

MINUTES OF THE MEETING  
STATE ADMINISTRATION COMMITTEE  
MONTANA STATE SENATE

March 13, 1985

The forty-first meeting of the State Administration Committee was called to order by Chairman Jack Haffey in Room 331, Capitol, at 10 a.m. on Wednesday, March 13, 1985.

ROLL CALL: All the members were present with Senator Harding arriving late.

CONSIDERATION OF HOUSE BILL 302: Representative Jan Brown, House District 46, Helena, is the sponsor of this bill entitled, "AN ACT TO REPEAL THE INTERSTATE CIVIL DEFENSE AND DISASTER COMPACT AND ENACT AN INTERSTATE MUTUAL AID COMPACT TO PROVIDE FOR EXCHANGE BETWEEN STATES OF RESOURCES NEEDED TO RESPOND TO EMERGENCIES AND DISASTERS; AMENDING SECTIONS ..., MCA; AND REPEALING SECTION ..., MCA." Representative Brown told the Committee that this bill repeals the civil defense and disaster compact and replaces it with an interstate compact between states. She said the focus has been turned from nuclear war to natural disasters such as earthquakes, floods, etc. She said the state of Washington has adopted this and Idaho will enter into it with us.

PROponents: Jan Henry, Military Affairs, supports this bill. Mr. Henry said that Representative Brown had covered this very well and that it was a simple bill and he would be here to answer any questions.

OPponents: There were no opponents:

COMMITTEE QUESTIONS: Senator Lynch said that they had a person in Butte that was still known as the Civil Defense Director. Mr. Henry said that they have the option of names, but that this has been phased out.

Representative Brown said she was closed. HOUSE BILL 302 is closed.

EXECUTIVE ACTION ON HOUSE BILL 302: Senator Lynch moved that HOUSE BILL 302 be concurred in. Question was called, and the Committee voted unanimously that HOUSE BILL 302 BE CONCURRED IN. (Senator Lynch will carry this bill to the floor of the Senate.)

CONSIDERATION OF HOUSE BILL 351: Representative James Schultz, House District 30, Lewistown, is the sponsor of this bill entitled, "AN ACT EXEMPTING EMPLOYMENT OF AN ACTUARY BY THE PUBLIC RETIREMENT BOARDS FROM LAWS GOVERNING EMPLOYMENT OF CONSULTANTS BY STATE AGENCIES; ~~DEFINING THE MANNER BY WHICH THE PUBLIC EMPLOYEES' RETIREMENT BOARD BOARDS MAY RETAIN AN ACTUARY~~; AMENDING SECTIONS SECTION ... AND, 19-3-305, AND 19-4-203, MCA." Representative

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Schultz said that the Teachers' Retirement Boards are charged by law with the responsibility to designate an actuary to assist the retirement board with the technical aspects of the operation of the retirement system. The Board, therefore, should be able to establish the criteria they feel is necessary to select an actuary. The laws governing private consultants and subsequent administrative rules and regulations which specify how consultants should be selected seem to conflict with the duties of the Board in this respect. Representative Schultz said that the actuary field is a very specialized profession and the number who offer this type of service is very limited. Representative Schultz said that there would definitely be an advantage to having an actuary close at hand on an "on-call" basis especially during legislature which requires the services of an actuary on an almost immediate basis. Bringing an actuary in from out of state would be quite costly. Representative Schultz said that House Bill 351 would not usurp any powers of the legislature since we have been subject to the budget process and subsequent appropriation by that process. Actuarial costs are looked at very closely. (For more of Representative Schultz's testimony see Exhibit "1" attached hereto and by this reference made a part hereof.)

PROPOSERS: Larry Nachtsheim, Public Employees Retirement System, supports this bill. Mr. Nachtsheim said that in a period of 40 years, the Public Employees' Retirement Board has hired four consulting actuaries. To require the board to go through a bidding process for consulting services every two years simply to continue the contract of the actuary is a waste of approximately one man week and a cost of \$500 to \$1,000. There is also a hidden cost in changing actuaries because of the large volume of records required in complying the actuarial valuations. The current actuary has in his computer files some 40,000 records for each of the last four bienniums. Mr. Nachtsheim went on to tell the Board more about the problems with changing actuaries and that we are lucky to have an actuary in the city of Helena. Mr. Nachtsheim urged the Committee to support this bill. (See Exhibit "2" attached hereto and by this reference made a part hereof.)

Bob Johnson, Teachers' Retirement System, supports this bill. Mr. Johnson said that this was required by law and is an integral part of this business. Mr. Johnson said that the Board had to be satisfied with the act and the price. He said that in 1981 they accepted proposals and had only two. One from out of state at \$47,000 and one from in state that was much less expensive. Mr. Johnson feels that these people belong in the field of highly skilled professionals.

OPPOSERS: There were no opposers.

COMMITTEE QUESTIONS: Senator Farrell asked what an actuary was. Mr. Nachtsheim replied that it was someone who deals with probabilities and possibilities and tells you where you should be 40 years down the road. Senator Lynch asked what kind of degree was needed for this. Mr. Nachtsheim replied that they usually have

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a degree in mathematics. Senator Haffey brought the amendments to Representative Schultz's attention and asked if he was satisfied now with the language, and that the bill does what he intended that it do. Representative Schultz said that he was.

Representative Schultz closed by saying that these costs are looked at very closely. HOUSE BILL 351 is closed.

EXECUTIVE ACTION ON HOUSE BILL 351: Senator Manning made a motion that HOUSE BILL 351 be concurred in. Senator Farrell asked if the Teachers Retirement System doesn't have one. Mr. Johnson said that the Teachers use the same actuarial as the PERS and that they were added. Question was called, and the Committee voted unanimously that HOUSE BILL 351 BE CONCURRED IN. (Senator Manning will carry this to the floor of the Senate.)

CONSIDERATION OF HOUSE BILL 256: Representative Ralph Eudaily, House District 60, Missoula, is the sponsor of this bill entitled, "AN ACT DEFINING ELIGIBILITY TO USE A YEARLY AMOUNT OF TERMINATION PAY IN THE CALCULATION OF AVERAGE FINAL COMPENSATION UNDER THE TEACHERS' RETIREMENT SYSTEM; CLARIFYING THE RATE OF CONTRIBUTION ON THIS AMOUNT; AMENDING SECTION ..., MCA; AND PROVIDING AN EFFECTIVE DATE." Representative Eudaily said that he was carrying this at the request of the Teachers Retirement System. He said this bill does basically what the title says, it allows the members to add to their retirement pay. Representative Eudaily said that termination pay is a common thing because many of the systems have found that they can furnish it on higher paid employees and save by replacing them with lower paid employees, so this acts as an incentive. In doing this, they recover all of the termination pay. Representative Eudaily said the problem comes in in how it should be used. He said Mr. Johnson of the Teachers Retirement System would explain the problems.

