MONTANA

Teachers' Retirement System

A Component Unit of the State of Montana

TRS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2011

Brian Schweitzer, Governor

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A Component Unit of the State of Montana

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FISCAL YEAR ENDED JUNE 30, 2011

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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INTRODUCTORY SECTION

TEACHERS' RETIREMENT SYSTEM

BRIAN SCHWEITZER, GOVERNOR

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STATE OF MONTANA

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December 13, 2011

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, 2011. This report is intended to provide comprehensive information on the financial operations of the Montana Teachers' Retirement System (TRS) for the year. The issuance of the TRS CAFR satisfies the legal requirements of Section 19-20-201 (d) and 19-20-215, Montana Code Annotated (MCA).

TRS management is responsible for the information presented in this report and for establishing and maintaining an internal accounting control structure to reasonably assure the safekeeping of assets and the reliability of financial reporting. Because the cost on internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The TRS was established by state law in 1937 and has completed its 74th year of operation. The TRS is providing services to approximately 18,500 active members, 12,900 benefit recipients, and through the Board of Investments, manage assets valued in excess of $2.9 billion.

PLAN QUALIFICATION CERTIFICATION

The TRS submitted a determination letter request to the Internal Revenue Service (IRS) on September 29, 2008, asking the Service to find the TRS is a qualified plan under Internal Revenue Code Section 401(a). The TRS last submitted a determination request to the IRS in April 1998, and received a favorable determination letter dated December 10, 1998. Since the prior submission, there have been a number of changes to the TRS plan due in part to legislative changes made by the Montana Legislature in sessions 2001-2009. Our pending application asks the IRS to qualify the plan based on all current terms of the plan, including the legislative changes made since 2001. On August 10, 2011, we were advised that our determination letter application has been returned to the reviewing agent based on continuing IRS consideration of issues related to normal retirement age. We have been advised that this issue is not unique to the Montana Teachers' Retirement System and that many pending qualification applications have been delayed for the same reason.

It is the IRS's expectation that a qualified public pension plan expressly provide that a member's right to benefits under the plan must vest upon the member attaining normal retirement age, and that normal retirement age must be expressed as an age. In response to the concerns raised by the IRS, we proposed two statutory amendments for introduction in the 2013 legislative session: 1) an amendment to the definition of "normal retirement age," and 2) additional language in the statutory provisions pertaining to Superannuation Retirement to establish that a member will be fully vested in the benefits provided under the plan upon attainment of normal retirement age. To date, the Service has not replied to our proposal.

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. However, TRS has a current qualification letter which remains in effect until such time as a new qualification determination is issued, so a pended qualification application does not affect the qualified plan status of the retirement system.

PLAN FUNDING STATUS

The TRS plan's net Funded Ratio decreased from 65.4% at July 1, 2010 to 61.5% at July 1, 2011. The July 1, 2011 Actuarial Valuation shows that the current contribution rates are not sufficient to pay the System's normal cost and to amortize the System's Unfunded Actuarial Accrued Liability (UAAL) over 30 years, based on the current funding methods and long term actuarial assumptions. The normal cost of 9.74% of pay for the year beginning on July 1, 2011 is funded by employer and employee contributions. The remaining contribution, 7.37%, is available to fund the amortization of the UAAL. However, the 7.37% is not sufficient to amortize the UAAL. The System's UAAL funded by TRS contributions as of July 1, 2011 is $1,792.1 million based on actuarial assets. Additional information regarding the financial condition of the TRS plan can be found in the Actuarial Section of this report.

ANNUAL REQUIRED CONTRIBUTION

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

The table below demonstrates the ARC as recommended by the actuary in the July 1, 2010 valuation report and the current statutory contribution. It also shows the amount of annual additional contributions that will be necessary to maintain the System in an actuarial sound manner.

Schedule of Annual Required Contribution (ARC)

Valuation Date	Fiscal Year Ended for ARC is Payable	ARC	Current Contribution Rate	Expected Shortfall
July 1, 2010	June 30, 2012	12.16%	9.96%	$17,000,000
July 1, 2010	June 30, 2013	14.18%	9.96%	$34,000,000

UPDATED ACTUARIAL FACTORS

Based on a 2010 Experience Study conducted by our Actuary, Cavanaugh Macdonald Consulting, the Teachers' Retirement Board adopted changes to actuarial assumptions and methods used in determining the actuarial soundness of the Teachers' Retirement System. The purpose of an experience study is to assess the reasonability of the actuarial assumptions for TRS. The report provided comparisons between the actual and expected investment returns, actual and expected cases of separation from active service, actual and expected number of deaths, and actual and expected salary increases. The experience study covered the five-year period from July 1, 2004 to July 1, 2009, and included all active full-time members, retired members, and beneficiaries of deceased members.

The Actuaries recommended changes in the assumptions regarding rates of withdrawal, disability, and retirement for active members, together with changes in actuarial methodologies and factors used to calculate certain retirement benefits, which were approved by the Board. The full Experience Study report is available on the TRS website www.trs.mt.gov, under the publications tab.

2011 LEGISLATIVE HIGHLIGHTS

House Bill 86 and House Bill 116 included clarification of the limitations pertaining to postretirement employment, and the reporting requirements applicable to working retirees and their employers. These amendments should assist TRS in timely identifying retirees who have returned to work, allow greater oversight and compliance with the earnings limitations applicable to working retirees, and provide for timely adjustment or suspension of retirement benefits of retirees who exceed the limitations.

INVESTMENT ACTIVITY

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

The TRS investment portfolio posted a positive total return of 21.83%, resulting in an increase in the fair market value of its investments. The System's total annualized rate of return over the last five and ten years was 4.12% and 4.93% respectively. The BOI invests the TRS and other pension portfolios for the long-term and its investment strategies, based on an asset/liability study completed in May 2006, are designed to provide sufficient returns over time. However, there is no guarantee of future investment performance. Performance in any given year is dependent not only on the BOI's investment performance but also on the performance of the markets themselves, which are impacted by domestic and global economic conditions, interest rates, and government policies.

TRS Investment Rates of Returns

	FY 2011	3-Year	5-Year	10-Year
Fixed Income	6.81%	7.79%	7.21%	6.69%
Domestic Equities	31.92%	3.60%	2.96%	2.36%
International Equities	30.62%	(2.41)%	2.08%	6.13%
Private Equities	20.75%	1.88%	7.25%	N/A
Real Estate	16.35%	(11.59)%	(5.38)%	N/A
STIP	.31%	.76%	2.40%	2.40%
Total Portfolio	21.83%	2.93%	4.12%	4.93%

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, 2010. This was the fifth 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 Administration for 2011 in recognition of meeting the professional standards for plan administration as set forth in the Public Pension Standards. The PPCC is a coalition of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement.

INDEPENDENT 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 2011.

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

CONCLUSION

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

Sincerely,

/s/ David L. Senn

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, 2010

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

Recognition Award for Administration 2011

Presented to

Montana Teachers' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

/s/ Alan H. Winkle

Alan H. Winkle
Program Administrator

TEACHERS' RETIREMENT SYSTEM
BOARD OF DIRECTORS AND
PROFESSIONAL CONSULTANTS

BOARD OF DIRECTORS

	Term Expires
KARI PEIFFER, kpeiffer@mt.gov CHAIR Active Member (Classroom Teacher)	JUNE 30, 2012
DARRELL LAYMAN, dlayman@mt.gov VICE CHAIR Retired Member	JUNE 30, 2016
SCOTT DUBBS, sdubbs@mt.gov Active Member	JUNE 30, 2013
JEFF GREENFIELD, jgreenfield@mt.gov Active Member	JUNE 30, 2016
ROBERT PANCICH, bpancich@mt.gov Public Representative	JUNE 30, 2014
JAMES TURCOTTE, jturcotte@mt.gov Public Representative	JUNE 30, 2015

PROFESSIONAL CONSULTANTS

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

Teachers' Retirement System

12/01/2011

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FINANCIAL SECTION

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Fiduciary Net Position of the Teachers' Retirement System, a component unit of the state of Montana, as of June 30, 2011, and 2010, and the related Statement of Changes in Fiduciary Net Position for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the Teachers' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System as of June 30, 2011, and 2010, and its changes in net position for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

At July 1, 2011, the Teachers' Retirement System was not actuarially sound. The amortization period for the Unfunded Actuarial Accrued Liability is 71 years. The maximum allowable amortization period is 30 years.

