



# Cavanaugh Macdonald

CONSULTING, LLC

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October 5, 2018

Mr. Shawn Graham  
Executive Director  
Teacher's Retirement System  
State of Montana  
1500 Sixth Avenue  
Helena, MT 59620-0139

## **Re: Montana University System Retirement Program Supplemental Contributions**

Dear Mr. Graham:

As required by MCA, Section 19-20-621, the purpose of this letter is to determine the financial position of the Montana University System Retirement Program (MUS-RP) and determine the supplemental contribution rate necessary to amortize the past service liability of the university members of the Montana Teachers' Retirement System (TRS) by July 1, 2033. It is our understanding that the contribution to TRS will not stop unless legislative action is taken. However, for the purposes of calculating the MUS-RP supplemental contribution, we have assumed the past service liability will be amortized over a closed 15 year period (until July 1, 2033).

The required supplemental contribution rate for the period beginning July 1, 2019 is 11.89% of Montana University System Retirement Plan member salaries. This represents an increase of 1.67% from the amount that was determined as of July 1, 2016 for the period beginning July 1, 2017. The increase in the required contribution rate is primarily attributed to the failure to adopt prior recommended supplemental contribution increases. In order to maintain the current supplemental contribution rate of 4.72% the MUS would be required to contribute \$193.2 million. The summary of findings is attached to this letter.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the Entry Age Normal cost method. Market value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular contributions of payroll determined as a percentage of payroll, on the assumption that payroll will increase by 3.25% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund.



October 5, 2018  
Mr. Shawn Graham  
Page 2

The calculations assume the value of the GABA benefits for MUS members are not financed by the supplemental contributions made as a percent of member salaries but are instead financed by the TRS contribution rate.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Future actuarial results may differ significantly from the current results presented in this letter due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

Respectfully submit,

A handwritten signature in blue ink, appearing to read 'Edward Macdonald', with a stylized flourish at the end.

Edward A. Macdonald, ASA, FCA, MAAA  
President

A handwritten signature in blue ink, appearing to read 'Todd B. Green', with a horizontal line extending to the right.

Todd Green, ASA, FCA, MAAA  
Principal and Consulting Actuary

EAM:TBG/jw



## Montana University System

### Retirement Program Supplemental Contributions

#### Summary of Findings

<b>VALUATION DATE</b>	<b><u>July 1, 2018</u></b>	<b><u>July 1, 2016</u></b>
Active members		
Number	236	301
Annual compensation	\$ 16,168,934	\$ 20,740,246
Retired members and beneficiaries		
Number	1,631	1,609
Annual allowances	\$ 50,460,820	\$ 46,618,433
Inactive Members		
Vested Terminated Members	66	72
Non-Vested Terminated Members	197	171
Assets		
Market value	\$ 207,194,027	\$ 209,625,002
Unfunded accrued liability	320,422,577	297,868,485
<b>CONTRIBUTION NECESSARY TO AMORTIZE UNFUNDED LIABILITY</b>		
Supplemental Contribution Rate*	11.89%	10.22%
Amortization Period (Years)	15	17
Current Statutory Supplemental Contribution Rate	4.72%	4.72%
Supplemental Contribution Rate Shortfall	7.17%	5.50%
Lump Sum Necessary to Maintain Current Statutory Supplemental Contribution Rate	\$193.2 Million	\$172.7 Million

\* The 11.89% contribution rate as of July 1, 2018 would increase to 17.37% for MUS-RP members if the GABA were financed by the supplemental contributions.