MONTANA

Teachers' Retirement System

A Component Unit of the State of Montana

TRS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2009

Brian Schweitzer, Governor

MONTANA

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A Component Unit of the State of Montana

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FISCAL YEAR ENDED JUNE 30, 2009

David L. Senn
Executive Director

Tammy Rau
Deputy Executive Director

Prepared by:
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http://www.trs.mt.gov

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

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INTRODUCTORY SECTION

TEACHERS' RETIREMENT SYSTEM

BRIAN SCHWEITZER, GOVERNOR

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STATE OF MONTANA

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HELENA, MONTANA 59620-0139

1-866-600-4045
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December 1, 2009

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, 2009. 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. Because the cost on internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The TRS was established by state law in 1937 and has completed its 72st year of operation. The TRS is providing services to approximately 18,450 active members and managing assets valued in excess of $2.3 billion.

PLAN QUALIFICATION CERTIFICATION

The TRS submitted a determination letter request to the Internal Revenue Service (IRS) on September 29, 2008, 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 2001-2009. 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 decreased from 79.6% at July 1, 2008 to 66.2% at July 1, 2009. The July 1, 2009 Actuarial Valuation shows that the current rates are not sufficient to pay the System's normal cost and to amortize the System's Unfunded Actuarial Accrued Liability (UAAL) over 30 years, based on the current funding methods and long term actuarial assumptions. The normal cost of 10.69% of pay for the year beginning on July 1, 2009 is funded by employer and employee contributions. The remaining contribution, 6.42%, funds the amortization of the UAAL. However, the 6.42% is not sufficient to amortize the UAAL. The System's UAAL funded by TRS contributions as of July 1, 2009 is $1,411.6 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.

ANNUAL REQUIRED CONTRIBUTION

The Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans, guidelines specify a 30-year maximum for the amortization of the Unfunded Actuarial Accrued Liability in order for the System to be considered actuarially sound. The System has operated on an actuarially sound basis in the past (see exhibit 8); however, in order for the System to continue to operate in an actuarial sound manner, contributions at least equal to the Annual Required Contribution (ARC) must be contributed in future fiscal years. The ARC rate is the contribution rate determined by the Actuary, that if contributed each year, would be needed to fund benefits accrued in the current period (the normal cost) plus the amount needed to amortize the system's Unfunded Actuarially Accrued Liability over 30 years.

The table below demonstrates the ARC as recommended by the actuary in the July 1, 2009 valuation report and the current statutory contribution. It also shows the amount of annual additional contributions that will be necessary to maintain the System in an actuarial sound manner assuming salary increases meet the actuarial assumption of 4.5% annually.

Schedule of Annual Required Contribution (ARC)

Valuation Date	Fiscal Year Ended for ARC is Payable	ARC	Current Contribution Rate	Expected Shortfall
July 1, 2008	June 30, 2010	10.13%	9.96%	$1,200,000
July 1, 2008	June 30, 2011	10.13%	9.96%	$1,300,000
July 1, 2009	June 30, 2012	14.07%	9.96%	$32,100,000

LEGISLATIVE HIGHLIGHTS

The Montana State Legislature during the 2009 session passed three House Bills that will provide for additional funding, reduce liabilities, limit practices that increase unfunded liabilities, and allow for some administrative changes to TRS laws. HB 363 allows a TRS retired member with 30 or more years of service to be reemployed as a teacher, specialist, or administrator on a full time basis by a school district without the loss or interruption of their TRS retirement benefits. A retired member hired under this provision is exempt from the TRS one-third earning's and part-time employment limits. Under HB 34 a retired member returning to a full-time position after July 1, 2009, (accept as provided in HB 363) will have their benefits suspended until they terminate and retire again at which time a second benefit will be calculated. Effective July 2013, employers reemploying retired members in a part-time TRS position paying less than one third of the retiree's average final compensation will be required to contribute the full employer contribution rate on all the wages paid to the working retiree. HB 59 was a housekeeping, general revision bill, making administrative changes to the TRS laws. Many of the amendments were necessary to comply with the Pension Protection Act (PPA) of 2006 and/or are required to comply with the Internal Revenue Service's regulations governing qualified plans.

WEB ENHANCEMENTS

The TRS completed and placed into production two significant IT projects to enhance TRS's Pension+ software system. Retired members are now able to review their benefit information, working retiree earning limits, current deductions and payments, and payment history via view-only web reports. Some view-only web reports were also developed for use by active, terminated-vested, non-vested and members with dormant accounts. Also programming changes and additions were completed to comply with new legislative requirements enacted during the 2009 Legislative session.

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 negative total return of (20.67%), 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 .98% and 1.89% 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 2009	3-Year	5-Year	10-Year
Fixed Income	2.53%	5.07%	4.71%	6.44%
Domestic Equities	(27.24)%	(8.81)%	(2.74)%	N/A
International Equities	(35.17)%	(8.14)%	2.20%	1.96%
Private Equities	(25.09)%	0.95%	7.50%	N/A
Real Estate	(27.84)%	(6.67)%	N/A	N/A
STIP	2.08%	4.04%	3.74%	3.68%
Total Portfolio	(20.67)%	(3.81)%	0.98%	1.89%

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, 2008. This was the third 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 2009 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 the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the 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 2009.

The LAD issued an unqualified opinion on the TRS financial statements for fiscal year 2009.

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,

/S/

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, 2008

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2009

Presented to

Montana Teachers' Retirement System

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

Alan H. Winkle
Program Administrator

TEACHERS' RETIREMENT SYSTEM
BOARD OF DIRECTORS AND
PROFESSIONAL CONSULTANTS

BOARD OF DIRECTORS

	Term Expires
KARI PEIFFER CHAIR Active Member (Classroom Teacher)	JUNE 30, 2012
DARRELL LAYMAN VICE CHAIR Retired Member	JUNE 30, 2011
SCOTT DUBBS Active Member	JUNE 30, 2013
JAMES TURCOTTE Public Representative	JUNE 30, 2010
JEFF GREENFIELD Active Member	JUNE 30, 2011
ROBERT PANCICH Public Representative	JUNE 30, 2014

PROFESSIONAL CONSULTANTS

CAVANAUGH MACDONALD CONSULTING LLC	3550 Busbee Pky Ste 250 Kennesaw GA 30144
ICEMILLER	Legal & Business Advisors Indianapolis, IN 46282
ALFRED MUNKSGARD	IT Consultant Thousand Oaks, CA 91362

