

# SAVA Decision Tool for HJR 59: Public Employee Retirement Systems

Prepared for the State Administration and Veterans Affairs Interim Committee

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## Background

The HJR 59 study began in June 2007 with the adoption of a proposed "Meeting Schedule and Work Plan" that included an outline of staff and committee tasks and a time line to accomplish the perceived objectives of the Legislature with respect to the state's public employee retirement systems.

To date, the Committee has been briefed on: the development and status of Montana's public employee retirement systems, including identifiable rationales for various provisions; the background on policy principles and objectives adopted by the 2005-06 SAVA; current trends and best practices in public retirement plan design; and the observations and experience of retirement system "stakeholders" with the shortcomings of the state's current public employee retirement systems and goals for improving the retirement systems.

## Objective

The purposes of this exercise are twofold: (1) to assess the information that has been provided to the Committee in pursuit of satisfying the commission given to the Committee in HJR 59; and (2) to identify questions that SAVA members may still have about the various items of concern or interest listed in HJR 59, particularly in the "Therefore" clauses. Member questions or requests for additional information may relate to:

- topics examined by the Committee previously but not sufficiently to provide the necessary or desired level of detail, analysis, or clarity;
- general questions about such matters as the details or design(s) of Montana's or of another jurisdiction's public employee retirement plans;
- procedure, such as what the SAVA might still do to have successfully accomplished the goals of the Legislature pursuant to HJR 59 or what elements remain on the HJR 59 time line.

## Language in HJR 59

The simple language of HJR 59 requests the Committee to produce a legislator's guide about the state's public employee retirement systems. The guide is to include:

- (1) a brief history of Montana's retirement plans;
- (2) a concise summary of the rationale for the current retirement plan features of Montana's public employee retirement systems, including but not limited to vesting, early retirement, disability, postretirement benefit adjustments, postretirement earning limits, service purchase and rollover provisions, and benefit formulas;
- (3) an overview of and background on policy principles established by the State Administration and Veterans' Affairs Interim Committee pursuant to section 5-5-228(2)(b), MCA, the retirement boards, and the Board of Investments;
- (4) a review of current trends and best practices in public retirement plan design and funding, including a compilation of research and analysis comparing and contrasting options such as money purchase plans, cash balance plans, floor plans, pension equity plans, deferred retirement option plans, and other hybrid defined benefit and defined contribution retirement plans;
- (5) a comparison of Montana's public employee retirement systems with current trends and best practices, and identification of viable alternatives to current structure and funding;... (Excerpted from House Joint Resolution No. 59, 2007.)

With respect to HJR 59's directives (1) and (2): LSD staff have drafted for and presented to the Committee, *An Overview of the Development and Status of Montana's Public Employee Retirement Systems*. It is the staff's intent to substantially summarize the *Overview* for inclusion in the legislator's guide.

With respect to HJR 59's directive (3): LSD staff have presented to this Committee an overview of the *Principles and Guidelines for Public Employee Retirement Systems*, adopted by the State Administration and Veterans' Affairs Interim Committee in June 2006. Pursuant to section 5-5-228(2)(b), MCA, this Committee also must "establish principles of sound fiscal and public policy as guidelines" to be used by stakeholders, the members of this Committee, the relevant legislative standing committees, and individual legislators in assessing retirement-related legislation proposed for consideration by the 61st Legislature (2009).

The Committee can choose to re-adopt the "*Principles and Guidelines*" adopted by the 2005-06 Committee in June 2006, revise and adopt the *Principles and Guidelines* to comport with this Committee's best judgment, or develop a new set of principles and guidelines for stakeholders, legislators, and legislative committees to use whenever considering retirement-related proposals or legislation. Whichever direction the Committee chooses, it should adopt its "principles" by the conclusion of the next meeting, January 7, 2008.

