

MONTANA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS

BACKGROUND

Retirement plans started as an alternate method for employers to compensate their employees for services rendered. Later, employers used retirement plans as a recruiting and retention tool that supplemented regular compensation. Today, retirement plans are usually viewed as a method for employers to recruit, compensate, and retain employees.

Most of Montana's statewide public employee retirement systems originated as local government and school district plans. Over time, local jurisdictions opted to join the state's plans or to combine their local plans into one statewide plan. The first statewide system, the Teachers' Retirement Systems (TRS), was formed in 1937. The state's largest plan, the Public Employee Retirement System (PERS), was formed in 1945 with the passage of the Public Employees Retirement Law. The most recent plan, the PERS Defined Contribution Plan (PERS-DC), was formed in 1999.

At the end of FY 20, Montana's defined benefit retirement plans covered more than 52,000 active and 43,000 retired state, local government, and school district employees – roughly 1 in every 10 Montanans – and involved more than \$11.7 billion in investment assets and nearly \$18 billion in liabilities.

Retirement fund assets, including contributions and investment earnings, are protected trust funds under the Montana Constitution. Montana's constitution provides that retirement system funds may not be diverted or encumbered for any other purpose (Article VIII, Section 15).

TYPES OF PLANS

There are two types of retirement plans: defined benefit (DB) plans and defined contribution (DC) plans. In a DB plan, benefits are defined, and costs are estimated. In a DC plan, costs are defined, but benefit amounts fluctuate according to the account balance at any given time. There is also a range of hybrid plans that combine different aspects of DB and DC plans.

According to the U.S. Bureau of Labor Statistics, as of March 2020, 76% percent of state and local workers in the U.S. participated in defined benefit plans while 18% participated in defined contribution plans.

There are 11 public employee retirement systems in Montana – 9 DB plans and 2 DC plans. These systems cover nearly all state and local government employees, as well as school district employees.

MONTANA'S DEFINED BENEFIT PLANS

- Teachers' Retirement System (TRS)
- Public Employees' Retirement System (PERS)
- Firefighters' Unified Retirement System (FURS)
- Highway Patrol Officers' Retirement System (HPORS)
- Game Wardens' and Peace Officers' Retirement System (GWPORS)
- Judges' Retirement System (JRS)
- Municipal Police Officers' Retirement System (MPORS)
- Sheriffs' Retirement System (SRS)
- Volunteer Firefighters' Compensation Act (VFCA)

MONTANA'S DEFINED CONTRIBUTION PLANS

- PERS Defined Contribution Retirement Plan (DCRP)
- Montana University System Retirement Program (MUS-RP)

GOVERNING BOARDS

Each plan's governing board members are the plan's responsible fiduciaries, meaning they must act only in the best interest of plan members and their beneficiaries.

Nine of Montana's retirement plans (8 DB & 1 DC) are governed by the Public Employees' Retirement Board (PER Board), a seven-member board, appointed by the Governor.

TRS is governed by the Teachers' Retirement System Board (TRS Board), a six-member board, appointed by the Governor. Teachers in school districts and some state institutions, excluding the faculty of the Montana University System (MUS), are covered by TRS, which is a DB plan.

MUS faculty belong to the Montana University System Retirement Program (MUS-RP), a DC plan. The plan is governed by the Board of Regents (BOR).

INVESTMENT MANAGEMENT

For the MPERA and TRS DB plans, assets are managed and invested by the Montana Board of Investments (MBOI) as part of the state's unified investment program.

For the PERS-DC plan, MPERA contracts with several retirement fund companies to provide a menu of investment options for plan members.

For the MUS-RP, the Board of Regents contracts with the Teachers Insurance and Annuity Association (TIAA) for plan administration and investment options.

CONTRIBUTIONS

Contributions to Montana's public employee retirement plans are made on a pre-tax basis each pay period.

Employee contributions are withheld from the employee's paycheck and paid directly to the pension plan. The current employee contribution rate is set at 7.9% of the employee's compensation, found at 19-3-315 (1), MCA.

Employer contributions are also made directly to the retirement plan. The current employer contribution rate is 6.9%, found at 19-3-316 (1), MCA.

Only the Legislature has the authority to change the employee and employer contribution rates. The rates were last changed in 2013 with bills HB 377 (TRS) and HB 454 (PERS).

UNFUNDED LIABILITIES

Actuarial losses, or benefit increases applied to past service, will result in an unfunded actuarially accrued liability (UAAL) (also referred to as an unfunded liability).

Unfunded liabilities are typical in DB plans because projections cannot perfectly predict the future. It is usually acknowledged that in order to accommodate for this, contributions should cover more than the normal cost of benefits, allowing the extra contributions to cover the potential ups and downs of the plan's experience.

ACTUARIAL VALUATIONS

An actuarial valuation is a mathematical investigation by an actuary. Actuarial valuations assess the financial condition of a retirement plan at a particular point in time. Montana law requires actuarial valuations annually for each of Montana's DB plans (19-2-405(2), MCA).

If the actual experience is different from the assumed experience, the DB plan will have an actuarial gain or loss. If investment returns are better than projected, there will be an actuarial gain. If the investment returns are worse than projected, there will be an actuarial loss. Each actuarial valuation includes a section about the plan's actuarial gains and losses.

EXPERIENCE STUDY

Montana law (19-2-405 (5), MCA) requires regular experience studies be conducted for the statewide public employee retirement plans to compare actual experience with the actuarial assumptions.

If plan experience shows the actuarial assumptions need to be adjusted, an actuary will recommend specific adjustments to be made. The governing boards of the plans set the assumptions after receiving the recommendations.

DEFERRED COMPENSATION PLAN

State employees, and some local employees, may voluntarily participate in a 457(b) deferred compensation plan to help supplement their retirement plans. The state's 457 plan is governed by the PER Board.

HJ 8

HJ 8 (2021) calls for an interim study of the financial stability of Montana's defined benefit public employee retirement systems and the development of a long-term strategic approach to funding the systems.

Under 5-5-228, MCA, SAVA has administrative rule review, draft legislation review, program evaluation, and monitoring functions for public employee retirement plans. The Legislative Council assigned HJ 8 to SAVA during their May 24, 2021 meeting.

SOURCES

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