Financial Risk Assessment

Montana Pension Systems

Legislative Fiscal Division

November 2018

Legislature does not control previous benefits, but must find funding if short

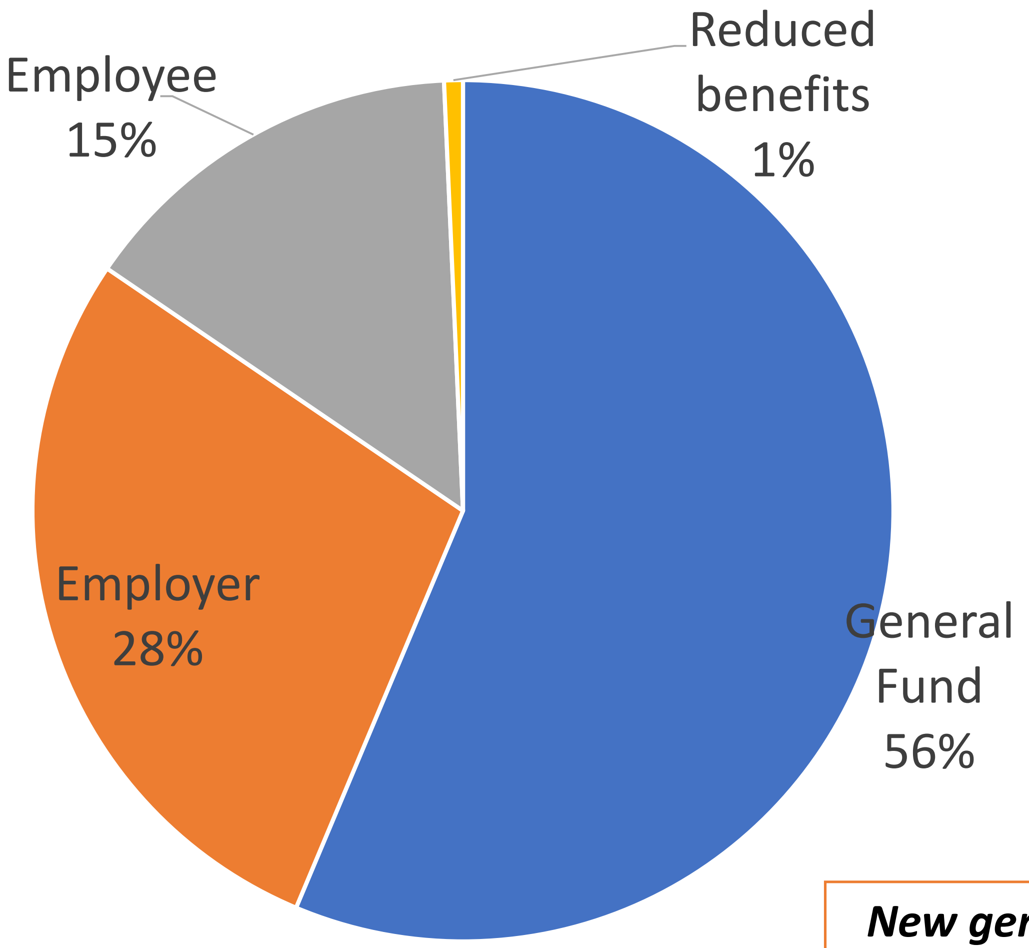
Pension Boards have Constitutional responsibility for setting actuarial assumptions

Courts have limited Legislative choices in resolving a short fall in assets current employees and retirees benefits

