MINUTES

MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON STATE ADMINISTRATION

Call to Order: By **CHAIRMAN RICHARD SIMPKINS**, on February 2, 1995, at 9:00 A.M.

ROLL CALL

Members Present:
Rep. Richard D. Simpkins, Chairman (R)
Rep. Matt Denny, Vice Chairman (Majority) (R)
Rep. Dore Schwinden, Vice Chairman (Minority) (D)
Rep. Matt Brainard (R)
Rep. Patrick G. Galvin (D)
Rep. Dick Green (R)
Rep. Antoinette R. Hagener (D)
Rep. Harriet Hayne (R)
Rep. Sam Kitzenberg (R)
Rep. Bonnie Martinez (R)
Rep. Gay Ann Masolo (R)
Rep. William Rehbein, Jr. (R)
Rep. George Heavy Runner (D)
Rep. Susan L. Smith (R)
Rep. Carolyn M. Squires (D)
Rep. Jay Stovall (R)
Rep. Lila V. Taylor (R)
Rep. Joe Tropila (D)

Members Excused: NONE

Members Absent: NONE

Staff Present: Sheri Heffelfinger, Legislative Council
Christen Vincent, Committee Secretary

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

Committee Business Summary:
Hearing: Informational presentation on HB 268 (this bill was first heard on 1/31 - the exhibits submitted at that meeting were duplicated for this meeting since they make up a good portion of the discussion.)
Executive Action: none

INFORMATIONAL PRESENTATION ON HB 268

Discussion:

CHAIRMAN SIMPKINS stated people are gun shy about property taxes. He asked if there were any questions on ad hoc increases or GABA.

REP. TAYLOR stated she wanted to know the amounts of each.

REP. STOVALL asked if there was any way for them to know what the numbers are so they would be able to make comparisons.

CHAIRMAN SIMPKINS stated ad hoc increases cost the employer money and with GABA there would be employer and employee contribution.

REP. GALVIN asked why things are getting higher and higher.

David Senn, Administrator, Teachers' Retirement System, stated there were some questions about where the total dollar amount would stop. The total employer contribution cost would stop in four years. Over the years there would be a percentage that would increase. After this the increase in salary wouldn't change. The salary increase is what would increase with the passage of this bill. All things accumulate and drive the numbers up. The numbers are ball park figures.

CHAIRMAN SIMPKINS asked what numbers they are using.

Mr. Senn stated they are condensed fiscal notes. The reason the numbers are higher is because the numbers are used with public employee benefits included.

CHAIRMAN SIMPKINS asked if he was correct in stating that GABA will not go up.

Mr. Senn stated it is the salaries that will increase. GABA is an estimate of retirement benefits. The more money that goes in to it will result in the more interest they will have to pay. Things will begin to grow and multiply.

CHAIRMAN SIMPKINS asked why ad hoc increases are so expensive.

Mr. Senn stated they are cheaper to fund in the beginning, but this is a better way of doing things in the long run.

CHAIRMAN SIMPKINS asked if the statement that ad hoc increases are paid by the employer is correct.

Mr. Senn stated he was correct.

REP. HAGENER asked if that amount would increase every year.

Mr. Senn stated that they wouldn't. The payoff would decrease over time.

REP. STOVALL asked if this is in order to catch up.

Mr. Senn stated the percentage of compensation will level out in four years. Contributions may increase but only because of salary increases.

REP. STOVALL asked if this would have the same scenario in the school districts.

Mr. Senn stated it would.

CHAIRMAN SIMPKINS asked who is paying the employer's contribution currently.

Mr. Senn stated it is strictly the Teachers' Retirement System.

CHAIRMAN SIMPKINS stated the changes would go into effect on July 1, 1995. After four years the ad hoc would be funded.

Sheri Heffelfinger asked if in order to fund GABA if there would be others that would be increased.

Mr. Senn stated there would be no other benefits, so there would be no other increase.

CHAIRMAN SIMPKINS asked if pay raises would count.

Mr. Senn stated for the currently retired there is an unfunded liability. The pay off would be in 30 years. The rate could reduce or enhance benefits.

REP. DENNY asked if there was a 31 year liability for TRS.

Mr. Senn stated it was 34 years.

REP. SMITH asked if they would have to increase this at least 2% more than what it was the year prior.

Mr. Senn stated there would be a 2% floor to the benefits.

REP. SMITH asked if this percentage would increase.

Mr. Senn stated it would not increase after four years.

REP. SMITH asked what the scenario would be in a bad economy. She asked if they would be seeing lawsuits if there was a bad year and there was no money to do this.

Mr. Senn stated the taxpayers would pay for this and there will be money at their disposal.

CHAIRMAN SIMPKINS asked what they would do.

Mr. Senn stated they would seek other funding and extend the amortization period. He stated there isn't a problem they would have to worry about. The economy has gone a long time only earning 1%. If the same thing happens, the system wouldn't change.

REP. SMITH stated she was surprised that there were people of the depression that would have brought this up and not had a provision in the bill to protect them from something like that happening again.

CHAIRMAN SIMPKINS stated this would not be paid for by the state.

REP. GALVIN asked what would happen if the taxpayers didn't pay their taxes.

CHAIRMAN SIMPKINS stated the state would fall apart.

REP. DENNY stated if this was a problem, another department-not only the retirement system-would fall apart.

REP. SMITH stated they wouldn't be able to take away what they had given to the people.

Mr. Senn stated the amortization period would be a shock absorber.

REP. STOVALL stated a long substantive decrease would have to affect this.

REP. REHBEIN stated the taxpayers would revolt. They are not going to take this.

REP. MASOLO stated if they were to work this out so that not only property taxpayers would have to foot the bill, they would see this in the future.

Mr. Senn stated he could see people coming back and saying the 2% isn't enough. The system has matured and there needs to be something to protect it. The last ad hoc increase was in 1985.

CHAIRMAN SIMPKINS stated they were losing sight of what this was about. They can't take away what is given to these people. This proposal would make things equal or greater than what they have right now. The state would only fund one-third or one-fourth of the program.

REP. BRAINARD asked what it would have to have as a deposit to fund this proposal.

Mr. Senn stated they didn't have any numbers for the guarantee's cost.

REP. STOVALL asked if this was actually less than before.

Mr. Senn stated he was correct.

CHAIRMAN SIMPKINS asked if they were talking about pumping in the $45 million.

Mr. Senn stated he was correct.

CHAIRMAN SIMPKINS stated in the fiscal year of 1996 the employee would pay in $14 million and the retirement system would pay in $19 million to the system.

REP. BRAINARD asked where the ad hoc money had come from.

Mr. Senn stated the money came from the same place this money would be coming from, with a higher contribution from the employer. This was reflected in the mill levy increases but not at that time.

REP. SMITH asked if they needed a vote to raise at the local level and not just for the teachers.

CHAIRMAN SIMPKINS stated they needed one for the entire system. It is difficult trying to figure out how to get the information together.

REP. TAYLOR asked if under GABA everyone would come together and stay.

CHAIRMAN SIMPKINS stated they wouldn't.

REP. SMITH stated she had a problem with the incomes going down the way they are currently and the increases in benefits.

Tom Bilodeau stated they look at inflation. Only one year over the last 30 has had less than a 2% growth. The last deflation was during the depression. In the state of Montana, the 1980's were a difficult time and the state came through that with improved TRS and TERS systems. Incomes are not historically the same with the national income growth. In the past four years, the state of Montana has been at the top leading the nation. Interest earnings historically have an 8% average and are reviewed every five years. They are able to maintain interest growth and the guaranteed 2% growth is very conservative.

REP. SMITH stated they represent people not numbers. It wasn't that she didn't want to do this but they had to get back to the people and take away things from places that aren't so good.

CHAIRMAN SIMPKINS stated there had been an outstanding growth and the money level was about the same. There had also been a growth in the manufacturing business.

REP. GREEN stated the track record is "hindsight is 20/20." There is a certain point in time where they need to put the fire out and settle the concerns about servicing this.

CHAIRMAN SIMPKINS stated they wanted to make a statement about retirement benefit premiums.

REP. GREEN stated this proposal isn't fair. It looks like the Social Security system that has failed.

REP. SMITH asked if there was any way the employers can pay into this and increase pay.

REP. DENNY stated the local governments have $30,758,000. They would fund this in a lump sum of $24.5 million.

REP. MARTINEZ stated this country is in debt. Why not work on something to relieve this and help the taxpayers. They need to balance the budget and need to find out where to start.

CHAIRMAN SIMPKINS stated the community has frozen retirement benefits. If they continue with the ad hoc increases they will be killing themselves. GABA is a good idea and he thought they should take advantage of it.

REP. GREEN stated the Social Security system didn't start like that, it started as an account like this one.

CHAIRMAN SIMPKINS this is a supplementary account, not a retirement account.

REP. GREEN stated it would have been a self-sufficient fund. This is like deja vu.

CHAIRMAN SIMPKINS stated if Social Security had done this, it would still be okay. The problem with it was that there were no savings.

REP. GREEN stated that wasn't true. Everyone is looking at a way to get at the money. It should have been self-preserving.

CHAIRMAN SIMPKINS stated Medicare is messed up as well. They did what the Social Security system did in the beginning and stayed with it.

REP. GREEN stated he was looking at the whole picture of how it was funded.

CHAIRMAN SIMPKINS stated current employees can't be forced to contribute. If this had been done 10-15 years ago, there wouldn't be a problem.

REP. GREEN stated they are using the Social Security numbers to come up with this.

CHAIRMAN SIMPKINS stated they would save by taking away benefits. This bill wouldn't do that.

REP. DENNY didn't think the Social Security system comparison is appropriate to this bill. The point of GABA is to end ad hoc increases and clean things up.

REP. STOVALL asked what would happen if the investment increased. He asked where the money would go.

Mr. Senn stated the actuarial gain or loss averages 8% and it would be looked at every five years.

CHAIRMAN SIMPKINS asked if this would be eliminated if it went over the 8%.

Mr. Senn stated it wouldn't be eliminated.

REP. TAYLOR asked if they make more that the 8% if they would distribute it. She asked how many times since 1989 had this happened.

Mr. Senn stated there had been four times.

REP. TAYLOR asked if GABA goes up if they would get 3% instead of 2%.

Mr. Senn stated there is a cap of 2%. They have an average of 8%. If the numbers fall below, they would have to make it up in the next year.

REP. STOVALL stated after the funding increases and the income increase, they would go to increasing benefits. He asked if there was anywhere the employer contribution would decrease.

Mr. Senn stated it would take an act of legislation to decrease the employer contribution.

REP. STOVALL asked why they couldn't get the figures to compare this with.

REP. MARTINEZ asked how often they have ad hoc increases.

Mr. Bilodeau referred to the handouts.

REP. SMITH asked if they use the saving if the employees would pay so they don't have to go to the taxpayers and ask for money to fund this.

Mr. Senn stated he would research it, but he wasn't optimistic.

ADJOURNMENT

Adjournment: 11:00 a.m.

Richard Simpkins
RICHARD SIMPKINS, Chairman

Christen D. Vincent
CHRISTEN VINCENT, Secretary

RS/cdv

HOUSE OF REPRESENTATIVES

State Administration

ROLL CALL DATE Feb. 2, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Dick Simpkin, Chairman	✓		
Rep. Matt Denny, Vice Chairman, Majority	✓		
Rep. Dore Schwinden, Vice Chair, Minority	✓		
Rep. Matt Brainard	✓		
Rep. Pat Galvin	✓		
Rep. Dick Green	✓		
Rep. Toni Hagener	✓		
Rep. Harriet Hayne	✓		
Rep. George Heavy Runner	✓		
Rep. Sam Kitzenberg	✓		
Rep. Bonnie Martinez	✓		
Rep. Gay Ann Masolo	✓		
Rep. Bill Rehbein	✓		
Rep. Susan Smith	✓		
Rep. Jay Stovall	✓		
Rep. Carolyn Squires	✓		
Rep. Lila Taylor	✓		
Rep. Joe Tropila	✓		

Committee on House State Administration
2/2/95

PENDING EXECUTIVE ACTION

HB 87	Grinde	Change June primary election to August
HB 268	Ahner	GABA A - Technical amendments
HB 275	Wiseman	Electronic transfer of retirement benefits A - Sponsor amendment to change implementation date (APPROVED) A - Rep. Denny amendment to allow individual choice not board determination
HB 325	Simpkins	PERD general revision bill A - Addition of a "rollover" provision so that contributions from one system can be transferred directly to another (APPROVED) PENDING MOTION: Rep. Kitzenberg - DO PASS AS AMENDED

HEARING FRI (2/3)

HB 376	Simpkins	Make English Official and Primary Language of Govt
HB 379	Murdock	County board to determine time of canvasser's meeting
HB 374	Harper	TRS board may automatically withhold membership dues
HB 370	Tropila	Move June primary to April, combine with school elections

TESTIMONY ON HOUSE BILL NO. 268

Submitted by Lois Menzies, Director, Department of Administration
On Behalf of Governor Racicot and
the Public Employees' Retirement Board
January 31, 1995

During the 1993 special legislative session, Governor Racicot pledged to work with retirees, retirement boards, and others to develop an affordable guaranteed annual benefit adjustment for public retirees. Today we present for your consideration the results of that effort.

The Governor believes that the guaranteed annual benefit adjustment presented in this bill is essential to protect our retirees from inflationary factors that erode their benefits. Likewise, the Public Employees' Retirement Board endorses this proposal because it guarantees adjustments needed to ensure a stable standard of living in a way that is cost-effective while maintaining the actuarial soundness of the retirement plans.

