



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

LEGISLATIVE AUDIT  
DIVISION

22-09

FINANCIAL-COMPLIANCE AUDIT

# *Teachers' Retirement Board*

*For the Fiscal Year Ended  
June 30, 2022*

FEBRUARY 2023

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

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**AUDIT STAFF**

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JEANE CARSTENSEN-GARRETT  
ADAM HEFENIEDER

KATIE MAJERUS  
DELSI OSMANSON

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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

February 2023

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Teachers' Retirement Board (board) for the fiscal year ended June 30, 2022. The report contains the board-prepared financial statements and related notes for the Teachers' Retirement System. Additional information about the Teachers' Retirement System's total and net pension liability, investments, contributions, and expense data is included in the required supplementary information and supplementary information. Our Independent Auditor's Report contains an unmodified opinion, meaning a reader can rely on the information presented, and is included on page A-1 of the report.

The board's written response to the audit is included in the audit report on page C-1. We thank the Executive Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor

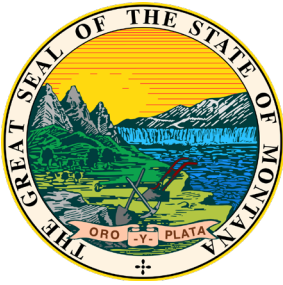
## APPOINTED AND ADMINISTRATIVE OFFICIALS

|                                   | <u>Name</u>                 | <u>City</u>  | <u>Term Expires</u> |
|-----------------------------------|-----------------------------|--------------|---------------------|
|                                   |                             |              | <u>July 1</u>       |
| <b>Teachers' Retirement Board</b> | Kari Elliott, Chair         | Kalispell    | 2027                |
|                                   | Sarah Hitchcock, Vice Chair | Glasgow      | 2026                |
|                                   | Dee Brown                   | Hungry Horse | 2026                |
|                                   | Daniel Chamberlin           | Whitefish    | 2025                |
|                                   | Scott Dubbs                 | Lewistown    | 2023                |
|                                   | Daniel Trost                | Helena       | 2024                |

|                                 |  |
|---------------------------------|--|
| <b>Administrative Officials</b> | Shawn Graham, Executive Director           |
|                                 | Tammy Rau, Deputy Executive Director       |
|                                 | Nolan Brilz, Accounting and Fiscal Manager |
|                                 | Denise Pizzini, Chief Legal Counsel        |

For additional information concerning the Teachers' Retirement Board, contact:

Shawn Graham, Executive Director  
100 N. Park Avenue, Suite 110  
P.O. Box 200139  
Helena, MT 59620-0139  
e-mail: shawngraham@mt.gov  
Phone: (406) 444-3134



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT Teachers' Retirement Board FOR THE FISCAL YEAR ENDED JUNE 30, 2022

A report to the Montana Legislature

### BACKGROUND

The Teachers' Retirement Board (board) oversees the administration of the Teachers' Retirement System (system) which is a multiple-employer, cost-sharing, defined-benefit, public pension plan. The board is a fiduciary component unit of the State of Montana. Full-time members of the public teaching profession, including administrative and professional staff, are required by law to be members of the system.

The Montana Constitution requires the system to be funded on an actuarially sound basis. Board policy requires any unfunded liability of the system to amortize over a closed period of no more than 30 years. The most recent actuarial valuation, performed as of July 1, 2022, found the system's unfunded liability amortizes within 25 years.

**Teachers' Retirement Board  
Chair:** Kari Elliott

**Executive Director:**  
Shawn Graham

The board received approximately \$243 million in contributions from 362 employers and the State of Montana during fiscal year 2022 for nearly 20,000 active members. The board paid out roughly \$414 million to over 17,000 retirees and beneficiaries during the same period. Due to changing market conditions, the board experienced a negative 4.3 percent rate of return on investments that impacted the fiduciary net position, which decreased by approximately \$392 million at fiscal year-end 2022.

### **AUDITOR'S OPINION (page A-1): UNMODIFIED**

We found the financial statements and related note disclosures of the system presented fairly the activity of the system, in all material respects, and we issued an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

### **RECOMMENDATIONS:**

In this report, we issued no recommendations to the board and there were no recommendations contained in the prior audit report.

### **SUMMARY OF AUDIT WORK:**

Our work included reviewing support for benefit payments, completing analytics over contributions revenue, and determining the reasonableness of investment balances and associated net investment income. We also reviewed the financial statements and note disclosures to determine if they were presented accurately per the underlying accounting records and other support. We considered the board's control systems throughout the audit, including the computer system used by the board to electronically process contributions and benefits.

The board's actuary uses member census data such as gender, birthdate, hire date, salary, and employment status to calculate the total pension liability of the system. We completed testing over this census data through a sample of new members across the state to determine the accuracy of the data retained by the board. In our sample of 84 employees from 42 different employers, we did not identify any material errors.

*(continued on back)*

For the full report or more information, contact the Legislative Audit Division.

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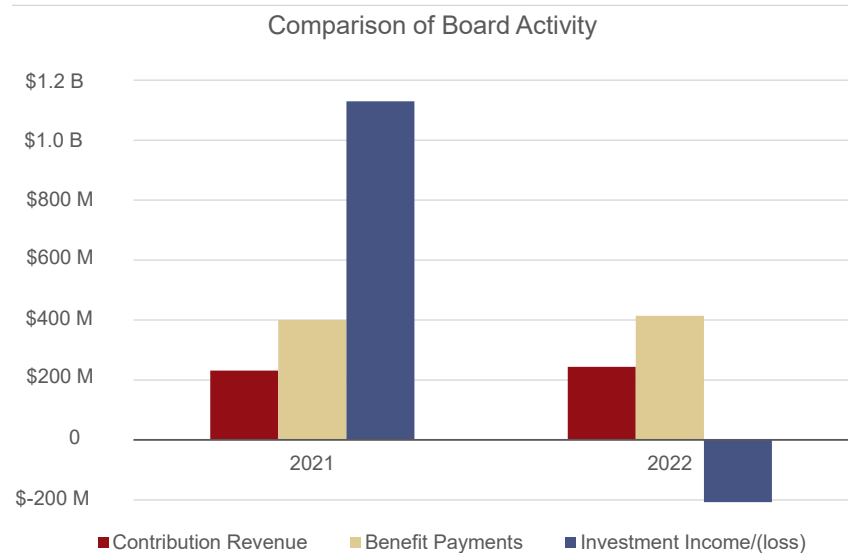
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We also performed analytical procedures over the system to help identify any obvious, systemic errors not identified in our sample that could affect the calculation of the total pension liability. Errors could include incorrect hire dates, errors in salary data, or being erroneously counted in more than one retirement system, just to name a few. However, we did not identify material errors in this testing; meaning the data could be used to accurately calculate the total pension liability.

Additionally, we hired an independent actuary to provide expertise during the audit. This included reviewing the system's actuarial valuation and the assumptions underlying the calculation of the total pension liability. Our actuary determined the methodology used by the board's actuary was reasonable and consistent with actuarial standards.

The board's investments are managed by the Montana Board of Investments, primarily through investment in the Consolidated Asset Pension Pool (CAPP). At fiscal year-end 2022, the board held approximately \$4.6 billion in CAPP. The board saw a \$207 million investment loss as of June 30, 2022, compared to a \$1.13 billion investment gain at June 30, 2021. This loss resulted from the negative 4.3 percent rate of return on investments in fiscal year 2022. Consequently, the system's fiduciary net position of \$5.1 billion at June 30, 2021, decreased approximately \$392 million to \$4.7 billion at June 30, 2022, representing a 7.7 percent decrease. Figure 1 shows a comparison of the board's activity between fiscal years 2021 and 2022.

Figure 1



**Source:** Compiled by the Legislative Audit Division from Teachers' Retirement System information.

*(continued on the next page)*

Article VIII, Section 15 of the Montana Constitution requires defined benefit public retirement systems to be funded on an actuarially sound basis. The most recent actuarial valuation, performed as of July 1, 2022, found the system's unfunded liability of \$1.892 billion amortizes within 25 years. This is a slight increase from 24 years on July 1, 2021. Table 1 shows the amortization period for the system at June 30 for the past five years.

The financial statement notes and required supplementary information disclose the system's total and net pension liabilities. The total pension liability is an actuarial estimate of future benefit payments associated with member service at June 30, 2022. The net pension liability is a measure of the extent to which the total pension liability is not covered by the fiduciary net position of the pension plan. The net pension liability represents the total amount allocated to employers and non-employer contributing entities for inclusion in their financials. The total pension liability and net pension liability for the system on June 30, 2022, and June 30, 2021, are shown in Table 2 below.

Table 1  
**Teachers' Retirement System**  
**Amortization Periods**

| Fiscal Year-End | Amortization Period (in years) |
|-----------------|--------------------------------|
| June 30, 2022   | 25                             |
| June 30, 2021   | 24                             |
| June 30, 2020   | 29                             |
| June 30, 2019   | 29                             |
| June 30, 2018   | 31                             |

**Source: Compiled by the Legislative Audit Division from Teachers' Retirement System actuarial information.**

Table 2  
**Teachers' Retirement System Total and Net Pension Liability**

|                                   | Total Pension Liability | Net Pension Liability |
|-----------------------------------|-------------------------|-----------------------|
| June 30, 2022                     | \$6,691,274,850         | \$1,966,825,366       |
| June 30, 2021                     | \$6,773,384,261         | \$1,656,535,253       |
| Increase/(decrease) between years | (\$82,109,411)          | \$310,290,113         |

**Source: Compiled by the Legislative Audit Division from Teachers' Retirement System actuarial information.**

While there is a slight decrease in total pension liability, the net pension liability increased as a result of investment losses affecting the fiduciary net position at fiscal year-end 2022.

During fiscal year 2022, the board's actuary completed a five-year experience study covering the periods July 1, 2016, through June 30, 2021. The purpose of this study was to update the actuarial assumptions used in the valuation of the retirement plan system. As a result of the experience study, the long-term rate of return, or discount rate, increased from 7.06 percent at June 30, 2021, to 7.30 percent at June 30, 2022. Our actuary determined both the discount rate and the calculation of the total pension liability were reasonable.

For the full context of the board's financial activity, see the financial statements and notes beginning on page A-9.

## **REPORT ON INTERNAL CONTROL AND COMPLIANCE**

### **(page B-1):**

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.



# **Independent Auditor's Report and Board Financial Statements**



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## BOARD RESPONSE

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Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

#### *Opinion*

We have audited the financial statements of the Teachers' Retirement System (system), prepared by the Teachers' Retirement Board (board), a fiduciary component unit of the State of Montana, which are comprised of the Statement of Fiduciary Net Position as of June 30, 2022, and the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the system as of June 30, 2022, and the changes in net position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the board and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the following, starting on page A-5, be presented to supplement the basic financial statements.

- ◆ Management's Discussion and Analysis
- ◆ Schedule of Changes in Net Pension Liability - TRS Plan
- ◆ Schedule of the Net Pension Liability - TRS Plan
- ◆ Schedule of Investment Returns - TRS Plan
- ◆ Schedule of Employer and Non-Employer Contributing Entities Contributions - TRS Plan
- ◆ Schedule of Proportionate Share of the Net Pension Liability - TRS as Employer of PERS Plan
- ◆ Schedule of Contributions - TRS as Employer of PERS Plan

- ◆ Other Post-employment Benefits Plan Information
- ◆ Related Notes to the Required Supplementary Information

Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Payments to Consultants is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

#### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2023, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

January 11, 2023



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Montana Teachers' Retirement System (TRS or the System) provides a narrative overview of TRS's financial activities for the fiscal year ended June 30, 2022.

### Overview of the Financial Statements

The TRS financial statements, notes to the financial statements, and required supplementary information as of June 30, 2022 were prepared in conformity with GASB Statement No. 67, Financial Reporting for Pension Plans and GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the System's ongoing plan perspective. The Statement of Fiduciary Net Position reflects the resources available to pay benefits to retirees and beneficiaries. The Statement of Changes in Fiduciary Net Position presents the changes that occurred in those resources for the fiscal year ended June 30, 2022.

The Notes to the Basic Financial Statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The required supplementary information (RSI) consists of the following four schedules and notes to those schedules of the defined benefit pension plan administered by TRS: changes in the net pension liability, net pension liability, the money-weighted rate of investment returns, and employer contributions. The RSI also contains the following two schedules and notes to those schedules of the defined benefit pension plan that TRS participates in as an employer: proportionate share of the net pension liability and employer contributions. The RSI also contains a schedule and notes related to Other Post-employment Benefits (OPEB) information.

