

MONTANA

Teachers' Retirement System **A Component Unit of the State of Montana**



COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2006

Brian Schweitzer, Governor

MONTANA

Teachers' Retirement System A Component Unit of the State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2006

**David L. Senn
Executive Director**

**Tammy Rau
Deputy Executive Director**

**Prepared by:
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<http://www.trs.mt.gov>

Alternative accessible formats of this document will be provided upon request.

TABLE OF CONTENTS

	PAGE
INTRODUCTORY SECTION	3
EXECUTIVE DIRECTOR'S LETTER OF TRANSMITTAL PPCC PUBLIC PENSION STANDARDS AWARD BOARD OF DIRECTORS AND PROFESSIONAL CONSULTANTS	
FINANCIAL SECTION	11
INDEPENDENT AUDITOR'S REPORT MANAGEMENT'S DISCUSSION AND ANALYSIS STATEMENT OF FIDUCIARY NET ASSETS STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS NOTES TO FINANCIAL STATEMENTS REQUIRED SUPPLEMENTARY INFORMATION SUPPORTING SCHEDULE	
INVESTMENT SECTION	33
REPORT ON INVESTMENT ACTIVITIES INVESTMENT POLICY INVESTMENT RESULTS INVESTMENT ALLOCATION AND SUMMARY LIST OF LARGEST HOLDINGS IN PORTFOLIO	
ACTUARIAL SECTION	41
ACTUARY'S CERTIFICATION LETTER SOLVENCY TEST ANALYSIS OF VALUATION APPENDICES	
STATISTICAL SECTION	93
SCHEDULE OF CHANGES IN NET ASSETS SCHEDULE OF AVERAGE BENEFIT PAYMENTS SCHEDULE OF MEMBERSHIP SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS LOCATION OF BENEFIT RECIPIENTS	

INTRODUCTORY SECTION

**EXECUTIVE DIRECTOR'S LETTER OF
TRANSMITTAL**

PPCC PUBLIC PENSION STANDARDS AWARD

**BOARD OF DIRECTORS AND PROFESSIONAL
CONSULTANTS**

December 18, 2006

Honorable Brian Schweitzer
Governor of Montana
Room 204, State Capitol
Helena, MT 59620

Dear Governor Schweitzer:

On behalf of the Montana Teachers' Retirement Board, we are pleased to present the Montana Teachers' Retirement System Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This report is intended to provide comprehensive information on the financial operations of the Montana Teachers' Retirement System (TRS) for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the report rests with the management of the TRS.

This report contains five sections:

1. An Introductory section, which includes this letter of transmittal and a list of the board members, administrative officers and professional consultants.
2. A Financial section containing the independent auditor's report, management's discussion and analysis, and the financial statements with accompanying footnotes, required supplementary information and supporting schedules.
3. An Investment Section containing a letter from the State's Chief Investment Officer and a description of TRS investments, investment activity and investment results.
4. An Actuarial section representing the results of our most recent annual actuarial valuation.
5. A Statistical section containing tables of significant data.

The TRS was established by state law in 1937 and has completed its 69th year of operation. The TRS is providing services to over 18,000 active members and managing assets valued in excess of \$2.8 billion.

Investment Activity

The TRS investment portfolio posted a total return of 9.05%, resulting in an increase in the fair market value of its investments. The System's total annualized rate of return over the last five and ten years was 5.76% and 7.84% respectively. This rate of return compares with an

actuarial assumed rate of 8% through June 30, 2004 and 7.75% effective July 1, 2004. The Board of Investments (BOI) invests the TRS and other pension portfolios for the long-term and its investment strategies are designed to provide sufficient returns over time. However, there is no guarantee of future investment performance. Performance in any given year is dependent not only on the BOI's investment performance but also on the performance of the markets themselves, which are impacted by domestic and global economic conditions, interest rates, and government policies. The following table illustrates the actual rate of return versus the benchmark goal, by investment pool, for TRS investments for fiscal year 2006:

	<u>Benchmark</u>	<u>Actual Return</u>	<u>+/- Variance</u>
STIP	4.15	4.33	0.18
RFBP	(0.81)	0.34	1.15
MDEP	9.22	8.13	(1.09)
MTIP	26.56	25.94	(0.62)
MPEP	13.22	17.44	4.22

Please refer to Note B of the financial statements for a description of the TRS investments.

Conclusion

The Teachers' Retirement Board is pleased to submit this 2006 Comprehensive Annual Financial Report to you reflecting an unqualified opinion from the Legislative Audit Division, which can be found on page 13.

On behalf of the Board, I would like to thank the staff, the Board's advisors, and the many people whose commitment, dedication, and proficiency has directly contributed to the continued successful operation of the Montana Teachers' Retirement System. The Teachers' Retirement Board and staff look forward to continuing to serve the educators of Montana.

Sincerely,

David L. Senn
Executive Director



Public Pension Coordinating Council
Public Pension Standards
2006 Award

Presented to

Teachers' Retirement System of Montana

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Alan H. Winkle
Program Administrator

**TEACHERS' RETIREMENT SYSTEM
BOARD OF DIRECTORS AND
PROFESSIONAL CONSULTANTS**

BOARD OF DIRECTORS

	Term Expires
SCOTT DUBBS CHAIR Active Member	JUNE 30, 2008
KARI PEIFFER VICE CHAIR Active Member (Classroom Teacher)	JUNE 30, 2007
TIM RYAN Public Representative	JUNE 30, 2009
JAMES TURCOTTE Public Representative	JUNE 30, 2010
MONA BILDEN Active Member	JUNE 30, 2011
DARRELL LAYMAN Retired Member	JUNE 30, 2011

PROFESSIONAL CONSULTANTS

MILLIMAN	Actuaries & Consultants Seattle, WA 98101
ICEMILLER	Legal & Business Advisors Indianapolis, IN 46282
ALFRED MUNKSGARD	IT Consultant Thousand Oaks, CA 91362

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

STATEMENT OF FIDUCIARY NET ASSETS

**STATEMENT OF CHANGES
IN FIDUCIARY NET ASSETS**

NOTES TO FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPORTING SCHEDULE

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Fiduciary Net Assets of the Teachers' Retirement System (system), a component unit of the state of Montana, as of June 30, 2006 and 2005, and the related Statement of Changes in Fiduciary Net Assets for each of the fiscal years then ended. These financial statements are the responsibility of the Teachers' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System as of June 30, 2006 and 2005, and the changes in fiduciary net assets for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Contributions from the Employer and Other Contributing Entities are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Teachers' Retirement System. The Supporting Schedule of Administrative Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

At July 1, 2006, the system was not actuarially sound with an Unfunded Actuarial Accrued Liability (UAAL) totaling \$863.1 million. In order to comply with a maximum 30-year amortization period, the current system revenue supports a maximum UAAL of \$467.6 million.

The Introductory Section, Investment Section, Actuarial Section, and Statistical Section listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 13, 2006

TEACHERS' RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Montana Teachers' Retirement System's (TRS) Comprehensive Annual Financial Report provides a narrative overview of the TRS's financial activities for the fiscal year ended June 30, 2006 with comparative totals for the fiscal years ended June 30, 2005 and 2004. Please read this in conjunction with the transmittal letter presented in the introductory section and the financial statements with accompanying footnotes, required supplementary information with notes, and supporting schedule included later in this financial section.

Overview of the Financial Statements

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the System's ongoing plan perspective.

The financial section consists of two financial statements with footnotes, two schedules of historical trend information with footnotes, and one supporting schedule. The Statement of Fiduciary Net Assets reflects the resources available to pay benefits to retirees and beneficiaries. The Statement of Changes in Fiduciary Net Assets presents the changes that occurred in those resources for the fiscal year ended.

The Schedule of Funding Progress presents historical trend information about the actuarially funded status for the TRS plan from a long-term, ongoing perspective and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Contributions from the Employer and Other Contributing Entities displays historical trend data of the annual required employer contributions and the actual contributions made by employers in relation to the requirement.

The Schedule of Administrative Expenses is a presentation of what comprises the administrative expense item as reported on the Statement of Changes in Fiduciary Net Assets.

Financial Highlights

- The Legislature in the December 2005 special session infused \$100,000,000 into the TRS Pension fund.
- The TRS plan net assets increased by \$258.7 million in 2006 and \$132.3 million in 2005 representing a 10.4% and 5.6% increase respectively.
- Net investment income (fair value of investments plus investment income less investment expense) showed an increase of \$36.1 million for 2006 and a decrease of \$93.1 million for 2005.
- Pension benefits paid to beneficiaries and plan members increased 6.6% and 7.3% for the last two fiscal years respectively.

Financial Analysis (in millions)

	FY2006	FY2005	FY2004	2006 Percent Inc/(Dec)	2005 Percent Inc/(Dec)
Cash/Cash Equivalents	71.8	31.9	78.1	125.1	(59.2)
Investments (fair value)	2,704.4	2,540.6	2,362.5	6.4	7.5
Liabilities	52.2	107.2	109.2	(51.3)	(1.8)
Net Assets	2,745.8	2,487.1	2,354.8	10.4	5.6
Contributions	112.3	110.7	107.9	1.4	2.6
Net Investment Income	224.8	188.7	281.8	19.1	(33.0)
Benefit Payments	172.0	161.3	150.3	6.6	7.3

- The increase/decrease in cash/cash equivalents is due primarily to the change in the number of shares held in the Short Term Investment Pool.
- The significant decrease in liabilities from 2005 to 2006 is due to the decrease in Securities Lending Collateral.
- The increase in Net Investment Income for 2006 is due to the positive change in the fair market value of our investments. The decrease in net investment income for 2005 was due primarily to the decrease of \$39.6 million in the net appreciation of the fair value of our investments from the previous year and a decrease of \$52.7 million in our investment earnings. Also the BOI instituted a policy change in FY2005 for the Montana Private Equity Pool (MPEP) whereby realized gains/losses would remain in the fund and not be distributed to pool participants.
- The increase in benefit payments reflects an increase in the number of retirees and beneficiaries plus the 1.5% guaranteed annual benefit adjustment.

Overview of the Actuarial Funding

The TRS plan experienced an asset gain over the last year. The market assets earned 8.91% net of investment and operating expenses. The actuarial assets earned 8.46% which is 0.71% above the actuarial assumption of 7.75%. Actuarial gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption. The following table compares the annual returns for the past six years.

Fiscal Year	Market Return	Actuarial Return	Actuarial Return over 8.0 % Assumption (7.75% effective 7/1/04)
7/1/2000 to 6/30/2001	(5.1)%	9.2%	1.2%
7/1/2001 to 6/30/2002	(7.3)%	3.8%	(4.2)%
7/1/2002 to 6/30/2003	6.2%	1.6%	(6.4)%
7/1/2003 to 6/30/2004	13.3%	2.1%	(5.9)%
7/1/2004 to 6/30/2005	8.0%	2.7%	(5.0)%
7/1/2005 to 6/30/2006	8.9%	8.5%	0.7%

The actuarial return on assets has under performed the assumption by approximately 20% in the last six years as reflected in the above table. Therefore, to be actuarially sound in future years, the System will need to incur asset returns well over the 7.75% assumption, an increase in contribution rates, or other cash infusions. The actuarial valuation as of July 1, 2006, was completed and distributed in October 2006. Based on the results of this valuation the TRS Board will recommend options to the Legislature that are considered necessary to be actuarially sound.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006 AND 2005**

	2006	2005
ASSETS		
Cash/Cash Equivalents-Short Term		
Investment Pool (Note B)	\$ 71,802,925	\$ 31,855,506
Receivables:		
Accounts Receivable	15,277,642	15,334,314
Interest Receivable	5,556,602	5,709,232
Due from Primary Government	208,840	152,802
Total Receivables	\$ 21,043,084	\$ 21,196,348
Investments, at fair value (Note B):		
Mortgages	\$ 36,712,095	\$ 43,153,151
Investment Pools	2,607,713,723	2,382,433,759
Other Investments	8,056,730	7,949,031
Securities Lending Collateral	51,930,374	107,020,752
Total Investments	\$ 2,704,412,922	\$ 2,540,556,693
Assets Used in Plan Operations:		
Land and Buildings	\$ 193,844	\$ 193,844
Less: Accumulated Depreciation	(136,118)	(132,354)
Equipment	147,087	147,087
Less: Accumulated Depreciation	(129,561)	(127,921)
Prepaid Expense	4,452	3,126
Intangible Assets, net of amortization	607,086	691,795
Total Other Assets	\$ 686,790	\$ 775,577
TOTAL ASSETS	\$ 2,797,945,721	\$ 2,594,384,124
LIABILITIES		
Accounts Payable	\$ 88,974	\$ 77,551
Due to Primary Government	29,446	32,212
Securities Lending Liability (Note B)	51,930,374	107,020,752
Compensated Absences (Note B)	125,880	117,069
TOTAL LIABILITIES	\$ 52,174,674	\$ 107,247,584
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is presented on page 28)		
	\$ 2,745,771,047	\$ 2,487,136,540

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
ADDITIONS		
Contributions:		
Employer	\$ 58,268,941	\$ 57,150,364
Plan Member	53,292,921	52,900,262
Other	693,226	655,812
Total Contributions	<u>\$ 112,255,088</u>	<u>\$ 110,706,438</u>
Misc Income	\$ 3,968	\$ 98
Payment from State of Montana (Note C)	100,000,000	0
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	\$ 153,737,011	\$ 112,888,982
Investment Earnings	74,818,519	79,373,616
Security Lending Income (Note B)	3,918,769	2,460,271
Investment Income/(Loss)	<u>\$ 232,474,299</u>	<u>\$ 194,722,869</u>
Less: Investment Expense	3,859,788	3,701,090
Less: Security Lending Expense (Note B)	3,827,250	2,287,406
Net Investment Income/(Loss)	<u>\$ 224,787,261</u>	<u>\$ 188,734,373</u>
Total Additions	<u>\$ 437,046,317</u>	<u>\$ 299,440,909</u>
DEDUCTIONS		
Benefit Payments	\$ 171,956,507	\$ 161,247,366
Withdrawals	4,876,148	4,340,382
Administrative Expense	1,579,155	1,560,820
Total Deductions	<u>\$ 178,411,810</u>	<u>\$ 167,148,568</u>
NET INCREASE (DECREASE) IN PLAN NET ASSETS	<u>\$ 258,634,507</u>	<u>\$ 132,292,341</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS BEGINNING OF YEAR	<u>2,487,136,540</u>	<u>2,354,844,199</u>
END OF YEAR	<u><u>\$ 2,745,771,047</u></u>	<u><u>\$ 2,487,136,540</u></u>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

NOTE A. DESCRIPTION OF PLAN

The Teachers' Retirement Board is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan, which provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college or unit of the university system. The system was established by the State of Montana in 1937 to provide retirement, death and disability benefits and is governed by Title 19, chapter 20, of the MCA.

