

# PUBLIC EMPLOYEES' RETIREMENT BOARD

100 N Park, Room 201

Helena MT 59620

## Board Legislative Committee Minutes

Tuesday, February 12, 2013

Chairman Terrence Smith called the PERB Legislative Committee meeting to order at 1:02 p.m. on Tuesday, February 12, 2013. Board Members that participated in the meeting:

### *Committee Members:*

Terrence Smith, Chair

Scott Moore

Darcy Halpin

Bob Bugni

Timm Twardoski

Dianna Porter

### *Staff:*

Roxanne Minnehan, Executive Director

Melanie Symons, Chief Legal Counsel

Barbara Quinn, Fiscal Services Bureau Chief

Hollie Koehler, Internal Auditor

Kate Talley, Attorney

Jenny Weigand, Education Supervisor

Joshua Crone, Executive Assistant

### *Public:*

Mike O'Connor, MPERA

Tom Schneider, MPEA

Doug Neil, MSFA

## OPEN MEETING

### I. Roll Call

Roll call was taken. Member Bob Bugni was present. Chairman Terrence Smith and Members Darcy Halpin, Scott Moore, and Timm Twardoski participated via telephone. Member Dianna Porter joined the meeting via telephone at 1:10 p.m. Board member absent: Melissa Strecker.

### II. Public / Member Comment

None.

### III. Approve Minutes – February 5, 2013

The minutes from the February 5, 2013 Legislative Committee meeting were presented.

**Motion:** *Member Scott Moore made a motion to approve the February 5, 2013 minutes as presented.*

**Second:** *Member Darcy Halpin*

**No public comment.**

**Vote:** 4/0, Member Bob Bugni abstained.

Member Dianna Porter joined the meeting via telephone at 1:10 p.m. immediately after voting was completed.

#### **IV. Executive Director Report**

##### **a. Review Introduced Legislation**

##### **1. HB 338 – Provide funding for pension debts, all new hires to DC plan**

Sponsored by Representative Keith Regier (R), HB 338 would change the Board from 7 to 11 members and would define the composition of the board itself. Further, all new hires would become a part of the defined contribution plan with increased employee contribution rates.

Roxanne Minnehan stated that Barbara Quinn, Fiscal Services Bureau Chief, and Mike O'Connor, MPERA, are currently working on the fiscal note for this bill. The information was received from the actuary on February 11, 2013.

Mr. O'Connor discussed the information from the actuary. HB 338 will front load the plans that are closed; the UAL will have to be paid off over a dollar amount instead of as a percent of salary; once a retirement system is 100% funded, the extra money from the coal tax and the money from employers for DC members will stop. 5 to 6 years out, all that money stops and then the funded ratio begins to decline. For PERS, the plan does not amortize by 2025, so we would be back to a system that is not actuarially sound.

Ms. Quinn commented that the actuary is using the same assumptions as the Teachers' Retirement System actuary. Using a decreasing assumed actuarial rate. Because the closed systems become more heavily weighted to retired member, the investment policy will become more conservative. The actuary reduced the rate of return over time. 2012 - 2024 7.75%. 2025 – 2036 6.625%. 2037 and beyond 5.5%.

Mr. O'Connor discussed the impact of HB 338 on the other retirement systems. JRS would be 100% funded. HPORS continues to be 100% funded after that money is input. SRS would become unsound in 2030. GWPORS would become unsound in 2032. MPORS would become unsound in 2038. FURS would remain sound indefinitely. VFCA would remain sound indefinitely.

Mr. O'Connor asked the actuary to examine how much the UAL would be reduced by eliminating the GABA for both active and retired members. In PERS, the liability would be reduced by \$1.1 B. HB 338 suspends the GABA, with no provision to reactivate.

Member Bugni commented that it was prudent to use a scaled down investment assumption. As the system expands its number of retirees, the asset allocation must correspondingly evolve toward one comprised more of bonds and other similarly liquid assets, tilting away from equities. Given the current returns in the bond market, this would lower the assumed rate of return significantly. The 5.5% probably is not conservative enough.

Ms. Quinn will send the fiscal notes to the Governor's Budget Office on a system by system basis, sending the PERS fiscal note last, given its size and complexity.

## 2. SB 227 – Eliminate pension eligibility for legislators

Introduced by Senator Edward Walker (R), SB 227 was introduced in the Senate and was referred to the State Administration Committee. This bill would prohibit new legislators from receiving membership service or service credit in any public employee retirement system for the legislative term beginning on January 5, 2015.

Chairman Smith asked about the actuarial impact of SB 227. Ms. Quinn explained that it would have an insignificant impact, given the small number of legislators in the retirement system.

