Financial Risk Assessment

Montana Pension Systems

Legislative Fiscal Division
November 2018
Legislature does not control previous benefits, but must find funding if short

Pension Boards have Constitutional responsibility for setting actuarial assumptions

Courts have limited Legislative choices in resolving a short fall in assets current employees and retirees benefits

The Legislature must understand risk
Previous PERS/TRS Pension Solutions: $140 million per year

- Direct additional general fund pension contributions $80 million per year or over 3% of annual general fund spending
- Employer contributions 1-2% increases will cap out at $40 million per year (~$4 million from GF)
- Employee 1% contributions cap out at $21 million per year
- Reduced benefits for future employees impact small so far
• GO Debt is relatively small
• Pension liabilities are larger
• State efforts to in recent years amortize (pay off) most of the liability within 30 years
• Pension unfunded liabilities are double the size of current state trust funds including:
  • School trusts,
  • Coal trusts,
  • Tobacco trust,
  • Resource indemnity, and others
Whole area of 3 color box are the liabilities: discounted cost of future pension benefits

Assets (bonds & equities) = Funded portion of the liabilities

Another key term is Funded Ratio

Funded ratio = assets/liabilities

Amortized:
Actuaries use all payments into and out of the system to determine if the unfunded portion of the liabilities will amortize or be paid off within 30 years.

Unamortized portion of the liability is the amount that does not amortize in 30 years
$16 billion in discounted benefits owed with about 70% funded with assets

Assets: Funded (~$11.5 bi)

C. Amortize ($4.3 bi)

D. Unamortized in 30 yr ($0.2 bi)

Unfunded ($4.5 bi)
What is the impact to the state if the assumptions are wrong?
Risk Assessment: what do different assumptions yield

Assets: Funded

C. Amortized in 30 years

D. Unamortized in 30 years

Unfunded
Risk Assessment: New Actuary Standard

- Actuarial Standards Boards issued Actuarial Standard of Practice 51 (ASOP 51) entitled “Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions”
- Requires actuaries to better educate interested parties about risks facing their plans
- Educate interested parties on the potential for future plans’ health to differ from expected results. Identify realistic risks to the system such as investment risks, contribution risks, longevity, etc
- If returns on investment are lower than the assumed rate, what increase in contributions would be required to still fully amortize?
- Also provides a way to incorporate states overall economic conditions, tax collections, and history of making required contributions to inform policy
Legislative Information Option

Legislature ask for analysis of long term risk
December 2018 to June 2019

Pension Boards approve risk assessment criteria
June 2019

Actuaries analyze & report
July 2019 to December 2019
Details of Accounting