

MONTANA

Teachers' Retirement System

A Component Unit of the State of Montana



ANNUAL REPORT

FISCAL YEAR ENDED JUNE 30, 2004

Brian Schweitzer, Governor

MONTANA

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

ANNUAL REPORT **FISCAL YEAR ENDED JUNE 30, 2004**

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Executive Director

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

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INTRODUCTORY SECTION

**EXECUTIVE DIRECTOR'S LETTER OF
TRANSMITTAL**

PPCC PUBLIC PENSION STANDARDS AWARD

**BOARD OF DIRECTORS AND PROFESSIONAL
CONSULTANTS**

December 20, 2004

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

Dear Governor Schweitzer:

On behalf of the Montana Teachers' Retirement Board, we are pleased to present the Montana Teachers' Retirement System Annual Report for the fiscal year ended June 30, 2004. This report is intended to provide comprehensive information on the financial operations of the Montana Teachers' Retirement System (TRS) for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the report rests with the management of the TRS.

This report contains four sections:

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

The TRS was established by state law in 1937 and has completed its 67th year of operation. The TRS is providing services to over 18,200 active members and managing assets valued in excess of \$2.46 billion.

Investment Activity

The TRS investment portfolio posted a 13.3% return, resulting in an overall increase in the fair market value of its investments. The System's total annualized rate of return over the last five and ten years was 1.38% and 7.97% respectively. The Board of Investments (BOI) invests the

TRS and other pension portfolios for the long-term and its investment strategies are designed to provide sufficient returns over time. However, there is no guarantee of future investment performance. Performance in any given year is dependent not only on the BOI's investment performance but also on the performance of the markets themselves, which are impacted by domestic and global economic conditions, interest rates, and government policies.

Conclusion

The Teachers' Retirement Board is pleased to submit this 2004 annual report to you reflecting an unqualified opinion from the Legislative Audit Division, which can be found on page 13.

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

Sincerely,

David L. Senn
Executive Director



Public Pension Coordinating Council
Public Pension Standards
2003 Award

Presented to

Montana Teachers Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in cursive script, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

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

BOARD OF DIRECTORS

TIM RYAN CHAIR Public Representative	07-01-04 to 07-01-09
SCOTT DUBBS VICE CHAIR Active Member	07-01-04 to 07-01-09
KARI PEIFFER Active Member (Classroom Teacher)	07-01-02 to 07-01-07
BARBARA FOSTER Retired Member	08-01-01 to 07-01-06
MONA BILDEN Active Member	02-11-03 to 07-01-06
JAMES TURCOTTE Public Representative	07-01-01 to 07-01-05

PROFESSIONAL CONSULTANTS

MILLIMAN	Actuaries & Consultants Seattle, WA 98101
ICEMILLER	Legal & Business Advisors Indianapolis, IN 46282

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

STATEMENT OF FIDUCIARY NET ASSETS

**STATEMENT OF CHANGES
IN FIDUCIARY NET ASSETS**

NOTES TO FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPORTING SCHEDULES

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Teachers' Retirement Board:

We have audited the accompanying Statement of Fiduciary Net Assets of the Teachers' Retirement System, a component unit of the state of Montana, as of June 30, 2004, and 2003, and the related Statement of Changes in Fiduciary Net Assets for each of the fiscal years then ended. These financial statements are the responsibility of the Teachers' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System as of June 30, 2004, and 2003, and the changes in fiduciary net assets for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

October 29, 2004

TEACHERS' RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Montana Teachers' Retirement System's (TRS) annual report provides a narrative overview of the TRS's financial activities for the fiscal year ended June 30, 2004. Please read this in conjunction with the transmittal letter presented in the introductory section and the financial statements with accompanying footnotes, required supplementary information with notes, and supporting schedules included later in this financial section.

Overview of the Financial Statements

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

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

The schedule of administrative expenses is a presentation of what comprises the administrative expense item as reported on the Statement of Changes in Fiduciary Net Assets. The schedule of consultant and professional services is used to provide information on fees paid to outside professionals.

Financial Highlights

- The TRS plan net assets increased by \$231.2 million representing a 10.9% increase for the fiscal year ended June 30, 2004.
- Total contributions to the plan also increased by 3.5% from the previous year from \$104.3 million to \$107.9 million.
- Net investment income (fair value of investments plus investment income less investment expense) showed a gain of \$155.5 million for the fiscal year. Representing an increase of 123.1%.
- Pension benefits and withdrawals paid to beneficiaries and plan members totaled \$156.1 million for the fiscal year, an increase of 6.4% from the previous year.
- Administrative expenses totaled \$1.51 million down from \$1.86 million, a decrease of 18.8%.

Financial Analysis (in millions)

	<u>FY2004</u>	<u>FY2003</u>	<u>Percent Inc/(Dec)</u>
Cash/Cash Equivalents	\$ 78.1	\$ 67.2	16.2 %
Investments (fair value)	2,362.5	2,098.8	12.6
Liabilities	109.2	70.4	55.1
Net Assets	2,354.8	2,123.6	10.9
Contributions	107.9	104.3	3.5
Net Investment Income	281.8	126.3	123.1
Benefit Pmts & Withdrawals	156.1	146.7	6.4
Administrative Expenses	1.51	1.86	(18.8)

- The increase in cash/cash equivalents is due primarily to an increase in our number of shares held in the Short Term Investment Pool.
- The increase in liabilities is due mostly to a \$38.4 million increase in the value of Securities on Loan at June 30, 2004.
- The increase in net investment income was due primarily to the greater appreciation of \$121.8 million in the fair value of our investments from the previous year.
- The increase in benefit payments and withdrawals was due to an increase in the number of retirees and beneficiaries plus the 1.5% guaranteed annual benefit adjustment.
- The decrease in administrative expenses was due primarily to a decrease in amortization costs of intangible assets.

Overview of the Actuarial Funding

While the financial statements show a positive net investment income return of \$281.8 million for fiscal year 2004, the actuarial return is still less than the actuarial assumed rate of 8% as illustrated below. Actuarial gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption.

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

The asset loss in the last two years increased the unfunded actuarial accrued liability (UAAL) by about \$302 million. Without the asset losses, the UAAL would be closer to \$571 million instead of the \$873 million showing in the Schedule of Funding Progress. The root of these losses were the negative market returns of (5.1)% and (7.3)% in the years ending 6/30/2001 and 6/30/2002. The asset valuation method spreads any market value gains or losses evenly over

the five years after they occur. As of July 1, 2002 the System had \$443 million in unrecognized asset losses. At July 1, 2004 the System has \$131 million in unrecognized asset losses. This \$131 million in unrecognized asset losses, if not offset by future gains, will cause the contributions needed to amortize the UAAL in future valuations to increase even further. Therefore, to be actuarially sound in future years, the System will need to incur asset returns well over the new 7.75% assumption or an increase in contribution rates.

The actuarial valuation as of July 1, 2004, was completed and distributed in November 2004. Based on the results of this valuation the TRS Board will recommend options to the Legislature that are considered necessary to be actuarially sound.

An actuarial review of the TRS was contracted by the State of Montana's Legislative Audit Division and the Teacher's Retirement Board in 2004. The actuarial review included a full reproduction of the July 1, 2004 actuarial valuation results prepared by the TRS actuary, Milliman, and a review of recent experience studies and actuarial assumptions and methods used in the valuations. Mellon was selected to perform the actuarial review.

Mellon reported that they did not find any significant errors or concerns regarding the valuation prepared by Milliman and the valuation fairly represents the actuarial position and funding requirements of the retirement system. Mellon also concurs with Milliman's conclusion that the employer contribution rate should be increased by at least 2.8% in order to meet a 30-year amortization period. The report contained only two recommendations for improving disclosure and communication of actuarial valuation results. These recommendations do not impact the actuarial valuation results. The full report is available from the TRS, or online at www.trs.doa.state.mt.gov/trs_board_info.htm.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash/Cash Equivalents-Short Term		
Investment Pool (Note B)	\$ 78,154,124	\$ 67,248,556
Receivables:		
Accounts Receivable	14,337,374	15,568,694
Interest Receivable	8,055,656	8,927,249
Due from Primary Government	80,195	84,300
Total Receivables	<u>\$ 22,473,225</u>	<u>\$ 24,580,243</u>
Investments, at fair value (Note B):		
Mortgages	\$ 54,989,718	\$ 90,823,459
Investment Pools	2,189,335,826	1,926,576,113
Other Investments	9,708,721	11,326,655
Securities Lending Collateral	108,506,737	70,099,111
Total Investments	<u>\$ 2,362,541,002</u>	<u>\$2,098,825,338</u>
Assets Used in Plan Operations:		
Land and Buildings	\$ 193,844	\$ 193,844
Less: Accumulated Depreciation	(128,591)	(124,827)
Equipment	147,087	147,087
Less: Accumulated Depreciation	(126,281)	(121,066)
Prepaid Expense	3,517	2,992
Intangible Assets, net of amortization (Note D)	776,505	3,320,631
Total Other Assets	<u>\$ 866,081</u>	<u>\$ 3,418,661</u>
TOTAL ASSETS	<u>\$2,464,034,432</u>	<u>\$2,194,072,798</u>
LIABILITIES		
Accounts Payable	\$ 247,108	\$ 212,760
Due to Primary Government	327,761	22,562
Securities Lending Liability (Note B)	108,506,737	70,099,111
Compensated Absences (Note B)	108,627	104,105
TOTAL LIABILITIES	<u>\$ 109,190,233</u>	<u>\$ 70,438,538</u>
NET ASSETS HELD IN TRUST		
FOR PENSION BENEFITS (A Schedule of		
Funding Progress is presented on page 27)	<u>\$2,354,844,199</u>	<u>\$2,123,634,260</u>