PROPONENT: Bob Johnson of the Teachers Retirement System, supports this bill. Mr. Johnson gave each of the members a handout (attached hereto marked Exhibit "3" and by this reference made a part hereof.) He told the Committee that there were three options and he started with Option I. He said that under Option I, many employees will offer accrued sick pay, etc. and this will be added to retirement and will result in a higher termination pay, and he showed how this is added in and the impact it has and the cost to the employee and the employer. Under option II, the employee and employer contribution rate times the termination pay, and he gives an example. Under Option III, exclude the termination pay from the average final compensation. No contribution is required by either the employer or member. We have seen some abuses occurring in option II, in that some members are changing employers when nearing retirement and negotiating a contract with their new employer, for a sizeable termination pay amount and when retiring, electing option II. Therefore, if they are employed 3 years or less with their employer, their benefit is increased in accordance with option I, but at the cost of option II. For example,

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using the same assumptions as previously, but in this instance the employee would have only 3 years of service, with the employer from whom the termination pay is received. The yearly amount of termination pay would be \$5,000 divided by 3 or \$1,666.67. Adding this to each of the 3 salaries used in calculating average final compensation gives the following: (See Mr. Johnson's Exhibit )

OPPONENTS: There were no opponents.

COMMITTEE QUESTIONS: Senator Hirsch asked when they started adding termination pay. Representative Eudaily replied that one or two of the systems have done this for quite some time. Within the last four or five years. He said this was much more common at the administrative level because they can contract their own contract and throw everything in there. He said that this is why they have the problem with Option II. Senator Mohar said if they were abusing the system maybe they should have an effective date before July 1, 1985. Mr. Johnson said that this would take care of the problem because that is when teachers retire.

Representative Eudaily said he was closed. HOUSE BILL 256 is closed.

EXECUTIVE ACTION ON HOUSE BILL 256: Senator Hirsch said that maybe on page 3, line 1, they should change that 4 years to 10 years thereby giving it more of a spread. He felt this would take care of the abuse. Representative Eudaily said that this would be superfluous because now it is figured on all of the member's service years, instead of just the last four. Representative Eudaily said that this is what the changes do. He said that the House Committee said that if you divide it by all the years of service it will be actuarially sound. Senator Manning made a motion that HOUSE BILL 256 be concurred in. Question was called, and the Committee voted unanimously that HOUSE BILL 256 BE CONCURRED IN. (Senator Manning will carry this to the floor of the Senate.)

CONSIDERATION OF HOUSE BILL 389: Representative Ralph Eudaily, House District 60, Missoula, is the sponsor of this bill entitled, "AN ACT PERMITTING A RETIRED MEMBER OF THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM WHO IS RECEIVING AN OPTIONAL RETIREMENT ALLOWANCE TO DESIGNATE A DIFFERENT CONTINGENT ANNUITANT, SELECT A DIFFERENT OPTION, OR CONVERT HIS OPTIONAL RETIREMENT ALLOWANCE TO A REGULAR RETIREMENT ALLOWANCE UNDER CERTAIN CIRCUMSTANCES; AMENDING SECTION ..., MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE." Representative Eudaily said that this bill is at the request of the Public

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Employees Retirement System to address problems faced by the board. Representative Eudaily said that those on the Education Committee will recognize that this is like House Bill 298, which they worked on last week. Representative Eudaily said that this bill makes a process whereby if they are retired, they can change their beneficiary. Mr. Nachtsheim is here to explain this further.

PROPOSERS: Larry Nachtsheim, Administrator, Public Employees Retirement System, supports this bill. Mr. Nachtsheim said this bill is designed primarily to bring domestic tranquility into the households of some of the PERS retirees. Some wives and husbands of retirees resent the fact that former spouses are the contingent beneficiary on their spouses' retirement benefit. This means that in the event of the husband or wife's death, a former spouse would receive a continuing retirement benefit. Mr. Nachtsheim said further that there is the case of the widowed retiree who, upon remarriage, wishes to provide some financial security for a new wife or husband. Mr. Nachtsheim further said that this bill would permit the retired PERS member to request the retirement board to change his/her contingent annuitant in the event of death or divorce. This change is not automatic and would only occur upon the request of the member. Since any adjustments in the benefits will be made actuarially, there is no cost to the system. (See Exhibit "4" attached hereto.)

OPPOSERS: There were no opposers.

COMMITTEE QUESTIONS: Senator Manning asked if he were to remarry a much younger woman would this be figured out and be paid on a proratio? Mr. Nachtsheim replied yes. Representative Farrell suggested that this be changed in the same manner that they changed House Bill 298, so it states "on a one-time basis."

Representative Eudaily said he was closed. HOUSE BILL 389 is closed.

EXECUTIVE ACTION ON HOUSE BILL 389: Senator Farrell moved that HOUSE BILL 389 be amended as follows: On page 2, line 21, following: line 20, strike: "on a one-time basis."; and, on page 3, lines 2 and 3, following: "and" on line 2, strike: the remainder of line 2 through "that" on line 3. Senator Lynch spoke against the amendment said that he feels that all this amendment does is make more paperwork for the PERS. He feels that people will mention this in any divorce decree and will be sure to call it to the Board's attention at that time. Senator Lynch feels the sworn statement by the member is enough. Senator Haffey said that the amendment assures that there is no conflict. Question was called and with Senators Lynch and Conover voting no, the amendment was passed by the Committee. Senator Lynch moved that HOUSE BILL 389 be concurred in as amended. Question was called, and the Committee voted unanimously that HOUSE BILL 389 BE CONCURRED IN. (Senator Lynch will carry this bill.)

CONSIDERATION OF HOUSE BILL 482: Representative Paul Pistoria, House District 36, Great Falls, is the sponsor of this bill entitled, "AN ACT AMENDING THE LAWS RELATING TO ABSENTEE VOTING TO ALLOW VOTING BY ABSENTEE BALLOT IF AN ELECTOR SUFFERS FROM CHRONIC ILLNESS OR GENERAL ILL HEALTH, OR IF THE ELECTOR IS PREVENTED FROM VOTING AT THE POLLS AS A RESULT OF A SUDDEN ILLNESS OR HEALTH EMERGENCY ON ELECTION DAY OR IN THE DAYS IMMEDIATELY PRECEDING THE ELECTION; PROVIDING FOR THE CREATION OF SPECIAL ABSENTEE ELECTION BOARDS IN THE COUNTIES; PROVIDING AUTHORIZATION TO INCREASE THE COUNTY MILL LEVY FOR THE PURPOSE OF ADMINISTERING THE PROVISIONS OF THIS ACT; AND AMENDING SECTIONS ..., MCA; AND PROVIDING AN EFFECTIVE DATE." Representative Pistoria told the Committee about receiving a call from a woman who was in tears over the fact that she was in the hospital due to a medical emergency and could not get to the polls to vote even though she was registered. Representative Pistoria said he had two or three calls regarding this and until that time, had not realized that that was the way it was. He worked closely with the Secretary of State's office and Sue Bartlett, Lewis and Clark County Clerk and Recorder to try to work this out. Representative Pistoria said this also happened to his brother.

