MONTANA

Teachers' Retirement System

A Component Unit of the State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

Shawn Graham
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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TEACHERS' RETIREMENT SYSTEM

STEVE BULLOCK, GOVERNOR www.trs.mt.gov

STATE OF MONTANA

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

1-866-600-4045
406-444-3134

January 7, 2015

Honorable Steve Bullock
Governor of Montana
Room 204, State Capitol
Helena, MT 59620

Dear Governor Bullock:

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, 2014. 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 the information presented in this report and 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 77th year of operation. The TRS is providing services to 18,272 active members, 14,349 benefit recipients, and through the Board of Investments, manages assets valued at approximately $3.6 billion.

PLAN QUALIFICATION CERTIFICATION

TRS is statutorily required to maintain its status as a qualified plan under Section 401(a) of the Internal Revenue Code (IRC). Qualified plan status provides tax-favorable treatment of contributions to and assets of the retirement system, including that TRS members and employers may make contributions to the retirement system on a pre-tax basis. TRS' qualified plan status is determined by the Internal Revenue Service (IRS) through periodic review of TRS's plan provisions and is evidenced by the IRS's issuance of a favorable "determination letter."

TRS submitted its most recent request for a qualification determination to the IRS on November 27, 2013. TRS received a favorable determination letter from the IRS on April 23, 2014. TRS expects to file its next request for a determination letter on or before the next IRS Cycle C filing deadline, which will be around the end of 2018. The current determination letter establishing that TRS is a tax-qualified pension plan will remain in effect until a new qualification determination is issued by the IRS.

PLAN FUNDING STATUS

Statutory changes to contributions and benefits that were passed and approved during the 2013 Legislature have dramatically improved the funded status of the System over the last two years. However, the most recent Actuarial Valuation was calculated under pending litigation. A temporary court ordered injunction has been issued which prohibits the reduction of the GABA pursuant to MCA 19-20-719. Therefore the results as of July 1, 2014 reflect a 1.5% GABA provision while the July 1, 2013 results reflected a .50% GABA provision.

As a result, The TRS plan’s Net Funded Ratio decreased from 66.80% at July 1, 2013 to 65.45% at July 1, 2014. In addition, the July 1, 2014 Actuarial Valuation shows that the current contribution rates are sufficient to pay the System's normal cost and to amortize the System’s Unfunded Actuarial Accrued Liability (UAAL) in 28 years, based on the current funding methods and long term actuarial assumptions. The normal cost of 9.13% of pay for the year beginning on July 1, 2014 is funded by employee and employer contributions. The remaining employer contribution of 9.77% is available to fund the amortization of the UAAL along with cash payments from two other sources. The first is $25 million payable on July 1st on an annual basis from the State of Montana general fund. The second was a one-time contribution payable to the System by the trustees of school districts maintaining a retirement fund. The one-time contribution to the Retirement System was the amount earmarked as an operating reserve in excess of 20% of school districts’ adopted retirement fund budget for the fiscal year 2013 ($22.1 million).

The System’s UAAL funded by TRS contributions as of July 1, 2014 is $1,793.6 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.

Employers of the Montana University System contribute 4.72% of pay for members of the MUS Retirement Program to fund the past service liabilities of the University System members who remained in TRS after the System was closed in 1993 to new entrants, as required under §19-20-621, MCA. The most recent MUS-ORP actuarial valuation shows the MUS supplemental employer contribution rate required by this section would have to increase from 4.72% to 9.75% to maintain the amortization of the university system’s past service liabilities by July 1, 2033, as required by §19-20-621.

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. TRS amortizes in 28 years according to the July, 1, 2014 Actuarial Valuation.

The Annual Required Contribution (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 UAAL over 30 years. As of July 1, 2014, contributions are sufficient to fund the ARC.

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 positive total return of 17.17% for the 2014 fiscal year. The System's total annualized rate of return over the last five and ten years was 13.28% and 6.95% respectively. 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. Please refer to the Investment Section of this report for additional detailed information regarding TRS investments.

TRS Investment Rates of Returns

	FY 2014	3-Year	5-Year	10-Year
Retirement Funds Bond Pool	5.21%	4.93%	7.06%	5.95%
MT Domestic Equities Pool	25.17%	16.28%	19.15%	7.62%
MT International Equities Pool	21.66%	5.58%	11.06%	6.48%
MT Private Equities Pool	16.48%	13.34%	15.91%	11.39%
MT Real Estate Pool	11.65%	10.54%	5.68%	2.22%
Short-term Investment Pool	0.15%	0.24%	0.27%	2.02%
Total Portfolio	17.17%	10.70%	13.28%	6.95%

PENDING LITIGATION

On October 11, 2013, the State of Montana, the Teachers' Retirement Board and the Teachers' Retirement System were named as plaintiffs in a lawsuit filed by six retired members of TRS and MEA-MFT. The lawsuit seeks to prevent a 1.0% reduction to the guaranteed annual benefit adjustment (GABA) that was included in HB 377 during the 2013 Legislature. A temporary court ordered injunction was issued on December 27, 2013 which prevented the reduction of the GABA until a final determination on the case has been determined by the court. The July 1, 2014 Actuarial Valuation includes analysis of the funded status and amortization period of the system with and without the adjustment to GABA. The funded status of the System with a 1.0% reduction to the GABA would be 70.99% and the amortization period would be 17 years which is below the industry standard of a 30 year amortization period.

AWARDS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to Teachers' Retirement System for its Consolidated Annual Financial Report for the fiscal year ended June 30, 2013. This is the eighth consecutive year that Teachers' Retirement System has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Consolidated Annual Financial Report. This report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Consolidated Annual Financial Report 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 Administration for 2014 in recognition of meeting the professional standards for plan 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 AUDITOR

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 unmodified opinion on the TRS financial statements for fiscal year 2014.

The Management's Discussion and Analysis and financial statements with accompanying notes, required supplementary information with notes and supporting 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/ Shawn Graham

Shawn Graham
Executive Director

Government Finance Officers Association

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, 2013

Executive Director/CEO

Public Pension Coordinating Council

Recognition Award for Administration 2014

Presented to

Montana Teachers' Retirement System

In recognition of meeting professional standards for
plan 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)

/s/ Alan H. Winkle

Alan H. Winkle
Program Administrator

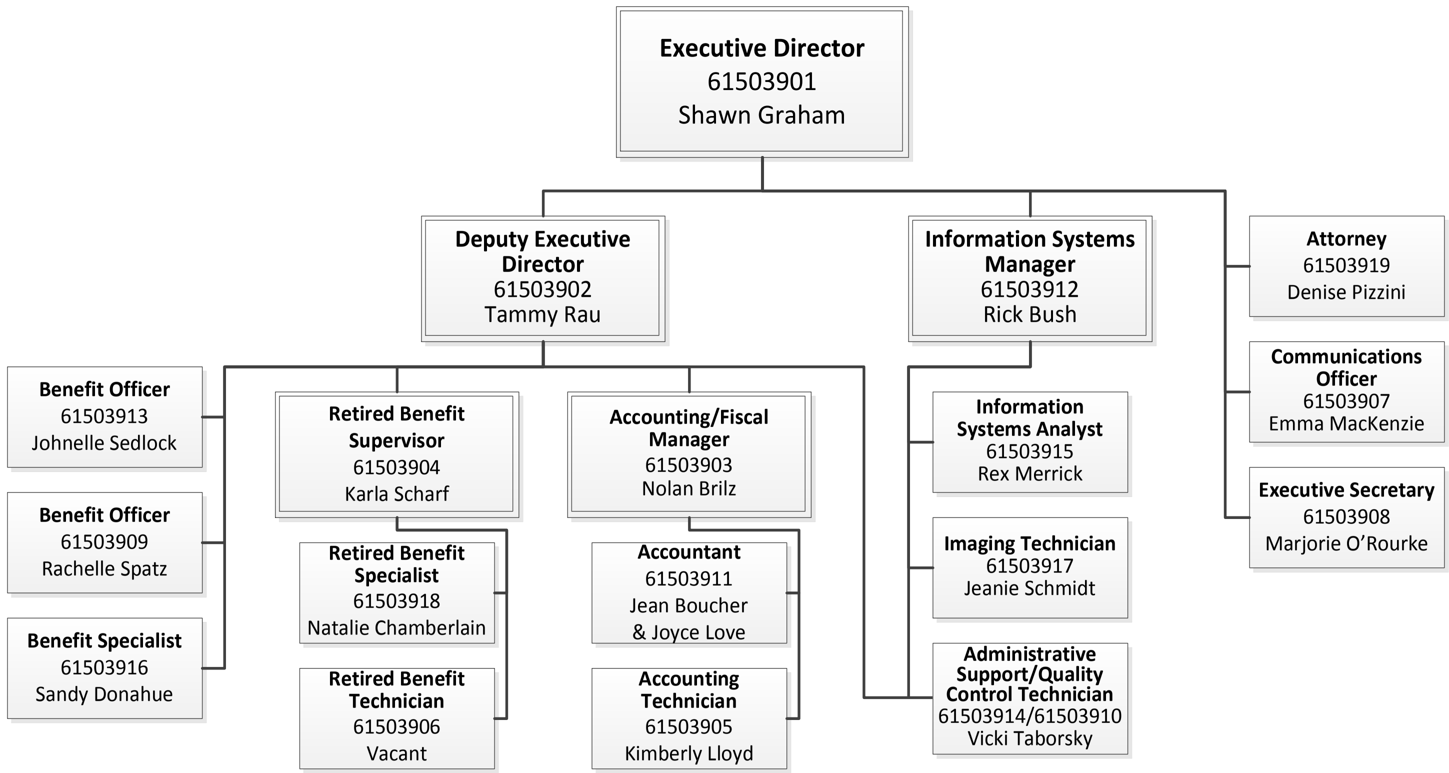
TEACHERS' RETIREMENT SYSTEM
BOARD OF DIRECTORS AND
PROFESSIONAL CONSULTANTS

BOARD OF DIRECTORS

	Term Expires
KARI PEIFFER, kpeiffer@mt.gov CHAIR Active Member	JULY 1, 2017
LISA CORDINGLY, LCordingly@mt.gov Public Representative	JULY 1, 2015
JANICE MULLER, JMuller@mt.gov Active Member	JULY 1, 2016
MARILYN RYAN, mryan2@mt.gov Retired Member	JULY 1, 2016
SCOTT DUBBS, sdubbs@mt.gov Active Member	JULY 1, 2018
DANIEL TROST, dtrost@mt.gov Public Representative	JULY 1, 2019

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
AMDEC SOFTWARE CONSULTING	IT Consultant PO Box 136 Helena, MT 59624



Last Updated: 10/15/2014

FINANCIAL SECTION

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Plan Net Position of the Teachers' Retirement System, a component unit of the State of Montana, as of June 30, 2014, and the related Statement of Changes in Plan Net Position for the fiscal year then ended, and the related notes which collectively comprise the system's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the system's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the system's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Teachers' Retirement System as of June 30, 2014 and the changes in net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note D to the financial statements, the system implemented Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans, in fiscal year 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability, Schedule of the Net Pension Liability, TRS Plan Schedule of Investment Returns, Schedule of Employer and Non-Employer Contributing Entities Contributions, and Other Postemployment Benefits Plan Information Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Payments to Consultants are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Introductory, Investment, Actuarial, and Statistical sections were presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 23, 2015

TEACHERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Montana Teachers' Retirement System's (TRS) provides a narrative overview of the TRS's financial activities for the fiscal year ended June 30, 2014.