The Legislature has long understood the need for adjusting pension benefits after retirement. In fact, the Legislature has enacted a post-retirement adjustment every session since 1969. Each of these adjustments has been ad hoc in nature; in other words, these adjustments were one-time, permanent increases to current retirees.

Ad hoc adjustments are the most expensive way to fund benefit increases. They involve no prefunding, so interest earnings are not available to pay a large portion of the costs. Additionally, they are funded solely through employer and state contributions or are simply absorbed by the pension funds. Because ad hoc adjustments apply only to current retirees, active employees cannot be asked to help pay for a benefit they will never receive.

The Governor and the Public Employees' Retirement Board ask you to abandon this costly ad hoc approach and replace it with a guaranteed adjustment that we can begin to prefund for future retirees. This approach is less costly because both employees and employers can contribute. The interest earnings on these contributions can then be used to pay a large portion of the costs. Furthermore, a guaranteed adjustment offers retirees financial predictability. Finally, this approach eliminates the need for the Legislature to revisit this issue session after session after session.

TESTIMONY ON HOUSE BILL NO. 268
GUARANTEED ANNUAL BENEFIT ADJUSTMENT (GABA)

Submitted by Lois Menzies, Director, Department of Administration
January 31, 1995

Basic Provisions

- Guarantees an annual increase in benefits of at least 2%, in combination with other adjustments, to current and future retirees of the following retirement systems:
  - Public Employees' Retirement System
  - Game Wardens' Retirement System
  - Highway Patrol Retirement System
  - Municipal Police Officers' Retirement System
  - Teachers' Retirement System
  - Sheriffs' Retirement System
  - Judges' Retirement System
  - Firefighters' Unified Retirement System
- Limits total benefit increase to change in CPI in previous year
- Available to members retired three or more years
- Effective July 1995

Funding Sources

- Increased employer contributions: funds 38% of cost
  - Range of increases: 0.11% - 4.69%
- Increased employee contributions: funds 27% of cost
  - Range of increases: 0.10% - 2.15%
- System savings: funds 35% of costs
  - Funding swaps: substituting GABA for other benefits; helps to equalize benefits among systems
  - Extending amortization periods (within acceptable standards)
  - Excess system funding
  - Combining GABA with existing increases: reduces additional funded needed to guarantee 2% annual increase
  - Replacing current benefit with GABA for new members: less expensive

QUESTIONS AND ANSWERS

HB 268

GUARANTEED ANNUAL BENEFIT ADJUSTMENT

Q. **What is guaranteed by the GABA?**

A. The GABA is designed to interrelate with any other of the various benefit adjustment mechanisms provided in current law for the state's 8 public retirement systems. The GABA will provide a "floor" increase of 2% in the adjustments retirees will receive each year. It will also install a "Cap" (based on CPI changes) where none exist for certain benefit adjustments.

For example, if a PERS member would be eligible to receive a Post Retirement Adjustment (PRA) (under current law) which equals 1.5% in January, 1996, the GABA would add another .5% to the benefit so that the retiree received a total of a 2% increase in benefits since January, 1995. If another PERS retiree was eligible to receive a PRA equal to 2.3%, then the GABA would be unnecessary. Finally, if yet another PERS retiree were eligible to receive a PRA equal to 5.3% (but the change in CPI over the previous year were only 3%, then the last retiree's PRA would be reduced to a 3% permanent increase in benefits.

Another example would be for members of the Firefighters' Unified Retirement System (FURS) who are guaranteed minimum benefits equal 1/2 the salary of a newly confirmed firefighter. If a FURS retiree who had been retired for at least 36 months was not affected by the minimum benefit provision, the GABA would provide that retiree with a 2% increase in benefits. Another retiree who received a 1% increase in retirement benefits due to the current minimum benefit provisions, would receive an additional 1% increase due to the GABA. A third retiree who received a 2.5% increase due to the current minimum benefit provisions would not receive anything from the GABA. And, finally a retiree who would ordinarily receive a 6% increase through the minimum benefit provisions would be limited to an increase which equalled the actual change in CPI over the past year.

Q. **How is the GABA funded?**

A. Through a combination of four sources:

1. **Investment earnings** on employer and employee contributions will dramatically decrease the out-of-pocket expenditures necessary to fund each $1 of benefit increase in the future. The longer the GABA is in effect, the higher percentage of the actual benefits will be paid by investment earnings. Actuarial projections of investment earnings (at 8%/year) have reduced the total actuarial projections of total additional contributions necessary to fund the GABA.

The hard dollars actuarially necessary to be invested, will come from the following sources:

2. **Systems Savings** (35% of the total "out-of-pocket" contributions)
3. **Employer/State Contributions** (38% of the total "out-of-pocket" contributions)
4. **Employee Contributions** (27% of the total "out-of-pocket" contributions)

Q. **What are "System Savings"?**

A. Very simply, these are amounts which are currently being paid into the systems by employers and employees which will be used to pay for the GABA instead of something else.

Funding Swaps. There are benefits currently provided in most of the systems which are not found in other systems or which accrue only to a small portion of the membership of any system. These benefits cost a portion of the current funding of each retirement system. These benefits can be "swapped" for a portion of the GABA, thus reducing the additional funding required for the GABA.

Excess System Funding. By July 1, 1995, 2 of the 8 retirement systems will be collecting contributions in excess of the amounts actuarially required to fund the current benefit structures of those systems. The excess contributions already collected will reduce the additional contributions necessary to fund the GABA.

Extending Amortization Periods. In well-funded systems, a portion of the contribution increases actuarially required to fund the GABA can be foregone. This will have the effect of extending the overall amortization period of the system's unfunded past service liabilities, but to periods well within accepted standards for public systems.

Combining GABA with Existing Increases. Since most systems have some minimal types of automatic benefit increases, combining them with the GABA (as a guaranteed "floor", in conjunction with instituting a CPI cap on current benefits) will further reduce the additional funding necessary to guarantee everyone a 2% annual increase.

Replacing Benefits for New Members. In the case of one system where the 2% GABA is expected to be less (on the average) than the current benefit adjustment mechanism, this proposal will replace the former mechanism with the GABA for all persons who become members of the system after the effective date of the legislation. Current members and retirees could elect to be covered by GABA, but would not be required to give up higher promised benefit adjustments. Such a change will reduce the state's obligation to provide additional funding for this system which is currently not funded on an actuarially sound basis.

Q. **Will any person lose benefits because of this bill?**

A. No current members or retirees will lose benefits. In one system which has significantly higher benefits than any other system and which is currently not actuarially funded, new members (after July 1, 1995) will have the 2% GABA instead of the current higher benefit increases.

Q. **What are the advantages of utilizing funding swaps?**

A. Besides the savings which can be realized and applied toward funding the GABA, swapping benefits which accrue only to a small number of public employees helps to level the playing field and reduce the unnecessary differences between the retirement systems which not only cost money now, but cause friction between the members of the various systems and result in legislation to add additional benefits to the systems which do not already have them.

Such "windfall" benefits may not be eliminated unless a benefit of equal or higher value (such as the GABA) can be substituted for all or a portion of the benefit being repealed. The GABA presents the opportunity to eliminate unnecessary benefit differences between the systems.

Q. **Isn't it "bad" to create or increase unfunded liabilities?**

A. Unfunded pension liabilities are not amounts which we actually have to go out and borrow money to pay. In a retirement system, unfunded liabilities represent the difference between the total liabilities and the total assets of a trust fund on a given day. Unfunded liabilities are the amounts which would have to be borrowed on a given day should a pension system be terminated on that day. Unlike private plans, public pension systems will not be terminated. **The important consideration is whether the amounts required to pay off currently unfunded liabilities are reasonable and whether the time period over which this will be accomplished is reasonable and prudent.**

This is very similar to the question of whether a family should purchase a home with cash -- or whether it would be more prudent to invest a reasonable down payment, paying off the loan balance with reasonable interest over a reasonable period of time. While it would be unreasonable to spend every dollar available to purchase a house, outright; it would be equally unreasonable to pay the same or less dollars to rent a home that they could be using to build equity in a home.

Unfunded liabilities of a public pension trust fund are quite similar. If the state had enough money to pay off the entire "mortgage" up front without needing to borrow funds at a higher rate in order to meet our other operating expenses -- it would be a great to pay a bigger "down payment" so we could reduce our monthly payments. Like most families, Montana doesn't have that kind of cash!

The GABA proposal provides that all the unfunded liabilities created (not paid up in full on July 1, 1995) will be paid off in no more than 30 years. In the pension world (as in the mortgage world), this is a very reasonable period of time.

Q. **What happens if we don't pass the GABA?**

A. "Ad Hoc" benefit increases will continue to be enacted. Since 1971 every Legislature has understood the necessity of increasing fixed pension benefits for retirees and has passed "ad hoc" (one-time, permanent) benefit increases for retirees. It is unrealistic to believe that the legislature will simply refuse to grant these same retirees and future retirees any further increases.

Q. **So, what's wrong with continuing to enact "ad hoc" increases?**

A. **"Ad Hoc" increases are the most expensive way to fund benefit increases.** Not only are there not investment earnings to pay a large portion of the costs, but you can't do "funding swaps" in exchange for one-time benefits for current retirees.

Since **"Ad Hoc" increases can only be funded by employer/state contributions**; active employees may not be asked to help pay for benefits which they will never receive. Since any individual "ad hoc" increase is made only for current retirees, active members will never take part in that particular increase and may not help pay for it.

"Ad Hoc" benefits are **ALL** unfunded liabilities. Not one penny paid out was saved ahead of time and must be "borrowed" from the trust fund and paid back with interest. Continuing to enact "ad hoc" increases would be like charging a home on a credit card!

Not only are there no investment earnings to reduce out-of-pocket costs -- we have to pay interest on the loan for 30 years (the average retiree who will get the increase is only expected to live 15 of those years!) After enacting ad hoc increases for almost 25 years, we've spent up to our credit limit and have no room to "charge" another "ad hoc" increase!

Q. **What makes GABA better?**

A. Because the GABA is both promised and prefunded, it dramatically reduces costs to employers (which means taxpayers). It is estimated that this bill will save taxpayers 90% of the amount which would have been spent if these same increases were provided on an "ad hoc" basis.

Because it is guaranteed to all future retirees, active members can pay a portion of the increased contributions required to fund the GABA. (Employees will pay 27% of the out-of-pocket expenses of the bill).

Because it provides increased benefits, it can be swapped for other benefits in the system. These swaps and other "systems savings" pay for a portion of the contributions required to fund the GABA. (Swaps and other systems savings will pay 35% of the out-of-pocket expenses of the bill.)

Because it is pre-funded, investment earnings on employer and employee contributions will fund a large portion of the actual benefits promised.

Q. **What will be the cost to various state and local government employers?**

Anticipated payments by specific government entities/fund types				
State Government	FY 1996	FY 1997	FY 1998	FY 1999
General Fund	$1,973,248	$3,030,524	$4,605,775	$6,324,822
Non-General Fund	833,394	847,678	1,217,062	1,597,050
Univ System/Off Budget	164,638	233,078	365,262	509,248
Local Governments	1,465,169	1,511,313	2,050,121	2,622,945
School Districts	2,254,392	4,347,304	6,863,313	9,644,422
Total Gov't Cost	$6,690,842	$9,969,897	$15,101,533	$20,698,488

By 2001, the total covered public payroll in the state (state, university, local government and school district employees) is projected to be $1.38 Billion/year. The total GABA employer/state costs will be only 1.64% of this payroll.

The state general fund will pay 30.5% of the total increased contributions, other state funds will pay 7.3% of the total, off-budget university funds will pay 2.4% of the total, local governments will pay 12.2% of the total, and school districts will pay 47.6% of total costs. Because the state contributes to local school districts (through school retirement GTB), the average increase for school districts will average only an additional 1.43% of their TRS and PERS-covered employees. Actual impacts on individual districts will vary depending on the mill values of individual districts. Any mill increases are expected to be very small.

Q. **What is school retirement GTB and how does the GABA bill affect school retirement funds?**

A. GTB (Guaranteed Tax Base) Aid is part of the money the state provides to local school districts to help pay for general school operations (the school general fund) and the county school retirement fund. As part of the state's Constitutionally mandated obligation to equitably fund (or "equalize") a system of K-12 schools throughout Montana, GTB monies subsidize county school retirement levies in counties with a county mill value less than the statewide mill value. In practical effect, the state's GTB subsidies assist property-poor school districts and counties to hold down the property mill rate and to generate the same revenue from local levies as wealthier districts and counties.

Since FY 91, state GTB monies are made available to counties for support of the school retirement fund by a formula. This formula has not been significantly changed since it was first applied and nothing in the GABA bill affects the GTB formula.

As part of the funding for GABA will come from a small amount of additional employee and employer PERS and TRS contributions, the county school retirement fund will increase slightly (K-12 employer contributions rising +$3.2 million in FY 96) as a result of GABA. Pursuant to the existing GTB formula, lower wealth counties will, in FY 96, receive approximately $1 million in additional GTB subsidies to help pay for the employer's GABA contributions. During FY 97, counties will receive approximately $1.8 million in additional GTB subsidies. In FY 98, additional subsidies are estimated to be $2.9 million and in FY 99, those subsidies will increase to about $4.1 million.

These additional GTB subsidies are budgeted as a General Fund Expense of the GABA and are included in the Governor's executive budget proposal.

Q. **Are state or local government taxes expected to increase because of GABA?**

A. No. The total employer funding increases under this proposal are a very small part of each employer's total budget. The phased-in increase is designed to further reduce impacts on the greatest number of employers.

