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laura and john arnold foundation™

*Montana's Pension Challenges*  
*Helena, Montana*  
*2/12/2013*

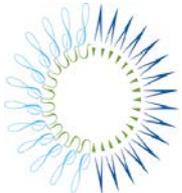
## Montana Pension Plans – 2012 Funding Levels

The state's eight pension plans had a combined shortfall of \$4.3 billion in 2012 and were only 64 percent funded

Plan	Assets	Liabilities	Unfunded Liability	Percent Funded	Share of Total Shortfall
Public Employees' Retirement System	\$3,817	\$5,661	\$1,844	67%	48%
Teachers' Retirement System	\$2,852	\$4,815	\$1,963	59%	40%
Sheriffs' Retirement System	\$212	\$285	\$73	74%	2%
Game Warden and Peace Officers' Retirement System	\$98	\$129	\$31	76%	1%
Municipal Police Officers' Retirement System	\$234	\$427	\$193	55%	4%
Firefighters' Unified Retirement System	\$233	\$377	\$144	62%	3%
Highway Patrol Officers' Retirement System	\$97	\$168	\$71	58%	1%
Judges' Retirement System	\$63	\$46	-\$18	137%	0%
<b>Total</b>	<b>\$7,605</b>	<b>\$11,908</b>	<b>\$4,303</b>	<b>64%</b>	<b>100.00%</b>

