MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: June 1, 2010

TO: Legislative Finance Committee

FROM: Jon Moe, Fiscal Specialist

RE: Update on Pension Unfunded Liability and SAVA Activities – No Presentation

There are a couple of items related to the unfunded liability of the pension systems that committee members should be made aware. The first is a preliminary estimate of what the next actuarial valuation may indicate. The second relates to the progress of the State Administration and Veterans Affairs Interim Committee (SAVA) in its plan design activities that were directed by HB 659 of the 2009 session.

Preliminary Projection of Upcoming Actuarial Valuations

By request of the SAVA committee, the Teachers' Retirement System (TRS) Board and the Public Employees' Retirement System (PERS) Board asked their respective actuaries to provide a preliminary projection of the 2010 actuarial valuation results based upon asset values as of March 31, 2010. The purpose was to assess the potential impact of market gains from July 1, 2009 to March 31, 2010, to determine to what extent market recovery may have improved the condition of the respective pension funds. The projections were only done for the four plans for which their unfunded liability could not be amortized according to the 2009 valuations – PERS, SRS (sheriffs), GWPORS (game wardens), and TRS.

There is no change to the status of the funds' amortization because the unfunded actuarial liability of all four pension plans still cannot be amortized. It is important to note that because of the "smoothing" technique[1] used by each board and the severity of the FY 2009 losses, significant losses will continue to be recognized in each of the next 3 years.

For the three PERS plans which will recognize losses in four equal amounts, the projection of the 2010 actuarial valuation shows an increase in the unfunded actuarial liability and a decline in the funded ratio, both key indicators of the soundness of the plans. Again, the unfunded liability does not amortize within the required 30 years. Also, for these three plans, the annual required contribution (ARC) increases from 2009 to 2010, indicating that the plans are further underfunded. Although the indicators suggest further

[1] "Smoothing" refers to the practice, for actuarial purposes, of spreading the gains or losses of any one year over a 4-year period beginning with the year in which the gain or loss occurred. For example, the significant losses that occurred in FY 2009 are recognized in 2009 through 2012 and the gains that will likely occur in FY 2010 will be recognized in 2010 through 2013. Typically, the gains or losses are spread evenly over the 4-year period; however, the TRS board has a policy that says that the actuarial value of assets is not allowed to be greater than 120% or less that 80% of the market value of assets. As a result, in the 2009 actuarial valuation, the TRS board policy did not allow the actuarial value of assets to be as high as it would otherwise have been. This has an effect of recognizing, for actuarial purposes, a greater amount of the loss, but actually simply places a lid on what the actuarial value of assets can be.

deterioration in plan soundness, it results from the actuarial recognition of more of the 2009 losses. In the absence of a partial equity market recovery, the pension systems would be in much worse shape because there are still significant 2009 losses to be recognized.

For the TRS plan which by policy limited the actuarial value of assets for 2009 to 120 percent of market value, the 2010 valuation is projected to show a decrease in the unfunded actuarial liability and an increase in the funded ratio. Even though the TRS plan shows improvement, the unfunded liability does not amortize within the required 30 years and the projected funded ratio (68.7 percent) is well below the preferred minimum level of 80 percent. For the TRS plan, the ARC indicates some improvement in the funding, but the plan continues to be underfunded.

The projections provided by the respective plans are shown in the attachment. As of this writing the equity markets have dropped about 8.2 percent since March 31st. The volatility of the markets persists.

SAVA Interim Committee

The State Administration and Veterans Affairs Interim committee has contracted with a company that provides pension plan design services and the committee is looking at various options. The consultant has been instructed to come to the SAVA June 24-25 meeting with details related to the following four options:

- Money Purchase Plan for TRS members
- Money Purchase Plan for PERS members
- Revised Defined Benefits Plan for TRS members
- Revised Defined Benefits Plan for PERS members

In a “money purchase plan”, also known as a cash balance plan, member and employer contributions are fixed and credited to the member’s theoretical account with a defined rate of interest credit (fixed or variable). Retirement benefits are based on an actuarial equivalent conversion of the account to an annuity (may include a COLA). Assets are professionally managed. This approach typically reduces employer’s funding requirement volatility. It is different than a traditional defined benefits plan in the way benefits are calculated and in the limitation on the earnings that the member’s account can earn. The risk is shared by the employer and the employee member, although the employer risks are still significant in volatile times.

The “revised defined benefits plan” is like the traditional defined benefits plan with lower benefit percentage, longer final average pay period, later retirement ages or more severe early retirement reductions, lower (or eliminated) COLA. Member contributions may be higher to limit employer’s funding requirement volatility.