With respect to HJR 59's directive (4): LSD staff have drafted for and presented to the Committee a briefing paper, *Identifying Trends in Public Employee Retirement*. For good, ill, or naught, there doesn't seem to be a universally recognized list of "best practices" regarding public employee retirement plans. However, the Committee can identify its own set of best practices and, potentially, meld them into its list of "principles and guidelines", which can subsequently be integrated into the legislator's guide. If the Committee chooses to establish its own list of "best practices", it should also adopt them by the conclusion of the January 7, 2008 meeting.

With respect to HJR 59's directive (5): Because there is no universally recognized list of current trends or "best practices", neither the staff nor the Committee's members can compare Montana's public employee retirement systems with current trends and best practices or, consequently, identify viable alternatives to the structure of and funding for Montana's plans' to bring the state's plans more in line with the trends or practices. However, if the Committee establishes a list of best practices, staff will attempt to compare Montana's retirement plans to the list and identify alternatives as contemplated in the resolution.

Directive (6) of HJR 59 asks for, "(6) a general analysis of the fiscal implications of potential plan design changes on employee and employer contributions, retirement savings, investment responsibilities, and funding obligations". It is possible to provide an analysis of potential plan design changes, but in only very general terms unless and until a specific proposal to change the plan design is on the table.

For example, it would probably be accurate to state that increasing the minimum retirement age for any of the plans would (or at least could): (a) reduce contribution rates for employers or employees, or both ; (b) reduce the normal cost of the retirement plan; (c) allow for lower investment returns without damaging actuarial soundness; and (d) reduce funding obligations overall because the normal cost of the plan would be reduced. However, such examples are numerous and varied and probably would not provide sufficiently meaningful information from which a sound policy judgment could be made.

Directive (7) of the resolution charges the Committee to include in the legislator's guide findings and recommendations "... on whether Montana's public employee retirement plans should be updated or changed and if so, how, to best serve public employers, public employees, and all people of Montana". Staff will draft narrative to satisfy the directive subsequent to the Committee adopting one or more recommendations to change or update any of the retirement plans.

Moving forward

To move forward, the Committee will need to answer a number of questions. Following the outline provided by HJR 59, some of those questions follow.

1. What additional information, if any, does the Committee wish to have about the history of Montana's public employee retirement plans? \_\_\_\_\_

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2. What additional information, if any, does the Committee wish to have about:

- vesting; \_\_\_\_\_
- early retirement; \_\_\_\_\_
- disability; \_\_\_\_\_
- postretirement benefit adjustments; \_\_\_\_\_
- postretirement earning limits; \_\_\_\_\_
- service purchase and rollover provisions; \_\_\_\_\_
- benefit formulas; or \_\_\_\_\_
- other factors affecting public employee retirement plans? \_\_\_\_\_

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3. What additional information, if any, does the Committee wish to have about policy principles established by:

- the 2005-06 State Administration and Veterans' Affairs Interim Committee pursuant to section 5-5-228(2)(b), MCA; \_\_\_\_\_

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- the Public Employees' Retirement Board; \_\_\_\_\_

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- the Teachers' Retirement Board; or \_\_\_\_\_

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- the Board of Investments? \_\_\_\_\_

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4. What additional information, if any, does the Committee wish to have about policy principles to be established by the current SAVA pursuant to section 5-5-228, MCA?

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5. What additional information, if any, does the Committee wish to have about current trends and best practices in public retirement plan design and funding? \_\_\_\_\_

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6. What additional information does the Committee wish to have about retirement plan options such as money purchase plans, cash balance plans, floor plans, pension equity plans, deferred retirement option plans, and other hybrid defined benefit and defined contribution retirement plans? \_\_\_\_\_

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7. What alternatives to current structure and funding does the Committee wish to propose and, by implication, wish to have analyzed? \_\_\_\_\_

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8. What does the Committee wish to report as its findings and recommendations, to be included in the legislator's guide, drafted as legislation, etc.? \_\_\_\_\_

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