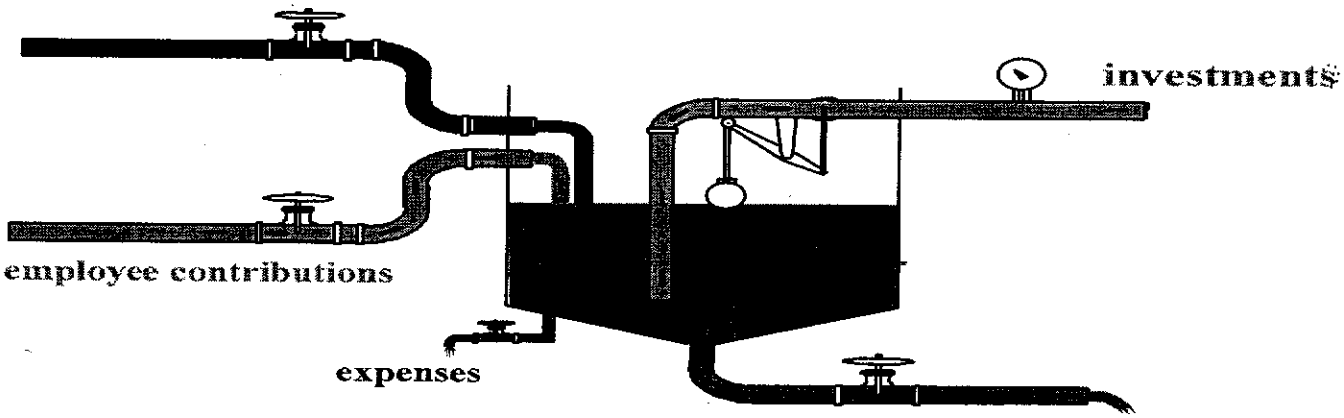
EXHIBIT 14
DATE 3-2-05
HB 181

House Appropriations

House Bill 181
Representative John Musgrove

Actuarial Funding
Teachers' Retirement System

RETIREMENT PLAN FUNDING PRINCIPLES



Historical Investment Returns*

Fiscal Year Ending	*Market Returns*	*Amortization Period*
June 30, 1995	*15.7%*	*31.7 as of 1994*
June 30, 1996	*12.4%*	*27.2*
June 30, 1997	*19.4%*	
June 30, 1998	*16.6%*	*9.2*
June 30, 1999	*11.9%*	
June 30, 2000	*7.8%*	*15.1*
June 30, 2001	*(5.1)%*	
June 30, 2002	*(7.3)%*	*23.4*
June 30, 2003	*6.2%*	
June 30, 2004	*13.3%*	*> 30.0 years*

The TRS smoothes any investment gains and losses over 5 years. If gains or losses were credited in full each year, the amortization period would swing dramatically. To limit such a yo-yo effect of wildly varying amortization periods from one year to another, retirement systems spread out—or smooth—the recognition of investment gains and losses over multiple years.

Prepared by David L. Senn, Executive Director
Teachers' Retirement System

March 2, 2005

TEACHERS' RETIREMENT SYSTEM
House Bill 181

House Appropriations

ACTUARIAL FUNDING

- The Montana Constitution, Article VIII, Section 15, requires that all public retirement systems be funded on an actuarially sound basis. Because of the decline in market values following the collapse of the Dotcoms the accounting and auditing fraud involving Enron, WorldCom and others, the TRS is no longer funded on an actuarially sound basis.

- House Bill 181 props up the funding of the TRS until the unfunded liabilities can be amortized under the current contribution rate of 7.47%. As soon as the system is stable enough to maintain an amortization period of 25 years without the added support, the additional contributions will terminate.

    - House Bill 181 will increase the TRS employer's contribution rate
        - 1.20% effective July 1, 2005 – From 7.47% to 8.67%
        - 1.20% effective July 1, 2007 – From 8.67% to 9.87%
        - 0.75% effective July 1, 2009 – From 9.87% to 10.62%

- The employer contribution rate must return to 7.47%, once the funded status of the TRS is stabilized.

- House Bill 181 will also increase the university system's supplemental contribution rate as required under 19-20-621, MCA to fund their share of the unfunded liabilities associated with the creation of the Optional Retirement Plan:
    - 0.56% effective July 1, 2005 – From 4.04% to 4.60%
    - 0.56% effective July 1, 2007 – From 4.60% to 5.16%

JULY 1, 2004 ACTUARIAL VALUATION

- The report concluded the Unfunded Actuarial Accrued Liability (UAAL) does not amortize over a 30-year period and that the employer contribution rate would have to increase 2.87% starting 07/01/2005 to maintain an amortization period of 30-years. As proposed in HB 181, this rate increase can be phased in over a period of several years and achieve the same 30-years amortization.

