



Pension Basics

An Overview of Montana's Public
Employee Retirement Systems

Legislative Days 2024

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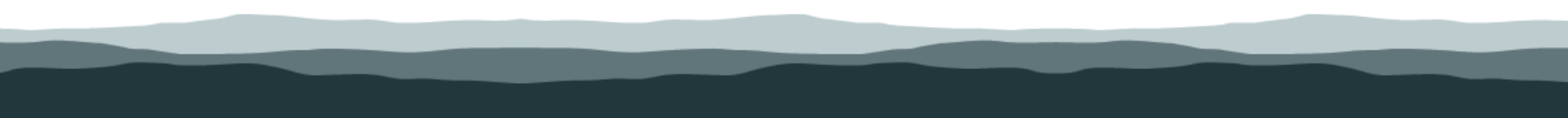
Sam Schaefer, Lead Fiscal Analyst, Revenue

Why Talk About Pensions?



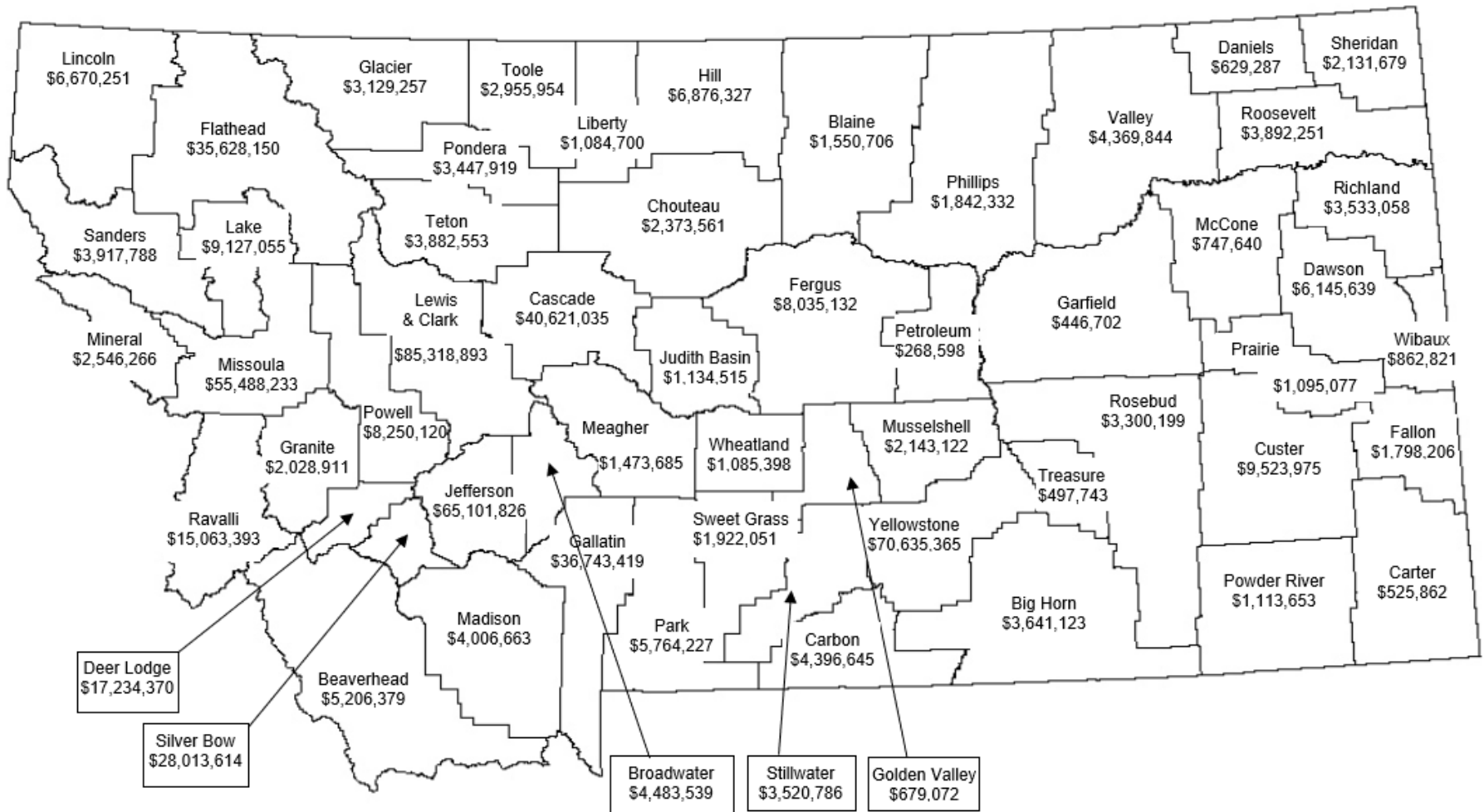
Impact to Montana

- 11 Statewide Public Employee Retirement Systems
- Over 1,200 Participating Public Employers
- 1 in 11 Montanans
- \$14.4 Billion in Assets
- \$4.9 Billion in Unfunded Liabilities
- 6.3% of Total Ongoing General Fund Expenditures (FY23)



