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State Administration and Veterans' Affairs Interim Committee

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FINAL REPORT TO THE 68TH MONTANA LEGISLATURE

2022 LEGISLATOR'S GUIDE TO MONTANA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS & HJ 8 (2021) FINAL REPORT



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This report is a summary of the work of the State Administration and Veterans' Affairs Interim Committee, specific to the SAVA Interim Committee's 2021-2022 pension study as outlined in the SAVA Interim Committee's 2021-22 work plan and House Joint Resolution 8 (2021). Members received additional information and public testimony on the subject, and this report is an effort to highlight key information and the processes followed by the SAVA Interim Committee in reaching its conclusions. To review additional information, including audio minutes, and exhibits, visit the SAVA Interim Committee website: <https://leg.mt.gov/committees/interim/sava/>.

A full report, including links to the documents referenced in this print report, is available at the SAVA HJ 8 study page: <https://leg.mt.gov/committees/interim/sava/hj-8/>.

INTRODUCTION

Overview

The 2022 Legislator's Guide to Montana's Public Employee Retirement Systems is intended to serve as a tool for legislators to use when examining Montana's public employee retirement systems and related policy issues. The State Administration and Veterans' Affairs Interim Committee (SAVA) has been producing the Legislator's Guide since 2008 to provide background information, reference material, and context for legislators as they make decisions related to the state's retirement systems.

This year, the Guide also includes a chapter on the HJ 8 interim study on pensions conducted by the SAVA committee during the 2021-2022 interim. The HJ 8 chapter is included at the start of the Guide, but readers new to Montana's retirement systems may find it helpful to look through the subsequent chapters first to get an in-depth introduction to the topic.

Impact to Montana

As of June 30, 2022, the actuarial value of trust fund assets in Montana's nine defined benefit public employee retirement systems totaled more than \$13.8 billion. The actuarially accrued liability (AAL) totaled more than \$18.6 billion, of which roughly \$4.7 billion is considered unfunded (UAAL).

There are currently 55,075 active members enrolled and 47,196 retirees and benefit recipients – roughly 9% of the state's population or 1 out of every 11 Montanans. There are over 1,200 employers across the state, including local governments, school districts, community colleges, and state agencies.

Role of the SAVA Interim Committee

Under section 5-5-228, Montana Code Annotated, the SAVA committee shall:

- a. consider the actuarial and fiscal soundness of the state's public employee retirement systems, based on reports from the teachers' retirement board, the public employees' retirement board, and the board of investments, and study and evaluate the equity and benefit structure of the state's public employee retirement systems;
- b. establish principles of sound fiscal and public policy as guidelines;
- c. as necessary, develop legislation to keep the retirement systems consistent with sound policy principles; and
- d. publish, for legislators' use, information on the public employee retirement systems that the committee considers will be valuable to legislators when considering retirement legislation.

Note about Terminology

Throughout this guide, the terms retirement system and retirement plan are used interchangeably. Nearly all of the public employee retirement plans are named systems in Montana statute. All but one of these systems consists of a single plan. However, one system, the Public Employees' Retirement System (PERS), consists of two different retirement plans, a defined benefit plan and a defined contribution plan. Therefore, with respect to PERS, the term system refers to both plans.

For the purposes of this guide, the terms retirement plan and pension plan are used interchangeably. The actual names of most of the public employee retirement plans include the words retirement system.

A list of pension acronyms can be found in Appendix B and a glossary of pension terms can be found in Appendix C at the end of this report.

Green Sheets

In addition to this guide, the staff from Legislative Services (LSD), in partnership with the Montana Public Employee Retirement Administration (MPERA), the Teachers' Retirement System (TRS), the Montana Board of Investments (BOI), the Office of the Commissioner of Higher Education (OCHE), and the Legislative Fiscal Division (LFD), produces the Green Sheets each fall containing the benefit, actuarial and investment data from the previous fiscal year. The FY 22 Green Sheets can be found here: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/FY22-Green-Sheets-NEW.pdf>.

CHAPTER 1 – HJ 8 (2021)

Introduction

HJ 8, passed during the 2021 Legislative Session, calls for an interim study of Montana's defined benefit public employee retirement system and the development of a long-term strategic approach to funding the systems. Included in the resolution are the following tasks for the SAVA interim committee:

- 1) study the financial stability of Montana's defined benefit public employee retirement systems;
- 2) use the assistance of independent certified professional actuaries, if funding is made available by the Legislature for the actuarial services; (*note: funding was not made available for this component of the study*)
- 3) investigate the actuarial impact on funded ratios and amortization schedules of alternative funding policies for determining required contributions and consider selected scenarios, recognizing the funding sources for and the relative health or weakness of these unique systems;
- 4) review and study the governance structure of the public employee retirement systems;
- 5) examine legislative education, oversight, and goals concerning the public employee retirement systems, including decision benchmarks or indicators for future action; and
- 6) develop recommendations for a long-term strategic approach to setting contribution rates that will ensure the financial strength and resilience of the retirement systems while recognizing the responsibility placed on the taxpayers and citizens of this state.

The following directions are also included in the study resolution:

- The SAVA Interim Committee shall invite two members of the Legislative Finance Committee, a Senate member, and a House of Representatives member, one from the majority party and one from the minority party, to participate with, but not be voting members of, the SAVA Interim Committee on matters related to this study.
- The Legislative Services Division shall provide research, legal, and administrative staff support for the SAVA Interim Committee and that the SAVA Interim Committee presiding officer may request that the Legislative Fiscal Division provide fiscal analysis as needed.
- The study shall be conducted, and the recommendations shall be developed, in consultation with all interested stakeholders, including but not limited to representatives of:
 - the state's taxpayers;
 - active and retired members of the retirement systems;
 - employers, including local governments, school districts, and state agencies;
 - key agencies, including the Governor's office, the retirement boards, and the Board of Investments; and
 - other interested parties as considered appropriate.
- All aspects of the study, including presentation and review requirements, shall be concluded prior to September 15, 2022.

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- The final results of the study, including any findings, conclusions, comments, or recommendations, shall be reported to the 68th Legislature.

Topics by Meeting

The SAVA interim committee worked on the HJ 8 study at each of their meetings during the 2021-2022 interim. Here is a breakdown of topics presented and discussed at each meeting:

- The SAVA interim committee met for the first time of the 2021-2022 interim on **June 24, 2021**. During the meeting, staff introduced the study and the committee voted to set aside 70% of their time during the interim to the study.
- At the **August 25, 2021**, meeting committee members received Pensions 101 presentations from committee staff, and representatives from the Montana Public Employee Retirement Administration (MPERA), the Teachers' Retirement System (TRS), and the Montana Board of Investments (BOI), providing a high-level overview of the state's retirement systems. Committee members also heard from stakeholders, including union representatives, individual retirement system representatives, active members, and retirees about their suggested approaches to the study and the impact of the state's retirement systems.
- The **November 4, 2021**, presentations focused on the governance structure of the retirement systems and the system of oversight and checks and balances. Presenters included committee staff, representatives from MPERA, TRS, the Legislative Audit Division (LAD), and the Legislative Fiscal Division (LFD). Committee staff also shared data about other states' retirement plans and a draft version of the FY21 green sheets.
- The SAVA interim committee met the morning of **December 16, 2021**, to hear about the history and funding status of the Game Wardens' and Peace Officers' Retirement System (GWPORS) and to review the finalized FY21 green sheets. In the afternoon, the SAVA interim committee held a joint meeting with the Legislative Finance Committee (LFC) to hear the FY21 annual actuarial valuation reports from MPERA and TRS and to discuss the results.
- The **March 24, 2022**, meeting included presentations about plan design and amortization policy from national pension experts from the National Association of State Retirement Administrators (NASRA), the National Institute on Retirement Security (NIRS), the National Conference on Public Employee Retirement Systems (NCPERS), and Cavanaugh Macdonald Consulting, LLC. In addition, the committee learned about the history of the Montana University System's Retirement Program (MUS-RP), its split from TRS in 1993, and the supplemental contribution from the MUS to TRS to pay off its remaining obligations.
- At the **May 25, 2022**, meeting committee members heard the results of the MPERA and TRS experience studies, which are conducted every four years by an actuary. The studies included comparisons of the actual experience of the individual retirement systems with the projections and suggested changes to several assumptions, including the rate of return and multiple demographic data points. In addition, committee staff presented on the history of general fund contributions to the retirement systems, including the Treasure State Endowment Program (TSEP) fund.
- The committee held a two-day meeting **August 10-11, 2022**. Committee staff shared a draft bill, prepared at the request of the committee, amending 19-3-316, MCA to extend the

PERS-DB supplemental employer contribution to 2034 and increase the rate by 1% gradually over ten years. Committee members approved the provisional draft and Representative McKamey offered to carry the bill (LC 234). Committee staff presented the committee with an options paper in response to their request for supplemental funding for GWPORS and an adjustment to the GWPORS employer contribution rate. After some discussion, the committee members directed staff to draft a bill for review at their October 26 meeting giving one-time-only general fund contributions to the public safety retirement systems to help them amortize in 30 years or less and to amend 19-8-504, MCA, to increase the GWPORS employer contribution rate making it the same as the employee contribution rate. Committee members also directed staff to prepare two other bill drafts for their October meeting – (1) a study resolution for the 2023-2024 interim that would focus specifically on PERS-DB and TRS, working with the Legislative Finance Committee and (2) a bill that would add a policy statement to statute stipulating that no new benefits can be added to an individual pension system unless it is fully funded. The committee voted to create a subcommittee – the Pensions Working Group – to craft the language for the policy statement. Representative Julie Dooling was appointed Chair of the subcommittee. The committee gave staff instructions on the HJ 8 final report.

- The Pensions Working Group met **September 6, 2022**, to develop language for the benefit policy statement. The subcommittee members agreed on the following language to be added to each pension system chapter in the MCA and directed staff to draft a bill for the entire committee's consideration in October:
 - "It is the policy of the state that additional benefits may not be added to the (system name) unless the system amortizes in 30 years or less and the additional benefit is fully funded in perpetuity."
- The final SAVA meeting was held **October 26, 2022** and included a presentation of the FY22 actuarial valuation reports from MPERA and TRS. In addition, staff presented the draft HJ 8 final report, the FY 22 green sheets, and draft committee legislation. The committee voted to introduce three committee bills – LC 887 (funding for public safety systems), LC 888 (pension benefit policy statement), and LC 889 (interim study).

HJ 8 study presentations, briefing memos, and materials from each SAVA meeting can be found here: <https://leg.mt.gov/committees/interim/sava/hj-8/>.

Committee Findings

- There are nine statewide defined benefit retirement systems in Montana, covering 55,075 active employees and 47,196 retirees and benefit recipients. There are over 1,200 employers across the state, including state agencies, local governments, and school districts.
- The actuarial value of the trust fund assets of the statewide defined benefit systems totals more than \$13.8 billion.
- The actuarially accrued liability (AAL) for the systems totals more than \$18.6 billion, of which over \$4.7 billion is considered unfunded (UAAL).

- There are multiple systems that do not amortize in 30 years or less, as is required by the Montana Constitution and the MCA.

Committee Recommendations

- Add a policy statement to each individual pension system barring additional benefits unless the individual system amortizes in 30 years or less and the new benefit is projected to be fully funded in perpetuity.
- Conduct an additional pension study during the 2023-2024 interim in conjunction with the Legislative Finance Committee, looking specifically at PERS-DB and TRS as they are the largest retirement systems in the state, and focusing on funding models and possible funding policy changes.
- Extend the supplemental PERS-DB employer contribution until 2034 and increase the rate 1% gradually over the ten-year period.
- Provide one-time cash infusions from the general fund to the public safety systems that do not currently amortize in 30 years or less – the Sheriffs' Retirement System (SRS), the Game Wardens' and Peace Officers' Retirement System (GWPORS), and the Highway Patrol Officers' Retirement System (HPORS).
- Increase the GWPORS employer contribution rate to match the employee contribution rate.

CHAPTER 2 – PRIMER ON RETIREMENT PLANS

Purpose of Retirement Plans

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, employers often view retirement plans as a method to recruit, compensate, and retain employees. Employees typically view employer-sponsored retirement plans as their primary way to save and invest their earned compensation to ensure financial security in retirement.

Types of Retirement Plans

There are three major types of retirement plans in the public sector: defined benefit (DB), defined contribution (DC), and hybrid plans. There is no universal answer as to what is considered the optimal retirement plan structure, as this varies based on the needs and objectives of the plan sponsor and population covered, and the legal and regulatory environment of the state or municipality.

Regardless of the type of plan, all use the same basic retirement funding equation:

$$C + I = B + E$$

Contributions + Investment Income = Benefits Paid + Expenses (Administration)

Defined Benefit Plans

- A defined benefit (DB) plan is an employer-sponsored retirement plan that provides a specific monthly benefit at retirement. The employee's salary and length of service determine the retirement benefit.
- DB plan funds typically include a combination of employer contributions, employee contributions, and investment earnings. Actuarial valuation results determine recommendations for contribution rates.
- Public pension assets are put into a pooled trust fund and are managed by professionals at the state level. The pooled trust fund assets are invested to pre-fund the cost of pension benefits, providing economies of scale that lower fees and increase returns. Retirees receive set monthly installments rather than a lump sum and the benefit is guaranteed for the rest of their life.
- Investment performance does not affect the value of a DB plan benefit but may affect or cap cost-of-living adjustments.
- The typical DB plan places some responsibility and risk on both the employer and employee.
- DB plans are the most prevalent plan design in the public sector.

Defined Contribution Plans

- A defined contribution (DC) plan is an employer-sponsored retirement savings vehicle that accumulates savings based on contributions to an employee's individual retirement account. DC plans do not promise a specific retirement benefit.
- In a DC plan, the employee, employer, or both contribute to the plan. The contribution amount is typically a certain percentage of the employee's salary.
- DC plans typically do not pool assets, and instead, employees have a range of investment options to manage individually. The employee receives the balance in their account upon retirement. The 401(k) plan is the most popular form of DC plan.
- Employees assume the investment and longevity risks in DC plans. Employers fulfill their annual obligations as their contributions are made but may face some uncertainty about timely retirements if investment returns drop close to an employee's retirement date and the employee decides to delay.
- Many states offer employees a DC plan as a supplemental retirement savings plan or as an optional alternative to the DB plan. Three states – Alaska, Michigan, and Oklahoma – and the District of Columbia offer only a DC plan on a statewide basis for broad employee groups.

Hybrid Plans

- Hybrid pension plans combine elements of both DB and DC plans. The most common government-sponsored hybrid plan types are combination plans and cash balance plans.
- Combination plans feature a DB component that is typically more modest than a traditional DB plan combined with a mandatory DC plan. Eleven states offer combination hybrid plans, either optional or compulsory.
- Cash balance plans combine elements of traditional pensions with individual savings accounts into a single plan. Employers generally guarantee an annual rate of return on an account the employer, employee, or both contribute. Five states offer cash balance hybrid plans: California, Kansas, Kentucky, Nebraska, and Texas.
- Core elements of all hybrid plans include mandatory participation, shared financing and risk among employers and employees, pooled assets, and required lifetime benefit payouts.

