senator James Burnett		X
Senator "Bill" Farrell		X
Senator Harry Fritz	X	
Senator Bob Hockett		X
Senator Jack "Doc" Rea		X
Senator Bernie Swift		

Dolores Harris  
Secretary Dolores Harris

Eleanor Vaughn  
Chairman Eleanor Vaughn

Motion: Senator Fritz moved to Do Pass  
S.B. 289. Motion Failed.



*Exhibit no 8*  
*Date 2-15-91*  
*Bill # SB 289*

TESTIMONY BEFORE THE SENATE STATE ADMINISTRATION COMMITTEE

LLOYD WALLIN, MEMBER  
MONTANA STATE LIBRARY COMMISSION

FEBRUARY 15, 1991

Madam Chairman, members of the committee, for the record, my name is Lloyd Wallin. I serve as a member of the Montana State Library Commission. I am here today to speak in support of Senate Bill 289 to remove the position of State Librarian from the state classification and pay plan.

The Montana State Library is the policy-making body for the Montana State Library. As such, it has among its responsibilities, according to section 22-1-102 of the Montana Codes Annotated, and following:

The commission shall employ as its executive officer a librarian, who is a graduate of an accredited library school and is not a member of the commission, for such compensation as the commission considers adequate

The State Librarian serves, "at the will of the commission." At the heart of Senate Bill is the question of whether or not the Commission indeed has the power to set the level of compensation for its executive officer. It would appear, from an attorney general's opinion from 1984 that the state's pay plan, which was passed subsequent to the statutes concerning the powers of the State Library Commission, takes precedence unless the position of State Librarian is specifically exempted. That is what Senate Bill 289 does, by listing the position in section 2-18-103 MCA which exempts specific officers and employees from the classification and pay plan.

Thank you for your time today. As a representative of the State Library Commission, I urge your support of Senate Bill 289.

51st Legislative Session

STATE ADMINISTRATION COMMITTEE

PROXY VOTE

I, Senator Bernie Swift do hereby  
grant my proxy vote to Chairman Vaughn or Secretary Harris as  
follows:

BILL NUMBER SB 264

MOTION

Do Pass  
Yes ✓ No \_\_\_\_\_

Do Not Pass  
Yes \_\_\_\_\_ No \_\_\_\_\_

Indefinitely Postponed  
Yes \_\_\_\_\_ No \_\_\_\_\_

Tabled  
Yes \_\_\_\_\_ No \_\_\_\_\_

Date 2/13/91

Bernie Swift  
Signature

SENATE STANDING COMMITTEE REPORT

Page 1 of 1  
February 15, 1991

MR. PRESIDENT:

We, your committee on State Administration having had under consideration Senate Bill No. 289 (first reading copy -- white), respectfully report that Senate Bill No. 289 do not pass.

Signed: Eleanor Vaughn  
Eleanor Vaughn, Chairman

2-15-91  
Mnd. Coord.

572 2-15 1:20  
Sec. of Senate

351222SC.S)1

SENATE STANDING COMMITTEE REPORT

Page 1 of 1  
February 15, 1991

MR. PRESIDENT:

We, your committee on State Administration having had under consideration Senate Bill No. 243 (first reading copy -- white), respectfully report that Senate Bill No. 243 do not pass.

Signed: Eleanor Vaughn  
Eleanor Vaughn, Chairman

mc 2-15-91  
And. Coord.

MB 2-15 1:30  
Sec. of Senate

SENATE STANDING COMMITTEE REPORT

Page 1 of 1  
February 15, 1991

MR. PRESIDENT:

We, your committee on State Administration having had under consideration Senate Bill No. 301 (first reading copy -- white), respectfully report that Senate Bill No. 301 do pass.

Signed: Eleanor Vaughn  
Eleanor Vaughn, Chairman

MA 2-15-91  
And. Coord.

SP 2-15 1:30  
Sec. of Senate

351220SC.SJI

# PRELIMINARY

## SENATE STANDING COMMITTEE REPORT

Page 1 of 1  
February 15, 1991

MR. PRESIDENT:

We, your committee on State Administration having had under consideration the Governor's appointments in the attached Senate Resolution No. 4 (first reading copy -- white), respectfully report that said appointments be confirmed by the Senate and that the attached Senate Resolution No. 4 be adopted.

Signed: \_\_\_\_\_

*Eleanor Vaughn*  
Eleanor Vaughn, Chairman

*KA 2-15-91*  
And. Coord.

*SB 2-15 1:20*  
Sec. of Senate

351211SC.5j1

## SENATE STANDING COMMITTEE REPORT

Page 1 of 2  
February 15, 1991

MR. PRESIDENT:

We, your committee on State Administration having had under consideration Senate Bill No. 264 (first reading copy -- white), respectfully report that Senate Bill No. 264 be amended and as so amended do pass:

1. Title, lines 4 through 8.

Strike: "PROVIDING" on line 4 through "LIABILITIES" on line 8

Insert: "DIRECTING THE LEGISLATIVE AUDITOR TO DETERMINE THE VALUE OF PAST SERVICE LIABILITY OF TEACHERS RETIREMENT SYSTEM MEMBERS OF THE MONTANA UNIVERSITY SYSTEM"

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NEW SECTION. Section 2. (standard) Effective date. [This act] is effective upon passage and approval."

Signed: \_\_\_\_\_

Eleanor Vaughn, Chairman

*2-15-91*  
\_\_\_\_\_  
Amd. Coord.

*2-15-91 1:34*  
\_\_\_\_\_  
Sec. of Senate