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 2 INTRODUCED BY ^H Manahan ^{Sen. Hargett}
 3 Earlly Bengtson BILL NO. 562

4 A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE AN ANNUAL
 5 AUTOMATIC COST-OF-LIVING INCREASE IN RETIREMENT ALLOWANCES
 6 AND LIFE ANNUITIES RECEIVED UNDER THE TEACHERS' RETIREMENT
 7 SYSTEM; AMENDING SECTION 75-6208, R.C.M. 1947."

8
 9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

10 Section 1. Section 75-6208, R.C.M. 1947, is amended to
 11 read as follows:

12 "75-6208. Benefits. The retirement, disability and
 13 other benefits of the retirement system shall be granted on
 14 the basis of the following provisions:

15 (1) Superannuation member retirement:

16 (a) Any member with five (5) years of creditable
 17 service the last five (5) years of which shall have been in
 18 this state, and who has attained the age of sixty (60), or
 19 who has completed thirty (30) years of creditable service,
 20 may retire from service, if he files with the retirement
 21 board his written application setting forth the fact of his
 22 retirement.

23 (b) Any member in service who has attained the age of
 24 seventy (70) years during any school year shall be retired
 25 on the first day of September following his seventieth

1 birthday, except that this provision shall not apply to
 2 teachers in the Montana university system who may be
 3 employed beyond the age of seventy (70) upon the
 4 recommendation of the president of the employing unit to the
 5 board of regents. Members over seventy (70) years of age
 6 shall not: (1) be allowed creditable service for services
 7 rendered after the end of the school year in which the age
 8 of seventy (70) is attained, (2) contribute to the
 9 retirement system after the end of such school year, and (3)
 10 have the compensation received after the end of such school
 11 year used in computing average final salary. Initial
 12 employment of teachers in the Montana university system
 13 beyond the age of seventy (70) may be made upon the
 14 recommendation of the president of the employing unit and
 15 the approval of the board of regents but such employees
 16 shall be denied membership in the retirement system.

17 (c) Any retired member may be employed as a part-time
 18 or substitute teacher in Montana and may earn an amount not
 19 to exceed one-fourth (1/4) of his average final
 20 compensation without loss of retirement benefits.

21 (2) Allowance for superannuation retirement. Upon
 22 superannuation retirement a member shall receive a
 23 retirement allowance which shall consist of:

24 (a) A pension which, together with an annuity, shall
 25 provide a retirement allowance equal to one-half (1/2) of

1 his average final compensation provided his creditable
2 service is at least thirty (30) years, otherwise a pension
3 together with his annuity of one sixtieth (1/60) of his
4 average final compensation multiplied by the number of years
5 of creditable service.

6 (b) The minimum annual retirement allowance for a
7 member who has completed thirty (30) or more years of
8 service shall be twenty-four hundred dollars (\$2,400) and
9 the minimum retirement allowance for a member whose service
10 is less than thirty (30) years shall be based on the
11 proportionate amount of twenty-four hundred dollars (\$2,400)
12 that his service bears to thirty (30) years of service.

13 (c) On July 1, 1975, and July 1, 1976, every
14 beneficiary receiving a retirement allowance shall be
15 entitled to an increase in his monthly retirement allowance
16 of one-fourth of one percent (.25%) multiplied by the number
17 of months he has been retired during the preceding fiscal
18 year.

19 (d) (i) "Index" for the purposes of this subsection
20 (2)(d) means, for any calendar year, that year's annual
21 average consumer price index for urban wage earners and
22 clerical workers, all items (1957-1959=100) compiled by the
23 bureau of labor statistics, United States department of
24 labor, or a successor agency.

25 (ii) On July 1 of each year, every retirement allowance

1 then payable shall be increased by a percentage equal to the
2 percentage increase in the index for the previous calendar
3 year from the index for the calendar year immediately
4 preceding such previous calendar year.

5 ~~(d)(e)~~ Any member who has completed five (5) years of
6 creditable service, the last five years of which shall have
7 been in this state, and who has attained the age of
8 fifty-five (55) may retire from service and be eligible to
9 an early retirement allowance if he files with the
10 retirement board his written application setting forth the
11 fact of his retirement. The early retirement allowance
12 shall be determined as prescribed in subsections ~~(2)(a)~~
13 ~~(2)(b), and (2)(d) through--(f)--above,~~ with the further
14 provision that such allowance will be reduced by one half of
15 one percent (.5%) multiplied by the number of months which
16 the retirement date precedes the date on which he would have
17 retired had he attained sixty (60) years of age or had he
18 completed thirty (30) years of creditable service.