The Legislature must understand risk

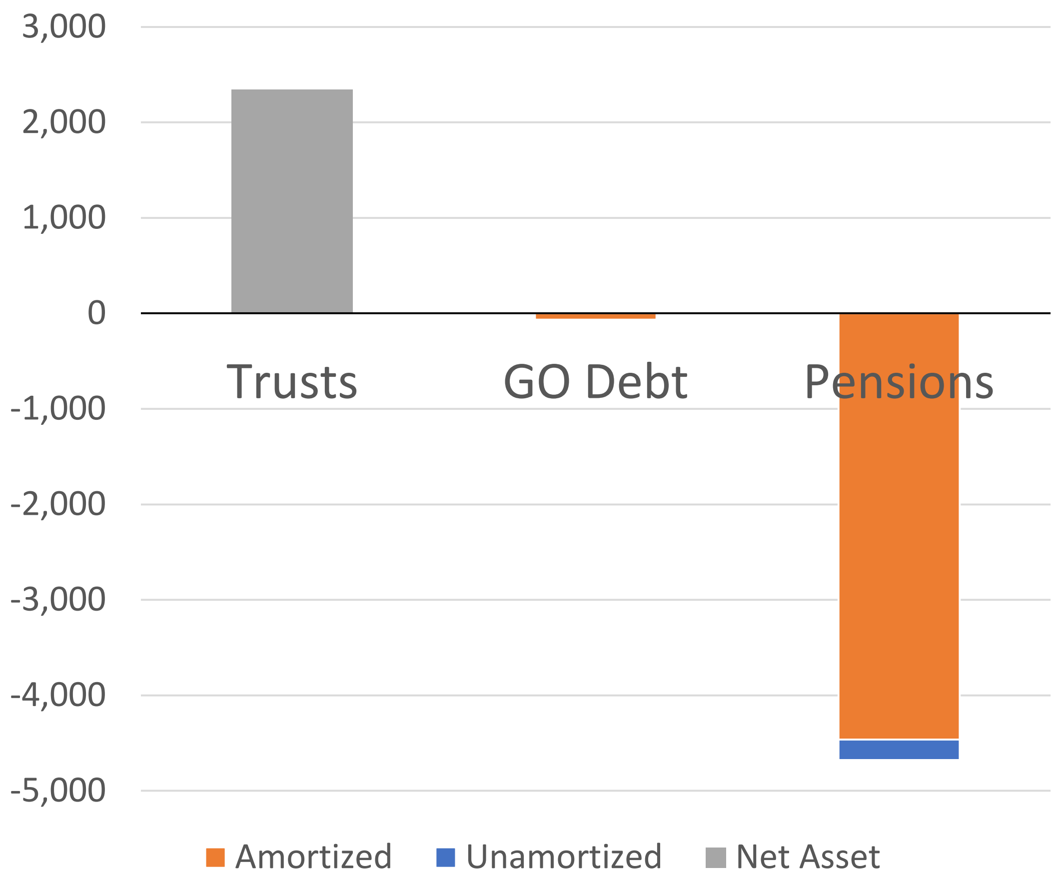
Previous PERS/TRS Pension Solutions: $140 million per year

- Direct additional general fund pension contributions $80 million per year or over 3% of annual general fund spending
- Employer contributions 1-2% increases will cap out at $40 million per year (~$4 million from GF)
- Employee 1% contributions cap out at $21 million per year
- Reduced benefits for future employees impact small so far



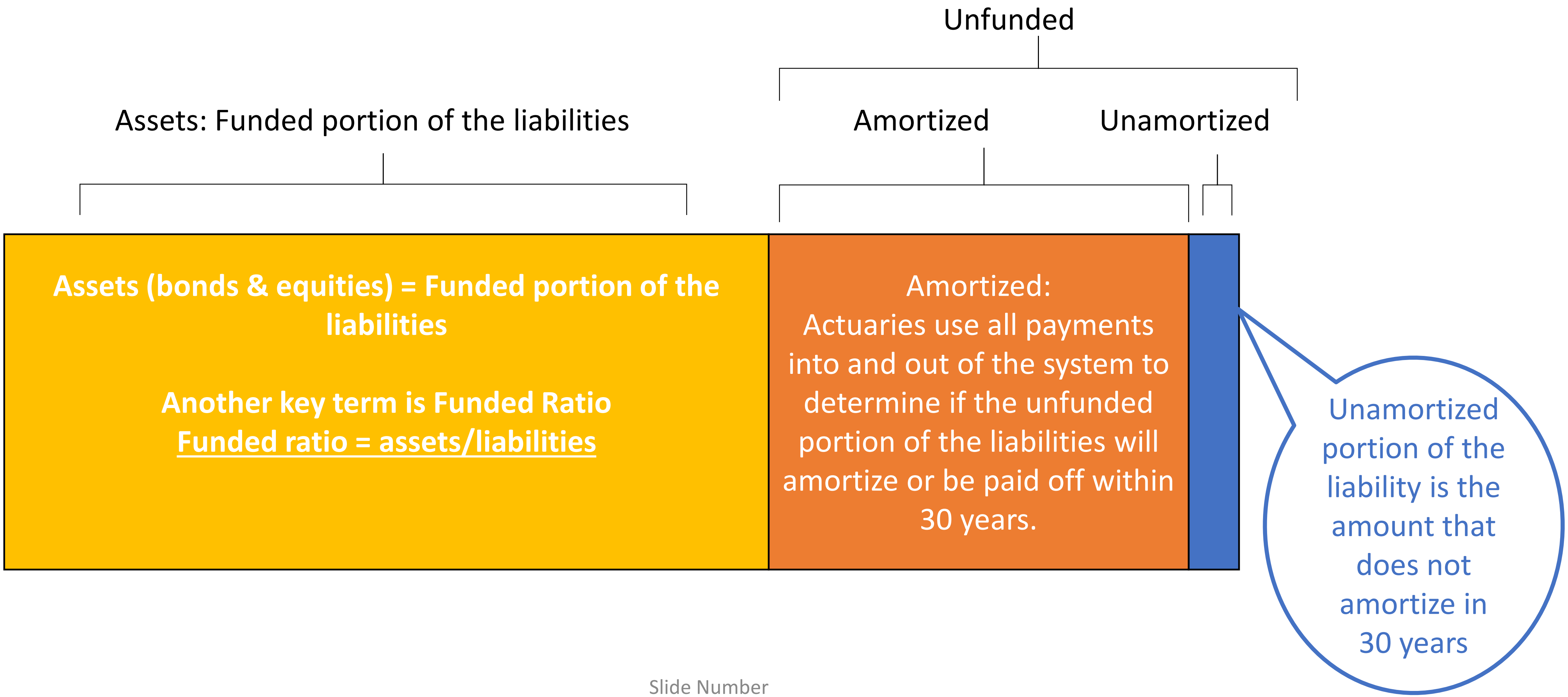
New general fund spending ~3.5% of all GF

