

PUBLIC EMPLOYEES' RETIREMENT BOARD
100 N Park, Rm 201
Helena MT 59620

Board Legislative Committee Minutes
September 10, 2012
3:00 pm

Chairman Terrence Smith called the PERB Legislative Committee conference call to order at 3:00 p.m. on Monday, September 10, 2012. Roll call was taken. Board members and staff present were:

Committee Members:
Terrence Smith, Chair
Bob Bugni, Member
Scott Moore, Member

Other Board Members:
Darcy Halpin
Dianna Porter
Timm Twardoski

Staff:
Melanie Symons, Chief Legal Counsel
Patricia Davis, Member Services Bureau Chief
Kate Talley, Attorney
Barb Quinn, Fiscal Services Bureau Chief
Hollie Koehler, Internal Auditor
Jenny Weigand, Education Supervisor
Flora Sebens, Executive Assistant

Public:
Jessie Luther, AMT
Tom Schneider, MPEA
Diane Fladmo, MCA MFT

- I. Roll Call**
Roll call was taken. Chairman Terrence Smith, Members Scott Moore, Member Dianna Porter, Darcy Halpin and Timm Twardoski participated via telephone. Member Bob Bugni attended in person.
- II. Public/Member Comment** on any subject of interest to the Board not on the agenda.
No public comment.
- III. Approval of Legislative Committee Meeting Minutes – August 6, 2010**
The minutes of the August 6, 2012, PERB Legislative Committee Meeting were presented.

Motion: Member Scott Moore moved to approve the minutes of the August 6, 2012, PERB Legislative Committee Meeting.

Second: Member Bob Bugni

No public comment.

Vote: 3/0

IV. Executive Director Report – background information and objective

A. SAVA Meeting – September 11, 2012

The SAVA Meeting is scheduled September 11, 2012. They will discuss the Governor's proposed bill for PERS and TRS unfunded liabilities.

The PERS bill currently reads as follows:

"An Act revising the funding of the public employees' retirement system; providing that the unallocated portion of coal severance tax collections be statutorily appropriated to the public employees' defined benefit retirement plan; revising employee and employer contributions to the system's defined benefit and defined contribution plans; providing for an additional actuarially determined contribution from local government and school district employers with employees covered under the system's defined benefit plan; amending sections 15-35-108, 19-3-315, and 19-3-316, MCA; and providing an effective date."

They are proposing amendments to the allocation of excess coal tax, putting additional money from coal tax into the Defined Benefit Plan, increasing employee and employer contributions by 1% except for new hires. All members and employers will have a 7.9% contribution rate.

They added a "new section" (Section 4) to the bill that states: "Local employer actuarial contributions. On July 1 of each year, in addition to the employer contribution required under 19-3-316, each local governmental entity and school district employer shall contribute to the defined benefit plan an amount certified by the board to be that employer's share of the actuarially determined contribution as of the system's latest annual actuarial valuation."

Cash Balance Retirement Plan Request

Senator Arthun requested information concerning the Kansas, Nebraska and other state cash balance retirement plans for their public employees. Sheri Scurr responded to him with information about Kansas, Nebraska and Louisiana, which were the only three that she had information on. She included a table that showed the provisions of all of those plans. Each of these states talked at the NASRA Conference about their Cash Balance Retirement Plans.

This is not on the SAVA meeting agenda for discussion, but there is information on the SAVA website for review.

B. Governor's Proposal

The Governor's bill will be discussed at the SAVA Committee meeting. Chairman Terrence Smith questioned why the coal tax money is not applicable to the entire state and local government in the Governor's bill. It was explained that right now this money goes into the General Fund for the benefit of State agencies only. The Department of Revenue determines how much each State agency is to receive. The Governor's bill does not address how the rest of the unfunded liability is going to be covered. The State is only putting up enough money to cover the State's share.

The Coal Tax is not due to be allocated out until July 1, 2015. Chairman Smith suggested amending that to 2013 instead.

It was agreed we would ask Dan Villa, Governor's Office Budget Director, to give a presentation at the Board Retreat and wait to make a decision until after everyone has had a chance to hear his response to concerns about contract rights and the local government employer supplement.

Other items that will be discussed at this meeting are:

- Staff analysis and committee report on retirement plan proposals submitted for SAVA's review
- Actuarial analysis and interactive spreadsheet on dollar costs by employers on 30 year and 40 year amortization schedule, as requested by SAVA at the August meeting.
- Final action on LCsa06 (TRS), 07 (PERS) and 08 (SRS, GWPORS, and HPORS) to address unfunded liabilities.

In November SAVA will discuss the final drafts of these bills and make a final decision.

C. SRS, HPORS and GWPORS

Bill LCsa08 draft is unavailable and will be discussed at the November SAVA Committee meeting and decided upon then.

D. Senator Lewis' Request

Senator Lewis would like a memo from the Teachers' Retirement Board and the Public Employees' Retirement Board that states the actual investment return for each pension fund for FY 2012 along with a statement from each board articulating the board's position or policy with respect to this return (i.e., in Sen. Lewis' words "what, if any, action they will take". An outline of Roxanne Minnehan's response to Senator Lewis is as follows:

- Rates of Return for FY 2012 and FY 2011
- Smoothing Method for Valuing Assets
- Process for Determining the Actuarial Assumed Rate of Return
- Actuarial Required Contributions
- Plan Design Changes for Long-term Plan Sustainability
- 2011 Legislative Session
- Board's Funding Policy
- Investing Board Assets is the Board of Investments Responsibility

In Ms. Minnehan's response to Senator Lewis she gave him the rates of return for each system for 2012, but she also gave him last year's rates to make the distinction between the two. This year it was approximately 2.4 and last year was 21.8. Ms. Minnehan stressed that there is a lot of volatility in the market and that it was important that we stay the course and not react to short-term returns.

Dave Senn, TRS Executive Director, is not able to submit his response until next week. Chairman Smith and Member Scott Moore approved the letter that Ms. Minnehan drafted and agreed it should be sent at the same time TRS sends their letter.

E. Other Legislation Issues

Chairman Smith pointed out that 30 basis points are currently going to the DC Disability Plan, which is equivalent to about \$250,000 per year. He felt we should change the allocations and consider putting those basis points towards the DC unfunded liability instead, rather than building up a large amount of money in the Disability Plan that is not needed right now. He felt it would put more money into the DB Plan faster.

Staff recommended getting input from our actuary before deciding upon this because they have been trying to build the disability funding. Staff expressed concerns of more disabilities in the future creating a significant deficiency in the disability plan. It was questioned whether or not staff had the time to do a thorough analysis considering the tremendous workload they already have.

It was suggested this be discussed at a future Board meeting.

F. Directives to Staff

There were no directives given to staff.

V. Adjournment

There being no further business before the Legislative Committee, Chairman Terrence Smith adjourned the meeting at approximately 4:00 p.m.