Montana Public Employees Retirement Administration

Retirement Benefits Paid Out – Fiscal Year 2023



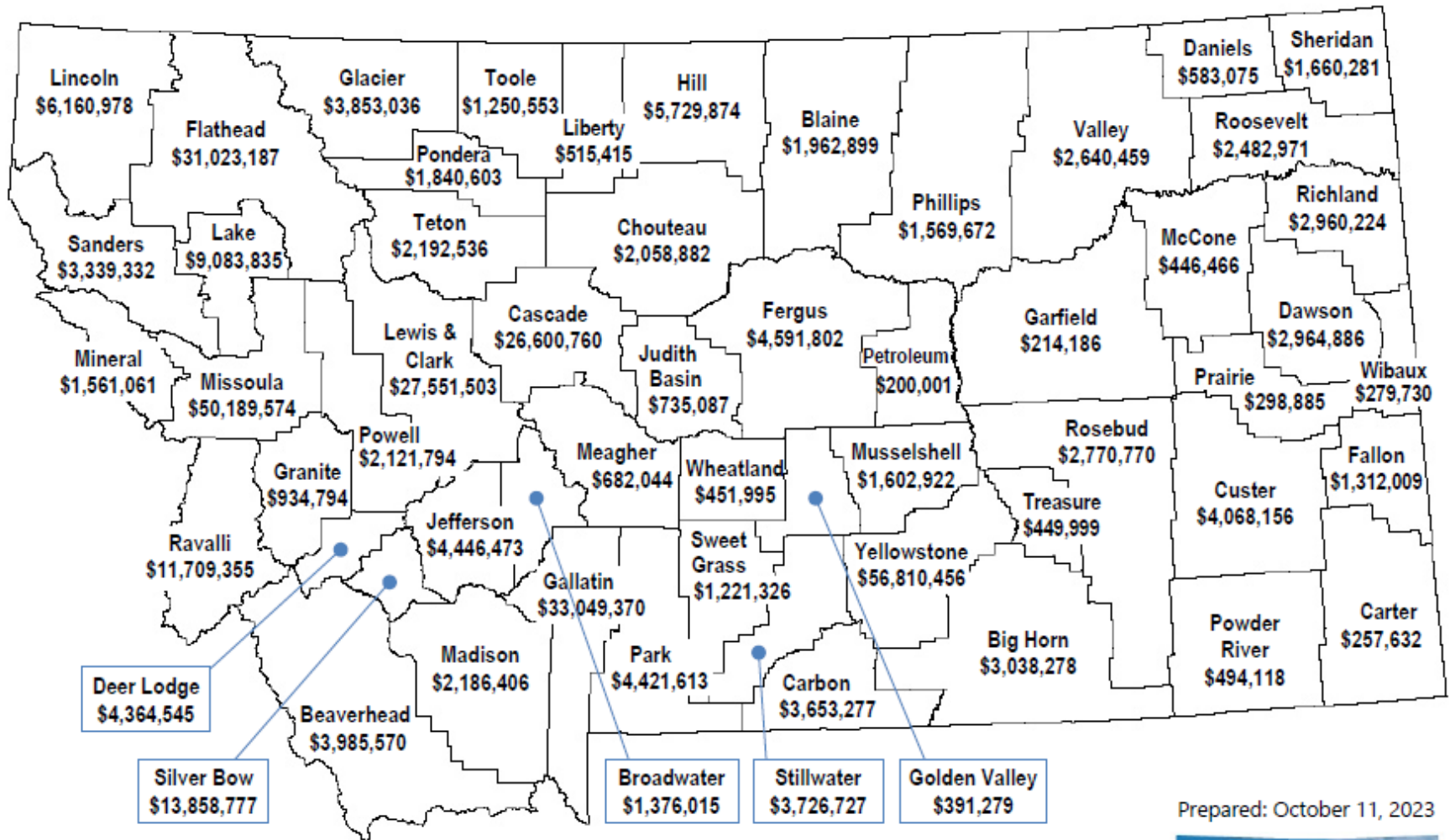
Total Benefits Paid in Montana:	\$597,906,569
Total Recipients in Montana:	28,515

Other States	\$70,852,571
International	\$ 593,769

The total benefits on this schedule differ from those on the Defined Benefit Plan Benefits on the *Statement of Changes in Fiduciary Net Position* on page 42 due to prior year adjustments.

