

Pension Primer for State Administration and Veterans' Affairs Interim Committee

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Montana Statewide Retirement Plans

- ▶ 9 plans administered by Montana Public Employees' Retirement Administration (MPERA):
 - ▶ Public Employees' Retirement System – PERS/DB, PERS/DC (employee chooses)
 - ▶ Sheriffs' Retirement System (SRS)
 - ▶ Municipal Police Officers' Retirement System (MPORS)
 - ▶ Firefighters' Unified Retirement System (FURS)
 - ▶ Highway Patrol Officers' Retirement System (HPORS)
 - ▶ Game Wardens' and Peace Officers' Retirement System (GWPORS)
 - ▶ Judges' Retirement System (JRS)
 - ▶ Volunteer Firefighters' Compensation Act (VFCA)
- ▶ Teachers' Retirement System (TRS)
- ▶ Montana University System's Optional Retirement Program (ORP)
- ▶ Optional MPERA-administered 457(b) Deferred Compensation Plan for State of Montana employees, University System employees, and employees whose employer has contracted with MPERA



Comparison of Plan Types

Defined Benefit

- ▶ Promise a specified, formula-driven monthly benefit
- ▶ Require a contribution amount determined by actuarial analysis
- ▶ Benefits are predictable, costs are not
- ▶ Contributions are pooled and managed so assets are buffered from but not immune to market fluctuations
- ▶ Employer has contractual obligation to provide promised benefits
- ▶ Unfunded liabilities are typical

Defined Contribution

- ▶ Define the amount to be contributed but do not promise the benefit amount
- ▶ Value of employee's account depends on total contributions plus investment earnings
- ▶ Costs are known, benefits are not
- ▶ Individual employees direct contributions to various investment options
- ▶ Investment risk born by employee and subject to short-term market fluctuations
- ▶ Employer is not contractually obligated to provide a certain benefit, only stated contributions
- ▶ No unfunded liabilities
- ▶ No reliance on actuarial projections



Montana Retirement Plans by Type

Defined Benefit

- ▶ Public Employees' Retirement System – DB
- ▶ Teachers' Retirement System
- ▶ Firefighters' Unified Retirement System
- ▶ Game Wardens' and Peace Officers' Retirement System
- ▶ Highway Patrol Officers' Retirement System
- ▶ Judges' Retirement System
- ▶ Municipal Police Officers' Retirement System
- ▶ Sheriffs' Retirement System
- ▶ Volunteer Firefighters' Compensation Act

Defined Contribution

- ▶ Public Employees' Retirement System – DC
- ▶ Montana University System's Optional Retirement Program