Overview of the Financial Statements

The TRS 2014 financial statements, notes to the financial statements, and required supplementary information were prepared in conformity with GASB Statement No. 67, *Financial Reporting for Pension Plans*.

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 Statement of Plan Net Position reflects the resources available to pay benefits to retirees and beneficiaries. The Statement of Changes in Plan Net Position presents the changes that occurred in those resources for the fiscal year ended June 30, 2014.

The Notes to the Basic Financial Statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The required supplementary information consists of four schedules of changes of employers' net pension liability, employers' net pension liability, employer contributions, and the money-weighted rate of investment returns of the defined benefit pension system administered by TRS.

Financial Highlights

- The TRS plan net position increased by $467.1 million for 2014; representing an increase of 14.7% from the previous fiscal year.
- The TRS plan net investment income was $540.3 million at FYE 2014. This represents a 44.6% increase over the previous fiscal year. The increase was due to the strong rate of return on investments in FY 2014.
- The TRS plan rate of return on investments during FY 2014 was 17.1% compared with FY 2013 rate of return of 12.1%. The increase in rate of return was primarily due to an increase in market performance and an improved economy in FY 2014.
- The TRS benefit payments paid to benefit recipients increased 6.7% to $285.2 million for FY 2014, which is consistent with prior years.
- The TRS plan had a Net Pension Liability of $1.54 billion and a Net Pension Liability as a percentage of covered payroll was 205.0% as of June 30, 2014

Condensed Financial Information **(in millions)**

For comparative purposes, the Condensed Financial Information below is presented with FY 2013 financial information. (Presented in Millions)

Plan Net Position	FY2014	FY2013	Percent Inc/(Dec)
Cash/Short-term Investments	$ 85.8	$ 49.3	75.9%
Receivables	27.2	22.9	18.8%
Investments (fair value)	3,691.3	3,254.7	13.4%
Other Assets (net)	0.6	0.1	500.0%
Total Assets	3,804.9	3,327.0	14.4%
Liabilities	152.7	141.9	7.7%
Net Position	**$3,652.2**	**$3,185.1**	**14.7%**

Changes in Plan Net Position	FY2014	FY2013	Percent Inc/(Dec)
Additions:			
Employer Contributions	$ 83.4	$ 74.1	12.6%
Plan Member Contributions	70.5	62.8	12.3%
Other Contributions	64.9	17.5	270.8%
Net Investment Income	540.3	373.7	44.6%
Total Additions	759.1	528.2	43.7%
Deductions:			
Benefit Payments	285.2	268.3	6.3%
Withdrawals	4.8	5.1	(5.9%)
Administrative Expenses	2.1	1.9	10.5%
Total Deductions	292.1	275.3	16.8%
Net Inc/(Dec) in Plan Net Position	**$ 467.2**	**$ 252.9**	**84.7%**

Financial Analysis

- The change from year-to-year in cash/short-term investments was due to the change in the number of shares held, at a per share value of $1, in the Short Term Investment Pool.
- The increase in Contributions was due to HB 377 provisions that took effect in 2014 that increased contribution rates.
- The increase in Other Contributions was due to HB 377 provisions that took effect in 2014 that created a one-time Retirement Reserve Sweep payment from School Districts as well as an annual supplemental $25 million from the State general fund
- The increase in investments for 2014 represents the continued recovery in the economy and capital market conditions.

- The increase in net investment income for 2014 was due to an overall increase in the market value of investment holdings as the market increased based on positive corporate profits. Furthermore, the economy continued its steady growth.
- The increase in Other Assets was due to the plans investment in an upgrade to the current Pension Administration System. The system will be implemented in stages and the overall cost will be capitalized. The 2014 costs of $499,184 were recorded as Intangible Assets.
- 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

An actuarial valuation of the System is performed annually. As of July 1, 2014, the date of the most recent actuarial valuation, the funded ratio of the System was 65.5%. This was a decrease from the System's July 1, 2013 valuation funded ratio of 66.8%. The funded ratio decrease for the system was the result of an increase in the GABA rate from 0.5% to 1.5%, due to a court ordered preliminary injunction.

In determining contribution rates, an actuarial value of assets is used rather than a market value of assets. The actuarial value of assets is based on a smoothed income investment rate. The TRS plan experienced an asset gain over the last year. The market value of assets had a positive return of 17.09% net of investment and operating expenses. The actuarial value of assets earned 13.21%, which is 5.46% greater than 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 three fiscal years.

Fiscal Year	**Market Return**	**Actuarial Return**	**Actuarial Return over/(under) 7.75 %**
7/1/2011 to 6/30/2012	2.21%	3.21%	(4.54)%
7/1/2012 to 6/30/2013	12.94%	11.99%	4.24%
7/1/2013 to 6/30/2014	17.09%	13.21%	5.46%

As of July 1, 2014, the System's unfunded actuarial accrued liability was $1.8 billion. This was a net increase in the unfunded position of $269 million compared to July 1, 2013.

Every four years, in conjunction with the actuarial valuation the actuary performs an experience study. Based upon the 2014 experience study, the actuary recommended some changes in the actuarial assumptions that were adopted by the Board. Changes include: updating the mortality tables used for healthy and disabled retirees, the assumed rate of inflation was reduced from 3.50% to 3.25%, the payroll growth assumption was reduced from 4.50% to 4.00%, assumed real wage growth was reduced from 1.00% to .075%, investment return assumption was changed from net of investment and administrative expenses to net of investment expense only. The Board adopted the current economic assumption for return on investment of 7.75%.

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TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF PLAN NET POSITION
FISCAL YEAR ENDED JUNE 30, 2014

		2014
ASSETS		
Cash/Cash Equivalents-Short Term		
Investment Pool (Note B)	$	85,840,583
Receivables:		
Accounts Receivable		23,220,600
Interest Receivable		3,938,077
Total Receivables	$	27,158,677
Investments, at fair value (Note B):		
Equity in Pooled Investments	$	3,538,421,770
Other Investments		826,188
Securities Lending Collateral (Note B)		152,071,669
Total Investments	$	3,691,319,626
Assets Used in Plan Operations:		
Land and Buildings	$	193,844
Less: Accumulated Depreciation		(150,545)
Equipment		206,696
Less: Accumulated Depreciation		(132,925)
Prepaid Expense		0
Intangible Assets, net of amortization		499,184
Total Other Assets	$	616,255
TOTAL ASSETS	$	3,804,935,140
LIABILITIES		
Accounts Payable	$	249,081
Securities Lending Liability (Note B)		152,071,669
Compensated Absences (Note B)		153,797
OPEB Implicit Rate Subsidy (Note F)		240,329
TOTAL LIABILITIES	$	152,714,875
NET POSITION RESTRICTED FOR PENSION BENEFITS	**$**	**3,652,220,265**

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 PLAN NET POSITION
FISCAL YEAR ENDED JUNE 30, 2014

		2014
ADDITIONS		
Contributions:		
Employer	$	83,439,612
Plan Member		70,468,354
Other		64,923,320
Total Contributions	$	218,831,287
Miscellaneous Income	$	6,000
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	$	404,310,911
Investment Earnings		155,346,249
Security Lending Income (Note B)		750,702
Investment Income/(Loss)	$	560,407,862
Less: Investment Expense		20,013,455
Less: Security Lending Expense (Note B)		117,044
Net Investment Income/(Loss)	$	540,277,362
TOTAL ADDITIONS	$	759,114,649
DEDUCTIONS		
Benefit Payments	$	285,182,358
Withdrawals		4,788,688
Administrative Expense		2,022,636
OPEB Expenses (Note F)		58,073
TOTAL DEDUCTIONS	$	292,051,755
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	$	467,062,894
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR		3,185,064,406
Prior Period Adjustment		92,965
END OF YEAR	**$**	**3,652,220,265**

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

NOTE A. DESCRIPTION OF THE PLAN

Teachers' Retirement System is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board and staff administer the retirement system in conformity with the law set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at www.trs.mt.gov.

The Teachers' Retirement Board is the governing body of the System, 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.

Board Composition

The Teachers' Retirement Board consists of six members, all appointed by the Governor. Three Board members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One Board member must be a retired teacher who was a member of TRS at the time of retirement. Two Board members are appointed from the public at large. TRS Board members serve staggered five year terms. Three Board members constitutes a quorum.

Reporting Entities

At June 30, 2014, the number and type of reporting entities participating in the system were as follows:

Local School Districts & Co-ops	351
Community Colleges	3
University System Units	2
State Agencies	9
Total	365

System Membership

At July 1, 2014, the date of the most recent actuarial valuation, system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	14,349
Terminated Members:	
Vested	1,654
Non-vested	12,308
Active Plan Members:	
Full-Time	12,286
Part-Time	5,986
Total Membership	46,583

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). 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. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABAs calculated prior to July 1, 2013, were 1.5% of the benefit payable as of January 1st. Effective July 1, 2013, the GABA to be calculated each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation. The legislative enactment that allows for reduction of the GABA is currently being litigated. A temporary restraining order requires continued calculation of the GABA at the full 1.5% rate for Tier One members pending resolution of the litigation.

Overview of Contributions

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2014, were required to contribute 8.15% of their earned compensation. TRS employers were required to contribute 8.47% of earned compensation for school districts and community colleges. The State's General Fund contributes an additional 2.38% of earned compensation for school district and community college employers. The State's General Fund also contributes an additional .11% of total earned compensation of all TRS members. Each employer in the Montana University System contributes to the TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation of employees participating in the Montana University System Retirement Program (MUS-RP).

Contribution rates for FY 2013, 2014 and 2015 for school district and community college employers are listed below.

Fiscal Year	Member Rate	Employer Rate	State Contribution	Total
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%

Contribution rates for FY 2013, 2014 and 2015 for state agencies and the University System, employers are listed below.

Fiscal Year	Members	Employers	General Fund	Total
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%

Pursuant to 19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014 through fiscal year 2024.

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.

The System adheres to all applicable Governmental Accounting Standards Board (GASB) Statements.

GASB Statement No. 67 which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The statement requires changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note D.

Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors and/or changes in accounting policy from prior periods. The adjustment is related to a statewide Other Post Employment Benefit (OPEB) Implicit Rate Subsidy. The rate subsidy was allocated to all state agencies and resulted in a prior period adjustment for TRS in the amount of $92,965 for FY 2014.

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel at June 30, 2014.

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.

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). Pooled 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). Other Investments consist of a portfolio of Structured Investment Vehicles (SIVs) at June 30, 2014.

