

**Montana Municipal Police Officers'
Retirement System
of the
State of Montana**

**Actuarial Valuation
as of June 30, 2012**

Produced by **Cheiron**

September 2012

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September 14, 2012

Public Employees' Retirement Board
100 North Park, Suite 200
Helena, Montana 59620

Dear Members of the Board:

At your request, we have conducted the annual actuarial valuation of the Montana Municipal Police Officers' Retirement System as of June 30, 2012. The results of the valuation are contained in this report. The purpose of the valuation is discussed in the Foreword.

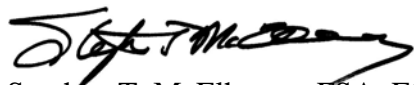
This report contains information on the System's assets, as well as analyses which combine asset and liability performance and projections. The report also discloses employer contribution levels, and required disclosures under the Governmental Accounting Standards Board Statement No. 25. This report is for the use of the Public Employees' Retirement Board and its auditors in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of this report is not an intended user and is considered a third party.

Your attention is called to the Foreword in which we refer to the general approach employed in the preparation of this report. We also comment on the sources and reliability of both the data and the actuarial assumptions on which our findings are based. The results of this report are only applicable for Fiscal Year ending 2012 and rely on future system experience conforming to the underlying assumptions. To the extent that actual system experience deviates from the underlying assumptions, the results would vary accordingly.

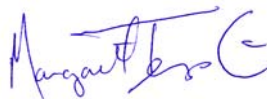
We hereby certify that, to the best of our knowledge, this report and its contents, which are based on information supplied by the Montana Public Employees' Retirement Administration, are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our report does not provide any legal services or advice.

Cheiron's report was prepared exclusively for the Montana Municipal Police Officers' Retirement System for a specific and limited purpose. It is not for use or benefit of any third party for any purpose, and Cheiron assumes no duty or liability to any such party.

Sincerely,
Cheiron



Stephen T. McElhaney, FSA, FCA
Principal Consulting Actuary



Margaret Tempkin, FSA
Principal Consulting Actuary



FOREWORD

Cheiron has performed the actuarial valuation of the Montana Municipal Police Officers' Retirement System as of June 30, 2012. The purpose of this report is to:

- 1) **Measure and disclose**, as of the valuation date, the financial condition of the System;
- 2) **Indicate trends** in the financial progress of the System;
- 3) **Determine the sufficiency of the statutory contribution rate** paid by the employers for Fiscal Year 2012 to meet the requirements of an Annual Required Contribution (ARC) under GASB 25; and
- 4) **Provide specific information** and documentation required by the Governmental Accounting Standards Board (GASB).

An actuarial valuation establishes and analyzes system assets and liabilities on a consistent basis, and traces the progress of both from one year to the next. It includes measurement of the system's investment performance as well as an analysis of actuarial liability gains and losses.

Section I presents a summary containing our findings and disclosing important trends experienced by the System in recent years.

Section II contains details on various asset measures, together with pertinent performance measurements.

Section III shows similar information on system liabilities, measured for actuarial, accounting, and government reporting purposes.

Section IV develops the employer contribution rate determined using actuarial techniques.

Section V includes the required disclosures under GASB Statement No. 25.

The appendices to this report contain a summary of the System's membership at the valuation date, a summary of the major provisions of the System, and the actuarial methods and assumptions used in the valuations.

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the staff of the Public Employee Retirement Administration. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

The actuarial assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the cost of the benefits would vary from our projections.

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

General Comments

This is the fourth valuation of the Montana Municipal Police Officers' Retirement System performed by Cheiron.

The period to amortize unfunded actuarial accrued liability increased from 25.0 years at the June 30, 2011 valuation to 25.7 years as of June 30, 2012. During the year ended June 30, 2012, the System's assets gained 2.40% on a market value basis. However, due to the System's asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 3.71%. This return was below the assumed rate of return of 7.75% and resulted in an actuarial loss on investments of \$9.0 million.

The System also experienced an actuarial loss on system liabilities resulting from salary increases different than assumed and members retiring, terminating, becoming disabled and dying at rates different from the actuarial assumptions. The loss related to experience added \$2.9 million to the actuarial liability. This type of activity is normal in the course of system experience. The System will experience actuarial gains and losses over time because we cannot predict exactly how people will behave. When a system experiences alternating gains and losses that are small compared to the total actuarial liability, then the system's actuarial assumptions are reasonable.

As of the June 30, 2012 Actuarial Valuation, the System's unfunded actuarial liability was \$193 million. This is an increase from last year's unfunded actuarial liability of \$180 million. The funded ratio remained approximately level at 55% from the prior valuation to the June 30, 2012 valuation.

Montana Code Annotated (MCA) 19-2-407 requires an analysis of how market performance is affecting the actuarial funding of the Retirement System. It is our understanding of the Code to report certain key results on a market value of assets basis. The market value at June 30, 2012 was \$4.6 million greater than actuarial value. If market value were used rather than actuarial value, the funded ratio on the valuation date would be 56%, and the amortization period for the unfunded actuarial liability would be 24.7 years.

This report does not reflect any changes in pension accounting requirements from newly issued GASB Statements Nos. 67 and 68. Statement No. 67 will be effective for the plan year ending June 30, 2014. Statement No. 68 will be effective for most employers' fiscal years ending June 30, 2015. All references and calculations with respect to GASB reflect current Statements Nos. 25 and 27. In addition, in accordance with the System's funding policy, the contribution levels are compared to an amount that would satisfy the requirements for an Annual Required Contribution (ARC) under GASB No. 25. Since the concept of the ARC will disappear when GASB Nos. 67 and 68 become effective, the System may need to define a different calculation basis for measuring funding sufficiency.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION I
BOARD SUMMARY

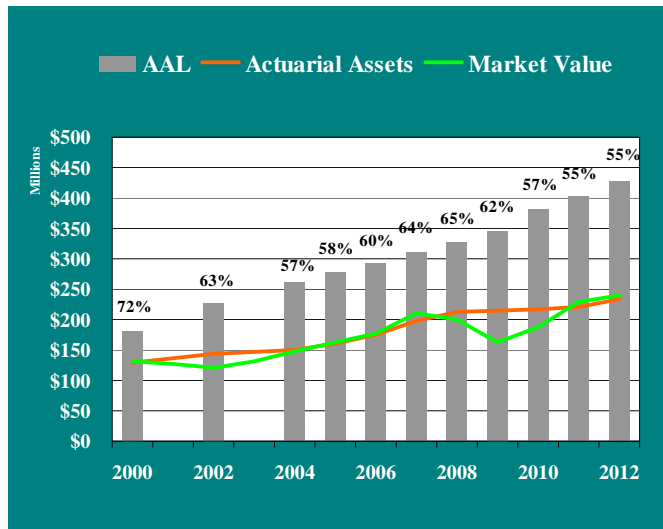
Trends

Assets and Liabilities

The market value of assets (MVA) increased over last year, gaining 2.40% from the value at the prior valuation. The determination of the System's actuarial value of assets reflects only a portion of the amount by which the return differs from the assumed rate of 7.75%.

Over the period July 1, 2007 to June 30, 2012 the System's assets returned approximately 2.1% per year measured at actuarial value, compared to a current valuation assumption of 7.75% per year.

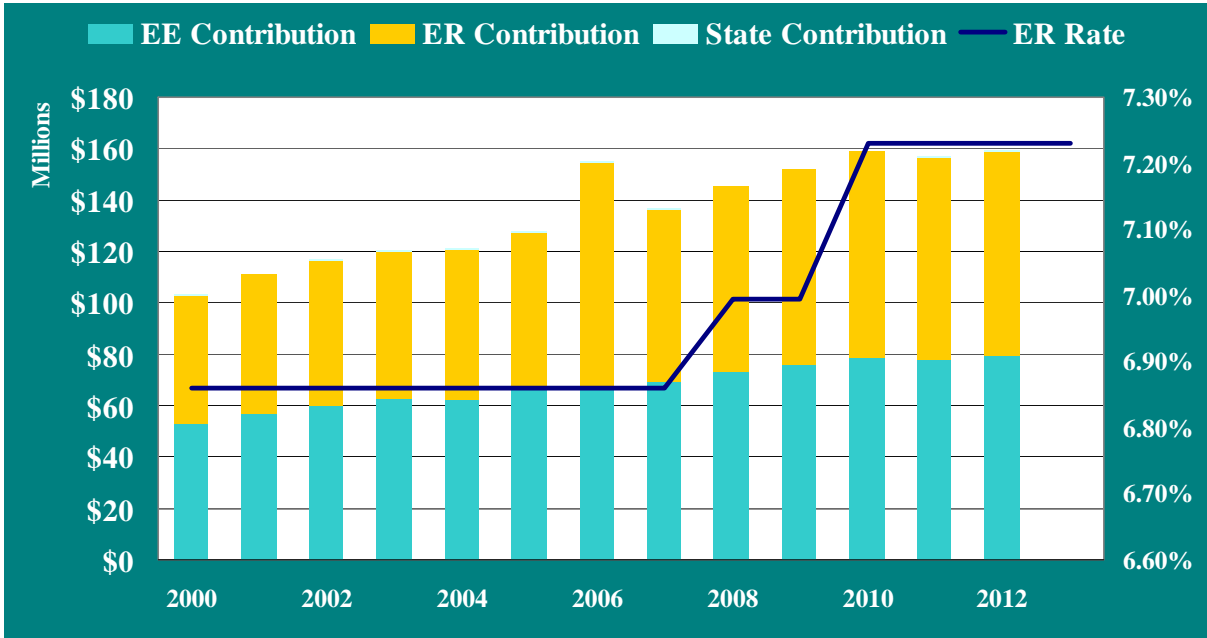
For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.



**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION I
BOARD SUMMARY**

Contribution Rates



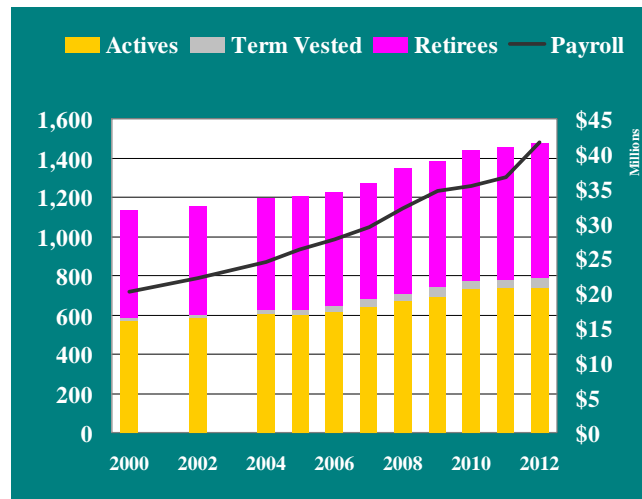
The stacked bars in this graph show the contributions made by members, employers, and the State (left hand scale). The navy line shows the employer contribution rate as a percent of payroll (right hand scale).

The employer and member contribution rates are set by State law. The actuarial valuation determines the extent to which the statutory contributions will meet the requirements of funding the System.

Participant Trends

The bars show the number of participants in each category and should be read using the left-hand scale. The active-to-inactive ratio has remained at approximately 1.0 actives for each inactive from 2000 through today.

The black line shows the covered payroll in the System and is read using the right-hand scale.