- The report cautioned that there is $131 million in unrecognized assets losses that will be recognized over the next four fiscal years and, "if not offset by future gains, will cause the contributions needed to amortize the UAAL in future valuations to increase even further."

INDEPENDENT AUDIT REPORT

- The Legislative Audit Division, and the Teachers' Retirement Board contracted with Mellon Human Resources to complete an independent actuarial review of the TRS assumptions, methods, and the actuarial valuation.
- Mellon concurred with the results of the July 1, 2004 actuarial valuation stating, their full scope review of the TRS found the actuarial valuation fairly represents the actuarial position and funding requirements of the retirement system. Mellon calculated the amortization period at 71.3 years.

2004 LEGISLATIVE AUDIT RECOMMENDATION

- The Legislative Audit Division recommended the Board seek legislation to ensure the Teachers' Retirement System is funded on an actuarially sound basis. House Bill 181 is that legislation.

HB 181 – TRS ACTUARIAL FUNDING PROPOSAL

Section 1. 19-20-501. Financial administration of money: Eliminate the minimum rate of interest that may be credited by the Board. Given market declines of the past few years, this rate should be set by the Board using a prudent standard related to market return. It is not reasonable to credit 4.0% interest, if the system is losing money, or making less than 4.0%.

Section 2. 19-20-605. Pension accumulation fund – employer's contribution: The employer contribution rate must be increased to actuarially fund the System as required by the Montana Constitution. The employer contribution rate will be increased 1.2% on July 1, 2005 and another 1.2% on July 1, 2007, and another 0.75% effective July 1, 2009.

The employer contribution rate must be reduced to 7.47% as soon as this rate is sufficient to maintain the amortization period at 25 years or less.

Section 3. 19-20-621. Montana university system optional retirement program supplemental contributions: The University System's supplemental contribution rate must increase to ensure the University System's past service liability that existed when the ORP was created is fully amortized by July 1, 2033, as required by 19-20-621, MCA. HB 181 includes a contribution rate increase of 0.56% in each of the next two biennia.

Section 4. Appropriation. Section 4 appropriates funds to state agencies required to implement the adjustments provided for in this act.

Section 5. Effective Date. This act is effective July 1, 2005.

The Following State Retirement Systems Enacted Funding Changes in 2004:
(Past benefit increases, declining investment returns and changing demographics of the plan membership are factors that helped require the increases.)

Alaska. State, municipalities and school districts will pay substantially higher percentages to fund benefits. The mandatory employer contributions started climbing in 2004 at about $100 million total for the state, municipalities and school districts, with an additional $100 million boost set for 2005 and likely the next couple of years.

Arizona. On October 1, the Arizona Retirement System announced an increase in employee and employer contribution rates from 5.2% to approximately 7.75%.

Colorado. Each PERA employer in the State Division will pay to PERA an amount equal to 0.5% of the salaries paid to all employees who are PERA members. This is called the Amortization Equalization Disbursement (AED). The AED payment begins January 1, 2006. The AED will increase each year to a maximum of 3% of salary by 2012(employer rates were also increased in FY 2003, from 1.04% to 1.15%).

Kansas. SB 520 raised the statutory caps on contributions from local government employers to the Kansas Public Employee Retirement System (KPERS) to ensure the long term stability of retirement system funding. The increases will mean about $3.3 million additional expense for local governments in CY 2006, an additional $8.2 million in CY 2007 and an additional $15 million in CY 2008, with further increases in the following years (rates were also increased in FY 2003, from 4.58 percent for FY 2004 to 7.58 percent for FY 2010).

Louisiana. The Public Retirement Systems' Actuarial Committee has recommended that the employer contribution rate for the Louisiana School Employees' Retirement System be set at 18.8% of payroll for FY 2005, up from 11.2% for FY 2004.

Mississippi. The Mississippi State Employees' Retirement System will increase the employer contribution rate from 9.75% to 10.75% effective July 1, 2005.

Nebraska. LB 514 increased contribution rates for employees and employers from 11% of salary to 12% of salary for one year to redress poor investment returns.

Oklahoma. Currently, all participating state agencies pay a contribution rate of 10%, beginning July 1, 2005, state agencies will contribute 11.5%. This percentage will increase by 1.0% annually beginning July 1, 2006, and each year thereafter, through the fiscal year ending June 30, 2011, when it tops out at a rate of 16.5% (rates were also increased 1.0% in FY 2003).

Rhode Island. The state's contribution for state employees will increase from 11.51% of payroll this year, to 16.96% in FY 2006. That for teachers will increase from .84% this year to 20.01% of payroll next year.