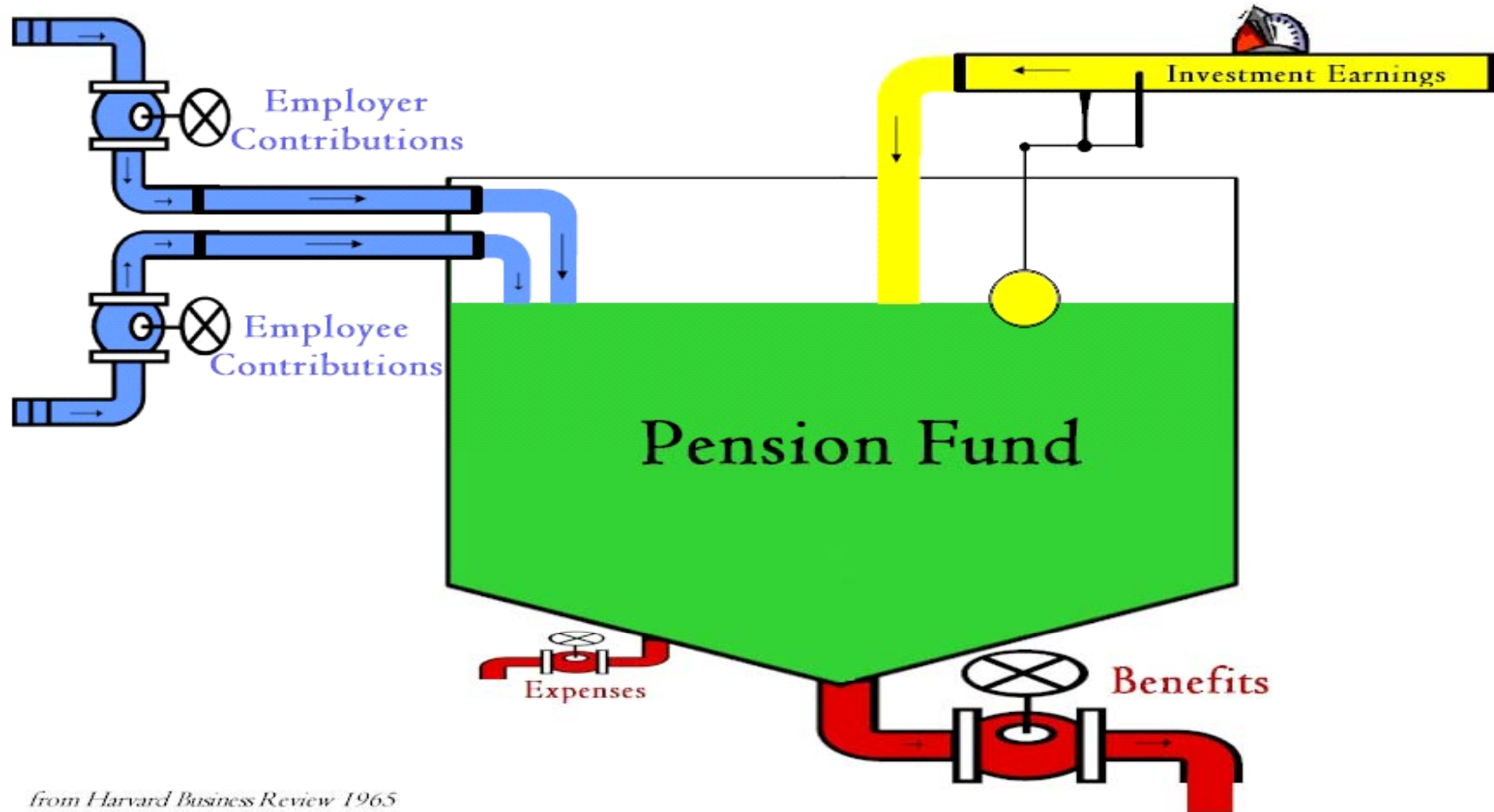
Defined Benefit Formula

$$C + I = B + E$$

- ▶ C = Contributions (employee and employer)
- ▶ I = Investment Earnings
- ▶ B = Benefits
- ▶ E = Expenses



Defined Benefit Graphic



from Harvard Business Review 1965



Public Employees' Retirement System - Defined Benefit (PERS-DB)

| | Hired before 7/1/11 | Hired on/after 7/1/11 |
|---|---|---|
| Minimum service and age requirements | 30 years service any age, 5 years service and age 60, or age 65 | 65 with 5 years of service or age 70 |
| Service retirement benefit formula | < 25 years service: 1.786% x HAC (3yrs) x years of service; > 25 years service: 2% x HAC (3yrs) x years of service | <10 years service: 1.5% x HAC (5yrs) x years of service 10-30 years service: 1.786% x HAC (5yrs) x years of service >30 years service: 2% x HAC (5yrs) x years of service |
| Post-retirement benefit adjustments | 3% GABA after 1 year if hired before 7/1/07 1.5% GABA if hired on or after 7/1/07 | |
| Social Security coverage | Yes | |
| Employer contribution as % of payroll | State employers: 7.17% School districts: 6.8%, state: 0.37% Local government employers: 7.07%, state: 0.1% | |
| Employee contribution as % of salary | 6.9% | 7.9% |
| Additional funding as % of payroll | None | |
| Total available contributions as % of payroll | 14.070% (0.04% transferred to education fund) | |
| Normal cost as % of payroll | 12.61% | |
| % used to fund unfunded liabilities | 1.46% | |

Teachers' Retirement System (TRS)

| | |
|---|---|
| Minimum service and age requirements | 25 years service any age or 5 years service and age 60 |
| Service retirement benefit formula | 1.667% x AFC x years of service |
| Post-retirement benefit adjustments | 1.5% GABA (paid after retired for at least 36 months) |
| Social Security coverage | Yes (most members) |
| Employer contribution as % of payroll | 9.96%: School districts: 7.47% + General Fund: 2.49% State agencies/U system: 9.85% + General Fund: 0.11% |
| Employee contribution as % of salary | 7.15% |
| Additional funding as % of payroll | University system: 4.72% of ORP payroll |
| Total available contributions as % of payroll | 17.11% |
| Normal cost as % of payroll | 9.74% |
| % used to fund unfunded liabilities | 7.37% |



Firefighters' Unified Retirement System (FURS)

| | |
|---|--|
| Minimum service and age requirements | 20 yrs service any age or age 50 with 5 yrs service |
| Service retirement benefit formula | 2.5% x FAC x yrs of service; pre-7/1/81 who did not elect GABA: <20 yrs: greater of 2.5% x FAC x yrs or 2% x FMC x yrs >20 yrs 50% x FMC + 2% FMC for each year over 20 |
| Post-retirement benefit adjustments | Pre-7/1/97 who did not elect GABA: 2 monthly salary of new firefighter; All post-7/1/97 or who elected GABA: 3% after 1 year |
| Social Security coverage | No |
| Employer contribution as % of payroll | 14.36% |
| Employee contribution as % of salary | Pre-7/1/97 not electing GABA: 9.5% Post-7/1/97 or electing GABA: 10.7% |
| Additional funding as % of payroll | State General Fund: 32.61% |
| Total available contributions as % of payroll | 57.66% |
| Normal cost as % of payroll | 26.45% |
| % used to fund unfunded liabilities | 31.21% |



