MONTANA

Teachers' Retirement System

A Component Unit of the State of Montana

TRS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

Brian Schweitzer, Governor

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FISCAL YEAR ENDED JUNE 30, 2008

David L. Senn
Executive Director

Tammy Rau
Deputy Executive Director

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

http://www.trs.mt.gov

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ORGANIZATIONAL CHART

TEACHERS' RETIREMENT SYSTEM

1500 E. SIXTH AVENUE
PO BOX 200139
HELENA, MONTANA 59620-0139 406 444-3134 BRIAN SCHWEITZER, GOVERNOR

STATE OF MONTANA

December 12, 2008

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

Dear Governor Schweitzer:

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

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

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

PLAN QUALIFICATION CERTIFICATION

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

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

PLAN FUNDING STATUS

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

LEGISLATION

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

WEB ENHANCEMENTS

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

INVESTMENT ACTIVITY

The Montana Board of Investments (BOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by Section 19-20-501, MCA. The Unified Investment Program is required by law, 17-6-201 MCA, to operate under the "prudent expert principle", defined as: 1) discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character and like aims; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the benefit of the funds managed.

The TRS investment portfolio posted a total return of (4.89%), resulting in a decrease in the fair market value of its investments. The System's total annualized rate of return over the last five and ten years was 8.48% and 5.48% respectively. This rate of return compares with an actuarial assumed rate of 8% through June 30, 2004 and 7.75% effective July 1, 2004. The BOI invests the TRS and other pension portfolios for the long-term and its investment strategies, based on an asset/liability study completed in May 2006, are designed to provide sufficient returns over time. However, there is no guarantee of future investment performance. Performance in any given year is dependent not only on the BOI's investment performance but also on the performance of the markets themselves, which are impacted by domestic and global economic conditions, interest rates, and government policies.

TRS Investment Rates of Returns

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

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

AWARDS

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

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

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

INDEPENDENT AUDIT

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

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

CONCLUSION

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

Sincerely,

David L. Senn
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montana Teachers' Retirement System

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

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

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2008

Presented to

Teachers' Retirement System of Montana

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

TEACHERS' RETIREMENT SYSTEM
BOARD OF DIRECTORS AND
PROFESSIONAL CONSULTANTS

BOARD OF DIRECTORS

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

PROFESSIONAL CONSULTANTS

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

Teachers' Retirement System

12/12/2008

Administrative Services

David L. Senn
Executive Director
dsenn@mt.gov
406 444-3376

Tammy Rau
Deputy Executive Director
trau@mt.gov
406 444-3432

Jenny Stark
Executive Secretary
jstark@mt.gov
406 444-3754

Michelle Mariacher
Administrative Support
mmariacher@mt.gov
406 444-3999

Accounting Services

Dan Gaughan
Accounting/Fiscal Manager
dgaughan@mt.gov
406 444-3679

Jean Boucher
Accountant
jboucher@mt.gov
406 444-3323

Donna Bertram
Accounting Technician
dbertram@mt.gov
406 444-2540

Active Member Services

Janet Cooper
Benefit Officer
jcooper@mt.gov
406 444-3324

Johnelle Sedlock
Benefit Officer
jsedlock@mt.gov
406 444-4113

Sandy Donahue
Benefit Specialist
sadonahue@mt.gov
406 444-2465

Retired Member Services

Karla Scharf
Retired Benefit Manager
kscharf@mt.gov
406 444-3135

Natalie Chamberlain
Retired Benefit Specialist
nchamberlain@mt.gov
406 444-3185

Carol Van Liew
Retired Benefit Technician
cVanLiew@mt.gov
406 444-2441

Information Services

Bill Hallinan
Info. Systems Manager
bhallinan@mt.gov
406 444-3395

Rex Merrick
Info. Systems Analyst
rmerrick@mt.gov
406 444-9293

Kim Lloyd
Quality Control Technician
klloyd@mt.gov
406 444-1886

FINANCIAL SECTION

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Fiduciary Net Assets of the Teachers' Retirement System (system), a component unit of the state of Montana, as of June 30, 2008 and 2007, and the related Statement of Changes in Fiduciary Net Assets for each of the fiscal years then ended. These financial statements are the responsibility of the Teachers' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System as of June 30, 2008 and 2007, and the changes in fiduciary net assets for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Room 160 · State Capitol Building · P.O. Box 201705 · Helena, MT · 59620-1705
Phone (406) 444-3122 · FAX (406) 444-9784 · E-Mail lad@mt.gov
http://leg.mt.gov/audit

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

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2008

TEACHERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Montana Teachers' Retirement System's (TRS) Comprehensive Annual Financial Report provides a narrative overview of the TRS's financial activities for the fiscal year ended June 30, 2008 with comparative totals for the fiscal years ended June 30, 2007 and 2006. Please read this in conjunction with the transmittal letter presented in the introductory section and the financial statements with accompanying footnotes, required supplementary information with notes, and supporting schedules included later in this financial section.

