A Report
to the
Montana
Legislature

Financial Audit

Public Employees' Retirement Board

For the Fiscal Year Ended June 30, 2013

March 2014

Legislative Audit Division

12-08B

Legislative Audit Committee

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Financial Audits

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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Room 277, State Capitol
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

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Cindy Jorgenson
Angus Maciver

March 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our audit report on the financial statements of the Public Employees' Retirement Plans administered by the Public Employees' Retirement Board (PERB), a component unit of the state of Montana, for the fiscal year ended June 30, 2013. We issued an unmodified opinion on the financial statements. This report contains one recommendation on page 4 related to maintaining actuarial soundness in three plans as required by the Constitution.

PERB issues a Comprehensive Annual Financial Report (CAFR). Copies of the PERB's CAFR for fiscal year 2013 can be obtained from the Montana Public Employee Retirement Administration. The CAFR contains additional background, statistical, and actuarial information which may be of interest to legislators or the public.

We thank the executive director and staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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BOARD RESPONSE
Public Employees' Retirement Board B-1

Appointed and Administrative Officials

			Term Expires
Public Employees' Retirement Board	Scott Moore, President	Miles City	3/31/15
	Terrence Smith, Vice President	Bozeman	3/31/14
	Sheena Wilson	Helena	3/31/18
	Bob Bugni	Helena	3/31/14
	Mike McGinley	Dillon	3/31/18
	Melissa Strecker	Missoula	3/31/17
	Timm Twardoski	Helena	3/31/16

Administrative Officials

Roxanne Minnehan, Executive Director

Patricia Davis, Member Services Bureau Chief

Barbara Quinn, Fiscal Services Bureau Chief

Melanie Symons, Chief Legal Counsel

Hollie Koehler, Internal Auditor

June Dosier, Information Systems Manager

For additional information concerning the Montana Public Employees' Retirement Board, contact:

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Montana Legislative Audit Division

Financial Audit
Public Employees' Retirement Board
For the Fiscal Year Ended June 30, 2013

March 2014 | 12-08B | Report Summary

There are eight defined benefit plans and two defined contribution plans administered by Public Employees' Retirement Board. Three of the defined benefit plans are not actuarially sound at June 30, 2013. The Montana Constitution requires that the public employee retirement systems be funded on an actuarially sound basis. This funding situation does not affect our audit opinion on the financial statements.

Context

The Public Employees' Retirement Board (PERB) is an independent, seven-member board, appointed by the Governor to administer ten retirement systems consisting of eight defined benefit plans and two defined contribution plans accounted for in pension trust funds.

The Statement of Changes in Fiduciary Net Position of the pension trust funds, on pages A-28 and A-29, reports "Total Additions" consisting primarily of contributions and investment income in the Defined Benefit plans for fiscal year 2013 of $869,736,046 and $65,304,212 in the Defined Contribution plans.

The Statement of Changes in Fiduciary Net Position of the pension trust funds (noted above) also reports "Total Deductions" primarily consisting of benefit payments, refunds, and administrative expenses in the Defined Benefit plans for fiscal year 2013 of $361,690,020 and $25,796,248 in the Defined Contribution plans.

Results

The Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Highway Patrol Officers' Retirement System are not actuarially sound. The Montana Constitution requires public retirement systems to be funded on an actuarially sound basis.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (12-08B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit
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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial audit of the Public Employees' Retirement Board (PERB) for the fiscal year ended June 30, 2013. The objectives of our audit were to:

1. Determine whether the PERB's financial statements fairly present the fiduciary net position and changes in fiduciary net position of the Public Employees' Retirement System, consisting of the defined benefit and defined contribution plans, as of and for the fiscal year ended June 30, 2013.
2. Obtain an understanding of the PERB's internal control systems to the extent necessary to support our audit of the financial statements, and if appropriate, make recommendations for improvement in internal controls.
3. Determine the PERB's compliance with selected applicable laws.
4. Determine the status of prior audit recommendations.

During our audit, we performed testing to confirm employer and employee contributions complied with state law and system requirements. We also tested retirement benefit payments to verify calculations complied with state law and system requirements. We reviewed financial statements and note disclosures to determine whether the information is supported by the state's accounting records and the June 30, 2013, actuarial valuation.

Background

The PERB is a component unit of the state of Montana. A component unit is a legally separate organization for which the state of Montana is financially accountable. The executive director and her staff provide daily administrative functions as directed by the board. The governor appoints the seven board members to five-year terms. The PERB administers ten retirement plans and the related member education funds. The retirement plans are described below:

Defined Benefit Plans

The PERB manages the activities of the following defined benefit pension plans:

- Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS–DBRP)
- Judges' Retirement System (JRS)
- Highway Patrol Officers' Retirement System (HPORS)
- Sheriffs' Retirement System (SRS)
- Game Wardens' and Peace Officers' Retirement System (GWPORS)
- Municipal Police Officers' Retirement System (MPORS)

- Firefighters' Unified Retirement System (FURS)
- Volunteer Firefighters' Compensation Act (VFCA)

These funds provide pension, disability, and death benefits to eligible members and survivors. With one exception, the monthly benefits are based on years of service and salary levels while employed. The Volunteer Firefighters' Compensation Act monthly benefits are based on years of service only.

Defined Contribution Plans

- **The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP)** – This plan provides retirement, disability and death benefits for plan members. The plan was available to all active PERS members effective July 1, 2002. All new members are initially members in the defined benefit retirement plan and have a 12-month window to elect to remain in the defined benefit retirement plan (DBRP) or join the defined contribution retirement plan (DCRP) by filing an irrevocable election. Additions to net position-restricted for pension benefits include contributions from the member and the employer as well as earnings on investments chosen by the member. Members can choose to invest in a fixed option, which guarantees both principal and earnings at a pre-established quarterly earnings rate or a variable investment option, which consists of numerous mutual funds. Members are allowed to invest in both the fixed and variable options. Those participating in the variable option may invest in as many offered funds as desired. State law governs retirement benefits or withdrawals when separating from service before retirement.
- **The Deferred Compensation (457) Plan** – This plan is a voluntary supplemental retirement savings plan for employees who choose to participate and are employed by the state, the Montana University system, or political subdivisions that contract with the plan. Members contribute a portion of their compensation to the plan, thereby deferring state and federal taxes until withdrawal. Additions to net position-restricted for pension benefits include contributions from members and earnings on investments chosen by the member. Some employers also contribute. Members can choose to invest in a fixed option, which guarantees both principal and earnings at a pre-established quarterly earnings rate or a variable investment option, which consists of numerous mutual funds. Members are allowed to invest in both the fixed and variable options. Those participating in the variable option may invest in as many offered funds as desired. Withdrawal of deferred compensation funds is only an option for employees upon separation from service, retirement, death or upon an unforeseeable emergency meeting IRS-specified criteria while still employed.

Prior Audit Recommendation

The financial-compliance audit for the fiscal year ended June 30, 2012, contained two recommendations. One was implemented and the second was partially implemented. The partially implemented recommendation related to seeking legislation to restore the actuarial soundness of the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS), the Sheriffs' Retirement System (SRS), the Game Wardens' and Peace Officers' Retirement System (GWPORS), and the Highway Patrol Officers' Retirement System (HPORS) as required by the Montana Constitution. Article VIII, Section 15, of the Montana Constitution requires the public retirement systems be funded on an actuarially sound basis. To be considered actuarially sound the amortization period of the unfunded liability cannot exceed 30 years.

The 2013 Legislative session produced several bills affecting the retirement systems. Chapter 390, laws of 2013 (House Bill 454) and Chapter 272, laws of 2013 (House Bill 336), affected funding and benefit provisions for PERS and HPORS as summarized below. No legislation was passed significantly affecting the amortization period of the unfunded liability for SRS or GWPORS. Neither system amortizes at June 30, 2013.

Public Employees' Retirement System

Member contributions increased to 7.9 percent of compensation on July 1, 2013. This represents an increase of 1 percent for members hired prior to July 1, 2011. In addition, employer contributions increased 1 percent effective July 1, 2013, and beginning July 1, 2014, employer contributions will increase 0.1 percent a year through fiscal year 2024. Legislation established the guaranteed annual benefit adjustment (GABA) for all current and future retirees at 1.5 percent with allowances for further potential reductions based on the results of the annual actuarial valuation.

On July 1 of each year, beginning in fiscal year 2014, PERS will receive approximately $15 million, and growing approximately 2 percent per year thereafter, from the unallocated portion of coal tax severance collections. Also on July 1 of each fiscal year, PERS will receive up to $21 million of interest income from the coal tax permanent fund until July 1, 2019.

These changes resulted in the PERS being actuarially sound on July 1, 2013. However, as described on page A-43, a lawsuit contesting the legality of the GABA reductions resulted in a temporary injunction against implementing the reductions until the lawsuit is settled. According to actuarial estimates, at June 30, 2013, if the GABA remains at 3 percent, the unfunded actuarially accrued liability (UAAL) will increase from $1.021 billion to $1.762 billion, a difference of $741.7 million; and the amortization period of the UAAL would increase from 14.5 years to 43.7 years.

Highway Patrol Officers' Retirement System

Effective July 1, 2013, for all HPORS members regardless of hire date, state employer contributions increased from 36.33 percent to 38.33 percent, member contributions increase 1 percent annually for four years commencing in the fiscal year ended 2013, and the benefit multiplier increased from 2.5 percent to 2.6 percent.

Effective July 1, 2013, for members hired after July 1, 2013, GABA is reduced from 3 percent to 1.5 percent, GABA waiting period is increased from one year to three years, and the vesting period is increased from five years to ten years. Actuarial valuations show the amortization period decreased from 49.7 years at June 30, 2012, to 44.6 years at June 30, 2013.

We will continue to evaluate and report on compliance with the Constitution's mandate of actuarial soundness.

Recommendation #1

We recommend the Public Employees' Retirement Board continue to work with the legislature to ensure all defined benefit pension plans are actuarially sound.

Independent Auditor's Report

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Fiduciary Net Position – Pension Trust Funds of the Public Employees' Retirement Board (Board), a component Unit of the state of Montana, as of June 30, 2013, and the related Statement of Changes in Fiduciary Net Position – Pension Trust Funds for the fiscal year ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2013, and the results of its operations for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4, the Game Wardens' and Peace Officers', Sheriffs, and Highway Patrol Officers' retirement systems were not actuarially sound at June 30, 2013. The amortization period for the Unfunded Actuarial Accrued Liability is 44.6 years for the Highway Patrol Officers' Retirement System. The Game Wardens' and Peace Officers' Retirement System and Sheriffs' Retirement System do not amortize. The maximum allowable amortization period is 30 years. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Funding Progress for OPEB, and the Schedule of Employer Contributions & Other Contributing Entities be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Administrative Expenses, Investment Expenses, and Professional/Consultant fees for the year ended June 30, 2013; the Detail of Fiduciary Net Position (PERS-DBRP and PERS-DBEd) and the Detail of Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability) as of June 30, 2013; and the related Detail of Changes in Fiduciary Net Position (PERS-DBRP and PERS-DBEd) and the Detail of Changes in Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability) for the fiscal year ended June 30, 2013, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 29, 2014

Public Employees' Retirement Board Management's Discussion and Analysis, Financial Statements, Notes, Required Supplementary Information and Supplementary Information

Public Employees' Retirement Board

A Component Unit of the State of Montana

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Montana Public Employees' Retirement Board's (PERB) financial presentation and performance of the plans administered by the PERB for the year ending June 30, 2013.

