



Principles and Guidelines for Montana's Public Employee Retirement Systems

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Administration and Veterans'
Affairs Interim Committee

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Purpose of Principles

- ✱ Consistently applying pension principles should produce good pension policy and help answer four fundamental questions:
 - What purpose should pensions serve?
 - Who should fund public pensions?
 - What standards should govern investment of pension assets?
 - How should pension benefits be allocated among beneficiaries?

Principle #1

- Pensions should provide financial security in retirement.
 - NOTE: In 1998, the Committee on Public Employee Retirement Systems modified this principle by stating that, "Pensions should provide the base of financial security in retirement."

Principle #2

- Pension funding should be a contemporary obligation.
 - See: Art. VIII, sec. 15, Montana Constitution, and 19-2-409, MCA.

Principle #3

- Pension investments should be governed by the Prudent Person Rule.
- See Art. VIII, sec. 13(3), Montana Constitution and 17-6-201, MCA.

Principle #4

- Pension benefits should be equitably allocated among beneficiaries.
- See 19-2-403(9), MCA.

Parsing Principle #1

- Pensions should provide (the base of) financial security in retirement.
 - Pensions represent income that is deferred during a person's working life in order to provide income after retirement. Governments have, generally speaking, two goals in providing pensions: to provide retirement income and to retain and reward long-term employees. State governments typically proportion retirement income to past earnings and length of service rather than to some specific measure of adequacy.
 - The phrase *in retirement* means at the completion of a working career, not at the end of employment.
 - The term *financial security* should be viewed in terms of a floor of benefits; in terms of a commitment from the pension sponsor that the income will continue as promised; and in terms of career employment.

Parsing Principle #2

- Pension funding should be a contemporary obligation.
 - Pension funding should be the obligation of public employers, employees, and people receiving the services provided by public employees at the time those services are provided.
 - The cost of government employees' compensation should not be deferred in any way to future taxpayers.

Parsing Principle #3

- Pension investments should be governed by the Prudent Person Rule.
 - The care, skill, prudence and diligence are to be measured in circumstances then prevailing according to how a prudent person in a like capacity and familiar with such matters would act in the conduct of an enterprise of like character and with like aim.
 - A fiduciary must discharge his or her duties solely in the interest of the participants and beneficiaries.
 - The actions of investment authorities are judged and require that the standard be applied to the factual situation as it was understood at the time, not through hindsight.
 - The Rule requires knowledgeable, cautious investment, emphasizing "prudence, discretion and intelligence" while prohibiting speculation.
 - The Rule emphasizes the joint aims of protecting capital and maximizing investment income, requiring a balance of the two.

Parsing Principle #4

- Pension benefits should be equitably allocated among beneficiaries.
 - Legislators should eliminate retirement provisions that unreasonably differentiate among groups of employees.
 - Legislators should outlaw abuses, such as "spiking" in which a person manipulates compensation just before retirement in order to qualify for a higher benefit.
 - Portability of benefits between units of government within the same state should be facilitated.
 - Legislators should explore cooperative measures to allow interstate portability.
 - Legislators should consider allowing employees to purchase service credit at actuarial cost for public employment for which the employee is ineligible to receive a vested benefit.



Purpose of Guidelines

- ✿ Establishing and adhering to pension guidelines should enhance legislators' ability to consistently implement pension principles and provide continuity.

Guideline #1

- The legislature should approve all changes of benefits. (Principles 1 and 4.)
 - See in Title 19, MCA, e.g.: Ch. 3, parts 9, 10, 12, & 16; Ch. 5, parts 5 through 9; Ch. 6, parts, 5, 6, 7, and 9, MCA; et al.

Guideline #2

- The legislature should approve the funding of the state's retirement systems. (Principles 1, 2, and 4.)
 - Art. VIII, sec. 15, Montana Constitution, and 19-2-409, MCA
 - See 19-3-315 & 19-3-316; 19-5-402 & 19-5-404; 19-6-402 & 19-6-404, MCA, et al.

Guideline #3

- The legislature should regularly review the management of the state's public retirement systems and the investment of the systems' assets. (Principles 1, 2, and 4.)
 - See 19-2-407, 17-5-1650, and 5-5-228, MCA.

Guideline #4

- The legislature should establish a permanent pension review body to analyze the problems of the state's public retirement systems on an ongoing basis and to make recommendations for state legislative action. (Principles 1, 2, and 4.)
 - See 2-15-1009, 2-15-1010, 2-15-1808, and 5-5-228, MCA.

Guideline #5

- The legislature should require advance funding of pension benefits to ensure that pension costs are not shifted to future taxpayers. (Principles 1 and 2.)
 - Art. VIII, sec. 15, Montana Constitution, and 19-2-409, MCA
 - See 19-3-315 & 19-3-316; 19-5-402 & 19-5-404; 19-6-402 & 19-6-404, MCA, et al.

Guideline #6

- The legislature should require a fiscal note when establishing or amending pension plan benefit provisions. (Principles 1 and 2.)
 - See Title 5, ch. 5, part 2, and 5-5-228, MCA.