### Financial Highlights

- The TRS fiduciary net position decreased by \$392 million from \$5.117 billion at 06/30/21 to \$4.724 billion at 06/30/22, representing a decrease of 7.7% from year to year.
- The TRS plan net investment income/loss was negative \$207 million at 06/30/22 compared to positive \$1,129.8 million at 06/30/21.
- The TRS plan rate of return on investments during FY 2022 was negative 4.3% compared with FY 2021 rate of return of 27.7%.
- The TRS benefit payments paid to benefit recipients increased 3.6% from \$399.9 million to \$414.3 million for FY 2022, which is consistent with previous increases.
- Withdrawals from the System increased by 16.3% from \$8.9 million in FY 2021 to \$10.3 million in FY 2022.

### Condensed Financial Information

For comparative purposes, the Condensed Financial Information for the fiscal year ended June 30, 2022 is presented with the previous fiscal year's financial information.

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**Fiduciary Net Position  
(in millions)**

|                             | FY2022     | FY2021     | Percent<br>Change* |
|-----------------------------|------------|------------|--------------------|
| Cash/Short-Term Investments | \$ 55.8    | \$ 63.6    | (12.4%)            |
| Receivables                 | 24.2       | 21.6       | 11.7%              |
| Investments (Fair Value)    | 4,694.0    | 5,061.6    | (7.3%)             |
| Other Assets (Net)          | 3.4        | 1.2        | 185.2%             |
| Total Assets                | 4,777.3    | 5,148.1    | (7.2%)             |
| Deferred Outflows           | 0.6        | 0.6        | (3.8%)             |
| Liabilities                 | 52.8       | 31.7       | 66.5%              |
| Deferred Inflows            | 0.7        | 0.2        | 283.3%             |
| Net Position                | \$ 4,724.5 | \$ 5,116.8 | (7.7%)             |

**Change in Fiduciary Net Position  
(in millions)**

|                                   | FY2022     | FY2021   | Percent<br>Change* |
|-----------------------------------|------------|----------|--------------------|
| Additions:                        |            |          |                    |
| Employer Contributions            | \$ 109.7   | \$ 103.2 | 6.3%               |
| Plan Member Contributions         | 85.7       | 81.1     | 5.7%               |
| Other Contributions               | 48.0       | 47.0     | 2.1%               |
| Net Investment Income             | (207.4)    | 1,129.8  | (118.4%)           |
| Total Additions                   | 36.0       | 1,362.1  | (97.4%)            |
| Deductions:                       |            |          |                    |
| Benefit Payments                  | 414.3      | 399.9    | 3.6%               |
| Withdrawals                       | 10.3       | 8.9      | 16.3%              |
| Administrative and Other Expenses | 3.7        | 4.3      | (13.3%)            |
| Total Deductions                  | 428.4      | 413.1    | 3.7%               |
| Change in Net Position            | \$ (392.4) | \$ 949.0 | (141.3%)           |

*\*Percentages are calculated based on the actual reported values in the Financial Statements rather than on the amounts rounded to the nearest million in the tables above.*

## Financial Analysis

- The increase in Employer Contributions was due in part to HB 377 provisions that took effect in FY 2014, which increase Employer contribution rates by 0.10% each year for ten years.
- The increase in Employer, Plan Member, and Other Contributions are also due do to an increase in Reportable Compensation of the System as a whole.
- The System's Return on Investments was negative in FY 2022, resulting in a net investment loss of \$207.4 million.
- Net investment income for FY 2022 was down considerably from the previous fiscal year largely due to abnormally negative returns in domestic and international equities, as well as fixed income securities.
- The increase in benefit payments from year-to-year reflects an increase in the number of retirees and beneficiaries, plus the 1.5% guaranteed annual benefit adjustment. The increase is comparable to previous fiscal years.
- Administrative Expenses for FY 2022 were 0.86% of Benefit Payments. By the laws set forth in the Montana Code Annotated, TRS is required to keep Administrative Expenses under 1.5% of Benefit Payments.
- The increase in Withdrawals is due to new internal controls for managing Terminated Non-Vested members of the system.

## Overview of the Actuarial Funding

An actuarial valuation of the System is performed annually. As a result of the actuarial valuation of the benefits in effect under the Montana Teachers' Retirement System as of July 1, 2022, the statutory employer contributions are sufficient to amortize the Unfunded Actuarial Accrued Liability (UAAL) of the Retirement System within 25 years. The Funded Ratio is 71.73%.

MCA 19-20-201 requires the Valuation report to show how market performance is affecting the actuarial funding of the Retirement System. The July 1, 2022 fair value of assets is \$75.1 million less than the actuarial value of assets. This is due to the smoothing of investment gains and losses over a four year period. If the fair value of assets was used, the amortization period would be 27 years, and the Funded Ratio would be 70.61%.

The TRS investment portfolio earned (4.13)% net of investment and operating expenses. As a result of cumulative unrecognized gains, the actuarial assets earned 8.14% which is 0.64% more than the actuarial assumption of 7.50%. The return on the actuarial assets differs from the return on fair value of assets because the actuarial value of assets spreads gains and losses over four years.

The following table compares the annual returns for the past five fiscal years.

| Fiscal Year           | Fair Value Return | Actuarial Return | Fair Value Return Over/(Under) Assumption Rate | Actuarial Return Over/(Under) Assumption Rate |
|-----------------------|-------------------|------------------|--|---|
| 7/01/2017 - 6/30/2018 | 8.82%             | 6.85%            | 1.07%  | (0.90)%                                       |
| 7/01/2018 - 6/30/2019 | 5.69%             | 7.00%            | (1.81)%  | (0.50)%                                       |
| 7/01/2019 - 6/30/2020 | 2.72%             | 7.00%            | (4.78)%  | (0.50)%                                       |
| 7/01/2020 - 6/30/2021 | 27.73%            | 10.68%           | 20.23%   | 3.18%   |
| 7/01/2021 - 6/30/2022 | (4.13)%           | 8.14%            | (11.63)%                                       | 0.64%   |

Asset gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption of 7.30% effective July 1, 2022.

The net result as of July 1, 2022 is that the fair value of assets is \$75.1 million less than the actuarial value of assets. This 75.1 million in unrecognized asset losses will either offset any future investment gains or, if there are none, increase the amortization period of the UAAL in future valuations.

As of July 1, 2022, the System's Actuarial Value of Assets increased by 183.2 million from \$4.616 billion at July 1, 2021 to \$4.780 billion at July 1, 2022. The Actuarial Accrued Liability at July 1, 2022 was \$6.691 billion. This resulted in an UAAL of \$1.892 billion at July 1, 2022. This was a net increase in the unfunded position of \$44.8 million compared to July 1, 2021.

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**TEACHERS' RETIREMENT SYSTEM**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**AS OF JUNE 30, 2022**

|  | 2022            |
|--|-----------------|
| Assets                                       |                 |
| Cash and Short Term Investments (Note B)     | \$55,768,650    |
| Receivables:                                 |                 |
| Accounts Receivable                          | 24,114,711      |
| Interest Receivable                          | 62,190          |
| Total Receivables                            | \$24,176,901    |
| Investments, at Fair Value: (Note B)         |                 |
| Equity in Pooled Investments                 | \$4,645,886,890 |
| Securities Lending Collateral (Note B)       | 48,067,890      |
| Total Investments                            | \$4,693,954,780 |
| Assets Used in Plan Operations (Note C):     |                 |
| Leasehold Improvements                       | \$243,881       |
| Accumulated Depreciation                     | (87,100)        |
| Equipment and Intangible Assets              | 599,839         |
| Accumulated Depreciation                     | (16,286)        |
| Intangible Right to Use Building             | 2,810,123       |
| Accumulated Depreciation                     | (165,301)       |
| Total Other Assets                           | 3,385,155       |
| Total Assets                                 | \$4,777,285,486 |
| Pension Deferred Outflows (Note E)           | \$435,767       |
| OPEB Deferred Outflows (Note G)              | \$183,763       |
| Liabilities                                  |                 |
| Accounts Payable                             | \$134,481       |
| Securities Lending Liability (Note B)        | 48,067,890      |
| Compensated Absences (Note B)                | 216,437         |
| OPEB Implicit Rate Subsidy (Note G)          | 235,221         |
| Net Pension Liability (Note E)               | 1,394,112       |
| Standard Lease (Note C)                      | 2,702,072       |
| Total Liabilities                            | \$52,750,212    |
| Pension Deferred Inflows (Note E)            | \$574,861       |
| OPEB Deferred Inflows (Note G)               | \$130,460       |
| Net Position Restricted for Pension Benefits | \$4,724,449,484 |

*The accompanying Notes to the Financial Statements is an integral part of this financial statement.*

**TEACHERS' RETIREMENT SYSTEM**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2022**

|  | 2022            |
|--|-----------------|
| Additions  |                 |
| Contributions:   |                 |
| Employer   | \$109,672,148   |
| Plan member  | 85,736,884      |
| Other  | 47,999,525      |
| Total Contributions  | \$243,408,557   |
| Miscellaneous Income   | \$36,921        |
| Investment Income:   |                 |
| Net Appreciation/(Depreciation) in Fair Value of Investments | (\$173,973,343) |
| Investment Earnings  | 231,722         |
| Security Lending Income (Note B)                             | 505,851         |
| Investment Income/(Loss)                                     | (173,235,770)   |
| Investment Expense   | (34,094,176)    |
| Security Lending Expense (Note B)                            | (111,143)       |
| Net Investment Income/(Loss)                                 | (207,441,089)   |
| Total Additions  | 36,004,388      |
| Deductions   |                 |
| Benefit Payments   | \$414,346,628   |
| Withdrawals  | 10,338,308      |
| Administrative Expense                                       | 3,555,107       |
| OPEB Expense (Note G)  | 25,401          |
| Pension Expense (Note E)                                     | 138,568         |
| Total Deductions   | \$428,404,012   |
| Net Increase (Decrease) in Fiduciary Net Position            | (\$392,399,624) |
| Net Position Restricted for Pension Benefits                 |                 |
| Beginning of the Year  | \$5,116,849,108 |
| Prior Period Adjustment (Note B)                             | \$0             |
| Net Position End of Year                                     | \$4,724,449,484 |

*The accompanying Notes to the Financial Statements is an integral part of this financial statement.*

**TEACHERS' RETIREMENT SYSTEM**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2022**

**NOTE A. DESCRIPTION OF THE PLAN**

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and other skilled public education professionals in Montana.

The Teachers' Retirement System Board (the Board) and staff administer the retirement system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules may be obtained by visiting the TRS website at [trs.mt.gov](http://trs.mt.gov).

The Montana Board of Investments (MBOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by §19-20-501, MCA. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. MBOI's stand-alone financial statements and information on investment policies, investment activity, investment management fees, and a listing of specific investments owned by the pooled asset accounts can be obtained from the Montana Board of Investments, P.O. Box 200126, Helena, MT 59620-0126. The MBOI website can be found at [investmentmt.com](http://investmentmt.com).

The Board is the governing body of the System. The System was established by the State of Montana in 1937 to provide retirement, death, and disability benefits to individuals employed in public education in Montana. TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

**Board Composition**

The Board consists of six members, all appointed by the Governor. Three Board members must be teaching professionals who, when appointed, are active members of TRS; at least one of the active members must be an active classroom teacher. One Board member must be a retired teacher who was a member of TRS at the time of retirement. Two Board members are appointed from the public at large. TRS Board members serve staggered five-year terms. Three Board members constitutes a quorum.

**Reporting Entities**

At June 30, 2022, the number and type of reporting entities participating in the system were as follows:

|  |            |
|--|------------|
| Local School Districts, Counties, and Co-ops | 350        |
| Community Colleges                           | 3          |
| University System Units                      | 2          |
| State Agencies                               | 7          |
| <b>Total</b>                                 | <b>362</b> |

**System Membership**

At July 1, 2022, the date of the most recent actuarial valuation, system membership consisted of the following:

|   |               |
|---|---------------|
| Retirees and Beneficiaries Currently Receiving Benefits | 17,369        |
| Terminated Members:                                     |               |
| Vested  | 2,015         |
| Non-vested  | 5,656         |
| Active Plan Members:                                    |               |
| Full-Time   | 13,765        |
| Part-Time   | 6,210         |
| Deceased Members Pending Account Settlement             | 407           |
| <b>Total Membership</b>                                 | <b>45,422</b> |

## Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan (Tier One). In the Tier One plan, employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

Beginning July 1, 2013, new members in TRS participate in a second benefit tier (Tier Two), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (AFC) (as opposed to 3-year AFC in Tier One);
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service of 25 years in Tier One);
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One);
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation -  $1.85\% \times \text{AFC} \times \text{years of creditable service}$  — for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than  $1.6667\% \times \text{AFC} \times \text{years of creditable service}$  for Tier One).