Teachers' Retirement System

11/06/2009

Administrative Services

David L. Senn	Executive Director	dsenn@mt.gov	406-444-3376
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Denise Pizzini	Attorney	dpizzini2@mt.gov	406-444-9388
Charlene Welch	Executive Secretary	cwelch@mt.gov	406-444-3754
Vacant	Administrative Support		406-444-3999

Accounting Services

Dan Gaughan	Accounting/Fiscal Manager	dgaughan@mt.gov	406-444-3679
Jean Boucher	Accountant	jboucher@mt.gov	406-444-3323
Donna Bertram	Accounting Technician	dbertram@mt.gov	406-444-2540

Active Member Services

Janet Cooper	Benefit Officer	jcooper@mt.gov	406-444-3324
Johnelle Sedlock	Benefit Officer	jsedlock@mt.gov	406-444-4113
Sandy Donahue	Benefit Specialist	sadonahue@mt.gov	406-444-2465

Retired Member Services

Karla Scharf	Retired Benefit Manager	kscharf@mt.gov	406-444-3135
Natalie Chamberlain	Retired Benefit Specialist	nchamberlain@mt.gov	406-444-3185
Jenny Stark	Retired Benefit Technician	jstark@mt.gov	406-444-2441

Information Services

Bill Hallinan	Info. Systems Manager	bhallinan@mt.gov	406-444-3395
Rex Merrick	Info. Systems Analyst	rmerrick@mt.gov	406-444-9293
Kim Lloyd	Quality Control Technician	klloyd@mt.gov	406-444-1886

FINANCIAL SECTION

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, a component unit of the state of Montana, as of June 30, 2009 and June 30, 2008, and the related Statement of Changes in Fiduciary Net Assets for each of the fiscal years then ended. The information contained in these financial statements is 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, 2009, and 2008, and its changes in fiduciary net assets for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Teachers' Retirement System. The Supporting Schedule of Administrative Expenses and Schedule of

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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.

At July 1, 2009, the Teachers' Retirement System was not actuarially sound. The amortization period for the Unfunded Actuarially Accrued Liability is infinite. The maximum allowable amortization period is 30 years.

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.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2009

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, 2009, with comparative totals for the fiscal years ended June 30, 2008 and 2007. 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

- Beginning July 1, 2009, the employer contribution rate increases from 9.47% to 9.85%.
- The TRS plan net assets decreased by another $691.8 million for 2009 following a decrease of $215.9 million in 2008, representing a 23.1% and 6.7% decrease respectively.
- Net investment income (fair value of investments plus investment income less investment expense) decreased in 2009 by $299.9 million and in 2008 by $131.6 million representative of the continued negative volatility of the stock market.
- Pension benefits paid to beneficiaries and plan members increased 7.0% and 7.3% for the last two fiscal years respectively.

Condensed Financial Information (in millions)

Fiduciary Net Assets	FY2009	FY2008	FY2007	2009 Percent Inc/(Dec)	2008 Percent Inc/(Dec)
Cash/Short-term Investments	$ 25.5	$ 31.8	$ 88.4	(19.8)	(64.0)
Receivables	22.6	29.5	21.5	(23.4)	37.2
Investments (fair value)	2,463.9	3,113.1	3,256.3	(20.9)	(4.4)
Capital Assets (net)	0.3	0.3	0.3	0	0
Total Assets	2,512.2	3,174.7	3,366.6	(20.9)	(5.7)
Liabilities	210.6	181.3	157.3	16.2	15.3
Net Assets	**$2,301.6**	**$2,993.4**	**$3,209.3**	**(23.1)**	**(6.7)**

Changes in Fiduciary Net Assets

	FY2009	FY2008	FY2007	2009 Percent Inc/(Dec)	2008 Percent Inc/(Dec)
Additions:					
Employer Contributions	$ 66.9	$ 67.9	$ 61.9	(1.5)	9.7
Plan Member Contributions	57.3	59.6	56.5	(3.9)	5.5
Other Contributions	14.1	13.5	0.7	4.4	1,828.6
Payment from State of Montana	0	0	50.0	0	(100.0)
Net Investment Income	(613.0)	(153.3)	484.5	(299.9)	(131.6)
Total Additions	(474.8)	(12.3)	653.7	(3,760.2)	(101.9)
Deductions:					
Benefit Payments	209.9	196.1	182.8	7.0	7.3
Withdrawals	5.2	5.7	5.6	(8.8)	1.8
Administrative Expenses	1.9	1.8	1.4	5.6	28.6
Loss on Intangible Asset	0	0	0.5	0	(100.0)
Total Deductions	217.0	203.6	190.4	6.6	6.9
Net Inc/(Dec) in Net Assets	**$ (691.8)**	**(215.9)**	**$ 463.4**	**(220.4)**	**(146.6)**

Financial Analysis

- The decrease from year-to-year in cash/short-term investments is due mostly to the change in the number of shares held, a per share value of $1, in the Short Term Investment Pool.
- The decrease in receivables for 2009 represents a $2.4 million less in investment interest receivable and $4.5 million less in contributions due at fiscal year end. 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 in investments for 2009 and 2008 respectively is due primarily to the decline in the fair market value of our investment holdings.
- 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 2009 primarily reflects the continued decline in the fair value of investments of $435.5 million. The decrease in 2008 was due to a $590.7 million drop in the fair value of investments and $40.8 million less in investment earnings.
- 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 20.8% net of investment and operating expenses. The actuarial assets earned a negative 10.3% which is 18.0% 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)
7/1/2003 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)%
7/1/2008 to 6/30/2009	(20.8)%	(10.3)%	(18.0)%

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. The 2007 Legislature increased funding contributions as noted below.

Contributions as a Percent of Pay

	Members	Employer Rate	State Contribution	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 - June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 and after	7.15%	9.85%	0.11%	17.11%

The State's General Fund picked up the increase in the employer rate of 2% effective July 1, 2007 and 2.38% effective July 1, 2009 in lieu of the contributions being paid by the school district and community college employers.

The July 1, 2008 actuarial valuation calculated a 31.3 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 a year to 30.3 at July 1, 2009. The experience gains and losses (primarily asset losses) from the year ending June 30, 2009, increased the amortization period. The resulting amortization period at July 1, 2009, is infinite. The net funded ratio is currently 66.18%.

