Montana Pension Fund Investments

To: Legislative Finance Committee

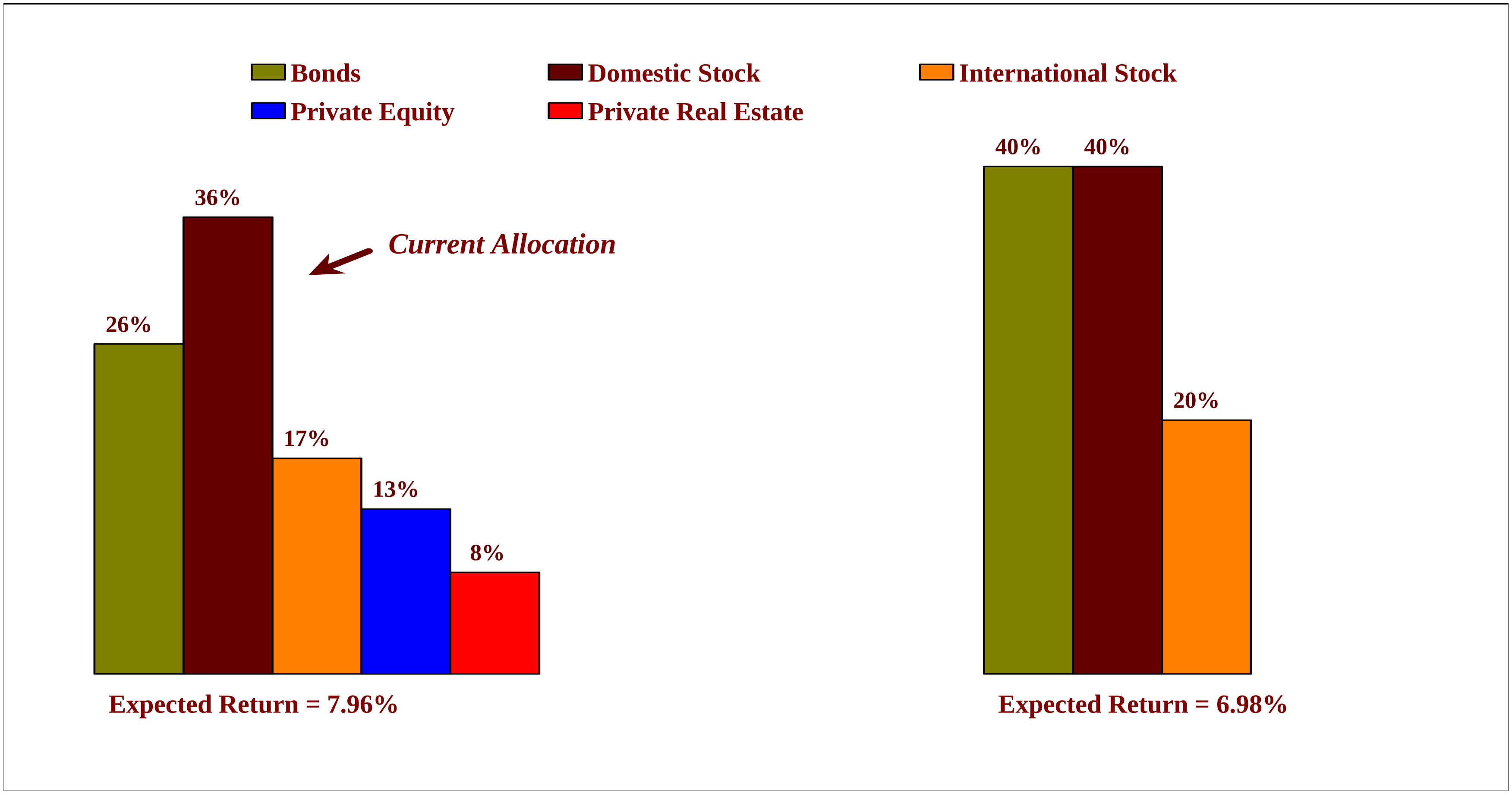
By: Carroll South, Executive Director

Date: December 6, 2011

Contributions, Investment Return & Asset Allocation

- Investment return is driven by asset allocation
- Insufficient contribution levels will eventually impact asset allocations
  - Insufficient contributions will increase the amount of assets required to pay benefits
  - As more assets are required to pay benefits, asset allocations must provide more liquidity
  - Decreasing illiquid assets and increasing liquid assets will reduce investment returns
  - Private equity/real estate are illiquid but provide higher returns than liquid assets
- The next slide depicts the impact of decreasing illiquid assets
  - The first bars reflect the current asset allocations as of October 31, 2011
  - The second bars reflect a totally liquid asset allocation
  - Expected returns are reduced from 7.96% to 6.98%
  - Public equities are liquid, but there is a risk if they must be sold at depressed prices
  - In a down equity market, a capital loss may occur when equities are sold to pay benefits