At June 30, 2006, the number and type of reporting entities participating in the system were as follows:

Local School Districts	366
Community Colleges	3
University System Units	2
State Agencies	<u>8</u>
Total	379

At June 30, 2006, the system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	10,637
Terminated Employees Entitled to But Not Yet Receiving Benefits	10,151
Current Active Members:	
Vested	11,811
Non-vested	<u>6,297</u>
Total Membership	38,896

The pension plan provides retirement benefits and death and disability benefits. Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. A Guaranteed Annual Benefit Adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The TRS, a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity, maintains its accounts on the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel at June 30, 2006 and June 30, 2005.

Cash/Cash Equivalents and Investments

Cash and cash equivalents consist of funds deposited in the State Treasurer's pooled cash account and cash invested in the Short-Term Investment Pool. The Montana Board of Investments (BOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by Section 19-20-501, Montana Code Annotated. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. The seven areas of investment include: Short-Term Investment Pool (STIP); Retirement Funds Bond Pool (RFBP); Montana Domestic Equity Pool (MDEP); Montana International Equity Pool (MTIP); Montana Private Equity Pool (MPEP), Montana Real Estate Pool (MTRP), and All Other Funds (AOF).

Securities Lending - Under the provisions of state statutes, BOI, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the BOI securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent, 105% in MTIP, of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent, 105% in MTIP, of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street Bank lent, on behalf of the BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers

to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2006 and 2005, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine.

Effective June 30, 2005, the TRS implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. Detailed information demonstrating the risks associated with the TRS plan investments is contained in the State of Montana BOI financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126. The investment risks are described in the following paragraphs.

Credit Risk - Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The STIP securities and the RFBP fixed income instruments with the exception of the U.S. government securities have credit risk as measured by major credit rating services. The risk is that the issuer of a STIP or RFBP security may default in making timely principal and interest payments. The BOI policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organization (NRSRO). For the RFBP fixed income investments the BOI policy requires the investments at the time of purchase to be rated an investment grade as defined by Moody's or Standard & Poors's rating services. (Please refer to the credit rating chart on the following page).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2006 and June 30, 2005, all STIP, RFBP, MDEP, and MTIP securities were registered in the nominee name for the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account." All other repurchase agreements were purchased in the State of Montana BOI name. All other investments are registered in the name of the Montana BOI.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement No. 40, the BOI selected the effective duration method to disclose interest rate risk.

According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a-7-like pool. The RFBP investment policy does not formally address interest rate risk.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

The MTIP has significant investments in 11 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested. At June 30, 2006 approximately 39% of the TRS MTIP portfolio is held in foreign currencies. (See chart below).

The TRS investments subject to credit and interest rate risk at June 30, 2006 and June 30, 2005 are categorized below:

<u>Investment</u>	Fair Value		Rating		Duration	
	6/30/06	6/30/05	6/30/06	6/30/05	6/30/06	6/30/05
STIP	\$ 68,736,963	27,619,404	A1+	A1+	NA	NA
RFBP	717,609,842	704,451,127	AA-	AA-	5.05	4.95

*NA (not applicable)

The securities in the RFBP have a maturity ranging from 8/1/2006 to 6/10/2046.

The investment security type MTIP is subject to foreign currency risk at June 30, 2006 as categorized below converted to value in U.S. dollars:

<u>Currency</u>	<u>Carrying Amount</u> 6/30/06	<u>Fair Value</u> 6/30/06	<u>% of Total</u> <u>Investment</u>
Australian Dollar	9,496,389	13,473,446	2.8
Hong Kong Dollar	7,225,413	8,929,714	1.8
Indonesian Rupiah	320,848	346,409	0.1
Japanese Yen	49,984,262	64,630,986	13.4
Malaysian Ringgit	1,163,670	1,250,176	0.3
New Taiwan Dollar	5,479,946	6,022,402	1.2
Philippine Peso	382,348	595,101	0.1
Singapore Dollar	2,644,362	3,087,046	0.6
South Korean Won	6,402,196	9,078,570	1.9
Thailand Baht	1,606,486	1,781,722	0.4
US Dollar	270,854,917	374,280,707	77.4
Total	355,560,837	483,476,279	100.0

1. STIP as per Montana Code Annotated (MCA) sections 17-6-201, 202 and 204, requires investments by state agencies of available funds. The STIP unit value is fixed at \$1 for both participant buys and sells. The STIP portfolio may include asset-backed securities, commercial paper, corporate and U.S. government direct-backed U.S. government indirect-backed securities, repurchase agreements, and variable-rate (floating-rate) instruments to provide diversification and a competitive total rate of return.

According to the Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair value to report net assets to compute unit values. The BOI has adopted a policy to treat STIP as a 2a7-like pool.

2. The RFBP portfolio includes securities classified as corporate, foreign government bonds, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Unit values are calculated weekly and at month end based on portfolio pricing. Unit value at June 30, 2006 and June 30, 2005 was \$99.81 per unit and \$105.31 per unit respectively.

As of June 30, 2006 and June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the BOI. The RFBP held a \$5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. This bond, with a June 30, 2006 and 2005 book value of \$5,745,000 is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005 the RFBP held a \$9,930,036 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020 and a \$7,802,614 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp. insured bond maturing April 1, 2019. The combined book value of these two securities was \$17,244,339 as of June 30, 2005. On September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the BOI stopped the interest income accruals for the 6.81% bond maturing February 1, 2020 after the August 2005 pay date. This issue was sold on September 20, 2005 generating a loss of \$642,183. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bond maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the BOI did not stop the interest income accrual or reduce book value. On January 11, 2006 Northwest Airlines Inc. called the 7.935% bond maturing April 1, 2019 at par and included accrued interest from October 1, 2005 to January 11, 2006. The BOI recorded a gain of \$132,710 on this transaction.

As of June 30, 2006 and June 30, 2005, Burlington Industries, Inc. presented a legal and higher credit risk to the BOI. The BOI owns a Burlington Industries, Inc., \$6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$5,609,640 to \$2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the BOI received \$1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to \$0 and generated a gain of \$254,961. In February 2005 and May 2005, the BOI received an additional \$208,771 and \$194,247, respectively, for its unsecured claim. In May 2006, the BOI received an additional payment of \$158,278. The BOI is expected to receive the final distribution in September 2006.

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the BOI. The RFBP holds \$3 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013, a \$1.971 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2011 and a \$6 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the BOI stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the BOI received the interest due in June 2005 and August 2005. The combined book value of these securities was \$10,949,050 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to \$1.5 million, \$985,500 and \$3 million, respectively. On March 20, 2006, the BOI sold these securities and recorded a combined gain of \$892,680.

DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The BOI received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, \$5 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities seeks damages of \$538,632 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The BOI tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the BOI received \$5,683,075 in principal and interest plus \$150,000 as a consent fee.

On December 11, 2003, the Supreme Court of the State of New York, New York County, entered an order dismissing Deutsche Bank's complaint on jurisdictional grounds. Deutsche Bank appealed that decision to the Appellate Division, which on June 14, 2005 reversed the Supreme Court and entered an order determining the BOI to be liable and remanding the matter back to the Supreme Court for a determination of damages. The BOI appealed that decision to the New York Court of Appeals, which on June 6, 2006 affirmed the Appellate

Divison's decision. The BOI has since petitioned for certiorari to the United States Supreme Court on certain jurisdictional issues. At the same time, discovery is proceeding in the New York Supreme Court to determine damages.

3. The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts and equity derivatives. Unit value at June 30, 2006 and June 30, 2005 was \$138.01 per unit and \$128.67 per unit respectively.

OWENS-CORNING COMPLAINT

On October 11, 2002, the BOI received a summons and complaint regarding the bankruptcy of Owens-Corning. The company seeks a determination that the dividend payments paid from October 1996 through July 2000 represent "fraudulent transfers under Chapter 11 Bankruptcy provisions and applicable state law, and are, therefore, voidable". The complaint states the BOI was the "recipient of dividends in the amount of \$357,099 for the relevant period". The BOI has prepared a response to the complaint. As of September 22, 2006 this matter is still pending.

4. The MTIP portfolio includes equity investments in six funds that invest in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, convertible securities, American Depositary Receipts (ADR's), Global Depositary Receipts (GDR's), and other global securities, as appropriate. Unit values are calculated weekly and once a month at the close of the last business day of the month, based upon the fair value of the MTIP equity holdings, other assets and liabilities. Unit value at June 30, 2006 and June 30, 2005 was \$151.74 per unit and \$121.64 per unit respectively.

5. The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. Private equity investments are long-term, by design, and very illiquid. Due to the complexity and specialization of private equity investment, the BOI contracts with external private equity managers to invest in venture capital, leveraged buyout and other private equity investments.

Unit value at June 30, 2006 and June 30, 2005 was \$135.55 and \$116.06 per unit respectively. The unit value is calculated at month end.

6. The MTRP was approved by the BOI on April 26, 2006, to permit the state's retirement systems to participate in a diversified real estate portfolio. Effective June 1, 2006, the nine retirement funds sold \$30,035,000 of their STIP shares to fund the new Montana Real Estate Pool. The MTRP will invest with external real estate managers in both open-end and closed-end pooled funds. Each pension fund participant was issued units in the new pool at an initial unit value of \$100. Unit values are calculated on the close of the last business day of the month, and based on the portfolio fair value. The unit value at June 30, 2006 was \$100.00.

7. The AOF investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle" and applicable investment restrictions of the participants. The AOF portfolio

includes securities classified as corporate, U.S. government direct-backed, U.S. government indirect-backed, equity index, real estate, mortgages and loans.

In June 2005, the BOI received notice that Positive Systems, Inc. has “ceased business operations”. This borrower, funded by the Montana Science and Technology Alliance (MSTA), received \$200,000 and \$350,000 in May 1994 and March 1998, respectively. As of June 30, 2006 and 2005, Positive Systems, Inc. had an outstanding loan balance of \$546,074. In July 2006, the BOI received confirmation that Positive Systems, Inc. has “indeed ceased all business operation”. This loan balance of \$546,074 was written off in September 2006. With the exception of this loan, there were no other uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2006 and 2005. In February 2005, the BOI charged off \$147, 156 in principal for Safe ShopTools, Inc. The MSTA funded a total of \$162,500 to Safe ShopTools, Inc. in February 1997 and June 1999.

Real Estate Investments

100 North Park Building - In January 1996, the BOI, on behalf of the Public Employees’ and Teachers’ Retirement funds, purchased the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of \$4,864,326, the building carries a fair value of \$6,141,593 as of June 30, 2006. During fiscal year 2006, building improvements for tenant remodeling, heating/cooling, and leasing fees totaling \$64,607 were added to the cost of the building. Building improvements and leasing fees totaling \$151,567 were included in the cost of the building in fiscal year 2005. The three-story building provides office space for approximately eight to ten tenants.

2401 Colonial Drive Building - In August 1997, the BOI authorized the construction of an office building, as a real estate investment owned equally by the Public Employees’ and Teachers’ Retirement funds. Construction costs, including interest capitalization, totaled \$6,481,741 as of June 30, 2000. In fiscal year 2006, heating/cooling system improvements and leasing fees of \$93,257 were added to the building cost. For fiscal year 2005, \$48,838 was expended on parking lot resurfacing and heating/cooling system improvements. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2006, the building carries a cost and fair value of \$7,183,851 and \$7,676,250, respectively.

2273 Boot Hill Court Building - In August 1999, the BOI authorized the purchase of a new office building in Bozeman, Montana. Upon construction completion, the Public Employees’ and Teachers’ Retirement funds purchased the building, in March 2004, as a real estate investment with equal ownership, for \$2,051,032. In fiscal year 2006, there were no improvements made to this building. In fiscal year 2005, telecommunication system payments were added to the building cost of \$10,238. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2006, the building carries a fair value of \$2,082,014.

DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The BOI received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, \$2 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a “breach of contract” for the March 25, 2002 sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities seeks damages of \$215,453 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The BOI tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the BOI received \$2,273,230 in principal and interest plus \$60,000 as a consent fee.

On December 11, 2003, the Supreme Court of the State of New York, New York County, entered an order dismissing Deutsche Bank’s complaint on jurisdictional grounds. Deutsche Bank appealed that decision to the Appellate Division, which on June 14, 2005 reversed the Supreme Court and entered an order determining the BOI to be liable and remanding the matter back to the Supreme Court for a determination of damages. The BOI appealed that decision to the New York Court of Appeals, which on June 6, 2006 affirmed the Appellate Division’s decision. The BOI has since petitioned for certiorari to the United States Supreme Court on certain jurisdictional issues. At the same time, discovery is proceeding in the New York Supreme Court to determine damages.

NOTE C. CONTRIBUTIONS

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members are currently required to contribute 7.15% of their earned compensation and employers contribute 7.47% of earned compensation. The State’s General Fund contributes an additional 0.11% of earned compensation. Each employer in the Montana university system shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.04% of the total compensation of employees participating in the Optional Retirement Program (ORP). An actuary determines the actuarial implications of the funding requirement in biennial actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age actuarial cost method, with both normal cost and amortization of the accrued liability determined as a level percentage of payroll. The actuarial valuation prepared as of July 1, 2006, the most recent valuation date, indicates the statutory rate is insufficient to fund the normal cost and to amortize the unfunded accrued liability under the entry age actuarial cost method over 30 years. The unfunded actuarial accrued liability is included in the Schedule of Funding Progress.

The Montana State Legislature during the December 2005 special session infused \$100 million from the State’s General Fund into the TRS pension fund to help address the unfunded actuarial accrued liability of the system.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
(All dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) ⁽¹⁾	Present Value of Future University Supplemental Contributions	Unfunded Actuarial Accrued Liabilities (UAAL) ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	UAAL as a Percentage of Covered Payroll
July 1, 1998 ⁽⁵⁾	\$ 1,809.0	\$ 2,123.3	\$ 90.6	\$ 223.7	89.0%	\$ 529.8	42.2%
July 1, 1998 ⁽⁶⁾	1,809.0	2,342.7	90.6	443.1	80.3	529.8	83.6
July 1, 2000 ⁽⁷⁾	2,247.5	2,648.3	96.4	304.4	88.1	537.5	56.6
July 1, 2000 ⁽⁸⁾	2,247.5	2,652.0	96.4	308.1	87.9	537.5	57.3
July 1, 2002	2,484.8	2,980.1	111.8	383.5	86.6	563.2	68.1
July 1, 2004	2,485.7	3,359.2	115.7	757.8	76.6	600.7	126.2
July 1, 2005	2,497.5	3,527.0	126.2	903.3	73.4	612.6	147.5
July 1, 2006	2,745.8	3,733.6	124.7	863.1	76.1	636.0	135.7

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

(2) Actuarial accrued liabilities less actuarial value of assets and present value of future university supplemental contributions.

(3) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future university supplemental contributions.

(4) Covered Payroll includes compensation paid to all active employees on which contributions are calculated. Covered Payroll differs from the Active Member Valuation Payroll shown in Table C-1 in the actuarial section, which is an annualized compensation of only those members who were active on the actuarial valuation date.

(5) Results of July 1, 1998 Actuarial Valuation.

(6) July 1, 1998 results adjusted for 1.5% GABA and \$500 minimum benefit for legislation which passed in Spring 1999 and the new salary scale adopted in November 1998.

(7) Results of July 1, 2000 Actuarial Valuation.