Overview of the Financial Statements

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

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

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

The Schedule of Administrative Expenses is a presentation of what comprises the administrative expense item as reported on the Statement of Changes in Fiduciary Net Assets. The Schedule of Payments to Consultants represents our fees paid to outside professionals.

Financial Highlights

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

Condensed Financial Information (in millions)

Fiduciary Net Assets	FY2008	FY2007	FY2006	2008 Percent Inc/(Dec)	2007 Percent Inc/(Dec)
Cash/Short-term Investments	$ 31.8	$ 88.4	$ 71.8	(64.0)	23.1
Receivables	29.5	21.5	21.0	37.2	2.4
Investments (fair value)	3,113.1	3,256.3	2,704.4	(4.4)	20.4
Capital Assets (net)	0.3	0.3	0.7	0	(57.1)
Total Assets	3,174.7	3,366.6	2,797.9	(5.7)	20.3
Liabilities	181.3	157.3	52.2	15.3	201.3
Net Assets	**$2,993.4**	**$3,209.3**	**$2,745.8**	**(6.7)**	**16.9**

Changes in Fiduciary Net Assets

	FY2008	FY2007	FY2006	2008 Percent Inc/(Dec)	2007 Percent Inc/(Dec)
Additions:					
Employer Contributions	$ 67.9	$ 61.9	$ 58.3	9.7	6.2
Plan Member Contributions	59.6	56.5	53.3	5.5	6.0
Other Contributions	13.5	0.7	0.7	1,828.6	0.0
Payment from State of Montana	0	50.0	100.0	(100.0)	(50.0)
Net Investment Income	(153.3)	484.5	224.8	(131.6)	115.5
Total Additions	(12.3)	653.7	437.0	(101.9)	49.6
Deductions:					
Benefit Payments	196.1	182.8	172.0	7.3	6.3
Withdrawals	5.7	5.6	4.9	1.8	14.3
Administrative Expenses	1.8	1.4	1.6	28.6	(12.5)
Loss on Intangible Asset	0	0.5	0.0	(100.0)	NA
Total Deductions	203.6	190.4	178.4	6.9	6.7
Net Inc/(Dec) in Net Assets	**$ (215.9)**	**$ 463.4**	**$ 258.6**	**(146.6)**	**79.2**

Financial Analysis

- The increase/decrease from year-to-year in cash/short-term investments is due mostly to the change in the number of shares held in the Short Term Investment Pool.
- The significant increase in receivables for 2008 reflects the supplemental payment due at fiscal year end from the general fund in relation to the 2% increase in the employer contribution rate for school districts that was effective July 1, 2007.
- The decrease/increase in investments for 2008 and 2007 respectively is due primarily to the change in the fair market value of our investment holdings.
- The decrease in capital assets in 2007 is due to the depreciation and amortization of the assets and a loss on the write-off of previously capitalized software costs in 2007.
- The significant fluctuation in liabilities is due to the security lending collateral activity conducted by the Montana Board of Investments.
- The significant decrease in net investment income in 2008 was due to a $590.7 million drop in the fair value of investments and $40.8 million less in investment earnings as compared to the $200.6 million increase in the fair value of our investments and a $62.7 million increase in investment earnings in 2007 and a $40.8 million increase in the unrealized net appreciation in the fair value of our investments for 2006.
- The increase in benefit payments from year-to-year reflects an increase in the number of retirees and beneficiaries plus the 1.5% guaranteed annual benefit adjustment.

Overview of the Actuarial Funding

The TRS plan experienced an asset loss over the last year. The market assets had a negative return of 4.9% net of investment and operating expenses. The actuarial assets earned 7.22% which is 0.57% below the actuarial assumption of 7.75%. Actuarial gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption. The following table compares the annual returns for the past six years.