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

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ADDITIONS		
Contributions:		
Employer	\$ 55,773,716	\$ 53,276,950
Plan Member	51,382,941	50,221,491
Other	<u>770,379</u>	<u>753,838</u>
Total Contributions	\$ 107,927,036	\$ 104,252,279
 Misc Income	 \$ 0	 \$ 4,011
Workers Comp. Dividend	199	213
Taxes	53	236
 Investment Income:		
Net Appreciation in Fair		
Value of Investments	\$ 152,473,601	\$ 30,665,509
Investment Earnings	132,052,991	98,020,849
Security Lending Income (Note B)	<u>1,153,276</u>	<u>1,268,968</u>
Investment Income	\$ 285,679,868	\$ 129,955,326
Less: Investment Expense	2,948,793	2,683,417
Less: Security Lending Expense (Note B)	<u>938,082</u>	<u>1,025,993</u>
Net Investment Income	<u>\$ 281,792,993</u>	<u>\$ 126,245,916</u>
 Total Additions	 <u>\$ 389,720,281</u>	 <u>\$ 230,502,655</u>
 DEDUCTIONS		
Benefit Payments	\$ 150,270,797	\$ 140,229,496
Withdrawals	5,843,069	6,468,324
Administrative Expense	1,506,694	1,860,967
Loss on Intangible Assets (Note D)	<u>889,782</u>	<u>0</u>
Total Deductions	<u>\$ 158,510,342</u>	<u>\$ 148,558,787</u>
 NET INCREASE (DECREASE)		
IN FIDUCIARY NET ASSETS	 \$ 231,209,939	 \$ 81,943,868
 NET ASSETS HELD IN TRUST		
FOR PENSION BENEFITS		
BEGINNING OF YEAR	2,123,634,260	2,041,691,136
Prior Period Adjustment		(744)
END OF YEAR	<u><u>\$2,354,844,199</u></u>	<u><u>\$2,123,634,260</u></u>

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

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

NOTE A. DESCRIPTION OF PLAN

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

At June 30, 2004, the number and type of reporting entities participating in the system were as follows:

Local School Districts	372
Community Colleges	3
University System Units	2
State Agencies	<u>8</u>
Total	385

At June 30, 2004, the system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	9,970
Terminated Employees Entitled to But Not Yet Receiving Benefits	9,330
Current Active Members:	
Vested	11,683
Nonvested	<u>6,574</u>
Total Membership	37,557

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

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel at June 30, 2004 and June 30, 2003.

Valuation of Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages were decreased by unamortized mortgage discount of \$11,040 in fiscal year 2004 and \$17,326 in fiscal year 2003. No investment in any one organization represents 5% or more of the net assets available for pension benefits. Investment units are bought/sold on the first business day of each month upon the decision of the Board of Investment's (BOI) Chief Investment Officer.

The six areas of investment during June 30, 2004 and 2003 include: Montana Domestic Equity Pool (MDEP); Montana International Equity Pool (MTIP); Short-Term Investment Pool (STIP); Retirement Funds Bond Pool (RFBP); Montana Private Equity Pool (MPEP), and Other Investments.

1. The BOI established the MDEP in April 2003. The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts and equity derivatives. The initial MDEP unit value on May 1, 2003 was \$100. Unit value at June 30, 2004 and June 30, 2003 was \$122.95 per unit and \$106.01 per unit respectively.

2. The MTIP portfolio includes equity investments in six funds - BOI Internal International through January 2004, Pyrford International, Schroder Investment Management NA, Nomura Asset Management U.S.A, Inc. from December 2003, SG Yamaichi Asset Management Co. through October 2003, the BGI MSCI Europe Index Fund and the BGI All Country Pacific Index Strategy Fund. The six funds may invest in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, convertible securities, American Depositary Receipts (ADR's), Global Depositary Receipts (GDR's), and other global securities, as appropriate. Unit values are calculated weekly and once a month at the close of the last business day of the month, based upon the fair value of the MTIP equity holdings, other assets and liabilities. Unit value at June 30, 2004 and June 30, 2003 was \$107.70 per unit and \$83.39 per unit respectively.

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

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

4. RFBP portfolio includes corporate asset-backed, other corporate, U. S. government mortgage-backed, government, Yankee securities and cash investments. Unit values are calculated weekly and at month end based on portfolio pricing. Unit value at June 30, 2004 and June 30, 2003 was \$104.32 per unit and \$110.84 per unit respectively. Realized portfolio gains/losses are distributed at least annually. The RFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits).

As of June 30, 2004 and June 30, 2003, Enron Corp. and Burlington Industries, Inc. presented legal and higher credit risks to the RFBP.

The RFBP holds a \$7 million par 6.40% Enron bond maturing July 15, 2006 and a \$7 million par 6.95% Enron bond maturing July 15, 2028. The combined book value of these securities was \$13,582,030 as of November 30, 2001. On December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, the November 2001 book value for the two issues was reduced to \$5.6 million as of June 30, 2002. In October 2002, the book value was reduced to \$2.8 million for both issues. In July 2003, both issues were sold, on the market, for a total of \$2.36 million.

The BOI owns a Burlington Industries, Inc., \$6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$5,609,640 to \$2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's

recovery plan, the BOI received \$1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to \$0 and generated a gain of \$254,961. The BOI is expected to receive additional proceeds for its claim.

DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The BOI received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, \$5 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a “breach of contract” for the March 25, 2002 sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities seeks damages of \$538,632 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The BOI tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the BOI received \$5,683,075 in principal and interest plus \$150,000 as a consent fee. As of September 10, 2004, this matter is still pending.

5. The MPEP was established by the BOI in April 2002. Given the complexity and specialization of private equity investment, the BOI contracts with seven private equity managers to invest in venture capital, leveraged buyout and other private equity investments. The retained private equity managers are Adams Street Partners, Kohlberg, Kravis, Roberts and Company (KKR), Welsh Carson Anderson and Stowe, Madison Dearborn Partners, Lexington Partners, Oaktree Capital Management and ArcLight Energy Partners. According to BOI policy, the external managers may not invest more than 30% of total private equity invested capital in non-US company partnerships unless the fund is a designated non-US fund. Total non-US exposure in MPEP is limited to 25% of total invested capital.

The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buy-outs permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company’s current management team. Mezzanine investments are the subordinated debt and/or equity of privately owned companies. Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations. Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments.

The TRS transferred all their venture capital and leveraged buyout investments, at cost, into the MPEP at the start-up date and were issued units according to the fair value of each participant’s portfolio and cash contributions. Unit value at June 30, 2004 and June 30, 2003 was \$99.26 and \$102.28 per unit respectively. The unit value is calculated at month end.

6. Other Investments are purchased in accordance with the statutorily mandated “Prudent Expert Principle” and applicable investment restrictions of the participants. The TRS portfolio includes residential mortgages, commercial loans and real estate investments. The real estate investments and mortgages are valued based on a discounted cash flow.

Real Estate - In January 1996, the BOI, on behalf of the Public Employees’ and Teachers’ Retirement funds, purchased the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of \$4,864,326, the building carries a fair value of \$5,795,000 as of June 30, 2004. During fiscal year 2004, building improvements for lighting, fire alarms, sprinkler systems, hallway remodeling and leasing fees totaling \$453,209 were added to the cost of the building. Building improvements and leasing fees totaling \$129,465 were added to the cost of the building in fiscal year 2003. The three-story building provides office space for approximately eight to ten tenants.

In August 1997, the BOI authorized the construction of an office building at 2401 Colonial Drive in Helena, as a real estate investment owned equally by the Public Employees’ and Teachers’ Retirement funds. Construction costs, including interest capitalization, totaled \$6,481,741 as of June 30, 2000. In fiscal year 2004, office remodeling payments and leasing fees of \$54,517 were added to the building cost. For fiscal year 2003, \$155,800 was expended on building landscaping, leasing fees, lighting and construction. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2004, the building carries a cost and fair value of \$7,041,755 and \$7,581,000, respectively.