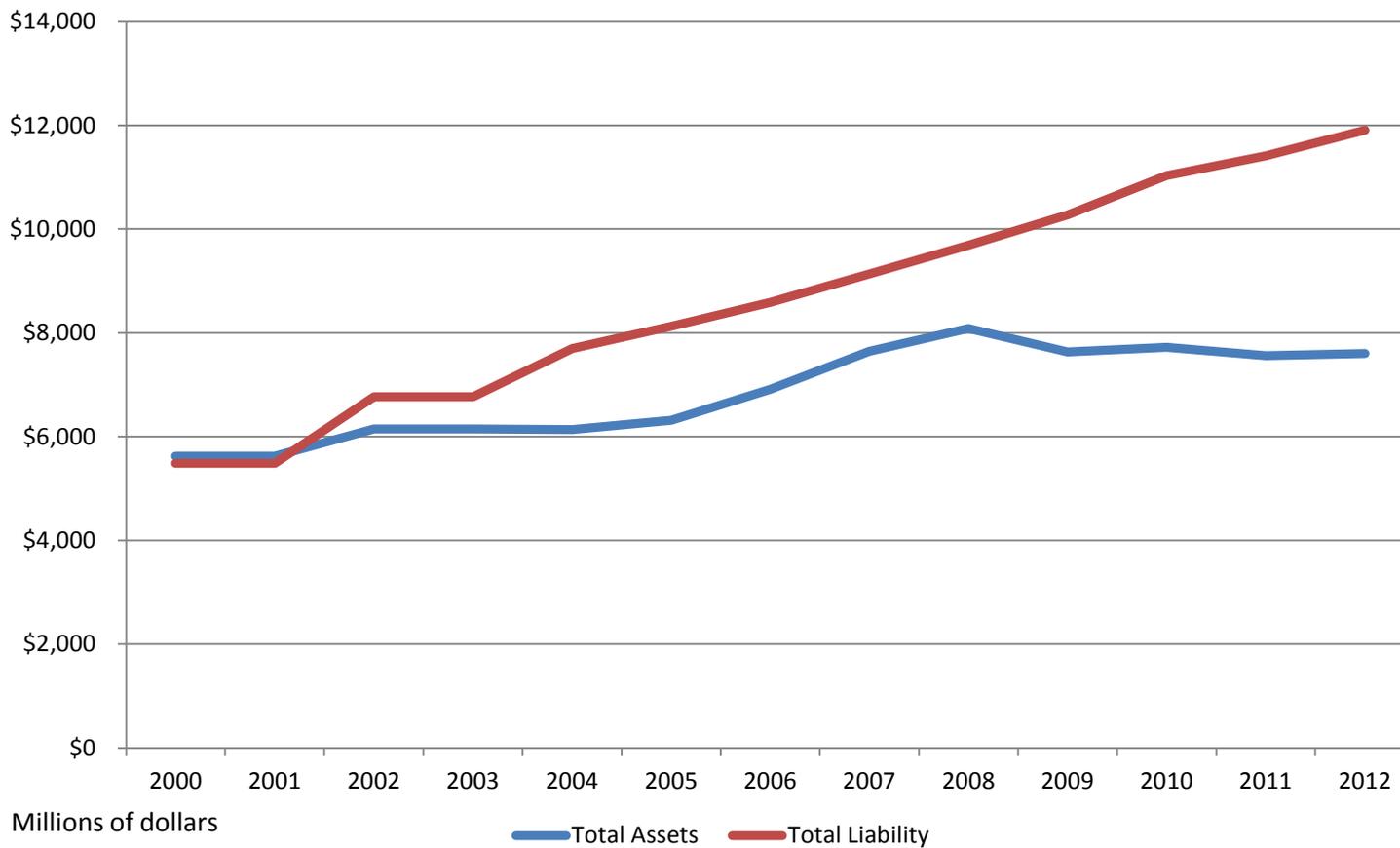
All dollar figures in millions

Source: Pew Center on the States, 2012

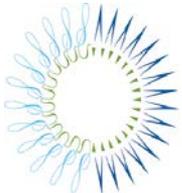


## Montana Pension Plans – Funding Over Time

In 2000, Montana's pension plans had a \$244 million surplus. Now they face a \$4.3 billion unfunded liability