Types of Retirement Plans – Comparison Chart

ISSUE	DB PLANS	DC PLANS	HYBRID PLANS
Philosophical Perspective	<p>Employer Responsibility. --Employer is obligated to provide a base retirement benefit. --Contributions are pooled and debts or gains, usually caused by market fluctuations, are shared by employers in the pool. --Unfunded liabilities are typical. --Reasonable amortization schedule provides financial security.</p>	<p>Employee Responsibility. --Employer responsibility ends with contribution to the plan. --Employee bears investment risks and responsibilities. --No gains or losses to a shared plan, so no unfunded liabilities, no amortization schedule, and no actuarial valuations.</p>	<p>Shared Responsibility. --The employer guarantees a certain defined benefit amount, which alone is not sufficient. --Depending on the plan's design, the employee's benefit will depend also on the employee's individual account balance, so the employee also has responsibility and bears a risk.</p>
Flexibility	<p>Less. --A DB plan usually provides only the option of how the defined benefit is to be paid out, e.g., as a single life annuity, joint and survivor annuity, term certain, etc.</p>	<p>More. --Depending on design, the plan may allow participants to choose contribution amount, investment options, and form of payout.</p>	<p>Depends on Plan. --Flexibility will depend on plan features, but the DB portion will be less flexible, while the DC portion will add some flexibility.</p>
Portability	<p>Less. --Employer contributions are not made to individual accounts, so if an employee leaves employment before vesting, the employee is usually not eligible for a retirement benefit or to take or transfer employer contributions.</p>	<p>More. --Employer contributions are made to individual accounts. Money in the account may not be accessible until retirement, but the employee can continue to manage the account. --Actual portability depends on the specific provisions of the plan, which may or may not limit transferability.</p>	<p>Depends on Plan. --Portability will depend on plan features, but the DB portion will be less portable, while the DC portion will add some portability.</p>

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ISSUE	DB PLANS	DC PLANS	HYBRID PLANS
Investment Risk and Return	<p>Risk Assumed by Employer. --To the extent that assumptions or projections differ from actual experience, the pension funds may experience gains or losses. --Pension assets are pooled. --Gains and losses are smoothed over a long-term period. --Risk is therefore minimized.</p>	<p>Risk Assumed by Employee. --Employees may select a risk/return tradeoff to fit personal circumstances.</p>	<p>Shared Risk. --Exact details depend on the plan's design.</p>
Who Benefits	<p>Career Employees. --Typically, longer-term or older employees benefit most.</p>	<p>Short-Term Employees. --Typically, shorter-term and younger employees benefit most (depending on investment choices and realization of assumptions).</p>	<p>Depends on Plan.</p>
Pension Security/ Longevity Risk	<p>Higher. --The benefit amount is guaranteed and can be counted on for a lifetime.</p>	<p>Lower. --The actual benefit amount is not known in advance and a retiree could outlive the benefit.</p>	<p>DB Higher. DC Lower. --Actual pension security will depend on the plan's features.</p>
Administrative Costs	<p>Paid by Plan Sponsors.</p>	<p>Paid by Plan Participants.</p>	<p>Paid by Both Sponsors and Participants. --Exact amounts depend on the plan's features.</p>

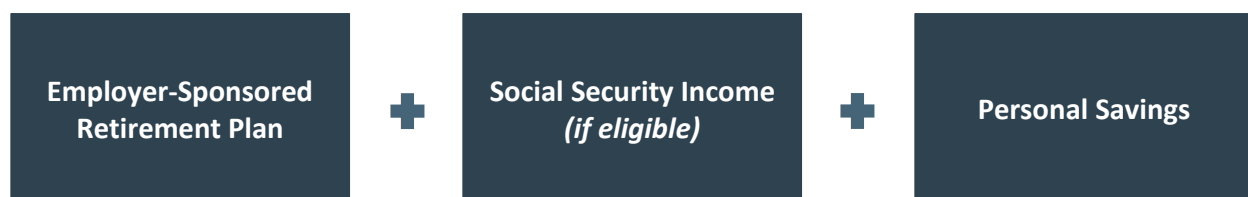
Income Needed

A familiar metric used by financial planners to help calculate how much income a person will need to live comfortably in retirement is the income replacement ratio—retirement income expressed as a percentage of pre-retirement income.

An individual's ideal income replacement ratio may be higher or lower depending on the individual's pre-retirement salary. For example, a lower-income worker spends a larger proportion of their income on housing, food, and transportation, so they will need a higher income replacement ratio than an average or higher-income worker. Another consideration is that less income may be needed in retirement because certain costs are lower. For example, income taxes will be lower, a family may no longer have expenses related to raising children, and a house mortgage and car loan will be lower or fully paid off. Thus, how much income a retiree needs will vary from household to household.

Keeping in mind there is not a one-size-fits-all target income replacement ratio, studies have concluded that middle-class families need between 65 and 75 percent income replacement ratio to maintain their lifestyle in retirement, and some experts advise a 70 to 80 percent income replacement ratio.

To achieve an adequate income replacement ratio, a person may need to rely on more than one vehicle for retirement savings. Financial advisers often refer to financial security in retirement as resting on a three-legged stool consisting of an employer-sponsored retirement plan, Social Security income (*if eligible*), and personal savings.



Inherent Risks

There are different perspectives concerning the advantages and risks of DB, DC, and hybrid plans. Although the risks are the same with any plan, the plan's design dictates how risk is managed and the extent to which the employer and employee share the responsibility for managing the risks.

Any retirement plan will have to cope with the following risks:

- Investment risks and market volatility
- Longevity risks (i.e., whether the benefit will last to the end of a retiree's life)
- Inflation risks (i.e., how to provide postretirement benefit increases to keep up with cost of living)

Also, DB, DC, and hybrid plans will offer different approaches about how to provide the following:

- Sufficient benefits in retirement
- Flexibility
- Portability

Public v. Private Retirement Plans

Private sector employers have switched from primarily offering DB plans to primarily offering DC plans, such as 401(k) plans. According to the U.S. Bureau of Labor Statistics, as of March 2020, 76% percent of public state and local workers in the U.S. participated in defined benefit plans while 18% participated in defined contribution plans.

Supplemental Plans

Montana state government employees and some local government employees may also voluntarily participate in a 457(b) deferred compensation plan to help supplement their retirement plans. School districts and universities may establish 403(b) plans for their employees, and many Montana school districts, and the Montana University System have done so. An individual public employee may also establish a traditional IRA or Roth IRA. Contributions to a traditional IRA are tax deductible if the employee's income does not exceed a certain threshold.

Social Security

The 1935 Social Security Act did not originally allow state and local government employees – including public safety employees such as police officers and firefighters – to participate in Social Security. In 1950, the act was amended to make coverage optional for certain state and local government employees, but still left many public employee groups uncovered. The option for states to allow certain public employees to participate was expanded in subsequent amendments to the act. Congress made Social Security coverage mandatory, starting in July 1991, for most state and local government employees not already covered by a public pension plan. Coverage is provided to these employees through individual agreements with state and local governments. Today, many police officers and firefighters still are not covered by social security. Instead, their employers take the money they would have paid in social security taxes and put it towards the employees' pension funds.

Pension Regulation

Sections 400 through 419 of Title 26, U.S.C.—Title 26 is the Internal Revenue Code (IRC)—and attendant federal administrative regulations govern public and private pension plans. Qualified pension plans are plans that comply with the IRC and applicable provisions of the Employee Retirement Income Security Act of 1974 (ERISA). ERISA specifies nondiscrimination standards and regulates reporting and accounting procedures. Qualified plans receive favorable tax treatment; nonqualified plans do not. Except for certain administrative and accounting standards, ERISA does

not apply to public pension plans. However, public plans must be qualified under various sections of the IRC in order for employee contributions and accruing benefits to be tax deferred.

GASB Financial Reporting

New Governmental Accounting Standards Board (GASB) reporting requirements under GASB Statement No. 67, Financial Reporting for Pension Plans, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions, in 2015 changed how public employers in Montana who participate in a public employee retirement plan must calculate and report pension costs and obligations on their individual governmental financial statements.

Under the new GASB statements, the employers who participate in cost-sharing multiple-employer retirement plans (such as Montana's statewide public employee retirement plans) are now required to show pension obligations on their individual financial statements rather than only on a combined financial statement.

The way that pension liabilities are calculated and shown under the new GASB requirements is different from the way actuaries calculate and show these liabilities for actuarial valuations. Because of these different calculations, the GASB reports may show a higher pension liability than the actuarially calculated liability and therefore also show a lower funded ratio for the plan.

Under GASB, the term "discount rate" is used when referring to the assumed rate of return on investments because the calculations involve discounting (or translating) the future value of assets and liabilities into present values. The discount rate used for the GASB report will be the same as the actuarial assumed rate of return used in the actuarial valuations as long as the assets are projected (under GASB calculations) to be sufficient to pay the future benefits.

CHAPTER 3 – DEFINED BENEFIT PLANS

How Benefits are Defined

Defined Benefit (DB) plans provide a predictable formula-driven monthly benefit for the life of a member and sometimes for the life of a beneficiary. Benefits within a DB plan often also provide disability and death benefits. The traditional formula used to calculate the benefit amount paid in a DB plan is: Multiplier (%) x Years of Service x Final Average Salary.

Multiplier (%) x Years of Service x Final Average Salary

Assets Invested in Pooled Trust Fund

To help pay for future benefits, current contributions are deposited into a pooled pension trust fund. In Montana, the trust fund's assets are invested by the Montana Board of Investments (BOI). As the investments yield returns, the trust fund grows and must ultimately be sufficient to pay for benefits as members retire and the defined monthly benefits come due.

Determining Costs

The costs of a defined benefit plan – how much employees and employers need to contribute to the plan to pay for future benefits – are estimated based on actuarial valuations. An actuarial valuation is a mathematical investigation by an actuary. These actuarial valuations assess the financial condition of the plan at a particular point in time. When estimating costs, actuaries evaluate whether current and expected contributions are sufficient to cover the estimated cost of benefits as they are expected to accrue and be paid in the future. The cost of benefits as they accrue is called the "normal cost." Other costs accrue when or if the experience of the plan is different from actuarial projections.

Montana law requires that actuarial valuations be conducted annually for each of Montana's DB plans and the results be presented to the State Administration and Veterans' Affairs Interim Committee, the Legislative Finance Committee, and the Board of Investments.

Actuarial Valuations & Experience Studies

Actuarial Assumptions

When making the projections that help determine the expected normal cost of benefits, an actuary applies various demographic and economic assumptions about future experience. Key demographic assumptions are made about the following:

- Individual salary increases
- Retirement rates
- Disablement rates

- Mortality rates
- Terminations of employment
- Probability of an employee retaining membership in system

Key economic assumptions are made about the following:

- General salary increases
- Investment returns
- Price inflation
- Growth in membership
- Interest on member accounts
- Administrative expenses

These demographic and economic assumptions are developed based on a long-term analysis of actual experience based on standards adopted by the Actuarial Standards Board. Governing boards for retirement systems set these assumptions based on the actuary's recommendations.

Investment Rate of Return Assumption

Because retirement plans rely on investment returns for a significant portion of their funding, the most significant economic assumption actuaries make is what the rate of return will be on pension fund investments. An assumption that is too high will cause liabilities and funding needs to be understated, which means the plan's funding will likely be too low to keep the plan solvent. An assumption that is too low will cause liabilities and funding needs to be overstated, which places a burden on current employees and taxpayers to make higher contributions than necessary to keep the plan solvent. The investment rate of return assumption is the sum of two rates—an inflation rate and the real rate of return.

Actuaries for public employee retirement plans focus on a long-term investment horizon of at least 20 to 30 years, which is the typical length of an employee's working career and eligibility criteria for earning a full-service retirement benefit. Short-term volatility in the market does affect the funded ratio and amortization schedules for pension plan liabilities so a plan that is less than 100% funded will be more sensitive.

Experience Studies

Actuarial assumptions are tested and adjusted from time to time based on experience studies. An experience study examines the actual history and experience of the system and measures the assumptions against the actual history. Assumptions about mortality, disability, investment returns, and others, may then be adjusted accordingly. If plan experience shows that the actuarial assumptions need to be adjusted, an actuary will recommend that certain adjustments be made. The governing boards of the plans, who are the fiduciaries of the plan, set the assumptions after receiving recommendations from the actuary. Fiduciaries are legally and ethically accountable for their decisions.

Montana law requires that regular experience studies be conducted for the statewide public employee retirement plans to compare actual experience with the actuarial assumptions. The most recent experience studies were conducted in the spring of 2021 and can be found here:

- MPERA: https://mpera.mt.gov/_docs/actuarial_info/2022/2022ActuarialExperienceStudyCONFIDENTIAL-Final.pdf
- TRS: https://trs.mt.gov/miscellaneous/PdfFiles/Information/expstudies/2021_TRS_expstudy.pdf

Amortization Period

A plan is considered actuarially sound if the unfunded liabilities are being paid for within a reasonable amount of time, or amortization period. In Montana, this is set at 30 years or less in 19-2-409, MCA.

Funded Ratio

Another key indicator of actuarial soundness is the extent to which current assets cover current liabilities. Current assets include the value of all of the trust fund's investments. Current liabilities include the value of all accrued benefit obligations. The ratio of assets to liabilities is called the funded ratio. If a DB plan has an unfunded actuarial liability, a DB plan's funded ratio will be less than 100%.

Annual Required Contribution (ARC)

Annual required contribution (ARC) refers to the total contribution needed (based on an actuarial valuation) to fund the normal cost of benefits as they accrue and to pay down the plan's unfunded liabilities in a reasonable amount of time.

Actuarial Gains and Losses

If actual experience is different from the assumed experience, the DB plan will have an actuarial gain or loss. For example, if investment returns are better than projected by the actuary, the actuarial valuation will show an actuarial gain equal to the amount that actual investment returns exceeded the actuarial assumed rate of return. If experience is worse than expected, then the retirement plan will have an actuarial loss. Each actuarial valuation includes a section about the plan's actuarial gains and losses.

Unfunded Liabilities

Actuarial losses or benefit increases applied to past service will result in an actuarial unfunded liability. Unfunded liabilities are typical in DB plans because projections cannot perfectly predict the future. Because these liabilities are typical, it is recommended that contributions to DB retirement plans should cover more than the normal cost of benefits. This allows the extra contributions to be made available to cover the ups and downs of the plan's experience. So, although these liabilities are called unfunded, if contributions are sufficient to pay more than just the normal cost of

benefits, then the balance of the contributions after covering the normal cost fund the actuarial unfunded liabilities over time.

Summary

In summary, in defined benefit (DB) plans:

- Contributions are pooled and invested as a whole.
- Benefits are defined, but costs are estimated through actuarial valuations.
- Actuarial valuations are based on economic and demographic assumptions, which are adjusted based on experience studies.
- Unfunded liabilities are typical because long-term assumptions will differ from short-term experience. Therefore, the long-term trend is what matters most.
- In general, to be actuarially sound, contributions must be sufficient to allow the amortization period to absorb the ups and downs of short-term experience and still remain at 30 years or less.

CHAPTER 4 – DEFINED CONTRIBUTION PLANS AND HYBRID PLANS

Defined Contribution Plans

Defined contribution (DC) plans provide for a set contribution rate but do not promise a certain benefit at retirement. Plan members have individual accounts to which the contributions are made. The member then directs how those contributions are invested. Investment options available depend on what the plan sponsor provides. Each participant's account balance at retirement depends on total contributions plus investment earnings (or losses) to that point in time. When the participant retires, the balance of the account may be rolled over and reinvested or converted to a monthly annuity. Because contribution amounts are defined and costs are known, a DC plan has no unfunded liabilities and does not rely on actuarial projections about the future. In a DC plan, the employee is responsible for making investment choices and takes the risk of contributions plus investment earnings being insufficient to provide adequate income in retirement.

Hybrid Plans

Hybrid plans combine different elements of a DB plan and a DC plan. There are two broad categories of hybrid plans: cash balance plans and combination plans.

Cash Balance Plans

Under a cash balance plan, members have individual retirement accounts. Contributions, as in a DB plan, are set as a percentage of pay. Then, each account is credited with a certain amount of interest, as defined by the plan, depending on plan goals. The benefit ultimately paid, as in a DC plan, depends on the individual's account balance at retirement. However, as in a DB plan, the individual's account balance is a guaranteed amount based on the contributions and interest credited to the account, not on actual investment earnings. There are numerous variations of cash balance plans.

Combination DB/DC Plans

The most common hybrid plan is a combination DB/DC plan. Under this type of plan, part is a traditional DB plan, while the other part is a traditional DC plan. For example, the plan may provide that the employer contribution is deposited to a pooled DB plan trust fund, which guarantees a minimum benefit to the member. Meanwhile, the employee's contributions are deposited to the DC portion of the plan, which is an individual account invested by the employee in the investment options provided by the plan. At retirement, the member's benefit is the minimum DB benefit plus the member's DC account balance.

Summary

In summary, in DC plans:

- The employer is obligated to contribute a certain defined amount to an employee's account, not to provide a defined benefit, so the employer's costs are known.
- Members take the risk and responsibility of directing their own investments based on a set menu of investment options.
- Benefits at retirement depend on an individual's account balance at retirement.

CHAPTER 5 – MONTANA'S STATEWIDE PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Montana's Statewide Retirement Systems

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 created in 1945 with the Public Employees Retirement Law. The most recent plan, the PERS Defined Contribution Plan (PERS-DC), was formed in 1999. There are now 11 public employee retirement systems in Montana – 9 DB plans and 2 DC plans. These systems cover nearly all state and local government employees and school district employees. In addition, many state employees are eligible to join the optional supplemental 457(b) Deferred Compensation Plan.