(8) July 1, 2000 results adjusted for \$600 minimum benefit for legislation which passed in Spring 2001.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Contributions from the Employer and Other Contributing Entities

(All dollar amounts in thousands)

Fiscal Year Ending	Covered Employee Payroll ⁽¹⁾	Actual Employer Contributions ⁽²⁾	Actual Employer Contribution % ⁽²⁾	Annual Required Contribution (ARC) % ⁽³⁾	Percentage of ARC Contributed ⁽⁴⁾
6/30/1998	529,795	44,476	7.47	7.47	100
6/30/1999	543,071	44,987	7.47	7.47	100
6/30/2000	537,507	48,376	7.58	7.58	100
6/30/2001	567,861	51,524	7.58	7.58	100
6/30/2002	563,163	51,519	7.58	7.58	100
6/30/2003	597,131	53,277	7.58	7.58	100
6/30/2004	600,728	55,774	7.58	7.58	100
6/30/2005	612,622	57,150	7.58	7.58	100
6/30/2006	635,997	158,962	7.58	10.45	223

(1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll (less ORP and term pay contributions) divided by the contribution rate expressed as a percentage of payroll.

(2) The actual and required employer contributions are expressed as a percentage of payroll. Contributions for termination pay of \$5,247,505 and supplemental university contributions of \$5,512,447 are included in the \$158,962,167 actual employer dollar contribution, but are not made as a set percentage of payroll, and do not help to satisfy the ARC. Therefore, they are not included in the 7.58% employer contribution shown in this exhibit, or the calculation of the percentage of ARC contributed. The \$100 million one time contribution made by the State at January 1, 2006 is included in the 2006 employer dollar contribution, and the calculation of the percentage of ARC contributed, but is not included in the 7.58% employer contribution shown in this exhibit.

(3) The State makes employer contributions as a percentage of actual payroll. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the ARC is equal to the actual dollar amount of the required employer contributions. The 2006 ARC was determined in the July 1, 2004 valuation as the amount needed starting July 1, 2005 to maintain a 30 year amortization period.

(4) This is the ARC expressed as a percentage of the product of the ARC percent and the Covered Employee Payroll.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

Actuarial Cost Method

The actuarial valuation was prepared using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The normal cost was first calculated for each individual member. The normal cost rate is defined to equal the total of the individual normal costs, divided by the total pay rate.

The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets and (b) the actuarial present value of future normal costs is called the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized as a level percentage of the projected salaries of present and future members of the System.

The ultimate cost of any pension program over time equals the benefits paid and expenses incurred while administering the program. The source of revenue used to pay for this cost is equal to the contribution from employers and employees to fund the program, plus investment return earned on contributions made through pre-funding the benefit payments.

Valuation of Assets - Actuarial Basis

Market value is used as the actuarial basis for the valuation of assets. (Adopted effective July 1, 2006)

Investment Earnings

The annual rate of investment earnings of the assets of the System is assumed to be 7.75% per year, compounded annually. (Adopted effective July 1, 2004)

Guaranteed Annual Benefit Adjustment Increases

On January 1 of each year, the retirement allowance payable must be increased by 1.5% if the retiree's most recent retirement effective date is at least 36 months prior to January 1 of the year in which the adjustment is to be made.

Future Salaries

The rates of annual salary increases assumed for the purpose of the valuation include an assumed 4.5% annual rate of increase in the general wage level of the membership plus a variable merit and longevity rate from 0% to 4.51%. The merit and longevity increases for the Montana University System (MUS) members did not show a pattern of increasing or decreasing with service at the time of our most recent study. Therefore, the MUS members have a flat 1% merit and longevity assumption. The general wage increase assumption was adopted July 1, 2004 and the merit and longevity scales were adopted July 1, 2002.

MUS members are assumed to have a 0.63% higher average final compensation to account for the larger than average annual compensation increases observed in the years immediately preceding retirement.

Amortization Period

The current employer contribution rate of 7.47% and the State General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost of the System accruing at the valuation date and to amortize the unfunded actuarial liability over an open period of 30 years as of July 1, 2006.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULE
FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

ADMINISTRATIVE EXPENSES

Expenses for the administration of the plan, excluding compensated absences, depreciation and amortization, are budgeted and approved by the TRS Board. The administrative costs of the TRS are financed through realized investment income. The expenses, less amortization of intangible assets, may not exceed 1.5% of retirement benefits paid. Administrative expenses for the fiscal years ended June 30, 2006 and 2005, are outlined below:

	<u>2006</u>	<u>2005</u>
Budgeted Expenses:		
Personnel Services:		
Salaries	\$ 628,364	\$ 584,815
Other Compensation	2,450	1,900
Employee Benefits	186,284	174,390
Total Personal Services	<u>\$ 817,098</u>	<u>\$ 761,105</u>
Operating Expenses:		
Contracted Services:		
Personnel Management	\$ 6,146	\$ 3,263
Actuarial Services	133,216	150,859
Legal Services	3,076	4,306
Medical Evaluations	205	1,180
Audit Services	17,771	5,447
Information Technology Svcs	117,058	177,735
Other Contracted Services	150,158	138,432
Supplies & Material	32,806	24,840
Communications	39,466	38,003
Travel	12,375	12,770
Rent	44,915	42,437
Repair & Maintenance	56,207	53,078
Other Expenses	49,734	48,810
Total Operating Expenses	<u>\$ 663,133</u>	<u>\$ 701,160</u>
Non-Budgeted Expenses:		
Compensated Absences	\$ 8,811	\$ 8,442
Depreciation	5,403	5,403
Amortization of Intangible Assets	84,710	84,710
Total Non-Budgeted	<u>\$ 98,924</u>	<u>\$ 98,555</u>
Total Administrative Expense	<u>\$ 1,579,155</u>	<u>\$ 1,560,820</u>

INVESTMENT SECTION

REPORT ON INVESTMENT ACTIVITIES

INVESTMENT POLICY

INVESTMENT RESULTS

INVESTMENT ALLOCATION AND SUMMARY

LIST OF LARGEST HOLDINGS IN PORTFOLIO

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA**

TRS Report on Investment Activities

The Teachers' Retirement System investment portfolio posted a total return of 9.05% for the fiscal year ended June 30, 2006, which exceeded the return assumption for actuarial purposes of 7.75%. The return benefited from continued healthy stock market gains while bond returns suffered from rising interest rates. The portfolio was positioned to benefit from the gain in public equities, with U.S. and international stocks representing the majority of holdings at 63-65% throughout the fiscal year. The domestic stock portfolio return was 8.1% while international stocks enjoyed the strongest returns at 25.9%. Another significant contributor to overall returns was the approximate 5% weighting in private equity holdings which enjoyed a 17.4% return during the fiscal year. The portion allocated to fixed income, which ranged from 28 to 30%, suffered from the general rise in interest rates during the year and posted a return of 0.5%, though relative returns were good.

This overall positive return for the year masked a volatile year for market returns and the economy. The fiscal year began with strong economic momentum during the summer of 2005, which was interrupted by the devastation of Hurricane Katrina and its disruption of energy markets. The ensuing spike in energy prices led to increased inflation and concern over the health of the economic expansion. The economy proved resilient and by the end of the fourth calendar quarter was back on track. Yet ongoing inflation concerns prompted the Fed to continue to hike short term rates, a consistent pattern that continued through the June meeting of the FOMC.

Global stock markets continued to post positive returns early in 2006, with international, especially emerging market stocks, posting dramatic returns. Smaller capitalization stocks continued their out performance versus larger more established blue chips. Surging commodity prices during this timeframe bolstered the concern that inflationary pressures were out of control, leading to upward pressure on interest rates. The market theme suddenly shifted in early May, with the leading asset classes that had posted the strongest returns during the prior months falling out of favor. Market volatility spiked and investors began to favor safer sectors of the market, including U.S. large cap stocks and high quality bonds. The second calendar quarter was marked by negative returns for many of the asset classes that had performed so strongly earlier in the year, particularly emerging market international stocks.

As we entered the new fiscal year in July the markets had stabilized and the focus seemed more one of concern over the longevity of the economic expansion. Signs of weakness in the residential housing market began to emerge that were expected to dampen consumer spending and lead to a slower economy if not a recession. The Fed recognized this risk and despite expressing concern with ongoing inflation risk decided to pause in its rate hike campaign in August. The economy indeed slowed during the third quarter with the initial report of GDP growth at only 1.6%. Still, business investment spending remains healthy and employment gains have continued despite the housing market decline. Stable to improving employment gains and the recent decline in energy prices are likely to bolster consumer confidence and few now expect a recession to develop anytime soon.

The U.S. economy may prove resilient, yet the jury is still out. As of this writing the balance of economic forces still suggest a weaker though positive outlook for the U.S. Fortunately the global economy is in better balance, with European and Asian countries experiencing improved economies that are expected to help offset any U.S. slack. The bond market in the U.S. appears to be discounting an actual ease in Federal Reserve interest rate policy by mid-2007, with Treasury yields now trading below the 5.25% Fed Funds rate for all maturities. Another sign of confidence in the economy is the relatively low risk implied in corporate bond spreads which have remained narrow for even low quality credits. This makes capital spending more affordable and has allowed business investment to provide an important ongoing support for our economy. Business confidence ultimately depends on corporate profits which are expected to continue to grow, albeit at a slower rate over the next year.

In summary, these economic conditions are generally supportive of further equity gains, while a more subdued inflationary environment should allow for stable to declining interest rates in the near term. Ultimately, the key to the next fiscal year's investment returns will depend on whether the economy can pause and then successfully continue a longer cycle of growth as it did in the mid-90's.

Portfolio changes planned during the new fiscal year include ongoing diversification within existing asset classes as well as consideration of new asset classes for the portfolio as we seek incremental return within reasonable risk constraints. One recent initiative in this context has been the addition of real estate as a new alternative asset class. We also expect to continue to increase the allocation to private equity and venture capital investments given their long-term favorable return expectation as compared to public equities. As we implement changes in the portfolio structure we recognize the importance of doing so in a prudent manner and with an appropriate long term timeframe in mind.

Investment Policy

The Montana Board of Investments (BOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by Section 19-20-501, Montana Code Annotated. The Unified Investment Program is required by law to operate under the "prudent expert principle", defined as: 1) discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character and like aims; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the benefit of the funds managed.

Investment Results

TRS Historical Rates of Returns versus Benchmark

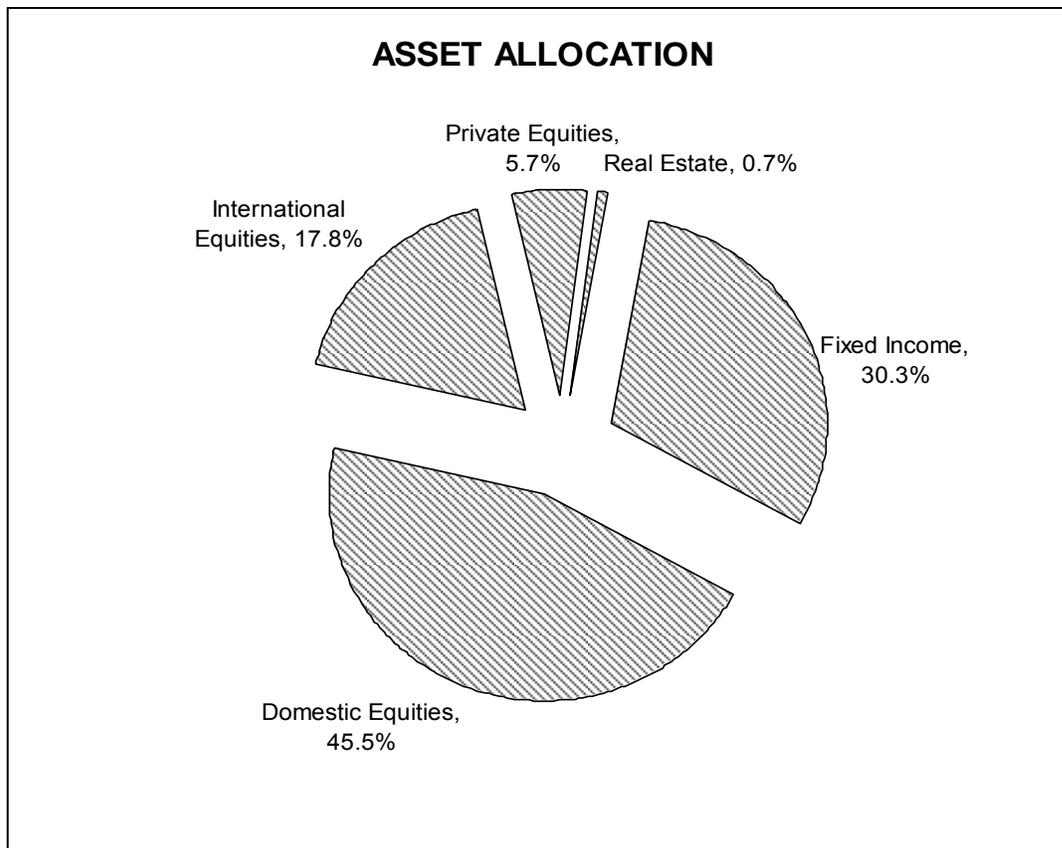
<u>Year</u>	<u>% Return</u>	<u>Benchmark (1)</u>	<u>Benchmark % Return</u>
2006	9.05	TRS Composite	8.81
3 Year Annualized Average	10.23	TRS Composite	10.05
5 Year Annualized Average	5.76	TRS Composite	5.65
10 Year Annualized Average	7.84	TRS Composite	7.81

(1) An Index Composite paralleling the Fund's Asset Allocation at Fair Value

The rates of return are based on the industry performance presentation standards times weighted total rate of return method (AIMR Performance Presentation Standards)

Investment Allocation and Summary

<u>Investment Type</u>	<u>Fair Value 6/30/2006</u>	<u>Allocation Asset Target Range %</u>
Fixed Income	\$ 823,058,900	30-40%
Domestic Equities	1,238,892,456	40-50%
International Equities	484,574,635	12-18%
Private Equities	154,896,789	4-7%
Real Estate	19,796,730	0-6%
	<u>\$ 2,721,219,510</u>	



Ten Largest Bond Holdings at fair value:

1. Freddie Mac	\$	12,951,830
2. Federal Home Loan Mortgage Corp		12,770,069
3. Federal Home Loan Pool G11812		12,400,941
4. Federal National Mortgage Assn		11,749,780
5. Federal Home Loan Pool G02070		11,001,336
6. FNMA Pool 745250		10,722,292
7. Federal Home Loan Pool G11777		10,278,513
8. Federal Home Loan Pool G11670		9,962,779
9. ARIA CDO		9,651,403
10. Cypresstree Synthetic CDO		9,290,660

Ten Largest Equity Securities Holdings at fair value:

1. BGI Equity Index Fund Europe	\$	299,819,754
2. DFA International Small Co		36,297,702
3. Brinson Partnership Fund Trust		28,364,325
4. General Electric Co		26,135,833
5. BGI Pacific Index Strategy Fund		25,717,878
6. Exxon Mobil Corp		17,998,526
7. CitiGroup Inc		15,430,177
8. Lexington Capital Partnership V		13,101,594
9. Adams Street Partnership Fund		12,962,781
10. Johnson + Johnson		12,680,900

A complete list of the portfolio holdings is available upon request from the Montana Board of Investments.

