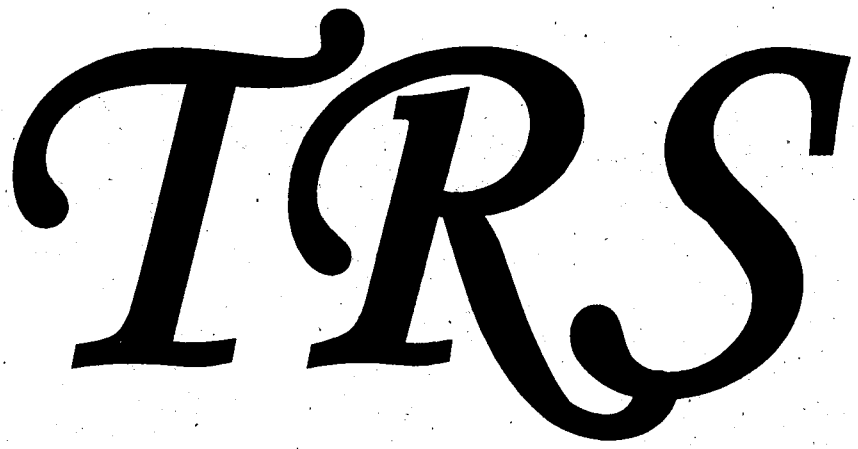
# MONTANA

## Teachers' Retirement System

### A Component Unit of the State of Montana




# COMPREHENSIVE ANNUAL FINANCIAL REPORT

## FISCAL YEAR ENDED JUNE 30, 2008

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**Brian Schweitzer, Governor**

# MONTANA

## Teachers' Retirement System

### A Component Unit of the State of Montana

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

## FISCAL YEAR ENDED JUNE 30, 2008

**David L. Senn**
**Executive Director**

**Tammy Rau**
**Deputy Executive Director**

**Prepared by:**
**The Montana Teachers Retirement System**
**1500 East Sixth Avenue, P.O. Box 200139**
**Helena, MT 59620-0139**

**http://www.trs.mt.gov**

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

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# INTRODUCTORY SECTION

**EXECUTIVE DIRECTOR'S LETTER OF TRANSMITTAL**

**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**

**PPCC PUBLIC PENSION STANDARDS AWARD**

**BOARD OF DIRECTORS AND PROFESSIONAL CONSULTANTS**

**ORGANIZATIONAL CHART**

# TEACHERS' RETIREMENT SYSTEM

1500 E. SIXTH AVENUE
PO BOX 200139
HELENA, MONTANA 59620-0139

406 444-3134

BRIAN SCHWEITZER, GOVERNOR

STATE OF MONTANA

December 12, 2008

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's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This report is intended to provide comprehensive information on the financial operations of the Montana Teachers' Retirement System (TRS) for the year. The issuance of the TRS CAFR satisfies the legal requirements of Section 19-20-201 (d) and 19-20-215, Montana Code Annotated (MCA).

TRS management is responsible for establishing and maintaining an internal accounting control structure to reasonably assure the safekeeping of assets and the reliability of financial reporting.

The TRS was established by state law in 1937 and has completed its 71st year of operation. The TRS is providing services to over 18,000 active members and managing assets valued in excess of $2.99 billion.

## PLAN QUALIFICATION CERTIFICATION

The TRS has submitted a determination letter request to the Internal Revenue Service (IRS), asking the Service to find the TRS is a qualified plan under Internal Revenue Code Section 401(a). The TRS last submitted a determination request to the IRS in April 1998, and received a favorable determination letter dated December 10, 1998. Since the prior submission, there have been a number of changes to the TRS due in part to legislative changes made by the Montana Legislature in sessions 2001-2007. Our application asks the IRS find the legislative changes made since 2001 do not adversely affect the qualified status of the TRS.

Failure to comply with the IRS's requirements could result in the TRS losing its status as a qualified plan. Loss of status as a qualified plan would mean the plan and contributing employers would lose the favorable tax treatments applicable to and benefits from a qualified plan, including but not limited to pretax treatment of contributions.

## PLAN FUNDING STATUS

The TRS plan's net Funded Ratio increased from 79.6% at July 1, 2007 to 79.9% at July 1, 2008. The July 1, 2008 Actuarial Valuation shows that the current rates are sufficient to pay the System's normal cost and to amortize the System's Unfunded Actuarial Accrued Liability (UAAL) over 31.3 years, based on the current funding methods and long term actuarial assumptions. The normal cost of 10.87% of pay for the year beginning on July 1, 2008 is funded by employer and employee contributions. The remaining contribution, 5.86%, funds the amortization of the UAAL. The System's UAAL funded by TRS contributions as of July 1, 2008 is $794.6 million based on actuarial assets. Additional information regarding the financial condition of the TRS plan can be found in the Actuarial Section of this report.

## LEGISLATION

The Montana State Legislature during the 2007 session passed House Bill 63 to address the TRS actuarial funding issue. Effective July 1, 2007 the employer contribution rate increased 2% from 7.47% to 9.47%. Beginning July 1, 2009 the rate will increase another .38% to a total of 9.85%. The supplemental contribution funded by university employers was also increased effective July 1, 2007, from 4.04% to 4.72% of total compensation paid to Optional Retirement Plan (ORP) participants.

## WEB ENHANCEMENTS

The TRS completed and placed into production two significant IT projects. TRS is now able to obtain active member addresses from the employers and update member records with their current home mailing address accordingly. This enables TRS to now mail the majority of annual statements directly to the member's home address. TRS has also provided members with an enhanced interactive WEB based benefit estimator program.

## INVESTMENT ACTIVITY

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, MCA. The Unified Investment Program is required by law, 17-6-201 MCA, 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.

The TRS investment portfolio posted a total return of (4.89%), resulting in a decrease in the fair market value of its investments. The System's total annualized rate of return over the last five and ten years was 8.48% and 5.48% 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 BOI invests the TRS and other pension portfolios for the long-term and its investment strategies, based on an asset/liability study completed in May 2006, 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.

**TRS Investment Rates of Returns**

| | FY 2008 | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| Fixed Income | 5.82% | 4.32% | 4.41% | 6.39% |
| Domestic Equities | (12.91)% | 4.09% | 7.01% | N/A |
| International Equities | (9.16)% | 14.66% | 17.59% | 8.51% |
| Private Equities | 9.77% | 17.57% | 19.86% | N/A |
| Real Estate | 5.97% | N/A | N/A | N/A |
| STIP | 4.49% | 4.79% | 3.55% | 4.01% |
| Total Portfolio | (4.89)% | 6.95% | 8.48% | 5.48% |

Please refer to the Investment Section of this report for additional detailed information regarding TRS investments.

## AWARDS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its CAFR for the fiscal year ended June 30, 2007. This was the second consecutive year in which TRS has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council (PPCC) also awarded TRS the Public Pension Standards Award for Funding and Administration for 2008 in recognition of meeting the professional standards for plan funding and administration as set forth in the Public Pension Standards. The PPCC is a coalition of National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and National Council on Teacher Retirement

## INDEPENDENT AUDIT

The financial statements contained in the TRS CAFR were audited by the State's Legislative Audit Division (LAD) in accordance with generally accepted auditing standards. The Legislative Auditor is appointed by and reports to the State's Legislative Audit Committee. The LAD issued an unqualified opinion on the TRS financial statements for fiscal year 2008.

The Management's Discussion and Analysis and financial statements with accompanying notes, required supplementary information and schedules can be found in the Financial Section of this report.

## CONCLUSION

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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Montana Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Public Pension Coordinating Council

# *Public Pension Standards Award For Funding and Administration 2008*

Presented to

## Teachers' Retirement System of Montana

In recognition of meeting professional standards for
plan funding 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)

Alan H. Winkle
Program Administrator

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

## BOARD OF DIRECTORS

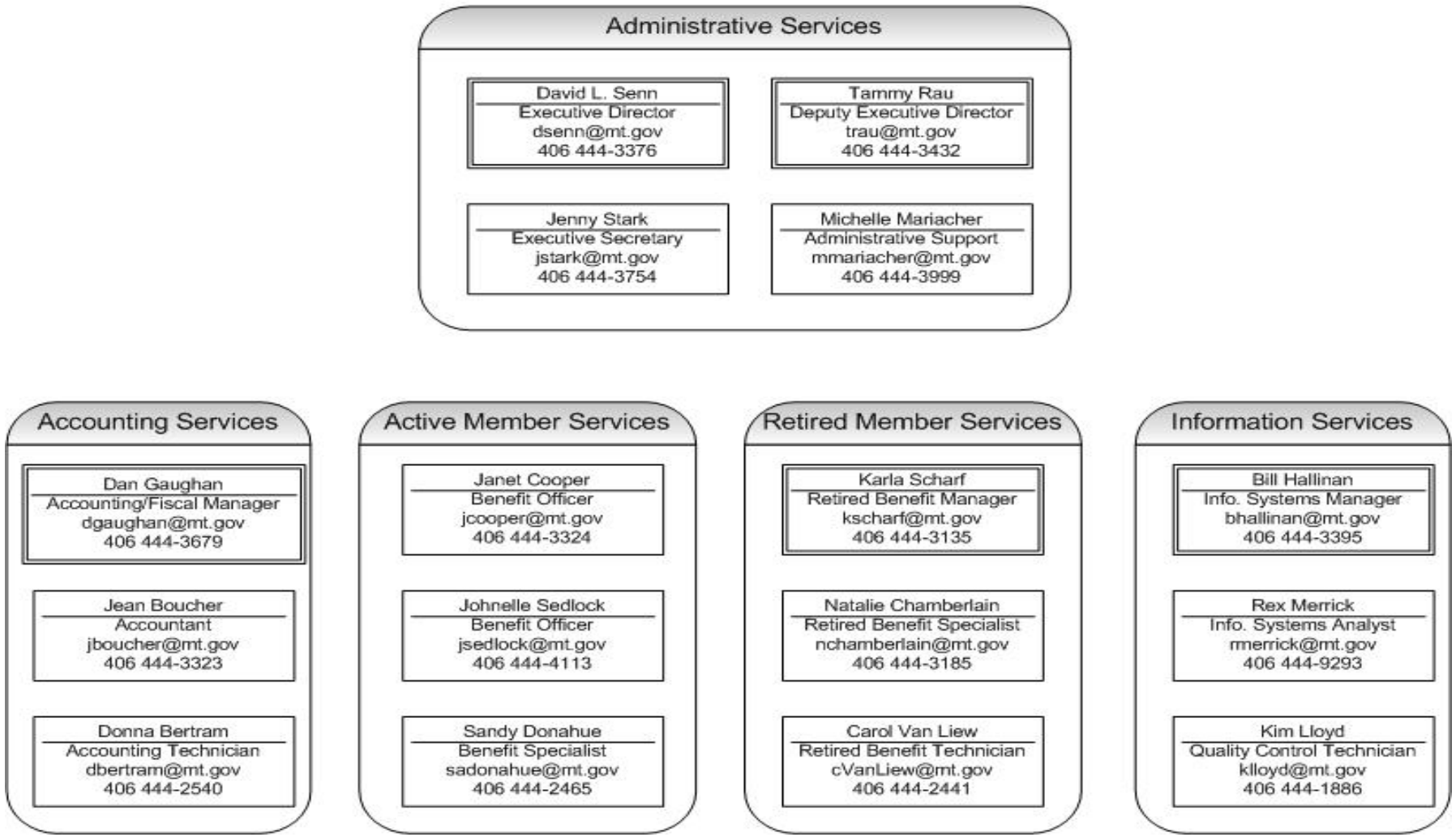
| | Term Expires |
|---|---|
| TIM RYAN<br>CHAIR<br>Public Representative | JUNE 30, 2009 |
| KARI PEIFFER<br>VICE CHAIR<br>Active Member (Classroom Teacher) | JUNE 30, 2012 |
| SCOTT DUBBS<br>Active Member | JUNE 30, 2013 |
| JAMES TURCOTTE<br>Public Representative | JUNE 30, 2010 |
| MONA BILDEN<br>Active Member | JUNE 30, 2011 |
| DARRELL LAYMAN<br>Retired Member | JUNE 30, 2011 |