Retirement Benefits Paid by County – Fiscal Year 2023

Montana Teachers' Retirement System



Prepared: October 11, 2023

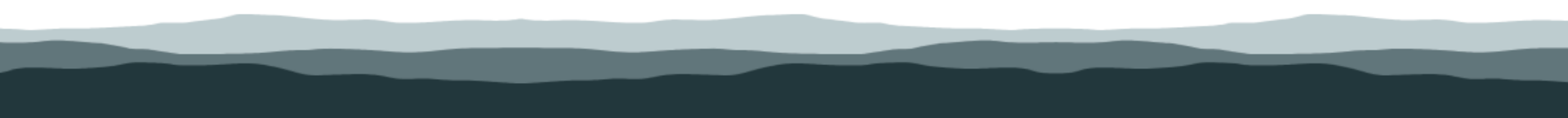


Total Benefits Paid in Montana (FY 2023): \$359,927,450
Total Recipients in Montana (FY 2023): 14,505

Brief History of Montana's Public Employee Retirement Systems



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.
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Montana Constitution

Article VIII, Section 13 - Investment of Public Funds and Public Retirement System and State Compensation Insurance Fund Assets

(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.

(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.

Article VIII, Section 15 - Public Retirement System Assets

(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.

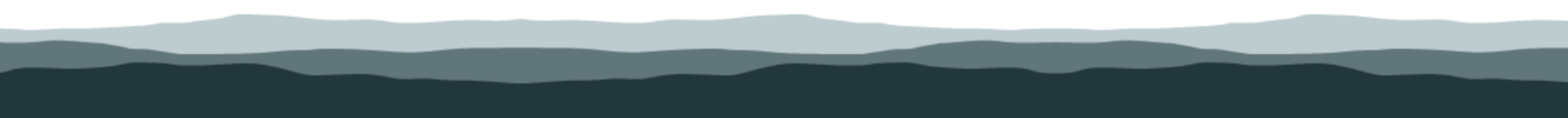
*(*emphasis added)*

What is the Purpose of a Pension?



Why Do We Have Public Pensions?

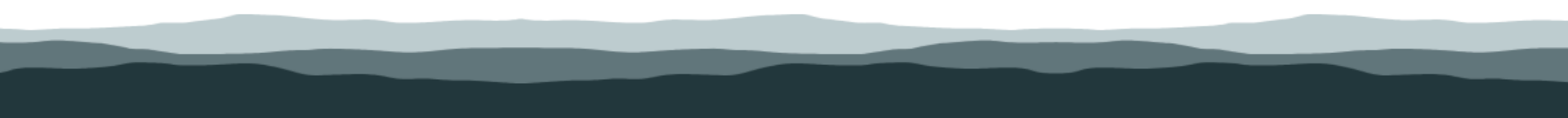
- Retirement plans started as an alternate method for employers to compensate their employees for services rendered.
- Later, employers used retirement plans as a recruiting and retention tool that supplemented regular compensation.
- Today, employers often view retirement plans as a method to recruit, compensate, and retain employees.
- Pensions allow employers to manage the progression of their workers throughout their career to ensure that public services are delivered effectively and efficiently, even as one generation retires and new employees are hired.
- Pensions provide financial security in retirement for individuals, in combination with their personal savings and social security (if they are eligible).



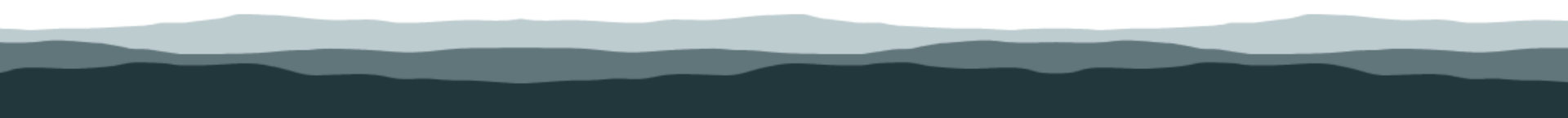
What are the Main Types of Public Pensions?



Defined Benefit (DB)

- A defined benefit (DB) plan is an employer-sponsored retirement plan that provides a **specific monthly benefit at retirement**.
 - Retirees receive **set monthly installments** rather than a lump sum and the benefit is guaranteed for the rest of their life.
 - 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.
 - 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.
 - 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**. As of March 2020, 76% of public employees participated in a DB plan.
 - 9 of Montana's 11 statewide retirement systems are DB plans.
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Defined Contribution (DC)

- 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**. The employee receives the **balance in their account upon retirement**.
 - 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**.
 - **Employees assume the investment and longevity risks in DC plans.**
 - 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.
 - 2 of Montana's 11 statewide retirement systems are DC plans.
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Who's Covered by Montana's Statewide Retirement Systems?