In August 1999, the BOI authorized the purchase of a new office building at 2273 Boot Hill Court in Bozeman, Montana. Construction was completed in March 2004. The Public Employees’ and Teachers’ Retirement funds purchased the building, as a real estate investment with equal ownership, for \$2,051,032. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2004, the building carries a fair value of \$2,082,014.

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

During fiscal years 2004 and 2003, State Street Bank lent, on behalf of the BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions during fiscal years 2004 and 2003 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. Moreover, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2004 and 2003, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine.

As of June 30, 2004, the carrying and fair value of the underlying securities on loan for the All Other Funds was \$219,045,397 and \$222,235,651, respectively. The collateral provided for the securities on loan totaled \$228,078,235 representing \$226,699,848 in cash and \$1,378,387 in securities collateral.

As of June 30, 2003, the carrying and fair value of the underlying securities on loan for the All Other Funds was \$49,363,730 and \$55,128,809, respectively. The collateral provided for the securities on loan totaled \$56,643,400 in cash collateral.

DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The BOI received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, \$2 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities seeks damages of \$215,453 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The BOI tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the BOI received \$2,273,230 in principal and interest plus \$60,000 as a consent fee. As of November 5, 2004, this matter is still pending.

NOTE C. CONTRIBUTIONS

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members are currently required to contribute 7.15% of their earned compensation and employers contribute 7.47% of earned compensation. The State General Fund contributes an additional 0.11% of earned compensation. Each employer in the Montana university system shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.04% of the total compensation of employees participating in the Optional Retirement Program (ORP). An actuary determines the actuarial implications of the funding requirement in biennial actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age actuarial cost method, with both normal cost and amortization of the accrued liability determined as a level percentage of payroll. The actuarial valuation prepared as of July 1, 2004, the most recent valuation date, indicates the statutory rate is insufficient to fund the normal cost and to amortize the unfunded accrued liability under the entry age actuarial cost method over 30 years. The unfunded actuarial accrued liability is included in the Schedule of Funding Progress.

NOTE D. CAPITAL ASSET LOSS

In May of 1999, TRS contracted with BearingPoint, Inc. (formerly KPMG Consulting), to customize, integrate and implement the PeopleSoft Pension Administration, Human Resource and Financials modules. On December 23, 2002, the Board indefinitely suspended the implementation date for the PeopleSoft system in anticipation of discontinuing the contract with BearingPoint. On July 22, 2003 working through a mediator an agreement was reached in which BearingPoint would pay TRS \$1.5 million and the contract would end. TRS received the \$1.5 million payment on September 12, 2003. At that time it was determined the actual value of the usable software development to TRS was \$847,096. This resulted in a net loss on intangible assets of \$889,782 to TRS in fiscal year 2004.

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

Schedule of Funding Progress
(All dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) ⁽¹⁾	Unfunded Actuarial Accrued Liabilities (UAAL) ⁽²⁾	Funded Ratio	Covered Payroll ⁽³⁾	UAAL as a Percentage of Covered Payroll
July 1, 1994	\$ 1,157.5	\$ 1,712.9	\$ 555.4	67.6%	\$ 472.9	117.4%
July 1, 1996	1,376.7	1,939.6	562.9	71.0	501.5	112.2
July 1, 1998 ⁽⁴⁾	1,809.0	2,123.3	314.3	85.2	529.8	59.3
July 1, 1998 ⁽⁵⁾	1,809.0	2,342.7	533.7	77.2	529.8	100.7
July 1, 2000 ⁽⁶⁾	2,247.5	2,648.3	400.8	84.9	537.5	74.6
July 1, 2000 ⁽⁷⁾	2,247.5	2,652.0	404.5	84.7	537.5	75.3
July 1, 2002	2,484.8	2,980.1	495.3	83.4	563.2	87.9
July 1, 2004	2,485.7	3,359.2	873.5	74.0	600.7	145.4

(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.

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

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

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

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

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

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

Schedule of Contributions from the Employer and Other Contributing Entities
(All dollar amounts in thousands)

Fiscal Year Ending	Covered Employee Payroll ⁽¹⁾	Actual Employer Contributions ⁽²⁾	Actual Employer Contribution % ⁽²⁾	Annual Required Contribution (ARC) % ⁽³⁾	Percentage of ARC Contributed
6/30/1995	\$ 486,809	\$ 39,073	7.47%	7.47%	100%
6/30/1996	501,516	40,627	7.47	7.47	100
6/30/1997	511,934	41,640	7.47	7.47	100
6/30/1998	529,795	44,476	7.47	7.47	100
6/30/1999	543,071	44,987	7.47	7.47	100
6/30/2000	537,507	48,376	7.58	7.58	100
6/30/2001	567,861	51,524	7.58	7.58	100
6/30/2002	563,163	51,519	7.58	7.58	100
6/30/2003	597,131	53,277	7.58	7.58	100
6/30/2004	600,728	55,774	7.58	7.58	100

(1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contribution rate expressed as a percentage of payroll.

(2) The actual and required employer contributions are expressed as a percentage of payroll. Contributions for termination pay are included in the actual employer contribution, but are not made as a set percentage of payroll. In the Fiscal Year ended June 30, 2004 there were \$6.2 million of contributions for termination pay. Contributions made as a percentage of the salaries of the members in the Optional Retirement Plan (ORP) are included. In the Fiscal Year ended June 30, 2004, \$4.7 million was contributed based on ORP member salaries. The ORP contribution rate varies from year to year.

(3) The State makes employer contributions as a percentage of actual payroll. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the Annual Required Contributions (ARC) is equal to the actual dollar amount of the required employer contributions.

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

Actuarial Cost Method

The actuarial valuation was prepared using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The normal cost was first calculated for each individual member. The normal cost rate was defined to equal the total of the individual normal costs, divided by the total pay rate as of July 1, 2004.

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

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

Valuation of Assets - Actuarial Basis

Adopted July 1, 2000, the actuarial asset valuation method spreads asset gains and losses over five 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 five years. The gains and losses were smoothed starting with the fiscal year ended June 30, 1997.

Investment Earnings

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

Guaranteed Annual Benefit Adjustment Increases

On January 1 of each year, the retirement allowance payable must be increased by 1.5% if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.

Future Salaries

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

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

Amortization Period

The current employer contribution rate of 7.47% and the State General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost of the System accruing at the valuation date and to amortize the unfunded actuarial liability over an open period of 30 years as of July 1, 2004.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULES
FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

ADMINISTRATIVE EXPENSES

The administrative costs of the TRS are financed through realized investment income. The expenses, less amortization of intangible assets, may not exceed 1.5% of retirement benefits paid. Administrative expenses for the fiscal years ended June 30, 2004 and 2003, are outlined below:

	<u>2004</u>	<u>2003</u>
Budgeted Expenses:		
Personal Services:		
Salaries	\$ 587,001	\$ 589,127
Other compensation	2,250	2,000
Employee benefits	<u>164,040</u>	<u>151,779</u>
Total Personal Services	<u>\$ 753,291</u>	<u>\$ 742,906</u>
Operating Expenses:		
Contracted services	\$ 377,440	\$ 401,576
Supplies and materials	26,050	36,052
Communications	40,380	38,334
Travel	13,172	10,624
Rent	41,184	31,928
Repair and maintenance	40,948	34,016
Other expenses	<u>46,384</u>	<u>16,571</u>
Total Operating	<u>\$ 585,558</u>	<u>\$ 569,101</u>
Non-Budgeted Expenses:		
Compensated Absences	4,522	20,294
Depreciation	8,979	12,795
Amortization of Intangible Assets	<u>\$ 154,344</u>	<u>\$ 515,872</u>
Total Non-Budgeted	<u>\$ 167,845</u>	<u>\$ 548,961</u>
Total Administrative Expense	<u>\$ 1,506,694</u>	<u>\$ 1,860,968</u>

CONSULTANT AND PROFESSIONAL SERVICES

	<u>2004</u>	<u>2003</u>
Personnel Management	\$ 4,125	\$ 9,688
Actuarial Services	45,764	63,092
Legal Services	31,669	21,344
Medical Evaluations	1,025	1,675
Audit Services	26,099	17,487
Information Technology Services	<u>105,045</u>	<u>142,386</u>
Total Expense	<u>\$ 213,727</u>	<u>\$ 255,672</u>

ACTUARIAL SECTION

ANALYSIS OF VALUATION

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

APPENDICES

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

Section 1

Summary of Findings

As a result of the actuarial valuation of the benefits in effect under the Montana Teachers' Retirement System as of July 1, 2004, we recommend that the current employer contribution rate, 7.58% of members' salaries, be increased. The System does not currently meet the requirements of actuarial soundness because the contributions do not amortize the Unfunded Actuarial Accrued Liability over a reasonable period. The 7.58% employer contribution is composed of 7.47% from participating employers and 0.11% from the State General Fund. MCA 19-20-604 states that the employer contribution rate will be reduced by 0.11% when the amortization period of the System's unfunded actuarial accrued liability is 10 years or less according to the System's latest actuarial valuation.