**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

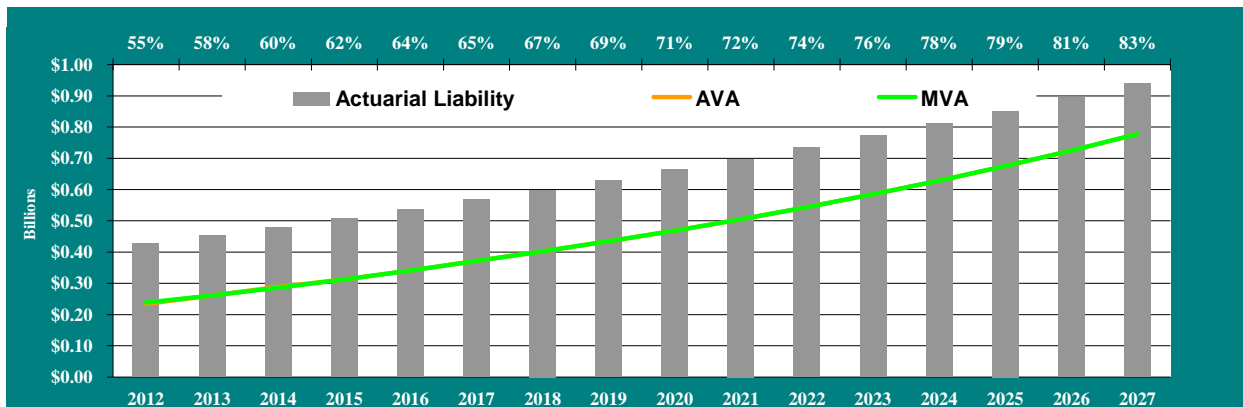
**SECTION I
BOARD SUMMARY**

Future Outlook

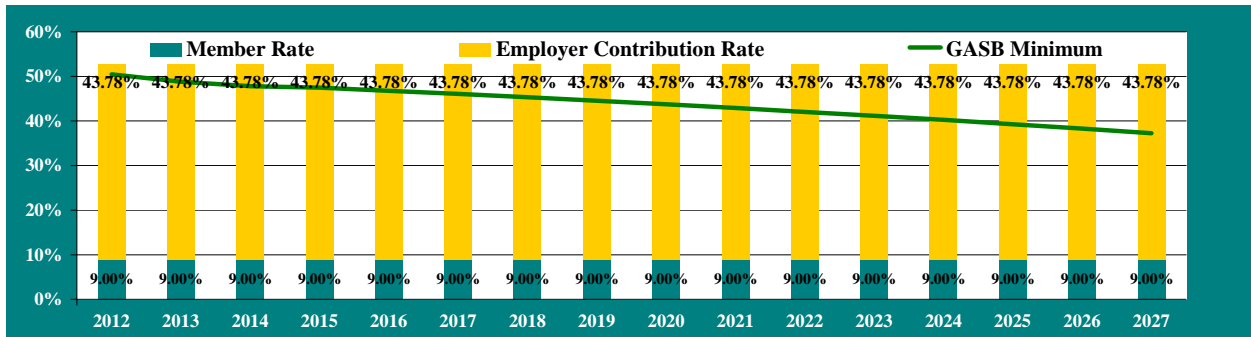
Base Line Projections

These graphs show the expected progress of the System over the next 20 years assuming the System's assets earn 7.75% on their *market value*, and that contributions continue to be made at the current statutory rates.

The chart below shows the funded status of the System is expected to increase gradually over the next 15 years reaching 83% funded by 2027.



The chart below shows that the statutory contribution exceeds the GASB minimum contribution for the entire 15-year period and the GASB Annual Required Contribution decreases gradually throughout the period.

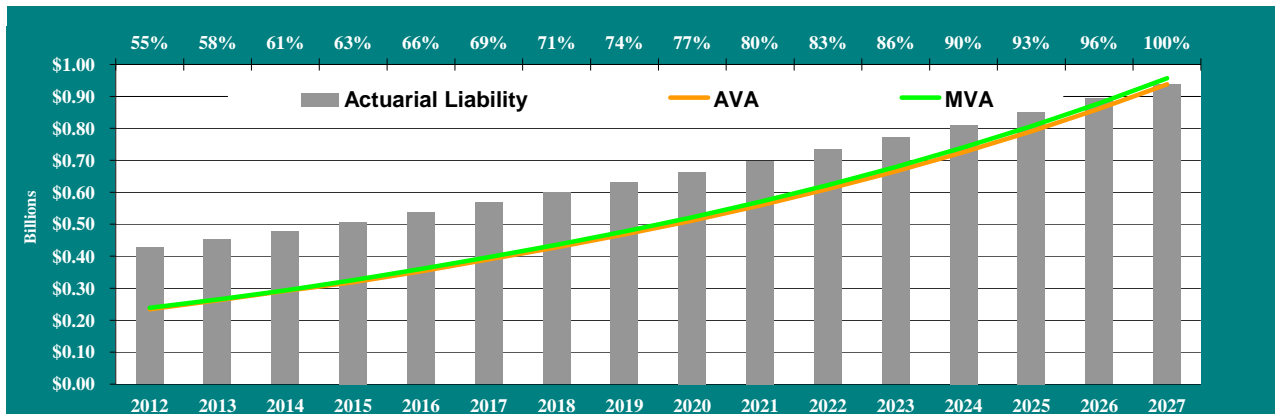


**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

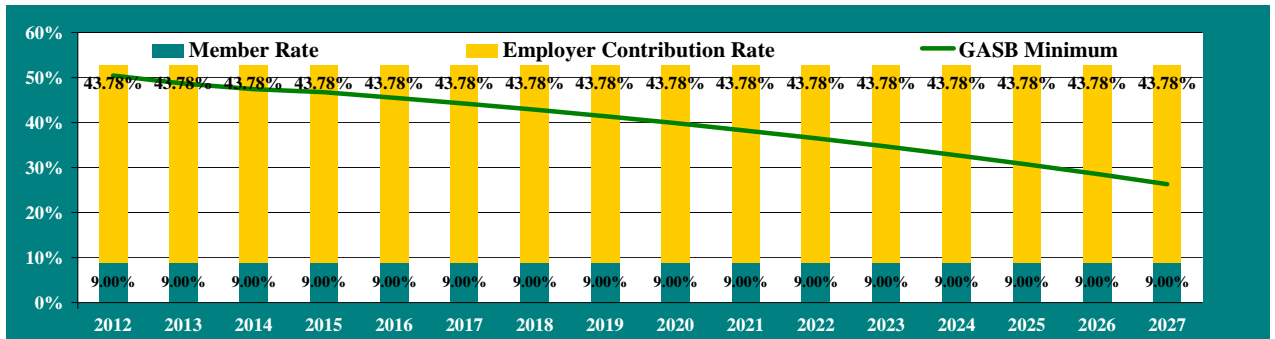
**SECTION I
BOARD SUMMARY**

Projections with Asset Returns of 9.25%

The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in market returns can have significant effects on the System's status. These two charts below show what the next 15 years would look like with a 9.25% annual return in each year (i.e. 1.5% greater than the assumed rate of return).



Compared to the baseline projections, the funded status is expected to improve to a significantly greater extent by reaching 100% by 2027. The GASB Annual Required Contribution drops below 27% by the end of the 15-year period.

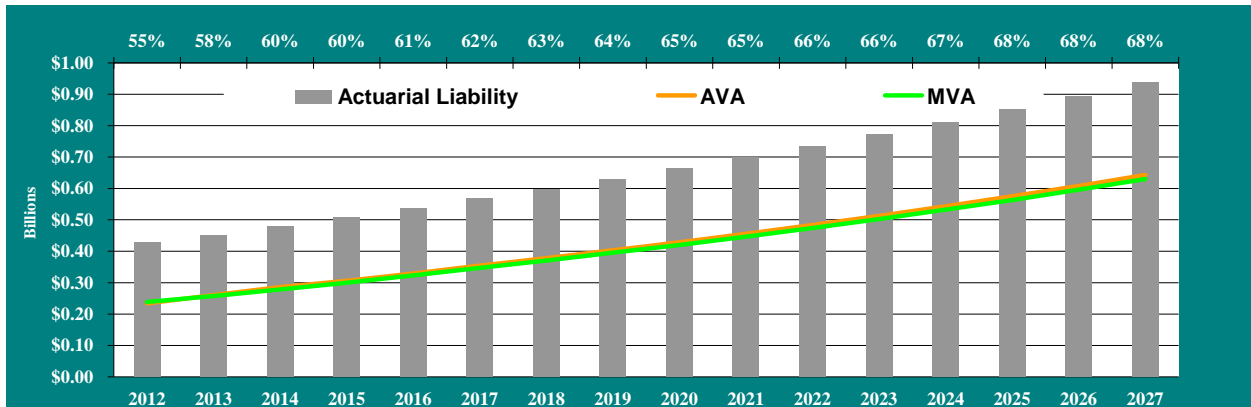


**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

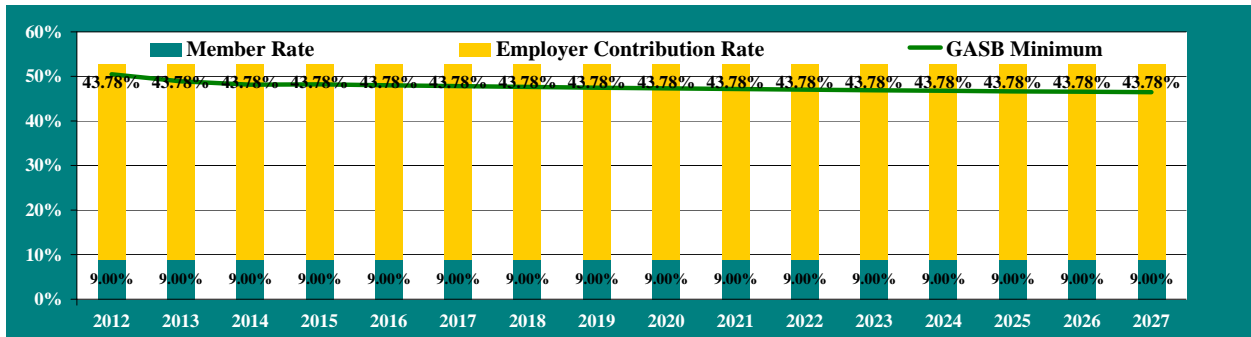
**SECTION I
BOARD SUMMARY**

Projections with Asset Returns of 6.25%

To further demonstrate how the future funding of this System will be driven by investment earnings, we show the anticipated system funding projections if the invested assets earn 6.25% per year over the entire 15-year period (i.e., 1.5% less than the assumed rate of return).



Under this scenario the funded status still improves but to a much lesser extent than for the baseline. The GASB Annual Required Contribution remains slightly below the statutory contribution rate.



MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION I
BOARD SUMMARY

Table I-1
Montana Municipal Police Officers' Retirement System
Summary of Principal System Results

Valuation as of:	June 30, 2011	June 30, 2012	% Change
<u>Participant Counts</u>			
Active Members*	739	736	(0.4%)
Disabled Members**	22	20	(9.1%)
Retirees and Beneficiaries**	654	663	1.4%
Terminated Vested Members	40	49	22.5%
Terminated Non-Vested Members	71	76	7.0%
Total***	1,526	1,544	1.2%
Annual Salaries of Active Members	\$ 36,608,837	\$ 41,584,304	13.6%
Average Annual Salary	\$ 49,538	\$ 56,500	14.1%
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 16,974,253	\$ 17,664,959	4.1%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability (AAL)	\$ 401,380,636	\$ 427,257,330	6.4%
Actuarial Value of Assets (AVA)	221,669,278	234,025,065	5.6%
Unfunded AAL	\$ 179,711,358	\$ 193,232,265	7.5%
Funded Ratio (AVA/AAL)	55.23%	54.77%	
Present Value of Accrued Benefits (PVAB)	\$ 340,078,420	\$ 359,929,947	5.8%
Market Value of Assets	229,041,911	238,636,453	4.2%
Unfunded PVAB	\$ 111,036,509	\$ 121,293,494	9.2%
Accrued Benefit Funding Ratio	67.35%	66.30%	
Ratio of Actuarial Value to Market Value	96.78%	98.07%	
<u>Contributions as a Percentage of Payroll</u>			
Statutory Funding Rate	52.780%	52.780%	
Normal Cost Rate	26.260%	26.260%	
Available for Amortization of UAL	26.520%	26.520%	
Period to Amortize	25.0 years	25.7 years	
Projected 30-year Level Funding Rate	50.090%	50.460%	
Projected Shortfall (Surplus)	(2.690%)	(2.320%)	

* Includes 37 DROP members as of June 30, 2011 and 35 DROP members as of June 30, 2012.

** Based on PERA categorization for the annual report. For actuarial valuation purposes, 89 members in 2011 and 90 members in 2012 were valued as disabled members with offsetting reductions to the number of retired members.