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

October 27, 2011

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, 2011, with comparative totals for the fiscal years ended June 30, 2010 and 2009. 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 three supporting schedules. The Statement of Fiduciary Net Position reflects the resources available to pay benefits to retirees and beneficiaries. The Statement of Changes in Fiduciary Net Position 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 and the Schedule of Investment Expenses are a presentation of what comprises the administrative expense item and the investment expense item as reported on the Statement of Changes in Fiduciary Net Position. The Schedule of Payments to Consultants represents our fees paid to outside professionals.

Financial Highlights

- The TRS fiduciary net position increased by $451.0 million for 2011 and $221.0 million for 2010, representing an increase of 17.9% and 9.5% respectively.
- Net investment income (fair value of investments plus investment income less investment expense) increased in 2011 by 82.7% and 2010 by 148.1% representative of the continued positive rebound of the overall stock market.
- Pension benefits paid to retirees and beneficiaries increased 6.8% and 4.9% for the last two fiscal years respectively.

Condensed Financial Information (in millions)

Fiduciary Net Position	FY2011	FY2010	FY2009	2011 Percent Inc/(Dec)	2010 Percent Inc/(Dec)
Cash/Short-term Investments	$ 48.9	$ 44.4	$ 25.5	10.1	74.1
Receivables	23.2	24.0	22.6	(3.4)	6.2
Investments (fair value)	3,047.0	2,615.3	2,463.9	16.5	6.1
Other Assets (net)	0.2	0.3	0.3	(0.3)	0
Total Assets	3,119.3	2,684.0	2,512.2	16.2	6.8
Liabilities	146.8	162.5	210.6	(9.7)	(22.8)
Net Position	**$2,972.4**	**$2,521.4**	**$2,301.6**	**17.9**	**9.5**
Changes in Fiduciary Net Position					
Additions:					
Employer Contributions	$ 72.9	$ 72.2	$ 66.9	1.0	7.9
Plan Member Contributions	63.0	62.8	57.3	0.3	9.6
Other Contributions	17.4	17.2	14.1	1.2	22.0
Net Investment Income	539.0	295.0	(613.0)	82.7	148.1
Total Additions	692.4	447.3	(474.8)	54.8	194.2
Deductions:					
Benefit Payments	235.1	220.2	209.9	6.8	4.9
Withdrawals	4.4	4.2	5.2	4.8	(19.2)
Administrative Expenses	1.8	1.9	1.9	(5.3)	0
Total Deductions	241.4	226.3	217.0	6.7	4.3
Net Inc/(Dec) in Net Position	**$ 451.0**	**$ 221.0**	**$(691.8)**	**104.1**	**131.9**

Financial Analysis

- The change from year-to-year in cash/short-term investments is due mostly to the change in the number of shares held, at a per share value of $1, in the Short Term Investment Pool.
- The increase in receivables for 2010 reflects the increase from 2% to 2.38% in the supplemental payment from the general fund. The decrease in receivables for 2011 represents a $0.8 million less in contributions due at fiscal year end.
- The increase in investments for 2011 and 2010 represents the recovery in the economy and capital market conditions.
- The significant fluctuation in liabilities is primarily due to the security lending collateral activity conducted by the Montana Board of Investments.
- The dramatic increase in net investment income for 2011 and 2010 was due to an overall increase in the market value of our investment holdings.
- 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 gain over the last year. The market assets had a positive return of 21.67% net of investment and operating expenses. The actuarial assets earned a negative (0.13%) which is (7.88%) less than the actuarial assumption of 7.75%. Actuarial gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption. The following table compares the annual returns for the past six years.

Fiscal Year	Market Return	Actuarial Return	Actuarial Return over 7.75 %
7/1/2005 to 6/30/2006	8.91%	8.46%	0.71%
7/1/2006 to 6/30/2007	17.64%	10.22%	2.47%
7/1/2007 to 6/30/2008	(4.88)%	7.18%	(0.57)%
7/1/2008 to 6/30/2009	(20.80)%	(10.26)%	(18.01)%
7/1/2009 to 6/30/2010	12.87%	9.78%	2.03%
7/1/2010 to 6/30/2011	21.67%	(0.13)%	(7.88)%

The chart above shows that overall the actuarial return on assets has underperformed the assumption in the last six years.

Contributions as a Percent of Pay

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

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

Section 19-20-201, MCA, requires the actuarial report to show how market performance is affecting the actuarial funding of the Retirement System. The July 1, 2011 market value of assets is $105.9 million more than the actuarial value of assets. If the market value of assets was used, the amortization period would be 58 years, and the Funded Ratio would be 63.81%. Based on market assets, a contribution increase of 2.82% of pay (17.11% to 19.93%) effective July 1, 2013, is projected to maintain an amortization of the unfunded actuarial accrued liability over a 30 year period.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2011 AND 2010

		2011		2010
ASSETS				
Cash/Cash Equivalents-Short Term				
Investment Pool (Note B)	$	48,885,812	$	44,365,041
Receivables:				
Accounts Receivable		18,726,665		19,916,535
Interest Receivable		4,462,165		4,110,813
Total Receivables	$	23,188,830	$	24,027,348
Investments, at fair value (Note B):				
Mortgages	$	0	$	16,342,528
Investment Pools		2,899,968,475		2,426,072,098
Other Investments		687,861		10,826,623
Securities Lending Collateral (Note B)		146,389,177		162,097,378
Total Investments	$	3,047,045,513	$	2,615,338,627
Assets Used in Plan Operations:				
Land and Buildings	$	193,844	$	193,844
Less: Accumulated Depreciation		(150,545)		(150,545)
Equipment		142,697		142,697
Less: Accumulated Depreciation		(70,489)		(49,458)
Prepaid Expense		6,401		7,380
Intangible Assets, net of amortization		28,443		106,371
Total Other Assets	$	150,351	$	250,289
TOTAL ASSETS	$	3,119,270,506	$	2,683,981,305
LIABILITIES				
Accounts Payable	$	86,396	$	111,324
Securities Lending Liability (Note B)		146,389,177		162,097,378
Compensated Absences (Note B)		180,541		182,728
OPEB Implicit Rate Subsidy (Note E)		193,342		144,155
TOTAL LIABILITIES	$	146,849,456	$	162,535,585
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$	2,972,421,050	$	2,521,445,720

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 POSITION
FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

		2011		2010
ADDITIONS				
Contributions:				
Employer	$	72,879,950	$	72,179,128
Plan Member		62,993,192		62,844,529
Other		17,437,366		17,241,610
Total Contributions	$	153,310,508	$	152,265,267
Misc Income	$	16,539	$	65,233
Investment Income:				
Net Appreciation/(Depreciation) in Fair Value of Investments	$	455,020,967	$	199,503,703
Investment Earnings		99,119,730		109,898,071
Security Lending Income (Note B)		1,200,925		1,253,635
Investment Income/(Loss)	$	555,341,622	$	310,655,409
Less: Investment Expense		15,978,901		15,350,943
Less: Security Lending Expense (Note B)		334,365		349,935
Net Investment Income/(Loss)	$	539,028,356	$	294,954,531
Total Additions	$	692,355,403	$	447,285,031
DEDUCTIONS				
Benefit Payments	$	235,122,805	$	220,193,357
Withdrawals		4,364,713		4,165,835
Administrative Expense		1,843,368		1,905,124
OPEB Expenses		49,187		47,181
Total Deductions	$	241,380,073	$	226,311,497
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	**$**	450,975,330	$	220,973,534
NET POSITION HELD IN TRUST FOR PENSION BENEFITS BEGINNING OF YEAR		2,521,445,720		2,301,618,671
Prior Period Adjustment				(1,146,485)
END OF YEAR	**$**	2,972,421,050	$	2,521,445,720

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, 2011, the number and type of reporting entities participating in the system were as follows:

Local School Districts & Coops	352
Community Colleges	3
University System Units	2
State Agencies	9
Total	366

At July 1, 2011, the date of the most recent actuarial valuation, system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	12,899
Terminated Employees:	
Vested	1,580
Non-vested	10,727
Current Active Members:	
Vested	11,912
Non-vested	6,572
Total Membership	43,690

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

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel at June 30, 2011 and June 30, 2010.