Creation of Montana's Statewide Public Employee Retirement Systems

- 1937 – Teachers' Retirement System (TRS) is established.
- 1945 – Public Employees Retirement Law is passed; Public Employees' Retirement System (PERS-DB) and Highway Patrol Officers' Retirement System (HPORS) are established.
- 1963 – Game Wardens' and Peace Officers' Retirement System (GWPORS) is established.
- 1965 – Volunteer Firefighters' Compensation Act (VFCA) is passed.
- 1967 – Judges' Retirement System (JRS) is established.
- 1974 – Municipal Police Officers' Retirement System (MPORS) and Sheriffs' Retirement System (SRS) are established.
- 1981 – Firefighters' Unified Retirement System (FURS) is established.
- 1987 – Montana University System Retirement Program (MUS-RP) is established.
- 1999 – PERS Defined Contribution Retirement Program (PERS-DC) is created.

Membership & System Details – Chart

SYSTEM	EMPLOYER TYPES	DESCRIPTION	CURRENT MEMBERSHIP*
Teachers' Retirement System (TRS)	--School Districts --Community Colleges --Education Co-ops --Counties --MUS --State Agencies	--DB Plan --Covers teachers in school districts and some state institutions, excluding the faculty of the Montana University System	--Active Members: 19,975 --Retirees: 17,369

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SYSTEM	EMPLOYER TYPES	DESCRIPTION	CURRENT MEMBERSHIP*
Public Employees' Retirement System (PERS)	--State Agencies --MUS --Counties --Cities --Schools & Community Colleges --Special Districts --Some Smaller Police and Rural Fire Depts	--DB Plan (default) --DC Plan (optional) --Largest of Montana's public employee retirement systems --Covers most of the general classified positions in state agencies, legislators, and participating local governments, including school districts --Local governments and school districts contract with MPERA to participate in PERS	--DB Active Members: 28,508 --DB Retirees: 25,026 --DC Contributing Members: 5,085
Sheriffs' Retirement System (SRS)	--Dept of Justice -Investigators --Counties -Sheriffs -Deputies -Detention Officers	--DB plan --Covers sheriffs, sheriffs' deputies, certain others employed in the county sheriff's office, and state investigators employed by the Montana Department of Justice	--Active Members: 1,481 --Retirees: 809
Municipal Police Officers' Retirement System (MPORS)	--City Police Departments	--DB plan --Covers police officers employed by participating cities, towns, and municipalities	--Active Members: 841 --Retirees: 908
Game Wardens' and Peace Officers' Retirement System (GWPORS)	--Dept. of FWP -Game Wardens --Dept. of Corrections -Security Guards -Probation/Parole --MUS -Campus Security	--DB Plan --Covers game wardens employed by the state and specified state law enforcement positions, including campus security officers and security guards and probation and parole officers under the Department of Corrections	--Active Members: 977 --Retirees: 442

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SYSTEM	EMPLOYER TYPES	DESCRIPTION	CURRENT MEMBERSHIP*
Firefighters' Unified Retirement System (FURS)	--City Fire Departments	--DB Plan --Covers paid firefighters employed by participating cities, towns, and municipalities	--Active Members: 749 --Retirees: 691
Highway Patrol Officers' Retirement System (HPORS)	--Dept. of Justice -Highway Patrol Officers -Supervisors	--DB Plan --Covers state highway patrol officers	--Active Members: 252 --Retirees: 354
Judges' Retirement System (JRS)	--Judicial Branch -Justices/Judges -Supreme Court -District Courts -Water Court	--DB Plan --Covers district court judges, the supreme court justices, the chief water judge, and the associate water judge employed by the state judicial branch	--Active Members: 59 --Retirees: 74
Volunteer Firefighters' Compensation Act (VFCA)	--Fire Companies as defined in 19-17-109, MCA	--DB Plan --Covers the volunteer (uncompensated) firefighters of qualifying volunteer fire companies organized in unincorporated areas	--Active Members: 2,233 --Retirees: 1,523
Montana University System Retirement Program (MUS-RP)	--Montana University System	--DC Plan --Covers faculty and administrators of state-funded higher education institutions	--Active Members: 4,139 --Retirees: 6,882

**Active member and retiree numbers from FY22 actuarial valuations.*

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. The Montana University System Retirement Program (MUS-RP) is governed by the Board of Regents (BOR), a seven-member board appointed by the Governor.

Investment Management

For the MPERA and TRS DB plans, assets are managed and invested by the Montana Board of Investments (BOI) 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

As tax-qualified plans, contributions to Montana's public employee retirement plans are made on a pre-tax basis each pay period. Employee contributions, which are a percentage of the employee's compensation, are withheld from the employee's paycheck and paid directly to the pension plan. Employer contributions are also made directly to the retirement plan.

In addition, several of the retirement systems receive supplemental funding from the general fund through statutory appropriations (details on page 28 and in appendices).

SYSTEM	EMPLOYER CONTRIBUTION FY 22	EMPLOYEE CONTRIBUTION FY 22	ADDITIONAL FUNDING FROM STATE GENERAL FUND FY 22
Teachers' Retirement System (TRS)	<p>State & MUS 9.85% base + 1.8% supplemental* = 11.65%</p> <p>School Districts & Community Colleges & Local Government 7.47% base + 1.8% supplemental* = 9.27%</p>	<p>Tier One (before 7/1/13) 7.15% + 1% additional contribution until system is 90% funded = 8.15%</p> <p>Tier Two (after 7/1/13) 8.15%</p>	<p>State General Fund \$25 million + 2.385 for schools/CC + 0.11% for all = \$47.99 Million</p>
Public Employees' Retirement System (PERS)	<p>State & MUS 6.9% base + 2.07% supplemental* = 8.97%</p> <p>Local Governments & School Districts 6.8% base + 2.07% supplemental = 8.87%</p>	<p align="center">7.9%*</p>	<p>State General Fund 0.1% for local gov't + 0.27% for schools + 101% of previous year's contribution = \$35.9 Million</p>
Sheriffs' Retirement System (SRS)	13.115%	10.495%	None

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SYSTEM	EMPLOYER CONTRIBUTION FY 22	EMPLOYEE CONTRIBUTION FY 22	ADDITIONAL FUNDING FROM STATE GENERAL FUND FY 22
Municipal Police Officers' Retirement System (MPORS)	14.41%	9.00%	\$18.1 Million
Game Wardens' and Peace Officers' Retirement System (GWORS)	9.00%	10.56%	None
Firefighters' Unified Retirement System (FURS)	14.36%	10.69%	None
Highway Patrol Officers' Retirement System (HPORS)	28.15%	13.05%	\$1.9 Million
Judges' Retirement System (SRS)	0%*	7.00%	None
Volunteer Firefighters' Compensation Act (VFCA)	0%*	0%*	5% of certain fire insurance premiums = \$2.9 Million

***Notes about Table:**

- TRS Employer Contribution: Increases 0.1% each FY to cap of 2% through FY 2024
- PERS Employer Contribution: Increases 0.1% each FY to cap of 2.27% through FY 2024
- PERS Employee Contribution: Decreases to 6.9% when amortization period drops below 25 years and remains below 25 years following the termination of the temporary 1% increase and the additional employer contribution rate
- JRS Employer Contribution: SB 175 (2021) changed the employer contribution rate to 0% from July 2021 to June 2023
- VFCA Contributions: VFCA are volunteers and not paid for their work, so they do not have a member contribution rate; there is no employer contribution rate, rather there is a GF appropriation (19-17-301, MCA)

Actuarial Assumptions

As mentioned in Chapter 3, actuaries use economic and demographic assumptions when conducting actuarial valuations. These assumptions are developed based on a long-term analysis of actual experience based on standards adopted by the Actuarial Standards Board. The governing boards for the retirement systems set these assumptions based on the actuary's recommendations.

Current Economic Assumptions for Montana's Plans

ECONOMIC ASSUMPTIONS	MPERA SYSTEMS	TRS
Investment Rate of Return	7.30%	7.30%
Wage Growth	3.25%	3.50%
Inflation	2.75%	2.75%

Investment Return Assumption

Because investment income is the primary source of funding for any retirement plan (about 60% of the income for Montana's PERS), the investment return assumption is the most significant assumption used when estimating costs. Actuaries make the investment return assumption recommendation based on an extensive long-term analysis of investment returns.

PERS INVESTMENT RETURN ASSUMPTION CHANGES SINCE FY 2000	
FISCAL YEAR	INVESTMENT RETURN ASSUMPTION
Effective FY 2018	7.65%
Effective FY 2010	7.75%
Effective FY 2009	8.00%

TRS INVESTMENT RETURN ASSUMPTION CHANGES SINCE FY 2000	
FISCAL YEAR	INVESTMENT RETURN ASSUMPTION
Effective FY 2018	7.50%
Effective FY 2005	7.75%
Effective FY 2004	8.00%

Smoothing Gains and Losses

The actuaries for Montana's plans smooth investment gains and losses over four years. This reduces the impact of market volatility when assessing the long-term fiscal soundness of the pension plan. This in turn allows for a steadier approach to funding decisions.

Constitutional Protections

Retirement fund assets, including contributions and investment earnings, are protected trust funds under the Montana Constitution.

Article VIII, Section 13

(1) The legislature shall provide for a unified investment program for public funds and public retirement system and state compensation insurance fund assets and provide rules therefor, including supervision of investment of surplus funds of all counties, cities, towns, and other local governmental entities. Each fund forming a part of the unified investment program shall be separately identified. Except as provided in subsections (3) and (4), no public funds shall be invested in private corporate capital stock. The investment program shall be audited at least annually and a report thereof submitted to the governor and legislature.

(2) The public school fund and the permanent funds of the Montana university system and all other state institutions of learning shall be safely and conservatively invested in:

(a) Public securities of the state, its subdivisions, local government units, and districts within the state, or

(b) Bonds of the United States or other securities fully guaranteed as to principal and interest by the United States, or

(c) Such other safe investments bearing a fixed rate of interest as may be provided by law.

(3) Investment of public retirement system assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. Public retirement system assets may be invested in private corporate capital stock.

(4) Investment of state compensation insurance fund assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance organization. State compensation insurance fund assets may be invested in private corporate capital stock. However, the stock investments shall not exceed 25 percent of the book value of the state compensation insurance fund's total invested assets.

Article VIII, Section 15

(1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.

(2) The governing boards of public retirement systems shall administer the system, including actuarial determinations, as fiduciaries of system participants and their beneficiaries.

CHAPTER 6 – RECENT HISTORY OF MONTANA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Recent Legislative History

1997 is more or less considered the start of the modern pension era in Montana. In 1997, the financial markets were strong, and thus the pensions were more than fully funded, so the Legislature enacted a 1.5% Guaranteed Annual Benefit Adjustment (GABA) for the systems administered by MPERA. A 1.5% GABA for TRS was added during the 1999 session. In 2001, again in light of strong markets, the GABA was increased to 3.0% for both MPERA and TRS.

After the 2001 session, the financial markets took a sharp turn causing significant increases to the actuarial unfunded liabilities of the pension systems. By 2004, PERS did not amortize in any amount of time and TRS' amortization rate was over 70 years. The Legislature held a special session in December 2005 and approved a cash infusion of \$25M to PERS and \$100M to TRS.

In 2007, the Legislature decreased the GABA to 1.5% for new hires in the MPERA systems. They increased the employer contribution rate for TRS and added a \$50M cash infusion (to TRS). In 2011, the Legislature reduced benefits and increased contribution rates for new hires in PERS and adjusted some benefit provisions in TRS.

In 2013, the Legislature passed what are considered the major pension reform bills of recent history*:

- HB 377 – Applies to TRS; creates two membership tiers; changes employee and employer contributions; reduces GABA for new, current, and retired members; establishes \$25M supplemental funding; changes retirement and early retirement eligibility criteria; changes calculation for average final compensation; and changes eligibility for disability retirement; mandates yearly actuarial report to SAVA.
- HB 454 – Applies to PERS-DB; changes employee and employer contributions; appropriates unallocated portion of coal severance tax collections and revises the allocation of interest income from the coal tax permanent fund; and reduces GABA for new, current, and retired members.
- **The provisions of both bills changing benefits for existing members were challenged in court and subsequently struck down.*

In 2017, the Legislature passed HB 648, eliminating the coal tax appropriation to PERS and replacing it with a general fund statutory appropriation.

Treasure State Endowment Program (TSEP)

Mentioned above, HB 454 (2013) added an appropriation from the coal severance taxes and interest income from the coal permanent fund to PERS. To facilitate this, two Treasure State

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Endowment sub trusts – the Treasure State Endowment (TSE) Fund and the Treasure State Endowment (TSE) Regional Water System Fund – were sunsetted four fiscal years earlier than originally planned, ending in FY16 rather than FY 20. As a result, the trust balances have not grown since FY 2016 and the interest income has remained relatively flat. In 2017, the Legislature passed HB 648 ending the appropriation from the coal severance taxes and interest income from the coal permanent fund and replacing it with a statutory appropriation directly from the general fund (no longer tied to coal revenues).

General Fund Contribution History – Chart

Statutory Appropriations from the General Fund to DB Pension Systems FY 2002 - FY 2022						
	TRS	PERS-DB	MPORS	FURS	HPORS	VFCA
2002			\$ 6,529,108	\$ 5,764,368		\$ 1,133,741
2003			\$ 6,798,457	\$ 6,006,253		\$ 1,310,088
2004			\$ 7,208,135	\$ 6,532,708		\$ 1,434,068
2005			\$ 7,704,884	\$ 6,718,625		\$ 1,527,264
2006			\$ 8,181,861	\$ 7,532,591	\$ 813,429	\$ 1,610,462
2007			\$ 8,677,428	\$ 7,957,373	\$ 1,003,569	\$ 1,660,695
2008	\$ 13,492,375	\$ 652,741	\$ 9,451,808	\$ 9,568,388	\$ 1,106,188	\$ 1,562,019
2009	\$ 14,147,324	\$ 685,704	\$ 10,185,974	\$ 9,831,417	\$ 1,163,055	\$ 1,579,887
2010	\$ 17,241,610	\$ 899,513	\$ 10,931,612	\$ 10,871,717	\$ 1,327,062	\$ 1,574,589
2011	\$ 17,437,366	\$ 920,805	\$ 11,593,690	\$ 11,365,441	\$ 1,269,772	\$ 1,596,436
2012	\$ 16,843,766	\$ 932,690	\$ 12,273,769	\$ 11,797,130	\$ 1,469,539	\$ 1,635,400
2013	\$ 17,521,347	\$ 940,919	\$ 12,572,545	\$ 12,357,856	\$ 1,559,569	\$ 1,711,321
2014	\$ 42,855,576	\$ 36,696,610	\$ 13,048,938	\$ 13,007,210	\$ 1,618,559	\$ 1,818,237
2015	\$ 43,389,534	\$ 32,458,886	\$ 13,432,838	\$ 13,572,990	\$ 1,648,026	\$ 1,913,482
2016	\$ 43,902,606	\$ 30,848,405	\$ 13,751,561	\$ 13,969,719	\$ 1,715,507	\$ 2,036,297
2017	\$ 44,414,109	\$ 28,807,314	\$ 13,960,572	\$ 14,438,412	\$ 1,686,173	\$ 2,064,561
2018	\$ 45,005,672	\$ 32,354,637	\$ 15,857,660	\$ 16,156,512	\$ 1,709,764	\$ 2,212,113
2019	\$ 45,495,334	\$ 33,073,273	\$ 15,981,505	\$ 16,605,850	\$ 1,694,015	\$ 2,370,449
2020	\$ 45,948,388	\$ 35,102,627	\$ 16,636,173	\$ 17,721,053	\$ 1,709,685	\$ 2,486,769
2021	\$ 47,020,467	\$ 35,494,697	\$ 17,387,351	\$ 18,437,718	\$ 1,836,687	\$ 2,591,791
2022	\$ 47,999,500	\$ 35,873,500	\$ 18,122,207	\$ 19,436,203	\$ 1,864,976	\$ 2,851,974

**NOTE: Some systems have multiple statutory appropriations; figures listed represent totals from all appropriations for each year. SRS, GWPORS, and JRS do not receive statutory appropriations. Additional information can be found in the appendices.*

CHAPTER 7 –POLICY CONSIDERATIONS, RISK ASSESSMENTS, AND THE ROLE OF THE LEGISLATURE

Policy Considerations

Legislators considering bills to change benefits in the state's DB plans may find it helpful to consider some of the following funding and policy implications.

