Teachers' Retirement System
Policy 1-0600-001
Funding and Benefits

Section: Governance
Implementer: TRS Board Members

Revised Date: September 28, 2012

Purpose:

It is the purpose of the Teachers' Retirement System to provide lifelong post-retirement benefits to its members. The fundamental financial objective of the Teachers' Retirement Board (Board) in meeting that purpose is to perform its retirement fund management functions, with due regard for the complementary responsibilities of the legislature, the governor's office, and the Board of Investments, in a manner that best maintains the long-term stability of the retirement fund through a systematic and disciplined accumulation of resources for the purpose of paying promised benefits to plan participants over their lifetimes. It is the goal of the Board to eliminate the unfunded actuarial accrued liability of the retirement system and to establish a stabilization reserve equal to at least 10% of the actuarial accrued liability.

In establishing policy pertaining to actuarial funding and benefit modifications, the Board takes notice of the following specific constitutional and statutory requirements:

1. Pursuant to Article VIII, Section 15, of the Constitution of Montana, the Board members administer the retirement system, including making actuarial determinations, as fiduciaries of system participants and their beneficiaries. Pursuant to §19-20-203, MCA, the Board is responsible to employ technical or administrative employees necessary for the transaction of the business of the retirement system, and to designate an actuary to assist the Board with the technical actuarial aspects of the operation of the retirement system.

2. Pursuant to Article VIII, Section 15, of the Constitution of Montana, the Teachers' Retirement System is required to be funded on an actuarially sound basis; assets of the retirement system may not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.

3. Pursuant to 19-20-102, MCA, it is the policy of the state to provide equitable retirement benefits to members of the Teachers' Retirement System based on each member's normal service retirement and salary; limit the effect on the retirement system of isolated salary increases received by a member, including but not limited to end-of-career promotions or one-time salary enhancements during the member's last years of employment; and, limit the compensation that a retired member may earn after retirement while working in a position that would

normally be covered under the Teachers' Retirement System to the amount determined under §19-20-731.

4. Pursuant to §19-20-501, MCA, the Board members are trustees of all money collected for the retirement system and shall provide for the financial administration of the money as required by the Montana Constitution and §19-20-501.

5. Pursuant to §19-20-201, MCA, the board is required to: keep the data necessary for actuarial valuation of the various funds of the retirement system and analysis of the experience of the retirement system; prepare an annual valuation of the assets and liabilities of the retirement system including an analysis of how market performance is affecting the actuarial funding of the retirement system (called the Comprehensive Annual Financial Report); and make available to the legislature copies of the Comprehensive Annual Financial Report.

6. Pursuant to Article VIII, Section 13, of the Constitution of Montana, §17-6-201, MCA, and §19-20-501, MCA, the funds of the Teachers' Retirement System are invested solely at the discretion of the Board of Investments, which is required to act in accordance with the prudent expert principle.

7. Pursuant to §19-20-215, MCA, the Board must annually present to the Board of Investments a financial and actuarial report of the retirement system and brief the Board of Investments on any benefit changes being considered by the Board that may affect trust fund obligations.

8. Pursuant to §19-20-621, MCA, the Board shall periodically review the supplemental employer contribution rate and recommend adjustments to the legislature as needed to maintain the amortization of the University System's past service liability by July 1, 2033.

9. Income to the retirement fund is derived from the following sources:
   a. contributions from active retirement system members paid as percentage of earned compensation as set forth in §19-20-602
   b. temporary contributions from the state general fund paid as a percentage of the compensation of members participating in the system on or after July 1, 1999, as set forth in §19-20-604
   c. contributions from employers paid as a percentage of total earned compensation paid by the employer as set forth in §19-20-605
   d. supplemental contributions from the state general fund as set forth in §19-20-607
   e. supplemental contributions from the Montana university system paid as a percentage of total compensation of all employees participating in the optional retirement program as set forth in §19-20-621
   f. gains and losses on investments of retirement system assets as made by the board of investments

