

FINANCIAL-COMPLIANCE AUDIT
Teachers' Retirement System
For the Fiscal Year Ended June 30, 2014

FEBRUARY 2015

14-09A

REPORT SUMMARY

In fiscal year 2014, the Teachers' Retirement System had net investment income of \$540.3 million, which contributed to an increase of net position of \$467.1 million. In July 2014, that actuarial valuation indicated the system is actuarially sound and able to amortize the unfunded accrued liability in 28 years with the current 1.5 percent guaranteed annual benefit adjustment.

Context

Teachers' Retirement System (system) is a component unit of the state of Montana. Statutorily, full-time members of the public teaching profession, including administrative and professional staff, are required to be members of the system. Certain eligible employees of the Montana University System hired after July 1, 1993, are not required to be members.

At July 1, 2014, the system had more than 18,200 active members. During fiscal year 2014, members contributed \$70.5 million, employers contributed \$83.4 million, and in total, including supplemental contributions, \$218.8 million was contributed to the system. In contrast, \$285.2 million in benefits were paid to approximately 14,349 members or their beneficiaries during the fiscal year.

The Montana Constitution requires the system to be funded on an actuarially sound basis. The July 1, 2014, actuarial valuation indicated the system's amortization period is 28 years. During the 2013 Legislative Session, bills were passed that decreased the guaranteed annual benefit adjustment (GABA) to 0.5 percent. However, as a result of a court ordered preliminary injunction regarding the GABA decrease, the GABA rate remained at 1.5 percent for fiscal year 2014. The 1.5 percent rate was used to calculate the amortization period noted above.

In addition to decreasing the GABA, 2013 legislation increased funding for the system. Per new legislation, the system received an annual supplemental contribution from the general fund in the amount of \$25 million. In addition to the general fund contributions, a supplemental contribution of 1 percent was added to the employer contribution rate. Annually, through the year 2024, an additional 0.1 percent will be added to the employer contribution rate. The 2013 legislation also created a two-tier membership system classifying members based on the date of entry into the system.

Effective fiscal year 2014, the system implemented a new accounting standard changing retirement system financial reporting requirements. These standards specify the required approach to measuring the net pension liability of employers for benefits provided through the pension plan. The fiscal year 2014 financial statement notes and required supplementary information disclose the total and net pension liability for the system as well as additional investment and contributions data.

Our audit work over the system included sample testing of contributions and benefits and testing significant system controls. As part of our audit, we also reviewed the presentation

of the system's financial statements and note disclosures to determine whether they were supported by the underlying accounting records and the actuarial valuation. We also tested key employee data for retirement system members, as this information is used by the system's actuary to calculate the total pension liability.

Results

The report does not contain recommendations and we issued an unmodified opinion on the system's financial statements for fiscal year 2014. This means the reader can rely on the information presented in the financial statements.

For a complete copy of the report (14-09A) 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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