

MONTANA PUBLIC EMPLOYEES' RETIREMENT BOARD

TITLE: Funding and Benefit Policy

POLICY NO: BOARD Admin 01 EFFECTIVE DATE: 10/8/09

I. POLICY AND OBJECTIVES

The Public Employees' Retirement Board (the Board) has established the following general principles governing the funding and benefits of retirement systems under its jurisdiction. This policy is only a statement of intent and general approach. These are not precise rules that bind the Board to certain and specific actions.

As fiduciaries the Board must administer its retirement systems and trust funds acting in the best interests of the members and beneficiaries.

- A. The Board is charged with administering the retirement systems in accordance with the provisions of Title 19 of the Montana Code Annotated. The Board is required to approve or disapprove all expenditures of the systems, prepare an annual actuarial valuation of the assets and liabilities of the systems, and perform other duties and functions as are required to properly administer and operate the retirement systems.
- B. Board members are subject to a constitutional fiduciary duty to fund retirement benefits, Article VIII, Sections 13 and 15 of the Montana Constitution. The Constitution prohibits anyone from diverting the assets or the actuarially required contributions of the retirement systems. No employee or member of the retirement systems may have an interest in plan assets, borrow or use fund assets, or act as surety, obligor or endorser on loans to or by the systems.
- C. The Montana Board of Investments (BOI) is charged with investing the Board's retirement systems' assets in accordance with state law and the state Constitution. The Constitution requires that the Board and the BOI operate under the "prudent expert principle". The Board's retirement systems have long-term horizons well beyond normal market cycles.
- D. The future investment earnings of the assets of the retirement systems are assumed to accrue at the net actuarial rate adopted by the Board, net of all administrative and investment-related expenses.

II. GENERAL PRINCIPLES

These general principles are established by the Public Employees' Retirement Board to provide a framework for the consistent evaluation of legislative proposals. The Board's position on proposed changes to benefits or systems will be determined on a case-by-case basis using these principles as guides. Some principles may not apply to the Public Employees' Retirement System's Defined Contribution Retirement Plan.

A. Legislation

1. **Proposals for increases or changes to retirement benefits must include an actuarially sufficient funding mechanism.** Proposals must provide funding from sources sufficient to cover future costs. Unfunded liabilities created by the proposal must be amortized over a period of time appropriate to the retirement system, but not more than 30 years.
2. **Pension funding should be a contemporary obligation.** Whenever possible, pension funding should be the responsibility of the public employers, taxpayers and employees at the time services are provided. The Board will promote advanced funding of all benefits to ensure costs are not shifted to future taxpayers or contributors.
3. **Benefit enhancements should be equitably allocated among active members and retirees.** Any increased cost should be distributed among the generation of employers, taxpayers, and employees who receive the greatest benefit. Proposals should not discriminate against certain groups of members or retirees in favor of others or expend system assets disproportionately.
4. **A primary goal of a retirement system must be to provide a portion of financial security in retirement.** "Financial security in retirement" refers to basic financial protection for those who are beyond their normal working years and whose ability to be gainfully employed and earn other income is limited or non-existent.
5. **Public retirement plans should provide portability of benefits for workers who change jobs within the state and its political subdivisions.** Portability provisions must assure that actuarial costs will be paid for when transferring service between the systems.

6. **The level of benefits and eligibility for benefits should be equitable across the state's public employee retirement systems.** Differences in benefit levels and eligibility criteria should be based on objective differences in the nature of the covered occupations or differences in coordination with other benefits such as social security.
7. **Proposals should promote consistent administration of public retirement systems.** The Board promotes consistent administrative provisions between the public retirement systems.
8. **The Board supports steps to improve the Board's ability to evaluate and review disabilities and the eligibility for disability benefits.**
9. **The Board supports steps to promote informed legislative involvement and decision-making in the formulation of Montana's public pension policy.**

B. Financial Solvency

1. **It is the goal of the Board that the retirement systems it administers become 100% funded.** Once a system has achieved this goal, there needs to be a range of safety to absorb market volatility without creating unfunded actuarial liabilities.
2. **The Board will review existing funding levels for retirement systems with a funded ratio in excess of 120%.** The Board will consider a wide range of factors, both historical and prospective, in determining the range of safety required. Surplus funds that may become available may be applied toward the cost of benefit enhancements and/or contribution reductions provided sufficient reserves are retained to reasonably allow for adverse experience.
3. **It is the responsibility of the Board to report the financial solvency of the funds to the Legislature.** A single year's funded ratio, by itself, does not provide a measure of the direction the funding of the system is headed. However, either a trend which results in decreasing the funded ratio or the inability of the system to reduce the amortization period by one, for each passing year, may cause the Board to consider recommending rate increases and or system changes to address financial sustainability. It is desirable that the funded ratio improves over time, allowing for a decrease in the ratio following benefit enhancements.

4. **It is the obligation of the Board to recommend funding increases.**
Whenever, through the use of long term cash flow projections, the amortization period of a system's unfunded liabilities is projected to exceed 30 years for two consecutive valuations and the Board can not reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the Board to recommend to the Legislature that funding be increased and/or system changes to address financial sustainability.

III. CROSS REFERENCE GUIDE

The following laws, rules or policies may contain provisions that might modify a decision relating to the Funding and Benefit Policy. The list should not be considered exhaustive - others may apply.

Montana Constitution Article VIII, Sections 13 and 15

Section 19-2-303, MCA

Section 19-2-403, MCA

Section 19-2-405, MCA

Section 19-2-408, MCA

Section 19-2-409, MCA

Title 19, Chapter 2, Part 5, MCA

ARM 2.43.1306

Board Policy O8-93 Actuarial Studies

Board Policy O1-01 Actuarial Assumptions

IV. HISTORY

G9-92 General Principles Governing the Board's Evaluation of Legislative Proposals

Originally approved September 1992

Amended March 24, 2005

O8-93 Actuarial Experience Studies

Originally approved August 1983

To be Amended

O4-94 Actuarial Assumptions

Originally approved April 1994

Amended December 27, 2000 (O1-01)

O1-01 Actuarial Assumptions

To Be Amended

O8-08 Annual Actuarial Evaluations

Originally approved 08-08

10-08 Financial Solvency

Originally Approved September 1992