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# Montana pension funds growing but haven't made up losses

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HELENA - Montana's public pension funds' assets are slowly starting to recover after plunging by more than $2 billion when U.S. and international financial markets collapsed last year.

But these nine pension funds for retired state and local government employees and teachers still have plenty of ground to make up to reach their previous highs. Even then, some legislators warn that the pensions may not meet future pension requirements without some major changes.

As of May 8, Montana public pension funds' combined assets totaled $5.9 billion, said Carroll South, executive director of the state Board of Investments.

They are down by $2.6 billion from their $8.5 billion peak 18 months ago, in October 2007, and $2.1 billion below their $8 billion value a year ago.

Their combined asset value of $5.4 billion in February was their lowest since they hit $5.3 billion in June 2003.

But assets have bounced up somewhat in recent weeks as the stock market has posted gains.

"Pension funds are down 22 percent for the fiscal year" ending June 30, South said. "They were down 27 percent at the end of March, so April has helped."

Montana is hardly alone in its predicament.

Nationally, state and local government pension funds dropped by $900 billion in calendar 2008, from $3.3 trillion, said Keith Brainard, research director of the National Association of State Retirement Administrators.

He said it is important to remember that pensions are long-term obligations of governments.

"These obligations that take the form of pension benefits come due over long periods of time, and that time frame provides those pension funds the opportunity to generate the additional contributions from employers or taxpayers and participants, combined with investment earnings, to generate the assets to pay the benefits," Brainard said.

The Montana Board of Investments hasn't changed its pension investment strategy, South said, but took "a measured, disciplined response to the financial market meltdown."

"We have not taken any major steps because of the volatility of the markets," he said. "We have to the extent we have been rebalancing."

South said the Board of Investments establishes ranges by investment categories, such as investing 60 percent to 70 percent of pension funds in stocks, for its money managers.

"When we hit 70 percent, we sell stocks and buy bonds," South said. "When we hit 60 percent, we sell bonds and buy stocks. When the market tanked, our stock holdings went down below the bottom (of the range), obviously when the market has gone down by 50 percent and you buy then, it's probably going to go up."

This investment strategy is rebalancing, South said.

"While it may seem counterintuitive to sell stocks when the stock allocation hits the top of the range or buy stocks when the allocation falls through the bottom of the range, it is that discipline that shields an investor from buying high and selling low," South wrote in a report in February.

Besides bonds and domestic and international stocks, the pension portfolio includes a real estate pool and a private-equity pool.

State Budget Director David Ewer, who formerly worked at the Board of Investments, said it is hard to predict what might happen with the pension investment portfolio.

"None of us knows how robust the recovery looks like and what it does to the investment portfolio," Ewer said. "The markets are up quite a bit. Stocks tend to rise when a recovery looms, and they tend to fall when recession looms."

He added, "All of us would like the tide to raise our investment portfolio boats."

At the urging of Gov. Brian Schweitzer, the Legislature in 2005 pumped $100 million of general fund money into the teachers' retirement system and $25 million into the public employees' retirement fund because of their unfunded liabilities or potential debts, Ewer said.

The Legislature put $25 million into the teachers' fund in 2007, or half of what Schweitzer requested.

This year, lawmakers ignored Schweitzer's call to put $43 million of federal stimulus money into the teachers' retirement system.

If that $43 million had been put in the pension fund and invested in stocks in March, it would have grown to $52 million now, Schweitzer said, citing the growth of the Dow Jones Industrial Average.

"That money has been lost in the market through no fault of anybody," Schweitzer said. "It's global. That money has to be made up some way. Forty-three million isn't all of it, but it was a start."

The bulk of the total Montana pension funds are in the retirement systems for public employees such as state and local government workers. They make up 50.5 percent of the total, while teachers account for 38.5 percent, as of March 31.

The other Montana public pension funds' share of the total assets are: police, 2.6 percent; firefighters, 2.5 percent; sheriffs, 2.5; highway patrol, 1.3 percent; game wardens, 1 percent; judges, 0.8 percent; and volunteer firefighters, 0.3 percent.

As of mid-2008, 52,341 active members contributed to these nine Montana retirement funds, while 31,522 retirees or their beneficiaries drew pensions.