Financial Highlights

- *The PERB's combined total net position of the defined benefit plans increased by $508.0 million or 10.4% in fiscal year 2013. The increase was primarily due to the positive investment income in each of the plans.*

- *The PERB's defined contribution plans combined total net position increased by $39.5 million or 8.5% in fiscal year 2013. The total increase in net position was due to the increase of investment income in the PERS-defined contribution retirement plan and the deferred compensation plan.*

- *Revenues (additions to plan net position) for the PERB's defined benefit plans for fiscal year 2013 was $869.7 million, which includes member and employer contributions of $238.7 million and net investment income of $631.0 million.*

- *Revenues (additions to plan net position) for the PERB's defined contribution plans for fiscal year 2013 was $65.3 million, which includes member and employer contributions of $32.4 million and net investment of $32.9 million.*

- *Expenses (deductions to plan net position) for the PERB's defined benefit plans increased from $333.8 million in fiscal year 2012 to $361.7 million in fiscal year 2013 or about 8.4%. The increase in 2013 is due to an increase in benefits and administrative expenses.*

- *Expenses (deductions to plan net position) for the PERB's defined contribution plans increased from $22.0 million in fiscal year 2012 to $25.8 million in fiscal year 2013 or about 17.3%. The increase in expenses is primarily due to an increase in administrative expenses and distributions.*

- *The PERB's defined benefit plans' funding objectives are to meet long-term benefit obligations. As of June 30, 2013, the date of the latest actuarial valuation, four of the plans can amortize the Unfunded Actuarial Liability within 30 years or less. They are the Public Employees' Retirement System (PERS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The plans that are not able to amortize the Unfunded Actuarial Liability within 30 years are the Highway Patrol Officers' Retirement System (HPORS), the Sheriffs' Retirement System (SRS), and the Game Wardens' and Peace Officers' Retirement System (GWPORS). The Judges' Retirement System (JRS) has an* *actuarial surplus. This means there are more assets than liabilities in the plan. As a whole the plans are actuarially funded at an average of 80%. It is important to understand that this measure reflects the Actuarial Value of Assets for the defined benefit plans, which are currently less than the actual fair value published in the financial statements. Investment earnings are critical to the defined benefit plans. The actuary uses a four-year smoothing method for determining the Actuarial Value of Assets. This method is used to reduce the impact of market volatility. Due to smoothing gains in 2011 and 2013 and losses in 2012, return on actuarial value ranged from 11% to 12% for all systems, creating actuarial experience gains.*

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the PERB's financial reporting which is comprised of the following components:

(1) Financial Statements
(2) Notes to the Financial Statements
(3) Required Supplementary Information

Collectively, this information presents the combined net position restricted for pension benefits for each of the plans administered by the PERB as of June 30, 2013. This financial information also summarizes the combined changes in net position restricted for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

(1) Financial Statements for the fiscal year ended June 30, 2013, are presented for the fiduciary funds administered by the PERB. Fiduciary funds are used to account for resources held for the benefit of outside parties. The fiduciary funds are held for participants in eight defined benefit plans and two defined contribution plans.

- The Statement of Fiduciary Net Position, is presented for the pension trust funds at June 30, 2013. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries at the end of the year reported.

- The Statement of Changes in Fiduciary Net Position, is presented for the pension trust funds for the year ended June 30, 2013. These financial statements reflect the changes in the resources available to pay benefits to retirees and beneficiaries at the end of the year reported.

(2) The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements. The information in the Notes to the Financial Statements is described as follows:

- Note A provides a summary of significant accounting policies including the basis of accounting; capital assets and equipment used in operations including MPERAtiv the new system project; operating lease; GASB 50 Disclosures on funding; GASB 45 Disclosures regarding Other Post Employment Benefits (OPEB); GASB 63 Disclosures regarding Deferred Inflows of Resources, Deferred Outflows of Resources and Net Position; and summaries of the method to value investments and other significant accounting policies or explanations.

- Note B provides information about litigation.
- Note C describes the membership and descriptions of each of the plans administered by the PERB. Summaries of benefits and contribution information are also provided.

(3) The Required Supplementary Information includes the schedules of: funding progress of the plans and Other Post-Employment Benefits (OPEB); required contributions; and related notes concerning actuarial information of the defined benefit pension plans administered by the PERB.

Financial Analysis of the Systems – Defined Benefit Plans

Investments

The State of Montana Board of Investments (BOI), as authorized by state law, invests the defined benefit plans' assets in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pool in accordance with respective ownership. The investment pools are: Montana Short Term Investment Pool, Montana Domestic Equity Pool, Retirement Funds Bond Pool, Montana International Equity Pool, Montana Real Estate Pool and Montana Private Equity Pool. Each plan's allocated share of the investment in the pools is shown in the Statement of Fiduciary Net Position of the plan. Investment gains and losses are reported in the Statement of Changes in Fiduciary Net Position.

Economic Condition

According to the Board of Investments Chief Investment Officer, Clifford Sheets, "The U.S. economy has continued to grow at a moderate pace over the past year, with a real Gross Domestic Product (GDP) growth rate in the 2% range. This slow pace of growth has been atypical in the U.S. after a deep recession when recovery is usually much faster. Yet, when looking at global economic history, slow growth is to be expected after a recession proceeded by a debt bubble, as this one was. Nevertheless, the recovery is now technically entering its fifth year, and there is nothing apparent that would suggest we are at risk of slipping back into recession.

Real GDP posted gains of 1.1% for the March quarter and 2.5% for the June quarter on an annualized quarter-over-quarter basis. The consensus expects the September quarter will come in at a 2.1% rate. Yet this pace of growth followed a growth rate of only 0.1% during the December quarter. Year-over-year growth for 2013 is estimated at 1.6% and the consensus outlook for 2014 calls for a 2.6% growth rate.

One key measure of economic performance is the employment situation. This measure has gained more focus since the Federal Reserve (Fed) is providing forward guidance of monetary policy based on the improvement in employment, in addition to watching inflation. Payroll jobs have continued to increase but the number of jobs being added has been sporadic in recent months. The unemployment rate has also shown steady improvement and now sits at 7.3%, but the improvement is being discounted somewhat since much of the decline in the rate is due to the decline in job seekers, also known as the participation rate.

Despite the relative weakness in the measures noted above, personal consumption continues to improve at an annual rate of about 3%. Corporate profit growth has also remained positive on a trend basis, though lately has slowed versus the earlier stages of the recovery. This backdrop has bolstered investor confidence and been supportive of the higher stock market during the past year.

While the U.S. economy continues to grow, it appears to be dependent on extraordinary monetary policy, meaning low interest rates designed to stimulate risk-taking and economic activity in the credit-dependent sectors of the economy such as housing and autos. The Fed has continued to buy bonds in addition to keeping its key policy rate near zero. In September, a decision was made to continue this program at its current pace, based on uncertainty about near-term economic growth and a low inflation rate. The capital markets will be watching the evolution of Fed policy closely in the next several months, though any shift to a less aggressive policy would be coincident with an improvement in the economy which should be viewed as positive."

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Defined Benefit Plans Total Investments

At June 30, 2013, the PERB's defined benefit plans held total investments of $5.3 billion, an increase of $481.1 million from fiscal year 2012 investment totals. Below are the schedules of Fiduciary Net Position and Changes in Fiduciary Net Position for the defined benefit plans including comparative totals from fiscal year 2012. These schedules were formerly known as the Fiduciary Net Assets and Changes in Fiduciary Net Assets. This change is due to GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

Fiduciary Net Position - Defined Benefit Plans

As of June 30, 2013 *- and comparative totals for June 30, 2012*

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2013	2012	2013	2012	2013	2012	2013	2012
Assets:								
Cash and Receivables	$ 67,395	50,022	1,259	1,095	1,723	1,383	4,507	3,394
Securities Lending Collateral	192,294	176,225	3,247	2,899	4,903	4,460	10,873	9,701
Investments	4,236,336	3,879,208	71,548	63,797	108,008	98,159	239,536	213,467
Property and Equipment	9	11	3	3	2	3	3	3
Intangible Assets	114	35	34		28		34	
Total Assets	4,496,148	4,105,501	76,091	67,794	114,664	104,005	254,953	226,565
Liabilities:								
Securities Lending Liability	192,294	176,225	3,247	2,899	4,903	4,460	10,873	9,701
Other Payables	2,021	5,064	52	136	70	254	204	198
Total Liabilities	194,315	181,289	3,299	3,035	4,973	4,714	11,077	9,899
Total Net Position	$4,301,833	3,924,212	72,792	64,759	109,691	99,291	243,876	216,666

Changes In Fiduciary Net Position - Defined Benefit Plans

For the year ended June 30, 2013 *- and comparative totals for June 30, 2012*

(dollars in thousands)

	PERS		JRS		HPORS		SRS	
	2013	2012	2013	2012	2013	2012	2013	2012
Additions:								
Contributions	$ 163,257	159,917	2,363	2,045	6,514	6,534	12,111	11,721
Investment Income (Loss)	505,052	91,355	8,409	1,517	12,826	2,321	28,154	5,109
Total Additions	668,309	251,272	10,772	3,562	19,340	8,855	40,265	16,830
Deductions:								
Benefits	274,021	252,762	2,553	2,344	8,709	8,223	11,583	10,379
Refunds	11,637	12,308			51	68	1,184	1,271
OPEB Expenses	82	81	1	1	1	1	1	1
Administrative Expenses	3,761	3,308	184	117	180	121	286	206
Miscellaneous Expenses	1,211	732						
Total Deductions	290,712	269,191	2,738	2,462	8,941	8,413	13,054	11,857
Incr/(Decr) in Net Position	$ 377,597	(17,919)	8,034	1,100	10,399	442	27,211	4,973
Prior Period Adjustments	23	24						

Analysis of Individual Systems

PERS-DBRP and Education

The PERS-DBRP provides retirement, disability, and death benefits for covered employees of the State, local governments, certain employees of the Montana University System, and school districts. Member and employer contributions and earnings on investments fund the benefits of the plan. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The PERS-DBRP and the DB Education Fund have

GWPORS		MPORS		FURS		VFCA		TOTAL	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
2,307	2,153	16,015	14,345	16,094	13,988	1,992	1,722	111,292	88,102
5,156	4,441	11,578	10,194	11,609	10,166	1,238	1,156	240,898	219,242
113,666	97,893	255,112	224,417	255,833	223,790	27,147	25,387	5,307,186	4,826,118
3	3	2	3	2	3	2	3	26	32
34		30		30		27		331	35
121,166	104,490	282,737	248,959	283,568	247,947	30,406	28,268	5,659,733	5,133,529
5,156	4,441	11,578	10,194	11,609	10,166	1,237	1,156	240,897	219,242
169	414	150	128	133	128	102	99	2,901	6,421
5,325	4,855	11,728	10,322	11,742	10,294	1,339	1,255	243,798	225,663
115,841	99,635	271,009	238,637	271,826	237,653	29,067	27,013	5,415,935	4,907,866

GWPORS		MPORS		FURS		VFCA		TOTAL	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
7,786	7,618	22,883	22,120	22,110	21,201	1,711	1,635	238,735	232,791
13,106	2,388	30,037	5,717	30,035	5,726	3,383	592	631,002	114,725
20,892	10,006	52,920	27,837	52,145	26,927	5,094	2,227	869,737	347,516
3,575	3,203	18,463	17,355	17,670	16,519	2,819	2,046	339,393	312,831
864	1,241	1,838	710	73	119			15,647	15,717
1	1	1	1	1	1	1	1	89	88
246	173	245	177	228	162	205	144	5,335	4,408
						15	12	1,226	744
4,686	4,618	20,547	18,243	17,972	16,801	3,040	2,203	361,690	333,788
16,206	5,388	32,373	9,594	34,173	10,126	2,054	24	508,047	13,728
								23	24

been combined in these comparisons. The PERS-DBRP net position restricted for pension benefits at June 30, 2013 amounted to $4.30 billion, an increase of $377.6 million (9.6%) from $3.92 billion at June 30, 2012.

Additions to the PERS-DBRP net position restricted for pension benefits include employer, member and state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $163.3 million in fiscal year 2013 from $159.9 million in fiscal year 2012, an increase of $3.3 million (2.1%). Contributions increased due to new members contributing at the higher rate of 7.9%. The plan recognized total net investment income of $505 million for the fiscal year ended June 30, 2013, compared with total net investment income of $91 million for the fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the PERS-DBRP net position restricted for pension benefits primarily include retirement benefits, refunds, and administrative expenses. For fiscal year 2013, benefits amounted to $274 million, an increase of $21.3 million (8.4%) from fiscal year 2012. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2013, refunds amounted to $11.6 million, a decrease of $671 thousand (5.4%) from fiscal year 2012. The decrease in refunds was due to less people refunding their accounts. For fiscal year 2013, the costs of administering the plan's benefits amounted to $3.8 million, an increase of $453 thousand (13.7%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the PERS-DBRP.

An actuarial valuation of the PERS-DBRP assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability is 14.5 years. This amortization period would increase to 43.7 years if the additional member and employer contributions required by HB 454 were terminated; thus the contributions remain in effect as of January 1, 2014 under the provisions of HB 454. The funded status of the plan increased to 80% at June 30, 2013 from 67% at June 30, 2012.

The PERS-DBRP actuarial value of assets was less than actuarial liabilities by $1,021 million at June 30, 2013, compared with $1,844 million at June 30, 2012. The decrease in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $156 million and a total liability gain deducting $772 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions. The changes in plan design for new hires in 2011 have also had an impact on plan costs and liabilities.