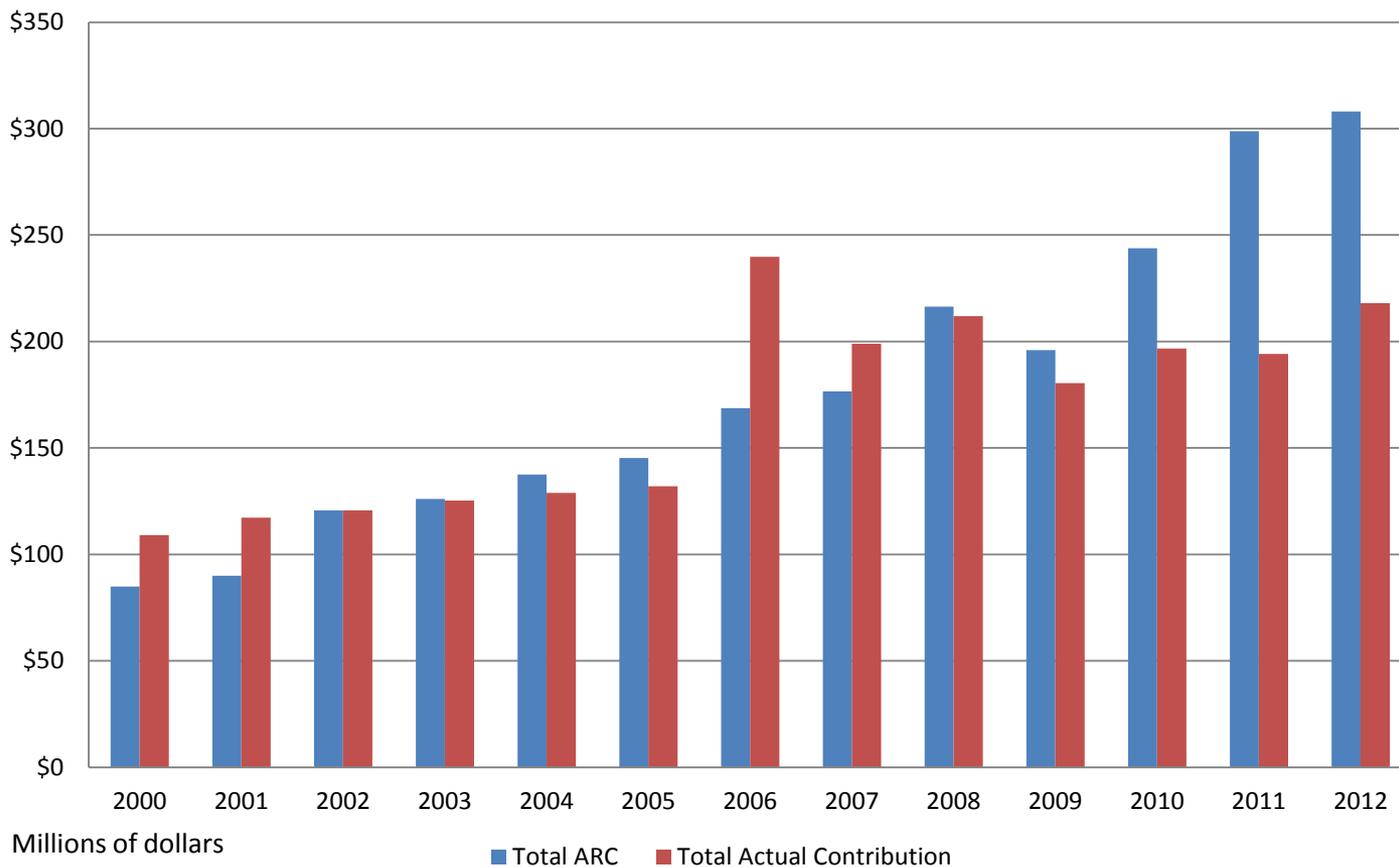


Source: Pew Center on the States, 2012

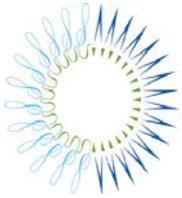


## Montana Pension Plans – Recommended and