Montana's Public Employee Retirement Systems

SYSTEM	EMPLOYERS	DESCRIPTION	MEMBERS
TEACHERS' RETIREMENT SYSTEM (TRS)	363 participating employers, including: <ul style="list-style-type: none"> • School Districts • Community Colleges • Education Co-ops • Counties • MUS • State Agencies 	<ul style="list-style-type: none"> • DB Plan • Teachers, administrators, specialists, and others employed in a teaching or educational services capacity by a public school district, state agency, county, community college, Montana University System, or educational cooperative 	<ul style="list-style-type: none"> • Active: 19,975 • Retirees: 17,369
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)	551 participating employers, including: <ul style="list-style-type: none"> • State Agencies • MUS • Counties • Cities • Schools & Community Colleges • Special Districts • Some Smaller Police and Rural Fire Depts 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • DB Active: 28,508 • DB Retirees: 25,026 • DC Contributing Members: 5,085

EMPLOYERS	DESCRIPTION	MEMBERS	
SHERIFFS' RETIREMENT SYSTEM (SRS)	57 participating employers, including: <ul style="list-style-type: none"> • Dept of Justice • Counties • Detention Centers 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Active: 1,481 • Retirees: 809
MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM (MPORS)	36 participating employers, including: <ul style="list-style-type: none"> • City Police Departments 	<ul style="list-style-type: none"> • DB plan • Covers police officers employed by participating cities, towns, and municipalities 	<ul style="list-style-type: none"> • Active: 841 • Retirees: 908
HIGHWAY PATROL OFFICERS' RETIREMENT SYSTEM (HPORS)	1 participating employer: <ul style="list-style-type: none"> • Dept. of Justice 	<ul style="list-style-type: none"> • DB Plan • Covers state highway patrol officers and supervisors 	<ul style="list-style-type: none"> • Active: 252 • Retirees: 354
GAME WARDENS' AND PEACE OFFICERS' RETIREMENT SYSTEM (GWPORS)	7 participating employers, including: <ul style="list-style-type: none"> • Dept. of FWP • Dept. of Corrections • MUS 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Active: 977 • Retirees: 442

	EMPLOYERS	DESCRIPTION	MEMBERS
JUDGES' RETIREMENT SYSTEM (JRS)	1 participating employer: <ul style="list-style-type: none"> Judicial Branch 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Active: 59 Retirees: 74
FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM (FURS)	28 participating employers, including: <ul style="list-style-type: none"> City Fire Departments 	<ul style="list-style-type: none"> DB Plan Covers paid firefighters employed by participating cities, towns, and municipalities 	<ul style="list-style-type: none"> Active: 749 Retirees: 691
VOLUNTEER FIREFIGHTERS' COMPENSATION ACT (VFCA)	228 participating employers, including: <ul style="list-style-type: none"> Fire Companies as defined in 19-17-109, MCA 	<ul style="list-style-type: none"> DB Plan Covers the volunteer (uncompensated) firefighters of qualifying volunteer fire companies organized in unincorporated areas 	<ul style="list-style-type: none"> Active: 2,233 Retirees: 1,523
MONTANA UNIVERSITY SYSTEM RETIREMENT PLAN (MUS-RP)	1 participating employer: <ul style="list-style-type: none"> Montana University System (all campuses) 	<ul style="list-style-type: none"> DC Plan All administrative, scientific, and instructional staff of the University System and the classified staff who elected MUS-RP rather than a PERS plan. 	<ul style="list-style-type: none"> Contributing (Active): 4,100 Non-Contributing (Inactive, Retired, etc.): 11,184



Who Oversees the Pension Systems?



Legislature

- Plan sponsor (taxpayer)
- Sets benefit formulas
- Sets employer and employee contribution rates in statute
- Receives reports and information from the Retirement Boards and the Board of Investments
- Introduces legislation requested by Retirement Boards and the Board of Investments
- Conducts interim studies
- Oversight responsibilities – SAVA, LFC, LAD

Retirement Boards & Agencies

- Fiduciaries, must act in best interest of members and benefit recipients
- Collects member and employer contributions
- Calculates & pays benefits
- Provides employer and member education
- Ensures consistency with federal standards and requirements
- Hires actuaries to conduct actuarial valuations and experience studies
- Provides reports to the Legislature
- Makes recommendations to Legislature and requests legislation

Board of Investments

- Approves asset allocations
- Approves investment policies
- Reviews investment activity and strategy regularly
- Invests using the prudent expert rule
- Diversifies the holdings of each fund to minimize risk and maximize returns
- Manages fees
- Must act in the best interest of the beneficiaries of the funds managed

Role of the Legislature

State Administration and Veterans' Affairs Interim Committee (SAVA)

- Has administrative rule review, draft legislation review, program evaluation, and monitoring functions for the public employee retirement plans

