



# Montana SAVVA

**Confirmation of Final Cost Analysis  
Public Employees' Retirement System**

**August 17, 2010**

**buck**consultants®

# Montana SAVA

## Public Employees' Retirement System

- Review of cost analysis and 30-year projections prepared by Cheiron
- Analysis included:
  - Comparison of Normal Costs
  - Projections of impact on funded ratios and contribution requirements
- Actuarial assumptions used include changes adopted this year
- Plan Alternatives Studied:
  - Money Purchase Plan
  - Modified DB Plan

# Montana SAVA

## Public Employees' Retirement System

- Modified Defined Benefit Plan
  - Highest average compensation based on 5 year period
  - Normal retirement age 65 with 5 years of service
  - Multiplier applied to all years of service:
    - 1.5% if service is less than 10 years
    - 1.7857% if service is greater than 10 and less than 30
    - 2.0% if service is greater than 30
  - Early retirement benefits reduced for payment before age 65 (was age 60)
  - Other provisions unchanged from current plan

# Montana SAVA

## Public Employees' Retirement System

- Modified Defined Benefit Plan – Review of Normal Cost
  - Normal Cost Rate of 9.55% compared to the current plan at 11.87%, a reduction of approximately 20%
  - Costs are based on newly adopted actuarial assumptions with an adjustment made to assumed retirement rates
  - Normal Cost Rate is slightly higher than we anticipated, but within a reasonable range
  - Review of individual test cases revealed no major issues

# Montana SAVA

## Public Employees' Retirement System

- Modified Defined Benefit Plan – Review of Projections
  - Reduced Normal Cost Rate is reflected for new members
  - Projections are based on covered payroll increasing at a constant rate of 4%
  - Favorable investment return experienced during fiscal year 2010 is reflected
  - Overall, the projections are reasonable
  - The projections of the Modified Defined Benefit Plan result in a higher funded ratio and lower required contribution rates than the projections of the Current Plan
  - A change to the Modified Defined Benefit Plan reduces costs, but additional changes, i.e. contribution increases, would be required to return to ongoing actuarial soundness

# Montana SAVA

## Public Employees' Retirement System

- Money Purchase Plan
  - Defined benefit, individual account plan
  - Employee contribution of 6.9% credited to account
  - Account is credited with variable interest between 5.0% and 9.0% with a long-term goal of 7.0%
  - 5-Year Vesting
  - Retirement eligibility of age 60 with 5 years of service
  - Benefits upon retirement, disability or death are actuarially equivalent to employee account with a 100% employer match
  - 1.5% GABA is included in actuarially equivalent conversion factor
  - Pre-retirement lump sum available, equal to member account only

# Montana SAVA

## Public Employees' Retirement System

- Money Purchase Plan – Review of Normal Cost
  - Normal Cost Rate of 11.20% compared to the current plan at 11.87%, a reduction of approximately 6%
  - Costs are based on newly adopted actuarial assumptions with adjustments made to assumed retirement rates and assumed cash out rates for terminated vested members
  - Change is considerably less than we anticipated
  - Review of individual test cases revealed plan provisions that do not match our understanding of the proposed plan:
    - Retirement eligibility begins at age 50, we believe the intent was age 60
    - The retirement eligibility calls into question the change made to assumed cash out rates, and cash out rates are lower than we would expect
    - Benefits for terminated vested members were deferred to age 65, we believe the intent was age 60
    - Survivor benefits were deferred to age 50, we believe the intent was age 60

# Montana SAVA

## Public Employees' Retirement System

- Money Purchase Plan – Review of Projections
  - Reduced Normal Cost Rate is reflected for new members
  - Projections are based on covered payroll increasing at a consistent rate
  - Favorable investment return experienced during fiscal year 2010 is reflected
  - The projections of the Money Purchase Plan result in a higher funded ratio and lower required contribution rates than the projections of the Current Plan
  - We believe the savings that would result from the adoption of the Money Purchase Plan for new members is considerably understated
  - A change to the Money Purchase Plan with Normal Cost Rates closer to our expectation would likely require contribution increases to return to ongoing actuarial soundness



# Montana SAVA

## Public Employees' Retirement System

- Review of Projections
  - Projections of the Current Plan show required contributions that are approximately 18% of pay above the current contribution rates in 2039
  - The plan alternatives studied reduce the Normal Cost Rate by a maximum of 2.37% of pay
  - The variable interest credit in the Money Purchase Plan gives an additional tool for sharing future investment and demographic risks
  - Any solution to the forecasted funding shortfalls will likely include increased contributions in addition to plan provision changes