An increase in the employer contribution rate of 2.87% (7.58% to 10.45%) as of July 1, 2005 is projected to maintain an amortization of the unfunded actuarial accrued liability over the 30 years beginning July 1, 2004. A 30-year amortization period is the maximum acceptable amortization period specified in Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB). It is also the trigger in the Retirement Board's funding policy for recommending to the legislature that funding be increased. The contribution increase could also be phased in over a number of years, or lessened by lowering the value of benefits provided for future members. Note that in a "contract rights" state such as Montana it is unlikely that any decrease in the value of future benefits could be made for current members.

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

Experience

The 2004 actuarial valuation indicates that an actuarial loss occurred during the preceding two fiscal years. The loss is primarily due to lower returns on the assets than expected by the actuarial assumptions, and is reflected in the 1.6% and 2.1% net investment return on an actuarial basis for the past two years. The following chart compares the annual returns for the past four years.

Year	Market Return	Actuarial Return	Actuarial Return over 8.0% Assumption
7/1/2000 to 6/30/2001	(5.1)%	9.2%	1.2%
7/1/2001 to 6/30/2002	(7.3)%	3.8%	(4.2)%
7/1/2002 to 6/30/2003	6.2%	1.6%	(6.4)%
7/1/2003 to 6/30/2004	13.3%	2.1%	(5.9)%

Asset gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption of 8.0% (7.75% starting at July 1, 2004). The actuarial return on assets has under performed the assumption by about 12% (6.4% + 5.9%) in the last two years as shown in the last column of the chart. The asset loss in the last two years increased the unfunded actuarial accrued liability (UAAL) by about \$302 million. Without the asset losses, the UAAL would be closer to \$571 million instead of the \$873 million shown in Table 8.

The root of these losses is the low market returns of (5.1)% and (7.3)% in the years ending 6/30/2001 and 6/30/2002. The asset valuation method spreads any market value gains or losses evenly over the five years after they occur. Therefore the first fifth of the loss for the year ending 6/30/2002 was recognized at 6/30/2002 and the last fifth will be recognized at 6/30/2006. At July 1, 2002 the System had \$443 million in unrecognized asset losses. At July 1, 2004 the System has \$131 million in unrecognized asset losses. This \$131 million in unrecognized asset losses, if not offset by future gains, will cause the contributions needed to amortize the UAAL in future valuations to increase even further. Therefore, to stay financially sound in the future, the System will need either (1) future gains such as asset returns well over the new 7.75% assumption, or (2) an increase in contribution rates.

Assumption Changes

Effective July 1, 2004, the valuation incorporates the revised economic assumptions adopted by the Retirement Board at their May 14, 2004 meeting. The net investment return assumption was reduced from 8.00% to 7.75%, the general wage growth assumption was reduced from 5.00% to 4.50%, and the underlying inflation assumption was reduced from 4.00% to 3.50%. See Appendix A for a summary of assumptions including those changed for this 2004 valuation.

Benefit Changes

There were no benefit improvements passed in the 2003 legislative session that influenced this valuation.

Contribution Changes

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

Impact of Changes

As stated earlier, an increase in the employer contribution rate of 2.87% (7.58% to 10.45%) as of July 1, 2005 is projected to maintain an amortization of the unfunded actuarial accrued liability over the 30 years beginning July 1, 2004. The effect of the asset losses and other experience on the employer contribution required to maintain a 30 year amortization period can be distributed approximately as follows.

Employer Contribution Rate to Maintain a 30 Year Amortization Period

July 1, 2002 Valuation 23.4 Year Contribution Rate		7.58%
If Amortized over 30 Years	—	0.67
Effect of Changes in Benefits and Contribution Rates	+	0.00
Effect of Changes in Actuarial Assumptions	+	<u>0.67</u>
July 1, 2002 Valuation 30 Year Contribution Rate		
Using New Economic Assumptions		7.58%
Effect of Experience Gains and Losses on Actuarial Accrued Liability:		
Expected Decrease from Extending the Amortization Period		
2 years (July 1, 2032 to July 1, 2034)	-	0.19%
Retired Mortality (Gain)	-	0.01
Salary Gain / Loss		0.00
Loss from Other Causes	+	<u>0.09</u>
	-	0.11%
Effect of Experience Loss on Actuarial Assets		<u>2.98%</u>
July 1, 2004 Valuation 30-Year Contribution Rate		+10.45%

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

Section 2

Scope of the Report

This report presents the actuarial valuation of the Montana Teachers' Retirement System as of July 1, 2004.

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

The actuarial procedures and assumptions used in this valuation are described in Appendix A. The current benefit structure, as determined by the provisions of the governing law on July 1, 2004, is summarized in Appendix B. Schedules of valuation data classifying the data used in the valuation by various categories of contributing members, former contributing members, and beneficiaries make up Appendix C. Appendix D provides a brief summary of the System's recent experience. Comparative statistics are presented on the System's membership and contribution rates. Appendix E is a glossary of actuarial terms used in this report.

Teachers' Retirement System
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Section 3

Assets

In many respects, an actuarial valuation can be regarded as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is July 1, 2004. On that date, the assets available for the payment of benefits are appraised. These assets are compared with the actuarial liabilities. The actuarial process thus leads to a method of determining what contributions by members and their employers are needed to strike a balance.

The asset valuation method being used is a five-year smoothing method. 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 five years.

Table 3 summarizes the determination of the actuarial value of assets. Table 4 shows when asset gains or losses will be recognized in the actuarial value of assets. Table 5 summarizes historical asset returns since July 1, 1994 including the amount recognized by the actuarial asset valuation method which was greater or lesser than the actuarial investment return assumption.

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

Table 3

Determination of Actuarial Value of Assets
July 1, 2004

Determination of Recognized Investment Gains and Losses - Five-Year Smoothing

A. Expected investment return – Year Ended 6/30/2004	\$ 167,963,268
B. Actual investment return – Year Ended 6/30/2004	\$ 279,396,768
C. Gains/(losses) – 2004 [B – A]	\$ 111,433,500
D. Gains/(losses) – 2003	\$ (37,239,499)
E. Gains/(losses) – 2002	\$ (338,875,181)
F. Gains/(losses) – 2001	\$ (310,524,198)
G. Gains/(losses) – 2000	\$ (3,684,142)
H. Gains/(losses) recognized at July 1, 2004* [1/5 C + 1/5 D + 1/5 E + 1/5 F + 1/5 G]	\$ (115,777,904)

Determination of Actuarial Assets

Actuarial value of assets July 1, 2003	\$ 2,481,697,476
Contributions less benefits	\$ (48,186,830)
Expected investment return	167,963,268
Recognized investment gains/(losses)	<u>(115,777,904)</u>
Actuarial value of assets July 1, 2004	<u>2,485,696,010</u>
Unrecognized Loss	<u>(130,851,811)</u>
Market Value of Assets July 1, 2004 (Actuarial Value + Unrecognized Gain)	\$ 2,354,844,199

Note: The actuarial value of assets is equal to the expected value plus a five-year smoothing of market value gains and losses. The actuarial asset method was adopted for the July 1, 2000 actuarial valuation with actuarial value of assets set equal to market value of assets at July 1, 1996.

* Includes \$0 rounding adjustment.

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

Table 4

Schedule of Investment Gain/(Loss) Recognition

Year Ending 06/30	Market Value Investment Gain/(Loss) Over Expected	Investment Gain/(Loss) Recognized in Past Years				Investment Gain/(Loss) Recognized in Current Year	Investment Gain/(Loss) to be Recognized in Future Years			
		2000	2001	2002	2003		2005	2006	2007	2008
1997	\$166.1	\$33.2	\$33.2							
1998	\$147.9	\$29.6	\$29.6	\$29.6						
1999	\$78.9	\$15.8	\$15.8	\$15.8	\$15.8					
2000	(\$3.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)				
2001	(\$310.5)		(\$62.1)	(\$62.1)	(\$62.1)	(\$62.1)	(\$62.1)			
2002	(\$338.9)			(\$67.8)	(\$67.8)	(\$67.8)	(\$67.8)	(\$67.8)		
2003	(\$37.2)				(\$7.4)	(\$7.4)	(\$7.4)	(\$7.4)	(\$7.4)	
2004	\$111.4					\$22.3	\$22.3	\$22.3	\$22.3	\$22.3
2005	\$0.0						\$0.0	\$0.0	\$0.0	\$0.0
2006	\$0.0							\$0.0	\$0.0	\$0.0
2007	\$0.0								\$0.0	\$0.0
2008	\$0.0									\$0.0

Total Gain/(Loss) Recognized at Each Valuation Date

Recognized					Scheduled to be Recognized*			
\$77.8	\$15.7	(\$85.3)	(\$122.3)	(\$115.8)	(\$115.0)	(\$52.9)	\$14.8	\$22.3

Unrecognized Gain/(Loss) Remaining

(\$130.9)	(\$15.8)	\$37.1	\$22.3	\$0.0
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* The total gain/(loss) actually recognized in each future year will include additional amortizations of future gains and/or losses.