Cash/Cash Equivalents and Investments

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

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

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

The TRS investments include: STIP; Retirement Funds Bond Pool (RFBP); Montana Domestic Equity Pool (MDEP); Montana International Equity Pool (MTIP); Montana Private Equity Pool (MPEP), Montana Real Estate Pool (MTRP). Effective May 1, 2011, the real estate buildings and residential mortgages, previously reported as other investments and mortgages, are included in the MTRP and RFBP portfolios. Other Investments consist of a portfolio of Structured Investment Vehicles (SIVs) at June 30, 2011.

The TRS Investment Portfolio is listed below:

TRS Cash Equivalent and Investment Portfolio
June 30, 2011

Investment	Book Value	Fair Value
STIP	$ 39,826,062	$ 39,826,062
RFBP	676,694,083	726,164,390
MDEP	469,900,673	1,074,185,991
MTIP	341,942,013	544,950,429
MPEP	231,772,017	362,293,218
MTRP	227,674,109	192,374,448
Other Asset Backed	687,861	687,861
Total	$ 1,988,496,818	$ 2,940,482,399

Securities Lending – Under the provisions of state statutes, BOI is authorized to lend its securities and has contracted with the custodial bank to lend the BOI securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The BOI and the custodial bank split the earnings, 80/20% respectively, on security lending activities. The BOI retains all rights and risks of ownership during the loan period. At June 30, 2011, the BOI had no credit risk exposure to borrowers. The private equity and real estate pools do not participate in securities lending. There were no failures by any borrowers to return or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower.

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

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

All securities in pools are held in the name of the Montana BOI, or were registered in the nominee name for the Montana BOI and held in the possession of the BOI's custodial bank. MDEP, MTIP, MPEP, and MTRP do not invest in debt securities, so interest rate risk, credit risk, and concentration of credit risk do not apply to these holdings. According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a7-like pool. STIP, as an external investment pool, has not been rated.

The TRS investments subject to credit and interest rate risk at June 30, 2011 are categorized below:

Investment	Fair Value 6/30/11	Credit Quality Rating 6/30/11	Effective Duration 6/30/11	WAM in Days
RFBP	$ 726,164,390	AA-	4.56	
STIP	39,826,062	NR		35

MPEP, MTRP, MTIP, and RFBP include assets subject to foreign currency risk. The MPEP and MTRP investments in EURO currency had a carrying value of $35,547,652 and a fair value of $25,581,114 at June 30, 2011. The MTIP and RFBP had cash and securities with a foreign currency value of $599,933,893 at June 30, 2011. The TRS position in those pools was approximately 37% at June 30, 2011.

NOTE C. CONTRIBUTIONS

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members are currently required to contribute 7.15% of their earned compensation and the employer contribution rate for fiscal year 2011 was 9.85% of earned compensation. The State's General Fund contributed 2.38% of the employer contributions for school district and community college employers of their members earned compensation and an additional .11% of total earned compensation of all members. Each employer in the Montana university system shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation of employees participating in the Optional Retirement Program (ORP). An actuary determines the actuarial implications of the funding requirement in annual actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age actuarial cost method, with both normal cost and amortization of the accrued liability determined as a level percentage of payroll.

NOTE D. FUNDED STATUS and FUNDING PROGRESS

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

The funded status of the TRS plan as of July 1, 2011, the most recent actuarial valuation date is as follows (dollar amounts in millions):

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
$2,866.5	$4,658.6	$1,792.1	61.5%	$746.7	240.0%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents 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, 2011
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	71 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, 2011, 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 $116.1 million more than anticipated by the 7.75% assumption for the year ended June 30, 2010 and $345.1 million more than anticipated by the 7.75% assumption for the year ended June 30, 2011. The net result as of July 1, 2011 is that the market value of assets is $105.9 million more than the actuarial value of assets. This $105.9 million in unrecognized asset gains will cause the contributions needed to amortize the UAAL in future valuations to decrease. However, to remain financially sound in the future, TRS will need either (1) future gains such as asset returns greater than the 7.75% assumption, (2) an increase in contribution rates, (3) a reduction in liabilities, or some combination thereof.

NOTE E. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

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

Funding Policy

The contribution requirements of plan members are established and may be amended by the MDOA. The monthly premium for plan members ranges from $285 to $982 for calendar year 2011 depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $34.90 and $59.36 and vision premiums vary between $7.64 and $22.26 depending on the coverage selected. The plan is financed on a pay-as-you-go basis.

Annual OPEB Cost

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Annual OPEB Cost

	TRS
Annual required contribution/OPEB cost	$ 43,060
Interest on net OPEB obligation	6,127
Annual OPEB cost	49,187
Contributions made	-
Increase in net OPEB obligation	49,187
Net OPEB obligation – beginning of year	144,155
Net OPEB obligation – end of year	193,342

The 2011 ARC is calculated for all the plan's employers and then allocated to each participating employer. The TRS 2011 ARC is $49,187 and is based on the plan's current ARC rate of 6.24% percent of total annual covered payroll for all employers. The 2011 ARC is equal to an annual amount required each year to fully fund the liability over 30 years. The amount of the estimated OPEB actuarial accrued liability was determined in accordance with GASB Statement 45, and the liability for TRS is estimated at $519,203. (The actuarial accrued liability is the present value of future retiree benefits and expenses.) For fiscal year 2011, the TRS allocated annual OPEB cost (expense) of $49,187 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 2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$ 49,496	0%	$ 96,974
6/30/2010	47,181	0%	144,155
6/30/2011	49,187	0%	193,342

Funded Status and Funding Progress

The funded status of the TRS allocation of the plan as of January 1, 2009, the most recent valuation date was as follows:

Actuarial accrued liability (AAL)	$519,203
Actuarial value of plan assets	$ 0
Unfunded actuarial accrued liability (UAAL)	$519,203
Funded ratio (actuarial value of plan assets/AAL)	0
TRS Covered payroll (active plan members)	$764,771
UAAL as a percentage of covered payroll	67.89%

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

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

Actuarial Methods and Assumptions

As of January 1, 2009, the TRS actuarially accrued liability (AAL) for benefits was $519,203, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $519,203, and the ratio of the UAAL to the covered payroll was 67.89%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the January 1, 2009, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.0% for 2009 and decreases by 1% per year down to 5% for 2014 and beyond for medical and 9.5% for prescription drugs decreasing a .5% to 2012 and then decreases by 1% down to 5% at 2015 and beyond.

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, 2006	2,745.8	3,733.6	124.7	863.1	76.1%	636.0	135.7%
July 1, 2007	3,006.2	3,928.5	153.4	768.9	79.6%	664.1	115.8%
July 1, 2008	3,159.1	4,110.8	157.1	794.6	79.9%	689.5	115.2%
July 1, 2009	2,762.2	4,331.0	157.2	1,411.6	66.2%	683.2	206.6%
July 1, 2010	2,956.6	4,518.2	158.7	1,561.6	65.4%	747.0	209.0%
July 1, 2011	2,866.5	4,658.6	155.1	1,792.1	61.5%	746.7	240.0%

(1) *Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method. Effective July 1, 2010, the System's AAL includes the present value of future university supplemental contributions.*

(2) *Actuarial accrued liabilities less actuarial value of assets and present value of future university supplemental contributions. Effective July 1, 2010, the System's UAAL is not offset by the present value of future university supplemental contributions. Instead, the ORP contributions are used as additional contributions toward the System's amortization of the unfunded liability.*

(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. Effective July 1, 2010, the System's UAAL is not offset by the present value of future university supplemental contributions. Instead, the ORP contributions are used as additional contributions toward the System's amortization of the unfunded liability.*

(4) *Covered Payroll includes compensation paid to all active employees on which contributions are calculated.*

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

TRS PLAN
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES

(All dollar amounts in thousands)

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2006	81,287	195.6%
June 30, 2007	96,228	117.1%
June 30, 2008	93,142	87.4%
June 30, 2009	80,998	100.0%
June 30, 2010	90,947	98.3%
June 30, 2011	91,859	98.3%

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

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

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

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

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

Valuation of Assets - Actuarial Basis
The actuarial asset valuation method spreads asset gains and losses over four years. The expected return is determined each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years. The gains and losses are measured starting with the year ended June 30, 2007. The actuarial value of assets is not allowed to be greater than 120% or less than 80% of the market assets. (Adopted July 1, 2007)

Inflation Rate
The assumed inflation rate is 3.50% per annum, compounded annually (adopted July 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 71 years as of July 1, 2011.

