EXHIBIT # 12
DATE Feb 9th
BILL NO. None

TRS Legislative Proposals

House Bill 86 – Rep. Franke Wilmer

HB 86 is the housekeeping bill for the Teachers' Retirement System (TRS). The proposed amendments are intended, in general, to more uniformly use defined terms where applicable, to move substantive law from the definitions section to the substantive provisions of Title 19, chapter 20, and to clarify how current substantive provisions are applied by the retirement system.

House Bill 113 – Rep. Jesse O'Hara

When the Montana University System (MUS) Optional Retirement Plan (ORP) was created in 1987, the MUS agreed to make a supplemental contribution to the TRS, which was required to replace the funding TRS lost when MUS faculty and administrators were no longer required to participate in TRS. Legislation in 1993, required all new MUS employees hired after July 1, 1993 to join the ORP (no longer optional), and also established a deadline of July 1, 2033 for payment of past service liabilities of the MUS. The TRS board is required by law §19-20-621, MCA, to periodically verifying that the liabilities can be amortized by July 1, 2033; based on the July 1, 2010 actuarial valuation, the MUS supplemental contribution rate needs to increase by 3.82%, from 4.72% to 8.54%, to amortize the MUS past service liability by July 1, 2033. The Board recognizes that such a large increase could be problematic; therefore, HB 113 proposes to phase in the required increase, 0.50% per year through July 1, 2019, unless the rate as of the most recent valuation is sufficient to maintain the amortization of the past service liability by July 1, 2033.

House Bill 116 – Rep. Pat Ingraham

House Bill 116, by request of the Teachers' Retirement Board, is a solution that will address the current underfunding in two ways. First, HB 116 would phase in an increase in the State's supplemental contribution rate, §19-20-607, MCA, by 0.50% per year (currently 2.38%) through July 1, 2023, unless the contribution rate as of the most recent valuation is sufficient to maintain an amortization period of 30 years or less. Second, HB 116 includes several amendments that would strengthen actuarial controls where weaknesses have been found that have an adverse impact on funding.

Based on a 4.50% payroll growth assumption, the estimated present value of all the proposed future employer contribution increases over the 30 year period beginning July 1, 2011 is equal to $688.9 million. Therefore, future contribution rate increases, plus the benefit controls, would decrease the UAL amortization period as of July 1, 2011, to approximately 27 years.

House Bill 189 – Rep. Dick Barrett

HB 189 creates a second tier within the TRS for new members hired after July 1, 2011

- The general structure of existing TRS would remain.
- The number of years used to calculate a member's average final compensation would remain at 3 years.
- The time to vest would remain at 5 years.

- The benefit multiplier would be 1.667% for retirement before 30 years of service or age 60 and vested (no change), but would increase to 2.0% for all years of service if a future member retired with 30 or more years of service preformed after July 1, 2011.
- New employees' contribution rate would increase by 0.54% to pay for the higher multiplier to 7.69% from 7.15%.
- Normal retirement would remain unchanged at age 60 with 5 years of service, but increase to age 55 (up from any age) with service in 25 or more years.
- Eligibility for early retirement would increase from age 50 and vested to age 55.
- To actuarially fund current unfunded liabilities, the employer contribution rate would be increased 0.50% per year through July 1, 2023, unless the amortization period as of the most recent actuarial valuation is less than or equal to 30 years (same as HB 116). **(The contribution rate increase for school districts would be paid by the State.)**
- HB 189 would also reduce the cap on county retirement fund reserves from 35% to 20%, and transfer the excess to TRS ($13 M) and PERS ($2 M).