Order of Magnitude Comparisons

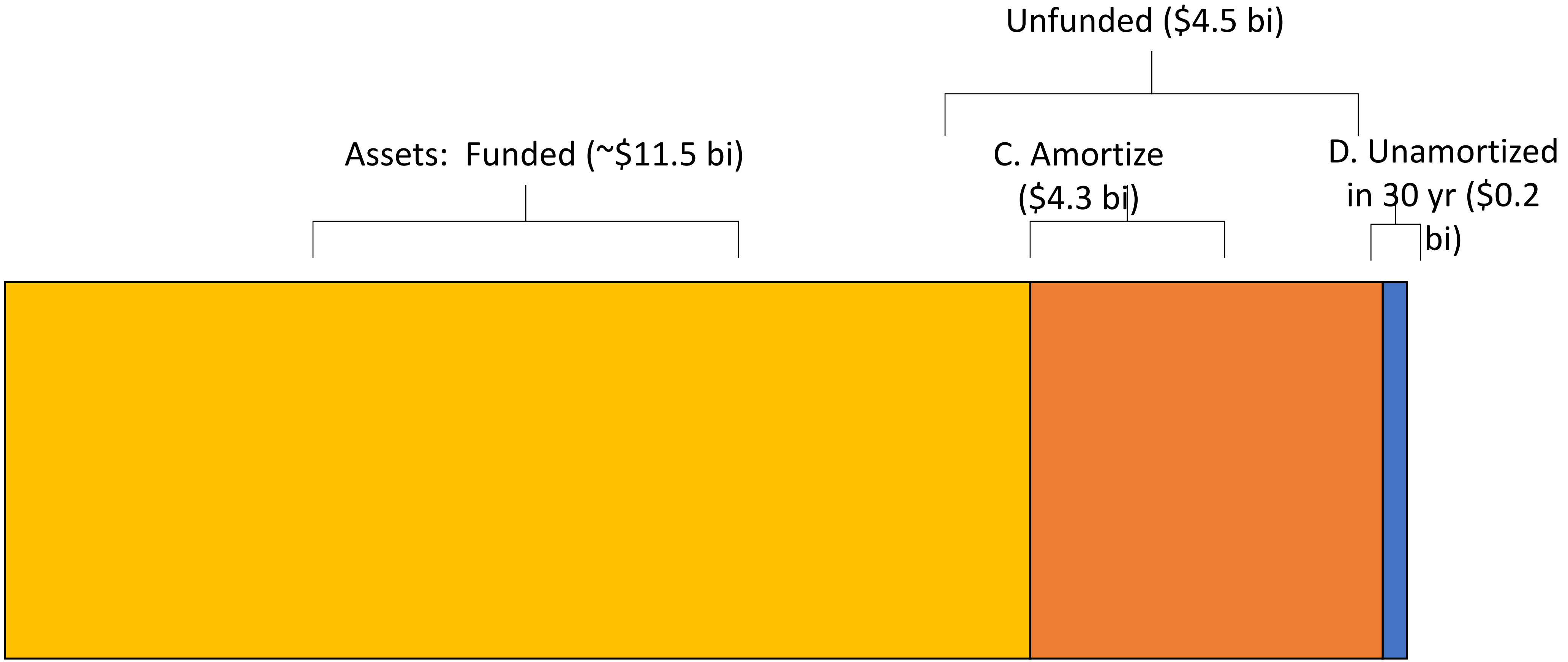


- GO Debt is relatively small
- Pension liabilities are larger
- State efforts to in recent years amortize (pay off) most of the liability within 30 years
- Pension unfunded liabilities are double the size of current state trust funds including:
  - School trusts,