*** A reconciliation of counts for the annual report and counts for the valuation appears at the beginning of Appendix A.

SECTION II
ASSETS

Pension plan assets play a key role in the financial operation of the System and in the decisions the Trustees may make with respect to future deployment of those assets. The level of assets, the allocation of assets among asset classes, and the methodology used to measure assets will likely impact upon benefit levels, State contributions, and the ultimate security of participants' benefits.

In this section, we present detailed information on System assets including:

- **Disclosure** of System assets at June 30, 2011 and June 30, 2012;
- Statement of the **changes** in market values during the year;
- Development of the **Actuarial Value of Assets**;
- An assessment of **investment performance**; and
- A projection of the System's expected **cash flows** for the next 10 years.

Disclosure

The market value of assets represents "snap-shot or cash-out" values which provide the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with corresponding swings in the marketplace.

The actuarial values are market values which have been smoothed and are used for evaluating the System's ongoing liability to meet its obligations.

The actuarial value of assets is the current market value, adjusted by a four-year smoothing of gains and losses on a market value basis. Each year's gain or loss is determined difference between the actual market return and the expected market return using the assumed rate of investment return.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION II
ASSETS**

Table II-1 Changes in Market Values		
Value of Assets – June 30, 2011		\$ 229,041,911
<u>Additions</u>		
Member Contributions	\$ 3,790,744	
Employer Contributions	6,054,821	
State Contributions	12,273,769	
Investment Return	5,717,100	
Other	<u>999</u>	
Total Additions	\$ 27,837,433	
<u>Deductions</u>		
Benefit Payments	\$ 18,065,569	
Administrative Expenses	<u>177,322</u>	
Total Deductions	\$ 18,242,891	
Value of Assets – June 30, 2012		\$ 238,636,453

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION II
ASSETS**

Actuarial Value of Assets (AVA)

The actuarial value of assets represents a “smoothed” value developed by the actuary to reduce, or eliminate, volatile results which could develop from short-term fluctuations in the market value of assets. For this System, the actuarial value has been calculated by taking the market value of assets less 75% of the investment gain (loss) during the preceding year, less 50% of the investment gain (loss) during the second preceding year, and less 25% of the investment gain (loss) during the third preceding year. The tables below illustrate the calculation of actuarial value of assets for the June 30, 2012 valuation.

Table II-2 Market Value Gain/(Loss)	
Value of Assets – June 30, 2011	\$ 229,041,911
Employer, State and Member Contributions	22,120,333
Benefit Payments	(18,065,569)
Expected Return at 7.75%	<u>17,904,939</u>
Expected Value at June 30, 2012	\$ 251,001,614
Actual Value at June 30, 2012	\$ 238,636,453
Investment Gain/(Loss)	\$ (12,365,161)

Table II-3 Develop Excluded Gain/(Loss)		
	Total Gain/(Loss)	Excluded Portion
Exclude 75% of 2012 Gain/(Loss)	\$ (12,365,161)	\$ (9,273,870)
Exclude 50% of 2011 Gain/(Loss)	\$ 24,458,687	\$ 12,229,344
Exclude 25% of 2010 Gain/(Loss)	\$ 6,623,658	\$ 1,655,914
Total Excluded Gain/(Loss) for AVA Calculation		\$ 4,611,388

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION II
ASSETS**

Table II-4 Actuarial Value of Assets	
Market Value of Assets – June 30, 2012	\$ 238,636,453
Total Gain/(Loss) excluded	<u>4,611,388</u>
Actuarial Value of Assets – June 30, 2012	\$ 234,025,065

Investment Performance

The market value of assets (MVA) returned 2.40% during 2012, which is less than the assumed 7.75% return. A return of 3.71% on the actuarial value of assets (AVA) is primarily the result of the asset smoothing method being utilized for the calculation of the actuarial value of assets. Since only 25% of the gain or loss from the performance of the System is recognized in a given year, in periods of very good performance, the AVA can lag significantly behind the MVA. In a period of negative returns, the AVA does not decline as rapidly as the MVA.

Table II-5 Annual Rates of Return		
Year Ending June 30,	Market Value	Actuarial Value
2005	7.84%	5.46%
2006	8.65%	9.00%
2007	17.36%	11.41%
2008	(4.86%)	7.32%
2009	(20.32%)	(0.25%)
2010	12.02%	(0.96%)
2011	20.72%	0.59%
2012	2.40%	3.71%

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION II
ASSETS**

**Table II-6
Projection of System's Benefit Payments and Contributions (in thousands)**

Year Beginning July 1,	Expected Benefits	Expected Contributions*	Net Cash Flow (excluding Investment Return)	Expected Investment Return**	Net Cash Flow (including Investment Return)
2012	\$ 19,909	\$ 23,724	\$ 3,815	\$ 18,639	\$ 22,454
2013	20,417	24,673	4,256	20,396	24,652
2014	21,404	25,660	4,256	22,307	26,563
2015	22,425	26,686	4,261	24,366	28,627
2016	23,561	27,754	4,193	26,582	30,775
2017	27,141	28,864	1,723	28,873	30,596
2018	28,828	30,019	1,191	31,224	32,415
2019	31,068	31,219	151	33,696	33,847
2020	32,392	32,468	76	36,317	36,393
2021	34,194	33,767	(427)	39,118	38,691

* Expected contributions include Employer Contributions, State Contributions, and Member Contributions. For illustration purposes, we have assumed that all contribution rates will remain level and that payroll will increase at the actuarially assumed rate of 4.00% per year.

** Expected investment return is based upon an assumed return of 7.75% per annum.

Expected benefit payments are projected for the closed group valued at June 30, 2012. Projecting any farther than 10 years using a closed-group would not yield reliable predictions due to the omission of new hires.

SECTION III LIABILITIES

In this section, we present detailed information on the System's liabilities including:

- **Disclosure** of the System's liabilities at June 30, 2011 and June 30, 2012;
- Statement of **changes** in these liabilities during the year;
- Details on the source of actuarial gains and losses between this valuation and the last; and
- Development of actuarial unfunded liability on a market value basis as required under MCA 12-2-407.

Disclosure

Several types of liabilities are calculated and presented in this report. Each type is distinguished by the people ultimately using the figures and the purpose for which they are using them.

- **Present Value of Benefits:** Used for analyzing the financial outlook of the System, this represents the amount of money needed today to fully pay off all future benefits and expenses of the System, assuming participants continue to accrue benefits.
- **Actuarial Accrued Liability:** Used for funding calculations and GASB disclosures, this liability is calculated taking the Present Value of Benefits and subtracting the present value of future Member Contributions and future Employer Normal Costs under an acceptable actuarial funding method. This method is referred to as the **Entry Age Normal (EAN)** funding method.
- **Present Value of Accrued Benefits:** Used for communicating the current level of liabilities, this liability represents the total amount of money needed today to fully pay off the current accrued obligations of the System, assuming no future accruals of benefits. These liabilities are also required for accounting purposes (FASB ASC Topic No. 960) and used to assess whether the System can meet its current benefit commitments.

The following table discloses each of these liabilities for the current and prior valuations. With respect to each disclosure, a subtraction of the appropriate value of System assets yields, for each respective type, a **net surplus** or an **unfunded liability**.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

**SECTION III
LIABILITIES**

**Table III-1
Liabilities/Net (Surplus)/Unfunded**

	June 30, 2011	June 30, 2012
<u>Present Value of Benefits</u>		
Active Participant Benefits	\$ 240,677,030	\$ 259,159,310
Retiree and Inactive Benefits	244,406,220	255,074,782
Present Value of Benefits (PVB)	\$ 485,083,250	\$ 514,234,092
Market Value of Assets (MVA)	\$ 229,041,911	\$ 238,636,453
Future Member Contributions	27,941,791	29,036,967
Future Employer Contributions	135,921,290	141,248,713
Funding Shortfall/(Surplus)	92,178,258	105,311,959
Total Resources	\$ 485,083,250	\$ 514,234,092
<u>Actuarial Accrued Liability</u>		
Present Value of Benefits (PVB)	\$ 485,083,250	\$ 514,234,092
Present Value of Future Normal Costs (PVFNC)	83,702,614	86,976,762
Actuarial Accrued Liability (AAL=PVB-PVFNC)	401,380,636	427,257,330
Actuarial Value of Assets (AVA)	221,669,278	234,025,065
Net (Surplus)/Unfunded (AAL - AVA)	\$ 179,711,358	\$ 193,232,265
<u>Present Value of Accrued Benefits</u>		
Present Value of Benefits (PVB)	\$ 485,083,250	\$ 514,234,092
Present Value of Future Benefit Accruals (PVFBA)	145,004,830	154,304,145
Present Value of Accrued Benefits (PVAB=PVB-PVFBA)	340,078,420	359,929,947
Market Value of Assets (MVA)	229,041,911	238,636,453
Net Unfunded (PVAB - MVA)	\$ 111,036,509	\$ 121,293,494

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION III
LIABILITIES**

Changes in Liabilities

Each of the Liabilities disclosed in the prior table are expected to change at each valuation. The components of that change, depending upon which liability is analyzed, can include:

- New hires since the last valuation
- Benefits accrued since the last valuation
- System amendments increasing benefits
- Passage of time which adds interest to the prior liability
- Benefits paid to retirees since the last valuation
- Participants retiring, terminating, or dying at rates different than expected
- A change in actuarial or investment assumptions
- A change in the actuarial funding method

Unfunded liabilities will change because of all of the above, and also due to changes in system assets resulting from:

- Employer contributions different than expected
- Investment earnings different than expected
- A change in the method used to measure system assets

In each valuation, we report on those elements of change which are of particular significance, potentially affecting the long-term financial outlook of the System. Below we present key changes in liabilities since the last valuation.

Table III-2			
(In Thousands)	Present Value of Benefits	Actuarial Accrued Liability	Present Value of Accrued Liability
Liabilities June 30, 2011	\$ 485,083,250	\$ 401,380,636	\$ 340,078,420
Liabilities June 30, 2012	514,234,092	427,257,330	359,929,947
Liability			
Increase (Decrease)	29,150,842	25,876,694	19,851,527
Change Due to:			
Actuarial (Gain)/Loss	NC*	2,944,230	NC*
Plan Changes	0	0	0
Benefits			
Accumulated and			
Other Sources	23,969,576	22,932,464	19,851,527

* NC = not calculated.

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION III
LIABILITIES**

**Table III-3
Summary of Actuarial Gains and Losses as of June 30, 2012**

Actuarial Liabilities as of July 1, 2011	\$ 401,380,636
Normal Cost	9,829,302
Actual Benefit Payments	(18,065,569)
Interest	<u>31,161,853</u>
Expected Actuarial Liability as of July 1, 2012	424,313,100
Actual Liability as of July 1, 2012	\$ 427,257,330
Liability (Gain)/Loss	\$ 2,944,230
Sources of Liability (Gain)/Loss	
Salary (Gain)/Loss	\$ 3,586,965
New Participant (Gain)/Loss	386,156
Active Retirements (Gain)/Loss	(2,406,264)
Active Terminations (Gain)/Loss	(136,352)
Active Deaths (Gain)/Loss	(159,761)
Active Disability (Gain)/Loss	(308,908)
Inactive Decrements (Gain)/Loss	1,982,394
Actual Liability as of July 1, 2012	\$ 427,257,330
Liability (Gain)/Loss due to plan changes	\$ 0
Actuarial Value of Assets as of July 1, 2011	\$ 221,669,278
Net Cash Flow	4,054,764
Expected Earnings	<u>17,333,559</u>
Expected Actuarial Value of Assets as of July 1, 2012	243,057,601
Actual Actuarial Value of Assets as of July 1, 2012	\$ 234,025,065
Investment (Gain)/Loss	\$ 9,032,536
Total Liability (Gain)/Loss	<u>2,944,230</u>
Total Actuarial (Gain)/Loss	\$ 11,976,766

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION III
LIABILITIES**

Table III-4 shows the actuarial liabilities as of the prior and current valuation dates. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The funded ratio is the ratio of the actuarial value of assets to the actuarial liability.

