SUMMARY OF COMMITTEE FEEDBACK AND SUGGESTIONS RE. SJ 4

STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE
PREPARED BY REBECCA C. POWER – JANUARY 2024

BACKGROUND

At the May 2023 Legislative Council meeting, the Council assigned SJ 4: Provide for Interim Study of PERS and TRS to the State Administration and Veterans' Affairs (SAVA) Interim Committee. The study resolution was requested by the 2021-2022 SAVA Interim Committee and is intended to build upon the findings of the HJ 8 (2021) study, with a specific focus on the Public Employee Retirement System Defined Benefit Plan (PERS-DB) and the Teachers' Retirement System (TRS).

During the September 2023 SAVA meeting, committee members voted to allocate 0.40 FTE to SJ 4 in the committee workplan. This includes multiple presentations from experts within the state and from around the country, staff papers and other materials on topics requested by the committee, and possible committee legislation to introduce during the 2025 Legislative Session.

During the November 2023 SAVA meeting, committee members were asked to submit their thoughts on and suggestions for the SJ 4 study. Staff summarized the comments and sorted them by task listed in the study resolution. Notes are included about items that have either already been addressed or are already scheduled.

SJ 4 STUDY RESOLUTION TASKS & COMMITTEE FEEDBACK

(1) Form a joint committee with the Legislative Finance Committee to conduct the study with all members having full voting power.

- Accomplished during the November 2023 meeting.

(2) Study the financial stability of the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System.

- Examine the income side of the equation, namely, how to get more people paying into the system.
- Assess how our current plans are working to attract and retain employees.
- Study the financial risk of the number of active employees dropping to less than the number of retirees and research expected trends on this topic.
- Assess the risks associated with the pension systems and determine which to assume in our plans for the state budget and taxpayers.
- Develop a comprehensive list of risks associated with the systems, rank them according to severity, and develop recommendations to deal with the risks.
- Examine the promises made to current employees and how to ensure the promises are met.
- Examine the cost of keeping our promises going forward to current and future generations as plans are currently designed.
- Examine how to best address the unfunded liabilities of the existing pension funds.
- Assess the current assumptions to determine if they are defensible or need to be adjusted.

- Assess the impact of SB 29 (2023).
- Understand the risks associated with the current statutory requirement to decrease the PERS employee contribution to 6.9% when the amortization period drops below 25 years.
- Compare data on our plans to other states (assumed rate of return, amortization, funded ratio, funding mechanisms, governance style, investment portfolios, etc.)
- Examine the rate of return assumption to learn what it is based on and what factors are considered when setting it.
- Review the benefits of the DB plans in relation to competitiveness (private sector and other states) and in relation to cost to the state.
- Examine the sustainability of PERS and TRS as currently configured.
- Conduct stress tests on PERS and TRS and work with Cavanaugh MacDonald, Pew, and Cheiron to analyze the results.

(3) Study the history of contributions from the general fund and other sources to the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System.

- Scheduled for the January 2024 meeting.

(4) Investigate alternate approaches to funding and amortization policies and the actuarial impact of changes to the current plan policies.

- Study plan design options to determine the best retirement plan design to ensure predictability for the state budget and taxpayers.
- Study the pros and cons of DB vs DC, and how either impacts the risk allocation of current pension assets.
- Study possible alternatives to our existing plans to determine if any would be more effective as a recruiting and retention tool and potentially at a lower cost to taxpayers.
- Look at the results in other states that have gone to DC or hybrid plan (strength of the plan, cost, employee satisfaction, etc.).
- Look at other states that have moved from DB to DC and what changes they made to their pension portfolios.
- Research the top 5 states for funding ratio, look at the best practices, and determine which could be incorporated into PERS and TRS.
- Study the trends and latest news in pension management, funding, and governance.
- Study the structural differences in our plan from other states.
- Study how other states address the risks associated with DB plans and assess which could be used in Montana.
- Assess the possible cost of changes to the existing plan design for PERS and TRS and how they would be funded.
- Study the potential impacts to TRS and PERS of moving to layered amortization (HB 569 and HB 226).
- Assess the pros and cons of automatically requiring employer increases to all pension systems in statute when plans don't amortize in 30 years or less.
- Assess the benefits and risks associated with switching the PERS default plan from DB to DC.
- Study the Montana University System move from TRS to the current Montana University System Retirement Plan and its financial implications to TRS and the state.

LEGISLATIVE SERVICES DIVISION

State Administration and Veterans' Affairs Interim Committee
Prepared By: Rebecca C. Power, Legislative Research Analyst

(5) Examine legislative education, oversight, and goals concerning the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System, including decision benchmarks or indicators for future action.

- Assess the current tools legislators use to monitor the pension systems and work with Pew and Cheiron to expand these and/or make new tools.
- Expand educational programs about pensions for the legislature.

(6) Develop recommendations for a long-term strategic approach to funding the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System that will ensure the financial strength of the systems while also recognizing the responsibility placed on the taxpayers and citizens of this state.

- Scheduled for the July, September, and October 2024 meetings.

ADDITIONAL FEEDBACK/SUGGESTIONS FROM COMMITTEE MEMBERS

- Create an inventory of the pension resources available that may be useful to future studies and pension legislation.
- Evaluate the feasibility of having every employer (state, local, etc.) pay for the true cost of the benefit and reduce or eliminate the state match for local government employees.
- Review the existing DC plan, comparing it to the public and private sectors, and what legislation needs to be considered to remove the variable employer match.
- Survey current employees about how they feel about the current system versus moving to a DC system.
- Research what current job seekers are looking for in a job and how much of a role does the retirement package play in their decision-making.
- Research what retirees want in their retirement plans for themselves and their families.
- Research whether employees are looking for flexibility in their retirement plans and assess whether we are providing flexibility in our retirement plans for employees.
- Evaluate investment performance in comparison to other states and understand the capital market forecasts that go into building the assumed rate in Montana.
- Gather information and develop recommendations on the best options to address the issues identified with HB 569 at the November SAVA meeting and the consequences of not making any changes.
- Discuss/brainstorm what our ideal endpoint would be. Do we want a funding ratio like South Dakota? Do we want to be average in assumed rate? Below average? What percent of employees' wages do we want their retirement to cover? What should be the legislature's role in the factors we don't control? (e.g., investment mix, actuarial assumptions approved by the pension boards, etc.) Should we behave differently than now as the assumer of risk on those sizable factors?
- Throw the doors wide open and consider many different ideas. Nothing is off limits and only move on to new topics when satisfied that a topic is fully understood. Develop a rating system to be applied to the ideas investigates – ideas that might begin moving in a function direction, ideas that would be great but are not politically feasible, ideas that maybe we could band together to get over the finish line, and other ideas that might be nice to have down the line.