PROPOSERS: Sue Bartlett, Clerk and Recorder for Lewis and Clark County, supports this bill. Ms. Bartlett told the Committee that she had had calls with the same problem this year. She said it was really bad to have to tell them that no they could not vote, and since this was a presidential election, they would have to reregister. Ms. Bartlett said that this bill provides a procedure whereby these people can vote if they are registered. Ms. Bartlett said that she will expect in Lewis and Clark County to have special absentee members to show them the system and then they will go out to these places so these people can vote. In her county she said the ballots will be brought back to her office, but in some of the districts they will be taken to the polling place where the person is registered to vote. Ms. Bartlett said that the fiscal note authorizes a mill to fund this. She feels it will not be necessary. Ms. Bartlett explained that the Legislative Council felt that this should be put on here because of the extra people. Ms. Bartlett felt that this would not be needed and would be minimal. She felt this should apply to the primary as well as the general elections and that is the reason for the amendment regarding the effective date.

Alan Robertson, Secretary of State's Office, supports this bill. Mr. Robertson said that he had worked with Representative Pistoria on this and this was a good bill. He said their office had received a couple of calls on this this year.

JoAnne Peres, Association of Clerk and Recorders, supports this bill.

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Betty Lund, Election Judge for Ravalli County, supports this bill. Ms. Lund says that never does an election go by that we do not have a request from a spouse for a ballot for a hospitalized mate and under the present law there is no way to get a ballot to them. (See Exhibit "6" attached hereto and by this reference made a part hereof.)

Gary Pringle, Gallatin County Clerk and Recorder, supports this bill.

Senator Ethel Harding supports this bill.

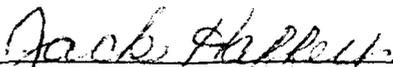
OPPONENTS: There were no opponents.

COMMITTEE QUESTIONS: Senator Mohar wondered if when they send people out they would be working as a team. Ms. Bartlett replied that they would. There would be one member of each party. Senator Mohar asked if they would be reimbursed. Ms. Bartlett replied that they would be. Senator Tveit asked if they thought they would run into the problem of people faking illness. Ms. Bartlett said that she thought it would be a judgment call, but she doesn't look for very much of that. Senator Mohar said that he felt if she had to hire two more people there would be an impact. Ms. Bartlett said that she didn't mean to imply that it wouldn't be needed, but she felt it could be absorbed into the election budget. She said they would only be paid for hours in training and hours worked.

Representative Pistoria closed by saying that this was a good bill. HOUSE BILL 482 is closed.

EXECUTIVE ACTION ON HOUSE BILL 482: Senator Tveit moved that HOUSE BILL 482 be concurred in. Senator Hirsch wanted to know if this was going to apply to all elections even the small ones. Senator Haffey replied that the logic in favor of this bill is the logic in favor of this for any election. Question was called, and the Committee voted unanimously that HOUSE BILL 482 BE CONCURRED IN. (Senator Harding will carry this bill.)

The meeting was adjourned at 11:00 a.m.

  
\_\_\_\_\_  
SENATOR JACK HAFFEY, CHAIRMAN





Representative Ann Schull

D'ot 30

Exhibit

#B-351

3-13-85

REGARDING: HOUSE BILL NUMBER 351  
 the PERS and <sup>are</sup>  
 THE TEACHERS' RETIREMENT BOARDS ~~is~~ CHARGED BY LAW WITH THE  
 RESPONSIBILITY TO DESIGNATE AN ACTUARY TO ASSIST THE RETIRE-  
 MENT BOARD WITH THE TECHNICAL ASPECTS OF THE OPERATION OF THE  
 RETIREMENT SYSTEM. THE BOARD, THEREFORE, SHOULD BE ABLE TO  
 ESTABLISH THE CRITERIA THEY FEEL IS NECESSARY TO SELECT AN  
 ACTUARY. THE LAWS GOVERNING PRIVATE CONSULTANTS AND SUBSE-  
 QUENT ADMINISTRATIVE RULES AND REGULATIONS WHICH SPECIFY HOW  
 CONSULTANTS SHOULD BE SELECTED SEEM TO CONFLICT WITH THE DUTIES  
 OF THE BOARD IN THIS RESPECT.

THE ACTUARY FIELD IS A VERY SPECIALIZED PROFESSION AND THE  
 NUMBER WHO OFFER THIS TYPE OF SERVICE IS VERY LIMITED. TO  
 THE BEST OF MY KNOWLEDGE, THERE IS ONLY ONE ACTUARIAL FIRM IN  
 THE STATE OF MONTANA WHICH HAS AN IN-HOUSE ACTUARY, WHO IS A  
 MEMBER OF THE AMERICAN SOCIETY OF ACTUARIES. THERE ARE OTHER  
 FIRMS WHO OFFER ACTUARIAL SERVICES, BUT IT IS MY UNDERSTANDING  
 THAT THE ACTUARIES USED BY THESE FIRMS LIVE OUT-OF-STATE.  
 THERE IS A DISTINCT ADVANTAGE TO THE TRS BOARD IN HAVING AN  
 ACTUARY CLOSE AT HAND FOR ATTENDANCE AT BOARD MEETINGS OR ON  
 AN ON-CALL BASIS, PARTICULARLY DURING A LEGISLATIVE SESSION,  
 WHEN FISCAL NOTES MUST BE PREPARED ON RETIREMENT LEGISLATION  
 AND WHICH REQUIRE THE SERVICES OF AN ACTUARY ON AN ALMOST  
 IMMEDIATE BASIS. I HAVE ALSO BEEN INVOLVED WITH TWO INTERIM  
 LEGISLATIVE COMMITTEES WHO HAVE REQUESTED TESTIMONY FROM OUR  
 RETAINED ACTUARY. IT WOULD HAVE BEEN QUITE COSTLY TO BRING A  
 QUALIFIED ACTUARY IN FROM OUT-OF-STATE.

IN OUR TALKS WITH OTHER ACTUARIAL FIRMS, THEY HAVE SUGGESTED THAT WE ASK RELIEF FROM THE REQUIREMENT THAT WE NEGOTIATE FOR ACTUARIAL SERVICES EVERY TWO YEARS. THERE IS A NEED FOR CONTINUITY, EXPERTISE AND FAMILIARITY WITH THE SYSTEMS INVOLVED AND TWO YEARS IS NOT SUFFICIENT TIME.

HOUSE BILL 351 WOULD NOT USURP ANY POWERS OF THE LEGISLATURE, SINCE WE HAVE BEEN SUBJECT TO THE BUDGET PROCESS AND SUBSEQUENT APPROPRIATION BY THAT PROCESS. ACTUARIAL COSTS ARE LOOKED AT VERY CLOSELY BY THE APPROPRIATE FINANCE SUBCOMMITTEE.