## PROFESSIONAL CONSULTANTS

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

# Teachers' Retirement System

12/12/2008



# 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 SCHEDULES

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors:
James Gillett
Angie Grove

# 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, 2008 and 2007, 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, 2008 and 2007, 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, the Schedule of Contributions from the Employer and Other Contributing Entities and Other Postemployment Benefits Plan Information-Schedule of Funding Progress, 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 and the Schedule of Payments to Consultants are presented for purposes of additional analysis and are 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.

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 basic 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.

At July 1, 2008, the system was not actuarially sound. The amortization period for the Unfunded Actuarially Accrued Liability (UAAL) was 31.3 years at July 1, 2008. The maximum allowable amortization period is 30 years.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2008

# 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, 2008 with comparative totals for the fiscal years ended June 30, 2007 and 2006. 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 schedules 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 two supporting schedules. 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. The Schedule of Payments to Consultants represents our fees paid to outside professionals.

## Financial Highlights

- The 2007 Legislature increased the employer contribution rate from 7.47% to 9.47% for fiscal year 2008.
- The TRS plan net assets decreased by $215.9 million in 2008 and increased $463.4 million in 2007 representing a 6.7% decrease and a 16.9% increase respectively.
- Net investment income (fair value of investments plus investment income less investment expense) decreased in 2008 by $131.6 million and increased $115.1 million in 2007 representative of the volatility of the stock market.
- Pension benefits paid to beneficiaries and plan members increased 7.3% and 6.3% for the last two fiscal years respectively.

## Condensed Financial Information (in millions)

| Fiduciary Net Assets | FY2008 | FY2007 | FY2006 | 2008 Percent Inc/(Dec) | 2007 Percent Inc/(Dec) |
|---|---|---|---|---|---|
| Cash/Short-term Investments | $ 31.8 | $ 88.4 | $ 71.8 | (64.0) | 23.1 |
| Receivables | 29.5 | 21.5 | 21.0 | 37.2 | 2.4 |
| Investments (fair value) | 3,113.1 | 3,256.3 | 2,704.4 | (4.4) | 20.4 |
| Capital Assets (net) | 0.3 | 0.3 | 0.7 | 0 | (57.1) |
| Total Assets | 3,174.7 | 3,366.6 | 2,797.9 | (5.7) | 20.3 |
| Liabilities | 181.3 | 157.3 | 52.2 | 15.3 | 201.3 |
| **Net Assets** | **$2,993.4** | **$3,209.3** | **$2,745.8** | **(6.7)** | **16.9** |
| **Changes in Fiduciary Net Assets** | | | | | |
| Additions: | | | | | |
| Employer Contributions | $ 67.9 | $ 61.9 | $ 58.3 | 9.7 | 6.2 |
| Plan Member Contributions | 59.6 | 56.5 | 53.3 | 5.5 | 6.0 |
| Other Contributions | 13.5 | 0.7 | 0.7 | 1,828.6 | 0.0 |
| Payment from State of Montana | 0 | 50.0 | 100.0 | (100.0) | (50.0) |
| Net Investment Income | (153.3) | 484.5 | 224.8 | (131.6) | 115.5 |
| Total Additions | (12.3) | 653.7 | 437.0 | (101.9) | 49.6 |
| Deductions: | | | | | |
| Benefit Payments | 196.1 | 182.8 | 172.0 | 7.3 | 6.3 |
| Withdrawals | 5.7 | 5.6 | 4.9 | 1.8 | 14.3 |
| Administrative Expenses | 1.8 | 1.4 | 1.6 | 28.6 | (12.5) |
| Loss on Intangible Asset | 0 | 0.5 | 0.0 | (100.0) | NA |
| Total Deductions | 203.6 | 190.4 | 178.4 | 6.9 | 6.7 |
| **Net Inc/(Dec) in Net Assets** | **$ (215.9)** | **$ 463.4** | **$ 258.6** | **(146.6)** | **79.2** |

## Financial Analysis

- The increase/decrease from year-to-year in cash/short-term investments is due mostly to the change in the number of shares held in the Short Term Investment Pool.
- The significant increase in receivables for 2008 reflects the supplemental payment due at fiscal year end from the general fund in relation to the 2% increase in the employer contribution rate for school districts that was effective July 1, 2007.
- The decrease/increase in investments for 2008 and 2007 respectively is due primarily to the change in the fair market value of our investment holdings.
- The decrease in capital assets in 2007 is due to the depreciation and amortization of the assets and a loss on the write-off of previously capitalized software costs in 2007.
- The significant fluctuation in liabilities is due to the security lending collateral activity conducted by the Montana Board of Investments.
- The significant decrease in net investment income in 2008 was due to a $590.7 million drop in the fair value of investments and $40.8 million less in investment earnings as compared to the $200.6 million increase in the fair value of our investments and a $62.7 million increase in investment earnings in 2007 and a $40.8 million increase in the unrealized net appreciation in the fair value of our investments for 2006.
- The increase in benefit payments from year-to-year 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 loss over the last year. The market assets had a negative return of 4.9% net of investment and operating expenses. The actuarial assets earned 7.22% which is 0.57% below 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 7.75 % Assumption (8.00% prior to 7/1/04) |
|---|---|---|---|
| 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% |
| 7/1/2006 to 6/30/2007 | 17.6% | 10.2% | 2.5% |
| 7/1/2007 to 6/30/2008 | (4.9)% | 7.2% | (0.6)% |

The chart above shows the actuarial return on assets has under performed the assumption more than it has exceeded the assumption in the last six years. These losses plus other actuarial gains and losses led to the need for the legislature to provide one-time contributions of $50 million in fiscal year 2007 and $100 million in fiscal year 2006. Those one time contributions and positive investment returns in fiscal year 2007 helped make the system actuarially sound at July 1, 2007. In addition, the 2007 legislature also increased funding contributions as noted below.

| | Contributions as a Percent of Pay | | | |
|---|---|---|---|---|
| | Members | Participating Employers | State General Fund Contribution* | Total |
| Prior to July 1, 2007 | 7.15% | 7.47% | 0.11% | 14.73% |
| July 1, 2007 to June 30, 2009 | 7.15% | 7.47% | 2.11% | 16.73% |
| July 1, 2009 and after | 7.15% | 7.47% | 2.49% | 17.11% |

*The General Fund contribution is for members employed by a school district or community college. Other member employers will contribute 9.47 percent from July 1, 2007 until June 30, 2009, and 9.85 percent after July 1, 2009.

The July 1, 2007 actuarial valuation calculated a 28.6 year amortization period for the Unfunded Actuarial Accrued Liability. If there were no assumption changes, or experience gains and losses, the amortization period would have been expected to decrease by 1.0 years to 27.6 at July 1, 2008. The new assumptions adopted in May 2008 increased the expected July 1, 2008 amortization period by 2.7 years to 30.3. The experience gains and losses from the year ending June 30, 2008 increased the amortization period by another 1.0 years. The resulting amortization period at July 1, 2008 is 31.3 years. The net funded ratio is currently 79.9%.

MCA 19-20-201 requires the actuarial report to show how market performance is affecting the actuarial funding of the Retirement System. The July 1, 2008 market value of assets is $166 million less than the actuarial value of assets due to a negative 4.88% market return in the year ended June 30, 2008. If the market value of assets was used, the amortization period would be 44.7 years, and the net Funded Ratio would be 75.7%. Based on market assets, a contribution increase of 1.57% of pay (17.11% to 18.68%) as of July 1, 2009 is projected to maintain an amortization of the unfunded actuarial accrued liability over the 30 years beginning July 1, 2008.