TRS Cash Equivalent and Investment Portfolio
June 30, 2014

Investment	Book Value	Fair Value
Short-term Investment Pool	$ 74,226,611	$ 74,226,611
Retirement Funds Bond Pool	712,746,462	784,722,676
MT Domestic Equities Pool	405,692,561	1,418,121,811
MT International Equities Pool	359,998,684	643,364,706
MT Private Equities Pool	175,831,117	379,372,922
MT Real Estate Pool	284,602,238	312,839,655
Other Asset Backed Securities	1,142,819	1,142,819
Total	$ 2,014,240,493	$ 3,613,791,200

The investment risks for the pooled investments that TRS participates in are described in the following paragraphs. Investments are administered by the BOI, for the TRS, as part of the State of Montana's Unified Investment Program and are responsible for setting investment risk policies.

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. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

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. According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a7-like pool. STIP, as an external investment pool, has not been rated. RFBP consists of corporate bonds (rated), international government bonds, municipal government bonds, sovereign bonds, U.S. government direct obligations, and U.S. government agency.

The TRS investments subject to credit and interest rate risk at June 30, 2014 are categorized below:

Investment		Fair Value 6/30/14	Credit Quality Rating 6/30/14	Effective Duration 6/30/14
RFBP	$	784,722,676	A+	5.07
STIP		74,226,611	NR	N/A

With the exception of the U.S. Government securities, the RFPB fixed income instruments have credit risk as measured by major credit rating services. Obligations of the U.S. Government or obligation explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The total fixed income investments credit quality of rating for RFBP is not rated (NR).

MPEP, MTRP, MTIP, and RFBP include assets subject to foreign currency risk. TRS' position in these pools is approximately 37% at June 30, 2014. The Montana BOI MPEP and MTRP investments in EURO currency had a fair value of $45,386,016 at June 30, 2014. The Montana BOI MTIP and RFBP had cash and securities with a foreign currency value of $479,669,027 at June 30, 2014.

Securities Lending – Under the provisions of state statutes, BOI is authorized to lend its securities and has contracted with 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, 80/20% respectively, on security lending activities. The BOI retains all rights and risks of ownership during the loan period. At June 30, 2014, the BOI had no credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending. There were no failures by any borrowers to return or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower.

NOTE C. PROPERTY and EQUIPMENT

Property and equipment consist of the amounts shown in the following table as of June 30, 2014, and 2013. Assets under $5,000 are expensed in the year purchased. Assets valued at $5,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Assets valued at $100,000 or more are recorded at recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. There were no significant leases as of June 30, 2014, or 2013. As of June 30, 2014 TRS has completed several modules of its upgraded pension administration system project (M-Trust). The system upgrade is being implemented on a modular basis with all modules expected to be completed by June 30, 2016. The cost of implementing and upgrading the system as of June 30, 2014 is shown below and on the Basic Financial Statements in the Intangible Assets line item. The upgrade has been recorded in Capital Work in Progress and will be amortized once the project is complete. The Board approved a $2.7 million investment in the upgraded system in the spring of 2014.

	2014	2013
Land and Buildings	$ 193,844	$ 193,844
Less: Accumulated Depreciation	(150,545)	(150,545)
Equipment	206,696	142,697
Less: Accumulated Depreciation	(132,925)	(110,110)
Intangible Assets, net of amortization	499,184	-
Net Property and Equipment	$ 616,255	$ 75,886

NOTE D. NET PENSION LIABILITY

Net Pension Liability

	Fiscal Year Ending June, 30 2014
Total Pension Liability	$5,191,069,342
Fiduciary Net Position	3,652,220,265
Net Pension Liability	$1,538,849,077
Ratio of Fiduciary Net Position to Total Pension Liability	70.36%

The net pension liability, the retirement system's total pension liability (TPL) determined in accordance with GASB No. 67 less the fiduciary net position, as of June 30, 2014, is as shown above. The date of the actuarial valuation upon which the TPL is based is July 1, 2014. Roll forward procedures were not used.

Actuarial valuation of the ongoing System involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The most recent experience study was performed in the spring of 2014 for the five year period ending July 1, 2013. The Schedule of Net Pension Liability presents multi-year trend information about whether the plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability. This schedule is presented in the Required Supplementary Information section.

Summary of Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of July 1, 2014. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

• Total Wage Increases*	8.51%
• Investment Return	7.75%
• Price Inflation	3.25%
• Growth in Membership	0.00%
• Postretirement Benefit Increases (starting three years after retirement)	1.50%
• Interest on Member Accounts	5.00%

*Total Wage Increases include 4.00% general wage increase assumption and 4.51% merit and longevity increases.

Target Allocations

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%
	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana State Code. These rates are shown in the following tables. In addition to these contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2116. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.**

History of Legislated Contributions
School District and Other Employers
by percent of covered payroll

	Members	Employers	General fund	Total employee & employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

State and University Employers

	Members	Employers	General Fund	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%
July 1, 2016 to June 30, 2017	8.15%	11.15%	0.11%	19.41%
July 1, 2017 to June 30, 2018	8.15%	11.25%	0.11%	19.51%
July 1, 2018 to June 30, 2019	8.15%	11.35%	0.11%	19.61%
July 1, 2019 to June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020 to June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021 to June 30, 2022	8.15%	11.65%	0.11%	19.91%
July 1, 2022 to June 30, 2023	8.15%	11.75%	0.11%	20.01%
July 1, 2023 to June 30, 2024	8.15%	11.85%	0.11%	20.11%

Pursuant to 19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014 through fiscal year 2024.

Sensitivity Analysis

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
Net Pension Liability	$ 2,137,950,777	$ 1,538,849,077	$ 1,032,700,256

In accordance with GASB 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Schedule of Investment Returns

TRS PLAN
SCHEDULE OF INVESTMENT RETURNS

	2014*
Annual Money Weighted Rate Return, net of Investment Expense	17.18%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

The annual money weighted rate of return on pension plan investments expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

NOTE E. CONTRIBUTIONS

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2014, were required to contribute 8.15% of their earned compensation and the employer contribution rate for fiscal year 2014 was 8.47% of earned compensation. The State's general fund contributed an additional 2.38%, for school district and community college employers, of their members' earned compensation. The State's general fund contributed an additional .11% of total earned compensation of all members. Each employer in the Montana University System contributed 4.72% of the total compensation of employees participating in the Optional Retirement Program (ORP). The schedule (History of Legislated Contributions) above summarizes contribution rates in effect June 30, 2014.

TRS 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 earned compensation. Contribution rates consist of an amount for normal cost, the estimated amount necessary to finance benefits earned by the members during the current year, and an amount for amortization of the unfunded actuarial accrued liability.

Contributions made by employers and members were in accordance with actuarially computed funding requirements. Information with regard to contributions to the System, for the year ended June 30, 2014, is indicated in the Required Supplemental Information, Schedule of Employer Contributions.

NOTE F. OTHER POSTEMPLOYMENT BENEFITS

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 Other Postemployment Benefits (OPEB) can be obtained from the Department of Administration, State Financial Services Division, at P.O. Box 200102, Helena, MT 59620-0102.

The plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the TRS.

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 $299 to $1,061 for calendar year 2013 depending on the medical plan selected, family coverage, and Medicare eligibility. The plan is financed on a pay-as-you-go basis.

Annual OPEB Cost

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, 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 30 years.

Annual OPEB Cost

	TRS
Annual required contribution/OPEB cost	$ 60,733
Interest on net OPEB obligation	11,096
Amortization on net OPEB obligation	(13,756)
Annual OPEB cost	58,073
Contributions made	12,188
Increase in net OPEB obligation	45,885
Net OPEB obligation – beginning of year (restated)	194,444
Net OPEB obligation – end of year	$240,329

The 2014 ARC is calculated for all the plan's employers and then allocated to each participating employer. The TRS 2014 ARC is $60,733 and is based on the plan's current ARC rate of 5.69% percent of total annual covered payroll for all employers. The 2014 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 was determined in accordance with GASB Statement 45, and the liability for TRS is estimated at $493,412. (The actuarial accrued liability is the present value of future retiree benefits and expenses.) For fiscal year 2014, the TRS allocated annual OPEB cost (expense) was $58,073. The June 30, 2013 figure has been restated due to a change in calculation of annual OPEB costs, which did not previously include adjustments for amortization. The TRS annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 and the five preceding years were as follows:

Fiscal Year Ended		Annual OPEB Cost	% of Annual OPEB Cost Contributed		Net OPEB Obligation	
6/30/2009	$	73,242	14.6%	$	70,473	Restated
6/30/2010		59,948	20.4%		96,844	Restated
6/30/2011		62,837	27.9%		134,832	Restated
6/30/2012		59,112	9.4%		164,529	Restated
6/30/2013		59,793	12.0%		194,444	Restated
6/30/2014		58,073	21.0%		240,329	

Funded Status and Funding Progress

Other Postemployment Benefits Plan Information
Schedule of Funding Progress
(All dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of covered Payroll ((b-a/c)
12/31/2007	-	$ 449,321	$ 449,321	0%	519,969	86.41%
12/31/2009	-	$ 357,664	$ 357,664	0%	526,794	67.89%
12/31/2011	-	$ 361,053	$ 361,053	0%	558,646	64.63%
12/31/2013	-	$ 493,412	$ 493,412	0%	828,985	59.52%

The funded status of the TRS allocation of the plan as of December 31, 2013, the most recent valuation date was as follows:

Actuarial accrued liability (AAL)	$493,412
Actuarial value of plan assets	$ 0
Unfunded actuarial accrued liability (UAAL)	$493,412
Funded ratio (actuarial value of plan assets/AAL)	0
TRS Covered payroll (active plan members)	$828,985
UAAL as a percentage of covered payroll	59.52%

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.

OPEB Plan Actuarial Methods and Assumptions

As of December 31, 2013, the TRS actuarially accrued liability (AAL) for benefits was $493,412, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $493,412, and the ratio of the UAAL to the covered payroll was 59.52%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2013, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.0% for 2013 and decreases by 0.5% per year down to 5% for 2023 and beyond for medical and 10.0% for prescription drugs decreasing by 1% to 5% at 2018 and beyond.

NOTE G. PENDING LITIGATION

The actuarial valuation for the retirement system as of July 1, 2014, included consideration for a plan change made in the 2013 Montana legislative session that authorized a reduction in the statutory "guaranteed annual benefit adjustment" ("GABA" – referred to as a cost of living adjustment in other systems), which reduction would apply to current TRS retirees and active members as well as to new hires. The prior GABA was a non-variable 1.5%, compounding, annual benefit adjustment applied each January 1st to the benefits of members who had received at least 36 monthly benefit payments as of that date. The 2013 legislative change, codified at 19-20-719(1), MCA, and effective July 1, 2013, is summarized as follows:

- GABA must be decreased to .50% if the most recent actuarial valuation shows that retirement system liabilities are less than 90% funded
- If the most recent actuarial valuation shows that retirement system liabilities are at least 90% funded and the provision of the increase is not projected to cause the system's liabilities to be less than 85% funded, the GABA must increase from the .5% floor up to 1.5%, as set by the retirement board

In October 2013, litigation was filed by Plaintiffs who were/are active members or retirees of TRS as of July 1, 2013, challenging the constitutionality of the GABA reduction under the "contract rights" and "takings" provisions of the Montana Constitution, and requesting a preliminary injunction. In December, 2013, the Court granted the Plaintiffs' motion for a preliminary injunction, which prohibited TRS from reducing the GABA pending the Court's decision in the pending litigation. In January, 2014 and again in January, 2015, the GABA calculated for eligible benefit recipients was 1.5% rather than the reduced rate of 0.5% that would have been calculated pursuant to 19-20-719(1), MCA (2013), but for the preliminary injunction.

