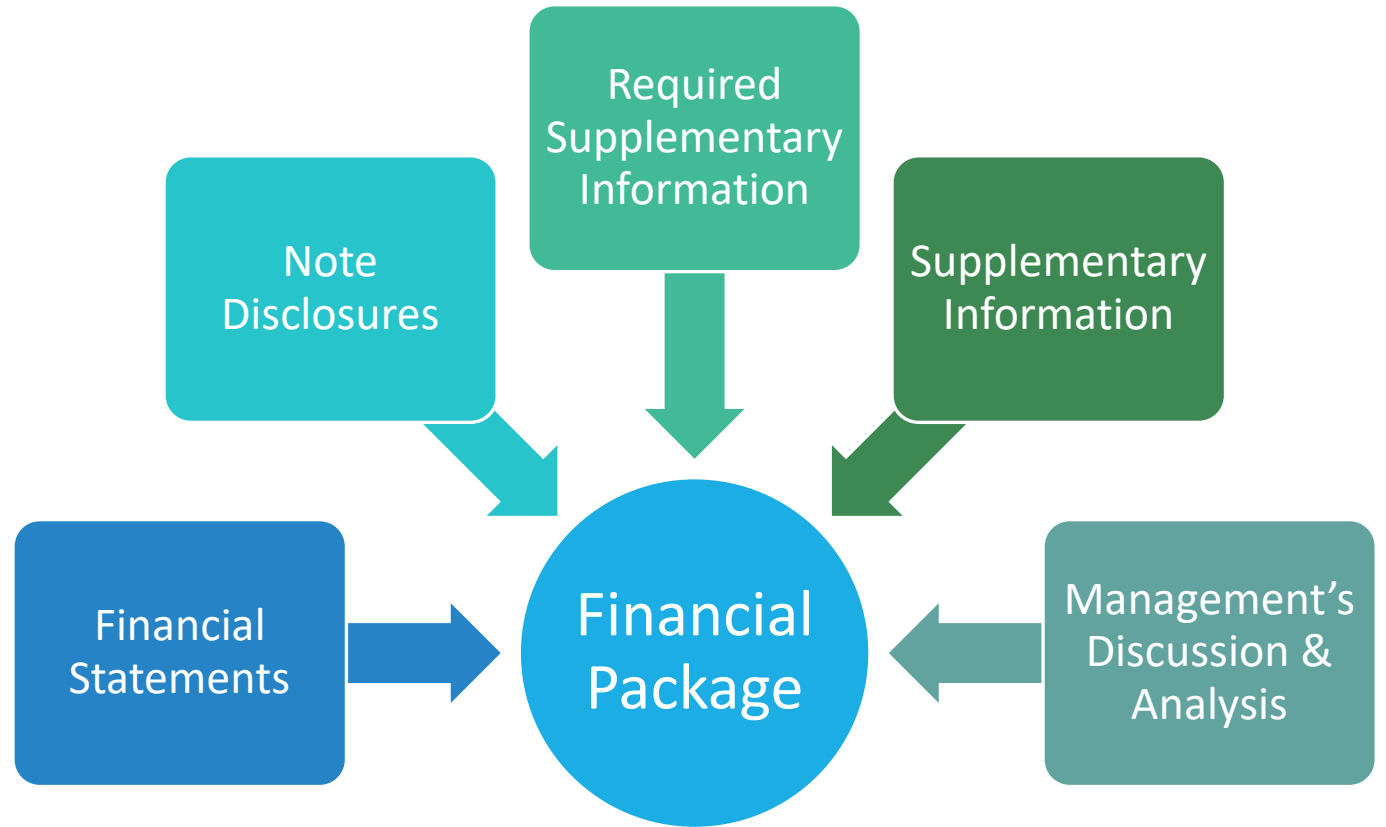


Auditing Montana's Public Pension Plans

Audit Process



Audit Process Cont.



Recent Audit Recommendations

- Teachers' Retirement Board

- The board needs to improve internal controls to ensure accurate contribution revenue, withdrawal expense, and prior period adjustment reporting.

- Public Employees' Retirement Board

- The legislature and the board need to work together to restore the actuarial soundness of the Game Wardens' and Peace Officers' Retirement System, the Highway Patrol Officers' Retirement System, and the Public Employees' Defined Benefit Retirement Plan.
- Disclosure item with information about cost neutral options to address the funding by reallocating the approximately \$72,000,000 of supplemental contributions the state makes from the General Fund to the various retirement systems.

