

STUDY PLAN FOR SJ 4: PROVIDE FOR INTERIM STUDY OF PERS AND TRS

STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE
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BACKGROUND

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

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

SJ 4 calls for the SAVA Interim Committee to "form a joint committee with the Legislative Finance Committee (LFC) to conduct the study with all members having full voting power". The chairs of SAVA and LFC met and agreed that all members of the SAVA Interim Committee would participate in the study and that four members of the LFC would be appointed to participate in the study. Senator Tom McGillvray, Representative Jim Hamilton, Representative Eric Matthews, and Representative Terry Moore were appointed during the September 2023 LFC meeting as the LFC representatives.

During the January 2024 meeting, SAVA and LFC members finalized the list of topics for the study.

TASKS LISTED IN SJ 4 STUDY RESOLUTION

The following tasks are included in the SJ 4 study resolution:

- Form a joint committee with the Legislative Finance Committee to conduct the study with all members having full voting power
- Study the financial stability of the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System
- Study the history of contributions from the general fund and other sources to the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System
- Investigate alternate approaches to funding and amortization policies and the actuarial impact of changes to the current plan policies
- Examine legislative education, oversight, and goals concerning the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System, including decision benchmarks or indicators for future action
- Develop recommendations for a long-term strategic approach to funding the Public Employees' Retirement System defined benefit plan and the Teachers' Retirement System that will ensure

the financial strength of the systems while also recognizing the responsibility placed on the taxpayers and citizens of this state

- Conduct the study and develop the recommendations 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.

TOPICS SELECTED BY COMMITTEE

TOPIC #1 - USING RETIREMENT BENEFIT AS A RECRUITMENT AND RETENTION TOOL

- Assess how our current plans are working to attract and retain employees
- Review the benefits of the DB plans in relation to competitiveness (private sector and other states) and in relation to cost to the state.

TOPIC #2 - EVALUATING RISK

- Assess the risks associated with the pension systems and determine which to assume in our plans for the state budget and taxpayers.
- Develop a comprehensive list of risks associated with the systems, rank them according to severity, and develop recommendations to deal with the risks.
- Examine the rate of return assumption to learn what it is based on and what factors are considered when setting it.

TOPIC #3 - CONTRIBUTIONS

- Assess the impact of SB 29 (2023).

TOPIC #4 - EVALUATING DB TO DC TRANSITION (RISKS, PROS, CONS, OTHER STATES)

- Study the pros and cons of DB vs DC, and how either impacts the risk allocation of current pension assets.
- Look at the results in other states that have gone to DC or hybrid plan (strength of the plan, cost, employee satisfaction, etc.).
- Look at other states that have moved from DB to DC and what changes they made to their pension portfolios.
- Assess the benefits and risks associated with switching the PERS default plan from DB to DC.

TOPIC #5 - EVALUATING POTENTIAL CHANGES TO EXISTING PLAN DESIGN

- Assess the possible cost of changes to the existing plan design for PERS and TRS and how they would be funded.
- Study the potential impacts to TRS and PERS of moving to layered amortization (HB 569 and HB 226).

TIMELINE FOR STUDY

MEETING	PRESENTATIONS, ACTION ITEMS, & DELIVERABLES
November 2023	<ul style="list-style-type: none"> • Introduction of LFC Members • Pensions 101 Presentation • FY23 Actuarial Valuation Presentations from TRS and MPERA • FY23 Green Sheets • DOA Presentation re. State Employee Benefits and Trends
January 2024	<ul style="list-style-type: none"> • Review the history and impact of 2013 changes to PERS and TRS • Evaluate current employer and employee contribution levels and funding sources • Revisit SB 29 (2023) and the continuation of the supplemental employer contribution to PERS-DB
March 2024	<ul style="list-style-type: none"> • Joint Meeting with full Legislative Finance Committee <ul style="list-style-type: none"> ◦ Cheiron & Pew Presentations
May 2024	<ul style="list-style-type: none"> • Topic #1 - Using Retirement Benefit as a Recruitment and Retention Tool <ul style="list-style-type: none"> ◦ Better understanding of why people leave state employment, what attracts them to state employment in the first place, and whether pensions play a role in either ◦ TRS survey results • Topic #2 - Evaluating Risk <ul style="list-style-type: none"> ◦ Data request - MT rate of return history; asset allocation history ◦ Data request - how does MT asset allocation compare to other states • Topic #4 - Evaluating DB to DC Transition <ul style="list-style-type: none"> ◦ TRS/MUS Case Study ◦ Data request - DC account balance by years of service ◦ Data request - where does MT rank in terms of income replacement ◦ NIRS Report overview - "No Quick Fix" • Topic #5 - Evaluating Potential Changes to Existing Plan Design <ul style="list-style-type: none"> ◦ Risk-sharing and hybrid options for Montana plans ◦ Examples and best practices from other states
July 2024	<ul style="list-style-type: none"> • Risk Factors Presentation • Discuss Pension-Related Committee Legislation Ideas • Discuss SJ 4 Final Report • Review draft of the 2024 Legislator's Guide to Montana's Public Employee Retirement Systems
September 2024	<ul style="list-style-type: none"> • PERS and TRS Stress Tests from Cheiron • Review Draft Pension-Related Committee Legislation • Review Draft SJ 4 Final Report • Review draft of the 2024 Legislator's Guide to Montana's Public Employee Retirement Systems
October 2024	<ul style="list-style-type: none"> • Pension Dashboard from Cheiron • FY24 Actuarial Valuation Presentations from TRS and MPERA • FY24 Green Sheets • Finalize SJ 4 Final Report • Finalize and Adopt Pension-Related Committee Legislation

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| | <ul style="list-style-type: none">• Finalize the 2024 Legislator's Guide to Montana's Public Employee Retirement Systems |
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DELIVERABLES

At the end of the 2023-2024 interim, the following documents will be prepared in addition to any staff papers requested throughout the course of the study:

- FY 2024 Green Sheets
- SJ 4 Final Report
- 2024 Legislator's Guide to Montana's Public Employee Retirement Systems
- Committee Legislation