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of covered Payroll ((b-a/c)
1/1/2007	-	$ 449,321	$ 449,321	0%	$ 519,969	86.41%
1/1/2009	-	357,664	357,664	0%	526,794	67.89%

TEACHERS' RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Valuation date	January 1, 2009
Actuarial cost method	Projected unit credit funding
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 45
Actuarial assumptions:	
Projected salary increases	2.50%
Participation	
Future retirees	55.0%
Future eligible spouses	60.0%
Inflation rate	4.50%

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULES
FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

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, 2011 and 2010 are outlined below:

	2011	2010
Budgeted Expenses:		
Personnel Services:		
Salaries	$ 833,867	$ 832,848
Other Compensation	3,150	2,200
Employee Benefits	264,087	255,300
Total Budgeted Personal Srvs	$ 1,101,104	$ 1,090,348
Operating Expenses:		
Contracted Services	$ 373,821	$ 416,226
Supplies & Material	57,394	26,890
Communications	60,050	56,833
Travel	17,635	16,267
Rent	61,051	62,931
Repair & Maintenance	11,182	40,178
Other Expenses	64,358	68,069
Total Budgeted Operating Exp	$ 645,491	$ 687,394
Non-Budgeted Expenses:		
Compensated Absences	$ (2,187)	$ 8,554
Depreciation	21,032	9,356
Amortization of Intangible Assets	77,928	109,472
Total Non-Budgeted Expenses	$ 96,773	$ 127,382
Total Administrative Expenses	**$ 1,843,368**	**$ 1,905,124**

SCHEDULE OF INVESTMENT EXPENSES

Investment	BOI	Custodial Bank	External Managers	Total
STIP	$ 8,951	$ 2,510	$	$ 11,461
RFBP	196,460	68,513	560,488	825,461
MDEP	218,754	215,954	3,564,447	3,999,155
MTIP	215,714	72,031	1,617,853	1,905,598
MPEP	201,350	34,466	5,810,740	6,046,556
MTRP	172,154	18,780	2,939,135	3,130,069
Mortgages/Real Estate	55,632		4,969	60,601
	$ 1,069,015	**$ 412,254**	**$ 14,497,632**	**$ 15,978,901**

SCHEDULE OF PAYMENTS TO CONSULTANTS (included in administrative contracted services on previous page)

	2011	2010
Actuarial Services	$ 102,231	$ 129,345
Personnel Services	3,465	959
Legal Services	11,574	15,678
Medical Evaluations	275	700
Information Technology Services	77,700	58,360
Total Consultant Payments	**$ 195,245**	**$ 205,042**

INVESTMENT SECTION

REPORT ON INVESTMENT ACTIVITIES

INVESTMENT POLICY

INVESTMENT RESULTS

INVESTMENT ASSET ALLOCATION AND SUMMARY

LIST OF TEN LARGEST HOLDINGS IN PORTFOLIOS

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 fiscal year ended 6/30/11

The plan return for the current fiscal year was extremely positive at over 20% and represented a continuation of the upward trend from the prior fiscal year's post recession recovery. Capital market performance appeared much more positive than the underlying economic news. While corporate earnings fully recovered to pre-recession levels, the housing and labor markets failed to show any meaningful bounce back from the worst of the recession. The rate of economic growth slowed over the course of the fiscal year, having topped out at a quarterly rate near 4% in the middle of 2010, but then slowed noticeably over the next four quarters. A combination of the earthquake in Japan in March, and the associated supply chain disruptions, and a spike in energy prices in the spring acted to slow global manufacturing and consumption trends.

Stock prices held up fairly well despite the negative economic backdrop during the last quarter of the fiscal year, but since then have suffered a notable decline. Expectations for economic growth during the second half of 2011 began to erode along with consumer confidence during the summer months. Deterioration in the outlook was compounded by the fear of a possible U.S. Government shutdown during the debt ceiling debate in late July, and the threat posed to the global financial system by the European sovereign credit crisis.

For the 2011 fiscal year the total plan return was 21.83%, well above the fiscal year 2010 return of 12.84%. These two latest fiscal year returns helped to improve longer term plan returns with the annualized three year return at 2.93%, five years at 4.12% and ten years at 4.93%. A one year return of the magnitude just witnessed can indeed make a difference in digging out of the hole left by the bear market. The trailing three year return shifted from a negative 5.22% a year ago to this year's positive figure, and even the trailing ten year return more than doubled from last year's 2.34%. These results have been prepared by State Street, the custodian for the plan's assets, and are time-weighted returns computed in conformance with industry standards.

The 2011 fiscal year return was positive for all asset classes, but particularly for the equity markets, both publicly traded stocks and private equity. For the fiscal year the plan enjoyed a 31.42% return from public stocks, with domestic stocks up 31.91% and international stocks up 30.62%. Bonds, which represent the second largest public asset class next to stocks, also experienced positive returns for the fiscal year. This asset class was up 6.78%, and similar to the prior year, the return was enhanced by allocations to core plus and high yield bond strategies within the fixed income pool while the interest rate for U.S. Government bonds was flat for most maturities during the fiscal year.

Alternative assets in the plan include private equity and real estate investments. Performance for both asset classes was strong, with private equity returning 21.55% and real estate returning 16.04%. Both of these asset types have an inherent reporting lag, with valuations typically lagged by one quarter. Both asset classes are long term investments that are not marked to market daily, however are still dependent on the fundamental drivers of the economy and corporate earnings. Yet their characteristics offer some diversification benefit versus publicly traded securities while providing attractive long term returns.

Asset allocation changes during the fiscal year were driven by both market moves and transaction activity. During the first nine months of the fiscal year, public equities experienced the largest allocation increase primarily due to positive market moves despite some sales to trim exposure. Public equities ended the fiscal year at 55.0%, up almost 5% from the prior fiscal year end. Even considering valuation gains, the private equity weight was slightly reduced through sales, ending at an allocation of 12.3% of plan assets. Overall the equity allocation increased to 67.4%, largely a function of the strong positive returns. The portfolio allocation to fixed income was down 3.8%, primarily because the allocation was diluted by much stronger returns for equities. Real estate grew to 6.5% of plan assets through significant additional investments and improved valuations. A year ago a decision was made to endorse a small allocation to timberland to supplement our existing real estate exposure. An investment in timberland was initiated during the second half of the fiscal year and the allocation is expected to grow over time.

As noted earlier, stock markets have reacted negatively to recent events since the end of the fiscal year; so too have corporate bonds and other so called “risk assets.” At the same time, U.S. Government bond yields have fallen to new lows as investors seek safety. As of this writing in late September, the same events alluded to earlier – deteriorating consumer confidence and European sovereign debt problems – are driving investor anxiety. The domestic economy appears hamstrung by the dual concerns facing most consumers – a continued weak housing market and a stubbornly high level of unemployment. These are challenges that continue to confound policymakers. As are most developed countries, the U.S. is facing a balancing act of trying to stimulate the economy in the near-term while steering the long-term fiscal deficit towards greater austerity. The stalemate in Congress makes this challenge near impossible to solve, and in the near term there is no expectation in the marketplace that there will be any fiscal action to help the economy. The Federal Reserve has launched its latest initiative to push down long term interest rates in the hope of providing monetary stimulus to the weakening economy. Whether this will have a noticeable impact in improving the outlook is up for debate. Risk of another recession is real, with the consensus economic odds now at about a one in three chance of a “double dip.”

What does this mean for returns looking forward to the end of the current fiscal year? The outlook for returns seems mediocre at best. Risk premiums have already risen substantially across the equity and corporate credit markets as confidence in the economy has fallen and the corporate earnings outlook begins to erode. Government bond yields are depressed and are likely to remain low for the foreseeable future. In the immediate future there may be ongoing positive returns in the private asset classes, real estate and private equity, as their reporting valuations catch up with public assets. Clearly, we do not anticipate a repeat of the extraordinary returns of the past two years for the current fiscal year. Much will depend on whether we can avoid another U.S. recession and whether the European sovereign debt crisis can be contained, at least to the point of preventing a financial crisis and allowing for longer term solutions to be found. While the uncertainties of the moment are disconcerting, the long term outlook is still more positive than it was three years ago. Valuations across most asset classes are much more reasonable now, and the economy, while fragile, is less vulnerable to the kind of shakeout that occurred earlier.