Past-Service Liability

Additional unfunded liabilities are created whenever a benefit enhancement is applied to past service. The liability occurs because the contribution rates for past service were set based on the projected costs of the previous benefits. A benefit enhancement increases the normal cost of the system going forward. But, if it also applied to service that was performed in the past, a past-service liability is created. One way to avoid liability for past service is to make a benefit enhancement applicable only to new members. This does create a tiered benefit structure and results in different treatment of members within the same retirement system, which can cause pressure to equalize benefits.

Ratchet Effect

Another policy consideration involves what is termed the "ratchet effect." Just as a ratchet can be tightened but not loosened, legal protections related to contract rights often mean that once a retirement benefit is promised to members, it cannot be withdrawn from or reduced for those members. Although the Legislature has reduced benefits of future employees, equity and fairness arguments have resulted in bills passed by the Legislature to reinstate the higher benefits for all employees. As mentioned above, this creates a past-service liability and costs that may be beyond what would have been the costs if the benefit had never been reduced.

Benefit Swaps

Benefit-for-benefit "swaps" can sometimes be designed and are legal, provided that the new benefit is of equal or greater value than the old benefit. Such swaps were used to help fund a portion of the costs of the 1.5% GABA granted to certain plans by the Legislature in 1997.

Leapfrog Effect

Another policy consideration may arise if the Legislature passes a benefit enhancement in one system, but not in the other similar systems. If a benefit is increased for members of one system during a legislative session, the Legislature is likely to see a bill to grant that benefit enhancement, or a better benefit, in the other systems as well. This is often referred to as the "leapfrog effect." Granting benefit enhancements by allowing the retirement plans to play leapfrog with each other can lead to inconsistent and inequitable retirement policy as well as additional costs and unfunded

liabilities. To help prevent leapfrogging, legislators may want to ask proponents of benefits enhancements this question: "If the proposed benefit enhancement is appropriate for members of this system, is it appropriate and should it be granted for members of other systems?"

Funding Options

The following are funding mechanisms that can be considered when making changes to funding policy:

- **Increase Contributions to Sufficiently Fund the Enhancement.** It is considered good funding policy that contributions should be sufficient to fund both the normal cost of the benefit enhancement and to amortize in 30 years or less. Consideration for legislators include:
 - Raising employer contributions in a retirement system places an additional burden on the employer's budgets.
 - Increased employer contribution requirements for local governments may be considered unfunded mandates.
 - Employees cannot legally be asked to contribute more than the normal cost of their benefits.
- **Extend the Amortization Schedule.** If contributions are not increased to cover the costs of enhancing benefits, the system's unfunded liability will increase. A system's unfunded liabilities may be refinanced by extending the amortization schedule. Policymakers asked to extend the amortization period should consider sound policy principles to determine how far the amortization period may be extended before the system is no longer responsibly funded.
- **Apply the Enhancement to New Hires Only.** Applying a benefit enhancement only to new hires will help control costs because no debt for past service is created. This results in a tiered system in which members of the same plan will receive different benefits, which may cause calls for equalized benefits.

National organizations such as the National Association of State Retirement Administrators (NASRA) and the National Conference of State Legislatures (NCSL) have put together tools for legislators to use when considering different funding options and policies:

- NASRA: <https://www.nasra.org/funding>
- NCSL: <https://www.ncsl.org/research/fiscal-policy/pensions.aspx>

Fixing Funding Shortfalls

To address funding shortfalls, legislative options are limited to increasing contributions and reducing benefits.

With respect to increasing contributions, an employee's contributions may not be increased to an amount that is more than the normal cost of the employee's benefits. Thus, increasing the employer contributions or finding an additional source of funding are the primary options available.

With respect to benefit reductions, courts have determined that because of contract rights, benefits cannot be reduced for current members, only for new hires. This means it will take about 10 to 20 years before the lower costs for reduced benefits will significantly help a plan's funding status.

Best Practices

The Government Finance Officers Association (GFOA) has published a summary of best practices on sustainable funding practices for DB plans, most of which are reflected in the funding policies adopted by the retirement boards administering Montana's plans. Board policies are posted on their respective websites. The GFOA best practices can be found here:

<https://www.gfoa.org/materials/responsible-management-and-design-practices-for-defined>.

Risk Assessments and Reporting Requirements

Adverse Experience

Due to significant market losses in 2001 and the financial crisis sometimes referred to as the 2008 Great Recession, public employee pension plans in Montana and across the country suffered serious investment losses. Negative market returns were dramatically lower than the actuarially assumed rate of return and unfunded liabilities increased significantly. To keep retirement plans solvent, many state legislatures, including the Montana Legislature, provided cash infusions, significantly increased contributions, and reduced benefits for future members. Policymakers became aware of how sensitive public pension plans are to stress in the financial markets and to adverse plan experience compared to actuarial assumptions.

Current Actuarial Reporting

Every annual actuarial valuation report includes a section detailing the plan's actuarial gains and losses over the last fiscal year. Every valuation also includes a section on the investment rate of return assumption and the plan's sensitivity to future experience if the investment return is above or below the assumed rate of return. Additionally, experience studies examine whether actuarial assumptions should be adjusted to better anticipate actual experience. Changes in assumptions, particularly in the investment rate of return assumption, will increase or decrease the actuarial liabilities of the plan and therefore change the contribution rate the actuary recommends.

Role of the Legislature

Fiscal Impact of Legislative Changes

In recent years, the Legislature has considered various pension reform bills seeking to redesign the DB plans to shift some or all of the risk and responsibility from the employer to the employee by creating hybrid plans or freezing the DB plans and moving employees to a DC plan. One of the key policy challenges legislators encounter when crafting reform bills is how to address the fiscal impact these reforms have on the long-term benefit obligations in the DB plans. Because DB plan funding relies on future contributions to meet funding obligations, if those contributions are diverted to the

new plan or the horizon for realizing investment returns on those contributions is reduced, then the long-term experience of the plan will be fundamentally changed from the actuarial assumptions used when contribution amounts were set. Such changes will increase unfunded liabilities. Thus, any fundamental reform of the DB plans requires careful actuarial analysis and consideration of how to continue to pay for the DB plan's liabilities if employees (and the contributions for those employees) are moved out of the DB plan and into a DC or hybrid plan.

Fiscal Notes

The Governor's Office of Budget and Program Planning (OBPP), assisted by retirement system staff and their actuaries, prepares the fiscal notes for all retirement legislation with fiscal implications. Each fiscal note is required to show anticipated costs over the near term. However, the financial obligations incurred when retirement legislation is passed will be ongoing. In an effort to provide legislators and others with information necessary to make an informed assessment, the OBPP has developed a specialized format for fiscal notes prepared on retirement system-related legislation. Whenever retirement legislation with a fiscal impact is passed and the future of the affected retirement system is changed, an actuarial calculation is required in order to project the long-term costs.

Key funding information to look for in the fiscal note are:

- How will the normal cost of benefits be changed?
- Will new unfunded liabilities be created?
- How will the amortization period and funded ratio be affected?

Legislative Options

What can legislators do with the information provided by risk assessments, stress tests, sensitivity studies, experience studies, and actuarial valuations? The Legislature may enact legislation to revise the following aspects of a retirement plan and its funding going forward:

- contribution amounts;
- benefit amounts;
- plan design; and
- certain investment criteria.

Legislative changes in each of these areas have fiscal and policy implications and involve pros and cons. Asking for increased reporting on potential risks may assist in understanding the fiscal and policy implications of a proposed change.

If the Legislature believes that the risk of adverse experience is too high or the actuarial assumptions are too optimistic (i.e. the assumed rate of return is too high) the Legislature may choose to fund the system based on a scenario in which the plan's experience is more adverse than the assumptions (i.e. a lower rate of return assumption). This will help mitigate the potential financial consequences if adverse scenarios – such as a market crash – come to pass. However, it will also require higher contributions.

The challenge for legislators is how best to balance potential risks of adverse future experience with the policy goal of keeping pension funding obligations contemporary. Keeping pension funding obligations contemporary means trying to ensure future generations are not saddled with past liabilities and that current employees and employers/taxpayers are not required to pay more than the actual cost of their benefits. Because estimating costs requires actuarial assumptions, the risks and potential consequences of actuarial losses will always be part of this equation.

APPENDIX A – SAVA INTERIM COMMITTEE MEMBERS

Before the close of each legislative session, the House and Senate leadership appoint lawmakers to interim committees. The members of the SAVA Interim Committee, like most other interim committees, serve one 20-month term. Members who are reelected to the Legislature, subject to overall term limits and if appointed, may serve again on an interim committee. This information is included in order to comply with 2-15-155, MCA.

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SAVA Interim Committee Staff

K. Virginia Aldrich, Attorney | Rebecca C. Power, Legislative Research Analyst | Alexis Newcomer, Secretary

APPENDIX B – PENSION ACRONYMS

- **457:** Deferred Compensation (457) Plan
- **AAL:** Actuarially Accrued Liability
- **ARC:** Annual Required Contribution
- **ASOP:** Actuarial Standard of Practice
- **COLA:** Cost of Living Adjustment
- **ERISA:** Employee Retirement Income Security Act of 1974
- **FAC:** Final Average Compensation
- **FURS:** Firefighters' Unified Retirement System
- **GABA:** Guaranteed Annual Benefit Adjustment
- **GASB:** Governmental Accounting Standards Board
- **GWPORS:** Game Wardens' and Peace Officers' Retirement System
- **HAC:** Highest Average Compensation
- **HPORS:** Highway Patrol Officers' Retirement System
- **IRA:** Individual Retirement Account
- **IRC:** Internal Revenue Code
- **JRS:** Judges' Retirement System
- **MBOI/BOI:** Montana Board of Investments or Board of Investments
- **MPERA:** Montana Public Employee Retirement Administration
- **MPORS:** Municipal Police Officers' Retirement System
- **MUS-RP:** Montana University System Retirement Program
- **PERS:** Public Employees' Retirement System
- **PERS-DB:** PERS Defined Benefit Retirement Plan
- **PERS-DC:** PERS Defined Contribution Retirement Plan
- **PER Board/PERB:** Public Employees' Retirement Board
- **SAVA:** State Administration and Veterans' Affairs Interim Committee
- **SRS:** Sheriffs' Retirement System
- **TRS:** Teachers' Retirement System
- **UAAL:** Unfunded Actuarially Accrued Liability
- **VFCA:** Volunteer Firefighters' Compensation Act

APPENDIX C – PENSION GLOSSARY

- **401(k) Plan:** A defined contribution plan governed by section 401(k) of the Internal Revenue Code (IRC) that is offered to employees in the private sector. Employees voluntarily participate on an individual basis. A 401(k) allows an employee to set aside tax-deferred income for retirement purposes. In some 401(k) plans, the employer will match an employee's contributions dollar-for-dollar.
- **403(b) Plan:** A retirement plan governed by section 403(b) of the IRC that is similar but not identical to a 401(k) plan and is offered by nonprofit organizations, such as schools, universities, and some charitable organizations.
- **457 Plan:** A tax-exempt deferred compensation program governed by section 457 of the IRC that is made available to employees of state and federal governments and agencies. A 457 plan is similar to a 401(k) plan, except there are never employer matching contributions and the IRS does not consider it a qualified retirement plan.
- **Accrued Benefit:** A retirement, pension, or disability benefit that an employee has earned based on years of service. Accrued benefits are often calculated in relation to the employee's salary and years of service.
- **Accumulated Contributions:** The sum of all the regular and any additional contributions made by a member in a defined benefit plan, together with the regular interest on the contributions.
- **Active Member:** A member who is a paid employee making the required contributions and is properly reported for the most current reporting period.
- **Actuarial Accrued Liabilities (AAL):** The portion of liabilities that exceed the present value of all benefits payable under a defined benefit retirement plan compared to the present value of future normal costs.
- **Actuarial Assumption:** An assumption applied by an actuary for the purposes of estimating benefit costs. Assumptions are demographic and economic and include variables such as life expectancy, return on investments, interest rates, and compensation.
- **Actuarial Cost:** The cost determined by an actuarial analysis to represent the present value of benefits.
- **Actuarial Valuation:** An analysis conducted by an actuary that helps estimate future costs or liabilities using economic and demographic assumptions. The assumptions are based on professional actuarial standards and involve a mix of statistical studies and experienced judgment.
- **Actuary:** An accredited professional with expertise in applying statistics, mathematics, and financial theory to quantify risk and uncertainty to determine liabilities and costs.

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- **Additional Contributions**: A member's payments to purchase various types of optional service credit.
- **Annual Required Contribution (ARC)**: Annual Required Contribution rate necessary to amortize unfunded liabilities in a DB plan over the number of years set by the retirement board's amortization policy (e.g., 30 years) as determined by the system's actuary.
- **Annuity**: In the case of a defined benefit plan, equal and fixed payments for life that are the actuarial equivalent of a lump-sum payment under a retirement plan and as such are not benefits paid by a retirement plan and are not subject to periodic or one-time increases. In the case of the defined contribution plan, an annuity is a payment of a fixed sum of money at regular intervals, which may or may not be for life.
- **Amortization Period**: The amount of time required to pay off a retirement system's unfunded actuarial accrued liabilities, or UAAL, calculated by the retirement system's actuary based on projected contributions and investment earnings.
- **Benefit Recipient**: A retired member, a joint annuitant, or a beneficiary who is receiving a retirement allowance.
- **Closed Amortization**: Under this approach, the unfunded liability is amortized over a set number of years (ex: 30 years). Each year the unfunded liability is re-determined, reflecting any gains and losses that have occurred, and amortized in 1 fewer year (ex: 29 years, 28 years, etc.). Every year the amortization period gets shorter, until it reaches one year, at which point the unfunded liability has been paid off and the plan is fully funded.
- **Cost of Living Adjustment (COLA)**: Increases in a retirement benefit amount, usually a percentage and based on national economic data, e.g., consumer price index.
- **Deferred Compensation**: An arrangement, subject to IRC conditions and requirements, in which a portion of an employee's income is paid out at a date after which that income is actually earned. The primary benefit of most deferred compensation is that any taxes due on the income are deferred until funds are withdrawn under the arrangement. A 457 plan is a deferred compensation plan.
- **Defined Benefit Plan (DB)**: A pension plan in which a retired employee is entitled to receive upon retirement a regular, periodic, specific amount based on the retiree's salary history and years of service.
- **Defined Contribution Plan (DC)**: A retirement plan in which the employee is required to or elects to contribute some amount of salary into an individual account over which the employee has some control for investing the assets and options when making withdrawals at retirement.
- **Designated Beneficiary**: the person a member names to receive any survivorship benefits or lump-sum payments upon the member's death. Designated beneficiaries are either primary or contingent.

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- **Direct Rollover:** A distribution from a qualified pension plan, 401(k) plan, 403(b) plan, and so forth, that is remitted directly to the trustee, custodian, or issuer of the receiving retirement plan or IRA and is reported to the IRS as a rollover.
- **Disability:** Total physical or mental incapacity of a member to do the essential functions of the member's job even with reasonable accommodations required by the ADA, for a permanent or extended and uncertain duration.
- **Early Retirement:** A retirement plan provision that allows an employee to retire before the normal retirement age or required years of service for a full retirement.
- **Employee:** A person employed in any capacity by a PERS employer who pays the person's salary.
- **Employee Retirement Income Security Act (ERISA):** The federal law enacted in 1974 that established legal guidelines for private pension plan administration and investment practices. Public retirement plans generally are not subject to ERISA.
- **Employer:** The state, its university system, or political subdivisions that contract with the Board to cover their employees under PERS.
- **Experience Study:** A regular study of the economic and demographic experience of a retirement system, typically administered every five years. The purpose is to assess the reasonability of the actuarial assumptions of a retirement system in order to make judgments about future experience and assumptions.
- **Fiduciary:** A person or institution legally responsible for the management, investment and distribution of a fund. The trustees and administrators who are responsible for the oversight of employee benefit trust funds are considered fiduciaries. Fiduciaries are any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets; (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan or has the authority to do so; or (3) has any discretionary authority or responsibility in the administration of a plan.
- **Funded Ratio:** The value of a pension plan's assets in proportion to the pension liability. When a plan is 100% funded, it means current assets are sufficient to pay 100% of benefits due now, as well as the benefits that active and inactive members have accrued to date.
- **Government Accounting Standards Board (GASB):** An independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow generally accepted accounting principles.
- **Guaranteed Annual Benefit Adjustment (GABA):** An annual increase in the prior year's benefit amount, usually as a percentage of the benefit, similar to a cost-of-living adjustment.

