

# Montana SAVAs and LFC Committees

## March 14, 2024

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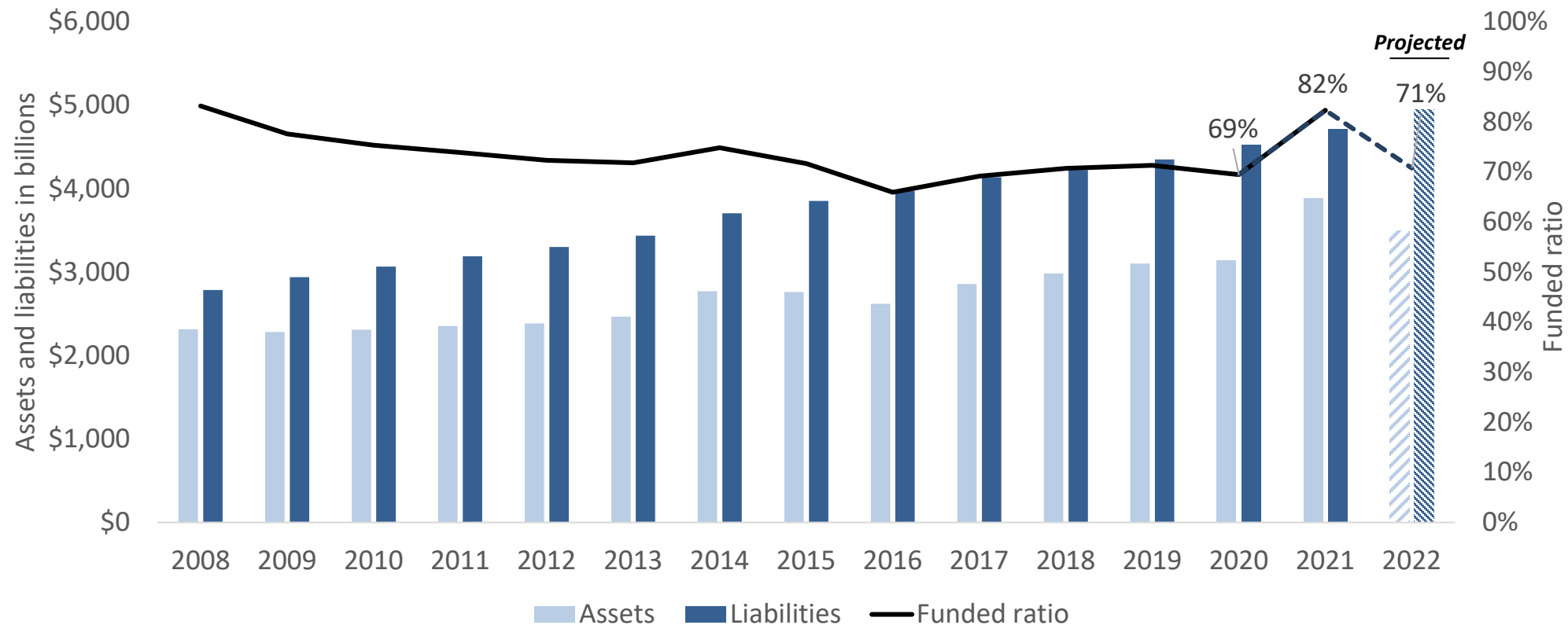
# Overview

- Trends in public pensions
- Practices of successful pension systems
- What this means for Montana

# Trends in Public Pensions

# Pension Plan Assets And Liabilities Over Time

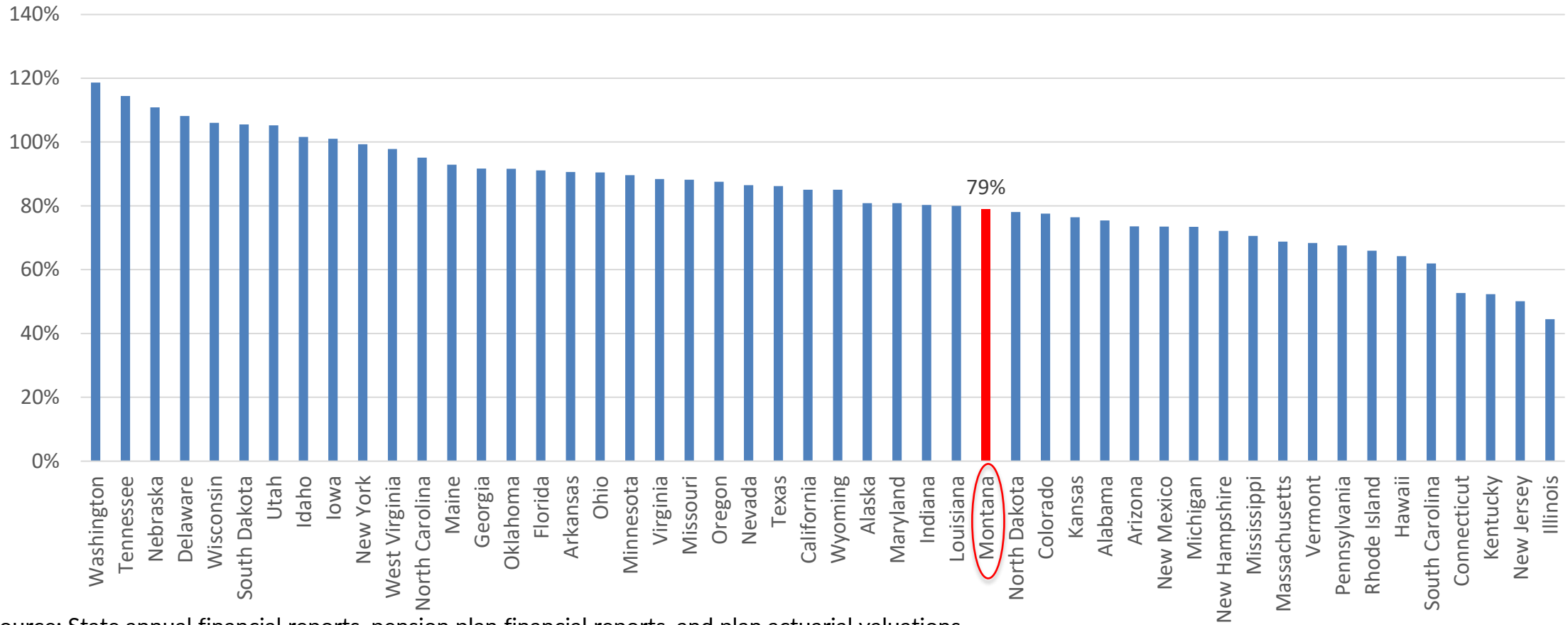
Windfall investment returns pushed the funded ratio above 80% in 2021 but subsequent losses have erased those gains.