Fiscal Year	Market Return	Actuarial Return	Actuarial Return over 7.75 % Assumption (8.00% prior to 7/1/04)
7/1/2002 to 6/30/2003	6.2%	1.6%	(6.4)%
7/1/2003 to 6/30/2004	13.3%	2.1%	(5.9)%
7/1/2004 to 6/30/2005	8.0%	2.7%	(5.0)%
7/1/2005 to 6/30/2006	8.9%	8.5%	0.7%
7/1/2006 to 6/30/2007	17.6%	10.2%	2.5%
7/1/2007 to 6/30/2008	(4.9)%	7.2%	(0.6)%

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

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

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

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

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

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

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

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

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

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

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

NOTE A. DESCRIPTION OF THE PLAN

The Teachers' Retirement Board is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan, which provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college or unit of the university system. The system was established by the State of Montana in 1937 to provide retirement, death and disability benefits and is governed by Title 19, chapter 20, of the MCA. TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

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

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

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

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

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

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The TRS, a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity, prepares its financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period when due and investment income is recognized when earned. Benefit and withdrawal payments are recorded in the period in which the liabilities are due and payable.

Compensated Absences

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

Cash/Cash Equivalents and Investments

The Montana Board of Investments (BOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by Section 19-20-501, Montana Code Annotated. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. Information on investment policies, investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

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

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

The TRS investments include: STIP; Retirement Funds Bond Pool (RFBP); Montana Domestic Equity Pool (MDEP); Montana International Equity Pool (MTIP); Montana Private Equity Pool (MPEP), Montana Real Estate Pool (MTRP), mortgages and real estate. The TRS Investment Portfolio is listed below:

TRS Cash Equivalent and Investment Portfolio
June 30, 2008

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

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

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

The investment risks for the pooled investments that TRS participates in are described in the following paragraphs.

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

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

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

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

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

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

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

NOTE C. CONTRIBUTIONS

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members are currently required to contribute 7.15% of their earned compensation and the current employer contribution rate is 9.47% of earned compensation. The State's General Fund contributes 2% of earned compensation by school district and community college members and an additional .11% of total earned compensation. Each employer in the Montana university system shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation of employees participating in the Optional Retirement Program (ORP). An actuary determines the actuarial implications of the funding requirement in annual actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age actuarial cost method, with both normal cost and amortization of the accrued liability determined as a level percentage of payroll.

The Montana State Legislature during the 2007 session infused $50 million from the State's General Fund into the TRS pension fund to help address the unfunded actuarial accrued liability of the system. The 2007 Legislature in going forward also addressed the funding status of the TRS pension fund to help ensure the unfunded actuarial accrued liability (UAAL) can be amortized over a period not exceeding 30 years. Per Governmental Accounting Standards Board (GASB) statement number 25 the maximum acceptable amortization period is 30 years. Effective July 1, 2007 the employer contribution rate increased 2% from 7.47% to 9.47%. Beginning July 1, 2009 the rate will increase another .38% to a total of 9.85%. Also the supplemental contribution to ensure university member benefits are funded by university employers was increased from 4.04% to 4.72% of Optional Retirement Plan (ORP) member pay effective July 1, 2007.

NOTE D. FUNDED STATUS and FUNDING PROGRESS

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

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

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

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

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

The actuarial valuation prepared as of July 1, 2008, the most recent valuation date, indicates the statutory rate is insufficient to fund the normal cost and to amortize the unfunded accrued liability under the entry age actuarial cost method over 30 years.

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

NOTE E. OTHER POSTEMPLOYMENT BENEFITS

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

Plan Description

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

Funding Policy

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

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

Annual OPEB Cost

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

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

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)[1]	Present Value of Future University Supplemental Contributions	Unfunded Actuarial Accrued Liabilities (UAAL)[2]	Funded Ratio[3]	Covered Payroll[4]	UAAL as a Percentage of Covered Payroll
July 1, 2002	2,484.8	2,980.1	111.8	383.5	86.6	563.2	68.1
July 1, 2004	2,485.7	3,359.2	115.7	757.8	76.6	600.7	126.2
July 1, 2005	2,497.5	3,527.0	126.2	903.3	73.4	612.6	147.5
July 1, 2006	2,745.8	3,733.6	124.7	863.1	76.1	636.0	135.7
July 1, 2007	3,006.2	3,928.5	153.4	768.9	79.6	664.1	115.8
July 1, 2008	3,159.1	4,110.8	157.1	794.6	79.9	689.5	115.2

(1) *Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.*
(2) *Actuarial accrued liabilities less actuarial value of assets and present value of future university supplemental contributions.*
(3) *Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future university supplemental contributions.*
(4) *Covered Payroll includes compensation paid to all active employees on which contributions are calculated.*

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

TRS PLAN
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES
(All dollar amounts in thousands)