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- **Highest Average Compensation (HAC):** A member's highest average monthly compensation during a set period of consecutive months of membership service.
- **Inactive Member:** A member who terminates service and does not retire or take a refund of the member's accumulated contributions.
- **Individual Retirement Account (IRA):** A tax-deferred retirement account for an individual that permits the individual to set aside money each year, with earnings tax-deferred until withdrawals begin.
- **Internal Revenue Code (IRC):** Title 26 of the United States Code. It is also known as the federal tax code.
- **Layered Amortization:** This approach is considered a hybrid of open and closed amortization approaches. Similar to closed amortization, the initial unfunded liability is amortized over a set amount of time (ex: 30 years). Any gains or losses that arise in future years will be amortized over new amortization periods, which is similar to the open amortization approach. With each valuation, a new closed layer gets added to the amortization schedule. The amortization of the original unfunded liability and gains and losses from prior years remain unchanged, providing the expectation that the plan will become fully funded over the original amortization period if there are no significant gains or losses.
- **Member:** Any person with contributions and service on account with the PERS. Persons receiving retirement benefits based on previous service credit are also members.
- **Money Purchase Plan:** A type of defined contribution retirement plan in which the annual contribution amount is in proportion to the employee's wages and is mandatory every year.
- **Normal Cost:** An amount calculated under an actuarial cost method that is the estimated cost of the accruing benefits for members of a defined benefit retirement plan. It is determined for each valuation period. Normal cost does not include any portion of the supplemental costs of a retirement plan.
- **Normal Retirement Age:** The age at which a member is eligible to immediately receive a retirement benefit based on the member's age, length of service, or both, as specified under the member's retirement system, without disability and without an actuarial or similar reduction in the benefit.
- **Open Amortization:** Under this approach, the unfunded liability is amortized over a set amount of years (ex: 30 years). Each year the unfunded liability is re-calculated and amortized over a new set amount of years (ex: 30 years). This is the approach used in Montana with a 30-year amortization period.
- **Pension:** Steady income given to a person as the result of service (e.g., employee, military) that begins when a specific event (e.g., disability, retirement) occurs. Pensions are typically paid monthly and based on factors such as years of service and prior compensation. The payment

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may be made by a government, employer, pension fund, or life insurance company.

- **Portability**: The ability of an employee to retain benefits, such as in a pension plan or insurance coverage, when switching employers.
- **Qualified Plan**: A plan that meets the applicable requirements of the Internal Revenue Code and, if applicable, the Employee Retirement Income Security Act. A qualified plan is eligible for favorable tax treatment.
- **Roth IRA**: A type of IRA established under the Taxpayer Relief Act of 1997 that allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed.
- **Smoothing**: The process of amortizing investment gains and losses over a period of time to help reduce volatility in contribution rates.
- **Stress Testing**: The process of evaluating how pension systems would respond to a variety of potential scenarios, allowing states to gauge the effects of hypothetical adverse market conditions on their retirement systems.
- **Tax Deferred**: The payment of taxes in the future on income earned in the current period.
- **Termination or Termination of Service**: Means the member has left the employment relationship for at least 30 days, has no written or verbal agreement to return, and has been paid all compensation due, including but not limited to payment of accrued annual and sick leave. Upon termination, the member will cease to accrue benefits attributable to that employment.
- **Unfunded Actuarial Accrued Liabilities (UAAL)**: The excess of a defined benefit retirement plan's actuarial liabilities at any given point in time over the value of its cash and investments on that same date.
- **Vested**: The status of a plan member who meets the minimum membership service requirement of the system or plan to which the member belongs and who is thus eligible to receive a benefit.

APPENDIX D – HJ 8 STUDY RESOLUTION

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING AN INTERIM STUDY OF MONTANA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS AND THE DEVELOPMENT OF RECOMMENDATIONS FOR A LONG-TERM STRATEGIC APPROACH TO FUNDING THE RETIREMENT SYSTEMS RECOGNIZING THE CONCERNS OF ALL STAKEHOLDERS, INCLUDING THE CITIZENS OF MONTANA.

WHEREAS, the Montana Legislature, by statute, determines the benefit structures and funding policies for nine statewide defined benefit retirement plans covering more than 52,000 active and 43,000 retired state, local government, and school district employees and involving more than \$11.7 billion in assets and nearly \$18 billion in liabilities; and

WHEREAS, of total annual contributions to Montana's eight cost-sharing defined benefit public employee retirement systems, more than \$195 million is contributed by employees and nearly \$240 million is contributed by employers; and

WHEREAS, nearly 60% of employer contributions to these retirement systems is paid by local governments and more than \$180 million is paid from the state general fund through statutory appropriations and as supplemental contributions; and

WHEREAS, these contributions represent a significant investment for employees, local governments, school districts, and the state; and

WHEREAS, the state of Montana is fortunate to count among its many assets a committed and dedicated workforce and recognizes the value of retirement systems for compensating, recruiting, and retaining quality public employees who provide public safety, education, and other valued public services in our communities; and

WHEREAS, retirement benefits paid to Montana retirees have a significant economic benefit for local communities; and

WHEREAS, the state of Montana recognizes that governmental power is derived from the people and that the state has an absolute duty to protect the rights of its citizens and understands that all revenue used to pay for public services, including retirement system contributions, comes from and is derived from its citizens; and

**2022 LEGISLATOR'S GUIDE TO MONTANA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS
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WHEREAS, it is in the best interest of our state and its future financial viability to ensure that recommendations related to its public employee retirement systems will not only support and promote necessary governmental services and the public employees who provide those services, but also recognize the financial burden placed on its citizens to support those services and employees.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the Legislative Council be requested to assign the study pursuant to the ranking process described in section 5-5-217, MCA, to the State Administration and Veterans' Affairs Interim Committee and that the committee be requested to:

- (1) study the financial stability of Montana's defined benefit public employee retirement systems;
- (2) use the assistance of independent certified professional actuaries, if funding is made available by the Legislature for the actuarial services;
- (3) investigate the actuarial impact on funded ratios and amortization schedules of alternative funding policies for determining required contributions and consider selected scenarios, recognizing the funding sources for and the relative health or weakness of these unique systems;
- (4) review and study the governance structure of the public employee retirement systems;
- (5) examine legislative education, oversight, and goals concerning the public employee retirement systems, including decision benchmarks or indicators for future action; and
- (6) develop recommendations for a long-term strategic approach to setting contribution rates that will ensure the financial strength and resilience of the retirement systems while recognizing the responsibility placed on the taxpayers and citizens of this state.

BE IT FURTHER RESOLVED, that the State Administration and Veterans' Affairs Interim Committee invite two members of the Legislative Finance Committee, a Senate member and a House of Representatives member, one from the majority party and one from the minority party, to participate with, but not be voting members of, the State Administration and Veterans' Affairs Interim Committee on matters related to this study.

BE IT FURTHER RESOLVED, that the Legislative Services Division provide research, legal, and administrative staff support for the State Administration and Veterans' Affairs Interim Committee in accordance with section 5-11-112(1)(d)(i), MCA, and that the State Administration and Veterans' Affairs

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Interim Committee presiding officer may request that the Legislative Fiscal Division provide fiscal analysis as needed in accordance with section 5-12-302(5), MCA.

BE IT FURTHER RESOLVED, that the study be conducted and the recommendations be developed in consultation with all interested stakeholders, including but not limited to representatives of:

- (a) the state's taxpayers;
- (b) active and retired members of the retirement systems;
- (c) employers, including local governments, school districts, and state agencies;
- (d) key agencies, including the Governor's office, the retirement boards, and the Board of Investments; and

- (e) other interested parties as considered appropriate.

BE IT FURTHER RESOLVED, that all aspects of the study, including presentation and review requirements, be concluded prior to September 15, 2022.

BE IT FURTHER RESOLVED, that the final results of the study, including any findings, conclusions, comments, or recommendations, be reported to the 68th Legislature.

APPENDIX E – HJ 8 STUDY MATERIALS

The following materials were prepared for the SAVA committee during the course of the HJ 8 study:

- August 2021 Staff Briefing Paper – Brief History of Montana's Public Employee Pension Systems: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Brief-History-Of-MT-Public-Pensions.pdf>
- August 2021 Staff Briefing Paper – Montana's Public Employee Retirement Systems: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Staff-Briefing-Paper-MT-Public-Employee-Retirement-Systems.pdf>
- November 2021 10-State Comparison Spreadsheet: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/10-State-Comparison-Chart.pdf>
- December 2021 Staff Briefing Paper: Game Wardens' and Peace Officers' Retirement System (GWPORS) Overview: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Staff-Briefing-Paper-GWPORS.pdf>
- March 2022 MUS-RP Brief Timeline & Legislative History: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Tab15-MUS-RP-Brief-Timeline.pdf>
- March 2022 Staff Briefing Paper – Pension Plan Design: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Tab7-Staff-Briefing-Paper-Pension-Plan-Design.pdf>
- March 2022 Staff Briefing Paper – Pension Amortization Policy: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Tab14-Staff-Briefing-Paper-Amortization-Policy.pdf>
- May 2022 Pension Funding History and Spreadsheet of Statutory Appropriations: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Tab8-Pension-Funding-History.pdf>
 - Individual System General Fund Contributions: <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Individual-Pension-Systems-Funding-History.pdf>

A BRIEF HISTORY OF MONTANA'S PUBLIC EMPLOYEE PENSION SYSTEMSⁱ

CREATION OF MONTANA'S STATEWIDE PUBLIC EMPLOYEE PENSION SYSTEMS

DEFINED BENEFIT PROGRAMS

- **1937** – Teachers' Retirement System (TRS) is established.
- **1945** – Public Employees Retirement Law is passed; Public Employees' Retirement System (PERS-DB) and Highway Patrol Officers' Retirement System (HPORS) are established.
- **1963** – Game Wardens' and Peace Officers' Retirement System (GWPORS) is established.ⁱⁱ
- **1965** – Volunteer Firefighters' Compensation Act (VFCA) is passed.
- **1967** – Judges' Retirement System (JRS) is established.
- **1974** – Municipal Police Officers' Retirement System (MPORS) and Sheriffs' Retirement System (SRS) are established.
- **1981** – Firefighters' Unified Retirement System (FURS) is established.

DEFINED CONTRIBUTION PROGRAMS

- **1987** – Montana University System Retirement Program (MUS-RP) is established.ⁱⁱⁱ
- **1999** – PERS Defined Contribution Retirement Program (PERS-DC) is created.

LEGISLATION IMPACTING MONTANA'S PUBLIC EMPLOYEE PENSION SYSTEMS: 1997- PRESENT^{iv}

1997 REGULAR SESSION

- **HB 170** – Establishes Guaranteed Annual Benefit Adjustments (GABA) for the MPERA^v pension systems.
- **HB 90** – Calls for an interim study of public pension systems and the development of a defined contribution plan within PERS.^{vi}

1999 REGULAR SESSION

- **HB 72** – Establishes GABA for TRS.
- **HB 79** – Creates the Defined Contribution plan within PERS.

2001 REGULAR SESSION

- **HB 294** – Increases GABA amount for MPERA systems and TRS (with conditions for TRS).
- **HB 472** – Transfers Peace Officers from PERS to GWPORS.

2003 REGULAR SESSION

- No significant legislation related to public pension systems.

2005 REGULAR SESSION

- **HB 102** – Changes appropriation source and schedule for HPORS.
- **SB 370** – Adds Detention Officers to SRS.

2005 SPECIAL SESSION

- **HB 1** – Provides infusion of funds to TRS and PERS-DB.

2007 REGULAR SESSION

- **HB 63** – Increases employer contributions and adds \$50M cash infusion to TRS.
- **HB 131** – Decreases GABA for new hires and increases employer contributions for MPERA systems.
- **HJ 59** – Calls for a study of public retirement systems and the creation of the Legislator's Guide to Montana's Public Retirement Systems.^{vii}

2007 SPECIAL SESSION

- No legislation related to public pension systems.

2009 REGULAR SESSION

- **HB 659** – Calls for the SAVA Committee to examine the public pension systems and provide funding and benefit change recommendations to the next Legislature.^{viii}

2011 REGULAR SESSION

- **HB 116** – Changes some benefit provisions in TRS to improve actuarial soundness.
- **HB 122** – Reduces benefits and increases contribution rate for new hires in PERS-DB.
- **HB 134** – Reduces benefits and increases contribution rate for new hires in GWPORS.
- **HB 135** – Reduces benefits and increases contribution rate for new hires in SRS.

2013 REGULAR SESSION

- **HB 377** – Applies to TRS; creates two membership tiers; changes employee and employer contributions; reduces GABA for new, current, and retired members; establishes \$25M supplemental funding; changes retirement and early retirement eligibility criteria; changes calculation for average final compensation; and changes eligibility for disability retirement; mandates yearly actuarial report to SAVA.
- **HB 454** – Applies to PERS-DB; changes employee and employer contributions; appropriates unallocated portion of coal severance tax collections and revises the allocation of interest income from the coal tax permanent fund; and reduces GABA for new, current, and retired members.^{ix}

2015 REGULAR SESSION

- No significant legislation related to public pension systems.

2017 REGULAR SESSION

- **HB 383** – Increases employee and employer contribution rates and increases funding to SRS to improve actuarial soundness.
- **HB 648** – eliminates coal tax appropriation to the PERS-DB trust fund.

2017 SPECIAL SESSION

- No significant legislation related to public pension systems.

2019 REGULAR SESSION

- **HJ 39** – Requests that the Legislative Audit Committee prioritize a performance audit to assess the viability and efficiency of combining TRS and MPERA administrative operations.^x

2021 REGULAR SESSION

- **HB 72** – Revises funding of HPORS to improve actuarial soundness.
- **HJ 8** – Calls for a study of public DB systems and recommendations for a long-term strategic approach to funding.
- **SB 175** – Changes the employer contribution rate for JRS to reduce the system's funding surplus.

NOTES & ADDITIONAL RESOURCES

ⁱ Includes bills and actions related primarily to the state's defined benefit plans (e.g. major funding changes, GABA changes, contribution changes, etc.). Does not include routine housekeeping bills, minor plan changes, or defined contribution plan changes.

ⁱⁱ The plan was originally called the Game Wardens' Retirement System. The name was changed to GWPORS in 2001 with HB 472.

ⁱⁱⁱ The plan was originally called the Optional Retirement Program (ORP). The name was changed to MUS-RP in 2013 with HB 320.

^{iv} 1997 has been used as the starting point in the past several pension history documents and Legislative guides.

^v MPERA = Montana Public Employee Retirement Administration

^{vi} Materials are not available online.

^{vii} All materials related to the study are under the Publications tab on the 2007-2008 SAVA website:

<https://leg.mt.gov/committees/interim/past-interim-committees/2007-2008/2007-2008-state-administration-and-veterans-affairs-committee/>

^{viii} All materials related to the study are on the HB 659 study page on the SAVA 2009-2010 website:

<https://leg.mt.gov/committees/interim/past-interim-committees/2009-2010/2009-2010-state-administration-and-veterans-affairs-committee/hb-659-retirement-plan-study-and-redesign/>

^{ix} Two lawsuits – *Association of Montana Retired Public Employees v. State* (HB 454) and *Byrne v. State* (HB 377) – were filed after the session challenging the GABA changes for current and retired members and those provisions were later removed, applying the GABA decreases only to new hires hired after July 1, 2013.

<https://leg.mt.gov/content/Committees/Interim/2015-2016/State-Administration-and-Veterans-Affairs/Meetings/August-2015/5217GAFA.pdf>

^x The Legislative Audit Committee did review the request, but it did not get enough votes in either 2020 or 2021 to make the final list of performance audits planned for either year.