19 ~~(e)(f)~~ In the event of death of a member after
20 retirement, a death benefit of five hundred dollars (\$500)
21 will be payable to his designated beneficiary.

22 ~~(f)(g)~~ In the event payments made to an annuitant do
23 not equal the amount of the member's accumulated
24 contributions prior to the annuitant's death, the difference
25 between the total retirement allowance paid and the amount

1 of the accumulated contributions shall be paid to the
2 beneficiary.

3 (3) Disability member retirement:

4 (a) Upon the application of an active member or of his
5 employer, any active member who has five (5) or more years
6 of creditable service may be retired by the retirement board
7 the month immediately following the month in which his
8 disability caused his retirement upon filing an application
9 for a disability retirement allowance. Before any member
10 shall be eligible for a disability retirement, the board of
11 the retirement system shall certify that he is mentally or
12 physically incapacitated for the further performance of his
13 duties, that such incapacity is likely to be permanent and
14 that he should be retired.

15 (b) Re-examination of beneficiaries retired on account
16 of disability. Once each year during the first five (5)
17 years following the retirement of a member on disability
18 retirement allowance, and once in every three (3) year
19 period thereafter the retirement board may, and upon his
20 application shall, require a disability beneficiary who has
21 not yet attained the age of sixty (60) to undergo a medical
22 examination by the medical board or a physician or
23 physicians designated by the medical board. The examination
24 shall be made at the place of residence of the beneficiary
25 or other place mutually agreed upon. Should any disability

1 beneficiary who has not yet attained the age of sixty (60)
2 refuse to submit to at least one (1) medical examination in
3 any year by the medical board or its representative, his
4 allowance may be discontinued until his withdrawal of such
5 refusal, and should his refusal continue for one (1) year,
6 all his rights in and to his disability pension may be
7 revoked by the retirement board.

8 (c) Should the medical board report and certify to the
9 retirement board that any disability beneficiary is engaged
10 in or is able to engage in a gainful occupation paying more
11 than the difference between his retirement allowance and his
12 average final compensation and should the retirement board
13 concur in such report, then the amount of his pension shall
14 be reduced to an amount which, together with his annuity and
15 the amount earnable by him, shall equal the amount of his
16 average final compensation. Should his earning capacity be
17 changed later, the amount of his pension may be further
18 modified but the new pension shall not exceed the amount of
19 the pension originally granted, nor an amount which when
20 added to the amount earnable by the beneficiary, together
21 with his annuity, equals the amount of his average final
22 compensation. A beneficiary restored to active service at a
23 salary less than the average final compensation upon the
24 basis of which he was retired shall not become a member of
25 the retirement system while receiving a reduced benefit.

1 (d) Should a disability beneficiary under age sixty
 2 (60) be restored to active service at a compensation not
 3 less than his average final compensation, his retirement
 4 allowance shall cease, and he shall again become an active
 5 member of the retirement system. Any prior service
 6 certificate on the basis of which his service was computed
 7 at the time of his disability retirement shall be restored
 8 to full force and effect an addition upon his subsequent
 9 retirement, and he shall be credited with all his subsequent
 10 service as a member. Should he be restored to active
 11 service on or after the attainment of the age of fifty-five
 12 (55) years, his pension upon subsequent retirement shall not
 13 exceed the pension that he would have received had he
 14 remained in service during the period of his previous
 15 retirement nor the sum of the pension which he was receiving
 16 immediately prior to his last restoration to service and the
 17 pension that he would have received on account of his
 18 service since his last restoration had he entered service at
 19 that time as a new member.

20 (4) Allowance for disability retirement. Upon
 21 retirement for disability, a member shall receive a
 22 superannuation allowance prescribed under subsection (2)
 23 above if he is eligible; otherwise he shall receive a
 24 disability retirement allowance which shall consist of:

25 (a) An annuity which shall be the actuarial equivalent

1 of his accumulated contributions at the time of retirement.