  - Coal trusts,
  - Tobacco trust,
  - Resource indemnity, and others

Whole area of 3 color box are the liabilities: discounted cost of future pension benefits

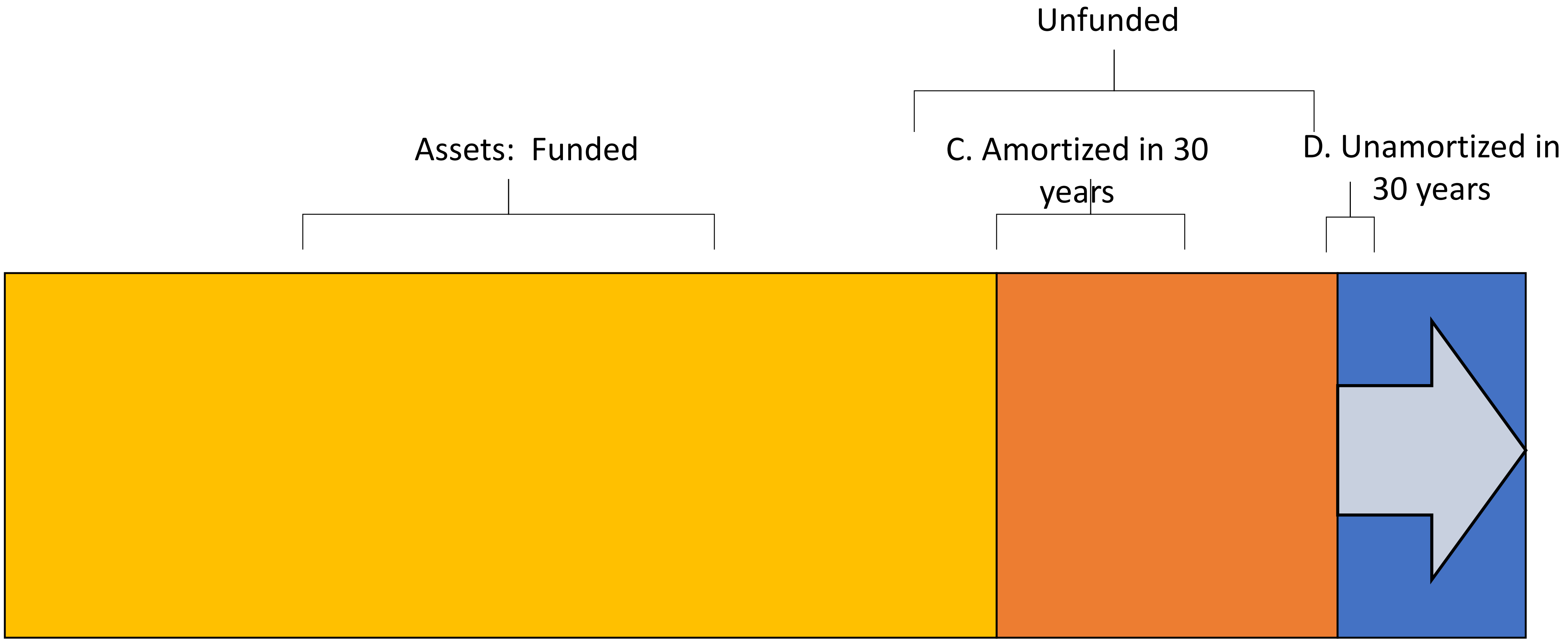


$16 billion in discounted benefits owed with about 70% funded with assets



What is the impact to the state if the assumptions are wrong?

