



Teachers' Retirement System State of Montana

Note to Schedule of Employer and Non-Employer Contributing Entity Allocations (Schedule D) and Schedule of Pension Amounts by Employer and Non-Employer Contributing Entity (Schedule E)

In accordance GASB Statement 68 (the standard), for the purpose of financial reporting, the amounts and percentages in Schedule D and E will be utilized by each employer of the System to present their proportionate share of liability and pension amounts associated with the employer's participation in Teachers' Retirement System (TRS). The schedules were prepared by Cavanaugh Macdonald Consulting, LLC; however the report and schedules herein are the responsibility of TRS management.

The Schedule of Employer and Non Employer Contributing Entity Allocations (Schedule D) displays the proportionate relationship of each employer to all employers and each employer's allocation percentage. Secondly, Schedule D displays the proportionate relationship of the nonemployer contributing entity (The State of Montana) to all employers and the non-employer contributing entity's allocation percentage. Third, Schedule D displays the amounts and percentages of the overall non-employer contributing entity's contribution that is associated with each employer. Lastly, Schedule D displays all the allocation percentages described above for the measurement year (2017) as well as the previous year (2016) and the difference in the allocation from year to year (The Change in Proportion).

The allocation percentages in Schedule D are derived based on actual normal employer contributions made to TRS during the measurement periods (FY 2016 and FY 2017 normal employer contributions). Contributions other than normal employer contributions (termination pay contributions, working retiree contributions, buy back contributions, and in some cases MUSRP supplemental contributions) are not included in the allocation calculation but instead are included in total contributions and reported as deferred outflows/inflows of resources. There is a small amount of employer contributions that cannot be attributed to any specific employer due to timing differences. These employer contributions are utilized to reduce the Pension Expense of the system and therefore allocated to each employer equally. Employee contributions are also utilized to reduce the collective pension expense of the system.

The Schedule of Pension Amounts by Employer and Non Employer Contributing Entity (Schedule E) displays the various pension amounts, as of the measurement date (June 30, 2017), allocated to the employer and non-employer contributing entities. Some amounts are allocated to the employers and non-employer contributing entities based on the allocation percentages calculated in Schedule D. These amounts include each employer's proportionate share of the Net Pension Liability, the deferred inflows and outflows of the system, the proportionate share of the nonemployer contributing entity's Net Pension Liability, and the non-employer contributing entity deferred inflows and outflows of the system. Some amounts in Schedule E are calculated according to the standard. These amounts include the Change in Proportion & Difference between Employer Contributions and Proportionate Share of Contributions of the employer and non-employer contributing entity, and the Pension Expense of the employer and non-employer contributing entity.



As stated above, the deferred inflows and outflows of the system are allocated to each employer based on the allocation percentages calculated in Schedule D. These inflows and outflows of the system are calculated per the standard and include the Difference Between Expected and Actual Experience, the Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments, and The Changes of Assumptions. These deferred inflows/outflows of the system are recognized over time in the Pension Expense of the system per the standard. The amounts not recognized in the current measurement period (FY 2017) are recorded as deferred inflows/outflows of the system and allocated to employers. Therefore, each of these deferred inflows/outflows of the system incorporates several years' worth of information to comprise the totals. The deferred inflow/outflow for Changes of Assumptions includes amounts that have been deferred for previous measurement periods as well as the current measurement period (FY 2017). The changes of assumptions that were incorporated in FY 2017 (the current measurement period) were as follows. Since the previous measurement date 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.

At the employer level, the difference between total employer contributions (including normal contributions, working retiree contributions, termination pay contributions, buy back contributions, and in some cases MUS-RP supplemental contributions) and the amount of the employers proportionate share of the total contributions for the system are recognized in pension expense according to the standard. The amount not recognized in the pension expense is reported as a deferred inflow or a deferred outflow of resources for each employer according to the standard. The change in the employer's allocation percentage from year to year is also recognized in pension expense according to the standard. The amount not recognized in the pension expense is reported as a deferred inflow or a deferred outflow of resources for each employer according to the standard. These two categories are combined in Schedule E and reported in the columns labeled Change in Proportion & Difference between Employer Contributions & Proportionate Share of Contributions.

At the system level, Schedule E displays total Change in Proportion & Differences between Employer Contributions & Proportionate Share of Contributions as a deferred outflow of resources in the amount of \$48,152,659 and total deferred inflow of resources in the amount of \$48,152,659 due to Change in Proportion & Differences between Employer Contributions & Proportionate Share of Contributions. These amounts offset each other therefore they do not impact the collective deferred inflows of resources and deferred outflows of resources for the system as a whole. This phenomenon is reported in a separate row totaling the Collective Pension Amounts of the System at the end of the schedule. This total does not include the \$48,152,659 in deferred inflows and outflows as they are not part of the collective pension amounts of the system.

The amounts in Schedule E allocated to the State as a non-employer contributing entity are included in the Total All Employers & State amount at the end of Schedule E. The State's (Non-Employer Contributing Entity) totals are displayed on a separate line total for clarity. Lastly, as state above, the Collective Pension Amounts of the System are also displayed at the end of Schedule E.va