Ms. Minnehan reported that SB 227 was heard by the Senate State Administration Committee on February 8. Ms. Minnehan has been working with Senator Walker. She spoke with President Scott Moore about testifying as neutral. Overall, the Committee did not seem receptive to the bill. Senator Walker spoke of an amendment to put new and current legislators into the DC plan. Ms. Minnehan suggested to Senator Walker that if a legislator was currently a member in a retirement plan, they be allowed to remain and that any non-member legislators be consigned to the DC plan.

Melanie Symons added that she would be having a telephone conference call with tax counsel on February 15, 2013 for the purpose of determining whether members can be in the DB and DC plans simultaneously.

Member Bugni inquired as to the Board's rationale for being in opposition to SB 227. Ms. Minnehan responded that SB 227 would serve to discourage public citizens from serving in the legislature because it could reduce their retirement benefit by reducing their HAC and their service credit by having a break in service.

Chairman Smith asked whether the Committee was impressed with the bill. Ms. Minnehan responded no.

### b. Review Unintroduced Legislation

#### 1. LC 0540 – Establish cash balance benefit tier in TRS and PERS for new hires

Requested by Senator Ron Arthun (R), this bill establishes a cash balance benefit tier for new members in the Public Employees' Retirement System and the Teachers' Retirement System; provides definitions; specifies membership criteria; establishes member rights and benefits; specifies retirement Board duties and authorizes rulemaking; and requires each retirement Board to seek a ruling from the Internal Revenue Service concerning compliance with federal tax qualification provisions governing the retirement systems.

Ms. Minnehan stated that the bill draft has been going through several revisions and has not been introduced.

Ms. Symons added that she spoke with Senator Arthun and was eager to get the bill introduced. It would be nice if further revisions could be delayed.

Mike O'Connor stated that the bill draft had been back for redo several times and that he asked the sponsor to hold off making any more changes so that MPERA would have the opportunity to examine the actuarial report.

Ms. Symons noted that the bill draft was returned to the drafter for an edit review on February 12, 2013.

2. LC 0871 (HB 454) – Provide funding for the public employees' retirement system defined benefit plan

Requested by Senator Jim Keane (D), LC 0871 provides funding for the Public Employees' Retirement System; provides that the unallocated portion of coal severance tax collections is statutorily appropriated to PERS-DBRP; revises the allocation of interest income from the coal tax permanent fund; and temporarily increases employee and employer contributions to PERS for each year of the biennium.

Mr. O'Connor said that LC 0871 had just been introduced and was being sponsored by Representative Bill McChesney (D). LC 0871 is now known by its bill number, HB 454.

Ms. Minnehan stated that the final draft of LC 0871 had been sent off to the actuary, but it was unknown whether the actuary had had time to review the bill draft, given his work on HB 338.

3. LC 1124 – Assess a fee for PowerPoint presentation to fund retirement system

Requested by Senator Jim Keane (D), this bill draft requires that any PowerPoint presentation made to the legislature be accompanied by a fee of \$250 for a presentation of up to 5 minutes in length and \$500 for a presentation more than 5 minutes in length. The fee must be deposited in the state special revenue fund and must be appropriated to the pension trust funds.

Ms. Minnehan stated the bill draft had not yet been introduced.

4. LC 1784 – Add cost of living adjustment for volunteer firefighters at 2% every year

Requested by Representative Amanda Curtis (D), this bill draft will be reviewed by the actuary to determine the financial impact.

Member Bugni asked if the increase was an ad hoc 2% or if it was annual. Mr. O'Connor replied it is an annual 2% cost of living adjustment.

5. LC 2019 – Increase pension for certain volunteer firefighters

Requested by Representative Ed Lieser (D), this bill draft allows the board of trustees of a fire department relief association to increase the pension benefit amount for members of the association who are volunteers.

Ms. Minnehan commented that this bill draft pertains to relief associations, once again. Mr. O'Connor stated he spoke with Representative Lieser about the intent of the legislation and that Representative Lieser redid the bill draft to make it applicable to relief associations, rather than the VFCA.

d. Bill Status Reports

1. HB 53 was signed by the Senate President.
2. HB 91 was referred to the Senate State Administration Committee.
3. HB 95 will be heard February 12, 2013 by the House Appropriations Committee.
4. HB 96 is currently in the Joint Select Committee on Pensions.
5. HB 97 was heard February 4, 2013 by the House State Administration Committee.
6. HB 105 passed on the floor 2<sup>nd</sup> reading in the House, 92-8.
7. HB 122 was referred to the Senate State Administration Committee.
8. HB 162 will be heard February 15, 2013 by the Senate Public Health, Welfare and Safety Committee.
9. HB 282 will be heard on February 14, 2013 by the Joint Select Committee on Pensions.
10. HB 336 will be heard on February 13, 2013 by the House Appropriations Committee.
11. HB 382 will be heard on February 14, 2013 by the Joint Select Committee on Pensions.
12. SB 261 will be heard on February 15, 2013 by the Senate State Administration Committee.

