

SENATE JOINT RESOLUTION NO. 29

INTRODUCED BY D. BROWN

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A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING AN INTERIM LEGISLATIVE STUDY OF THE PUBLIC EMPLOYEE RETIREMENT SYSTEMS, INCLUDING SENSITIVITY TO MARKET LOSSES UNDER SELECTED SCENARIOS, POLICY AND FUNDING OPTIONS TO HELP MANAGE RISKS, AND HOW BEST TO KEEP THE LEGISLATURE INFORMED.

WHEREAS, a bond rating company has cited the relatively low funded ratios for Montana's pension plans as a factor offsetting some of Montana's strengths with respect to the state's bond rating; and

WHEREAS, the Legislative Finance Committee supported by the Legislative Fiscal Division will be conducting a financial modernization and risk analysis study and a long-term budget stability study; and

WHEREAS, pension funding is an important component of these studies; and

WHEREAS, legislators by statute determine the benefit structures and funding policies for nine statewide defined benefit retirement plans covering more than 51,000 active state, local government, and school district employees and involving more than \$11 billion in assets and nearly \$16 billion in liabilities; and

WHEREAS, contribution amounts for defined benefit retirement plans are set based on demographic and economic actuarial assumptions about expected future experience; and

WHEREAS, the actuarial assumed rate of return on investments has the most significant impact on determining funded ratios and whether contributions are sufficient to keep a plan soundly funded; and

WHEREAS, how sensitive a pension plan is to market volatility is a key consideration when setting benefit and funding policy because when investment returns fail to meet actuarial assumptions, plans may become actuarially unsound; and

WHEREAS, market losses that cause systems to become actuarially unsound present a significant financial risk to the employer and the state general fund; and

WHEREAS, it is incumbent upon the legislature to understand the dynamics of market sensitivity on the pension funds, consider policy and funding options to help manage the associated risks, and remain fully informed about the financial risks to employers and the general fund.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE



1 STATE OF MONTANA:

2 (1) That the Legislative Council be requested to designate the State Administration and Veterans' Affairs
3 Interim Committee, pursuant to sections 5-5-211 and 5-5-217, MCA, to conduct a study, in coordination with the
4 timelines, activities, and findings of the Legislative Finance Committee, to:

5 (a) examine the actuarial impact of the following scenarios on the funded ratios, amortization schedules,
6 and the annual required contribution rates for the public employees' retirement system and the teachers'
7 retirement system, as determined by the systems' actuaries:

8 (i) alternative market rate of return assumptions including a 5.65% assumed rate of return and the rate
9 of return expected on the actual pension fund investment portfolios at the 33rd, 50th, and 67th percentiles of the
10 probability distribution analysis conducted for and provided by the Board of Investments;

11 (ii) a 1-year 10% loss in pension fund assets followed by returns equal to the actuarial assumed rate of
12 return most recently adopted by the respective retirement boards; and

13 (iii) market rates of return in each of the next 20 years that mirror the actual market rates of return
14 experienced during the last 20 years;

15 (b) evaluate what factors should be considered when assessing pension fund sensitivity to market
16 changes and for stress testing the plans;

17 (c) analyze policy and funding options to mitigate these risks, including changes in plan design and
18 funding structures;

19 (d) consider how best to keep legislators informed about pension obligations and market risks that affect
20 actuarial soundness, including what information should be included in reports and valuations to best inform the
21 legislature about market sensitivity and potential implications for employer contributions and supplemental general
22 fund contributions; and

23 (e) develop recommendations deemed appropriate based on study findings.

24 (2) That when the retirement system actuaries are conducting the analysis of the scenarios described
25 in subsection (1)(a), the discount rate used in the actuarial analysis be the same as the assumed rate of return.

26 (3) That the scenarios listed in subsection (1)(a) be subject to modification by the State Administration
27 and Veterans' Affairs Interim Committee in coordination with the Legislative Finance Committee.

28 BE IT FURTHER RESOLVED, that for the 2019-2020 interim and for the purposes of this study:

29 (1) the State Administration and Veterans' Affairs Interim Committee include at least two voting members
30 representing members of the 2019 House Appropriations Committee, the 2019 Senate Finance and Claims

1 Committee, or the 2019-2020 Legislative Finance Committee;

2 (2) the two members included in accordance with subsection (1) include one member of the majority
3 party and one member of the minority party;

4 (3) if a senator is appointed under subsection (1), the senate committee on committees make the
5 appointment, and if a representative is appointed under subsection (1), the house speaker with the consent of
6 the house minority leader make the appointment; and

7 (4) the members included in accordance with subsection (1) be appointed prior to adjournment of the
8 2019 legislative session.

9 BE IT FURTHER RESOLVED, that the Legislative Services Division provide research, legal, and
10 administrative staff support for the committee in accordance with section 5-11-112(1)(d)(i), MCA, and the
11 Legislative Fiscal Division provide fiscal analysis in accordance with section 5-12-301, MCA.

12 BE IT FURTHER RESOLVED, that the State Administration and Veterans' Affairs Interim Committee
13 provide regular reports to the Legislative Council and Legislative Finance Committee on the study's progress and
14 findings, including a final report.

15 BE IT FURTHER RESOLVED, that the actuarial analysis by the retirement system actuaries for the
16 scenarios listed in subsection (1)(a) be conducted in conjunction with the next regular annual actuarial valuations,
17 and that all other aspects of the study be concluded prior to September 15, 2020.

18 BE IT FURTHER RESOLVED, that the final results of the study, including any findings, conclusions,
19 comments, or recommendations of the committee, be reported to the 67th Legislature.

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