EXHIBIT 2
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HB 293

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TEACHERS' RETIREMENT SYSTEM

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Milliman
Consultants and Actuaries

1301 Fifth Avenue, Suite 3800
Seattle, WA 98101-2605
Tel +1 206 624.7940
Fax +1 206 340.1380
www.milliman.com

January 19, 2007

Mr. David L. Senn
Executive Director
Teachers' Retirement System
State of Montana
1500 Sixth Avenue
Helena, MT 59620-0139

Re: Impact of Increased Funding to TRS from Lottery Revenues

Dear Dave:

As requested, we have calculated the impact of the proposed bill allocating revenues from the State Lottery to TRS. The calculations use the estimated revenues provided by the State Budget Office and the TRS actuarial valuation assumptions. Key results are as follows:

- The projected contributions from the State Lottery for the period from July 1, 2007 to June 30, 2036 have a present value of $112.4 million, as of June 30, 2006.
- This additional source of future funding reduces the contribution increase required to maintain a 30 year amortization of the UAAL from 3.38% of member pay, as shown in Table 7 of the July 1, 2006 TRS actuarial valuation to 2.35% of member pay. This reduction equals 1.03% of member pay.

The historical revenues from the Lottery have been volatile. To the extent that actual revenues are smaller (or larger) than those assumed in this letter the additional required contributions would be larger (or smaller) than those estimated in this letter.

In addition, the amortization period of the UAAL as of July 1, 2006 is estimated to be 79 years if this change was made and no additional increases to contributions were made. A 79 year amortization period does not meet the general requirements of actuarial soundness. Contributions in addition to the Lottery revenues would be needed to make the System actuarially sound.

Revenue would start being paid to TRS at the beginning of the 2008 fiscal year. We have assumed payments would be made at the end of each quarter in equal amounts. The State Budget office has projected that revenues going to TRS in the first four years (FY 2008 through FY 2011) would be: $8,838,000, $9,414,000, $9,979,000 and $10,578,000 respectively. As requested, we have used these numbers in our calculations without further analysis on our part. We have not included any escalation after that point in our costs since lottery proceeds would generally only increase with the price of lottery tickets which is relatively stable, or with increases in the number of tickets sold.

This work product was prepared solely for the Montana Teachers' Retirement System for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Certification

The cost estimates in this letter are based on the assumptions, methods, plan provisions, assets and member data used in the July 1, 2006 actuarial valuation and the projections from the State Budget Office described above. We have not made any adjustment for actuarial gains or losses that may have emerged after July 1, 2006. We have assumed no other statutory amendments are being considered. If other amendments are enacted, the cost estimates may be different.

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.

This information is for the exclusive use of the Teachers' Retirement System of the State of Montana for the purposes stated herein. It is a complex technical analysis that assumes a high level of knowledge concerning the System's operations, and uses the System's data which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs. Any distribution of this report must be in its entirety, unless prior written consent from Milliman is obtained.

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 principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

I, Mark C. Olleman, am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, please call.

Sincerely,

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary

MCO/kjk

cc: Ms. Karen I. Steffen

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