Source: State annual financial reports, pension plan financial reports, and plan actuarial valuations

# Montana's Funding Remains Below Average

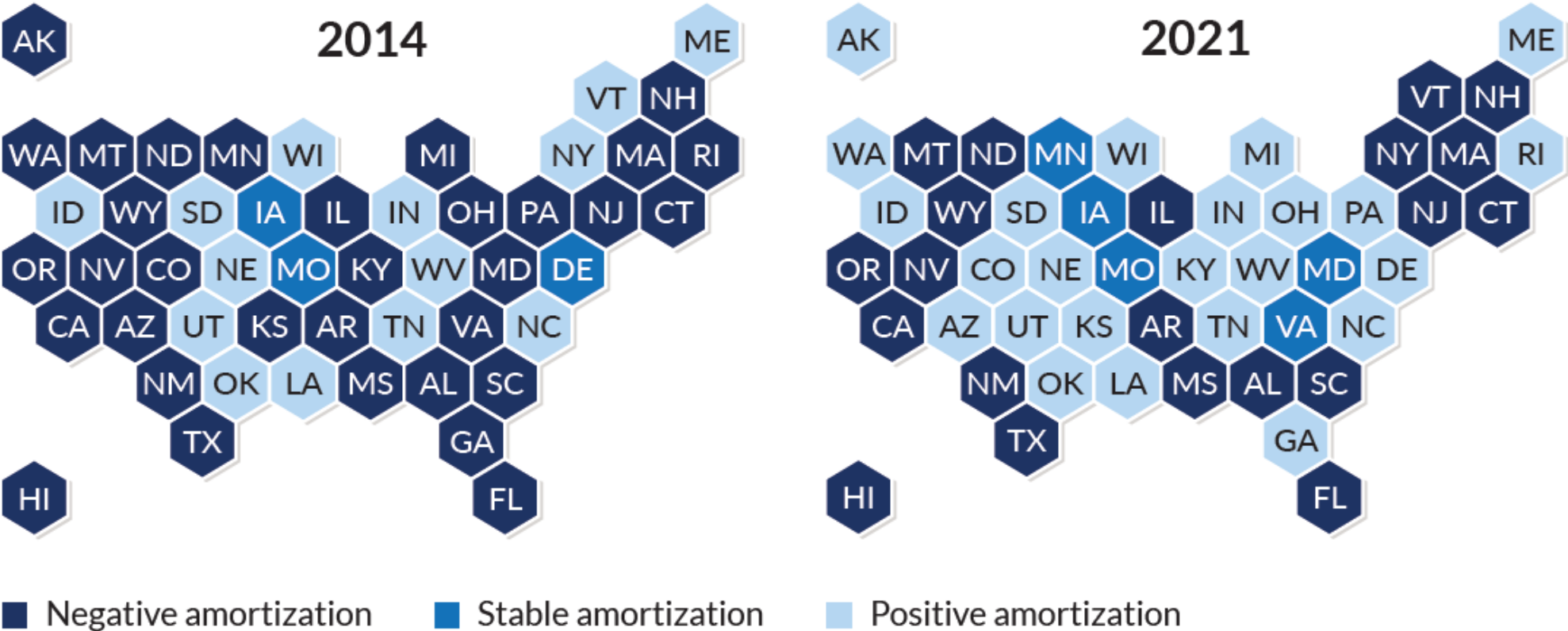
Funded ratios for states' pension plans in 2021



Source: State annual financial reports, pension plan financial reports, and plan actuarial valuations

# Most States Met Contribution Benchmark In 2021

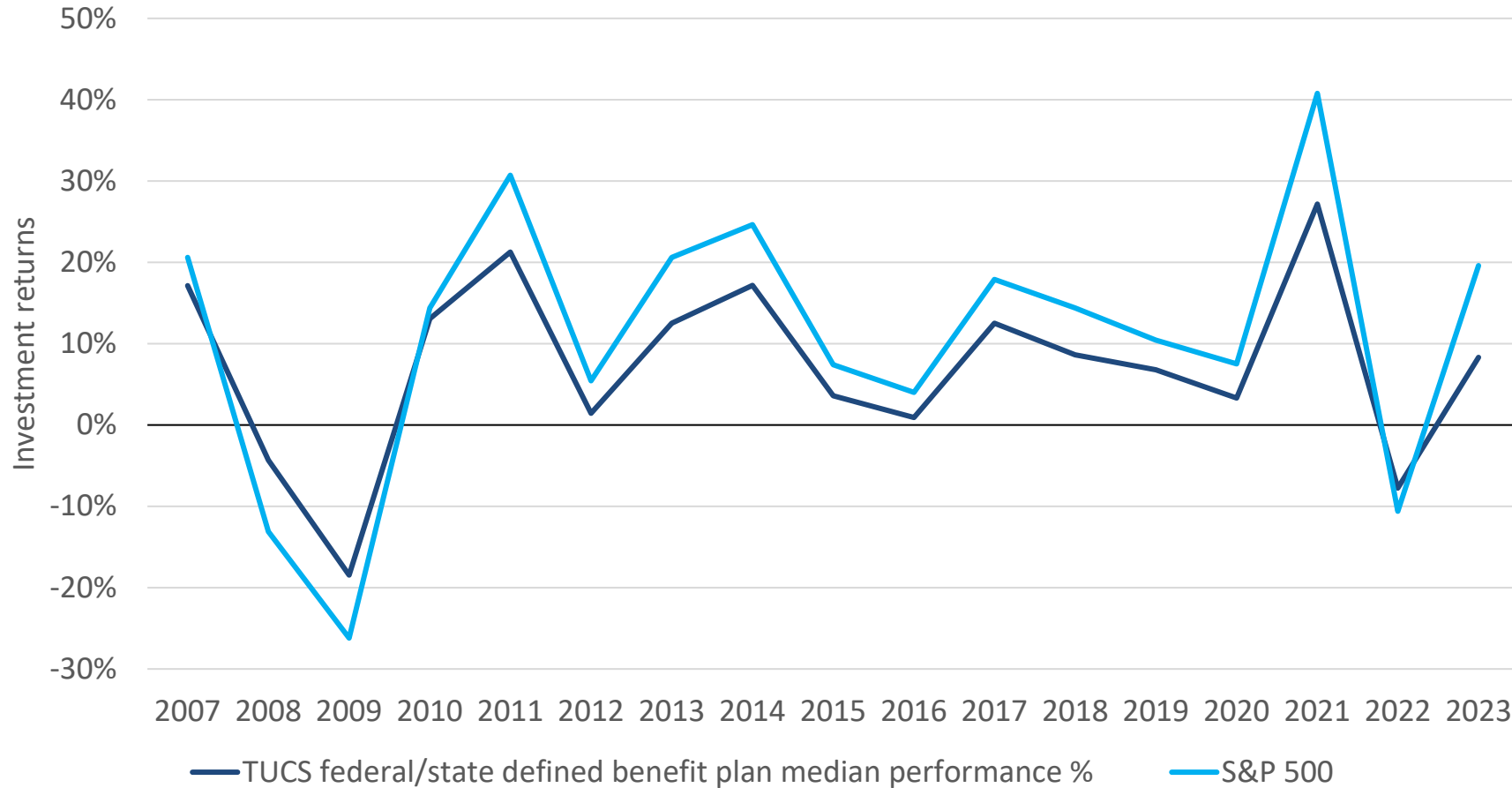
Twenty-nine states had positive or stable amortization in 2021, compared to just 17 in 2014. Still, 21 states remained below this threshold.