Both parties to the litigation filed motions for summary judgment, with briefing concluded in November, 2014. Oral argument on the cross-motions for summary judgment will be heard in March, 2015. TRS cannot predict when the District Court will then issue a decision, but it is likely that the District Court's decision will be appealed to the Montana Supreme Court regardless which party prevails in the district court.

The GABA will continue to be calculated at the 1.5% rate pending the District Court's decision, and may continue to be calculated at the 1.5% rate pending a decision on appeal to the Supreme Court, either because the Plaintiffs prevail at the District Court level, or because the Plaintiff's seek and are granted a preliminary injunction pending appeal. If the Plaintiffs ultimately prevail in the litigation, the long-term value of the retirement system's Unfunded Actuarial Accrued Liability (UAAL) will increase over the UAAL that would be calculated based on the reduced GABA provided for in 19-20-719(1), MCA (2013).

Anticipating that a lawsuit would likely be filed contesting the constitutionality of the GABA adjustment, for comparison purposes, TRS asked its contract actuary to also provide an actuarial valuation of the system as of July 1, 2013 assuming the GABA continued at the pre July 1, 2013 rate. The comparison actuarial analysis indicated the TRS amortization period would be 20 years under the new GABA provision and 29 years under the old GABA provision with an increase in UAAL from $1.524 billion to $1.895 billion and a Funded Ratio decrease from 66.8% to 61.81%.

In light of the preliminary injunction resulting in current calculation and payment of the GABA at the pre July 1, 2013 rate of 1.5%., TRS's contract actuary completed TRS's primary annual actuarial valuation as of July 1, 2014 assuming an on-going GABA of 1.5%. Again, TRS requested that its contract actuary provide a comparison actuarial analysis based on the reduced GABA rate as set forth in 19-20-719(1), MCA (2013). The actuarial valuation as of July 1, 2014 indicates the TRS amortization period, change in UAAL, and funded ratio under the current GABA rate (1.5%) and the reduced GABA rate (0.5%) would be:

	1.5% GABA	0.5% GABA
Amortization Period	28 years	17 years
Total UAAL	$1.793 billion	$1.388 billion
Funded Ratio	65.45%	70.99%

While the actuarial comparison analysis likely does not completely accurately describe what the actuarial valuation would end up being depending on all determinations that might be made by the District Court and Supreme Court in the litigation, it provides a reasonable estimate of the potential outcome.

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

Schedule of Changes in the Net Pension Liability

Schedule of Changes in the Net Pension Liability

	2014*
Total Pension Liability	
Service Cost	77,006,174
Interest	373,456,442
Benefit Changes	-
Difference Between Expected and Actual Experience	20,297,029
Changes of Assumptions	46,502,421
Benefit Payments	(285,182,358)
Refunds of Contributions	(4,788,688)
Net change in Total Liability	227,291,020
Total Pension Liability Beginning	4,963,778,322
Total Pension Liability Ending (a)	5,191,069,342
Plan Net Position	
Contributions - Employer	83,439,612
Contributions - Member	70,468,354
Contributions - Non-Employer Contributing Entities	64,923,320
Misc. Income	6,000
Net Investment Income	540,277,362
Benefit Payments	(285,182,358)
Administrative Expenses	(2,022,636)
Refund of Contributions	(4,788,688)
Other	(58,073)
Net Change in Plan Net Position	467,062,894
Plan Net Position - Beginning	3,185,064,406
Prior Period Adjustment	92,965
Plan Net Position - Ending (b)	3,652,220,265
Net Pension Liability - Ending (a - b)	1,538,849,077

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of the Net Pension Liability

Schedule of the Net Pension Liability

	2014*
Total Pension Liability	5,191,069,342
Plan Net Position	3,652,220,265
Net Pension Liability	1,538,849,077
Ratio of Plan Net Position to Total Pension Liability	70.36%
Covered -Employee Payroll	750,604,063
Net Pension Liability as a Percentage of Covered-Employee Payroll	205.01%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of Investment Returns

TRS PLAN
SCHEDULE OF INVESTMENT RETURNS
Year Ended June 30, 2014

	2014*
Annual Money Weighted Rate Return, net of Investment Expense	17.18%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of Employer and Non-Employer Contributing Entities Contributions

Schedule of Employer and Non-Employer Contributing Entities Contributions

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Employer Contributions	$ 148,362,932	$ 130,533,530	$ 108,993,492	$ 91,879,263	$ 90,967,180	$ 80,997,968	$ 81,414,325	$ 40,807,133	$ 42,768,730	$ 57,806,176
Actual Contributions:										
Employers	83,439,612	74,113,191	72,422,404	72,879,950	72,179,128	66,850,644	67,921,950	61,943,986	58,268,941	57,150,364
Non-Employer Contributing Entities	64,923,320	17,521,347	16,843,766	17,437,366	17,241,610	14,147,324	13,492,375	720,266	693,226	655,812
Total	148,362,932	91,634,538	89,266,170	90,317,316	89,420,738	80,997,968	81,414,325	62,664,252	58,962,167	57,806,176
Annual Contribution Deficiency / (Excess)	-	38,898,992	19,727,322	1,561,947	1,546,442	-	-	(21,857,119)	(16,193,437)	-
Covered - Employee Payroll	750,604,063	742,608,987	735,586,961	746,694,434	747,037,330	683,235,462	657,435,444	664,100,000	636,000,000	612,600,000
Actual Contributions as a Percentage of Covered-Employee Payroll	19.77%	12.34%	12.14%	12.10%	11.97%	11.86%	12.38%	9.44%	9.27%	9.44%

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

Note A. Schedule of Changes in the Net Pension Liability and Schedule of Net Pension Liability

The total pension liability contained in these schedules was provided by the Systems actuary, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Retirement System.

Note B. Schedule of Employer Contributions

The actuarially determined employer contributions and amount of those contributions actually made are presented in the schedule.

Note C. Actuarial Assumptions

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board. Additional information as of the latest actuarial valuation follows.

Changes of Benefit Terms

The following changes to the plan provision were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The GABA for Tier 1 members has also been modified as follows:

- If the most recent actuarial valuation of the System shows that the funded ratio is less than 90%, then the maximum increase that can be granted is 0.50%.
- If the funded ratio is at least 90% and the increase is not projected to cause the System's funded ratio to be less than 85%, an increase can be granted that is greater than 0.50% but not more than 1.50%.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

(1) **Final Average Compensation**: average of earned compensation paid in five consecutive years of full-time service that yields the highest average

(2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
(3) **Early Retirement**: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
(4) **Professional Retirement Option**: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement . Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
(5) **Annual Contribution**: 8.15% of member's earned compensation
(6) **Supplemental Contribution Rate**: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
    c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
(8) **Guaranteed Annual Benefit Adjustment (GABA)**:
    a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
    - School Districts contributions will increase from 7.47% to 8.47%
    - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
    - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.

- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in Actuarial Assumptions and Methods

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

  For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members was updated to the following:

  For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.

  For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Method and assumptions used in calculations of actuarially determined contributions

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	28 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Other Postemployment Benefits Plan Information
Schedule of Funding Progress
(All dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of covered Payroll ((b-a/c)
12/31/2007	-	$ 449,321	$ 449,321	0%	519,969	86.41%
12/31/2009	-	$ 357,664	$ 357,664	0%	526,794	67.89%
12/31/2011	-	$ 361,053	$ 361,053	0%	558,646	64.63%
12/31/2013	-	$ 493,412	$ 493,412	0%	828,985	59.52%

The funded status of the TRS allocation of the plan as of December 31, 2013, the most recent valuation date was as follows:

Actuarial accrued liability (AAL)	$493,412
Actuarial value of plan assets	$ 0
Unfunded actuarial accrued liability (UAAL)	$493,412
Funded ratio (actuarial value of plan assets/AAL)	0
TRS Covered payroll (active plan members)	$828,985
UAAL as a percentage of covered payroll	59.52%

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.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULES / SUPPLEMENTARY INFORMATION
FISCAL YEARS ENDED JUNE 30, 2014

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 year ended June 30, 2014 are outlined below:

		2014
Administrative Expenses:		
Personnel Services:		
Salaries	$	972,133
Other Compensation		3,750
Employee Benefits		309,987
Total Budgeted Personal Services	$	1,285,871
Operating Expenses:		
Contracted Services	$	450,749
Supplies & Material		44,026
Communications		93,308
Travel		23,889
Rent		58,517
Repair & Maintenance		26,912
Other Expenses		65,544
Total Budgeted Operating Expenses	$	762,945
Non-Budgeted Expenses:		
Compensated Absences	$	(48,994)
Depreciation		22,815
Amortization of Intangible Assets		-
Total Non-Budgeted Expenses	$	(26,179)
Total Administrative Expenses	**$**	**2,022,636**

<u>**Schedule of Investment Expenses**</u>

		Custodial	External		
Investment	BOI	Bank	Managers	Other	Total
Short-term Investment Pool	$ 13,085	$ 4,866		$ 130,118	$ 148,068
Retirement Funds Bond Pool	$ 249,833	$ 73,184	$ 567,424	$ 1,977	$ 892,418
Montana Domestic Equity Pool	$ 226,770	$225,615	$ 3,178,474	$1,234,597	$ 4,865,456
Montana International Pool	$ 202,672	$ 50,603	$ 1,235,628	$ 221,096	$ 1,709,999
Montana Private Equity Pool	$ 364,388	$ 44,916	$ 7,324,279	$ 808,927	$ 8,542,510
Montana Real Estate Pool	$ 219,182	$ 32,633	$ 3,603,187	$ 0	$ 3,855,003
Totals	**$1,275,930**	**$431,816**	**$15,908,993**	**$2,396,715**	**$20,013,455**

SCHEDULE OF PAYMENTS TO CONSULTANTS

Costs included in the table below are a result of administrative expenses, as well as several costs associated with the M-Trust project (Intangible Assets - Capital Work in Progress)

	2014
Actuarial Services	$ 77,980
Consulting Services	89,912
Legal Services	54,594
Medical Evaluations	225
Information Technology Services	458,672
Total Consultant Payments	**$ 681,383**

INVESTMENT SECTION

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
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Rateline: 406/444-3557
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TRS Annual Report Investment Letter

For the fiscal year ended 6/30/14

The fiscal year 2014 return of 17.17% represented the fifth consecutive year of positive returns. This comes at a time when the Federal Reserve has begun the unwinding of its controversial expansionary asset purchase program known as quantitative easing which has contributed to the recent above average stock returns. All asset classes have performed well this year with US equities posting the strongest returns for the third year in a row. The annualized three year plan return remains high at 10.7%, while the five year return has jumped to an impressive 13.28% due to this year's strong return and the dropping off of the negative return in fiscal year 2009. The trailing ten year and since inception returns are within long-term expectations at 6.95% and 7.95% respectively. Relative to our public fund peer universe as reported by our custodial bank, State Street, the one, two, and five year returns ranked in the second quartile while the three and four year returns ranked in the first quartile.