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 (GWORS)
- 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

- <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Where%20weve%20been%20-%202018%20update.pdf>
- <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/2020-Legislator-Guide-Pensions.pdf>
- https://www.bls.gov/news.release/archives/ebs2_09242020.htm
- https://leg.mt.gov/bills/mca/title_0190/chapters_index.html
- https://leg.mt.gov/bills/mca/title_0000/chapters_index.html

State	Type(s) of System(s)/Plan(s)	Oversight Structure	Active Members (By System Type)	Funded Ratio (DB Plans Only)	Amortization Policy (DB Plans Only)	Date
Montana*	9 Defined Benefit (includes TRS) 1 Defined Contribution 1 Deferred Compensation (457)	PER Board: 7-member board appointed by the Governor TRS Board: 6-member board appointed by the Governor	DB - 52,565 (includes TRS) DC - 4,765 457 - 9,886	PERS - 76% TRS - 71% SRS - 83% MPORS - 74% GWPORS - 85% FURS - 86% HPORS - 67% JRS - 177% VFCA - 99%	30-yr. Open Amortization -PERS - 28 yrs. -TRS - 24 yrs. -SRS - 18 yrs. -MPORS - 15 yrs. -GWPORS - 35 yrs. -FURS - 6 yrs. -HPORS - 26 yrs. -JRS - 0 yrs. -VFCA - 1 yr.	As of June 30, 2021

*Excludes the MUS-RP

State	Type(s) of System(s)/Plan(s)	Oversight Structure	Active Members (By System Type)	Funded Ratio (DB Plans Only)	Amortization Policy (DB Plans Only)	Date
NEIGHBORING STATES						
Idaho	2 Defined Benefit -Also 1 Closed DB Plan (Fire) 2 Defined Contribution	Retirement Board: 5-member board appointed by the Governor	DB - 73,712 (+1 in Fire) DC - 16,999	PERSI - 88% Judges - 81% Fire - 159% (closed)	25-yr. Open Amortization -PERSI - 20.5 yrs. -Judges - 12 yrs. -Fire - 0 yrs. (closed)	As of June 30, 2020
Nevada	1 Defined Benefit -Two Plan Choices: Employer Pay Contribution Plan & Employer/Employee Contribution Pay Plan) -2 Sub-Funds: Regular and Police/Fire	Board of Trustees: 7-member board appointed by the Governor	Total - 111,815 -Regular - 98,228 -Police/Fire - 13,587	Regular - 75.7% Police/Fire - 77.5%	30-yr. Layered Amortization	As of June 30, 2020
Wyoming	7 Defined Benefit -Also 1 Closed DB Plan (Fire A) 1 Deferred Compensation (457)	WRS Board: 11-member board -10 appointed by Governor -State Treasurer	Total - 40,927 (+1 in Fire A)	Public Employees - 74.8% Judges - 97.6% Law Enforcement - 85.9% Warden/Patrol - 79.0% Air Guard Fire - 86.3% Fire B - 95.9% Volunteer - 76.3% Fire A - 17.8% (closed)	30-yr. Closed Amortization	As of January 1, 2021
Utah	8 Defined Benefit 4 Defined Contribution	URS Board: 7-member board appointed by the Governor	DB - 97,919 DC - 61,765	Noncontributory - 90.2% Contributory - 98.3% Public Safety - 88.5% Firefighters - 105.0% Judges - 84.6% Gov/Leg - 84.7% Tier 2 Public Emp - 93.4% Tier 2 Safety/Fire - 88.6%	20-yr. Open Amortization	As of January 1, 2020

State	Type(s) of System(s)/Plan(s)	Oversight Structure	Active Members (By System Type)	Funded Ratio (DB Plans Only)	Amortization Policy (DB Plans Only)	Date
NEIGHBORING STATES (continued)						
South Dakota	<p>1 Defined Benefit -2 Tiers of Members - Foundation (hired before 7/1/14) and Generational (hired after 7/1/14) -4 Classes of Members - Class A General Members, Class B Public Safety and Judicial Members, Class C Cement Plant Members, and Class D Department of Labor Members</p> <p>1 Supplemental</p>	<p>Board of Trustees: 17-member board -2 appointed by the Governor -14 elected -1 ex-officio</p>	<p>Total - 41,325</p>	<p>100.1%</p>	<p>20-yr. Closed Amortization</p>	<p>As of June 30, 2020</p>
North Dakota	<p>6 Defined Benefit (includes TFFR)</p> <p>1 Defined Contribution</p> <p>1 Deferred Compensation (457)</p>	<p>Board of Trustees: 9-member board -2 from the legislative assembly & appointed by the chair of legislative management - Chair appt'd by the Governor -1 member appointed by the AG -1 member is the state health officer or deisgnee -3 members elected by active members of the system -1 member elected by the retired public employees</p> <p>TFFR Board: 7-member board -5 appointed by the Governor -State Treasurer -State Superintendent of Public Instruction</p>	<p>DB - 35,995 (includes TFFR) DC - 93 457 - 14,044</p>	<p>Main - 68.3% Judges - 113.7% Public Safety - 80.0% Highway Patrol - 71.2% Job Service - 151% TFFR - 65.7%</p>	<p>Open Amortization: -Main - 100+ yrs. -Judges - 0 yrs. -Public Safety - 15.9 yrs. -Highway Patrol - 100+ yrs. -Job service - 0 yrs. -TFFR - 24 yrs.</p>	<p>As of July 1, 2020</p>

State	Type(s) of System(s)/Plan(s)	Oversight Structure	Active Members (By System Type)	Funded Ratio (DB Plans Only)	Amortization Policy (DB Plans Only)	Date
Historically Healthy State Pension Systems						
Wisconsin	1 Hybrid Defined Benefit <i>-4 Sub-Groups: General Participants and Teachers, Executive Group and Elected Officials, Protective with Social Security, Protective without Social Security</i> 1 Deferred Compensation	Retirement Board: 9-member board -8 members appointed by the Governor -1 designee from the Office of the Commissioner of Insurance (ex-officio) Teachers Retirement Board: 13-member board -9 elected members and 4 appointed by the Governor	Hybrid DB - 259,249 Deferred - 66,825	100%	30-yr. Closed Amortization	As of December 31, 2020
Nebraska	3 Defined Benefit 2 Defined Contribution/Cash Balance 1 Deferred Compensation	Public Employees Retirement Board: 9-member board -8 appointed by the Governor -State Investment Officer (ex-officio)	School (DB) - 43,177 Judges (DB) - 148 Patrol (DB) - 392 State (DC) - 16,280 County (DC) - 7,948 Deferred - 3,169	School - 91.65% Judges - 97.34% Patrol - 88.13%	30-yr. Closed Amortization	As of July 1, 2020

State	Type(s) of System(s)/Plan(s)	Oversight Structure	Active Members (By System Type)	Funded Ratio (DB Plans Only)	Amortization Policy (DB Plans Only)	Date
Historically Unhealthy State Pension Systems						
Kentucky	<p>4 Retirement Systems:</p> <ul style="list-style-type: none"> -Teachers Retirement System (DB) -KERS: Kentucky Employees Retirement System (Hazardous & Non-Hazardous) -CERS: County Employees Retirement System (Hazardous & Non-Hazardous) -SPRS: State Policy Retirement System (Members fall into 3 tiers depending on their date of hire) 	<p>KPPA Board: 8-member board</p> <ul style="list-style-type: none"> -comprised of representatives from the County Employees Retirement System (CERS) and Kentucky Employees Retirement System (KRS) Boards <p>TRS Board of Trustees: 11-member board</p> <ul style="list-style-type: none"> -2 appointed by the Governor -7 elected -Education Commissioner -State Treasurer 	<p>TRS (DB) - 73,151</p> <ul style="list-style-type: none"> Tier 1 - 52,424 (DB) Tier 2 - 22,330 (DB) Tier 3 - 54,154 (Hybrid Cash Balance) <p>CERS Total - 92,808</p> <p>KERS Total - 35,302</p> <p>SPRS - 798</p>	<p>TRS - 58.4%</p> <p>CERS Non-Hazardous - 49.4%</p> <p>CERS Hazardous - 45.1%</p> <p>KERS Non-Hazardous - 14.2%</p> <p>KERS Hazardous - 55.3%</p> <p>SPRS - 28.1%</p>	<p>KERS, CERS, SPRS: 30-yr. Closed Amortization</p> <p>TRS: 20-yr Closed Amortization</p>	As of June 30, 2020
Pennsylvania	<p>State Employees' Retirement System (SERS):</p> <ul style="list-style-type: none"> -1 DB -1 DC -1 Hybrid -1 Deferred Compensation <p>Public School Employees' Retirement System (PSERS):</p> <ul style="list-style-type: none"> -1 DB -1 DC -1 Hybrid 	<p>SERS Board: 11-member board</p> <ul style="list-style-type: none"> -5 appointed by the Governor -State Treasurer -Secretary of Banking & Securities -2 State Senators -2 State House Members <p>PSERS Board of Trustees: 15-member board</p> <ul style="list-style-type: none"> -Secretary of Education (ex-officio) -Secretary of Banking & Securities (ex-officio) -Treasurer of the Commonwealth (ex-officio) -Executive Director of the Penn School Board Association (ex-officio) -1 appointed by the Governor -6 elected members -2 State House members -2 State Senate members 	<p>SERS-DB: 91,088</p> <p>SERS-Hybrid: 9,927</p> <p>SERS-DC: 310</p> <p>SERS-Deferred: 34,316</p> <p>PSERS Total: 256,246</p>	<p>SERS-DB: 59.4%</p> <p>PSERS: 58.1%</p>	<p>SERS: 30-yr. Closed Amortization</p> <p>PSERS: 24-yr. Closed Amortization</p>	<p>SERS: As of December 31, 2020</p> <p>PSERS: As of June 30, 2020</p>

GAME WARDENS' & PEACE OFFICERS' RETIREMENT SYSTEM OVERVIEW

BACKGROUND

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. During discussion of the amortization trends of Montana's eight defined benefit pension systems at the November 4, 2021 SAVA meeting, committee members decided to focus on the Game Wardens' and Peace Officers' Retirement System during their December 16, 2021 meeting. In preparation for the December 16th meeting, members requested information about the history of the system, the membership, amortization trends, and models of the impact of changing the contribution rates for members and employers. This briefing paper, along with the MPERA presentation, are designed to address the committee's requests.

PLAN OVERVIEW

The Game Wardens' and Peace Officers' Retirement System (GWPORS) is a defined benefit plan, part of the MPERA system, and administered by the Public Employees' Retirement Board.

MEMBERS

As of June 30, 2021, there are 1,023 active members and 420 retirees and beneficiaries in GWPORS. Members include:

- Game Wardens
- Correctional Officers
- Probation and Parole Officers
- Drill Instructors
- Wardens and Deputy Wardens
- Motor Carrier Officers
- Livestock Inspectors
- Campus Security Officers

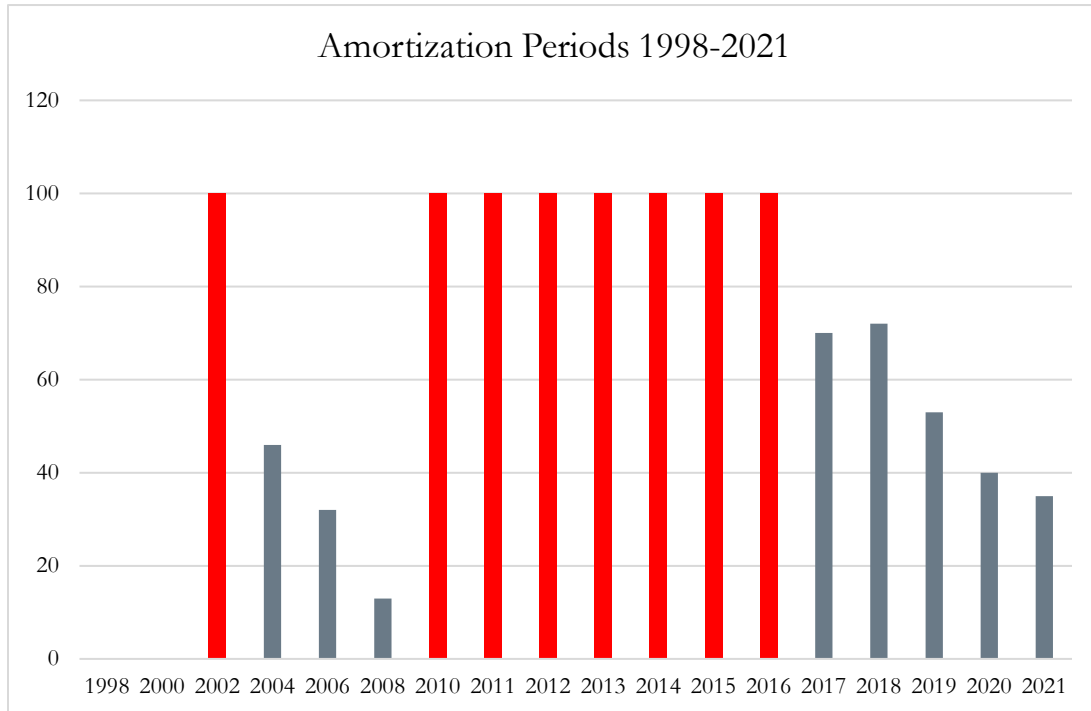
EMPLOYERS

GWPORS employers include:

- Department of Fish, Wildlife, and Parks
- Department of Corrections
- Department of Transportation
- Department of Livestock
- Montana University System (UM Missoula, MSU Bozeman, MSU Billings)

AMORTIZATION HISTORY

As of June 30, 2021, the amortization period for GWPORS is 35 years. It is currently the only defined benefit plan with an amortization period greater than 30 years. Montana statute sets the maximum amortization period at 30 years (19-2-409, MCA). The chart below begins with 1998, the year after Peace Officers were moved from the Public Employees' Retirement System (PERS-DB) to GWPORS.



1998	2000	2002	2004	2006	2008	2010	2011	2012
0 yrs.	0 yrs.	does not amortize	46 yrs.	32 yrs.	13 yrs.	does not amortize	does not amortize	does not amortize

2013	2014	2015	2016	2017	2018	2019	2020	2021
does not amortize	does not amortize	does not amortize	does not amortize	70 yrs.	72 yrs.	53 yrs.	40 yrs.	35 yrs.

CONTRIBUTION RATES & MODELS

Currently, the employer contribution is set at 9.00% and the member contribution is set at 10.56%. GWPORS is the only pension plan with a higher contribution rate for the member. In all other defined benefit plans, the employer contribution higher than the member contribution. During the November 4, 2021 SAVA Meeting, members asked for three models showing the impact of changes to contribution rates on the amortization period.

MODEL #1

Increase the employer contribution to 12.00% and decrease the member contribution to 10.00%.

Current Amortization Period	New Amortization Period	Employer Contribution Increase as a Dollar Amount
35 years	16 years	\$1,816,770

MODEL #2

Increase the employer contribution to 10.56% and keep the member contribution at 10.56%.

Current Amortization Period	New Amortization Period	Employer Contribution Increase as a Dollar Amount
35 years	20 years	\$944,721

MODEL #3

Increase the employer contribution to 11.00% and decrease the member contribution to 10.00%.

Current Amortization Period	New Amortization Period	Employer Contribution Increase as a Dollar Amount
35 years	20 years	\$1,244,180

BRIEF LEGISLATIVE TIMELINE

- 1963** Game Wardens' Retirement System established
- 1979** **HB 356** passes, transferring all fines and forfeited bonds collected in Justice Court under 3-10-601, MCA, and fines collected for violations of fish and game laws under 87-1-601, MCA, to the Game Wardens' Retirement System trust fund.
- 1995** **SB 83** passes, removing the transfer of all fines and forfeited bonds under 3-10-601 and 87-1-1601, MCA to the Game Wardens' Retirement System trust fund.
- 1997** **HB 174** passes, transferring Peace Officers from PERS and changing name to Game Wardens' and Peace Officers' Retirement System (GWPORS).

HB 170 passes, establishing 1.5% GABA for GWPORS (and all other MPERA systems), setting the amortization rate for all public pension systems at 30 years, increasing GWPORS member contribution from 7.5% to 8.5%, and increasing GWPORS employer contribution from 8.15% to 9.0%.