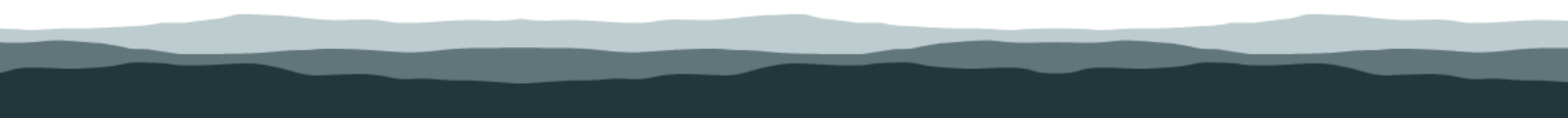
Legislative Finance Committee (LFC)

- Receives annual reports/presentations from TRS and MPERA leadership on the annual actuarial valuation reports on PERS and TRS and their progress towards 100% funding

Legislative Audit Committee (LAC)

- Conducts annual financial compliance audits

Full Legislature

- Receive recommendations from SAVA, LFC, agencies, and stakeholders
 - Consider bills and conducts hearings
 - Understand risks associated with the plans and proposed changes
 - Sets benefit and funding policy
 - Funds systems based on recommendations
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How are the Pension Systems Funded?



Funding Sources

Member Contributions

- Employee/member contributions are a percentage of the employee's compensation and are withheld from each of the employee's paychecks.
- Set in statute by the Legislature.

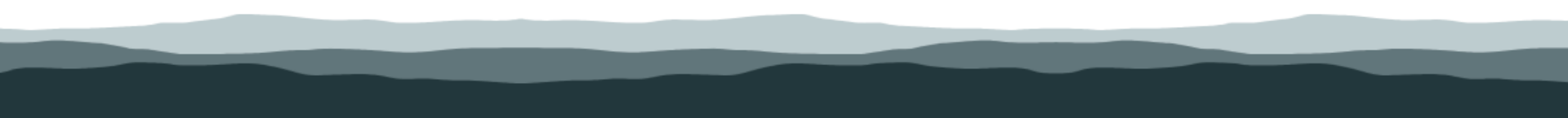
Employer Contributions

- Employer contributions are also a percentage of the employee's compensation and are made directly to the retirement plan directly each pay period.
- Set in statute by the Legislature.

