HJ 8
Interim Study of Montana's Public Pension Systems

Pensions 101

Montana Board of Investments
Dan Villa, Executive Director

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(B)enefits + (A)dministration = (C)ontributions + (I)nvestments

(D)ebits = (C)redits

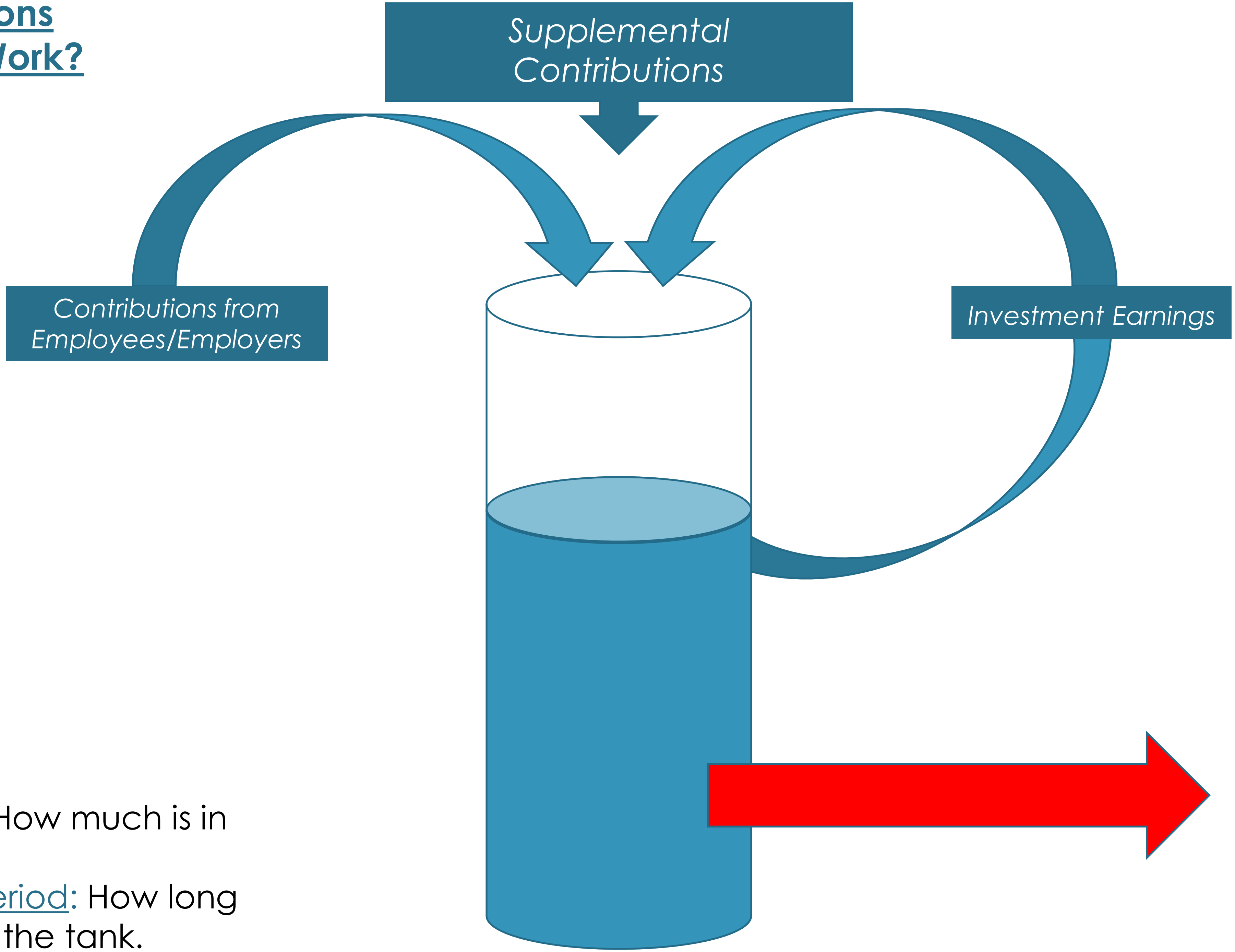
Increases to one side of the equation necessitate an equal increase in the other.

When that doesn't happen, a liability or surplus is created.