JRS

The JRS provides retirement, disability, and death benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge or Associate Water Judge. Member and employer contributions and earnings on investments fund the benefits of the plan. The JRS net position restricted for pensions at June 30, 2013 amounted to $72.8 million, an increase of $8.0 million (12.4%) from $64.8 million at June 30, 2012.

Additions to the JRS net position restricted for pension benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, 2013, contributions amounted to $2.4 million, an increase of $318 thousand (15.6%) from fiscal year 2012. Contributions increased due to an increase in active members' salaries. The plan recognized total net investment income of $8.4 million for the fiscal year ended June 30, 2013, compared with total net investment income of $1.5 million for the fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the JRS net position restricted for pension benefits mainly include retirement benefits, and administrative expenses. For fiscal year 2013, benefits amounted to $2.6 million, an increase of $209 thousand (8.9%) from fiscal year 2012. The increase in benefits was due to a larger than average increase in retirees and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2013, administrative expenses amounted to $184 thousand, an increase of $67 thousand (57.6%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the JRS.

An actuarial valuation of the JRS assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability is still zero due to the actuarial surplus. The funded status of the plan increased to 143% at June 30, 2013 from 137% at June 30, 2012.

The JRS actuarial value of assets was more than actuarial liabilities by $21.1 million at June 30, 2013, compared with a $17.0 million actuarial surplus at June 30, 2012. The increase in the actuarial surplus as of the last actuarial valuation is due to recognizing past investment gains of $2.4 million and a total liability loss adding $675 thousand from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions and the increase in retirements.

HPORS

The HPORS provides retirement, disability, and death benefits for members of the Montana Highway Patrol. Member and employer contributions, a statutory appropriation from the general fund, and earnings on investments fund the benefits of the plan. The HPORS net position restricted for pensions at June 30, 2013 amounted to $109.7 million, an increase of $10.4 million (10.5%) from $99.3 million at June 30, 2012.

Additions to the HPORS net position restricted for pension benefits include employer and member contributions, a statutory appropriation from the general fund, and investment income. For the fiscal year ended June 30, contributions decreased to $6.514 million in fiscal year 2013 from $6.534 million in fiscal year 2012, a decrease of $20 thousand (0.3%). Contributions decreased due to more members retiring and the hiring of new officers at a lower salary. The plan recognized total net investment income of $12.8 million for the fiscal year ended June 30, 2013, compared with total net investment income of $2.3 million for the fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the HPORS net position restricted for pension benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2013, benefits amounted to $8.7 million, an increase of $486 thousand (5.9%) from fiscal year 2012. The increase in benefit payments was due to an increase in benefit recipients and the increases in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2013, refunds amounted to $51 thousand, a decrease of $17 thousand (24.8%) from fiscal year 2012. The decrease in refunds was due to less refunds being processed. For fiscal year 2013, administrative expenses were $180 thousand, an increase of $59 thousand (49.1%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the HPORS.

An actuarial valuation of the HPORS assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation the unfunded actuarial liability does not amortize within the required 30 years. However, during the 2013 Legislature legislation passed addressing plan design. The years to amortize the unfunded actuarial liability decreased to 44.6 years at June 30, 2013 from 49.7 years at June 30, 2012. The funded status of the plan increased to 60% at June 30, 2013 from 58% at June 30, 2012.

The HPORS actuarial value of assets was less than actuarial liabilities by $69.9 million at June 30, 2013, compared with $71.2 million at June 30, 2012. The decrease in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $3.9 million and a total liability loss adding $531 thousand from the actuarial liability as a result of salaries and the experience of the plan being different from the actuarial assumptions.

SRS

The SRS provides retirement, disability, and death benefits for all Department of Justice criminal investigators hired after July 1, 1993, detention officers hired after July 1, 2005, and all Montana sheriffs. Member and employer contributions and earnings on investments fund the benefits of the plan. The SRS net position restricted for pension benefits at June 30, 2013 amounted to $243.9 million, an increase of $27.2 million (12.6%) from $216.7 million at June 30, 2012.

Additions to the SRS net position restricted for pension benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, contributions increased to $12.1 million in fiscal year 2013 from $11.7 million in fiscal year 2012, for an increase of $390 thousand (3.3%). The increase in contributions was due to an increase in new members contributing to the plan. The plan recognized total net investment income of $28.2 million for the fiscal year ended June 30, 2013, compared with total net investment income of $5.1 million for the fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the SRS net position restricted for pension benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2013, benefits amounted to $11.6 million, an increase of $1.2 million (11.6%) from fiscal year 2012. The increase in benefit payments was due to an increase in benefit recipients and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2013, refunds amounted to $1.2 million, a decrease of $87 thousand (6.9%) from fiscal year 2012. Refunds decreased due to a decrease in members refunding their accounts. For fiscal year 2013, administrative expenses amounted to $286 thousand, an increase of $80 thousand (38.8%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the SRS.

An actuarial valuation of the SRS assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize. The funded status of the plan increased to 77% at June 30, 2013 from 74% at June 30, 2012.

The SRS actuarial value of assets was less than actuarial liabilities by $68.9 million at June 30, 2013, compared with $73.0 million at June 30, 2012. The decrease in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $8.1 million and a total liability gain deducting $642.5 thousand from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions. The changes in plan design for new hires in 2011 have also had an impact on plan costs and liabilities.

GWPORS

The GWPORS provides retirement, disability, and death benefits for game wardens, warden supervisory personnel and state peace officers. Member and employer contributions and earnings on investments fund the benefits of the plan. The GWPORS net position restricted for pension benefits at June 30, 2013, amounted to $115.8 million, an increase of $16.2 million (16.3%) from $99.6 million at June 30, 2012.

Additions to the GWPORS net position restricted for pension benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, contributions increased to $7.8 million in fiscal year 2013 from $7.6 million in fiscal year 2012, an increase of $168 thousand (2.2%). Although the plan saw an increase of one active member, the contributions increased primarily due to an increase in active members' salaries. The plan recognized total net investment income of $13.1 million for the fiscal year ended June 30, 2013, compared with total net investment income of $2.4 million for the fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the GWPORS net position restricted for pensions mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2013, benefits amounted to $3.6 million, an increase of $372 thousand (11.6%) from fiscal year 2012. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2013, refunds amounted to $864 thousand, a decrease of $377 thousand (30.4%) from fiscal year 2012. The decrease in refunds was due to fewer refund requests from members and those refunds were for generally smaller account balances. For fiscal year 2013, administrative expenses amounted to $246 thousand, an increase of $73 thousand (42.2%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the GWPORS.

An actuarial valuation of the GWPORS assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize. The funded status of the plan increased to 80% at June 30, 2013 from 76% at June 30, 2012.

The GWPORS actuarial value of assets was less than actuarial liabilities by $27.9 million at June 30, 2013, compared with $31.2 million at June 30, 2012. The increase in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $3.4 million and a total liability gain deducting $1.9 million from the actuarial liability as a result of salaries and the experience of the plan being different from the actuarial assumptions. The changes in plan design for new hires in 2011 have also had an impact on plan costs and liabilities.

MPORS

The MPORS provides retirement, disability, and death benefits for municipal police officers employed by first- and second-class cities, and other cities that adopt the plan. MPORS also has an option for members to participate in a Deferred Retirement Option Plan (DROP). Member, employer and state contributions and earnings on investments fund the benefits of the plan. The MPORS net position restricted for pension benefits at June 30, 2013 amounted to $271 million, an increase of $32.4 million (13.6%) from $238.6 million at June 30, 2012.

Additions to the MPORS net position restricted for pension benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $22.9 million in fiscal year 2013 from $22.1 million in fiscal year 2012, for an increase of $763 thousand (3.4%). Although the plan saw a slight decrease in active members, the plan saw an increase in contributions primarily due to higher compensated members staying in the plan. The plan recognized total net investment income of $30.0 million for the fiscal year ended June 30, 2013, compared with total net investment income of $5.7 million for fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the MPORS net position restricted for pension benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2013, benefits amounted to $18.5 million, an increase of $1.1 million (6.4%) from fiscal year 2012. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2013, refunds amounted to $1.8 million, an increase of $1.1 million (158.8%) from fiscal year 2012. The increase in refunds for fiscal year 2013 was due to more refunds being processed for larger dollar amounts. For fiscal year 2013, administrative expenses were $245 thousand, an increase of $67.8

thousand (38.3%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the MPORS.

An actuarial valuation of the MPORS assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability decreased to 23.8 years from 25.7 years at June 30, 2012. The funded status of the plan increased to 58% at June 30, 2013 from 55% at June 30, 2012.

The MPORS actuarial value of assets was less than actuarial liabilities by $187.4 million at June 30, 2013, compared with $193.2 million at June 30, 2012. The decrease in the actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $7.8 million and a total liability gain deducting $453.8 thousand to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

FURS

The FURS provides retirement, disability, and death benefits for firefighters employed by first- and second-class cities, other cities and rural fire departments that adopt the plan, and firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Member, employer, and state contributions, and earnings on investments fund the benefits of the plan. The FURS net position restricted for pension benefits at June 30, 2013, amounted to $271.8 million, an increase of $34.1 million (14.4%) from $237.7 million at June 30, 2012.

Additions to the FURS net position restricted for pension benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $22.1 million in fiscal year 2013 from $21.2 million in fiscal year 2012, an increase of $909 thousand (4.3%). Contributions increased due to an increase of active members contributing to the plan as a result of an increase in employers. The plan recognized total net investment income of $30.0 million for the fiscal year ended June 30, 2013, compared with total net investment income of $5.7 million for the fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the FURS net position restricted for pension benefits mainly include retirement benefits, refunds, and administrative expenses. For fiscal year 2013, benefits amounted to $17.7 million, an increase of $1.2 million (7.0%) from fiscal year 2012. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2013, refunds amounted to $73 thousand, a decrease of $46 thousand (38.5%) from fiscal year 2012. The decrease in refunds was due to fewer refund requests from members. For fiscal year 2013, administrative expenses were $228 thousand, an increase of $66 thousand (40.5%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was mainly due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the FURS.

An actuarial valuation of the FURS assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability decreased to 13.9 years from 16.4 years at June 30, 2012. The funded status of the plan increased to 66% at June 30, 2013 from 62% at June 30, 2012.

The FURS actuarial value of assets was less than actuarial liabilities by $133.3 million at June 30, 2013, compared with $144.1 million at June 30, 2012. The decrease in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $7.8 million and a total liability gain deducting $1.4 million to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

VFCA

The VFCA provides retirement, disability, and death benefits for volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas. State contributions and earnings on investments fund the benefits of the plan. The VFCA net position restricted for pension benefits at June 30, 2013 amounted to $29.1 million, an increase of $2.1 million (7.6%) from $27.0 million at June 30, 2012.

Additions to the VFCA net position restricted for pension benefits include state contributions, and investment income. For the fiscal year ended June 30, contributions increased to $1.7 million in fiscal year 2013 from $1.6 million in fiscal year 2012, an increase of $76 thousand (4.7%). Contributions increased because of increased fire insurance premium taxes distributed to the VFCA from the general fund. The plan recognized total net investment income of $3.4 million for the fiscal year ended June 30, 2013, compared with total net investment income of $592 thousand for the fiscal year ended June 30, 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the VFCA net position restricted for pension benefits include retirement benefits, administrative expenses, and supplemental insurance payments. For fiscal year 2013, benefits amounted to $2.8 million, an increase of $773 thousand (37.8%) from fiscal year 2012. The increase in benefit payments was due to an increase in benefit recipients and a lawsuit increasing retroactive adjustments and monthly benefit payments. For fiscal year 2013, administrative expenses amounted to $205 thousand, an increase of $61 thousand (42.5%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the VFCA. For fiscal year 2013, supplemental insurance payments amounted to $15 thousand, an increase of $3 thousand from fiscal year 2012.

An actuarial valuation of the VFCA assets and benefit obligations is performed annually. At June 30, 2013, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability decreased to 8.5 years from 9.3 years at June 30, 2012 and the funded status of the plan increased to 75% at June 30, 2013 from 73% at June 30, 2012.

The VFCA actuarial value of assets was less than actuarial liabilities by $9.5 million at June 30, 2013, compared with $9.6 million at June 30, 2012. The decrease in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $872 thousand and a total liability loss adding $1.6 million to the actuarial liability. This includes losses as a result of retroactive service adjustments and retroactive payouts.

