

THE
PEW
CENTER ON THE STATES

Montana's Pension Challenges
Helena, Montana
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laura and john arnold foundation™

Montana Pension Plans – 2011 Funding Levels

The state's eight pension plans had a combined shortfall of \$3.9 billion in 2011 and were only 66 percent funded

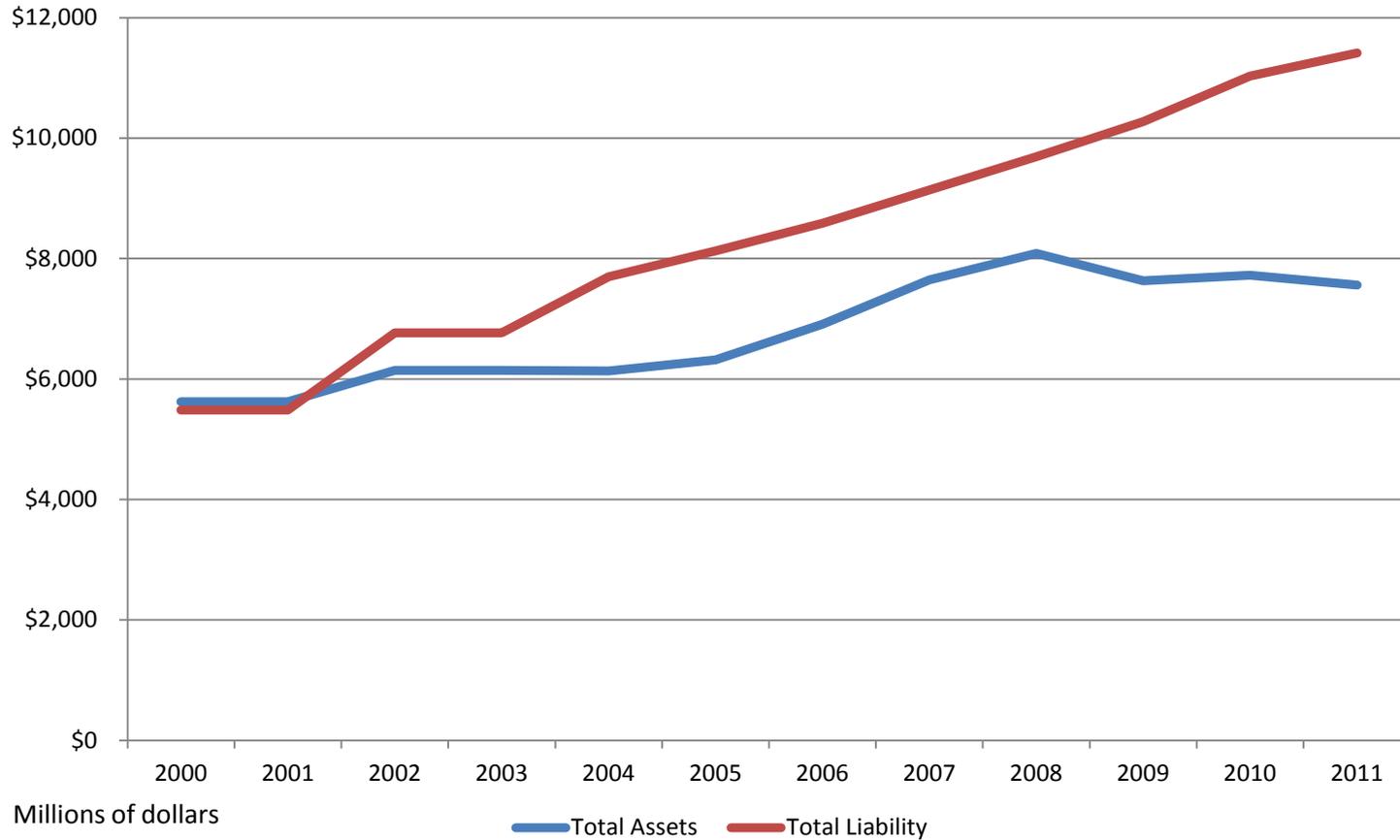
Plan	Assets	Liabilities	Unfunded Liability	Percent Funded	Share of Total Shortfall
Public Employees' Retirement System – Defined Benefit Plan	\$3,800	\$5,410	\$1,609	70.00%	41.79%
Sheriffs' Retirement System	\$203	\$266	\$62	76.43%	1.63%
Game Warden and Peace Officers' Retirement System	\$90	\$119	\$29	75%	.76%
Municipal Police Officers' Retirement System	\$221	\$401	\$179	55.23%	4.67%
Firefighters' Unified Retirement System	\$219	\$355	\$135	62.00%	3.51%
Highway Patrol Officers' Retirement System	\$95	\$155	\$60	61.17%	1.57%
Judges' Retirement System	\$61	\$43	-\$17	141.17%	-.46%
Teachers' Retirement System	\$2,866	\$4,658	\$1,792	61.53%	46.53%
Total	\$7,555	\$11,410	\$3,881	66.25%	100.00%