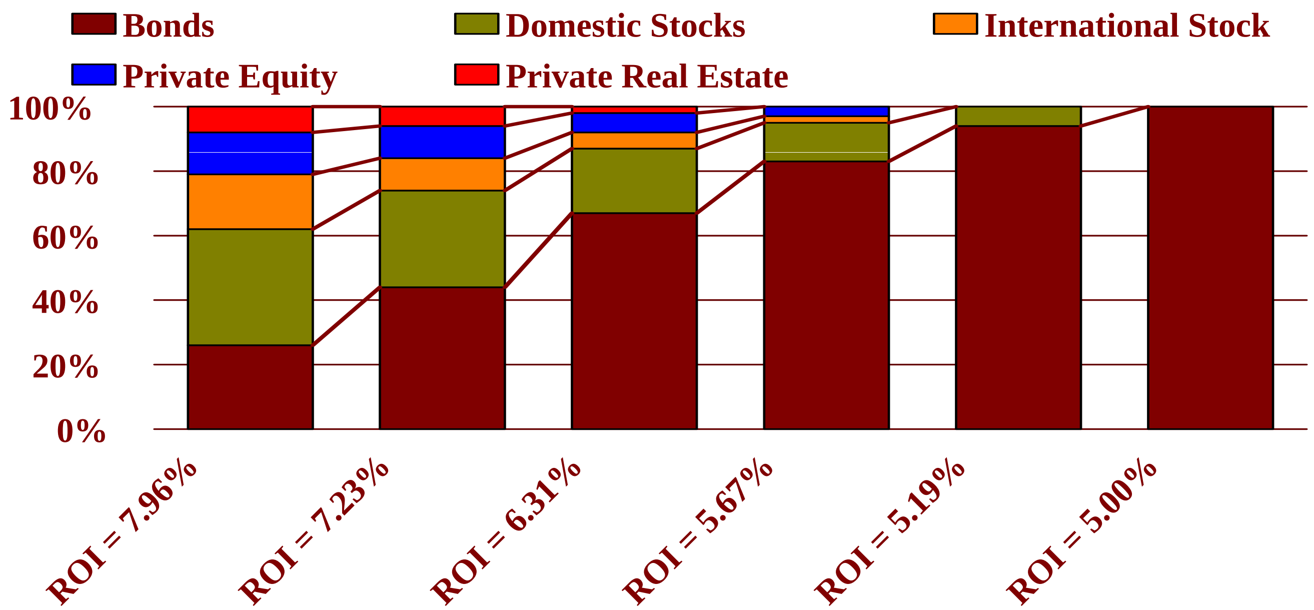
Current asset mix compared to a totally liquid asset mix



Long-term Impact of Insufficient Contributions

- **Over the long term, insufficient contributions will exhaust pension assets**
- **When contributions & investment income are inadequate to pay benefits:**
  - **All invested assets will eventually be required to pay benefits**
  - **As assets are spent down asset allocations will change reducing investment return**
- **The next slide depicts the impact of asset allocation on investment return**
  - **The first bar represents the pension fund allocation as of October 31, 2011**
  - **The other bars reflect the impact different asset allocations will have on return**
  - **Expected returns for each asset class are long-term estimates from the Board's consultant**
- **The second slide depicts declining TRS assets @ current contribution levels**
  - **Assuming the legislature does not increase contributions and/or reduce benefits**
  - **Contributions/benefits throughout the periods are as estimated by the TRS actuary**
  - **Assuming a 7.75% annual return, TRS assets will be exhausted in 2055**
  - **Assuming a 7.00% annual return, TRS assets will be exhausted in 2041**
  - **Assuming a 6.00% annual return, TRS assets will be exhausted in 2035**

Asset Allocation & Investment Return



Teachers' Retirement System Assets