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

Table 5

Historical Investment Returns*

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

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

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

Section 4

Actuarial Present Value of Future Benefits

In the previous section, an actuarial valuation was related to an inventory process, and an analysis was given of the inventory of assets of the System as of the valuation date, July 1, 2004. In this section, the discussion will focus on the commitments of the System, which will be referred to as its actuarial liabilities.

Table 6 contains an analysis of the actuarial present value of all future benefits for contributing members, for former contributing members, and for beneficiaries. The analysis is given by type of benefit.

The actuarial liabilities summarized in Table 6 include the actuarial present value of all future benefits expected to be paid with respect to each member covered as of the valuation date. For an active member, this value includes a measure of both benefits already earned and future benefits to be earned. Thus, for all members, active and retired, the value extends over benefits earnable and payable for the rest of their lives and, if an optional benefit is chosen, for the lives of their surviving beneficiaries.

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

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Table 6

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

	<u>July 1, 2004</u>	<u>July 1, 2002</u>
	<u>Total</u>	<u>Total</u>
A. Active members		
Service retirement	\$ 1,813.3	\$ 1,699.6
Disability retirement	21.5	20.4
Survivors' benefits	42.7	40.8
Vested Retirement	31.5	29.2
Refund of Member Contributions	<u>31.7</u>	<u>32.1</u>
Total	\$ 1,940.7	\$ 1,822.1
B. Inactive members and annuitants		
Service retirement	\$ 1,675.1	\$ 1,430.9
Disability retirement	17.1	16.1
Beneficiaries*	107.2	90.8
Vested terminated members	54.6	47.0
Nonvested terminated members	<u>11.3</u>	<u>13.6</u>
Total	\$ 1,865.3	\$ 1,598.4
C. Grand Total	\$ 3,806.0	\$ 3,420.5

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

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Section 5

Employer Contributions

In the previous two sections, attention has been focused on the assets and the present value of all future benefits of the System. A comparison of Tables 3 and 6 indicates that there is a shortfall in current actuarial assets to meet the present value of all future benefits for current members and beneficiaries. This is the universal experience in all but a fully closed-down fund where no further contributions of any sort are anticipated.

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

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

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

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

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

We have determined the normal cost rates separately by type of benefit under the System. These are summarized in Table 7.

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

Table 8 shows how the UAAL was derived for the System. Lines A and B show, respectively, the total present value of future benefits and the portion of the future liability that is expected to be paid from future normal cost contributions, both employer and employee. Line C shows the actuarial accrued liability: the portion of the present value of future benefits not provided by future normal cost contributions. Line D shows the actuarial value of assets available for benefits. Line E shows the unfunded actuarial accrued liability. Lines F and G show the impact of the present value of future scheduled ORP contributions (described below) on the unfunded actuarial accrued liability.

As can be seen from this discussion, a key consideration in the adequacy of the funding of the System is how the UAAL is being amortized. Table 9 shows that the current employer and member contribution rates are adequate to pay the total normal cost rate (10.34% of pay), but do not have enough left over to amortize the UAAL over a reasonable period. Therefore, the current basis is not sufficient to meet future requirements.

An increase in the employer contribution rate of 2.87% (7.58% to 10.45%) as of July 1, 2005 is projected to maintain an amortization of the unfunded actuarial accrued liability over the 30 years beginning July 1, 2004. A 30 year amortization period is the maximum acceptable amortization period specified in Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB). It is also the trigger in the Retirement Board's funding policy for recommending to the legislature that funding be increased.

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

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

The July 1, 2000 actuarial valuation of the MUS calculated a \$132.7 million difference or shortfall. The contribution schedule has not been changed. The value of future ORP payments included in the July 1, 2004 TRS valuation is \$115.7 million. We will be completing an updated valuation of the MUS after this report is completed.

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

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Table 7

Normal Cost Contribution Rates
As Percentages of Salary

	<u>July 1, 2004</u>	<u>July 1, 2002</u>
	<u>Total</u>	<u>Total</u>
Service retirement	7.87%	7.86%
Disability retirement	0.15	0.15
Survivors' benefits	0.26	0.26
Vested retirement	0.63	0.60
Refund of member contributions	<u>1.43</u>	<u>1.46</u>
Total	10.34%	10.33%

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Table 8

Unfunded Actuarial Accrued Liability
(All dollar amounts in millions)

	<u>July 1, 2004</u>	<u>July 1, 2002</u>
A. Actuarial present value of all future benefits for present and former members and their survivors (Table 4)	\$ 3,806.0	\$ 3,420.5
B. Less actuarial present value of total future normal costs for present members	<u>446.8</u>	<u>440.4</u>
C. Actuarial accrued liability	\$ 3,359.2	\$ 2,980.1
D. Less actuarial value of assets available for benefits (Table 3)	<u>2,485.7</u>	<u>2,484.8</u>
E. Unfunded actuarial accrued liability	\$ 873.5	\$ 495.3
F. Less present value of future ORP contributions*	<u>115.7</u>	<u>111.8</u>
G. Unfunded actuarial accrued liability funded by TRS contributions	\$ 757.8	\$ 383.5

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

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Table 9

Recommended Contribution Rates
As Percentages of Salary

	<u>July 1, 2004</u>	<u>July 1, 2002</u>
A. Employer contribution rate*	7.58%	7.58%
B. Member contribution rate	<u>7.15</u>	<u>7.15</u>
C. Total contribution rate	14.73%	14.73%
D. Less total normal cost rate (Table 7)	<u>10.34</u>	<u>10.33</u>
E. Amount available to amortize unfunded actuarial accrued liability**	4.39%	4.40%
F. Amortization period from Valuation Date***	N/A	23.4 years

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

** *In addition, a percentage of the salaries of the participants in the Optional Retirement Plan (ORP) is available to help amortize the unfunded actuarial accrued liability.*

*** *The amortization period as of July 1, 2002 was 23.4 years; thus, the expected period as of July 1, 2004 is 21.4 years assuming no changes in benefits or assumptions. As of July 1, 2004, the unfunded actuarial accrued liability does not amortize over a reasonable period. The employer contribution rate would have to be increased by 2.87% starting July 1, 2005 to maintain an amortization of the unfunded actuarial accrued liability over the 30-year period starting July 1, 2004. Alternatively, the employer contribution rate could be increased by 0.84% on July 1, of 2005, 2007, 2009 and 2011 for a total increase of 3.36%. This graded increase would achieve the same 30-year amortization.*

Teachers' Retirement System
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Section 6

Cash Flows

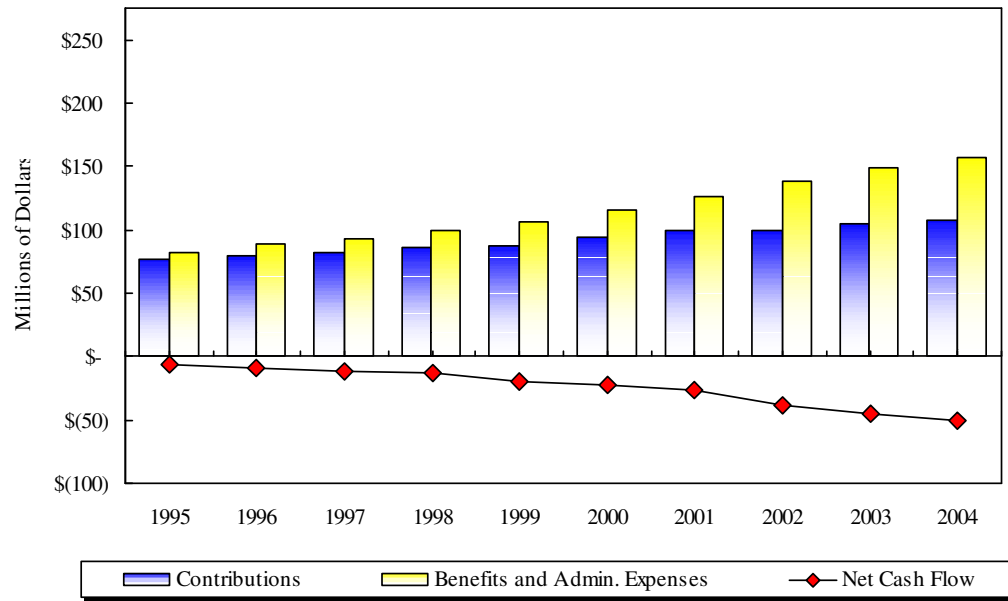
The fundamental equation for funding a retirement system is that benefits and administrative expenses must be provided for by contributions (past and future) and investment income. When a retirement system matures, benefits and administrative expenses often exceed contributions. In this case we say the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

The Table 10 shows that in 1995 the System had a small negative cash flow. In the year ended June 30, 2004 the System’s benefits and administrative expenses exceeded contributions by \$50 million. At the current contribution rates this is projected to increase to \$138 million for the year ending June 30, 2014.