Respectfully submitted,

/s/ Clifford A. Sheets

Clifford A. Sheets
Chief Investment Officer, CFA
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*

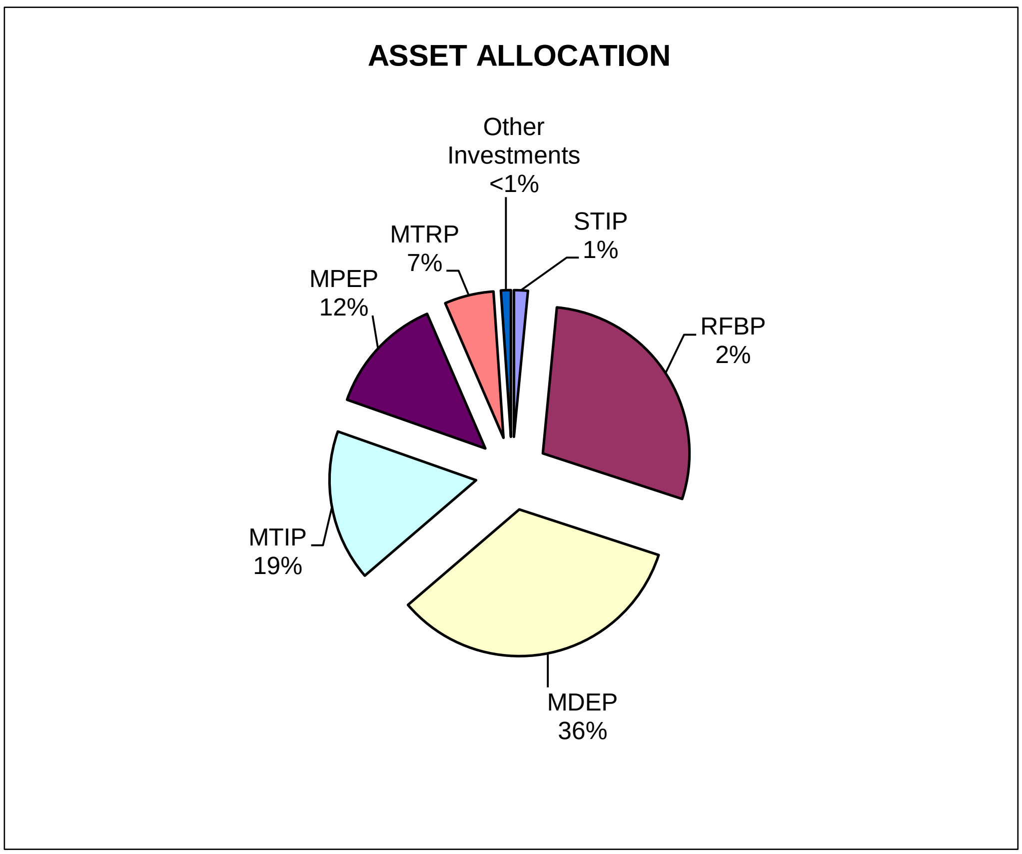
	FY 2011	3-Year	5-Year	10-Year
STIP	0.31%	0.76%	2.40%	2.40%
1 Mo LIBOR Index	0.25%	0.62%	2.25%	2.31%
RFBP	6.81%	7.79%	7.21%	6.69%
BC US Agg Bond Index	3.90%	6.46%	6.52%	5.74%
MDEP	31.92%	3.60%	2.96%	2.36%
S&P 1500 Comp Index	31.65%	3.87%	3.29%	3.31%
MTIP	30.62%	-2.41%	2.08%	6.13%
International Custom Benchmark	30.07%	0.10%	3.83%	6.88%
MPEP	20.75%	1.88%	7.25%	N/A
S&P 1500 +4% (Qtr Lag)	20.91%	7.18%	6.93%	7.97%
MTRP	16.35%	-11.59%	-5.38%	N/A
NCREIF ODCE Index (net)	19.01%	-9.75%	-1.03%	4.40%
Total Portfolio	21.83%	2.93%	4.12%	4.93%

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

Investment Summary and Asset Allocation

JUNE 30, 2011

Investment	Book Value	Fair Value
STIP	$ 39,826,062	$ 39,826,062
RFBP	676,694,083	726,164,390
MDEP	469,900,673	1,074,185,991
MTIP	341,942,013	544,950,429
MPEP	231,772,017	362,293,218
MTRP	227,674,109	192,374,448
Other Investments	687,861	687,861
Total	$ 1,988,496,818	$ 2,940,482,399



June 30, 2011

Ten Largest Bond Holdings (RFBP) at fair value:

1.	US Treasury Notes/Bonds	$	359,843,499
2.	FNMA (Fannie Mae)		352,268,136
3.	FHLMC (Freddie Mac)		183,475,433
4.	State Street Bank & Trust Co		91,695,903
5.	Wells Fargo & Co		49,153,660
6.	Bank of America		34,559,978
7.	US Dept of Transportation		31,564,500
8.	GNMA (Ginnie Mae)		26,804,440
9.	LB UBS Commercial Mortgage		22,434,218
10.	GMAC Commercial Mortgage Backed Security		21,487,687

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

1.	Blackrock S&P 500 Equity Index Fund	$	635,978,939
2.	Western Asset S&P 500 INDX Plus LLC		161,467,291
3.	Blackrock MidCap Equity Index Fund		104,726,028
4.	Dimensional Fund Advisors Inc		71,398,538
5.	Apple Inc		46,501,036
6.	Exxon Mobil Corp		28,606,616
7.	Chevron Corp		27,387,937
8.	AT&T Inc		24,545,784
9.	State Street Bank Stock Perf Index Futures Fund		22,859,444
10.	Wells Fargo & Co		22,468,259

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

1.	Blackrock ACWI EX US Index Fund	$	568,545,894
2.	Blackrock Global EX US Alpha TILT		114,778,224
3.	DFA Intl Small Co Portfolio		70,729,306
4.	Artio Emerging Markets Fund		33,835,213
5.	Alliance Bernstein Emerging Markets Value Fund		26,754,131
6.	State Street Bank Intl Stock Perf Index Futures Fund		10,980,752
7.	Royal Dutch Shell PLC A Shs		7,793,010
8.	BNP Paribas		6,741,817
9.	Nestle SA Reg		6,667,770
10.	Sanofi		6,104,913

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	$ 8,951	$ 2,510	$	$ 11,461
RFBP	196,460	68,513	560,488	825,461
MDEP	218,754	215,954	3,564,447	3,999,155
MTIP	215,714	72,031	1,617,853	1,905,598
MPEP	201,350	34,466	5,810,740	6,046,556
MTRP	172,154	18,780	2,939,135	3,130,069
Mortgages/Real Estate	55,632		4,969	60,601
	$ 1,069,015	**$ 412,254**	**$ 14,497,632**	**$ 15,978,901**

ACTUARIAL SECTION

ACTUARY'S CERTIFICATION LETTER

EXHIBITS

1. SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

2. SCHEDULE OF ACTIVE MEMBER VALUATION DATA

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

4. SOLVENCY TEST

5. ANALYSIS OF FINANCIAL EXPERIENCE

6. PROVISIONS OF GOVERNING LAW

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

October 3, 2011

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, 2011. The purpose of this valuation is to determine the financial status of the Retirement System. To achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by MCA 19-20-201.

The purpose of this letter is to provide the Actuarial Section, the Schedule of Funding Progress, and the Schedule of Contributions from the Employers and Other Contributing Entities for the System's Comprehensive Annual Financial Report. All results prior to July 1, 2009 were determined by the prior actuarial firm.