The Board further takes notice of the following points pertaining to administration of the retirement system funds. While not all of these points are expressly set forth in statute, they are recognized as immutable restrictions on the board's ability, unilaterally, to establish standards intended to actuarially fund the retirement system:

10. The employee and employer contribution rates, the state's contribution rates, the university system supplemental contribution, as well as the benefit multiplier and other terms of benefit payment, are set forth in statute and may only be amended through the legislative process. While the Board has the responsibility and ability to obtain actuarial valuations for purposes of determining the actuarially recommended rates of contributions and benefit payments, the governor's office, including the Office of Budget and Program Planning, plays a fundamental role in the review and approval of legislation proposed by the Board, and the legislature has full and final authority to make, or not, recommended changes.

11. The rate of return on the investments of the retirement system funds are dependent upon investment directives set forth in statute, investment decisions that are wholly within the discretion of the Board of Investments pursuant to §17-6-201, MCA, and market factors that are wholly outside the control of the Board or the Board of Investments. As well, substantial decreases in the market value of retirement system assets based on sharp market downturns are outside of the Board's ability to predict or prevent.

12. The actual experience of the retirement system may, from time to time, differ substantially from the expected experience as evidenced by the retirement system's actuarial assumptions. Such deviations of actual experience from the actuarial assumptions typically occur based on school funding/staffing needs and determinations driven by overall economic pressures, demographic changes, and other factors not within the Board's ability to control.

Glossary:

Board – TRS board of trustees.

Board of Investments or BOI – the administrative body charged with administering Montana's unified investment program pursuant to §17-6-201, MCA, and with investing the funds of the teachers' retirement system.

Office of Budget and Program Planning or OBPP – the budget management division within the governor's office.

Policy:

A. The Board will contract with a qualified actuary to assist the Board in:
   1. conducting statutorily required actuarial valuations and experience analyses
   2. establishing appropriate actuarial assumptions and making other actuarial determinations
   3. providing required reports to the Board of Investments and the Office of Budget and Program Planning regarding retirement system valuation and funding status

B. Actuarial cost, Smoothing, & Amortization methods
   1. The actuarial valuations will be prepared using the Entry Age Normal cost method (EAN). The EAN method helps provide for a more level contribution rate over time compared to other funding methods.
   2. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years. The actuarial value of assets is not allowed to be greater than 120% or less than 80% of the market value of assets.
   3. It is the desire of the Board to fully fund TRS. However, until the system becomes fully funded, any unfunded liability will be amortized over a closed period of no more than 30 years and funded as a level percent of pay. At such time as the system becomes fully funded and has a stabilization reserve of at least 10% of the actuarial accrued liability, the allowed amortization period for any subsequent unfunded liabilities will be reduced to a closed period of not greater than 20 years.

C. The Board will direct its contracted actuary to produce an actuarial valuation of the retirement system annually. In each even number year the actuary will also review the supplemental employer contribution rate required by 19-20-621, MCA, and recommend adjustments as needed to maintain the amortization of the University System's past service liability by July 1, 2033.

D. At least once every four years, the Board shall direct the actuary to conduct an experience study to confirm the appropriateness of its actuarial assumptions and to make recommendations for revising some or all actuarial assumptions and/or various factors used to calculate benefits and the cost to purchase additional service.

E. The Board will direct its contracted actuary to project forward any recommended contribution rate increase resulting from the annual actuarial valuations for purposes of determining the actuarially recommended contribution rate effective at the beginning of the biennium following the next regular legislative session, based on the following:
   1. If the amortization period is greater than 30 years, the actuary will recommend the single contribution rate increase that can be reasonably expected to fully amortize the UAAL over a closed 30-year period effective July 1, following the next regular legislative session.

2. If the amortization period is less than 30 years, but greater than 0, and it is projected to continue to decline over the remainder of the closed period, the actuary will not recommend a change in the statutory contribution rates.
3. If the amortization period is less than 30 years, but has increased over prior valuations and is projected to continue to grow, the actuary will recommend a contribution rate increase that is reasonably expected to reverse the recent trend and reestablish a closed amortization period equal to that of the last valuation.