Board Asset Allocation & Historic Returns

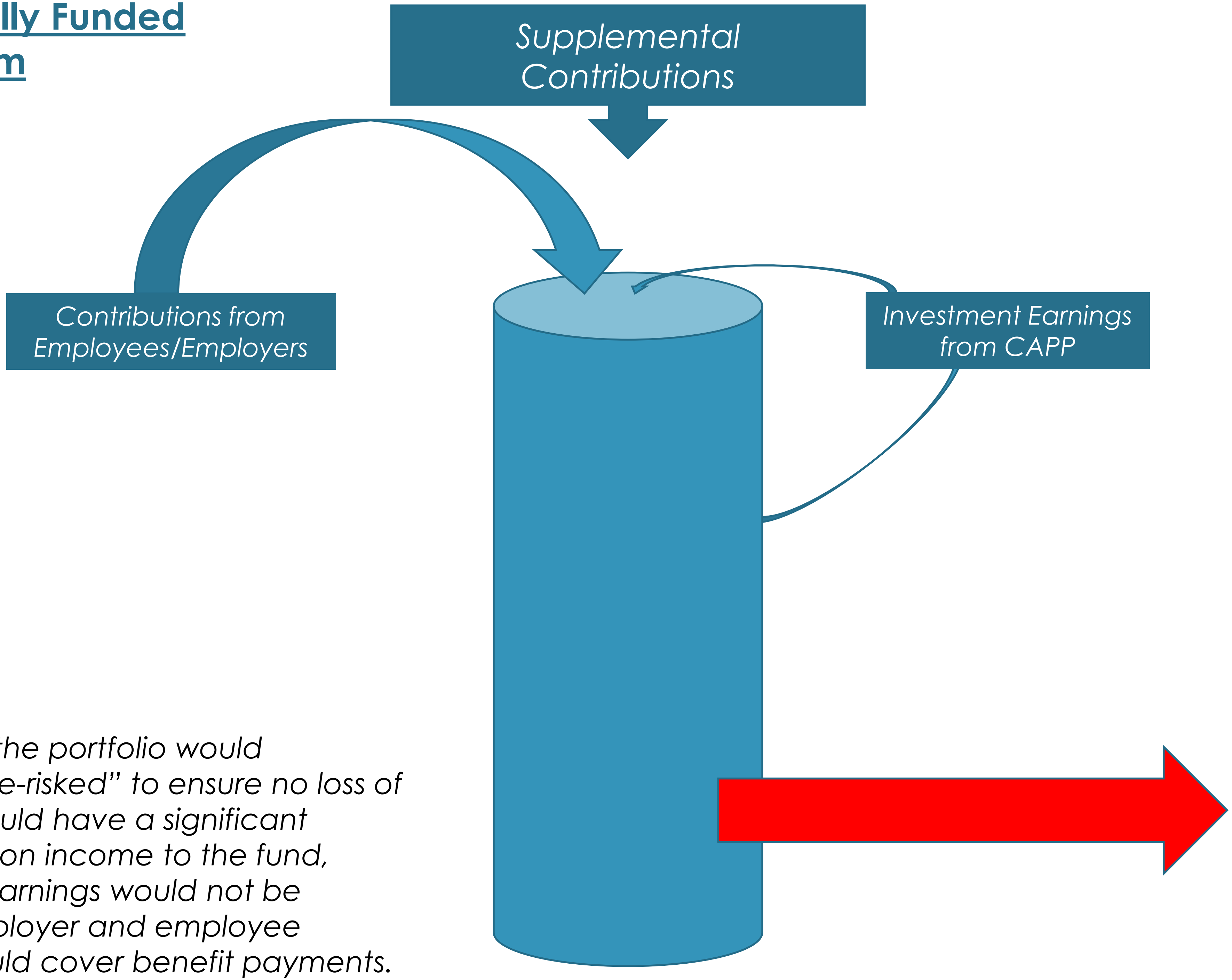
Asset Class	Current Allocation (6/30/2021)	Inception to Date Return
Domestic Equities	30.9%	11.43%
International Equities	17.3%	5.47%
Real Estate	9.3%	4.33%
Real Assets	4.5%	2.01%
Private Investments	14.7%	13.02%
Core Fixed Income	14.5%	5.89%
Non-Core Fixed Income	6.2%	8.00%
Cash	2.5%	1.38%
TOTAL	**100%**	**8.16%**

How Do Pensions Investments Work?



