

# Comparing Montana Public Pension Plans

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**Montana State Administration and Veterans' Affairs  
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# Comparing Public Pensions

-  The purpose for providing a retirement benefit is to meet stakeholder objectives
-  Primary public retirement plan stakeholders are employers, employees, and taxpayers
-  Employers seek to attract and retain qualified workers needed to perform essential public services
-  Employees seek competitive compensation, including a good retirement benefit
-  Taxpayers and recipients of public services want public services provided in a cost-effective manner
-  A retirement plan should be measured in the context of these objectives

**Comparison of Selected Features of Retirement Systems, Plans, and Funds**

|  | <b>MONTANA PERA</b>  | <b>MONTANA TEACHERS</b>               | <b>IDAHO PERS</b>                 | <b>NEVADA PERS</b>           | <b>NORTH DAKOTA PERS</b>                     | <b>NORTH DAKOTA TEACHERS</b>                 | <b>SOUTH DAKOTA RETIREMENT SYSTEM</b> | <b>UTAH RETIREMENT SYSTEM</b>                  | <b>WYOMING RETIREMENT SYSTEM</b>           |
|--|--|---------------------------------------|-----------------------------------|------------------------------|--|--|---------------------------------------|--|--|
| <b>Basic Plan Design<sup>1</sup></b>                           | DB; DC option for new hires  | DB                                    | DB                                | DB                           | DB   | DB   | DB                                    | choice of DB or DC                             | DB   |
| <b>Public safety personnel administered by same board?</b>     | Yes  | NA                                    | Yes                               | Yes                          | Yes  | NA   | Yes                                   | Yes  | Yes  |
| <b>Benefit formula<sup>1</sup></b>                             | 1.5% for more than 5 years of service but less than 10, 1.7857% for more than 10 years of service but less than 30, and 2.0% for 30 years or more. | 1.67%                                 | 2.00%                             | 2.25% (no Social Security)   | 2.00%  | 2.00%  | 1.80%                                 | 1.50%  | 2.00%                                      |
| <b>% income replaced at 10 and 25 years</b>                    | 17.9% @10 yrs; 44.6% @ 25 yrs, plus SS   | 16.7% @10 yrs; 41.8% @25 yrs, plus SS | 20% @10 yrs; 50% @25 yrs, plus SS | 22.5% @10 yrs; 56% @25 yrs   | 20% @10 yrs; 50% @25 yrs, plus SS            | 20% @10 yrs; 50% @25 yrs, plus SS            | 18% @10 yrs; 45% @25 yrs, plus SS     | 18% @10 yrs; 42% @25 yrs, plus SS <sup>2</sup> | 20% @10 yrs; 50% @25 yrs, plus SS          |
| <b>Retirement eligibility (age/yrs of service)<sup>1</sup></b> | 65/5 or 70/any   | 60/5 or 55/30                         | 65/5                              | 65/5, 62/10, 55/30, any/33.3 | 65/any or sum of age + years of service = 90 | 65/any or sum of age + years of service = 90 | 67/3                                  | 65/4, any/35                                   | 65/4 or sum of age + years of service = 85 |
| <b>Employee contribution rate</b>                              | 7.90%  | 8.15%                                 | 6.79%                             | 14.0%                        | 7.00%  | 11.75%                                       | 6.0%                                  | 0%; employee pays plan costs above 10%         | 8.25%                                      |
| <b>Employer contribution rate</b>                              | 8.57%  | 8.67%                                 | 11.59%                            | 14.0%                        | 7.12%  | 12.75%                                       | 6.0%                                  | 10.0% <sup>3</sup>                             | 8.50%                                      |
| <b>Normal cost</b>   | 9.86%  | 9.82%                                 | 14.57%                            | 16.54%                       | 10.96%                                       | 11.33%                                       | 10.49%                                | 8.85%  | 11.55%                                     |

*1 Plan design reflects provisions in place for employees hired currently. Plan design features for employees hired previously may differ. 2 The URS DB plan is supplemented with a defined contribution plan to which employers contribute the difference in the plan cost between 10% of pay and the actual cost of the plan. The income replacement levels are based on the current DB plan cost of 8.58% and assumed investment returns on DC plan accounts. 3 Employers also make a contribution to amortize the unfunded actuarial liability of the legacy DB plan.*