The US economy has continued to grow this calendar year, albeit in a choppy pattern with a decline of 2.1% in the first quarter due to the effects an unusually severe winter, followed by a strong bounce back in the second quarter. Though still high by historical standards, the unemployment rate has continued its downward trend, going from its high of 10% in October 2009 to 6.1% this August. The improvements in the U.S. economy and labor markets have not been matched in other parts of the world. In the European Union, high unemployment exceeding 10%, very low inflation, and tensions with Russia over the crisis in Ukraine have stalled growth and caused equity markets to lag, prompting discussions of quantitative easing programs similar to those pursued in the U.S. and Japan. In China, evidence of overinvestment and inflating home prices has led to concerns over the ability to sustain its high growth rate.

The above average return this fiscal year was supported by good performance in all asset classes with fixed income being the only asset category not to produce double digit returns. The domestic stock return of 25.17% marks its second best year in the previous fifteen fiscal years and while the international stock return of 21.66% was impressive this year, it marks the seventh consecutive year that international stocks have underperformed domestic stocks. Emerging market stocks lagged developed country stocks throughout calendar 2013 through March, 2014, and were a large contributor to the weaker performance of international stocks. The bond pool return of 5.21% was an improvement over last year's 1.61%, as interest rates fell in the first and second quarter of this year causing price appreciation in the underlying bonds. Private equity posted its fifth straight year of double digit returns with a fiscal year return of 16.48%. This brings the five year annualized return to 15.9% and the ten year to an impressive 11.4%. The real estate pool continues to yield steady returns with this year's return of 11.65%. The five year annualized return for the real estate pool is now 5.4%, up from a five year return of negative 3.4% last fiscal year, due to the dropping off of the very weak fiscal year 2009 return.

Similar to last year, the bull market in public equities led to an increase in their allocation. US stocks crept up by 1% to a 39.2% allocation despite sales made for rebalancing purposes, while international stocks increased by 1.2% to a 17.8% weight given their strong positive return and incremental purchases. Overall equity exposure did not change materially, however, as the private equity allocation decreased by 2% to 10.5% bringing the total equity exposure to 67.5%. The decline in private equity reflected a secondary sale from our portfolio and heavy cash distributions from underlying fund investments. Changes in the allocations to fixed income, real estate, and cash were negligible and ended at 21.8%, 8.7%, and 2.1% respectively at the end of this fiscal year. The fixed income weight was slightly below its range, despite ongoing purchases over the past year, mostly because of the relative strength of equity assets that acted to dilute the weight in bonds. Allocation ranges were reviewed and slightly amended last November. In summary, the changes were minor and did not materially change the mid-points of any asset class range. The liquidity posture and overall risk biases of the portfolio were not changed. It remains equity-centric in character, reflecting the long term return advantage of this asset class, balanced by asset classes providing diversification benefits, specifically fixed income and real estate.

The asset allocation changes mentioned above were made after an extensive analysis of the cash flows affecting the pension plans. While the TRS plan experiences negative net cash flow, meaning benefit outflows exceed contribution and portfolio income inflows, the amount remains quite manageable. The increase in contribution rates, new annual $25 million supplemental contribution from the General Fund, and a one-time $22 million contribution from school district retirement reserves legislated by house bill 377 have reduced the negative cash flow status meaningfully in fiscal year 2014 as compared to fiscal 2013. These additional contributions slightly reduce the liquidity demands of the plan and allow for an allocation mix designed to provide the long term return need of the plan while balancing the tradeoffs of implied risk and lower liquidity of some asset types. In addition, while it cannot be assured over any one or two year period, asset growth over the long term due to positive returns has more than offset the negative cash flow of the plan, easily covering the drawdowns even before considering the cash income of the plan.

The Federal Reserve is set to end its monthly purchases of Treasury and mortgage-backed securities this October after five years of using this extraordinary strategy in an effort to help improve the economy. Stocks have hit record highs under this program and its ending comes at a time when there still exist elements of weakness in the labor market. The next major decision for the Fed will be when to begin raising the federal funds target rate and ending its current zero interest rate policy. Market consensus now suggests the timing of such a move will fall around mid-2015, and in the meantime the parsing of Fed communications will remain intense given the importance of this event to global financial markets. In contrast to the expected change from expansionary to contractionary monetary policies in the US, the European Central Bank (ECB) is considering using similar unconventional monetary policies as the Federal Reserve has used to stimulate its economy. The ECB has introduced negative deposit rates for banks storing cash with them, effectively charging them for refusing to take on the risk of making loans, and are planning to launch an asset backed security purchase program or quantitative easing.

As of late September the fiscal year-to-date plan return is about flat. Gains in domestic equity holdings have been largely offset by declines in international stocks while fixed income returns have been mostly flat. Most of the year–to-date return has come from positive performance from the private equity and real estate holdings.

With the recently dynamic landscape of monetary policies in both the US and in Europe, financial markets have been and will likely continue to be particularly sensitive to the actions and expectations of the world's major central banks. In addition, recent geopolitical risks brought on by the tensions in Ukraine and the Middle East could be a further source of market volatility due to the uncertainty such situations create. Given these uncertainties and the strong recovery in stocks during the bull market, our portfolio performance outlook is more muted now. Nevertheless, our long term outlook remains positive for the economy and the majority of asset classes held in the portfolio given the prospect for an ongoing low inflationary period of positive growth.

Respectfully submitted,

/s/ Clifford A. Sheets

Clifford A. Sheets, CFA
Chief Investment Officer
Montana Board of Investments

Investment Policy

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

Investment Results

TRS Rates of Returns*

	FY 2014	3-Year	5-Year	10-Year
Short-term Investment Pool	0.14%	0.23%	0.27%	1.92%
1 Mo LIBOR Index	0.17%	0.21%	0.23%	1.88%
Retirement Funds Bond Pool	5.22%	4.94%	7.14%	5.91%
Barclays US Agg Bond Index	4.38%	3.67%	4.85%	4.93%
Montana Domestic Equity Pool	25.18%	16.31%	19.19%	7.63%
S&P 1500 Comp Index	24.70%	16.48%	19.18%	8.09%
Montana International Equity Pool	21.67%	5.58%	11.07%	6.47%
International Custom Benchmark	21.99%	5.80%	11.35%	7.47%
Montana Private Equity Pool	16.51%	18.59%	15.90%	11.33%
S&P 1500 +4% (Qtr Lag)	26.02%	18.59%	25.64%	11.74%
Montana Real Estate Pool	11.67%	10.57%	5.41%	N/A
NCREIF ODCE Index (net)	12.74%	11.99%	6.31%	6.18%
Total Portfolio	17.17%	10.70%	13.28%	6.95%

***** A time-weighted rate of return

Investment Summary and Asset Allocation

TRS Cash Equivalent and Investment Portfolio
June 30, 2014

Investment	Book Value	Fair Value
Short-term Investment Pool	$ 74,226,611	$ 74,226,611
Retirement Funds Bond Pool	712,746,462	784,722,676
MT Domestic Equities Pool	405,692,561	1,418,121,811
MT International Equities Pool	359,998,684	643,364,706
MT Private Equities Pool	175,831,117	379,372,922
MT Real Estate Pool	284,602,238	312,839,655
Other Asset Backed Securities	1,142,819	1,142,819
Total	$ 2,014,240,493	$ 3,613,791,200

Ten Largest Bond Holdings (RFBP) at fair value:

1	US TREASURY N/B	414,837,110
2	STATE STREET BANK + TRUST CO	73,732,662
3	COMM MORTGAGE TRUST	59,240,614
4	FREDDIE MAC	55,211,030
5	FANNIE MAE	37,200,628
6	WF RBS COMMERCIAL MORTGAGE TRU	32,471,220
7	MORGAN STANLEY CAPITAL I TRUST	21,453,910
8	GS MORTGAGE SECURITIES TRUST	20,952,228
9	BANK OF AMERICA CORP	20,437,340
10	GNMA II POOL MA1175	20,278,428

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

1	BLACKROCK EQUITY INDEX FUND	2,155,870,891
2	DIMENSIONAL FUND ADVISORS INC	88,621,109
3	BLACKROCK MIDCAP EQUITY INDEX FUND	86,729,367
4	STATE STREET BANK + TRUST CO	34,685,311
5	APPLE INC	28,716,578
6	JOHNSON + JOHNSON	23,167,471
7	VERIZON COMMUNICATIONS INC	17,676,305
8	SCHLUMBERGER LTD	17,095,319
9	WELLS FARGO + CO	16,930,102
10	EXXON MOBIL CORP	15,894,452

Ten Largest International Equity Holdings (MTIP) at fair value:

1	BLACKROCK MSCI ACWI EX US INDEX FUND	1,026,453,466
2	DFA INTL SMALL CO PORTFOLIO	86,515,349
3	BLACKROCK EMERGING MARKET FUND	45,333,257
4	BLACKROCK INTL SMALL CAP INDEX	29,692,885
5	EMERGING MARKETS VALUE	26,528,254
6	EAFE STOCK PERFORMANCE INDEX	13,145,564
7	ROCHE HOLDING AG GENUSSCHEIN	9,748,143
8	BG GROUP PLC	7,323,185
9	ROYAL DUTCH SHELL PLC A SHS	6,630,003
10	AIA GROUP LTD	5,737,522

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

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 are shown below:

Schedule of Investment Expenses

		Custodial	External		
Investment	BOI	Bank	Managers	Other	Total
Short-term Investment Pool	$ 13,085	$ 4,866	N/A	$ 130,118	$ 148,068
Retirement Funds Bond Pool	$ 249,833	$ 73,184	$ 567,424	$ 1,977	$ 892,418
Montana Domestic Equity Pool	$ 226,770	$ 225,615	$ 3,178,474	$ 1,234,597	$ 4,865,456
Montana International Pool	$ 202,672	$ 50,603	$ 1,235,628	$ 221,096	$ 1,709,999
Montana Private Equity Pool	$ 364,388	$ 44,916	$ 7,324,279	$ 808,927	$ 8,542,510
Montana Real Estate Pool	$ 219,182	$ 32,633	$ 3,603,187	$ 0	$ 3,855,003
Totals	**$ 1,275,930**	**$ 431,816**	**$15,908,993**	**$ 2,396,715**	**$20,013,455**

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

7. SCHEDULE OF FUNDING PROGRESS

8. SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

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, 2014. 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. 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 are:

History of Legislated Contributions
(as a Percent of Pay)

School District and Other Employers

	Members	Employers	General Fund	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

State and University Employers

	Members	Employers	General Fund	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%

July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%
July 1, 2016 to June 30, 2017	8.15%	11.15%	0.11%	19.41%
July 1, 2017 to June 30, 2018	8.15%	11.25%	0.11%	19.51%
July 1, 2018 to June 30, 2019	8.15%	11.35%	0.11%	19.61%
July 1, 2019 to June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020 to June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021 to June 30, 2022	8.15%	11.65%	0.11%	19.91%
July 1, 2022 to June 30, 2023	8.15%	11.75%	0.11%	20.01%
July 1, 2023 to June 30, 2024	8.15%	11.85%	0.11%	20.11%

In addition to these contributions, the System received cash contributions from two sources. The first is $25 million on an annual basis from the State. The second is a one-time contribution payable to the System by the trustees of school districts maintaining a retirement fund. The one-time contribution to the Retirement System was the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. This one –time contribution was approximately $22 million which was paid during fiscal year ending June 30, 2014.