Source: Pew calculations based on state annual financial reports, pension plan financial reports, and plan actuarial valuations

# Pension Plan Investments Track Stock Performance

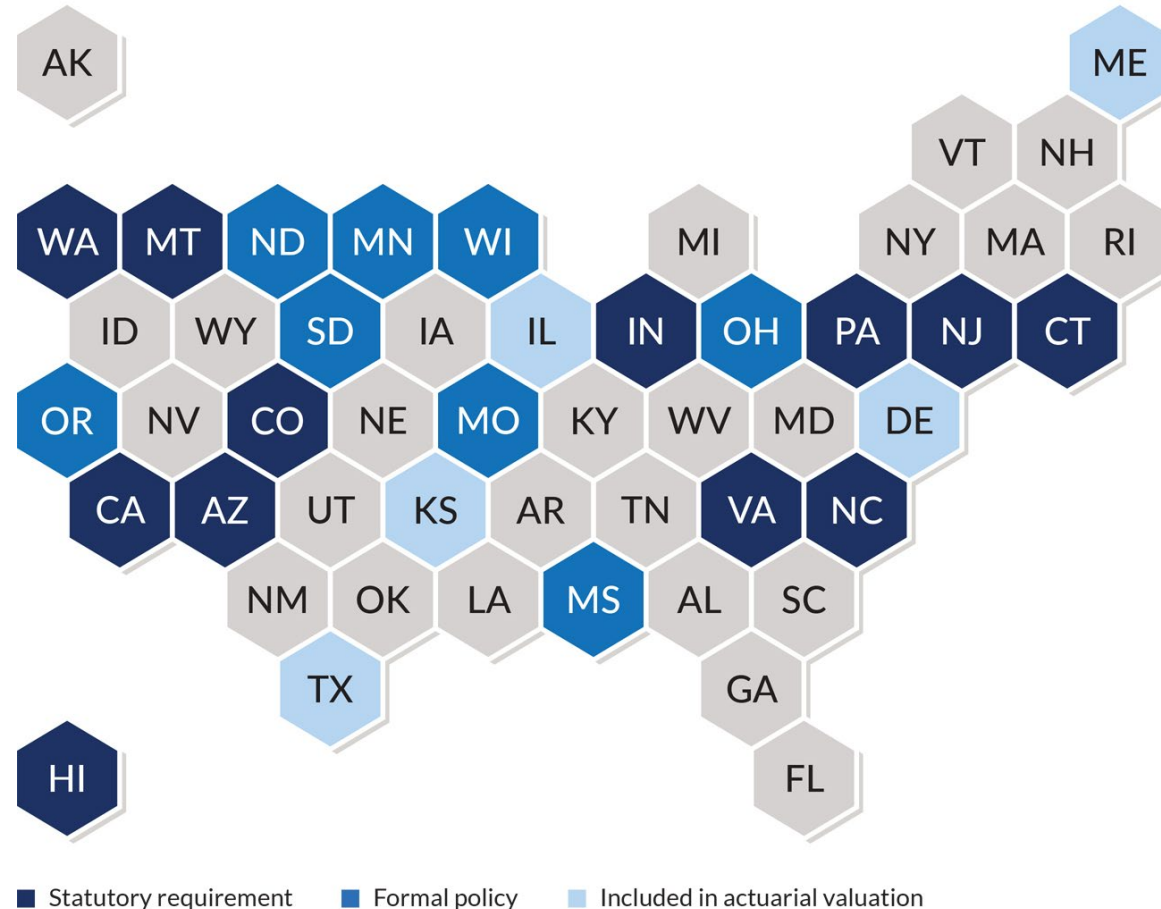
The typical pension plan's investments follow the ups and downs of equity markets.



Sources: Analysis by The Pew Charitable Trusts using data from Wilshire Trust Universe Comparison Service

# State Risk Reporting Practices Vary

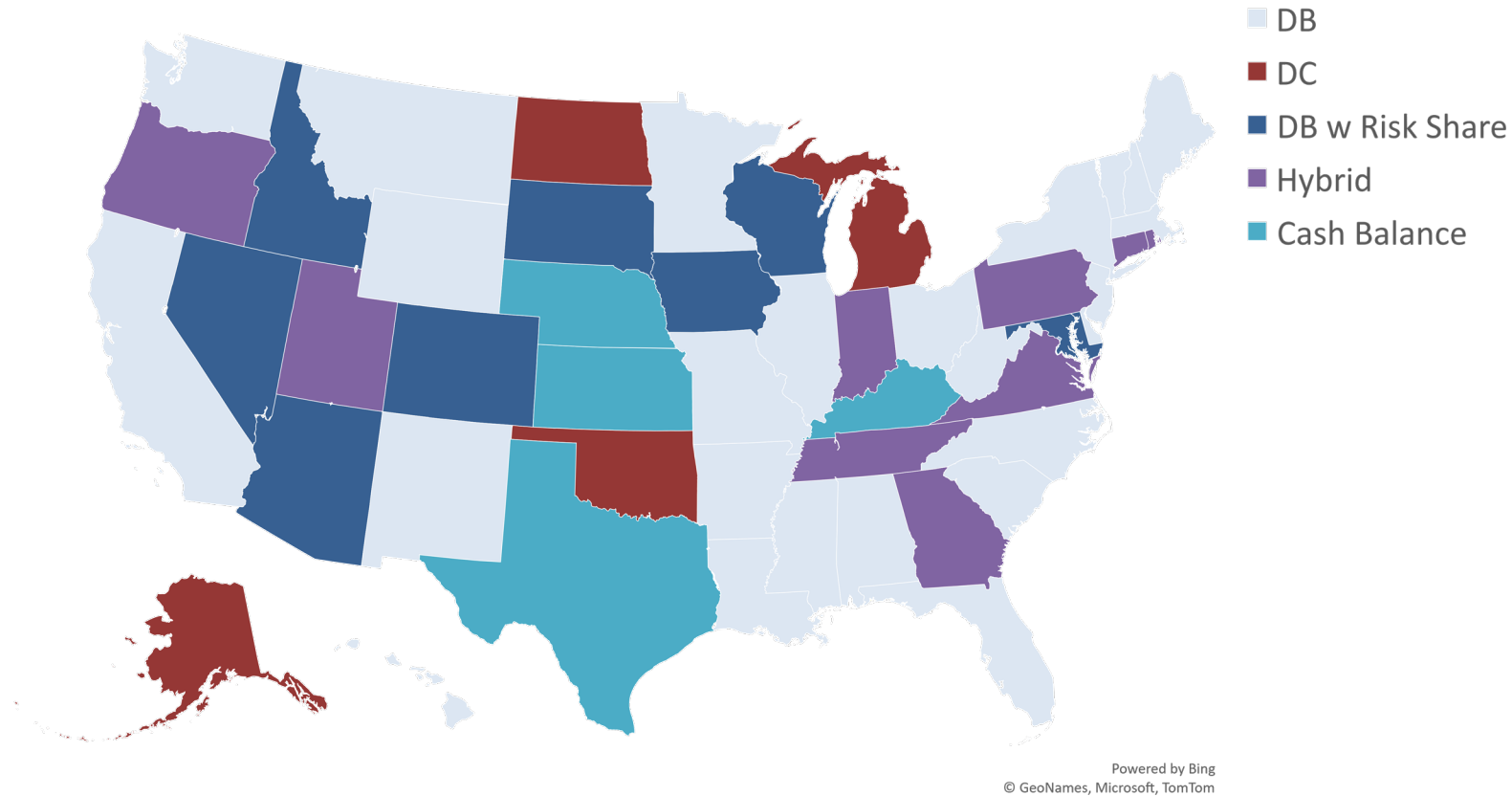
25 states conduct forward-looking assessments of investment risk on pension plan funding and contributions.