Section 19-20-201, MCA, requires the actuarial report to show how market performance is affecting the actuarial funding of the Retirement System. The July 1, 2009 market value of assets is $460.4 million less than the actuarial value of assets due to a negative 20.8% market return in the year ended June 30, 2009. If the market value of assets was used, the amortization period would be infinite, and the net Funded Ratio would be 55.15%. Based on market assets, a contribution increase of 7.54% of pay (17.11% to 24.65%) for the fiscal year ending June 30, 2012, is projected to maintain an amortization of the unfunded actuarial accrued liability over a 30 year period.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Cash/Cash Equivalents-Short Term		
Investment Pool (Note B)	$ 25,485,799	$ 31,811,457
Receivables:		
Accounts Receivable	14,319,630	18,946,006
Interest Receivable	4,840,668	7,292,299
Due from Primary Government	3,405,139	3,241,381
Total Receivables	$ 22,565,437	$ 29,479,686
Investments, at fair value (Note B):		
Mortgages	$ 20,491,720	$ 27,120,606
Investment Pools	2,222,769,923	2,893,544,962
Other Investments	10,511,607	11,426,652
Securities Lending Collateral (Note B)	210,084,770	180,987,059
Total Investments	$ 2,463,858,020	$ 3,113,079,279
Assets Used in Plan Operations:		
Land and Buildings	$ 193,844	$ 193,844
Less: Accumulated Depreciation	(147,409)	(143,645)
Equipment	63,662	63,662
Less: Accumulated Depreciation	(53,076)	(48,999)
Prepaid Expense	0	647
Intangible Assets, net of amortization	215,843	252,351
Total Other Assets	$ 272,864	$ 317,860
TOTAL ASSETS	$ 2,512,182,120	$ 3,174,688,282
LIABILITIES		
Accounts Payable	$ 186,799	$ 88,004
Due to Primary Government	16,891	14,434
Accountability for Advances	3,841	0
Securities Lending Liability (Note B)	210,084,770	180,987,059
Compensated Absences (Note B)	174,174	158,675
OPEB Implicit Rate Subsidy	96,974	47,478
TOTAL LIABILITIES	$ 210,563,449	$ 181,295,650
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 2,301,618,671	$ 2,993,392,632

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, 2009 AND 2008

	2009	2008
ADDITIONS		
Contributions:		
Employer	$ 66,850,644	$ 67,921,950
Plan Member	57,256,365	59,552,619
Other	14,147,324	13,492,375
Total Contributions	$ 138,254,333	$ 140,966,944
Misc Income	$ 15,421	$ 15,654
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	$ (671,926,498)	$ (236,359,446)
Investment Earnings	70,040,815	96,731,693
Security Lending Income (Note B)	4,318,004	9,544,163
Investment Income/(Loss)	$ (597,567,679)	$ (130,083,590)
Less: Investment Expense	13,562,768	15,425,847
Less: Security Lending Expense (Note B)	1,897,208	7,802,791
Net Investment Income/(Loss)	$ (613,027,655)	$ (153,312,228)
Total Additions	$ (474,757,901)	$ (12,329,630)
DEDUCTIONS		
Benefit Payments	$ 209,942,663	$ 196,060,216
Withdrawals	5,170,028	5,694,601
Administrative Expense	1,853,873	1,750,765
OPEB Expenses	49,496	47,478
Total Deductions	$ 217,016,060	$ 203,553,060
NET INCREASE (DECREASE) IN PLAN NET ASSETS	$ (691,773,961)	$ (215,882,690)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	2,993,392,632	3,209,275,322
END OF YEAR	$ 2,301,618,671	$ 2,993,392,632

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

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009, the number and type of reporting entities participating in the system were as follows:

Local School Districts	349
Community Colleges	3
University System Units	2
State Agencies	8
Total	362

At July 1, 2009, the date of the most recent actuarial valuation system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	12,036
Terminated Employees:	
Vested	1,640
Non-vested	9,868
Current Active Members:	
Vested	11,876
Non-vested	6,580
Total Membership	42,000

The pension plan provides retirement, 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 pursuant to statutory requirements 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, 2009 and June 30, 2008.

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. Investments administered by the BOI for the TRS are subject to their investment risk policies. 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, 2009

Investment	Book Value	Fair Value
STIP	$ 25,893,766	$ 25,893,766
RFBP	683,779,834	662,541,761
MDEP	529,924,277	814,890,157
MTIP	328,858,701	376,245,403
MPEP	233,113,970	258,450,838
MTRP	149,634,000	110,641,764
Mortgages	20,824,266	20,491,720
Real Estate	8,232,917	8,357,337
Total	$ 1,980,261,731	$ 2,277,512,746

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, 2009, and 2008, 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, 2009, approximately 33% 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 4.08 and 4.63 for the pool at June 30, 2009, and 2008, 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 employer contribution rate for fiscal year 2009 was 9.47% of earned compensation. The State's General Fund contributed 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.

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, 2009, the most recent actuarial valuation date is as follows (dollar amounts in millions):

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
$2,762.2	$4,331.0	$1,411.6	66.2%	$683.2	206.6%

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, 2009
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	Infinite
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, 2009, 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 $401.5 million less than anticipated by the 7.75% assumption for the year ended June 30, 2008 and $843.7 million less than anticipated by the 7.75% assumption for the year ended June 30, 2009. The net result as of July 1, 2009 is that the market value of assets is $460.4 million less than the actuarial value of assets. This $460.4 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, (2) an increase in contribution rates, (3) a reduction in liabilities, or some combination thereof.

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 2009 and 2008 have 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 $182 to $896 for 2009 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 2009 ARC is calculated for all the plan's employers and then allocated to each participating employer. The TRS 2009 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 2009 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 2009, 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 2009 are as follows:

Fiscal Year Ended	Percentage of Annual OPEB Cost	Net Annual OPEB Cost Contributed	OPEB Obligation
6/30/09	0%	$49,496	$96,974

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. Actuarial calculations reflect a long-term perspective. 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.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members), and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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 Universtiy Supplemental Contributions	Unfunded Actuarial Accrued Liabilities (UAAL)(2)	Funded Ratio(3)	Covered Payroll(4)	UAAL as a Percentage of Covered Payroll
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%
July 1, 2009	2,762.2	4,331.0	157.2	1,411.6	66.2%	683.2	206.6%

(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 Ended	Annual Required Contribution	Percentage Contributed
June 30, 2004	$ 55,774	100%
June 30, 2005	57,150	100%
June 30, 2006	158,962	223%
June 30, 2007	112,656	130%
June 30, 2008	81,423	100%
June 30, 2009	80,998	100%

A $50 million one-time contribution made by the State in FYE 2007 and a $100 million one-time contribution made by the State in FYE 2006 are included in the calculation of the percentage of ARC contributed.