Q. **How will employees' take home pay be effected?**

A. While employees will pay increased contributions under this proposal, the increases for PERS and TRS members will be phased-in over 4 years to minimize impacts. In addition, since members' contributions are tax-deferred, their take-home pay will be reduced by less than the actual dollar increase in contributions.

Active members of the Highway Patrol, Municipal Police and Firefighters' Unified systems have an election as to whether or not to be covered by GABA. Only those exercising a positive election to be covered will pay any increased contributions to their systems. The total contributions which will be withheld from their pay will be tax-deferred and, since they don't also pay social security contributions, will be LESS than the retirement and social security contributions currently withheld from the pay of members from the other systems. (For example, PERS members currently pay 6.7% of salary to PERS and 7.65% of salary to Social Security, for a total retirement withholding of well over the proposed member contributions to Highway Patrol, Municipal Police or Firefighters' Unified systems.)

Past Ad Hoc COLA's granted by the Legislature

1969	First TRS ad hoc COLA	Increase of 2% for each year retired from July 1, 1937 to June 30, 1967
1971	TRS ad hoc COLA	5% increase
1973	TRS ad hoc COLA	One dollar for each year of creditable service at the time of retirement up to a maximum of $35.00 or an increase of 10%, whichever was greater, plus; An increase of ¼ of 1% multiplied by the number of months retired since July 1, 1971
1974	TRS ad hoc COLA	An increase of ¼ of 1% multiplied by the number of months retired since July 1, 1973
1975	First PERS ad hoc COLA	$1/mo/yrs of service + $2/mo/yrs retired (paid for by increasing employer contribution rates)
	TRS ad hoc COLA	A member retired prior to July 1, 1974 received a 3% increase
1976	TRS as hoc COLA	A member retired prior to July 1, 1975 received a 3% increase
1977	PERS ad hoc COLA	75% of CPI index change (paid for by increasing employer contribution rates)
	TRS ad hoc COLA	Monthly retiree benefits increased by $1/mo/yrs of service + $2/mo/yrs retired (paid for by increasing employer and employee contribution rates; a later challenge and decision by the Montana Supreme Court later repealed the employee contribution rate increase. Employee contributions can not be increased to pay for an ad hoc COLA since the employee will never receive a benefit increase from an ad hoc COLA)
1979	PERS ad hoc COLA	Retiree monthly benefits increased by .45% for each month the benefit was payable between 1/1/77 and 12/31/78. (No increase in employer contributions was provided; therefore, the period for amortizing the system's unfunded liabilities was extended.)
1981	ad hoc COLA -- all systems	Retirees monthly benefits increased by 50 cents/year of service, adjusted for early retirement or optional benefits chosen (paid by increasing employer contribution rates)
1983	PERS ad hoc COLA	Monthly retiree benefits increased by $1/year of service credit (up to a maximum of $30) for members retired before 7/1/81; or by $.50/year of service credit (up to a maximum of $15) for members retired on of after 7/1/81 but before 1/1/83).

TESTIMONY IN SUPPORT OF
HB 268
2% GUARANTEED ANNUAL BENEFIT ADJUSTMENT PROPOSAL
on behalf of the
PUBLIC EMPLOYEES' RETIREMENT BOARD

Presented by
Linda King, Administrator
Public Employees' Retirement Division

During the 1993 session, the Legislature enacted SB 192 which required the Public Employees' Retirement Board to:

> "review the sufficiency of benefits paid by the system and recommend to the legislature those changes in benefits that may be necessary for retired members and their beneficiaries to maintain a stable standard of living." (19-2-404(9), MCA)

The GABA proposal submitted for your consideration by the Governor is the Board's recommendation required by that law. The Board fully supports and recommends enactment of this particular proposal because it will guarantee those changes in benefits necessary to maintain a stable standard of living, in a manner which will maintain the actuarial soundness of all the systems and in the most cost-effective manner possible. If the Governor had not proposed this legislation to you, the Board would have.

Because the effects of inflation (especially rapidly rising medical costs) are most devastating on retirees with fixed incomes, the Legislature has long understood the need for adjusting benefits after retirement. However, since the current mechanisms in place in our public systems are woefully inadequate to meet the need, the Legislature has often relied on ad hoc COLA's as stop gap measures against inflation.

Those ad hoc adjustments can no longer continue, because they are the MOST expensive method of funding limited benefit increases. (Similar to charging one's monthly living expenses on a high-interest credit card, one pays for each dollar actually spent several times over and has no funds left for the next necessary expenditure.)

We know the least expensive way to fund each $1 of benefit increase is through an actuarially funded guaranteed benefit because

-- both employees and employers can contribute the additional out-of-pocket expenses ahead of time,
-- which are then invested with earnings on those investments paying a large portion of the actual benefit increases.

This method dramatically reduces the tax dollars necessary to fund the benefits promised.

In the past, even this mechanism was found to be too expensive. For example, a 1993 2% GABA proposal covering only PERS and TRS would have resulted in a $16 Million state general fund impact in the coming biennium. This GABA proposal is different because it utilizes still another funding source to help fund the guaranteed benefit adjustments -- for all 8 systems at only a fraction of the cost of the previous proposal.

This "new" funding source is called "**SAVINGS.**" By savings, we mean:

-- **Funding Swaps.** There are currently particular benefits provided in most of the systems which are not found in the other systems and which cost a portion of the current funding of the system to provide. Such particular benefits can be "swapped" for a portion of the GABA, thus reducing the additional funding required for the GABA.

-- **Excess System Funding.** By July 1, 1995, two of the retirement systems will actually be collecting contributions in excess of the amounts actuarially required to fund their current benefits. The excess amounts currently collected reduce the additional contributions required to fund GABA for those systems.

-- **Extending Amortization Periods.** A portion of the contribution increases required to fund GABA can be reduced in certain systems which are well-funded and have amortization periods well within accepted actuarial funding standards. This will have the effect of extending the amortization period of the system's unfunded past service liabilities, but to periods still well within the accepted standards.

-- **Combining GABA with Existing Increases.** Most systems have some minimal types of automatic benefit increases which, in combination with the GABA used as a "floor" guarantee for those benefits and instituting a CPI cap on current benefits, will reduce the additional funding necessary to guarantee a 2% annual increase.

-- **Replacing Benefits for New Members.** In the case of one system where the GABA is expected to be lower than the current benefit adjustment mechanism, the proposal is to replace the former mechanism with the GABA for all new members of the system (current members and retirees could elect to be covered by GABA). Covering all new members will reduce the funding shortfall currently in this system and reduce the state's obligation to provide additional funding for this system.

The bottom line savings resulting from these mechanisms will "pay" for 35% of the out-of-pocket costs of GABA, which would otherwise fall on taxpayers and members. The remaining 65% of the total costs will be divided among employers and their employees -- with increases phased-in over 4 years for the two largest systems.

The total state General Fund obligation for state, university, local government and school district employees is projected at $5 Million for the coming biennium and under $11 Million for the next following biennium. This level of state General Fund commitment is still less than the amount which would have been paid for the 2.5% benefit adjustment formerly provided public retirees by SB 226 when the 1991 Legislature began taxing public retirement benefits.

I apologize that a family emergency prevents me from being here today to directly answer your specific questions about this important proposal. I hope to be available when you consider HB 268 in executive session in order to answer any questions which may not be able to be answered by others today.

In closing, I can assure you that, while the cost savings may seem to be too good to be true,

-- This particular proposal has been carefully crafted to take advantage of real savings which can only occur when a benefit of equal or greater value can be substituted.

-- We have replaced only those particular benefits which have increased the differences between the various systems, with the GABA as one uniform benefit which is needed by members of all the systems.

The benefits of this proposal, therefore, are not only the provision of necessary benefit increases in the most cost-effective manner possible. The added benefit of this particular proposal is that it also serves to level the playing field and reduce the current disparities between the systems.

On behalf of the Public Employees' Retirement Board, I urge your favorable consideration of this proposal which meets the Board's tests as an actuarially funded, equitable, and necessary benefit for the members of all public retirement systems. Given the past 25 years' precedent of enacting much more expensive ad hoc increases, **we really can't afford to say no.**

Retired Tchr Unified

"GABA" -- HB268

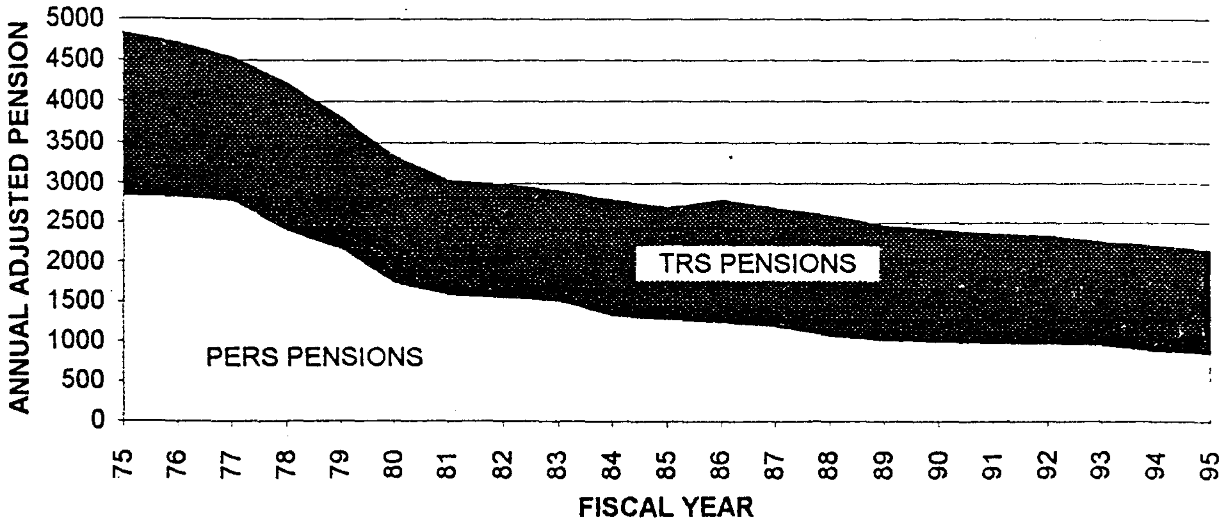
GUARANTEED ANNUAL BENEFIT ADJUSTMENTS for MONTANA PUBLIC PENSIONERS

Representative Chris Ahner (R-Helena)

A Background Paper Prepared by:
Tom Bilodeau -- MEA Research Director
January 19, 1995

Even with occasionally enacted ("ad hoc") pension benefit adjustments, the "average" Montana Public Employee Retirement System (PERS) employee who retired in 1975 with 20+ years of public service, will this year receive only a little more than $300 per month in PERS benefits. During the same twenty year period, inflation reduced the buying-power of a typical Teacher Retirement System (TRS) retiree's pension in half. Indeed, for TRS since 1975, occasionally enacted ad-hoc pension adjustments to TRS benefits have provided benefit adjustments in only seven of twenty years; and in only one of these years (FY86) did the ad-hoc adjustment provide a benefit increase that matched or exceeded that single year's annual cost of inflation. (See: graph below and the data table attached at the back of this report.)

TRS & PERS PENSIONS FOR TYPICAL 1975 RETIREES ADJUSTED FOR AD HOC INCREASES & FOR INFLATION



In simple fact, after a career's worth of service to the people of Montana, a public retiree's first pension check has been his/her largest; thereafter every pension dollar has been devalued (almost without check) by the ravages of inflation. It's a serious, obvious and continuing problem with the basic structure of Montana's PERS and TRS retirement programs. The "real-life" impact on Montana public retirees is devastating.

GABA Promotes Uniformity & Consistency Among Montana's Public Pension Plans

HB268's pension benefit increases will be available to all current and future retirees in all eight public retirement plans administered by the State of Montana. These Montana administered plans include: Public Employees' Retirement System (PERS); Teachers' Retirement System (TRS); Game Wardens' Retirement System (GWRS); Sheriffs' Retirement System (SRS); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Municipal Police Officers' Retirement System (MPORS); and the Firefighters' Unified Retirement Systems (FURS).

The GABA benefit increases experienced by retirees would vary depending on the retirement system but adjustments for all systems and retirees would function under one general set of rules. For systems for which all retirees would gain benefits, such as PERS and TRS, all retired members would be required to participate in GABA. For other systems in which some retirees might receive lower benefits under GABA compared to previously enacted benefit adjustments or have benefits capped due to HB268's CPI limitation, GABA is optional for any retirees who became members before July 1, 1995.

GABA is Fully Funded & Actuarially Sound

Representative Ahner, the Governor and PEPSCo recognize that there is "no free lunch." Unlike most previous PERS or TRS ad hoc pension adjustments -- HB268 is fully funded. Indeed, HB268's funding structure actually generates nearly $20 million in annual savings for Montana's pension programs.

Funding for HB268 varies by retirement system. In general, funding would come from one or more of the following sources:

- Current "Post-Retirement Adjustment's" (PRA's). When investments earnings for a retirement fund exceed the rate of return projected by fund's actuary, the excess is added to the retiree's benefit. This is as under current law and would not change under GABA.

  "Funding swaps." Under current law, retirees from one system may buy into another system, or may buy additional years of service in a system. GABA would require that these purchases be made at full actuarial cost. For some systems, adopting full actuarial cost for purchase will cost more than current purchase rates and result in a higher level of deposits to the retirement funds. Purchasing at full actuarial cost also reduces the need for future employer/employee contribution increases and therefore result in significant "cost savings" for the funds.

- Extended amortization periods. Some systems currently have fund amortization periods that are significantly less than the maximum period required by law, or otherwise considered financially necessary by the fund's actuaries. The actuaries have confirmed that HB268's extended amortization periods -- when coupled by GABA's PRA/funding swap savings and contribution changes --are actuarially sound and in full compliance with the mandates of C25 -- Montana Constitution's Public Pension Security provision.

