Montana's Public Employee Pension Problem Worsens

Flathead Beacon

By Matt Gouras, Associated Press
10-11-11

HELENA – The pension system for public employees in Montana is facing a larger shortfall due to market losses and other factors, according to a new report that will be presented to the Montana Public Employees' Retirement Board later this week.

Analysts hired by the board, which governs the Montana Public Employees Retirement Administration, said in their annual look at the pension system that the amount it projects to fall short of the benefits it has promised, known as the unfunded liability, has grown about 20 percent over the past year to $1.6 billion.

The annual actuarial report looked at the status of the pensions systems covering Montana public employees at the June 30 close of the state's fiscal year.

The analysts reported that investments fared well over the past year, growing about 19 percent. But that wasn't enough to make up for past losses that are factored in over time, along with other issues.

A recent report on the other large pension system that covers teachers found its shortfall also rose significantly, for many of the same reasons.

That report said it would take an immediate infusion of $633 million or a combination of other actions over time to prevent the state's teacher pension system from running out of money by 2055, administrators said Monday. Another option would be to increase future school system contributions by about 20 percent, decrease benefits, or an approach that combines all three actions in some way.

The teachers' retirement system faced a slightly larger projected shortfall of nearly $1.8 billion.

The report on the public employee pensions, covering the likes of state government workers, sheriff's deputies, firefighters and others, does not say exactly how much would need to be put into those systems to fully fund the pensions.

State legislators are analyzing the pension issue in advance of the 2013 legislative session, but so far no easy solutions have been found.

Increasing employer contributions would mean that state and local government would need to pay more money each year into the pension systems, a tough pill to swallow during tight budget times. Investment advisers have said it is highly unlikely that market gains will be enough to fix the problem. And any attempt to cut benefits for current employees, who view the pension as a contract right, is expected to end up in the courts.

Helpful Links:

Montana Public Employees Retirement Association Actuarial Study as of 06/2011

Understanding Montana Public Employees Retirement Plans

Top Montana retiree gets more than $100,000 in pension benefits

http://watchdog.org

August 30, 2010 By Phil Drake

HELENA – Montana's top retiree gets $116,587 in annual benefits with 29 others receiving more than $70,000, according to a report prepared for a legislative committee reviewing pension costs for two state-sponsored retirement systems.

The numbers are more than twice the average salary of the typical Montana worker, according to statistics.

The Aug. 3 report was in response to questions from lawmakers about "salary spiking," defined as a large increase in an employee's salary shortly before retiring, which increases an employee's pension benefit.

One member of the State Administrative and Veteran Affairs Interim Committee tasked with looking at the retirement systems told Montana Watchdog he found the numbers to be alarming.

"It just isn't right," said Sen. Dave Lewis, R-Helena. "This is Montana, we're not California. Five, six, seven, $8,000 a month is a lot of money. We're not a high income state."

A fellow SAVA committee member echoed those comments.

"It's kind of alarming that we've got people pulling those numbers – huge unnecessary benefits – out of a public retirement system that is as much as $3 billion underwater," said Sen. Joe Balyeat, R-Bozeman.

The report, which SAVA members are expected to discuss at their Sept. 13 meeting, looked at the top 100 annual pensions among 2,981 Teachers Retirement System and 5,689 Public Employees Retirement System retirees for 2005-2009.

In the TRS, the top 10 employees received between $96,759 and $72,253 in annual benefits. And in the PERS, the top 10 employees made $116,587 to $81,360 in annual benefits, according to the report.

On the lower end of the scale, the 100th top recipient in the TRS received $48,872 in annual benefits and the 100th person listed on the PERS received $55,496.

Report says states now in worse fiscal shape than earlier believed

http://montana.watchdog.org/

By Phil Drake on August 29, 2011

Editor's note: *Story has been updated to include quotes from Roxanne Minnehan, executive director of the Montana Public Employees Retirement Administration, starting in seventh paragraph.*

By ANNE KNOWLES

A new report on the financial outlook for the nation's states says Montana could reach a debt-driven "tipping point" in 2038.
The Fiscal Health of the U.S. States, a report by Jeffrey Miron with the Mercatus Center at George Mason University, says a more sober assessment of states' pension funds liabilities as well as projected growth in health-care costs show that all states are in worse fiscal shape than generally believed.
Part of the issue is that officially reported pension liabilities assume a certain interest rate when discounting future payouts (typically, about 8 percent, the historical return on stocks), but this is a "risky" and "problematic" approach, according to Miron.

"The pension obligations of state and local governments, the future payouts owed to those already collecting pensions, and the future payouts to those not yet retired but contributing are certain in the sense that state and local governments have legal obligations to make these payments," he says.

"Standard financial economics holds that non-risky future payments should be discounted at a non-risky interest rate, which is much lower than 8 percent. A lower interest rate makes the appropriate present values larger," Miron concludes.
The result of faulty projections will be $1.3 trillion more in total state liabilities than is commonly believed, according to Miron.
But Roxanne Minnehan, executive director of the Montana Public Employees Retirement Administration, disagrees.
"The writer states that public pensions are invested in 'risky' investments. This is not the case," she said.

She said Montana pension funds are invested in a diversified portfolio to mitigate risk.

"There will be years where we won't make the assumed rate of return and years where we will do better," she said, adding a reasonable rate for a balanced portfolio is the average rate over time.

"The average rate over time has been approximately 8 percent; therefore, the assumed rate of return adopted by the Board: 7¾ percent is reasonable," she said.
"That being said, we do need to receive the actuarial required contribution rate."
Last valuation, the fund's shortfall was 5 percent of compensation, Minnehan said.
During the legislative session, The PERS board proposed increasing the employer contribution rate along with some benefit and eligibility changes.

The changes to benefits and benefit eligibility passed, but the request for funding was amended out of the bills.

"Changes for new hires are good for the long-term sustainability of the fund," she said. "But the short-term requires additional funding."
Miron says all states could reach debt ratios exceeding 90 percent – the so-called "tipping point" – sometime this century. Alabama, Kentucky, Michigan and South Carolina could

be the first, starting in 2023, and others, such as Alaska, wouldn't reach he tipping point until 2068.

Montana's current debt ratio, using a formula based on a lower discount rate for its pension liabilities, is 18.1 percent. According to estimates, it would reach its tipping point by 2038.

The report says rising health care costs, though, are an even bigger problem for the states than pension obligations.

The report cites rising Medicaid costs as the primary cause of skyrocketing costs, although it doesn't provide projections. The report suggests changing the way states receive funding from the federal government for the program.

"One possibility is converting Medicaid into block grants to states, with each state having substantial leeway to determine exactly who and what is covered under the state plan," the report says.

For the block grant approach to make a difference, though, the formula for adjusting it over time would have to limit the rate of increase relative to the past several decades. In the short term, such a change could mean less care is available for state Medicaid beneficiaries, the report acknowledges.

The report also cites the new health care exchanges established under the Patient Protection and Affordable Care Act as a contributing factor to rising costs, although states can presently receive federal assistance to either set up the exchange or opt out, requiring the federal government to implement it.

Here are other conclusions Miron offers in his paper:

1. State government finances are not on a stable path; if spending patterns follow those of recent decades, the ratio of state debt to output will increase without bound.

2. If spending trends continue and tax revenues remain near their historical levels relative to output, most states will reach dangerous ratios of debt to Gross Domestic Product within 20 to 30 years.

3. States differ in their degrees of fiscal imbalance, but the overriding fact is that all states face fiscal meltdown in the foreseeable future.

Anne Knowles writes for the Nevada News Bureau. Montana Watchdog Editor Phil Drake contributed to this story.