Since the System is a Cost Sharing Multiple Employer Plan, there is no Net Pension Obligation (NPO).

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). 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 will not amortize as of July 1, 2009.

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, 2009 AND 2008

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, 2009 and 2008 are outlined below:

	2009	2008
Budgeted Expenses:		
Personnel Services:		
Salaries	$ 777,851	$ 720,003
Other Compensation	3,900	2,750
Employee Benefits	239,816	223,647
Total Budgeted Personal Srvs	$ 1,021,567	$ 946,400
Operating Expenses:		
Contracted Services	$ 423,789	$ 426,746
Supplies & Material	47,488	22,909
Communications	44,231	37,285
Travel	23,556	21,642
Rent	61,139	58,433
Repair & Maintenance	35,390	49,892
Other Expenses	77,505	72,106
Total Budgeted Operating Exp	$ 713,098	$ 689,013
Non-Budgeted Expenses:		
Compensated Absences	$ 15,499	$ 18,787
Depreciation	7,841	20,273
Amortization of Intangible Assets	95,868	76,292
Total Non-Budgeted Expenses	$ 119,208	$ 115,352
Total Administrative Expenses	**$ 1,853,873**	**$ 1,750,765**

SCHEDULE OF PAYMENTS TO CONSULTANTS (included in contracted services above)

	2009	2008
Actuarial Services	$ 104,511	$ 141,616
Personnel Services	4,290	1,095
Legal Services	28,357	24,161
Medical Evaluations	1,450	815
Information Technology Services	80,760	51,360
Total Consultant Payments	**$ 219,368**	**$ 219,047**

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 6/30/09

Over the most recent fiscal year we saw a dramatic decline in economic and capital market conditions. This led to extreme declines in valuations for all types of risk assets held in the investment portfolio, including public and private equity, corporate and other non-government bonds, and real estate. Investment performance for the fiscal year was -20.67% on a total return basis, as compared to -4.89% during fiscal 2008, and 17.94% during fiscal 2007. As a result of the poor year the longer term returns fell to levels that were slightly positive, with annualized returns of 0.98% for five years and 1.89% for ten years. These longer term returns are significantly below the annual actuarial return assumption of 7.75% and act to erode the funded status of the plan.

The origins of the recent financial crisis and economic recession can be traced back to events in the fall of 2007 when a subprime residential mortgage finance problem began to spread. Looking back at this point in time, many of the symptoms of financial excess and risk seem apparent. An overleveraged household and financial sector, lack of transparency into many complex financial instruments, and a sudden lack of confidence in the solvency of many of the world's largest financial institutions led to the market crisis. Many textbooks will be written that recount the events of the past two years and the fundamental causes that led to a credit and liquidity crunch so severe that comparisons evoke references to the 1930's and the Great Depression. A new term has been coined, the "Great Recession," to describe the current economic period and its severity, which in many respects has been worse than any other recession since the Great Depression.

Varying degrees of governmental response to the crisis evolved during 2008. These responses ranged from playing a persuasive role in the rescue of one financial institution by another (e.g., Bear Stearns) to direct involvement in the support of financial entities (e.g., AIG). The Treasury, FDIC, and Federal Reserve were the initial authorities that dealt with the "too big to fail" institutions. A number of market support programs were unveiled, all with initials beginning with "T" – TARP, TALF, and TGLP – which were designed to infuse capital in support of certain financial institutions or markets, and generally bolster confidence in a financial system that appeared to be falling apart. Several of these programs are now winding down or are set to expire shortly. While there may be debate over whether certain programs were necessary, they have been generally effective in restoring confidence and helping the markets recover. Also, the Federal Reserve followed its normal playbook by dramatically cutting the fed funds rate to near zero in December, but then followed that with a quantitative easing policy consisting of purchases of outstanding debt issued by the mortgage agencies and the Treasury. These interventions in the financial sector were followed by a fiscal stimulus plan passed by Congress in early 2009 in response to the recession.

The returns for the major asset classes held in the plan were consistent with general market behavior, meaning they were generally awful. The equity market suffered the worst returns. Public stocks were down -29.8% overall, with domestic stocks off -27.2% and international stocks off -35.2%. Bonds did much better though many of the “spread” sectors which consist of corporate and structured securities suffered due to heightened default concerns and illiquid markets. Our total fixed income exposure posted a 3.2% return which compared poorly to the benchmark given our exposure to higher risk and less liquid securities. The only safe haven in the securities markets were U.S. Treasuries. In the alternative investment category, private equity holdings were down -24.3% and real estate was down -26.1%. These assets returns are lagged one quarter due to the measurement and reporting process for the underlying private assets, so some of the deterioration of values may likely slip into fiscal 2010. Despite significant progress in diversifying the plan’s assets over the past three years these efforts did little to protect the plan from the declines brought on by the financial crisis and economic recession. The common factors driving the poor market returns for all but the safest of assets was a lack of liquidity and a sharp reversal in the risk appetites of investors across the globe.

Asset allocation changes during the fiscal year were largely driven by the performance of the various assets held, and to a lesser extent by the direct transaction activities between asset classes. The weight of domestic and international stocks fell by 3.3% and 2.4% respectively given their large value declines. Stocks still made up the majority of total plan assets at the end of the period, however, with U.S. stocks at 35.8% and international at 16.5%. Additions were made to international stocks during the fiscal year and only minor changes were made to domestic stock holdings in an effort to rebalance. Additional allocations were made to private equity that brought our holdings up to 11.3% of the total plan as we honored contractual funding commitments. The allocation to total equities fell by 4.1% to a level of 63.7% as compared to our approved guidelines of a 60-70% exposure. Pooled real estate holdings were also increased by 0.6% to 4.9% at the end of the period pursuant to prior commitments. The source of funds to purchase the additional exposures noted above were largely drawn from the sale of bonds, though the weight for this asset class actually increased, up 3.4% to 29.1%, due to its positive performance and the decline of total plan assets.