All dollar figures in millions

Source: Pew Center on the States, 2012

Montana Pension Plans – Funding Over Time

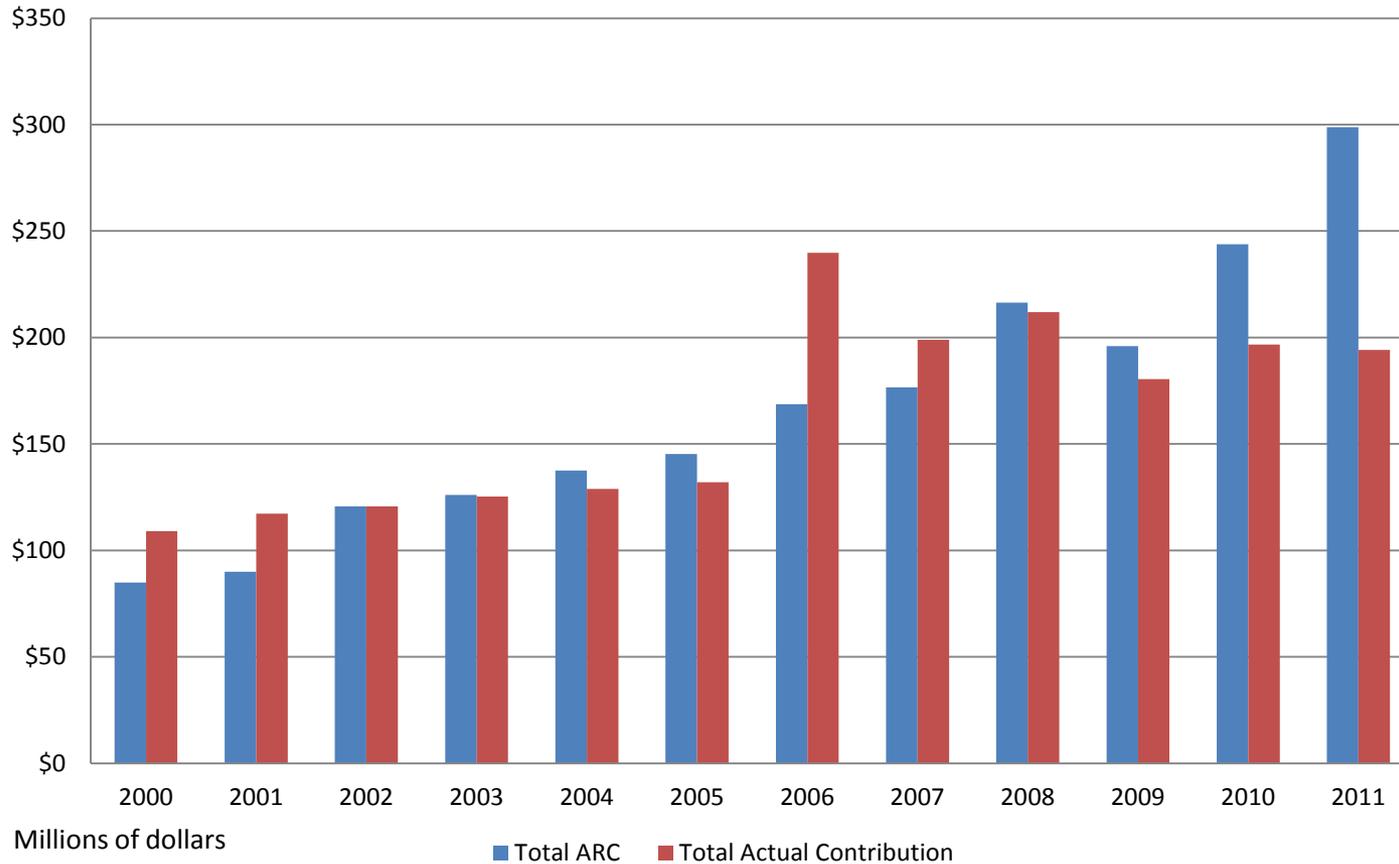
In 2000, Montana’s pension plans had a \$244 million surplus. Now they face a \$3.9 billion unfunded liability