Table III-4 Actuarial Liabilities for Funding		
	June 30, 2011	June 30, 2012
1. Actuarial Liabilities		
Retiree and Inactive Benefits	\$ 244,406,220	\$ 255,074,782
Active Member Benefits	<u>156,974,416</u>	<u>172,182,548</u>
Total Actuarial Liability	\$ 401,380,636	\$ 427,257,330
2. Actuarial Value of Assets	\$ 221,669,278	\$ 234,025,065
3. Unfunded Actuarial Liability	\$ 179,711,358	\$ 193,232,265
4. Funded Ratio	55.23%	54.77%

Montana Code Annotated (MCA) 19-2-407 requires an analysis of how market performance is affecting the actuarial funding of the System. Table III-5 presented below shows the same information as in Table III-4 above, but using market value of assets rather than actuarial value of assets.

Table III-5 Actuarial Liabilities on Market Value Basis (MCA 19-2-407)		
	June 30, 2011	June 30, 2012
1. Actuarial Liabilities		
Retiree and Inactive Benefits	\$ 244,406,220	\$ 255,074,782
Active Member Benefits	<u>156,974,416</u>	<u>172,182,548</u>
Total Actuarial Liability	\$ 401,380,636	\$ 427,257,330
2. Market Value of Assets	\$ 229,041,911	\$ 238,636,453
3. Unfunded Actuarial Liability	\$ 172,338,725	\$ 188,620,877
4. Funded Ratio	57.06%	55.85%

**SECTION IV
CONTRIBUTIONS**

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions is needed to properly maintain the funding status of the System. Typically, the actuarial process will use a funding technique that will result in a pattern of contributions that are both stable and predictable.

For this System, the funding method employed is the **Entry Age Actuarial Cost Method**. Under this method, there are two components to the total contribution: the **normal cost rate** and the **unfunded actuarial liability rate** (UAL rate). The normal cost rate is determined by taking the value, as of entry age into the system, of each member's projected future benefits. This value is then divided by the value, also at entry age, of each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost rate. Finally, the total normal cost rate is reduced by the member contribution to produce the employer normal cost rate. The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability.

For purposes of determining the adequacy of the statutory funding rate, the UAL rate is calculated by subtracting the normal cost rate from the statutory rate. A calculation is then made to determine the period over which the UAL rate will amortize the unfunded actuarial liability. A second UAL rate is calculated based upon a 30-year amortization of the UAL, which is the maximum amortization period permitted under GASB Statement No. 25, but which should not necessarily be construed as a recommended contribution level. All UAL payments are determined as a level percentage of pay, assuming that total pay increases by the annual inflation rate of 4.00%.

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION IV
CONTRIBUTIONS**

The tables below present and compare the contribution rates for the System for this valuation and the prior one.

Table IV-1 Statutory Basis		
	June 30, 2011	June 30, 2012
Statutory Funding Rates		
Members	9.000%	9.000%
Employers	14.410%	14.410%
State	29.370%	29.370%
Total	52.780%	52.780%
Normal Cost Rate	26.260%	26.260%
Funding Rate Available for Amortization	26.520%	26.520%
Unfunded Actuarial Liability (Surplus)	179,711,358	193,232,265
Years to Amortize*	25.0 years	25.7 years

* On a market value basis, the Years to Amortize the Unfunded Actuarial Liability were 23.4 years at June 30, 2011 and 24.7 years at June 30, 2012.

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**SECTION IV
CONTRIBUTIONS**

Table IV-2 Calculated Contribution Basis		
	June 30, 2011	June 30, 2012
Normal Cost Rate	26.260%	26.260%
Amortization Payment (30-years)	<u>23.830%</u>	<u>24.200%</u>
Total Calculated Contribution Rate	50.090%	50.460%
Less Statutory Rate	<u>52.780%</u>	<u>52.780%</u>
Shortfall (Surplus) in Statutory Rate	(2.690%)	(2.320%)

Table IV-3 Calculated Contribution on Market Value (MCA 19-2-407)		
	June 30, 2011	June 30, 2012
Normal Cost Rate	26.260%	26.260%
Amortization Payment (30-years)	<u>22.850%</u>	<u>23.620%</u>
Total Calculated Contribution Rate	49.110%	49.880%
Less Statutory Rate	<u>52.780%</u>	<u>52.780%</u>
Shortfall (Surplus) in Statutory Rate	(3.670%)	(2.900%)

The following table projects results for the next five valuations (assuming all assumptions are met, including 7.75% return):

Table IV-4 Projected Calculated Contribution Rates	
Valuation Year	Rate
2013	48.79%
2014	47.80%
2015	47.48%
2016	46.78%
2017	46.06%

SECTION V
ACCOUNTING STATEMENT INFORMATION

Accounting Standard Codification Topic No. 960 of the Financial Accounting Standards Board specifies certain information for a plan to disclose regarding its funded status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems (PERS) and governmental employers in notes to financial statements and supplementary information.

The FASB ASC Topic No. 960 disclosures provide a quasi “snap shot” view of how the System’s assets compare to its liabilities if contributions stopped and accrued benefit claims had to be satisfied. However, due to potential legal requirements and the possibility that alternative interest rates would have to be used to determine the liabilities, these values may not be a good indication of the amount of money it would take to buy the benefits for all members if the System were to terminate.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes.

Both the present value of accrued benefits (FASB ASC Topic No. 960) and the actuarial accrued liability (GASB-25) are determined assuming that the System is on-going and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.75% per annum.

FASB ASC Topic No. 960 specifies that a comparison of the present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2012 are exhibited in Table V-1.

Tables V-2 through V-5 are exhibits to be used with the System CAFR report. Table V-2 is the Note to Required Supplementary Information, Table V-3 is a history of gains and losses in Accrued Liability, Table V-4 is the Schedule of Funding Progress, and V-5 is the Solvency Test which shows the portion of Accrued Liability covered by Assets.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-1		
Accounting Statement Information		
	June 30, 2011	June 30, 2012
A. FASB ASC Topic No. 960 Basis		
1. Present Value of Benefits Accrued and Vested to Date		
a. Members Currently Receiving Payments	\$ 239,175,746	\$ 248,259,795
b. Former Vested Members	5,230,474	6,814,987
c. Active Members	95,672,200	104,855,165
2. Total Present Value of Accrued Benefits (1 (a) + 1(b) + 1(c))	\$ 340,078,420	\$ 359,929,947
3. Assets at Market Value	229,041,911	238,636,453
4. Unfunded Present Value of Accrued Benefits (2 – 3)	\$ 111,036,509	\$ 121,293,494
5. Ratio of Assets to Present Value of Accrued Benefits (3 / 2)	67.35%	66.30%
B. GASB No. 25 Basis		
1. Actuarial Accrued Liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 244,406,220	\$ 255,074,782
2. Actuarial Accrued Liabilities for current employees	156,974,416	172,182,548
3. Total Actuarial Accrued Liability (1 + 2)	\$ 401,380,636	\$ 427,257,330
4. Net Actuarial Assets available for benefits	221,669,278	234,025,065
5. Unfunded Actuarial Accrued Liability (3 – 4)	\$ 179,711,358	\$ 193,232,265

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-2
Note To Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2012
Actuarial cost method	Entry age
Amortization method	Open
Remaining amortization period for Annual Required Contribution	25.7 years
Asset valuation method	Four-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
General wage growth*	4.00%
Merit salary increases	0.0% - 7.3%
*Includes inflation at	3.00%

The actuarial assumptions used have been recommended based on the most recent review of the System's experience (completed in 2010) and adopted by the Retirement Board.

The rate of employer contributions to the System is composed of the normal cost and amortization of the unfunded actuarial accrued liability. The normal cost is a level percent of payroll cost which will pay for projected benefits at retirement for each participant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-3
Analysis Of Financial Experience*

Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience
Gain (or Loss) for Year ending June 30,
(expressed in thousands)

Type of Activity	2007	2008	2009	2010	2011	2012
Investment Income on Actuarial Assets	\$ 5,966	\$ (1,427)	\$(17,616)	\$ (19,446)	\$ (15,675)	\$ (9,033)
Combined Liability Experience	<u>(2,547)</u>	<u>(2,999)</u>	<u>1,397</u>	<u>(4,558)</u>	<u>(45)</u>	<u>(2,944)</u>
(Loss)/Gain During Year from Financial Experience	\$ 3,419	\$ (4,426)	\$(16,219)	\$ (24,004)	\$ (15,720)	\$ (11,977)
Non-Recurring Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,526)</u>	<u>0</u>	<u>0</u>
Composite Gain (or Loss) During Year	\$ 3,419	\$ (4,426)	\$(16,219)	\$ (34,530)	\$ (15,720)	\$ (11,977)

Table V-4
Schedule Of Funding Progress*
(expressed in thousands)

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2012	\$ 234,025	\$ 427,257	55 %	\$ 193,232	\$ 41,745	463 %
2011	221,669	401,381	55 %	179,712	39,470	455 %
2010	217,545	380,393	57 %	162,848	37,220	438 %
2009	214,344	345,261	62 %	130,917	34,687	377 %
2008	212,312	327,556	65 %	115,244	32,181	358 %
2007	198,310	310,423	64 %	112,113	29,547	379 %

* Years prior to 2009 were taken from reports prepared by prior actuary.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5 Solvency Test* Aggregate Accrued Liabilities for (expressed in thousands)							
Valuation Date June 30,	Active Member Contributions (1)	Retirees & Beneficiaries (2)	Active Member Employer Financed Contributions (3)	Actuarial Value of Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
2012	\$ 34,687	\$ 248,260	\$ 144,310	\$ 234,025	100 %	80%	0%
2011	32,906	239,176	129,298	221,669	100 %	79%	0%
2010	30,986	229,057	120,350	217,545	100 %	81%	0%
2009	28,693	212,169	104,399	214,344	100 %	88%	0%
2008	27,165	207,233	93,158	212,312	100 %	89%	0%
2007	27,256	185,707	97,460	198,310	100 %	92%	0%

* Years prior to 2009 were taken from reports prepared by prior actuary.

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX A
MEMBERSHIP INFORMATION**

Reconciliation of Participant Counts							
	Active	Disabled	Retirees and Beneficiaries	Terminated Vested Members	Terminated Non-Vested Members	Total	
Participant counts used for valuation	736	90	595	49	76	1,546	
Disabled members having attained normal retirement age		(70)	70			-	
Beneficiaries of Disabled Members						-	
Beneficiaries with less than one year of certain payments remaining			-			-	
Other Adjustments			(2)			(2)	
Participant counts shown in Annual Financial Report	736	20	663	49	76	1,544	

This chart is presented for informational purposes only. The counts shown in the valuation line were used for preparation of the liabilities disclosed within this report. The counts disclosed for the Annual Financial Report and the Board Summary (page 7) match the CAFR reports at the request of the Board. The differences between the counts, if any, have no material effect upon the liability calculation.

The salaries used in the tables and charts which follow are different than the salaries used for the Board Summary on page 7. For this Appendix A, the valuation projected salaries to be paid for the following fiscal year, whereas for the Board Summary, salaries are applicable in the year ending on the valuation date.

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX A
MEMBERSHIP INFORMATION**

The benefits for retirees and beneficiaries used for the tables and charts which follow are different than the benefits used for the Board Summary on page 7. For this Appendix A, the valuation projected benefits to be paid for the following fiscal year (including GABA where applicable), whereas for the Board Summary, annual benefits are as of the valuation date.