Capital markets have begun to recover this year. Stocks bottomed in early March after suffering a peak to trough decline in returns of 55% for large cap U.S. equities. The rally during the second calendar quarter helped mitigate the fiscal year damage. The bull market has continued with limited setbacks as of this writing in late September, and is now up approximately 57% from the March bottom, though still down 30% from the market peak in October, 2007. The credit market stabilized at the end of December and a recovery began in earnest in the spring after the equity markets bounced. The money markets and longer term bond markets have now seen a dramatic reversal in liquidity and many borrowers that could not issue debt during the credit crunch have since been able to borrow again. Returns on lower quality corporate bonds and structured securities have matched or exceeded historical records this year given a return closer to more normal valuations as compared to their depressed levels at the height of the market crisis.

Recovery of the economy in general remains uncertain at this time. The consensus economic forecast calls for positive GDP growth during the third and fourth calendar quarters of about 3% each quarter. This may bring an official end to the recession that began in December, 2007. Leading economic indicators are clearly flashing green over the past few months, and markets have discounted a stabilization and improvement in corporate earnings. Still, the expected growth is largely credited to fiscal stimulus spending and inventory restocking while the outlook for consumer demand remains dismal. This has raised doubts about the sustainability of the economic rebound, and continuation of the bull markets witnessed over the past few months. The economy faces several headwinds that may result in a slow recovery by historical standards. High unemployment and a loss of wealth combined with a general trend of deleveraging on the part of households will act to suppress consumption spending.

Greater diversification within the fixed income asset class was undertaken over the past year. As noted a year ago, we made a decision to diversify into a broader spectrum of the bond market to include both international and high yield securities. We delayed implementing that decision until the fall of last year at which time we funded an external manager with a “core-plus” mandate that allowed for use of these types of securities. In May of this year we funded an external manager dedicated to the high yield, or below investment grade, segment of the U.S. bond market. An additional core-plus mandate was funded in August 2009 with a manager that we expect will provide some exposure to non-dollar international bonds. At this time the externally-managed component of the retirement fund bond pool represents approximately 21% of the pool, though only a portion of the underlying securities would fall into the high yield and international sectors. These initiatives are expected to add value over time to our fixed income returns as the internally managed portfolio is changed to a more core like structure to increase its quality and liquidity.

No other significant diversification occurred during the last fiscal year. Our consideration to invest in hedge fund-of-funds was tabled as the markets suffered in late 2008. These funds represent a broad category of active trading strategies across many different asset markets and offer an alternative to more traditional investment securities such as stocks and bonds. However during the market crisis that took place during late 2008 and early 2009, these funds suffered in sympathy with other risk assets and provided little benefit versus a diversified mix of traditional assets. Ongoing liquidity, cost, and transparency concerns with this investment category continue to give us pause in pursuing hedge funds at this time.

We have continued to make commitments to private equity funds over the past year. However, we have reduced the dollar amount of such commitments given the liquidity strain in the portfolio during the market crisis and the existing allocation from prior investments. Although the private equity market, especially for corporate buyouts, suffered a major downturn we believe new commitments made at today’s valuations are likely to provide attractive returns. Recent commitments to new funds in the past two years have included an emphasis on distressed debt funds which are finding many attractive opportunities given the depressed economy and general lack of credit availability.

Our other alternative asset class exposure, real estate, suffered markdowns as the economy and the lending markets deteriorated. Real estate continues to face major headwinds of over capacity and weak demand for space. During the past year we did not make any commitments to new real estate funds however we did fund existing obligations. We are now considering new commitments given an expected stabilization of real estate markets over the next couple of years and the opportunities presented by reduced valuations.

In summary, the past fiscal year was a very difficult period for virtually all but the most conservative of investments. Since the spring of this year the public securities markets have begun to heal and have recovered many of the unrealized losses incurred during the worst of the storm. The private asset markets also now appear to be stabilizing. Given these developments there is reason to be more optimistic about the economy and investment returns going forward. Absent any negative surprises, there is a strong likelihood we will enjoy a positive investment return this fiscal year and begin to get back on track towards long term return expectations.

Respectfully Submitted,

/s/

Clifford A. Sheets, CFA
Chief Investment Officer

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*

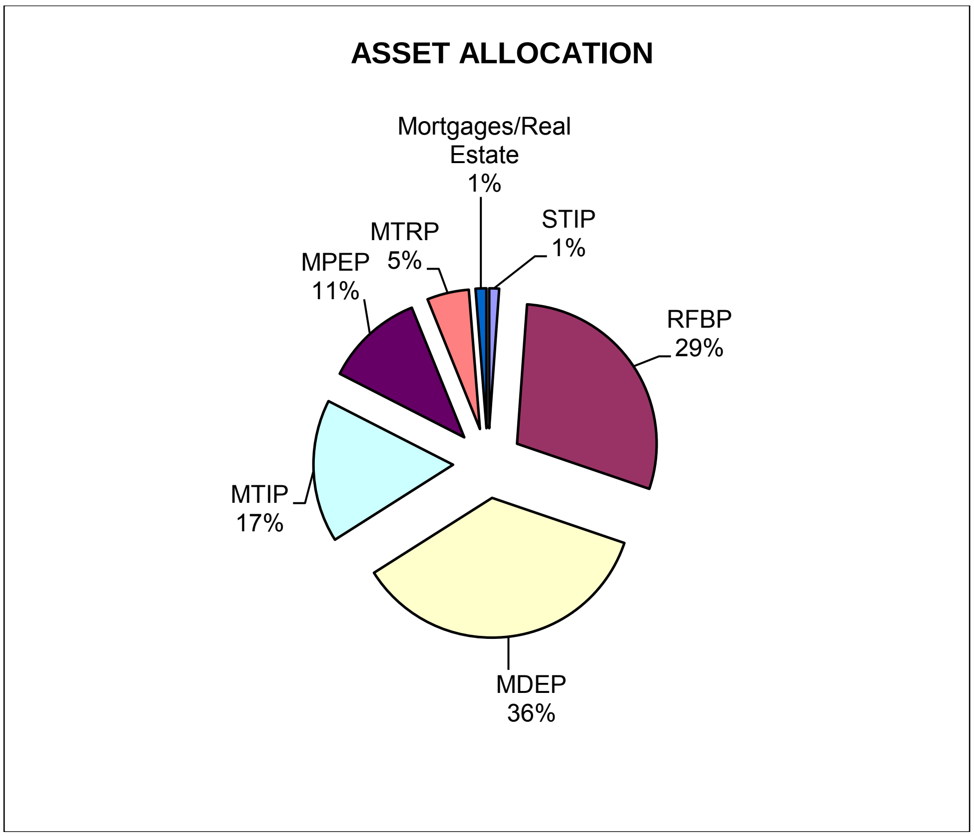
	FY 2009	3-Year	5-Year	10-Year
STIP	2.08%	4.04%	3.74%	3.68%
1 Mo LIBOR Index	1.35%	3.59%	3.55%	3.45%
RFBP	2.53%	5.07%	4.71%	6.44%
LB US Agg Bond Index	6.05%	6.43%	5.01%	5.98%
MDEP	-27.24%	-8.81%	-2.74%	N/A
S&P 1500 Super Comp Index	-26.34%	-8.23%	-1.97%	-1.51%
MTIP	-35.17%	-8.14%	2.20%	1.96%
International Custom Benchmark	-30.61%	-5.84%	3.72%	1.86%
MPEP	-25.09%	0.95%	7.50%	N/A
S&P 1500 +4%	-33.92%	-9.24%	-.56%	1.74%
MTRP	-27.84%	-6.67%	N/A	N/A
NCREIF ODCE Index (net)	-31.26%	-5.01%	3.34%	5.82%
Total Portfolio	-20.67%	-3.81%	0.98%	1.89%