# DB Plan Design Still Most Common For State Workers

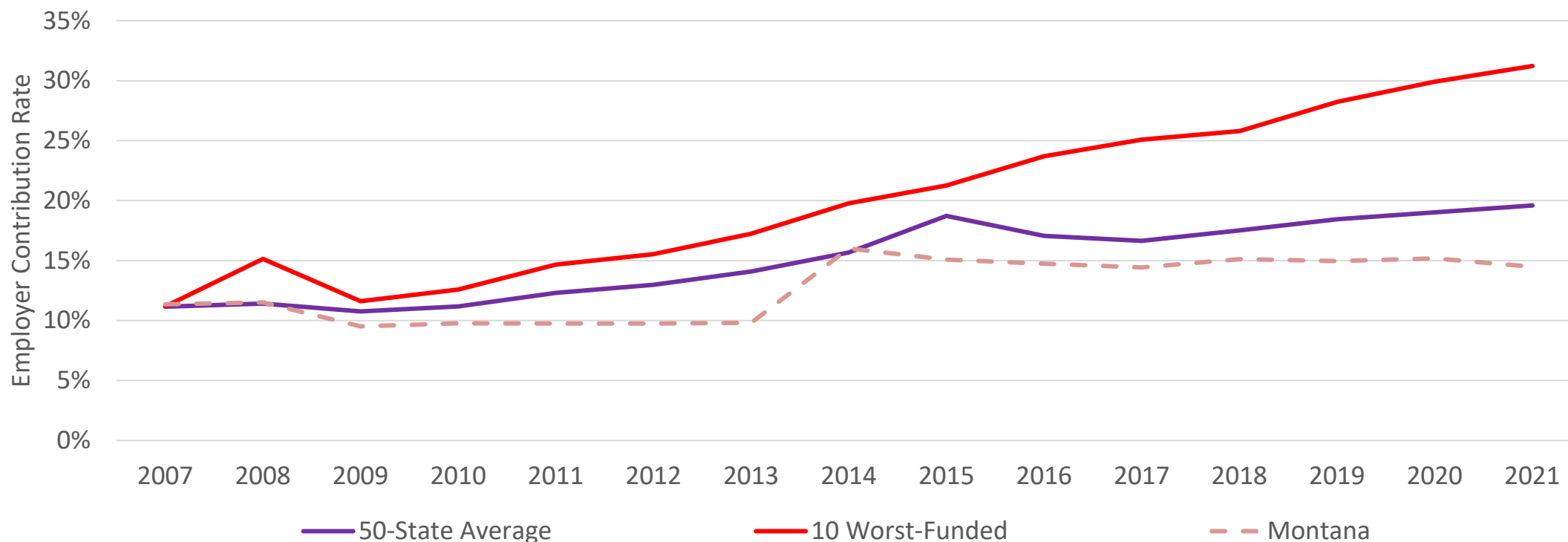
States have a variety of options for how to manage risk.



Note: Map shows plan design for retirement system covering state workers. DB with Risk Share describes plans with employee contribution risk-sharing, variable COLAs, or both.

# Bad Policy Can Make A Difference

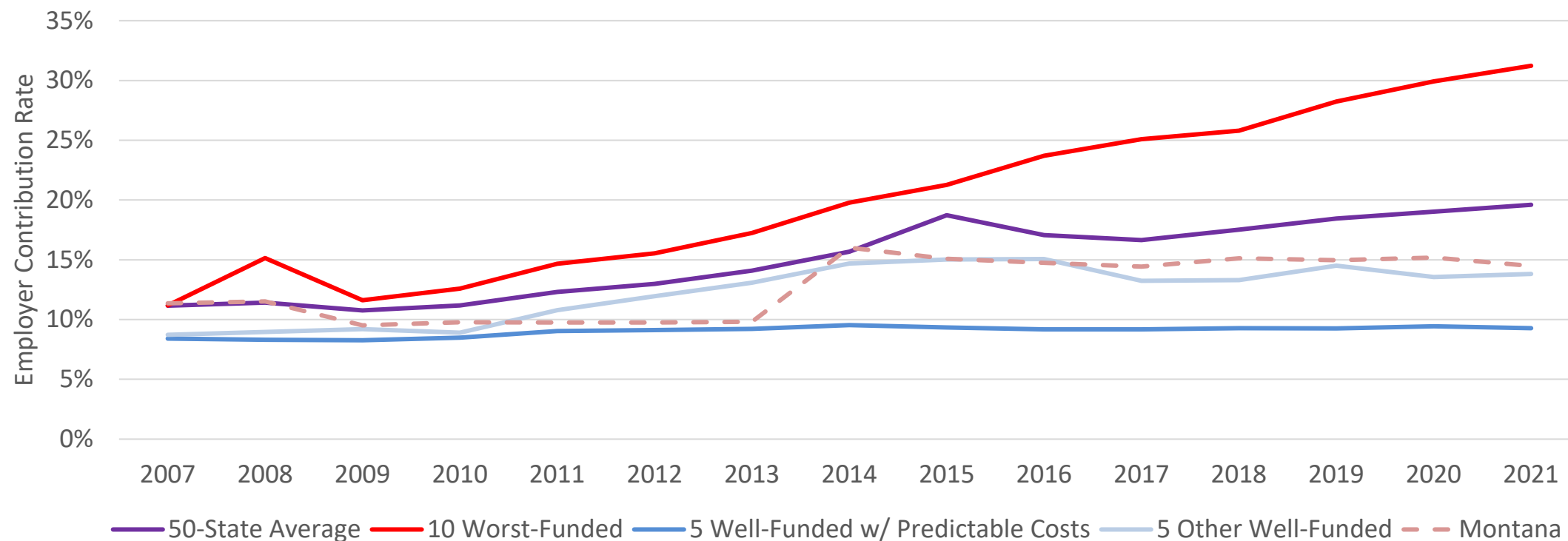
Decisions that led to underfunding state pension plans put increasing pressure on state budgets.



Well-funded states with stable costs include Idaho, Nebraska, South Dakota, Tennessee, and Wisconsin. Other well-funded states includes Delaware, Idaho, New York, Utah, and Washington. The 10 worst funded states as of 2021 were Connecticut, Hawaii, Illinois, Kentucky, Massachusetts, New Jersey, Pennsylvania, Rhode Island, South Carolina, and Vermont.

# Good Policy Can Make A Difference Too

Well-funded states with tools to manage risk can keep costs stable over time.