GABA COST PROJECTIONS TO 2001 FOR MONTANA's K-12 SCHOOLS

MEA: 1/9/95

TEACHERS' RETIREMENT SYSTEM (TRS)

Total GABA Costs As % of TRS Payroll:	4.340%	
Increased Employer Contributions	2.290%	(phased in over 4 years)
Increased Employee Contributions	1.406%	(phased in over 4 years)
Extended Amortization & PRA Savings	0.650%	

TRS (all employer sources)	FY96	FY97	FY98	FY99	FY00	FY01
PROJECTED TRS PAYROLL	$491,407,994	$519,663,954	$549,544,631	$581,143,447	$614,559,195	$649,896,349
PROJECTED K-12 TRS PAYROLL	$459,466,474	$485,885,797	$513,824,230	$543,369,123	$574,612,848	$607,653,087
CURRENT TRS CONTRIBUTIONS						
Employee Contributions (7.044%)	$34,614,779	$36,605,129	$38,709,924	$40,935,744	$43,289,550	$45,778,699
K-12 Employee Contributions (7.044%)	$32,364,818	$34,225,796	$36,193,779	$38,274,921	$40,475,729	$42,803,083
Employer Contributions (7.47%)	$36,708,177	$38,818,897	$41,050,984	$43,411,416	$45,907,572	$48,547,257
K-12 Employer Contributions (7.47%)	$34,322,146	$36,295,669	$38,382,670	$40,589,674	$42,923,580	$45,391,686
EMPLOYEE GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.356%	0.706%	1.056%	1.406%	1.406%	1.406%
Increase Per Payroll ($)	$1,749,412	$3,668,828	$5,803,191	$8,170,877	$8,640,702	$9,137,543
Increase Per K-12 Payroll ($)	$1,635,701	$3,430,354	$5,425,984	$7,639,770	$8,079,057	$8,543,602
EMPLOYER GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.570%	1.150%	1.720%	2.290%	2.290%	2.290%
Increase Per K-12 School Payroll #	2,618,959	5,587,687	8,837,777	12,443,153	13,158,634	13,915,256
Increase Per U' Payroll	142,852	304,783	482,061	678,717	717,744	759,014
Increase Per State Payroll	39,214	83,666	132,330	186,315	197,028	208,357
Total Increase:	$2,801,026	$5,976,135	$9,452,168	$13,308,185	$14,073,406	$14,882,626

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Total GABA Costs As % of PERS Payroll:	4.29%	
Increased Employer Contributions	1.00%	(phased in over 4 years)
Increased Employee Contributions	0.94%	(phased in over 4 years)
Post Retirement Adjustment Savings	1.19%	
Service Purchase Funding Swap Savings	0.31%	
Extended Amortization Period Savings	0.85%	

PERS (for K-12 employers only)	FY96	FY97	FY98	FY99	FY00	FY01
PROJECTED K-12 PERS PAYROLL	120,320,334	124,549,594	128,927,512	133,459,314	138,150,409	143,006,396
CURRENT TRS CONTRIBUTIONS						
K-12 Employee Contributions (6.7%)	$8,061,462	$8,344,823	$8,638,143	$8,941,774	$9,256,077	$9,581,429
K-12 Employer Contributions (6.7%)	$8,061,462	$8,344,823	$8,638,143	$8,941,774	$9,256,077	$9,581,429
EMPLOYEE GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.25%	0.50%	0.75%	1.00%	1.00%	1.00%
Increase Per K-12 Payroll ($)	$300,801	$622,748	$966,956	$1,334,593	$1,381,504	$1,430,064
EMPLOYER GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.50%	0.50%	0.75%	1.00%	1.00%	1.00%
Increase Per K-12 School Payroll #	$601,602	$622,748	$966,956	$1,334,593	$1,381,504	$1,430,064

TOTAL K-12 TRS & PERS EMPLOYEE & EMPLOYER GABA CONTRIBUTIONS COSTS

K-12 EMPLOYEE GABA CONTRIBUTIONS	$1,936,501	$4,053,102	$6,392,940	$8,974,363	$9,460,561	$9,973,666
K-12 EMPLOYER GABA CONTRIBUTIONS #	$3,220,561	$6,210,435	$9,804,733	$13,777,746	$14,540,138	$15,345,320
TOTAL K-12 CONTRIBUTION COST	**$5,157,062**	**$10,263,536**	**$16,197,673**	**$22,752,109**	**$24,000,699**	**$25,318,986**
K-12 RETIREMENT GTB $ FOR GABA #	$966,168	$1,863,130	$2,941,420	$4,133,324	$4,362,041	$4,603,596

State Guaranteed Tax Base (GTB) monies subsidize (offset) k-12 county school retirement fund "employer costs" for both TRS and PERS.

K-12 TRS+PERS GABA SAVINGS	$10,220,721	$10,733,894	$11,273,734	$11,841,663	$12,439,182	$13,067,868

In practical effect, HB268's funding structure allows GABA to be accomplished with much of the cost being paid for with savings that otherwise would be spent (as fund costs, unfunded liability or additional taxes) for no or very limited improvement in pension benefits.

GABA Brings Montana Into the National Mainstream of Pension Adjustment Practice

HB268's proposed guaranteed annual benefit adjustment of +2% is not unprecedented in Montana, nor out of step with practices in federal government or by other states. GABA would parallel and be consistent with Montana income tax indexing policy and with federal government practice in respect to Social Security/SSI, and pension adjustment practice for federal civil service pension systems. Greater uniformity among Montana's eight public pension programs would result from adoption of HB268 and Montana would be put into line and made more competitive with the clear majority of other states' public and school employee pension programs.

PUBLIC SCHOOL EMPLOYEE PENSION PROGRAMS
SUMMARY OF AUTOMATIC BENEFIT ADJUSTMENT PROVISIONS

Type of Provision	Number of Plans	Percent Amount
Fixed $ Per Year	1	
% Equal to CPI	0	
% Based on CPI, with Cap	39	
Median Cap		3.0%
Mean Cap		3.4%
Fixed %	17	
Median Cap		3.0%
Mean Cap		2.4%
Contingent on Fund Earnings	5	
Number/% of Automatic-Adjust Plans	62 (or 73%) of 85 plans responding to survey	

Source: Wisconsin Legislative Council Survey (1994).
See also: NEA-Research Retirement Plan Survey (1993).

MEA & all members of PEPSCo believe HB268's GABA is a realistic and prudently funded means to provide minimal pension security for people who have committed a career of service to the needs of our citizens, our children and our future. GABA is fully-funded, actuarially sound, carefully drafted and can be readily administered by PERS and TRS. It constitutes sound government finance policy and responsible treatment of public employees.

On behalf of both active and retired employees of the State of Montana, local governments, the universities and the schools, MEA and PEPSCo urge the 1995 Legislature to support the Governor's proposal and enact GABA/HB268 now !

*** PUBLIC EMPLOYEE PENSION SECURITY COALITION ***

PEPSCo

Montana Education Association (MEA)

Montana Retired Teachers & School Personnel Association (MRTSPA)

Association of Retired Montana Public Employees (AMRPE)

American Fed of State, County & Municipal Employees (AFSCME)

Montana Public Employees' Association (MPEA)

Montana Federation of Teachers/State Employees (MFT-MFSE)

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0268, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:
An act establishing a guaranteed minimum and maximum annual postretirement benefit adjustment for certain retirees in each of the statewide public employee retirement systems; establishing the guaranteed adjustment as an alternative to certain existing benefits; increasing contribution rates and modifying certain benefits in each system to fund the guaranteed annual benefit adjustment.

ASSUMPTIONS:
1. Highly detailed information regarding the projected adequacy of contribution rates to fund the proposed guaranteed annual benefit adjustment (GABA), contributions by retirement system, fund source, and impact by fiscal year is available from the Department of Administration or Office of Budget and Program Planning. The assumptions outlined in this fiscal note will address major funding assumptions.
2. A statewide average of 30% of TRS/PRS employer contributions made by school districts are assumed funded by state GTB payments.
3. University-system employer contributions are assumed funded 60% general fund, 40% tuition and other non-budgeted sources.
4. State agency PERS employer contributions are assumed funded 40% general fund, 60% other funds. State agency TRS employer contributions are assumed funded 100% general fund.
5. The Teachers' Retirement and Public Employees Retirement Divisions will require one-time system modifications.
6. The fiscal impact reflected in this fiscal note assumes adoption of technical amendments being prepared by legislative council staff.
7. Because the contribution rates are phased in over a four-year period FY96-FY99, the fiscal impact for the 1997, 1999, and 2001 biennia are reflected.

FISCAL IMPACT:

Administrative Expenditures:	FY96 Difference	FY97 Difference
Operating Expenses:		
Public Empl. Retirement Div. (09)	65,000	0
Teachers' Retirement Div. (09)	10,000	0

The amounts reflected in the table on the following page represent the additional contributions made to the retirement systems from employees, state and local agencies, and direct state contributions. The additional contributions represent revenue for the retirement systems and additional expenditures for state and local government agencies. Direct state contributions from insurance premium tax revenues and court filing fees reduce general fund revenue. Direct state contributions from FWP fines and forfeitures reduce FWP state special revenue.

(continued)

Dave Lewis 1-27-95
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Chris Ahner
SPONSOR'S NAME, PRIMARY SPONSOR DATE

HB 268

QUESTIONS AND ANSWERS

GUARANTEED ANNUAL BENEFIT ADJUSTMENT

Q. **What is guaranteed by the GABA?**

A. The GABA is designed to interrelate with any other of the various benefit adjustment mechanisms provided in current law for the state's 8 public retirement systems. The GABA will provide a "floor" increase of 2% in the adjustments retirees will receive each year. It will also install a "Cap" (based on CPI changes) where none exist for certain benefit adjustments.

For example, if a PERS member would be eligible to receive a Post Retirement Adjustment (PRA) (under current law) which equals 1.5% in January, 1996, the GABA would add another .5% to the benefit so that the retiree received a total of a 2% increase in benefits since January, 1995. If another PERS retiree was eligible to receive a PRA equal to 2.3%, then the GABA would be unnecessary. Finally, if yet another PERS retiree were eligible to receive a PRA equal to 5.3% (but the change in CPI over the previous year were only 3%, then the last retiree's PRA would be reduced to a 3% permanent increase in benefits.

Another example would be for members of the Firefighters' Unified Retirement System (FURS) who are guaranteed minimum benefits equal 1/2 the salary of a newly confirmed firefighter. If a FURS retiree who had been retired for at least 36 months was not affected by the minimum benefit provision, the GABA would provide that retiree with a 2% increase in benefits. Another retiree who received a 1% increase in retirement benefits due to the current minimum benefit provisions, would receive an additional 1% increase due to the GABA. A third retiree who received a 2.5% increase due to the current minimum benefit provisions would not receive anything from the GABA. And, finally a retiree who would ordinarily receive a 6% increase through the minimum benefit provisions would be limited to an increase which equalled the actual change in CPI over the past year.

Q. **How is the GABA funded?**

A. Through a combination of four sources:

1. **Systems Savings** (35% of total cost)
2. **Employer/State Contributions** (38% of total cost)
3. **Employee Contributions** (27% of total cost)
4. **Investment earnings** (which reduces the out-of-pocket expense when benefits are paid)

Q. **What are "System Savings"?**

A. **Funding Swaps.** There are benefits currently provided in most of the systems which are not found in other systems or which accrue only to a small portion of the membership of any system. These benefits cost a portion of the current funding of each retirement system. These benefits can be "swapped" for a portion of the GABA, thus reducing the additional funding required for the GABA.

Excess System Funding. By July 1, 1995, 2 of the 8 retirement systems will be collecting contributions in excess of the amounts actuarially required to fund the current benefit structures of those systems. The excess contributions already collected will reduce the additional contributions necessary to fund the GABA.

Extending Amortization Periods. In well-funded systems, a portion of the contribution increases actuarially required to fund the GABA can be foregone. This will have the effect of extending the overall amortization period of the system's unfunded past service liabilities, but to periods well within accepted standards for public systems.

Combining GABA with Existing Increases. Since most systems have some minimal types of automatic benefit increases, combining them with the GABA (as a guaranteed "floor", in conjunction with instituting a CPI cap on current benefits) will further reduce the additional funding necessary to guarantee everyone a 2% annual increase.

Replacing Benefits for New Members. In the case of one system where the 2% GABA is expected to be less (on the average) than the current benefit adjustment mechanism, this proposal will replace the former mechanism with the GABA for all persons who become members of the system after the effective date of the legislation. Current members and retirees could elect to be covered by GABA, but would not be required to give up higher promised benefit adjustments. Such a change will reduce the state's obligation to provide additional funding for this system which is currently not funded on an actuarially sound basis.

Q. **Will any person lose benefits because of this bill?**

A. No current members or retirees will lose benefits. In one system which has significantly higher benefits than any other system and which is currently not actuarially funded, new members (after July 1, 1995 will have the 2% GABA instead of the current higher benefit increases.

Q. **What are the advantages of utilizing funding swaps?**

A. Besides the savings which can be realized and applied toward funding the GABA, swapping benefit which accrue only to a small number of public employees helps to level the playing field and reduc the unnecessary differences between the retirement systems which not only cost money now, but cause friction between the members of the various systems and result in legislation to add additional benefit to the systems which do not already have them.

Such "windfall" benefits may not be eliminated unless a benefit of equal or higher value (such as th GABA) can be substituted for all or a portion of the benefit being repealed. The GABA presents th opportunity to eliminate unnecessary benefit differences between the systems.