I HAVE NO DOUBT THAT THE TEACHERS' RETIREMENT BOARD WOULD ACT VERY RESPONSIBLY IN SELECTING AN ACTUARY BOTH IN TERMS OF SERVICE TO THE SYSTEM AND ITS MEMBERS, BUT ALSO ACT IN THE BEST INTEREST OF MONTANA. THE BOARD REPRESENTS SOME 20,000 MEMBERS AND IT IS THERE RESPONSIBILITY TO MAINTAIN AN EFFICIENT RETIREMENT SYSTEM FOR THOSE MEMBERS. THE BOARD SHOULD, HOWEVER, HAVE THE RIGHT OF SELECTION AND NOT BE BOUND BY EXTRANEOUS RULES, WHICH MIGHT HINDER THE PROCESS.

Exhibit "2"  
HB-351  
3-13-85

HOUSE BILL NO. 351

HIRING OF ACTUARIAL SERVICE

In a period of 40 years, the Public Employees' Retirement Board has hired four consulting actuaries.

To require the board to go through a bidding process for consulting services every two years simply to continue the contract of the actuary is a waste of approximately one man week and a cost of \$500 to \$1000.00. There is also a hidden cost in changing actuaries because of the large volume of records required in complying the actuarial valuations. The current actuary has in his computer files some 40,000 records for each of the last four bienniums.

In the past, the board has taken the cost of transferring or recreating the computer files in changing from one actuary to another when considering bids for actuarial services but the current bidding procedures do not reflect the hidden cost. Further, it takes about three to six months to bring a new actuary up to date on the statutes of the eight systems administered by the Public Employees' Retirement Division.

The Public Employees' Retirement Board currently employs the only actuary qualified under the statutes, offering consulting actuary services in the state of Montana. We are fortunate that he is located in the state of Montana as his proximity enhances his utilization by the board and retirement division. The actuarial reports of the consulting actuary have twice been reviewed by consulting actuaries to the legislative council and these reports have not been criticized in either audit report.

The board retains the right to terminate the actuarial services and in the past, has terminated the contract for services of two consulting actuaries primarily due to the increase in their cost. This bill limits any future contracts through the appropriation process in section 2(2).

The Public Employees' Retirement Board, requests your support of this bill in order that they may secure the actuarial services needed to carry out the administration of the retirement systems and the board will continue to provide the most cost efficient services to the members of the retirement system and the employing agencies.

*Larry M. Johnson*  
3/13/85

Exhibit 2-A

B-351  
3-13-85

PUBLIC EMPLOYEES'  
RETIREMENT SYSTEM

ACTUARIAL VALUATION

AS OF

JULY 1, 1984

**Hendrickson  
& Associates**  
INC. ACTUARIAL CONSULTANTS

P.O. Box 823 • Power Block • Suite 604 • 6th & Last Chance Gulch • Helena, Montana 59624 • Telephone 406/442-5222

October 23, 1984

Mr. Lawrence Nachtsheim, Administrator  
Public Employees Retirement Division  
1712 9th Avenue  
Helena, MT 59601

Re: Public Employees' Retirement System

Dear Larry:

Enclosed is the July 1, 1984 actuarial report for the Public Employees' Retirement System.

The actuarial valuation has determined that the system is funded on an actuarially sound basis. The present contribution rate of 12.417% is adequate to amortize the unfunded liability over a 36.58 year period.

Sincerely,



Alton P. Hendrickson, ASA

ra

Enclosure

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## SECTION I

### INTRODUCTION

An actuarial valuation of the Public Employees' Retirement System of the State of Montana has been completed as of July 1, 1984. This valuation was authorized by the Public Employees' Retirement Board under Section 19-3-305, M.R.C. The purpose of the valuation was to determine the financial position of the fund, the normal cost, and the unfunded accrued liability based upon present and prospective assets and liabilities of the fund as of July 1, 1984.

Section II presents an analysis of the results of the actuarial valuation. The numerical findings supporting this analysis are shown in Section III.

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

The valuation was based upon the Public Employees' Retirement Act and incorporates all amendments as of July 1, 1984. A summary of the major provisions of the Act is contained in Section V.

### ACTUARIAL CERTIFICATION

Based upon the assumptions stated in this report and the employee data and other records provided by the Public Employees' Retirement Division, the actuarial valuation contained in this report has been performed in accordance with generally accepted actuarial principles and techniques.



Alton P. Hendrickson  
Member, American Academy  
of Actuaries

## SECTION II

### ANALYSIS OF VALUATION

The actuarial valuation as of July 1, 1984 has determined that the percentage of each member's salary required to fund the benefits as they accrue in the future is 10.052%. The regular contribution rate of 12.417% allows 2.365% to be applied to the amortization of the unfunded liability. The valuation determined that 2.365% is sufficient to amortize the unfunded liability over a period of 36.58 years.

The period over which the regular contribution rate will amortize the unfunded liability has decreased from 42.47 years in 1982 to 36.58 years in 1984. Several factors have effected the funding requirements of the system:

1. The contribution rate has increased from 12.320% to 12.417%. This increase was legislated in order to provide benefit enhancements to those members receiving benefits from the system. The strength of this additional funding has accounted for a slight reduction in the required amortization.
2. The experience of the system during the biennium closely followed the overall expected experience. As a result, the amortization period decreased almost two years, as anticipated.
3. Certain actuarial assumptions were changed which had the net result of decreasing the funding requirement.

The actuarial assumptions were modified in four areas:

1. The mortality rates were set back one year to reflect the increase in life expectancies.
2. The withdrawal rates were lowered to adjust for the decreased terminations experienced by the system. The revised rates were based upon computerized withdrawal information which is now maintained by the system. The actual experience was used with consideration given to returning employees who purchase past service credits.
3. The assumed investment return for future years was increased from 7% to 8%. This change was made to reflect the favorable investment experience of the system and to anticipate the average expected investment return during the funding period for benefits to current members.

4. The underlying cost-of-living assumption was increased from 5.5% to 6.5%. This adjustment was made to anticipate future salary increases based upon economic projections and the historic relationship between investment return and cost-of-living increases.

The lower mortality and withdrawal assumptions increased anticipated benefit payments and, therefore, increased the cost of the system. This increase was more than offset by the cost decrease resulting from the change in the post-retirement investment return assumption. The net effect of the pre-retirement investment and cost-of-living assumption changes was negligible. The result was a decrease of six years in the amortization period.

The total payroll is \$416,296,287 which represents a 10.4% increase during the biennium. The number of members receiving benefits has increased to 7,568. The total annual benefits are \$20,014,273 which represents an increase of 25.6% during the biennium. The assets of the system have increase 31.7% during the biennium to a total value of \$435,055,310.

The regular contribution rates to the Public Employees' Retirement System is 12.417% of each active member's salary. This rate is comprised of 6.417% from the state and 6% from each member.

