Montana's Promise

Montana made a promise to its public employees generations ago: a promise that when they retire after a career of serving Montana's people, they should be able to live in dignity, not poverty.

That’s Montana’s Promise. That’s why our state’s public employee pension systems were created. MEA-MFT is dedicated to making sure the Montana Legislature keeps this promise. It’s a top priority for the 2013 session.

We have worked with Governor Bullock, former Governor Schweitzer, the Teachers Retirement System (TRS), Montana Public Employee Retirement Administration (MPERA), and other public employee unions to propose legislation that will fine-tune and protect Montana’s Promise.

Editor's note: During the Christmas holiday I was skiing with a friend, a 30-year Montana state employee who had just retired. Her husband also retired recently after more than 30 years with the state. Both were beginning to draw their Public Employees Retirement System (PERS) pensions.

“I guess we’re the ones crashing the system,” she said apologetically as we rode up the mountain. I almost fell off the chairlift.

“Wow,” I said. “The hype has gotten to you.” As it happened, I had been working on this article (and a steep learning curve it was, believe me). So I downloaded:

“First, the system is not crashing,” I said. “It does need a financial shot in the arm, because pension investments took a hit when the stock market tanked in 2008 and 2009, just like every other investment. Second, that’s your money that you paid into the system your whole working life. Third, the stock market crash was not your fault. Wall Street greed and mortgage scams caused it, not public employees!”

“Really?” she said, wide-eyed.

My friend is a savvy, informed individual. The fact that even she was beginning to believe the scapegoating is just one example of the widespread confusion and misinformation about public pensions. We hope this article helps clear the air a little.

Sanna Porte, MEA-MFT Today Editor

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It won’t be easy. Some out-of-state groups and others want to unravel Montana’s public employee pensions. Some are spreading misinformation and panic about pensions.

Here’s what you should know:

Montana’s public employee pensions work.

They work well for Montana retirees, taxpayers, communities, and the economy alike. PERS and TRS provide financial security to retirees. They also provide huge economic benefits to communities all across Montana where retired public employees live and spend their pension checks. Pensions help attract and retain quality employees. They are good business.

PERS & TRS are sustainable and affordable.

Montana’s public pension plans have withstood the test of time. They’ve been viable for over 75 years, providing a modest retirement income for workers who dedicate their lives to serve Montana’s people.

Pensions aren’t a “freebie.”

All public employees contribute to their own pensions. Public employers also contribute funds. Montana’s State Board of Investments then invests this money. Most of the pension dollars paid to public employees in Montana (60%-70%) come from investment returns and employee contributions, not from government/taxpayer contributions.

Public employee pensions are not lavish.

The average payment for TRS retirees with over 25 years of service is $20,040 per year. For PERS retirees with about 20 years of service, the average is $13,625 per year. That’s hardly lavish, but it gives retired public employees a chance to live with dignity as they age. It helps them pay for food, housing, and other needs instead of needing public assistance.

There is no crisis with TRS and PERS. These funds are invested over the long haul by highly skilled professionals. Like all other investments, Montana’s public pension plans took a hit in the recent market crash, a crash triggered by the (Continued)
abuses of mortgage companies and Wall Street brokers. Thanks to sound management, PERS and TRS have averaged double digit gains over the three fiscal years since the crash.

**PERS & TRS do need more funding** to fix shortfalls caused by the market crash. But the shortfalls have sometimes been highly overstated. You may have heard that there is a $4 billion “unfunded liability” in Montana’s public pension systems. However, about half of that is already funded. The actual shortfall is vastly less than $4 billion, but it still needs to be replaced.

The good news is that PERS and TRS are “pre-funded,” meaning their obligations (the amount they must pay to retirees) are not due all at once but over decades into the future. In fact, TRS and PERS have enough assets to pay obligations until 2040.

Montana’s constitution requires these pension systems to look even further into the future. The constitutions requires them to be “actuarially sound,” meaning they need enough money now to pay for all future obligations over the next 30 years. That’s why you hear terms like “unfunded liability” that sound far more alarming than they really are.

MEA-MFT has worked with legislators and others in past legislative sessions in an effort to pass bills providing the additional funding needed. These bills either failed to pass or were stripped of adequate additional funding.

The legislature can’t kick this can down the road. While there is no crisis now, there will be later if the legislature fails to put more funding into PERS and TRS. Pay now, or pay more later.

**There is a right way** to strengthen our pension systems — a way that supports middle class families and the state’s economy — and there’s a wrong way. Bills have been proposed that switch PERS and TRS from “defined benefit” (DB) plans to “defined contribution” (DC) plans. That’s the wrong way. DC plans won’t fix the shortfall, plus the switch would cost the state more and leave Montana public employees far less secure in their old age. (See explanation of defined benefit and defined contribution plans on p. 3.)

MEA-MFT is working with a coalition to support bills that will fix the shortfalls in our existing systems. Our bills ask public employees to share the burden of strengthening PERS and TRS with our fellow taxpayers. This means both employees (Continued)
and employers must kick in a little more money. (1% more for employees, except those in the PERS system who have already kicked in 1% more.) Some proposals include one-time transfers from school district retirement reserves for TRS and using non-dedicated coal tax revenue for PERS.

