

Montana State Legislature

2013 Session

Additional Documents include:

- * Business Report**
- * Roll Call- attendance**
- * Standing Committee Reports,**
- * Table Bills, Fiscal reports etc.**
- * Roll Call Votes**
- * Witness Statements**
- * Informational items**
- * Visitor Registrations**
- * Any other Documents;**
 - ~ Petitions if any?**
 - ~ Any and all material handed in after the meeting end.**

**The original is on file at the
Montana Historical Society and
may be viewed there.**

**Montana Historical Society Archives
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Helena MT 59620-1201
2013 Legislative Scanner Susie Hamilton**

BUSINESS REPORT

**MONTANA SENATE
63rd LEGISLATURE - REGULAR SESSION**

SENATE STATE ADMINISTRATION COMMITTEE

Date: Friday, February 15, 2013

Place: Capitol

Time: 3:00 PM

Room: 335

BILLS and RESOLUTIONS HEARD:

HB 110 - Requiring consideration of guiding principles that have tribal implications - Rep. Carolyn Pease-Lopez

SB 277 - Provide board of ethics to appoint commissioner of political practices - Sen. Jim Peterson

SJ 12 - Study resolution of use of quick response codes at state sites - Sen. Mike Phillips

EXECUTIVE ACTION TAKEN:

SB 261, Tabled

SB 205, Motion Withdrawn

SB 206, Motion Withdrawn

SB 227, Re-Referred to Select Committee on Pensions

SB 241, Motion Withdrawn

Comments:



SEN. Ron Arthun, Chair

MONTANA STATE SENATE
ROLL CALL
STATE ADMINISTRATION
COMMITTEE

DATE: Feb 15, 2013

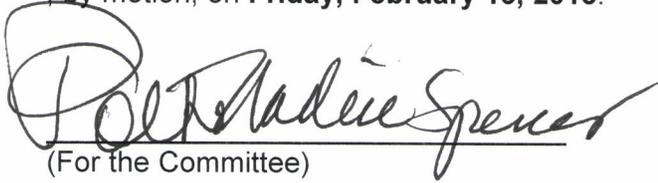
NAME	PRESENT	ABSENT/ EXCUSED
Chairman Arthun	✓	
Vice Chair Brown	✓	
Senator Blewett		✓
Senator Jent		✓
Senator Sales	✓	
Senator Van Dyk	✓	
Senator Webb	✓	

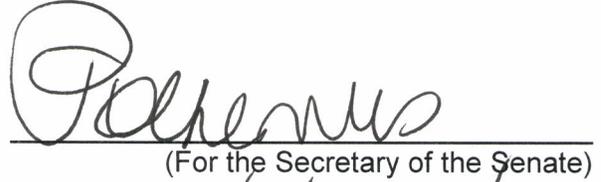
7 Committee Members

BILL TABLED NOTICE

SENATE STATE ADMINISTRATION COMMITTEE

The **SENATE STATE ADMINISTRATION COMMITTEE** TABLED
**SB 261 - Require legislator election each term concerning participation in PERS - Sen.
Sue Malek**
by motion, on **Friday, February 15, 2013.**


(For the Committee)


(For the Secretary of the Senate)

4:45 , 2/15
(Time) (Date)

February 15, 2013 (4:23pm)

Nadine Spencer, Secretary

Phone: 444-1619

MONTANA STATE SENATE
Roll Call Vote
STATE ADMINISTRATION COMMITTEE

DATE 2-15-2013 BILL NO ^{SB} 227 MOTION NO. _____
 MOTION: do pass

<u>NAME</u>	AYE	NO	If Proxy Vote, check here & include signed Proxy Form with minutes
VICE CHAIRMAN BROWN	✓		
SENATOR BLEWETT		✓	✓
SENATOR JENT		✓	✓
SENATOR SALES	✓		
SENATOR VAN DYK		✓	
SENATOR WEBB	✓		
CHAIRMAN ARTHUN		✓	