* A time-weighted rate of return

Investment Summary and Asset Allocation

JUNE 30, 2009

Investment	Book Value	Fair Value
STIP	$ 25,893,766	$ 25,893,766
RFBP	683,779,834	662,541,761
MDEP	529,924,277	814,890,157
MTIP	328,858,701	376,245,403
MPEP	233,113,970	258,450,838
MTRP	149,634,000	110,641,764
Mortgages/Real Estate	29,057,183	28,849,057
Total	$ 1,980,261,731	$ 2,277,512,746



Ten Largest Bond Holdings at fair value:

1.	Federal Farm Cr Bks Cons	$	31,463,670
2.	GNMA Pool 697855		24,376,888
3.	United States Treasury Notes		24,120,140
4.	DOT Headquarters II Lease Mortgage		23,632,200
5.	Fed Home Loan PC Pool G03458		23,150,860
6.	Fed Home Loan PC Pool G03037		23,097,384
7.	FNMA Pool 745275		22,786,138
8.	FNMA Pool 725425		22,182,246
9.	Fed Home Loan PC Pool A36931		21,631,733
10.	Federal Home Loan Bank		21,536,434

Ten Largest Public Equity Holdings at fair value:

1.	BGI Equity Index Fund	$	538,484,994
2.	JP Morgan Investments – 248 issues		153,394,659
3.	T Rowe Price – 304 issues		147,209,455
4.	Barrow Hanley Mewhinney – 91 issues		136,409,835
5.	Intech – 434 issues		131,280,908
6.	Artio Global – 299 issues		111,228,699
7.	Batterymarch – 205 issues		111,198,353
8.	Renaissance Investments – 56 issues		103,759,459
9.	BGI MSCI Equity Index Fund Europe		102,239,711
10.	Rainier Investments – 76 issues		99,654,292

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	$ 5,346	$ 3,266	$	$ 8,612
RFBP	208,341	56,538	104,033	368,912
MDEP	257,544	201,500	2,956,083	3,415,127
MTIP	251,989	84,370	1,629,683	1,966,042
MPEP	202,872	28,790	4,516,775	4,748,437
MTRP	195,504	11,821	2,759,913	2,967,238
Mortgages/Real Estate	63,050		25,350	88,400
	$ 1,184,646	$ 386,285	$ 11,991,837	$ 13,562,768

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

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

October 14, 2009

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, 2009. 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. Cavanaugh Macdonald Consulting, LLC. has performed the valuation as of July 1, 2009. All results prior to July 1, 2009 were determined by the prior actuarial firm.

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	Employer Rate	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	9.47	0.11	7.15	16.73
07/01/2009 and after	9.85	0.11	7.15	17.11

The State's General Fund picked up the increases in the employer rate of 2% effective July 1, 2007 and 2.38% effective July 1, 2009 in lieu of the contributions being paid by the school district and community college employers.

The July 1, 2009 actuarial valuation shows that the current employer rate of 9.96% is not sufficient to pay the System's normal cost and to amortize the System's Unfunded Actuarial Accrued Liability (UAAL) within a 30-year period. The normal cost of 10.69% of pay is funded by 3.54% employer and 7.15% by employee contributions. The System's UAAL as of July 1, 2009 is $1,411.6 million. The remaining contribution of 6.42% (9.96%-3.54%) goes towards

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funding the amortization of the UAAL. However, the contribution of 6.42% is not sufficient to amortize UAAL of the Retirement System, therefore the funding period is infinite. A 30-year amortization period is the maximum acceptable amortization period specified in Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB).

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, 2008, the fiscal years 2010 and 2011 employer contribution rate must be increased to 10.13% in order to amortize the Unfunded Actuarial Accrued Liability over 30 years.

The July 1, 2009 valuation determines the employer contribution rate for fiscal year 2012. Since the amortization period is greater than 30 years the employer Annual Required Contribution (ARC) must be increased to 14.07% in order to amortize the UAL over 30 years. If the employer contributions are not increased to these levels, the system will not be funded in an actuarially sound manner.

Schedule of Annual Required Contribution (ARC)

Valuation Date	Fiscal Year Ended for which ARC is Payable	ARC	Current Contribution	Expected Shortfall
July 1, 2008	June 30, 2010	10.13%	9.96%	$1,200,000
July 1, 2008	June 30, 2011	10.13%	9.96%	$1,300,000
July 1, 2009	June 30, 2012	14.07%	9.96%	$32,100,000

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 2009 actuarial valuation are summarized in Exhibit 1. These assumptions were recommended by the prior 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, 2009 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 results may differ significantly from the current results 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. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

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:

Additional Funding

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.”

a) Analysis: The amortization period at July 1, 2009 is infinite based on actuarial assets and 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 66.18%. 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 years using actuarial assets and 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, 2009 of 66.18% is below 85% the Board's Funding and Benefits policy does not currently support enhanced benefits.

Assumption Changes
Active member demographic experience was examined in the prior actuaries experience study dated April 29, 2008. The Retirement Board adopted the recommendations presented in the report. There were no assumption changes since the July 1, 2008 valuation.

