

FINANCIAL-COMPLIANCE AUDIT

Public Employees' Retirement Board

For the Two Fiscal Years Ended June 30, 2014

MARCH 2015

14-08A

REPORT SUMMARY

The Public Employees' Retirement Board administers nine defined benefit plans and two defined contribution plans. Three of the defined benefit plans; Sheriffs' Retirement, Game Wardens' and Peace Officers', and Highway Patrol Officers' were not actuarially sound at June 30, 2014. The Montana Constitution requires these public employee retirement systems be funded on an actuarially sound basis.

Context

The Public Employees' Retirement Board (PERB) is an independent, seven-member board, appointed by the Governor to administer 11 retirement plans consisting of nine defined benefit plans and two defined contribution plans accounted for in pension trust funds. The defined benefit plans include the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Public Employees' Retirement System Defined Contribution Disability Other Post-Employment Benefit, Judges' Retirement System, Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, and the Volunteer Firefighters' Compensation Act. The two defined contribution plans are the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Section 457 Deferred Compensation Plan.

The Statement of Fiduciary Net Position-Pension Trust Funds reports approximately \$6.255 billion in Net Position (assets net of liabilities) for the combined defined benefit plans and approximately \$562.9 million

in Net Position for the combined defined contribution plans. Liabilities reported on the financial statements do not include any future obligation for benefit payments to retirees. On the Statement of Changes in Fiduciary Net Position-Pension Trust Fund, total Net Position increased for defined benefit plans by approximately \$837.8 million and Net Position increased by approximately \$60.7 million for the defined contribution plans.

The fiscal year 2013 Legislature passed legislation increasing funding for several of the plans including: increases to statutory contribution rates for members and employers for the PERS-DBRP, PERS-DCRP, and HPORS. In addition, coal severance tax funds credited to the general fund are now statutorily appropriated to PERS-DBRP and up to \$21 million in coal severance tax interest earnings. The total amount received in fiscal year 2014 related to coal severance tax and interest was \$33.7 million. Additionally, legislation was enacted that reduced the guaranteed annual benefits for PERS-DBRP all members, including retirees to a maximum of 1.5 percent annually. This legislation is being contested and in fiscal year 2014 the reduction was not enacted because of a preliminary injunction.

Results

Effective fiscal year 2014, the PERB implemented a new accounting standard that changed retirement system financial reporting requirements for defined benefit retirement systems. The new requirements include information related to pension liability, net pension liability, investments, and contributions, and are included in the notes to the financial statements as well as in the required supplementary information. In response to the new requirements, we also tested important employee data used by the system's actuary to estimate total pension liability.

Our audit work included sampling techniques for contributions and benefits, and testing key controls. Also, we performed analysis of financial data and review of the financial statements and notes to determine if they are adequately supported by the underlying accounting records and the actuarial valuations.

This report does not include recommendations to PERB and we issued an unmodified opinion on PERB's financial statements for fiscal year 2014. This means the reader may rely on the fairness of the information presented in the financial statements.

For a complete copy of the report (14-08A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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