



# **SJ 4: INTERIM STUDY OF MONTANA'S PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND TEACHERS' RETIREMENT SYSTEM**

**DRAFT FINAL REPORT TO THE 69<sup>TH</sup>  
MONTANA LEGISLATURE**

**State Administration and Veterans'  
Affairs Interim Committee**

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**SJ 4 study presentations, briefing memos, and materials from each meeting can be found here:**  
<https://leg.mt.gov/committees/interim/sava/sj-4/>.



## INTRODUCTION

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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 Employees' Retirement System (PERS) Defined Benefit Plan and the Teachers' Retirement System (TRS).

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.

## TASKS IN 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

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During the January 2024 SAVA Interim Committee meeting, SAVA and LFC members chose the following topics to address during the study:

### #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 PERS and TRS DB plans in relation to competitiveness (private sector and other states) and in relation to cost to the state.

### #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.

### #3: CONTRIBUTIONS

- Assess the impact of SB 29 (2023).

### #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 a 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.

### #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 PERS and TRS of moving to layered amortization (2023 bills HB 569 and HB 226).

## TOPICS & PRESENTATIONS BY MEETING

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### SEPTEMBER 11, 2023

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

During the September 2023 Legislative Finance Committee meeting, Senator Tom McGillvray, Representative Jim Hamilton, Representative Eric Matthews, and Representative Terry Moore were appointed as the LFC representatives on the study.

### NOVEMBER 8-9, 2023

During the November SAVA meeting, SAVA and LFC committee members received a pensions 101 presentation from committee staff, the results of the annual actuarial valuations for the Montana Public Employee Retirement Administration (MPERA) and the Teachers' Retirement System (TRS), and a presentation on Montana state employee benefits and trends from the Department of Administration. In addition, committee members heard from committee staff and Legislative Fiscal Division (LFD) staff about the resources available from Pew and Cheiron. Committee members adopted the FY 2023 Green Sheets and a study plan for SJ 4.

### JANUARY 25, 2024

The January 2024 meeting was focused on the history of PERS and TRS and included presentations from committee staff, MPERA leadership, TRS leadership, and Montana Board of Investments (BOI) leadership on performance history, contribution rate history, assumed rate of return versus actual rate of return, past legislative changes and their impact to the retirement systems, and statutory appropriations to the systems. Members held a work session to finalize the list of topics to address during the study (see previous page).

### MARCH 14-15, 2024

The SAVA Interim Committee held a two-day meeting in March 2024. The first day was a joint meeting with the full Legislative Finance Committee. The joint committee started with a presentation from Elizabeth Wiley with Cheiron giving a detailed overview of public pensions, risk assessment and management, and the Legislature's role in managing the systems. Next, the joint committee heard a presentation from David Draine with The Pew Charitable Trusts, which focused on trends in public pensions and the best practices of healthy public retirement systems. Committee staff presented on some research requests related to employer and employee contribution rates in other states and the history of all general fund contributions to the systems in the past (FY 2002 to FY 2023), not just statutory appropriations.

### MAY 23, 2024

The May 2024 meeting included a mix of presentations from in-state and national presenters. The committee heard from David Draine with The Pew Charitable Trusts about the Pew retirement security metrics, examples of best practices in other states, and potential approaches for Montana legislators to consider. The committee also heard from Dan Doonan, Executive Director of the National Institute on

Retirement Security (NIRS) about the outcomes of closing a public pension plan, which included case studies from Michigan, Alaska, West Virginia, and Oklahoma. Leadership from BOI, MPERA, and TRS presented on rate of return and allocation history, the Montana University System Retirement Program (MUS-RP) split from TRS, and DC account balances. Committee staff presented on survey data related to the public employees' view of pensions as a recruitment and retention tool. The committee began discussing updates to the Legislator's Guide to Montana's Public Employee Retirement Systems.

## **JULY 31, 2024**

Committee members heard a brief presentation from committee staff about evaluating risk in public pension systems. The committee continued their discussion of the Legislator's Guide.

## **SEPTEMBER 5, 2024**

Committee members discussed and approved the 2024 version of the Legislator's Guide and the SJ 4 Final Report.

## **OCTOBER 24, 2024**

Cheiron will present the results of the PERS and TRS stress tests.

**SJ 4 study presentations, briefing memos, and materials from each meeting can be found here:**  
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## COMMITTEE FINDINGS & RECOMMENDATIONS

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### FINDINGS

- The state of Montana does not currently conduct regular surveys of public employees about their view of the retirement systems and whether public pensions play a role in their employment decision-making. Survey data can help policymakers make informed decisions about proposed changes to the retirement systems.
- Stress tests are not currently required in statute or in board policy. Stress testing is considered a best practice for sustainable retirement policy to let policymakers and stakeholders know what will happen if investments or other important assumptions diverge from expectations.

### RECOMMENDATIONS

- The committee recommends that the Department of Administration work with the Montana Public Employee Retirement Administration and the Teachers' Retirement System to implement a yearly survey of active members and add a question about the retirement systems to public employee exit interviews.
- The committee recommends that the Public Employees' Retirement Board and the Teachers' Retirement System Board consider adding a requirement for regular stress tests to their board policies, similar to their existing requirements for experience studies.

# APPENDIX A: SAVA & LFC COMMITTEE MEMBERS

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Before the close of each legislative session, House and Senate leadership appoint lawmakers to interim committees. The members of the State Administration and Veterans' Affairs 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. In addition to the members of the SAVA Committee, 4 members of the Legislative Finance Committee were appointed to work on the SJ 4 study and are included in the list below.

## SAVA MEMBERS

### **Representative Julie Dooling, Chair**

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