Game Wardens' and Peace Officers' Retirement System (GWPORS)

| | |
|---|---|
| Minimum service and age requirements | 20 years service and age 50 or age 55 with 5 years |
| Service retirement benefit formula | Pre-7/1/11: 2.5% x HAC (3 yrs) x years of service Post-7/1/11: 2.5% x HAC (5 yrs) x years of service |
| Post-retirement benefit adjustments | 3% GABA after 1 year if hired before 7/1/07 1.5% GABA if hired on or after 7/1/07 |
| Social Security coverage | Yes |
| Employer contribution as % of payroll | 9.0% |
| Employee contribution as % of salary | 10.56% |
| Additional funding as % of payroll | None |
| Total available contributions as % of payroll | 19.56% |
| Normal cost as % of payroll | 19.26% |
| % used to fund unfunded liabilities | 0.30% |



Highway Patrol Officers' Retirement System (HPORS)

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|---|---|
| Minimum service and age requirements | 20 years service, any age |
| Service retirement benefit formula | 2.5% x HAC (3 yrs) x years of service |
| Post-retirement benefit adjustments | Pre-7/1/97 who did not elect GABA: 2% of base salary of probationary officer; All post-7/1/97 or who elected GABA: 3% after 1 year Pre-7/1/91: supplemental lump sum to certain eligible recipients, paid from motor vehicle registration fees |
| Social Security coverage | No |
| Employer contribution as % of payroll | 26.15% |
| Employee contribution as % of salary | Pre-7/1/97 not electing GABA: 9.0% Post-7/1/97 or electing GABA: 9.05% |
| Additional funding as % of payroll | Driver's license fees: 10.18% |
| Total available contributions as % of payroll | 45.38% |
| Normal cost as % of payroll | 23.72% |
| % used to fund unfunded liabilities | 21.66% |



Judges' Retirement System(JRS)

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|---|--|
| Minimum service and age requirements | 5 years service and age 60 |
| Service retirement benefit formula | 3.33% x HAC x yrs of service to 15 yrs + 1.785% x HAC x yrs of service over 15 years; Pre-7/1/97: HAC = current salary Post-1/7/97 and those who elected GABA: HAC = highest 36 months |
| Post-retirement benefit adjustments | Pre-7/1/97: benefits increased same as salary of sitting judge; All post-7/1/97 or who elected GABA: 3% GABA after 1 year |
| Social Security coverage | Yes |
| Employer contribution as % of payroll | 25.81% |
| Employee contribution as % of salary | 7% |
| Additional funding as % of payroll | None |
| Total available contributions as % of payroll | 32.81% |
| Normal cost as % of payroll | 23.04% |
| % used to fund unfunded liabilities | 9.77% |



Municipal Police Officers' Retirement System (MPORS)

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|---|--|
| Minimum service and age requirements | 20 years service, any age |
| Service retirement benefit formula | 2.5% x FAC x years of service Pre-7/1/77: FAC = monthly compensation of last year |
| Post-retirement benefit adjustments | Pre-7/1/97 who did not elect GABA: 2 monthly salary of new officer; All post-7/1/97 or who elected GABA: 3% after 1 year |
| Social Security coverage | No |
| Employer contribution as % of payroll | 14.41% |
| Employee contribution as % of salary | Non-GABA: pre-7/1/75: 5.8% pre-7/1/79: 7.0% pre-7/1/97: 8.5% With GABA: 9.0% |
| Additional funding as % of payroll | State General Fund: 29.37% |
| Total available contributions as % of payroll | 52.78% |
| Normal cost as % of payroll | 26.32% |
| % used to fund unfunded liabilities | 26.46% |



Sheriffs' Retirement System (SRS)

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|---|---|
| Minimum service and age requirements | 20 years service, any age |
| Service retirement benefit formula | Pre-7/1/11: 2.5% x HAC (3 yrs) x years of service Post-7/1/11: 2.5% x HAC (5 yrs) x years of service |
| Post-retirement benefit adjustments | 3% GABA after 1 year if hired before 7/1/07 1.5% GABA if hired on or after 7/1/07 |
| Social Security coverage | Yes |
| Employer contribution as % of payroll | 10.115% |
| Employee contribution as % of salary | 9.245% |
| Additional funding as % of payroll | None |
| Total available contributions as % of payroll | 19.36% |
| Normal cost as % of payroll | 19.02% |
| % used to fund unfunded liabilities | 0.34% |