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

School District and Other Employers

	Members	Employers	General fund	Total employee & employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.39%	16.73%
July 1, 2009 and after	7.15%	7.47%	2.49%	17.11%

State and University Employers

	Members	Employers	General fund	Total employee & employer
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 and after	7.15%	9.85%	0.11%	17.11%

The July 1, 2011 actuarial valuation shows that the current employer rate of 9.96% is not sufficient to pay the System's normal cost and to amortize the System’s Unfunded Actuarial Accrued Liability (UAAL) within a 30-year period. The normal cost of 9.64% of pay consists of 2.49% employer contributions and 7.15% employee contributions. The System’s UAAL as of July 1, 2011 is $1,792.1 million. The remaining contribution of 7.47% (9.96%-2.49%) goes towards funding the amortization of the UAAL. The contribution of 7.47% will amortize UAAL of the Retirement System within 71 years. The maximum acceptable amortization period specified in Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB) is 30 years.

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.

The July 1, 2011 valuation is provided for informational purposes only. The July 1, 2010 determined the employer contribution rate for fiscal years ended June 30, 2012 and June 30, 2013. Based on the July 1, 2010 valuation, the amortization period was 49.5 years at the current employer contribution rate. Since the amortization period is greater than 30 years, the employer Annual Required Contribution (ARC) must be increased to 12.16% for fiscal year 2012 and 14.18% for fiscal year 2013 in order to amortize the UAL over 30 years. If the employer contributions are not increased to these levels, the system will not be funded in an actuarially sound manner. The table below compares the ARC as recommended by the actuary and the current statutory contribution. It also shows the amount of additional contributions that will be necessary to maintain the System in an actuarially sound manner.

Schedule of Annual Required Contribution (ARC)

Valuation Date	Fiscal Year Ended for which ARC is Payable	ARC	Current Contribution	Expected Shortfall
July 1, 2010	July 1, 2012	12.16%	9.96%	$17,000,000
July 1, 2010	July 1, 2013	14.18%	9.96%	$34,000,000

A funding measurement that may be considered is the funding ratio of the Actuarial Accrued Liability to Assets. This ratio is shown in the Schedule of Funding Progress. As the actuarial experience varies from year to year, the funding ratio will reflect actuarial gains and losses. The Actuarial Accrued Liability represents the portion of the total plan benefits and expenses which is not provided for by future Normal Cost contributions.

The actuarial assumptions used in our 2011 actuarial valuation are summarized in Exhibit 1. Adoption dates vary by assumption and are provided in Exhibit 1.

In preparing our actuarial valuation reports, we relied, without audit, on the financial statements prepared by the staff of the System. We also relied upon the employee and beneficiary data provided to us by the staff. We compared the data for the July 1, 2011 actuarial valuation with corresponding information from the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates. Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations might need to be revised.

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

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

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

Funding and Benefits Policy

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

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, 2011 is 71 years based on actuarial assets and 58 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 funded ratio is currently 61.53%. 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 58 and 71 years amortization periods on a market value of assets and an actuarial value of assets basis respectively. Discipline will be required by all parties concerned to reach this goal, and will have to include contribution increases to maintain 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, 2011 of 61.53% 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.

Assumption Changes

There have been no changes since the previous valuation.

Benefit Changes

Since the previous valuation, the early retirement reduction factors were changed to true actuarial equivalent factors. The impact of these changes was a reduction in the UAAL of $6.7 million and a 0.12% decrease in the normal rate.

Contribution Changes

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

Method Changes

Since the previous valuation, there have been no methodology changes.

The following exhibits provide further information.

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

The Schedule of Funding Progress and the Schedule of Contributions from the Employers and Other Contributing Entities presented in the Financial Section were also prepared by Cavanaugh Macdonald Consulting, LLC.

Edward A. Macdonald and Todd B. Green are members of the American Academy of Actuaries and a Fellow of the Conference of Consulting Actuaries, and an Associate of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Edward A. Macdonald, ASA, FCA, MAAA
President

Todd Green, ASA, FCA, MAAA
Principal and Consulting Actuary

Exhibit 1

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Retirement, disablement and termination of employment assumptions have been revised to reflect the five-year experience study for the period ending 2009 adopted by the Board on May 13, 2010. These actions reflect the recommended changes in the Experience Study.

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

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

Economic assumptions were reviewed in the 2009 Investigation of Experience Study.

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

Actuarial Cost Method

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

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

Records and Data

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

Replacement of Terminated Members

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

Employer Contributions

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

Administrative and Investment Expenses

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

Valuation of Assets - Actuarial Basis

The actuarial asset valuation method spreads asset gains and losses over four years. The expected return is determined each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years. The gains and losses are measured starting with the year ended June 30, 2007. The actuarial value of assets is not allowed to be greater than 120% or less than 80% of the market assets. (Adopted effective July 1, 2007.)

Investment Earnings

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

Interest on Member Contributions

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

Postretirement Benefit Increases

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

Future Salaries

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

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

Service Retirement

Table A-3 shows the annual assumed rates of retirement among members eligible for service retirement. Separate rates are used when a member is eligible for reduced benefits, for the first year a member is eligible for full benefits, and for the years following the first year a member is eligible for full benefits. The rates for General Members were adopted May 13, 2010. The rates for University Members were adopted May 13, 2010.

Disablement

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

Mortality

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

Other Terminations of Employment

The rates of assumed future withdrawal from active service for reasons other than death, disability or retirement are shown for representative ages in Table A-6. These rates were adopted May 13, 2010.

Benefits for Terminating Members

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

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

Part-Time Employees

The valuation data for active members identify part-time members. Part-time members earning less than $1,000 during the last year were valued at their current member contribution balance.

Optional Retirement Program

ORP payroll as of June 30, 2011 was $183,718,592.

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

Buybacks, Purchase of Service, and Military Service

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

Probability of Marriage

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

Records with no Birth Date

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-1

I.	Economic assumptions		
	A.	General wage increases* (Adopted July 1, 2004)	4.50%
	B.	Investment return (Adopted July 1, 2004)	7.75%
	C.	Price Inflation Assumption (Adopted July 1, 2004)	3.50%
	D.	Growth in membership	0.00%
	E.	Postretirement benefit increases (Starting three years after retirement)	1.50%
	F.	Interest on member accounts (Adopted July 1, 2004)	5.00%
II.	Demographic assumptions		
	A.	Individual salary increase due to promotion and longevity (General Member assumptions adopted July 1, 2002) (University Member assumptions adopted July 1, 2000)	Table A-2
	B.	Retirement (adopted May 13, 2010)	Table A-3
	C.	Disablement (adopted May 13, 2010)	Table A-4
	D.	Mortality among contributing members, service retired members, and beneficiaries For Males: RP 2000 Combined Mortality Table for Males, set back three years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006). For Females: RP 2000 Combined Mortality Table for Females, set back two years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006).	Table A-5
	E.	Mortality among disabled members For Males: RP 2000 Disabled Mortality Table for Males, set back three years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006). For Females: RP 2000 Disabled Mortality Table for Females, set forward three years, with mortality improvements projected by Scale AA to 2008 (adopted July 1, 2006).	Table A-5
	F.	Other terminations of employment (adopted May 13, 2010)	Table A-6
	G.	Probability of retaining membership in the System upon vested termination (adopted July 1, 2002)	Table A-7

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

Exhibit 1

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-2
Future Salaries

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

Exhibit 1

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-3
Retirement

Annual Rates

	General Members			University Members		
Age	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter
45		8.0%	5.5%		17.0%	8.0%
46		8.0	5.5		17.0	8.0
47		8.0	5.5		17.0	8.0
48		8.0	5.5		17.0	8.0
49	*	8.0	5.5	*	17.0	8.0
50	5.0%	8.0	5.5	7.0%	17.0	8.0
51	5.0	8.0	6.3	7.0	17.0	8.0
52	5.0	8.0	8.0	7.0	17.0	8.0
53	5.0	9.0	7.3	7.0	17.0	8.0
54	5.0	9.0	8.2	7.0	17.0	8.0
55	7.0	9.0	9.8	7.0	15.0	8.0
56	7.0	12.0	11.3	7.0	15.0	8.0
57	7.0	11.8	12.5	7.0	15.0	8.0
58	7.0	14.8	13.1	7.0	15.0	8.0
59	7.0	17.4	14.8	7.0	15.0	8.0
60	*	14.6	17.0	*	15.0	8.5
61		21.3	25.0		14.0	14.5
62		23.8	25.0		20.0	19.0
63		11.4	25.0		14.0	14.5
64		19.0	25.0		20.0	18.0
65		40.0	35.0		28.0	26.0
66		8.0	20.0		21.0	21.0
67		30.0	20.0		21.0	24.5
68		6.0	20.0		21.0	19.5
69		6.0	20.0		21.0	30.0
70		**	**		**	**