7 Committee Members

fair

TEACHERS' RETIREMENT SYSTEM
PUBLIC EMPLOYEES' RETIREMENT SYSTEM



STEVE BULLOCK, GOVERNOR

trs.mt.gov
mpera.mt.gov

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PO BOX 200131
HELENA, MONTANA 59620-0131
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February 13, 2013

Gary Buchanan
Buchanan Capital
201 N Broadway
Billings, MT 59101

RE: Setting Investment Return Assumptions

Dear Mr. Buchanan

Thank you for your presentation before the Joint Select Committee on Pensions. While we might not completely agree with everything you said, we do strongly support your recommendation to the Committee that they annually fund the actuarially required contribution rate.

However, we were disappointed that your comments centered primarily on a misunderstanding of how the retirement systems' investment return assumption is determined and would like to take this opportunity to clarify the process. The investment return assumption is not set by the retirement Boards as a target that the Board of Investments (BOI) should try to achieve. In fact, it could be a breach of the fiduciary responsibility of the BOI to take on more or less risk than would be acceptable under the prudent expert rule.

The simple explanation is that the investment return assumption is a reflection of what a prudent expert should expect to earn over the long term – based on the asset allocation the BOI has adopted. However, the formula used by our actuaries to come up with recommendations is a bit more complicated. The Actuarial Standards Board has issued Actuarial Standard of Practice No 27, "*Selection of Economic Assumptions for Measuring Pension Obligations*," which provides guidance to actuaries in recommending reasonable economic assumptions.

Three economic assumptions are used in performing an actuarial valuation: *investment return*, *price inflation*, and *wage inflation*. The *investment return* assumption is based on the asset allocation target for the funds set by the BOI. The assumed investment return is one of the most significant assumptions in the annual actuarial valuation process; it is used to discount the expected benefit payments for all active, inactive, and retired members of the retirement systems. Minor changes in this assumption can have a major impact on valuation results. For this reason, the actuarial standard explicitly advises the actuary not to give undue weight to recent experience.

Actuarial assumptions are used to measure and budget future costs. Any change to assumptions will not change the actual cost of future benefits. Once a set of assumptions have been adopted, the actuarial valuation measures the adequacy of the contribution rates set in Montana State Law. It is incorrect to think of the assumptions as having any other function than to assist in (a) measuring whether the expected benefits are properly funded and (b) determining what adjustments, if any, are required to the statutory contribution rates.

Gary Buchanan
February 13, 2013
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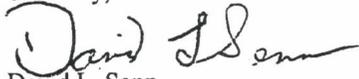
Actuarial assumptions are not set in stone. To the contrary, each of the Retirement Boards have a policy requiring assumptions to be reviewed every 5 to 6 years. In fact, the investment assumption was reduced from 8.0% to 7.75% by TRS in 2004 and PERS in 2010. All assumption changes are recommended by the Boards' actuaries based on experience studies, with the most recent study completed on May 3, 2010. The studies are available on our websites at:

TRS: <http://www.trs.mt.gov/Board/ActuarialValuations/ExperienceStudy20100503.pdf>
PERS: <http://mpera.mt.gov/docs/2010ExperienceStudy.pdf>

Actuarial assumptions are generated by a formula-driven process based on decisions made by BOI and the retirement Boards. In fact, the capital market assumptions adopted by the BOI has as much, if not more, influence on the outcome of the investment return assumption.

We are all concerned and actively working toward full funding of the retirement systems and a secure retirement for our public employees. The Retirement Boards and staff appreciate the expertise and care that have always been the hallmark of the BOI's efforts on behalf of our Systems' beneficiaries. We are always available to discuss issues and processes of mutual concern; please feel free to contact us if you would like any further information regarding this topic.

Sincerely,



David L. Senn
TRS Executive Director
406-444-3376



Roxanne M. Minnehan
MPERA Executive Director
406-444-3154

C: Joint Select Committee on Pensions
Senate State Administration Committee
House State Administration Committee
Board of Investments