

MINUTES OF THE MEETING
STATE ADMINISTRATION COMMITTEE
MONTANA STATE SENATE

January 25, 1985

The eleventh meeting of the State Administration Committee was called to order at 10 a.m. on January 25, 1985, by Chairman Jack Haffey in Room 331 of the Capitol Building.

ROLL CALL: All members were present.

CONSIDERATION OF SENATE BILL 123: Senator Dorothy Eck, District 40, Bozeman, is the sponsor of this bill entitled, "AN ACT INCREASING THE AMOUNT OF THE MAXIMUM INCENTIVE AWARD PERMITTED UNDER THE STATE-WIDE EMPLOYEE INCENTIVE AWARD PROGRAM FROM \$500 TO \$1,500; REMOVING THE PROVISION TERMINATING THE PROGRAM; AMENDING SECTION 2-18-1106 MCA; REPEALING SECTION 7, CHAPTER 552, LAWS OF 1981, AS AMENDED BY SECTION 1, CHAPTER 61, LAWS OF 1983; AND PROVIDING AN EFFECTIVE DATE." Senator Eck said that this is a fun bill. It is the employees incentive act. It was Representative Gould's idea and a very good one. She further stated that this program has been a great success, and has saved the state thousands of dollars. Senator Eck said that it encourages employees to look for ways to save money for the state. She said the award was 10% of what was saved up to \$500, and she feels it should be increased to 10% up to \$1,500, as the employees she mentioned have saved the state a lot of money. One of Senator Eck's examples was a Donald Falling whose invention saved the state \$87,000 and who received \$500. She said that when you consider the savings to the state, the award right now seems pretty meager.

PROPOSERS: Dennis Taylor, Administrator of Personnel Division, supports this bill. Mr. Taylor said we believe the program is successful, cost effective and should be an ongoing program. He said that the current award is only \$500 and it should be raised to \$1,500 because of the money saved the state. The employees have saved the state about \$400,000 with their ideas. Mr. Taylor said that in addition to the check, the employees were individually recognized by the Governor. (For more of Mr. Taylor's testimony and Employees Incentive Program, please see Exhibit "A" attached hereto and by this reference made a part hereof.)

Mary Lou Garrett, Governor's Interdepartmental Coordinating Committee for Women, supports this bill. She said raising the maximum award from \$500 to \$1500 encourages the creative process of employees thinking, with the state the ultimate benefactor. (For more of Mrs. Garrett's testimony see Exhibit "B" attached hereto and by this reference made a part hereof.)

OPPONENTS: There were no opponents.

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Senator Eck closed by saying that this was a good bill and it deserved to pass. SENATE BILL 123 is closed.

EXECUTIVE ACTION ON SENATE BILL 123: Senator Manning moved that SENATE BILL 123 do pass. Senator Hirsch was a little upset by the 10% of amount saved award, but Senator Haffey explained that it was up to \$1,500. Senator Conover called question and the Committee voted unanimously that SENATE BILL 123 DO PASS.

CONSIDERATION OF HOUSE BILL 5: Representative Rex Manuel, House District 11, is the sponsor of this bill entitled, "AN ACT TO CLARIFY WHEN LEGISLATIVE MEMBERS ARE ENTITLED TO COMPENSATION AND EXPENSES; AMENDING the appropriate sections; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE. Representative Manuel said that he was sponsoring this bill at the request of the Legislative Council, which felt that several things should be clarified through rule changes by both houses, and to clear up some questions of the Council. Representative Manuel further stated that on page 2, Legislators are entitled to a mileage allowance round trip, and if they submit the appropriate claim for such mileage to the proper authority, they are entitled to three additional round trips to and from their district to the place of session. He told them to look at page 2, line 24, which talks about compensation when the legislature is not in session for authorized business. He further said that this bill simply corrects the language and makes it clear.

PROPOSERS: There were no proponents.

OPPOSERS: There were no opponents.

Senator Haffey opened the Committee for questions. Senator Hirsch asked if that meant you could make three additional trips without submitting a claim form. Representative Manuel said no, you still have to submit a claim to the proper authority. Senator Harding asked if this is established in joint rules does it have to be made law. Representative Manuel said yes. Senator Manning said that he goes home the first Wednesday of every month for a meeting in his district and asked if he could put in for that. Representative Manuel said yes.