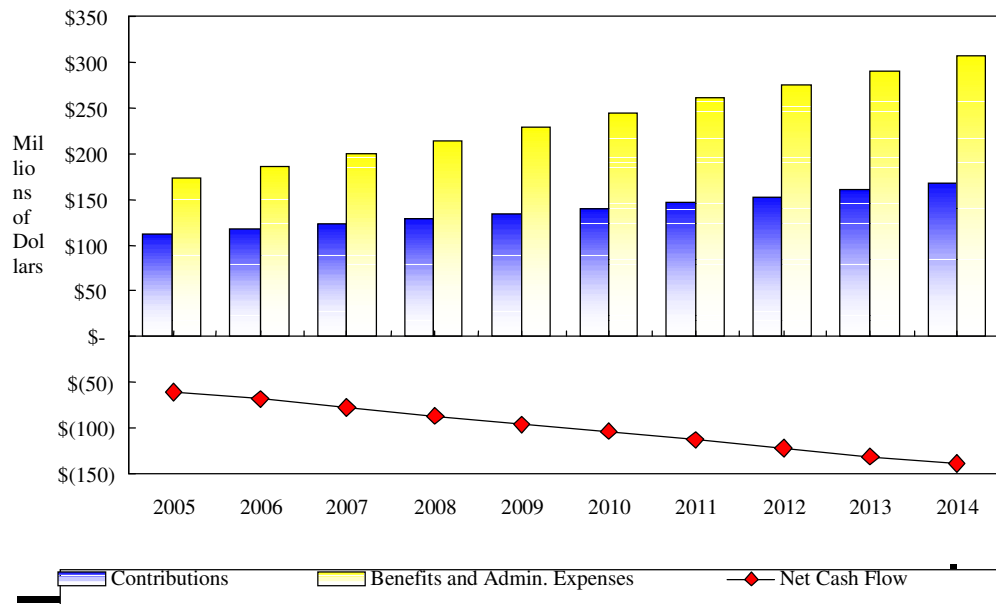
As long as the System had a positive cash flow, there was no need to plan where the funds would come from to pay benefits since benefits could be paid by incoming contributions. A negative cash flow, as defined above, requires planning what funds will be used to pay the difference between benefits and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

The projected contributions and administrative expenses are based on the actual amounts for the year ended June 30, 2004. Contributions are assumed to increase at the general wage increase assumption of 4.5%. Expenses are assumed to increase at the underlying inflation assumption of 3.5%. The future employer contribution rate is assumed to stay at 7.58% for the purpose of these projections.

Cash Flow History



Cash Flow Projections



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Table 10

Cash Flow History and Projections

Year Ended June 30,	Historical Cash Flows*		
	<u>Contributions</u>	Benefits & Administrative <u>Expenses</u>	<u>Net Cash Flow</u>
1995	\$ 77	\$ 83	\$ (6)
1996	80	89	(9)
1997	82	93	(11)
1998	87	100	(13)
1999	88	107	(19)
2000	94	116	(22)
2001	100	126	(26)
2002	100	138	(38)
2003	104	149	(45)
2004	108	158	(50)

Year Ending June 30,	Projected Cash Flows*		
	<u>Contributions</u>	Benefits & Administrative <u>Expenses</u>	<u>Net Cash Flow</u>
2005	\$ 113	\$ 174	\$ (61)
2006	118	187	(69)
2007	123	200	(77)
2008	129	215	(86)
2009	134	230	(96)
2010	141	245	(104)
2011	147	260	(113)
2012	153	276	(123)
2013	160	291	(131)
2014	168	306	(138)

* Millions of Dollars

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Appendix A

Actuarial Procedures and Assumptions

The actuarial assumptions used in this valuation were adopted by the Board for the July 1, 2004 Actuarial Valuation. The Board adopted new economic assumptions at the May 14, 2004 Retirement Board Meeting. Active demographic assumptions were reviewed in the 2002 Investigation of Experience Study. Retired demographic assumptions were last reviewed in the 2000 Investigation of Experience Study.

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

Actuarial Cost Method

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

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

Records and Data

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

Replacement of Terminated Members

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

Employer Contributions

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

Administrative and Investment Expenses

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

Valuation of Assets - Actuarial Basis

The actuarial asset valuation method spreads asset gains and losses over five 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 five years. The gains and losses are measured starting with the year ended June 30, 1997. Adopted in the July 1, 2000 actuarial valuation.

Investment Earnings

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

Interest on Member Contributions

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

Postretirement Benefit Increases

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

Future Salaries

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

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

Service Retirement

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

Disablement

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

Mortality

The mortality rates used in this valuation are illustrated in Table A-5. A written description of each table used is included in Table A-1. These rates were adopted July 1, 2000.

Other Terminations of Employment

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

Benefits for Terminating Members

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

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

Part-Time Employees

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

Optional Retirement Program

The total contribution received for the fiscal year ending June 30, 2004 was \$4,673,484. Based on a contribution rate of 4.04%, we assumed the total ORP payroll for the fiscal year to be \$115,680,297 (\$4,673,484 divided by 4.04%).

Buybacks, Purchase of Service, and Military Service

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

Probability of Marriage

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

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Table A-1

Summary of Valuation Assumptions
(July 1, 2004)

I. Economic assumptions		
A.	General wage increases* (Adopted July 1, 2004)	4.50%
B.	Investment return (Adopted July 1, 2004)	7.75%
C.	Price Inflation Assumption (Adopted July 1, 2004)	3.50%
D.	Growth in membership	0.00%
E.	Postretirement benefit increases (Starting three years after retirement)	1.50%
F.	Interest on member accounts (Adopted July 1, 2004)	5.00%
II. Demographic assumptions		
A.	Individual salary increase due to promotion and longevity (General Member assumptions adopted July 1, 2002) (University Member assumptions adopted July 1, 2000)	Table A-2
B.	Retirement (adopted July 1, 2002)	Table A-3
C.	Disablement (adopted July 1, 2002) (General Member assumptions adopted July 1, 2002) (University Member assumptions adopted July 1, 1996)	Table A-4
D.	Mortality among contributing members, service retired members, and beneficiaries 1994 Group Annuity Mortality Table, with ages set back 3 years for males and ages set back 1 year for females. (adopted July 1, 2000)	Table A-5
E.	Mortality among disabled members Based on the IRS Social Security Disabled Mortality Tables published in Revenue Ruling 96-7. Males are 70% of the Male IRS table to age 80, grading into the 1983 Group Annuity Mortality Table for Males between ages 80 and 85. Females are 85% of the IRS table at all ages. (adopted July 1, 2000)	Table A-5
F.	Other terminations of employment (adopted July 1, 2002)	Table A-6
G.	Probability of retaining membership in the System upon vested termination (adopted July 1, 2002)	Table A-7

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

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Table A-2

Future Salaries

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

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Table A-3

**Retirement
Annual Rates**

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

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

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

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Table A-4

**Disablement
Annual Rates**

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

Teachers' Retirement System
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Table A-5

Mortality
Annual Rates

Age	Contributing Members, Service Retired Members and Beneficiaries		Disabled Members	
	Men	Women	Men	Women
25	.06%	.03%	1.92%	1.02%
30	.07	.03	2.15	1.26
35	.08	.04	2.39	1.50
40	.09	.07	2.69	1.75
45	.13	.09	3.01	2.04
50	.19	.13	3.36	2.38
55	.32	.21	3.72	2.77
60	.56	.39	4.07	3.23
65	1.01	.76	4.46	3.76
70	1.80	1.27	5.13	4.36
75	2.85	2.04	6.22	5.32
80	4.52	3.54	7.50	6.84
85	7.55	6.10	11.48	9.30

Teachers' Retirement System
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Table A-6

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

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

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Table A-7

Probability of Retaining Membership in the System
Upon Vested Termination

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

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Appendix B

Summary of Benefit Provisions

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

Death Benefit

Eligibility: 5 years of service.

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

Disability Benefit

Eligibility: 5 years of service.

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

Withdrawal Benefits

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

Contributions

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

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

Interest on Member Contributions

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

Cost-of-Living Adjustments

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

Teachers' Retirement System
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Appendix C

Valuation Data

This valuation is based upon the membership of the System as of July 1, 2004. Membership data were supplied by the System and accepted for valuation purposes without audit. However, tests were performed to ensure that the data are sufficiently accurate for valuation purposes.