Q. **Isn't it "bad" to create or increase unfunded liabilities?**

A. Unfunded pension liabilities are not amounts which we actually have to go out and borrow money to pay. In a retirement system, unfunded liabilities represent the difference between the total liabilities and the total assets of a trust fund on a given day. Unfunded liabilities are the amounts which would have to be borrowed on a given day should a pension system be terminated on that day. Unlike private plans, public pension systems will not be terminated. **The important consideration is whether the amounts required to pay off currently unfunded liabilities are reasonable and whether the time period over which this will be accomplished is reasonable and prudent.**

The issue is very similar to the question of whether a family should purchase a home with cash, up front -- or whether it would be more prudent to put up a reasonable down payment and pay off the loan balance at a reasonable interest rate over a reasonable period of time. While it would not be reasonable for a family to spend every dollar they had to purchase a house, outright; it would be equally unreasonable for the family to pay their same monthly income to rent a home that they could be using to build equity in a home.

Unfunded liabilities of a public pension trust fund are quite similar. If the state had enough money to pay off the entire "mortgage" up front without needing to borrow funds at a higher rate in order to meet our other operating expenses -- it would be a great to pay a bigger "down payment" so we could reduce our monthly payments. Like most families, Montana doesn't have that kind of cash!

The GABA proposal provides that all the unfunded liabilities created (not paid up in full on July 1, 1995) will be paid off in no more than 30 years. In the pension world (as in the mortgage world), this is a very reasonable period of time.

Q. **What happens if we don't pass the GABA?**

A. "Ad Hoc" benefit increases will continue to be enacted. Since 1971 every Legislature has understood the necessity of increasing fixed pension benefits for retirees and has passed "ad hoc" (one-time, permanent) benefit increases for retirees. It is unrealistic to believe that the legislature will simply refuse to grant these same retirees and future retirees any further increases.

Q. **So, what's wrong with continuing to enact "ad hoc" increases?**

A. **"Ad Hoc" increases are the most expensive way to fund benefit increases.** Not only are there not investment earnings to pay a large portion of the costs, but you can't do "funding swaps" in exchange for one-time benefits for current retirees.

Since **"Ad Hoc" increases can only be funded by employer/state contributions**; active employees may not be asked to help pay for benefits which they will never receive. Since any individual "ad hoc" increase is made only for current retirees, active members will never take part in that particular increase and may not help pay for it.

"Ad Hoc" benefits are **ALL** unfunded liabilities. Not one penny paid out was saved ahead of time and must be "borrowed" from the trust fund and paid back with interest. Continuing to enact "ad hoc" increases would be like charging a home on a credit card! Not only are there no investment earnings to reduce out-of-pocket costs -- we have to pay interest on the loan for 30 years (the average retiree who will get the increase is only expected to live 15 of those years!) After enacting ad hoc increases for almost 25 years, we've spent up to our credit limit and have no room to "charge" another "ad hoc" increase!

Q. **What makes GABA better?**

A. Because the GABA is both promised and prefunded, it dramatically reduces costs to employers (which means taxpayers). It is estimated that this bill will save taxpayers 90% of the amount which would have been spent if these same increases were provided on an "ad hoc" basis.

Because it is guaranteed to all future retirees, active members can pay a portion of the increased contributions required to fund the GABA. (Employees will pay 27% of the out-of-pocket expenses of the bill).

Because it provides increased benefits, it can be swapped for other benefits in the system. These swaps and other "systems savings" pay for a portion of the contributions required to fund the GABA. (Swaps and other systems savings will pay 35% of the out-of-pocket expenses of the bill.)

Because it is pre-funded, investment earnings on employer and employee contributions will fund a large portion of the actual benefits promised.

Q. **What will be the impact on various state and local government employers?**

Anticipated payments by specific government entities/fund types				
State Government	FY 1996	FY 1997	FY 1998	FY 1999
General Fund	$1,973,248	$3,030,524	$4,605,775	$6,324,822
Non-General Fund	833,394	847,678	1,217,062	1,597,050
Univ System/Off Budget	164,638	233,078	365,262	509,248
Local Governments	1,465,169	1,511,313	2,050,121	2,622,945
School Districts	2,254,392	4,347,304	6,863,313	9,644,422
Total Gov't Cost	$6,690,842	$9,969,897	$15,101,533	$20,698,488

By 2001, the total covered public payroll in the state (state, university, local government and schoc district employees) is projected to be $1.38 Billion/year. The total GABA employer/state costs will b only 1.64% of this payroll.

The state general fund will pay 30.5% of the total increased contributions, other state funds will pa 7.3% of the total, off-budget university funds will pay 2.4% of the total, local governments will pay 12.2% of the total, and school districts will pay 47.6% of total costs. Because the state contributes t local school districts (through school retirement GTB), the average increase for school districts will be only an additional 1.43% of their TRS and PERS-covered employees.

Q. **What is school retirement GTB and how does the GABA bill affect school retirement funds?**

A. GTB (Guaranteed Tax Base) Aid is part of the money the state provides to local school districts to help pay for general school operations (the school general fund) and the county school retirement fund. As part of the state's Constitutionally mandated obligation to equitably fund (or "equalize") a system of K-12 schools throughout Montana, GTB monies subsidize county school retirement levies in counties with a county mill value less than the statewide mill value. In practical effect, the state's GTB subsidies assist property-poor school districts and counties to hold down the property mill rate and to generate the same revenue from local levies as wealthier districts and counties.

Since FY 91, state GTB monies are made available to counties for support of the school retirement fund by a formula. This formula has not been significantly changed since it was first applied and nothing in the GABA bill affects the GTB formula.

As part of the funding for GABA will come from a small amount of additional employee and employer PERS and TRS contributions, the county school retirement fund will increase slightly (K-12 employer contributions rising +$3.2 million in FY 96) as a result of GABA. Pursuant to the existing GTB formula, lower wealth counties will, in FY 96, receive approximately $1 million in additional GTB subsidies to help pay for the employer's GABA contributions. During FY 97, counties will receive approximately $1.8 million in additional GTB subsidies. In FY 98, additional subsidies are estimated to be $2.9 million and in FY 99, those subsidies will increase to about $4.1 million.

These additional GTB subsidies are budgeted as a General Fund Expense of the GABA and are included in the Governor's executive budget proposal.

"GABA" -- HB268

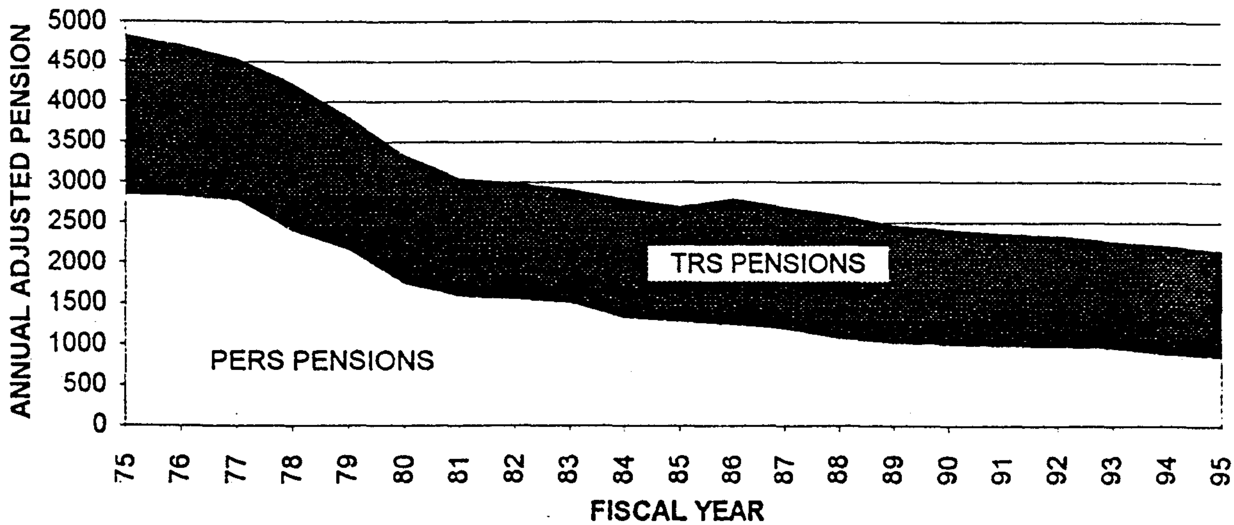
GUARANTEED ANNUAL BENEFIT ADJUSTMENTS for MONTANA PUBLIC PENSIONERS

Representative Chris Ahner (R-Helena)

A Background Paper Prepared by:
Tom Bilodeau -- MEA Research Director
January 19, 1995

Even with occasionally enacted ("ad hoc") pension benefit adjustments, the "average" Montana Public Employee Retirement System (PERS) employee who retired in 1975 with 20+ years of public service, will this year receive only a little more than $300 per month in PERS benefits. During the same twenty year period, inflation reduced the buying-power of a typical Teacher Retirement System (TRS) retiree's pension in half. Indeed, for TRS since 1975, occasionally enacted ad-hoc pension adjustments to TRS benefits have provided benefit adjustments in only seven of twenty years; and in only one of these years (FY86) did the ad-hoc adjustment provide a benefit increase that matched or exceeded that single year's annual cost of inflation. (See: graph below and the data table attached at the back of this report.)

TRS & PERS PENSIONS FOR TYPICAL 1975 RETIREES ADJUSTED FOR AD HOC INCREASES & FOR INFLATION



In simple fact, after a career's worth of service to the people of Montana, a public retiree's first pension check has been his/her largest; thereafter every pension dollar has been devalued (almost without check) by the ravages of inflation. It's a serious, obvious and continuing problem with the basic structure of Montana's PERS and TRS retirement programs. The "real-life" impact on Montana public retirees is devastating.

GABA Promotes Uniformity & Consistency Among Montana's Public Pension Plans

HB268's pension benefit increases will be available to all current and future retirees in all eight public retirement plans administered by the State of Montana. These Montana administered plans include: Public Employees' Retirement System (PERS); Teachers' Retirement System (TRS); Game Wardens' Retirement System (GWRS); Sheriffs' Retirement System (SRS); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Municipal Police Officers' Retirement System (MPORS); and the Firefighters' Unified Retirement Systems (FURS).

The GABA benefit increases experienced by retirees would vary depending on the retirement system but adjustments for all systems and retirees would function under one general set of rules. For systems for which all retirees would gain benefits, such as PERS and TRS, all retired members would be required to participate in GABA. For other systems in which some retirees might receive lower benefits under GABA compared to previously enacted benefit adjustments or have benefits capped due to HB268's CPI limitation, GABA is optional for any retirees who became members before July 1, 1995.

GABA is Fully Funded & Actuarially Sound

Representative Ahner, the Governor and PEPSCo recognize that there is "no free lunch." Unlike most previous PERS or TRS ad hoc pension adjustments -- HB268 is fully funded. Indeed, HB268's funding structure actually generates nearly $20 million in annual savings for Montana's pension programs.

Funding for HB268 varies by retirement system. In general, funding would come from one or more of the following sources:

- Current "Post-Retirement Adjustment's" (PRA's). When investments earnings for a retirement fund exceed the rate of return projected by fund's actuary, the excess is added to the retiree's benefit. This is as under current law and would not change under GABA.

  "Funding swaps." Under current law, retirees from one system may buy into another system, or may buy additional years of service in a system. GABA would require that these purchases be made at full actuarial cost. For some systems, adopting full actuarial cost for purchase will cost more than current purchase rates and result in a higher level of deposits to the retirement funds. Purchasing at full actuarial cost also reduces the need for future employer/employee contribution increases and therefore result in significant "cost savings" for the funds.

- Extended amortization periods. Some systems currently have fund amortization periods that are significantly less than the maximum period required by law, or otherwise considered financially necessary by the fund's actuaries. The actuaries have confirmed that HB268's extended amortization periods -- when coupled by GABA's PRA/funding swap savings and contribution changes --are actuarially sound and in full compliance with the mandates of C25 -- Montana Constitution's Public Pension Security provision.