**Comparison of Selected Features of Retirement Systems, Plans, and Funds**

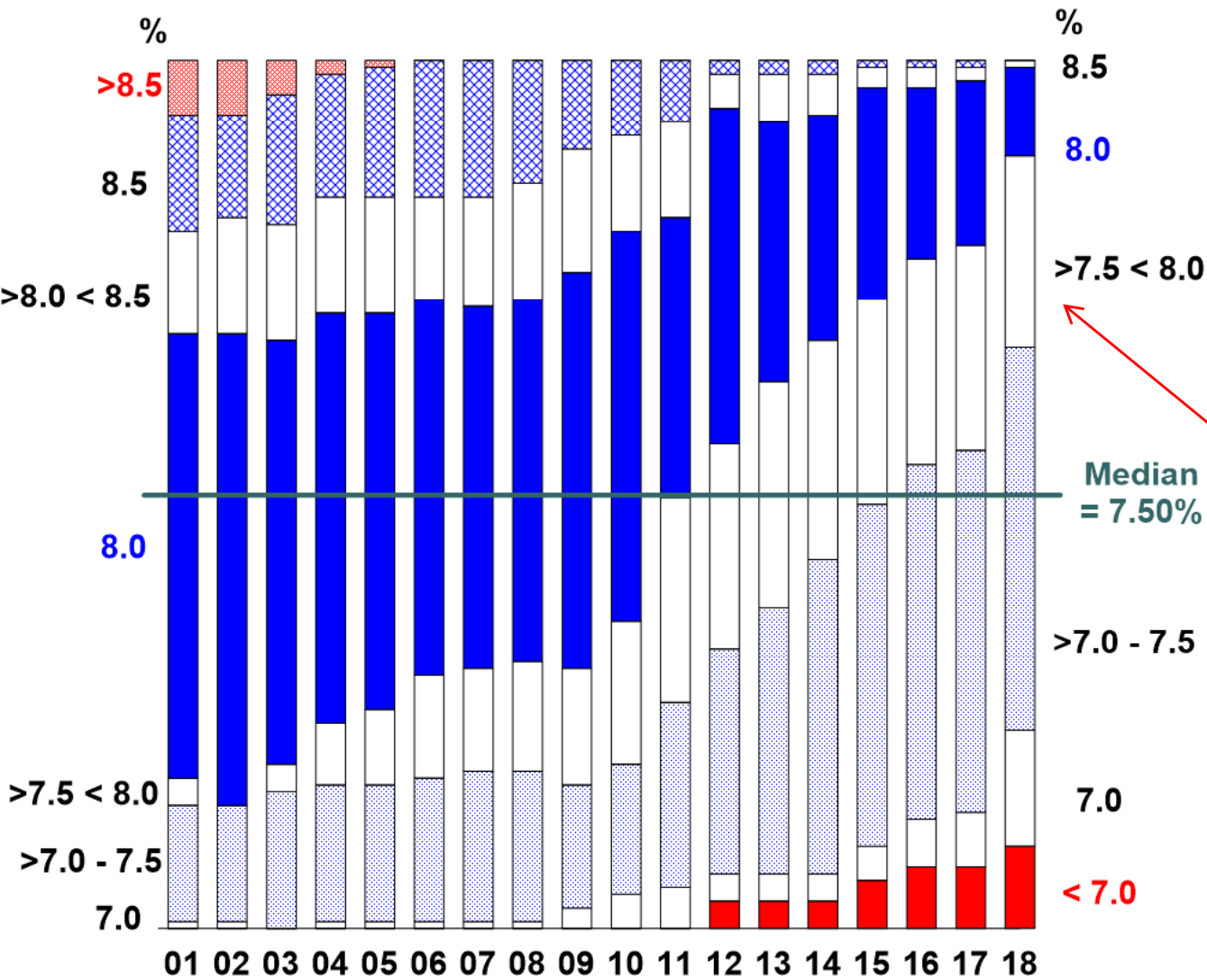
|                                     | <b>MONTANA PERA</b>   | <b>MONTANA TEACHERS</b>  | <b>IDAHO PERS</b>   | <b>NEVADA PERS</b>   | <b>NORTH DAKOTA PERS</b>              | <b>NORTH DAKOTA TEACHERS</b>          | <b>SOUTH DAKOTA RETIREMENT SYSTEM</b>   | <b>UTAH RETIREMENT SYSTEM</b>   | <b>WYOMING RETIREMENT SYSTEM</b>  |
|-------------------------------------|---|--|---|--|---------------------------------------|---------------------------------------|---|---|---|
| <b>Cost method</b>                  | Entry age   | Entry age  | Entry age   | Entry age  | Entry age                             | Entry age                             | Entry age   | Entry age   | Entry age   |
| <b>Smoothing period</b>             | 4   | 4  | 0   | 5  | 5                                     | 5                                     | 0   | 5   | 5   |
| <b>Amortization period</b>          | 30, open  | 22, open   | 25, fixed   | 20, fixed  | 20, open                              | 27, closed                            | NA; plan is fully funded  | 20, fixed   | 30, open  |
| <b>FY 16 funding ratio</b>          | 77.0%   | 69.3%  | 86.3%   | 73.2%  | 66.7%                                 | 62.1%                                 | 100.0%  | 86.5%   | 78.1%   |
| <b>Wage growth assumption</b>       | 3.5%  | 4.0%   | 3.75%   | 3.25%  | 4.5%                                  | 3.25%                                 | 3.0%  | 3.25%   | 3.25%   |
| <b>Inflation assumption</b>         | 2.75%   | 3.25%  | 3.25%   | 2.75%  | 2.50%                                 | 2.75%                                 | 2.25%   | 2.50%   | 2.25%   |