# TEACHERS' RETIREMENT SYSTEM
# A COMPONENT UNIT OF THE STATE OF MONTANA
# STATEMENT OF FIDUCIARY NET ASSETS
# JUNE 30, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Cash/Cash Equivalents-Short Term Investment Pool (Note B) | $ 31,811,457 | $ 88,435,655 |
| Receivables: | | |
| Accounts Receivable | 18,946,006 | 15,159,435 |
| Interest Receivable | 7,292,299 | 6,214,473 |
| Due from Primary Government | 3,241,381 | 170,489 |
| Total Receivables | $ 29,479,686 | $ 21,544,397 |
| Investments, at fair value (Note B): | | |
| Mortgages | $ 27,120,606 | $ 31,399,861 |
| Investment Pools | 2,893,544,962 | 3,059,618,387 |
| Other Investments | 11,426,652 | 8,236,796 |
| Securities Lending Collateral (Note B) | 180,987,059 | 157,024,527 |
| Total Investments | $ 3,113,079,279 | $ 3,256,279,571 |
| Assets Used in Plan Operations: | | |
| Land and Buildings | $ 193,844 | $ 193,844 |
| Less: Accumulated Depreciation | (143,645) | (139,880) |
| Equipment | 63,662 | 147,087 |
| Less: Accumulated Depreciation | (48,999) | (131,200) |
| Prepaid Expense | 647 | 9,812 |
| Intangible Assets, net of amortization | 252,351 | 246,113 |
| Total Other Assets | $ 317,860 | $ 325,776 |
| **TOTAL ASSETS** | $ 3,174,688,282 | $ 3,366,585,399 |
| **LIABILITIES** | | |
| Accounts Payable | $ 88,004 | $ 128,299 |
| Due to Primary Government | 14,434 | 17,363 |
| Securities Lending Liability (Note B) | 180,987,059 | 157,024,527 |
| Compensated Absences (Note B) | 158,675 | 139,888 |
| OPEB Implicit Rate Subsidy | 47,478 | 0 |
| **TOTAL LIABILITIES** | $ 181,295,650 | $ 157,310,077 |
| **NET ASSETS HELD IN TRUST FOR PENSION BENEFITS** | $ 2,993,392,632 | $ 3,209,275,322 |

*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, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employer | $ 67,921,950 | $ 61,943,986 |
| Plan Member | 59,552,619 | 56,508,585 |
| Other | 13,492,375 | 720,266 |
| Total Contributions | $ 140,966,944 | $ 119,172,837 |
| Misc Income | $ 15,654 | $ 15,633 |
| Payment from Primary Government (Note C) | 0 | 50,000,000 |
| Investment Income: | | |
| Net Appreciation/(Depreciation) in Fair Value of Investments | $ (236,359,446) | $ 354,302,356 |
| Investment Earnings | 96,731,693 | 137,540,095 |
| Security Lending Income (Note B) | 9,544,163 | 5,815,626 |
| Investment Income/(Loss) | $ (130,083,590) | $ 497,658,077 |
| Less: Investment Expense | 15,425,847 | 7,616,254 |
| Less: Security Lending Expense (Note B) | 7,802,791 | 5,509,847 |
| Net Investment Income/(Loss) | $ (153,312,228) | $ 484,531,976 |
| Total Additions | $ (12,329,630) | $ 653,720,446 |
| **DEDUCTIONS** | | |
| Benefit Payments | $ 196,060,216 | $ 182,826,747 |
| Withdrawals | 5,694,601 | 5,594,541 |
| Administrative Expense | 1,750,765 | 1,434,103 |
| OPEB Expenses | 47,478 | 0 |
| Loss on Intangible Asset | 0 | 501,575 |
| Transfer out | 0 | 205 |
| Total Deductions | $ 203,553,060 | $ 190,357,171 |
| **NET INCREASE (DECREASE) IN PLAN NET ASSETS** | $ (215,882,690) | $ 463,363,275 |
| **NET ASSETS HELD IN TRUST FOR PENSION BENEFITS BEGINNING OF YEAR** | 3,209,275,322 | 2,745,771,047 |
| Prior Period Adjustment | | 141,000 |
| **END OF YEAR** | $ 2,993,392,632 | $ 3,209,275,322 |

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

## NOTE A. DESCRIPTION OF THE 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. TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

At June 30, 2008, the number and type of reporting entities participating in the system were as follows:

| | |
|---|---|
| Local School Districts | 355 |
| Community Colleges | 3 |
| University System Units | 2 |
| State Agencies | 8 |
| Total | 368 |

At July 1, 2008, the date of the most recent actuarial valuation system membership consisted of the following:

| | |
|---|---|
| Retirees and Beneficiaries Currently Receiving Benefits | 11,788 |
| Terminated Employees: | |
| Vested | 1,649 |
| Non-vested | 9,574 |
| Current Active Members: | |
| Vested | 11,760 |
| Non-vested | 6,532 |
| Total Membership | 41,303 |

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, prepares its financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period when due and investment income is recognized when earned. Benefit and withdrawal payments are recorded in the period in which the liabilities are due and payable.

### Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel at June 30, 2008 and June 30, 2007.

### Cash/Cash Equivalents and Investments

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. Information on investment policies, investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

Information about the primary government's (State of Montana) investments, including credit risk classification, can be obtained from the Department of Administration, State Accounting Division, at P.O. Box 200102, Helena, MT 59620-0102.

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 (STIP). Pool investments other than STIP are reported at the fair value of each unit times the number of units owned. STIP is recorded at $1 per unit for each unit held. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers' valuation reports.

The TRS investments include: 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), mortgages and real estate. The TRS Investment Portfolio is listed below:

TRS Cash Equivalent and Investment Portfolio
June 30, 2008

| Investment | Book Value | Fair Value |
|---|---|---|
| STIP | $ 32,943,654 | $ 32,943,654 |
| RFBP | 768,059,943 | 760,319,056 |
| MDEP | 541,012,407 | 1,157,377,216 |
| MTIP | 311,631,000 | 561,647,715 |
| MPEP | 180,582,970 | 287,420,352 |
| MTRP | 122,873,000 | 126,780,622 |
| Mortgages | 27,466,653 | 27,120,607 |
| Real Estate | 8,224,902 | 8,351,430 |
| Total | $ 1,992,794,529 | $ 2,961,960,652 |

Securities Lending - Under the provisions of state statutes, BOI authorized the custodial bank 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. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The BOI and the custodial bank split the earnings on security lending activities. The securities lending collateral, securities lending collateral liability, securities lending income, and securities lending expense consist of allocations to TRS on a pro rata basis of its ownership share of each pool with securities lending activity. At June 30, 2008, and 2007, the BOI had no credit risk exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed. The private equity and real estate Pools do not participate in securities lending.

Mortgages and Real Estate – The mortgages consist of a portfolio of Montana residential mortgages and the real estate holdings represent an equity interest in four real estate properties.

The investment risks for the pooled investments that TRS participates in 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.

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

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's investment in a single issuer.

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

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.

All securities in pools are held in the name of the Montana BOI, or were registered in the nominee name for the Montana BOI and held in the possession of the BOI's custodial bank. MDEP, MTIP, MPEP, and MTRP do not invest in debt securities, so interest rate risk, credit risk, and concentration of credit risk do not apply to these holdings. MTIP, MPEP, and MTRP include assets subject to foreign currency risk. At June 30, 2008 approximately 36% of the combined portfolios are held in foreign currencies.

According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a7-like pool. RFBP has an effective duration of 4.63 and 5.27 for the pool at June 30, 2008, and 2007, respectively.

## 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 the current employer contribution rate is 9.47% of earned compensation. The State's General Fund contributes 2% of earned compensation by school district and community college members and an additional .11% of total earned compensation. Each employer in the Montana university system shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation of employees participating in the Optional Retirement Program (ORP). An actuary determines the actuarial implications of the funding requirement in annual 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 Montana State Legislature during the 2007 session infused $50 million from the State's General Fund into the TRS pension fund to help address the unfunded actuarial accrued liability of the system. The 2007 Legislature in going forward also addressed the funding status of the TRS pension fund to help ensure the unfunded actuarial accrued liability (UAAL) can be amortized over a period not exceeding 30 years. Per Governmental Accounting Standards Board (GASB) statement number 25 the maximum acceptable amortization period is 30 years. Effective July 1, 2007 the employer contribution rate increased 2% from 7.47% to 9.47%. Beginning July 1, 2009 the rate will increase another .38% to a total of 9.85%. Also the supplemental contribution to ensure university member benefits are funded by university employers was increased from 4.04% to 4.72% of Optional Retirement Plan (ORP) member pay effective July 1, 2007.

## NOTE D. FUNDED STATUS and FUNDING PROGRESS

Our most recent actuarial valuation may be accessed on our website at:
www.trs.mt.gov/Board/ActuarialValuations/ActuarialValuations

The funded status of the TRS plan as of July 1, 2008 the most recent actuarial valuation date is as follows (dollar amounts in millions):

| Actuarial Value of Assets ( a ) | Actuarial Accrued Liability (AAL) - Entry Age ( b ) | Unfunded AAL (UAAL) ( b-a ) | Funded Ratio ( a/b ) | Covered Payroll ( c ) | UAAL as a Percentage of Covered Payroll (( b-a ) /c ) |
|---|---|---|---|---|---|
| $3,159.1 | $4,110.8 | $794.6 | 79.9% | $689.5 | 115.2% |

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| | |
|---|---|
| Valuation date | July 1, 2008 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent open |
| Remaining amortization period | 31.3 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.75% |
| Projected salary increases | 4.50% |
| Guaranteed annual benefit adjustment | 1.50% |
| Inflation rate | 3.50% |

The actuarial valuation prepared as of July 1, 2008, 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.

On a market value basis the TRS earned $271 million more than anticipated by the 7.75% assumption for the year ended June 30, 2007 and $401 million less than anticipated by the 7.75% assumption for the year ended June 30, 2008. The net result as of July 1, 2008 is that the market value of assets is $166 million less than the actuarial value of assets. This $166 million in unrecognized asset losses, if not offset by future gains, will cause the contributions needed to amortize the UAAL in future valuations to increase even further. Therefore, to remain financially sound in the future, TRS will need either (1) future gains such as asset returns greater than the 7.75% assumption, or (2) an increase in contribution rates.

## NOTE E. OTHER POSTEMPLOYMENT BENEFITS

For the fiscal year ending June 30, 2008, the TRS implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB). This statement requires disclosure of employer participation in defined benefit OPEB plans. The resulting TRS liability and expense for fiscal year 2008 has been reported in our financial statements.

### Plan Description

TRS employees and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration (MDOA). In accordance with section 2-18-704, MCA, the State provides optional post-employment medical, vision and dental health care benefits for retirees and their dependents and beneficiaries that elect to continue coverage and pay administratively established premiums. Plan coverage is on a calendar year basis. For GASB 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and TRS is considered to be a separate employer participating in the plan. Information about the State of Montana OPEB can be obtained from the Department of Administration, State Accounting Division, at P.O. Box 200102, Helena, MT 59620-0102.

### Funding Policy

The contribution requirements of plan members are established and may be amended by the MDOA. The monthly premium for plan members ranges from $160 to $851 for 2008 depending on the medical plan selected, family coverage, and Medicare eligibility. The plan is financed on a pay-as-you-go basis.