GABA COST PROJECTIONS TO 2001 FOR MONTANA's K-12 SCHOOLS

MEA: 1/9/95

TEACHERS' RETIREMENT SYSTEM (TRS)

Total GABA Costs As % of TRS Payroll:	4.340%	
Increased Employer Contributions	2.290%	(phased in over 4 years)
Increased Employee Contributions	1.406%	(phased in over 4 years)
Extended Amortization & PRA Savings	0.650%	

TRS (all employer sources)	FY96	FY97	FY98	FY99	FY00	FY01
PROJECTED TRS PAYROLL	$491,407,994	$519,663,954	$549,544,631	$581,143,447	$614,559,195	$649,896,349
PROJECTED K-12 TRS PAYROLL	$459,466,474	$485,885,797	$513,824,230	$543,369,123	$574,612,848	$607,653,087
CURRENT TRS CONTRIBUTIONS						
Employee Contributions (7.044%)	$34,614,779	$36,605,129	$38,709,924	$40,935,744	$43,289,550	$45,778,699
K-12 Employee Contributions (7.044%)	$32,364,818	$34,225,796	$36,193,779	$38,274,921	$40,475,729	$42,803,083
Employer Contributions (7.47%)	$36,708,177	$38,818,897	$41,050,984	$43,411,416	$45,907,572	$48,547,257
K-12 Employer Contributions (7.47%)	$34,322,146	$36,295,669	$38,382,670	$40,589,674	$42,923,580	$45,391,686
EMPLOYEE GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.356%	0.706%	1.056%	1.406%	1.406%	1.406%
Increase Per Payroll ($)	$1,749,412	$3,668,828	$5,803,191	$8,170,877	$8,640,702	$9,137,543
Increase Per K-12 Payroll ($)	$1,635,701	$3,430,354	$5,425,984	$7,639,770	$8,079,057	$8,543,602
EMPLOYER GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.570%	1.150%	1.720%	2.290%	2.290%	2.290%
Increase Per K-12 School Payroll #	2,618,959	5,587,687	8,837,777	12,443,153	13,158,634	13,915,256
Increase Per U' Payroll	142,852	304,783	482,061	678,717	717,744	759,014
Increase Per State Payroll	39,214	83,666	132,330	186,315	197,028	208,357
Total Increase:	$2,801,026	$5,976,135	$9,452,168	$13,308,185	$14,073,406	$14,882,626

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Total GABA Costs As % of PERS Payroll:	4.29%	
Increased Employer Contributions	1.00%	(phased in over 4 years)
Increased Employee Contributions	0.94%	(phased in over 4 years)
Post Retirement Adjustment Savings	1.19%	
Service Purchase Funding Swap Savings	0.31%	
Extended Amortization Period Savings	0.85%	

PERS (for K-12 employers only)	FY96	FY97	FY98	FY99	FY00	FY01
PROJECTED K-12 PERS PAYROLL	120,320,334	124,549,594	128,927,512	133,459,314	138,150,409	143,006,396
CURRENT TRS CONTRIBUTIONS						
K-12 Employee Contributions (6.7%)	$8,061,462	$8,344,823	$8,638,143	$8,941,774	$9,256,077	$9,581,429
K-12 Employer Contributions (6.7%)	$8,061,462	$8,344,823	$8,638,143	$8,941,774	$9,256,077	$9,581,429
EMPLOYEE GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.25%	0.50%	0.75%	1.00%	1.00%	1.00%
Increase Per K-12 Payroll ($)	$300,801	$622,748	$966,956	$1,334,593	$1,381,504	$1,430,064
EMPLOYER GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.50%	0.50%	0.75%	1.00%	1.00%	1.00%
Increase Per K-12 School Payroll #	$601,602	$622,748	$966,956	$1,334,593	$1,381,504	$1,430,064

TOTAL K-12 TRS & PERS EMPLOYEE & EMPLOYER GABA CONTRIBUTIONS COSTS

K-12 EMPLOYEE GABA CONTRIBUTIONS	$1,936,501	$4,053,102	$6,392,940	$8,974,363	$9,460,561	$9,973,666
K-12 EMPLOYER GABA CONTRIBUTIONS #	$3,220,561	$6,210,435	$9,804,733	$13,777,746	$14,540,138	$15,345,320
TOTAL K-12 CONTRIBUTION COST	**$5,157,062**	**$10,263,536**	**$16,197,673**	**$22,752,109**	**$24,000,699**	**$25,318,986**
K-12 RETIREMENT GTB $ FOR GABA #	$966,168	$1,863,130	$2,941,420	$4,133,324	$4,362,041	$4,603,596

State Guaranteed Tax Base (GTB) monies subsidize (offset) k-12 county school retirement fund "employer costs" for both TRS and PERS.

K-12 TRS+PERS GABA SAVINGS	$10,220,721	$10,733,894	$11,273,734	$11,841,663	$12,439,182	$13,067,868

In practical effect, HB268's funding structure allows GABA to be accomplished with much of the cost being paid for with savings that otherwise would be spent (as fund costs, unfunded liability or additional taxes) for no or very limited improvement in pension benefits.

GABA Brings Montana Into the National Mainstream of Pension Adjustment Practice

HB268's proposed guaranteed annual benefit adjustment of +2% is not unprecedented in Montana, nor out of step with practices in federal government or by other states. GABA would parallel and be consistent with Montana income tax indexing policy and with federal government practice in respect to Social Security/SSI, and pension adjustment practice for federal civil service pension systems. Greater uniformity among Montana's eight public pension programs would result from adoption of HB268 and Montana would be put into line and made more competitive with the clear majority of other states' public and school employee pension programs.

PUBLIC SCHOOL EMPLOYEE PENSION PROGRAMS
SUMMARY OF AUTOMATIC BENEFIT ADJUSTMENT PROVISIONS

Type of Provision	Number of Plans	Percent Amount
Fixed $ Per Year	1	
% Equal to CPI	0	
% Based on CPI, with Cap	39	
Median Cap		3.0%
Mean Cap		3.4%
Fixed %	17	
Median Cap		3.0%
Mean Cap		2.4%
Contingent on Fund Earnings	5	
Number/% of Automatic-Adjust Plans	62 (or 73%) of 85 plans responding to survey	

Source: Wisconsin Legislative Council Survey (1994).
See also: NEA-Research Retirement Plan Survey (1993).

MEA & all members of PEPSCo believe HB268's GABA is a realistic and prudently funded means to provide minimal pension security for people who have committed a career of service to the needs of our citizens, our children and our future. GABA is fully-funded, actuarially sound, carefully drafted and can be readily administered by PERS and TRS. It constitutes sound government finance policy and responsible treatment of public employees.

On behalf of both active and retired employees of the State of Montana, local governments, the universities and the schools, MEA and PEPSCo urge the 1995 Legislature to support the Governor's proposal and enact GABA/HB268 now !

* PUBLIC EMPLOYEE PENSION SECURITY COALITION *

PEPSCo

Montana Education Association (MEA)

Montana Retired Teachers & School Personnel Association (MRTSPA)

Association of Retired Montana Public Employees (AMRPE)

American Fed of State, County & Municipal Employees (AFSCME)

Montana Public Employees' Association (MPEA)

Montana Federation of Teachers/State Employees (MFT-MFSE)

Committee on Public Employee Retirement Systems

Room 138 State Capitol
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

53rd Montana Legislature

HB 268

REPORT ON LC 772

Purpose of Report

The Committee on Public Employee Retirement Systems (CPERS) is required by law (Ch. 549, L. 1993) to report to the Legislature on the fiscal and policy implications of each retirement proposal it reviews and to make recommendations for Legislative action. The Committee's recommendations do not constitute formal Legislative action on a bill and the Committee may not prevent a retirement bill from being introduced. This report applies to the proposal as presented to CPERS, not to any changes made subsequent to the adoption of this report. This report is informational and its purpose is to promote fair and consistent retirement policy for Montana's public employees.

Proposal Summary

As summarized in the Public Employees' Retirement Division's Proposal Questionnaire: "This proposal establishes an actuarially funded Guaranteed Annual Benefit Adjustment for retirees and other benefit recipients of all the actuarially funded retirement systems. The GABA provides a 2% guaranteed floor to any other benefit adjustment mechanisms which may already be in place in these systems and further places a cap on any other benefit increases equal to the change in CPI over the previous year. The GABA is necessary to reduce the effects of inflation on fixed retirement incomes and the actuarial funding basis is necessary to reduce the costs of providing the adjustments."

Issue Summary

Retirement benefits paid to public employees are significantly eroded due to inflation. While there are some forms of automatic benefit increases available in these systems, they are extremely minimal. This has led to many ad hoc benefit increases being granted to retirees to reduce the effects of inflation on their benefits, but at great expense to employers or the retirement system trust funds.

Committee Recommendations

Amendments: None.
Recommended Action: DO PASS (adopted unanimously)

BILL ANALYSIS

Bill Title: "An Act to provide for a guaranteed annual benefit adjustment for certain retired public employees; increasing contribution rates and modifying certain benefits in order to fund the adjustments..."

Purpose: The bill provides for permanent, pre-funded benefit increases for retirees of all public retirement systems in the most cost-efficient manner possible.

The bill will provide a 2% guaranteed floor for post-retirement benefit increases in each of the state's public retirement systems for retirees (and their survivors) after benefits have been paid for at least 36 months. The GABA will not replace any currently existing benefit adjustment mechanisms; instead, it will guarantee the total of all annual adjustments will be at least 2% per year.

Employer and employee contribution rate increases, in conjunction with "funding swaps" (wherein existing benefits within the various systems can be "traded" for the GABA when the GABA is of equal or greater value than the existing benefit), reduce the cost of this bill significantly over previous attempts to provide this necessary adjustment.

Pros and Cons

Pros: Eliminates the necessity of implementing costly, ad hoc increases each session.

Guaranteeing the benefit increases to future retirees allows employees to help pay for the benefit increases; thereby reducing costs to employers (taxpayers).

Pre-funding the increases allows funds to be invested for many years before benefits must be paid out, thereby providing significant funding through investment earnings.

"Swapping" existing benefits (and their funding) within certain systems for the GABA not only reduces the additional funding necessary for the GABA, but serves to eliminate benefit windfalls in som systems. This will further equalize benefits between the various state retirement systems.

Prefunding post retirement benefit increases reduces the actual dollars required to provide $1 of permanent benefit increase. Depending on costs of borrowing money at any given time, it can co from 7 to 10 times as much to fund an ad hoc benefit increase that it would to fund the same increase in the manner described in this bill.

Cons: Once enacted, this benefit increase is permanent. However, given the current history of legislative enactments, benefit increases would be enacted anyway.

Alternatives to Legislation: The alternative would be to remain with the current system of ad hoc benefit increases, which will be from 7 to 10 times more expensive than this proposal. The ad hoc increases must be funded totally through increased employer (taxpayer) contributions; employees may not help to pay for increases for retirees that they, the active members, will not receive.

Financial Impact: Because of phased-in employer/employee contribution rate increases, the following fiscal impacts are projected over the next 3 biennia:

Payer	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
State Gov't						
General Fund	$1,973,248	$3,030,524	$4,605,775	$6,324,822	$6,620,845	$6,932,471
Non-Gen. Fund	833,394	847,678	1,217,062	1,597,050	1,622,644	1,648,681
Univ/Off Budget	164,638	233,078	365,262	509,248	532,971	557,868
Local Governments	1,465,169	1,511,313	2,050,121	2,622,945	2,707,200	2,794,172
School Districts	2,254,392	4,347,304	6,863,313	9,644,422	10,178,097	10,741,724
Sub-Total Employer:	6,690,842	9,969,897	15,101,533	20,698,488	21,661,758	22,674,917
Employees	3,881,157	7,366,655	11,148,585	14,867,418	15,516,635	16,198,210
"Savings"	17,668,031	18,232,112	18,818,027	19,426,741	20,059,266	20,716,665
Total Cost:	28,240,030	35,568,664	45,068,144	54,992,647	57,237,659	59,589,791

Prior Legislative History: Ad Hoc COLA's have been granted by the Legislature in the past:

1971	First TRS ad hoc COLA	
1973	TRS ad hoc COLA	
1975	First PERS ad hoc COLA	$1/mo/yrs of service + $2/mo/yrs retired (paid for by increasing employer contribution rates)
	TRS ad hoc COLA	
1977	PERS ad hoc COLA	75% of CPI index change (paid for by increasing employer contribution rates)
	TRS ad hoc COLA	Monthly retiree benefits increased by $1/mo/yrs of service + $2/mo/yrs retired (paid for by increasing employer and employee contribution rates; a later challenge and decision by the Montana Supreme Court later repealed the employee contribution rate increase. Employee contributions can not be increased to pay for an ad hoc COLA since the employee will never receive a benefit increase from an ad hoc COLA)
1979	PERS ad hoc COLA	Retiree monthly benefits increased by .45% for each month the benefit was payable between 1/1/77 and 12/31/78. (No increase in employer contributions was provided; therefore, the period for amortizing the system's unfunded liabilities was extended.)
1981	ad hoc COLA -- all systems	Retirees monthly benefits increased by 50 cents/year of service, adjusted for early retirement or optional benefits chosen (paid by increasing employer contribution rates)

1983	PERS ad hoc COLA	Monthly retiree benefits increased by $1/year of service credit (up to a maximum of $30) for members retired before 7/1/81; or by $.50/year of service credit (up to a maximum of $15) for members retired on of after 7/1/81 but before 1/1/83).
	FURS	Minimum Supplemental Benefit extended to retired members hired prior to 7/1/81
1985	TRS ad hoc COLA	Monthly retiree benefits between $500 and $1000 were increased by $.50/year of service; benefits less than $500 were increased $1/year of service. Minimum monthly benefit of $400/month for persons retired before 7/1/71 with at least 30 years of service and was at least 60 at time of retirement. (actuarially funded)
	PERS ad hoc COLA	Monthly retiree benefits increased by a formula, up to a maximum increase of $3/month. Monthly benefits of $1,000 per month or more did not receive an increase. (actuarially funded by increased employer contributions)
	SRS ad hoc COLA	Monthly benefits increased 5% for retirements on or before 7/1/85
	HPORS Minimum Benefit	Established a minimum level of benefits payable to retirees (actuarially funded through system with increased employer contribution rates)
	MPORS Minimum Benefit	Provided for minimum benefit adjustments for post 7/1/85 retirees (to be funded directly from state's insurance premium tax fund, which is a direct offset to general fund revenues)
1987	PERS Ad Hoc COLA	Provided for 5.5% permanent increases for persons retired prior to 7/1/86
1989	Post Retirement Adjustment (PERS, TRS, GWRS and SRS)	Automatic permanent increases tied to investment earnings above 8% actuarially required yield.
	GWRS Ad Hoc Minimum Benefit Adjustment	One-time increase for all retirees to a minimum equal to 60% of the current pay of newly hired game warden. (Paid for by extending amortization period of the system's unfunded liabilities)
	FURS Supplemental Benefit Adjustment	Supplemental Benefit fund established for members hired on or after 7/1/81 (Funding from state insurance premium tax fund as a direct offset to general fund revenues)
1991	Annual Lump Sum Adjustment for in-state retirees -- All Systems	Once/year payments to resident retirees to offset newly taxable status of benefits (this adjustment ended in 1993 when MT Supreme Court ruled this benefit an unconstitutional tax-offset measure) (Payments made directly from general fund to retirement boards for distribution to eligible retirees)
	HPORS Annual Lump Sum	Additional payments made once per year to pre-7/1/91 retirees funded through 25 cent increase in drivers license fees
1993	PERS Ad Hoc COLA	5% permanent benefit increase

Additional FTE's Required: None.