Funded Ratio: How much is in the tank.
Amortization Period: How long it will take to fill the tank.

Scenario 1: Fully Funded Pension System



At 100% funded, the portfolio would necessarily be "de-risked" to ensure no loss of principal. This would have a significant negative impact on income to the fund, however, those earnings would not be necessary as employer and employee contributions would cover benefit payments.

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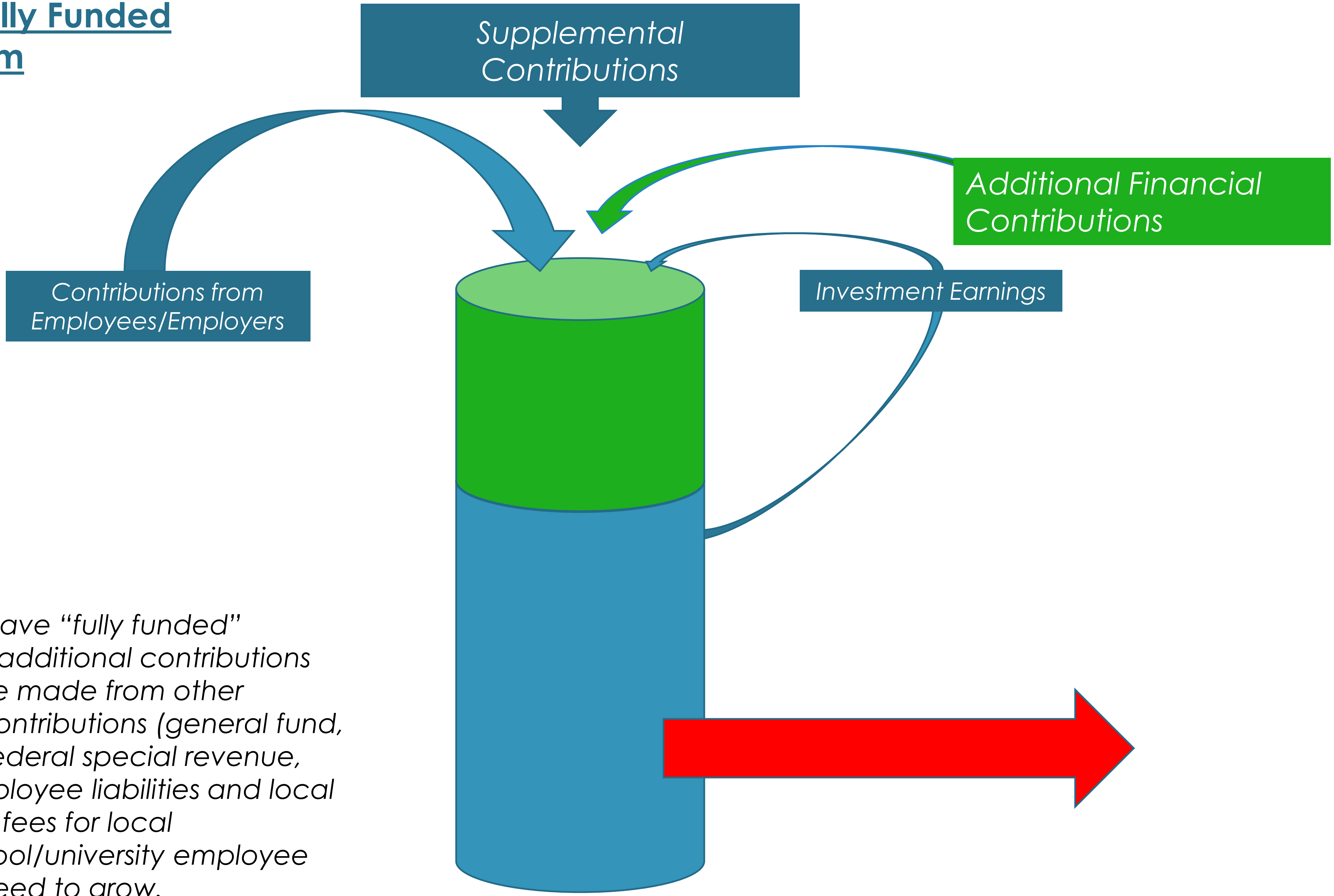
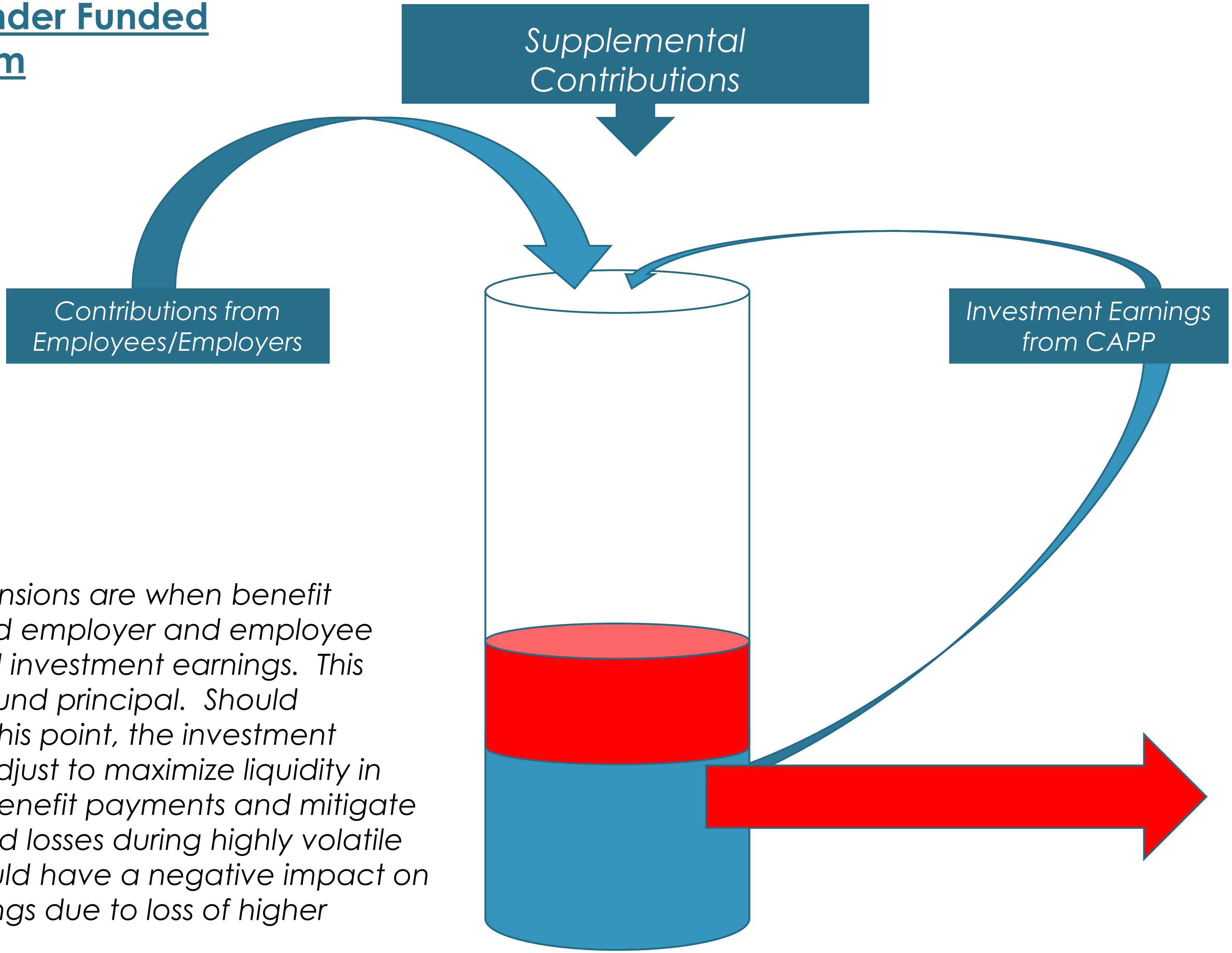