Source: Pew Center on the States, 2012

Montana Pension Plans – Recommended and Actual Contributions

Recommended contributions grew 252 percent from 2000 to 2011, actual contributions did not keep pace

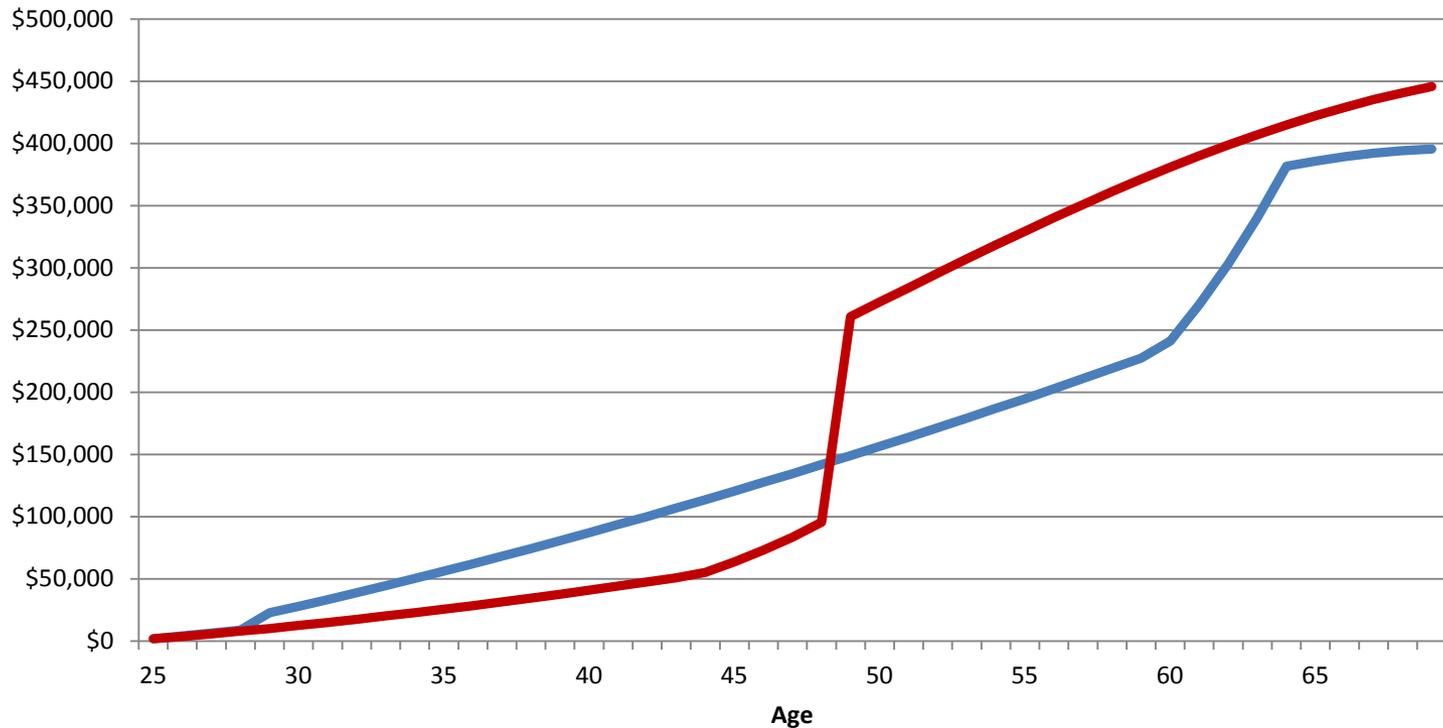


Source: Pew Center on the States, 2012

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

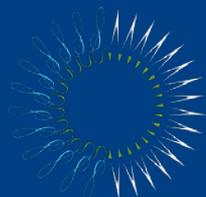
Different states are pursuing very different solutions in an attempt to get to the same place: a fiscally-responsible, sustainable pension plan that can still help recruit and retain a talented workforce.

Cash-balance plans are becoming more popular—what are they?

- Workers get an individual retirement account that both the employee and employer contribute to.
- Benefits are based on what is in the account at retirement.
- The employer guarantees a minimum return—when actual returns exceed that, the employer keeps part and uses it to make up for down years. This pools risk among workers and shares it with the employer rather than letting individual employees bear all the investment risk.
- The plan will offer an annuity option to workers that want it—the annuity is based on how much is in the employee’s retirement account.
- Nebraska and Texas currently offer these plans, Kansas and Louisiana just decided to implement these for new workers.

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 to offer a new plan going forward that 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 Pew and the Laura and John Arnold Foundation are happy to offer the analysis and data needed to help Montana policy makers identify an approach that works for this state.



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