



DIRECTIONS NEWSLETTER for active and retired members of the Defined Benefit Retirement Plan (DBRP), the Defined Contribution Retirement Plan (DCRP), Participating Employers and 457(b) Deferred Compensation Participants

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SPECIAL LEGISLATIVE EDITION

May 2013

Governor
Steve Bullock

Dear Members and Employers,

MPERA

Executive Director
Roxanne Minnehan

**Public Employees'
Retirement Board (PERB)**

Board President

Scott Moore

Active Public Employee

Miles City, MT

Appointed 4/1/2010

Term Expires 3/31/2015

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Board Vice-President

Terrence Smith

Active DC Plan Member

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Appointed 4/1/2009

Term Expires 3/31/2014

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Bob Bugni

Investment Management

East Helena, MT

Appointed 12/13/2011

Term Expires 3/31/2014

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Mike McGinley

Member at Large

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Appointed 04/01/2013

Term expires 3/31/18

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Melissa Strecker

Active Public Employee

Missoula, MT

Appointed 6/26/2012

Term expires 3/31/2017

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Member at Large

Helena, MT

Appointed 4/1/2011

Term Expires 3/31/2016

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Sheena Wilson

Retired PERS Member

Helena

Appointed 4/01/2013

Term expires 3/31/18

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Should any information in this newsletter conflict with statute or rule, the statute or rule will apply.

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Wow, what a session! Our goals were to preserve the defined benefit retirement plans and secure plan funding. We knew it was not going to be easy. Defined benefit plans were the object of some formidable opposition. Several bills were proposed to eliminate the defined benefit plans, replacing them with either cash balance plans, hybrid plans or defined contribution plans. In the end, our defined benefit plans survived, with some modification. Sacrifices have been asked of all stakeholders: the state, employers, employees and retirees.

The Public Employees' Retirement Board (PERB) voted to support HB 454 sponsored by Representative Bill McChesney. This bill provided the necessary funding for PERS. Unfortunately, throughout the session, the bill was amended to reduce the Guaranteed Annual Benefit Adjustment (GABA) for all PERS members. Many discussions centered on whether changing the GABA would impair contract rights. It appears the legislature decided to let the courts decide whether the contract impairment, if any, will survive a constitutionality challenge. Although a difficult decision, the Board supported HB 454 as amended because it was the only remaining bill that addressed PERS funding concerns."

We want to extend a special thank you to Representative Franke Wilmer, Representative Bill McChesney, Senator Larry Jent, Senator Ron Arthun and to all the legislators who sponsored our bills for their support and efforts. We also want to thank all of our members, employers, Montana Association of Counties, Montana League of Cities and Towns, and the unions who spoke in support of the defined benefit plans.

2013 MPERA LEGISLATION

This session, the PERB proposed several bills to address funding and policy concerns. Unless otherwise noted, the following bills will become law on July 1, 2013:

HB 91 (*Representative Ryan Lynch*) Allows post-tax contributions to a designated ROTH account for participants in the Deferred Compensation Plan.

HB 95 (*Representative Franke Wilmer*) Requires employer contributions on working retiree compensation in PERS, SRS, and FURS. Does not change working retiree hour or compensation limitations.

HB 97 (*Representative Franke Wilmer*) Establishes 110% cap on compensation considered as part of a members highest or final average compensation. Applies to members of all systems hired on or after July 1, 2013. Amended to remove bonuses from the definition of compensation for all retirement systems effective for bonuses paid on or after July 1, 2013.

HB 105 (*Representative Tom Steenberg*) PERB's biennial housekeeping bill. **NOTE:** Requires that a retired PERS employee working as an independent contractor in a PERS - covered position be subject to working retiree limitations.

HB 122 (*Representative Bryce Bennett*) Effective April 22, 2013. Legislative changes required by the IRS in order to remain qualified retirement plans.