GASB 45 requires the plan's employers to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The 2008 ARC is calculated for all the plan's employers and then allocated to each participating employer. The TRS 2008 ARC is $47,478 and is based on the plan's current ARC rate of 7.99% percent of total annual covered payroll for all employers. The 2008 ARC is equal to an annual amount required each year to fully fund the liability over 30 years. The amount of the estimated OPEB actuarial accrued liability at transition was determined in accordance with the GASB Statement 45, and the liability for TRS is estimated at $548,418. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

### Annual OPEB Cost

For fiscal year 2008, the TRS allocated annual OPEB cost (expense) of $47,478 was equal to the ARC. The TRS annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 are as follows:

| Fiscal Year Ended | Percentage of Annual OPEB Cost | Net Annual OPEB Cost Contributed | OPEB Obligation |
|---|---|---|---|
| 6/30/08 | 0% | $47,478 | $47,478 |

**Funded Status and Funding Progress**

The funded status of the TRS allocation of the plan as of January 1, 2007, the most recent valuation date was as follows:

| | |
|---|---|
| Actuarial accrued liability (AAL) | $548,418 |
| Actuarial value of plan assets | $ 0 |
| Unfunded actuarial accrued liability (UAAL) | $548,418 |
| Funded ratio (actuarial value of plan assets/AAL) | 0 |
| TRS Covered payroll (active plan members) | $634,670 |
| UAAL as a percentage of covered payroll | 86.41% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

As of January 1, 2007, the TRS actuarially accrued liability (AAL) for benefits was $548,418, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $548,418, and the ratio of the UAAL to the covered payroll was 86.41%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the January 1, 2007, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 3.00% payroll growth rate. The projected annual healthcare cost trend rate is 7.00% for medical and 13.30% for prescription drugs, initially. Prescription drugs are reduced by decrements to a rate of 5.00% after eight years. Medical costs increase to 8.00% for the next three years. Then, these costs are reduced by decrements to a rate of 5.00% after five additional years.

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

## TRS PLAN
## 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, 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 |
| July 1, 2007 | 3,006.2 | 3,928.5 | 153.4 | 768.9 | 79.6 | 664.1 | 115.8 |
| July 1, 2008 | 3,159.1 | 4,110.8 | 157.1 | 794.6 | 79.9 | 689.5 | 115.2 |

*(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.*

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

### TRS PLAN
### SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS 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] |
|---|---|---|---|---|---|
| June 30, 2003 | 597,131 | 53,277 | 7.58 | 7.58 | 100 |
| June 30, 2004 | 600,728 | 55,774 | 7.58 | 7.58 | 100 |
| June 30, 2005 | 612,622 | 57,150 | 7.58 | 7.58 | 100 |
| June 30, 2006 | 635,997 | 158,962 | 7.58 | 10.45 | 223 |
| June 30, 2007 | 664,140 | 112,664 | 7.58 | 11.64 | 130 |
| June 30, 2008 | 689,460 | 81,423 | 9.58 | 9.58 | 100 |

*(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 for fiscal years ending on or before June 30, 2007. For the fiscal year ending June 30, 2008 this figure is provided by the Retirement System.*

*(2) The actual and required employer contributions are expressed as a percentage of payroll. Contributions for termination pay of $6,585,334 and supplemental university contributions of $7,644,302 are included in the $81,422,610 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 9.58% employer contribution shown in this exhibit, or the calculation of the percentage of ARC contributed. The $50 million one time contribution made by the State in FYE 2007 and the $100 million one-time contribution made by the State in FYE 2006 are included in the employer dollar contribution, and the calculation of the percentage of ARC contributed, but are 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 Annual Required Contributions (ARC) is equal to the actual dollar amount of the required employer contributions. The 2008 ARC was determined in the July 1, 2006 valuation as the amount needed starting July 1, 2007 to maintain a 30 year amortization period.*

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

## 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

Assets are valued based on their market value, with a four-year smoothing of all market value gains and losses. The expected return is determined for each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years. The gains and losses are measured starting with the year ended June 30, 2007 (adopted 7/1/2007). The method of measuring the System's actuarial assets has changed since the prior valuation. Asset gains and losses are smoothed over a four-year period as of July 1, 2007, beginning with gains and losses over the year ending on June 30, 2007. As of July 1, 2006, the System's assets were measured on a market value basis, with immediate recognition of all gains and losses. Prior to 2006, asset gains and losses were smoothed over a five-year period.

## Inflation Rate

The assumed inflation rate is 3.50% per annum, compounded annually (adopted 7/1/2004).

## 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 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 Method**
The unfunded actuarial accrued liability created by this method, including gains and losses, is amortized as a level percentage of the System's projected payroll.

**Amortization Period**
The amortization period of the unfunded actuarial liability over an open period is 31.3 years as of July 1, 2008.

## REQUIRED SUPPLEMENTARY INFORMATION
## OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION

**Other Postemployment Benefits Plan Information** (1)
**Schedule of Funding Progress**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability(AAL) Entry Age (b) | Unfunded (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 1/1/2007 | - | $548,418 | $548,418 | 0.00% | $634,670 | 86.41% |

(1) TRS and the State of Montana implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for the fiscal year ended June 30, 2008. Information for prior years is not available.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULES
FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

## SCHEDULE OF 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, 2008 and 2007 are outlined below:

| | 2008 | 2007 |
|---|---|---|
| Budgeted Expenses: | | |
| Personnel Services: | | |
| Salaries | $ 720,003 | $ 675,800 |
| Other Compensation | 2,750 | 2,750 |
| Employee Benefits | 223,647 | 205,418 |
| Total Budgeted Personal Srvs | $ 946,400 | $ 883,968 |
| Operating Expenses: | | |
| Contracted Services | $ 426,746 | $ 231,943 |
| Supplies & Material | 22,909 | 25,350 |
| Communications | 37,285 | 33,289 |
| Travel | 21,642 | 21,817 |
| Rent | 58,433 | 48,046 |
| Repair & Maintenance | 49,892 | 42,235 |
| Other Expenses | 72,106 | 48,926 |
| Total Budgeted Operating Exp | $ 689,013 | $ 451,876 |
| Non-Budgeted Expenses: | | |
| Compensated Absences | $ 18,787 | $ 14,008 |
| Depreciation | 20,273 | 5,403 |
| Amortization of Intangible Assets | 76,292 | 78,848 |
| Total Non-Budgeted Expenses | $ 115,352 | $ 98,259 |
| **Total Administrative Expenses** | **$ 1,750,765** | **$ 1,434,103** |

## SCHEDULE OF PAYMENTS TO CONSULTANTS

| | 2008 | 2007 |
|---|---|---|
| Actuarial Services | $ 141,616 | $ 55,685 |
| Personnel Services | 1,095 | 1,045 |
| Legal Services | 24,161 | 4,556 |
| Medical Evaluations | 815 | 390 |
| Information Technology Services | 51,360 | 13,520 |
| **Total Consultant Payments** | **$ 219,047** | **$ 75,196** |

# INVESTMENT SECTION

**REPORT ON INVESTMENT ACTIVITIES**

**INVESTMENT POLICY**

**INVESTMENT RESULTS**

**INVESTMENT ASSET ALLOCATION AND SUMMARY**

**LIST OF TEN LARGEST HOLDINGS IN PORTFOLIO**

**INVESTMENT MANAGEMENT FEES**

# MONTANA
# BOARD OF INVESTMENTS

**Department of Commerce**

Street Address:
2401 Colonial Drive, 3rd Floor
Helena, MT 59601

Mailing Address:
P.O. Box 200126
Helena, MT 59620-0126

Phone: 406/444-0001
Facsimile: 406/449-6579
Rateline: 406/444-3557
Website: www.investmentmt.com

## TRS Annual Report Investment Letter

For the Fiscal Year ended 6/30/08

The most recent fiscal year was a difficult period for capital market performance, and a dramatic contrast to fiscal 2007. The Teachers' Retirement System investment portfolio posted a total return of (4.89)% for the fiscal year ended June 30, 2008, as compared to the 17.94% return in the prior year. The negative return pulled down longer term returns that had been steadily improving since the equity bear market of 2000-2002. The past five year fiscal period annualized return is now 8.48% and the ten year return, 5.48%. While this setback eroded the plan's comparison to the actuarial return assumption, the annualized return since fiscal 1995 (14 years) is 8.49% which compares favorably to the original 8.0% and present 7.75% assumption.

The swing from strongly positive to a negative plan return can be attributed to the public equity component of the portfolio. The fiscal year began with the disruption in the credit markets in July, 2007, the root cause of which was the deterioration in residential mortgage finance. The equity markets became much more volatile and dropped initially, only to rally back to new highs in October. The stock market declined from there as a full blown credit crunch evolved over the following months and concerns grew about the overall growth of the economy. Fears of an economic slowdown were based not only on a tightening lending market, but energy and food inflation spiked as house prices continued declining which led to a slowdown in discretionary consumer spending.

Stock market declines were prevalent across the world, though domestic equities suffered slightly more than international markets. The overall public equity portfolio return was (11.77)% for the fiscal year, with domestic stocks down (12.91)% and international stocks down (9.28)%. In contrast, private equity, which grew from 7.6% to 9.7% of the portfolio over the year, continued to post positive performance and enjoyed a 9.60% return. The fixed income portion of the portfolio also posted a positive return at 5.87%, though this return was dampened by holdings of corporate bonds and mortgage-backed securities. These securities suffered in performance as risk premiums widened in reaction to the unfolding credit crunch. The overall portfolio was also helped by a growing allocation to private real estate holdings. Overall real estate holdings experienced a 4.68% return for the fiscal year. The bulk of this exposure was via the real estate pool which grew during the fiscal year to represent 4.3% of holdings at June 30.

As noted earlier, the fiscal year performance was negatively impacted by deteriorating financial and economic conditions. These same forces continue to impact both domestic and international capital markets. Financial institutions which are exposed to mortgage-related securities or loans have seen increased losses that have weakened their capital adequacy. Combined with the ongoing housing recession, this has lead to a crisis of confidence in the broader financial sector. Dramatic failures were seen by some of the largest brokerage firms in the country beginning with Bear Stearns back in March and the more recent failure of Lehman Brothers. The crisis escalated in July as problems with Fannie Mae and Freddie Mac, the

two large government-sponsored mortgage firms, became more evident and the Treasury took an initial step to prop them up. The extremes of the mortgage lending crisis and the most severe signs of systemic failure of our financial system came in September. The federal conservatorship of the two mortgage agencies was followed by the Lehman bankruptcy and a federal rescue of the largest insurance company, AIG. September also saw record bank failures with the demise of Washington Mutual, the country's largest savings bank with over $200 billion in retail deposits. This was quickly followed by the demise of Wachovia, the nation's third largest bank ranked by retail deposits, which was forced into a regulatory-assisted purchase by Citigroup. Other major banks remain on the brink and are actively seeking mergers with stronger institutions or face the prospect of their own end at the hands of federal regulators. These are unprecedented events in the post-Depression history of the U.S. financial system.