**Montana Municipal Police Officers' Retirement System Distribution of Active Members
by Age and Service as of June 30, 2012**

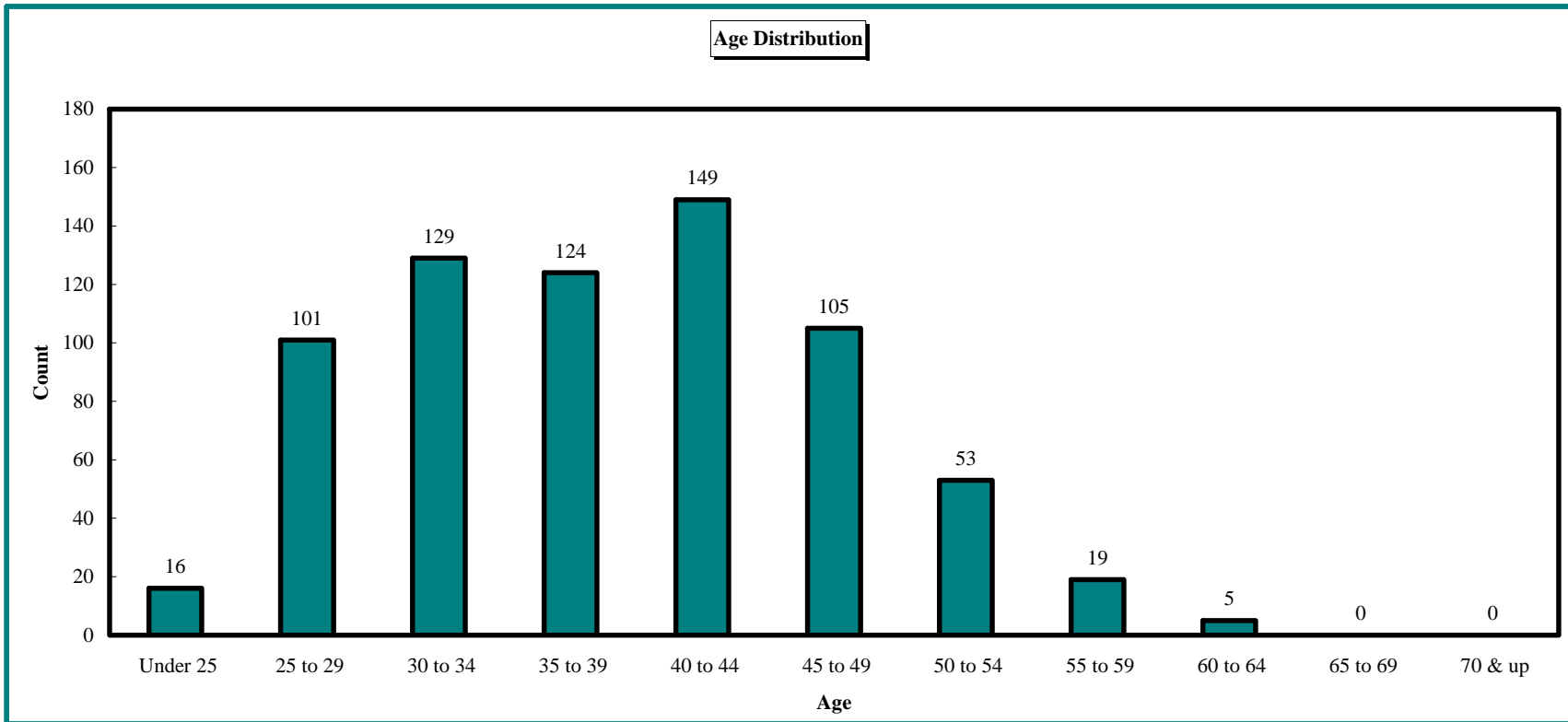
COUNTS BY AGE/SERVICE

Age	Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25	5	11	0	0	0	0	0	0	0	0	16
25 to 29	14	80	7	0	0	0	0	0	0	0	101
30 to 34	10	59	49	11	0	0	0	0	0	0	129
35 to 39	14	32	47	28	3	0	0	0	0	0	124
40 to 44	2	19	29	41	50	8	0	0	0	0	149
45 to 49	2	13	13	27	31	17	2	0	0	0	105
50 to 54	1	6	9	6	12	14	5	0	0	0	53
55 to 59	1	1	4	2	3	4	2	1	1	0	19
60 to 64	1	0	1	3	0	0	0	0	0	0	5
65 to 69	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0
Total	50	221	159	118	99	43	9	1	1	0	701

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBERSHIP INFORMATION

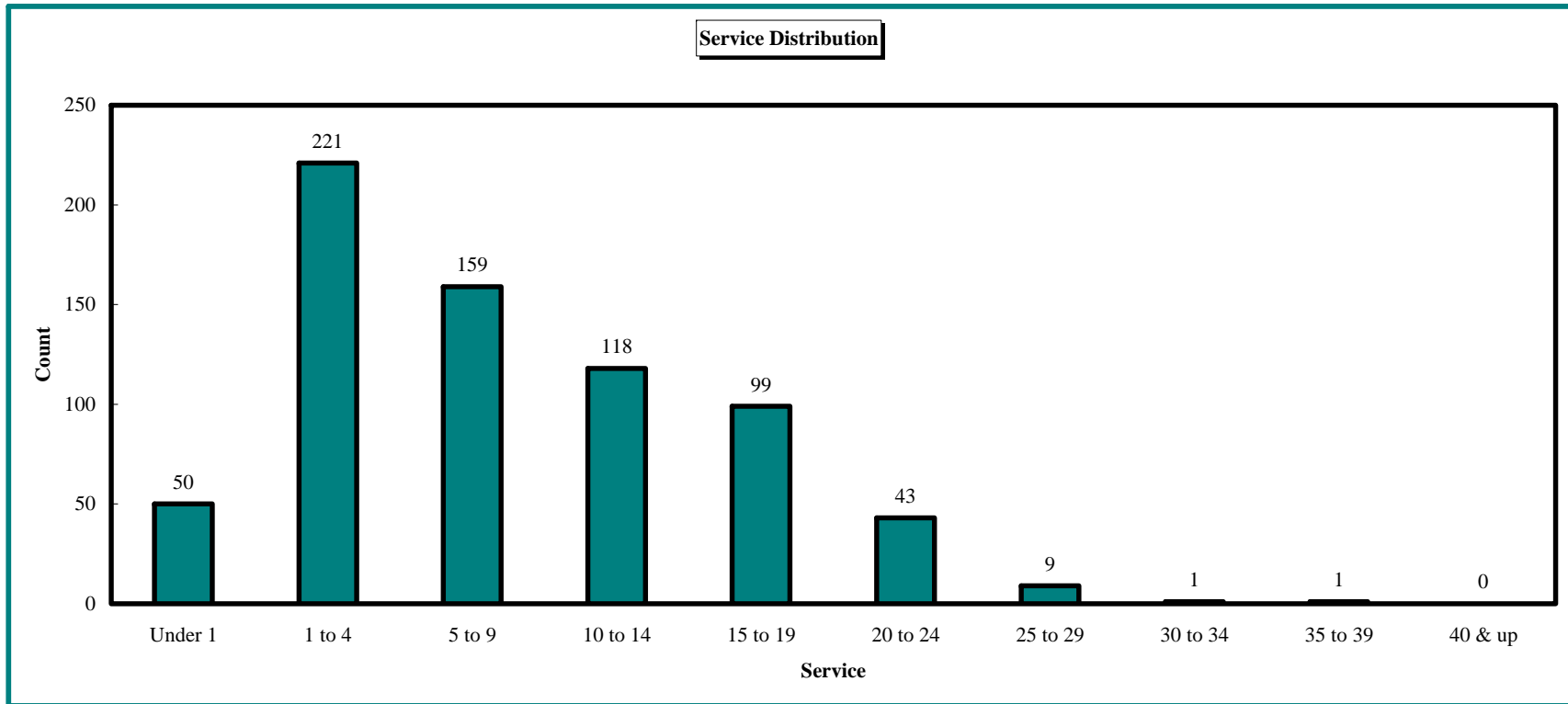
Montana Municipal Police Officers' Retirement System Distribution of Active Members
by Age as of June 30, 2012



MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBERSHIP INFORMATION

Montana Municipal Police Officers' Retirement System Distribution of Active Members
by Service as of June 30, 2012



**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Montana Municipal Police Officers' Retirement System Distribution of Active Members
by Age and Service as of June 30, 2012**

AVERAGE SALARY BY AGE/SERVICE

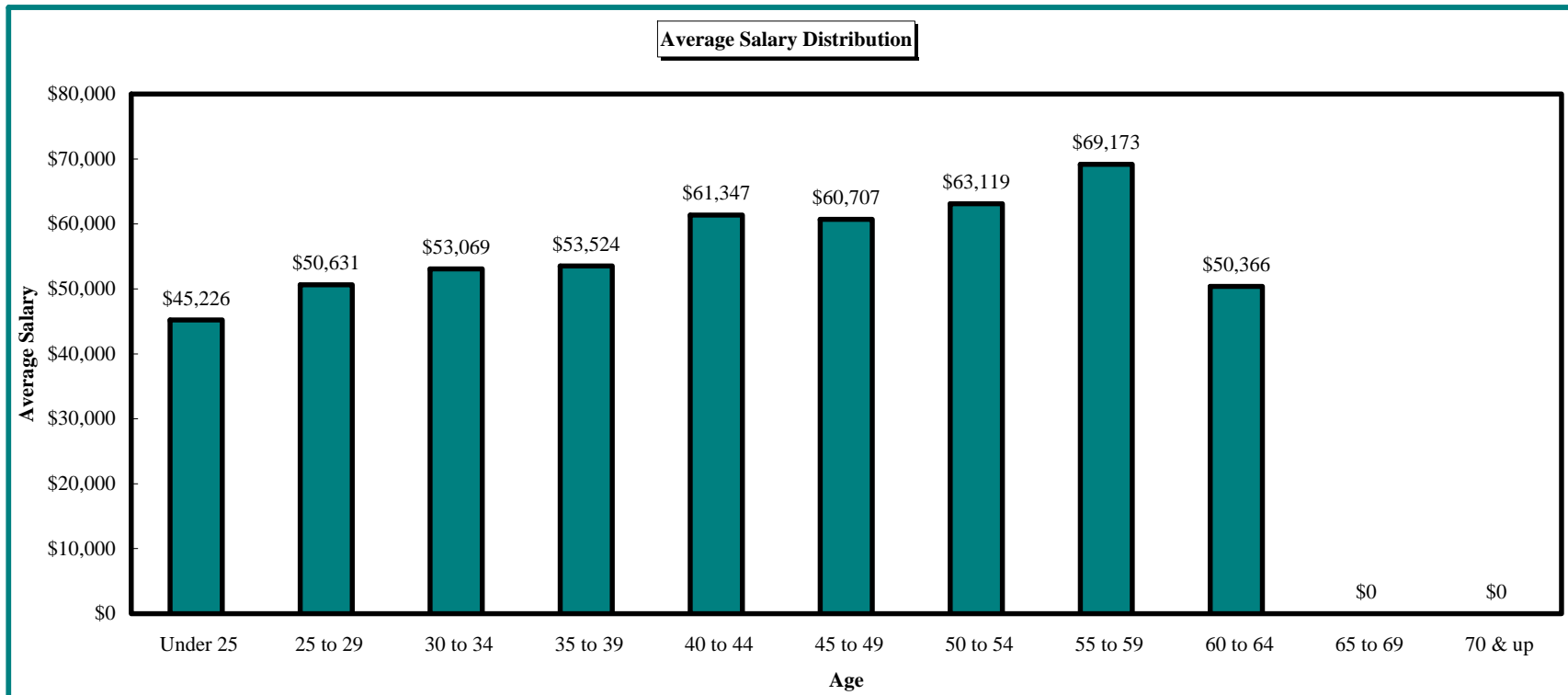
Age	Service										Total	
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up		
Under 25	\$43,767	\$45,888	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$45,226
25 to 29	\$47,180	\$50,630	\$57,546	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$50,631
30 to 34	\$46,637	\$51,741	\$54,196	\$61,018	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$53,069
35 to 39	\$40,985	\$49,455	\$54,936	\$61,375	\$60,072	\$0	\$0	\$0	\$0	\$0	\$0	\$53,524
40 to 44	\$54,184	\$48,133	\$54,149	\$60,770	\$69,368	\$73,443	\$0	\$0	\$0	\$0	\$0	\$61,347
45 to 49	\$38,012	\$45,109	\$53,873	\$60,241	\$63,305	\$73,762	\$84,249	\$0	\$0	\$0	\$0	\$60,707
50 to 54	\$38,879	\$42,136	\$48,013	\$58,449	\$69,051	\$75,388	\$77,351	\$0	\$0	\$0	\$0	\$63,119
55 to 59	\$60,541	\$107,540	\$55,874	\$62,580	\$63,961	\$68,544	\$77,456	\$77,446	\$99,128	\$0	\$0	\$69,173
60 to 64	\$8,091	\$0	\$92,285	\$50,485	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$50,366
65 to 69	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70 & up	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$44,228	\$50,008	\$54,459	\$60,467	\$66,986	\$73,747	\$78,907	\$77,446	\$99,128	\$0	\$0	\$56,700