Senator Haffey asked Representative Manuel to close. Representative Manuel asked that if this bill pass, Senator Lynch carry it on the floor. HOUSE BILL 5 is closed.

EXECUTIVE ACTION ON HOUSE BILL 5: Senator Lynch moved that HOUSE BILL 5 be concurred in. Senator Conover called question and the Committee voted unanimously that HOUSE BILL 5 DO PASS

EXECUTIVE ACTION ON SENATE BILL 11: Senator Towe presented some amendments saying that he thought SENATE BILL 11 could stand on its own with these amendments. (For a copy of amendments see Standing Committee Report attached hereto and by this reference made a part hereof.) Senator Towe said if we don't change the

January 25, 1985

Constitution that's fine. This amendment changes from prudent man to prudent expert rule. This is good. The matter of securities will be passed possibly on the floor by a 2/3rds vote. Senator Towe then went into detail regarding his amendments. Senator Towe felt that his amendments uncoupled the bills and allows Senate Bill 11 to stand alone.

Senator Haffey asked for questions from the Committee. Senator Haffey asked if the prudent man rule is in the Constitution. John MacMaster said it was not. Senator Manning made a motion that SENATE BILL 11 as amended do pass. Senator Farrell said that he didn't understand the difference between prudent man and prudent expert. Senator Towe said that prudent man would invest the money as an ordinary man would do, but a prudent expert would have more knowledge in managing those investments. Senator Harding said that if this is controlled by the Constitution, she can't see the purpose in changing. Senator Haffey explained that during testimony on SENATE BILL 11 it said the entire laundry list would be taken out of law and the prudent expert would guide the Board of Investments. Senator Manning called question, and the committee voted unanimously that the amendments do pass on SENATE BILL 11. Senator Hirsch mentioned that there was one further amendment on page 8, line 15 changing "banks" to "financial institutions." Jim Howeth said that Senator Neuman felt this bill should include savings and loans and credit unions. The Committee voted that this amendment pass unanimously. Senator Lynch asked what happened to his amendment regarding Montana investments. This amendment should be inserted at page 2, line 25. This amendment was passed unanimously by the Committee after Senator Lynch's motion. The amendment striking Section 5 in its entirety passed the Committee unanimously.

Senator Mohar called question and Senator Haffey asked for a roll call vote. SENATE BILL 11 DO PASS AS AMENDED was passed by the Committee voting 7 for and 3 against.

EXECUTIVE ACTION ON SENATE BILL 10: Senator Mohar felt that since prudent expert is not in the Constitution and it is now in SENATE BILL 11, why do we have to confuse the people with prudent expert. Senator Towe said that would be acceptable as an alternative. He felt it might be a good idea to keep it out of the Constitution. Senator Towe then discussed the amendments that they would have to make in order to leave out prudent expert principle and add except as provided by law. Senator Mohar moved that this amendment and corresponding amendments be approved. Senator Haffey asked if this was the same way it had been presented to the people in prior years and Senator Towe said yes. But he went on to say that it was introduced at the same time I-95 was introduced and there was so much action on this that it got overlooked. He felt they should have pushed harder. The amendments were passed unanimously. Senator Lynch next moved that SENATE BILL 10 do pass as amended. Senator Harding said that she was opposed to removing the restrictions on the Board of Investments, and she felt that people opposed to prudent expert rule should be opposed also. Jim Howeth explained

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That the prudent expert principle would not let them invest more than 50%. Senator Hirsch felt that people that had not had an opportunity to sit in on the hearing and hear the testimony would not pass this bill. Senator Haffey suggested they add "except as provided by law." Senator Hirsch liked that idea and moved that page 3, line 3 be changed to read "except as provided by law." It was voted by the Committee that the amendments be made with Senator Farrell voting no.

Senator Manning moved that SENATE BILL 10 do pass as amended on a roll call vote. Senator Haffey called for a roll call vote. It was voted by the Committee 5-5. Since it was a tie vote, Senator Lynch moved that SENATE BILL 10 do not pass as amended. The Committee voted that SENATE BILL 10 DO NOT PASS AS AMENDED, with Senator Mohar and Senator Haffey voting no.