Actuarial Valuations and Funding Progress

An experience study was performed during fiscal year 2010 for the six year period July 1, 2003 to June 30, 2009. The experience study resulted in several changes to the actuarial assumptions and implementation of new actuarial factors. An economic experience study was performed during August 2013. This experience study looked at the following assumptions: inflation, investment rate of return, wage growth, and interest on member contributions. The results were presented to the PERB September 12, 2013. The PERB voted to maintain the assumptions of the 2010 experience study. An actuarial valuation of each of the defined benefit plans is performed annually. The most recent actuarial valuation was performed for fiscal year ended June 30, 2013.

The PERB's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions and the income from investments provide the cash flow needed to finance future retirement benefits. The Annual Required Contribution (ARC) is critical to the defined benefit plans' funding. It is the present value of the total cost of post-employment benefits earned to date by employees that is assigned to a given period and serves as a measurement of those pension costs for accounting and financial reporting purposes. Investment earnings are also critical to the defined benefit plans' funding; investment losses deteriorate the plans' funding. Market losses were experienced in fiscal years 2001, 2002 and fiscal years 2008 and 2009. Positive returns were experienced in fiscal years 2003 through 2007 and fiscal years 2010 through 2013. The funding status increased for all defined benefit plans in the latest valuation. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is 30 years or less. Montana's Constitution requires the public retirement plans to be funded on an actuarially sound basis.

All systems were actuarially funded within 30 years in 2007 and 2008. This was due to positive investment returns, recognition of all losses experienced in 2001 and 2002, and the $25 million cash infusion in 2006 from the State of Montana in the PERS-DBRP. The impact of the negative investment returns in 2008 and 2009 resulted in the PERS-DBRP, GWPORS, and SRS, not amortizing.

During the 2013 Legislative session, House Bill (HB) 454 made changes to PERS employer contributions. These changes were effective July 1, 2013. Employers pay 1% more in addition to the 0.27% added in 2007 and 2009. The employer rate will increase by an additional 0.1% per year for 10 years until reaching a total increase of 2%. All additional contributions including the 0.27% added in 2007 and 2009 will cease when the amortization period drops below 25 years and remains below 25 years following the reduction of all additional contributions.

Similarly, due to 2013 legislation, effective July 1, 2013, the PERS-DBRP member contributions were increased but will be reduced when the amortization period drops below 25 years and remains below 25 years following the reduction of all additional contributions.

Effective July 1, 2013, the GABA for PERS-DBRP current and future retirees, decreases to a cap of 1.5% and will be further reduced 0.1% for each 2% that the funded ratios is less than 90%. GABA will be zero if the amortization period exceeds 40 years. Further, effective July 1, 2013, a statutorily appropriated contribution will be made quarterly to the PERS-DBRP trust fund from the coal severance tax collections during the year. A contribution of the interest income from the coal tax permanent fund will be made monthly to the PERS-DBRP trust fund.

Effective July 1, 2013, in HPORS, the employer contribution rate will increase from 36.33% to 38.33% of pay and all members will see an increase in their member contribution rate of 1% per year for four years. GABA will also be reduced for new hires from 3.0% to 1.5%.

According to the PERB's June 30, 2013 actuarial valuations, the unfunded liability in GWPORS and SRS does not amortize and HPORS does not amortize within the required 30 years. Under HPORS prior law the amortitzation period is 49.7 years. With plan changes effective July 1, 2013, the period to amortize is 44.6 years.

Overall, funding ratios range from a high of 143% (JRS) to a low of 58% (MPORS). The Schedule of Funding Progress shows the funding for the last six fiscal years. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial liabilities. The actuary performs a smoothing of investment gains or losses over a period of four years. At June 30, 2013, the actuarial value of assets of all plans was less than the market value of assets by $195.5 million due to a positive 12.63% market return in fiscal year 2013. The current smoothing reserve in fiscal year 2012 had a negative balance which is reflected in the actuarial value of assets again in fiscal year 2013.

Defined Contribution Plans

The PERB administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation (457) Plan. The schedules of Fiduciary Net Position and Changes in Fiduciary Net Position for the two defined contribution plans including comparative totals from fiscal year 2012 are shown at the end of this section.

PERS-DCRP

The PERS-DCRP is established under section 401(a) of the Internal Revenue Code and Title 19, chapters 2 & 3 of the Montana Code Annotated (MCA). This plan provides retirement, disability and death benefits for plan members. This plan was available to all active PERS members effective July 1, 2002. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The plan member and employer contributions and earnings on investments fund the benefits of the plan. The PERS-DCRP net position restricted for pension benefits at June 30, 2013 amounted to $105.5 million, an increase of $18.3 million (21.0%) from $87.2 million at June 30, 2012.

Additions to the PERS-DCRP net position restricted for pension benefits include contributions and investment income. For the fiscal year ended June 30, contributions increased to $11.8 million in fiscal year 2013 from $11.1 million in fiscal year 2012, an increase of $697 thousand (6.3%). Contributions increased due to an increase in the total compensation reported as a result of an increase in active participants. The plan recognized net investment income of $11.7 million for fiscal year ended 2013, compared with net investment income of $2.4 million in fiscal year 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the PERS-DCRP net position restricted for pension benefits include disability benefits, member distributions, administrative expenses, and miscellaneous expenses. For fiscal year 2013, disability benefits amounted to $29 thousand, compared to $27 thousand in fiscal year 2012. For fiscal year 2013, distributions amounted to $4.4 million, an increase of $377 thousand (9.5%). The increase in distributions was due to more defined contribution members taking periodic or lump sum distributions and IRS permitted rollovers. For fiscal year 2013, the costs of administering the plan amounted to $576 thousand, an increase of $92 thousand (19.0%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the PERS-DCRP. Miscellaneous expenses decreased from $313 thousand in fiscal year 2012 to $162 thousand in fiscal year 2013, a decrease of $151 thousand (48.3%) from fiscal year 2012. Miscellaneous expenses are the PERB's administrative fees assessed by the vendors based on account balances. The decrease in miscellaneous expenses was due to the accounting classification of these fees from consulting fees to investment expenses and the PERB's decision to reduce the fees charged to participants.

Deferred Compensation (457) Plan

The Deferred Compensation Plan is established under section 457 of the Internal Revenue Code and Title 19, chapter 50 of the Montana Code Annotated (MCA). This plan is a voluntary supplemental retirement savings plan for those who choose and are eligible to participate. The Deferred Compensation Plan is funded by contributions and by investment earnings. The Deferred Compensation net position restricted for pension benefits at June 30, 2013 amounted to $398.9 million, an increase of $21.2 million (5.6%) from $377.7 million at June 30, 2012.

Additions to the Deferred Compensation Plan net position restricted for pension benefits include contributions and investment income. For fiscal year 2013, contributions increased to $20.6 million from $20.1 million in fiscal year 2012, an increase of $559 thousand (2.8%). Contributions increased due to an increase in the amount of money deferred to the plan and the addition of three contracting employers and their employees participating in the plan for an overall increase in membership. The plan recognized net investment income of $21.2 million for fiscal year 2013, compared with net investment income of $13.9 million for fiscal year 2012. The increase in investment income is a result of a strong year of investment returns.

Deductions from the Deferred Compensation Plan net position restricted for pension benefits mainly include member and beneficiary distributions, administrative expense, and miscellaneous expenses. For fiscal year 2013, distributions amounted to $19.6 million, an increase of $4.0 million (25.6%) from

$15.6 million at June 30, 2012. The increase in distributions was due to more deferred compensation members taking distributions. The administrative expenses increased from $353 thousand in fiscal year 2012 to $440 thousand in fiscal year 2013, an increase of $87 thousand (24.6%) from fiscal year 2012. The increase in administrative expenses for fiscal year 2013 was due to the increased personnel and consultation costs associated with the continuing data cleansing and the technological development of a new computer application to modernize the administrative processes associated with the Deferred Compensation Plan. Miscellaneous expenses, decreased from $1.2 million in fiscal year 2012 to $581 thousand in fiscal year 2013, a decrease of $605 thousand (51.0%) from fiscal year 2012. Miscellaneous expenses are the PERB's administrative fees assessed by the vendors based on account balances. The decrease in miscellaneous expenses was due to the accounting classification of these fees from consulting fees to investment expenses and the PERB's decision to reduce the fees charged to participants.

Fiduciary Net Position - Defined Contribution Plans

As of June 30, 2013 *- and comparative totals for June 30, 2012*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2013	2012	2013	2012	2013	2012
Assets:						
Cash and Receivables	$ 4,235	4,011	1,616	1,775	5,851	5,786
Securities Lending Collateral	10	7	4	3	14	10
Investments	101,416	83,326	397,619	376,272	499,035	459,598
Property and Equipment	2	3	2	3	4	6
Intangible Assets	27	1	32		59	1
Total Assets	105,690	87,348	399,273	378,053	504,963	465,401
Liabilities:						
Securities Lending Collateral	10	7	4	3	14	10
Other Payables	197	183	413	375	610	558
Total Liabilities	207	190	417	378	624	568
Total Net Position - restricted for pensions	$ 105,483	87,158	398,856	377,675	504,339	464,833

Changes In Fiduciary Net Position - Defined Contribution Plans

For the year ended June 30, 2013 *- and comparative totals for June 30, 2012*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2013	2012	2013	2012	2013	2012
Additions:						
Contributions	$ 11,768	11,071	20,633	20,074	32,401	31,145
Investment Income (Loss)	11,684	2,352	21,219	13,913	32,903	16,265
Total Additions	23,452	13,423	41,852	33,987	65,304	47,410
Deductions:						
Benefits	29	27			29	27
Distributions	4,350	3,973	19,644	15,637	23,994	19,610
OPEB Expenses	9	9	5	5	14	14
Administrative Expenses	576	484	440	353	1,016	837
Miscellaneous Expenses	162	313	581	1,186	743	1,499
Total Deductions	5,126	4,806	20,670	17,181	25,796	21,987
Incr/(Decr) in Net Position	$ 18,326	8,617	21,182	16,806	39,508	25,423
Prior Period Adjustments		(247)		247		

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Fiduciary Net Position - Pension Trust Funds

as of June 30, 2013

	PERS-DBRP	JRS	HPORS	SRS	GWPORS
Assets					
Cash and Short-term Investments	$ 60,430,017	1,173,257	1,596,089	3,999,727	2,177,255
Securities Lending Collateral (Note A6)	192,294,464	3,247,164	4,902,938	10,873,071	5,155,893
Receivables					
Interest	4,884,643	82,467	124,551	276,269	131,038
Accounts Receivable	1,598,819	4,757	1,693	232,561	
Due from Other Funds	457,277				
Due from Primary Government					
Notes Receivable	23,110				
Total Receivables	6,963,849	87,224	126,244	508,830	131,038
Investments, at fair value (Note A6)					
Montana Domestic Equity Pool (MDEP)	1,643,008,769	27,759,197	41,882,905	92,867,702	44,057,713
Retirement Fund Bond Pool (RFBP)	950,298,397	16,033,714	24,238,671	53,723,874	25,465,569
Montana International Equity Pool (MTIP)	712,586,855	12,035,802	18,165,192	40,321,173	19,106,327
Montana Private Equity Pool (MPEP)	536,542,371	9,064,027	13,672,605	30,325,464	14,410,854
Montana Real Estate Pool (MTRP)	393,155,169	6,640,736	10,030,802	22,244,864	10,600,247
Structured Investment Vehicles (SIV)	744,360	14,267	17,835	52,435	24,942
Defined Contributions Fixed Investments					
Defined Contributions Variable Investments					
Deferred Compensation Life Insurance					
Total Investments	4,236,335,921	71,547,743	108,008,010	239,535,512	113,665,652
Capital Assets					
Property and Equipment, at cost,					
net of Accumulated Depreciation (Note A2)	9,061	2,509	2,130	2,509	2,509
Intangible Assets, at cost,					
net of Amortization Expense (Note A2)	114,235	33,530	28,461	33,530	33,530
Total Capital Assets	123,296	36,039	30,591	36,039	36,039
Total Assets	4,496,147,547	76,091,427	114,663,872	254,953,179	121,165,877
Liabilities					
Securities Lending Liability	192,294,464	3,247,164	4,902,938	10,873,071	5,155,893
Accounts Payable	704,426	35,986	30,547	79,646	87,232
Due to Other Funds	389,161	9,009	31,493	110,564	70,627
Deferred Revenue	203,971		713	1,078	666
Compensated Absences	273,532	4,567	3,877	4,567	4,567
OPEB Implicit Rate Subsidy LT	449,326	2,321	3,598	8,073	6,138
Total Liabilities	194,314,880	3,299,047	4,973,166	11,076,999	5,325,123
Net Position - Restricted for Pension Benefits	$ 4,301,832,667	72,792,380	109,690,706	243,876,180	115,840,754

The notes to the financial statements are an integral part of this statement.