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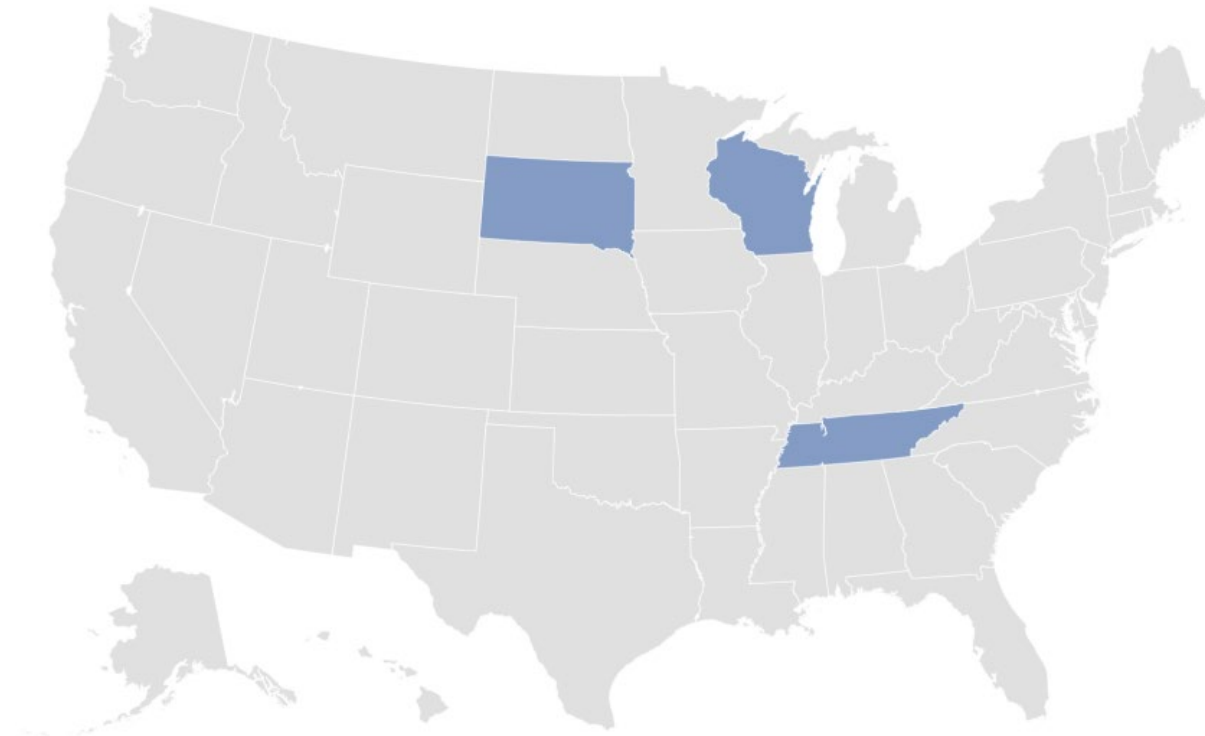
# Well-Funded Systems Take Different Approaches

State	2021 Funded Ratio	Min Employer Contribution Rate, 2007-2021	Max Employer Contribution Rate, 2007-2021	Avg Employer Contribution Rate, 2007-2021	Plan Type	Tools to Manage Risk	Stress Testing
Delaware	108%	7%	14%	11%	DB	None	Yes
Idaho	102%	11%	12%	11%	DB	Employee contribution sharing	No
Iowa	101%	6%	10%	8%	DB	Employee contribution sharing	No
Nebraska	111%	8%	11%	10%	CB for state and county, DB for teachers	Cash balance plan for state and local employees adjusts benefits based on returns	No
New York	99%	8%	21%	15%	DB	None	No
South Dakota	106%	6%	7%	6%	DB	COLA is adjusted to ensure set contributions are sufficient to fund benefits	Yes
Tennessee	114%	10%	12%	11%	Hybrid for post- 6/30/2014 hires	Hybrid design with reserve fund, variable COLA, and additional risk-management tools for post-6/30/2014 hires.	No
Utah	105%	14%	23%	19%	Hybrid for post- 6/30/2011 hires	Hybrid design with adjustable employee contributions and fixed employer costs for post-6/30/2011 hires.	No
Washington	119%	5%	11%	8%	DB with optional hybrid	Optional hybrid pension	Yes
Wisconsin	106%	5%	8%	7%	DB	Employee contribution sharing and variable COLA	Yes

# Practices of Successful Pension Systems

# Spotlight On Three State Pension Plans: No One-Size-Fits-All

Different policies but all three were well funded with stable costs and strong outcomes for retirement security.



- **Wisconsin Retirement System**—Shared risk design
- **South Dakota Retirement System**—Adjustable benefits
- **Tennessee Consolidated Retirement System**— Risk-managed hybrid

# 5 Practices Of Highly Successful Retirement Systems



**Provide a Path to Retirement Security**



**Maintain Fiscal Sustainability**



**Preserve Inter-generational Equity**



**Plan for Uncertainty**



**Govern Transparently**

# How Do We Measure Retirement Security?

**Replacement income ratio:** percentage of a worker's pre-retirement take-home pay covered by their combined income from a state or city retirement plan benefit plus Social Security.

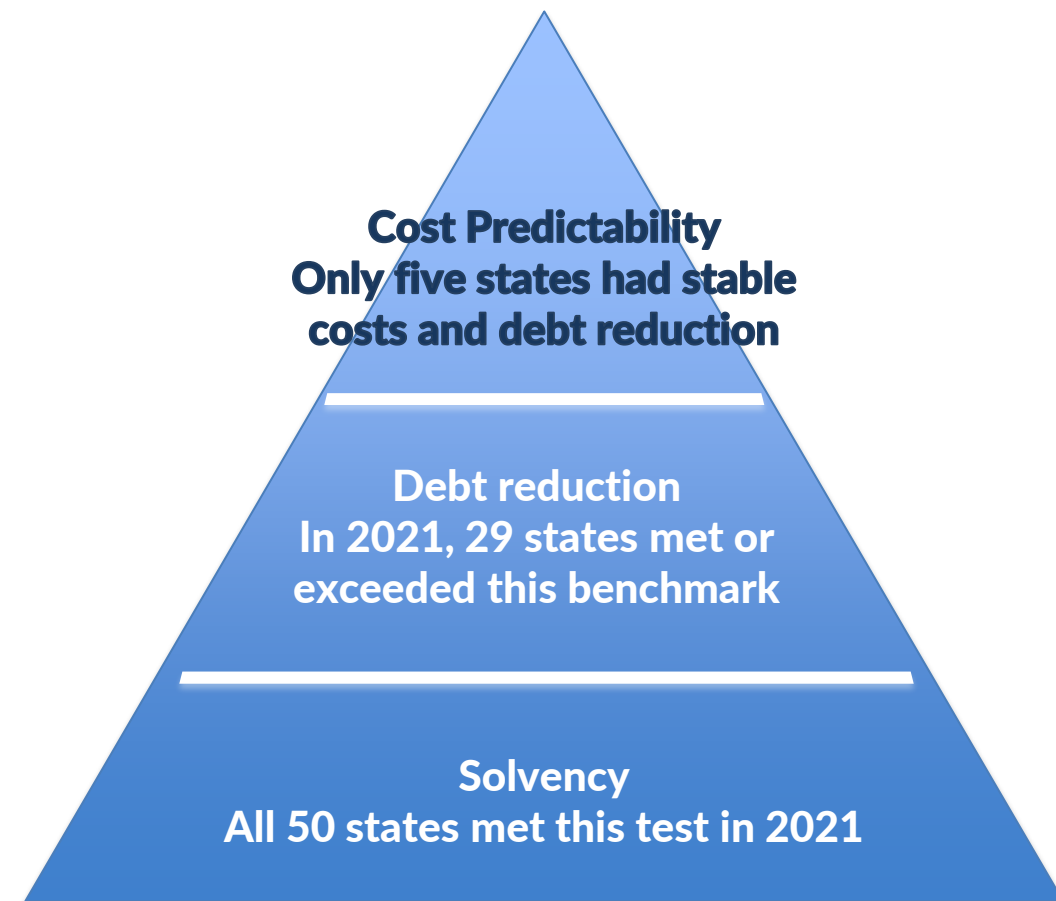
**Retirement savings rate:** the level of savings, expressed as the percent of annual salary, that an employee can withdraw from their pension fund when leaving employment prior to reaching retirement eligibility.