Senator Mohar felt that maybe SENATE BILL 11 should be reconsidered and a section added that not more than 50% could be invested in common stock. Senator Tveit said that he was not concerned about Senate Bills 10 and 11 since he felt the laundry list should be stricken. Senator Haffey reminded them that the bills were closed. He felt that the matter would be better argued on the floor.

Joe Reber, Chairman, Board of Investments, said that the prudent investor would not have 50% in there anyway. He said the Board would have liked to have the flexibility to change with the inflation rate. He said they had a good track record, but it would have been better if they could have invested in some equities. He further said he wanted to thank this Committee and Tom Towe, and that the members of the Board that were there would be glad to meet with the Committee members after the hearing to explain further.

The meeting was adjourned at 11:25.



SENATOR JACK HAFLEY, CHAIRMAN

ROLL CALL VOTE

SENATE COMMITTEE STATE ADMINISTRATION

Date 1-25-85 Senate Bill No. 71 Time 10:50

NAME	YES	NO
SENATOR ANDERSON	✓	
SENATOR CONOVER	✓	
SENATOR FARRELL		✓
SENATOR HARDING		✓
SENATOR LYNCH	✓	
SENATOR MANNING	✓	
SENATOR MOHAR	✓	
SENATOR TVEIT		✓
SENATOR HIRSCH, Vice-Chairman	✓	
SENATOR HAFHEY, Chairman	✓	
	7	3

Glenda Pennington
Secretary, Glenda Pennington

Jack Haffey
Chairman, Senator Jack Haffey

Motion: _____

ROLL CALL VOTE

SENATE COMMITTEE STATE ADMINISTRATION

Date _____ Senate Bill No. 10 Time 11:07

NAME	YES	NO
SENATOR ANDERSON		✓
SENATOR CONOVER		✓
SENATOR FARRELL		✓
SENATOR HARDING		✓
SENATOR LYNCH	✓	
SENATOR MANNING	✓	
SENATOR MOHAR	✓	
SENATOR TVEIT		✓
SENATOR HIRSCH, Vice-Chairman	✓	
SENATOR HAFFEY, Chairman	✓	
	5	5

Glenda Pennington
Secretary, Glenda Pennington

Jack Haffey
Chairman, Senator Jack Haffey

Motion: _____

(This sheet to be used by those testifying on a bill.)

Exhibit A
SB-123
1-25-85

NAME: DENNIS M. TAYLOR DATE: 1/25/85

ADDRESS: STATE PERSONNEL DIVISION, D & A

PHONE: 444-3871

REPRESENTING WHOM? STATE PERSONNEL DIVISION

APPEARING ON WHICH PROPOSAL: SB 123

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENT:

see attached
testimony

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

DEPARTMENT OF ADMINISTRATION
PERSONNEL DIVISION



TED SCHWINDEN, GOVERNOR

ROOM 130, MITCHELL BUILDING

STATE OF MONTANA

(406) 444-3871

HELENA, MONTANA 59620

Testimony of Dennis M. Taylor, Administrator, State Personnel Division, Department of Administration, presented to the Senate State Administration Committee in support of SB 123 on Friday, January 25, 1985.

Mr. Chairman, my name is Dennis Taylor, and I am the Administrator of the State Personnel Division in the Department of Administration and the Chairman of the Incentive Awards Advisory Council. I appear before you today in support of SB123 sponsored by Dorothy Eck.

The Bill does two things: It makes the State Employee Incentive Award Program into an "ongoing" rather than a temporary program; and, it increases the maximum single award amount under the Program from \$500 to \$1,500.

This Program began as a bill introduced by Representative Budd Gould during the 1981 Legislative Session. In 1983, the Legislature extended the operation of this Program through this current biennium.

The Program has been fully operational for 33 months. As you can see from the information contained in the 1985 report to the Legislature, results of the program to date have been very positive. In these 33 months, expected benefits have exceeded costs by over \$400,000. Better than one of nine suggestions submitted results in an award and implementation. Each award results in an average savings of nearly \$19,000.