Finally, employers are now required to contribution 9.85% of total compensation plus the supplemental contribution required under 19-20-609, MCA, of re-employed retirees who are employed in TRS covered positions.

The July 1, 2014 actuarial valuation indicates that the current employer rate of 11.06% including the anticipated increases in the employer rate is sufficient to pay the System's normal cost and to amortize the System’s Unfunded Actuarial Accrued Liability (UAAL) over a 28-year period. The normal cost of 9.13% of pay consists of 0.98% employer contributions and 8.15% employee contributions. The System’s UAAL as of July 1, 2014 is $1,793.63 million. The remaining contribution of 9.77% plus the previously mentioned cash contributions go toward funding the amortization of the UAAL.

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.

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 2014 actuarial valuation are summarized in Exhibit 1. 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, 2014 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 smoothed investment gains and losses over a four year period.

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:

1) Additional Funding
   a) The Funding and Benefits Policy states:
      “1. If the amortization period is greater than 30 years, the actuary will recommend the single contribution rate increase that can reasonably expect to fully amortize the UAAL over a closed 30-year period effective July 1, following the next regular legislative session.
      2. If the amortization period is less than 30 years, but greater than 0, and it is projected to continue to decline over the remainder of the closed period, the actuary will not recommend a change in the statutory contribution rates.

3. If the amortization period is less than 30 years, but has increased over prior valuations and is projected to continue to grow, the actuary will recommend a contribution rate increase that is reasonably expected to reverse the recent trend and reestablish a closed amortization period equal to that of the last valuation."

2) Analysis: The amortization period as of July 1, 2014 is 28 years based on actuarial assets and 21 years based on market assets. Assuming experience follows the actuarial assumptions, the amortization period is projected to decline. Therefore additional funding is not necessary at this time.

3) Ultimate Goal

   a) The Funding and Benefits Policy states: "It is the desire of the Board to fully fund the System. However, until the System becomes fully funded, any unfunded will be amortized over a closed period of no more than 30 years and funded as a level percent of pay. At such time as the System becomes fully funded and has a stabilization reserve of at least 10% of the actuarial accrued liability, the allowed amortization period for any subsequent unfunded liabilities will be reduced to a closed period of not greater than 20 years."

   b) Analysis: The amortization period on an actuarial value of asset basis is 28 years and is anticipated to decline. This is within the parameters of ultimate goal of the Retirement System.

4) Benefit Enhancements

   a) The Funding and Benefits Policy states: "Any recommendation for a benefit enhancement must include recommendations for necessary additional funding or other benefit reduction to cover any increase in normal cost arising from the recommended enhancement and to amortize any increase in the unfunded actuarial accrued liabilities arising from the recommended enhancement over a period not to exceed 25 years.

      The Board will determine its position with respect to supporting or opposing legislation, on a case-by-case basis, and will apply this policy, actuarial funding standards, and other industry-standard information and resources if finds persuasive, as decision guides. The Board may not support legislation to enhance benefits if the funded ratio is less than 85%, and the amortization period is greater than 20 years."

   b) Analysis: Since the funded ratio at July 1, 2014 of 65.45% is below 80% the Board's Funding and Benefits policy does not currently support enhanced benefits.

Assumption Changes

Since the previous valuation, the Board has adopted an experience study on May 16, 2014 performed for the five year period ending July 1, 2013. As a result, the assumed rates of mortality have been updated; the assumed rate of price inflation and the assumed real wage growth have both been reduced.

Benefit Changes

The GABA has been increased from 0.50% to 1.50% due to a temporary court ordered injunction preventing the reduction of the GABA as required under HB 377.

Contribution Changes

An employer supplemental contribution of 1% of compensation is required beginning in fiscal year 2014 which will increase by 0.10% each subsequent fiscal year through 2024. For fiscal years beginning after June 30, 2024, the supplemental employer contribution will equal 2.00% of compensation.

Method Changes

Since the previous valuation, the investment return assumption has been changed from net of investment and administrative expenses to net of investment expenses only. Therefore the normal cost rate now must contain a load for administrative expenses expected to occur throughout the year.

Impact of Changes

The following table summarizes how experience has changed the UAAL since the July 1, 2013 Actuarial Valuation.

Changes in the Unfunded Actuarial Accrued Liability (UAAL)

(In millions)

July 1, 2013 Valuation UAAL	$ 1,524.8
Expected Increase	(35.4)
Expected July 1, 2014 UAAL	$ 1,489.4
Experience Loss on Actuarial Liabilities	$ 18.1
Experience Gain on Actuarial Assets	(165.6)
Assumption Changes (Experience Study)	46.5
Plan Changes (1.5% GABA)	405.2
Total Gain	$ 304.2
July 1, 2014 Valuation UAAL	$ 1,793.6

The GABA for Tier 1 members has not been modified until a decision has been reached by the court:

- A temporary court ordered injunction has been issued prohibiting the reduction of the GABA until a determination has been made by the court in Byrne vs. State of Montana.
- If the court finds in favor of the State, and the most recent actuarial valuation of the System shows that the funded ratio is less than 90%, then the maximum increase that can be granted is 0.50%.
- If the court finds in favor of the State, and the funded ratio is at least 90% and the increase is not projected to cause the System's funded ratio to be less than 85%, an increase can be granted that is greater than 0.50% but not more than 1.50%.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

(1) Final Average Compensation: average of earned compensation paid in five consecutive years of full-time service that yields the highest average
(2) Service Retirement: Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
(3) Early Retirement: Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
(4) Professional Retirement Option: if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement . Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
(5) Annual Contribution: 8.15% of member's earned compensation
(6) Supplemental Contribution Rate: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
    c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
(7) Disability Retirement: A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination
(8) Guaranteed Annual Benefit Adjustment (GABA):
    a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

Contributions

As shown in the "History of Legislated Contributions" at the beginning of this section, the employer contributions from the General Fund have increased to 2.49% of pay as of July 1, 2009. The supplemental contribution to ensure university member benefits are funded by university employers was increased from 4.04% to 4.72% of Optional Retirement Plan (ORP) member pay at July 1, 2007. The valuation that determined the 4.72% contribution rate of ORP member pay was based on the valuation completed as of July 1, 2006. The most recent ORP valuation completed as of July 1, 2014 indicated an increase is needed in the supplemental contribution rate from 4.72% to 9.75% of ORP member compensation rate.

MCA 19-20-608 and MCA 19-20-609 dictate that employers and members are required to make supplemental contributions if the funded ratio of the System is less than 90%. Since the funded ratio is currently 65.45%, Tier One Members are required to contribute an additional 1% of compensation. The individual employers are required to contribute an additional 1% of compensation. The employer contribution shall increase by 0.1% each year following July 1, 2013 until the total employer supplemental contribution is equal to 2% of compensation.

MCA 19-20-607 requires the State to contribute $25 million annually each July 1st to the System.

In addition to the increases mention above, the System received a one-time contribution of approximately $22 million from the trustees of school districts maintaining a retirement fund. The one-time contribution to the Retirement System was the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013.

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

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
Exhibit 7	Schedule of Funding Progress
Exhibit 8	Schedule of Contributions from Employers and other Contributing Entities

Edward A. Macdonald and Todd B. Green are members 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	*/s/ Todd Green*
Edward A. Macdonald, ASA, FCA, MAAA President	Todd Green, ASA, FCA, MAAA Principal and Consulting Actuary

EAM/kc

Enclosures

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Retirement, disablement and termination of employment assumptions reflect the five-year experience study for the period ending 2009 adopted by the Board on May 13, 2010.

The assumed rates of mortality have been updated based a five-year experience study for the period ending 2013 adopted by the Board on May 13, 2014.

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

Exhibit 1

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Employer Contributions

At the time of this valuation, the total employer contribution rate for normal costs and amortization of the UAAL was 11.06% of members' salaries. The employer contribution rate will increase by 0.10% each year beginning July 1, 2014 until the total employer contribution rate equals 11.96%.

Administrative and Investment Expenses

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

Administrative expenses are assumed to equal 0.31% of payroll.

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 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 net of investment expenses, compounded annually. (Adopted effective July 1, 2014)

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 for Tier 1 Members, the retirement allowance payable is 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.

TEACHERS' RETIREMENT SYSTEM OF MONTANA

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 4.0% 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 May 13, 2010. The rates for University Members were adopted May 13, 2010.

Disablement

The rates of disablement used in this valuation are illustrated in Table A-4. These rates were adopted May 13, 2010.

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, 2014.

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 May 13, 2010.

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.

Part-Time Employees

The valuation data for active members identify part-time members. 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, 2014 was $208,282,777.

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.

Exhibit 1
(Continued)
TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-1

Summary of Valuation Assumptions

I.	Economic assumptions		
	A.	General wage increases* (Adopted July 1, 2014)	4.00%
	B.	Investment return (Adopted July 1, 2004)	7.75%
	C.	Price Inflation Assumption (Adopted July 1, 2014)	3.25%
	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 May 13, 2010)	Table A-3
	C.	Disablement (adopted May 13, 2010)	Table A-4
	D.	Mortality among contributing members, service retired members, and beneficiaries For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018 (adopted July 1, 2014). For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018 (adopted July 1, 2014).	Table A-5

E.	Mortality among disabled members For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018 (adopted July 1, 2014). For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018 (adopted July 1, 2014).	Table A-5
F.	Other terminations of employment (adopted May 13, 2010)	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.