Fiscal Year Ending	Covered Employee Payroll(1)	Actual Employer Contributions(2)	Actual Employer Contribution %(2)	Annual Required Contribution (ARC) %(3)	Percentage of ARC Contributed(4)
June 30, 2003	597,131	53,277	7.58	7.58	100
June 30, 2004	600,728	55,774	7.58	7.58	100
June 30, 2005	612,622	57,150	7.58	7.58	100
June 30, 2006	635,997	158,962	7.58	10.45	223
June 30, 2007	664,140	112,664	7.58	11.64	130
June 30, 2008	689,460	81,423	9.58	9.58	100

(1) *Computed as the dollar amount of the actual employer contribution made as a percentage of payroll (less ORP and term pay contributions) divided by the contribution rate expressed as a percentage of payroll for fiscal years ending on or before June 30, 2007. For the fiscal year ending June 30, 2008 this figure is provided by the Retirement System.*

(2) *The actual and required employer contributions are expressed as a percentage of payroll. Contributions for termination pay of $6,585,334 and supplemental university contributions of $7,644,302 are included in the $81,422,610 actual employer dollar contribution, but are not made as a set percentage of payroll, and do not help to satisfy the ARC. Therefore, they are not included in the 9.58% employer contribution shown in this exhibit, or the calculation of the percentage of ARC contributed. The $50 million one time contribution made by the State in FYE 2007 and the $100 million one-time contribution made by the State in FYE 2006 are included in the employer dollar contribution, and the calculation of the percentage of ARC contributed, but are not included in the 7.58% employer contribution shown in this exhibit.*

(3) *The State makes employer contributions as a percentage of actual payroll. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the Annual Required Contributions (ARC) is equal to the actual dollar amount of the required employer contributions. The 2008 ARC was determined in the July 1, 2006 valuation as the amount needed starting July 1, 2007 to maintain a 30 year amortization period.*

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

Actuarial Cost Method

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

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

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

Valuation of Assets - Actuarial Basis

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

Inflation Rate

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

Investment Earnings

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

Guaranteed Annual Benefit Adjustment Increases

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION

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

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

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

SCHEDULE OF ADMINISTRATIVE EXPENSES

Expenses for the administration of the plan, excluding compensated absences, depreciation and amortization, are budgeted and approved by the TRS Board. The administrative costs of the TRS are financed through realized investment income. The expenses, less amortization of intangible assets, may not exceed 1.5% of retirement benefits paid. Administrative expenses for the fiscal years ended June 30, 2008 and 2007 are outlined below:

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

SCHEDULE OF PAYMENTS TO CONSULTANTS

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

INVESTMENT SECTION

REPORT ON INVESTMENT ACTIVITIES

INVESTMENT POLICY

INVESTMENT RESULTS

INVESTMENT ASSET ALLOCATION AND SUMMARY

LIST OF TEN LARGEST HOLDINGS IN PORTFOLIO

INVESTMENT MANAGEMENT FEES

MONTANA
BOARD OF INVESTMENTS

Department of Commerce

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

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

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

TRS Annual Report Investment Letter
For the Fiscal Year ended 6/30/08

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

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

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

As noted earlier, the fiscal year performance was negatively impacted by deteriorating financial and economic conditions. These same forces continue to impact both domestic and international capital markets. Financial institutions which are exposed to mortgage-related securities or loans have seen increased losses that have weakened their capital adequacy. Combined with the ongoing housing recession, this has lead to a crisis of confidence in the broader financial sector. Dramatic failures were seen by some of the largest brokerage firms in the country beginning with Bear Stearns back in March and the more recent failure of Lehman Brothers. The crisis escalated in July as problems with Fannie Mae and Freddie Mac, the two large government-sponsored mortgage firms, became more evident and the Treasury took an initial step to prop them up. The extremes of the mortgage lending crisis and the most severe signs of systemic failure of our financial system came in September. The federal conservatorship of the two mortgage agencies was followed by the Lehman bankruptcy and a federal rescue of the largest insurance company, AIG. September also saw record bank failures with the demise of Washington Mutual, the country's largest savings bank with over $200 billion in retail deposits. This was quickly followed by the demise of Wachovia, the nation's third largest bank ranked by retail deposits, which was forced into a regulatory-assisted purchase by Citigroup. Other major banks remain on the brink and are actively seeking mergers with stronger institutions or face the prospect of their own end at the hands of federal regulators. These are unprecedented events in the post-Depression history of the U.S. financial system.