| <b>Investment return assumption</b> | 7.65%   | 7.75%  | 7.00%   | 7.50%  | 7.75%                                 | 7.75%                                 | 6.50%   | 6.95%   | 7.00%   |
| <b>COLA</b>                         | Automatic, ranging from 0 to 1.5%, depending on the plan's funded status, for those hired on or after 7/1/13; 1.5% for those hired between 7/1/07 and 6/30/13; 3.0% compounded for those hired before 7/1/07. | Automatic, from 0.5% to a max of 1.5%, depending on the plan's funded status, beginning 36 months after retirement, for those hired on or after 7/1/13; 1.5% for those hired before 7/1/13. Auto 1.5% beginning 3 years after retirement | Automatic 1% plus discretionary COLA if the CPI is greater than 1%. Total COLA (mandatory plus discretionary) cannot exceed 6%. | After 3 years of receiving benefits, auto 2% annually, rising gradually to 5% annually, compounded, after 14 years of benefits. The compounded COLA is capped by the lifetime CPI for the period of retirement, i.e., it may not exceed inflation. | Ad hoc as approved by the legislature | Ad hoc as approved by the legislature | If the system is fully funded, COLA is equal to CPI-W with a minimum of 0.5% and a max of 3.5%. If the system is less than fully funded, COLA is equal to CPI-W with a minimum of 0.5% and a maximum equal to a "restricted COLA maximum" calculated at a level needed to restore the system to full funding. | For those hired before 7/1/11, automatic based on CPI up to 4.0%, simple; for those hired after 6/30/11, based on CPI up to 2.5%, simple. | Effective 7/1/12, the COLA is removed until the actuarial funded ratio reaches 100 percent "plus the additional percentage the retirement board determines is reasonably necessary to withstand market fluctuations." |