Increasing the maximum award amount is recommended to accomplish two objectives:

1. The first is to make awards more equitable to savings generated. Several awards presented thus far have resulted in substantial savings to the State of Montana. These ideas were awarded \$500 each -- the same award for a suggestion generating \$5,000 savings. Increasing the maximum award amount to \$1,500 is expected to increase costs by only 1.5% of expected cost savings generated, whereas cost savings should increase significantly.

Testimony of Dennis M. Taylor - SB123
January 25, 1985

2. The second is to encourage participation by more state employees. Ideas having a chance for success must be fairly well-developed by the employees presenting them. With a \$1,500 maximum, more employees will be more apt to invest their time and efforts into developing constructive ideas.

If you have any questions concerning the Incentive Awards Program, my staff and I will try to answer these for you. I hope you will give SB123 a "do pass" recommendation.

Thank you for your consideration.

DMT:JMM:pb

EMPLOYEE
INCENTIVE
PROGRAM

Dennis M. Taylor
Administrator

State Personnel Division
Department of Administration
January 25, 1985

Prepared by:
Joe Michaud
Program Coordinator

STATE EMPLOYEE
INCENTIVE AWARDS PROGRAM
LEGISLATIVE REPORT
AS OF 01/01/85

As of January 1, 1985, the State Employee Incentive Awards Program has been in operation for thirty-three months. In this time, state employees have submitted two hundred thirty-two suggestion applications. One hundred ninety-one of these have been fully evaluated. There have been one hundred sixty-nine ideas denied awards for various reasons and twenty-two successful suggestions resulting in a total of at least \$436,400 first year savings. Forty-one applications are still in various stages of the evaluation process.

S U G G E S T I O N A P P L I C A T I O N S

<u>Number Received</u>	<u>Number Approved</u>	<u>Number Denied</u>	<u>Number Being Evaluated</u>	<u>Number Being Tested/Awaiting Legislation</u>
232	22	169	33	8

The following graphics illustrate various statistics relevant to the Incentive Awards Program. Suggestions offered have been tabulated by agency of the employees offering suggestions and by agency determined to be impacted by implementation of suggestions. Suggestions are being received by employees of various state agencies with the larger agencies such as Highways (50), SRS (42) and Revenue (36) generating the greatest number of ideas.

The ideas being submitted tend to impact various state agencies. One in six ideas submitted impacts more than one state agency (42). Seventy-three ideas were submitted which require judgment or implementation by the Department of Administration. Many of these also impact more than one state agency.

232 Suggestions Submitted

Agency of Suggestor:

- Legislative Council (1)
- Supreme Court (1)
- Governor's Office (2)
- State Auditor's Office (4)
- Office of Public Instruction (1)
- Justice (7)
- State Universities (3)
- Historical Society (1)

Agency of Suggestor (continued):

- Fish, Wildlife, and Parks (4)
- Health and Environmental Sciences (9)
- Highways (50)
- State Lands (4)
- Natural Resources and Conservation (3)
- Revenue (36)
- Administration (19)
- Institutions (17)
- Commerce (7)
- Labor and Industry (21)
- Social and Rehabilitation Services (42)

Agency of Potential Impact:

- Legislative Council (2)
- Governor's Office (1)
- State Auditor's Office (3)
- Justice (1)
- State Universities (2)
- Fish, Wildlife, and Parks (5)
- Health and Environmental Sciences (1)
- Highways (45)
- State Lands (3)
- Revenue (7)
- Administration (73)
- Institutions (10)
- Commerce (2)
- Labor and Industry (13)
- Social and Rehabilitation Services (22)
- More than one agency (42)

Stage of Evaluation:

- Pending agency evaluation (25)
- Pending Advisory Council evaluation (8)
- Pending possible legislation (5)
- Pending outcome of pilot program or further
determination of cost savings estimates (3)
- Completely evaluated (191)

Since the program began in April, 1982, Governor Schwinden has presented awards to 24 different employees for 22 award-winning ideas (2 were shared). In total, \$6,315 was awarded, which averages \$263 per recipient. 11.5% of those ideas evaluated have resulted in awards and, more importantly, cost savings to the state.

The total amount of first year savings generated by these 22 ideas has been conservatively estimated at \$436,400. Average savings per evaluated suggestion is \$2,285, while average savings per award-winning suggestion is \$18,925. Despite these benefits, costs to administer the program are relatively negligible (7% of first year costs savings). Award amounts represented only 1.5% of first year cost savings.