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

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

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

From a portfolio perspective, asset diversification efforts over the past couple of years have helped by reducing the public equity exposure and thus mitigating some of the downside in recent months. Over the past year we have made additional commitments in the private equity and real estate asset classes. On the fixed income side we made a decision to diversify into broader segments of the bond market including international and high yield markets. This entailed the hiring of four external managers for a portion of the retirement fund bond pool with these mandates to be funded over the coming months. We are also examining a new asset strategy for possible use in the pension plans – hedge funds – a broad category of various active trading strategies that are designed to provide diversification from traditional assets such as public equities. The Board will consider implementing asset allocation changes only after a thorough understanding of the risks and benefits of taking such actions with an appropriate long term timeframe in mind.

Respectfully Submitted,

Clifford Sheets, CFA, CIO
Montana Board of Investments

Investment Policy

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

Investment Results

TRS Rates of Returns*

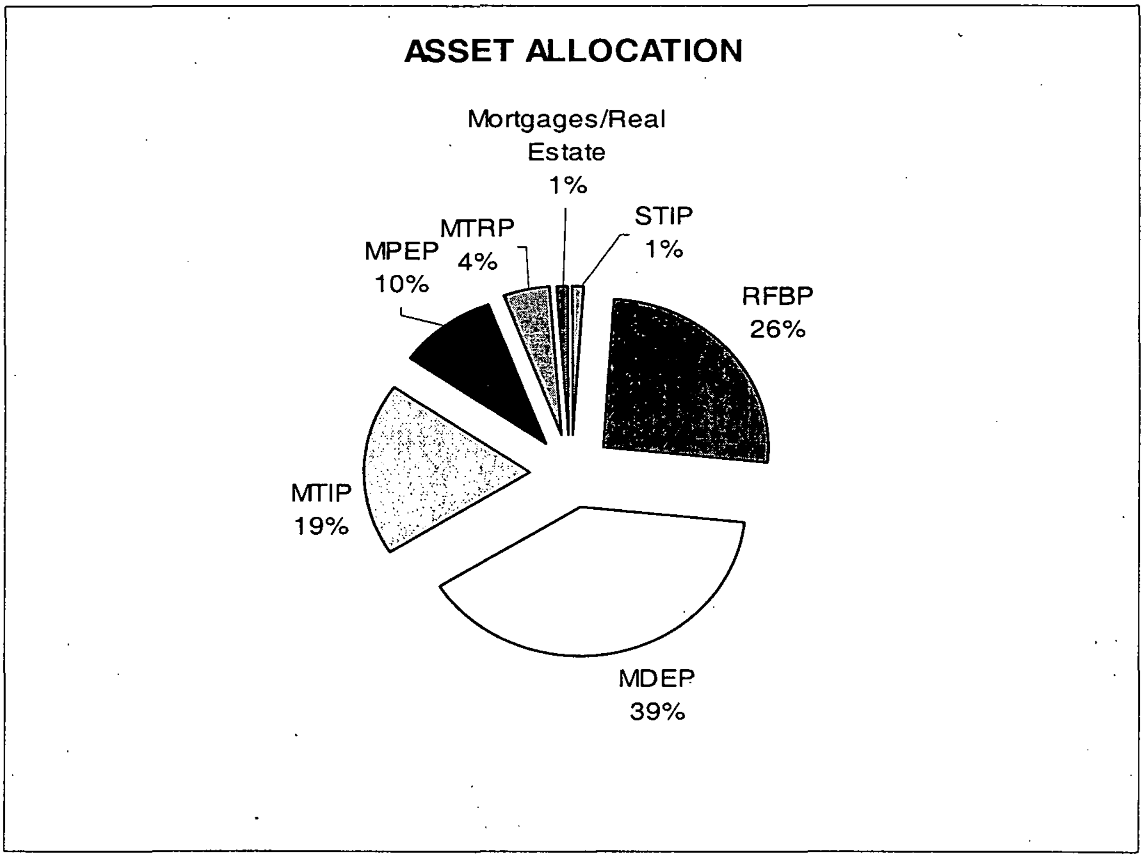
	FY 2008	3-Year	5-Year	10-Year
STIP	4.49%	4.79%	3.55%	4.01%
1 Mo LIBOR Index	4.18%	4.65%	3.49%	3.79%
RFBP	5.82%	4.32%	4.41%	6.39%
LB US Agg Bond Index	7.12%	4.09%	3.85%	5.68%
MDEP	-12.91%	4.09%	7.01%	N/A
S&P 1500 Super Comp Index	-12.72%	4.65%	8.15%	3.53%
MTIP	-9.16%	14.66%	17.59%	8.51%
International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