The Public Employee's Retirement System is funded on an actuarially sound basis.

SECTION III

SCHEDULE 1

NORMAL COST ALLOCATION

(1) Normal Cost Contribution Rate:

(a) Retirement	7.192%
(b) Death	0.331
(c) Disability	0.434
(d) Vested	0.839
(e) Withdrawals	1.256
	-----
(f) Total Rate	10.052%

(2) Present Value of Future Salaries  
Of Current Members

\$3,790,148,409

(3) Present Value of Future Normal Costs  
For Current Members (1(f) x (2))

\$ 380,985,718

SCHEDULE 2

PRESENT VALUE OF BENEFITS

(1) Present Value of Benefits - Inactive Members	
(a) Retirement	\$ 208,697,952
(b) Death	6,636,466
(c) Disability	21,943,417
(d) Vested	8,499,553
(e) Withdrawals	1,655,436
	-----
(f) Total Inactive	\$ 247,432,824
(2) Present Value of Benefits - Active Members	
(a) Retirement	\$ 658,864,997
(b) Death	24,549,831
(c) Disability	30,018,563
(d) Vested	66,235,019
(e) Withdrawals	70,872,234
	-----
(f) Total Active	\$ 850,540,644
	-----
(3) Total Liabilities	\$1,097,973,468

SCHEDULE 3

CONTRIBUTION AND LIABILITY ALLOCATIONS

(1) Unfunded Accrued Liability	
(a) Present Value of Benefits	\$ 1,097,973,468
(b) Present Value of Future Normal Costs	380,985,718
(c) Fund Assets	435,055,310
	-----
(d) Unfunded Liability (a)-(b)-(c)	\$ 281,932,440
(2) Contribution Rates Amortized Over 40.00 Years	
(a) Present Value of Salaries During Next 40.00 Years	\$12,754,643,878
(b) Unfunded Contribution Rate 1(d)/2(a)	2.210%
(c) Normal Cost Rate (Schedule 1)	10.052%
	-----
(d) Total Funding Rate	12.262%
(3) Contribution Rates Amortized over 36.58 Years	
(a) Present Value of Salaries During Next 36.58 Years	\$11,921,033,404
(b) Unfunded Contribution Rate 1(d)/3(a)	2.365%
(c) Normal Cost Rate (Schedule 1)	10.052%
	-----
(d) Total Funding Rate	12.417%

SCHEDULE 4

VALUATION COMPARISON

	<u>1982</u>	<u>1984</u>
Present Value of Total Benefits		
Total	\$932,087,522	\$1,097,973,468
Average for All Members	27,617	32,683
Unfunded Past Service Liability		
Total	\$273,524,251	\$ 281,932,440
Average for All Members	8,104	8,392
Assets		
Total	\$330,215,269	\$ 435,055,310
Average for All Members	9,784	12,950
Annual Salary		
Total	\$377,120,013	\$ 416,296,287
Average for Active Members	14,030	15,995
Normal Cost Contribution Rate	10.05%	10.052%
Recommended Contribution Rate for Unfunded Past Service Liability	<u>2.37%</u>	<u>2.365%</u>
Total Recommended Contribution Rate	12.42%	12.417%

SCHEDULE 5

COMPARISON OF CONTRIBUTING MEMBERS

	<u>1982</u>	<u>1984</u>
Number of Lives		
Male	12,083	11,776
Female	<u>14,796</u>	<u>14,250</u>
Total	26,879	26,026
Annual Salaries		
Male	\$203,754,619	\$225,488,580
Female	<u>173,365,394</u>	<u>190,807,707</u>
Total	\$377,120,013	\$416,296,287
Average Annual Salaries		
Male	\$16,863	\$19,148
Female	<u>11,717</u>	<u>13,390</u>
Total	\$14,030	\$15,995

SCHEDULE 6

COMPARISON OF MEMBERS RECEIVING BENEFITS

	<u>1982</u>	<u>1984</u>
Number of Lives		
Retired	5,902	6,723
Disabled	643	655
Survivor	<u>171</u>	<u>190</u>
Total	6,716	7,568
Annual Benefit Payments		
Retired	\$19,894,336	\$25,590,010
Disabled	2,512,646	2,600,025
Survivor	<u>700,456</u>	<u>824,238</u>
Total	\$23,107,438	\$29,014,273
Average Monthly Benefit Payments		
Retired	\$281	\$317
Disabled	326	331
Survivor	<u>341</u>	<u>362</u>
Total	\$287	\$319

SCHEDULE 7

TABLE 1

NUMBER OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	TOTAL										
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	TOTAL
0-4	1721	2571	2640	2231	1618	1213	835	613	329	150	13921
5-9	56	668	1169	1058	872	736	665	553	388	167	6332
10-14		29	296	522	443	357	415	463	309	128	2962
15-19			8	110	229	215	234	333	192	56	1377
20-24				13	95	143	130	169	116	28	694
25-29					14	134	131	124	74	18	495
30-34						12	56	56	50	8	182
35-39							4	20	22	4	50
40-UP								2	6	5	13
TOTALS	1777	3268	4113	3934	3271	2810	2470	2333	1486	564	26026

TABLE 1 (CONTINUED)  
NUMBER OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	FEMALES										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	1089	1476	1518	1393	1076	790	504	323	152	72	8393
5-9	41	368	531	500	531	485	419	321	205	93	3494
10-14		20	134	147	164	209	239	262	167	74	1416
15-19			3	33	54	72	117	175	107	37	598
20-24				2	16	20	40	67	54	14	213
25-29						16	17	30	21	11	95
30-34							3	3	9	9	29
35-39								3	2	3	8
40-UP									1	3	4
TOTALS	1130	1864	2186	2075	1841	1595	1339	1190	718	312	14250

TABLE 1 (CONTINUED)  
NUMBER OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	MALES										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	632	1095	1122	838	542	423	331	290	177	78	5528
5-9	15	300	638	558	341	251	246	232	183	74	2838
10-14		9	162	375	279	148	176	201	142	54	1546
15-19			5	77	175	143	117	158	85	19	779
20-24				11	79	123	90	102	62	14	481
25-29					14	118	114	94	53	7	400
30-34						9	53	47	41	3	153
35-39							4	17	20	1	42
40-UP								2	5	2	9
TOTALS	647	1404	1927	1859	1430	1215	1131	1143	768	252	11776

TABLE 2  
AVERAGE SALARIES OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	TOTAL										
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	TOTAL
0-4	11645	13593	14486	14097	13331	13594	13257	13752	14240	11912	13556
5-9	14448	16872	18821	18967	17429	15838	15602	15644	15465	13431	17099
10-14		17226	20149	22976	21459	18632	18382	17499	16571	14891	19369
15-19			19909	23583	24029	21354	19801	18944	18354	15835	20479
20-24				24067	24326	24877	21897	20938	19815	16939	22103
25-29					25765	26011	25747	22605	21900	20835	24278
30-34						26392	27780	25794	24726	21936	25982
35-39							28014	26979	25392	23284	26068
40-UP								34150	25374	26274	27070
TOTALS	11733	14295	16136	16883	16646	16637	16840	17096	16956	14312	15995