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA is calculated at 1.5% of the benefit payable as of January 1st. For Tier Two members, the GABA to be calculated each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

## Overview of Contributions

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2022, were required to contribute 8.15% of their earned compensation. School district, education cooperative, county, and community college employers were required to contribute 9.27% of earned compensation. University System and State Agency employers were required to contribute 11.65% of earned compensation.

The TRS funding policy also provides for monthly supplemental contributions at rates specified by state law. The State's general fund contributes an additional 2.38% of earned compensation for school district, education cooperative, county, and community college employees each month. The State's general fund also contributes an additional 0.11% of earned compensation for all TRS members each month. These monthly general fund contributions along with an annual lump-sum contribution of \$25 million from the general fund make up the "Other" contribution category on the financial statements.

Each employer in the Montana University System contributes to TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation for employees participating in the Montana University System Retirement Program (MUS-RP).

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Contribution rates for FY 2021, 2022, and 2023 for school district, education cooperative, county, and community college employers are listed below.

| Fiscal Year                    | Members | Employers | General Fund | Total  |
|--------------------------------|---------|-----------|--------------|--------|
| July 1, 2020–<br>June 30, 2021 | 8.15%   | 9.17%     | 2.49%        | 19.81% |
| July 1, 2021–<br>June 30, 2022 | 8.15%   | 9.27%     | 2.49%        | 19.91% |
| July 1, 2022–<br>June 30, 2023 | 8.15%   | 9.37%     | 2.49%        | 20.01% |

Contribution rates for FY 2021, 2022, and 2023 for state agencies and university system employers are listed below.

| Fiscal Year                    | Members | Employers | General Fund | Total  |
|--------------------------------|---------|-----------|--------------|--------|
| July 1, 2020–<br>June 30, 2021 | 8.15%   | 11.55%    | 0.11%        | 19.81% |
| July 1, 2021–<br>June 30, 2022 | 8.15%   | 11.65%    | 0.11%        | 19.91% |
| July 1, 2022–<br>June 30, 2023 | 8.15%   | 11.75%    | 0.11%        | 20.01% |

Pursuant to §19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014 through fiscal year 2024.

## **NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Accounting**

Teachers' Retirement System, a fiduciary component unit Pension Trust Fund of the State of Montana financial reporting entity, prepares its financial statements using the accrual basis of accounting. Member contributions and employer contributions are recognized when due. Revenues are recorded in the accounting period in which they are earned, realized, and become measurable in accordance with the terms of the System. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. The System adheres to all applicable Governmental Accounting Standards Board (GASB) Statements.

### **Prior Period Adjustments**

Prior period adjustments relate to corrections of errors and changes in accounting policy from prior periods. The System had no prior period adjustments for the year ended June 30, 2022.

### **Significant Accounting Changes**

Significant accounting policies are specific accounting principles and methods used and considered to be the most appropriate to use in current circumstances in order to fairly present the financial statements. GASB Statement No. 87, Leases, was issued in June 2017. The objective of this statement is to increase the usefulness of financial statements by establishing a single model for lease accounting based on the principle that leases are financings of the right to use an asset. Lessees will recognize a lease liability and an intangible right to use asset and lessors will recognize a lease receivable and a deferred inflow of resources. For TRS this standard went into effect for the period ending June 30, 2022. The details of TRS implementing GASB 87 are presented in Note C.

### **Compensated Absences**

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel. Compensated absences were recorded as a liability of \$216,437 at June 30, 2022.

### **Investments**

The Montana Board of Investments (MBOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by §19-20-501, MCA. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. Investments administered by MBOI for TRS are subject to MBOI's investment risk policies. MBOI's stand-alone financial statements and information on investment policies, investment activity, investment management fees, and a listing

of specific investments owned by the pooled asset accounts can be obtained from the Montana Board of Investments, P.O. Box 200126, Helena, MT 59620-0126. The MBOI website can be found at [investmentmt.com](http://investmentmt.com).

At June 30, 2022, TRS investments include the Short-Term Investment Pool (STIP) and the Consolidated Asset Pension Pool (CAPP).

#### **Short-Term Investment Pool (STIP)**

The Montana Public Retirement Plans investment in STIP will provide the Plans with exposure to Cash related investments. STIP will be managed internally by MBOI utilizing an active investment strategy. STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 120 days or less. This Pool is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants.

#### **Consolidated Asset Pension Pool (CAPP)**

CAPP invests directly in the underlying Pension Asset Classes (PACs) on behalf of the nine retirement systems within the MBOI Board-approved asset allocation ranges. Each PAC has an underlying set of MBOI Board-approved investment objectives and investment guidelines. Below is a short description of each PAC within the CAPP. For liquidity purposes, each PAC and external manager has a limited amount of cash/cash equivalents. With the exception of the Cash PAC, it is invested in the State Street Short Term Investment Fund (STIF), which invests in high quality short-term securities. For external managers, it is invested per MBOI established guidelines.

#### **Domestic Equities PAC**

Invests primarily in US traded equity securities such as common stock. The type of portfolio structures utilized are separately managed accounts, commingled accounts, limited partnerships, or limited liability companies, and exchange traded funds.

#### **International Equities PAC**

Invests primarily in international equity securities that trade on foreign exchanges in developed and emerging markets. The type of portfolio structures utilized are separately managed accounts, commingled accounts, limited partnerships, or limited liability companies, and exchange traded funds.

#### **Private Investments PAC**

Invests in the entire capital structure of private companies. The type of portfolio structures include private partnership interests, separate accounts, commingled funds and exchange traded funds. The investments typically have well-defined strategies such as buyout, venture, or distressed debt. Private Equity investments are considered long-term. Exchange traded funds are utilized to minimize the cash position.

#### **Real Estate PAC**

Invests primarily in real estate properties. The type of portfolio structures include private partnership interests, real estate investment trusts (REITs), separate accounts, commingled funds and exchange traded funds. The funds typically have well-defined strategies such as core, value-add, or opportunistic. Real Estate investments generally require long, time horizon to realize the value of the assets. Exchange traded funds are utilized to minimize the cash position.

#### **Real Assets PAC**

Invests in energy, timber investments or other commodity related assets. The type of portfolio structures include private partnership interests, separate accounts, commingled funds and exchange traded funds. Natural Resources investments generally require a long, time horizon to realize the value of the asset.

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### Core Fixed Income PAC

Invests primarily in marketable, publicly traded, investment grade fixed income securities denominated in U.S. dollars. The type of portfolio structures include internally managed portfolios or externally managed separate accounts, commingled funds and limited partnerships.

### Non-Core Fixed Income PAC

Invests primarily in marketable, publicly traded, high yield corporate debt, emerging market debt, convertible debt and preferred securities. The type of portfolio structures include separately managed accounts, commingled accounts, and limited partnerships.

### Cash PAC

Invests primarily in highly liquid, money-market type securities. The type of portfolio structures include the internally managed Short Term Investment Pool (STIP) or cash vehicles managed through MBOI's custodian or other Security Exchange Commission registered U.S. government money market funds.

#### TRS Investment Portfolio June 30, 2022

| Investment                      |           | Fair Value           |
|---------------------------------|-----------|----------------------|
| Short-Term Investment Pool      | \$        | 43,839,397           |
| Consolidated Asset Pension Pool |           | 4,645,886,890        |
| <b>Total</b>                    | <b>\$</b> | <b>4,689,726,287</b> |

### Consolidated Asset Pension Pool (CAPP)

CAPP is an internal investment pool managed and administered under the direction of the Montana Board of Investments (MBOI) as statutorily authorized by the Unified Investment Program. CAPP is a commingled internal investment pool and only the retirement systems can participate in CAPP. As necessary, redemptions are processed by MBOI in order to maintain required asset allocations and to provide liquidity for retirement benefits. The fair values of the investments in this category have been determined using the Net Asset Value (NAV) per share (or its equivalent) of the investment.

### Short Term Investment Pool (STIP)

STIP is an external investment pool managed and administered under the direction of MBOI as statutorily authorized by the Unified Investment Program. It is a commingled pool for investment purposes and participant requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

Refer to the fair value measurement note disclosures within MBOI's annual financial statements for the underlying investments within the fair value hierarchy. The hierarchy is no longer specific to pools. MBOI displays the hierarchy in the aggregate for all investment pools.

## Investments Measured at Fair Value

| Investments                                  | 6/30/2022            | Fair Value Measurements Using "Quoted Prices in Active Markets for Identical Assets (Level 1)" | "Significant Other Observable Inputs (Level 2)" | "Significant Unobservable (Level 3)" |
|--|----------------------|--|---|--------------------------------------|
| Total Investments by fair value level        | \$ -                 | \$ -   | \$ -  | \$ -                                 |
| Investments measured at the NAV              |                      |  |   |                                      |
| Consolidated Asset Pension Pool (CAPP)       | 4,645,886,890        |  |   |                                      |
| Short Term Investment Pool (STIP)            | 43,839,397           |  |   |                                      |
| <b>Total investments measured at the NAV</b> | <b>4,689,726,287</b> |  |   |                                      |

## Investments Measured at Net Asset Value

| Investments                                  | Fair Value              | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|--|-------------------------|----------------------|--|--------------------------|
| Consolidated Asset Pension Pool (CAPP)       | 4,645,886,890           | -                    | Monthly                                      | 30 days                  |
| Short Term Investment Pool (STIP)            | 43,839,397              | -                    | Daily  | 1 day                    |
| <b>Total investments measured at the NAV</b> | <b>\$ 4,689,726,287</b> |                      |  |                          |

## Investment Risks

The investment risks for the pooled investments that TRS participates in are described in the following paragraphs. Investments are administered by MBOI, for TRS, as part of the State of Montana's Unified Investment Program. The MBOI Board approves all Investment Policy Statements (IPS), including risk policies. MBOI's stand-alone financial statements detail the investment risks associated with the securities held by the pools.

### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counter-party to a transaction, the entity will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the MBOI's custodial bank must be rated, at a minimum, at the 6th highest investment grade rating by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) on an annual basis.

As of June 30th, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the MBOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage, and loan investments were purchased and recorded in the MBOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments. Therefore, the MBOI is not subject to custodial credit risk.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. Concentration of credit risk is addressed within all IPS's as set by the MBOI Board.

The STIP IPS limits concentration to credit risk exposure by limiting portfolio investment types to 3% in an issuer except for U.S. Treasury and U.S. Agency securities as well as any repurchase agreements with a financial institution.

## Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligation. Except for U.S. Government securities, CAPP's fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate. The U.S. Government guarantees its securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk.

As a matter of STIP investment policy, the MBOI's fixed income investment staff can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "US Treasury" or "US Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank.

## Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Per MBOI policy, there are maximum restrictions that can be held on non-US securities in a foreign currency and only CAPP is allowed to have foreign currency exposure. According to the CAPP IPS, the Core Fixed Income Asset Class and Non-Core Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investment made.

TRS' position in CAPP is approximately 34.77% at June 30, 2022. The Montana BOI CAPP investments in EURO cash and securities had a fair value of approximately \$235.7 million at June 30, 2022. The Montana BOI CAPP had cash and securities with a foreign currency value of approximately \$1.010 billion at June 30, 2022.

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. CAPP uses effective duration as a measure of interest rate risk for all fixed income portfolios and STIP uses the weighted average maturity.

According to the STIP investment policy, "the STIP portfolio will minimize interest rate risk by:

- Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
- Maintaining a dollar-weighted average portfolio maturity (WAM) of 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities), and
- STIP will maintain a reserve account."

The TRS investments subject to credit and interest rate risk at June 30, 2022 are categorized in the following table:

| Investment | Fair Value<br>6/30/22 | Credit<br>Quality Rating<br>6/30/22 | Effective Duration /<br>Weighted Average Maturity<br>6/30/22 |
|------------|-----------------------|-------------------------------------|--|
| CAPP       | 4,645,886,890         | N/R                                 | N/A  |
| STIP       | 43,839,397            | N/R                                 | 0.19 yrs or 68 days WAM                                      |

With the exception of the U.S. Government securities, the fixed income instruments have credit risk as measured by major credit rating services. Obligations of the U.S. Government or obligation explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. For a more complete picture of the interest rate risk associated with CAPP please see the MBOI financial statements and IPSs. Interest rate risk is addressed within all IPS's as set by the MBOI Board. CAPP and STIP investments have been rated by investment security type. However, CAPP as an external investment pool and STIP as an internal investment pool, have not been rated.

