



MONTANA LEGISLATIVE BRANCH

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DATE: October 4, 2007

TO: Legislative Finance Committee

FROM: Jon Moe, Fiscal Specialist

RE: Retirement Systems Unfunded Liability - Update

INTRODUCTION

The purpose of this memorandum is to provide a brief update on the status and condition of the unfunded actuarial liability (UAL) of the state's retirement systems. Prior to the 2007 regular legislative session, the Teachers' Retirement System (TRS) plan and three of the eight defined benefits plans administered by the Public Employees' Retirement Board were determined to not be actuarially sound as required by the Montana Constitution and statute. Besides TRS, the plans were the Public Employees' Retirement System (PERS), the Sheriffs' Retirement System (SRS), and the Game Wardens' and Peace Officers' Retirement System (GWPORS).

The Constitution requires that the public retirement systems "be funded on an actuarially sound basis." Statute (19-2-409, MCA) defines "actuarially sound basis" as meaning that contributions to each retirement plan must be sufficient to pay the full actuarial cost of the plan. Statute goes on to provide that, for a defined benefit plan, "the full actuarial cost includes both the normal cost of providing benefits as they accrue in the future and the cost of amortizing unfunded liabilities over a scheduled period of no more than 30 years". These requirements were not being met for the four retirement plans so the situation violated the constitutional requirement.

2007 LEGISLATIVE ACTION

The 2007 Legislature took the following actions in HB 63 and HB 131:

- o A \$50 million cash infusion to the TRS trust fund
- o Phased-in increases in the employer contribution rate for the TRS, PERS, and SRS plans
- o A reduction in the guaranteed annual benefit adjustment (GABA) from 3.0 percent to 1.5 percent for the PERS, SRS, and GWPORS plans, for members hired after July 1, 2007 only

According to the fiscal notes attached to this legislation, these actions would not have totally resolved the actuarial soundness issue, but it would have been close.

INVESTMENT EARNINGS

While the steps taken by the legislature went a long ways toward resolving the issue, another significant component of the retirement systems fiscal condition came into play. Investment returns for FY 2007 came in much higher than the actuarial assumptions of 7.75 percent for the TRS plan and 8.0 percent for the PERS plans. The average rate of return for the various retirement plans was 17.95 percent.

2007 ACTUARIAL VALUATIONS

The respective retirement boards are required by statute to obtain annual actuarial valuations of each retirement plan. Therefore, a valuation has been developed for each plan for the fiscal year ending June 30, 2007. A final report has been received by LFD staff for the TRS plan and preliminary numbers have been made available for the PERS plans. Final PERS reports are expected soon. Using the final report data for TRS and the preliminary numbers for the PERS plans, indications are that all of the retirement plans presently meet the constitutional requirement of being “funded on an actuarially sound basis”. Each plan’s unfunded actuarial liability is amortized within the required 30-year period and contributions are sufficient to meet the full actuarial cost of each plan. The attached table provides a summary view of the actuarial valuations of the PERS, SRS, GWPORS, and TRS plans as of June 30 of 2007 and 2006. All of the other plans have favorable reports as well.

Pension Plan Unfunded Liability
2007 Actuarial Valuation versus 2006 Actuarial Valuation
(Dollars in Millions)

	PERS	SRS	GWPORS	TRS
2006 Valuation (as of 6/30/2006)				
Actuarial Liability	\$3,919.3	\$171.8	\$64.2	\$3,608.9
Assets	<u>3,459.1</u>	<u>163.0</u>	<u>58.8</u>	<u>2,745.8</u>
Unfunded Liability	\$460.2	\$8.8	\$5.4	\$863.1
Funded Ratio	88.3%	94.9%	91.6%	76.1%
Years to Amortize Unfunded Liability	Does not amortize	Does not amortize	32.4 yrs	Does not amortize
2007 Valuation (as of 6/30/2007)				
Actuarial Liability	\$4,201.2	\$189.0	\$73.0	\$3,775.1
Assets	<u>3,825.2</u>	<u>183.9</u>	<u>68.8</u>	<u>3,006.2</u>
Unfunded Liability	\$376.0	\$5.1	\$4.2	\$768.9
Funded Ratio	91.1%	97.3%	94.2%	79.6%
Years to Amortize Unfunded Liability	21.9 yrs	19.6 yrs	11.3 yrs	28.6 yrs
Total Contribution Rate	14.03%	19.36%	19.56%	17.11%
Normal Cost Rate	<u>12.22%</u>	<u>19.46%</u>	<u>18.67%</u>	<u>10.40%</u>
Available for Amortization	1.81%	-0.10%	0.89%	6.71%

Note: PERS - Public Employees' Retirement System
SRS - Sheriffs' Retirement System
GWPORS - Game Wardens and Peace Officers' Retirement System
TRS - Teachers' Retirement System