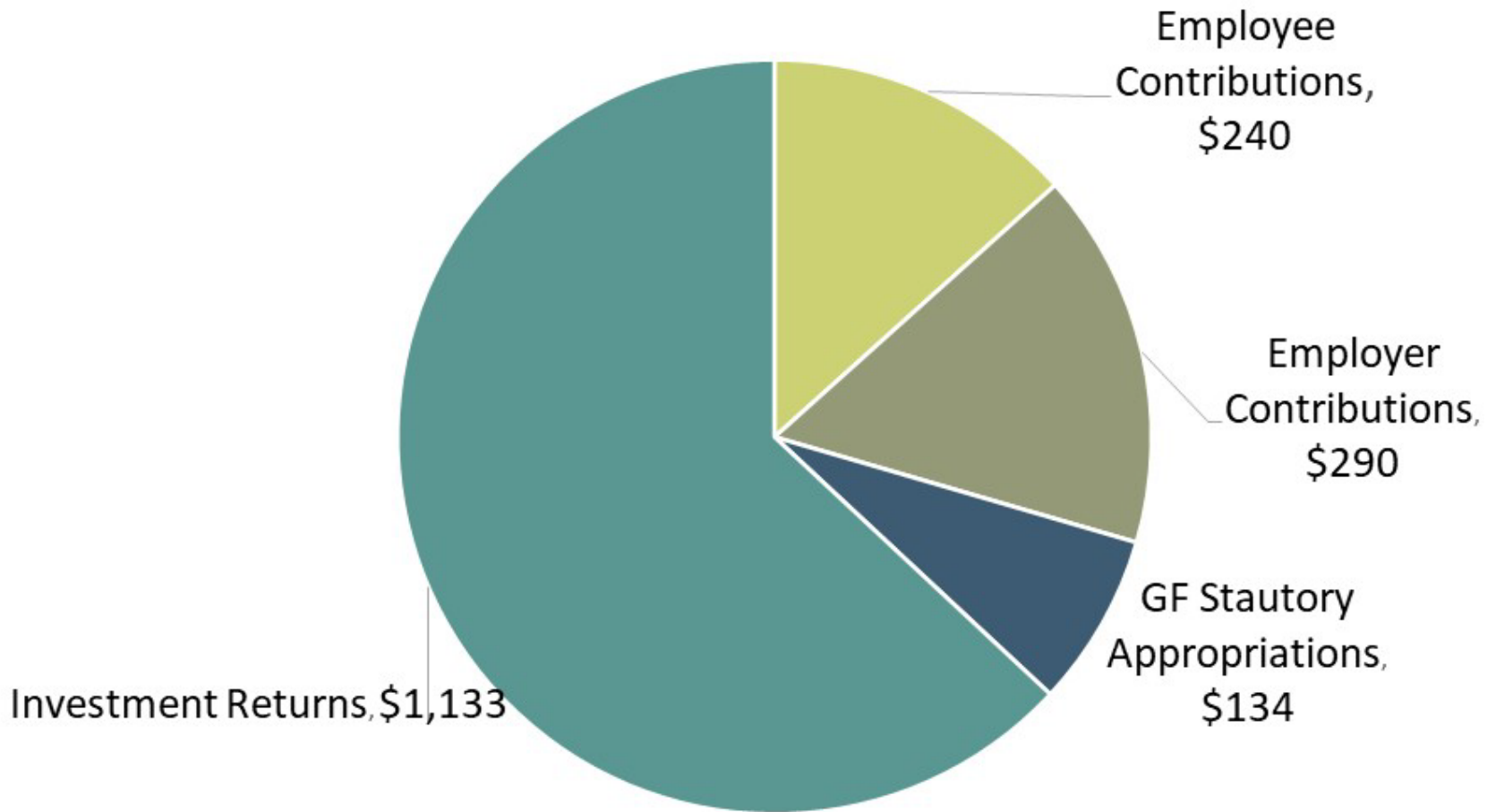
Statutory Appropriations

- 6 of the 9 DB systems receive supplemental appropriations from the state general fund through statutory appropriations.
- Set in statute by the Legislature.
- Systems sometimes also receive OTO appropriations through legislation.