GAME WARDENS' AND PEACE OFFICERS' RETIREMENT SYSTEM OVERVIEW

- 2001** **HB 472** passes, giving Peace Officers an additional opportunity to transfer from PERS to GWPORS.
- HB 294** passes, increasing the GABA amount from 1.5% to 3% for GWPORS
- HB 74** passes, increasing retirement benefit formula factor from 2% to 2.5% for GWPORS members and increasing employee contribution rate from 8.5% to 10.56% for GWPORS
- 2007** **HB 131** passes, reducing GABA to 1.5% for new hires in GWPORS (and all MPERA systems)
- 2011** **HB 134** passes, adjusting the period used to calculate highest average compensation from 36 months to 60 months for new GWPORS members hired after July 1, 2011

SOURCES

- Montana Public Employee Retirement Administration Staff
- Montana Public Employee Retirement Administration Presentation
- <https://mpera.mt.gov/docs/Handbooks/GWPORS.pdf>
- <https://mpera.mt.gov/members/GWPORS>
- [https://mpera.mt.gov/docs/actuarial info/2021/Valuations-2021/09.30.21 FYE 2021 MT GWPORS.pdf](https://mpera.mt.gov/docs/actuarial%20info/2021/Valuations-2021/09.30.21%20FYE%202021%20MT%20GWPORS.pdf)
- 2011-2020 GWPORS Actuarial Valuation Reports
- 2011-2020 Green Sheets

BRIEF TIMELINE OF THE MUS-RP & MUS SUPPLEMENTAL CONTRIBUTIONS TO TRS

- **1987** – The Optional Retirement Program (ORP) – a defined contribution (DC) plan – is created by the Legislature at the request of the Montana Board of Regents and with the support of the Montana Federation of Teachers. Montana University System (MUS) faculty and certain professional staff have the option of staying in the Teachers' Retirement System (TRS) or joining the newly created ORP.
- **1993** – The ORP becomes mandatory for all new faculty and certain professional staff hires in the MUS. A MUS rate of contribution to TRS is established at 2.503% and regular adjustments based on actual experience are required to begin in 1997. The amortization period for the MUS liability is extended from 7 years to 40 years (now set to end in 2033).
- **1997** – A phased-in contribution increase is established for the MUS starting with 2.81% on July 1, 1997, and going up to 4.04% on July 1, 2001.
- **1999** – MUS classified staff now have the option of joining the ORP, in addition to their other retirement plan choices.
- **2001** – MUS classified staff now have the option to join the PERS DC plan in addition to their other retirement plan choices.
- **2003** – Legislation is introduced to keep the MUS contribution rate at 4.04% and is tabled in committee.
- **2005** – Legislation is introduced to have the state assume the responsibility for the MUS contribution to TRS and add a statutory appropriation to fund the payments and is tabled in committee.
- **2007** – MUS contribution to TRS is increased to 4.72% beginning July 1, 2007.
- **2011** – Legislation is introduced to increase the MUS contribution rate by 0.5% on July 1 of each year until July 1, 2019, and is tabled in committee.
- **2013** – Legislation is introduced to increase the MUS contribution to 9.04% on July 1, 2013, based on the most recent actuarial valuation and is tabled in committee. The ORP is re-named the Montana University System Retirement Program (MUS-RP).
- **2015** – Legislation is introduced to increase the MUS contribution to 9.75% on July 1, 2015, based on the most recent actuarial valuation and is tabled in committee.
- **2017** – Legislation is introduced to increase the MUS contribution to 10.22% on July 1, 2017, based on the most recent actuarial valuation and is tabled in committee.
- **2019** – Legislation is introduced to increase the MUS contribution to 11.89% based on the most recent actuarial valuation and is tabled in committee.
- **2021** – Legislation is introduced to increase the MUS contribution to 13.9% based on the most recent actuarial valuation and is tabled in committee.

PENSION PLAN DESIGN: DEFINED BENEFIT, DEFINED CONTRIBUTION, AND HYBRID PLANS

INTRODUCTION

HJ 8 (2021), assigned to the State Administration and Veterans' Affairs (SAVA) Interim Committee, 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. This briefing paper provides information about the different types of pension plans and serves as a primer for the panel discussion at the March 24, 2022, SAVA meeting.

TYPES OF PENSION PLANS

There are three major types of retirement plans in the public sector: defined benefit (DB), defined contribution (DC), and hybrid plans. There is no universal answer as to what is considered the optimal retirement plan structure, as this varies based on the needs and objectives of the plan sponsor and population covered, and the legal and regulatory environment of the state or municipality. According to the U.S. Bureau of Labor Statistics, as of March 2021, 75% of state and local workers in the U.S. participated in defined benefit plans and 18% participated in defined contribution plans.

DEFINED BENEFIT PLANS

- A defined benefit (DB) plan is an employer-sponsored retirement plan that provides a specific monthly benefit at retirement. The employee's salary and length of service determine the retirement benefit.
- DB plan funds typically include a combination of employer contributions, employee contributions, and investments earnings. Actuarial valuation results determine recommendations for contribution rates.
- Public pension assets are put into a pooled trust fund and are managed by professionals at the state level. The pooled trust fund assets are invested to pre-fund the cost of pension benefits, providing economies of scale that lower fees and increase returns. Retirees receive set monthly installments rather than a lump sum and the benefit is guaranteed for the rest of their life.
- Investment performance does not affect the value of a DB plan benefit but may affect or cap cost-of-living adjustments.
- The typical DB plan places some responsibility and risk on both the employer and employee.
- DB plans are the most prevalent plan design in the public sector.

DEFINED CONTRIBUTION PLANS

- A defined contribution (DC) plan is an employer-sponsored retirement savings vehicle that accumulates savings based on contributions to an employee's individual retirement account. DC plans do not promise a specific retirement benefit.

PENSION PLAN DESIGN: DEFINED BENEFIT, DEFINED CONTRIBUTION, AND HYBRID PLANS

- In a DC plan, the employee, employer, or both contribute to the plan. The contribution amount is typically a certain percentage of the employee's salary.
- DC plans typically do not pool assets, and instead, employees have a range of investment options to manage individually. The employee receives the balance in their account upon retirement. The 401(k) plan is the most popular form of DC plan.
- Employees assume the investment and longevity risks in DC plans. Employers fulfill their annual obligations as their contributions are made but may face some uncertainty about timely retirements if investment returns drop close to an employee's retirement date and the employee decides to delay.
- Many states offer employees a DC plan as a supplemental retirement savings plan or as an optional alternative to the DB plan. Three states – Alaska, Michigan, and Oklahoma – and the District of Columbia offer only a DC plan on a statewide basis for broad employee groups.

HYBRID PLANS

- Hybrid pension plans combine elements of both DB and DC plans. The most common government-sponsored hybrid plan types are combination plans and cash balance plans.
- Combination plans feature a DB component that is typically more modest than a traditional DB plan combined with a mandatory DC plan. Eleven states offer combination hybrid plans, either optional or compulsory.
- Cash balance plans combine elements of traditional pensions with individual savings accounts into a single plan. Employers generally guarantee an annual rate of return on an account the employer, employee, or both contribute. Five states offer cash balance hybrid plans: California, Kansas, Kentucky, Nebraska, and Texas.
- Core elements of all hybrid plans include mandatory participation, shared financing and risk among employers and employees, pooled assets, and required lifetime benefit payouts.

MONTANA'S PENSION PLANS

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 created in 1945 with the Public Employees Retirement Law. The most recent plan, the PERS Defined Contribution Plan (PERS-DC), was formed in 1999.

There are now 11 public employee retirement systems in Montana – 9 DB plans and 2 DC plans. These systems cover nearly all state and local government employees and school district employees. In addition, many state employees are eligible to join the optional supplemental 457(b) Deferred Compensation Plan.

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

As of June 30, 2021, Montana's defined benefit retirement plans covered more than 54,000 active public employees and 46,000 retirees and benefit recipients – approximately 1 in every 10 Montanans – and involved more than \$14.5 billion in investment assets and nearly \$17.4 billion in liabilities.

PENSION PLAN DESIGN: DEFINED BENEFIT, DEFINED CONTRIBUTION, AND HYBRID PLANS

MONTANA'S DEFINED BENEFIT PLANS

PLAN NAME	YEAR ESTABLISHED	ACTIVE MEMBERS*	BENEFIT RECIPIENTS*	ACTUARIAL VALUE OF ASSETS*
Teachers' Retirement System (TRS)	1937	19,161	16,985	\$4.6B
Public Employees' Retirement System (PERS)	1945	29,028	24,403	\$6.5B
Highway Patrol Officers' Retirement System (HPORS)	1945	244	356	\$168M
Game Wardens' and Peace Officers' Retirement System (GWPORS)	1963	1,023	420	\$247M
Volunteer Firefighters' Compensation Act (VFCA)	1965	2,031	1,531	\$45M
Judges' Retirement System (JRS)	1967	57	73	\$120M
Sheriffs' Retirement System (SRS)	1974	1,495	805	\$438M
Municipal Police Officers' Retirement System (MPORS)	1974	823	910	\$516M
Firefighters' Unified Retirement System (FURS)	1981	734	692	\$555M

MONTANA'S DEFINED CONTRIBUTION PLANS

PLAN NAME	YEAR ESTABLISHED	ACTIVE MEMBERS	BENEFIT RECIPIENTS	MARKET VALUE OF ASSETS
Montana University System Retirement Program (MUS-RP)**	1987	6,637	3,664	\$979M
Public Employees' Retirement System Defined Contribution Retirement Plan (PERS-DC)***	1999	4,765	2,215	\$409M

*Information from MPERA and TRS actuarial valuations dated June 30, 2021.

**MUS information from TIAA as of 03/10/2022.

***PERS-DC information from MPERA as of June 30, 2021.

SOURCES

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PENSION AMORTIZATION POLICY: OPEN, CLOSED, AND LAYERED POLICIES

INTRODUCTION

HJ 8 (2021), assigned to the State Administration and Veterans' Affairs (SAVA) Interim Committee, 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. This briefing paper provides information about the different types of amortization policies and serves as a primer for the panel discussion at the March 24, 2022, SAVA meeting.

TYPES OF AMORTIZATION POLICIES

In pension policy, the amortization period is the amount of time required to pay off a retirement system's unfunded actuarial accrued liabilities (UAAL), calculated by the retirement system's actuary based on projected contributions and investment earnings. The UAAL is the excess of a defined benefit retirement plan's actuarial liabilities at any given point in time over the value of its cash and investments on the same date. There are three amortization policies in relation to pensions – open, closed, and layered. Each policy has advantages and disadvantages regarding the likelihood of paying off the UAAL and the volatility impact on contributions. Amortization periods in the public sector range from 15 to 30 years.

OPEN AMORTIZATION POLICY

- Under an open or "rolling" amortization policy, the unfunded liability resets annually based upon the entire net pension liability. The amortization period remains constant resulting in a consistent percentage of the net liability paid each year.
- In the event there are never any gains or losses in the future, the amortization payment slowly declines, and while the unfunded liability decreases, the plan cannot fully fund because the amortization period resets each year.
- Contribution volatility is minimized in an open amortization policy because the future gains and losses amortize over a new period every year.

CLOSED AMORTIZATION POLICY

- Under a closed amortization policy, the unfunded liability is amortized by a specific date, paying down the liability over each remaining year, fully funding the policy by the close of the period.
- If there are no gains or losses, the amortization period remains the same throughout the set period.
- As the period decreases, the volatility impact on the contribution rate increases as differences in experience and assumptions that occurred during the year amortize over a shorter period. As the period gets shorter, the volatility in contribution rates may become difficult to budget annually.

PENSION AMORTIZATION POLICY: OPEN, CLOSED, AND HYBRID POLICIES

LAYERED AMORTIZATION POLICY

- A layered amortization policy is a hybrid of open and closed policies. The initial unfunded liability amortizes over a closed period, similar to closed policies. Any gains or losses in future years are re-amortized over a new period like an open policy. With each valuation, a new layer is added to the amortization schedule.
- The amortization of the original unfunded liability and gains and losses from prior years remain unchanged, providing the expectation that the plan becomes fully funded over the amortization period if there are no significant gains or losses.
- Contribution volatility is minimized by spreading new gains and losses over new amortization periods each year. Still, volatility can increase as layers drop off and the end of the initial amortization period approaches.

MONTANA'S AMORTIZATION POLICY

Beginning in 1997, the state of Montana uses an open amortization policy with a 30-year amortization period that recalculates after every actuarial valuation. As of June 30, 2021, eight of Montana's nine defined benefit pension plans amortize in under 30 years.

Article VIII, Section 15 of the Montana Constitution states, "public retirement systems shall be funded on an actuarially sound basis". In statute:

"actuarially sound basis" means that contributions to each retirement plan must be sufficient to pay the full actuarial cost of the plan. For a defined benefit plan, the full actuarial cost includes the normal cost of providing benefits as they accrue in the future and the cost of amortizing unfunded liabilities over a scheduled period of no more than 30 years. 19-2-409, MCA.

AMORTIZATION PERIODS OF MONTANA'S DB PENSION PLANS (2017-2021)

PLAN NAME	2021	2020	2019	2018	2017
Teachers' Retirement System (TRS)	24 yrs.	29 yrs.	29 yrs.	31 yrs.	22 yrs.
Public Employees' Retirement System (PERS)	28 yrs.	35 yrs.	36 yrs.	38 yrs.	30 yrs.
Highway Patrol Officers' Retirement System (HPORS)	26 yrs.	39 yrs.	42 yrs.	40 yrs.	37 yrs.
Game Wardens' and Peace Officers' Retirement System (GWPORS)	35 yrs.	40 yrs.	53 yrs.	72 yrs.	70 yrs.
Volunteer Firefighters' Compensation Act (VFCA)	1 yr.	4 yrs.	5 yrs.	5 yrs.	6 yrs.
Judges' Retirement System (JRS)	0 yrs.	0 yrs.	0 yrs.	0 yrs.	0 yrs.
Sheriffs' Retirement System (SRS)	18 yrs.	21 yrs.	21 yrs.	21 yrs.	25 yrs.
Municipal Police Officers' Retirement System (MPORS)	15 yrs.	16 yrs.	18 yrs.	20 yrs.	16 yrs.
Firefighters' Unified Retirement System (FURS)	6 yrs.	8 yrs.	9 yrs.	10 yrs.	10 yrs.

SOURCES

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- <https://www.nasra.org/files/Articles/Benefits101-1304.pdf>
- https://us.milliman.com/-/media/milliman/pdfs/articles/dearactuary_article4.ashx
- https://leg.mt.gov/bills/mca/title_0190/chapter_0020/part_0040/section_0090/0190-0020-0040-0090.html
- TRS & MPERA actuarial valuations from 2017-2021
- <https://leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/Pension-Acronyms-Glossary.pdf>

Statutory Appropriations from the General Fund to DB Pension Systems FY 2002 - FY 2021

	TRS	PERS-DB	SRS	MPORS	GWPORS	FURS	HPORS	JRS	VFCA
2002				6,529,108		5,764,368			1,133,741
2003				6,798,457		6,006,253			1,310,088
2004				7,208,135		6,532,708			1,434,068
2005				7,704,884		6,718,625			1,527,264
2006				8,181,861		7,532,591	813,429		1,610,462
2007				8,677,428		7,957,373	1,003,569		1,660,695
2008	13,492,375	652,741		9,451,808		9,568,388	1,106,188		1,562,019
2009	14,147,324	685,704		10,185,974		9,831,417	1,163,055		1,579,887
2010	17,241,610	899,513		10,931,612		10,871,717	1,327,062		1,574,589
2011	17,437,366	920,805		11,593,690		11,365,441	1,269,772		1,596,436
2012	16,843,766	932,690		12,273,769		11,797,130	1,469,539		1,635,400
2013	17,521,347	940,919		12,572,545		12,357,856	1,559,569		1,711,321
2014	42,855,576	36,696,610		13,048,938		13,007,210	1,618,559		1,818,237
2015	43,389,534	32,458,886		13,432,838		13,572,990	1,648,026		1,913,482
2016	43,902,606	30,848,405		13,751,561		13,969,719	1,715,507		2,036,297
2017	44,414,109	28,807,314		13,960,572		14,438,412	1,686,173		2,064,561
2018	45,005,672	32,354,637		15,857,660		16,156,512	1,709,764		2,212,113
2019	45,495,334	33,073,273		15,981,505		16,605,850	1,694,015		2,370,449
2020	45,948,388	35,102,627		16,636,173		17,721,053	1,709,685		2,486,769
2021	47,020,467	35,494,697		17,387,351		18,437,718	1,836,687		2,591,791

**NOTE: Some systems have multiple statutory appropriations; figures listed represent totals from all appropriations for each year*

TEACHERS' RETIREMENT SYSTEM (TRS)

19-20-604. (Temporary) State contributions -- termination. The state shall contribute monthly from the general fund to the pension trust fund a sum equal to 0.11% of the compensation of members participating in the system on or after July 1, 1999. The contributions are statutorily appropriated, as provided in **17-7-502**, to the pension trust fund. The state contribution provided for in this section terminates when the amortization period for the system's unfunded liability is 10 years or less according to the system's latest actuarial valuation. The board shall certify amounts due under this section on a monthly basis. The state treasurer shall transfer the certified amounts to the pension trust fund within 1 week. *(Terminates on occurrence of contingency--sec. 10, Ch. 360, L. 1999.)*

History: En. Sec. 2, Ch. 360, L. 1999.