2 (b) A pension which together with his annuity, shall
 3 provide a total retirement allowance equal to one sixtieth
 4 (1/60) of his average final compensation multiplied by the
 5 number of years of his creditable service, if such
 6 retirement allowance exceeds one-quarter (1/4) of his
 7 average final compensation; otherwise, a pension which,
 8 together with his annuity, shall provide a total retirement
 9 allowance equal to one-quarter (1/4) of his average final
 10 compensation, provided, however, that no such allowance
 11 shall exceed one sixtieth (1/60) of his average final
 12 compensation multiplied by the number of years which would
 13 be creditable to him were his service to continue until the
 14 attainment of the minimum age for superannuation retirement.

15 (c) In the event payments made to a person retired
 16 because of disability do not equal the amount of his
 17 accumulated contributions prior to his death, the difference
 18 between the total retirement allowance paid and the amount
 19 of the accumulated contributions of the member shall be paid
 20 to the beneficiary.

21 (d) (i) "index" for the purposes of this subsection
 22 (4)(d) means, for any calendar year, that year's annual
 23 average consumer price index for urban wage earners and
 24 clerical workers, all items (1957-1959=100) compiled by the
 25 bureau of labor statistics, United States department of

1 labor, or a successor agency.

2 (ii) On July 1 of each year, every retirement allowance
 3 then payable shall be increased by a percentage equal to the
 4 percentage increase in the index for the previous calendar
 5 year from the index for the calendar year immediately
 6 preceding such previous calendar year.

7 (5) Withdrawal of accumulated contributions. Any
 8 inactive member electing to do so or any person whose
 9 membership terminates may withdraw his accumulated
 10 contributions to his annuity account in the retirement
 11 system in accordance with the following provisions:

12 (a) An inactive member under the provisions of
 13 subsections (1) or (3) of section 75-6210 may elect, without
 14 right of revocation to withdraw his accumulated
 15 contributions, and if he does not withdraw his accumulated
 16 contributions he shall thereafter remain an inactive member
 17 of the retirement system with the right to qualify for the
 18 benefits of the retirement system;

19 (b) Upon recovery from a disabling illness or
 20 separation from the armed forces, any person qualifying as
 21 an inactive member under the provisions of subsection (2) of
 22 section 75-6210 may withdraw his accumulated contributions
 23 unless he returns to active membership.

24 (c) Any person whose membership terminates under the
 25 provisions of subsection (4) of section 75-6211 may withdraw

1 his accumulated contributions.

2 (6) Allowances for death of member.

3 (a) Should a member die before retirement the amount
 4 of the member's accumulated contributions shall be paid to
 5 his estate or such person as he may have designated in the
 6 manner prescribed by the retirement board which shall be
 7 filed with the board prior to the member's death.

8 (b) In lieu of benefits provided in (a) above, if the
 9 deceased member had qualified by reason of service for a
 10 retirement benefit, the beneficiary nominated by the
 11 deceased member may elect to receive a monthly life annuity.
 12 The monthly life annuity shall be determined as prescribed
 13 in subsections (2)(a) ~~through (h)~~, (2)(b), (2)(d), and
 14 (2)(e) assuming the member had elected option A as
 15 prescribed in subsection (7)(a) below. In addition, if the
 16 deceased member had five (5) or more years of creditable
 17 service and was an active member in the state of Montana
 18 within one (1) year prior to his death, a lump sum death
 19 benefit of \$500 will be payable to his designated
 20 beneficiary.

21 (c) If the deceased member had five (5) or more years
 22 of creditable service and was an active member in the state
 23 of Montana within one (1) year prior to his death, the sum
 24 of one hundred dollars (\$100) per month shall be paid to
 25 each minor child of the deceased member until such child

1 reaches his eighteenth (18th) birthday.