The salary shown in the above chart was used for valuation purposes and assumes pay increases for the year.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBERSHIP INFORMATION

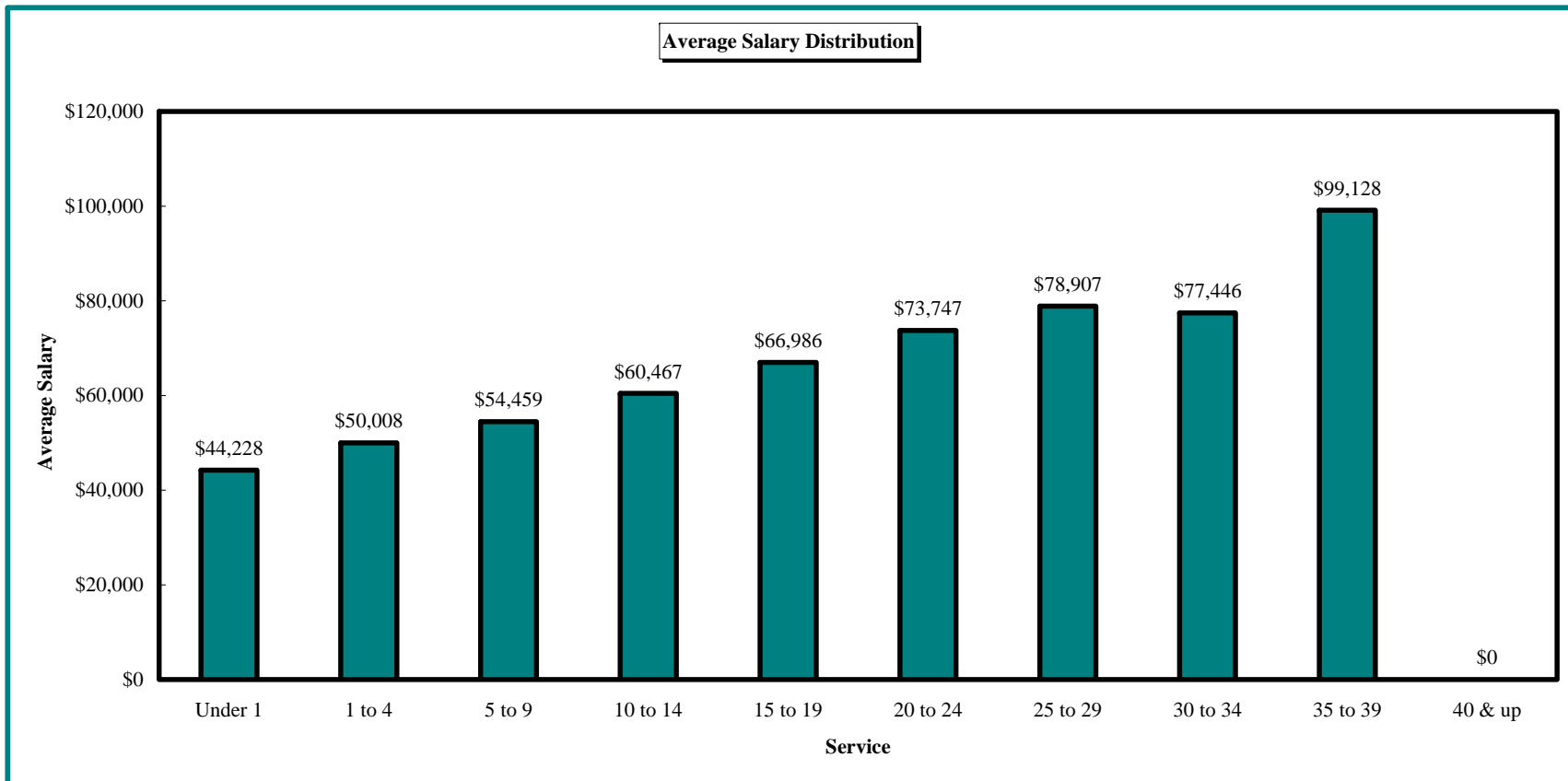
Montana Municipal Police Officers' Retirement System Distribution of Active Members
by Age as of June 30, 2012



MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBERSHIP INFORMATION

Montana Municipal Police Officers' Retirement System Distribution of Active Members
by Service as of June 30, 2012



**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Montana Municipal Police Officers' Retirement System Distribution of
Retired Members, Survivors, and Disabled Members as of June 30, 2012**

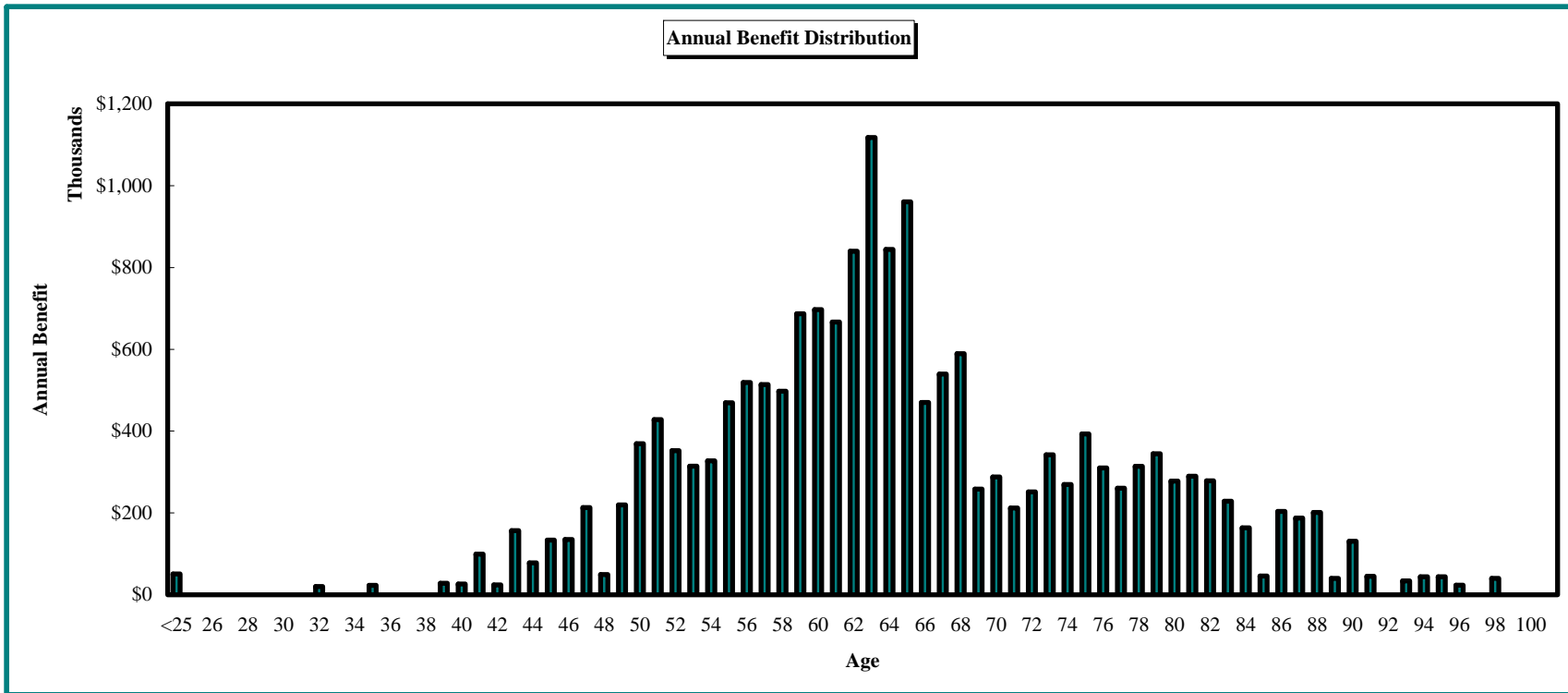
Age	Count	Annual Benefit	Age	Count	Annual Benefit
<25	3	\$50,655	73	15	\$342,146
25	0	\$0	74	12	\$269,597
26	0	\$0	75	16	\$393,055
27	0	\$0	76	14	\$309,811
28	0	\$0	77	12	\$260,576
29	0	\$0	78	13	\$313,893
30	0	\$0	79	15	\$344,961
31	0	\$0	80	11	\$278,138
32	1	\$20,035	81	12	\$289,857
33	0	\$0	82	13	\$278,602
34	0	\$0	83	10	\$228,352
35	1	\$23,065	84	7	\$163,671
36	0	\$0	85	2	\$45,860
37	0	\$0	86	9	\$203,631
38	0	\$0	87	7	\$187,777
39	1	\$27,856	88	9	\$200,902
40	1	\$26,312	89	2	\$39,771
41	4	\$99,209	90	6	\$130,588
42	1	\$23,756	91	2	\$44,917
43	6	\$156,631	92	0	\$0
44	2	\$77,590	93	1	\$33,996
45	5	\$133,502	94	2	\$43,967
46	5	\$135,298	95	2	\$43,841
47	8	\$213,018	96	1	\$23,401
48	2	\$49,492	97	0	\$0
49	8	\$219,469	98	2	\$40,097
50	15	\$369,458	99	0	\$0
51	18	\$428,183	100	0	\$0
52	13	\$352,030	101	0	\$0
53	12	\$314,527	102	1	\$16,848
54	13	\$327,523	103	0	\$0
55	18	\$469,281	104	0	\$0
56	22	\$519,033	105	0	\$0
57	19	\$513,759	106	0	\$0
58	18	\$497,490	107	0	\$0
59	21	\$687,057	108	0	\$0
60	25	\$697,231	109	0	\$0
61	25	\$666,749	110	0	\$0
62	29	\$839,655	111	0	\$0
63	36	\$1,117,764	112	0	\$0
64	26	\$844,150	113	0	\$0
65	33	\$960,675	114	0	\$0
66	18	\$470,063	115	0	\$0
67	19	\$539,155	116	0	\$0
68	19	\$589,315	117	0	\$0
69	12	\$258,504	118	0	\$0
70	11	\$288,082	119	0	\$0
71	8	\$212,259	120	0	\$0
72	11	\$251,279			
			Totals	685	\$17,997,365

The chart above reflects the counts and benefits used for valuation purposes as a result of data processing. The benefit amounts shown have been projected using a half year COLA assumption.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBERSHIP INFORMATION

Montana Municipal Police Officers' Retirement System Distribution of
Retired Members, Survivors, and Disabled Members as of June 30, 2012



**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Montana Municipal Police Officers' Retirement System Distribution of
Terminated Vested Members as of June 30, 2012**