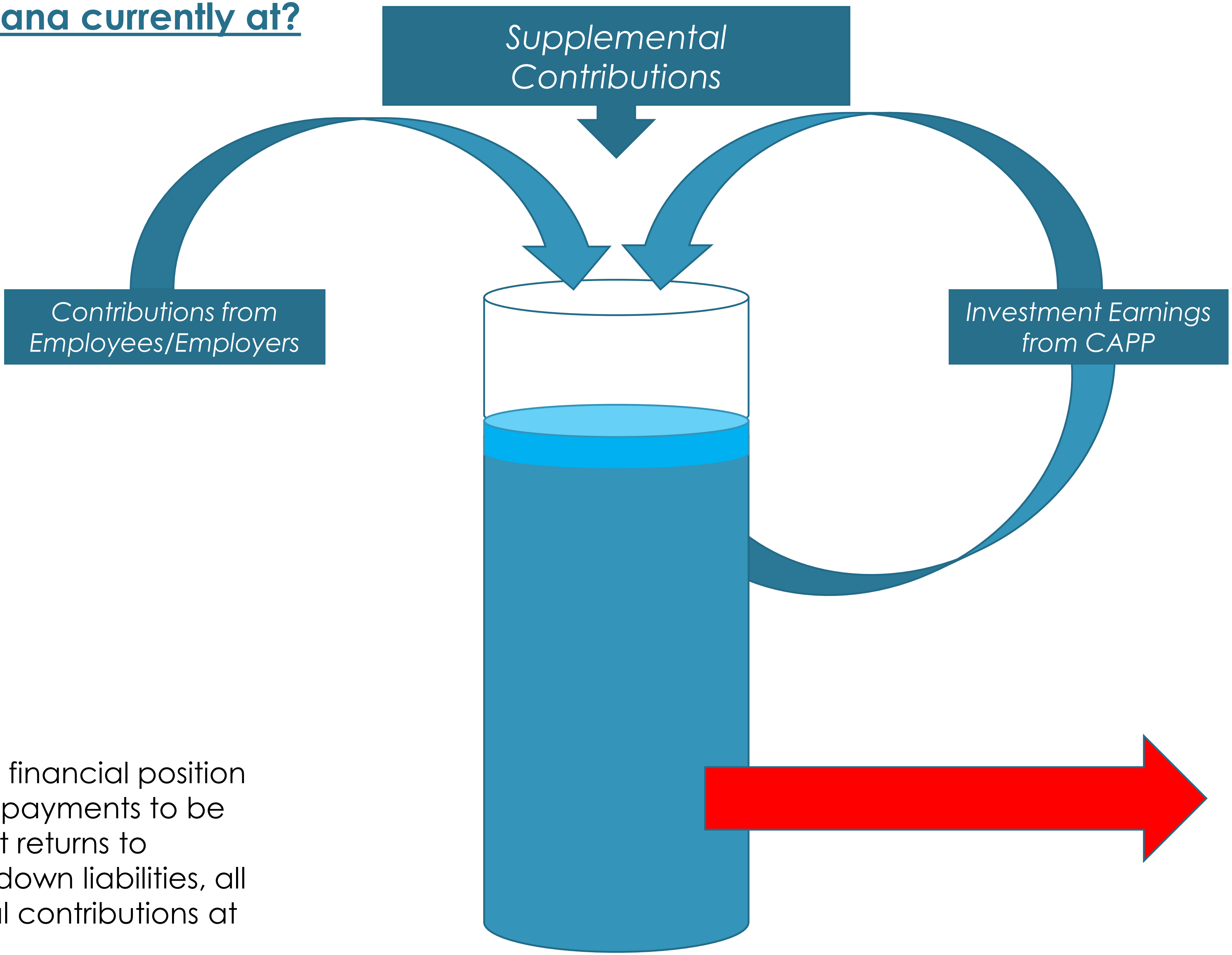
For Montana to have "fully funded" pension systems, additional contributions would need to be made from other sources. State contributions (general fund, state special or federal special revenue, etc) for state employee liabilities and local property taxes or fees for local government/school/university employee liabilities would need to grow.

Scenario 2: Under Funded Pension System



Under funded pensions are when benefit payments exceed employer and employee contributions and investment earnings. This causes losses to fund principal. Should Montana get to this point, the investment portfolio would adjust to maximize liquidity in order to ensure benefit payments and mitigate risk of accelerated losses during highly volatile markets. This would have a negative impact on investment earnings due to loss of higher returning assets.

Where is Montana currently at?