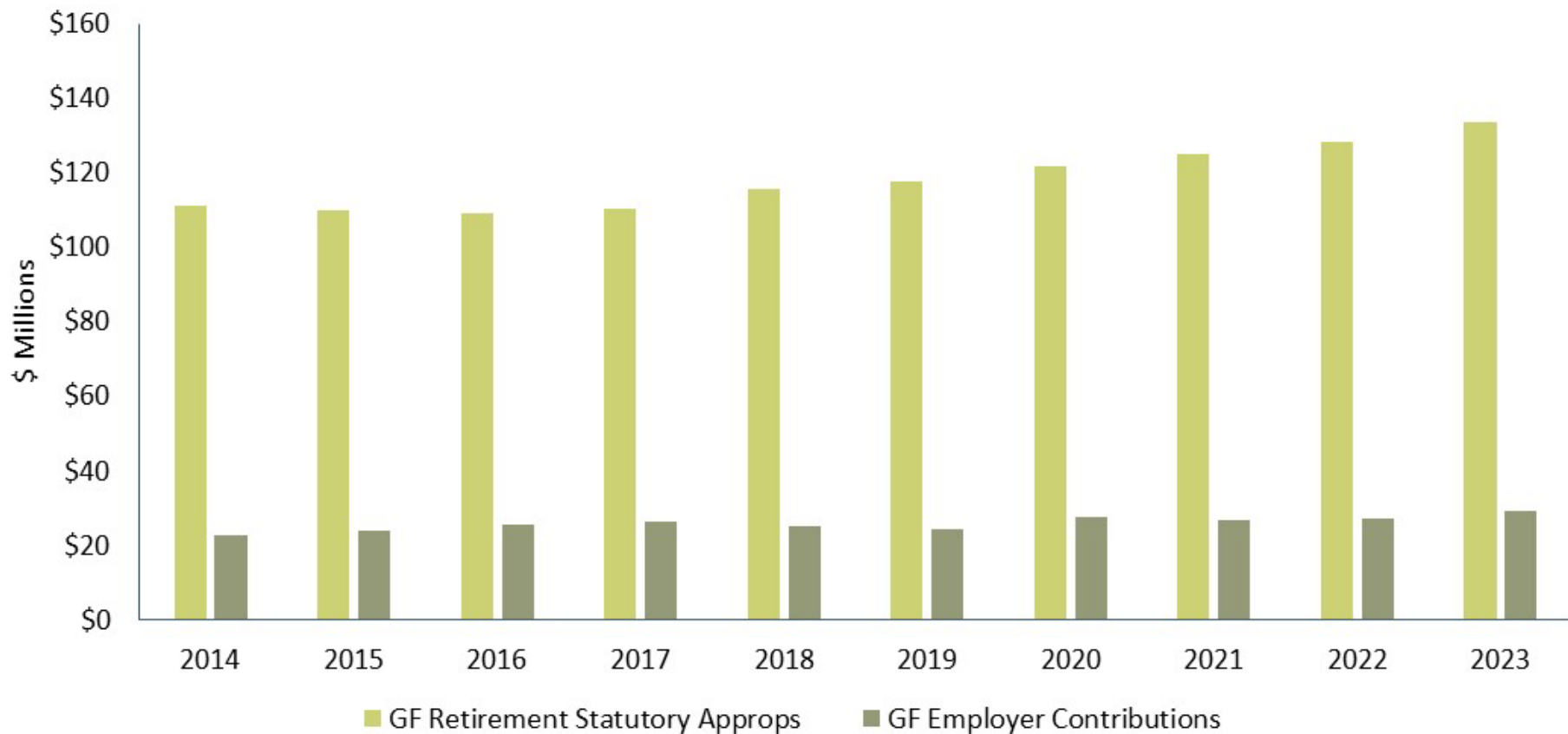
Investment Income

- Pension assets are pooled and managed by the Board of Investments as part of the state's unified investment program.
 - Primary source of funding for the DB systems.
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FY 2023 Montana Pension Funding (\$ Millions)



Ongoing General Fund Funding of Retirement Systems (Statutory Appropriations & Employer Contributions)



FY23 Contributions

SYSTEM	EMPLOYER CONTRIBUTIONS	MEMBER CONTRIBUTIONS	ADDITIONAL FUNDING FROM STATE GENERAL FUND
TRS	<u>State & MUS</u> 11.75%	<u>Tier One</u> 8.15%	<u>State General Fund</u> \$48.44M
	<u>Schools & CCs & Local Gov't</u> 9.37%	<u>Tier Two</u> 8.15%	<u>MUS</u> \$13.66M
PERS-DB	<u>State & MUS</u> 9.07%	7.9%	<u>State General Fund</u> \$36.3M
	<u>Local Gov't & Schools</u> 8.97%		
SRS	13.115%	10.495%	None
MPORS	14.41%	9.00%	State General Fund: \$19.6M
GWPORS	9.00%	10.56%	None
FURS	14.36%	10.69%	State General Fund: \$21.6M
HPORS	28.15%	13.05%	State General Fund: \$1.9M
JRS	0%	7.00%	None
VFCA	0%	0%	5% of certain fire insurance premiums under 19-17-301, MCA

How are the Benefits Calculated?



Benefit Equation



Multiplier

- A percentage based on years of service.

Years of Service

- The amount of service earned through employment.

Highest Average Salary

- The average of a set number of highest consecutive months of salary, depending on hire date. One system uses final average salary.

How are the Pension Systems Measured?



Performance Indicators

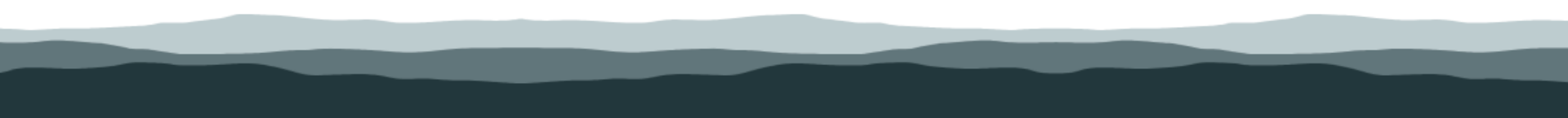
Funded Ratio

- The value of a pension plans assets divided by its liabilities (%).

Amortization Period

- The amount of time needed to pay off a retirement system's unfunded actuarial accrued liabilities.
- Montana uses an open amortization policy, so the period is recalculated each year.
- Per statute, Montana systems should amortize in 30 years or less.

Investment Rate of Return (Actual v. Assumed)

