

AARP IN THE STATES



SNAPSHOT: Montana Teachers' Retirement System

The Montana Teachers' Retirement System (TRS) provides benefits to qualified public school teachers, who provide quality education for our children. DB pension payments also support the state's economy.

The TRS Pension Works for Montana Stakeholders



Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.



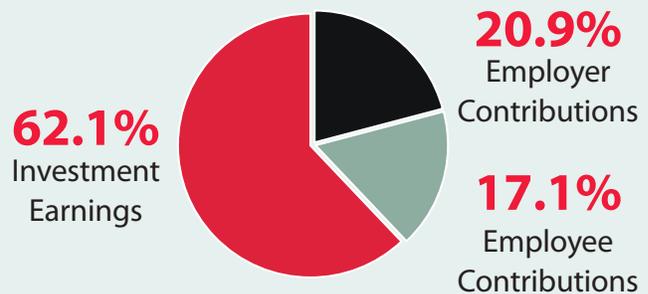
Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.



Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

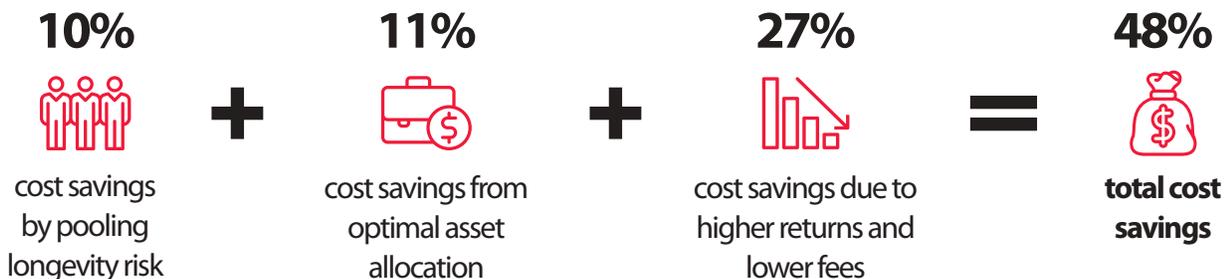
Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New TRS employees contribute 8.2% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers paid only 20.9% of the cost of benefits.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:



TRS Key Facts



Montana TRS serves 18,332 active employees and 15,164 retired members and survivor beneficiaries.



New employees contribute 8.2% to TRS.



Employers contribute 11% to the fund for employees.



The average monthly retirement benefit for members is \$1,849.



After a 30-year career, TRS will replace 50% of final average salary.

Historical TRS Funding Experience

Montana established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2016 year, TRS had \$3.8 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund becomes financially sound over time.

Montana Paid 111.6% of Weighted Average Percent of ADC from FY2001-FY2015 for TRS



Montana Made Plan Changes to TRS in Recent Years

Following the global stock market crash in 2008-2009, Montana policymakers proactively made changes to TRS to ensure long-term sustainability. These included:

- Increasing employee contribution rate to 8.2% of salary.
- Revising the Guarantee Annual Benefit Adjustment to provide a variable rate based on the plan's funding level.
- Reducing pension benefits for employees hired after 7/1/13 by raising normal and early retirement ages and adjusting the calculation of final average salary.

The Economic Impact of Montana Pensions:



\$882.9 million

in economic output generated by retirees' spending from public pensions in Montana.



6,589 jobs

paying \$276.2 million in wages supported by retirees spending from public pensions in Montana.



\$178.4 million

in federal, state, and local tax revenues generated by retiree benefits and spending in Montana.

All data come from Montana, Public Plans Data, or the National Institute on Retirement Security.

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BY THE NUMBERS: Montana Teachers' Retirement System



The **Montana Teachers' Retirement System (TRS)** provides a defined benefit (DB) pension for teachers. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced teachers, who provide quality education for our children. DB pension payments also support the state's economy.

Key facts about the plan and its benefits:



18,332

Total active members of Montana Teachers' Retirement System.



50%

After a 30-year career, TRS will replace 50% of an employee's pre-retirement income.



\$1,849

Typical pension benefit paid to retired TRS members each month.

Pensions are a good deal for taxpayers:

Funding of teacher pensions is shared by employees and employers. New TRS employees contribute 8.15% of pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid only 20.9% of the cost of pension benefits.

62.1%
Investment
Earnings



20.9%
Employer
Contributions

17.1%
Employee
Contributions

The spending from the pension checks of the 15,164 retired public employees helps support:



\$882.9 million

in economic output in Montana.



6,589 jobs

paying those workers in Montana \$276.2 million in income.



\$178.4 million

in federal, state, and local tax revenues based on benefits and spending in Montana.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Montana taxpayers (employers) in these plans supported **\$6.49** in total economic activity in the state.



\$1.00



\$6.49



All data come from Montana, Public Plans Data, or the National Institute on Retirement Security.



Pensions Help Deliver Quality Education in Montana

Defined benefit (DB) pensions play a fundamental role in retaining high-quality, experienced teachers in the classroom. These effective, experienced teachers are the most important school-based element that provides quality educational outcomes for our children.

A wide body of academic research on teacher productivity finds that teachers become more effective with experience. These studies demonstrate that experienced teachers have students who achieve at higher levels. In contrast, when experienced, mid-career teachers are replaced by inexperienced teachers, other studies show productivity drops across the school.

DB pensions give schools an effective tool to retain experienced teachers. These benefits provide teachers an incentive to continue delivering quality education to K-12 students.¹ This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college educated workers, widens for more experienced teachers.

There are important policy reasons to continue offering teachers DB pensions. Because pensions help attract and retain workers, Montana can keep teachers in the classrooms and empower students to achieve their highest potential.

Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 17 percent pay gap relative to comparable private sector workers in 2015. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 11 percent. In Montana, teachers experience a 8% wage gap when compared to other college graduates in the workforce.²



17%
teacher
wage gap

offset
by...



6% teacher
benefit
advantage

reduces...



the teacher
compensation
gap to 11%

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



92%

92 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



81%

81 percent of Americans agree that teachers deserve pensions to compensate for lower pay.³



Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.⁴

7.3%



Percentage of Montana teachers who leave education.

122



The number of Montana teachers retained each year due to the DB pension.

\$531K to \$1.2B



The DB system savings in teacher turnover costs in school districts across Montana.

TRS Key Facts



Montana TRS serves 18,332 active employees and 15,164 retired members and survivor beneficiaries.



New employees contribute 8.15% to the fund.



Employers contribute 10.96% to the fund.



The average monthly retirement benefit for members is \$1,849.



TRS has \$3.8 billion in actuarial value of assets and \$1.68 billion in unfunded actuarial accrued liability.⁵

The Economic Impact of Montana Pensions

\$882.9 million



in economic output generated by retirees' spending from public pensions in Montana.

6,589 jobs



paying \$276.2 million supported by retirees spending from public pensions in Montana.

\$178.4 million



in federal, state, and local tax revenues generated by retiree benefits and spending in Montana.⁶

¹ Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

² Allegretto, S. A. and Mishel, L. 2016. "The Teacher Pay Gap Is Wider than Ever." Washington, DC. Economic Policy Institute.

³ Oakley, D. and Kenneally, K. 2017, Pensions and Retirement Security 2017: A Roadmap for Policy Makers. Washington, DC. NIRS.

⁴ Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement."

⁵ All data, unless otherwise noted, as of fiscal year ended 2016.

⁶ Brown, J. 2016. "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.