P R O G R A M C O S T S / S A V I N G S E V A L U A T I O N

<u>First Year Savings From Suggestions</u>	<u>Award Costs</u>	<u>Administrative Costs* - State Personnel Division/Advisory Council</u>	<u>Administrative Costs* Agencies</u>	<u>Net Savings First Year</u>
\$436,372	\$6,315	\$10,700	\$13,500	\$406,067

* Costs include personal service, printing, and mailing costs which were absorbed by respective agency budgets.

All costs have been absorbed by the respective agency budgets. Personnel service costs include salaries and benefits. Operating costs mainly consist of travel, printing, and mailing expenses. It is expected that future personal services costs will depend on the number of suggestions evaluated and also on the increases to salaries and benefits.

The savings realized in the first year (\$436,372) less all absorbed program costs (\$30,515) represent the net benefit of the program to date (\$406,067).

The table on the following pages provides some basic information on each idea that has resulted in implementation and awards.

* * * * *

MEMBERS OF THE INCENTIVE AWARDS ADVISORY COUNCIL

Mike Abley, Court Administrator, Supreme Court of Montana.

Jim Adams, Director of Field Services, Montana Public Employees Association.

Mary Blake, Administrative Officer, Program and Planning, Department of Social and Rehabilitation Services.

Russell G. McDonald, Administrator, Personnel Division, Dept. of Highways.

Lois A. Menzies, Research Division, Legislative Council.

John H. Noble, Deputy Commissioner for Management and Fiscal Affairs, University System.

William R. Palmer, Assistant Administrator, Workers' Compensation Division, Department of Labor and Industry.

Dennis M. Taylor, (Chairperson), Administrator, State Personnel Division, Department of Administration

Joseph M. Michaud, Program Coordinator
Violet Pigman, Administrative Assistant

AWARD-WINNING IDEAS

Idea	Recipient(s)	Agency	Location	Award Amount	Est. First Year Savings
1. New method of replacing concrete median barriers on state highways.	Swede Jensen	Highways	Bozeman	\$ 200	\$ 2,000
2. Method for withholding medicaid cards from ineligible clients.	Terryanne McCoy	SRS	Missoula	\$ 500	\$ 18,000
3. Redesign of forms used in Veterans Affairs Division.	Thomas Hamilton	SRS	Helena	\$ 25	\$ 250
4. Modification of material used on low-speed, low-traffic highways.	Donald Fallang	Highways	Helena	\$ 500	\$ 87,372
5. Put a switch on thermostats of buildings with overhead doors.	Joe Wayne Finch	Highways	Great Falls	\$ 500	\$ 5,000
6. SRS and Job Service share office space in Livingston.	Valerie Newton	SRS	Livingston	\$ 150	\$ 1,500
7. Design of steel tripod to use for stable alignments by survey crews.	Donald Taylor	Highways	Billings	\$ 25	\$ 250
8. Conduct telephone rather than mail interviews of state hunters.	John Cada	FW&P	Bozeman	\$ 500	\$ 36,000
9. Design of device used to straighten bent sign and delineator posts.	Gilbert Paulson and William Spracklin	Highways	Glendive	\$ 500	\$ 55,000
10. Negotiated with land owner to convert two cattle bridges to culverts to reduce snow-drifting on state highways.	Phillip Hensel	Justice	Harlowton	\$ 500	\$ 13,000
11. Implemented Kardex file system for storing and reordering medications used by long-term care facilities.	Orlynda Goodman and Jennie Ladenburg	Veterans Home	Columbia Falls	\$ 250	\$ 2,500
12. Print computer archive notices to users weekly or monthly as opposed to daily.	Gregg Wheeler	Administration	Helena	\$ 50	\$ 500
13. Eliminate 10% of existing (unnecessary) highway approaches.	Marvin Nelson	Highways	Helena	\$ 250	\$ 2,500

(This sheet to be used by those testifying on a bill.)