## Comparison of Selected Features of Retirement Systems, Plans, and Funds

|   | MONTANA PERA | MONTANA<br>TEACHERS | IDAHO PERS | NEVADA PERS | NORTH<br>DAKOTA PERS | NORTH<br>DAKOTA<br>TEACHERS | SOUTH<br>DAKOTA<br>RETIREMENT<br>SYSTEM | UTAH<br>RETIREMENT<br>SYSTEM | WYOMING<br>RETIREMENT<br>SYSTEM |
|---|--------------|---------------------|------------|-------------|----------------------|-----------------------------|---|------------------------------|---------------------------------|
| Fiscal Year End                                   | 6/30         | 6/30                | 6/30       | 6/30        | 6/30                 | 6/30                        | 6/30                                    | 12/31                        | 12/31                           |
| <b>Asset Allocations as of year-end FY 16 (%)</b> |              |                     |            |             |                      |                             |   |                              |                                 |
| <b>Public equities</b>                            | 52.6         | 53.9                | 60.0       | 63.2        | 51.3                 | 55.0                        | 34.2                                    | 35.2                         | 54.0                            |
| <b>Fixed income</b>                               | 25.0         | 24.8                | 28.6       | 27.3        | 22.8                 | 23.0                        | 24.3                                    | 15.0                         | 16.4                            |
| <b>Real estate</b>                                | 7.6          | 7.0                 | 4.0        | 4.7         | 11.0                 | 10.0                        | 9.3                                     | 7.0                          | 3.7                             |
| <b>Alternatives</b>                               | 12.5         | 12.8                | 5.9        | 4.4         | 14.4                 | 11.0                        | 6.7                                     | 34.5                         | 25.1                            |
| <b>Cash &amp; other</b>                           | 2.4          | 1.0                 | 1.5        | 0.4         | 0.0                  | 1.0                         | 25.5                                    | 8.3                          | 0.9                             |
| <b>Annualized Returns %<sup>4</sup></b>           |              |                     |            |             |                      |                             |   |                              |                                 |
| <b>1</b>  | 2.1          | 2.1                 | 1.8        | 2.3         | 0.3                  | 0.3                         | 0.3                                     | 8.8                          | 7.6                             |
| <b>3</b>  | 7.7          | 7.8                 | 7.2        | 7.9         | 6.5                  | 6.6                         | 7.5                                     | 6.0                          | 3.9                             |
| <b>5</b>  | 7.7          | 7.7                 | 6.4        | 7.8         | 6.5                  | 6.3                         | 8.5                                     | 9.1                          | 7.6                             |
| <b>10</b>   | 5.9          | 5.9                 | 6.2        | 6.3         | na                   | 4.5                         | 6.8                                     | 5.5                          | 4.1                             |

<sup>4</sup> Public pension funds invest assets to defray the cost of benefits within an acceptable level of risk. Asset allocations, risk profiles, liquidity requirements, payment obligations, investment horizons, and other factors affecting returns are specific to each fund. Public pension fund investment performance should be measured against each fund's established internal benchmarks, not against other public pension funds.