* A time-weighted rate of return

Investment Summary and Asset Allocation

JUNE 30, 2008

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



Ten Largest Bond Holdings at fair value:

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

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

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

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

Investment Management Fees

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

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

ACTUARIAL SECTION

ACTUARY'S CERTIFICATION LETTER

EXHIBITS

1. SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

2. SCHEDULE OF ACTIVE MEMBER VALUATION DATA

3. SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

4. SOLVENCY TEST

5. ANALYSIS OF FINANCIAL EXPERIENCE

6. PROVISIONS OF GOVERNING LAW

Milliman

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

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

milliman.com

October 8, 2008

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

Members of the Board:

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

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

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

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

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

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

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

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

In preparing our actuarial valuation reports, we relied, without audit, on the financial statements prepared by the staff of the System. We also relied upon the employee and beneficiary data provided to us by the staff. We compared the data for the July 1, 2008 actuarial valuation with corresponding information from the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates. Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations might need to be revised.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

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

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

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans. The GASB guidelines specify a 30-year maximum for the amortization of the Unfunded Actuarial Accrued Liability. Since the corresponding amortization period is greater than 30 years as of July 1, 2006, the Fiscal Year 2008 employer contribution rate must include an amount sufficient to amortize the Unfunded Actuarial Accrued Liability over 30 years. Our letter of April 11, 2007 determined that the employer contribution rate would need to increase to 9.58% (7.47% by participating employers + 2.11% by the State General Fund) at July 1, 2007 and 10.44% (7.47% + 2.97%) at July 1, 2009 to maintain a 30 year amortization period from July 1, 2006. Thus the Fiscal Year 2008 Annual Required Contribution (ARC) is 9.58% under the GASB requirements. Employer contributions equal to 9.58% of pay were made in Fiscal Year 2008. However, the 9.96% (7.47% + 2.49%) contribution rate currently scheduled at July 1, 2009 is less than the ARC of 10.44% according to calculations based on the July 1, 2006 actuarial valuation.

Funding and Benefits Policy

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

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

3) Benefit Enhancements
   a) The Funding and Benefits Policy states: "Proposed benefit enhancements must include additional funding sufficient to cover any increase in the normal cost and to amortize any increase in unfunded liabilities over a period not to exceed 25 years. In addition, as of the most recent actuarial valuation, the funded ratio must be 85% or greater before the Board will support legislation to enhance benefits."
   b) Analysis: Since the net funded ratio at July 1, 2008 of 79.9% is below 85% the Board's Funding and Benefits policy does not currently support enhanced benefits, even if funding of increased unfunded liabilities over 25 years is included.

Changes in Plan Provisions Since Prior Actuarial Valuation

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

Changes in Actuarial Assumptions Since Prior Actuarial Valuation

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

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

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

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

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

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

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

Sincerely,

Mark C Olleman

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

Craig Glyde

Craig J. Glyde, EA, MAAA
Associate Actuary

MCO/fyf

Enclosures

EXHIBIT 1

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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

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

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

4. Mortality

The mortality rates used in this valuation are:

Contributing Members, Retired Members and Beneficiaries:

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

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

Disabled Members:

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

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

5. Retirement

Service Retirement

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

	General Members			University Members		
Age	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter
45		18.0%	7.0%		9.0%	5.0%
46		18.0	7.0		9.0	5.0
47		12.5	7.0		9.0	5.0
48		12.5	7.0		9.0	5.0
49	*	12.5	7.0	*	9.0	5.0
50	3.0%	12.5	7.0	1.9%	9.0	5.0
51	3.0	16.0	7.5	2.2	9.0	5.0
52	3.0	16.0	8.0	2.5	9.0	5.0
53	3.0	16.0	8.5	2.8	9.0	5.0
54	3.0	16.0	9.0	3.1	9.0	5.0
55	5.0	24.0	11.0	3.4	15.0	5.0
56	5.0	24.0	12.0	3.7	15.0	6.0
57	5.0	24.0	13.0	4.0	15.0	6.0
58	5.0	24.0	14.0	4.3	15.0	6.0
59	5.0	24.0	16.0	4.7	15.0	7.0
60	*	17.0	21.0	*	15.0	10.0
61		21.0	21.0		14.0	14.0
62		25.0	25.0		20.0	20.0
63		22.0	22.0		14.0	14.0
64		23.0	23.0		20.0	20.0
65		33.0	33.0		28.0	28.0
66		26.0	26.0		21.0	21.0
67		22.0	22.0		21.0	21.0
68		20.0	20.0		21.0	21.0
69		20.0	20.0		21.0	21.0
70		**	**		**	**