As the economy weakened and the credit crunch spread the Fed began an aggressive monetary easing policy a year ago, having reduced policy rates from 5.25% to only 2.0% in April, where it remains at this writing. Yet, this rate only applies to certain loans between banks and did not help the broader credit markets where fears of borrower insolvency pushed private sector lending rates higher. The Fed has injected massive amounts of liquidity into the money market to help offset the upward pressure on short term rates for most instruments other than Treasury bills. Yet so far monetary policy has been ineffective in addressing the broader problem of a weakening housing market and the inaccessibility to loans by the broader economy, not just the banking system.

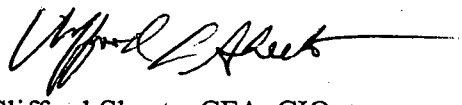
The Federal Reserve and Treasury have done their best to address the growing crisis but are now depending on a sweeping federal program to buy many of the bad assets that are choking the banking system. In conjunction with the Treasury, the Fed has been the lender of last resort in the case of financial institutions deemed too big to fail. The efforts to date have been case-by-case, yet the authorities are being overwhelmed as the dominoes fall at an increasing frequency and scale. As of this writing in late September the enactment of a $700 billion fiscal plan to attack the problem remains uncertain. Yet, some form of a fiscal plan is likely to happen eventually. If no plan is adopted to address the systemic financial problems there is likely to be further deterioration of liquidity conditions and asset problems that will lead to a severe economic recession. Even with a plan, efforts to bolster the financial sector by propping up asset prices will not in itself stave off a recession but it should help to mitigate the severity of a broad economic downturn.

The impact any fiscal plan will have on the capital markets remains to be seen, but it should act to put a floor on mortgage-related securities prices that have been at the heart of the problem. In the short run we could see a bounce in the assets that have suffered the most in recent weeks but longer term there remains considerable uncertainty. The financial system will continue to de-lever and this means higher borrowing standards and fewer loans. Economic growth in the U.S. and globally are expected to slow, with many economists forecasting a recession if we are not already in one. This scenario implies lower consumer and business spending and depressed earnings. We are likely to see higher corporate loan and bond defaults as well. As a result, return expectations should be dampened for both stocks and bonds until more signs of economic stability appear. Longer term the seeds are being sown for better returns, especially for equity and corporate bond markets which have suffered the most over the past year.

From a portfolio perspective, asset diversification efforts over the past couple of years have helped by reducing the public equity exposure and thus mitigating some of the downside in recent months. Over the past year we have made additional commitments in the private equity and real estate asset classes. On the fixed income side we made a decision to diversify into broader segments of the bond market including international and high yield markets. This entailed the hiring of four external managers for a portion of the retirement fund bond pool with these mandates to be funded over the coming months. We are also

examining a new asset strategy for possible use in the pension plans – hedge funds – a broad category of various active trading strategies that are designed to provide diversification from traditional assets such as public equities. The Board will consider implementing asset allocation changes only after a thorough understanding of the risks and benefits of taking such actions with an appropriate long term timeframe in mind.

Respectfully Submitted,



Clifford Sheets, CFA, CIO
Montana Board of Investments

## 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 Rates of Returns***

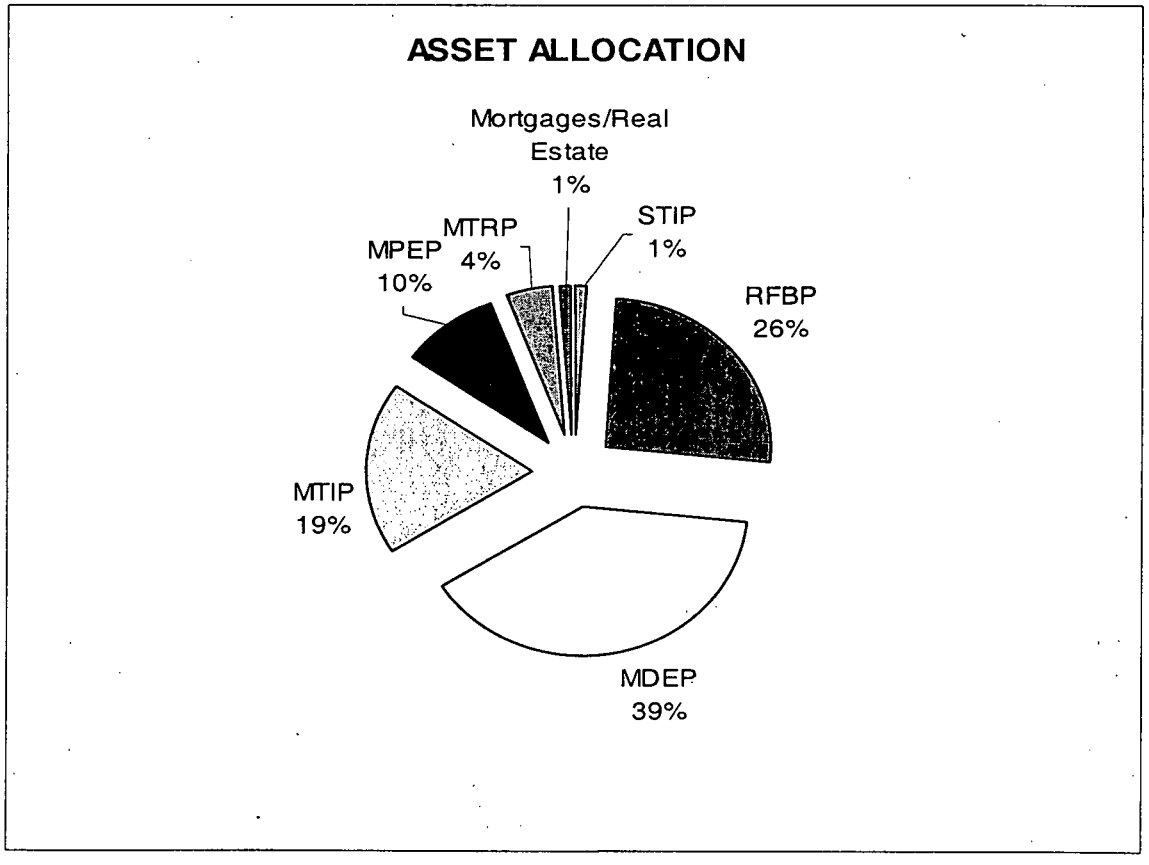
| | FY 2008 | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| STIP | 4.49% | 4.79% | 3.55% | 4.01% |
| 1 Mo LIBOR Index | 4.18% | 4.65% | 3.49% | 3.79% |
| RFBP | 5.82% | 4.32% | 4.41% | 6.39% |
| LB US Agg Bond Index | 7.12% | 4.09% | 3.85% | 5.68% |
| MDEP | -12.91% | 4.09% | 7.01% | N/A |
| S&P 1500 Super Comp Index | -12.72% | 4.65% | 8.15% | 3.53% |
| MTIP | -9.16% | 14.66% | 17.59% | 8.51% |
| International Custom Benchmark | -7.08% | 15.04% | 18.03% | 6.45% |
| MPEP | 23.46% | 19.21% | 17.78% | 15.64% |
| S&P 1500 +4% | -8.72% | 8.65% | 12.15% | 7.53% |
| MTRP | 5.97% | N/A | N/A | N/A |
| NCREIF ODCE Index (net) | 6.88% | 13.71% | 13.45% | 11.15% |
| Total Portfolio | -4.89% | 6.95% | 8.48% | 5.48% |

* A time-weighted rate of return

## Investment Summary and Asset Allocation

**JUNE 30, 2008**

| Investment | Book Value | Fair Value |
|---|---|---|
| STIP | $ 32,943,654 | $ 32,943,654 |
| RFBP | 768,059,943 | 760,319,056 |
| MDEP | 541,012,407 | 1,157,377,216 |
| MTIP | 311,631,000 | 561,647,715 |
| MPEP | 180,582,970 | 287,420,352 |
| MTRP | 122,873,000 | 126,780,622 |
| Mortgages/Real Estate | 35,691,555 | 35,472,037 |
| Total | $ 1,992,794,529 | $ 2,961,960,652 |



**Ten Largest Bond Holdings at fair value:**

| | | |
|---|---|---|
| 1. Freddie Mac | $ | 13,583,737 |
| 2. DOT Headquarters II Lease Mortgage | | 11,614,225 |
| 3. Federal Home Loan PC Pool G 03458 | | 10,512,853 |
| 4. Federal Home Loan PC Pool G 03037 | | 10,425,927 |
| 5. FNMA Pool 256600 | | 9,760,448 |
| 6. ARIA CDO II Jersey No 1 LTD | | 9,641,881 |
| 7. Seariver Maritime Financial Inc | | 9,524,887 |
| 8. Federal Home Loan PC Pool G 11812 | | 9,397,492 |
| 9. US Treasury Notes | | 9,295,278 |
| 10. Bishopsgate CDO LTD | | 9,056,514 |

**Ten Largest Public Equity (MDEP) Holdings at fair value:**

| | | |
|---|---|---|
| 1. BGI Equity Index Fund | $ | 289,731,324 |
| 2. Western Asset US Index Plus LLC | | 64,143,842 |
| 3. Goldman Sachs Enhanced Large | | 49,216,432 |
| 4. Dimensional Fund Advisors Inc | | 20,691,452 |
| 5. Exxon Mobil Corp | | 17,381,253 |
| 6. Microsoft Corp | | 11,803,173 |
| 7. AT&T Inc | | 10,593,128 |
| 8. Chevron Corp | | 9,279,473 |
| 9. Hewlett Packard Co | | 8,823,866 |
| 10. General Electric Co | | 8,724,605 |

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

## Investment Management Fees

The Legislature sets the maximum management fee the BOI may charge the accounts it manages. The maximum fee is set at the aggregate level and at the beginning of each fiscal year. The BOI allocates the aggregate fees across the Pools. Custodial bank fees are paid by a statutory appropriation from the state general fund. The BOI allocates custodial bank fees across the Pools and accounts invested outside the Pools and deposits the proceeds in the general fund. The State Treasurer then pays the monthly custodial bank fees from the general fund. External manager fees are paid directly from the accounts they manage. TRS investment management fees charged each Pool and mortgages and real estate are shown below:

| Investment | BOI | Custodial Bank | External Managers | Total |
|---|---|---|---|---|
| STIP | $ 10,051 | $ 5,399 | $ | $ 15,450 |
| RFBP | 162,796 | 41,712 | | 204,508 |
| MDEP | 294,523 | 103,514 | 3,643,851 | 4,041,888 |
| MTIP | 246,824 | 156,121 | 2,701,970 | 3,104,915 |
| MPEP | 194,370 | 30,355 | 5,202,292 | 5,427,017 |
| MTRP | 208,599 | 10,907 | 2,313,006 | 2,532,512 |
| Mortgages/Real Estate | 74,207 | | 25,350 | 99,557 |
| | $ 1,191,370 | $ 348,008 | $ 13,886,469 | $ 15,425,847 |

# ACTUARIAL SECTION

## ACTUARY'S CERTIFICATION LETTER

## EXHIBITS

1. SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
2. SCHEDULE OF ACTIVE MEMBER VALUATION DATA
3. SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
4. SOLVENCY TEST
5. ANALYSIS OF FINANCIAL EXPERIENCE
6. PROVISIONS OF GOVERNING LAW

Milliman

1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
USA

Tel +1 206 624 7940
Fax +1 206 623 3485

milliman.com

October 8, 2008

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

Members of the Board:

We have completed the annual valuation of the Teachers' Retirement System of the State of Montana as of July 1, 2008. The purpose of this valuation is to determine the financial status of the Retirement System. To achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by MCA 19-20-201.