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

<u>Active Members</u>	<u>Number</u>	<u>Annual Salaries in Millions</u>
Full-Time Members	12,601	\$ 510.8
Part-Time Members*	<u>5,013</u>	<u>60.3</u>
Total Contributing Members*	17,614	\$ 571.2
Active Members with Annual Compensation less than \$1,000	<u>637</u>	
Total Active Members	18,251	

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

Table C-2 presents distributions of the following:

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

Table C-3 is a reconciliation of membership data from July 1, 2002 to July 1, 2004.

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

Type of Annuitant	Number	Annual Benefits in Thousands	Average Annual Benefits
Service Retirement	8,969	\$ 146,841	\$ 16,372
Survivors of Deceased Retired Members	<u>772</u>	<u>7,963</u>	<u>10,315</u>
Total Service Retirement (including survivors)	9,741	154,804	15,892
Disability Retirement	199	1,686	8,471
Survivors of Deceased Active Members	407	3,219	7,909
Child Beneficiaries	<u>28</u>	<u>67</u>	<u>2,400</u>
Total Annuitants	10,375	\$ 159,776	\$ 15,400

Terminated Members with Contributions Not Withdrawn*	Number
Vested Terminated Members	1,620
Non-Vested Terminated Members	<u>7,861</u>
Total Terminated Members	9,481

* Includes 209 records provided in the active data with salary equal to zero and contributions greater than zero.

Teachers' Retirement System
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Table C-1

**Active Members Distribution of
Full-Time Employees and Salaries
*as of July 1, 2004***

Number of Employees - By Age Group - All Members

Age	<u>Completed Years of Service</u>												Totals
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+	
<25	17	62	17	1	-	-	-	-	-	-	-	-	97
25 to 29	13	226	230	338	124	-	-	-	-	-	-	-	931
30 to 34	12	92	118	239	612	106	-	-	-	-	-	-	1,179
35 to 39	14	77	67	134	377	526	87	-	-	-	-	-	1,282
40 to 44	15	75	61	132	301	390	441	143	-	-	-	-	1,558
45 to 49	19	56	58	127	285	391	424	572	163	-	-	-	2,095
50 to 54	10	45	60	101	281	359	420	511	605	213	-	-	2,605
55 to 59	10	37	23	47	155	253	287	316	343	453	76	-	2,000
60 to 64	2	9	13	18	53	65	82	93	119	133	109	12	708
65 to 69	1	2	-	2	9	12	19	17	8	18	24	9	121
70 and up	-	2	-	3	2	2	2	3	3	4	3	1	25
Totals	113	683	647	1,142	2,199	2,104	1,762	1,655	1,241	821	212	22	12,601

Teachers' Retirement System
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Table C-1

**Active Members Distribution of
Full-Time Employees and Salaries
*as of July 1, 2004***

Annual Salaries in Thousands - By Age Group - All Members

Age	<u>Completed Years of Service</u>												Totals
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+	
<25	208	1,470	409	24	-	-	-	-	-	-	-	-	2,111
25 to 29	168	5,736	6,027	9,105	3,701	-	-	-	-	-	-	-	24,737
30 to 34	117	2,422	3,355	6,949	19,887	4,003	-	-	-	-	-	-	36,733
35 to 39	142	2,148	1,986	3,963	12,703	20,700	3,770	-	-	-	-	-	45,412
40 to 44	186	2,127	1,577	4,053	10,449	15,884	19,739	6,474	-	-	-	-	60,489
45 to 49	247	1,579	1,672	4,168	9,640	16,192	19,169	27,286	7,790	-	-	-	87,743
50 to 54	155	1,325	1,878	3,256	10,138	14,686	18,950	24,604	29,915	10,578	-	-	115,485
55 to 59	110	1,210	744	1,757	5,790	10,454	13,264	16,286	18,255	23,765	3,828	-	95,463
60 to 64	31	249	489	646	2,156	2,566	3,853	4,586	6,182	7,380	6,114	592	34,844
65 to 69	17	49	-	92	320	509	975	1,004	484	986	1,576	716	6,728
70 and up	-	45	-	48	39	35	64	214	166	246	162	44	1,063
Totals	1,381	18,360	18,137	34,061	74,823	85,029	79,784	80,454	62,792	42,955	11,680	1,352	510,808

Teachers' Retirement System
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Table C-1

**Active Members Distribution of
Full-Time Employees and Salaries
as of July 1, 2004**

Average Annual Salary - By Age Group - All Members

Age	<u>Completed Years of Service</u>												Totals
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+	
<25	12,215	23,706	24,038	24,370	-	-	-	-	-	-	-	-	21,757
25 to 29	12,955	25,381	26,204	26,939	29,847	-	-	-	-	-	-	-	26,571
30 to 34	9,755	26,327	28,436	29,077	32,496	37,764	-	-	-	-	-	-	31,157
35 to 39	10,127	27,900	29,648	29,576	33,696	39,354	43,333	-	-	-	-	-	35,424
40 to 44	12,420	28,361	25,849	30,702	34,713	40,729	44,761	45,272	-	-	-	-	38,825
45 to 49	12,989	28,194	28,835	32,818	33,824	41,412	45,209	47,703	47,793	-	-	-	41,882
50 to 54	15,499	29,443	31,301	32,238	36,077	40,907	45,118	48,149	49,446	49,664	-	-	44,332
55 to 59	11,042	32,697	32,367	37,380	37,354	41,322	46,215	51,538	53,221	52,462	50,366	-	47,732
60 to 64	15,252	27,710	37,581	35,907	40,676	39,477	46,985	49,308	51,947	55,490	56,092	49,298	49,212
65 to 69	17,385	24,436	-	45,977	35,544	42,385	51,312	59,069	60,553	54,768	65,672	79,550	55,604
70 and up	-	22,353	-	15,975	19,696	17,385	32,199	71,412	55,494	61,423	54,023	43,649	42,533
Totals	12,224	26,881	28,034	29,827	34,026	40,413	45,280	48,613	50,598	52,321	55,094	61,417	40,537

Teachers' Retirement System
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Table C-1

**Active Members Distribution of
Part-Time Employees and Salaries
*as of July 1, 2004***

Number of Employees - By Age Group - All Members

Age	<u>Completed Years of Service</u>												Totals
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+	
<25	137	26	15	7	1	-	-	-	-	-	-	-	186
25 to 29	201	135	48	59	10	-	-	-	-	-	-	-	453
30 to 34	85	80	52	78	128	20	-	-	-	-	-	-	443
35 to 39	106	100	55	87	81	77	11	-	-	-	-	-	517
40 to 44	108	106	95	148	161	59	53	11	1	-	-	-	742
45 to 49	96	107	98	150	218	109	47	44	4	-	-	-	873
50 to 54	81	108	87	101	221	129	68	35	26	3	-	-	859
55 to 59	42	74	41	56	105	98	52	21	12	29	-	-	530
60 to 64	35	29	30	30	49	37	19	16	11	7	7	1	271
65 to 69	7	5	20	16	19	16	5	3	1	3	4	-	99
70 and up	3	7	3	4	11	4	7	1	-	-	-	-	40
Totals	901	777	544	736	1,004	549	262	131	55	42	11	1	5,013

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Table C-2

Distribution of Inactive Lives

Members Receiving Service Retirement Benefits as of July 1, 2004

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>
<50	28	\$	532	\$	19,016
50 to 54	430		8,185		19,035
55 to 59	1,251		24,738		19,775
60 to 64	1,798		34,885		19,402
65 to 69	1,606		29,418		18,317
70 to 74	1,317		21,728		16,498
75 to 79	934		12,728		13,627
80 to 84	689		7,738		11,231
85 to 89	501		4,226		8,435
90 and up	415		2,664		6,420
Total	8,969		146,841		16,372

Members Receiving Disability Retirement Benefits as of July 1, 2004

<u>Age</u>	<u>Number of Persons</u>		<u>Annual Benefits in Thousands</u>		<u>Average Annual Benefits</u>
<50	12	\$	97	\$	8,121
50 to 54	27		218		8,077
55 to 59	38		361		9,505
60 to 64	32		297		9,285
65 to 69	27		257		9,511
70 to 74	18		161		8,937
75 to 79	20		154		7,698
80 to 84	13		73		5,632
85 to 89	10		58		5,798
90 and up	2		9		4,506
Total	199		1,686		8,471

Teachers' Retirement System
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Table C-2

Distribution of Inactive

Survivors of Deceased Retired Members as of July 1, 2004

<u>Age</u>	<u>Number of Persons</u>	<u>Annual Benefits in Thousands</u>	<u>Average Annual Benefits</u>
<50	30	\$ 249	\$ 8,291
50 to 54	25	232	9,275
55 to 59	40	450	11,241
60 to 64	66	836	12,667
65 to 69	80	921	11,509
70 to 74	109	1,395	12,799
75 to 79	106	1,167	11,011
80 to 84	150	1,393	9,290
85 to 89	102	869	8,517
90 and up	64	452	7,063
Total	772	7,963	10,315