ACTUARIAL SECTION

ACTUARY'S CERTIFICATION LETTER

SOLVENCY TEST

ANALYSIS OF VALUATION

- 1. SUMMARY OF FINDINGS**
- 2. SCOPE OF THE REPORT**
- 3. ASSETS**
- 4. ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS**
- 5. EMPLOYER CONTRIBUTIONS**
- 6. CASH FLOWS**

APPENDICES



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October 6, 2006

Teachers' Retirement Board
State of Montana
1500 Sixth Avenue
Helena, MT 59620-0139

Dear Members of the Board:

As requested, we have made an actuarial valuation of the Teachers' Retirement System of the State of Montana. The major findings of the valuation are contained in this report. They are summarized in Section 1. This report reflects the benefit provisions and contribution rates in effect as of July 1, 2006.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations might need to be revised.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

We further certify that all costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System. Nevertheless, the emerging costs will vary from those presented in this report to the extent that actual experience differs from that projected by the actuarial assumptions. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in Appendix A.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System's funding requirements and goals. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.



Milliman's work product was prepared exclusively for the System for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning the System's operations, and uses the System's data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs. Any distribution of this report must be in its entirety including this cover letter, unless prior written consent from Milliman is obtained.

We would like to express our appreciation to Mr. David L. Senn, Executive Director of the System, and to members of his staff, who gave substantial assistance in supplying the data on which this report is based.

I, Mark C. Olleman, am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

We respectfully submit the following report, and we look forward to discussing it with you.

Respectfully submitted,

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary
Joint Board Enrollment # 05-05636

MCO/KIS/kjk

Teachers' Retirement System
A Component Unit of the State of Montana
Solvency Test
(All dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities for			Portion of Actuarial Accrued Liabilities Covered by Assets		
		(A) Active Member Contributions	(B) Retirees and Beneficiaries	(C) Active Members (Employer Financed Portion)	(A)	(B)	(C)
July 1, 1998 ⁽¹⁾	\$ 1,809.0	\$ 603.6	\$ 980.0	\$ 539.7	100.0%	100.0%	41.8%
July 1, 1998 ⁽²⁾	1,809.0	603.6	1,111.3	627.8	100.0	100.0	15.0
July 1, 2000 ⁽³⁾	2,247.5	647.2	1,346.7	654.4	100.0	100.0	38.8
July 1, 2000 ⁽⁴⁾	2,247.5	647.2	1,346.7	658.1	100.0	100.0	38.5
July 1, 2002	2,484.8	722.6	1,598.4	659.1	100.0	100.0	24.9
July 1, 2004	2,485.7	750.6	1,865.3	743.3	100.0	93.0	0.0
July 1, 2005	2,497.5	771.5	1,979.2	776.3	100.0	87.2	0.0
July 1, 2006	2,745.8	791.3	2,033.8	908.5	100.0	96.1	0.0

(1) Results of July 1, 1998 Actuarial Valuation.

(2) July 1, 1998 results adjusted for 1.5% GABA and \$500 minimum benefit for legislation which passed in Spring 1999 and the new salary scale adopted in November 1998.

(3) Results of July 1, 2000 Actuarial Valuation.

(4) July 1, 2000 results adjusted for \$600 minimum benefit for legislation which passed in Spring 2001.

Teachers' Retirement System

A Component Unit of the State of Montana

Section 1

Summary of Findings

As a result of the actuarial valuation of the benefits in effect under the Montana Teachers' Retirement System as of July 1, 2006, we recommend contributions be increased above the current employer contribution rate, 7.58% of members' salaries. The System does not currently meet the requirements of actuarial soundness because the contributions do not amortize the Unfunded Actuarial Accrued Liability over 30 years. The 7.58% employer contribution is composed of 7.47% from participating employers and 0.11% from the State General Fund. MCA 19-20-604 states that the employer contribution rate will be reduced by 0.11% when the amortization period of the System's unfunded actuarial accrued liability is 10 years or less according to the System's latest actuarial valuation.

An increase in the employer contribution rate of 3.38% (7.58% to 10.96%) as of July 1, 2007 is projected to maintain an amortization of the unfunded actuarial accrued liability over the 30 years beginning July 1, 2006. A 30-year amortization period is the maximum acceptable amortization period specified in Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB). It is also the trigger in the Retirement Board's funding policy for recommending to the legislature that funding be increased. The contribution increase could also be phased in over a number of years, or lessened by a one-time infusion of cash such as was made on January 1, 2006.

The actuarial costs are calculated using the entry age actuarial cost method. This is the method used by most public plans. It is designed to provide a stable contribution rate as a percent of member pay. This actuarial valuation measures the adequacy of the contribution rates set in Montana State Law.

Additional \$100 Million Contribution

An additional one-time contribution of \$100 million was made at January 1, 2006. This made a large and immediate impact on the funding of TRS. If not for this contribution, we estimate the required contribution increase to maintain a 30 year amortization would have been 4.34% instead of 3.38% (0.96% of pay larger) and the July 1, 2006 Unfunded Actuarial Accrued Liability funded by TRS contributions would have been \$966.9 million instead of \$863.1 million (\$103.8 million larger).

Investment Experience

The System experienced an asset gain over the last year. The market assets earned 8.91% net of investment and operating expenses. The actuarial assets earned 8.46% which is 0.71% above the actuarial assumption of 7.75%. The following chart compares the annual returns for the past six years.

<u>Year</u>	<u>Market Return</u>	<u>Actuarial Return</u>	<u>Actuarial Return over Assumption*</u>
7/1/2000 to 6/30/2001	(5.1)%	9.2%	1.2%
7/1/2001 to 6/30/2002	(7.3)%	3.8%	(4.2)%
7/1/2002 to 6/30/2003	6.2%	1.6%	(6.4)%
7/1/2003 to 6/30/2004	13.3%	2.1%	(5.9)%
7/1/2004 to 6/30/2005	8.0%	2.7%	(5.0)%
7/1/2005 to 6/30/2006	8.9%	8.5%	0.7%

* The actuarial assumption was 8.0% through 6/30/2004 and 7.75% thereafter.

Asset gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption of 7.75% (8.0% before July 1, 2004). The actuarial return on assets has under performed the assumption by about 20% in the last six years (combined) as shown in the accumulation of the last column of the chart. These losses have led to a need for increased contributions.

The root of these losses is the low market returns of (5.1)% and (7.3)% in the years ending 6/30/2001 and 6/30/2002. The recognition of these two years of market losses kept the actuarial return on assets below the assumption until this past year. The Retirement Board adopted the market value of assets to be used as the actuarial value assets for this report at their May, 2006 meeting. Therefore, there are no unrecognized asset gains or losses as of July 1, 2006.

Future Experience

The future funding status of the System and any changes in future contribution rates will be determined by the System's experience. In the future, the System's actual asset returns, salary increases, and retirement, withdrawal, disability and death rates will all impact the funding status of the System. The entry age normal cost method will help to provide a more orderly funding of the System's liabilities, but will not change the actual experience. The actuarially determined contribution rate may not be stable, and will reflect gains and losses.

Summary

Although the January 1, 2006 one-time contribution of \$100 million made a substantial impact on the funding of TRS, the System still does not meet the requirements of actuarial soundness. This is because the contributions do not amortize the Unfunded Actuarial Accrued Liability over a reasonable period. To stay financially sound in the future, the System will need either (1) future gains such as asset returns well over the 7.75% assumption, or (2) additional contributions. Additional contributions could take the form of a one time increase in contribution rates, a set of contribution increases graded in over a number of years, or large additional contributions made outside the percent of pay contributions such as the \$100 million contributed at January 1, 2006. All these options are shown in Table 7 and its footnotes.

Assumption Changes

The mortality assumptions were changed for this valuation. Our study of the System's mortality was documented in our May 2006 report and the Board adopted new assumptions at their May 2006 Board meeting.

Benefit Changes

No benefit changes since the July 1, 2005 valuation are reflected in this valuation.

Contribution Changes

There have been no contribution rate changes since the July 1, 2000 actuarial valuation.

Method Changes

The Retirement Board adopted the market value of assets to be used as the actuarial value of assets for this report at their May 2006 meeting. There are therefore no unrecognized asset gains or losses in this valuation. There were \$10 million in unrecognized asset losses in the July 1, 2005 actuarial valuation.

Impact of Changes

The following table summarizes how experience has changed the Unfunded Actuarial Accrued Liability (UAAL) since the July 1, 2005 Actuarial Valuation.

Changes in the Unfunded Actuarial Accrued Liability (UAAL)

(In millions)

July 1, 2005 Valuation UAAL funded by TRS contributions		\$903.3
Expected Increase without Assumption change	44.9	
New Mortality Assumptions	24.0	
Total Expected Increase		<u>68.9</u>
Expected July 1, 2006 UAAL		\$972.2
Retired Mortality Gain		(6.2)
Active Member Experience		
Salary Gain	(\$1.3)	
Withdrawal Loss	6.5	
Retirement Gain	(4.1)	
Active Member Mortality Gain	(0.2)	
Active Member Disability Loss	0.3	
Total Active Member Experience Loss		\$1.2
Experience Gain on Actuarial Assets		(17.9)
Loss from Other Causes		<u>17.6</u>
July 1, 2006 UAAL before \$100 million contribution		966.9
\$100 million contribution at January 1, 2006		<u>(\$103.8)</u>
July 1, 2006 Valuation UAAL funded by TRS contributions		\$863.1

The table on the following page summarizes the key valuation results.

Summary of Key Valuation Results

	2006 Valuation	2005 Valuation	Percentage Change
1. Total Membership			
A. Active Members (Annual Pay \$1,000 or more)	17,555	17,542	0.1%
B. Active Members (Annual Pay under \$1,000)	544	697	-22.0%
C. Vested Terminated Members	1,684	1,649	2.1%
D. Non-vested Terminated Members	8,542	8,569	-0.3%
E. Retired Members and Beneficiaries	<u>11,019</u>	<u>10,664</u>	3.3%
F. Total Membership	39,344	39,121	0.6%
2. Annual Salaries			
A. Annual Total (<i>\$Thousands</i>)	\$ 606,989	\$ 585,885	3.6%
B. Annual Average per Active Member	\$ 34,576	\$ 33,399	3.5%
3. Average Annual Allowance Payable			
A. Service Retirement	\$ 17,452	\$ 16,951	3.0%
B. Disability Retirement	\$ 9,049	\$ 8,794	2.9%
C. Survivors & Beneficiaries	\$ 9,877	\$ 9,584	3.1%
D. All Payees	\$ 16,436	\$ 15,954	3.0%
4. Actuarial Accrued Liability (<i>\$Millions</i>)			
A. Active Members	\$ 1,627.0	\$ 1,547.8	5.1%
B. Inactive Members	72.8	69.9	4.1%
C. Retired Members and Beneficiaries	<u>2,033.8</u>	<u>1,909.3</u>	6.5%
D. Total AAL	\$ 3,733.6	\$ 3,527.0	5.9%
E. Less Present Value of Future University Supplemental Contributions	<u>124.7</u>	<u>126.2</u>	-1.2%
F. AAL Funded by TRS Contributions	\$ 3,608.9	\$3,400.8	6.1%
5. Value of System Assets (<i>\$Millions</i>)			
A. Fair Value	\$ 2,745.8	\$ 2,487.1	10.4%
B. Smoothing Unrecognized Loss / (Reserve)	<u>0.0</u>	<u>10.4</u>	
C. Actuarial Value	2,745.8	2,497.5	9.9%
D. Ratio of Actuarial Value to Fair Value	100.0%	100.4%	
6. Funded Status (<i>\$Millions</i>)			
A. Unfunded Actuarial Accrued Liability Funded by TRS Contributions*	\$ 863.1	\$ 903.3	-4.5%
B. Funded Ratio ($5C \div 4D$)	73.5%	70.8%	
C. Net Funded Ratio ($5C \div 4F$)	76.1%	73.4%	
7. Contribution Rates (<i>percent of salaries</i>)			
A. Statutory Funding Rate	14.73%	14.73%	0.0%
B. Normal Cost Rate	<u>10.37%</u>	<u>10.35%</u>	0.2%
C. Available for Amortization of UAL ($7A - 7B$)	4.36%	4.38%	-0.5%
D. Period to Amortize	Does not amortize	Does not amortize	
E. Projected 30-Year Level Funding Rate	18.11%	18.79%	-3.6%
F. Projected Shortfall (Surplus) ($7E - 7A$) *	3.38%	4.06%	-16.7%

* Had \$100 million not been contributed at January 1, 2006 we estimate the July 1, 2006 UAAL shown on line 6A would have been \$966.9 million and the projected shortfall shown on line 7F would have been 4.34%.

Teachers' Retirement System
A Component Unit of the State of Montana

Section 2

Scope of the Report

This report presents the actuarial valuation of the Montana Teachers' Retirement System as of July 1, 2006.

A summary of the findings resulting from this valuation is presented in the previous section. Section 3 describes the assets of the System. Sections 4 and 5 describe how the obligations of the System are to be met under the actuarial cost method in use.

The actuarial procedures and assumptions used in this valuation are described in Appendix A. The current benefit structure, as determined by the provisions of the governing law on July 1, 2006, is summarized in Appendix B. Schedules of valuation data classifying the data used in the valuation by various categories of contributing members, former contributing members, and beneficiaries make up Appendix C. Appendix D provides a brief summary of the System's recent experience. Comparative statistics are presented on the System's membership and contribution rates. Appendix E is a glossary of actuarial terms used in this report.

Teachers' Retirement System
A Component Unit of the State of Montana

Section 3

Assets

In many respects, an actuarial valuation can be regarded as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is July 1, 2006. On that date, the assets available for the payment of benefits are appraised. These assets are compared with the actuarial liabilities. The actuarial process thus leads to a method of determining what contributions by members and their employers are needed to strike a balance.

The market value of assets is used as the actuarial value of assets in this valuation. This method was adopted for the July 1, 2006 valuation; prior to this date, any gains or losses on assets were recognized evenly over a period of five years.

Table 3 summarizes historical asset returns since July 1, 1994 including the amount recognized by the actuarial asset valuation method which was greater or lesser than the actuarial investment return assumption.