The purpose of this letter is to provide the Actuarial Section, the Schedule of Funding Progress, and the Schedule of Contributions from the Employers and Other Contributing Entities for the System's Comprehensive Annual Financial Report. Milliman, Inc. has performed actuarial valuations for the Teachers' Retirement System since July 1, 1992. Biennial valuations occurred between 1992 and 2004. Beginning on July 1, 2004, annual valuations have been performed. The most recent actuarial valuation of the Teachers' Retirement System was performed as of July 1, 2008. The next scheduled valuation of the Teachers' Retirement System will be as of July 1, 2009.

The funding objective of the System is to establish contribution rates that will tend to remain level as a percentage of payroll. The contribution rates have been:

| Applicable Period | Participating Employers | State General Fund | Members | Total Rate |
|---|---|---|---|---|
| Prior to 07/01/2007 | 7.47% | 0.11% | 7.15% | 14.73% |
| 07/01/2007 to 06/30/2009 | 7.47 | 2.11 | 7.15 | 16.73 |
| 07/01/2009 and after | 7.47 | 2.49 | 7.15 | 17.11 |

Our July 1, 2008 actuarial valuation shows that the current rates are sufficient to pay the System's normal cost and to amortize the System's Unfunded Actuarial Accrued Liability over 31.3 years, based on the current funding methods and long term actuarial assumptions. The normal cost of 10.87% of pay for the year beginning on July 1, 2008 is funded by employer and employee contributions. The remaining contribution (5.86%) funds the amortization of the Unfunded Actuarial Accrued Liability. The System's Unfunded Actuarial Accrued Liability funded by TRS contributions as of July 1, 2008 is $794.6 million based on actuarial assets.

A funding measurement that may be considered is the funding ratio of the Actuarial Accrued Liability to Assets. This ratio is shown in the Schedule of Funding Progress. As the actuarial experience varies from year to year, the funding ratio will reflect actuarial gains and losses.

The Actuarial Accrued Liability represents the portion of the total plan benefits and expenses which is not provided for by future Normal Cost contributions.

The actuarial assumptions used in our 2008 actuarial valuation are summarized in Exhibit 1. These assumptions were recommended by the actuary and adopted by the Board. Adoption dates vary by assumption and are provided in Exhibit 1.

In preparing our actuarial valuation reports, we relied, without audit, on the financial statements prepared by the staff of the System. We also relied upon the employee and beneficiary data provided to us by the staff. We compared the data for the July 1, 2008 actuarial valuation with corresponding information from the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates. Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations. 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 Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

The assumptions represent our best estimate of future conditions affecting the System, and we believe they are reasonably related to the past experience of the System. Nevertheless, the emerging costs of the System will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Gains or losses in future experience may result in changes in future contribution rates. The current actuarial asset method smoothes asset gains and losses over four years.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans. The GASB guidelines specify a 30-year maximum for the amortization of the Unfunded Actuarial Accrued Liability. Since the corresponding amortization period is greater than 30 years as of July 1, 2006, the Fiscal Year 2008 employer contribution rate must include an amount sufficient to amortize the Unfunded Actuarial Accrued Liability over 30 years. Our letter of April 11, 2007 determined that the employer contribution rate would need to increase to 9.58% (7.47% by

participating employers + 2.11% by the State General Fund) at July 1, 2007 and 10.44% (7.47% + 2.97%) at July 1, 2009 to maintain a 30 year amortization period from July 1, 2006. Thus the Fiscal Year 2008 Annual Required Contribution (ARC) is 9.58% under the GASB requirements. Employer contributions equal to 9.58% of pay were made in Fiscal Year 2008. However, the 9.96% (7.47% + 2.49%) contribution rate currently scheduled at July 1, 2009 is less than the ARC of 10.44% according to calculations based on the July 1, 2006 actuarial valuation.

**Funding and Benefits Policy**

The Teachers' Retirement System has adopted a Funding and Benefits Policy to provide general guidelines to help ensure decisions are made based on sound, consistent, and thoroughly examined criteria. The Funding and Benefits Policy includes guidance on the following topics:

1) Additional Funding
   a) The Funding and Benefits Policy states: "Whenever the amortization period of the unfunded liabilities for two consecutive valuations are projected to exceed 30 years based on the market value of assets, or the funded ratio is less than 85%, and the Board cannot reasonably anticipate that the amortization period would decline or the funded ratio improve without an increase in funding sources, it is the obligation of the Board to recommend to the legislature that funding be increased and/or liabilities be reduced."
   b) Analysis: The amortization period at July 1, 2008 is 31.3 years based on actuarial assets and 44.7 years based on market assets. Assuming experience follows the actuarial assumptions, the amortization period is projected to remain above 30 years based on both measures for some time to come. The net funded ratio is currently 79.9%. Therefore, the guidance in the Board's Funding and Benefits Policy indicates the Board should "recommend to the legislature that funding be increased and/or liabilities be reduced."
2) Ultimate Goal
   a) The Funding and Benefits Policy states: "It is the ultimate goal of the TRB to eliminate the current Unfunded Actuarial Accrued Liability and to establish a Stabilization Reserve equal to at least 10% of the Actuarial Accrued Liability. Once the System has achieved this goal, any surplus funds that become available may be applied toward the cost of benefit enhancements and/or contribution reductions, provided, sufficient reserves are retained to reasonably allow for adverse experience and the contribution rates remain at least 1 percent above the normal cost."
   b) Analysis: This goal is currently a long way off. This is represented by amortization periods of 31.3 years using actuarial assets and 44.7 years using market assets. Discipline will be required by all parties concerned to reach this goal, and may include contribution increases to get the amortization period within 30 years.

3) Benefit Enhancements

   a) The Funding and Benefits Policy states: "Proposed benefit enhancements must include additional funding sufficient to cover any increase in the normal cost and to amortize any increase in unfunded liabilities over a period not to exceed 25 years. In addition, as of the most recent actuarial valuation, the funded ratio must be 85% or greater before the Board will support legislation to enhance benefits."

   b) Analysis: Since the net funded ratio at July 1, 2008 of 79.9% is below 85% the Board's Funding and Benefits policy does not currently support enhanced benefits, even if funding of increased unfunded liabilities over 25 years is included.

**Changes in Plan Provisions Since Prior Actuarial Valuation**

There have been no changes in plan provisions since the prior actuarial valuation.

**Changes in Actuarial Assumptions Since Prior Actuarial Valuation**

For the July 1, 2008 valuation, retirement, disablement and termination of employment assumptions have been updated to reflect the Retirement Board's actions at the May 8, 2008 Retirement Board Meeting. These actions reflect the recommended changes in the 2001-2007 Investigation of Active Member Demographic Experience report. Exhibit 1 summarizes the actuarial assumptions and methods.

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.

The Exhibits provide further information. Milliman is completely responsible for these exhibits. Specifically, they are:

| | |
|---|---|
| Exhibit 1 | Summary of Actuarial Assumptions and Methods |
| Exhibit 2 | Schedule of Active Member Valuation Data |
| Exhibit 3 | Schedule of Retirees and Beneficiaries Added to and Removed from Rolls |
| Exhibit 4 | Solvency Test |
| Exhibit 5 | Analysis of Financial Experience |
| Exhibit 6 | Provisions of Governing Law |

The Schedule of Funding Progress and the Schedule of Contributions from the Employers and Other Contributing Entities shown in the Financial Section of this report were also prepared by Milliman.

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.

I, Craig J. Glyde, am a member of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary

Craig J. Glyde, EA, MAAA
Associate Actuary

MCO/fyf

Enclosures

EXHIBIT 1

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

### 1. Investment Return

The annual rate of investment earnings based on the actuarial value of the assets of the System are assumed to be 7.75% per year, compounded annually and net of investment and operating expenses (adopted 7/1/2004).

### 2. Valuation of Assets

Assets are valued based on their market value, with a four-year smoothing of all market value gains and losses. The expected return is determined for each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years. The gains and losses are measured starting with the year ended June 30, 2007 (adopted 7/1/2007).

### 3. Selection of Assumptions

The actuarial assumptions and methods used to value the System's liabilities and measure the System's funding progress are recommended by a Member of the American Academy of Actuaries (MAAA) and approved by the retirement board.