The next experience study is currently planned to take place after the July 1, 2009 valuation and be a comprehensive experience study examining all assumptions to be used for the first time in the July 1, 2010 valuation.

Benefit Changes
No benefit changes are reflected in this valuation.

Contribution Changes
The contribution rate changes are documented at the beginning of this summary.

Method Changes
No changes in methods as reflected in this valuation.

The following exhibits provide further information.

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 were also prepared by Cavanaugh Macdonald Consulting, LLC.

I, Edward A. Macdonald, am a member of the American Academy of Actuaries and a Fellow of the Conference of Consulting Actuaries, and an Associate of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

/s/

Edward A. Macdonald, ASA, FCA, MAAA
President

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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.

The current asset valuation method was adopted for the July 1, 2007 valuation.

The current mortality assumptions were adopted for the July 1, 2006 valuation.

Economic assumptions were reviewed in the 2004 Investigation of Experience Study.

The next experience study will be performed after the July 1, 2009 valuation based on the prior valuations of July 1, 2006, July 1, 2007, July 1, 2008 and July 1, 2009. The assumptions adopted by the board based on the experience study will be first utilized in the July 1, 2010 valuation.

Tables A-3 through A-6 give rates of decrement for service retirement, disablement, mortality, and other terminations of employment.

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 UAAL. The UAAL is amortized as a level percentage of the projected salaries of present and future members of the System.

Records and Data

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

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

Employer Contributions
At the time of this valuation, the total employer contribution rate for normal costs and amortization of the UAAL was 9.96% of members' salaries. In accordance with MCA 19-20-604, the employer contribution rate will be reduced by 0.11% when the amortization period of the System's UAAL is 10 years or less according to the System's latest actuarial valuation.

Administrative and Investment Expenses
The administrative and investment expenses of the System are assumed to be funded by investment earnings in excess of 7.75% per year.

Valuation of Assets - Actuarial Basis
The actuarial asset valuation method spreads asset gains and losses over four years. The expected return is determined 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. The actuarial value of assets is not allowed to be greater than 120% or less than 80% of the market assets. (Adopted effective July 1, 2007.)

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

Interest on Member Contributions

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

Postretirement Benefit Increases
On January 1 of each year, the retirement allowance payable must be increased by 1.5% if the retiree has received benefits for at least 36 months prior to January 1 of the year in which the adjustment is to be made.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Future Salaries

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

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

Service Retirement

Table A-3 shows the annual assumed rates of retirement among members eligible for service retirement. Separate rates are used when a member is eligible for reduced benefits, for the first year a member is eligible for full benefits, and for the years following the first year a member is eligible for full benefits. The rates for General Members were adopted July 1, 2008. The rates for University Members were adopted July 1, 2008.

Disablement

The rates of disablement used in this valuation are illustrated in Table A-4. These rates were adopted July 1, 2008.

Mortality

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

Other Terminations of Employment

The rates of assumed future withdrawal from active service for reasons other than death, disability or retirement are shown for representative ages in Table A-6. These rates were adopted July 1, 2008.

Benefits for Terminating Members

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

We estimated the present value of future benefits for terminated vested members based on the greater of the present value of their deferred benefit at age 60 or their available contribution account.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Part-Time Employees

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

Optional Retirement Program

ORP payroll as of June 30, 2009 was $173,082,817.

Effective for fiscal years after June 30, 2007 until June 30, 2033, the Optional Retirement Program contribution rate is 4.72%, pursuant to MCA 19-20-621.

Buybacks, Purchase of Service, and Military Service

The active liabilities and normal cost (excluding liabilities and normal cost in respect of Return of Employee Contributions) were increased to 100.5% of their original value to fund this additional service based on a study of the System's experience for the five calendar years 1995 through 1999. Effective July 1, 2008.

Probability of Marriage

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

Records with no Birth Date

New records with no birth date are assumed to be 25 years old. Records that are not new and have no birth date used the same birth date as the prior year's valuation.

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-1

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

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-2
Future Salaries

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-3
Retirement
Annual Rates

	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.*

Table A-4
Disablement
Annual Rates

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

Table A-5
Mortality
Annual Rates

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

Table A-6
Other Terminations of Employment
Among Members Not Eligible to Retire
Annual Rates

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

Table A-7
Probability of Retaining Membership in the System Upon Vested Termination

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Full-Time Members

Valuation Date	Number	Annual Payroll	Average Annual Payroll	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%
July 1, 2009	12,673	613,077,000	48,377	3.6%

Part-Time Members*

Valuation Date	Number	Annual Payroll	Average Annual Payroll	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%
July 1, 2009	5,270	69,900,000	13,264	3.8%

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

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	% Increases 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	157,776,000	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
June 30, 2009	512	12,072,000	264	1,790,000	12,036	219,267,000	4.9%	18,218

*Information provided where available

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SOLVENCY TEST

(All dollar amounts in millions)

		Aggregate Accrued Liabilities For			Portion of Accrued Liabilities Covered by Reported Asset		
Actuarial Valuation Date	Actuarial Value of Assets	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	(1)	(2)	(3)
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%
July 1, 2009	2,762.2	832.8	2,415.8	1,082.4	100.0%	79.9%	0.0%

TEACHERS' RETIREMENT SYSTEM OF MONTANA

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 Unfunded Actuarial Accrued Liability 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.

TEACHERS' RETIREMENT SYSTEM OF MONTANA

ANALYSIS OF FINANCIAL EXPERIENCE *

(All dollar amounts in millions)

	UAAL (Gain)/Loss		
	June 30, 2009	June 30, 2008	June 30, 2007
Investment Income			
Investment income was (greater) less than expected based on actuarial value of assets.	$ 561.9	$ 17.0	$ (67.7)
Pay Increases			
Pay increases were (less) greater than expected.	(4.4)	4.8	2.5
Age & Service Retirements			
Members retired at (older) younger ages or with (less) greater final average pay than expected	6.3	(1.0)	(0.9)
Disability Retirements			
Disability claims were (less) greater than expected	0.4	0.2	0.2
Death-in-Service Benefits			
Survivor claims were (less) greater than expected	(0.2)	0.3	(1.0)
Withdrawal From Employment			
(More) less reserves were released by withdrawals than expected	4.7	1.7	7.2
Death After Retirement			
Retirees (died younger) lived longer than expected	(2.8)	(6.3)	0.5
Other			
Miscellaneous (gains) and losses	12.0	2.5	(1.6)
Total (Gain) or Loss During Period From Financial Experience	$ 577.9	$ 19.2	$ (60.8)
Non-Recurring Items.			
Changes in actuarial assumptions caused a (gain) loss.	-	(10.6)	-
Changes in benefits caused a (gain) loss.	-	-	-
Composite (Gain) Loss During Period.	$ 577.9	$ 8.6	$ (60.8)

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

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. Employer: 9.58% of compensation, 9.96% starting July 1, 2009. 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 1.0% 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

This schedule allows the reader an opportunity to review trends in the revenues and expenses of the TRS for the last ten years.