Defined Benefit Pension Plans				Defined Contribution Plans			
			Total Defined Benefit			Total Defined Contribution	Total Pension Trust Funds
MPORS	FURS	VFCA	Pension Plans	PERS-DCRP	457 Plan	Plans	2013
2,913,460	3,229,460	1,959,210	77,478,475	3,799,293	1,304,682	5,103,975	82,582,450
11,578,372	11,609,159	1,237,521	240,898,582	10,222	3,555	13,777	240,912,359
294,134	294,909	31,343	6,119,354	576	204	780	6,120,134
233,883	211,698	1,455	2,284,866	58,374	310,402	368,776	2,653,642
			457,277	376,580		376,580	833,857
12,572,545	12,357,856		24,930,401				24,930,401
			23,110				23,110
13,100,562	12,864,463	32,798	33,815,008	435,530	310,606	746,136	34,561,144
98,915,958	99,212,609	10,544,116	2,058,248,969				2,058,248,969
57,237,466	57,369,261	6,091,573	1,190,458,525				1,190,458,525
42,936,209	43,017,344	4,559,194	892,728,096				892,728,096
32,304,911	32,422,699	3,436,251	672,179,182				672,179,182
23,680,813	23,770,814	2,490,630	492,614,075				492,614,075
37,090	40,481	25,645	957,055	48,590	16,898	65,488	1,022,543
				10,572,868	246,331,241	256,904,109	256,904,109
				90,794,494	151,258,592	242,053,086	242,053,086
					12,316	12,316	12,316
255,112,447	255,833,208	27,147,409	5,307,185,902	101,415,952	397,619,047	499,034,999	5,806,220,901
2,246	2,217	2,042	25,223	2,042	2,422	4,464	29,687
30,021	29,631	27,292	330,230	27,292	32,360	59,652	389,882
32,267	31,848	29,334	355,453	29,334	34,782	64,116	419,569
282,737,108	283,568,138	30,406,272	5,659,733,420	105,690,331	399,272,672	504,963,003	6,164,696,423
11,578,372	11,609,159	1,237,521	240,898,582	10,222	3,555	13,777	240,912,359
50,461	46,981	29,293	1,064,572	114,726	356,544	471,270	1,535,842
87,618	72,631	62,754	833,857				833,857
411	3,685		210,524				210,524
4,088	4,035	3,718	302,951	30,963	23,403	54,366	357,317
6,991	5,904	5,758	488,109	51,478	32,998	84,476	572,585
11,727,941	11,742,395	1,339,044	243,798,595	207,389	416,500	623,889	244,422,484
271,009,167	271,825,743	29,067,228	5,415,934,825	105,482,942	398,856,172	504,339,114	5,920,273,939

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Changes in Fiduciary Net Position - Pension Trust Funds

for the year ended June 30, 2013

	PERS-DBRP	JRS	HPORS	SRS	GWPORS
Additions					
Contributions (Note C)					
Employer	$ 81,776,012	1,621,523	4,903,465	6,272,576	3,576,174
Plan Member	80,768,508	737,428	1,336,682	5,831,379	4,206,199
Membership Fees	41				
Interest Reserve Buyback	120,703	4,331		7,068	2,799
Retirement Incentive Program	60,013				
Miscellaneous Revenue	725				
State Contributions	532,014		274,503		
Nonvested Member Forfeitures					
Total Contributions	163,258,016	2,363,282	6,514,650	12,111,023	7,785,172
Investments (Note A6)					
Net Appreciation (Depreciation) in Fair Value of Investments	356,138,177	6,323,975	9,285,565	21,487,554	10,741,426
Interest	157,517,982	2,228,955	3,759,635	7,148,448	2,590,922
Dividends	10,724,045	179,046	272,615	599,424	280,114
Investment Expense	(20,225,722)	(338,106)	(514,403)	(1,131,648)	(529,580)
Net Investment Income	504,154,482	8,393,870	12,803,412	28,103,778	13,082,882
Securities Lending Income					
Securities Lending Income	1,193,082	19,914	30,314	66,662	31,121
Securities Lending Rebate and Fees	(296,020)	(4,941)	(7,521)	(16,539)	(7,721)
Net Securities Lending Income	897,062	14,973	22,793	50,123	23,400
Total Net Investment Income	505,051,544	8,408,843	12,826,205	28,153,901	13,106,282
Total Additions	668,309,560	10,772,125	19,340,855	40,264,924	20,891,454
Deductions (Note C)					
Benefits	274,021,249	2,552,787	8,708,925	11,582,729	3,575,042
Refunds/Distributions	11,253,670		51,147	1,159,290	840,558
Refunds to Other Plans	383,738			25,310	23,050
Transfers to DCRP	871,636				
Transfers to MUS-RP	339,311				
Supplemental Insurance Payments					
OPEB Expenses	82,010	1,089	925	1,089	1,089
Administrative Expenses	3,760,858	184,375	180,397	285,930	245,993
Miscellaneous Expenses					
Total Deductions	290,712,472	2,738,251	8,941,394	13,054,348	4,685,732
Net Increase (Decrease)	377,597,088	8,033,874	10,399,461	27,210,576	16,205,722
Net Position Restricted for Pension Benefits					
Beginning of Year	3,924,212,181	64,758,506	99,291,245	216,665,604	99,635,032
Prior Period Adjustment	23,398				
End of Year	$ 4,301,832,667	72,792,380	109,690,706	243,876,180	115,840,754

The notes to the financial statements are an integral part of this statement.

Defined Benefit Pension Plans				Defined Contribution Plans			
			Total Defined Benefit			Total Defined Contribution	Total Pension Trust Funds
MPORS	FURS	VFCA	Pension Plans	PERS-DCRP	457 Plan	Plans	2013
6,279,941	5,499,366		109,929,057	4,373,853	79,087	4,452,940	114,381,997
4,025,673	4,252,560		101,158,429	6,943,409	20,297,080	27,240,489	128,398,918
			41				41
3,789	37		138,727				138,727
			60,013				60,013
			725	52,753	257,190	309,943	310,668
12,572,545	12,357,856	1,711,321	27,448,239				27,448,239
				398,447		398,447	398,447
22,881,948	22,109,819	1,711,321	238,735,231	11,768,462	20,633,357	32,401,819	271,137,050
22,033,944	22,480,400	2,093,381	450,584,422	9,865,161	13,219,515	23,084,676	473,669,098
8,523,702	8,075,488	1,345,565	191,190,697	1,989,275	9,066,713	11,055,988	202,246,685
641,034	641,054	71,508	13,408,840				13,408,840
(1,215,279)	(1,215,932)	(133,883)	(25,304,553)	(170,614)	(1,067,692)	(1,238,306)	(26,542,859)
29,983,401	29,981,010	3,376,571	629,879,406	11,683,822	21,218,536	32,902,358	662,781,764
71,221	71,211	7,943	1,491,468	36	14	50	1,491,518
(17,674)	(17,671)	(1,972)	(370,059)	(11)	(4)	(15)	(370,074)
53,547	53,540	5,971	1,121,409	25	10	35	1,121,444
30,036,948	30,034,550	3,382,542	631,000,815	11,683,847	21,218,546	32,902,393	663,903,208
52,918,896	52,144,369	5,093,863	869,736,046	23,452,309	41,851,903	65,304,212	935,040,258
18,462,730	17,670,032	2,819,162	339,392,656	29,460		29,460	339,422,116
1,833,014	73,152		15,210,831	4,349,438	19,643,806	23,993,244	39,204,075
4,708			436,806				436,806
			871,636				871,636
			339,311				339,311
		14,550	14,550				14,550
977	963	887	89,029	9,475	5,360	14,835	103,864
244,753	227,638	205,257	5,335,201	575,965	439,693	1,015,658	6,350,859
				161,980	581,071	743,051	743,051
20,546,182	17,971,785	3,039,856	361,690,020	5,126,318	20,669,930	25,796,248	387,486,268
32,372,714	34,172,584	2,054,007	508,046,026	18,325,991	21,181,973	39,507,964	547,553,990
238,636,453	237,653,159	27,013,221	4,907,865,401	87,156,951	377,674,199	464,831,150	5,372,696,551
			23,398				23,398
271,009,167	271,825,743	29,067,228	5,415,934,825	105,482,942	398,856,172	504,339,114	5,920,273,939

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Financial Statements

for the Fiscal Year Ended June 30, 2013

The Public Employees' Retirement Board (PERB) administers ten retirement plans and the related member education funds. The retirement plans are eight defined benefit plans and two defined contribution plans. The defined benefit retirement plans are the Public Employees' Retirement System (PERS-DBRP), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The defined contribution retirement plans are the Public Employees' Retirement System (PERS-DCRP) and the Deferred Compensation (IRC §457) Plan.

The PERS-DCRP was implemented July 1, 2002. All new PERS members, after July 1, 2002, have a 12-month window to file an irrevocable plan choice election. PERS members are provided education to help them decide between participation in the Defined Benefit Retirement Plan (PERS-DBRP) or the Defined Contribution Retirement Plan (PERS-DCRP). If members are employees of the university system they have a third choice, the Montana University System Retirement Plan (MUS-RP). Further education is provided for the members who choose the PERS-DCRP, including information on investment choices.

The PERB began administering the Deferred Compensation (457) Plan on July 1, 1999. The Deferred Compensation Plan is available to all employees of the State, the Montana University System and contracting political subdivisions. The Montana Public Employee Retirement Administration (MPERA) as a state agency, participates as an employer in the PERS-DBRP, PERS-DCRP and the Deferred Compensation Plan.

The assets of each plan are maintained separately, including member education funds. The assets may be used only for the payment of benefits to the members and administrative expenses of the appropriate plan, in accordance with the terms of each plan as prescribed in Title 19 of the Montana Code Annotated (MCA). The financial statements are presented by combining the PERS-DBRP and the DBRP Education Fund and by combining the PERS-DCRP, the DCRP Education Fund and the DCRP Disability Fund. A presentation of each individual fund is shown at the end of the financial section in the supplementary information.

A. Summary of Significant Accounting Policies

1. Basis of Accounting

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. The MPERA, staff of the PERB, prepares the accounting records and financial statements for the fiduciary pension trust funds using the accrual basis of accounting. For the pension trust funds, member contributions are recognized in the period in which contributions are due.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period in which they are earned and become measurable. Benefits and refunds/distributions are recognized in the accounting period in which they are due and payable. Expenses are recognized in the period incurred. Administrative expenses are financed through investment earnings on the pension trust fund for the defined benefit plans. Interfund receivables and payables exist at year-end for defined benefit administrative expenses that are accounted for within PERS-DBRP and allocated to the other defined benefit plans at year-end. Costs specifically related to the MPERAtiv program are charged directly to the individual plans.

The fiscal year 2013 financial statements contain a prior period adjustment to the PERS-DBRP for prior years' employer reporting errors where members should have been reported but were not.

For fiscal year 2013, the PERB has implemented Governmental Accounting Standards Board (GASB) Statement No. 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Implementation of this Statement includes a change in the title of the financial statements and the classification of Net Position. The previous Statement of Fiduciary Net Assets is now the Statement of Fiduciary Net Position and the previous Statement of Changes in Fiduciary Net Assets is now the Statement of Changes in Fiduciary Net Position. Within each statement the Net Assets are now classified as Net Position. The PERB has no Deferred Outflows or Deferred Inflows of Resources to report.

Participants of the PERS-DCRP are charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. The record keeper, Great-West Retirement Services (Great-West), withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees remitted to the PERB are recorded as Miscellaneous Revenue in the financial statements.

Participants of the Deferred Compensation Plan are charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. The record keeper, Great-West, withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees remitted to the PERB are recorded as Miscellaneous Revenue in the financial statements.

2. Capital Assets and Equipment Used in Operations

Assets under $5,000 are expensed in the year purchased. Assets valued at $5,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Assets valued at $100,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Equipment consists of two servers purchased for the data cleansing project which is part of the MPERAtiv program. Capital assets include the web-based employer reporting software and the MPERA website.