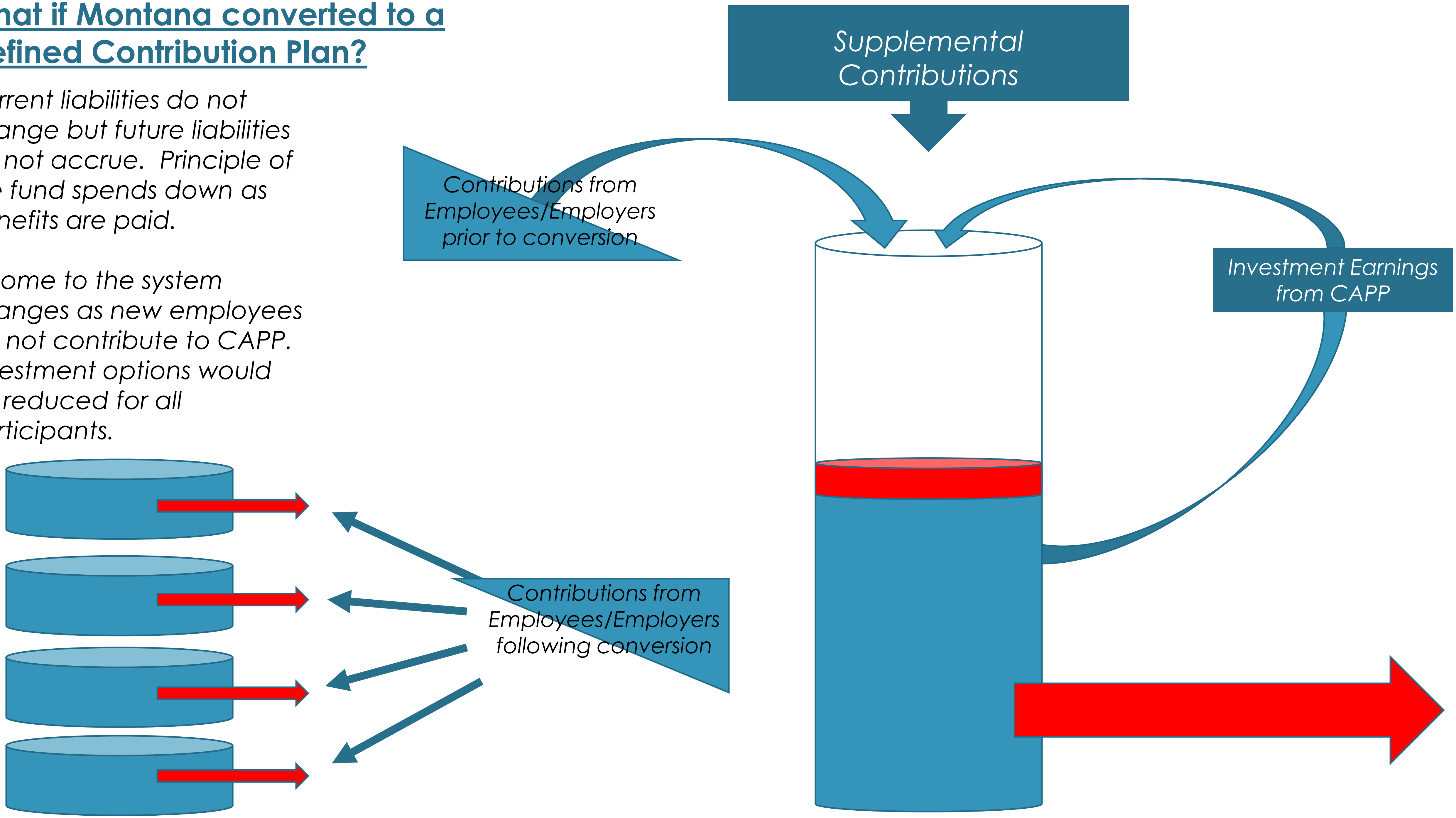


Montana's strong financial position allows for benefit payments to be made, investment returns to continue paying down liabilities, all without additional contributions at this time.

What if Montana converted to a Defined Contribution Plan?

Current liabilities do not change but future liabilities do not accrue. Principle of the fund spends down as benefits are paid.

Income to the system changes as new employees will not contribute to CAPP. Investment options would be reduced for all participants.