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

This schedule shows the average monthly benefit, average final average salary, and number of retirees categorized by years of credited service for the last ten years.

SCHEDULE OF MEMBERSHIP

This schedule presents the membership type for the last ten years.

SCHEDULE OF RETIRED MEMBERS AND BENEFICIARIES BY TYPE OF BENEFIT

This schedule shows the number of retirees and beneficiaries by benefit type for the current year.

SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS

This schedule presents the 15 largest employers in the TRS for the current year as compared to nine years ago.

LOCATION OF BENEFIT RECIPIENTS

This schedule lists the number of current beneficiaries by geographic location.

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

Changes in Net Assets
Last Ten Fiscal Years
(In thousands)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Additions:											
Member Contributions	$	45,599	48,278	47,872	50,221	51,383	52,900	53,293	56,509	59,552	57,256
Employer Contributions		47,848	50,990	51,519	53,277	55,774	57,150	58,269	61,944	67,922	66,851
Other Contributions		674	611	762	754	770	656	100,693	50,720	13,492	14,147
Misc Income		22	6		4			4	16	16	16
Net Investment Income		175,235	(119,050)	(159,585)	126,246	281,793	188,734	224,787	484,532	(153,312)	(613,028)
Total Additions	$	269,378	(19,165)	(59,432)	230,502	389,720	299,440	437,046	653,721	(12,330)	(474,758)
Deductions:											
Benefit Payments:	$	109,231	118,842	130,006	140,229	150,271	161,247	171,957	182,827		
Retirees										189,441	203,096
Beneficiaries										3,898	4,063
Disabilities										2,721	2,784
Withdrawals		5,271	5,370	6,472	6,468	5,843	4,340	4,876	5,595	5,695	5,170
Administrative Expenses		1,294	1,716	1,607	1,861	1,507	1,561	1,579	1,434	1,751	1,854
Other						890			502	47	49
Total Deductions	$	115,796	125,928	138,085	148,558	158,511	167,148	178,412	190,358	203,553	217,016
Change in Net Assets	$	153,582	(145,093)	(197,517)	81,944	231,209	132,292	258,634	463,363	(215,883)	(691,774)

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

Schedule of Average Benefit Payments
Ten Years Ended June 30, 2009

Fiscal Year of Retirement			Years of Credited Service					
			5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
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
2009	Average Monthly Benefit	$	293	670	1,084	1,455	2,115	2,984
	Average Final Average Salary	$	2,678	3,474	4,187	4,280	4,914	5,468
	Number of Retirees		34	32	55	75	122	197

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, 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
June 30, 2009	18,456	1,640	9,868	29,964

Retired Members and Benefit Recipients

Period Ended	Retirement	Survivors	Disability	Total
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
June 30, 2009	11,228	498	310	12,036

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	1,939	904	680	44	223	48	40
501 - 1,000	1,913	1,187	452	12	111	105	46
1,001 - 1,500	2,368	2,029	222	5	51	48	13
1,501 - 2,000	2,534	2,458	35	1	32	6	2
2,001 - 2,500	1,725	1,704	8	0	11	1	1
2,501 - 3,000	816	807	4	0	5	0	0
3,001 - 3,500	367	366	1	0	0	0	0
3,501 - 4,000	188	186	0	0	2	0	0
4,001 - 4,500	88	88	0	0	0	0	0
4,501 - 5,000	45	45	0	0	0	0	0
over 5,000	53	52	0	0	1	0	0
Totals	12,036	9,826	1,402	62	436	208	102

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
Current Year and Nine Years Ago

	2009		2000	
Employer	**Covered Employees**	**% of Total Covered Employees**	**Covered Employees**	**% of Total Covered Employees**
Billings Public Schools	1,591	8.4%	1,613	7.7%
Great Falls Public Schools	1,102	5.8%	1,096	5.2%
Missoula County Public Schools	949	5.0%	1,038	5.0%
Helena Public Schools	847	4.5%	786	3.8%
Bozeman Public Schools	673	3.6%	520	2.5%
Kalispell Public Schools	503	2.7%	468	2.2%
Butte Public Schools	394	2.1%	512	2.5%
Browning Public Schools	316	1.7%	283	1.4%
Columbia Falls Public Schools	301	1.6%	277	1.3%
Montana State University	295	1.5%	1,453	7.0%
Belgrade Public Schools	274	1.4%	172	0.8%
Hardin Public Schools	274	1.4%	237	1.1%
University of Montana	239	1.3%	1,212	5.8%
Havre Public Schools	237	1.3%	202	1.0%
Hamilton Public Schools	214	1.1%	197	0.9%

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

Location of Benefit Recipients as of July 1, 2009

Alabama	5	Michigan	22	Texas	84
Alaska	41	Minnesota	76	Utah	69
Arizona	286	Mississippi	5	Vermont	4
Arkansas	11	Missouri	25	Virginia	23
California	143	Montana	9,301	Washington	422
Colorado	105	Nebraska	22	West Virginia	3
Connecticut	7	Nevada	120	Wisconsin	27
Florida	54	New Hampshire	5	Wyoming	123
Georgia	12	New Jersey	4	District of Columbia	1
Hawaii	14	New Mexico	38	APO	1
Idaho	145	New York	14	Australia	4
Illinois	18	North Carolina	32	Canada	16
Indiana	9	North Dakota	96	Egypt	1
Iowa	17	Ohio	10	England	1
Kansas	17	Oklahoma	19	Germany	1
Kentucky	5	Oregon	166	Israel	1
Louisiana	6	Pennsylvania	12	Mexico	1
Maine	4	South Carolina	9	New Zealand	2
Maryland	10	South Dakota	53	United Kingdom	1
Massachusetts	6	Tennessee	12	TOTAL*	11,741

*295 recipients receive two benefits