

EXHIBIT 12  
DATE 3-10-05  
SB 197

**Basic Funding Equation**

$$B = C + I - E$$

**B=Benefits**  
**C=Contributions**  
**I=Income**  
**E=Expenses**

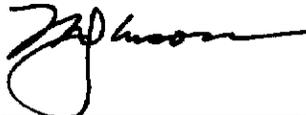
**MONTANA PUBLIC EMPLOYEES RETIREMENT ADMINISTRATION  
ACTUARIAL IMPACT STATEMENT**

**Bill:** LC 1127  
**Provision:** Enhanced Volunteer Firefighter Retirement Benefits  
**Date:** January 14, 2005

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**SUMMARY OF PROVISIONS**

Our understanding of the impact of the provision of this bill on the Retirement Systems' benefits or funding, based on our discussion with the PERA staff, is as follows:

*Members receiving full pension benefits may return to work without losing benefits and may not be considered an active member earning additional benefits.*

*The full pension benefit of all active members who are at least age 55 with 20 or more years of service will be increased by \$7.50 per month for each year of service over 20, up to 30 total years of service.*

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**COMMENTS**

The purpose of this report is to estimate the fiscal impact of the proposed benefit enhancements. The figures presented in this report have been estimated based on the findings in the 2004 actuarial valuation. The overall funded position of the System shown in this report reflects System assets as of June 30, 2004. Therefore, although the incremental costs of this proposal are reasonable, the overall current funded position of the System may be significantly different than shown in this report.

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**DATA, METHODS AND ASSUMPTIONS**

All members will be eligible for these provisions.

We have developed this analysis based on the data, methods, and assumptions contained in the actuarial valuation of the VFCA performed as of June 30, 2004. In addition, we made the following assumptions with respect to this bill:

- For purposes of this fiscal impact statement, we assumed that this is the only benefit provision being considered. If other provisions are enacted, the cost associated with this provision may be different.
- We have not made any adjustment for actuarial gains or losses that may have emerged since the last valuation date, June 30, 2004. We will not be

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able to measure the actuarial gains or losses from other sources until we complete future valuations with updated census information.

These cost estimates are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs may vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.

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**FISCAL IMPACT**

Based on our understanding of this proposal and the data, methods and assumptions outlined above, we have developed the following estimated impact on the funding of the System, based on the 2004 Actuarial Valuation.

VFCA Years of service over 20	2004 Actuarial Valuation	Results Including Proposal	Change due to Proposal
<b>Actuarial Balance Sheet (\$000s)</b>			
Value of Projected Benefits	\$ 31.0	\$ 32.2	\$ 1.2
Value of Future Normal Costs	<u>2.3</u>	<u>2.4</u>	<u>0.1</u>
Actuarial Liability	\$ 28.7	\$ 29.8	\$ 1.1
Actuarial Value of Assets	<u>20.1</u>	<u>20.1</u>	<u>0.0</u>
Unfunded Actuarial Liability	\$ 8.6	\$ 9.7	\$ 1.1
Increase in Actuarial Liability: Active and Inactive Members			\$ 1.1
Increase in Actuarial Liability: Retirees and Beneficiaries			\$ 0.0
<b>Normal Cost Rate (Dollars per Active Member)</b>	\$ 175.71	\$ 180.15	\$ 4.44
<b>Revenue Required to Fund this Proposal</b>			
Normal Cost Rate	\$ 175.71	\$ 180.15	\$ 4.44
Amortization of UAL over 19 Years	<u>243.28</u>	<u>275.03</u>	<u>31.75</u>
<b>Rate of Required Contribution (Dollars per Active Member)</b>	<b>\$ 418.99</b>	<b>\$ 455.18</b>	<b>\$ 36.19</b>
Number of Active Members	2,687	2,687	2,687
<b>Annual Revenue Required</b>	<b>\$ 1,125,834</b>	<b>\$ 1,223,067</b>	<b>\$ 97,233</b>

Based on our determination of the most recent funded status of the System, and the expectation of emerging investment losses in the future, we recommend that all new legislative proposals include a provision for financing the entire cost of the proposal.