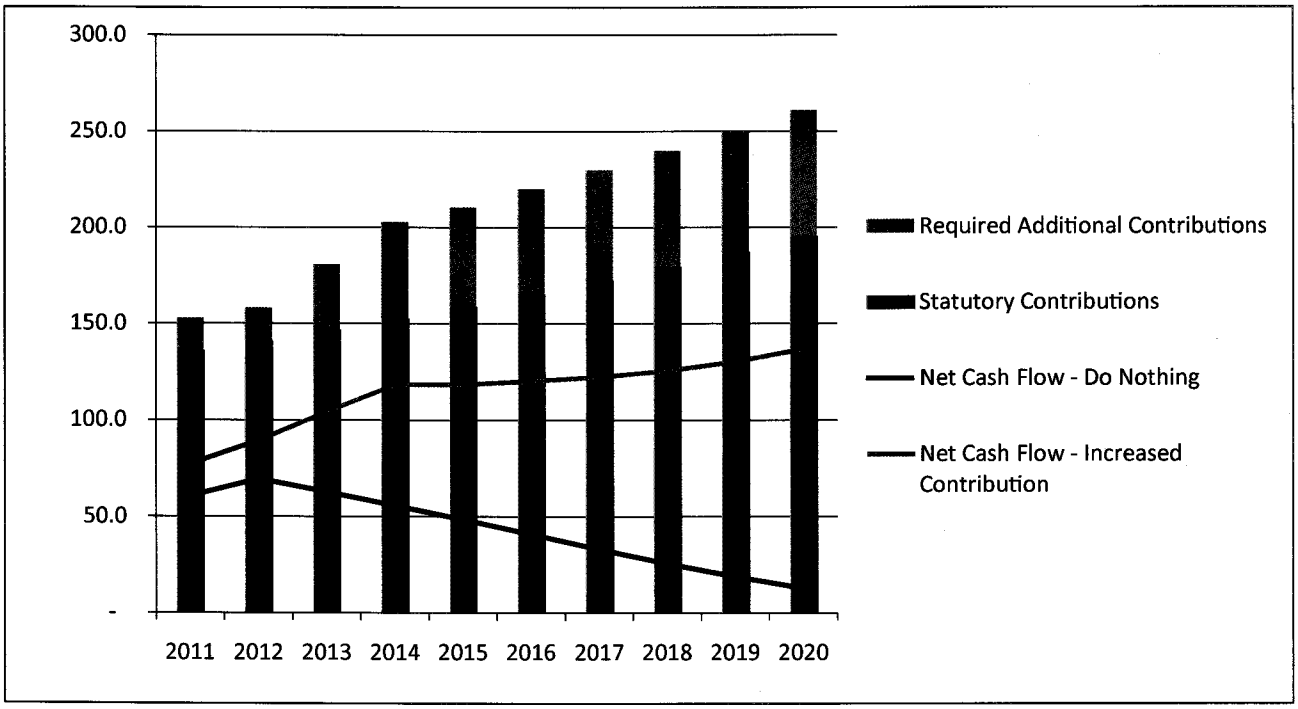
Based on a 4.50% payroll growth assumption, the estimated present value of all the proposed future employer contribution increases over the 30 year period beginning July 1, 2011 is equal to $688.9 million. This contribution rate increase would decrease the UAL amortization period as of July 1, 2011, to approximately 29 years.

House Bill 197 – Rep. Brian Hoven

- HB 197 proposes to amend, through a referendum, the Constitution of Montana, Article II, section 31, to grant the legislature the option to modify a public retirement plan and contracts with respect to current members\retirees in order to maintain the actuarial soundness of the system.
- The amendment would allow the legislature, when actuarially necessary, to, for example, increase employees' contributions, reduce the benefit multiplier, require older normal retirement age, increase the vesting period or the period used to calculate average final compensation, or otherwise reduce benefits, etc.
- If the constitutional amendment were to pass, any changes to benefits affecting current members could still be challenged under the Federal Contract Clause, which states that States are prohibited from passing any laws that would impair the obligation of contracts.

TEACHERS' RETIREMENT SYSTEM

	Statutory Contribution Rates - 17.11%				Actuarially Required Rates		
Fiscal Year	Statutory Contributions	Benefits & Expenses	Assumed Investment Income	Net Cash Flow - Do Nothing	**Required Additional Contributions**	Assumed Investment Income	Net Cash Flow - Increased Contribution
2011	136.3	266.0	190.4	60.7	**16.4**	191.0	77.7
2012	141.3	266.9	195.2	69.6	**17.0**	198.4	89.8
2013	147.0	284.3	200.2	62.9	**34.0**	207.8	104.5
2014	152.8	301.7	204.6	55.7	**49.9**	217.4	118.4
2015	159.1	319.1	208.5	48.5	**51.3**	227.1	118.4
2016	165.6	336.6	211.8	40.8	**54.4**	236.8	120.2
2017	172.5	354.1	214.6	33.0	**57.3**	246.7	122.4
2018	179.8	371.1	216.8	25.5	**60.1**	256.8	125.6
2019	187.4	387.0	218.4	18.8	**62.8**	267.2	130.4
2020	195.4	402.3	219.6	12.7	**65.7**	278.0	136.8