** All benefits are unreduced after attaining age 60. Reduced benefits are not available before age 50.*
*** Immediate retirement is assumed at age 70 or over.*

(Adopted 7/1/2008)

Disability Retirement

Annual probabilities are illustrated below:

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

(Adopted 7/1/2008)

6. Other Terminations of Employment

The annual rates of termination are illustrated below:

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

(Adopted 7/1/2008)

7. Future Salaries

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

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

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

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

8. **Growth in Membership**

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

9. **Actuarial Cost Method**

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

10. **Postretirement Increases**

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

11. **Effective Dates**

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

12. **Date of Last Study**

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

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

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

13. **Interest on Member Contributions**

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

14. Price Inflation

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

15. Recent Changes

The following details recent changes in:

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

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

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

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

EXHIBIT 2

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Full-Time Members

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

Part-Time Members*

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

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

EXHIBIT 3

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

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

- *Information provided where available.*

EXHIBIT 4

SOLVENCY TEST

(All dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities for (A) Active Member Contributions	(B) Retirees and Beneficiaries	(C) Active Members (Employer Financed Portion)	Portion of Actuarial Accrued Liabilities Covered by Assets (A)	(B)	(C)
July 1, 1998[(1)]	$ 1,809.0	$ 603.6	$ 980.0	$ 539.7	100.0%	100.0%	41.8%
July 1, 1998[(2)]	1,809.0	603.6	1,111.3	627.8	100.0	100.0	15.0
July 1, 2000[(3)]	2,247.5	647.2	1,346.7	654.4	100.0	100.0	38.8
July 1, 2000[(4)]	2,247.5	647.2	1,346.7	658.1	100.0	100.0	38.5
July 1, 2002	2,484.8	722.6	1,598.4	659.1	100.0	100.0	24.9
July 1, 2004	2,485.7	750.6	1,865.3	743.3	100.0	93.0	0.0
July 1, 2005	2,497.5	771.5	1,979.2	776.3	100.0	87.2	0.0
July 1, 2006	2,745.8	791.3	2,033.8	908.5	100.0	96.1	0.0
July 1, 2007	3,006.2	804.5	2,171.1	952.9	100.0	100.0	3.2
July 1, 2008	3,159.1	823.6	2,313.0	974.2	100.0	100.0	2.3

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

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

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

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

EXHIBIT 5

ANALYSIS OF FINANCIAL EXPERIENCE

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

ANALYSIS OF FINANCIAL EXPERIENCE
(All dollar amounts in millions)

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

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

EXHIBIT 6

PROVISIONS OF GOVERNING LAW

Effective Date	September 1, 1937.
Vesting Period	5 years. No benefits are payable unless the member has a vested right, except the return of employee contributions with interest.
Final Compensation	Average of highest 3 consecutive years of earned compensation.
Normal Form of Benefits	Life only annuity. All benefits cease upon death; however, in no event will the member receive less than the amount of employee contributions with interest.
Normal Retirement Benefits	
Eligibility:	25 years of service or age 60 and 5 years of service.
Benefit:	The retirement benefit is equal to 1/60 of final compensation for each year of service.
Early Retirement Benefits	
Eligibility:	5 years of service and age 50.
Benefit:	The retirement benefit is calculated in the same manner as described for normal retirement, but the benefit is reduced 1/2 of 1% for each of the first 60 months early and 3/10 of 1% for each of the next 60 months early.
Death Benefit	
Eligibility:	5 years of service.
Benefit:	The death benefit is equal to 1/60 of final compensation for each year of service accrued at date of death, with an actuarial adjustment based on the relation of the member's age at death to the beneficiary's age. A monthly benefit of $200 is paid to each child until age 18. In addition, a lump-sum benefit of $500 is paid upon the death of an active or retired member.

Disability Benefit

Eligibility:	5 years of service.
Benefit:	The disability benefit is equal to 1/60 of final compensation for each year of service accrued at date of disability. The minimum benefit is 1/4 of the final compensation.
Withdrawal Benefits	With less than 5 years of service, the accumulated employee contributions with interest are returned. With more than 5 years, the member may elect a refund of contributions with interest or leave the contributions and interest in the System and retain a vested right to retirement benefits.
Contributions	Member: 7.15% of compensation. Employer: 9.58% of compensation, 9.96% starting July 1, 2009. MCA 19-20-604 specifies that the employer contribution rate will be reduced by 0.11% when the amortization period of the System's UAAL is 10 years or less according to the System's latest actuarial valuation.
Interest on Member Contributions	Interest on member contributions is currently being credited at a rate of 2.0% per annum.
Cost-of-Living Adjustments	On January 1 of each year, the retirement allowance payable must be increased by 1.5% if the retiree has received benefits for at least 36 months prior to January 1 of the year in which the adjustment is to be made.