Asset Classes Unavailable in Defined Contribution/Deferred Compensation Plans

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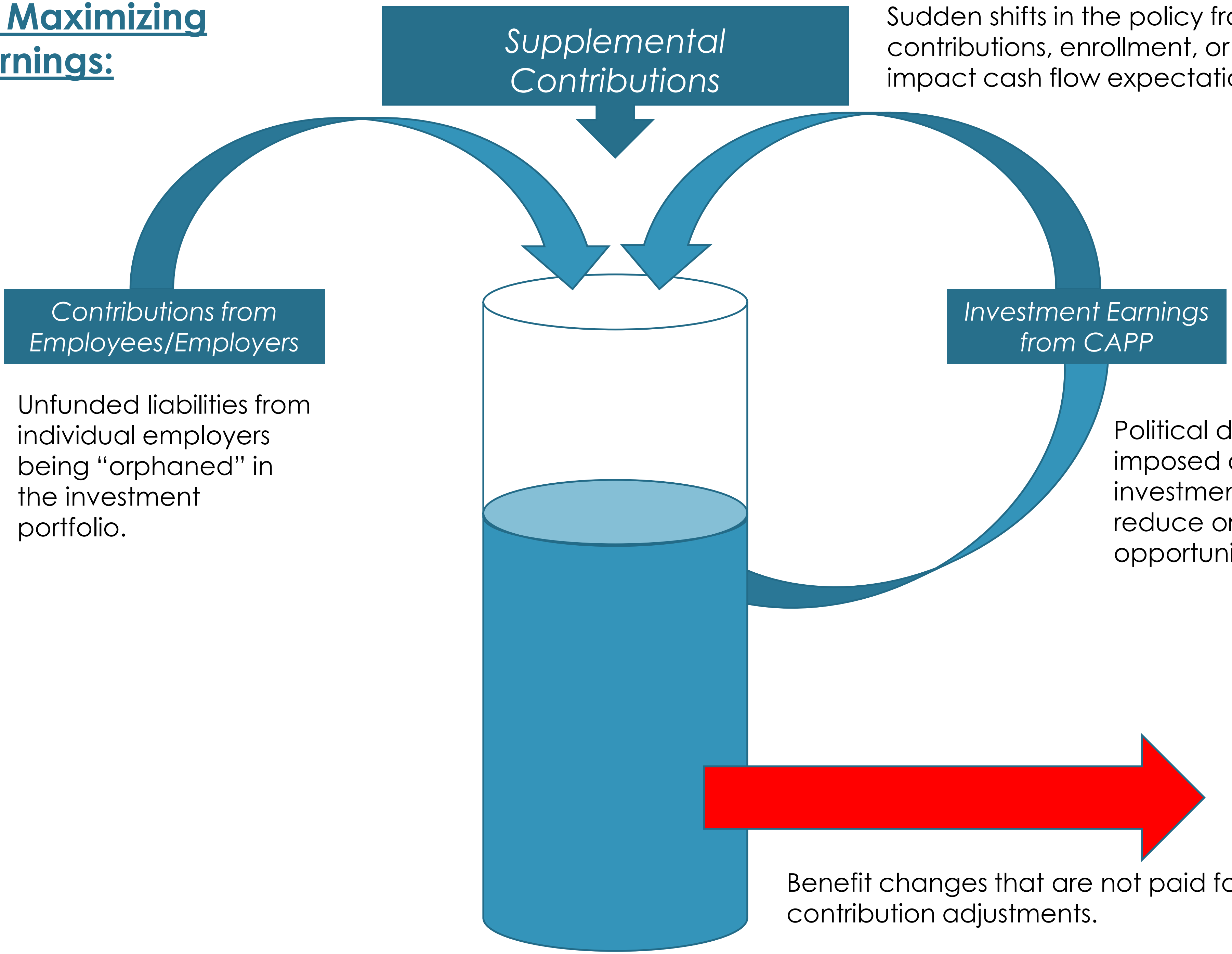
Policy Risks to Maximizing Investment Earnings:



Sudden shifts in the policy framework of contributions, enrollment, or plan design that impact cash flow expectations.

Unfunded liabilities from individual employers being “orphaned” in the investment portfolio.

Political decisions being imposed on the investment portfolio to reduce or mandate opportunity sets.

Benefit changes that are not paid for with contribution adjustments.