19-20-607. Supplemental state contribution -- appropriation. (1) (a) Each month, the state shall contribute, as a supplemental contribution to the teachers' retirement system, from the general fund to the pension trust fund an amount equal to 2.38% of the total earned compensation of active members of the employers listed in **19-20-605(3)** participating in the system.

(b) (i) Except as provided in subsection (1)(b)(ii), beginning July 1, 2013, and on each July 1 thereafter, the state shall contribute from the general fund to the pension trust fund \$25 million as a supplemental contribution to the teachers' retirement system.

(ii) If the legislative finance committee determines that the board has failed to provide a sufficient report pursuant to **19-20-216**, it shall recommend that \$5 million be subtracted from the amount allocated in subsection (1)(b)(i) subject to legislative approval.

(2) The contributions are statutorily appropriated, as provided in **17-7-502**, to the pension trust fund. The board shall determine and shall certify to the state treasurer amounts due under this section on a monthly basis. The state treasurer shall transfer the certified amounts to the pension trust fund within 1 week following receipt of the certification from the board.

History: En. Sec. 1, Ch. 305, L. 2007; amd. Sec. 9, Ch. 389, L. 2013; amd. Sec. 6, Ch. 276, L. 2019.

	TRS	TRS
	19-20-604	19-20-607
2002		
2003		
2004		
2005		
2006		
2007		
2008	\$ 759,850	\$ 12,732,525
2009	\$ 777,786	\$ 13,369,538
2010	\$ 806,797	\$ 16,434,813
2011	\$ 812,931	\$ 16,624,436
2012	\$ 800,451	\$ 16,043,315
2013	\$ 812,619	\$ 16,708,728
2014	\$ 820,871	\$ 42,034,705
2015	\$ 845,084	\$ 42,544,450
2016	\$ 865,444	\$ 43,037,162
2017	\$ 885,981	\$ 43,528,128
2018	\$ 909,308	\$ 44,096,364
2019	\$ 929,862	\$ 44,565,472
2020	\$ 948,966	\$ 44,999,422
2021	\$ 995,683	\$ 46,024,783

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

19-3-319. State contributions for local government and school district employers. (1) The state shall contribute monthly from the general fund to the pension trust fund a sum equal to 0.1% of the compensation paid to all employees of local government entities and school districts on and after July 1, 1997, except those employees properly excluded from membership.

(2) (a) Subject to subsection (2)(b), in addition to the contribution required under subsection (1), the state shall contribute monthly from the general fund to the pension trust fund a sum equal to 0.27% of the compensation paid to all employees of school districts except for those employees properly excluded from membership.

(b) The additional contribution under subsection (2)(a) terminates when the additional contribution under **19-3-316(3)** terminates.

(3) The board shall certify amounts due under this section on a monthly basis, and the state treasurer shall transfer those amounts to the pension trust fund within 1 week. The payments in this section are statutorily appropriated as provided in **17-7-502**.

History: En. Sec. 4, Ch. 287, L. 1997; amd. Sec. 39(1)(a), Ch. 532, L. 1997; amd. Sec. 23, Ch. 562, L. 1999; amd. Sec. 16, Ch. 329, L. 2005; amd. Sec. 2, Ch. 371, L. 2007; amd. Sec. 14, Ch. 99, L. 2011.

19-3-320. Supplemental state contribution -- appropriation. (1) (a) For the fiscal year beginning July 1, 2017, the state shall contribute \$31.386 million and for the fiscal year beginning July 1, 2018, the state shall contribute \$31.958 million from the general fund to the public employees' retirement system pension trust as a supplemental contribution to the public employees' retirement system.

(b) Starting in the fiscal year beginning July 1, 2019, the state shall contribute from the general fund to the public employees' retirement system pension trust 101% of the contribution from the previous years as a supplemental contribution to the public employees' retirement system.

(c) The 69th legislature shall review the performance of subsection (1)(b) and make recommendations for adjustments as needed.

(2) This contribution is statutorily appropriated, as provided in **17-7-502**, from the general fund to the pension trust fund.

History: En. Sec. 3, Ch. 351, L. 2017.

	PERS-DB	PERS-DB
	19-3-319	19-3-320
2002		
2003		
2004		
2005		
2006		
2007		
2008	\$ 652,741	
2009	\$ 685,704	
2010	\$ 899,513	
2011	\$ 920,805	
2012	\$ 932,690	
2013	\$ 940,919	
2014	\$ 951,991	
2015	\$ 980,835	
2016	\$ 1,005,358	
2017	\$ 946,176	
2018	\$ 968,637	\$ 31,386,000
2019	\$ 1,115,273	\$ 31,958,000
2020	\$ 1,151,477	\$ 33,951,150
2021	\$ 1,204,037	\$ 34,290,660

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

(From HB 454 (2013))

15-35-108. (Effective July 1, 2013 ~~Temporary~~) Disposal of severance taxes.

[.....]

(9) (a) Subject to subsection (9)(b), all other revenue from severance taxes collected under the provisions of this chapter must be credited to the general fund of the state and is statutorily appropriated, as provided in 17-7-502, on July 1 each year to the trust fund for the public employees' retirement system defined benefit plan established pursuant to 19-3-103.

(b) The interest income ~~from \$140 million~~ of the coal severance tax permanent fund that is deposited in the general fund is statutorily appropriated, as provided in 17-7-502, ~~on an annual basis~~ July 1 each year as follows:

(i) \$65,000 to the cooperative development center;

(ii) ~~\$1.25 million~~ \$625,000 for the growth through agriculture program provided for in Title 90, chapter 9;

(iii) ~~\$3.65~~ \$1.275 million to the research and commercialization state special revenue account created in 90-3-1002;

(iv) to the department of commerce:

(A) \$125,000 for a small business development center;

(B) \$50,000 for a small business innovative research program;

(C) \$425,000 for certified regional development corporations;

(D) \$200,000 for the Montana manufacturing extension center at Montana state university-Bozeman; and

(E) \$300,000 for export trade enhancement; and

(v) except as provided in subsection (9)(c), up to \$21 million to the public employees' retirement system defined benefit plan trust fund.

(c) If the legislative finance committee determines that the public employees' retirement board has failed to provide a sufficient report pursuant to [section 7], it shall recommend that \$5 million be subtracted from the amount allocated in subsection (9)(b)(v) subject to legislative approval. (Terminates June 30, 2019--secs. 2, 3, Ch. 459, L. 2009.)

	PERS-DB
	15-35-108 (9)
2002	
2003	
2004	
2005	
2006	
2007	
2008	
2009	
2010	
2011	
2012	
2013	
2014	\$ 35,744,619
2015	\$ 31,478,050
2016	\$ 29,843,047
2017	\$ 27,861,139
2018	
2019	
2020	
2021	

MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS)

19-9-702. State contribution. The state shall make its contributions from the general fund. The general fund contributions must be made annually after the end of each fiscal year but no later than November 1. The board shall notify the state auditor by September 1 of each fiscal year of the annual compensation paid to all active members during the preceding fiscal year. The state's contribution is 29.37% of compensation paid to members. The contributions are statutorily appropriated as provided in **17-7-502**.

History: En. 11-1866 by Sec. 7, Ch. 456, L. 1977; R.C.M. 1947, 11-1866(2); amd. Sec. 4, Ch. 375, L. 1979; amd. Sec. 1, Ch. 250, L. 1981; amd. Sec. 21, Ch. 549, L. 1981; amd. Sec. 2, Ch. 661, L. 1983; amd. Sec. 20, Ch. 703, L. 1985; amd. Sec. 3, Ch. 631, L. 1991; amd. Sec. 188, Ch. 265, L. 1993; amd. Secs. 2, 8(3)(c), Ch. 445, L. 1997; amd. Sec. 23, Ch. 532, L. 1997; amd. Sec. 73, Ch. 562, L. 1999.

	MPORS
	19-9-702
2002	\$ 6,529,108
2003	\$ 6,798,457
2004	\$ 7,208,135
2005	\$ 7,704,884
2006	\$ 8,181,861
2007	\$ 8,677,428
2008	\$ 9,451,808
2009	\$ 10,185,974
2010	\$ 10,931,612
2011	\$ 11,593,690
2012	\$ 12,273,769
2013	\$ 12,572,545
2014	\$ 13,048,938
2015	\$ 13,432,838
2016	\$ 13,751,561
2017	\$ 13,960,572
2018	\$ 15,857,660
2019	\$ 15,981,505
2020	\$ 16,636,173
2021	\$ 17,387,351

FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM (FURS)

19-13-604. State contribution. The state shall make its contributions from the general fund. The general fund contributions must be made annually after the end of each fiscal year but no later than November 1. The board shall notify the state auditor by September 1 of each fiscal year of the annual compensation, excluding overtime, holiday payments, shift differential payments, compensatory time payments, and payments in lieu of sick leave, paid to all active members during the preceding fiscal year. The state's contribution is 32.61% of this total compensation. The contributions are statutorily appropriated, as provided in **17-7-502**.

History: En. Sec. 30, Ch. 566, L. 1981; amd. Sec. 6, Ch. 661, L. 1983; amd. Sec. 29, Ch. 703, L. 1985; amd. Sec. 1, Ch. 617, L. 1991; amd. Sec. 217, Ch. 265, L. 1993; amd. Sec. 2, Ch. 541, L. 1995; amd. Secs. 4, 8(4)(b), Ch. 445, L. 1997; amd. Sec. 25, Ch. 532, L. 1997; amd. Sec. 83, Ch. 562, L. 1999; amd. Sec. 114, Ch. 99, L. 2001.

	FURS
	19-13-604
2002	\$ 5,764,368
2003	\$ 6,006,253
2004	\$ 6,532,708
2005	\$ 6,718,625
2006	\$ 7,532,591
2007	\$ 7,957,373
2008	\$ 9,568,388
2009	\$ 9,831,417
2010	\$ 10,871,717
2011	\$ 11,365,441
2012	\$ 11,797,130
2013	\$ 12,357,856
2014	\$ 13,007,210
2015	\$ 13,572,990
2016	\$ 13,969,719
2017	\$ 14,438,412
2018	\$ 16,156,512
2019	\$ 16,605,850
2020	\$ 17,721,053
2021	\$ 18,437,718

HIGHWAY PATROL OFFICERS' RETIREMENT SYSTEM (HPORS)

19-6-404. State employer contribution -- statutory appropriation. The state shall pay as employer contributions 38.33% of compensation paid to all of the employer's employees, except those properly excluded from membership, from the following sources:

(1) an amount equal to 28.15% of the total compensation of the members, which is payable, as appropriated by the legislature, from the same source that is used to pay compensation to the members; and

(2) an amount equal to 10.18% of the total compensation of the members, which is statutorily appropriated, as provided in **17-7-502**, from the general fund to the pension trust fund.

History: En. Sec. 10, Ch. 37, L. 1945; amd. Sec. 6, Ch. 243, L. 1955; amd. Sec. 205, Ch. 147, L. 1963; amd. Sec. 3, Ch. 361, L. 1974; amd. Sec. 1, Ch. 350, L. 1975; R.C.M. 1947, 31-210; amd. Sec. 1, Ch. 226, L. 1979; amd. Sec. 12, Ch. 549, L. 1981; amd. Sec. 6, Ch. 277, L. 1985; amd. Sec. 4, Ch. 278, L. 1985; amd. Sec. 3, Ch. 294, L. 1985; amd. Sec. 3, Ch. 62, L. 1989; amd. Sec. 1, Ch. 217, L. 1989; amd. Sec. 3, Ch. 816, L. 1991; amd. Sec. 117, Ch. 265, L. 1993; amd. Sec. 19, Ch. 287, L. 1997; amd. Sec. 43, Ch. 329, L. 2005; amd. Sec. 8, Ch. 428, L. 2005; amd. Sec. 5, Ch. 464, L. 2005; amd. Sec. 5, Ch. 272, L. 2013.

19-6-410. (Temporary) State contribution for supplemental benefits -- statutory appropriation. The state shall annually contribute to the pension trust fund the lump-sum amount determined by the board as required to pay benefits under **19-6-709**. The amount must be calculated based upon the number of individuals eligible as provided in **19-6-709**(1) through (3) and based upon the amount of benefit for the eligible individuals as provided in **19-6-709**(4)(a) through (4)(c). The amount is statutorily appropriated, as provided in **17-7-502**, from the general fund to the pension trust fund. *(Terminates contingent upon death of last eligible recipient--sec. 14, Ch. 464, L. 2005.)*

History: En. Sec. 1, Ch. 464, L. 2005.

	HPORS	HPORS
	19-6-404	19-6-410
2002		
2003		
2004		
2005		
2006	\$ 813,429	
2007	\$ 1,003,569	
2008	\$ 1,106,188	
2009	\$ 1,163,055	
2010	\$ 1,327,062	
2011	\$ 1,269,772	
2012	\$ 1,200,205	\$ 269,335
2013	\$ 1,285,066	\$ 274,503
2014	\$ 1,356,629	\$ 261,930
2015	\$ 1,386,475	\$ 261,551
2016	\$ 1,472,757	\$ 242,749
2017	\$ 1,423,943	\$ 262,230
2018	\$ 1,459,613	\$ 250,150
2019	\$ 1,694,015	
2020	\$ 1,709,685	
2021	\$ 1,836,687	

VOLUNTEER FIREFIGHTERS' COMPENSATION ACT (VFCA)

19-17-301. Fire insurance premium tax to be paid into pension trust fund. The state auditor shall annually pay from the general fund to the pension trust fund a sum equivalent to 5% of the premium taxes collected from insurers authorized to effect insurance against risks enumerated in **50-3-109**. The sum must be computed before the amounts provided for by **19-13-604**, and **19-18-512** are deducted. The money must be used for the payment of claims, benefits, and administrative costs as provided in this chapter. The money is statutorily appropriated as provided in **17-7-502**.

History: En. Sec. 11, Ch. 65, L. 1935; re-en. Sec. 5158.11, R.C.M. 1935; amd. Sec. 1, Ch. 125, L. 1947; amd. Sec. 1, Ch. 164, L. 1959; amd. Sec. 191, Ch. 147, L. 1963; amd. Sec. 2, Ch. 204, L. 1975; amd. Sec. 4, Ch. 95, L. 1977; amd. Sec. 29, Ch. 157, L. 1977; amd. Sec. 3, Ch. 480, L. 1977; R.C.M. 1947, 11-2030; amd. Sec. 1, Ch. 313, L. 1981; amd. Sec. 61, Ch. 566, L. 1981; amd. Sec. 28, Ch. 703, L. 1985; Sec. 19-12-301, MCA 1991; redes. 19-17-301 by Code Commissioner, 1993; amd. Sec. 8, Ch. 175, L. 1995; amd. Secs. 28, 39(2)(a), Ch. 532, L. 1997.

	VFCA
	19-17-301
2002	\$ 1,133,741
2003	\$ 1,310,088
2004	\$ 1,434,068
2005	\$ 1,527,264
2006	\$ 1,610,462
2007	\$ 1,660,695
2008	\$ 1,562,019
2009	\$ 1,579,887
2010	\$ 1,574,589
2011	\$ 1,596,436
2012	\$ 1,635,400
2013	\$ 1,711,321
2014	\$ 1,818,237
2015	\$ 1,913,482
2016	\$ 2,036,297
2017	\$ 2,064,561
2018	\$ 2,212,113
2019	\$ 2,370,449
2020	\$ 2,486,769
2021	\$ 2,591,791