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table 3

Historical Investment Returns*

Fiscal Year Ending	Market Returns	Actuarial Return	Actuarial Return Over 8.0% Assumption
June 30, 1995	15.7%	8.9%	0.9%
June 30, 1996	12.4	10.4	2.4
June 30, 1997	19.4	14.9	6.9
June 30, 1998	16.6	16.0	8.0
June 30, 1999	11.9	12.3	4.3
June 30, 2000	7.8	12.8	4.8
June 30, 2001	(5.1)	9.2	1.2
June 30, 2002	(7.3)	3.8	(4.2)
June 30, 2003	6.2	1.6	(6.4)
June 30, 2004	13.3	2.1	(5.9)
Fiscal Year Ending	Market Returns	Actuarial Return	Actuarial Return Over 7.75% Assumption
June 30, 2005	8.04	2.71	(5.04)
June 30, 2006	8.91	8.46	0.71

** Returns reflect all investment returns, including investment income and realized and unrealized investment gains and losses, and are net of investment expenses and administrative expenses paid by the System.*

Teachers' Retirement System
A Component Unit of the State of Montana

Section 4

Actuarial Present Value of Future Benefits

In the previous section, an actuarial valuation was related to an inventory process, and an analysis was given of the inventory of assets of the System as of the valuation date, July 1, 2006. In this section, the discussion will focus on the commitments of the System, which will be referred to as its actuarial liabilities.

Table 4 contains an analysis of the actuarial present value of all future benefits for contributing members, for former contributing members, and for beneficiaries. The analysis is given by type of benefit.

The actuarial liabilities summarized in Table 4 include the actuarial present value of all future benefits expected to be paid with respect to each member covered as of the valuation date. For an active member, this value includes a measure of both benefits already earned and future benefits to be earned. Thus, for all members, active and retired, the value extends over benefits earnable and payable for the rest of their lives and, if an optional benefit is chosen, for the lives of their surviving beneficiaries.

The actuarial valuation does not recognize liabilities for employees who become members and participate in the System after the valuation date.

Teachers' Retirement System
A component Unit of the State of Montana

Table 4

Actuarial Present Value of Future Benefits
for Contributing Members, Former Contributing
Members, and Beneficiaries
(All amounts are actuarial present values in millions)

	July 1, 2006	July 1, 2005
	Total	Total
A. Active members		
Service retirement	\$ 1,964.7	\$ 1,870.9
Disability retirement	23.8	22.1
Survivors' benefits	39.1	43.5
Vested Retirement	33.6	31.9
Refund of Member Contributions	32.8	32.0
Total	\$ 2,094.0	\$ 2,000.4
B. Inactive members and annuitants		
Service retirement	\$ 1,896.2	\$ 1,780.3
Disability retirement	18.5	17.7
Beneficiaries*	119.1	111.3
Vested terminated members	59.8	57.0
Nonvested terminated members	13.0	12.9
Total	\$ 2,106.6	\$ 1,979.2
C. Grand Total		
	\$ 4,200.6	\$ 3,979.6

* Includes survivors of active and retired members, and children's benefits.

Teachers' Retirement System

A Component Unit of the State of Montana

Section 5

Employer Contributions

In the previous two sections, attention has been focused on the assets and the present value of all future benefits of the System. A comparison of Tables 1 and 4 indicates that there is a shortfall in current actuarial assets to meet the present value of all future benefits for current members and beneficiaries.

In an active system, there will always be a difference between the assets and the present value of all future benefits. This difference has to be funded with future contributions and investment returns. An actuarial valuation sets a schedule of future contributions that will deal with this funding in an orderly fashion.

The method used to determine the incidence of the contributions in various years is called the actuarial cost method. For this valuation, the entry age actuarial cost method has been used. A description of the entry age actuarial cost method is provided in Appendix A. Under this method, or essentially any actuarial cost method, the contributions required to meet the difference between current assets and the present value of all future benefits are allocated each year between two elements:

- A normal cost amount, which ideally is relatively stable as a percentage of salary over the years; and
- Whatever amount is left over, which is used to amortize what is called the unfunded actuarial accrued liability.

The two items described above, normal cost and unfunded actuarial accrued liability, are the keys to understanding the actuarial cost method. Let us first discuss the normal cost.

The normal cost is the theoretical contribution rate, which will meet the ongoing costs of a group of average new employees. Suppose that a group of new employees were covered under a separate fund from which all benefits and to which all contributions and associated investment return were to be paid. Under the entry age actuarial cost method, the normal cost contribution rate is that level percentage of pay which would be exactly right to maintain this fund on a stable basis. If experience were to follow the actuarial assumptions exactly, the fund would be completely liquidated with the last payment to the last survivor of the group.

We have determined the normal cost rates separately by type of benefit under the System. These are summarized in Table 5.

The term "fully funded" is often applied to a system where contributions for everyone at the normal cost rate will fully pay for the benefits of existing as well as new employees. Often, systems are not fully funded, either because of benefit improvements in the past that have not been completely paid for or actuarial deficiencies that have occurred because experience has not been as favorable as anticipated. Under these circumstances, an unfunded actuarial accrued liability (UAAL) exists.

Table 6 shows how the UAAL was derived for the System. Lines A and B show, respectively, the total present value of future benefits and the portion of the future liability that is expected to be paid from future normal cost contributions, both employer and employee. Line C shows the actuarial accrued liability: the portion of the present value of future benefits not provided by future normal cost contributions. Line D shows the actuarial value of assets available for benefits. Line E shows the UAAL. Lines F and G show the impact of the present value of future scheduled university supplemental contributions (described below) on the UAAL.

As can be seen from this discussion, a key consideration in the adequacy of the funding of the System is how the UAAL is being amortized. Table 7 shows that the current employer and member contribution rates are adequate to pay the total normal cost rate (10.37% of pay), but do not have enough left over to amortize the UAAL over a reasonable period. Therefore, the current basis is not sufficient to meet future requirements.

An increase in the employer contribution rate of 3.38% (7.58% to 10.96%) as of July 1, 2007 is projected to maintain an amortization of the UAAL over the 30 years beginning July 1, 2006. A 30 year amortization period is the maximum acceptable amortization period specified in Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB). It is also the trigger in the Retirement Board's funding policy for recommending to the legislature that funding be increased.

The amortization of the UAAL assumes university supplemental contributions are made as a percent of pay for members of the Optional Retirement Plan (ORP) until June 30, 2033. Under Section 19-20-621, periodic separate valuations are to be performed to measure the liabilities of benefits to be paid under the Teachers' Retirement System (TRS) for Montana University System (MUS) members. As of the 1996 valuation, there was a \$98.0 million difference, or shortfall, which is to be funded as a level percentage of future ORP salaries from July 1, 1997 to June 30, 2033. The single contribution rate determined as of July 1, 1997 was 3.97%. However, the following graded schedule for increasing the supplemental university contributions was adopted:

Supplemental University Contribution Rate	Fiscal Years Ending
2.81%	June 30, 1998
3.12%	June 30, 1999
3.42%	June 30, 2000
3.73%	June 30, 2001
4.04%	June 30, 2002 to June 30, 2033

The July 1, 2004 actuarial valuation of the MUS calculated a \$144.4 million difference or shortfall between the value of MUS member benefits (not including GABA) and the value of MUS assets and future MUS member contributions. The contribution schedule has not been changed. The value of future supplemental university contributions included in the July 1, 2006 TRS valuation is \$124.7 million based on a 4.04% contribution rate until July 1, 2033.

Table 8 illustrates the pattern of the total TRS contribution rate needed to amortize the UAAL over the next 30 years. The amortization payments for each year and their present values are also shown.

The UAAL at any date after establishment of a system is affected by any actuarial gains or losses arising when the actual experience of the system varies from the experience anticipated by the actuarial assumptions used in the valuations. To the extent actual experience as it develops differs from the assumptions used, so also will the actual emerging costs differ from the estimated costs. The impact of these differences in actual experience from the assumptions is included in Section 1, the Summary of Findings.

Teachers' Retirement System
A Component Unit of the State of Montana

Table 5

Normal Cost Contribution Rates
as Percentages of Salary

	July 1, 2006	July 1, 2005
	Total	Total
	<hr/>	<hr/>
Service retirement	7.94%	7.87%
Disability retirement	0.16	0.16
Survivors' benefits	0.22	0.26
Vested retirement	0.63	0.63
Refund of member contributions	<u>1.42</u>	<u>1.43</u>
Total	10.37%	10.35%

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table 6

**Unfunded Actuarial Accrued Liability
(All dollar amounts in millions)**

	July 1, 2006	July 1, 2005
A. Actuarial present value of all future benefits for present and former members and their survivors (Table 4)	\$ 4,200.6	\$ 3,979.6
B. Less actuarial present value of total future normal costs for present members	<u>467.0</u>	<u>452.6</u>
C. Actuarial accrued liability	\$ 3,733.6	\$ 3,527.0
D. Less actuarial value of assets available for benefits	<u>2,745.8</u>	<u>2,497.5</u>
E. Unfunded actuarial accrued liability	\$ 987.8	\$ 1,029.5
F. Less present value of future university supplemental contributions*	<u>124.7</u>	<u>126.2</u>
G. Unfunded actuarial accrued liability funded by TRS contributions**	\$ 863.1	\$ 903.3

* *Paid by contributions to TRS made as a percentage of the salaries of the participants in the Optional Retirement Plan (ORP) to fund Montana University System member benefits. The percentage of salary will be a level 4.04% for the Fiscal Years through 2033.*

** *Had \$100 million not been contributed at January 1, 2006 we estimate the July 1, 2006 UAAL shown on line G would have been \$966.9 million.*

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table 7

**Recommended Contribution Rates
as Percentages of Salary**

	<u>July 1, 2006</u>	<u>July 1, 2005</u>
A. Employer contribution rate*	7.58%	7.58%
B. Member contribution rate	<u>7.15</u>	<u>7.15</u>
C. Total contribution rate	14.73%	14.73%
D. Less total normal cost rate (Table 7)	<u>10.37</u>	<u>10.35</u>
E. Amount available to amortize unfunded actuarial accrued liability** (C – D)	4.36%	4.38%
F. Amortization period from Valuation Date**	N/A	N/A
G. 30 year amortization contribution rate increase**	3.38%	4.06%
H. Total 30 year UAAL amortization rate (E + G)	7.74%	8.44%
I. Total 30 year contribution rate (D + H)	18.11%	18.79%

* *In accordance with MCA 19-20-604, the employer contribution rate will be reduced by 0.11% when the amortization period of the System's unfunded actuarial accrued liability is 10 years or less according to the System's latest actuarial valuation. This is reflected in all relevant calculations in this report.*

** *As of July 1, 2006, the unfunded actuarial accrued liability does not amortize over a reasonable period. The employer contribution rate would have to be increased by 3.38% starting July 1, 2007 to maintain an amortization of the unfunded actuarial accrued liability over the 30-year period starting July 1, 2006. Alternatively, the employer contribution rate could be increased by 1.00% on July 1, of 2007, 2009, 2011 and 2013 for a total increase of 4.00%. This graded increase would achieve the same 30-year amortization. A third alternative would be to contribute \$100 million as a one-time event at July 1, 2007 and increase the employer contribution rate by 2.53% at July 1, 2007.*

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table 8

**Illustration of TRS Contribution Rates
Needed to Meet a 30-Year Amortization Policy**

Investment Assumption: 7.75%
 General Wage Increases: 4.50%
 Contribution Increase effective July 1, 2007: 3.38%

Fiscal Year	TRS Payroll			Total TRS Contribution	Normal Cost	Amortization	Amortization Payment	Amortization Payment Discounted to Valuation Date
	non-MUS	MUS	Total	Rate	Rate	Rate	Payment	
2007	584,561,264	39,169,839	623,731,103	14.73%	10.37%	4.36%	27,194,676	26,198,429
2008	610,866,521	36,148,079	647,014,600	18.11%	10.37%	7.74%	50,078,930	44,774,333
2009	638,355,514	33,277,850	671,633,364	18.11%	10.37%	7.74%	51,984,422	43,135,022
2010	667,081,513	30,385,864	697,467,377	18.11%	10.37%	7.74%	53,983,975	41,572,332
2011	697,100,181	27,390,200	724,490,381	18.11%	10.37%	7.74%	56,075,555	40,077,058
2012	728,469,689	24,747,465	753,217,154	18.11%	10.37%	7.74%	58,299,008	38,669,284
2013	761,250,825	22,044,033	783,294,858	18.11%	10.37%	7.74%	60,627,022	37,321,056
2014	795,507,112	19,510,775	815,017,887	18.11%	10.37%	7.74%	63,082,384	36,039,479
2015	831,304,932	17,183,258	848,488,190	18.11%	10.37%	7.74%	65,672,986	34,820,892
2016	868,713,654	15,026,893	883,740,547	18.11%	10.37%	7.74%	68,401,518	33,659,030
2017	907,805,768	13,017,793	920,823,561	18.11%	10.37%	7.74%	71,271,744	32,548,873
2018	948,657,028	11,068,318	959,725,346	18.11%	10.37%	7.74%	74,282,742	31,483,950
2019	991,346,594	9,393,927	1,000,740,521	18.11%	10.37%	7.74%	77,457,316	30,468,176
2020	1,035,957,191	7,906,487	1,043,863,678	18.11%	10.37%	7.74%	80,795,049	29,495,209
2021	1,082,575,264	6,653,714	1,089,228,978	18.11%	10.37%	7.74%	84,306,323	28,563,380
2022	1,131,291,151	5,631,117	1,136,922,268	18.11%	10.37%	7.74%	87,997,784	27,669,666
2023	1,182,199,253	4,679,747	1,186,879,000	18.11%	10.37%	7.74%	91,864,435	26,807,870
2024	1,235,398,219	3,894,792	1,239,293,011	18.11%	10.37%	7.74%	95,921,279	25,978,411
2025	1,290,991,139	3,240,707	1,294,231,846	18.11%	10.37%	7.74%	100,173,545	25,178,705
2026	1,349,085,741	2,633,220	1,351,718,961	18.11%	10.37%	7.74%	104,623,048	24,405,653
2027	1,409,794,599	2,170,614	1,411,965,213	18.00%	10.37%	7.63%	107,732,946	23,323,532
2028	1,473,235,356	1,726,867	1,474,962,223	18.00%	10.37%	7.63%	112,539,618	22,611,738
2029	1,539,530,947	1,433,712	1,540,964,659	18.00%	10.37%	7.63%	117,575,603	21,924,437
2030	1,608,809,839	1,171,892	1,609,981,731	18.00%	10.37%	7.63%	122,841,606	21,258,834
2031	1,681,206,282	919,244	1,682,125,526	18.00%	10.37%	7.63%	128,346,178	20,613,874
2032	1,756,860,565	755,398	1,757,615,963	18.00%	10.37%	7.63%	134,106,098	19,989,775
2033	1,835,919,290	622,259	1,836,541,549	18.00%	10.37%	7.63%	140,128,120	19,385,071
2034	1,918,535,658	474,072	1,919,009,730	18.00%	10.37%	7.63%	146,420,442	18,798,645
2035	2,004,869,763	359,596	2,005,229,359	18.00%	10.37%	7.63%	152,999,000	18,230,398
2036	2,095,088,902	270,407	2,095,359,309	18.00%	10.37%	7.63%	159,875,915	17,679,636

Present Value of Future Amortization Payments: 862,682,747

Teachers' Retirement System

A Component Unit of the State of Montana

Section 6

Cash Flows

The fundamental equation for funding a retirement system is that benefits and administrative expenses must be provided for by contributions (past and future) and investment income. When a retirement system matures, benefits and administrative expenses often exceed contributions. In this case we say the system has a “negative cash flow.” Mature systems are characterized by negative cash flows and large pools of assets. This is natural. Actuarial funding is designed to accumulate large pools of assets which will in turn provide investment income and finance negative cash flows when systems mature. If the fund is looked at as a whole, investment income is usually larger than the difference between contributions and benefit payments. The retirement system’s investment strategy should maximize potential returns at a prudent level of risk while providing for needed cash flows.