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

Exhibit 1

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Table A-4
Disablement

Annual Rates

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

Table A-5
Mortality

Annual Rates

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

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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

Annual Rates

Years of Service	All Members
1	36.5%
2	20.5
3	14.6
4	10.5
5	8.5
6	7.0
7	6.4
8	5.8
9	5.4
10	5.0
11	4.3
12	3.9
13	3.5
14	3.2
15	2.9
16	2.6
17	2.3
18	2.0
19	1.9
20	1.8
21	1.7
22	1.6
23	1.5
24	1.5

Exhibit 1

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

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

Exhibit 2

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Full-Time Members

Valuation Date	Number	Annual Payroll	Average Annual Payroll	Annualized % of Increase in Average Pay
July 1, 2000	13,289	477,160,000	35,906	5.9%
July 1, 2002	12,796	486,204,000	37,997	5.8%
July 1, 2004	12,601	510,808,000	40,537	6.7%
July 1, 2005	12,523	523,909,000	41,836	3.2%
July 1, 2006	12,715	549,268,000	43,198	3.3%
July 1, 2007	12,634	568,351,000	44,986	4.1%
July 1, 2008	12,694	592,514,000	46,677	3.8%
July 1, 2009	12,673	613,077,000	48,377	3.6%
July 1, 2010	12,711	630,444,000	49,598	2.5%
July 1, 2011	12,506	633,005,000	50,616	2.1%

Part-Time Members*

Valuation Date	Number	Annual Payroll	Average Annual Payroll	Annualized % of Increase in Average Pay
July 1, 2000	4,245	42,000,000	9,894	N/A
July 1, 2002	4,650	52,700,000	11,333	14.5%
July 1, 2004	5,013	60,300,000	12,029	6.1%
July 1, 2005	5,019	62,000,000	12,353	2.7%
July 1, 2006	4,840	57,700,000	11,921	-3.5%
July 1, 2007	4,994	61,100,000	12,235	2.6%
July 1, 2008	5,077	64,900,000	12,783	4.5%
July 1, 2009	5,270	69,900,000	13,264	3.8%
July 1, 2010	5,642	74,571,000	13,217	-0.4%
July 1, 2011	5,400	73,275,000	13,569	2.7%

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

Exhibit 3

TEACHERS' RETIREMENT SYSTEM OF MONTANA

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

	Added to Rolls		Removed from Rolls		Rolls End of Year			
Year Ended	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	% Increases in Annual Allowances	Average Annual Allowances
June 30, 2000	N/A	N/A	N/A	N/A	9,021	117,227,000	18.4%	12,995
June 30, 2002	N/A	N/A	N/A	N/A	9,768	139,131,000	18.7%	14,244
June 30, 2004	1,232	N/A	625	N/A	10,375	157,776,000	14.8%	15,400
June 30, 2005	613	N/A	324	N/A	10,664	170,129,000	6.5%	15,954
June 30, 2006	617	12,898,000	262	1,913,000	11,019	181,114,000	6.5%	16,436
June 30, 2007	668	16,737,000	331	2,614,000	11,356	195,237,000	7.8%	17,192
June 30, 2008	762	17,688,000	330	3,940,000	11,788	208,985,000	7.0%	17,729
June 30, 2009	512	12,072,000	264	1,790,000	12,036	219,267,000	4.9%	18,218
June 30, 2010	698	16,124,000	294	1,343,000	12,440	234,048,000	6.7%	18,814
June 30, 2011	789	20,846,000	330	4,394,000	12,899	250,500,000	7.0%	19,420

*Information provided where available

Exhibit 4

TEACHERS' RETIREMENT SYSTEM OF MONTANA

SOLVENCY TEST

(All dollar amounts in millions)

		Aggregate Accrued Liabilities For			Portion of Accrued Liabilities Covered by Reported Asset		
Actuarial Valuation Date	Actuarial Value of Assets	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	(1)	(2)	(3)
July 1, 2004	2,485.7	750.6	1,865.3	743.3	100.0%	93.0%	0.0%
July 1, 2005	2,497.5	771.5	1,979.2	776.3	100.0%	87.2%	0.0%
July 1, 2006	2,745.8	791.3	2,033.8	908.5	100.0%	96.1%	0.0%
July 1, 2007	3,006.2	804.5	2,171.1	952.9	100.0%	100.0%	3.2%
July 1, 2008	3,159.1	823.6	2,313.0	974.2	100.0%	100.0%	2.3%
July 1, 2009	2,762.2	832.8	2,415.8	1,082.4	100.0%	79.9%	0.0%
July 1, 2010	2,956.6	823.9	2,557.0	1,137.2	100.0%	83.4%	0.0%
July 1, 2011	2,866.5	803.3	2,721.4	1,133.8	100.0%	75.8%	0.0%

Exhibit 5

TEACHERS' RETIREMENT SYSTEM OF MONTANA

ANALYSIS OF FINANCIAL EXPERIENCE

An analysis of financial experience is performed in conjunction with all regularly scheduled valuations.

The results of our analysis of the financial experience of the System in the two most recent regular actuarial valuations are presented in this Exhibit 5. Each gain or loss shown represents our estimate of how much the given type of experience caused the Unfunded Actuarial Accrued Liability or Funding Reserve to change in the period since the previous actuarial valuation.

Gains and losses shown due to demographic sources are approximate. Demographic experience is analyzed in greater detail in our periodic assumption studies.

Non-recurring gains and losses result from changes in the actuarial assumptions and benefit improvements.

Exhibit 5
(Continued)

TEACHERS' RETIREMENT SYSTEM OF MONTANA

ANALYSIS OF FINANCIAL EXPERIENCE *

(All dollar amounts in millions)

	UAAL (Gain)/Loss		
	June 30, 2011	**June 30, 2010**	**June 30, 2009**
Investment Income			
Investment income was (greater) less than expected based on actuarial value of assets.	$ 229.8	$ (55.2)	$ 561.9
Pay Increases			
Pay increases were (less) greater than expected.	(36.7)	(22.0)	(4.4)
Age & Service Retirements			
Members retired at (older) younger ages or with (less) greater final average pay than expected	19.0	13.0	6.3
Disability Retirements			
Disability claims were (less) greater than expected	0.2	0.5	0.4
Death-in-Service Benefits			
Survivor claims were (less) greater than expected	(0.5)	(0.4)	(0.2)
Withdrawal From Employment			
(More) less reserves were released by withdrawals than expected	5.4	6.6	4.7
Death After Retirement			
Retirees (died younger) lived longer than expected	2.6	(3.5)	(2.8)
Data Adjustments			
Service purchases, data corrections, etc.	(10.9)	-	-
Other			
Miscellaneous (gains) and losses	5.8	24.4	12.0
Total (Gain) or Loss During Period From Financial Experience	$ 214.7	$ (36.6)	$ 577.9
Non-Recurring Items.			
Changes in actuarial assumptions and methods	-	156.6	-
Changes in benefits caused a (gain) loss	(6.7)	-	-
Composite (Gain) Loss During Period.	$ 208.0	$ 120.0	$ 577.9

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

Exhibit 6

TEACHERS' RETIREMENT SYSTEM OF MONTANA

PROVISIONS OF GOVERNING LAW

Effective Date	September 1, 1937.
Vesting Period	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 actuarially reduced by the lesser of the number of years equal to the age of the participant at the early retirement subtracted from age 60 or the number of years of service at early retirement subtracted from 25 years of service.
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	Effective July 1, 2010, the Interest credited on member contributions is reduced from 1.0% to 0.25% 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 POSITION