The web-based employer reporting system is fully depreciated at a cost of $1,701,610 as of June 30, 2013. The MPERA website as of June 30, 2013 is fully depreciated at a cost of $115,651.

MPERA has been working since March 2011 on a four to five year program to implement a new line of business application. The application is named Public Employee Retirement Information System (PERIS). During this process, several phases will be implemented to improve operational efficiency, provide better service to our plan members, employers, other customers, and address disaster recovery concerns surrounding our current paper driven processes.

MPERAtiv includes the implementation of a document imaging system completed in May 2012; a data cleansing project; PERIS the new public pension line of business software application; and a new member and employer web portal.

The PERIS application was prompted by members' expectations of web accessed services; the age and limitations of our existing systems that are increasingly difficult to maintain; and recommendations from the State's Information Technology Division (SITSD) to move away from the old Integrated Database Management System (IDMS) platform. MPERA's IDMS platforms were put in place in 1985 (retiree), 1993 (active), and 2006 (volunteer fire). The PERIS application will replace the IDMS platform as well as the Web Reporting Oracle applications that were implemented in two phases between 2002 (reporting payroll) and 2004 (457).

3 Operating Lease

Operating leases are rental agreements where the payments are chargeable as rent and recorded as administrative expenses. MPERA entered into a 10-year lease for office space in November 2003, at the location of 100 North Park Avenue, Helena, MT. The lease is payable monthly and includes inflationary adjustments over the period of the lease. Negotiations are pending for a seven year lease in the same location.

4. Funded Status And Funding Progress

The funded status of the eight defined benefit retirement plans, as of the most recent actuarial valuation date, appear in the table at the bottom of the following page.

The net Funded Ratio increased in fiscal year 2013 for all the retirement plans.

Funded Ratio		
	6/30/2013	6/30/2012
PERS-DBRP	80%	67%
JRS	143%	137%
HPORS	60%	58%
SRS	77%	74%
GWPORS	80%	76%
MPORS	58%	55%
FURS	66%	62%
VFCA	75%	73%

The required supplementary information (RSI), following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities.

Remaining Amortization Period	
PERS-DBRP	14.5 years
JRS	0*
HPORS	44.6 years
SRS	Does not amortize
GWPORS	Does not amortize
MPORS	23.8 years
FURS	13.9 years
VFCA	8.5 years

* Currently JRS has a surplus

Merit Projected Salary Increases*	
PERS-DBRP	0% - 6%
JRS	0%
HPORS	0% - 7.3%
SRS	0% - 7.3%
GWPORS	0% - 7.3%
MPORS	0% - 7.3%
FURS	0% - 7.3%
VFCA	N/A

*Plus an annual inflation of 4%

The information that follows on the top of the next page is general and applicable to each defined benefit plan, except the VFCA's amortization method is a level dollar amount over a rolling 20-year period instead of a level percent of payroll like the other plans. Also, the VFCA has inflation and no wage growth in the projected salary increases.

Funded Status as of June 30, 2013

(dollar amounts are in thousands)

System	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
PERS-DBRP	$4,139,921	$5,160,951	$1,021,030	80.22%	$1,104,000	92.48%
JRS	70,323	49,236	(21,087)	142.82%	6,276	-336.00%
HPORS	105,736	175,594	69,858	60.22%	13,484	518.08%
SRS	235,310	304,185	68,875	77.36%	61,467	112.05%
GWPORS	112,100	139,985	27,885	80.08%	39,471	70.65%
MPORS	262,678	450,043	187,365	58.37%	42,796	437.81%
FURS	263,483	396,769	133,286	66.41%	37,963	351.10%
VFCA	28,294	37,830	9,536	74.79%	N/A*	N/A*

*Covered payroll is not applicable to VFCA because members are unpaid volunteers.

General to each DB Retirement System	
Valuation date	June 30, 2013
Actuarial cost method	Entry Age
Amortization method, except VFCA	Level percent payroll, open
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases:	
General Wage Growth*	4.00%
*includes inflation rate at	3.00%

The Guaranteed Annual Benefit Adjustment (GABA) affects all systems, except VFCA. Three systems, JRS, MPORS, and FURS, have a GABA of 3% after one year of retirement. Two systems, SRS and GWPORS, have a GABA of 3% after one year of retirement for members who are hired prior to July 1, 2007 and a 1.5% GABA for members hired on or after July 1, 2007. During the 2013 Legislative Session, the GABA was revised for PERS and HPORS. The GABA for PERS was revised for all members active and retired. The new GABA ranges from a maximum of 1.5% to a minimum of 0% depending on the funding level of the system. The HPORS has a 3% GABA with a one year waiting period for existing members. For members hired after July 1, 2013 the GABA has been reduced to 1.5% and the waiting period increased from one year to three years. A table showing the GABA adjustments follows.

Guaranteed Annual Benefit Adjustment (GABA)	
PERS	For members hired prior to July 1, 2007, 3% GABA after a one year waiting period. For members hired on or after July 1, 2007, 1.5 % GABA after a one year waiting period. Effective July 1, 2013, for all active and retired members: the maximum rate for GABA is 1.5%; minimum is 0%. The 1.5% GABA is reduced 0.1% for each 2% funded below 90%. A 0% GABA whenever PERS amortization period is 40 years or more.
JRS MPORS FURS	3% GABA after a one year waiting period.
SRS GWPORS	For members hired prior to July 1, 2007, 3% GABA after a one year waiting period. Effective July, 1, 2007 for new hires, 1.5% GABA after a one year waiting period.
HPORS	For members hired prior to July 1, 2013, 3% GABA after a one year waiting period. Effective July 1, 2013 for new hires, 1.5% GABA with a three year waiting period.

The minimum benefit adjustment (non-GABA) only affects four systems: JRS, HPORS, MPORS and FURS. A table showing the non-GABA adjustment for these systems follows.

Minimum Benefit Adjustment (non-GABA)	
Retiree benefit adjustments	
JRS	Biennial increase to salary of active member in like position
HPORS	2% per year of service of probationary officer's base pay, not to exceed 5% increase over previous benefit
MPORS	50% of newly confirmed officer's pay
FURS	50% of newly confirmed officer's pay

5. Other Post-Employment Benefits (OPEB)

The State of Montana implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.* This statement requires the disclosure of employer liability for retiree medical subsidies and other post-employment benefits. The OPEB liability for MPERA, staff of the PERB, at June 30, 2013 and June 30, 2012 was $572,585 and $468,721, respectively.

Plan Descriptions: MPERA employees and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with section 2-18-704, MCA, the State provides optional post-employment medical, vision, and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. For GASB Statement No. 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and MPERA is considered to be a separate employer participating in the plan.

In addition to the employee benefits, the following post-employment benefits are provided. Montana Department of Administration established retiree medical premiums varying between $299 and $1,061 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Retirees pay 100% of the premiums for medical, dental, and vision. Administratively established monthly dental premiums vary between $35.00 and $60.00; monthly vision premiums vary between $7.64 and $22.26; both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month. The State Benefit Plans reimburse all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State acts as secondary payer for retired Medicare-eligible claimants.

Benefits Not Included in the Actuarial Valuation: The dental and vision benefits are fully-insured and retirees pay 100% of the cost for both dental and vision; therefore, no liability for these benefits is calculated in the actuarial valuation. Continuation of the life insurance benefit is not available as an employer-provided group insurance benefit for retirees; therefore, no liability for life insurance is calculated in this valuation.

Funding Policy: The following estimates were prepared based on an actuarial valuation prepared as of the year ending December 31, 2011 for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the MPERA data and is available through the address below.

Montana Department of Administration
State Accounting Division
Room 255, Mitchell Bldg

125 N Roberts St
PO Box 200102
Helena, MT 59620-0102

GASB Statement No. 45 requires the plan's participants, including MPERA, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liablities (or funding excess) over a period not to exceed 30 years. The 2011 ARC is calculated for all the State plan's participants and then allocated to individual participants. MPERA's 2013 allocated portion of the ARC is estimated at $103,864 and is based on the plan's current ARC rate of 6.32% of participants' annual covered payroll. MPERA's 2013 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liablities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the statements, presents information concerning the actuarial value of plan assets and liabilities. In the January 1, 2011, actuarial valuation date, the projected unit credit funding method is used. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statements No. 43 or No. 45. Annual healthcare costs trend rates of 10% were used for both medical and prescription claims. These rates decrease by 0.5% per year down to 5.0% at 2021 and beyond for medical and by 1.0% per year down to 5.0% at 2016 and beyond for prescription costs. The unfunded actuarial accrued liability is amortized following a 30-year level percent of pay amortization on an open basis, using a 4.25% discount rate and a 2.50% payroll growth rate assumption.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. While this liability is disclosed for financial statement purposes it does not represent a legal liability of the State of Montana or MPERA. Therefore, the following cost information shows no value for Plan Assets made by MPERA.

Annual Other Post-Employment Benefits (OPEB) Cost: For the fiscal year ended June 30, 2013, MPERA's allocated annual OPEB cost (expense) increased to $103,864 from $99,632 in fiscal year 2012. For the fiscal year ending June 30, 2013, the interest on the net OPEB obligation increased to $4,608 from $4,420 in fiscal year 2012. The cost that was allocated to MPERA for the years ended June 30, 2013 and June 30, 2012 was $103,864 and $99,632, respectively.

The PERB annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and prior are as follows.

Annual OPEB Cost			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 91,792	0.00%	$ 91,792
6/30/2009	95,693	0.00%	187,485
6/30/2010	88,913	0.00%	276,398
6/30/2011	92,692	0.00%	369,090
6/30/2012	99,632	0.00%	468,721
6/30/2013	103,864	0.00%	572,585

Net OPEB Obligation	
Annual required contribution	$ 83,944
Cummulative Interest on Net OPEB	19,920
Annual OPEB cost	103,864
Net OPEB obligation - beginning of the year	468,721
Net OPEB obligation - end of the year	$ 572,585

Funded Status and Funding Progress: The most recent actuarial valuation available was completed by the State of Montana as of January 1, 2011 for the calendar year ending December 31, 2011. This actuarial valuation is completed every two years with the next valuation to be completed as of January 1, 2013 for the calendar year ending December 31, 2013.

The MPERA allocation of the plan as of the calendar year ending December 31, 2011 was as follows: Actuarial Accrued Liability (AAL) is $733,935; Actuarial Value of Plan Assets is $0; Unfunded Actuarial Accrued Liability (UAAL) is $733,935; Funded Ratio (Actuarial Value of Plan Assets/AAL) is 0 percent; Covered Payroll (Active Plan Members) is $1,644,229; and the UAAL as a Percentage of Covered Payroll is 44.64%.

The AAL and UAAL has been adjusted for the calendar year ending December 31, 2011 to include the inactive members not reported in last years' annual report.

6. Method Used To Value Investments

According to Article VIII, section 13 of the Montana Constitution and section 19-2-504, MCA, the Board of Investments (BOI) has a fiduciary responsibility for investing the defined benefit retirement plan assets on behalf of the defined benefit plan members. Investments are determined in accordance with the statutorily and constitutionally mandated "prudent expert principle." Pursuant to Article VIII, section 15 of the Montana Constitution and sections 19-2-502 and 19-2-503, MCA, the PERB has a fiduciary responsibility for the administration of the pension trust funds. For the defined benefit pools, the PERB relies on the Investment Policy Statements that are drafted and approved by the BOI with the assistance of RV Kuhns & Associates, Inc., the investment consultant. Investments are reported at fair value. As of June 30, 2013, there were six major diversified pools, Montana Short Term Investment Pool (STIP), Montana Domestic Equity Pool (MDEP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP) and Montana Real Estate Investment Pool (MTRP).

The PERS-DCRP and Deferred Compensation Plan's Stable Value Group Trust fixed investments were administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank State Street Bank Kansas City (SSKC) and a third-party insurer, Transamerica. All money invested in the Fixed Investments of the PERS-DCRP and Deferred Compensation Plan was transferred to a Pooled Trust.

For both the PERS-DCRP and Deferred Compensation plan the third party record keeper, Great-West Retirement Services, tracks and reports the daily trading and valuations of all investment options including the assets held by the individual mutual fund companies.

In addition to the laws cited previously, the PERS-DCRP investments are also governed by section 19-3-2122, MCA and the Deferred Compensation Plan investments are governed by Title 19, Chapter 50, MCA.