Exhibit 1
(Continued)

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%	4.00%	8.51%	1.00%	4.00%	5.00%
2	4.09	4.00	8.09	1.00	4.00	5.00
3	3.46	4.00	7.46	1.00	4.00	5.00
4	2.94	4.00	6.94	1.00	4.00	5.00
5	2.52	4.00	6.52	1.00	4.00	5.00
6	2.21	4.00	6.21	1.00	4.00	5.00
7	1.89	4.00	5.89	1.00	4.00	5.00
8	1.68	4.00	5.68	1.00	4.00	5.00
9	1.47	4.00	5.47	1.00	4.00	5.00
10	1.31	4.00	5.31	1.00	4.00	5.00
11	1.16	4.00	5.16	1.00	4.00	5.00
12	1.00	4.00	5.00	1.00	4.00	5.00
13	0.84	4.00	4.84	1.00	4.00	5.00
14	0.68	4.00	4.68	1.00	4.00	5.00
15	0.58	4.00	4.58	1.00	4.00	5.00
16	0.47	4.00	4.47	1.00	4.00	5.00
17	0.37	4.00	4.37	1.00	4.00	5.00
18	0.26	4.00	4.26	1.00	4.00	5.00
19	0.21	4.00	4.21	1.00	4.00	5.00
20	0.16	4.00	4.16	1.00	4.00	5.00
21	0.11	4.00	4.11	1.00	4.00	5.00
22 & Up	0.00	4.00	4.00	1.00	4.00	5.00

Exhibit 1
(Continued)

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		8.0%	5.5%		17.0%	8.0%
46		8.0	5.5		17.0	8.0
47		8.0	5.5		17.0	8.0
48		8.0	5.5		17.0	8.0
49	*	8.0	5.5	*	17.0	8.0
50	5.0%	8.0	5.5	7.0%	17.0	8.0
51	5.0	8.0	6.3	7.0	17.0	8.0
52	5.0	8.0	8.0	7.0	17.0	8.0
53	5.0	9.0	7.3	7.0	17.0	8.0
54	5.0	9.0	8.2	7.0	17.0	8.0
55	7.0	9.0	9.8	7.0	15.0	8.0
56	7.0	12.0	11.3	7.0	15.0	8.0
57	7.0	11.8	12.5	7.0	15.0	8.0
58	7.0	14.8	13.1	7.0	15.0	8.0
59	7.0	17.4	14.8	7.0	15.0	8.0
60	*	14.6	17.0	*	15.0	8.5
61		21.3	25.0		14.0	14.5
62		23.8	25.0		20.0	19.0
63		11.4	25.0		14.0	14.5
64		19.0	25.0		20.0	18.0
65		40.0	35.0		28.0	26.0
66		8.0	20.0		21.0	21.0
67		30.0	20.0		21.0	24.5

68	6.0	20.0	21.0	19.5
69	6.0	20.0	21.0	30.0
70	**	**	**	**

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

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-4

Disablement
Annual Rates

Age	All Members
25	.005%
30	.005
35	.008
40	.028
45	.044
50	.063
55	.084
60	.100

Exhibit 1
(Continued)

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-5
Mortality Annual Rates

	Contributing Members, Service Retired Members and Beneficiaries		Disabled Members	
Age	Men	Women	Men	Women
25	0.04%	0.02%	2.26%	0.75%
30	0.04	0.02	2.26	0.75
35	0.05	0.04	2.26	0.75
40	0.08	0.06	2.26	0.75
45	0.11	0.09	2.38	1.15
50	0.16	0.14	3.03	1.65
55	0.58	0.29	3.67	2.18
60	0.66	0.49	4.35	2.80
65	0.98	0.85	5.22	3.76
70	1.61	1.38	6.58	5.22
75	2.66	2.30	8.70	7.23
80	4.57	3.76	11.55	10.02
85	7.74	6.25	14.84	14.00
90	12.68	10.73	19.98	19.45
95	19.98	17.04	28.39	23.75

Exhibit 1
(Continued)

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-6

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

Years of Service	All Members
1	36.5%
2	20.5
3	14.6
4	10.5
5	8.5
6	7.0
7	6.4
8	5.8
9	5.4
10	5.0
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

Exhibit 1
(Continued)

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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

Exhibit 2

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, 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%
July 1, 2010	12,711	630,444,000	49,598	2.5%
July 1, 2011	12,506	633,005,000	50,616	2.1%
July 1, 2012	12,202	622,140,000	50,987	0.7%
July 1, 2013	12,229	628,832,000	51,421	0.9%
July 1, 2014	12,286	712,802,000	51,967	1.06%

Part-Time Members*

Valuation Date	Number	Annual Payroll	Average Annual Payroll	Annualized % of Increase in Average Pay
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%
July 1, 2010	5,642	74,571,000	13,217	(0.4)%
July 1, 2011	5,400	73,275,000	13,569	2.7%
July 1, 2012	5,534	73,788,000	13,334	(1.7)%
July 1, 2013	5,387	73,430,000	13,631	2.2%
July 1, 2014	5,428	74,300,000	13,688	0.4%

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

Exhibit 3

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, 2005	613	N/A	324	N/A	10,664	170,129,000	7.8%	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
June 30, 2010	698	16,124,000	294	1,343,000	12,440	234,048,000	6.7%	18,814
June 30, 2011	789	20,846,000	330	4,394,000	12,899	250,500,000	7.0%	19,420
June 30, 2012	777	22,108,000	313	4,757,000	13,363	267,851,000	6.9%	20,044
June 30, 2013	834	21,500,000	329	5,018,000	13,868	284,333,000	6.2%	20,503
June 30, 2014	792	24,241,000	312	5,054,489	14,349	303,520,000	6.7%	21,153

*Information provided where available

Exhibit 4

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, 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%
July 1, 2010	2,956.6	823.9	2,557.0	1,137.2	100.0%	83.4%	0.0%
July 1, 2011	2,866.5	803.3	2,721.4	1,133.8	100.0%	75.8%	0.0%
July 1, 2012	2,852.0	780.7	2,898.9	1,135.1	100.0%	71.5%	0.0%
July 1, 2013	3,067.9	756.9	2,828.6	1,007.2	100.0%	81.7%	0.0%
July 1, 2014	3,397.4	741.7	3,354.6	1,094.7	100.0%	79.2%	0.0%

Exhibit 5

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.

Exhibit 5
(Continued)

TEACHERS' RETIREMENT SYSTEM OF MONTANA

ANALYSIS OF FINANCIAL EXPERIENCE *

(All dollar amounts in millions)

	UAAL (Gain)/Loss		
	June 30, 2014	**June 30, 2013**	**June 30, 2012**
Investment Income			
Investment income was (greater) less than expected based on actuarial value of assets.	$ (165.6)	$ (118.2)	$ 128.0
Pay Increases			
Pay increases were (less) greater than expected.	(28.1)	(38.2)	(58.2)
Age & Service Retirements			
Members retired at (older) younger ages or with (less) greater final average pay than expected	18.8	19.3	19.8
Disability Retirements			
Disability claims were (less) greater than expected	0.2	0.3	0.4
Death-in-Service Benefits			
Survivor claims were (less) greater than expected	(2.8)	(0.4)	(0.1)
Withdrawal From Employment			
(More) less reserves were released by withdrawals than expected	20.0	4.1	6.7
Death After Retirement			
Retirees (died younger) lived longer than expected	12.0	2.3	4.6
Data Adjustments and Benefit Payment Timing			
Service purchases, data corrections, etc.	(1.6)	(4.4)	10.2
Other			
Miscellaneous (gains) and losses	(0.4)	0.1	0.5
Total (Gain) or Loss During Period From Financial Experience	$ (147.5)	$ (135.1)	$ 111.9
Non-Recurring Items.			
Changes in actuarial assumptions and methods	46.5	-	-
Changes in benefits caused a (gain) loss	405.2	(371.1)	-
Composite (Gain) Loss During Period	$ 304.2	$ (506.2)	$ 111.9

* 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.

Exhibit 6

TEACHERS' RETIREMENT SYSTEM OF MONTANA

PROVISIONS OF GOVERNING LAW

Effective Date

September 1, 1937.

Vesting Period

Five years. No benefits are payable unless the member has a vested right, except the return of employee contributions with interest.

Tier One Member

A person who became a member before July 1, 2013 and who has not withdrawn the member's account balance.

Tier Two Member

A person who became a member on or after July 1, 2013, or who after withdrawing the member's account balance, became a member again after July 1, 2013.

Final Compensation

Tier One Members

Average of highest three consecutive years of earned compensation.

Tier Two Members

Average of highest five 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.

Exhibit 6
(continued)

Normal Retirement Benefits

Tier One Members

Eligibility: 25 years of service or age 60 with five years of service.

Benefit: The retirement benefit is equal to 1/60 of final compensation for each year of service.

Tier Two Members

Eligibility: Age 55 with 30 years of service or age 60 with five years of service.

Benefit: A member age 60 with at least 30 years of creditable service will receive a retirement allowance equal to 185/100 of final compensation for each year of service. Otherwise, the multiplier used to calculate the retirement allowance will equal 1/60 of final compensation for each year of service.

Early Retirement Benefits

Tier One Member

Eligibility: Five 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 actuarially reduced by the lesser of the number of years equal to the age of the participant at the early retirement subtracted from age 60 or the number of years of service at early retirement subtracted from 25 years of service.

Tier Two Member

Eligibility: Five years of service and age 55.

Benefit: The retirement benefit is calculated in the same manner as described for normal retirement, but the benefit is actuarially reduced by the lesser of the number of years equal to the age of the participant at the early retirement subtracted from age 60 or the number of years of service at early retirement subtracted from 30 years of service.

Exhibit 6
(continued)

Death Benefit

Eligibility:	Five 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:	Five 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. A Tier Two Member is not eligible for a disability retirement if the member is or will be eligible for a service retirement on or before the member’s date of determination.

Withdrawal Benefits	With less than five years of service, the accumulated employee contributions with interest are returned. With more than five 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	Tier One Member: 7.15% of compensation. Tier One members are required to contribute a Supplemental Contribution equal to an additional 1% of compensation. The Board may decrease the Supplemental Contribution if the average funded ratio of the System based on the last three actuarial valuations is equal to or greater than 90% and the period necessary to amortize the unfunded liabilities of the System based on the most recent actuarial valuation is less than 15 years. Following one or more decreases in the supplemental contribution the Board may increase the supplemental contribution to a rate not to exceed 1% if the average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80% and the period necessary to amortize all liabilities of the System based on the most recent annual actuarial valuation is greater than 20 years.

Exhibit 6
(continued)

Tier Two Member: 8.15% of compensation. The Board may require a Tier Two member to contribute a Supplemental Contribution if the average funded ratio of the System based on the last three actuarial valuations is equal to or less than 80% and the period necessary to amortize the unfunded actuarial accrued liability is greater than 20 years and a State or employer contribution rate increase or a flat dollar contribution to the System has been enacted which is equivalent to or greater than the Supplemental Contribution Rate imposed by the Board. A singe Tier Two Supplemental Contribution Rate increase cannot exceed 0.5% of compensation and in total cannot exceed 9.15% of compensation. The Board may decrease the Supplemental Contribution if the average funded ratio of the System based on the previous three annual actuarial valuations is equal to or greater than 90%; and the period necessary to amortize the unfunded actuarial accrued liability is less than 15 years.

Employer: 9.96% of compensation. Employer's are required to contribute a supplemental contribution equal to 1% for fiscal year 2014 and increase by 0.1% each fiscal year through 2024. The Board may decrease the Employer Supplemental Contribution if the average funded ratio of the System based on the last three actuarial valuations is equal to or greater than 90% and the period necessary to amortize the unfunded actuarial accrued liability based on the most recent valuation is less than 15 years and the GABA has been increased to the maximum allowable. Following one or more decreases in the Supplemental Contribution Rate the Board may increase the Supplemental Contribution Rate to a rate not to exceed 1% if the average funded ratio of the System based on the last three actuarial valuations is equal to or less than 80% and the period necessary to amortize the unfunded actuarial accrued liability is greater than 20 years.

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.