Age	Count	Annual Benefit*	Account Balance*	Age	Count	Annual Benefit*	Account Balance*
<25	0	\$0	\$0	73	0	\$0	\$0
25	0	\$0	\$0	74	0	\$0	\$0
26	0	\$0	\$0	75	0	\$0	\$0
27	1	\$5,241	\$0	76	0	\$0	\$0
28	0	\$0	\$0	77	0	\$0	\$0
29	1	\$5,122	\$0	78	0	\$0	\$0
30	1	\$7,868	\$0	79	0	\$0	\$0
31	1	\$10,511	\$0	80	0	\$0	\$0
32	1	\$7,923	\$0	81	0	\$0	\$0
33	0	\$0	\$0	82	0	\$0	\$0
34	2	\$15,104	\$0	83	0	\$0	\$0
35	1	\$7,519	\$0	84	0	\$0	\$0
36	3	\$31,006	\$0	85	0	\$0	\$0
37	1	\$8,027	\$0	86	0	\$0	\$0
38	3	\$32,533	\$0	87	0	\$0	\$0
39	2	\$19,431	\$0	88	0	\$0	\$0
40	1	\$7,902	\$0	89	0	\$0	\$0
41	6	\$55,456	\$55,324	90	0	\$0	\$0
42	1	\$14,286	\$0	91	0	\$0	\$0
43	2	\$24,146	\$0	92	0	\$0	\$0
44	5	\$96,516	\$0	93	0	\$0	\$0
45	6	\$49,567	\$99,490	94	0	\$0	\$0
46	0	\$0	\$0	95	0	\$0	\$0
47	4	\$51,631	\$0	96	0	\$0	\$0
48	3	\$24,666	\$0	97	0	\$0	\$0
49	2	\$20,656	\$0	98	0	\$0	\$0
50	1	\$9,414	\$0	99	0	\$0	\$0
51	1	\$23,362	\$0	100	0	\$0	\$0
52	0	\$0	\$0	101	0	\$0	\$0
53	0	\$0	\$0	102	0	\$0	\$0
54	0	\$0	\$0	103	0	\$0	\$0
55	0	\$0	\$0	104	0	\$0	\$0
56	0	\$0	\$0	105	0	\$0	\$0
57	0	\$0	\$0	106	0	\$0	\$0
58	0	\$0	\$0	107	0	\$0	\$0
59	0	\$0	\$0	108	0	\$0	\$0
60	0	\$0	\$0	109	0	\$0	\$0
61	0	\$0	\$0	110	0	\$0	\$0
62	0	\$0	\$0	111	0	\$0	\$0
63	0	\$0	\$0	112	0	\$0	\$0
64	0	\$0	\$0	113	0	\$0	\$0
65	0	\$0	\$0	114	0	\$0	\$0
66	0	\$0	\$0	115	0	\$0	\$0
67	0	\$0	\$0	116	0	\$0	\$0
68	0	\$0	\$0	117	0	\$0	\$0
69	0	\$0	\$0	118	0	\$0	\$0
70	0	\$0	\$0	119	0	\$0	\$0
71	0	\$0	\$0	120	0	\$0	\$0
72	0	\$0	\$0				
				Totals	49	\$527,887	\$154,814

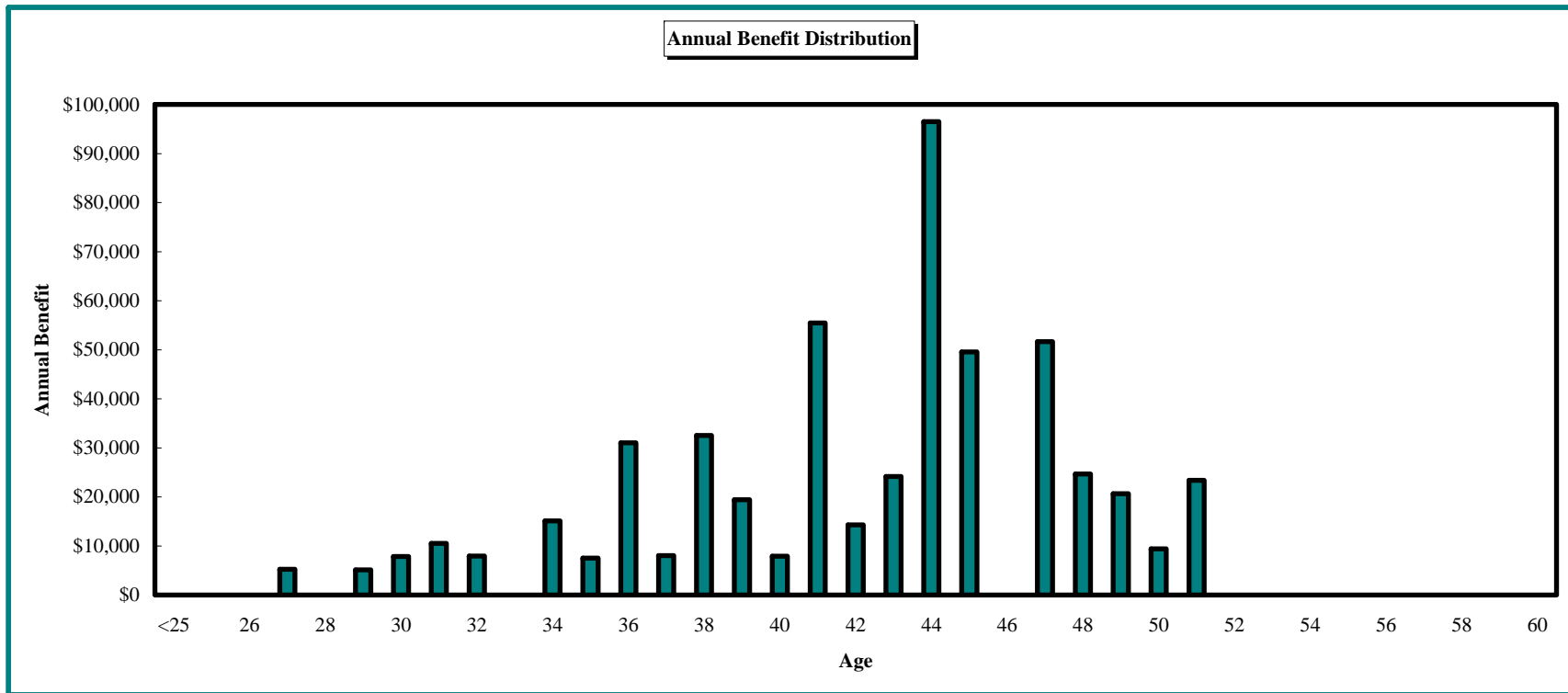
* payable at the greater of age 50 or current age (use current age if member has 20 years of service)

The chart above reflects the counts and benefits used for valuation purposes as a result of data processing.

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBERSHIP INFORMATION

Montana Municipal Police Officers' Retirement System Distribution of
Terminated Vested Members as of June 30, 2012



**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX A
MEMBERSHIP INFORMATION**

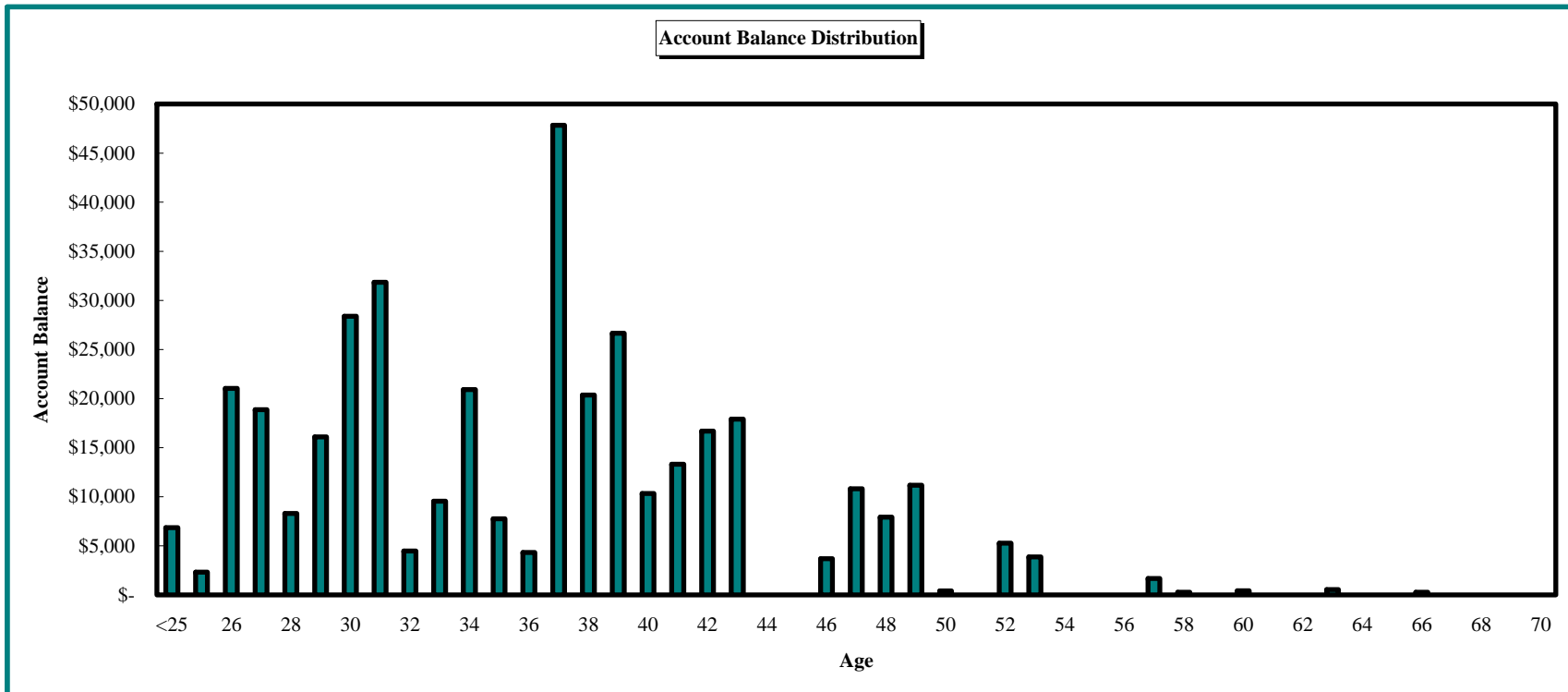
**Montana Municipal Police Officers' Retirement System Distribution of
Terminated Non-Vested Members as of June 30, 2012**

Age	Count	Account Balance	Age	Count	Account Balance
<25	3	\$6,842	73	0	\$0
25	1	\$2,300	74	0	\$0
26	4	\$21,035	75	0	\$0
27	3	\$18,855	76	0	\$0
28	1	\$8,296	77	0	\$0
29	4	\$16,085	78	0	\$0
30	5	\$28,374	79	0	\$0
31	3	\$31,855	80	0	\$0
32	2	\$4,462	81	0	\$0
33	2	\$9,541	82	0	\$0
34	3	\$20,922	83	0	\$0
35	5	\$7,753	84	0	\$0
36	1	\$4,326	85	0	\$0
37	6	\$47,836	86	0	\$0
38	4	\$20,355	87	0	\$0
39	7	\$26,645	88	0	\$0
40	1	\$10,334	89	0	\$0
41	1	\$13,305	90	0	\$0
42	1	\$16,679	91	0	\$0
43	2	\$17,895	92	0	\$0
44	0	\$0	93	0	\$0
45	0	\$0	94	0	\$0
46	1	\$3,678	95	0	\$0
47	2	\$10,821	96	0	\$0
48	2	\$7,929	97	0	\$0
49	1	\$11,170	98	0	\$0
50	1	\$400	99	0	\$0
51	0	\$0	100	0	\$0
52	1	\$5,251	101	0	\$0
53	3	\$3,859	102	0	\$0
54	1	\$10	103	0	\$0
55	0	\$0	104	0	\$0
56	0	\$0	105	0	\$0
57	1	\$1,665	106	0	\$0
58	1	\$273	107	0	\$0
59	0	\$0	108	0	\$0
60	1	\$416	109	0	\$0
61	0	\$0	110	0	\$0
62	0	\$0	111	0	\$0
63	1	\$534	112	0	\$0
64	0	\$0	113	0	\$0
65	0	\$0	114	0	\$0
66	1	\$270	115	0	\$0
67	0	\$0	116	0	\$0
68	0	\$0	117	0	\$0
69	0	\$0	118	0	\$0
70	0	\$0	119	0	\$0
71	0	\$0	120	0	\$0
72	0	\$0			
			Totals	76	\$379,969

MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012

APPENDIX A
MEMBERSHIP INFORMATION

Montana Municipal Police Officers' Retirement System Distribution of
Terminated Non-Vested Members as of June 30, 2012



**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

A. Long-Term Assumptions Used to Determine Plan Costs and Liabilities

1. Demographic Assumptions

a. Healthy Retirees, Beneficiaries and Non-Retired Members

Male and Female RP-2000 Combined Employee and Annuitant Mortality Tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA.