Exhibit "B"
SB-123
1-25-85

NAME: Harry Lou Carver DATE: 1-25-85

ADDRESS: 800 2nd Helena

PHONE: 444-5433

REPRESENTING WHOM? ICCW

APPEARING ON WHICH PROPOSAL: ~~SB 123~~ SB 123

DO YOU: SUPPORT? X AMEND? _____ OPPOSE? _____

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

GOVERNOR'S
INTERDEPARTMENTAL COORDINATING COMMITTEE FOR WOMEN

TESTIMONY PRESENTED ON S.B. 123

My name is Mary Lou Garret. I represent the Governor's Interdepartmental Coordinating Committee for Women, known as the ICCW.

The Employee Incentive Award Program was started in April, 1982. From the inception of this program to January, 1985 the state of Montana has benefited in savings totaling \$436,372.

This is a tremendous savings considering only \$6,315 was awarded for the 22 winning suggestions made by employees.

Raising the maximum award from \$500 to \$1500 encourages the creative process of employees thinking, with the state the ultimate benefactor.

ICCW asks for your support of S.B. 123.

(This sheet to be used by those testifying on a bill.)

Exhibit 'C'
SB-10
1-25-85

NAME: Frederick B. Tossberg DATE: 1/25/85

ADDRESS: 210 GRANTSDALE RD, HAMILTON

PHONE: 363-4366

REPRESENTING WHOM? MIT BOARD OF INVESTMENTS

APPEARING ON WHICH PROPOSAL: SB 10

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENT: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.



jim

The Big Sky Country

*Exhibit "D"
SB 10 & 11
1-25-85*

MONTANA STATE SENATE

January 24, 1985

Senator Jack Haffey
District 33

Seat 9

Dear Senator ~~Haffey~~ *Jack*

As sponsor of Senate Bills 10 and 11, both pertaining to the replacement of the prudent "man" rule with prudent "expert" rule, I would like to further draw your attention to the advantages of investing in equities.

Under current law, the Board of Investments must adhere to the prudent "man" rule, and consequently it invests in fixed income; investments such as Bond Portfolios. The annual returns for the Montana Bond Portfolio from the years 1977 to 1984 was 7.2%. Under the proposals in Senate Bills 10 and 11, the Board of Investments would be able to invest in stocks. The annual returns for Montana Common Stock from the years 1977 to 1984 was 11.3%. Since the investment objective of the Board of Investments is to maximize the total return within a proper risk tolerance, investing a portion of the investment pool in equities rather than in bonds would allow the Board of Investments to further realize its own objectives.

The Wall Street Journal points out, in an article dated January 17, 1985, that "over longer periods between 1976 and 1983, stocks have returned more than bonds or cash." The same article refers to a University of Chicago study showing over a 25-year period stocks returned 9.5% annually, compared with 4% for bonds. This clearly indicates that, over longer periods of time, equities will have a greater return than fixed income investments.

If the Board of Investments were to have the ability to develop an investment plan including both fixed income investments and equities, a higher rate of return would be realized, which would benefit all the people of Montana.

Sincerely,

A handwritten signature in cursive script that reads "Ted Neuman".

TED NEUMAN
Senator-District 21

TN/jim

Experts Advise Taking Some Risk In Your Profit-Sharing Account

1-17-85

YOUR MONEY MATTERS

By RANDALL SMITH

Staff Reporter of THE WALL STREET JOURNAL

If you belong to a savings or retirement plan where you work, now is the time of year when you may have to wrestle with the decision of how your assets in the plan should be invested.

The number of employees in such "defined-contribution" plans has more than doubled to 27.5 million in the past nine years, according to the Employee Benefit Research Institute. In contrast, membership in traditional "defined-benefit" pension plans has increased 23% to 40.5 million.

The contribution plans are increasingly popular because employers don't have to promise a set payout. The company simply makes regular contributions, and the employee bears all the investment risk. To avoid any legal liability, employers usually offer little advice on where personnel should put new contributions or whether they should switch all or part of their existing funds.

Typically, plans offer a choice among fixed-income funds, company stock and maybe a common stock pool. More sophisticated plans offer more choices, such as money-market funds, a greater variety of stock and bond funds, real estate or other investments.

Many people decide their allocation based on what option did well last year. In 1984, for example, bonds returned about 15% compared with 10% for money-market funds or other cash vehicles and only 6% for stocks. But that approach allows random short-term results to dictate what should be a long-term decision.