## Securities Lending Activity

The MBOI is authorized by law to lend its securities and has contracted with the custodial bank, to lend the MBOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The MBOI and the custodial bank split the earnings 85% and 15% respectively, on securities lending activities. The MBOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the MBOI's credit risk exposure to the borrowers. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults. Only CAPP participates in security lending. There were no failures by any borrowers to return or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during the fiscal year resulting from a borrower default. As of June 30, 2022, no securities were recalled and not yet returned.

The MBOI has an established schedule with the custodial bank that identifies the minimum credit rating and margin requirements for each securities lending instrument.

## **NOTE C. ASSETS USED IN PLAN OPERATIONS**

Assets Used in Plan Operations consist of the amounts shown in the following table as of June 30, 2022. Assets under \$5,000 are expensed in the year purchased. Assets valued between \$5,000-\$500,000 or more are recorded at cost less straight-line depreciation/amortization over the estimated useful life of the asset. Capitalization thresholds are set forth in State of Montana accounting policy and vary by asset type between \$5,000 and \$500,000. TRS had no asset purchases that met the capitalization thresholds for the fiscal year ended June 30, 2022.

TRS completed Phase II of its upgrade to the pension administration system project (M-Trust) in FY 2017. The system upgrade was implemented on a modular basis with all modules completed by February 2017. In FY 2017 TRS initiated Phase III of the upgrade to the pension administration system project (M-Trust). The system upgrade was implemented on a modular basis with all modules completed by November 2019. The investments in Phase II and Phase III of the M-Trust project as of June 30, 2022 are shown below and on the Basic Financial Statements in the Intangible Assets less Accumulated Amortization line items.

In July 2019 TRS moved to a new location. As part of the move, construction costs were incurred at the new location to make the space fit TRS business needs. The investment in the leasehold improvements at June 30, 2022 are shown below and on the Basic Financial Statements as part of the Leasehold Improvements less Accumulated Depreciation line items.

| <b>Assets Used in Plan Operations</b> | <b>2022</b>  |
|---------------------------------------|--------------|
| Leasehold Improvements                | \$ 243,881   |
| Less: Accumulated Depreciation        | (87,100)     |
| Equipment                             | 16,286       |
| Less: Accumulated Depreciation        | (16,286)     |
| Intangible Assets                     | 4,287,347    |
| Less: Accumulated Amortization        | (3,703,795)  |
| Intangible Right-to-Use Building      | 2,810,123    |
| Less: Accumulated Depreciation        | (165,301)    |
| Net Other Assets                      | \$ 3,385,155 |

## **New Accounting Pronouncement**

GASB Statement No. 87, Leases, was issued in June 2017. The objective of this statement is to increase the usefulness of financial statements by establishing a single model for lease accounting based on the principle that leases are financings of the right to use an asset. Lessees will recognize a lease liability and an intangible right to use asset and lessors will recognize a lease receivable and a deferred inflow of resources. For TRS this standard went into effect for the period ending June 30, 2022.

## Intangible Right-to-Use Lease Assets

TRS enters into contracts that convey control of the right to use an underlying asset for a period of time, as specified in the contract, in an exchange or exchange-like transaction. For eligible contracts with a term greater than 12 months, TRS records intangible right-to-use lease assets and a related lease liability at the commencement date of the lease. The Standard Lease liability, on the Statement of Fiduciary Net Position, represents TRS's obligation to make lease payments arising from the lease and are measured at the present value of expected lease payments over the term of the lease. The contract does not provide information about the discount rate implicit in the lease. Therefore, TRS has elected to use its incremental borrowing rate of 1.65% at commencement date July 1, 2021 to calculate the present value of the expected lease payments. The intangible right-to-use building lease asset, under Assets Used in Plan Operations on the Statement of Fiduciary Net Position, is based on the initial measure of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The State of Montana has adopted a capitalization threshold of \$100,000 for intangible right-to-use lease assets. Intangible right-to-use lease assets are amortized over the term of the contract and the useful life of the underlying asset. Interest expense is recognized ratably over the contract term.

TRS negotiated a 19-year lease for office space in February 2019, at the location of 100 North Park Avenue, Helena, MT. The lease is payable monthly. The lease agreement contains a termination clause whereby TRS can terminate the lease for any reason after June 30, 2022, by providing 729 days (2 year) notice. TRS is not expected to terminate the lease and therefore, the lease liability and right-to-use asset include the entire lease period. The building lease expires on June 30, 2038. The lease provides for increases in future minimum annual rental payments based on an escalation scale of 3% per year. Since, these future increases are considered likely, they are included in the measurement of the lease liability.

The outstanding lease liability as of June 30, 2022 is \$2,702,072. Total future minimum lease payments under the lease agreement are as follows:

| Fiscal Year Ended<br>June 30: | Principal    | Interest   | Total<br>Lease Payments |
|-------------------------------|--------------|------------|-------------------------|
| 2023                          | \$ 110,451   | \$ 43,751  | \$ 154,202              |
| 2024                          | \$ 116,948   | \$ 41,880  | \$ 158,828              |
| 2025                          | \$ 123,694   | \$ 39,899  | \$ 163,593              |
| 2026                          | \$ 130,695   | \$ 37,806  | \$ 168,501              |
| 2027                          | \$ 137,962   | \$ 35,594  | \$ 173,556              |
| 2028-2032                     | \$ 808,704   | \$ 104,371 | \$ 949,075              |
| 2033-2037                     | \$ 1,035,509 | \$ 64,729  | \$ 1,100,238            |
| 2038                          | \$ 238,109   | \$ 2,133   | \$ 240,242              |
| Totals                        | \$ 2,702,072 | \$ 406,165 | \$ 3,108,236            |

## **NOTE D. NET PENSION LIABILITY – TRS PLAN REPORTING**

### **Net Pension Liability – TRS Plan**

| <b>Fiscal Year Ending June 30, 2022</b>                       |                  |
|---|------------------|
| Total Pension Liability                                       | \$ 6,691,274,850 |
| Fiduciary Net Position  | \$ 4,724,449,484 |
| Net Pension Liability   | \$ 1,966,825,366 |
| Ratio of Fiduciary Net Position to<br>Total Pension Liability | 70.61%           |

The net pension liability is the retirement system's total pension liability (TPL) determined in accordance with GASB No. 67 less the fiduciary net position (FNP). As of June 30, 2022, the TRS net pension liability is \$1,966,825,366. July 1, 2022 is the date of the actuarial valuation upon which the TPL is based. Roll forward procedures were not used.

Actuarial valuation of the ongoing System involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The most recent experience study was performed in May of 2022 for the five year period ending July 1, 2021. The Schedule of Net Pension Liability presents multi-year trend information about whether the plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability. This schedule is presented in the Required Supplementary Information section.

### **Summary of Actuarial Assumptions – TRS Plan**

The TPL as of June 30, 2022, is based on the results of an actuarial valuation date of July 1, 2022. There were several significant assumptions and other inputs used to measure the total pension liability.

The actuarial assumptions used in the July 1, 2022 valuation were based on the results of the last actuarial experience study, dated May 3, 2022. Among those assumptions were the following:

|   |                |
|---|----------------|
| Salary Increases*   | 3.50% to 9.00% |
| Investment Rate of Return**   | 7.30%          |
| Price Inflation   | 2.75%          |
| Growth in Membership  | 0.00%          |
| Post-retirement Benefit Increases (Starting Three Years<br>After Retirement) - Tier 1 members | 1.50%          |
| Post-retirement Benefit Increases (Starting Three Years<br>After Retirement) - Tier 2 members | 0.50%          |
| Interest on Member Accounts   | 0.25%          |

*\*Total Wage Increases include 3.50% general wage increase assumption and a range of 0.00% to 5.50% merit and longevity increases based on years of service.*

*\*\*The Investment Rate of Return assumption increased from 7.06% at June 30, 2021 to 7.30% at June 30, 2022.*

## Target Allocations – TRS Plan

| Asset Class           | Target Asset Allocation (a) | Long-Term Expected Real Rate of Return Arithmetic Basis (b) | Portfolio Long-Term Expected Rate of Return* (a) x (b) |
|-----------------------|-----------------------------|---|--|
| Domestic Equity       | 30.00%                      | 5.90%   | 1.77%  |
| International Equity  | 17.00%                      | 7.14%   | 1.21%  |
| Private Investments   | 15.00%                      | 9.13%   | 1.37%  |
| Real Assets           | 5.00%                       | 4.03%   | 0.20%  |
| Real Estate           | 9.00%                       | 5.41%   | 0.49%  |
| Core Fixed Income     | 15.00%                      | 1.14%   | 0.17%  |
| Non-Core Fixed Income | 6.00%                       | 3.02%   | 0.18%  |
| Cash                  | 3.00%                       | (0.33%)   | (0.01%)  |
| Totals                | 100.00%                     |   | 5.38%  |
|                       |                             |   | Inflation 2.75%  |
|                       |                             |   | Portfolio long-term expected rate of return 8.13%      |

*\*The portfolio long-term expected rate of return above of 8.13% differs from the total TRS long-term rate of return assumption of 7.30% (Discount Rate). The assumed rate of 7.30% is comprised of a 2.75% inflation rate and an expected long-term real rate of return of 4.55%.*

The long-term expected rate of return on pension plan investments of 7.30% is reviewed as part of regular experience studies prepared for the System about every five years. The current long-term rate of return is based on analysis in the experience study report dated May 3, 2022. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The discount rate (long-term rate of return assumption) used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana State Code. These rates are shown in the following tables. In addition to these contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was used in determining the discount rate.

## History of Legislated Contributions – School Districts, Community Colleges, Counties, and Education Cooperatives by Percent of Covered Payroll

|                               | Members | Employers | General Fund | Total  |
|-------------------------------|---------|-----------|--------------|--------|
| Prior to July 1, 2007         | 7.15%   | 7.47%     | 0.11%        | 14.73% |
| July 1, 2007 to June 30, 2009 | 7.15%   | 7.47%     | 2.11%        | 16.73% |
| July 1, 2009 to June 30, 2013 | 7.15%   | 7.47%     | 2.49%        | 17.11% |
| July 1, 2013 to June 30, 2014 | 8.15%   | 8.47%     | 2.49%        | 19.11% |
| July 1, 2014 to June 30, 2015 | 8.15%   | 8.57%     | 2.49%        | 19.21% |
| July 1, 2015 to June 30, 2016 | 8.15%   | 8.67%     | 2.49%        | 19.31% |
| July 1, 2016 to June 30, 2017 | 8.15%   | 8.77%     | 2.49%        | 19.41% |

**History of Legislated Contributions – School Districts, Community Colleges, Counties, and Education Cooperatives by Percent of Covered Payroll**

|                               | Members | Employers | General Fund | Total  |
|-------------------------------|---------|-----------|--------------|--------|
| July 1, 2017 to June 30, 2018 | 8.15%   | 8.87%     | 2.49%        | 19.51% |
| July 1, 2018 to June 30, 2019 | 8.15%   | 8.97%     | 2.49%        | 19.61% |
| July 1, 2019 to June 30, 2020 | 8.15%   | 9.07%     | 2.49%        | 19.71% |
| July 1, 2020 to June 30, 2021 | 8.15%   | 9.17%     | 2.49%        | 19.81% |
| July 1, 2021 to June 30, 2022 | 8.15%   | 9.27%     | 2.49%        | 19.91% |
| July 1, 2022 to June 30, 2023 | 8.15%   | 9.37%     | 2.49%        | 20.01% |
| July 1, 2023 to June 30, 2024 | 8.15%   | 9.47%     | 2.49%        | 20.11% |

**State and University Employers**

|                               | Members | Employers | General Fund | Total  |
|-------------------------------|---------|-----------|--------------|--------|
| Prior to July 1, 2007         | 7.15%   | 7.47%     | 0.11%        | 14.73% |
| July 1, 2007 to June 30, 2009 | 7.15%   | 9.47%     | 0.11%        | 16.73% |
| July 1, 2009 to June 30, 2013 | 7.15%   | 9.85%     | 0.11%        | 17.11% |
| July 1, 2013 to June 30, 2014 | 8.15%   | 10.85%    | 0.11%        | 19.11% |
| July 1, 2014 to June 30, 2015 | 8.15%   | 10.95%    | 0.11%        | 19.21% |
| July 1, 2015 to June 30, 2016 | 8.15%   | 11.05%    | 0.11%        | 19.31% |
| July 1, 2016 to June 30, 2017 | 8.15%   | 11.15%    | 0.11%        | 19.41% |
| July 1, 2017 to June 30, 2018 | 8.15%   | 11.25%    | 0.11%        | 19.51% |
| July 1, 2018 to June 30, 2019 | 8.15%   | 11.35%    | 0.11%        | 19.61% |
| July 1, 2019 to June 30, 2020 | 8.15%   | 11.45%    | 0.11%        | 19.71% |
| July 1, 2020 to June 30, 2021 | 8.15%   | 11.55%    | 0.11%        | 19.81% |
| July 1, 2021 to June 30, 2022 | 8.15%   | 11.65%    | 0.11%        | 19.91% |
| July 1, 2022 to June 30, 2023 | 8.15%   | 11.75%    | 0.11%        | 20.01% |
| July 1, 2023 to June 30, 2024 | 8.15%   | 11.85%    | 0.11%        | 20.11% |

*Pursuant to §19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014, through fiscal year 2024.*

**Sensitivity Analysis – TRS Plan**

|                       | 1.0% Decrease<br>(6.30%) | Current<br>Discount Rate | 1.0% Increase<br>(8.30%) |
|-----------------------|--------------------------|--------------------------|--------------------------|
| Net Pension Liability | \$ 2,747,352,933         | \$ 1,966,825,366         | \$ 1,313,622,251         |

In accordance with GASB 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.30%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.30%) or 1.00% higher (8.30%) than the current rate.