Examples of Harm: Without legislation, the legislature will have to continue to enact and fund ad hoc benefit adjustments in order to meet the real needs for retirement income security of public retirees. Funding these ad hoc adjustments will cost taxpayers at least 10 times more than the current mechanism and employee dollars may not be used to help fund those ad hoc increases.

Interested Persons and Their Position

The following organizations are on record as supporting this proposal:

Governor Marc Racicot
Public Employees' Retirement Board
Teachers' Retirement Board
Interim Legislative Committee on Public Employee Retirement

PEPSCo (Public Employee Pension Security Coalition)
MPEA (Montana Public Employees' Association)
MEA (Montana Education Association)
AMRPE (Association of Montana Retired Public Employees)
Sheriffs' and Peace Officers Association
Retired Highway Patrol Officers
Montana Police Protective Association
Retired Municipal Police Officers
Retired Teachers' Association

No organizations or individuals have been found who oppose this legislation.

Problems with October 1 Effective Date

Plan years begin on July 1; because of the fiscal impact of this bill, it is necessary that changes be implemented at the beginning of the fiscal year.

QUESTIONS AND ANSWERS

GUARANTEED ANNUAL BENEFIT ADJUSTMENT

Q. **What is guaranteed by the GABA?**

A. The GABA is designed to interrelate with any other of the various benefit adjustment mechanisms provided in current law for the state's 8 public retirement systems. The GABA will provide a "floor" increase of 2% in the adjustments retirees will receive each year. It will also install a "Cap" (based on CPI changes) where none exist for certain benefit adjustments.

For example, if a PERS member would be eligible to receive a Post Retirement Adjustment (PRA) (under current law) which equals 1.5% in January, 1996, the GABA would add another .5% to the benefit so that the retiree received a total of a 2% increase in benefits since January, 1995. If another PERS retiree was eligible to receive a PRA equal to 2.3%, then the GABA would be unnecessary. Finally, if yet another PERS retiree were eligible to receive a PRA equal to 5.3% (but the change in CPI over the previous year were only 3%, then the last retiree's PRA would be reduced to a 3% permanent increase in benefits.

Another example would be for members of the Firefighters' Unified Retirement System (FURS) who are guaranteed minimum benefits equal 1/2 the salary of a newly confirmed firefighter. If a FURS retiree who had been retired for at least 36 months was not affected by the minimum benefit provision, the GABA would provide that retiree with a 2% increase in benefits. Another retiree who received a 1% increase in retirement benefits due to the current minimum benefit provisions, would receive an additional 1% increase due to the GABA. A third retiree who received a 2.5% increase due to the current minimum benefit provisions would not receive anything from the GABA. And, finally a retiree who would ordinarily receive a 6% increase through the minimum benefit provisions would be limited to an increase which equalled the actual change in CPI over the past year.

Q. **How is the GABA funded?**

A. Through a combination of four sources:

1. **Systems Savings** (35% of total cost)
2. **Employer/State Contributions** (38% of total cost)
3. **Employee Contributions** (27% of total cost)
4. **Investment earnings** (which reduces the out-of-pocket expense when benefits are paid)

Q. **What are "System Savings"?**

A. **Funding Swaps.** There are benefits currently provided in most of the systems which are not found in other systems or which accrue only to a small portion of the membership of any system. These benefits cost a portion of the current funding of each retirement system. These benefits can be "swapped" for a portion of the GABA, thus reducing the additional funding required for the GABA.

Excess System Funding. By July 1, 1995, 2 of the 8 retirement systems will be collecting contributions in excess of the amounts actuarially required to fund the current benefit structures of those systems. The excess contributions already collected will reduce the additional contributions necessary to fund the GABA.

Extending Amortization Periods. In well-funded systems, a portion of the contribution increases actuarially required to fund the GABA can be foregone. This will have the effect of extending the overall amortization period of the system's unfunded past service liabilities, but to periods well within accepted standards for public systems.

Combining GABA with Existing Increases. Since most systems have some minimal types of automatic benefit increases, combining them with the GABA (as a guaranteed "floor", in conjunction with instituting a CPI cap on current benefits) will further reduce the additional funding necessary to guarantee everyone a 2% annual increase.

Replacing Benefits for New Members. In the case of one system where the 2% GABA is expected to be less (on the average) than the current benefit adjustment mechanism, this proposal will replace the former mechanism with the GABA for all persons who become members of the system after the effective date of the legislation. Current members and retirees could elect to be covered by GABA, but would not be required to give up higher promised benefit adjustments. Such a change will reduce the state's obligation to provide additional funding for this system which is currently not funded on an actuarially sound basis.

Q. **Will any person lose benefits because of this bill?**

A. No current members or retirees will lose benefits. In one system which has significantly higher benefits than any other system and which is currently not actuarially funded, new members (after July 1, 1995) will have the 2% GABA instead of the current higher benefit increases.

Q. **What are the advantages of utilizing funding swaps?**

A. Besides the savings which can be realized and applied toward funding the GABA, swapping benefits which accrue only to a small number of public employees helps to level the playing field and reduce the unnecessary differences between the retirement systems which not only cost money now, but cause friction between the members of the various systems and result in legislation to add additional benefits to the systems which do not already have them.

Such "windfall" benefits may not be eliminated unless a benefit of equal or higher value (such as the GABA) can be substituted for all or a portion of the benefit being repealed. The GABA presents the opportunity to eliminate unnecessary benefit differences between the systems.

Q. **Isn't it "bad" to create or increase unfunded liabilities?**

A. Unfunded pension liabilities are not amounts which we actually have to go out and borrow money to pay. In a retirement system, unfunded liabilities represent the difference between the total liabilities and the total assets of a trust fund on a given day. Unfunded liabilities are the amounts which would have to be borrowed on a given day should a pension system be terminated on that day. Unlike private plans, public pension systems will not be terminated. **The important consideration is whether the amounts required to pay off currently unfunded liabilities are reasonable and whether the time period over which this will be accomplished is reasonable and prudent.**

The issue is very similar to the question of whether a family should purchase a home with cash, up front -- or whether it would be more prudent to put up a reasonable down payment and pay off the loan balance at a reasonable interest rate over a reasonable period of time. While it would not be reasonable for a family to spend every dollar they had to purchase a house, outright; it would be equally unreasonable for the family to pay their same monthly income to rent a home that they could be using to build equity in a home.

Unfunded liabilities of a public pension trust fund are quite similar. If the state had enough money to pay off the entire "mortgage" up front without needing to borrow funds at a higher rate in order to meet our other operating expenses -- it would be a great to pay a bigger "down payment" so we could reduce our monthly payments. Like most families, Montana doesn't have that kind of cash!

The GABA proposal provides that all the unfunded liabilities created (not paid up in full on July 1, 1995) will be paid off in no more than 30 years. In the pension world (as in the mortgage world), this is a very reasonable period of time.

Q. **What happens if we don't pass the GABA?**

A. "Ad Hoc" benefit increases will continue to be enacted. Since 1971 every Legislature has understood the necessity of increasing fixed pension benefits for retirees and has passed "ad hoc" (one-time, permanent) benefit increases for retirees. It is unrealistic to believe that the legislature will simpl refuse to grant these same retirees and future retirees any further increases.

Q. **So, what's wrong with continuing to enact "ad hoc" increases?**

A. **"Ad Hoc" increases are the most expensive way to fund benefit increases.** Not only are there not investment earnings to pay a large portion of the costs, but you can't do "funding swaps" in exchange for one-time benefits for current retirees.

Since **"Ad Hoc" increases can only be funded by employer/state contributions;** active employees may not be asked to help pay for benefits which they will never receive. Since any individual "ad hoc" increase is made only for current retirees, active members will never take part in that particular increase and may not help pay for it.

"Ad Hoc" benefits are **ALL** unfunded liabilities. Not one penny paid out was saved ahead of time and must be "borrowed" from the trust fund and paid back with interest. Continuing to enact "ad hoc" increases would be like charging a home on a credit card! Not only are there no investment earnings to reduce out-of-pocket costs -- we have to pay interest on the loan for 30 years (the average retiree who will get the increase is only expected to live 15 of those years!) After enacting ad hoc increases for almost 25 years, we've spent up to our credit limit and have no room to "charge" another "ad hoc" increase!

Q. **What makes GABA better?**

A. Because the GABA is both promised and prefunded, it dramatically reduces costs to employers (which means taxpayers). It is estimated that this bill will save taxpayers 90% of the amount which would have been spent if these same increases were provided on an "ad hoc" basis.

Because it is guaranteed to all future retirees, active members can pay a portion of the increased contributions required to fund the GABA. (Employees will pay 27% of the out-of-pocket expenses of the bill).

Because it provides increased benefits, it can be swapped for other benefits in the system. These swaps and other "systems savings" pay for a portion of the contributions required to fund the GABA. (Swaps and other systems savings will pay 35% of the out-of-pocket expenses of the bill.)

Because it is pre-funded, investment earnings on employer and employee contributions will fund a large portion of the actual benefits promised.

Q. **What will be the impact on various state and local government employers?**

Anticipated payments by specific government entities/fund types				
State Government	FY 1996	FY 1997	FY 1998	FY 1999
General Fund	$1,973,248	$3,030,524	$4,605,775	$6,324,822
Non-General Fund	833,394	847,678	1,217,062	1,597,050
Univ System/Off Budget	164,638	233,078	365,262	509,248
Local Governments	1,465,169	1,511,313	2,050,121	2,622,945
School Districts	2,254,392	4,347,304	6,863,313	9,644,422
Total Gov't Cost	$6,690,842	$9,969,897	$15,101,533	$20,698,488

By 2001, the total covered public payroll in the state (state, university, local government and school district employees) is projected to be $1.38 Billion/year. The total GABA employer/state costs will be only 1.64% of this payroll.

The state general fund will pay 30.5% of the total increased contributions, other state funds will pay 7.3% of the total, off-budget university funds will pay 2.4% of the total, local governments will pay 12.2% of the total, and school districts will pay 47.6% of total costs. Because the state contributes to local school districts (through school retirement GTB), the average increase for school districts will be only an additional 1.43% of their TRS and PERS-covered employees.

Q. What is school retirement GTB and how does the GABA bill affect school retirement funds?

A. GTB (Guaranteed Tax Base) Aid is part of the money the state provides to local school districts to help pay for general school operations (the school general fund) and the county school retirement fund. As part of the state's Constitutionally mandated obligation to equitably fund (or "equalize") a system of K-12 schools throughout Montana, GTB monies subsidize county school retirement levies in counties with a county mill value less than the statewide mill value. In practical effect, the state's GTB subsidies assist property-poor school districts and counties to hold down the property mill rate and to generate the same revenue from local levies as wealthier districts and counties.

Since FY 91, state GTB monies are made available to counties for support of the school retirement fund by a formula. This formula has not been significantly changed since it was first applied and nothing in the GABA bill affects the GTB formula.

As part of the funding for GABA will come from a small amount of additional employee and employer PERS and TRS contributions, the county school retirement fund will increase slightly (K-12 employer contributions rising +$3.2 million in FY 96) as a result of GABA. Pursuant to the existing GTB formula, lower wealth counties will, in FY 96, receive approximately $1 million in additional GTB subsidies to help pay for the employer's GABA contributions. During FY 97, counties will receive approximately $1.8 million in additional GTB subsidies. In FY 98, additional subsidies are estimated to be $2.9 million and in FY 99, those subsidies will increase to about $4.1 million.

These additional GTB subsidies are budgeted as a General Fund Expense of the GABA and are included in the Governor's executive budget proposal.

"GABA" -- HB268

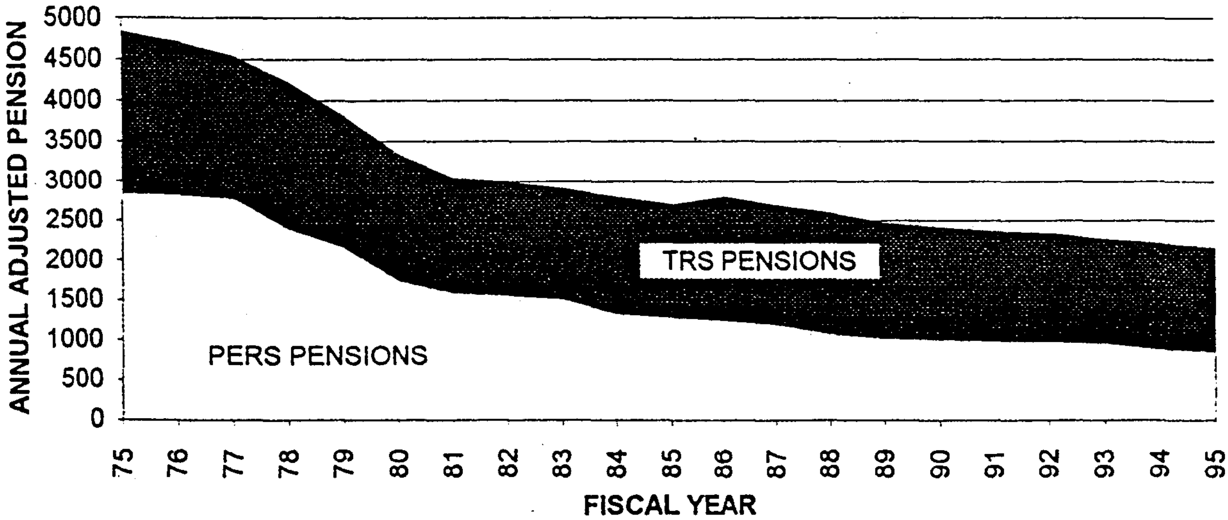
GUARANTEED ANNUAL BENEFIT ADJUSTMENTS for MONTANA PUBLIC PENSIONERS

Representative Chris Ahner (R-Helena)

A Background Paper Prepared by:
Tom Bilodeau -- MEA Research Director
January 19, 1995

Even with occasionally enacted ("ad hoc") pension benefit adjustments, the "average" Montana Public Employee Retirement System (PERS) employee who retired in 1975 with 20+ years of public service, will this year receive only a little more than $300 per month in PERS benefits. During the same twenty year period, inflation reduced the buying-power of a typical Teacher Retirement System (TRS) retiree's pension in half. Indeed, for TRS since 1975, occasionally enacted ad-hoc pension adjustments to TRS benefits have provided benefit adjustments in only seven of twenty years; and in only one of these years (FY86) did the ad-hoc adjustment provide a benefit increase that matched or exceeded that single year's annual cost of inflation. (See: graph below and the data table attached at the back of this report.)