Actual Contributions

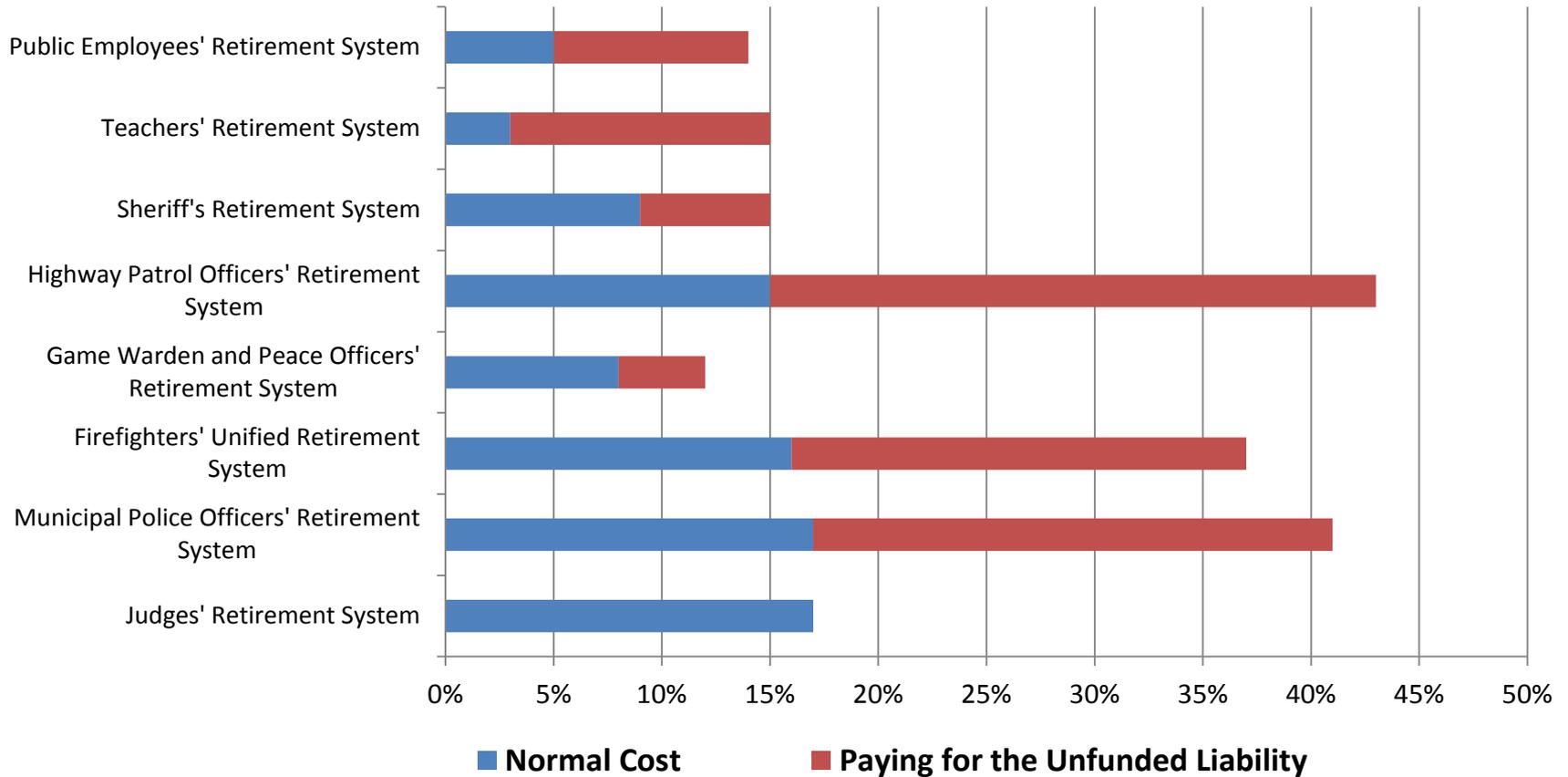
Recommended contributions grew 263 percent from 2000 to 2012, actual contributions did not keep pace