STATISTICAL SECTION

SCHEDULE OF CHANGES IN NET ASSETS

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

SCHEDULE OF MEMBERSHIP

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS

LOCATION OF BENEFIT RECIPIENTS

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

Schedule of Changes in Net Assets
(In thousands)

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

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

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

Fiscal Year of Retirement			Years of Credited Service					
			5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
1999	Average Monthly Benefit	$	291	453	658	978	1,430	2,018
	Average Final Average Salary	$	2,522	2,621	2,825	3,069	3,600	4,097
	Number of Retirees		34	33	40	44	159	153
2000	Average Monthly Benefit	$	227	410	737	1,217	1,490	2,155
	Average Final Average Salary	$	2,009	2,553	3,088	3,716	3,686	4,327
	Number of Retirees		24	27	40	47	144	173
2001	Average Monthly Benefit	$	185	472	872	1,196	1,660	2,155
	Average Final Average Salary	$	1,846	2,649	3,488	3,576	4,035	4,260
	Number of Retirees		30	44	33	62	170	217
2002	Average Monthly Benefit	$	261	441	744	1,214	1,689	2,219
	Average Final Average Salary	$	2,073	2,530	3,237	3,504	4,068	4,363
	Number of Retirees		28	37	43	66	173	222
2003	Average Monthly Benefit	$	310	432	797	1,347	1,725	2,193
	Average Final Average Salary	$	2,216	2,502	3,084	3,891	4,066	4,238
	Number of Retirees		24	40	51	85	149	193
2004	Average Monthly Benefit	$	263	474	954	1,383	1,838	2,489
	Average Final Average Salary	$	2,231	2,589	3,814	3,904	4,290	4,757
	Number of Retirees		35	37	34	62	127	198
2005	Average Monthly Benefit	$	263	639	879	1,327	1,776	2,605
	Average Final Average Salary	$	2,283	3,404	3,433	3,737	4,184	4,876
	Number of Retirees		38	31	39	57	141	205
2006	Average Monthly Benefit	$	307	515	845	1,410	1,883	2,626
	Average Final Average Salary	$	2,577	2,801	3,297	4,089	4,416	4,896
	Number of Retirees		43	53	43	47	140	208
2007	Average Monthly Benefit	$	296	585	821	1,393	2,009	2,714
	Average Final Average Salary	$	2,598	3,283	3,318	3,982	4,727	5,041
	Number of Retirees		42	42	46	74	135	193
2008	Average Monthly Benefit	$	332	480	908	1,515	1,974	2,728
	Average Final Average Salary	$	2,876	2,694	3,594	4,282	4,656	5,022
	Number of Retirees		38	51	53	61	147	220

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

Schedule of Membership

Active and Inactive Members

Period Ended	Active Members	Inactive Vested Members	Inactive Non-vested	Total
June 30, 1999	18,287	1,209	8,612	28,108
June 30, 2000	18,423	1,245	9,212	28,880
June 30, 2001	18,530	1,359	10,034	29,923
June 30, 2002	17,262	1,611	8,834	27,707
June 30, 2003	18,285	1,519	7,736	27,540
June 30, 2004	18,257	1,607	7,723	27,587
June 30, 2005	18,247	1,640	8,431	28,318
June 30, 2006	18,108	1,681	8,470	28,259
June 30, 2007	18,188	1,660	8,856	28,704
June 30, 2008	18,292	1,649	9,574	29,515

Retired Members and Benefit Recipients

Period Ended	Retirement	Survivors	Disability	Total
June 30, 1999	7,661	415	282	8,358
June 30, 2000	7,927	422	291	8,640
June 30, 2001	8,288	434	294	9,016
June 30, 2002	8,615	432	295	9,342
June 30, 2003	8,957	431	294	9,682
June 30, 2004	9,246	427	294	9,970
June 30, 2005	9,578	427	294	10,299
June 30, 2006	9,909	429	299	10,637
June 30, 2007	10,242	424	305	10,971
June 30, 2008	11,043	438	307	11,788

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

Schedule of Retired Members by Type of Benefit

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

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

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

Schedule of Principal Participating Employers

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

Teachers' Retirement System
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Location of Benefit Recipients as of June 30, 2008

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

*602 recipients receive two benefits