



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: September 12, 2013

TO: Legislative Finance Committee

FROM: Kris Wilkinson, Senior Fiscal Analyst

RE: Economic Experience Study for the Public Employees Retirement System (PERS)

At its September 12, 2013 meeting the PERS board received information from its actuary on a number of economic assumptions used in the actuarial analysis of the liabilities of the pension trust fund. The assumptions discussed included:

- o Inflation
- o Wage growth
- o Investment return
- o Interest on member contributions
- o Administrative expenses

The assumptions used in the previous analysis and the actuarial recommendations were:

- o Inflation – 3%, recommended 3%
- o Wage growth – 1%, recommended 0.5%
- o Investment return – 7.75%, recommended 7.50%
- o Interest on member contributions – 3.5%, recommended 3.0%
- o Administrative expenses – implement GASB 67 requirements in FY 2014 including the administrative expenses as part of normal costs rather than treat them as a reduction of investment income

Following discussion by the PERS board, a decision was made to use the previous assumptions rather than adopt those recommended by the actuary. The actuary made a preliminary estimate of the impact of the assumptions including those for the:

- o Amortization period for the liability both with the supplemental employer and employee contributions and without the supplemental contributions
- o Funded percentage of the pension liability

The preliminary estimates shows that the amortization period for the PERS fund would be 26.2 years if the supplemental contributions were not made. Because this is above the statutory trigger for the elimination of the supplemental contributions, the additional contribution of 1.0% for employees and 1.0% for employers would continue in calendar year 2014.

In addition, as of July 1, 2014 the supplemental contribution for employers would increase an additional 0.1% bringing the total employer supplemental contribution to 1.37 %. The funded percentage of the liability, which determines the amount of the guaranteed annual benefit adjustment (GABA) for retirees, is preliminarily estimated to be 79%. Statute requires that for each two percentage points below 90% that the liabilities are funded the GABA be reduced by 0.1%. The final actuarial estimates are scheduled to be presented in October. Should the actuary's estimates hold true following release of the actuarial report in October, the GABA for retirees would be 1.0% for calendar year 2014.