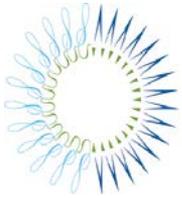
Source: Pew Center on the States, 2012



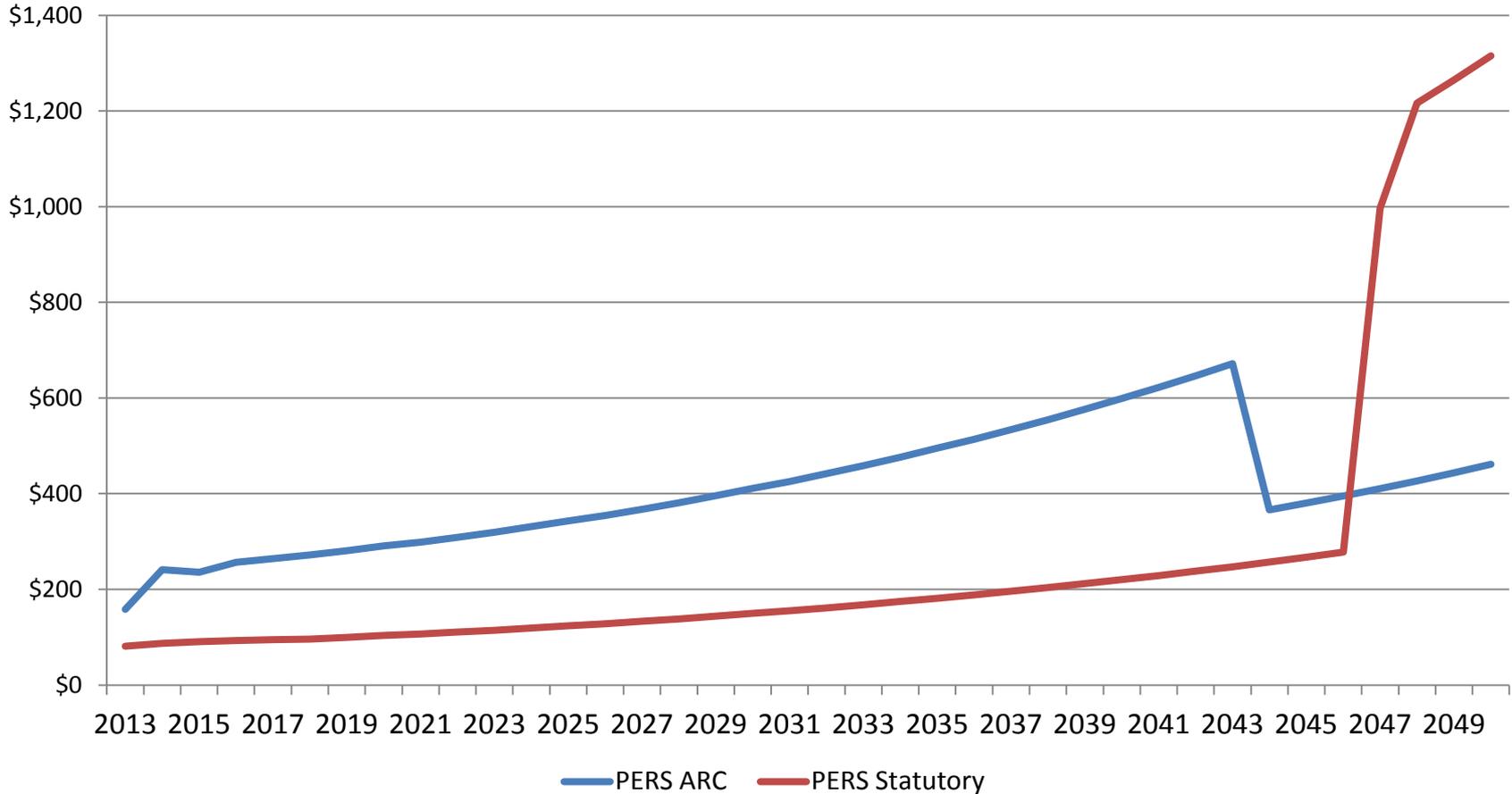
## Montana Pension Plans – Payments Going to Fund Past Promises