Or you may opt for safety. You can't stand the thought of making an investment that could lose money next year, so you go for cash, which never loses, or bonds, which lose less often. That approach makes sense for some people, but it could cost them the chance to earn greater returns in the long run.

There are no correct answers; your decision should be based on your financial goals. Nevertheless, here is some advice from pension-fund executives, professional money managers and benefits consultants. Their recommendations can also apply to individual retirement accounts and Keogh plans:

● **Don't look at this decision in isolation.** Consider the size and safety of all your assets, including expected Social Security and pension benefits, all your tax-sheltered savings and retirement plans, including your individual retirement account, together with the rest of your assets—stocks, bonds, mutual funds and non-

liquid assets.

The more you have in other assets, the more adventurous you can be in your defined-contribution plan. Don't forget that such tangible assets as land, antiques, art, coins or even your home are inflation hedges. But you have to be willing to sell them.

"Asset allocation is the single most important decision there is in any portfolio," says Robert Hertog, executive vice president of Sanford C. Bernstein & Co., a New York money manager.

● **Don't be afraid of stocks.** Most advisers recommend keeping some percentage of your plan's assets in stocks to take advantage of the potentially higher returns. Don't avoid stocks completely just because your fund's manager had one bad year.

Over longer periods between 1926 and 1983, stocks have returned more than

stein's Mr. Hertog: "Most people wind up taking too little risk."

The problem with being in stocks is that many people can't stomach the occasional steep drops. "People don't think they're risk-averse until they lose money," says Douglas Love of BEA Associates, a New York money manager. Too often, investors throw in the towel near the bottom and get out, abandoning their long-term plan out of fear that the market will continue to fall. If it then moves up instead, they lose big.

For long-term investments, Cleveland planner Karen Spero typically recommends 50% in stocks, but says many people mistakenly keep 100% in cash and bonds. BEA starts clients under age 35 at 70%-80% in stocks, moving them down gradually to an average of 30%, and then cuts that to 10%-20% for those over 55. And Lance Tane of Wyatt Co., a Washington, D.C., benefit consultant, says an aggressive equity posture for those under 55 might be 75% or more in stocks, with 50%-75% as an average risk level, and zero to 50% for the risk-averse.

San Francisco planner Lawrence Krause, on the other hand, recommends only 25% stocks, with the rest in real estate, bonds, oil and gold. "People just aren't comfortable in stocks. This is your one retirement, and you want to know that your money is there when you're there."

Some investment advisers say individuals may want to try to "time" the market, investing more in stocks when they seem to be at a low and investing in cash when prospects seem bearish. But even market professionals don't always get timing right. Most money managers say that annual contributions to stocks—even when the market has just fallen—will allow you to take advantage of stocks' historical performance edge.

● **Time horizon is crucial.** Will you need a big chunk of the money within five years? If so, you should invest more conservatively, less in stocks and more in bonds and cash, than if you are 25 years from retirement and have plenty of shorter-term savings to take care of college costs and such.

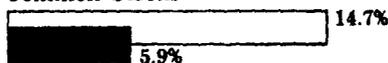
James Cloonan of the American Association of Individual Investors says that within four years of any expected need for the funds, you should reduce your market risk by easing out of stocks over the full period.

● **Don't keep too much of your contributions in a fund comprised of only your company's stock.** Such blind loyalty to your employer's securities can be dangerous. Experts say you need to hold a minimum of ten stocks, and usually far more, to get the safety of diversification. The stock market won't go to zero, but individual companies regularly go bankrupt, sometimes leaving their shareholders with nothing.

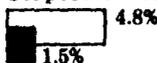
Stocks Outperform Bonds

The highest and lowest annual returns for all 25-year periods ended between 1950 and 1983.

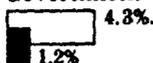
Common Stocks



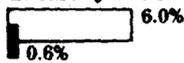
Corporate Bonds



Government Bonds



Treasury Bills



Consumer Price Index



Source: CDA Investment Technologies Inc.

bonds or cash. According to a University of Chicago study by Roger Ibbotson and Rex Sinquefeld, stocks beat both cash and bonds in 61% of the 58 one-year periods in that era. But stocks were the best performer in 71% of all five-year periods, 73% of 10-year periods and 100% of 25-year periods. For the entire period, stocks returned 9.5% annually, compared with about 4% for bonds and 3.2% for cash.