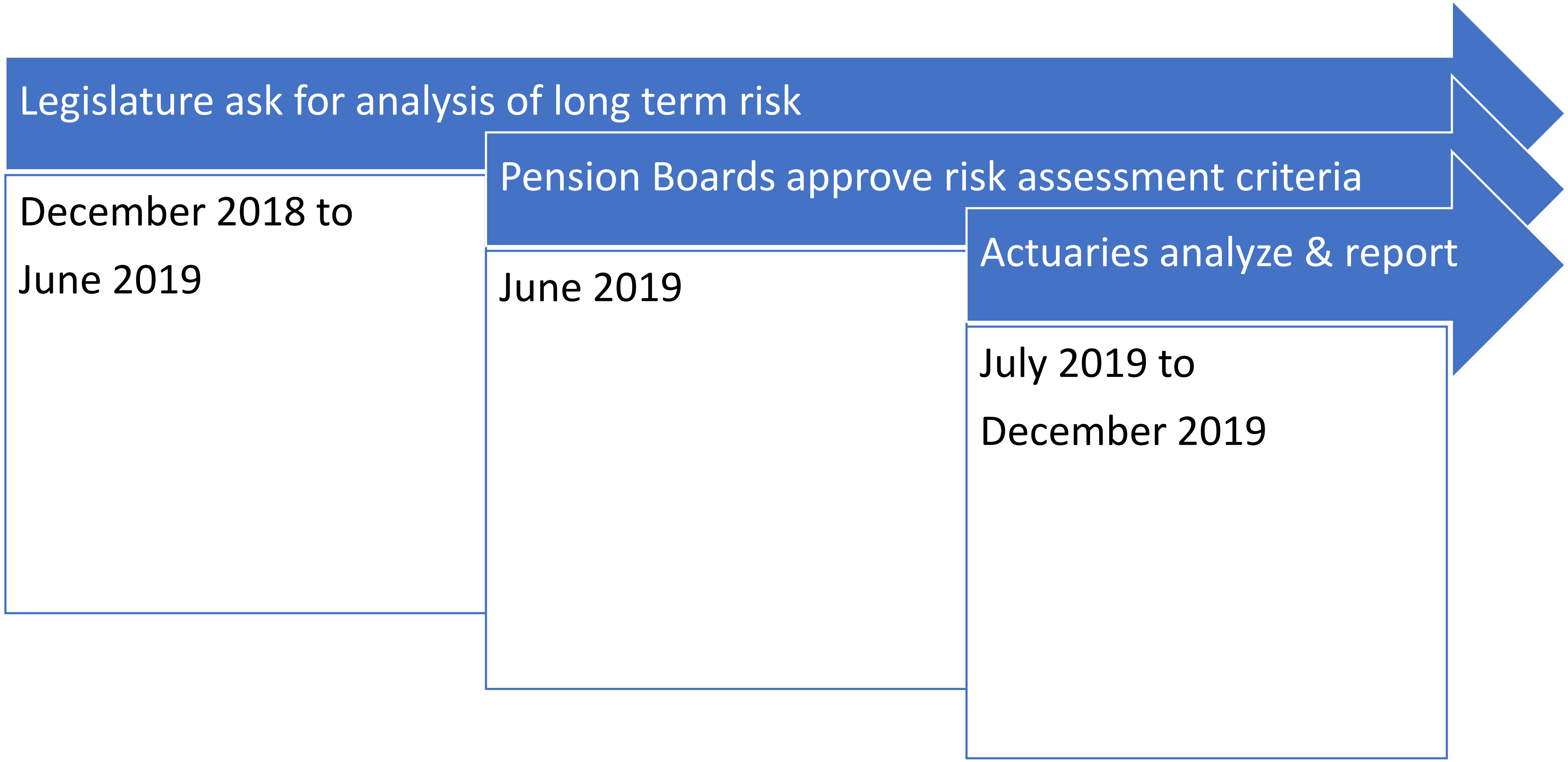
Risk Assessment: what do different assumptions yield



Risk Assessment: New Actuary Standard

- Actuarial Standards Boards issued Actuarial Standard of Practice 51(ASOP 51) entitled “Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions”
- Requires actuaries to better educate interested parties about risks facing their plans
- Educate interested parties on the potential for future plans’ health to differ from expected results. Identify realistic risks to the system such as investment risks, contribution risks, longevity, etc
- If returns on investment are lower than the assumed rate, what increase in contributions would be required to still fully amortize?
- Also provides a way to incorporate states overall economic conditions, tax collections, and history of making required contributions to inform policy

Legislative Information Option



Details of Accounting