Montana Public Employee Retirement System (PERS)

HB 226 Improves Pension Funding and Retirement Savings for Public Employees

Challenge #1: Montana's method for funding earned PERS-DB benefits is out-of-date.

- The funding risks associated with the PERS-Defined Benefit fund (PERS-DB) have been a perennial challenge for Montana.
- In 2001, the PERS-DB did not have any unfunded obligations, but poor investment outcomes below previous investment return expectations left today's PERS-DB fund with the highest unfunded liabilities in the plan's history despite a historic 29% investment return in 2021.
- According to a 2020 Legislative Fiscal Division report, "…current funding policies leave the systems [Montana's Teachers' Retirement System (TRS) and the Public Employees' Retirement System] heavily reliant on investment earnings and unable to adjust contributions to maintain an actuarially sound basis in times of significant financial declines."

Solution: House Bill 226 adopts ADEC funding to guarantee benefits are funded within a specified timeframe.

- While setting contributions in statute makes annual payments predictable for government budgets, the true costs of funding taxpayer-guaranteed pensions vary over time in response to changing market conditions and investment results.
- During an August 2020 hearing of the Legislative Finance Committee, PERS actuaries pointed out that "states are getting away from the old statutory funding method" and that "an actuary's dream funding policy" is a system that adjusts "to keep up with how the plan is doing."
- HB 226 would commit state and local government employers to eliminating unfunded pension liabilities over time by adopting a funding policy requiring the use of actuarially determined employer contributions (ADEC).

Challenge #1: Most employees leave too early to benefit from the current pension design.

- According to Pension Integrity Project estimates using PERS assumptions, 70% of all new hires starting in their early twenties will find other positions outside of Montana public service within five years.
- Only 9% of employees hired in their early twenties stay employed for the 30 years required to earn an unreduced PERS-DB retirement.
- The current system serves only a fraction of public employees at an ever-rising cost.

Solution: HB 226 aligns PERS to better serve the majority of public employees.

- House Bill 226 recognizes the trends of the modern workforce and would shift the default benefit offered to new hires from the PERS-DB plan to the PERS-DC (defined contribution).
- The default swap preserves the PERS-DB plan while preserving choice to ensure employees can best match their retirement plan with their particular situations.
- HB2 26 allows for more portability and greater retirement security for the vast majority of employees hired by Montana governments, not just a relatively small group of full-career workers.

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