There are separate investment policy statements for the PERS-DCRP and Deferred Compensation plans. The investment policies are reviewed by the PERB on an annual basis and the investment options are reviewed quarterly by an independent third party consultant and investment analyst. In the review, each investment alternative is compared to its peers and the appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews, the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. Investments are reported at fair value as of June 30, 2013.

The following are the summaries of the BOI's fiscal year end statements, the Stable Value Group Trust contracts and a statement about the variable investments. The BOI fiscal year statements and information on the income can be obtained by contacting BOI at the following address:

Montana Department of Commerce
Board of Investments
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126.

STIP portfolio may include asset-backed securities, commercial paper, corporate and U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating rate) instruments. The purpose of STIP is the preservation of principal, while obtaining money market type returns and 24-hour liquidity. The BOI manages the STIP consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use an amortized cost rather than fair value to report net assets to compute unit values. The portfolio is carried at amortized cost or book value with a constant unit value of $1.00. State agencies with accounts that retain interest earnings are legally required to invest in STIP and the PERB elects to have all STIP income automatically reinvested. For fiscal year 2013, income was distributed on the first calendar day of each month. *Credit Risk* is the risk that the issuer of a STIP security may default in making timely principal and interest payments. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The total investments credit quality rating for STIP is not rated (NR). The PERB portion of STIP is $77.5 million or 2.95%.

At June 30, 2013, the STIP balance included Structure Investment Vehicles (SIVs) that were no longer liquid. As a result these are no longer considered cash equivalents and are reclassified from cash to investments based on a pro rata share of the pension funds' investment in the pool.

MDEP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives and commingled funds. The MDEP portfolio is limited to domestic stock or ADR investments. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. For *Custodial Credit Risk* as of June 30, 2013, all the MDEP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of MDEP is $2.1 billion or 63.00%.

RFBP portfolio includes corporate and foreign government bonds; U.S. Government direct obligations and U.S. Government agency securities; and cash equivalents. U.S. Government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. Government. U.S. Government agency securities include U.S. Government agency and mortgage-backed securities. U.S. Government mortgage-backed securities reflect participation in a pool of residential mortgages. For *Custodial Credit Risk* as of June 30, 2013, all investments were registered in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. There is no *Concentration of Credit Risk* for the PERB. *Credit Risk* is that the issuer of a fixed income security may default in making timely principal and interest payments. With the exception of the U.S. Government securities, the RFBP fixed income instruments have credit risk as measured by major credit rating services. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The total fixed income investments credit quality rating for RFBP is not rated (NR). For *Interest Rate Risk* as of June 30, 2013, in accordance with GASB Statement No. 40, the BOI has selected the effective duration method to disclose interest rate risk. The PERB portion of the entire RFBP is $1.2 billion or 63.01%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The RFBP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $686.7 thousand or 50.30%.

MTIP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives, and commingled funds. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. The MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. The MTIP portfolio invests in both developed and emerging markets. For *Custodial Credit Risk* as of June 30, 2013, all MTIP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MTIP is $892.7 million or 63.04%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTIP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $277.4 thousand or 50.32%.

MPEP portfolio may include venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. These investments are made via Limited Partnership Agreements in which the BOI and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are riskier with higher potential return than public equity investments and are less liquid because the funds are usually committed for at least ten years. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. For *Custodial Credit Risk* as of June 30, 2013, all MPEP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MPEP is $672.2 million or 63.02%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MPEP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $9.7 million or 50.30%.

MTRP portfolio includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. Real estate investments held, in part, for PERS include a building at 100 North Park Avenue in Helena, MT; a building at 2273 Boot Hill Court in Bozeman, MT; a building at 2401 Colonial Drive in Helena, MT; and property located on California Street in Helena, MT. The BOI also holds the building located at 1712 Ninth Avenue in Helena, MT. For *Custodial Credit Risk* as of June 30, 2013, all MTRP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MTRP is $492.6 million or 63.05%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTRP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $11.2 million or 50.32%.

Securities Lending Collateral, governed under the provisions of state statutes, BOI authorized the custodial bank, State Street Bank, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The BOI and the custodial bank split the earnings on security lending activities. The securities lending collateral, securities lending collateral liability, securities lending income, and securities lending expense consist of allocations to PERB on a pro rate basis of its ownership share of each pool with securities lending activity. On any day including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The private equity and real estate pools do not participate in securities lending.

Stable Value Group Trust Fixed Investments for the PERS-DCRP and the Deferred Compensation Plan, are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the fixed investment option they are guaranteed a rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Transamerica guarantees the participants principal investments and earnings. Transamerica calculates the rate of return each quarter called the "crediting rate", which is used to credit earnings to participant accounts. Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio market value yield and duration.

All money invested in the Fixed Investments of the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended.

Under the Pooled Trust agreement Transamerica provides a guarantee of principal and sets a fixed quarterly crediting rate. The Pooled Trust assets are invested by PIMCO and are held under a custodial agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, Transamerica and PIMCO. *Concentration of Credit Risk* is addressed in the investment policy statement of the Stable Value Group trust.

Variable Investments for the PERS-DCRP and Deferred Compensation Plan are held and managed in a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. The selection of offered mutual funds is designed to provide participants with the ability to diversify investments and meet their individual investment goals and strategies. With advice from an independent investment analyst and assistance from the statutorily created Employee Investment Advisory Council (EIAC), the PERB conducts quarterly reviews of the offered mutual funds. The goal of the reviews is to ensure that the offered mutual funds meet standards established in the Investment Policy Statements adopted by the PERB. Each investment alternative is compared to its peers and an appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. *Concentration of Credit Risk* is not addressed in the investment policy and investments in mutual funds are not required to be disclosed.

Investments are reported at fair value as of June 30, 2013. A listing of available funds appears in the Note C of this report.

B. Litigation

Each of the plans administered by the PERB may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management and legal counsel, the disposition of those matters will not have a material, adverse affect on any plan’s financial position as a whole.

Center for Mental Health. The legislature amended § 19-3-108(3), MCA in 1999 requiring PERS to exclude participation by certain employees hired by regional mental health centers on or after July 1, 1999 from PERS participation. Certain Center for Mental Health (CMH) employees were allegedly incorrectly reported as PERS members until 2009. MPERA returned contributions to the employees and CMH, and corrected retirement benefits. The impacted employees hired Joseph Cosgrove of Hoyt and Blewett in Great Falls, Montana. Cosgrove filed an administrative claim with Risk Management and Tort Defense (RMTD). A complaint was filed against MPERA and the State on September 13, 2011 and served on the Office of the Attorney General on October 4, 2011. The complaint alleged MPERA negligently breached its duties to administer and manage PERS by allowing plaintiffs to be enrolled in PERS. Plaintiffs sought damages for past and future economic damages, emotional distress, costs and disbursements. The parties agreed to settlement terms in mid-December 2013. MPERA's portion of the settlement, $700,000, will be paid through the state's self-insurance reserve fund, not the PERS trust fund. This matter has no material, adverse effect on PERS's financial position as a whole.

Wrzesien v. State. Three members of PERS who elected to participate in either the PERS-Defined Contribution Retirement Plan or the University System's Optional Retirement Program (now known as the Montana University System Retirement Program (MUS-RP)) have sued the State of Montana and MPERA over the PERS plan choice rate. The complaint alleges equal protection and due process violations, and requests issuance of a declaratory judgment granting plaintiffs the employer contributions paid toward the plan choice rate. Class action certification is also requested. The plaintiffs are represented by Travis Dye of Kalkstein, Johnson & Dye in Missoula, Montana. The State and MPERA are represented by J. Stuart Segrest and Michael G. Black of the Montana Attorney General's Office. Recently the complaint was amended to include the 1% in employer contributions for DCRP plan members that, pursuant to HB 454 (2013), goes to the defined benefit retirement plan starting July 1, 2013. In the event plaintiffs prevail, and class action certification is granted, over 3,000 PERS-DCRP and MUS-RP participants will be paid the contributions previously directed to the plan choice rate. At June 30, 2013, MPERA calculated the contributions from the MUS-RP Plan Choice at $4,559,108 and the contributions from the DCRP Plan Choice at $18,265,937.

AMRPE v. State. On October 31, 2013, the Montana Attorney General's office was served with a Complaint alleging that Section 5 of HB 454 (2013), which permanently reduces the PERS GABA to a cap of 1.5% for all members of PERS, including retirees, constitutes a violation of the contract and takings clauses of both the Montana and the United States Constitutions and is thus unconstitutional. A companion Motion for Preliminary Injunction requested the First Judicial District Court of Montana, Judge Seeley presiding, to issue a preliminary injunction prohibiting the implementation of the decreased GABA pending resolution of the underlying lawsuit. Judge Seeley recused herself and Judge James Reynolds is now presiding. Following briefing and oral argument on the request for a preliminary injunction, Judge Reynolds granted the preliminary injunction on December 20, 2013. Thus retirees hired prior to July 1, 2007, will continue to receive a 3% GABA until the lawsuit is resolved. If the GABA reduction is ultimately determined to be unconstitutional, the GABA will remain at 3% for all PERS retirees hired prior to July 1, 2007. According to MPERA's actuary, Stephen McElhaney of Cheiron, retaining the GABA at 3% will result in an Unfunded Actuarial Accrued Liability of $1,762,742,000, an increase of $741,712,000 over the UAAL under HB 454 as signed into law. Similarly, the amortization period would increase from 14.5 to 43.7 years.

C. Plan Membership, Descriptions And Contribution Information

The plans are established and amended statutorily by the Legislature. In all defined benefit plans (except VFCA), if a member leaves covered employment before retirement, the member contributions plus accrued interest (accumulated contributions) may be refunded to the member. If a member returns to service and repays the withdrawn accumulated contributions plus the interest the accumulated contributions would have earned had they remained on deposit, membership service is restored. Membership in each plan as of June 30, 2013 and June 30, 2012 is detailed in the following charts.

PERS-DBRP Membership

	2013	2012		2013	2012
Number of participating employers	540	538			
Active plan members	28,401	28,548	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	18,868	18,148
Vested	2,686	2,560	Disability Retirements	185	200
Non-vested	6,712	6,164	Survivor Benefits	398	390
	9,398	8,724		19,451	18,738

JRS Membership

	2013	2012		2013	2012
Number of participating employers	1	1			
Active plan members	54	54	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	62	54
Vested	-	-	Disability Retirements	-	-
Non-vested	-	-	Survivor Benefits	3	2
	-	-		65	56

HPORS Membership

	2013	2012		2013	2012
Number of participating employers	1	1			
Active plan members	219	218	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	285	280
Vested	14	11	Disability Retirements	9	9
Non-vested	11	10	Survivor Benefits	16	16
	25	21		310	305

SRS Membership

	2013	2012		2013	2012
Number of participating employers	57	57			
Active plan members	1,276	1,241	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	447	415
Vested	67	60	Disability Retirements	36	33
Non-vested	235	212	Survivor Benefits	20	21
	302	272		503	469

GWPORS Membership

	2013	2012		2013	2012
Number of participating employers	7	7			
Active plan members	971	972	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	170	153
Vested	69	64	Disability Retirements	2	2
Non-vested	148	146	Survivor Benefits	8	8
	217	210		180	163

MPORS Membership

	2013	2012		2013	2012
Number of participating employers	31	31			
Active plan members	734	736	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	661	634
Vested	52	49	Disability Retirements	20	20
Non-vested	77	76	Survivor Benefits	29	29
	129	125		710	683

FURS Membership

	2013	2012		2013	2012
Number of participating employers	25	24			
Active plan members	610	590	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	558	543
Vested	15	13	Disability Retirements	8	7
Non-vested	63	62	Survivor Benefits	21	21
	78	75		587	571

VFCA Membership

	2013	2012		2013	2012
Number of participating employers	217	217			
Active plan members	2,101	2,106	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	1,285	1,242
Vested	884	879	Disability Retirements	-	-
			Survivor Benefits	-	-
				1,285	1,242

PERS-DCRP Membership

	2013	2012		2013	2012
Number of participating employers	263	258			
Active plan members	2,087	2,032	Retiree and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Periodic Distributions	14	12
Vested	207	172	Disability Retirements	4	4
Non-vested	434	388	Survivor Benefits	2	1
	641	560		20	17

Deferred Compensation (457) Membership

	2013	2012		2013	2012
Number of participating employers	31*	28*	Number of participating plan members	8,215	8,156
Number of participating employers that provide contributions on members' behalf	4	4	Number of participating plan members that are actively contributing to their deferred compensation accounts	4,514	4,584

*All State agencies are counted as one employer.