Employer Pension Schedules

Employer Proportionate Share Allocations
Game Wardens' and Peace Officers' Retirement System
- Cost Sharing Plan
 for the year ending June 30

	Contributions for Fiscal Year Ending June 30, 2020			Net Pension Liability as of June 30, 2020		Net Pension Liability as of June 30, 2019	
	Member Rate	Employer Rate	Employer Contribution	Net Pension Liability - Employer	Employer Proportion based on Employer Contributions	Net Pension Liability - Employer	Employer Proportion based on Employer Contributions
Total ALL Employers			\$ 4,868,538	\$ 135,159,982	100.000000%	\$ 40,665,398	100.000000%
Employer							
6802 DEPARTMENT OF CORRECTIONS	10.56%	9.00%	3,420,303	94,954,185	70.253179%	28,275,835	69.532912%
6667 DEPARTMENT OF FISH, WILDLIFE & PARKS	10.56%	9.00%	633,425	17,585,095	13.010578%	5,611,953	13.800315%
6712 DEPARTMENT OF LIVESTOCK	10.56%	9.00%	150,200	4,169,831	3.085108%	1,261,184	3.101368%
6689 DEPARTMENT OF TRANSPORTATION	10.56%	9.00%	417,590	11,593,109	8.577324%	3,486,014	8.572432%
6647 MONTANA STATE UNIVERSITY - BILLINGS	10.56%	9.00%	37,758	1,048,238	0.775553%	304,717	0.749328%
6645 MONTANA STATE UNIVERSITY - BOZEMAN	10.56%	9.00%	122,876	3,411,265	2.523872%	929,379	2.285430%
6644 UNIVERSITY OF MONTANA	10.56%	9.00%	86,387	2,398,259	1.774386%	796,316	1.958215%

Items of Interest

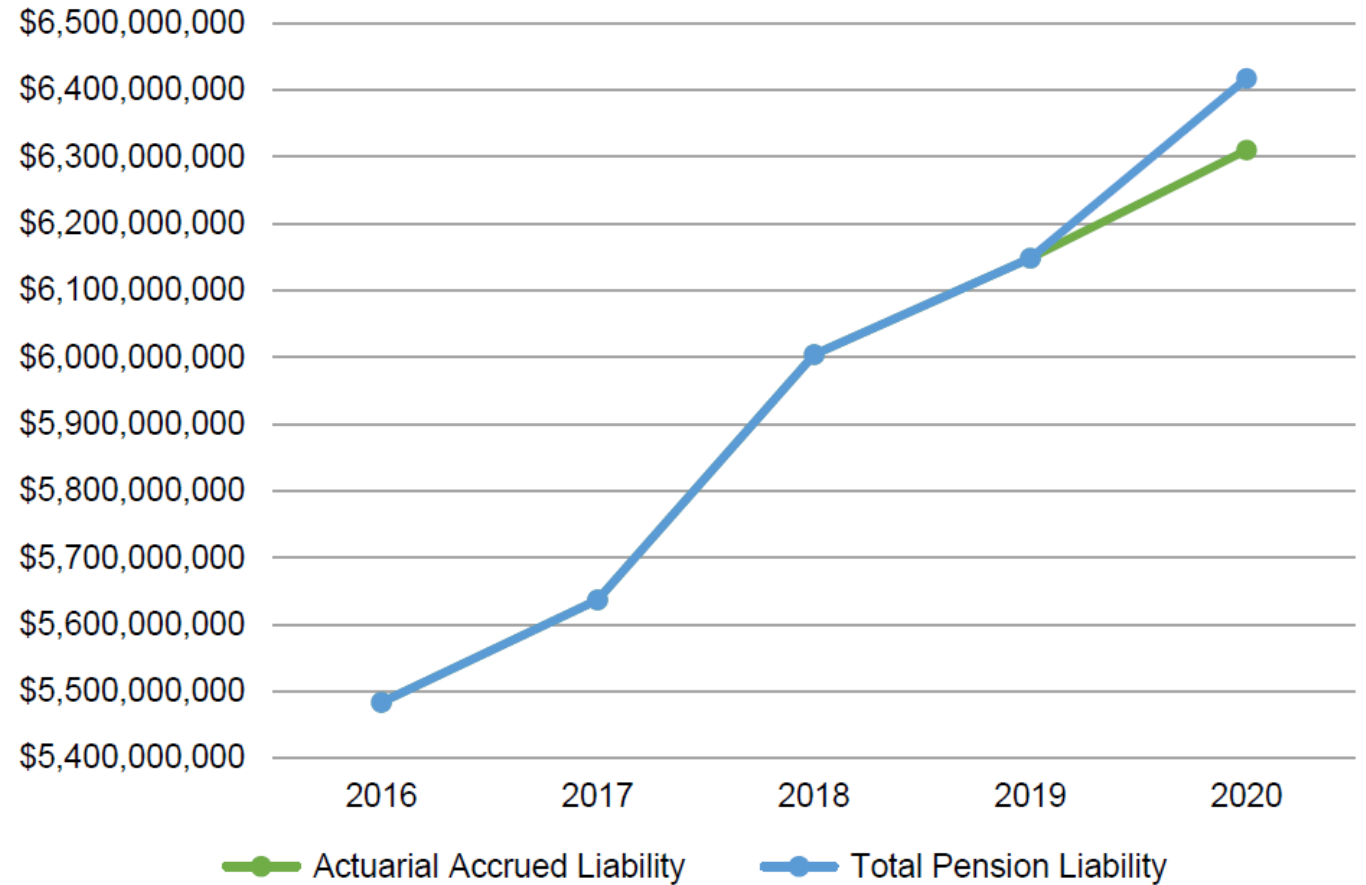
Actuarial Accrued Liability and Total Pension Liability Calculation Elements

