

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

Legislative Committee
Tuesday, February 26, 2013, 1:00 pm

MINUTES

Chairman Terrence Smith called the Public Employees' Retirement Legislative Committee meeting to order at 1:05 p.m. on Tuesday, February 26, 2013.

Committee Members:

Terrence Smith, Chairman
Scott Moore
Darcy Halpin
Dianna Porter
Timm Twardoski
Melissa Strecker

Staff:

Roxanne Minnehan, Executive Director
Melanie Symons, Chief Legal Counsel
Barbara Quinn, Fiscal Services Bureau Chief
Patty Davis, Member Services Bureau Chief
Hollie Koehler, Internal Auditor
Kate Talley, Legal Counsel
Jenny Weigand, Education Supervisor
Joshua Crone, Executive Assistant

Public:

Mike O'Connor, MPERA
Tom Schneider, MPEA, AFSCME
Diane Fladmo, MEA-MFT

I. Roll Call

Roll call was taken. Chairman Terrence Smith and Members Dianna Porter, Timm Twardowski, Melissa Strecker, Darcy Halpin and Scott Moore participated via telephone. Member Bob Bugni was excused.

II. Public / Member Comment

There was no public comment.

III. Approve Minutes – February 19, 2013

The minutes from the February 19, 2013 Legislative Committee meeting will be presented at the March 5, 2013 meeting.

IV. Executive Director Report

a. Review Introduced Legislation

1. SB 333 – Establish cash balance benefit tier in TRS and PERS for new hires

SB 333, sponsored by Senator Ron Arthun (R), 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; requires each Retirement Board to seek a ruling from the Internal Revenue Service concerning compliance with Federal tax qualification provisions governing the retirement systems.

Roxanne Minnehan stated that SB 333 will be heard on March 5, 2013 by the House Joint Select Committee on Pensions.

Mike O'Connor gave an overview of the bill. As a cash balance plan, the new hires would contribute the same as new hires today, at 7.9%. The employer contribution remains the same. The interest credited to these individuals' accounts would be 4.5%, compounded annually. The GABA is eliminated for new hires. New hires' individual benefits are based on account balance, rather than a defined benefit formula. There would be a tiered vesting structure, where after 5 years; an employee would receive 50% of the account balance. After 10 years, an employee would be entitled to 100% of an employer match. The member must also be age 60 to be eligible for the employer match. SB 333 does not address the shortfall of the systems, it only addresses plan design changes for new hires. The actuary has shown that a new employee costs more under the cash balance plan of SB 333, at 10.22%, compared with 9.2% under PERS.

Barbara Quinn, Fiscal Services Bureau Chief, discussed the fiscal note. Since the contribution rates do not change, there is not much of a fiscal impact of this bill in the short term. The employees and the employers would be paying the same rates.

Chairman Smith asked whether SB 333 takes away the GABA. Mr. O'Connor stated that it eliminates the GABA, for all new hires going into the cash balance plan. All new hires have a choice between the cash balance plan and the current DCRP.

Member Timm Twardowski stated that he thought that it would be hard to find new employees.

Mr. O'Connor spoke of the difficulties with recruitment and retention in Montana. Once an employee is recruited, the relatively low salary level is insufficient in itself to retain the employee. A defined benefit plan is nice because the benefit accrues over time, incentivizing tenure. The DB plan is a built in retention tool for people. A cash balance plan provides no incentive to stay. SB 333 takes the State back 40 years in time; the cash balance plan is similar to a money purchase. The State went to a DB plan in 1973 so that people would have enough to retire on.

Mr. O'Connor stated that the cash balance plan actually incentivizes people to leave public employment; this hurts retention.

Public Comment: Diane Fladmo, MEA-MFT, stated that we have to care about the systems that we work in and the benefit for those folks. The average teacher career would be a little different; they work about 27 years and they stay in part because of the defined benefit plan. If that were to change, we would have quite a shakeup in our K to 12 system. It is beyond the benefit- which is going to be better for most people under the defined benefit plan for the careers they have in Montana? It's going to be

interesting to see.

Ms. Symons stated that are two provisions of the bill that have been sent to our tax counsel for possible tax qualification issues.

Motion: *Member Darcy Halpin made a motion that the Board oppose SB 333.*

Second: *Member Melissa Strecker*

No public comment.

Vote: 6/0

b. Review Unintroduced Legislation

1. LC 1776 – Executive budget proposal to include actuarial funding for pension systems

Requested by Senator Larry Jent (D), LC 1776 revises the actuarial funding for the public employee retirement systems; requires that any shortfall in the annual required contributions to ensure that public employee retirement systems are actuarially sound must be included in the Governor's budget.

Mr. O'Connor stated the intent of the bill to make the Governor responsible for ensuring that these retirement plans are actuarially sound, per the Montana Constitution.

c. Bill Status Reports

1. HB 95 – Require contributions on working retiree compensation – was referred on February 26, 2013 to the Senate State Administration Committee
2. HB 97 – Cap highest/final average compensation in MPERA retirement systems – will be heard on March 5, 2013 by the House Joint Select Committee on Pensions
3. HB 282 – Constitutional amendment regarding public employee retirement systems – was tabled in committee on February 19, 2013
4. HB 336 – Generally revise HPORS laws – the bill was passed as amended on February 23, 2013 in the House Appropriations Committee
5. HB 338 – Provide funding for pension debts, all new hires to DC plan – was heard on February 21, 2013 by the House Joint Select Committee on Pensions
6. HB 454 – Public funding for the PERS-DBRP – was heard on February 21, 2013 by the House Joint Select Committee on Pensions
7. HB 476 – Add cost of living adjustment for volunteer firefighters – was tabled in committee on February 22, 2013 by the House Local Government Committee
8. SB 227 – Eliminate pension eligibility for legislators – motion to take from the State Administration Committee and place on 2nd Reading on February 25, 2013 failed on February 22, 2013, 21 to 28
9. SB 261 – Require legislator election each term concerning participation on PERS – was tabled in committee on February 15, 2013 by the Senate State Administration Committee
10. SB 353 – Establish qualifications for PERB/TRB – Bill passed as amended, 4 to 3, on February 25, 2013 in the Senate State Administration Committee

ADJOURNMENT:

There being no further business before the Legislative Committee, Chairman Smith adjourned the meeting at approximately 1:55 p.m.

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DRAFT