Guideline #7

- The legislature should ensure that the full, long-term costs of early retirement programs and incentives should be calculated before such a program is adopted in order to allow the legislature to provide for the costs. (Principles 1, 2, and 3.)
 - See Title 5, ch. 5, part 2, and 5-5-228, MCA.

Guideline #8

- The legislature should ensure that post-retirement adjustments should be independently funded and have a ceiling on the percentage of increase for a single year. (Principles 1, 2, 3, and 4.)
 - See, e.g.: 19-3-1606, 19-3-607, 19-5-901, 19-5-902, 19-20-719, MCA; et al.

Guideline #9

- The legislature should provide strict guidelines for disability coverage and should provide follow-up periodic screenings of disabled retirees. (Principles 1, 2, and 4.)
 - See 19-2-406, MCA, and, in Title 19, MCA: Ch. 3, part 10; Ch. 5, part 6; Ch. 20, part 9; et al.

Guideline #10

- The legislature should use extreme care in developing health insurance provisions for retired employees and, preferably, should provide for separate accounting and funding from retirement programs. (Principles 1, 2, and 4.)
 - Retirees from Montana public retirement systems do not receive health insurance or an employer-paid contribution to health insurance premiums as a retirement benefit. However, a retiree may pay the full cost of premiums to be covered by the employee's employer-sponsored group insurance plan. (See 2-18-704 and 19-20-1101, MCA.)

Guideline #11

- The legislature should establish strict fiduciary standards and conflict of interest laws to govern the conduct of trustees as they manage the assets of the retirement system. (Principles 1, 2, and 3.)
 - See Art. VIII, secs. 13(3) and 15, Montana Constitution, and 17-6-201(1), 19-2-505, and Title 2, ch. 2, MCA.

Guideline #12

- The legislature should move toward requiring annual actuarial reports using uniform actuarial assumptions to evaluate the financial soundness of the state's public retirement systems. (Principles 1, 2, and 3.)
 - See 19-2-405, 19-20-201, and 17-5-1650, MCA.

Guideline #13

- The legislature should provide for reciprocity of benefits for workers who shift jobs within the state and its political subdivisions and portability for those who shift jobs across state lines. (Principles 1, 2, 3, and 4.)
 - See Title 19, ch. 2, part 5, and Title 19, ch. 20, part 4, MCA.

Guideline #14

- The legislature should ensure that pension plan participants are fully informed of plan provisions, including benefits, service and vesting requirements, assets and liabilities, investment performance and risk, actuarial assumptions and data, fiduciary requirements and selection of plan trustees. (Principles 1, 2, 3, and 4.)
 - See 19-3-112, MCA.

Guideline #15

- The legislature should support coordination of state and local retirement systems. (Principles 1, 2, 3, and 4.)
 - See 19-2-503, 19-2-504, Title 19, ch. 3, part 2, and 5-5-228, MCA.

Guideline #16

- The legislature should encourage and support the efforts of state retirement system administrators to comply with the principles of pension system administration established by the Public Pension Coordinating Council. (Principles 1, 2, and 4.)
 - See 5-5-228, MCA.

Guideline #17

- Postretirement benefit increases should not be indexed. (Principle 2.)
 - See, e.g.: 19-3-1606, 19-3-607, 19-5-901, 19-5-902, 19-20-719, MCA; et al.

Guideline #18

- An annual postretirement benefit increase should be provided. (Principle 1.)
 - See, e.g.: 19-3-1606, 19-3-607, 19-5-901, 19-5-902, 19-20-719, MCA; et al.

Guideline #19

- One-time, *ad hoc* benefit increases should not be enacted. (Principle 2.)

Guideline #20

- Minimum benefit increases should be supported. (Principle 1.)
 - See 19-3-1606, 19-6-707, 19-8-1104, MCA, et al.

Guideline #21

- Employees should belong to a retirement plan. (Principles 1, 2, and 4.)
 - See Title 19, ch. 3, part 4 and 19-20-302, MCA.

Guideline #22

- Local governments should have the option of covering rural firefighters under FURS. (Principles 1, 2, and 4.)
 - See 19-13-210 and 19-13-211, MCA.

Guideline #23

- Retirement benefit formulas in the public safety retirement plans should be similar. (Principle 4.)
 - In Title 19, see: Ch. 6, parts 5-7 and 9; Ch. 7, parts parts 5-7 and 9; Ch. 8, parts 6-8, 10 and 11; Ch. 9, parts 8-12; Ch. 13, parts 7-10, MCA.

Guideline #24

- Retirement benefit formulas or retirement eligibility criteria should not encourage early retirement. (Principles 2 and 4.)
 - See 19-3-902, 19-3-2123, 19-3-2124, 19-3-2126, 19-5-502, 19-5-503, 19-6-501, 19-6-503, 19-7-501, 19-7-502, 19-8-601, 19-8-604, 19-9-801, 19-13-701, 19-18-602, 19-19-401, 19-20-801, and 19-20-802, MCA.

Guideline #25

- If retirees return to work they should be encouraged to return to active retirement plan membership. (Principles 1 and 2.)
 - See 19-3-1106, 19-7-1101, and 19-20-731, MCA.