TRS & PERS PENSIONS FOR TYPICAL 1975 RETIREES ADJUSTED FOR AD HOC INCREASES & FOR INFLATION



In simple fact, after a career's worth of service to the people of Montana, a public retiree's first pension check has been his/her largest; thereafter every pension dollar has been devalued (almost without check) by the ravages of inflation. It's a serious, obvious and continuing problem with the basic structure of Montana's PERS and TRS retirement programs. The "real-life" impact on Montana public retirees is devastating.

GABA Promotes Uniformity & Consistency Among Montana's Public Pension Plans

HB268's pension benefit increases will be available to all current and future retirees in all eight public retirement plans administered by the State of Montana. These Montana administered plans include: Public Employees' Retirement System (PERS); Teachers' Retirement System (TRS); Game Wardens' Retirement System (GWRS); Sheriffs' Retirement System (SRS); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Municipal Police Officers' Retirement System (MPORS); and the Firefighters' Unified Retirement Systems (FURS).

The GABA benefit increases experienced by retirees would vary depending on the retirement system but adjustments for all systems and retirees would function under one general set of rules. For systems for which all retirees would gain benefits, such as PERS and TRS, all retired members would be required to participate in GABA. For other systems in which some retirees might receive lower benefits under GABA compared to previously enacted benefit adjustments or have benefits capped due to HB268's CPI limitation, GABA is optional for any retirees who became members before July 1, 1995.

GABA is Fully Funded & Actuarially Sound

Representative Ahner, the Governor and PEPSCo recognize that there is "no free lunch." Unlike most previous PERS or TRS ad hoc pension adjustments -- HB268 is fully funded. Indeed, HB268's funding structure actually generates nearly $20 million in annual savings for Montana's pension programs.

Funding for HB268 varies by retirement system. In general, funding would come from one or more of the following sources:

- Current "Post-Retirement Adjustment's" (PRA's). When investments earnings for a retirement fund exceed the rate of return projected by fund's actuary, the excess is added to the retiree's benefit. This is as under current law and would not change under GABA.

  "Funding swaps." Under current law, retirees from one system may buy into another system, or may buy additional years of service in a system. GABA would require that these purchases be made at full actuarial cost. For some systems, adopting full actuarial cost for purchase will cost more than current purchase rates and result in a higher level of deposits to the retirement funds. Purchasing at full actuarial cost also reduces the need for future employer/employee contribution increases and therefore result in significant "cost savings" for the funds.

- Extended amortization periods. Some systems currently have fund amortization periods that are significantly less than the maximum period required by law, or otherwise considered financially necessary by the fund's actuaries. The actuaries have confirmed that HB268's extended amortization periods -- when coupled by GABA's PRA/funding swap savings and contribution changes --are actuarially sound and in full compliance with the mandates of C25 -- Montana Constitution's Public Pension Security provision.

GABA COST PROJECTIONS TO 2001 FOR MONTANA's K-12 SCHOOLS

MEA: 1/9/95

TEACHERS' RETIREMENT SYSTEM (TRS)

Total GABA Costs As % of TRS Payroll:	4.340%	
Increased Employer Contributions	2.290%	(phased in over 4 years)
Increased Employee Contributions	1.406%	(phased in over 4 years)
Extended Amortization & PRA Savings	0.650%	

TRS (all employer sources)	FY96	FY97	FY98	FY99	FY00	FY01
PROJECTED TRS PAYROLL	$491,407,994	$519,663,954	$549,544,631	$581,143,447	$614,559,195	$649,896,349
PROJECTED K-12 TRS PAYROLL	$459,466,474	$485,885,797	$513,824,230	$543,369,123	$574,612,848	$607,653,087
CURRENT TRS CONTRIBUTIONS						
Employee Contributions (7.044%)	$34,614,779	$36,605,129	$38,709,924	$40,935,744	$43,289,550	$45,778,699
K-12 Employee Contributions (7.044%)	$32,364,818	$34,225,796	$36,193,779	$38,274,921	$40,475,729	$42,803,083
Employer Contributions (7.47%)	$36,708,177	$38,818,897	$41,050,984	$43,411,416	$45,907,572	$48,547,257
K-12 Employer Contributions (7.47%)	$34,322,146	$36,295,669	$38,382,670	$40,589,674	$42,923,580	$45,391,686
EMPLOYEE GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.356%	0.706%	1.056%	1.406%	1.406%	1.406%
Increase Per Payroll ($)	$1,749,412	$3,668,828	$5,803,191	$8,170,877	$8,640,702	$9,137,543
Increase Per K-12 Payroll ($)	$1,635,701	$3,430,354	$5,425,984	$7,639,770	$8,079,057	$8,543,602
EMPLOYER GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.570%	1.150%	1.720%	2.290%	2.290%	2.290%
Increase Per K-12 School Payroll #	2,618,959	5,587,687	8,837,777	12,443,153	13,158,634	13,915,256
Increase Per U' Payroll	142,852	304,783	482,061	678,717	717,744	759,014
Increase Per State Payroll	39,214	83,666	132,330	186,315	197,028	208,357
Total Increase:	$2,801,026	$5,976,135	$9,452,168	$13,308,185	$14,073,406	$14,882,626

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Total GABA Costs As % of PERS Payroll:	4.29%	
Increased Employer Contributions	1.00%	(phased in over 4 years)
Increased Employee Contributions	0.94%	(phased in over 4 years)
Post Retirement Adjustment Savings	1.19%	
Service Purchase Funding Swap Savings	0.31%	
Extended Amortization Period Savings	0.85%	

PERS (for K-12 employers only)	FY96	FY97	FY98	FY99	FY00	FY01
PROJECTED K-12 PERS PAYROLL	120,320,334	124,549,594	128,927,512	133,459,314	138,150,409	143,006,396
CURRENT TRS CONTRIBUTIONS						
K-12 Employee Contributions (6.7%)	$8,061,462	$8,344,823	$8,638,143	$8,941,774	$9,256,077	$9,581,429
K-12 Employer Contributions (6.7%)	$8,061,462	$8,344,823	$8,638,143	$8,941,774	$9,256,077	$9,581,429
EMPLOYEE GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.25%	0.50%	0.75%	1.00%	1.00%	1.00%
Increase Per K-12 Payroll ($)	$300,801	$622,748	$966,956	$1,334,593	$1,381,504	$1,430,064
EMPLOYER GABA CONTRIBUTIONS				•	•	•
Increase Per Payroll (%)	0.50%	0.50%	0.75%	1.00%	1.00%	1.00%
Increase Per K-12 School Payroll #	$601,602	$622,748	$966,956	$1,334,593	$1,381,504	$1,430,064

TOTAL K-12 TRS & PERS EMPLOYEE & EMPLOYER GABA CONTRIBUTIONS COSTS

K-12 EMPLOYEE GABA CONTRIBUTIONS	$1,936,501	$4,053,102	$6,392,940	$8,974,363	$9,460,561	$9,973,666
K-12 EMPLOYER GABA CONTRIBUTIONS #	$3,220,561	$6,210,435	$9,804,733	$13,777,746	$14,540,138	$15,345,320
TOTAL K-12 CONTRIBUTION COST	$5,157,062	$10,263,536	$16,197,673	$22,752,109	$24,000,699	$25,318,986
K-12 RETIREMENT GTB $ FOR GABA #	$966,168	$1,863,130	$2,941,420	$4,133,324	$4,362,041	$4,603,596

State Guaranteed Tax Base (GTB) monies subsidize (offset) k-12 county school retirement fund "employer costs" for both TRS and PERS.

K-12 TRS+PERS GABA SAVINGS	$10,220,721	$10,733,894	$11,273,734	$11,841,663	$12,439,182	$13,067,868

In practical effect, HB268's funding structure allows GABA to be accomplished with much of the cost being paid for with savings that otherwise would be spent (as fund costs, unfunded liability or additional taxes) for no or very limited improvement in pension benefits.

GABA Brings Montana Into the National Mainstream of Pension Adjustment Practice

HB268's proposed guaranteed annual benefit adjustment of +2% is not unprecedented in Montana, nor out of step with practices in federal government or by other states. GABA would parallel and be consistent with Montana income tax indexing policy and with federal government practice in respect to Social Security/SSI, and pension adjustment practice for federal civil service pension systems. Greater uniformity among Montana's eight public pension programs would result from adoption of HB268 and Montana would be put into line and made more competitive with the clear majority of other states' public and school employee pension programs.

PUBLIC SCHOOL EMPLOYEE PENSION PROGRAMS
SUMMARY OF AUTOMATIC BENEFIT ADJUSTMENT PROVISIONS

Type of Provision	Number of Plans	Percent Amount
Fixed $ Per Year	1	
% Equal to CPI	0	
% Based on CPI, with Cap	39	
Median Cap		3.0%
Mean Cap		3.4%
Fixed %	17	
Median Cap		3.0%
Mean Cap		2.4%
Contingent on Fund Earnings	5	
Number/% of Automatic-Adjust Plans	62 (or 73%) of 85 plans responding to survey	

Source: Wisconsin Legislative Council Survey (1994).
See also: NEA-Research Retirement Plan Survey (1993).

MEA & all members of PEPSCo believe HB268's GABA is a realistic and prudently funded means to provide minimal pension security for people who have committed a career of service to the needs of our citizens, our children and our future. GABA is fully-funded, actuarially sound, carefully drafted and can be readily administered by PERS and TRS. It constitutes sound government finance policy and responsible treatment of public employees.

On behalf of both active and retired employees of the State of Montana, local governments, the universities and the schools, MEA and PEPSCo urge the 1995 Legislature to support the Governor's proposal and enact GABA/HB268 now !

* PUBLIC EMPLOYEE PENSION SECURITY COALITION *

PEPSCo

Montana Education Association (MEA)

Montana Retired Teachers & School Personnel Association (MRTSPA)

Association of Retired Montana Public Employees (AMRPE)

American Fed of State, County & Municipal Employees (AFSCME)

Montana Public Employees' Association (MPEA)

Montana Federation of Teachers/State Employees (MFT-MFSE)

TESTIMONY IN SUPPORT OF HB 268
TEACHERS' RETIREMENT BOARD
Presented by David L. Senn, Executive Director
January 31, 1995

Members of the Teachers' Retirement System retired on a fixed monthly benefit face unknown increases in both health insurance premiums and inflation. Even a "mild" annual increase in the Consumer Price Index over several years will substantially reduce the purchasing power of pension benefits. For example, under a 3% annual inflation assumption, purchasing power is cut 13.7% after 5 years and 25.6% after 10 years.

The key to maintaining the purchasing power of retirement benefits, while controlling the cost, is an automatic annual benefit adjustment, or in other words, HOUSE BILL 268. Automatic adjustments must be pre-funded and as such are less expensive in the long run than the accumulated costs of several ad hoc adjustments.

Historically we have funded ad hoc adjustments with future employer contributions. Over the past 25 years we have seen 9 ad hoc post-retirement adjustments. If an ad hoc adjustment resulted in a $1,000 commitment over the remaining lifetime of the retiree, the employer contribution was increased so that over time, employers paid the full cost, plus interest.

House Bill 268 provides that benefits will be funded during the working lifetime of active members. Employers and employees will share in the cost, which together with investment earnings, will pay for future benefits. By pre-funding post retirement adjustments, as little as $150, invested today at 8%, over a member's normal 25 year career, is needed to fund the same $1,000 commitment.

The first ad hoc cost of living adjustment under the Teachers' Retirement System occurred in 1969. The first adjustment increased benefits 2% for each year members had been retired, retroactive to July 1, 1937. It's ironic that 25 years later, we are once again proposing legislation for a 2% annual increase. Only this time, the proposal is for a fully funded Guaranteed Annual Benefit Adjustment (GABA).

If the legislature would have had the foresight in 1969 to enact a 2% GABA, today, the employee and employer contributions contributed to pay for the GABA would be only a fraction of the total cost, with investment earnings picking up the vast majority of the required funding.

If hind sight is 20/20, we are fortunate to have such clear direction as we look back over the past 25 years. The legislature has consistently passed needed and necessary ad hoc cost of living adjustments. Each time employer contributions have been increased to pay for the adjustments, or the cost was passed on to future taxpayers by extending the amortization period of the systems. We can't afford to let another 25 years go by with more expensive ad hoc proposals considered by each legislature. We urge you to pass HB 268.