This is brief and to the point, and may leave the reader with questions. If you have questions or need further information, contact Jon Moe at jonmoe@mt.gov or at (406) 444-4581. You can also find additional information concerning the SAVA interim committee activities and other pension proposals on the Legislative Branch website at www.leg.mt.gov/sava .

Teachers' Retirement System (TRS)
Projection of 2010 Actuarial Valuation Results
(Assets Projected from March 31, 2010 Market Values)

	6/30/2009	Actuarial Value of Assets Basis Estimated 6/30/2010	Market Value of Assets Basis Estimated 6/30/2010
Assets & Liabilities (millions)			
Actuarial Accrued Liability (AAL)	$4,331	$4,512	$4,512
Assets	$2,762	$2,988	$2,686
Unfunded AAL	$1,569	$1,524	$1,826
Less: Future ORP Contributions	$157	$161	$161
Net Unfunded AAL	$1,412	$1,363	$1,665
Funded Ratio	66%	69%	62%
Annual Required Contribution			
Statutory Funding Rate	17.11%	17.11%	17.11%
Normal Cost Rate	10.69%	10.69%	10.69%
Available for Amortization of UAL	6.42%	6.42%	6.42%
Amortization Period	Does not amortize	Does not amortize	Does not amortize
Projected 30-year Funding Rate	21.22%	20.28%	22.41%
Projected Shortfall	4.11%	3.17%	5.30%

Public Employees' Retirement System (PERS)
Projection of 2010 Actuarial Valuation Results
(Assets Projected from March 31, 2010 Market Values)

	6/30/2009	Actuarial Value of Assets Basis Estimated 6/30/2010	Market Value of Assets Basis Estimated 6/30/2010
Assets & Liabilities (millions)			
Actuarial Accrued Liability (AAL)	$4,793	$5,086	$5,086
Assets	$4,002	$3,947	$3,545
Unfunded AAL	$791	$1,139	$1,541
Less: PCR-UAL	$16	$15	$15
Net Unfunded AAL	$775	$1,124	$1,526
Funded Ratio	84%	78%	70%
Annual Required Contribution			
Statutory Funding Rate	14.07%	14.07%	14.07%
Less: Transfer to DB Ed Fund	0.04%	0.04%	0.04%
Net Statutory Funding Rate	14.03%	14.03%	14.03%
Normal Cost Rate	12.16%	12.07%	12.16%
Available for Amortization of UAL	1.87%	1.96%	1.87%
Amortization Period	Does not amortize	Does not amortize	Does not amortize
Projected 30-year Funding Rate	16.42%	17.94%	20.04%
Projected Shortfall	2.35%	3.87%	5.97%

Sheriffs' Retirement System (SRS) Projection of 2010 Actuarial Valuation Results (Assets Projected from March 31, 2010 Market Values)			
	6/30/2009	Actuarial Value of Assets Basis Estimated 6/30/2010	Market Value of Assets Basis Estimated 6/30/2010
Assets & Liabilities (millions)			
Actuarial Accrued Liability (AAL)	$224	$244	$244
Assets	$201	$204	$185
Unfunded AAL	$23	$40	$59
Funded Ratio	90%	84%	76%
Annual Required Contribution			
Statutory Funding Rate	19.36%	19.36%	19.36%
Normal Cost Rate	19.41%	19.28%	19.41%
Available for Amortization of UAL	-0.05%	0.08%	-0.05%
Amortization Period	Does not amortize	Does not amortize	Does not amortize
Projected 30-year Funding Rate	21.89%	23.37%	25.31%
Projected Shortfall	2.53%	4.01%	5.95%

Game Warden & Peace Officers' Retirement System (GWPORS) Projection of 2010 Actuarial Valuation Results (Assets Projected from March 31, 2010 Market Values)			
	6/30/2009	Actuarial Value of Assets Basis Estimated 6/30/2010	Market Value of Assets Basis Estimated 6/30/2010
Assets & Liabilities (millions)			
Actuarial Accrued Liability (AAL)	$92	$104	$104
Assets	$81	$86	$79
Unfunded AAL	$11	$17	$24
Funded Ratio	88%	83%	76%
Annual Required Contribution			
Statutory Funding Rate	19.56%	19.56%	19.56%
Normal Cost Rate	18.53%	18.40%	18.40%
Available for Amortization of UAL	1.03%	1.16%	1.16%
Amortization Period	Does not amortize	Does not amortize	Does not amortize
Projected 30-year Funding Rate	20.25%	20.99%	22.06%
Projected Shortfall	0.69%	1.43%	2.50%