**Schedule of Investment Returns – TRS Plan**

**TRS Plan Schedule of Investment Returns**

|  | 2022    |
|--|---------|
| Annual Money Weighted Rate Return, Net of Investment Expense | (4.14)% |

The annual money-weighted rate of return on pension plan investments expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

## **NOTE E. NET PENSION LIABILITY – EMPLOYER REPORTING**

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, TRS is required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 includes requirements to record and report employers' proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, the State of Montana has a funding situation that is Special Funding whereby the State general fund provides statutorily required contributions to the PERS plan. Due to the existence of a special funding situation, TRS is required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with TRS. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2022 and June 30, 2021 (reporting dates).

### **Net Pension Liability – PERS Plan**

|   | Net Pension<br>Liability as of<br>6/30/22 | Net Pension<br>Liability as of<br>6/30/21 | Percent of<br>Collective<br>NPL as<br>6/30/22 | Percent of<br>Collective<br>NPL as<br>6/30/21 | Change in<br>Percent of<br>Collective<br>NPL |
|---|---|---|---|---|--|
| TRS Proportionate Share                                     | \$ 1,394,112                              | \$ 1,885,625                              | 0.0769%                                       | 0.0714%                                       | 0.0054%                                      |
| State of Montana Proportionate<br>Share Associated with TRS | \$ 394,640                                | \$ 571,643                                | 0.0218%                                       | 0.0217%                                       | 0.0001%                                      |
| Total   | \$ 1,788,752                              | \$ 2,457,268                              | 0.0987%                                       | 0.0931%                                       | 0.0055%                                      |

At June 30, 2022, TRS recorded a liability of \$1,394,112 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2021, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2020, with update procedures to roll forward the TPL to the measurement date to June 30, 2021. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

TRS' proportion of the Net Pension Liability was based on the employer contributions received by PERS during the measurement period July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2022, the TRS' proportion was 0.0769 percent.

### **Summary of Actuarial Assumptions – PERS Plan**

#### ***Changes in actuarial assumptions and methods:***

The following changes in assumptions or other inputs were made that affected the measurement of the TPL.

- The discount rate was lowered from 7.34% to 7.06%
- The investment rate of return was lowered from 7.34% to 7.06%

#### ***Changes in benefit terms:***

There have been no changes in benefit terms since the previous measurement date.

#### ***Changes in proportionate share:***

There were no changes between the measurement date of the collective Net Pension Liability and TRS's reporting date that are expected to have a significant effect on the TRS's proportionate share percentage of the collective NPL.

### Pension Expense – PERS Plan

|   | Pension Expense as of 6/30/22 |         |
|---|-------------------------------|---------|
| TRS Proportionate Share   | \$                            | 101,659 |
| Proportionate Share of Montana State General Fund Appropriation Associated with TRS | \$                            | 36,909  |
| Total   | \$                            | 138,568 |

At June 30, 2022, TRS recognized a Pension Expense of 138,568 for its proportionate share of the PERS' pension expense. TRS also recognized grant revenue of \$36,909 for the support provided by the State of Montana for the proportionate share of the general fund contributions made to PERS that are associated with TRS.

### Deferred Inflows and Outflows – PERS Plan

At June 30, 2022, TRS reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience  | \$ 14,878                         | \$ 10,092                        |
| Changes in Actuarial Assumptions   | \$ 206,494                        | \$ 0                             |
| Difference Between Projected and Actual Investment Earnings  | \$ 0                              | \$ 564,769                       |
| Changes in Proportion and Differences Between TRS Contributions and Proportionate Share of Contributions | \$ 93,034                         | \$ 0                             |
| *Contributions Paid to PERS Subsequent to the Measurement Date – FY 2022 Contributions                   | \$ 121,361                        | \$ 0                             |
| Total  | \$ 435,767                        | \$ 574,861                       |

*\*Amounts reported as deferred outflows of resources related to pensions resulting from TRS's contributions in FY 2022 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:*

| Fiscal Year Ended<br>June 30: | Amount Recognized as an Increase (or Decrease)<br>to Pension Expense in Future Years |
|-------------------------------|--|
| 2023                          | \$ 58,812  |
| 2024                          | \$ (2,573)   |
| 2025                          | \$ (136,406)   |
| 2026                          | \$ (180,288)   |
| Thereafter                    | –  |

### Plan Description – PERS Plan

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 and 3, MCA. This plan provides retirement benefits to covered employees of the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement

Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

## **Summary of Benefits – PERS Plan**

### ***Eligibility for Benefit***

#### *Service retirement:*

Hired prior to July 1, 2011:

- Age 60, 5 years of membership service;
- Age 65, regardless of membership service, or
- Any age, 30 years of membership service.

Hired on or after July 1, 2011:

- Age 65, 5 years of membership service;
- Age 70, regardless of membership service.

For PERS-DCRP Plan, members are eligible for benefit at termination of service.

#### *Early retirement, actuarially reduced:*

Hired prior to July 1, 2011:

- Age 50, 5 years of membership service, or
- Any age, 25 years of membership service.

Hired on or after July 1, 2011:

- Age 55, 5 years of membership service.

### ***Vesting***

Five years of membership service.

For PERS-DCRP Plan, members are vested immediately for participant's contributions and attributable income. Member's must have 5 years of membership to become eligible for the employer's contributions to individual accounts and attributable income.

### ***Member's Highest Average Compensation (HAC)***

Hired prior to July 1, 2011:

- Highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011:

- Highest average compensation during any consecutive 60 months;

Hired on or after July 1, 2013:

- 110% annual cap on compensation considered as part of a member's highest average compensation.

**Monthly Benefit Formula**Members hired prior to July 1, 2011:

Less than 25 years of membership service:

- 1.785% of HAC per year of service credit;

25 years of membership service or more:

- 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

Less than 10 years of membership service:

- 1.5% of HAC per year of service credit.

10 years or more, but less than 30 years of membership service:

- 1.785% of HAC per year of service credit.

30 years or more of membership service:

- 2% of HAC per year of service credit.

For PERS-DCRP, Plan member's benefit depends entirely on vesting and individual account balance. Various payout options are available, including: taxable lump-sum payouts, periodic payments, per member instructions and IRS permitted rollovers.

**Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- GABA is 3% for members hired prior to July 1, 2007.
- GABA is 1.5% for members hired on or after July 1, 2007.
- Members hired on or after July 1, 2013:
  - (a) 1.5% for each year PERS is funded at or above 90%;
  - (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
  - (c) 0% whenever the amortization period for PERS is 40 years or more.

**Overview of Contributions – PERS Plan**

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan.

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1, following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
  2. Employer contributions to the system:
    - a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1, following an actuary valuation that shows the amortization
-

period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.

- b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

### 3. Non-employer Contributions:

- a. Special Funding
  - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
  - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
  - iii. The state contributed a Statutory Appropriation from the General Fund of \$34,290,660.

### Stand-Alone Statements – PERS Plan

The PERS financial information is reported in the Public Employees' Retirement Board's (PERB) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended. It is available from the PERB at 100 North Park Ave, PO Box 200131, Helena MT 59620-0131, 406-444-3154.

ACFR information including PERS stand-alone financial statements and the GASB 68 report can be found on their website at [mpera.mt.gov](http://mpera.mt.gov).

The latest actuarial valuation and experience study can also be found at their website at [mpera.mt.gov](http://mpera.mt.gov).

### Actuarial Assumptions – PERS Plan

The Total Pension Liability measured as of June 30, 2021 is based on the results of an actuarial valuation date of June 30, 2020 with update procedures to roll forward the TPL to June 30, 2021. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the valuation and roll-forward procedures were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

|  |             |
|--|-------------|
| General Wage Growth*   | 3.50%       |
| *Includes Inflation at   | 2.40%       |
| Admin Expense as % of Payroll  | 0.28%       |
| Merit Wage Increases   | 0% to 4.80% |
| Investment Return  | 7.06%       |
| Post-retirement Benefit Increases  |             |
| After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.  |             |
| <ul style="list-style-type: none"> <li>• GABA is 3.0% for members hired prior to July 1, 2007.</li> <li>• GABA is 1.5% for members hired on or after July 1, 2007</li> <li>• GABA is 1.5% for members hired on or after July 1, 2013 for each year PERS is funded at or above 90%. The 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%</li> <li>• GABA is 0.0% for members hired on or after July 1, 2013 for each year the PERS amortization period is 40 years or more</li> </ul> |             |
| Mortality assumptions among contributing members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.  |             |
| Mortality assumptions among disabled members are based on RP 2000 Combined Mortality Tables with no projections.   |             |

### Discount Rate – PERS Plan

The discount rate used to measure the Total Pension Liability was 7.06%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the PERS Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.10% of salaries for local governments and 0.37% for school districts.

In addition, the State contributes a statutory appropriation from the general fund. Based on those assumptions, the PERS' fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

### Target Allocations – PERS Plan

| Asset Class           | Target Asset Allocation | Long- Term Expected Real Rate of Return Arithmetic Basis |
|-----------------------|-------------------------|--|
| Cash Equivalents      | 0.0%                    | (0.33%)  |
| Domestic Equity       | 30.0%                   | 5.90%  |
| International Equity  | 17.0%                   | 7.14%  |
| Private Investments   | 15.0%                   | 9.13%  |
| Real Assets           | 5.0%                    | 4.03%  |
| Real Estate           | 9.0%                    | 5.41%  |
| Core Fixed Income     | 15.0%                   | 1.14%  |
| Non-Core Fixed Income | 6.0%                    | 3.02%  |
| Total                 | 100.0%                  |  |

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2021 was calculated using the average long-term capital market assumptions published in the Survey of Capital Market Assumptions 2021 Edition by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.66%. The assumed inflation is based on the intermediate inflation of 2.40% in the 2022 OASDI Trustees Report by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.06%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021 are summarized in the Target Allocations – PERS Plan table above.

### Sensitivity Analysis – PERS Plan

|  | 1.0% Decrease<br>(6.06%) | Current Discount<br>Rate (7.06%) | 1.0% Increase<br>(8.06%) |
|--|--------------------------|----------------------------------|--------------------------|
| TRS' Proportion of Net Pension Liability | \$ 2,212,935             | \$ 1,394,112                     | \$ 707,309               |

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.06%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.06%) or 1.00% higher (8.06%) than the current rate.

### Summary of Significant Accounting Policies – PERS Plan

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position, and additions to/ deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

## **Defined Contribution Plan – PERS Plan**

TRS contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for TRS employees that have elected the DCRP. The PERS-DCRP plan is administered by MPERA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. For the year ended June 30, 2022, member contributions were 7.9% of gross compensation and Employers contributed 8.97% of gross compensation on behalf of DCRP members.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2021, TRS did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 340 employers that have participants in the PERS-DCRP totaled \$1,103,889.

### **NOTE F. TRS PLAN CONTRIBUTIONS**

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2022, were required to contribute 8.15% of their earned compensation and the employer contribution rate for school district, education cooperative, county, and community college employers for the fiscal year ending June 30, 2022 was 9.27% of earned compensation. For state agency and university system employers, the employer contribution rate was 11.65% of members' earned compensation.

The State's general fund contributed an additional 2.38% of earned compensation for TRS members employed at school districts, community colleges, educational cooperatives, and counties in Montana. In addition, the State's general fund contributed 0.11% of earned compensation for all TRS members. The State's general fund also contributes a statutory supplemental contribution of \$25 million to TRS due on July 1st each year. Each employer in the Montana University System contributed 4.72% of earned compensation for all employees participating in the Montana University System Retirement Program (MUS-RP).

