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Public Employees' Retirement Board  
State of Montana

Dear Members of the Board:

Actuarial valuations are normally performed every two years, as of July 1st of each even-numbered year. The previous valuations were performed as of July 1, 2002. We have now completed actuarial valuations as of July 1, 2004 for the following retirement systems:

- Public Employees' Retirement System
- Municipal Police Officers' Retirement System
- Game Wardens' and Peace Officers' Retirement System
- Sheriffs' Retirement System
- Judges' Retirement System
- Highway Patrol Officers' Retirement System
- Firefighters' Unified Retirement System
- Volunteer Firefighters' Compensation Act

The member, employer, and state contributions are set forth in statute. Our findings indicate the projected income stream from the expected contributions will be sufficient to pay the Normal Costs and amortize the Unfunded Actuarial Liability as a level percentage of future payroll, for the following systems. The amortization periods are shown below.

- |  |            |
|--|------------|
| - Municipal Police Officers' Retirement System | 24.4 years |
| - Highway Patrol Officers' Retirement System   | 19.1 years |
| - Firefighters' Unified Retirement System      | 18.7 years |

Based on the assumed level of future revenue, the Unfunded Actuarial Liability for the Volunteer Firefighters' Compensation Act is expected to be amortized over less than 20 years. The Judges' Retirement System had an Actuarial Surplus as of July 1, 2004.

Our findings indicate the projected income stream from the expected contributions will not be sufficient to pay the Normal Costs and amortize the Unfunded Actuarial Liability for the following systems. The additional contributions necessary as of July 1, 2004 to amortize the Unfunded Actuarial Liabilities over 30 years are shown below.

- |   |                  |
|---|------------------|
| - Public Employees' Retirement System                 | 1.19% of payroll |
| - Game Wardens' and Peace Officers' Retirement System | 0.23% of payroll |
| - Sheriffs' Retirement System                         | 2.15% of payroll |

The general decline in the funded status for each system over the previous two years is primarily due to the fact that recent investment returns have been less than the long-term actuarial assumption of 8% per year.

In preparing the 2004 valuations, we relied upon the financial and membership data furnished by the Public Employees' Retirement Administration. Although we did not audit this