TABLE 2 (CONTINUED)  
 AVERAGE SALARIES OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	FEMALES										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	10835	12350	12541	12066	11648	11776	11259	11649	11659	9780	11870
5-9	14158	15654	16483	15838	14979	13955	13578	13411	13299	11425	14744
10-14		16371	17418	19024	16989	15688	16111	15605	14385	13715	16158
15-19			18175	18889	20384	17671	16524	16746	16795	14487	17137
20-24				18484	20795	19282	18216	17640	17851	17535	18194
25-29						20681	20220	19955	19078	17580	19656
30-34						18262	20352	20675	17018	18821	18937
35-39								18309	22617	21858	20717
40-UP									17186	20973	20026
TOTALS	10956	13045	13805	13582	13420	13413	13653	14377	14315	12754	13390

TABLE 2  
AVERAGE SALARIES OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	MALES										
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	TOTAL
0-4	13039	15268	17116	17474	16672	16989	16299	16094	16456	13880	16116
5-9	15241	18368	20767	21771	21244	19477	19049	18733	17891	15951	19999
10-14		19126	22407	24525	24087	22788	21466	19968	19142	16502	22311
15-19			20949	25595	25154	23208	23078	21379	20317	18459	23045
20-24				25082	25041	25787	23533	23104	21526	16343	23834
25-29					25765	26734	26571	23451	23018	25951	25376
30-34						29101	28201	26774	26418	27128	27317
35-39							28014	28509	25669	27563	27087
40-UP								34150	27011	34227	30201
TOTALS	13090	15955	18780	20568	20798	20868	20613	19928	19424	16241	19148

TABLE 3  
ANNUAL SALARIES OF ACTIVE MEMBERS  
IN THOUSANDS

COMPLETED YEARS OF SERVICE	TOTAL										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	20041	34946	38242	31451	21569	16489	11070	8430	4685	1787	188710
5-9	809	11271	22001	20067	15198	11657	10375	8651	6000	2243	108272
10-14		499	5964	11994	9506	6652	7628	8102	5120	1906	57371
15-19			160	2594	5503	4591	4633	6309	3524	887	28201
20-24				313	2311	3558	2847	3539	2299	474	15341
25-29					361	3486	3373	2803	1621	375	12019
30-34						317	1556	1444	1236	175	4728
35-39							112	540	558	94	1304
40-UP								68	152	131	351
TOTALS	20850	46716	66367	66419	54448	46750	41594	39886	25195	8072	416297

TABLE 3 (CONTINUED)

ANNUAL SALARIES OF ACTIVE MEMBERS  
IN THOUSANDS

COMPLETED YEARS OF SERVICE	FEMALES										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	11800	18228	19038	16808	12533	9303	5675	3763	1772	704	99624
5-9	580	5761	8752	7919	7954	6768	5689	4305	2726	1063	51517
10-14		327	2334	2797	2786	3279	3850	4089	2402	1015	22879
15-19			55	623	1101	1272	1933	2931	1797	536	10248
20-24				37	333	386	729	1182	964	245	3876
25-29						331	344	599	401	193	1868
30-34						55	61	186	153	94	549
35-39								55	45	66	166
40-UP									17	63	80
TOTALS	12380	24316	30179	28184	24707	21394	18281	17110	10277	3979	190807

TABLE 3 (CONTINUED)  
ANNUAL SALARIES OF ACTIVE MEMBERS  
IN THOUSANDS

COMPLETED YEARS OF SERVICE	MALES										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	8241	16718	19204	14643	9036	7186	5395	4667	2913	1083	89086
5-9	229	5510	13249	12148	7244	4889	4686	4346	3274	1180	56755
10-14		172	3630	9197	6720	3373	3778	4013	2718	891	34492
15-19			105	1971	4402	3319	2700	3378	1727	351	17953
20-24				276	1978	3172	2118	2357	1335	229	11465
25-29					361	3155	3029	2204	1220	182	10151
30-34						262	1495	1258	1083	81	4179
35-39							112	485	513	28	1138
40-UP								68	135	68	271
TOTALS	8470	22400	36188	38235	29741	25356	23313	22776	14918	4093	225490

TABLE 4  
NUMBER OF VESTED INACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	TOTAL										
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	TOTAL
0-4											
5-9		1	21	25	30	36	41	33	18	19	224
10-14			3	7	9	17	21	32	14	6	109
15-19					6	9	12	15	7		49
20-24					1	9	4	2	1	2	19
25-29								1	1	1	3
30-34								1		1	2
35-39											
40-UP										2	2
TOTALS		1	24	32	46	71	78	84	41	31	408

TABLE 4 (CONTINUED)  
NUMBER OF VESTED INACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	FEMALES										TOTAL	
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65		
0-4												
5-9		1	15	12	13	23	26	16	10	4		120
10-14			1	3	2	5	14	17	5	1		48
15-19					2	4	6	6	3			21
20-24						1		1				2
25-29												
30-34												
35-39												
40-UP										1		1
TOTALS		1	16	15	17	33	46	40	18	6		192

TABLE 4 (CONTINUED)  
NUMBER OF VESTED INACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	MALES										TOTAL	
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65		
0-4												
5-9			6	13	17	13	15	17	8	15	104	
10-14			2	4	7	12	7	15	9	5	61	
15-19					4	5	6	9	4		28	
20-24					1	8	4	1	1	2	17	
25-29								1	1	1	3	
30-34								1		1	2	
35-39												
40-UP										1	1	
TOTALS			8	17	29	38	32	44	23	25	216	

TABLE 5  
SUMMARY OF RETIREES

		NUMBER OF MEMBERS								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male	172	269	896	956	706	380	161	120	3660	
Female	99	226	807	882	537	274	139	99	3063	
<b>Total</b>	<b>271</b>	<b>495</b>	<b>1703</b>	<b>1838</b>	<b>1243</b>	<b>654</b>	<b>300</b>	<b>219</b>	<b>6723</b>	

		TOTAL BENEFIT IN THOUSANDS								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male	124	157	407	316	202	103	39	31	1379	
Female	19	61	211	212	129	62	34	26	754	
<b>Total</b>	<b>143</b>	<b>218</b>	<b>618</b>	<b>528</b>	<b>331</b>	<b>165</b>	<b>73</b>	<b>57</b>	<b>2133</b>	

		AVERAGE MONTHLY BENEFIT								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male	722	585	454	331	286	270	242	257	377	
Female	196	269	262	241	239	226	244	261	246	
<b>Total</b>	<b>530</b>	<b>441</b>	<b>363</b>	<b>287</b>	<b>266</b>	<b>251</b>	<b>243</b>	<b>259</b>	<b>317</b>	