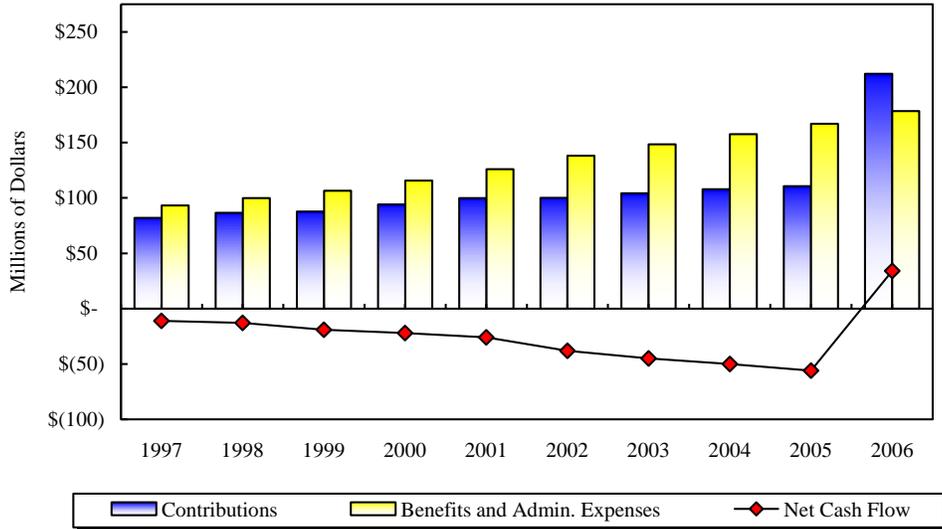
The Table 9 shows that in 1997 the System had a small negative cash flow. In the year ended June 30, 2006, contributions exceeded the System’s benefits and administrative expenses by \$34 million, due to a one-time cash contribution of \$100 million. At the current contribution rates, however, expenses are projected to again exceed contributions in the year ending June 30, 2007, and this deficit is projected to increase to \$167 million for the year ending June 30, 2016.

As long as the System had a positive cash flow, there was no need to plan where the funds would come from to pay benefits since benefits could be paid by incoming contributions. A negative cash flow, as defined above, requires planning what funds will be used to pay the difference between benefits and contributions. We are providing these projections to aid in developing the investment strategy for the System’s assets.

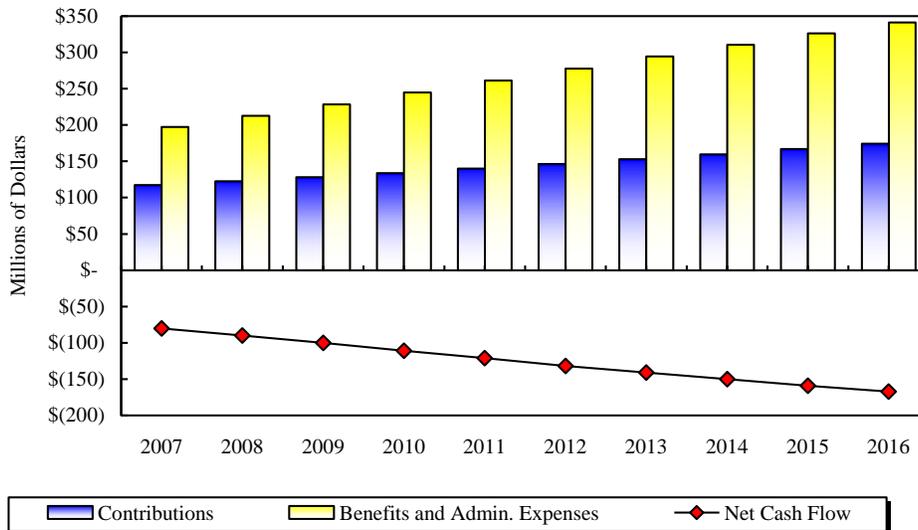
The projected contributions and administrative expenses are based on the actual amounts for the year ended June 30, 2006. Contributions are assumed to increase at the general wage increase assumption of 4.5%. Expenses are assumed to increase at the underlying inflation assumption of 3.5%. The future employer contribution rate is assumed to stay at 7.58% for the purpose of these projections.

Teachers' Retirement System A component Unit of the State of Montana

Cash Flow History



Cash Flow Projections



Teachers' Retirement System
A component Unit of the State of Montana

Table 9

Cash Flow History and Projections

<u>Year Ended June 30,</u>	Historical Cash Flows*		
	<u>Contributions</u>	Benefits & Administrative <u>Expenses</u>	Net <u>Cash Flow</u>
1997	\$ 82	\$ 93	\$ (11)
1998	87	100	(13)
1999	88	107	(19)
2000	94	116	(22)
2001	100	126	(26)
2002	100	138	(38)
2003	104	149	(45)
2004	108	158	(50)
2005	111	167	(56)
2006	212	178 **	34

<u>Year Ending June 30,</u>	Projected Cash Flows*		
	<u>Contributions</u>	Benefits & Administrative <u>Expenses</u>	Net <u>Cash Flow</u>
2007	\$ 117	\$ 197	\$ (80)
2008	123	213	(90)
2009	128	228	(100)
2010	134	245	(111)
2011	140	261	(121)
2012	146	278	(132)
2013	153	294	(141)
2014	160	310	(150)
2015	167	326	(159)
2016	174	341	(167)

* *Millions of dollars.*

** *Reflects \$100 million transfer to TRS.*

Teachers' Retirement System

A Component Unit of the State of Montana

Appendix A

Actuarial Procedures and Assumptions

The actuarial assumptions used in this valuation were adopted by the Board for the July 1, 2006 Actuarial Valuation. The Board adopted new mortality assumptions at the May 19, 2006 Retirement Board Meeting. Active demographic assumptions were reviewed in the 2002 Investigation of Experience Study. Economic assumptions were reviewed in the 2004 Investigation of Experience Study.

Tables A-3 through A-6 give rates of decrement for service retirement, disablement, mortality, and other terminations of employment. These rates of decrement are referred to in actuarial literature as the absolute rate of decrement, or q'_x . Table A-7 shows the assumed probability of retaining membership in the System among members terminating with five or more years of service.

Actuarial Cost Method

The actuarial valuation was prepared using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The normal cost was first calculated for each individual member. The normal cost rate is defined to equal the total of the individual normal costs, divided by the total pay rate.

The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets and (b) the actuarial present value of future normal costs is called the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized as a level percentage of the projected salaries of present and future members of the System.

Records and Data

The data used in the valuation consist of financial information; records of age, sex, service, salary, contribution rates, and account balances of contributing members; and records of age, sex, and amount of benefit for retired members and beneficiaries. All of the data were supplied by the System and are accepted for valuation purposes without audit.

Replacement of Terminated Members

The ages at entry and distribution by sex of future members are assumed to average the same as those of the present members they replace. If the number of active members should increase, it is further assumed that the average entry age of the larger group will be the same, from an actuarial standpoint, as that of the present group. Under these assumptions, the normal cost rates for active members will not vary with the termination of present members.

Employer Contributions

At the time of this valuation, the total employer contribution rate for normal costs and amortization of the unfunded actuarial accrued liability was 7.58% of members' salaries. In accordance with MCA 19-20-604, the employer contribution rate will be reduced by 0.11% when the amortization period of the System's unfunded actuarial accrued liability is 10 years or less according to the System's latest actuarial valuation.

Administrative and Investment Expenses

The administrative and investment expenses of the System are assumed to be funded by investment earnings in excess of 7.75% per year. (Adopted effective July 1, 2004)

Valuation of Assets - Actuarial Basis

Market value is used as the actuarial basis for the valuation of assets. Adopted in the July 1, 2006 actuarial valuation.

Investment Earnings

The annual rate of investment earnings of the assets of the System is assumed to be 7.75% per year, compounded annually. (Adopted effective July 1, 2004)

Interest on Member Contributions

Interest on member contributions is assumed to accrue at a rate of 5% per annum, compounded annually. This assumption was set as of July 1, 2004.

Postretirement Benefit Increases

On January 1 of each year, the retirement allowance payable must be increased by 1.5% if the retiree's most recent retirement effective date is at least 36 months prior to January 1 of the year in which the adjustment is to be made.

Future Salaries

The rates of annual salary increase assumed for the purpose of the valuation are illustrated in Table A-2. In addition to increases in salary due to merit and longevity, this scale includes an assumed 4.5% annual rate of increase in the general wage level of the membership. The merit and longevity increases for the MUS members did not show a pattern of increasing or decreasing with service at the time of our most recent study. Therefore, the MUS members have a flat 1% merit and longevity assumption. The general wage increase assumption was adopted July 1, 2004 and the merit and longevity scales were adopted July 1, 2002.

Montana University System (MUS) members are assumed to have a 0.63% higher average final compensation to account for the larger than average annual compensation increases observed in the years immediately preceding retirement.

Service Retirement

Table A-3 shows the annual assumed rates of retirement among members eligible for service retirement. Separate rates are used when a member is eligible for reduced benefits, for the first year a member is eligible for full benefits, and for the years following the first year a member is eligible for full benefits. The rates for General Members were adopted July 1, 2002. The rates for University Members were adopted July 1, 2002.

Disablement

The rates of disablement used in this valuation are illustrated in Table A-4. The rates for General Members were adopted July 1, 2002. The rates for University Members were adopted July 1, 1996.

Mortality

The mortality rates used in this valuation are illustrated in Table A-5. A written description of each table used is included in Table A-1. These rates were adopted July 1, 2006.

Other Terminations of Employment

The rates of assumed future withdrawal from active service for reasons other than death, disability or retirement are shown for representative ages in Table A-6. These rates were adopted July 1, 2002.

Benefits for Terminating Members

Members terminating with less than five years of service are assumed to request an immediate withdrawal of their contributions with interest. Table A-7 shows the assumed probability of retaining membership in the System among members terminating with five or more years of service. These rates were adopted July 1, 2002.

We estimated the present value of future benefits for terminated vested members based on the greater of the present value of their deferred benefit or their available contribution account.

Part-Time Employees

The valuation data for active members identify part-time members, but give no indication as to the number of hours worked. As done in the past, we imputed a "part-time percentage" by comparing the pay received with their annual equivalent full-time salary. Their accumulated service was divided by this percentage to reflect their full benefit. Part-time members earning less than \$1,000 during the last year were valued at their current member contribution balance.

Optional Retirement Program

The total contribution received for the fiscal year ending June 30, 2006 was \$5,512,447. Based on a contribution rate of 4.04%, we assumed the total ORP payroll for the fiscal year to be \$136,446,708 (\$5,512,447 divided by 4.04%).

Buybacks, Purchase of Service, and Military Service

The active liabilities and normal cost were increased to 100.5% of their original value to fund this additional service based on a study of the System's experience for the five calendar years 1995 through 1999. Effective July 1, 2000.

Probability of Marriage

If death occurs in active status, all members are assumed to have an eligible surviving spouse and two children. The spouse is assumed to be the same age as the member.

Blank or Missing Data

There were 77 cases where the Date of Birth for an active participant was missing in the 2006 data. In these cases, the participant was assumed to have been hired at age 25.

There was 1 active member record in the 2006 data with a blank sex field. Sex was assigned randomly based on the male/female percentage of the entire active population.

Teachers' Retirement System
A Component Unit of the State of Montana

Table A-1

Summary of Valuation Assumptions
(July 1, 2006)

I. Economic assumptions		
A.	General wage increases* (Adopted July 1, 2004)	4.50%
B.	Investment return (Adopted July 1, 2004)	7.75%
C.	Price Inflation Assumption (Adopted July 1, 2004)	3.50%
D.	Growth in membership	0.00%
E.	Postretirement benefit increases (Starting three years after retirement)	1.50%
F.	Interest on member accounts (Adopted July 1, 2004)	5.00%
II. Demographic assumptions		
A.	Individual salary increase due to promotion and longevity (General Member assumptions adopted July 1, 2002) (University Member assumptions adopted July 1, 2000)	Table A-2
B.	Retirement (adopted July 1, 2002)	Table A-3
C.	Disablement (adopted July 1, 2002) (General Member assumptions adopted July 1, 2002) (University Member assumptions adopted July 1, 1996)	Table A-4
D.	Mortality among contributing members, service retired members, and beneficiaries For Males: RP 2000 Combined Mortality Table for Males, set back 3 years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006). For Females: RP 2000 Combined Mortality Table for Females, set back 2 years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006).	Table A-5
E.	Mortality among disabled members For Males: RP 2000 Disabled Mortality Table for Males, set back 3 years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006). For Females: RP 2000 Disabled Mortality Table for Females, set forward 3 years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006).	Table A-5
F.	Other terminations of employment (adopted July 1, 2002)	Table A-6
G.	Probability of retaining membership in the System upon vested termination (adopted July 1, 2002)	Table A-7

* *Montana University System (MUS) members are assumed to have a 0.63% higher average final compensation to account for the larger than average annual compensation increases observed in the years immediately preceding retirement.*

Teachers' Retirement System
A Component Unit of the State of Montana

Table A-2

Future Salaries

Years of Service	General Members			University Members		
	Individual Merit & Longevity	General Wage Increase	Total Salary Increase	Individual Merit & Longevity	General Wage Increase	Total Salary Increase
1	4.51%	4.50%	9.01%	1.00%	4.50%	5.50%
2	4.09	4.50	8.59	1.00	4.50	5.50
3	3.46	4.50	7.96	1.00	4.50	5.50
4	2.94	4.50	7.44	1.00	4.50	5.50
5	2.52	4.50	7.02	1.00	4.50	5.50
6	2.21	4.50	6.71	1.00	4.50	5.50
7	1.89	4.50	6.39	1.00	4.50	5.50
8	1.68	4.50	6.18	1.00	4.50	5.50
9	1.47	4.50	5.97	1.00	4.50	5.50
10	1.31	4.50	5.81	1.00	4.50	5.50
11	1.16	4.50	5.66	1.00	4.50	5.50
12	1.00	4.50	5.50	1.00	4.50	5.50
13	0.84	4.50	5.34	1.00	4.50	5.50
14	0.68	4.50	5.18	1.00	4.50	5.50
15	0.58	4.50	5.08	1.00	4.50	5.50
16	0.47	4.50	4.97	1.00	4.50	5.50
17	0.37	4.50	4.87	1.00	4.50	5.50
18	0.26	4.50	4.76	1.00	4.50	5.50
19	0.21	4.50	4.71	1.00	4.50	5.50
20	0.16	4.50	4.66	1.00	4.50	5.50
21	0.11	4.50	4.61	1.00	4.50	5.50
22 & Up	0.00	4.50	4.50	1.00	4.50	5.50

Teachers' Retirement System
A Component Unit of the State of Montana

Table A-3

**Retirement
Annual Rates**

Age	General Members			University Members		
	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter
45		18.0%	9.5%		5.0%	4.9%
46		18.0	9.5		5.0	4.9
47		12.5	9.5		5.0	4.9
48		12.5	9.5		5.0	4.9
49	*	12.5	9.5	*	5.0	4.9
50	4.0%	12.5	9.5	1.9%	8.0	4.9
51	4.0	16.0	9.5	2.2	8.0	4.9
52	4.5	16.0	9.5	2.5	8.0	6.0
53	4.5	16.0	9.5	2.8	8.0	6.0
54	5.0	16.0	9.5	3.1	12.0	6.0
55	5.5	22.0	14.0	3.4	15.0	6.0
56	6.0	22.0	14.0	3.7	15.0	6.0
57	6.5	22.0	14.0	4.0	15.0	7.0
58	6.5	22.0	15.0	4.3	15.0	7.0
59	7.0	22.0	18.0	4.7	15.0	9.0
60	*	22.0	22.0	*	19.0	10.0
61		22.0	22.0		19.0	14.0
62		27.0	27.0		24.0	24.0
63		22.0	22.0		14.0	14.0
64		25.0	25.0		20.0	20.0
65		35.0	35.0		33.0	33.0
66		30.0	30.0		23.0	23.0
67		24.0	24.0		23.0	23.0
68		22.0	22.0		23.0	23.0
69		22.0	22.0		23.0	23.0
70		**	**		**	**

* All benefits are unreduced after attaining age 60. Reduced benefits are not available before age 50.