Survivors of Deceased Active Members as of July 1, 2004

<u>Age</u>	<u>Number of Persons</u>	<u>Annual Benefits in Thousands</u>	<u>Average Annual Benefits</u>
<50	78	\$ 423	\$ 5,418
50 to 54	43	334	7,770
55 to 59	55	459	8,343
60 to 64	49	523	10,668
65 to 69	38	337	8,869
70 to 74	38	378	9,941
75 to 79	36	343	9,522
80 to 84	38	282	7,416
85 to 89	16	80	4,972
90 and up	16	62	3,844
Total	407	3,219	7,909

Teachers' Retirement System
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Table C-2

Distribution of Inactive Lives

Terminated Vested Members as of July 1, 2004
Number of Persons

Age	Number
<25	-
25 to 29	6
30 to 34	81
35 to 39	157
40 to 44	203
45 to 49	311
50 to 54	393
55 to 69	334
60 to 64	111
65 to 69	20
70 & above	4
Total	1,620

Child Beneficiaries as of July 1, 2004
Number of Persons

Age	Number
<5	2
5 to 6	2
7 to 8	2
9 to 10	7
11 to 12	3
13 to 14	6
15 to 16	6
17 to 18	-
Total	28

Teachers' Retirement System
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Table C-3

Data Reconciliation

	Active Contributing <u>Members</u>	Vested Terminated <u>Members</u>	Service Retired <u>Members</u>	Disabled <u>Members</u>	Survivors and <u>Beneficiaries</u>
July 1, 2002 Valuation	17,446	1,485	8,438	200	1,130
Refunds and NonVested Terminations	(1,864)	(112)			
Vested Terminations	(413)	413			
Service Retirements	(887)	(90)	977		
Disability Retirements	(15)	(1)		16	
Deaths with Beneficiary	(21)	(3)	(151)	(8)	183
Deaths without Beneficiary			(331)	(10)	(96)
New Entrants	3,254				
Rehires	114	(95)	(18)	(1)	
Other	-	23	54	2	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
July 1, 2004 Valuation	17,614	1,620	8,969	199	1,207

Teachers' Retirement System
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Appendix D

Comparative Schedules

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

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

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

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

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

Table D-1

Active Membership Data

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

* *Not available.*

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

Teachers' Retirement System
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Table D-2

Retired and Inactive Membership Data

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

* *Not available.*

Teachers' Retirement System
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Table D-3

Contribution Rates

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

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

Teachers' Retirement System
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Appendix E

Glossary

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

Actuarial Assumptions

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

Actuarial Cost Method

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

Actuarial Gain (Loss)

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

Actuarial Present Value

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

Actuarial Valuation

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

Actuarial Value of Assets

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

Actuarially Equivalent

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

Amortization Payment

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

Entry Age Actuarial Cost Method

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

Normal Cost

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

Actuarial Accrued Liability

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

Unfunded Actuarial Accrued Liability

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

Accrued Benefit

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

Projected Benefits

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

Unaccrued Benefit

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

STATISTICAL SECTION

REVENUES BY SOURCE & EXPENSES BY TYPE

CONTRIBUTION RATES

MEMBERSHIP

ACTIVE and INACTIVE MEMBERS

RETIRED MEMBERS and BENEFIT RECIPIENTS

LOCATION OF BENEFIT RECIPIENTS

Teachers' Retirement System
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Revenues By Source

<u>Year</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Other</u>	<u>Total</u>
1994 – 1995	37,782,158	39,071,610	72,498,507		149,479,691
1995 – 1996	39,174,350	40,626,732	98,083,315	189,823	178,074,220
1996 – 1997	40,348,306	41,639,722	104,797,668	101,267	186,886,963
1997 – 1998	41,937,700	44,476,127	102,174,892	200,083	188,788,802
1998 – 1999	42,641,714	44,986,852	102,501,716	122,732	190,253,014
1999 – 2000	45,599,246	47,848,084	112,924,791	696,779	207,068,900
2000 – 2001	48,277,894	50,989,948	162,712,312	617,258	262,597,412
2001 – 2002	47,872,258	51,518,712	99,058,806	762,677	199,212,453
2002 – 2003	50,221,491	53,276,950	99,289,817	758,298	203,546,556
2003 – 2004	51,382,941	55,773,716	133,206,267	770,631	241,133,555

Expenses By Type

<u>Year</u>	<u>Benefit Payments</u>	<u>Withdrawals</u>	<u>Investment Expenses</u>	<u>Administrative Expenses</u>	<u>Total</u>
1994 – 1995	78,589,558	3,373,147	177,081	628,596	82,768,382
1995 – 1996	83,763,230	4,158,612	12,711,571	684,885	101,318,298
1996 – 1997	88,631,324	3,839,562	12,596,802	675,961	105,743,649
1997 – 1998	94,204,970	4,826,198	10,381,523	881,452	110,294,143
1998 – 1999	100,028,083	5,126,013	9,686,951	1,360,660	116,201,707
1999 – 2000	109,231,029	5,271,306	10,667,097	1,293,805	126,463,237
2000 – 2001	118,841,895	5,370,493	10,243,034	1,715,782	136,171,204
2001 – 2002	130,006,163	6,472,327	5,481,637	1,606,737	143,566,864
2002 – 2003	140,229,496	6,468,324	3,709,410	1,860,967	152,268,198
2003 – 2004	150,270,797	5,843,069	3,886,875	1,506,694	161,507,435

**Teachers' Retirement System
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Contribution Rates

EMPLOYEE

1937 - 1973	5.000%
1973 - 1975	5.125%
1975 - 1977	6.125%
1977 - 1983	6.187%
1983 - 1999	7.044%
1999 -	7.150%

EMPLOYER

1937 - 1945	NONE
1945 - 1959	3.750%
1959 - 1969	4.000%
1969 - 1971	4.500%
1971 - 1975	5.125%
1975 - 1977	6.250%
1977 - 1981	6.312%
1981 - 09/30/81	6.432%
10/01/81 - 06/30/83	6.463%
1983 - 1985	7.320%
1985 - 1989	7.428%
1989 - 1993	7.459%
01/01/94 -	7.470%

Unless otherwise noted, contribution rate changes occur on July 1.

Teachers' Retirement System
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Membership

Active and Inactive Members

<u>Period Ended</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Inactive Non-vested</u>	<u>Total</u>
June 30, 1995				
June 30, 1996	18,062	1,130	6,201	25,393
June 30, 1997	18,332	1,012	6,050	25,394
June 30, 1998	18,222	1,173	7,560	26,955
June 30, 1999	18,205	1,179	8,061	27,445
June 30, 2000	18,287	1,209	8,612	28,108
June 30, 2001	18,423	1,245	9,212	28,880
June 30, 2002	18,530	1,359	10,034	29,923
June 30, 2003	17,262	1,611	8,834	27,707
June 30, 2004	18,285	1,519	7,736	27,540
	18,257	1,607	7,723	27,587

Retired Members and Benefit Recipients

<u>Period Ended</u>	<u>Retirement</u>	<u>Survivors</u>	<u>Disability</u>	<u>Child Benefits</u>	<u>Total</u>
June 30, 1995					
June 30, 1996	6,800	365	274	35	7,474
June 30, 1997	7,011	370	273	34	7,688
June 30, 1998	7,212	366	279	44	7,901
June 30, 1999	7,400	376	276	36	8,088
June 30, 2000	7,661	377	282	38	8,358
June 30, 2001	7,927	399	291	23	8,640
June 30, 2002	8,288	398	294	36	9,016
June 30, 2003	8,615	401	295	31	9,342
June 30, 2004	8,957	401	294	30	9,682
	9,246	401	295	28	9,970

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Location of Benefit Recipients

Alabama	6	Michigan	15	Utah	40
Alaska	28	Minnesota	67	Vermont	3
Arizona	241	Mississippi	2	Virginia	24
Arkansas	9	Missouri	24	Washington	352
California	155	Montana	7,723	West Virginia	6
Colorado	103	Nebraska	24	Wisconsin	25
Connecticut	4	Nevada	104	Wyoming	87
Florida	43	New Jersey	3	District of Columbia	1
Georgia	7	New Mexico	22	APO	3
Hawaii	11	New York	15	Australia	4
Idaho	126	North Carolina	17	Canada	14
Illinois	16	North Dakota	82	Denmark	1
Indiana	6	Ohio	10	Egypt	1
Iowa	16	Oklahoma	21	England	2
Kansas	14	Oregon	159	Germany	1
Kentucky	6	Pennsylvania	7	New Zealand	2
Louisiana	6	South Carolina	6	Puerto Rico	1
Maine	2	South Dakota	41	Scotland	1
Maryland	4	Tennessee	13	South Africa	1
Massachusetts	6	Texas	65	TOTAL	* 9,798

*172 recipients receive two benefits