The TRS actuary determines the actuarial implications of the funding requirement in annual actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age actuarial cost method, with both normal cost and amortization of the accrued liability determined as a level percentage of earned compensation. Contribution rates consist of an amount for normal cost, the estimated amount necessary to finance benefits earned by the members during the current year, and an amount for amortization of the unfunded actuarial accrued liability.

Contributions made by employers and members were in accordance with actuarially computed funding requirements. Information with regard to contributions to the System, for the year ended June 30, 2022, is indicated in the Required Supplemental Information, Schedule of Employer Contributions.

### **NOTE G. OTHER POST-EMPLOYMENT BENEFITS**

#### **Plan Description**

TRS through the State of Montana provides optional post-employment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established

contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan.

In accordance with GASB Statement No. 75, Accounting and Financial Reporting for Post Employment Benefits Other than Pensions, TRS is required to recognize and report certain amounts associated with their employees and dependents that are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. Statement 75 includes requirements to record and report employers' proportionate share of the collective Total OPEB Liability, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources associated with OPEB.

The State of Montana OPEB plan is not administered through a trust; as such, there are no plan assets accumulated to offset the total OPEB liability. The State of Montana OPEB plan is reported as a single-employer plan.

The State of Montana pays for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-811, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Plan coverage is on a calendar year basis. For GASB Statement No. 75 reporting, the State Group Benefits Plan is considered a single-employer plan.

As of December 31, 2020, the State Plan's administratively established retiree medical contributions vary between \$457 and \$2,172 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between \$41.10 and \$70 and vision hardware contributions vary between \$7.64 and \$22.26 depending on the coverage selected. The plan is financed on a pay-as-you-go basis. Therefore, there are no investment objectives of the OPEB plan.

The following estimates were prepared based on an actuarial valuation prepared as of the year ending December 31, 2020 for the Department of Administration, with update procedures to roll forward the OPEB amounts to the measurement date of March 31, 2022. The resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits (OPEB) contains the TRS data and is available through the following address.

Montana Department of Administration  
State Accounting Division  
Room 255, Mitchell Bldg  
125 N Roberts Street  
PO Box 200102  
Helena, MT 59620-0102

### **Total OPEB Liability and Changes in Total OPEB Liability**

TRS' Total OPEB Liability as of June 30, 2022 was \$235,221. TRS proportionate share of the collective Total OPEB Liability was 0.19026%. The basis on which TRS' proportionate share was calculated was by taking TRS calculated OPEB Liability as a percentage of the Total OPEB Liability for the State of Montana.

The following table presents the Changes in the Total OPEB Liability:

| Schedule of Changes in Total OPEB Liability |    | TRS      |
|---|----|----------|
| Balance as of 06/30/21                      | \$ | 280,653  |
| Changes for the Year:                       |    |          |
| Service Cost                                |    | 14,573   |
| Interest                                    |    | 6,632    |
| Diff b/w Expected and Actual Experience     |    | 0        |
| Changes of Assumptions and Other Inputs     |    | (71,013) |
| Benefit Payments (Contributions)            |    | 4,376    |
| Net Changes in Total OPEB Liability         |    | (45,432) |
| Balance as of 06/30/22                      | \$ | 235,221  |

## Actuarial Assumptions and Other Inputs

The Total OPEB Liability in the latest actuarial valuation dated December 31, 2020, the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial valuation date: December 31, 2020
- Experience Study Period: January 1, 2018 through December 31, 2020
- Actuarial measurement date\*: March 31, 2022
- Actuarial cost method: Entry age normal funding method
- Actuarial Assumptions:
  - Discount rate: 3.31%
  - Projected payroll increases: 2.50%
  - Participation: Future retirees 40.00%, Future eligible spouses 70.00%
  - Marital status at retirement: 70.00%

\* Update procedures were used to roll forward the total OPEB liability to the measurement date March 31, 2022.

**Mortality – Healthy:** For the OPEB Plan, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

**Mortality – Disabled:** For the OPEB Plan, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

## Changes in actuarial assumptions and methods since last measurement date:

- Changes in actuarial assumptions include an increase in the interest/discount rate from 2.23% to 3.31%.

## Changes in benefit terms since last measurement date:

- None.

## Sensitivity Analysis

Sensitivity of the total OPEB liability to changes in the discount rate:

The following table presents the total OPEB liability of TRS if it were calculated using a discount rate that is 1.00% lower (2.31%) or 1.00% higher (4.31%) than the current discount rate (3.31%):

| Discount Rate        | 1% Decrease (2.31%) | Discount Rate (3.31%) | 1% Increase (4.31%) |
|----------------------|---------------------|-----------------------|---------------------|
| Total OPEB Liability | \$291,178           | \$235,221             | \$192,718           |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates:

The following table presents the total OPEB liability of TRS if it were calculated using healthcare cost trend rates that are 1.00% lower (5.0%) or 1.00% higher (7.0%) than the current healthcare cost trend rate (6.0%):

| Healthcare Rate      | 1% Decrease (5.00%) | Healthcare Rate (6.00%) | 1% Increase (7.00%) |
|----------------------|---------------------|-------------------------|---------------------|
| Total OPEB Liability | \$185,195           | \$235,221               | \$304,481           |

## OPEB Expense

For the year ended June 30, 2022, TRS recognized an OPEB expense of \$25,401.

## Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2022, TRS recorded deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | Deferred Outflow<br>of Resources | Deferred Inflow<br>of Resources |
|---|----------------------------------|---------------------------------|
| Difference between expected and actual experience   | \$6,016                          | \$56,734                        |
| Changes of assumptions of other inputs  | \$214,426                        | \$101,755                       |
| Prior Period Amortization of outflows/inflows   | (\$19,852)                       | (\$15,398)                      |
| FY 22 Amortization of outflows/inflows  | (\$16,827)                       | (\$12,631)                      |
| *Benefit Payments associated with transactions subsequent to the measurement date of the total OPEB liability | \$0                              | \$0                             |
| Total   | \$183,763                        | \$130,460                       |

*\*Amounts reported as deferred outflows of resources related to OPEB resulting from TRS's Benefit Payments in FY 2022 (April 1, 2022 through June 30, 2022) subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:*

| Fiscal Year | Amount recognized as Increase or<br>(Decrease) to OPEB Expense |
|-------------|--|
| 2023        | \$4,196  |
| 2024        | \$4,196  |
| 2025        | \$4,196  |
| 2026        | \$4,196  |
| 2027        | \$4,196  |
| Thereafter  | \$32,323   |

## NOTE H. PENDING LITIGATION

As of June 30, 2022, TRS had no pending litigation that would significantly affect the information presented in this financial report.

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**TEACHERS' RETIREMENT SYSTEM**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**REQUIRED SUPPLEMENTARY INFORMATION AND NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FISCAL YEAR ENDED JUNE 30, 2022**

**Schedule of Changes in the Net Pension Liability – TRS Plan**

|  | 2022*            | 2021*            | 2020*            | 2019*            | 2018*            |
|--|------------------|------------------|------------------|------------------|------------------|
| Total Pension Liability                            |                  |                  |                  |                  |                  |
| Service Cost                                       | \$ 96,144,734    | \$ 81,016,509    | \$ 76,334,643    | \$ 75,236,616    | \$ 76,009,950    |
| Interest   | 463,209,558      | 461,973,793      | 452,258,006      | 441,958,241      | 428,866,673      |
| Benefit Changes                                    |                  |                  | -                | -                | -                |
| Difference Between Expected and Actual Experience  | 21,772,825       | 21,712,947       | 22,424,700       | 6,775,269        | 14,571,084       |
| Changes of Assumptions                             | (238,551,692)    | 200,170,596      | 107,293,117      | (6,059,430)      | 206,321,172      |
| Benefit Payments                                   | (414,346,628)    | (399,897,777)    | (384,396,941)    | (367,779,905)    | (352,854,025)    |
| Refunds of Contributions                           | (10,338,308)     | (8,889,937)      | (5,171,751)      | (6,008,447)      | (5,322,642)      |
| Net Change in Total Liability                      | (82,109,511)     | 356,086,131      | 268,741,774      | 144,122,344      | 367,592,212      |
| Total Pension Liability Beginning                  | \$ 6,773,384,361 | \$ 6,417,298,230 | \$ 6,148,556,456 | \$ 6,004,434,112 | \$ 5,636,841,900 |
| Total Pension Liability Ending (a)                 | \$ 6,691,274,850 | \$ 6,773,384,361 | \$ 6,417,298,230 | \$ 6,148,556,456 | \$ 6,004,434,112 |
| Fiduciary Net Position                             |                  |                  |                  |                  |                  |
| Contributions - Employer                           | \$ 109,672,148   | \$ 103,219,072   | \$ 102,420,318   | \$ 97,303,048    | \$ 94,233,469    |
| Contributions - Member                             | 85,736,884       | 81,120,904       | 80,194,548       | 78,150,923       | 74,594,333       |
| Contributions - Non-Employer Contributing Entities | 47,999,525       | 47,020,904       | 45,948,388       | 45,495,334       | 45,005,672       |
| Miscellaneous Income                               | 36,921           | 974,981          | 51,927           | 31,040           | 31,829           |
| Net Investment Income                              | (207,441,090)    | 1,129,751,837    | 112,588,645      | 227,892,287      | 343,720,833      |
| Benefit Payments                                   | (414,346,628)    | (399,897,777)    | (384,396,941)    | (367,779,905)    | (352,854,025)    |
| Administrative Expenses                            | (3,555,107)      | (3,936,633)      | (3,767,693)      | (2,947,109)      | (2,849,527)      |
| Refund of Contributions                            | (10,338,308)     | (8,889,937)      | (5,171,751)      | (6,008,447)      | (5,322,642)      |
| Other  | (163,969)        | (353,364)        | (204,156)        | (174,476)        | (157,777)        |
| Net Change in Fiduciary Net Position               | (392,399,624)    | 949,009,550      | (52,336,715)     | 71,962,695       | 197,402,165      |
| Fiduciary Net Position - Beginning                 | 5,116,849,108    | 4,167,839,558    | 4,220,285,752    | 4,148,324,206    | 3,950,761,443    |
| Prior Period Adjustment                            | -                | -                | (109,479)        | (1,149)          | 160,598          |
| Fiduciary Net Position - Ending (b)                | \$ 4,724,449,484 | \$ 5,116,849,108 | \$ 4,167,839,558 | \$ 4,220,285,752 | \$ 4,148,324,206 |
| Net Pension Liability - Ending (a - b)             | \$ 1,966,825,366 | \$ 1,656,535,253 | \$ 2,249,458,672 | \$ 1,928,270,704 | \$ 1,856,109,906 |

|  | 2017*            | 2016*            | 2015*            | 2014*            |
|--|------------------|------------------|------------------|------------------|
| Total Pension Liability                            |                  |                  |                  |                  |
| Service Cost                                       | \$ 71,429,117    | \$ 73,530,938    | \$ 73,820,438    | \$ 77,006,174    |
| Interest   | 417,307,148      | 402,339,969      | 390,555,879      | 373,456,442      |
| Benefit Changes                                    | -                | -                | -                | -                |
| Difference Between Expected and Actual Experience  | 5,420,919        | (5,245,998)      | 9,660,152        | 20,297,029       |
| Changes of Assumptions                             | -                | (12,445,656)     | (4,670,553)      | 46,502,421       |
| Benefit Payments                                   | (333,633,717)    | (320,810,259)    | (303,675,300)    | (285,182,358)    |
| Refunds of Contributions                           | (7,355,344)      | (5,086,816)      | (5,368,359)      | (4,788,688)      |
| Net Change in Total Liability                      | 153,168,123      | 132,282,178      | 160,322,257      | 227,291,020      |
| Total Pension Liability Beginning                  | \$ 5,483,673,777 | \$ 5,351,391,599 | \$ 5,191,069,342 | \$ 4,963,778,322 |
| Total Pension Liability Ending (a)                 | \$ 5,636,841,900 | \$ 5,483,673,777 | \$ 5,351,391,599 | \$ 5,191,069,342 |
| Fiduciary Net Position                             |                  |                  |                  |                  |
| Contributions - Employer                           | \$ 91,853,678    | \$ 88,643,646    | \$ 87,290,863    | \$ 83,439,612    |
| Contributions - Member                             | 74,253,046       | 72,740,665       | 72,215,797       | 70,468,354       |
| Contributions - Non-Employer Contributing Entities | 44,414,109       | 43,902,606       | 43,389,534       | 64,923,320       |
| Miscellaneous Income                               | 27,504           | 29,123           | 27,297           | 6,000            |
| Net Investment Income                              | 427,042,359      | 71,487,661       | 165,684,953      | 540,277,362      |
| Benefit Payments                                   | (333,633,717)    | (320,810,259)    | (303,675,300)    | (285,182,358)    |
| Administrative Expenses                            | (2,459,458)      | (2,318,818)      | (2,035,081)      | (2,022,636)      |
| Refund of Contributions                            | (7,355,344)      | (5,086,816)      | (5,368,359)      | (4,788,688)      |
| Other  | (211,532)        | (142,849)        | (140,631)        | (58,073)         |
| Net Change in Fiduciary Net Position               | 293,930,645      | (51,555,041)     | 57,389,073       | 467,062,894      |
| Fiduciary Net Position - Beginning                 | 3,656,830,798    | 3,708,385,838    | 3,652,220,265    | 3,185,064,406    |
| Prior Period Adjustment                            | -                | -                | (1,223,501)      | 92,965           |
| Fiduciary Net Position - Ending (b)                | \$ 3,950,761,443 | \$ 3,656,830,798 | \$ 3,708,385,838 | \$ 3,652,220,265 |
| Net Pension Liability - Ending (a - b)             | \$ 1,686,080,457 | \$ 1,826,842,979 | \$ 1,643,005,761 | \$ 1,538,849,077 |