Sample Rates of Healthy Mortality		
Age	Male	Female
50	0.163%	0.130%
55	0.272%	0.241%
60	0.530%	0.469%
65	1.031%	0.900%
70	1.770%	1.553%
75	3.062%	2.492%
80	5.536%	4.129%
85	9.968%	7.076%
90	17.271%	12.588%

b. Disabled Inactive Mortality

Male and Female RP-2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Sample Rates of Disabled Inactive Mortality		
Age	Male	Female
50	0.214%	0.168%
55	0.362%	0.272%
60	0.675%	0.506%
65	1.274%	0.971%
70	2.221%	1.674%
75	3.783%	2.811%
80	6.437%	4.588%
85	11.076%	7.745%
90	18.341%	13.168%

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

c. Rates of Active Disability

Sample Rates of Active Disability	
Age	Rate
22	0.00%
27	0.25%
32	0.25%
37	0.25%
42	0.50%
47	0.50%
52	0.50%
57	0.50%
62	0.00%

All disabilities are assumed to be permanent and without recovery.

d. Termination of Employment (Prior to the 20 years of service requirement for Normal Retirement Eligibility)

Service	Rate
0	15%
1	10%
2	10%
3	10%
4	10%
5-9	5%
10-14	2%
15 & over	1%

e. Probability of Electing a Refund of Member Contributions upon Termination

Age at Term.	Probability of Electing Refund	
	Non-Vested	Vested
Under 35	100%	60%
35-39	100%	10%
40-44	100%	10%
45-49	100%	10%
50 & Over	100%	0%

**MONTANA MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL VALUATION AS OF JUNE 30, 2012**

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

f. Retirement

Annual Retirement Rates		
Age	Less than 20 years	20 years or more
<50	0.00%	12.00%
50 – 54	0.00%	15.00%
55 – 61	0.00%	20.00%
62 – 64	0.00%	100.00%
65 & Over	100.00%	100.00%

Vested terminations are assumed to retire at their earliest unreduced eligibility.

g. DROP Retirement

DROP accounts are assumed to earn the actuarial rate of return. 15% of active members are assumed to elect to enter the DROP for each of the first six years following DROP eligibility. These members are assumed to elect to participate in the DROP for five years. Members who have elected to participate in the DROP as of the valuation date are assumed to remain in the DROP until the end of the DROP period elected, unless they die or become disabled while in the DROP.

h. Merit/Seniority Salary Increase (in addition to across-the-board increase)

Service based table plus an annual inflation rate of 4.00% (rates shown below exclude amount for inflation).

Service	Annual Increase
1	7.3%
2	5.6%
3	4.4%
4	3.5%
5	2.8%
6	2.2%
7	1.7%
8	1.3%
9	1.0%
10	0.7%
11-15	0.4%
16-20	0.2%
21 & over	0.0%

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

i. Family Composition

Female spouses are assumed to be three years younger than males.

100% of non-retired employees are assumed married for both male and female employees.

Actual marital characteristics are used for pensioners.

j. Vested Benefits for Terminated Members

Vested benefits for members who terminated during the years ending June 30, 2009 and later were estimated based upon compensation and service information in the census data. For members who terminated prior to June 30, 2008, vested benefits valued were the same as had been calculated by the prior actuary for the June 30, 2008 Actuarial Valuation.

2. Economic Assumptions

a. Rate of Investment Return:	7.75% (net of expenses)
b. Rate of Wage Inflation:	4.00%
	(3.00% inflation plus 1.00% real wage growth)
c. Interest on Member Contributions:	3.50%
d. Interest on DROP accounts:	7.75%
e. Rate of Increase in Total Payroll (for Amortization):	4.00%

3. Changes since Last Valuation

None.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Funding Method

The Entry Age Normal Actuarial Cost method is used to determine costs. Under this funding method, a normal cost is determined as a level percent of pay individually for each active employee.

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

The portion of the actuarial accrued liability in excess of plan assets is amortized to develop an additional cost or savings which is added to each year's employer normal cost. Under this cost method, actuarial gains and losses are directly reflected in the size of the unfunded actuarial liability.

2. Actuarial Value of Assets

For purposes of determining the unfunded actuarial accrued liability, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

The actuarial value of assets is the current market value, adjusted by a four-year smoothing of gains and losses on a market value basis. Each year's gain or loss is determined as the difference between the actual market return and the expected market return using the assumed rate of investment return.

3. Amortization Method

The unfunded actuarial accrued liability is amortized as a level percentage of future payroll. The valuation determines the period over which the statutory contributions will fully amortize the unfunded actuarial accrued liability.

4. Changes since Last Valuation

None.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership

The plan is a multiple-employer cost sharing plan that covers police officers of cities within the state, other than those cities which maintain a separate local police fund.

2. Contributions

Members' contributions depend upon date of hire and whether the member has elected to be covered by GABA. For members who have not elected GABA the rates of contribution are as follows:

- (a) Hired after June 30, 1975 but on or before June 30, 1979: 7.0%
- (b) Hired after June 30, 1979 but before July 1, 1997: 8.5%
- (c) Hire on or after July 1, 1997, 9%

For all members who have elected GABA, the rate is 9.0% of compensation.

Interest is credited at rates determined by the Board.

Member contributions are made through an "employer pick-up" arrangement which results in deferral of taxes on the contributions.

Employers contribute 14.41% of each member's compensation.

The State contributes 29.37% of each member's compensation.

3. Service Credit

Service used to determine the amount of retirement benefit. One month of service credit is earned for each month where the member works 160 hours. This includes certain purchased service.

4. Membership Service

Service used to determine eligibility for vesting, retirement or other MPORS benefits. One month of membership service is earned for any month member contributions are made to MPORS, regardless of the number of hours worked.

5. Final Average Compensation

Final Average Compensation is the average over the last 36 months (or shorter period of total service) of compensation paid to the member. Compensation is specifically defined by law for MPORS.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

6. Service Retirement

Eligibility: (i) age 50 with five years of membership service; or (ii) any age with 20 years of membership service.

Benefit: 2.5% of final average compensation multiplied by years of service credit.

7. Disability Benefit

Eligibility: Immediately upon employment

Benefit: (i) Before completing 20 years of membership service, 50% of final average compensation.

(ii) After completing 20 years or more of membership service, 2.5% of final average compensation for each year of service credit.

8. Survivor's Benefit

Eligibility: Any active member

Benefit: (i) Before completing 20 years of membership service, 50% of member's final average compensation.

(ii) After completing 20 years of membership service, 2.5% of member's final average compensation for each year of service credit.

Benefits are paid to the surviving spouse (or equally to dependent children if there is no surviving spouse or after a surviving spouse dies, for as long as they remain dependent children). In the absence of a spouse or child, the accumulated contributions minus any benefits already paid will be paid to the member's designated beneficiary.

9. Vesting

Eligibility: Five years of membership service.

Benefit: Accrued normal retirement benefit, payable at age 50. In lieu of a pension, a member may receive a refund of accumulated contributions. Upon receipt of a refund of contributions a member's vested right to a monthly benefit shall be forfeited.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

10. Withdrawal of Employee Contributions

Eligibility: Terminates service and is not eligible for other benefits.

Benefit: Accumulated member contributions. Upon receipt of a refund of contributions a member's vested right to a monthly benefit is forfeited.

11. Form of Payment

The normal form of payment is a life annuity, with 100% continuation after death to a surviving spouse. If there is no surviving spouse, or after the death of a surviving spouse, benefits are paid to the dependent children, if any, for as long as they remain dependent children.

12. Post Retirement Benefit Increases

For retired members who became active members on and after July 1, 1997, and those who elected to be covered under the Guaranteed Annual Benefit Adjustment (GABA) and who have been retired at least 12 months, a GABA will be made each year in January_equal to 3%.

For retired members who were hired prior to July 1, 1997 and who did not elect GABA, the minimum monthly benefit provided is_equal to 50% of the current base compensation of a newly confirmed police officer of the employer that last employed the member as a police officer.

13. Changes since Last Valuation

None.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

14. MPORS Deferred Retirement Option Plan (DROP)

Eligibility: 20 years of membership service.
Period: Maximum of five years. Member may not receive service credit during DROP period.

Contributions: State, employer and member contributions continue during the DROP period and are to be made to the retirement system.

Disability: If a member becomes disabled during the DROP period, the member will not be eligible for MPORS disability benefits. If the member must terminate their service, their service retirement benefit will be paid to them rather than to their monthly DROP account. The member will also be eligible to receive their DROP account.

Survivor Benefit: If a member dies before the end of their DROP period, the surviving spouse or dependent children are entitled to the receive a lump-sum payment equal to the member's DROP benefit and the member's accumulated contributions minus any benefits paid from the member's DROP account, including monthly DROP accruals.

If the member does not have a surviving spouse or dependent children, then the member's designated beneficiary is entitled to receive a lump-sum payment equal to the member's DROP benefit.

The benefit paid must include interest credited to the participant account as follows:

- a) through June 30, 2009, interest must be credited every fiscal year end at a rate reflecting the retirement system's annual investment earnings for the applicable fiscal year.
- b) After June 30, 2009, interest must be credited every fiscal year end at the actuarially assumed rate of return. Proportionate interest must be credited for distributions taking place at other than a fiscal year end.

Benefit: Member receives DROP accruals equal to the retirement benefit calculated at DROP commencement made, added each month during the DROP period plus interest. Effective July 1, 2009, the interest credited to the DROP accounts was changed to the actuarial assumed rate of 8%. As a result of the experience study performed during fiscal year 2010, the interest rate credited to DROP accounts was changed to the actuarial assumed rate of 7.75%.

15. Changes in DROP since Last Valuation

None.

**APPENDIX D
GLOSSARY**

1. Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disability, and retirement; changes in compensation; inflation; rates of investment earnings, and asset appreciation or depreciation; and other relevant items.

2. Actuarial Cost Method

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an allocation of such value to each year of service, usually in the form of a Normal Cost and an Actuarial Liability.

3. Actuarial Gain (Loss)

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

4. Actuarial Liability

The portion of the Actuarial Present Value of Projected Benefits which will not be paid by future Normal Costs. It represents the value of the past Normal Costs with interest to the valuation date.

5. Actuarial Present Value (Present Value)

The value as of a given date of a future amount or series of payments. The Actuarial Present Value discounts the payments to the given date at the assumed investment return and includes the probability of the payment being made. As a simple example: assume you owe \$100 to a friend one year from now. Also, assume there is a 1% probability of your friend dying over the next year, in which case you won't be obligated to pay him. If the assumed investment return is 10%, the actuarial present value is:

$$\begin{array}{rcccl} \text{Amount} & & \text{Probability of} & \text{1/(1+Investment} & \\ & & \text{Payment} & \text{Return)} & \\ \$100 & \times & (1 - .01) & 1/(1+.1) & = \$90 \end{array}$$

6. Actuarial Valuation

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

**APPENDIX D
GLOSSARY**

7. Actuarial Value of Assets

The value of cash, investments and other property belonging to a pension plan as used by the actuary for the purpose of an Actuarial Valuation. The purpose of an Actuarial Value of Assets is to smooth out fluctuations in market values. This way long-term costs are not distorted by short-term fluctuations in the market.

8. Actuarially Equivalent

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

9. Amortization Payment

The portion of the pension plan contribution which is designed to pay interest and principal on the Unfunded Actuarial Liability in order to pay for that liability in a given number of years.

10. Entry Age Normal Actuarial Cost Method

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages.

11. Normal Cost

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

12. Unfunded Actuarial Liability

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

13. Projected Benefits

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

14. Funded Percentage

The ratio of the Actuarial Liabilities to the Actuarial Value of Assets.

**APPENDIX D
GLOSSARY**

15. Mortality Table

A set of percentages which estimate the probability of death at a particular point in time. Typically, the rates are annual and based on age and sex.

16. Investment Return Assumption

The assumed interest rate used for projecting dollar related values in the future.

17. Inflation (CPI)

The assumed increase in dollar related values in the future due to the general increase in the cost-of-living. The usual measure for inflation is the Consumer Price Index (CPI).