** Immediate retirement is assumed at age 70 or over.

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table A-4

**Disablement
Annual Rates**

Age	General Members	University Members
25	.010%	.003%
30	.010	.006
35	.020	.012
40	.040	.021
45	.080	.036
50	.130	.055
55	.180	.083
60	.260	.126

Table A-5

**Mortality
Annual Rates**

Age	Contributing Members, Service Retired Members and Beneficiaries		Disabled Members	
	Men	Women	Men	Women
25	.03%	.02%	1.97%	.68%
30	.04	.02	2.17	.69
35	.05	.04	2.17	.67
40	.09	.05	2.17	.66
45	.11	.08	2.08	.85
50	.15	.12	2.23	1.31
55	.23	.20	2.69	1.89
60	.41	.38	3.32	2.43
65	.78	.73	3.99	3.19
70	1.45	1.29	4.90	4.33
75	2.42	2.17	6.15	6.01
80	4.22	3.55	8.30	8.30
85	7.55	5.91	11.43	11.86

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table A-6

**Other Terminations of Employment
Among Members Not Eligible to Retire
Annual Rates**

Years of Service	General Members	University Members
1	30.0%	33.0%
2	16.0	17.0
3	11.0	13.0
4	9.0	11.0
5	8.0	9.0
6	7.7	8.3
7	7.3	7.7
8	7.0	7.0
9	6.6	6.6
10	6.2	6.2
11	5.8	5.8
12	5.4	5.4
13	5.0	5.0
14	4.6	4.6
15	4.2	4.2
16	3.8	3.8
17	3.4	3.4
18 and up	3.0	3.0

Table A-7

**Probability of Retaining Membership in the System
Upon Vested Termination**

Age	Probability of Retaining Membership
25	54%
30	54
35	58
40	58
45	60
50	70
55	75

**Teachers' Retirement System
A Component Unit of the State of Montana**

Appendix B

Summary of Benefit Provisions

Effective Date	September 1, 1937.
Vesting Period	5 years. No benefits are payable unless the member has a vested right, except the return of employee contributions with interest.
Final Compensation	Average of highest 3 consecutive years of earned compensation.
Normal Form of Benefits	Life only annuity. All benefits cease upon death; however, in no event will the member receive less than the amount of employee contributions with interest.
Normal Retirement Benefits	
Eligibility:	25 years of service or age 60 and 5 years of service.
Benefit:	The retirement benefit is equal to 1/60 of final compensation for each year of service.
Early Retirement Benefits	
Eligibility:	5 years of service and age 50.
Benefit:	The retirement benefit is calculated in the same manner as described for normal retirement, but the benefit is reduced 1/2 of 1% for each of the first 60 months early and 3/10 of 1% for each of the next 60 months early.

Death Benefit

Eligibility: 5 years of service.

Benefit: The death benefit is equal to 1/60 of final compensation for each year of service accrued at date of death, with an actuarial adjustment based on the relation of the member's age at death to the beneficiary's age. A monthly benefit of \$200 is paid to each child until age 18. In addition, a lump-sum benefit of \$500 is paid upon the death of an active or retired member.

Disability Benefit

Eligibility: 5 years of service.

Benefit: The disability benefit is equal to 1/60 of final compensation for each year of service accrued at date of disability. The minimum benefit is 1/4 of the final compensation.

Withdrawal Benefits

With less than 5 years of service, the accumulated employee contributions with interest are returned. With more than 5 years, the member may elect a refund of contributions with interest or leave the contributions and interest in the System and retain a vested right to retirement benefits.

Contributions

Member: 7.15% of compensation.
Employer: 7.58% of compensation.

MCA 19-20-604 specifies that the employer contribution rate will be reduced by 0.11% when the amortization period of the System's unfunded actuarial accrued liability is 10 years or less according to the System's latest actuarial valuation.

Interest on Member
Contributions

Interest on member contributions is currently being credited at a rate of 4.0% per annum.

Cost-of-Living Adjustments

On January 1 of each year, the retirement allowance payable must be increased by 1.5% if the retiree's most recent retirement effective date is at least 36 months prior to January 1 of the year in which the adjustment is to be made.

**Teachers' Retirement System
A Component Unit of the State of Montana**

Appendix C

Valuation Data

This valuation is based upon the membership of the System as of July 1, 2006. Membership data were supplied by the System and accepted for valuation purposes without audit. However, tests were performed to ensure that the data are sufficiently accurate for valuation purposes.

Table C-1 contains summaries of the data for contributing members. For full-time members, values shown in the tables are the numbers of members and their total and average annual salaries. For part-time members, only the numbers of members are shown.

Active Members	Number	Annual Salaries in Millions
Full-Time Members	12,715	\$ 549.3
Part-Time Members*	<u>4,840</u>	<u>57.7</u>
Total Contributing Members*	17,555	\$ 607.0
Active Members with Annual Compensation less than \$1,000	<u>544</u>	
Total Active Members	18,099	

** Excludes part-time members with annual compensation less than \$1,000.*

Table C-2 presents distributions of the following:

- Members receiving service retirement benefits.
- Members receiving disability retirement benefits.
- Survivors of deceased retired members receiving benefits.
- Survivors of deceased active members.
- Child beneficiaries.
- Terminated vested members.

Table C-3 is a reconciliation of membership data from July 1, 2005 to July 1, 2006.

**Appendix C
(continued)**

The following is a summary of retired members and beneficiaries currently receiving benefits:

Type of Annuitant	Number	Annual Benefits in Thousands	Average Annual Benefits
Service Retirement	9,564	\$ 166,913	\$ 17,452
Survivors of Deceased Retired Members	<u>815</u>	<u>8,910</u>	<u>10,933</u>
Total Service Retirement (including survivors)	10,379	175,823	16,940
Disability Retirement	205	1,855	9,049
Survivors of Deceased Active Members	405	3,364	8,306
Child Beneficiaries	<u>30</u>	<u>72</u>	<u>2,400</u>
Total Annuitants	11,019	\$ 181,114	\$ 16,436

Terminated Members with Contributions Not Withdrawn	Number
Vested Terminated Members	1,684
Non-Vested Terminated Members	<u>8,542</u>
Total Terminated Members	10,226

Teachers' Retirement System
A Component Unit of the State of Montana

Table C-1

**Active Members Distribution of
Full-Time Employees and Salaries**
as of July 1, 2006

Number of Employees - By Age Group - All Members

Age	Completed Years of Service												Totals	
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+		
<25	18	84	25	2	-	-	-	-	-	-	-	-	-	129
25 to 29	33	267	248	302	152	-	-	-	-	-	-	-	-	1,002
30 to 34	18	106	99	236	637	86	-	-	-	-	-	-	-	1,182
35 to 39	9	81	61	144	446	530	91	-	-	-	-	-	-	1,362
40 to 44	12	61	73	124	292	365	438	111	-	-	-	-	-	1,476
45 to 49	13	62	51	97	280	324	376	538	152	-	-	-	-	1,893
50 to 54	10	42	33	82	250	339	415	440	562	166	-	-	-	2,339
55 to 59	3	33	31	59	172	226	370	368	388	529	112	1	-	2,292
60 to 64	4	13	8	33	53	62	126	126	124	151	130	13	-	843
65 to 69	1	5	1	4	9	14	22	19	20	20	27	21	-	163
70 and up	-	-	1	-	4	4	1	4	7	4	4	5	-	34
Totals	121	754	631	1,083	2,295	1,950	1,839	1,606	1,253	870	273	40	-	12,715

Teachers' Retirement System
A Component Unit of the State of Montana

Table C-1

**Active Members Distribution of
Full-Time Employees and Salaries**
as of July 1, 2006

Annual Salaries in Thousands - By Age Group - All Members

Age	Completed Years of Service											Totals		
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39		40+	
<25	240	2,089	649	46	-	-	-	-	-	-	-	-	-	3,024
25 to 29	445	6,915	7,000	8,754	4,774	-	-	-	-	-	-	-	-	27,888
30 to 34	260	2,964	3,097	7,400	22,170	3,499	-	-	-	-	-	-	-	39,390
35 to 39	136	2,361	2,023	4,828	16,445	22,545	4,156	-	-	-	-	-	-	52,494
40 to 44	179	1,741	2,359	4,023	10,781	15,912	20,916	5,495	-	-	-	-	-	61,406
45 to 49	200	1,808	1,651	3,245	10,011	13,940	18,015	27,134	8,019	-	-	-	-	84,023
50 to 54	127	1,393	1,110	3,001	9,658	14,971	19,962	22,413	29,760	8,758	-	-	-	111,153
55 to 59	59	1,124	1,129	2,149	6,727	9,741	17,679	19,309	21,241	29,044	6,035	55	-	114,292
60 to 64	78	319	283	1,372	2,322	2,627	6,156	6,734	6,912	9,249	7,728	745	-	44,525
65 to 69	28	155	48	144	459	652	1,003	973	1,116	1,158	1,944	1,460	-	9,140
70 and up	-	-	25	-	149	136	176	251	408	237	283	268	-	1,933
Totals	1,752	20,869	19,374	34,962	83,496	84,023	88,063	82,309	67,456	48,446	15,990	2,528	-	549,268

Teachers' Retirement System
A Component Unit of the State of Montana

Table C-1

**Active Members Distribution of
Full-Time Employees and Salaries**
as of July 1, 2006

Average Annual Salary - By Age Group - All Members

Age	<u>Completed Years of Service</u>												Totals	
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+		
<25	13,321	24,874	25,942	22,780	-	-	-	-	-	-	-	-	-	23,436
25 to 29	13,474	25,900	28,228	28,985	31,406	-	-	-	-	-	-	-	-	27,832
30 to 34	14,465	27,964	31,281	31,355	34,803	40,690	-	-	-	-	-	-	-	33,325
35 to 39	15,099	29,154	33,165	33,528	36,872	42,538	45,668	-	-	-	-	-	-	38,542
40 to 44	14,920	28,537	32,322	32,447	36,920	43,594	47,754	49,503	-	-	-	-	-	41,603
45 to 49	15,421	29,159	32,364	33,457	35,752	43,024	47,912	50,435	52,756	-	-	-	-	44,386
50 to 54	12,677	33,168	33,627	36,594	38,632	44,163	48,101	50,940	52,953	52,757	-	-	-	47,521
55 to 59	19,802	34,055	36,431	36,419	39,109	43,103	47,781	52,469	54,745	54,903	53,887	55,039	55,039	49,866
60 to 64	19,534	24,538	35,349	41,573	43,807	42,365	48,856	53,444	55,745	61,252	59,448	57,298	57,298	52,817
65 to 69	28,245	31,090	48,142	35,905	50,984	46,582	45,590	51,228	55,803	57,903	71,982	69,518	69,518	56,075
70 and up	-	-	24,764	-	37,330	33,882	176,047	62,738	58,323	59,341	70,689	53,689	53,689	56,866
Totals	14,486	27,679	30,703	32,281	36,381	43,089	47,886	51,251	53,836	55,685	58,571	63,206	63,206	43,198

Teachers' Retirement System
A Component Unit of the State of Montana

Table C-1

**Active Members Distribution of
Part-Time Employees**
as of July 1, 2006

Number of Employees - By Age Group - All Members

Age	Completed Years of Service												Totals	
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+		
<25	108	32	13	1	1	-	-	-	-	-	-	-	-	155
25 to 29	157	115	58	50	27	-	-	-	-	-	-	-	-	407
30 to 34	85	69	54	48	81	24	-	-	-	-	-	-	-	361
35 to 39	106	97	63	66	79	63	30	-	-	-	-	-	-	504
40 to 44	102	97	90	108	154	50	42	20	-	-	-	-	-	663
45 to 49	72	90	66	135	237	122	50	37	18	-	-	-	-	827
50 to 54	89	77	68	126	213	126	69	34	19	8	-	-	-	829
55 to 59	54	56	47	79	123	119	71	35	19	15	6	-	-	624
60 to 64	30	29	18	51	57	47	40	17	10	5	9	-	-	313
65 to 69	11	7	6	24	22	10	9	2	6	1	3	1	-	102
70 and up	5	6	2	12	13	11	3	2	1	-	-	-	-	55
Totals	819	675	485	700	1,007	572	314	147	73	29	18	1	-	4,840

Teachers' Retirement System
A Component Unit of the State of Montana

Table C-2

Distribution of Inactive Lives

Members Receiving Service Retirement Benefits as of July 1, 2006

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>
<50	20	\$	392	\$	19,597
50 to 54	351		6,794		19,355
55 to 59	1,230		25,065		20,378
60 to 64	1,973		39,840		20,193
65 to 69	1,854		36,241		19,547
70 to 74	1,440		25,752		17,883
75 to 79	1,042		15,705		15,072
80 to 84	710		8,926		12,572
85 to 89	522		5,121		9,810
90 and up	422		3,078		7,294
Total	9,564		166,913		17,452

Members Receiving Disability Retirement Benefits as of July 1, 2006

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>
<50	12	\$	117	\$	9,729
50 to 54	16		152		9,471
55 to 59	47		426		9,056
60 to 64	36		387		10,759
65 to 69	23		214		9,326
70 to 74	21		177		8,434
75 to 79	24		216		8,984
80 to 84	11		75		6,835
85 to 89	13		81		6,247
90 and up	2		10		5,089
Total	205		1,855		9,049

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table C-2

Distribution of Inactive

Survivors of Deceased Retired Members as of July 1, 2006

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>
<50	31	\$	201	\$	6,471
50 to 54	25		252		10,080
55 to 59	48		550		11,467
60 to 64	75		905		12,072
65 to 69	91		1,182		12,993
70 to 74	110		1,503		13,664
75 to 79	109		1,388		12,733
80 to 84	147		1,426		9,702
85 to 89	105		878		8,366
90 and up	74		624		8,430
Total	815		8,910		10,933