e. Other

Member Bugni asked whether any of the bills the Board is supporting are not fully funded, in the sense that the unfunded liabilities will increase. Ms. Minnehan replied that the coal tax bill was not going to address the issue; it will address the issue for GWPORS within 10 years. Member Bugni asked if there were any other bills the Board is supporting that are similar to HB 234, where the retirement benefits are going to increase but the bill is not going to fund them. Ms. Minnehan replied that with HB 234, the UAL will increase, but the amortization period decreases slightly due to the State contributions into MPORS and FURS.

Chairman Smith added that HB 175 might add to the UAL of the systems, though marginally so.

Chairman Smith asked Ms. Minnehan about the testimony of the Pew Research Center February 12, 2013 before the Joint Select Committee on Pensions, the House State Administration Committee, and the Senate State Administration Committee.

Ms. Minnehan discussed the testimony before the Committees. Pew stated DB plans are not the best, that they lock people insofar as their retirement plans go, making people into career employees. The actuarial rate of return would be closer to 6.25%. The long term sustainability of any retirement is a concern. Wisconsin, New York and North Carolina have done well due to fiscal discipline, contributing the actuarially required contributions and reducing COLAs when returns were bad. DB plans' assumptions are problematic and they are 80 to 90 year promises to workers. It is important to decide what to do first, and then determine the cost, and the impact on recruiting and retaining new workers. Most states have made changes for new employees, but they still need to find a way to fund the costs of their plans.

Member Bugni commented that he listened to a portion of the testimony and liked the message to the Committee: states that have funded the ARC are in good shape and it is necessary to fund the ARC.

Ms. Minnehan reported that Senator Lewis had a study available for the Committee from George Mason University which assessed Montana's pension funding shortfall. The study states that Montana's rate of return assumption should be based on the yield of a 15 Year Treasury bond, which

was 2.03% at June 30, 2012. If you reduce pension plans' rate of return to 2.03%, the UAL increases dramatically.

Member Bugni reported that the Board of Investments received current data showing the preliminary performance results for PERS for the year ended December 31, 2012. The one year return was 13.24%, the three year return was 9.26%, the five year return is 2.18%, the ten year return is 7.01%, and the total return since July 1, 1994 is 7.33%. These are net returns, after fees. The state investments did very well in 2012 and Chairman Smith suggested that these returns be communicated to the Joint Select Committee on Pensions on February 14, 2013.

Chairman Smith stated that it would be good to find out the UAL on the retirement plans if the assumed rate of return were changed to 7.00%. Member Bugni ventured that it would probably add \$1 billion in UAL.

***Public Comment:***

**Tom Schneider, MPEA, stated that Senator Lewis told him after hearing the investment expense under Board of Investments had gone from two basis points to sixty basis points, that we really ought to look at putting the investments back with the retirement systems.**

Chairman Smith asked Ms. Minnehan if she had seen the Pew report and if there were recommendations within it. Mr. O'Connor replied that it is primarily an analysis.

Ms. Minnehan reported that she had been contacted by Teachers' Retirement Board Executive Director Dave Senn informing her that Pew was having meetings in the Legislative Audit board room on February 12, 2013 and that anyone could go listen. Ms. Minnehan then went over to the Capitol and could not get past the front desk. The receptionist asked Ms. Minnehan if she had an appointment and then stated that they had broken for lunch and that there was an appointment scheduled for noon; Ms. Minnehan would have to return later.

Chairman Smith inquired whether this was legal.

Ms. Symons responded she received an email from Assistant Principal Fiscal Analyst Joe Triem with the Legislative Fiscal Division stating where the meetings were and that if there was already an appointment scheduled there is not anything left to do but attend. He also gave the phone numbers to call if one wished to make an appointment with Pew. Mr. Triem made it very clear that these numbers were to contact Pew, not the legislature.

Chairman Smith asked whether MPERA staff would be scheduling an appointment with Pew. Mr. O'Connor and Ms. Symons stated we should.

***Public Comment:***

**Tom Schneider informed Member Porter that if a Senate bill goes to the House, goes into committee, and no one is set up to carry that bill on the floor of that house, the committee itself will assign the bill to one of its members to carry. That's why you want to have a sponsor, a person to carry the bill on the floor; otherwise it will be done by the committee. The primary sponsor is the person who presents the bill in the opposing house committee.**

**ADJOURNMENT:**

There being no further business before the Legislative Committee, Chairman Terrence Smith adjourned the meeting at approximately 2:25 p.m.

DRAFT