	Actuarial Accrued Liability	Total Pension Liability
Actuarial gains and losses are smoothed over 4 years	X	
Blended rate of return can be used		X
Rate of return is net of investment expenses	X	X
Rate of return is net of administrative expenses	X	
Market value of assets is used		X
Actuarial value of assets is used	X	

Source: Compiled by the Legislative Audit Division based on Generally Accepted Accounting Principles and Actuarial Standards of Practice.

Teachers' Retirement System Example

Actuarial Accrued Liability vs. Total Pension Liability
(for the Fiscal Years Ended June 30)



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

Impact of Assuming 0.5% Lower Investment Return			
	<u>Funded Ratio</u>	<u>Amortization Period</u>	<u>Actuarially Determined Employer Contribution</u> (Millions \$)
Current Assumption 7.65%	74.08%	35 Years	\$113.8
Lower Assumption 7.15%	70.21%	<u>Does not amortize</u>	141.9
Increase / (Decrease)	(3.87)%	N/A	\$28.4

- * The Board-adopted rate of return assumption of 7.65% does not, in our professional judgment, conflict with what would constitute a reasonable assumption for the purpose of the measurement Actuarial Standard of Practice No. 27 (ASOP 27). The basis for this opinion is the average long-term capital market assumptions published in the Survey of Capital Market Assumptions 2020 Edition by Horizon Actuarial Service, LLC, which yield a median real return of 4.94% and assumed inflation based on the intermediate inflation assumption of 2.4% in the 2020 OASDI Trustees Report used by the Chief Actuary for Social Security to produce 75 year cost projections. Combining these two results yields a nominal return of 7.34%. The Board's adopted assumption of 7.65% is sufficiently close to our calculated reasonable assumption of 7.34%. Note our report discloses the Systems Funded Ratio and Amortization Period based on an assumed rate of return of 7.65%. In the *Sensitivity to Future Experience* section, results are also presented based on an assumed rate of return of 7.15%. The results of the valuation using an assumed rate of return of 7.34% would include a funded ratio and amortization period between the results shown at 7.65% and 7.15%.

Required Supplementary Information (RSI)

- Schedule of Changes in the Net Pension Liability
 - Presents how various items (such as changes in benefit terms, benefit payments plan administrative expenses, and contributions received) affect the total pension liability, the plan's fiduciary net position, and the net pension liability.
- Schedule of the Net Pension Liability
 - Presents the total pension liability, plan's fiduciary net position, plan's fiduciary net position as a percentage of the total pension liability, net pension liability, covered employee payroll, and the net pension liability as a percentage of covered employee payroll.
- Schedule of Investment Returns
 - Presents the annual money-weighted rate of return on pension plan investments.
- Schedule of Employer and Non-employer Contributing Entity Contributions
 - Presents how the actuarially determined employer contributions compare to actual contributions and covered employee payroll.

Schedule of the Net Pension Liability – TRS Plan

	2020*		2019*		2018*		2017*	
Total Pension Liability	\$	6,417,298,230	\$	6,148,556,456	\$	6,004,434,112	\$	5,636,841,900
Fiduciary Net Position		4,167,839,558		4,220,285,752		4,148,324,206		3,950,761,443
Net Pension Liability	\$	2,249,458,672	\$	1,928,270,704	\$	1,856,109,906	\$	1,686,080,457
Ratio of Fiduciary Net Position to Total Pension Liability		64.95%		68.64%		69.09%		70.09%
Covered Payroll	\$	880,667,518	\$	857,467,932	\$	829,708,595	\$	818,122,561
Net Pension Liability as a Percentage of Covered-Employee Payroll		255.43%		224.88%		223.71%		206.09%

Questions?