Still, most retirement-plan participants shun stocks. At large companies surveyed by SEI Corp., a financial-services information concern, participants in 1983 had 38% of their money in stocks, 43% in fixed-income funds and 10% in cash. Says Bern-

STATE ADMINISTRATION COMMITTEE

	Seat #
JACK HAFNEY, Chairman	9 ✓
LES HIRSCH, Vice-Chairman	47 ✓
JOHN ANDERSON	22 ✓
MAX CONOVER	29 ✓
WILLIAM FARRELL	32 ✓
ETHEL HARDING	11 ✓
J. D. LYNCH	5 ✓
DICK MANNING	25 ✓
JOHN MOHAR	28 ✓
LARRY TVEIT	3 ✓

STANDING COMMITTEE REPORT

.....January 25..... 19.85...

MR. PRESIDENT

We, your committee on STATE ADMINISTRATION

having had under consideration..... SENATE BILL..... No. 10.....

first reading copy (white)
color

AMEND CONSTITUTION TO PROVIDE PRUDENT EXPERT RULE FOR INVESTMENTS

Respectfully report as follows: That..... SENATE BILL..... No. 10.....
be amended as follows:

1. Title, lines 8 through 10.

Following: "FUNDS" on line 8

Strike: "AND" on line 8 through "FUNDS" on line 10

Insert: ", EXCEPT AS PROVIDED BY LAW"

2. Page 2, lines 12 through 15.

Following: "law" on line 12

Strike: ", " on line 12 through "expert" on line 15

3. Page 2, line 25 through page 3, line 1.

Following: "funds" on line 25

Strike: "and" on line 25 through "funds" on line 1, page 3

Insert: ", except as provided by law"

4. Page 3, lines 3 and 4.

Following: "funds" on line 3

Strike: "and" on line 3 through "funds" on line 4

Insert: ", except as provided by law"

AND AS AMENDED

~~XXXX~~
DO PASS

DO NOT PASS

.....
Chairman.

STANDING COMMITTEE REPORT

.....January 25,..... 19.85...

MR. PRESIDENT

We, your committee on STATE ADMINISTRATION

having had under consideration..... SENATE BILL No. 11

first reading copy (white)
color

REPLACE PRUDENT MAN RULE WITH PRUDENT EXPERT RULE FOR INVESTMENTS

Respectfully report as follows: That..... SENATE BILL..... No. 11.....

be amended as follows:

1. Page 1, line 20.

Following: "with"

Insert: "Article VIII, Section 13, of the Montana Constitution and"

2. Page 2, line 23

Following: line 24

Insert: "(2) Nothing contained in this section shall prevent the investment in any business activity in Montana, including activities that continue existing jobs or create new jobs in Montana, if the investment meets the standard of care required by this section. In discharging its duties, the board of investments and the Montana economic development board shall consider the preservation of purchasing power of capital during periods of high monetary inflation."

Renumber: subsequent subsections.

3. Page 3, line 15.

Following: "and/or"

Strike: "banks"

Insert: "financial institutions"

4. Page 9, line 24 through page 10, line 4.

Strike: Section 5 in its entirety.

AND AS AMENDED

DO PASS

XXXXXX
DO NOT PAGE

.....
Chairman.

STANDING COMMITTEE REPORT

January 25 1985

MR. PRESIDENT

We, your committee on **STATE ADMINISTRATION**

having had under consideration **HOUSE BILL** No. **5**

third reading copy (plus)
(to be carried to the floor by Senator Lynch)

CLARIFY LEGISLATOR COMPENSATION AND EXPENSES

Respectfully report as follows: That **HOUSE BILL** No. **5**

BE CONCURRED IN

UNANIMOUSLY

BY THE COMMITTEE

.....
Chairman.

STANDING COMMITTEE REPORT

January 25

85

..... 19.....

MR. PRESIDENT

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

having had under consideration.....**SENATE BILL**..... No. **123**.....

first reading copy (white)
color

EMPLOYEE INCENTIVE CARD PROGRAM; REMOVE SUNSET PROVISION

Respectfully report as follows: That.....**SENATE BILL**..... No. **123**.....

DO PASS

DO NOT PASS

.....
Chairman.