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

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

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

SCHEDULE OF MEMBERSHIP

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

SCHEDULE OF RETIRED MEMBERS AND BENEFICIARIES BY TYPE OF BENEFIT

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

SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS

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

LOCATION OF BENEFIT RECIPIENTS

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

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

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

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions:											
Member Contributions	$	47,872	50,221	51,383	52,900	53,293	56,509	59,552	57,256	62,845	62,993
Employer Contributions		51,519	53,277	55,774	57,150	58,269	61,944	67,922	66,851	72,179	72,880
Other Contributions		762	754	770	656	100,693	50,720	13,492	14,147	17,242	17,437
Misc Income			4			4	16	16	16	65	17
Net Investment Income		(159,585)	126,246	281,793	188,734	224,787	484,532	(153,312)	(613,028)	294,954	539,028
Total Additions	$	(59,432)	230,502	389,720	299,440	437,046	653,721	(12,330)	(474,758)	447,285	692,355
Deductions:											
Benefit Payments:	$	130,006	140,229	150,271	161,247	171,957	182,827				
Retirees								189,441	203,096	213,130	227,840
Beneficiaries								3,898	4,063	4,173	4,399
Disabilities								2,721	2,784	2,890	2,884
Withdrawals		6,472	6,468	5,843	4,340	4,876	5,595	5,695	5,170	4,166	4,365
Administrative Expenses		1,607	1,861	1,507	1,561	1,579	1,434	1,751	1,854	1,905	1,843
Other				890			502	47	49	47	49
Total Deductions	$	138,085	148,558	158,511	167,148	178,412	190,358	203,553	217,016	226,311	241,380
Change in Net Assets	$	(197,517)	81,944	231,209	132,292	258,634	463,363	(215,883)	(691,774)	220,974	450,975

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

Schedule of Average Benefit Payments
Ten Years Ended June 30, 2011

Fiscal Year of Retirement			Years of Credited Service					
			5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
2002	Average Monthly Benefit	$	261	441	744	1,214	1,689	2,219
	Average Final Average Salary	$	2,073	2,530	3,237	3,504	4,068	4,363
	Number of Retirees		28	37	43	66	173	222
2003	Average Monthly Benefit	$	310	432	797	1,347	1,725	2,193
	Average Final Average Salary	$	2,216	2,502	3,084	3,891	4,066	4,238
	Number of Retirees		24	40	51	85	149	193
2004	Average Monthly Benefit	$	263	474	954	1,383	1,838	2,489
	Average Final Average Salary	$	2,231	2,589	3,814	3,904	4,290	4,757
	Number of Retirees		35	37	34	62	127	198
2005	Average Monthly Benefit	$	263	639	879	1,327	1,776	2,605
	Average Final Average Salary	$	2,283	3,404	3,433	3,737	4,184	4,876
	Number of Retirees		38	31	39	57	141	205
2006	Average Monthly Benefit	$	307	515	845	1,410	1,883	2,626
	Average Final Average Salary	$	2,577	2,801	3,297	4,089	4,416	4,896
	Number of Retirees		43	53	43	47	140	208
2007	Average Monthly Benefit	$	296	585	821	1,393	2,009	2,714
	Average Final Average Salary	$	2,598	3,283	3,318	3,982	4,727	5,041
	Number of Retirees		42	42	46	74	135	193
2008	Average Monthly Benefit	$	332	480	908	1,515	1,974	2,728
	Average Final Average Salary	$	2,876	2,694	3,594	4,282	4,656	5,022
	Number of Retirees		38	51	53	61	147	220
2009	Average Monthly Benefit	$	293	670	1,084	1,455	2,115	2,984
	Average Final Average Salary	$	2,678	3,474	4,187	4,280	4,914	5,468
	Number of Retirees		34	32	55	75	122	197
2010	Average Monthly Benefit	$	303	629	987	1,501	2,135	3,109
	Average Final Average Salary	$	2,681	3,181	3,662	4,388	5,029	5,619
	Number of Retirees		42	51	44	65	125	247
2011	Average Monthly Benefit	$	296	608	1,030	1,662	2,172	3,338
	Average Final Average Salary	$	2,519	3,042	3,864	4,773	5,030	5,976
	Number of Retirees		47	58	64	80	132	247

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, 2002	17,262	1,611	8,834	27,707
June 30, 2003	18,285	1,519	7,736	27,540
June 30, 2004	18,257	1,607	7,723	27,587
June 30, 2005	18,247	1,640	8,431	28,318
June 30, 2006	18,108	1,681	8,470	28,259
June 30, 2007	18,188	1,660	8,856	28,704
June 30, 2008	18,292	1,649	9,574	29,515
June 30, 2009	18,456	1,640	9,868	29,964
June 30, 2010	18,953	1,553	10,304	30,810
June 30, 2011	18,484	1,580	10,727	30,791

Retired Members and Benefit Recipients

Period Ended	Retirement	Survivors	Disability	Total
June 30, 2002	8,615	432	295	9,342
June 30, 2003	8,957	431	294	9,682
June 30, 2004	9,246	427	294	9,970
June 30, 2005	9,578	427	294	10,299
June 30, 2006	9,909	429	299	10,637
June 30, 2007	10,242	424	305	10,971
June 30, 2008	11,043	438	307	11,788
June 30, 2009	11,228	498	310	12,036
June 30, 2010	11,620	504	316	12,440
June 30, 2011	12,068	517	314	12,899

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

Schedule of Retired Members and Beneficiaries by Type of Benefit

		Type of Benefit					
Monthly Benefit Amount	Retired Members	1	2	3	4	5	6
$ 1 - 500	2,016	984	676	49	223	45	39
501 - 1,000	1,878	1,143	462	15	109	102	47
1,001 - 1,500	2,285	1,915	244	6	54	53	13
1,501 - 2,000	2,605	2,507	49	1	36	9	3
2,001 - 2,500	1,969	1,938	13	0	15	2	1
2,501 - 3,000	1,067	1,059	3	0	5	0	0
3,001 - 3,500	510	507	3	0	0	0	0
3,501 - 4,000	285	282	0	0	3	0	0
4,001 - 4,500	134	134	0	0	0	0	0
4,501 - 5,000	65	65	0	0	0	0	0
over 5,000	85	84	0	0	1	0	0
Totals	12,899	10,618	1,450	71	446	211	103

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

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

Schedule of Principal Participating Employers
Current Year and Nine Years Ago

	2011		2002	
Employer	Covered Employees	% of Total Covered Employees	Covered Employees	% of Total Covered Employees
Billings Public Schools	1,583	8.6%	1,594	9.2%
Great Falls Public Schools	1,089	5.9%	1,107	6.4%
Missoula County Public Schools	1,001	5.4%	1,034	6.0%
Helena Public Schools	907	4.9%	822	4.8%
Bozeman Public Schools	696	3.8%	553	3.2%
Kalispell Public Schools	522	2.8%	472	2.7%
Butte Public Schools	403	2.2%	448	2.6%
University of Montana	324	1.8%	1,254	7.3%
Belgrade Public Schools	302	1.6%	194	1.1%
Columbia Falls Public Schools	295	1.6%	271	1.6%
Montana State University	282	1.5%	1,287	7.5%
Hardin Public Schools	274	1.5%	244	1.4%
Browning Public Schools	273	1.5%	308	1.8%
Havre Public Schools	243	1.3%	186	1.1%
Hamilton Public Schools	221	1.2%	189	1.1%
Miles City Public Schools	211	1.1%	199	1.2%

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

Location of Benefit Recipients as of July 1, 2011

Alabama	6	Michigan	23	Tennessee	11
Alaska	44	Minnesota	80	Texas	74
Arizona	304	Mississippi	6	Utah	69
Arkansas	10	Missouri	25	Vermont	4
California	151	Montana	10,060	Virginia	22
Colorado	106	Nebraska	23	Washington	418
Connecticut	7	Nevada	127	West Virginia	4
Florida	52	New Hampshire	5	Wisconsin	27
Georgia	11	New Jersey	4	Wyoming	125
Hawaii	14	New Mexico	35	District of Columbia	4
Idaho	147	New York	14	Australia	4
Illinois	19	North Carolina	35	Canada	18
Indiana	12	North Dakota	102	Germany	1
Iowa	15	Ohio	11	Israel	1
Kansas	16	Oklahoma	19	Marshall Islands	1
Kentucky	5	Oregon	182	New Zealand	2
Louisiana	7	Pennsylvania	13	Puerto Rico	1
Maine	4	Rhode Island	1	United Kingdom	4
Maryland	11	South Carolina	7		
Massachusetts	8	South Dakota	56	TOTAL*	12,567

*332 recipients receive two benefits