### 4. Mortality

The mortality rates used in this valuation are:

Contributing Members, Retired Members and Beneficiaries:

Basis – RP-2000 Combined Healthy Mortality projected by Scale AA to 2008 for respective sexes, as adjusted:

| Group | Adjustment | Adopted |
|---|---|---|
| Males | -3 years | 7/1/2006 |
| Females | -2 years | 7/1/2006 |

Disabled Members:

Basis – RP-2000 Disabled Mortality projected by Scale AA to 2008 for respective sexes, as adjusted:

| Group | Adjustment | Adopted |
|---|---|---|
| Males | -3 years | 7/1/2006 |
| Females | +3 years | 7/1/2006 |

## 5. Retirement

*Service Retirement*

Annual probabilities among persons eligible for service retirement are illustrated in the following table:

| | General Members | | | University Members | | |
|---|---|---|---|---|---|---|
| Age | 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% | 7.0% | | 9.0% | 5.0% |
| 46 | | 18.0 | 7.0 | | 9.0 | 5.0 |
| 47 | | 12.5 | 7.0 | | 9.0 | 5.0 |
| 48 | | 12.5 | 7.0 | | 9.0 | 5.0 |
| 49 | * | 12.5 | 7.0 | * | 9.0 | 5.0 |
| 50 | 3.0% | 12.5 | 7.0 | 1.9% | 9.0 | 5.0 |
| 51 | 3.0 | 16.0 | 7.5 | 2.2 | 9.0 | 5.0 |
| 52 | 3.0 | 16.0 | 8.0 | 2.5 | 9.0 | 5.0 |
| 53 | 3.0 | 16.0 | 8.5 | 2.8 | 9.0 | 5.0 |
| 54 | 3.0 | 16.0 | 9.0 | 3.1 | 9.0 | 5.0 |
| 55 | 5.0 | 24.0 | 11.0 | 3.4 | 15.0 | 5.0 |
| 56 | 5.0 | 24.0 | 12.0 | 3.7 | 15.0 | 6.0 |
| 57 | 5.0 | 24.0 | 13.0 | 4.0 | 15.0 | 6.0 |
| 58 | 5.0 | 24.0 | 14.0 | 4.3 | 15.0 | 6.0 |
| 59 | 5.0 | 24.0 | 16.0 | 4.7 | 15.0 | 7.0 |
| 60 | * | 17.0 | 21.0 | * | 15.0 | 10.0 |
| 61 | | 21.0 | 21.0 | | 14.0 | 14.0 |
| 62 | | 25.0 | 25.0 | | 20.0 | 20.0 |
| 63 | | 22.0 | 22.0 | | 14.0 | 14.0 |
| 64 | | 23.0 | 23.0 | | 20.0 | 20.0 |
| 65 | | 33.0 | 33.0 | | 28.0 | 28.0 |
| 66 | | 26.0 | 26.0 | | 21.0 | 21.0 |
| 67 | | 22.0 | 22.0 | | 21.0 | 21.0 |
| 68 | | 20.0 | 20.0 | | 21.0 | 21.0 |
| 69 | | 20.0 | 20.0 | | 21.0 | 21.0 |
| 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.*

(Adopted 7/1/2008)

*Disability Retirement*

Annual probabilities are illustrated below:

| Age | All Members |
|---|---|
| 25 | .010% |
| 30 | .010 |
| 35 | .020 |
| 40 | .030 |
| 45 | .050 |
| 50 | .080 |
| 55 | .100 |
| 60 | .120 |

(Adopted 7/1/2008)

## 6. Other Terminations of Employment

The annual rates of termination are illustrated below:

| Years of Service | All Members |
|---|---|
| 1 | 36.0% |
| 2 | 16.0 |
| 3 | 12.0 |
| 4 | 9.0 |
| 5 | 7.0 |
| 6 | 6.5 |
| 7 | 6.0 |
| 8 | 5.5 |
| 9 | 5.1 |
| 10 | 4.7 |
| 11 | 4.3 |
| 12 | 3.9 |
| 13 | 3.5 |
| 14 | 3.2 |
| 15 | 2.9 |
| 16 | 2.6 |
| 17 | 2.3 |
| 18 | 2.0 |
| 19 | 1.9 |
| 20 | 1.8 |
| 21 | 1.7 |
| 22 | 1.6 |
| 23 | 1.5 |
| 24 | 1.5 |

(Adopted 7/1/2008)

## 7. Future Salaries

The total annual rates of salary increase include an assumed 4.5% per annum ultimate rate of increase in the wage growth plus increases due to promotions and longevity. The 4.5% general wage increase assumption is based on an assumption that the Consumer Price Index will increase at a rate of 3.5% per year and there will be Real Wage Growth of 1.0% per year (adopted 7/1/2004).

| | General Members | | | University* Members | | |
|---|---|---|---|---|---|---|
| Years of Service | Individual Promotion & Longevity | General Wage Increase | Total Salary Increase | Individual Promotion & 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 |

** 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.*

(General Member promotion and longevity rates adopted 7/1/2002; University Member promotion and longevity rates adopted 7/1/2002.)

## 8. Growth in Membership

No growth in the membership of the System is assumed. The combined effects of replacements of members and general increases in salaries are assumed to produce an average 4.5% annual expansion in the payroll of covered members (adopted 7/1/2004).

## 9. Actuarial Cost Method

The entry age actuarial cost method has been used since before Milliman became the retained actuary in 1992. We have no record of a different cost method ever being used. The unfunded actuarial accrued liability created by this method, including gains and losses, is amortized as a level percentage of the System's projected payroll. The amortization payment is set so the total contribution rate will be unchanged, provided that rate allows the unfunded actuarial accrued liability to be completely funded over an acceptable period.

## 10. Postretirement Increases

On January 1 of each year, the retirement allowance payable is increased by 1.50% if the retiree has received benefits for at least 36 months prior to that date.

## 11. Effective Dates

All assumptions and procedures were initially adopted for the actuarial valuation as of July 1, 2008, except as noted.

## 12. Date of Last Study

The last study of the System's active member experience reflected in this report was performed in 2008. It analyzed the experience for the six-year period from 2001-2007. The System is currently discussing changing from a six-year experience study cycle to a four-year cycle in 2010. We are recommending that in connection with this change the System starts studying all assumptions at the same time once every four years starting in 2010. The next experience study after that would be in 2014.

A study of the System's retired and disabled mortality experience was performed in 2006. It analyzed the experience for the six-year period from 1999-2005. It will be updated in 2010.

A study of the System's economic experience was performed in 2004. The next study of the System's economic experience is scheduled for 2010.

## 13. Interest on Member Contributions

Interest on member contributions is assumed to accrue at an annual rate of 5.0% compounded annually (adopted 7/1/2004).

## 14. Price Inflation

3.50% per annum, compounded annually (adopted 7/1/2004).

## 15. Recent Changes

The following details recent changes in:

**The Nature of the Plan**
There have been no changes in the nature of the plan since the prior valuation.

**Actuarial Assumptions**
For the July 1, 2008 valuation, retirement, disablement and termination of employment assumptions have been updated to reflect the Retirement Board's actions at the May 8, 2008 Retirement Board Meeting. These actions reflect the recommended changes in the 2001-2007 Investigation of Active Member Demographic Experience report.

**Actuarial Method**
There have been no changes in the actuarial method since the prior valuation.

**Retained Actuary**
There has been no change in the retained actuary or actuarial firm employed to perform actuarial valuations since the prior valuation.

## EXHIBIT 2

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

**Full-Time Members**

| Valuation Date | Number | Annual Payroll | Average Annual Pay | Annualized % of Increase in Average Pay |
|---|---|---|---|---|
| July 1, 2000 | 13,289 | $ 477,160,000 | $ 35,906 | 5.9% |
| July 1, 2002 | 12,796 | 486,204,000 | 37,997 | 5.8 |
| July 1, 2004 | 12,601 | 510,808,000 | 40,537 | 6.7 |
| July 1, 2005 | 12,523 | 523,909,000 | 41,836 | 3.2 |
| July 1, 2006 | 12,715 | 549,268,000 | 43,198 | 3.3 |
| July 1, 2007 | 12,634 | 568,351,000 | 44,986 | 4.1 |
| July 1, 2008 | 12,694 | 592,514,000 | 46,677 | 3.8 |

**Part-Time Members***

| Valuation Date | Number | Annual Payroll | Average Annual Pay | Annualized % of Increase in Average Pay |
|---|---|---|---|---|
| July 1, 2000 | 4,245 | $ 42,000,000 | $ 9,894 | N/A |
| July 1, 2002 | 4,650 | 52,700,000 | 11,333 | 14.5% |
| July 1, 2004 | 5,013 | 60,300,000 | 12,029 | 6.1 |
| July 1, 2005 | 5,019 | 62,000,000 | 12,353 | 2.7 |
| July 1, 2006 | 4,840 | 57,700,000 | 11,921 | -3.5 |
| July 1, 2007 | 4,994 | 61,100,000 | 12,235 | 2.6 |
| July 1, 2008 | 5,077 | 64,900,000 | 12,783 | 4.5 |

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

EXHIBIT 3

## SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS*

| | Added to Rolls | | Removed from Rolls | | Rolls end of year | | | |
|---|---|---|---|---|---|---|---|---|
| Year Ended | No. | Annual Allowances | No. | Annual Allowances | No. | Annual Allowances | % Increase in Annual Allowances | Average Annual Allowances |
| June 30, 2000 | N/A | $ N/A | N/A | $ N/A | 9,021 | $ 117,227,000 | 18.4% | $ 12,995 |
| June 30, 2002 | N/A | N/A | N/A | N/A | 9,768 | 139,131,000 | 18.7 | 14,244 |
| June 30, 2004 | 1,232 | N/A | 625 | N/A | 10,375 | 159,776,000 | 14.8 | 15,400 |
| June 30, 2005 | 613 | N/A | 324 | N/A | 10,664 | 170,129,000 | 6.5 | 15,954 |
| June 30, 2006 | 617 | 12,898,000 | 262 | 1,913,000 | 11,019 | 181,114,000 | 6.5 | 16,436 |
| June 30, 2007 | 668 | 16,737,000 | 331 | 2,614,000 | 11,356 | 195,237,000 | 7.8 | 17,192 |
| June 30, 2008 | 762 | 17,688,000 | 330 | 3,940,000 | 11,788 | 208,985,000 | 7.0 | 17,729 |

- *Information provided where available.*

**EXHIBIT 4**

## SOLVENCY TEST

(All dollar amounts in millions)

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liabilities for (A) Active Member Contributions | (B) Retirees and Beneficiaries | (C) Active Members (Employer Financed Portion) | Portion of Actuarial Accrued Liabilities Covered by Assets (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 |
| July 1, 2007 | 3,006.2 | 804.5 | 2,171.1 | 952.9 | 100.0 | 100.0 | 3.2 |
| July 1, 2008 | 3,159.1 | 823.6 | 2,313.0 | 974.2 | 100.0 | 100.0 | 2.3 |

*(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.*

## EXHIBIT 5

### ANALYSIS OF FINANCIAL EXPERIENCE

An analysis of financial experience is performed in conjunction with all regularly scheduled valuations. The results of our analysis of the financial experience of the System in the two most recent regular actuarial valuations are presented in this Exhibit 5. Each gain or loss shown represents our estimate of how much the given type of experience caused the UAAL or Funding Reserve to change in the period since the previous actuarial valuation. Gains and losses shown due to demographic sources are approximate. Demographic experience is analyzed in greater detail in our periodic assumption studies. Non-recurring gains and losses result from changes in the actuarial assumptions and benefit improvements.