State Supplemental Contribution: $25 million per year on an annual basis payable on July 1st of each year.

Exhibit 6
(continued)

	Re-employed Retirees: Employers are required to contribute 9.85% of total compensation paid to re-employed retirees who are hired in a TRS covered position.
Interest on Member	Effective July 1, 2015, the interest credited on member contributions is reduced from 0.25% to 0.20% per annum.
Cost-of-Living Adjustments	On January 1 of each year, 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, for Tier One Members, the retirement allowance will be increased by 0.5% if the funded ratio of the System is less than 90%. If the most recent actuarial valuation shows that the System is at least 90% funded and the provisions of the increase is not projected to cause the System's liabilities to be less than 85% funded, the increase can be an amount greater than 0.5% and no more than 1.5%, as set by the Board.
	Pending litigation, a temporary court ordered injunction has been issue which prohibited the reduction of the GABA, pursuant to MCA 19-20-719. Until the litigation is resolved, Tier 1 members benefit shall be increased by 1.50% regardless of the funded ratio.
	For Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded to be less than 85%.

Exhibit 7

TRS PLAN
SCHEDULE OF FUNDING PROGRESS
(All dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)[1]	Unfunded Actuarial Accrued Liabilities (UAAL)[2]	Funded Ratio[3]	Covered Payroll[4]	UAAL as a Percentage of Covered Payroll
July 1, 2014	3,397.4	5,191.1	1,793.6	65.45%	750.6	239.0%
July 1, 2013	3,067.9	4,592.7	1,524.8	66.80%	742.6	205.3%
July 1, 2012	2,852.0	4,814.7	1,962.7	59.2%	735.6	266.8%
July 1, 2011	2,866.5	4,658.6	1,792.1	61.5%	746.7	240.0%
July 1, 2010	2,956.6	4,518.2	1,561.6	65.4%	747.0	209.0%
July 1, 2009	2,762.2	4,331.0	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.*

Exhibit 8

TRS PLAN
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

(All dollar amounts in thousands)

Schedule of Employer and Non-Employer Contributing Entities Contributions

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Employer Contributions	$ 148,362,932	$ 130,533,530	$ 108,993,492	$ 91,879,263	$ 90,967,180	$ 80,997,968	$ 81,414,325	$ 40,807,133	$ 42,768,730	$ 57,806,176
Actual Contributions:										
Employers	83,439,612	74,113,191	72,422,404	72,879,950	72,179,128	66,850,644	67,921,950	61,943,986	58,268,941	57,150,364
Non-Employer Contributing Entities	64,923,320	17,521,347	16,843,766	17,437,366	17,241,610	14,147,324	13,492,375	720,266	693,226	655,812
Total	148,362,932	91,634,538	89,266,170	90,317,316	89,420,738	80,997,968	81,414,325	62,664,252	58,962,167	57,806,176
Annual Contribution Deficiency / (Excess)	-	38,898,992	19,727,322	1,561,947	1,546,442	-	-	(21,857,119)	(16,193,437)	-
Covered - Employee Payroll	750,604,063	742,608,987	735,586,961	746,694,434	747,037,330	683,235,462	657,435,444	664,100,000	636,000,000	612,600,000
Actual Contributions as a Percentage of Covered-Employee Payroll	19.77%	12.34%	12.14%	12.10%	11.97%	11.86%	12.38%	9.44%	9.27%	9.44%

STATISTICAL SECTION

SCHEDULE OF CHANGES IN NET POSITION
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

Schedule of Changes in Net Position
Last Ten Fiscal Years
(In thousands)

		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Additions:											
Member Contributions	$	70,468	62,850	62,746	62,993	62,845	57,256	59,552	56,509	53,293	52,900
Employer Contributions		83,440	74,113	72,422	72,880	72,179	66,851	67,922	61,944	58,269	57,150
Other Contributions		64,923	17,521	16,844	17,437	17,242	14,147	13,492	50,720	100,693	656
Misc Income		6	8	10	17	65	16	16	16	4	
Net Investment Income		540,277	373,722	66,341	539,028	294,954	(613,028)	(153,312)	484,532	224,787	188,734
Total Additions	$	759,114	528,214	218,363	692,355	447,285	(474,758)	(12,330)	653,721	437,046	299,440
Deductions:											
Benefit Payments:									182,827	171,957	161,247
Retirees	$	277,012	260,791	244,071	227,840	213,130	203,096	189,441			
Beneficiaries		5,055	4,416	4,336	4,399	4,173	4,063	3,898			
Disabilities		3,115	3,044	3,004	2,884	2,890	2,784	2,721			
Withdrawals		4,789	5,119	5,295	4,365	4,166	5,170	5,695	5,595	4,876	4,340
Administrative Expenses		2,023	1,934	1,830	1,843	1,905	1,854	1,751	1,434	1,579	1,561
Other		58	48	46	49	47	49	47	502		
Total Deductions	$	292,052	275,352	258,582	241,380	226,311	217,016	203,553	190,358	178,412	167,148
Change in Net Position	$	467,062	252,862	(40,219)	450,975	220,974	(691,774)	(215,883)	463,363	258,634	132,292

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

Schedule of Average Benefit Payments
Ten Years Ended June 30, 2014

Fiscal Year of Retirement			Years of Credited Service					
			5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
2014	Average Monthly Benefit	$	416	671	1,046	1,686	2,309	3,358
	Average Final Average Salary	$	3,215	3,551	3,993	4,658	5,308	6,046
	Number of Retirees		37	53	70	87	138	270
2013	Average Monthly Benefit	$	277	694	1,001	1,651	2,274	3,216
	Average Final Average Salary	$	2,265	3,546	3,791	4,605	5,279	5,810
	Number of Retirees		54	58	63	98	129	274
2012	Average Monthly Benefit	$	341	648	1,029	1,589	2,289	3,258
	Average Final Average Salary	$	2,795	3,386	4,008	4,474	5,263	5,950
	Number of Retirees		41	51	52	71	139	260
2011	Average Monthly Benefit	$	296	608	1,030	1,662	2,172	3,338
	Average Final Average Salary	$	2,519	3,042	3,864	4,773	5,030	5,976
	Number of Retirees		47	58	64	80	132	247
2010	Average Monthly Benefit	$	303	629	987	1,501	2,135	3,109
	Average Final Average Salary	$	2,681	3,181	3,662	4,388	5,029	5,619
	Number of Retirees		42	51	44	65	125	247
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

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
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	4,717	5,041
	Number of Retirees		42	42	46	74	135	193
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
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

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

Schedule of Membership
Ten Years Ended June 30, 2014

Active and Inactive Members

Period Ended	Active Members	Inactive Vested Members	Inactive Non-vested	Total
June 30, 2014	18,272	1,654	12,308	32,234
June 30, 2013	18,249	1,566	11,710	31,525
June 30, 2012	18,372	1,566	11,172	31,110
June 30, 2011	18,484	1,580	10,727	30,791
June 30, 2010	18,953	1,553	10,304	30,810
June 30, 2009	18,456	1,640	9,868	29,964
June 30, 2008	18,292	1,649	9,574	29,515
June 30, 2007	18,188	1,660	8,856	28,704
June 30, 2006	18,108	1,681	8,470	28,259
June 30, 2005	18,247	1,640	8,431	28,318
June 30, 2004	18,257	1,607	7,723	27,587

Retired Members and Benefit Recipients
Ten Years Ended June 30, 2014

Period Ended	Retirement	Survivors	Disability	Total
June 30, 2014	13,685	460	204	14,349
June 30, 2013	13,206	459	203	13,868
June 30, 2012	12,703	457	203	13,363
June 30, 2011	12,247	445	207	12,899
June 30, 2010	11,620	504	316	12,440
June 30, 2009	11,228	498	310	12,036
June 30, 2008	11,043	438	307	11,788
June 30, 2007	10,242	424	305	10,971
June 30, 2006	9,909	429	299	10,637
June 30, 2005	9,578	427	294	10,299
June 30, 2004	9,246	427	294	9,967

Teachers' Retirement System
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Schedule of Retired Members and Beneficiaries by Type of Benefit

Amount of Monthly Benefit	Number of Retired Members	Regular Retiree	Early Retiree	Regular or Early Beneficiary	Death Beneficiary	Disability Retiree	Disability Beneficiary
$ 0 - 500	2,095	1,123	630	60	213	38	31
$ 501 - 1,000	1,907	1,184	454	22	113	85	49
$ 1,001 - 1,500	2,124	1,703	268	8	64	66	15
$ 1,501 - 2,000	2,698	2,576	70	-	39	11	2
$ 2,001 - 2,500	2,283	2,240	17	1	20	3	2
$ 2,501 - 3,000	1,489	1,475	5	-	8	1	-
$ 3,001 - 3,500	775	771	2	-	2	-	-
$ 3,501 - 4,000	445	442	1	-	2	-	-
$ 4,001 - 4,500	223	222	-	-	1	-	-
$ 4,501 - 5,000	105	105	-	-	-	-	-
Over $ 5,000	151	149	-	-	2	-	-
Total	14,295	11,990	1,447	91	464	204	99

Schedule of Principal Participating Employers
Current Year and Ten Years Ago

	2014		2004	
Employer	Covered Employees	% of Total Covered Employees	Covered Employees	% of Total Covered Employees
Billings Public Schools	1,524	8.55%	1,616	7.6%
Great Falls Public Schools	1,014	5.69%	1,140	5.4%
Missoula County Public Schools	977	5.48%	1,031	4.8%
Helena Public Schools	907	5.09%	830	3.9%
Kalispell Public Schools	559	3.14%	493	2.3%
Bozeman Public Schools	477	2.68%	569	2.7%
Butte Public Schools	374	2.10%	448	2.1%
Belgrade Public Schools	323	1.81%	248	1.2%
Hardin Public Schools	272	1.53%	260	1.2%
Browning Public Schools	260	1.46%	299	1.4%
Columbia Falls Public Schools	259	1.45%	283	1.3%
Havre Public Schools	250	1.40%	210	1.0%
University of Montana	227	1.27%	1,320	6.2%
Polson Public Schools	200	1.12%	165	0.8%
Hamilton Public Schools	196	1.10%	188	0.9%

Teachers' Retirement System
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Location of Benefit Recipients as of July 1, 2014

AUSTRALIA	2	DC	4	MN	94	RI	1
CANADA	19	DE	2	MO	32	SC	12
GERMANY	1	FL	77	MS	7	SD	59
ISRAEL	2	GA	14	MT	11,130	TN	15
MARSHALL ISLANDS	1	HI	15	NC	38	TX	95
NEW ZEALAND	1	IA	20	ND	106	UT	72
UNITED KINGDOM	4	ID	172	NE	23	VA	25
AE	1	IL	20	NH	5	VT	4
AK	38	IN	14	NJ	4	WA	411
AL	6	KS	16	NM	34	WI	23
AP	1	KY	9	NV	122	WV	3
AR	12	LA	8	NY	16	WY	132
AZ	447	MA	13	OH	13	USA	13,349
CA	150	MD	12	OK	22		
CO	120	ME	4	OR	186		
CT	6	MI	27	PA	18	Total	13,379