For more details, see Pew's factsheets [How Measuring Replacement Income Can Aid Assessment of Public Plans](#) and [Savings Rate Fills Out Picture of Workers' Retirement Security](#).



# How Do We Measure Fiscal Sustainability?

- Solvency is measured by whether the operating cash flow ratio is below -5%.
- Debt reduction is based on whether employer contributions are enough to keep the funding gap stable or to pay down pension debt.
- Cost predictability is based on the range of employer contribution rates.



# Lessons From Successful States

- **Ensure actuarial funding is met.**
- **Manage to a target cost.**
- **Variable cost-of-living adjustments are a powerful stabilizer.**
- **Provide benefits that match workforce needs and retirement goals.**
- **Conduct stress testing and risk analysis.**

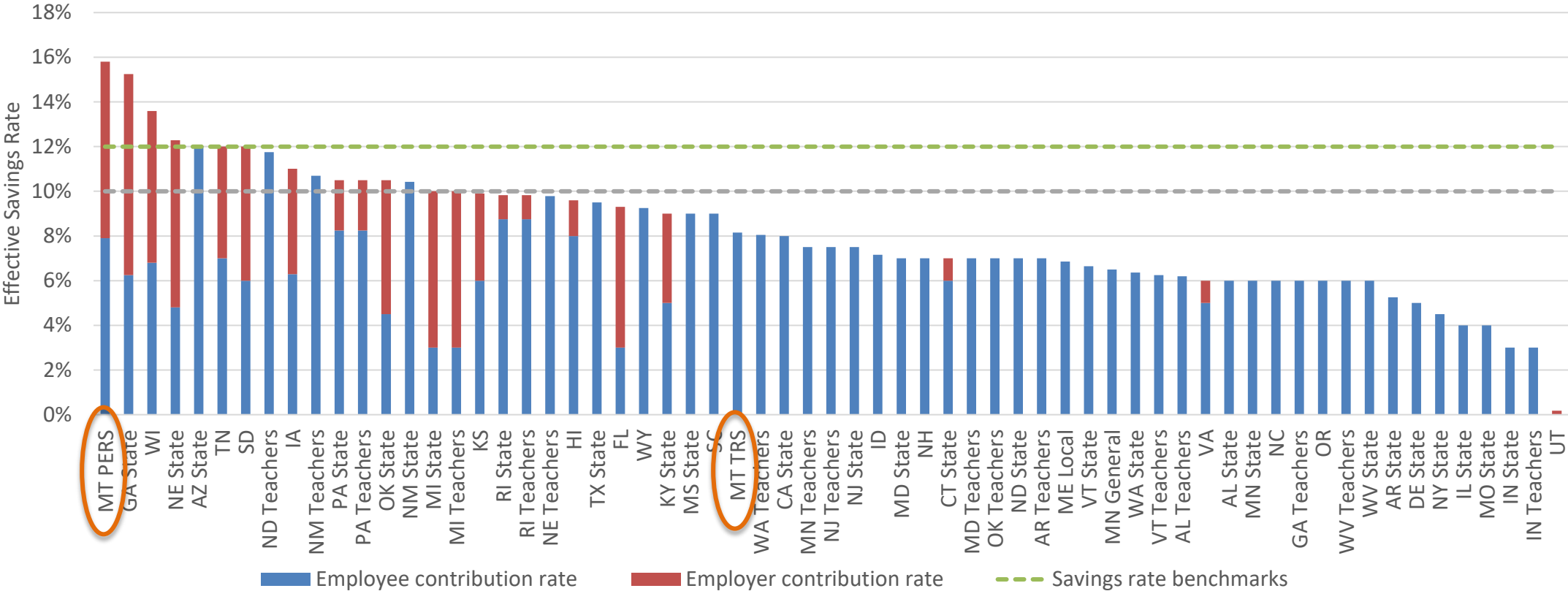
# What This Means for Montana

# Does Montana Follow Lessons From Successful States?

- **Ensure actuarial funding is met:** *Montana applies a statutory contribution rate to PERS and TRS rather than actuarially funding these systems. As of 2023, JRS, HPORS, SRS, and GWPORS will receive actuarial funding.*
- **Manage to a target cost:** *Montana had to raise contributions in 2014 because of underfunding.*
- **Variable cost-of-living adjustments are a powerful stabilizer:** *The GABA is contingent on plan funding levels for participants hired after 2013.*
- **Provide benefits that match workforce needs and retirement goals:** *Montana provides replacement income for career workers and Montana PERS does well in providing a sufficient savings rate.*
- **Conduct stress testing and risk analysis:** *Montana adopted a practice of regular stress testing in 2019. The state's stress tests show a risk of insolvency under a low-return scenario absent changes to contributions or benefits.*

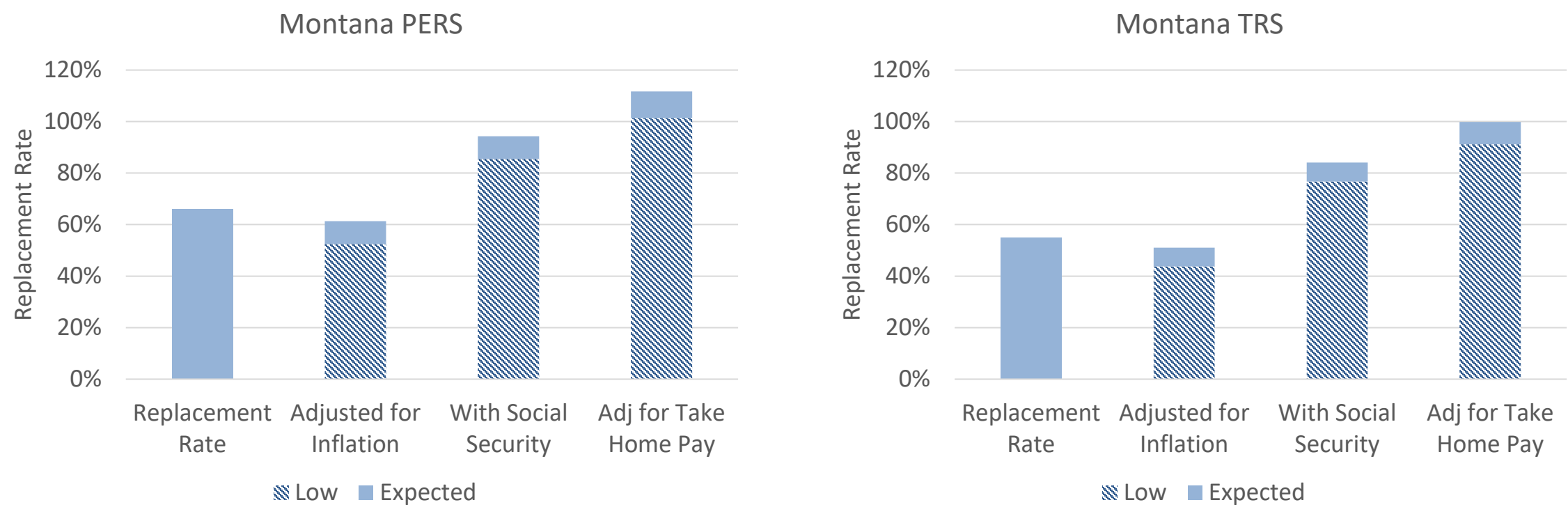
# How Montana Employee Savings Rate Compares

Participants in MPERA have an employee savings rate above savings benchmarks.  
MTRS members are around the median for state pension savings.