\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

### Note to RSI - Schedule of Changes in the Net Pension Liability and Schedule of Net Pension Liability

The TPL contained in these schedules was provided by the System's actuary, Cavanaugh Macdonald Consulting, LLC. The TPL is measured as the TPL less the amount of the FNP of the Retirement System. Prior to the fiscal year ended June 30, 2018, the Net Investment Income, Net Change in Fiduciary Net Position, and Prior Period Adjustment items in the Schedule of Changes in Fiduciary Net Position matched the Statement of Changes in Net position. However, there was an ACFR only adjustment in FY2018 that was issued by the MBOI after the Schedule of Changes in Fiduciary Net Position above had been complete. The adjustment affected the Net Investment Income, Net Change in Fiduciary Net Position, and Prior Period Adjustment items by \$56,880 (the amount of the ACFR only adjustment).

#### Schedule of the Net Pension Liability – TRS Plan

|  | 2022*            | 2021*            | 2020*            | 2019*            | 2018*            |
|--|------------------|------------------|------------------|------------------|------------------|
| Total Pension Liability                                    | \$ 6,691,274,850 | \$ 6,773,384,361 | \$ 6,417,298,230 | \$ 6,148,556,456 | \$ 6,004,434,112 |
| Fiduciary Net Position                                     | 4,724,449,484    | 5,116,849,108    | 4,167,839,558    | 4,220,285,752    | 4,148,324,206    |
| Net Pension Liability                                      | \$ 1,966,825,366 | \$ 1,656,535,253 | \$ 2,249,458,672 | \$ 1,928,270,704 | \$ 1,856,109,906 |
| Ratio of Fiduciary Net Position to Total Pension Liability | 70.61%           | 75.54%           | 64.95%           | 68.64%           | 69.09%           |
| Covered Payroll  | \$ 960,836,370   | \$ 922,764,585   | \$ 880,667,518   | \$ 857,467,932   | \$ 829,708,595   |
| Net Pension Liability as a Percentage of Covered Payroll   | 204.70%          | 179.52%          | 255.43%          | 224.88%          | 223.71%          |

|  | 2017*            | 2016*            | 2015*            | 2014*            |
|--|------------------|------------------|------------------|------------------|
| Total Pension Liability                                    | \$ 5,636,841,900 | \$ 5,483,673,777 | \$ 5,351,391,599 | \$ 5,191,069,342 |
| Fiduciary Net Position                                     | 3,950,761,443    | 3,656,830,798    | 3,708,385,838    | 3,652,220,265    |
| Net Pension Liability                                      | \$ 1,686,080,457 | \$ 1,826,842,979 | \$ 1,643,005,761 | \$ 1,538,849,077 |
| Ratio of Fiduciary Net Position to Total Pension Liability | 70.09%           | 66.69%           | 69.30%           | 70.36%           |
| Covered Payroll  | \$ 818,122,561   | \$ 795,920,906   | \$ 768,718,699   | \$ 750,604,063   |
| Net Pension Liability as a Percentage of Covered Payroll   | 206.09%          | 229.53%          | 213.73%          | 205.01%          |

\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

#### Schedule of Investment Returns – TRS Plan

|  | 2022*   | 2021*  | 2020* | 2019* | 2018* |
|--|---------|--------|-------|-------|-------|
| Annual Money Weighted Rate Return, Net of Investment Expense | (4.14)% | 27.71% | 2.72% | 5.61% | 8.88% |

|  | 2017*  | 2016* | 2015* | 2014*  |
|--|--------|-------|-------|--------|
| Annual Money Weighted Rate Return, Net of Investment Expense | 11.92% | 1.99% | 4.62% | 17.18% |

\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Schedule of Employer and Non-employer Contributing Entities Contributions – TRS Plan**

|   | 2022           | 2021           | 2020           | 2019           | 2018           |
|---|----------------|----------------|----------------|----------------|----------------|
| Actuarially Determined Employer Contributions           | \$ 157,671,673 | \$ 150,239,539 | \$ 148,368,706 | \$ 143,107,320 | \$ 139,239,141 |
| Actual Contributions:                                   |                |                |                |                |                |
| Employers   | 109,672,148    | 103,219,072    | 102,420,318    | 97,303,048     | 94,233,469     |
| Non-Employer Contributing Entities                      | \$ 47,999,525  | \$ 47,020,467  | \$ 45,948,388  | \$ 45,495,334  | \$ 45,005,672  |
| Total   | \$ 157,671,673 | \$ 150,239,539 | \$ 148,368,706 | \$ 142,798,382 | \$ 139,239,141 |
| Annual Contribution Deficiency/ (Excess)                |                | –              | –              | 308,938        | –              |
| Covered Payroll   | 960,836,370    | 922,764,585    | 880,667,518    | 857,467,932    | 829,708,595    |
| Actual Contributions as a Percentage of Covered Payroll | 16.41%         | 16.28%         | 16.85%         | 16.65%         | 16.78%         |

|   | 2017           | 2016           | 2015           | 2014           | 2013           |
|---|----------------|----------------|----------------|----------------|----------------|
| Actuarially Determined Employer Contributions           | \$ 136,267,787 | \$ 132,546,252 | \$ 130,680,397 | \$ 148,362,932 | \$ 130,533,530 |
| Actual Contributions:                                   |                |                |                |                |                |
| Employers   | 91,853,678     | 88,643,646     | 87,290,863     | 83,439,612     | 74,113,191     |
| Non-Employer Contributing Entities                      | \$ 44,414,109  | \$ 43,902,606  | \$ 43,389,534  | \$ 64,923,320  | \$ 17,521,347  |
| Total   | \$ 136,267,787 | \$ 132,546,252 | \$ 130,680,397 | \$ 148,362,932 | \$ 91,634,538  |
| Annual Contribution Deficiency/ (Excess)                | –              | –              | –              | –              | 38,898,992     |
| Covered Payroll   | 818,122,561    | 795,920,906    | 768,718,699    | 750,604,063    | 742,608,987    |
| Actual Contributions as a Percentage of Covered Payroll | 16.66%         | 16.65%         | 17.00%         | 19.77%         | 12.34%         |

**Note to RSI – Schedule of Employer Contributions**

The actuarially determined employer contributions and amount of those contributions actually made are presented in the schedule.

**Note to RSI – Actuarial Assumptions – TRS Plan**

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board. Additional information as of the latest actuarial valuation follows.

**Note to RSI – Changes of Benefit Terms – TRS Plan**

The following changes to the plan provision were made as identified:

**2013 Legislative Changes:**

The 2013 Montana Legislature passed HB 377, which provides additional revenue and creates a two-tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013, and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013, or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The GABA for Tier 1 members: permanent injunction limits application of the GABA reduction passed under HB 377.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below:

1. Final Average Compensation: average of earned compensation paid in five consecutive years of full-time service that yields the highest average.
2. Service Retirement: Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55.
3. Early Retirement: Eligible to receive an early retirement allowance if a member is not eligible for service retirement, but has at least five years of creditable service and attained age 55.
4. Professional Retirement Option: if the member has been credited with 30 or more years of service and has attained the age of 60, the member is eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%.
5. Annual Contribution: 8.15% of member's earned compensation.
6. Supplemental Contribution Rate: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
  - a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%, and
  - b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years, and
  - c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
7. Disability Retirement: A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination.
8. Guaranteed Annual Benefit Adjustment (GABA):
  - a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers, and the State by means of the following changes:

- An annual State contribution equal to \$25 million paid to the System in monthly installments.
  - A one-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was \$22 million in FY 2014.
-

- A 1% supplemental employer contribution, which will increase the current employer rates as follows:
  - School district contributions will increase from 7.47% to 8.47%.
  - Montana University System and State agency contributions will increase from 9.85% to 10.85%.
  - Supplemental employer contributions will increase by 0.1% each fiscal year for fiscal year 2014 through fiscal year 2024. For fiscal years beginning after June 30, 2024, the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013, (Tier One) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

#### **Note to RSI - Changes in Actuarial Assumptions and Methods – TRS Plan**

The following changes to the actuarial assumptions were adopted in 2022:

- The discount rate was increased from 7.06% to 7.30%.
- The investment rate of return assumption was increased from 7.06% to 7.30%.
- The inflation rate was increased from 2.40% to 2.75%.
- Updated all mortality tables to the PUB-2010 tables for teachers.
- Updated the rates of retirement and termination.
- Updated the salary scale merit rates.

The following changes to the actuarial assumptions were adopted in 2021 for the GASB 67/68 report and disclosures only:

- The discount rate was lowered from 7.34% to 7.06%.
- The investment rate of return assumption was lowered from 7.34% to 7.06%.

The following changes to the actuarial assumptions were adopted in 2020 for the GASB 67/68 report and disclosures only:

- The discount rate was lowered from 7.50% to 7.34%.
- The investment rate of return assumption was lowered from 7.50% to 7.34%.
- The inflation rate was reduced from 2.50% to 2.40%.

The following changes to the actuarial assumptions were adopted in 2019:

- The Guaranteed Annual Benefit Adjustment (GABA) for Tier Two members is a variable rate between 0.50% and 1.50% as determined by the Board. Since an increase in the amount of the GABA is not automatic and must be approved by the Board, the assumed increase was lowered from 1.50% to the current rate of 0.50% per annum.

The following changes to the actuarial assumptions were adopted in 2018:

- Assumed rate of inflation was reduced from 3.25% to 2.50%
- Payroll growth assumption was reduced from 4.00% to 3.25%
- Investment return assumption was reduced from 7.75% to 7.50%.
- Wage growth assumption was reduced from 4.00% to 3.25%
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years. The tables include margins for mortality improvement which is expected to occur in the future.

- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
  - For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.
- Retirement rates were updated.
- Termination rates were updated.
- Rates of salary increases were updated.