F. The Board will engage a qualified actuary to peer review the contracted actuary's actuarial valuation at least every five years.

G. Asset allocations and investment time horizons are established by policy by the BOI. The Board will ask its actuary to recommend an investment return assumption based on the past investment returns of TRS, the asset allocation and latest capital market assumptions adopted by the BOI, and the professional judgment of the actuary.

H. The Board will recommend to the governor and the legislature that funding of the retirement system be increased and/or liabilities of the retirement system be reduced, whenever the most recent actuarial valuation shows that the amortization period of the unfunded liabilities:

1. Exceeds 30 years, and the Board cannot reasonably anticipate that the amortization period will decline or the funded ratio will improve without an increase in funding sources and/or a reduction in liabilities, or
2. Is less than 30 years, but has increased over prior valuations and is projected to continue to grow.

I. The Board will direct their contract actuary to periodically stress test the funding of TRS to verify the adequacy of current funding levels against adverse market experience and recessions.

J. The Board may determine that surplus funds are available and recommend contribution reductions and/or benefit modifications only when the retirement system has no unfunded actuarial accrued liability, a stabilization reserve fund equal to at least 10% of the actuarial accrued liability is established, and the Board determines that sufficient additional reserves are retained to reasonably allow for adverse experience. The Board will not make a recommendation to reduce contribution rates or increase benefits which would result in contribution rates being less than the rate required to meet the normal cost plus 1.0%.

K. Pursuant to 19-20-102, MCA, benefit enhancements should provide equitable retirement benefits to members of the Teachers' Retirement System based on each member's normal service and salary, limit the effect on the retirement system of isolated salary increases received by a member, including but not limited to end-of-career promotions or one-time salary enhancements during the member's last years of employment, and be equitably allocated among active members and retirees with consideration for intergenerational equity. Any recommendation for a benefit

enhancement must include recommendations for necessary additional funding or other benefit reductions to cover any increase in normal cost arising from the recommended enhancement and to amortize any increase in the unfunded actuarial accrued liabilities arising from the recommended enhancement over a period not to exceed 25 years.

L. The Board will determine its position with respect to supporting or opposing legislation, on a case-by-case basis, and will apply this policy, actuarial funding standards, and other industry-standard information and resources it finds persuasive, as decision guides. The Board may not support legislation to enhance benefits if the funded ratio is less than 85%, and the amortization period is greater than 20 years.

M. The Board will ensure that reports regarding the funding status of the retirement system are made as required by statute.

Policy Review and Revision:

This policy will be reviewed by the Board at least every two years, in even numbered years.

Cross Reference:

Art. VIII, Section 13, Constitution of Montana
Art. VIII, Section 15, Constitution of Montana

§19-20-102, MCA	§19-20-104, MCA	§19-20-201, MCA	§19-20-203, MCA
§19-20-206, MCA	§19-20-501, MCA	§19-20-502, MCA	§19-20-601, MCA
§19-20-602, MCA	§19-20-604, MCA	§19-20-605, MCA	§19-20-607, MCA
§19-20-621, MCA	§19-20-701, MCA	§17-6-201, MCA	

HISTORY

Adopted May 2002
Amended May 2006
Amended May 2008
Amended May 2010

Signature:

By board action taken on September 28, 2012, and by my signature below, the Board has authorized implementation of this original or modified policy. The effective date of this policy is:

__X__ the date of board action set forth above

__X___ (date)_September 28, 2012_____.

BY: Kari Peiffer, Board Chair

__/s/ Kari Peiffer_____
Signature

TRS policies may be amended or revoked from time to time, with amendments and revocations effective from the date of board action or later date as specified in the policy. The official version of any TRS policy is the version posted on the TRS website, which may be accessed at www.trs.mt.gov/Policy/Policy.asp***. Any deviation between the official version of a policy and a printed version will be resolved in favor of the official version. Hardcopy prints of policies will be dated as of the date of printing. Please make certain to review the material online prior to placing reliance on a printed version.***