# Montana Replacement Income Supports Retirement Security

Adjusting for inflation and take-home pay and including Social Security shows that Montana provides income replacement to career employees.



Note: For an employee starting at age 30 and retiring at age 65. To adjust for inflation, we estimate the level of benefit at halfway through retirement compared to salary at separation. Benefits are shown based on expected COLAs as well as levels based on continued underfunding.

# Montana's Pensions Are Stable Under Current Conditions

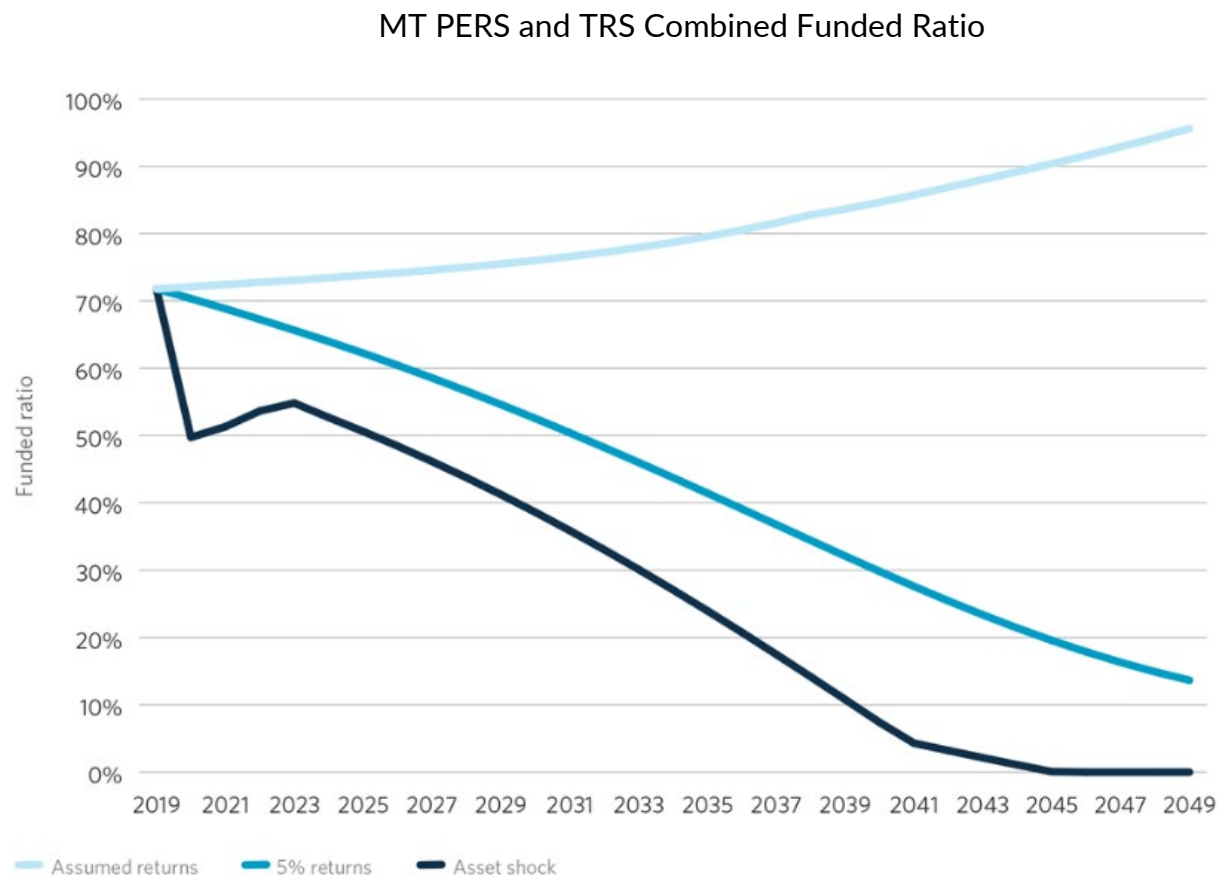
But the state still lacks policies to automatically adjust if investments or other assumptions fall short.

Montana	2014	2015	2016	2017	2018	2019	2020	2021
Assets	\$9,869,365	\$10,105,644	\$10,055,509	\$10,946,790	\$11,584,819	\$11,865,792	\$11,797,640	\$14,584,065
Liabilities	\$12,990,247	\$13,561,567	\$14,126,378	\$15,027,433	\$15,966,542	\$16,367,578	\$17,540,706	\$18,452,351
Percent Funded	76%	75%	71%	73%	73%	72%	67%	79%
Unfunded	\$3,120,882	\$3,455,924	\$4,070,869	\$4,080,642	\$4,381,723	\$4,501,786	\$5,743,065	\$3,868,286
Net Amortization Benchmark	\$372,676	\$305,136	\$328,026	\$378,901	\$359,673	\$366,343	\$370,350	\$444,562
Employer Contributions w/ Interest	\$347,600	\$335,877	\$338,415	\$342,922	\$362,690	\$366,980	\$384,078	\$386,489
Net Amortization % Pay	-1%	1.4%	0.5%	-1.6%	0.1%	0.0%	0.6%	-2.3%
Cash Flow	-\$149,757	-\$211,345	-\$248,920	-\$285,451	-\$315,869	-\$356,844	-\$382,597	-\$421,082
Operating Cash Flow Ratio	-1.7%	-2.1%	-2.5%	-2.8%	-2.9%	-3.1%	-3.2%	-3.6%