Source: Pew Center on the States, 2012



## Montana's Projected PERS Contributions

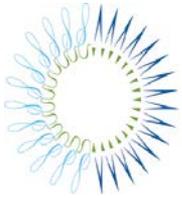


Millions of dollars

Source: Pew Center on the States, 2012

## **Structural Problems with Traditional Defined Benefit Pension Plans**

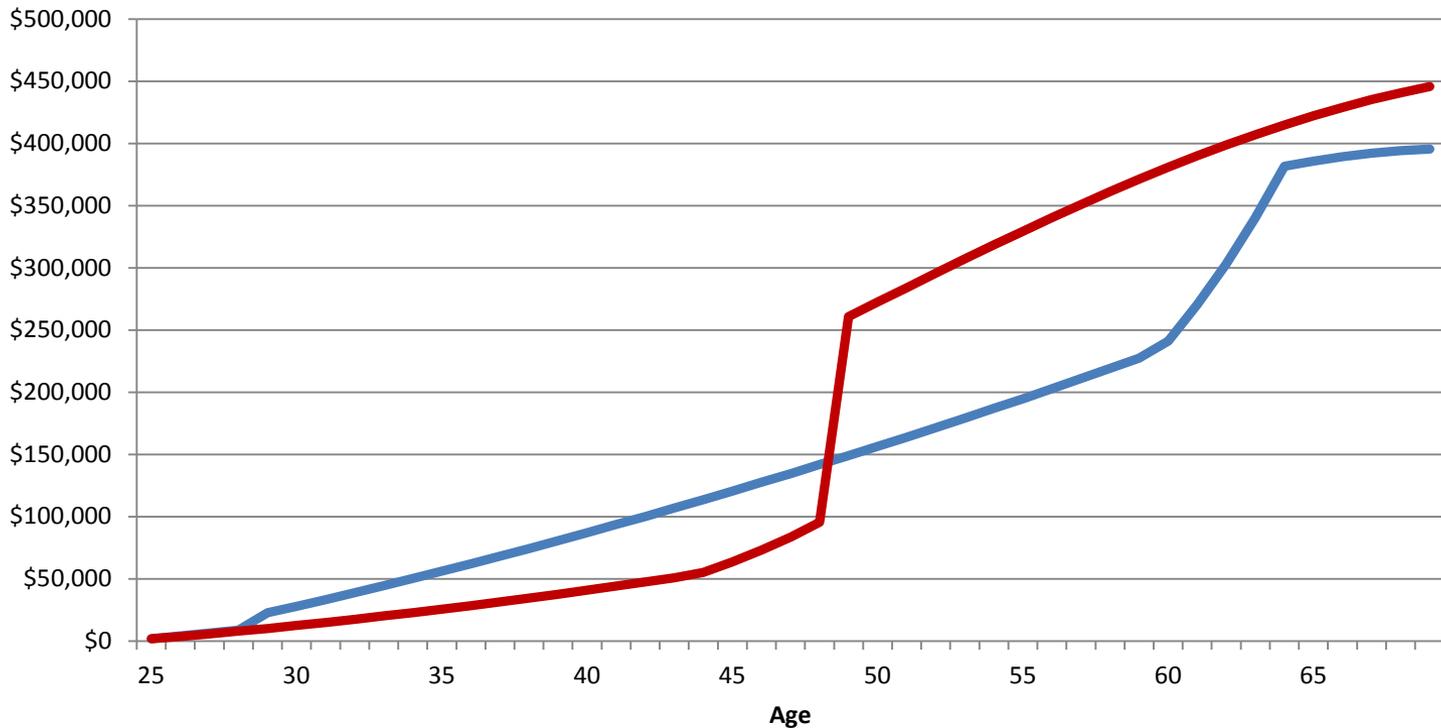
- Policy makers face an incentive to underfund
- States can take on more risk than they can manage
- Benefits may be misaligned with workforce needs



## Comparing the Montana PERS plan with the TRS Plan

Because of the money purchase plan component, many PERS employees effectively retire with a cash balance plan and don't get a backloaded benefit while TRS has the backloading more common in a traditional pensions

**Value of Earned Retirement Benefits for a 25 Year Old Entering PERS or TRS**



Adjusted for inflation

— Public Employees' Retirement System

— Teachers' Retirement System

Source: October Three

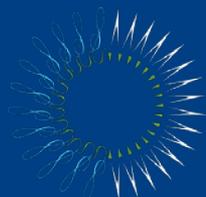
## **State policy makers need to accomplish three main tasks:**

1. Create a credible plan to reduce the funding gap over time in a fair way
2. Make sure the plan is sustainable and doesn't put the state at risk of future funding challenges
3. Ensure that the compensation being offered help the state recruit and retain a talented public sector workforce

*Different states are pursuing very different solutions in an attempt to get to the same place: a fiscally-responsible, sustainable pension plan that can still help recruit and retain a talented workforce.*

## Lessons for Montana

- Montana pensions are on an unsustainable course and will run out of money if policy is not changed.
- This funding crisis emerged over a decade as a result of contributions that fell short of sustainably funding the system, benefit increases that were not paid for, and expected investment returns that did not materialize.
- Comprehensive reform is needed to both close the funding gap in a credible way and ensure that going forward, Montana's pensions will be sustainable, affordable, and secure and will help recruit and retain the talented public workers Montana needs.
- There is no one-size fits all solution and Montana policy makers will need to identify an approach that works for the state.



THE  
**PEW**  
CENTER ON THE STATES

David Draine  
Senior Researcher  
[ddraine@pewtrusts.org](mailto:ddraine@pewtrusts.org)  
(202) 552-2012



Josh McGee  
Vice President  
[josh@arnoldfoundation.com](mailto:josh@arnoldfoundation.com)  
713-554-1916