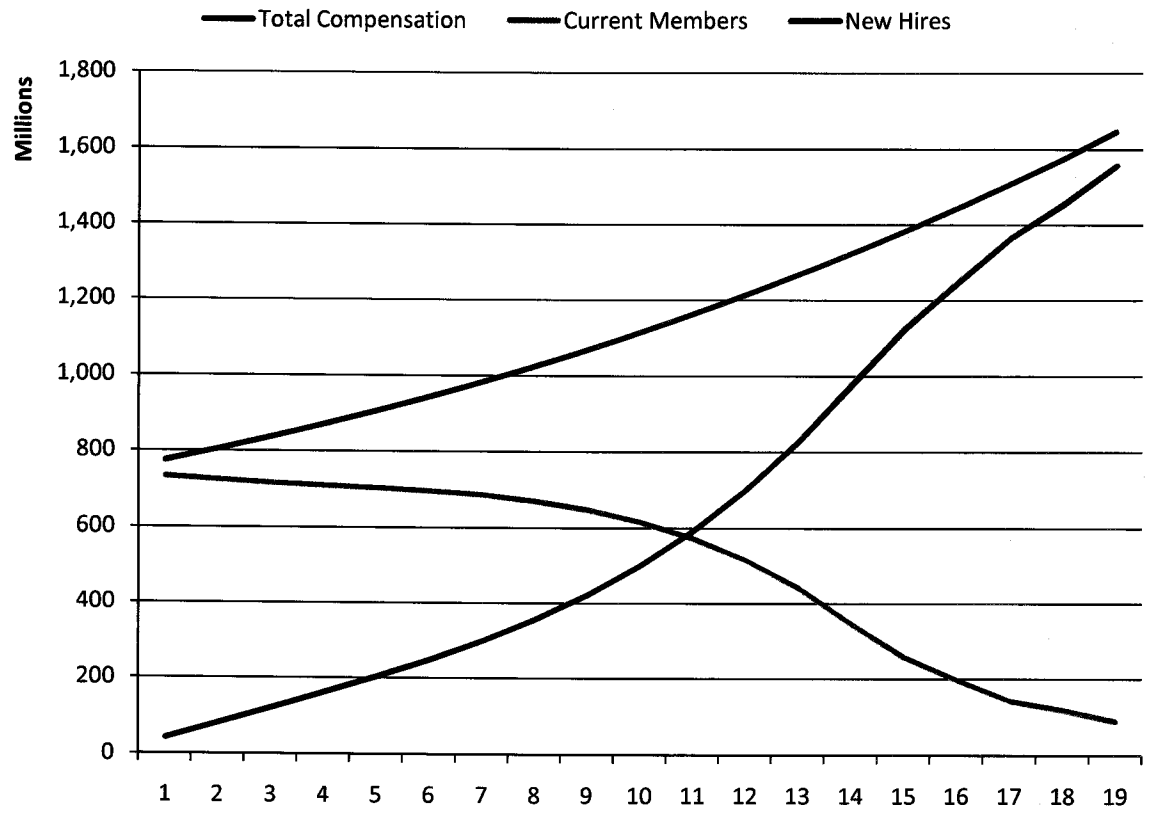


All estimates are based on the July 1, 2010 TRS Actuarial Valuation

Teachers' Retirement System

Creating a new tier with benefits that are less expensive than existing benefits, is one option available to the legislature to help fund the current TRS.

Whenever a new tier of benefits is created for future members the cost to amortize the unfunded liabilities of the existing system remains unchanged. Therefore, the percentage of compensation employers pay today on current members compensation to amortize existing unfunded liabilities, must also be paid on future members' total compensation.



Based on the July 1, 2010 TRS Actuarial Valuation, the employer contribution rate must increase on July 1, 2011 by 2.20% (total 12.16%), with another 2.02% on July 1, 2012 (total 14.18%). by July 1, 2019, it is expected that the employer rate will increase to 16.11, and then remain at that rate for 30 years until the TRS is fully funded.

Hypothetical Example with Fixed Dollar Funding

	July 1, 2011 Current System	New Tier	Savings
NORMAL COST - per Member			
Employee Contributions	$ 7.00	$ 7.00	$ -
Employer Contributions	$ 3.00	$ 1.00	$ 2.00
Total Normal Cost	$ 10.00	$ 8.00	$ 2.00
*** AMORTIZATION COST (UAL)**			
Cost per member - Employer Paid	$ 10.00	$ 10.00	$ -
* Cost will increase $2 in each of the next two years			
TOTAL COST TO FUND	$ 20.00	$ 18.00	$ 2.00

Future Payments	Year 1	2	3	27	30
Number of Current Members	18,200	18,000	17,800	600	-
Number of Future Members	200	400	600	17,800	18,400
NORMAL COST					
Tier One					
Employee Contributions ($7/member)	$ 127,400	$ 126,000	$ 124,600	$ 4,200	$ -
Employer Contributions ($3/member)	$ 54,600	$ 54,000	$ 53,400	$ 1,800	$ -
Tier Two					
Employee Contributions ($7/member)	$ 1,400	$ 2,800	$ 4,200	$ 124,600	$ 128,800
Employer Contributions ($1/member)	$ 200	$ 400	$ 600	$ 17,800	$ 18,400
Total	$ 183,600	$ 183,200	$ 182,800	$ 148,400	$ 147,200
AMORTIZATION COST					
(per Tier 1 & 2 members)	$12.00	$14.00	$14.00	$14.00	
Employer Contributions	**$ 220,800**	**$ 257,600**	**$ 257,600**	**$ 257,600**	**$ -**
TOTAL EMPLOYER COST	$ 275,600	$ 312,000	$ 311,600	$ 277,200	$ 18,400
Cost of Current System Before Any Changes	$ 276,000	$ 312,800	$ 312,800	$ 312,800	$ 55,200
Savings - From New Tier Two	$ 400	$ 800	$ 1,200	$ 35,600	$ 36,800