These proposals maintain the existing defined benefit plans.

Our bills make sense, but we face heavy opposition from some legislators and out-of-state organizations like the American Legislative Exchange Council (ALEC), Pew Center for the States, and American Tradition Partnership (ATP).

Their alternatives to our existing pension plans would gut Montana’s pension systems and jeopardize the personal and financial security of our friends, family members, and neighbors in public service careers.

Some of these out-of-state groups have a financial stake in the issue. Others simply dislike “government” and want to undermine the value that career public employees add to our state.

Defined benefit vs. defined contribution

It’s crucial to understand the difference between “defined benefit” (DB) and “defined contribution” (DC) pension plans, because some folks want to end Montana’s current DB plans and change to DC. Others propose a hybrid system: part DB and part DC. Either alternative would be a bad move for everyone. Read on to see why.

Defined benefit (DB): Montana’s public pensions are traditional defined benefit (DB) plans. “Defined benefit” means the amount of money you receive every month when you retire is defined, predictable, and guaranteed.

Defined benefit plans are designed as long-term investment vehicles. With a DB plan, employees and employers contribute to a retirement fund throughout the employee’s career. The contributions are pooled together to increase efficiency and reduce financial risk. The plans are managed by professional administrators.

As people retire, new workers contribute to the plan, ensuring continued investment earnings. Retirement payments are based on a formula set in law that includes salary and years of service.

Defined contribution (DC): Defined contribution plans (often called 401 (k) plans) are private accounts. With a DC plan, the amount of money you contribute is defined, but the amount you receive every month when you retire can fluctuate wildly depending on the market.

Defined benefit plans work best for everyone

Defined benefit plans like PERS and TRS are the best and most cost-effective way to provide a secure retirement for Montana’s public employees. They are the best deal for retired public employees, taxpayers, and communities.

Defined financial plans provide more security for employees. DB plans offer employees a secure retirement by providing a guaranteed monthly pension of a fixed amount. With a DC plan, there is no guaranteed monthly pension.

DB plans are cost effective. DB plans are less expensive to operate than DC plans, and they earn higher investment returns. DB plans, with pooled assets and economies of scale, can negotiate for significantly lower fees. They can provide equal benefits for less than half the cost of a DC plan. DB plans are a better deal for taxpayers.

DB plans help recruit and retain quality employees. Employees who participate in DB plans are more motivated to stay with their employer because they earn greater benefits the longer they are employed. One thing that makes it possible for people to choose a career in public service is the confidence that they can retire with dignity and security someday.

Long-term employees provide stability and institutional memory to the agencies and schools where they work.

DB pension dollars boost the economy. Retirees spend their pension checks in Montana communities, supporting businesses and jobs. The positive economic impact is huge. These dollars benefit every community and county in the state. In 2012 alone, $508.5 million flowed from Montana’s DB pension systems back into local and state economies.

Thanks to the Montana Public Employee Retirement Administration, Teachers Retirement System, and Public Employees Retirement System staff, plus NEA and AFT, for information and statistics for this article.
Switching from DB to DC would be costly and risky

Unfunded liabilities would get worse. If Montana closed its DB plans and switched to defined contribution, the unfunded liability in the existing defined benefit plans would not go away. Instead, the unfunded liability would increase significantly. The State of Montana would still be responsible for paying benefits to retirees in the current DB system. Since employees and employers would no longer be contributing to the current plan, the liability would continue to grow until all benefits to retirees in that system have been paid. This would take decades.

DC plans cost more to administer. The National Institute on Retirement Security (NIRS) found that the cost to deliver the same level of retirement income with a DC plan is nearly 50% higher than for a DB plan.

DC plans are risky. They are far more volatile than DB plans. They can lose value when the stock market declines. The stock market crash of 2008-2009, which left many private-sector employees near retirement age without enough savings for their retirement, illustrates a major problem with DC plans.

Most participants in DC plans have to make their own investment decisions. Most people aren’t skilled investors.

DC plans do not provide retirement security. DC plans are more likely to leave retirees in poverty. A study by Cheiron, the actuary for Montana’s Public Employees Retirement System (PERS), showed that DC participants have a 50% chance of outliving their retirement account.

Without the guarantee of a monthly benefit that a DB plan provides, DC participants have a significant risk of running out of money and needing public assistance.

With a DC plan, the amount of your pension depends on the stock market. With a DB plan, your pension amount remains fixed and predictable, far better protected from the volatility of the stock market.

Montana’s public employees deserve a fair deal. Our teachers, firefighters, probation and parole officers, nurses, and other public employees provide services that make it possible for Montana’s economy and families to thrive. They are taxpayers. They deserve to keep the pension systems they’ve paid into throughout their careers.

Let’s keep what works. We should maintain Montana’s current defined benefit pension plans and strengthen them. There’s no reason to replace them with defined contribution or other types of plans. Drastic changes to Montana’s public employee pensions would only drive more retirees into poverty and hurt local economies.