# Change in distribution of investment return assumptions, FY 01 to present

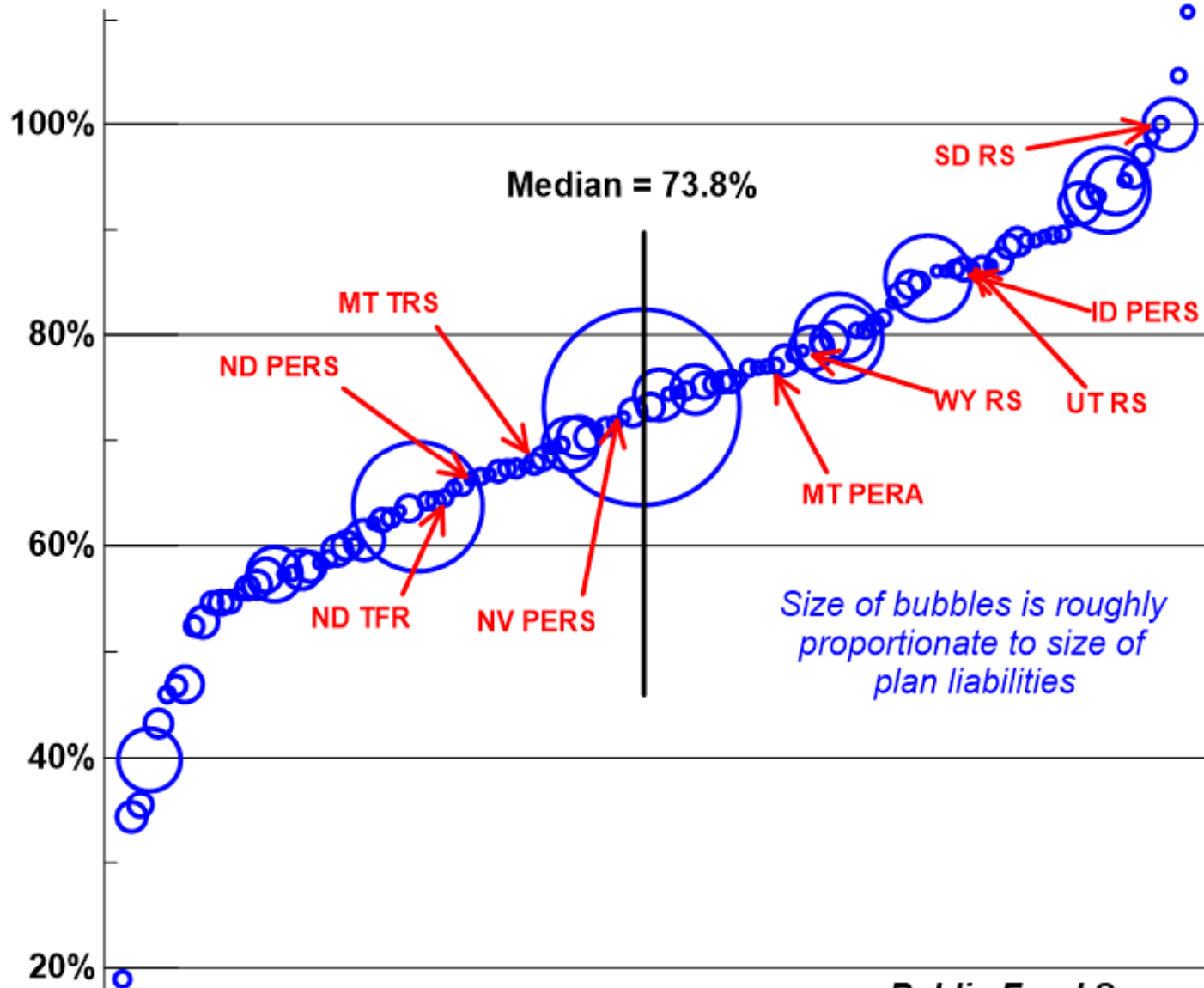


Public Fund Survey,  
NASRA January-18

Fiscal Year

**Montana PERA: 7.65%**  
**Montana TRS: 7.75%**

# Distribution of Latest Public Pension Funding Levels










Public Fund Survey,  
Public Plans Data  
Nov-17

# Methods states are using to amortize unfunded pension liabilities

- ▶ Pay the actuarially determined contribution
- ▶ Commit a portion of the budget surplus to the unfunded liability (AK, HI, RI)
- ▶ Issue pension obligation bonds
- ▶ Establish a dedicated funding stream, such as revenue from tobacco, liquor, gambling, or severance taxes (KS, LA MT, OK)
- ▶ Dedicate a portion of sales, use, and/or corporate income tax revenues (OK)
- ▶ Direct a portion of fire or property insurance revenue (AZ, FL)
- ▶ Reduce the funding amortization period/change the method
- ▶ Transfer ownership of the state lottery to the pension fund (NJ)
- ▶ Funding Policies@NASRA.org <http://www.nasra.org/funding>



# Books, Budgets, and Bonds

-  GASB standards now focus only on accounting and do not prescribe how a public pension plan should be funded
-  Since pension accounting and funding are now separate, there are more numbers to monitor
-  Many numbers are now calculated, by different groups, purporting to characterize the condition and cost of public pensions
-  Numbers calculated for books, per new GASB statements
-  Numbers calculated for budgets, largely per prior GASB statements
-  Numbers calculated for bonds, per proprietary calculations developed by bond ratings agencies
-  Numbers calculated based on financial theory: market value of liabilities

## More Info:

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