

**Agenda Item
IV.**

Executive Director's Report

**D. Interest Rate
Determination
(*Barbara Quinn*)**

Public Employees' Retirement Board
March 8, 2012

Topic: Interest Rate Determination
Board Admin Policy 03

Staff Recommendation:

According to the Board's Policy, staff recommends the interest rate credited to member accounts be maintained at 0.25% for FY2013, the period of July 1, 2012 thru June 30, 2013.

Board Motion:

Uphold Staff Recommendation

Other.

Moved by

Seconded by

Vote

MONTANA PUBLIC EMPLOYEES' RETIREMENT BOARD

TITLE: Interest Rates

POLICY NO: BOARD Admin 03

EFFECTIVE DATE: 02/10/2011

I. POLICY AND OBJECTIVE

The Public Employees' Retirement Board (the Board) establishes interest rates for all defined benefit retirement systems or plans administered by the Montana Public Employee Retirement Administration (MPERA) pursuant to this policy. It is intended that this policy comply with section 19-2-403, MCA.

II. PROCEDURES

A. Interest Credited to Member Accounts

1. The interest rate used to credit interest to member accounts shall be based on the average variation in short-term interest rates.
2. The interest rate shall be determined as follows:
 - a. Each February, the MPERA staff shall analyze three and six-month Treasury Bills and one-year Treasury Notes for any variation in interest rates over the immediately preceding eight months (June through January).
 - b. If the MPERA staff finds a common trend in the variation of interest rates for these three investments, the Executive Director shall calculate the change to the interest rate to be applied to member accounts and recommend this change to the Board.
 - i. The Executive Director shall base the change (increase or decrease) on the average variation in interest rates for the three investments, adjusted to the nearest 0.5%.

- ii. If the trend was continuous over the 13 months preceding the analysis (January through January), the Executive Director may recommend a further adjustment of an additional +/- .25% or +/- .5% and shall provide the rationale for the adjustment to the Board.
3. Interest on a member's account is compounded annually and credited monthly.

B. Interest Rate for Installment Payments

Beginning July 1, 1993, the interest rate for purchasing service on installment contracts shall be set at the actuarially required rate of return as established by the Board.

III. CROSS REFERENCES

The following laws, rules or policies may contain provisions that apply to this policy. The list should not be considered exhaustive – others may also apply.

Section 19-2-303(1) and (34), MCA
Section 19-2-403(8), MCA
Section 19-2-506, MCA
Section 19-2-602, MCA
Section 19-2-704, MCA
ARM 2.43.2317
ARM 2.43.2901
ARM 2.43.2114

VI. HISTORY

G6.92.1 – Interest Rates
Originally Approved June 1992
Amended May 27, 1993
Amended April 20, 1998
Amended May 27, 2004
Board Admin 03 – Interest Rates
Reviewed December, 2009
Reviewed February, 2010