OTHER BILLS PASSED THIS SESSION:

Senate Resolutions 22, 53 and 54 (*Senator Ron Athun*) Confirm the Governor's appointees to the Board. Confirms Bob Bugni and Melissa Strecker, who were previously appointed. Newly appointed Sheena Wilson, who was Governor Schweitzer's Deputy Chief of Staff from Helena, and Mike McGinley, who is a County Commissioner from Dillon. Confirms Sheena Wilson to the Board of Investments.

HB 320 (*Representative Bryce Bennett*) Changes the name of the optional retirement system (ORP) to the Montana University System Retirement Program (MUS-RP).

HB 336 (*Representative Steve Gibson*) At the request of the Montana Troopers' Association, revises the Highway Patrol Officers' Retirement System (HPORS) to address funding concerns:

ALL HPORS MEMBERS REGARDLESS OF HIRE DATE:

- ◆ State employer contributions increase from 36.33% to 38.33%
- ◆ Member contributions increase 1% annually for four years.
- ◆ Benefit multiplier increases from 2.5% to 2.6%

HPORS MEMBERS HIRED ON OR AFTER JULY 1, 2013:

- ◆ GABA is reduced from 3.0% to 1.5%
- ◆ GABA waiting period is increased from 1 year to 3 years.
- ◆ The vesting period is increased from 5 years to 10 years.

HB 454 (*Representative Bill McChesney*) This is the Governor's bill to address PERS funding concerns only and is effective July 1, 2013. It includes a severability clause. If any part of the bill is determined to be invalid, all parts that are severable from the invalid part remain in effect.

Funding of PERS through natural resources

- ◆ On July 1 of each year PERS will receive from the unallocated portion of coal tax severance collections approximately \$15 million beginning in FY 2014 and growing approximately 2% per year thereafter.
- ◆ On July 1 of each year PERS will receive up to \$21 million of interest income from the coal tax permanent fund until July 1, 2019. Beginning FY 2020, interest income contributions are capped at \$24 million.

PERS - covered employee contributions temporarily increased

- ◆ All members will contribute 7.9% of compensation. An increase of 1% for members hired prior to July 1, 2011.
- ◆ Member contributions will be decreased to 6.9% on January 1 following actuary valuation results showing the amortization period has dropped below 25 years and remains below 25 years following the reduction of both the employer and member contribution rates.

PERS - covered employer contributions temporarily increased

- ◆ Employer contributions for all members will increase 1% on July 1, 2013.
- ◆ Beginning July 1, 2014, employer contributions will increase 0.1% a year over 10 years, through FY 2024.
- ◆ The employer additional contribution rate terminates on January 1 following the actuary valuation results showing the amortization period has dropped below 25 years following the reduction of both the employer and member contribution rates.

GABA revised for all members including current and future retirees

- ◆ GABA is 1.5% for all current and future retirees for each year PERS is funded at or above 90%.
- ◆ The 1.5% GABA is reduced 0.1% for each 2% PERS is funded below 90%.
- ◆ GABA is 0% for all current and future retirees whenever PERS's amortization period is 40 years or more.

PERS - DCRP allocation of Employer contribution increases

- ◆ The 1% increase in employer contributions is allocated to the Defined Benefit Retirement Plan Unfunded Actuarial Liability.
- ◆ The 0.1% annual additional increases beginning July 1, 2014 are allocated first to the DCRP Plan Choice Rate, and then the DCRP long-term disability fund.

LEGISLATIVE FAQs

HB 454 - GABA is decreased for members of PERS only.

- GABA is decreased for all members of PERS, regardless when they retired or the date they will retire in the future.

HB 95 - Only employer contributions are required on compensation paid to working retirees. Employee contributions are not required.

- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year.
- Working retiree limitations are not impacted. SRS and FURS retirees may still work up to 480 hours a year.

HB 97 - The highest or final average compensation is capped in all PERB-administered systems, but ONLY for members hired on or after July 1, 2013.

- Bonuses paid on or after July 1, 2013 to any member of any PERB-administered retirement system will not be treated as compensation for retirement purposes. Employer and employee contributions must not be paid on bonuses.

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