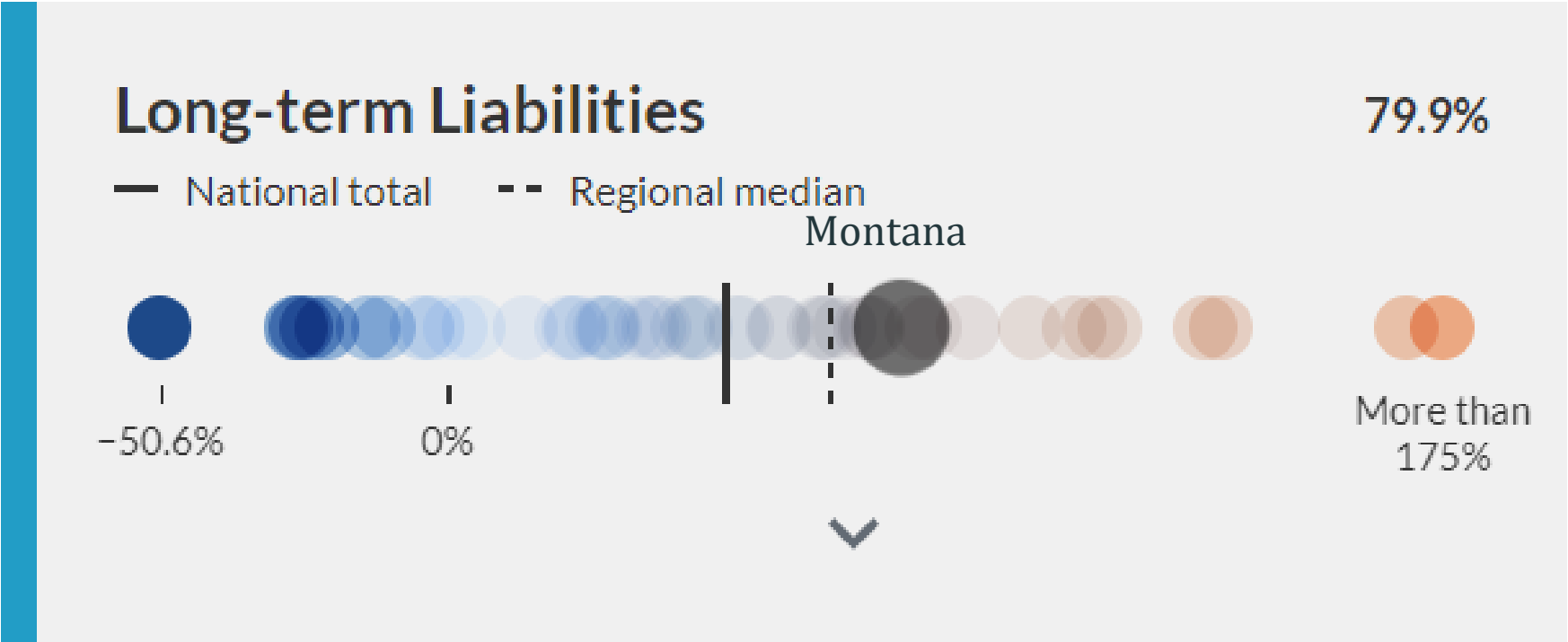
- The largest assumption when studying the health of a system is the assumed rate of return for a system's investments. Investment returns above/below the assumed rate strengthen/weaken the health of a system.
 - The assumed rate of return is evaluated every 4 years through experience studies and changed as needed by the governing boards.
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FY 23 Results

SYSTEM	FUNDED RATIO	AMORTIZATION PERIOD	MARKET RATE OF RETURN
TRS	72%	24 yrs.	8.46%
PERS-DB	75%	28 yrs.	8.50%
SRS	78%	25 yrs.	8.50%
MPORS	73%	21 yrs.	8.50%
GWPORS	82%	25 yrs.	8.50%
FURS	82%	10 yrs.	8.50%
HPORS	67%	25 yrs.	8.50%
JRS	181%	0 yrs.	8.48%
VFCA	98%	1 yr.	8.46%

Other Performance Indicators

The Pew Charitable Trusts measure pension debt as a percentage of a state's own source revenues. The following figure is from the [Pew Fiscal 50 report](#) and is based on FY 2021 figures. Compared to Montana's own source revenues, the current pension debt is slightly higher than the regional median.



Resources



Resources

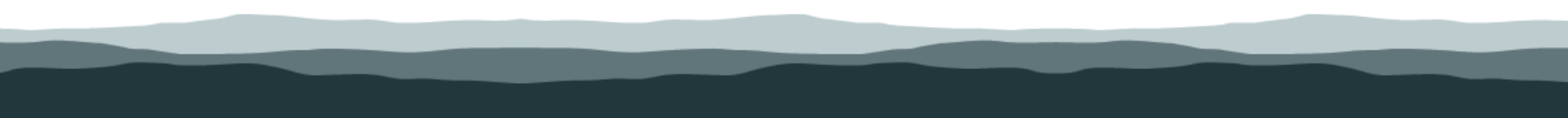
- **Pension Library**
 - Pension Acronyms & Definitions
 - FY 23 Green Sheets
 - Pension Dashboard
 - 2022 Legislator's Guide
 - **SJ 4 Study Page & Materials**
 - Presentations
 - **TRS Website**
 - Annual Actuarial Valuation Reports & Experience Studies
 - **MPERA Website**
 - Annual Actuarial Valuation Reports & Experience Studies
 - **Pew Charitable Trusts**
 - Fiscal 50 Report
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Summary



Summary

- Significant Impact to Montana
- 9 DB Systems and 2 DC Systems
- Protected by the Montana Constitution
- Legislature Provides Oversight and is the Plan Sponsor
- Funded by Employer, Employee, Investment Income, and Statutory Appropriations
- Performance Indicators: Funded Ratio, Amortization Period, and Actual Investment Rate of Return



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