



# Cavanaugh Macdonald

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October 16, 2017

Ms. Hollie Koehler  
Fiscal Services Bureau Chief  
Montana Public Employee Retirement Administration  
100 N. Park Avenue, Suite 200  
Helena, Montana 59601

**Subject: Actuarial Analysis of the Montana State Fund Withdrawal Liability and Impact**

Dear Hollie:

As requested, we have performed the analysis of the withdrawal of the Montana State Fund (Fund) from the Montana Public Employees' Retirement System (PERS). This analysis provides a valuation of the unfunded liability the Fund would owe PERS should the board choose to hold them liable upon their official termination. The results of our analysis are presented below.

***Background***

Section 19-3-201 of the Montana Statutes permits an employer to voluntarily cease participation in the Public Employees' Retirement System. Per Section 19-3-201-3(d), "the board may request an actuarial valuation of the liabilities of the terminating agency to the retirement system, and the board may withhold approval of the termination of contract until satisfactory arrangements are made to provide funding for any excess accrued liabilities not previously funded by the terminating agency."

***Assumptions and Methods***

The methods and procedures used in this calculation are the same as those used the June 30, 2017 actuarial valuation except for those noted below.

- **Retirement** - Members who are eligible for an early or normal retirement benefit on the cessation date are assumed to terminate employment and retire immediately.
- **Withdrawal** - Active and inactive members who are not vested on the withdrawal date are assumed to receive refunds of their member contributions.
- **Deferred Vested Termination** - Active and inactive members who are vested but are not immediately eligible to retire on the withdrawal date are assumed to terminate immediately with their accrued benefits payable beginning on their normal retirement date.

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Ms. Hollie Koehler  
October 16, 2017  
Page 2

- **Disability Retirements** - No new disability retirements are assumed following the withdrawal date.
- **Investment Return** - The discount rate is the annual average of the 10-year U.S. Treasury Bonds during the 2016 calendar year.

A summary of the census data for the Fund as of June 30, 2017 is shown below.

**Demographic Information**  
**As of**  
**June 30, 2017**

<b>Actives</b>	
Number	259
Total Salary	\$19,047,426
<b>Retirees, Disabilities, and Beneficiaries</b>	
Number	142
Average Annual Benefit	\$19,495
<b>Deferred Vested</b>	
Number	33
<b>Inactive Members Due a Refund</b>	
Number	37

***Results***

The table below details the calculation for the liability attributed to the Montana State Fund. The funded portion of the liability is based on the funded ratios of PERS on a market value basis as of June 30, 2017. The unfunded portion of the liability is the “excess accrued liability not previously funded by the terminating agency” and is determined as of June 30, 2017.



Ms. Hollie Koehler  
October 16, 2017  
Page 3

**Montana State Fund as of June 30, 2017**

<b>Item</b>	<b>Total</b>
1. Active Member Accrued Liability	\$47,963,666
2. Retirees and Beneficiaries Accrued Liability	34,332,450
3. Deferred Vested Accrued Liability	1,513,762
4. Inactive Members due a Refund	<u>612,812</u>
5. Total Accrued Liability (7.65% Discount Rate): (1) + (2) + (3) + (4)	\$84,422,690
6. Funded Ratio on Market Value of Assets as of June 30, 2017	72.21%
7. Funded Portion of Total Accrued Liability: (5) x (6)	\$60,961,624
8. Total Accrued Liability (1.84% Discount Rate)	\$157,922,099
9. Unfunded Portion of Total Accrued Liability: (8) – (7)	\$96,960,475

The impact of the Montana State Fund leaving PERS is de minimis as the liability of the Fund is roughly 1% of the total liability of PERS. The liabilities will remain relatively the same as benefits earned to date for Fund participants will still be paid by the PERS. Assets will increase by \$97 million. The net effect would be a slight increase in the funded status, with no change to the years necessary to pay the UAAL.

If you need any further information regarding this analysis, please do not hesitate to contact us. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

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