TABLE 6  
SUMMARY OF DISABLED

		NUMBER OF MEMBERS								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male	76	76	81	61	50	41	15	7	407	
Female	52	62	41	31	24	21	12	5	248	
Total	128	138	122	92	74	62	27	12	655	

		TOTAL BENEFIT IN THOUSANDS								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male	27	29	28	22	16	12	4	2	140	
Female	15	19	13	10	7	6	4	2	76	
Total	42	48	41	32	23	18	8	4	216	

		AVERAGE MONTHLY BENEFIT								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male	357	383	346	357	316	301	291	303	346	
Female	295	302	319	311	309	305	321	311	306	
Total	332	347	337	342	314	302	304	307	331	

TABLE 7  
SUMMARY OF SURVIVORS

		NUMBER OF MEMBERS								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male		23	21	22	25	19	24	8	7	149
Female		17	7	3	5	4	2	2	1	41
Total		40	28	25	30	23	26	10	8	190

		TOTAL BENEFIT IN THOUSANDS								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male		8	9	9	9	5	9	2	2	53
Female		7	4	1	2	1	1	1		17
Total		15	13	10	11	6	10	3	2	70

		AVERAGE MONTHLY BENEFIT								
		UNDER 54	55-59	60-64	65-69	70-74	75-79	80-84	OVER 85	TOTAL
Male		349	417	400	357	274	367	277	305	355
Female		384	502	206	465	337	324	282	269	386
Total		364	438	377	375	285	364	278	300	362

## SECTION IV

### ACTUARIAL FUNDING METHOD AND ASSUMPTIONS

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

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

The assumptions shown below were based upon the past experience of the fund together with the projections as to future experience.

#### FUNDING METHOD

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

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

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

## DISCUSSION OF ACTUARIAL ASSUMPTIONS

### Mortality Rates

The 1971 Group Annuity Mortality Table for males and females was applied to active members and those receiving benefits. The mortality rates were set back one year to reflect increased life expectancies.

### Disability Rates

The disability rates for males and females were based upon rates published by the Railroad Retirement Board.

### Withdrawal Rates

The withdrawal rates were based upon the actual experience of the system during the last biennium. These rates represent the net effect of the experience of the system including the termination of members, the reemployment of terminated members, and the purchase of credit for past service.

### Salary Scale

The rates of salary increase were based upon an underlying cost-of-living assumption of 6.5% per annum. Meritorious service and longevity increases were also taken into account.

### Investment Earnings

It was assumed that the investment earnings would be 8% compounded annually.

### Administrative Expenses

It was assumed that the system would incur no administrative expenses beyond those provided by the social security division and the \$1 per member charge.

### Termination Benefits

It was assumed that all members terminating with less than five years of service would receive an immediate withdrawal of their personal contributions with interest. It was further assumed that members with five or more years of service would select the benefits most advantageous to them under the given assumptions.

## ILLUSTRATION OF ACTUARIAL ASSUMPTIONS

### Mortality Rates

The mortality rates are based upon the 1971 Group Annuity Mortality Table with ages set back one year.

<u>Age</u>	<u>Deaths Per 100,000 Male Members</u>	<u>Deaths Per 100,000 Female Members</u>
25	59	33
30	76	44
35	105	61
40	151	87
45	257	129
50	474	197
55	781	298
60	1,192	490
65	1,919	861
70	3,244	1,446
75	5,122	2,863
80	7,969	5,062
85	12,112	8,150

### Disability Rates

The disability rates are based upon the rates published by the Railroad Retirement Board.

<u>Age</u>	<u>Disabilities per 100,000 Active Members</u>
25	30
30	30
35	40
40	90
45	190
50	340
55	620
60	3,150

### Withdrawal Rates

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

<u>Age</u>	<u>Withdrawals Per 100,000 Male Members</u>	<u>Withdrawals Per 100,000 Female Members</u>
25	9,765	13,842
30	7,731	11,547
35	6,174	9,675
40	5,103	7,308
45	4,176	5,373
50	3,231	4,374
55	1,539	2,331
60	396	558

### Salary Scale

The salary increases are based upon the projected experience of the system with an underlying assumption of 6.5% for cost-of-living increases and .75% for longevity and meritorious service increases.

### Investment Earnings

A rate of 8% per annum was assumed for future investment earnings.

### Administrative Expenses

It was assumed that the administrative expenses would be recovered by the administrative charges provided under the social security division in addition to the \$1 per member charge.

SECTION V

SUMMARY OF BENEFITS AND CONTRIBUTIONS

- Effective Date - July 1, 1945
- Member Contributions - 6% of compensation
- Employer Contributions - As specified by law. From July 1, 1983 the rate is 6.417%.
- Retirement Benefit - Eligibility: Age 60 and five years of service; or age 65 regardless of service; or 30 years of service regardless of age.
- Normal Form: Life annuity with payment of balance of accumulated deductions not received by the member as of the date of his death (modified cash refund annuity).
- Benefit: 1/60 of the final compensation for each year of credited service. Contributing members of the System as of July 1, 1973 may retire under the benefit provisions in effect prior to that date (1/60 of the final compensation for each year of prior service plus twice the annuity purchased by the member's accumulated contributions with interest).
- Early Retirement Benefit - Eligibility: Age 50 and five years of service
- Benefit: An actuarial equivalent of accrued normal service retirement allowance that would have been payable at age 60.
- Disability Benefit - Eligibility: Five years of service and disablement before eligibility for service retirement.
- Service disability: Members granted a disability retirement for duty - related reasons prior to July 1, 1977 shall receive 25% of final compensation while Industrial Accident Board Compensation is in effect; otherwise, 50% of final compensation.
- Nonservice disability: 90% of 1/60 of the final compensation for each year of credited service, with a minimum benefit of 25% of the final compensation.

Death Benefit -

Eligibility: Prior to retirement - no requirement. Certain specified recently terminated or disabled members are also eligible for this benefit.

After retirement - payable according to the option elected.

Normal Form: Return of accumulated contributions with interest if Industrial Accident Board Compensation is paid; otherwise, benefit is the return of accumulated contributions with interest plus 1/12 of final (last twelve months) compensation times number of years of credited service up to a maximum of six years.

A beneficiary of a member with five years of credited service at his death may alternatively choose a survivorship allowance actuarially equivalent to the accrued retirement allowance which would have been payable at age 60 (or as of his date of death if he died after age 60 or after 30 years of service).

Termination Benefit -

If service discontinued prior to completion of 5 years of service, return of member's contributions with interest. If service discontinued on or after completion of 5 years of service, member may leave them with the System and receive his accrued service retirement allowance commencing at age 60 or an actuarial equivalent commencing at age 50.

Bob Johnson TRS  
OPTION 1:

Add the termination to the total of the average final compensation. The member and employer shall pay such contributions to the retirement system, as are determined by the Teachers' Retirement Board to adequately compensate the system for the additional retirement benefit.