2 (7) Optional allowances. With the provision that no
3 optional selection shall be effective in case a beneficiary
4 dies within thirty (30) days after retirement, and that such
5 a beneficiary shall be considered as an active member at the
6 time of his death; until the first payment on account of any
7 benefit becomes normally due, any member may elect to
8 receive his benefit in a retirement or disability allowance
9 payable throughout life as hereinabove provided. This
10 benefit shall be referred to as the normal form of
11 retirement allowance. In lieu of normal form of retirement
12 allowance, the member may elect an optional allowance which
13 would be the actuarial equivalent at the time of his
14 retirement or disability allowance and would provide an
15 allowance payable throughout his lifetime and upon his death
16 continue to such person as he shall nominate by written
17 designation duly acknowledged and filed with the retirement
18 board at the time of his retirement with the provision that:

19 (a) Option A. The optional allowance will continue to
20 the member during his lifetime and upon his death, continue
21 throughout the lifetime of his designated beneficiary; or

22 (b) Option B. The optional allowance will continue
23 throughout his lifetime and upon his death, one-half (1/2)
24 of his optional allowance will be continued throughout the
25 lifetime of his designated beneficiary; or

1 (c) Option C. The optional benefit will continue
2 throughout his lifetime and upon his death, two-thirds (2/3)
3 of the optional allowance shall be continued throughout the
4 lifetime of his designated beneficiary; or

5 (d) Option D. The optional allowance shall continue
6 while both the member and his designated beneficiary are
7 living and upon the death of either, one-half (1/2) of the
8 optional allowance shall be continued throughout the
9 lifetime of the survivor; or

10 (e) Option E. The optional allowance will be payable
11 while both the member and his designated beneficiary are
12 living and upon the death of either, two-thirds (2/3) of the
13 optional allowance shall be continued throughout the
14 lifetime of the survivor; or

15 (f) Option F. Some other benefit or benefits shall be
16 paid either to the member or his surviving designated
17 beneficiary. The provisions of this retirement allowance
18 shall be approved by the retirement board.*

19 Section 2. There is a new R.C.M. section that reads as
20 follows:

21 Funding for cost of living increases. The legislature
22 shall appropriate money from the general fund to finance the
23 annual cost of living increases provided for in 75-6208.

-End-

STATE OF MONTANA

REQUEST NO. 308-77

FISCAL NOTE

Form BD-15

In compliance with a written request received January 31, 19 77, there is hereby submitted a Fiscal Note for House Bill 562 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 562 provides an annual automatic cost-of-living increase in retirement allowances and life annuities received under the Teacher's Retirement System.

ASSUMPTIONS:

1. Consumer Price Index for 1976 is 5.8%.
2. The method for funding the increase is a pay-as-you-go basis from the General Fund.
3. Using this basis, the costs will continue to increase annually.

FISCAL IMPACT:

	<u>FY 78</u>	<u>FY 79</u>
Increase in expenditures due to proposed legislation (see attached letter)	<u>\$764,242</u>	<u>\$1,677,000</u>

TECHNICAL NOTE:

Page 3, line 22 and page 8, line 24 should read "(1967 = 100)" in keeping with statistical information supplied by U.S. Department of Labor.

Richard L. Loring for
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: *February 4, 1977*

HENDRICKSON & BIRD, INC.

PENSION SERVICES

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Memorandum

Subject: House Bill No. 562
From: Alton P. Hendrickson, ASA
Date: February 1, 1977

The cost of H.B. 562 will be \$764,242 for fiscal year 1977-78 based on the Consumer Price Index increase of 5.8% in 1976. If the annual increases are funded on a pay-as-you-go basis, the costs will continue to increase annually. As an example, the cost would more than double in 1978-79 to approximately \$1,677,000, and within 20 years the cost would exceed \$30,000,000 per year.

The pay-as-you-go basis is not recognized as a sound actuarial approach to funding retirement costs. Rather the projected costs should be paid in a regular manner such as a level percentage of salaries each year or as a level dollar amount. An actuarial valuation has determined that the additional contribution rate required to support H.B. 562 would be 11.01% of salaries based on a annual long term cost-of-living increase of 5.4%. This additional rate would fund benefits as they accrue in future years and amortize the unfunded liability over a 40 year period. The additional dollar amount required in 1977-78 would be \$19,263,000. This represents a 90% increase over the present funding requirements.

While many factors were considered in arriving at the 90% increase, the reasonableness of the increase can be illustrated in a simple example:

If a member retires at age 60 with a monthly benefit of \$500, the average payout period would be 20 years and a fund of approximately \$75,000 would be required at age 60 to provide the benefit, if no further increases are given.

If a cost-of-living increase of 5.4% is given each year, his benefit would have increased to \$1,432 at his expected date of death. His average retirement benefit would have been \$966. This benefit would require a fund at age 60 of \$144,900, which is 93% higher than the \$75,000 currently required.

Alton P. Hendrickson 2/1/77