Survivors of Deceased Active Members as of July 1, 2006

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>
<50	85	\$	445	\$	5,234
50 to 54	33		219		6,625
55 to 59	58		512		8,835
60 to 64	52		587		11,279
65 to 69	42		453		10,789
70 to 74	30		222		7,387
75 to 79	44		442		10,056
80 to 84	34		343		10,076
85 to 89	20		106		5,294
90 and up	7		36		5,117
Total	405		3,364		8,306

**Teachers' Retirement System
A Component Unit of the State of Montana**

Table C-2

Distribution of Inactive Lives

**Terminated Vested Members as of July 1, 2006
Number of Persons**

<u>Age</u>	<u>Number</u>
<25	-
25 to 29	5
30 to 34	74
35 to 39	158
40 to 44	220
45 to 49	299
50 to 54	389
55 to 69	377
60 to 64	127
65 to 69	33
70 & above	<u>2</u>
Total	1,684

**Child Beneficiaries as of July 1, 2006
Number of Persons**

<u>Age</u>	<u>Number</u>
<5	-
5 to 6	1
7 to 8	3
9 to 10	3
11 to 12	4
13 to 14	8
15 to 16	6
17 to 18	<u>5</u>
Total	30

Teachers' Retirement System
A Component Unit of the State of Montana

Table C-3

Data Reconciliation

	<u>Active Contributing Members</u>	<u>Vested Terminated Members</u>	<u>Service Retired Members</u>	<u>Disabled Members</u>	<u>Survivors and Beneficiaries</u>
July 1, 2005 Valuation	17,542	1,649	9,242	200	1,222
Refunds and NonVested Terminations	(1,309)	(51)	-	-	-
Vested Terminations	(231)	231	-	-	-
Service Retirements	(449)	(55)	504	-	-
Disability Retirements	(7)	(3)	-	10	-
Deaths with Beneficiary	(16)	(2)	(50)	(4)	72
Deaths without Beneficiary	(5)	(4)	(154)	(1)	(50)
New Entrants	1,387	-	-	-	-
Rehires	643	(92)	(3)	-	-
Other	-	11	25	-	6
July 1, 2006 Valuation	17,555	1,684	9,564	205	1,250

Teachers' Retirement System
A Component Unit of the State of Montana

Appendix D

Comparative Schedules

This section contains tables that summarize the experience of the System shown in present and past valuation reports.

Table D-1 shows a summary of the active members covered as of the various valuation dates.

Table D-2 shows a summary of the retired and inactive members as of the various valuation dates.

Table D-3 summarizes the contribution rates determined by each annual actuarial valuation.

Teachers' Retirement System
A Component Unit of the State of Montana

Table D-1

Active Membership Data

Active Members									
Valuation Date (July 1)	Full-Time Members	Part-Time Members**	Total Contributing Members**	Part-Time Members Annual Compensation less than \$1,000	Annual Full-Time Salaries in Thousands	Average Full-Time Annual Salary	Average Age**	Average Years of Service**	Average Hire Age**
1987	13,105	1,955	15,060	*	\$340,481	\$25,981	*	*	*
1989	12,546	2,541	15,087	*	339,866	27,090	*	*	*
1992	13,502	3,141	16,643	*	401,092	29,706	42.4	11.6	30.8
1994	14,938	2,637	17,575	377	416,968	27,914	42.5	11.0	31.5
1996	13,251	5,444	18,695	1,295	424,085	32,004	43.3	11.6	31.7
1998	13,545	4,647	18,192	776	459,191	33,901	44.0	12.1	31.9
2000	13,289	4,245	17,534	886	477,160	35,906	44.5	12.2	32.3
2002	12,796	4,650	17,446	723	486,204	37,997	45.0	12.2	32.8
2004	12,601	5,013	17,614	637	510,808	40,537	45.6	12.2	33.4
2005	12,523	5,019	17,542	697	523,909	41,836	45.8	12.4	33.4
2006	12,715	4,840	17,555	544	549,268	43,198	46.0	12.5	33.5

* *Not available.*

** *Excludes part-time active members with annual compensation less than \$1,000.*

Teachers' Retirement System
A Component Unit of the State of Montana

Table D-2

Retired and Inactive Membership Data

Valuation Date (July 1)	All Annuitants				Terminated Members		
	Number	Annual Benefits in Thousands	Average Annual Benefit	Average Current Age	Average Age at Retirement	Number Vested Terminated	Number Non-Vested Terminated
1987	6,036	\$ 43,236	\$ 7,163	*	*	*	*
1989	6,330	49,546	7,827	*	*	*	*
1992	6,927	63,483	9,165	*	*	*	*
1994	7,530	78,183	10,383	*	*	1,105	5,722
1996	7,896	87,351	11,063	*	*	1,152	6,479
1998	8,362	99,040	11,844	69.6	57.3	1,190	8,158
2000	9,021	117,227	12,995	69.3	57.0	1,256	9,308
2002	9,768	139,131	14,244	69.1	56.8	1,485	8,231
2004	10,375	159,776	15,400	69.1	56.7	1,620	7,861
2005	10,664	170,129	15,954	69.3	56.7	1,649	8,569
2006	11,019	181,114	16,436	69.3	56.5	1,684	8,542

* *Not available.*

Teachers' Retirement System
A Component Unit of the State of Montana

Table D-3

Contribution Rates

Valuation Date (July 1)	Contribution Rates			Normal Cost Rate	UAAL Rate*
	Employee	Employer	Total		
1992	7.044%	7.459%	14.503%	9.876%	4.627%
1994	7.044%	7.470%	14.514%	9.494%	5.020%
1996	7.044%	7.470%	14.514%	9.328%	5.186%
1998	7.044%	7.470%	14.514%	8.880%	5.634%
2000	7.15%	7.58%**	14.73%	9.71%	5.02%
2002	7.15%	7.58%	14.73%	10.33%	4.40%
2004	7.15%	7.58%	14.73%	10.34%	4.39%
2005	7.15%	7.58%	14.73%	10.35%	4.38%
2006	7.15%	7.58%	14.73%	10.37%	4.36%

* The unfunded actuarial accrued liability rate is the amount available to amortize the unfunded actuarial accrued liability. It is equal to the total contribution rate, minus the normal cost rate.

** The 1999 Legislation which passed the 1.5% GABA, also added a 0.11% state general fund contribution.

Teachers' Retirement System

A Component Unit of the State of Montana

Appendix E

Glossary

The following definitions are largely excerpts from a list adopted in 1981 by the major actuarial organizations in the United States. In some cases the definitions have been modified for specific applicability to the Teachers' Retirement System Retirement System. Defined terms are capitalized throughout this Appendix.

Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement, and retirement; changes in compensation, rates of investment earnings, and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items.

Actuarial Cost Method

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial Gain (Loss)

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Actuarial Valuation

The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

Actuarial Value of Assets

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

Actuarially Equivalent

Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.

Amortization Payment

That portion of the pension plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Entry Age Actuarial Cost Method

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Normal Cost

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Actuarial Accrued Liability

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs.

Unfunded Actuarial Accrued Liability

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Accrued Benefit

The amount of an individual's benefit (whether or not vested) as of a specific date, determined in accordance with the terms of a pension plan and based on compensation and service to that date.

Projected Benefits

Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unaccrued Benefit

The excess of an individual's Projected Benefits over the Accrued Benefits as of a specified date.

SCHEDULE OF CHANGES IN NET ASSETS

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

SCHEDULE OF MEMBERSHIP

**SCHEDULE OF PRINCIPAL PARTICIPATING
EMPLOYERS**

LOCATION OF BENEFIT RECIPIENTS

Teachers' Retirement System
A Component Unit of the State of Montana
Changes in Net Assets, Last Ten Fiscal Years
(In thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions:										
Member Contributions	\$ 40,348	41,938	42,642	45,599	48,278	47,872	50,221	51,383	52,900	53,293
Employer Contributions	41,640	44,476	44,987	47,848	50,990	51,519	53,277	55,774	57,150	58,269
Other Contributions	101	200	103	674	611	762	754	770	656	100,693
Misc Income	16	18	20	22	6		4			4
Net Investment Income	283,361	287,136	240,321	175,235	(119,050)	(159,585)	126,246	281,793	188,734	224,787
Total Additions	\$ 365,466	373,768	328,073	269,378	(19,165)	(59,432)	230,502	389,720	299,440	437,046
Deductions:										
Benefit Payments	\$ 88,631	94,205	100,028	109,231	118,842	130,006	140,229	150,271	161,247	171,957
Withdrawals	3,840	4,826	5,126	5,271	5,370	6,472	6,468	5,843	4,340	4,876
Administrative Expenses	676	881	1,361	1,294	1,716	1,607	1,861	1,507	1,561	1,579
Other								890		
Total Deductions	\$ 93,147	99,912	106,515	115,796	125,928	138,085	148,558	158,511	167,148	178,412
Change in Net Assets	\$ 272,319	273,856	221,558	153,582	(145,093)	(197,517)	81,944	231,209	132,292	258,634

Teachers' Retirement System
A Component Unit of the State of Montana

Schedule of Average Benefit Payments
Ten Years Ended June 30, 2006

<u>Fiscal Year of Retirement</u>		<u>Years of Credited Service</u>					
		5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
1997	Average Monthly Benefit	\$ 266	490	605	1,005	1,403	1,751
	Average Final Average Salary	\$ 2,064	3,015	2,670	3,315	3,632	3,676
	Number of Retirees	26	21	32	56	129	116
1998	Average Monthly Benefit	\$ 190	319	566	1,080	1,390	1,978
	Average Final Average Salary	\$ 1,987	2,184	2,552	3,365	3,637	4,088
	Number of Retirees	28	27	32	27	144	120
1999	Average Monthly Benefit	\$ 291	453	658	978	1,430	2,018
	Average Final Average Salary	\$ 2,522	2,621	2,825	3,069	3,600	4,097
	Number of Retirees	34	33	40	44	159	153
2000	Average Monthly Benefit	\$ 227	410	737	1,217	1,490	2,155
	Average Final Average Salary	\$ 2,009	2,553	3,088	3,716	3,686	4,327
	Number of Retirees	24	27	40	47	144	173
2001	Average Monthly Benefit	\$ 185	472	872	1,196	1,660	2,155
	Average Final Average Salary	\$ 1,846	2,649	3,488	3,576	4,035	4,260
	Number of Retirees	30	44	33	62	170	217
2002	Average Monthly Benefit	\$ 261	441	744	1,214	1,689	2,219
	Average Final Average Salary	\$ 2,073	2,530	3,237	3,504	4,068	4,363
	Number of Retirees	28	37	43	66	173	222
2003	Average Monthly Benefit	\$ 310	432	797	1,347	1,725	2,193
	Average Final Average Salary	\$ 2,216	2,502	3,084	3,891	4,066	4,238
	Number of Retirees	24	40	51	85	149	193
2004	Average Monthly Benefit	\$ 263	474	954	1,383	1,838	2,489
	Average Final Average Salary	\$ 2,231	2,589	3,814	3,904	4,290	4,757
	Number of Retirees	35	37	34	62	127	198
2005	Average Monthly Benefit	\$ 263	639	879	1,327	1,776	2,605
	Average Final Average Salary	\$ 2,283	3,404	3,433	3,737	4,184	4,876
	Number of Retirees	38	31	39	57	141	205
2006	Average Monthly Benefit	\$ 307	515	845	1,410	1,883	2,626
	Average Final Average Salary	\$ 2,577	2,801	3,297	4,089	4,416	4,896
	Number of Retirees	43	53	43	47	140	208

**Teachers' Retirement System
A Component Unit of the State of Montana**

Schedule of Membership

Active and Inactive Members

<u>Period Ended</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Inactive Non-vested</u>	<u>Total</u>
June 30, 1997	18,222	1,173	7,560	26,955
June 30, 1998	18,205	1,179	8,061	27,445
June 30, 1999	18,287	1,209	8,612	28,108
June 30, 2000	18,423	1,245	9,212	28,880
June 30, 2001	18,530	1,359	10,034	29,923
June 30, 2002	17,262	1,611	8,834	27,707
June 30, 2003	18,285	1,519	7,736	27,540
June 30, 2004	18,257	1,607	7,723	27,587
June 30, 2005	18,247	1,640	8,431	28,318
June 30, 2006	18,108	1,681	8,470	28,259

Retired Members and Benefit Recipients

<u>Period Ended</u>	<u>Retirement</u>	<u>Survivors</u>	<u>Disability</u>	<u>Total</u>
June 30, 1997	7,212	410	279	7,901
June 30, 1998	7,400	412	276	8,088
June 30, 1999	7,661	415	282	8,358
June 30, 2000	7,927	422	291	8,640
June 30, 2001	8,288	434	294	9,016
June 30, 2002	8,615	432	295	9,342
June 30, 2003	8,957	431	294	9,682
June 30, 2004	9,246	427	294	9,970
June 30, 2005	9,578	427	294	10,299
June 30, 2006	9,909	429	299	10,637

**Teachers' Retirement System
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Schedule of Principal Participating Employers

<u>Employer</u>	<u>Covered Employees</u>	<u>Percentage of Total Covered Employees</u>
Billings Public Schools	1,467	8.6%
Great Falls Public Schools	1,013	5.9%
Missoula Co Public Schools	906	5.3%
Helena Public Schools	784	4.6%
Bozeman Public Schools	501	2.9%
Kalispell Public Schools	421	2.5%
Butte Public Schools	393	2.3%
University of Montana	303	1.8%
Browning Public Schools	262	1.5%
Hardin Public Schools	256	1.5%
Havre Public Schools	245	1.4%
Columbia Falls Public Schools	242	1.4%
Belgrade Public Schools	239	1.4%
Montana State University	209	1.2%

**Teachers' Retirement System
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Location of Benefit Recipients as of June 30, 2006

Alabama	6	Michigan	15	Texas	68
Alaska	39	Minnesota	76	Utah	54
Arizona	247	Mississippi	3	Vermont	3
Arkansas	9	Missouri	24	Virginia	22
California	143	Montana	8,294	Washington	374
Colorado	99	Nebraska	23	West Virginia	5
Connecticut	6	Nevada	102	Wisconsin	24
Florida	49	New Hampshire	2	Wyoming	91
Georgia	9	New Jersey	3	District of Columbia	1
Hawaii	12	New Mexico	26	APO	2
Idaho	132	New York	16	Australia	4
Illinois	13	North Carolina	23	Canada	17
Indiana	6	North Dakota	83	Egypt	1
Iowa	14	Ohio	10	Germany	1
Kansas	17	Oklahoma	20	India	1
Kentucky	5	Oregon	155	New Zealand	2
Louisiana	6	Pennsylvania	8	Puerto Rico	1
Maine	3	South Carolina	7	Thailand	1
Maryland	4	South Dakota	49	United Kingdom	3
Massachusetts	5	Tennessee	13	TOTAL*	10,451

*186 recipients receive two benefits