High consecutive 3 salaries:	\$21,000
	22,000
	<u>23,000</u>
TOTAL	<u><u>\$66,000</u></u>

Adding in termination pay of \$5,000 gives a total of \$71,000. To get the average salary we divide by 3 or \$23,666.67. The benefit would be 25/60 x \$23,666.67 or \$9,861.11 annually. The \$5,000.00 in termination pay increases the benefit \$694.44 per year ( $\$5,000 \div 3 \times 25/60 = \$694.44$ ).

The cost as determined by the Board is as follows:

Employee:

$\$5,000 \times 2.80\% \times \text{years of service or } 25 = \$3,500.00$

Employer:

$\$5,000 \times 2.95\% \times \text{years of service or } 25 = \underline{\underline{\$3,687.50}}$

Total Contributions Due: \$7,187.50



OPTION III:

Exclude the termination pay from the average final compensation. No contribution is required by either the employer or member.

We have seen some abuses occurring in option II, in that some members are changing employers when nearing retirement and negotiating a contract with their new employer, for a sizeable termination pay amount and when retiring, electing option II. Therefore, if they are employed 3 years or less with their employer, their benefit is increased in accordance with option I, but at the cost of option II. For example, using the same assumptions as previously, but in this instance the employee would have only 3 years of service, with the employer from whom the termination pay is received. The yearly amount of termination pay would be  $\$5,000.00 \div 3$  or  $\$1,666.67$ . Adding this to each of the 3 salaries used in calculating average final compensation gives the following:

High consecutive 3 salaries:  $\$21,000 + \$1,666.67$

$22,000 + \$1,666.67$

$23,000 + \$1,666.67$

TOTAL  $\$66,000 + \$5,000.00$  or  
 $\$71,000 \div 3 = \$23,666.67$

Benefit is  $25/60 \times \$23,666.67$  or  $\$9,861.11$  (same as option I).

The cost is  $\$5,000 \times 7.044\%$  (employee rate) or  $\$352.20$   
 $\$5,000 \times 7.320\%$  (employer rate) or  $\$366.00$   
Total Contributions Due  $\$718.20^*$

\* Same as Option II.

Exhibit "4"  
HB-389  
3-13-85

HOUSE BILL NO. 389 - Change in Contingent Annuitant

This bill was requested by the Public Employees' Retirement Board primarily to bring domestic tranquility into the households of some of the PERS retirees. Some wives and husbands of retirees resent the fact that former spouses are the contingent beneficiary on their spouses' retirement benefit. This means that in the event of the husband or wife's death, a former spouse would receive a continuing retirement benefit.

Also, there is the case of the widowed retiree who, upon remarriage, wishes to provide some financial security for a new wife or husband.

This bill would permit the retired PERS member to request the retirement board to change his/her contingent annuitant in the event of death or divorce. This change is not automatic and would only occur upon the request of the member.

Since any adjustments in the benefits will be made actuarially, there is no cost to the system.

*Sally Richardson*  
3/13/85

Exhibit "5"

#B-389

3-13-85

HB 389, Third Reading (blue), be amended  
as follows:

1. Page 2, line 21.

Following: line 20

Strike: "on a one-time basis"

2. Page 3, lines 2 and 3.

Following: "and" on line 2

Strike: the remainder of line 2  
through "that" on line 3

Exhibit "6"  
#B-482  
3-13-85

Mr. Chairman and Members of the Committee

In the record, my name is Seth Lund  
I am the Election Administrator for  
Ravalli County and am a member of the Legislative Committee  
Montana Clerks + Records Association.

I would like to offer my whole  
hearted support for Rep. Tustoria's  
H B 482. This bill is something we  
have needed for a long time. Never  
does an election go by that we do not  
have a request from a spouse for a  
ballot for a hospitalized mate and  
under the present law there is no way  
to get a ballot to them.

I would like to ask you for your  
support for this long overdue bill.

Thank you.

# STANDING COMMITTEE REPORT

March 13 1985

MR. PRESIDENT

We, your committee on STATE ADMINISTRATION

having had under consideration HOUSE BILL No. 302

third reading copy ( blue )  
color

(Senator Lynch will carry this)

**ADOPTS INTERSTATE MUTUAL AID COMPACT**

Respectfully report as follows: That HOUSE BILL No. 302

BE CONCURRED IN

~~XXXXXXXX~~

~~XXXXXXXXXX~~

.....  
Chairman.

# STANDING COMMITTEE REPORT

March 13, 1935

MR. PRESIDENT

We, your committee on STATE ADMINISTRATION

having had under consideration..... HOUSE BILL No. 389

third reading copy ( blue )  
color

(Senator Lynch will carry this)

**PERMITTING CHANGES IN OPTIONAL RETIREMENT ALLOWANCES UNDER PERS**

Respectfully report as follows: That..... HOUSE BILL No. 389

**be amended as follows:**

1. Page 2, line 21.

Following: line 20

Strike: "on a one-time basis"

2. Page 3, lines 2 and 3.

Following: "and" on line 2

Strike: the remainder of line 2 through "that" on line 3

**AND AS AMENDED**  
**BE CONCURRED IN**

~~XXXXXXXX~~

~~XXXXXXXXXX~~

.....  
Chairman.

# STANDING COMMITTEE REPORT

March 13 1985

MR. PRESIDENT

We, your committee on **STATE ADMINISTRATION**

having had under consideration **HOUSE BILL** No. **351**

third reading copy ( blue )  
color

(Senator Manning will carry this)

**EXEMPTING EMPLOYMENT OF PERS ACTUARY FROM STATE CONTRACTING  
REQUIREMENTS**

Respectfully report as follows: That **HOUSE BILL** No. **351**

BE CONCURRED IN

~~HOUSE~~

~~HOUSE~~

.....  
Chairman.

# STANDING COMMITTEE REPORT

March 13, 1985

MR. PRESIDENT

We, your committee on **STATE ADMINISTRATION**

having had under consideration **HOUSE BILL** No. **256**

third reading copy ( blue )  
color

(Senator Manning will carry)

**USE OF TERMINATION PAY FOR CALCULATING BENEFITS IN TEACHERS'  
RET. SYSTEM**

Respectfully report as follows: That **HOUSE BILL** No. **256**

BE CONCURRED IN

~~XXXXXX~~

~~XXXXXXXXXX~~

.....  
Chairman.

# STANDING COMMITTEE REPORT

March 13, 1935

MR. PRESIDENT

We, your committee on STATE ADMINISTRATION

having had under consideration..... HOUSE BILL No. 481

third reading copy ( blue )  
color

(Senator Harding will carry this bill)

**ALLOW ABSENTEE VOTING FOR ILL HEALTH, SUDDEN ILLNESS, OR HEALTH EMERGENCY**

Respectfully report as follows: That..... HOUSE BILL No. 482

BE CONCURRED IN

~~DO PASS~~

~~DO NOT PASS~~

.....  
Chairman.