Interest Rate Determination

8-month average

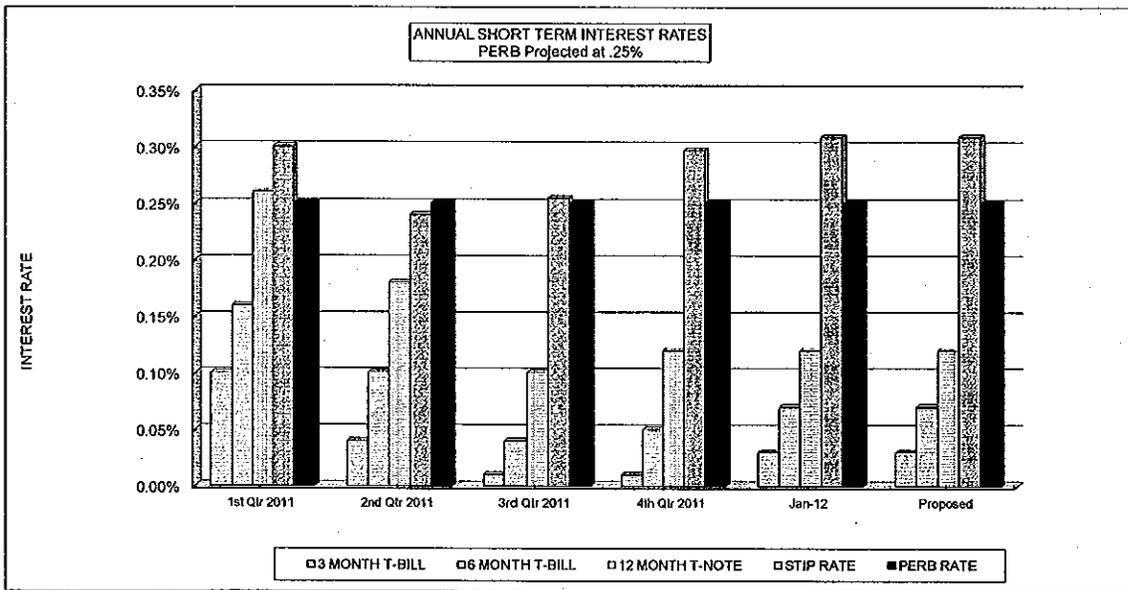
	<u>Jun-11</u>	<u>Jul-11</u>	<u>Aug-11</u>	<u>Sep-11</u>	<u>Oct-11</u>	<u>Nov-11</u>	<u>Dec-11</u>	<u>Jan-12</u>
3 MO T-BILL	0.04%	0.04%	0.02%	0.01%	0.02%	0.01%	0.01%	0.03%
6 MO T-BILL	0.10%	0.08%	0.06%	0.04%	0.05%	0.05%	0.05%	0.07%
1 YR T-NOTE	0.18%	0.19%	0.11%	0.10%	0.11%	0.11%	0.12%	0.12%
AVERAGE	0.11%	0.10%	0.06%	0.05%	0.06%	0.06%	0.06%	0.07%
AVERAGE of 8 months								0.07%

13-month trends

	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	13-Month INCREASE (DECREASE)
3 MO T-BILL	0.15%	0.13%	0.10%	0.06%	0.04%	-0.12%
6 MO T-BILL	0.18%	0.17%	0.16%	0.12%	0.09%	-0.11%
1 YR T-NOTE	0.27%	0.29%	0.26%	0.25%	0.19%	-0.15%
AVERAGE	0.20%	0.20%	0.17%	0.14%	0.11%	-0.13%
AVERAGE of 13 months						0.11%

CURRENT PERB INTEREST RATE	0.25%
PROPOSED INCREASE/DECREASE	0.00%
PROPOSED INTEREST RATE	0.25%

	<u>1st Qtr 2011</u>	<u>2nd Qtr 2011</u>	<u>3rd Qtr 2011</u>	<u>4th Qtr 2011</u>	<u>Jan-12</u>
STIP Rate	0.30%	0.24%	0.26%	0.30%	0.31%
PERB Interest	0.25%	0.25%	0.25%	0.25%	0.25%



Interest Rate Determination

8-month average

	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
3 MO T-BILL	0.04%	0.04%	0.02%	0.01%	0.02%	0.01%	0.01%	0.03%
6 MO T-BILL	0.10%	0.08%	0.06%	0.04%	0.05%	0.05%	0.05%	0.07%
1 YR T-NOTE	0.18%	0.19%	0.11%	0.10%	0.11%	0.11%	0.12%	0.12%
AVERAGE	0.11%	0.10%	0.08%	0.05%	0.06%	0.06%	0.06%	0.07%
AVERAGE of 8 months								0.07%

13-month trends

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	13-Month INCREASE (DECREASE)
3 MO T-BILL	0.15%	0.13%	0.10%	0.06%	0.04%	-0.12%
6 MO T-BILL	0.18%	0.17%	0.16%	0.12%	0.09%	-0.11%
1 YR T-NOTE	0.27%	0.29%	0.26%	0.25%	0.19%	-0.15%
AVERAGE	0.20%	0.20%	0.17%	0.14%	0.11%	-0.13%
AVERAGE of 13 months						0.11%

CURRENT PERB INTEREST RATE	0.25%
PROPOSED INCREASE/DECREASE	0.25%
PROPOSED INTEREST RATE	0.50%

	1st Qtr 2011	2nd Qtr 2011	3rd Qtr 2011	4th Qtr 2011	Jan-12
STIP Rate	0.30%	0.24%	0.26%	0.30%	0.31%
PERB Interest	0.25%	0.25%	0.25%	0.25%	0.25%