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members “to account for larger than average annual compensation increases observed in the years immediately preceding retirement” is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to “retain membership in the System” are covered by the \$500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%.
  - Payroll Growth Assumption was reduced from 4.50% to 4.00%.
  - Assumed real wage growth was reduced from 1.00% to 0.75%.
  - Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
  - Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
    - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
  - Mortality among disabled members was updated to the following:
    - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.
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**Note to RSI – Method and Assumptions Used in Calculations of Actuarially Determined Contributions – TRS Plan**

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|                               |  |
|-------------------------------|--|
| Actuarial Cost Method         | Entry Age  |
| Amortization Method           | Level Percentage of Pay, Open  |
| Remaining Amortization Period | 24 years   |
| Asset Valuation Method        | 4-year Smoothed Fair Value   |
| Inflation                     | 2.50 Percent   |
| Salary Increase               | 3.25 – 7.76 Percent, Including Inflation for Non-University Members and 4.25 Percent for University Members including inflation; |
| Investment Rate of Return     | 7.50 Percent, Net of Pension Plan Investment Expense, and Including Inflation  |

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### Schedule of Proportionate Share of the Net Pension Liability – TRS as Employer of PERS Plan

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TRS' Proportion of the Net Pension Liability

TRS' Proportionate Share of the Net Pension Liability

State of Montana's Proportionate Share of the Net Pension Liability Associated With the TRS

    Total NPL

Covered Payroll

TRS' Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll

Fiduciary Net Position as a Percentage of the Total Pension Liability

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*The amounts presented above for each fiscal year were determined as of June 30th, the measurement date.  
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

### Schedule of Contributions – TRS as Employer of PERS Plan

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Contractually Required Contributions

Contributions in Relation to the Contractually Required Contributions

Contribution Deficiency (Excess)

Covered Payroll

Contributions as a Percentage of Covered Payroll

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*The amounts presented above for each fiscal year were determined as of June 30th, the most recent fiscal year end.  
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

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| 2022        | 2021        | 2020        | 2019        | 2018        | 2017        | 2016        | 2015        |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 0.0769%     | 0.0715%     | 0.0697%     | 0.0691%     | 0.0896%     | 0.0882%     | 0.0843%     | 0.08102%    |
| \$1,394,112 | \$1,885,625 | \$1,457,558 | \$1,443,205 | \$1,745,606 | \$1,502,397 | \$1,177,820 | \$1,009,567 |
| 394,640     | \$571,643   | \$456,803   | \$464,136   | \$0         | \$0         | \$0         | \$0         |
| \$1,788,752 | \$2,457,268 | \$1,914,361 | \$1,907,341 | \$1,745,606 | \$1,502,397 | \$1,177,820 | \$1,009,567 |
| \$1,342,785 | \$1,185,534 | \$1,137,253 | \$1,123,898 | \$1,098,725 | \$1,043,891 | \$971,504   | \$905,963   |
| 103.8%      | 159.1%      | 128.2%      | 128.4%      | 158.9%      | 143.9%      | 121.2%      | 111.4%      |
| 79.9%       | 68.9%       | 73.9%       | 73.5%       | 73.8%       | 74.7%       | 78.4%       | 79.9%       |

| 2022        | 2021        | 2020        | 2019        | 2018        | 2017        | 2016        | 2015      |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------|
| \$122,610   | \$120,200   | \$104,324   | \$98,599    | \$95,649    | \$93,731    | \$89,396    | \$82,288  |
| \$122,610   | \$120,200   | \$104,324   | \$98,599    | \$95,649    | \$93,731    | \$89,396    | \$82,288  |
| \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0       |
| \$1,423,866 | \$1,396,241 | \$1,185,534 | \$1,137,460 | \$1,123,898 | \$1,098,725 | \$1,043,891 | \$971,504 |
| 8.61%       | 8.61%       | 8.80%       | 8.67%       | 8.51%       | 8.53%       | 8.56%       | 8.47%     |

**Note to RSI – Changes of Benefit Terms – PERS Plan**

The following changes to the plan provision were made as identified:

**2013 Legislative Changes:***Working Retirees – House Bill 95*

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

*Highest Average Compensation (HAC) Cap – House Bill 97, effective July 1, 2013*

- All PERS members hired on or after July 1, 2013, are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.
- All bonuses paid to PERS members on or after July 1, 2013, will not be treated as compensation for retirement purposes.

*House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454**Guaranteed Annual Benefit Adjustment (GABA)*

- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.
- 3% for members hired prior to July 1, 2007.
- 1.5% for members hired on or after July 1, 2007, and before July 1, 2013.
- Members hired on or after July 1, 2013:
  - a. 1.5% each year PERS is funded at or above 90%;
  - b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%, and
  - c. 0% whenever the amortization period for PERS is 40 years or more.

**2015 Legislative Changes:***General Revisions – House Bill 101, effective January 1, 2016**Second Retirement Benefit*

1. Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment and accumulate less than 2 years of service credit before retiring again:
    - refund of member's contributions from second employment plus regular interest (currently 0.25%);
    - no service credit for second employment;
    - start same benefit amount the month following termination, and
    - GABA starts again in the January immediately following second retirement.
  2. For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
    - member receives a recalculated retirement benefit based on laws in effect at second retirement, and
    - GABA starts in the January after receiving recalculated benefit for 12 months.
-

3. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
  - refund of member's contributions from second employment plus regular interest (currently 0.25%);
  - no service credit for second employment;
  - start same benefit amount the month following termination, and
  - GABA starts again in the January immediately following second retirement.
4. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
  - member receives same retirement benefit as prior to return to service;
  - member receives second retirement benefit for second period of service based on laws in effect at second retirement, and
  - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

#### *Employer Contributions and the Defined Contribution Plan*

The Plan Choice Rate (PCR) was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

#### **2017 Legislative Changes:**

##### *Working Retiree Limitations*

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

##### *Refunds*

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

##### *Interest credited to member accounts*

Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

##### *Lump-sum payouts*

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

##### *Disabled PERS Defined Contribution (DC) Members*

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

*PERS Statutory Appropriation – House Bill 648, effective July 1, 2017*

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1. FY2018 - \$31.386 million
2. FY2019 - \$31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
  - a. FY2020 - \$32.277 million
  - b. FY2021 - \$32.6 million
  - c. FY2022 - \$32.926 million
  - d. FY2023 - \$33.255 million
  - e. FY2024 - \$33.588 million
  - f. FY2025 - \$33.924 million

**Note to RSI – Changes in Actuarial Assumptions and Methods - PERS Plan**

**Method and assumptions used in calculations of actuarially determined contributions**

The following Actuarial Assumptions were adopted from the June 30, 2020 actuarial valuation:

|                               |  |
|-------------------------------|--|
| General Wage Growth*          | 3.50%  |
| Investment Rate of Return*    | 7.65%  |
| *Includes inflation at        | 2.75%  |
| Merit salary increases        | 0% to 8.47%  |
| Asset valuation method        | 4-year smoothed fair value   |
| Actuarial cost method         | Entry age Normal   |
| Amortization method           | Level percentage of payroll, open  |
| Remaining amortization period | 30 years   |
| Mortality (Healthy members)   | For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year |
| Mortality (Disabled members)  | For Males and Females: RP 2000 Combined Mortality Table  |
| Admin Expense as % of Payroll | 0.28%  |

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

**Other Post-employment Benefits Plan Information**

|   | 2022*       | 2021*       | 2020*       | 2019*       | 2018*       |
|---|-------------|-------------|-------------|-------------|-------------|
| TRS Proportionate Share of the Total OPEB Liability         | 0.19026%    | 0.19026%    | 0.18724%    | 0.24391%    | 0.27378%    |
| TRS Total OPEB Liability                                    | \$235,221   | \$280,653   | \$88,643    | \$135,851   | \$138,145   |
| Covered Payroll   | \$1,423,866 | \$1,396,241 | \$1,307,760 | \$1,123,898 | \$1,098,725 |
| TRS Total OPEB Liability as a percentage of covered payroll | 16.52%      | 20.10%      | 6.78%       | 12.09%      | 12.57%      |

*\*The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

## Note to RSI – OPEB Information

The State of Montana OPEB plan is not administered through a trust; as such, there are no plan assets accumulated to offset the total OPEB liability. The State of Montana OPEB plan is reported as single-employer plan.

### Actuarial assumptions and other inputs

The total OPEB liability in the latest actuarial valuation dated December 31, 2020, the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial valuation date: December 31, 2020
- Actuarial measurement date\*: March 31, 2022
- Actuarial cost method: Entry age normal funding method
- Amortization method: Open basis
- Asset valuation method: Not applicable since no assets meet the definition of plan assets under GASB 75
- Actuarial Assumptions:
  - Discount rate: 3.31%
  - Projected payroll increases: 2.50%
  - Participation: Future retirees 40.00%, Future eligible spouses 70.00%
  - Marital status at retirement: 70.00%

\* Update procedures were used to roll forward the total OPEB liability to the measurement date March 31, 2022.

*Mortality – Healthy:* For the OPEB Plan, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

*Mortality – Disabled:* For the OPEB Plan, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

**TEACHERS' RETIREMENT SYSTEM**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**SUPPORTING SCHEDULES / SUPPLEMENTARY INFORMATION**  
**FISCAL YEAR ENDED JUNE 30, 2022**

**SCHEDULE OF ADMINISTRATIVE EXPENSES**

Expenses for the administration of the plan, excluding compensated absences, depreciation and amortization are budgeted and approved by the TRS Board. The administrative costs of TRS are financed through realized investment income. The expenses, less amortization of assets, may not exceed 1.50% of retirement benefits paid. Administrative expenses for the fiscal year ended June 30, 2022, were 0.86% of benefits paid. The administrative expenses by category are outlined below:

| <b>Administrative Expenses</b>           |           | <b>2022</b>      |
|--|-----------|------------------|
| <b>Personal Services:</b>                |           |                  |
| Salaries                                 | \$        | 1,426,135        |
| Other Compensation                       |           | 2,900            |
| Employee Benefits                        |           | 454,851          |
| <b>Total Budgeted Personal Services</b>  | <b>\$</b> | <b>1,883,886</b> |
| <b>Operating Expenses:</b>               |           |                  |
| Contracted Services                      | \$        | 861,227          |
| Supplies and Material                    |           | 44,128           |
| Communications                           |           | 98,218           |
| Travel                                   |           | 17,304           |
| Rent                                     |           | 2,268            |
| Repair and Maintenance                   |           | 17,889           |
| Other Expenses                           |           | 102,582          |
| <b>Total Budgeted Operating Expenses</b> | <b>\$</b> | <b>1,143,616</b> |
| <b>Non-Budgeted Expenses:</b>            |           |                  |
| OPEB Contribution Expense                | \$        | 4,376            |
| Pension Contribution Offset              |           | (122,610)        |
| Compensated Absences                     |           | (7,881)          |
| Amortization Expense                     |           | 411,920          |
| Depreciation Expense                     |           | 34,840           |
| Lease Amortization Expense               |           | 165,301          |
| Lease Interest Expense                   |           | 41,659           |
| <b>Total Non-Budgeted Expenses</b>       | <b>\$</b> | <b>527,605</b>   |
| <b>Total Administrative Expenses</b>     | <b>\$</b> | <b>3,555,107</b> |

**SCHEDULE OF INVESTMENT EXPENSES**

| Investment                      | MBOI                | Custodial Bank* | External Managers    | Other                | Total                |
|---------------------------------|---------------------|-----------------|----------------------|----------------------|----------------------|
| Short-Term Investment Pool      | \$ 28,271           | \$ N/A          | N/A                  | \$ 367               | \$ 28,638            |
| Consolidated Asset Pension Pool | \$ 1,838,030        | \$ N/A          | \$ 17,759,976        | \$ 14,467,532        | \$ 34,065,538        |
| <b>Totals</b>                   | <b>\$ 1,866,301</b> | <b>\$ N/A</b>   | <b>\$ 17,759,976</b> | <b>\$ 14,467,899</b> | <b>\$ 34,094,176</b> |

\* As of the fiscal year ended June 30, 2022, all Custodial Bank fees were paid out of the State of Montana general fund.

**SCHEDULE OF PAYMENTS TO CONSULTANTS**

Costs included in the table below are a result of administrative expenses, as well as several costs associated with the M-Trust project as of June 30, 2022.

|  | 2022              |
|--|-------------------|
| Actuarial Services                     | \$ 122,050        |
| Project Consulting Services            | 119,121           |
| Legal Services                         | 1,780             |
| Audit Services                         | 73,644            |
| Medical Evaluations                    | 682               |
| IT Contracts                           | 17,459            |
| Non-Project IT Services and Consulting | 144,000           |
| Project IT Services and Consulting     | 73,600            |
| <b>Total Consultant Payments</b>       | <b>\$ 552,336</b> |



# **Report on Internal Control and Compliance**



# LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Teachers' Retirement System, prepared by the Teachers' Retirement Board (board), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated January 11, 2023.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the board's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

January 11, 2023

TEACHERS' RETIREMENT  
BOARD

BOARD RESPONSE



## TEACHERS' RETIREMENT SYSTEM



GREG GIANFORTE, GOVERNOR

[www.trs.mt.gov](http://www.trs.mt.gov)

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406-444-3134

January 26, 2023

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JAN 27 2023  
LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

Dear Mr. Maciver:

Thank you for the opportunity to provide a response to the financial audit report of the Teachers' Retirement Board for the fiscal year ending June 30, 2022. The Teachers' Retirement Board appreciates the services provided by your staff in conducting the audit. As of July 1, 2022, the Teachers' Retirement System is 71.73% funded and can fully amortize any unfunded liabilities in 25 years compared to 71.43% funded and a 24-year amortization period the previous year.

We are pleased with the unmodified opinion on the financial statements for the fiscal year ending June 30, 2022, and I would like to thank Mr. Maciver and his staff (Delsi Osmanson, Adam Hefenieder, Katie Majerus, and Jeane Carstensen-Garrett) for their professionalism and courtesy as they conducted the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn".

Shawn Graham  
Executive Director  
Teachers' Retirement System