Note: Plans included are the PERS, JRS, HPORS, SRS, GWPORS, MPORS, FURS, and TRS

# Pew Stress Testing Shows Montana's Risk From A Downturn

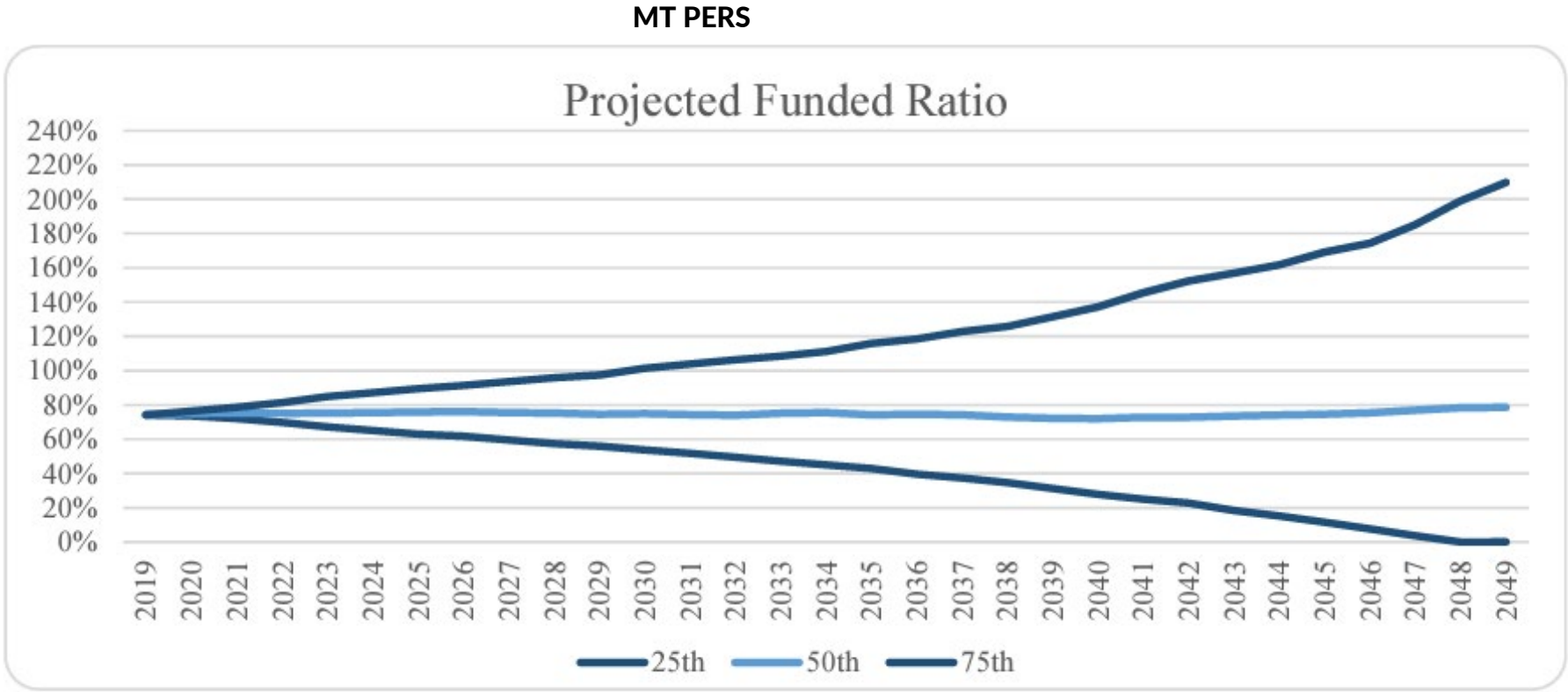
An analysis by Pew of the state's pension plans shows solvency risk from low investment returns.





# Montana's Own Stress Testing Shows Risk—PERS

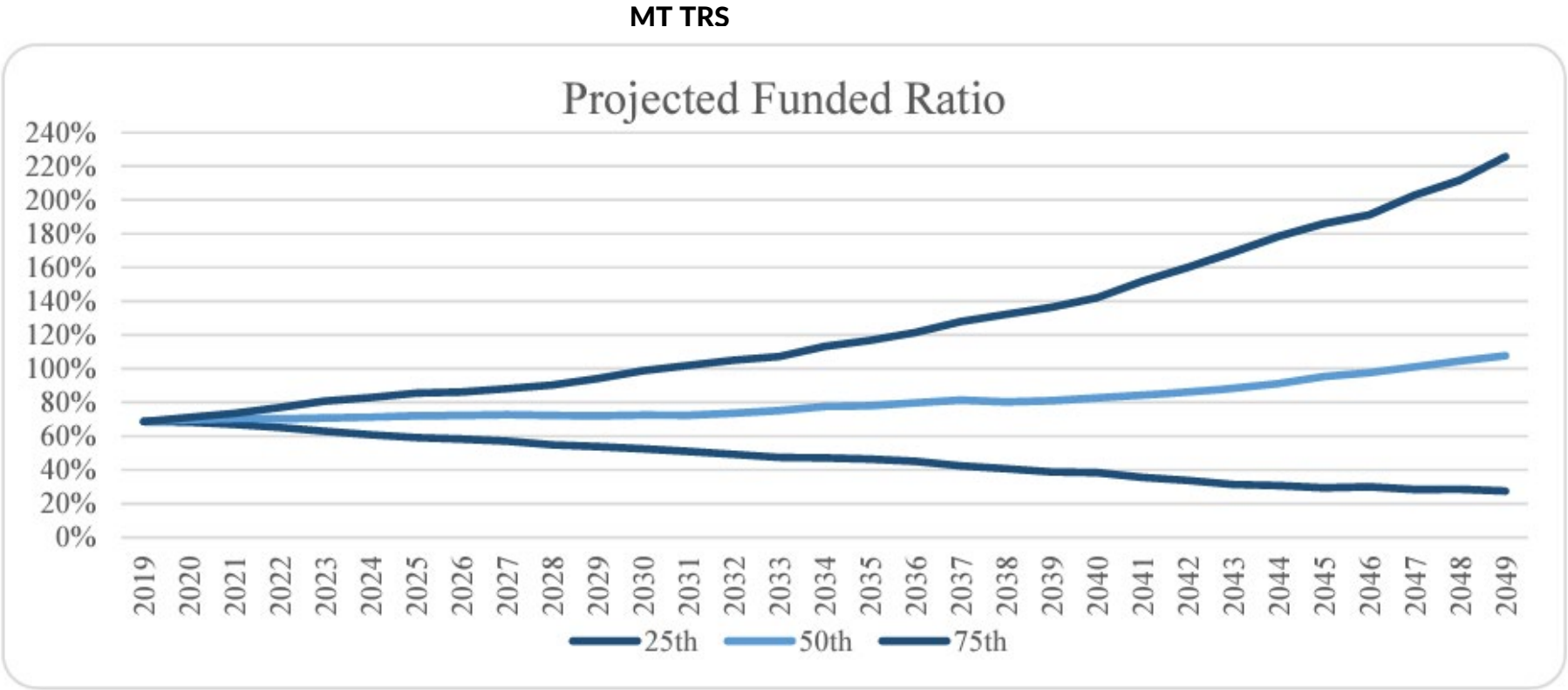
PERS has a 1 in 4 chance of insolvency if benefits or contribution policies aren't changed.



Note: Based on 2020 Cavanaugh MacDonald Risk Analysis Reports for MT PERS and MT TRS

# Montana's Own Stress Testing Shows Risk—TRS

Risk of asset depletion is lower for TRS, but future funding is dependent on returns.



Note: Based on 2020 Cavanaugh MacDonald Risk Analysis Reports for MT PERS and MT TRS

# Conclusion

- **Effective and sustainable pension policy has allowed successful states to offer retirement benefits that are well-funded and have affordable and stable costs.**
- **Montana's pensions are stable under current conditions but there are not currently policies to maintain stability in the face of volatile investment markets or other stresses.**
- **Actuarial funding remains the consistent approach of states that have maintained well-funded pensions through ups and downs in financial markets.**
- **Montana's benefits provide replacement income for career employees. Montana PERS stands out in terms of providing savings for short- and medium-tenured public workers.**

**For more information:**

<https://www.pewtrusts.org/en/projects/public-sector-retirement-systems>

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