**ANALYSIS OF FINANCIAL EXPERIENCE**
(All dollar amounts in millions)

| | UAAL (Gain)/Loss* | | |
|---|---|---|---|
| | 2007 - 2008 | 2006 - 2007 | 2005 - 2006 |
| **Investment Income.** Investment income was (greater) less than expected. Based on actuarial value of assets. | $ 17.0 | ($ 67.7) | ($ 17.9) |
| **Pay Increases.** Pay increases were (less) greater than expected. | 4.8 | 2.5 | (1.3) |
| **Age & Service Retirements.** Members retired at (older) younger ages or with (less) greater final average pay than expected. | (1.0) | (0.9) | (4.1) |
| **Disability Retirements.** Disability claims were (less) greater than expected. | 0.2 | 0.2 | 0.3 |
| **Death-in-Service Benefits.** Survivor claims were (less) greater than expected. | 0.3 | (1.0) | (0.2) |
| **Withdrawal From Employment.** (More) less reserves were released by withdrawals than expected. | 1.7 | 7.2 | 6.5 |
| **Death After Retirement.** Retirees (died younger) lived longer than expected. | (6.3) | 0.5 | (6.2) |
| **Other.** Miscellaneous (gains) and losses. | 2.5 | (1.6) | 17.6 |
| **Total (Gain) or Loss During Period From Financial Experience.** | $ 19.2 | $ (60.8) | $ (5.3) |
| **Non-Recurring Items.** | | | |
| Changes in actuarial assumptions caused a (gain) loss. | (10.6) | 0.0 | 24.0 |
| Changes in benefits caused a (gain) loss. | 0.0 | 0.0 | 0.0 |
| **Composite (Gain) Loss During Period.** | $ 8.6 | $ (60.8) | $ 18.7 |

* *Effects related to gains are shown in parentheses. Numerical results are expressed as a (decrease) increase in the UAAL. Gains decrease the UAAL and losses increase the UAAL.*

**EXHIBIT 6**

## PROVISIONS OF GOVERNING LAW

| | |
|---|---|
| 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.<br>Employer: 9.58% of compensation, 9.96% starting July 1, 2009.<br><br>MCA 19-20-604 specifies that the employer contribution rate will be reduced by 0.11% when the amortization period of the System's UAAL 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 2.0% 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 has received benefits for at least 36 months prior to January 1 of the year in which the adjustment is to be made. |

# STATISTICAL SECTION

**SCHEDULE OF CHANGES IN NET ASSETS**

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS**

**SCHEDULE OF MEMBERSHIP**

**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT**

**SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS**

**LOCATION OF BENEFIT RECIPIENTS**

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

### Schedule of Changes in Net Assets
*(In thousands)*

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Additions: | | | | | | | | | | |
| Member Contributions | $ 42,642 | 45,599 | 48,278 | 47,872 | 50,221 | 51,383 | 52,900 | 53,293 | 56,509 | 59,552 |
| Employer Contributions | 44,987 | 47,848 | 50,990 | 51,519 | 53,277 | 55,774 | 57,150 | 58,269 | 61,944 | 67,922 |
| Other Contributions | 103 | 674 | 611 | 762 | 754 | 770 | 656 | 100,693 | 50,720 | 13,492 |
| Misc Income | 20 | 22 | 6 | | 4 | | | 4 | 16 | 16 |
| Net Investment Income | 240,321 | 175,235 | (119,050) | (159,585) | 126,246 | 281,793 | 188,734 | 224,787 | 484,532 | (153,312) |
| Total Additions | $ 328,073 | 269,378 | (19,165) | (59,432) | 230,502 | 389,720 | 299,440 | 437,046 | 653,721 | (12,330) |
| Deductions: | | | | | | | | | | |
| Benefit Payments: | $ 100,028 | 109,231 | 118,842 | 130,006 | 140,229 | 150,271 | 161,247 | 171,957 | 182,827 | |
| Retirees | | | | | | | | | | 189,441 |
| Beneficiaries | | | | | | | | | | 3,898 |
| Disabilities | | | | | | | | | | 2,721 |
| Withdrawals | 5,126 | 5,271 | 5,370 | 6,472 | 6,468 | 5,843 | 4,340 | 4,876 | 5,595 | 5,695 |
| Administrative Expenses | 1,361 | 1,294 | 1,716 | 1,607 | 1,861 | 1,507 | 1,561 | 1,579 | 1,434 | 1,751 |
| Other | | | | | | 890 | | | 502 | 47 |
| Total Deductions | $ 106,515 | 115,796 | 125,928 | 138,085 | 148,558 | 158,511 | 167,148 | 178,412 | 190,358 | 203,553 |
| Change in Net Assets | $ 221,558 | 153,582 | (145,093) | (197,517) | 81,944 | 231,209 | 132,292 | 258,634 | 463,363 | (215,883) |

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

### Schedule of Average Benefit Payments
**Ten Years Ended June 30, 2008**

| Fiscal Year of Retirement | | | Years of Credited Service | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30+ |
| 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 |
| 2007 | Average Monthly Benefit | $ | 296 | 585 | 821 | 1,393 | 2,009 | 2,714 |
| | Average Final Average Salary | $ | 2,598 | 3,283 | 3,318 | 3,982 | 4,727 | 5,041 |
| | Number of Retirees | | 42 | 42 | 46 | 74 | 135 | 193 |
| 2008 | Average Monthly Benefit | $ | 332 | 480 | 908 | 1,515 | 1,974 | 2,728 |
| | Average Final Average Salary | $ | 2,876 | 2,694 | 3,594 | 4,282 | 4,656 | 5,022 |
| | Number of Retirees | | 38 | 51 | 53 | 61 | 147 | 220 |

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

### Schedule of Membership

### Active and Inactive Members

| Period Ended | Active Members | Inactive Vested Members | Inactive Non-vested | Total |
|---|---|---|---|---|
| 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 |
| June 30, 2007 | 18,188 | 1,660 | 8,856 | 28,704 |
| June 30, 2008 | 18,292 | 1,649 | 9,574 | 29,515 |

### Retired Members and Benefit Recipients

| Period Ended | Retirement | Survivors | Disability | Total |
|---|---|---|---|---|
| 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 |
| June 30, 2007 | 10,242 | 424 | 305 | 10,971 |
| June 30, 2008 | 11,043 | 438 | 307 | 11,788 |

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

### Schedule of Retired Members by Type of Benefit

| Monthly Benefit Amount | Retired Members | Type of Benefit 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| $ 1 - 500 | 1,956 | 892 | 694 | 40 | 234 | 54 | 42 |
| 501 - 1,000 | 1,967 | 1,244 | 451 | 11 | 115 | 98 | 48 |
| 1,001 - 1,500 | 2,434 | 2,106 | 221 | 4 | 45 | 46 | 12 |
| 1,501 - 2,000 | 2,447 | 2,380 | 30 | 1 | 28 | 6 | 2 |
| 2,001 - 2,500 | 1,618 | 1,598 | 7 | 0 | 11 | 1 | 1 |
| 2,501 - 3,000 | 732 | 723 | 4 | 0 | 5 | 0 | 0 |
| 3,001 - 3,500 | 318 | 317 | 1 | 0 | 0 | 0 | 0 |
| 3,501 - 4,000 | 160 | 158 | 0 | 0 | 2 | 0 | 0 |
| 4,001 - 4,500 | 69 | 69 | 0 | 0 | 0 | 0 | 0 |
| 4,501 - 5,000 | 44 | 44 | 0 | 0 | 0 | 0 | 0 |
| over 5,000 | 43 | 42 | 0 | 0 | 1 | 0 | 0 |
| Totals | 11,788 | 9,573 | 1,408 | 56 | 441 | 205 | 105 |

| Type of Benefit | |
|---|---|
| 1 | Regular Retirement |
| 2 | Early Retirement |
| 3 | Beneficiary, Regular or Early |
| 4 | Beneficiary, Death |
| 5 | Disability, Retiree |
| 6 | Disability, Beneficiary |

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

### Schedule of Principal Participating Employers

| Employer | Covered Employees | Percentage of Total Covered Employees |
|---|---|---|
| Billings Public Schools | 1,571 | 8.6% |
| Great Falls Public Schools | 1,357 | 7.4% |
| Missoula Co Public Schools | 947 | 5.2% |
| Helena Public Schools | 848 | 4.6% |
| Bozeman Public Schools | 588 | 3.2% |
| Kalispell Public Schools | 512 | 2.8% |
| Butte Public Schools | 385 | 2.1% |
| Montana State University | 311 | 1.7% |
| Columbia Falls Public Schools | 293 | 1.6% |
| Belgrade Public Schools | 291 | 1.6% |
| Browning Public Schools | 281 | 1.5% |
| University of Montana | 270 | 1.5% |
| Hardin Public Schools | 256 | 1.4% |
| Havre Public Schools | 235 | 1.3% |
| Hamilton Public Schools | 226 | 1.2% |

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

### Location of Benefit Recipients as of June 30, 2008

| | | | | | |
|---|---|---|---|---|---|
| Alabama | 5 | Michigan | 20 | Texas | 80 |
| Alaska | 39 | Minnesota | 77 | Utah | 58 |
| Arizona | 252 | Mississippi | 5 | Vermont | 5 |
| Arkansas | 10 | Missouri | 26 | Virginia | 21 |
| California | 146 | Montana | 8,860 | Washington | 419 |
| Colorado | 104 | Nebraska | 22 | West Virginia | 3 |
| Connecticut | 6 | Nevada | 112 | Wisconsin | 27 |
| Florida | 52 | New Hampshire | 4 | Wyoming | 109 |
| Georgia | 11 | New Jersey | 4 | District of Columbia | 1 |
| Hawaii | 9 | New Mexico | 31 | APO | 3 |
| Idaho | 144 | New York | 17 | Australia | 4 |
| Illinois | 17 | North Carolina | 32 | Canada | 15 |
| Indiana | 7 | North Dakota | 94 | Egypt | 1 |
| Iowa | 15 | Ohio | 10 | England | 1 |
| Kansas | 17 | Oklahoma | 19 | Germany | 1 |
| Kentucky | 5 | Oregon | 162 | Mexico | 1 |
| Louisiana | 6 | Pennsylvania | 12 | New Zealand | 2 |
| Maine | 4 | South Carolina | 8 | | |
| Maryland | 8 | South Dakota | 47 | | |
| Massachusetts | 5 | Tennessee | 11 | TOTAL* | 11,186 |

*602 recipients receive two benefits