Public Employees' Retirement System-DBRP (PERS-DBRP)

Plan Description: The PERS-Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Optional Retirement Program (ORP) (now known as the Montana University System Retirement Program (MUS-RP)) effective July 1, 2013. For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contribution will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

PERS-DBRP Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit
Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.
Hired on or after July 1, 2011: Age 55, 5 years of membership service.

PERS-DBRP Summary of Benefits (continued)

Vesting 5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011:
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:
Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007 (discontinued effective July 1, 2013)
- 1.5% for members hired on or after July 1, 2007 (discontinued effective July 1, 2013)

GABA revision for all members
Effective July 1, 2013, includes all active and retired members.

- Maximum rate for GABA is 1.5%; minimum rate for GABA is 0%
- The 1.5% GABA is reduced 0.1% for each 2% PERS is funded below 90%
- GABA is 0% whenever PERS amortization period is 40 years or more.

At June 30, 2013 PERS had 540 participating employers, two more than fiscal year 2012. The participating employers consist of:

PERS-DBRP EMPLOYERS

Employers	June 30, 2013	June 30, 2012
State Agencies	34	34
Counties	55	55
Cities and Towns	99	98
Colleges and Universities	5	5
School Districts	231	230
High Schools	6	6
Other Agencies	110	110
Total	540	538

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2013 was 6.9% of the member's compensation for members hired prior to July 1, 2011. Members hired on or after July 1, 2011 have a contribution rate of 7.9%. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a request for retirement or refund is processed.

Following the 2013 Legislative Session, PERS member contributions were temporarily increased. Effective July 1, 2013, all members will contribute 7.9% of compensation. This is an increase of 1.0% for members hired prior to July 1, 2011. All member contributions will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates. There was no change to the member contributions on January 1, 2014.

Each state agency and university system employer contributed 7.17% of PERS-covered payroll during fiscal year 2013. Participating local governments contributed 7.07% of PERS-covered payroll during fiscal year 2013. The State contributed the remaining 0.1% for local governments. Participating school districts contributed 6.8% of PERS-covered payroll during fiscal year 2013. The state contributed the remaining 0.37%. A percentage of the employers' contributions is used to fund the employee education program.

Following the 2013 Legislative Session, PERS employer contributions temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and member contribution rates. On January 1, 2014, the additional contributions were not terminated. (See Contribution Rates in the Required Supplementary Information Section).

Effective July 1, 2013, PERS-DBRP will receive other contributions including DCRP and MUS-RP contributions, additional Plan Choice Rate contributions, and coal severance tax interest and principal. The coal severance taxes collected will be credited to the general fund of the State of Montana and is statutorily appropriated on July 1 each year to the trust fund for the PERS-DBRP. The interest is credited to the PERS-DBRP fund on a monthly basis and the principal is credited to the fund quarterly. The amount that is expected for fiscal year 2014 is approximately $30.4 million. These contributions are required by Chapter 390, Laws of 2013.

During the 2013 Legislative Session, House Bill 95 was passed requiring employer contributions to be made on working retiree compensation, effective July 1, 2013. Member contributions for working retirees are not required.

Plan Membership Elections: MPERA has included in the financial statements transfers of

$871,636 in Transfers to DCRP and $339,312 in Transfers to MUS-RP These transfers reflect the DCRP and MUS-RP contributions of participants that filed elections at or near the June 30 cutoff date. The contributions were transferred in early fiscal year 2014.

PERS-DBRP Active Membership by Employer Type

Employer Type	6/30/2013	6/30/2012
State Agencies	10,729	10,718
Counties	5,290	5,336
Cities	3,277	3,225
Universities	2,658	2,690
High Schools	62	63
School Districts	5,209	5,321
Other Agencies	1,176	1,195
Total	28,401	28,548

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated due to a reduction in force, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. The employees participating under section 19-2-706, MCA increased from 217 in fiscal year 2012 to 221 in fiscal year 2013. The contributions received (including interest) during fiscal year 2013 totaled $85,012. The outstanding balance at June 30, 2013, totaled $23,110.

Public Employees' Retirement System-DBRP Education Fund: Education is provided to all members of the PERS regardless of plan choice as governed by section 19-3-112, MCA. The education must be presented with impartial and balanced information about plan choices, investments and retirement planning.

The education program consists of ongoing transfer education for new members and investment/retirement planning education for all active members.

The education program was funded by 0.04% of PERS-covered payroll in fiscal year 2013.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. Prior to the 2013 Legislative Session and adoption of House Bill 454, the statutory contribution rates were not sufficient to amortize the unfunded actuarial liability as of June 30, 2013. House Bill 454 provided additional funding and plan changes which reduced the period to amortize the unfunded actuarial liability to 14.5 years as of June 30, 2013. This amoritization period would increase to 43.7 years if the additional member and employer contributions required by HB 454 were terminated; thus the contributions remain in effect as of January 1, 2014 under the provisions of HB 454. During the fiscal year ended June 30, 2013, the PERS' assets gained 12.99% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 11.91%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $156 million.

Judges' Retirement System (JRS)

Plan Description: The JRS is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5 of the MCA. This system provides benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge or Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

<u>JRS Summary of Benefits</u>

Member's current salary[1] or highest average compensation (HAC)[2]
[1]Hired prior to July 1, 1997 and non-GABA - monthly compensation at time of retirement;
[2]Hired on or after July 1, 1997 or electing GABA - HAC during any consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a members' highest average compensation.

Eligibility for benefit
Age 60, 5 years of membership service;
Any age with 5 years of membership service - involuntary termination, actuarially reduced.

Vesting 5 years of membership service

Monthly benefit formula
3-1/3% of current salary[1] (non-GABA) or HAC[2] (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired prior to July 1, 1997 and member did not elect GABA - current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

At June 30, 2013 JRS had one participating employer, the same as fiscal year 2012. The participating employer consists of:

JRS EMPLOYERS		
Employer	June 30, 2013	June 30, 2012
State Agency - Supreme Court	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2013 was 7.0% of the member's monthly compensation. Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

As the employer, the State contributed 25.81% of the total JRS-covered payroll to the retirement plan during fiscal year 2013. (See Contribution Rates in the Required Supplementary Information Section).

Actuarial status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2013, the statutory contribution rates are sufficient to amortize the unfunded actuarial accrued liability. During the fiscal year ended June 30, 2013, the JRS' assets gained 12.72% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value continues to reflect prior year investment gains and losses resulting in a return of 11.60%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $2.4 million.

JRS Active Membership by Employee Type		
Employee Type	6/30/2013	6/30/2012
GABA	39	41
Non-GABA	15	13
Total	54	54

Highway Patrol Officers' Retirement System (HPORS)

Plan Description: The HPORS is a single-employer, defined benefit plan established July 1, 1945, and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately.

All other rights are vested after five or 10 years of service. A brief summary of eligibility and benefits follows.

HPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Hired prior to July 1, 2013 - 5 years of membership service, actuarially reduced from age 60.
Hired on or after July 1, 2013 - 10 years of membership service, actuarially reduced from age 60.

Vesting Hired prior to July 1, 2013 - 5 years of membership service
Hired on after July 1, 2013 - 10 years of membership service

Monthly benefit formula
Prior to July 1, 2013 - 2.5% of HAC per year of service credit.
After July 1, 2013 - 2.6% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Hired on or after July 1, 2013 - after the member has completed 36 full months of retirement, the member's benefit increases by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired prior to July 1, 1997 and member did not elect GABA - monthly benefits are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

At June 30, 2013 HPORS had one participating employer, the same as fiscal year 2012. The participating employer consists of:

HPORS EMPLOYERS		
Employer	June 30, 2013	June 30, 2012
State Agency - Department of Justice	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2013 is 9.05% of the member's total compensation if hired on or after July 1, 1997 or for members electing GABA, and 9.0% for those members hired prior to July 1, 1997 and not electing GABA (all active members hired prior to July 1, 1997 have elected GABA).

Effective July 1, 2013, all HPORS member contributions, regardless of hire date, will increase 1.0% annually for four years commencing in fiscal year 2014.

Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

As the employer, the State contributed 36.33% of the total HPORS-covered payroll during fiscal year 2013. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from the general fund through a statutory appropriation.

Effective July 1, 2013, the State employer contributions increased from 36.33% to 38.33%. (See Contribution Rates in the Required Supplementary Information Section).

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

HPORS Active Membership by Employee Type		
Employee Type	6/30/2013	6/30/2012
GABA	219	218
Non-GABA	0	0
Total	219	218

Supplemental Benefit for Retirees: Section 19-6-709, MCA provides eligible Montana highway patrol officers retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the general fund. Factors impacting eligibility include the number of years the recipient has received a service retirement benefit or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2013, the HPORS amortizes in 44.6 years. During the fiscal year ended June 30, 2013, the HPORS' assets gained 12.88% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 11.86%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $3.9 million.

Sheriffs' Retirement System (SRS)

Plan Description: The SRS is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

SRS Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service, actuarially reduced.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit.

SRS Summary of Benefits (continued)

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.
- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2013 SRS had 57 participating employers, the same as fiscal year 2012. The participating employers consist of:

SRS EMPLOYERS

Employers	June 30, 2013	June 30, 2012
State Agencies - Department of Justice	1	1
Counties	56	56
Total	57	57

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2013 was 9.245% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

The employer contribution rate for fiscal year 2013 was 10.115%. (See Contribution Rates in the Required Supplementary Information Section).

During the 2013 Legislative Session, House Bill 95 was passed requiring employer contributions to be paid on working retiree compensation, effective July 1, 2013. Member contributions are not required for working retirees.

SRS Active Membership by Employer Type

Employer Type	6/30/2013	6/30/2012
Dept of Justice	59	54
Counties	1,217	1,187
Total	1,276	1,241

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarial rate of return as established by the PERB on the unpaid balance. Three employees have taken advantage of this provision to date.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2013 the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability. During the fiscal year ending June 30, 2013, the SRS' assets gained 12.88% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 11.57%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $8.1 million.

Game Wardens' and Peace Officers' Retirement System (GWPORS)

Plan Description: The GWPORS is a multiple-employer, cost-sharing defined benefit plan established in 1963 and governed by Title 19, chapters 2 & 8, MCA. This system provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

GWPORS Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)
Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit.

GWPORS Summary of Benefits (continued)

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2013 GWPORS had seven participating employers, the same as fiscal year 2012. The participating employers consist of:

GWPORS EMPLOYERS

Employers	June 30, 2013	June 30, 2012
State Agencies	4	4
Colleges and Universities	3	3
Total	7	7

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2013 was 10.56% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Each state agency and university employer contributed 9.0% of total GWPORS-covered payroll to the retirement plan during fiscal year 2013. (See Contribution Rates in the Required Supplementary Information Section).

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

GWPORS Active Membership by Employer

Employer	6/30/2013	6/30/2012
Dept of Corrections	718	726
Dept FW&P	103	101
Dept of Livestock	33	35
Dept of Transport.	78	76
Universities	39	34
Total	971	972

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2013, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability. During the fiscal year ending June 30, 2013, the GWPORS' assets gained 12.69% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 11.13%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $3.4 million.

Municipal Police Officers' Retirement System (MPORS)

Plan Description: The MPORS is a multiple-employer, cost-sharing defined benefit plan established in 1974 and is governed by Title 19, chapters 2 & 9 of the MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

MPORS Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 - average monthly compensation of final year of service;
Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's final average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of FAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

MPORS Summary of Benefits (continued)

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA - the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city where the member was last employed.

At June 30, 2013 MPORS had 31 participating employers, the same as fiscal year 2012. The participating employers consist of:

MPORS EMPLOYERS

Employers	June 30, 2013	June 30, 2012
Cities	31	31
Total	31	31

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. Member contribution rates are dependent upon date of hire as a police officer. For fiscal year 2013, member contributions as a percentage of salary were 7.0% if employed after June 30, 1975 and prior to July 1, 1979; 8.5% if employed after June 30, 1979 and prior to July 1, 1997; and, 9.0% if employed on or after July 1, 1997 and for members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Employer contributions to the retirement plan are 14.41% of total MPORS-covered payroll.

The State contribution was 29.37% of total compensation for all covered police officers in fiscal year 2013. The State contributions are requested at the beginning of the fiscal year based on the previous fiscal year compensation and are due no later than November 1. (See Contribution Rates in the Required Supplementary Information Section).

MPORS Active Membership by Employee Type

Employee Type	6/30/2013	6/30/2012
GABA	727	729
Non-GABA	7	7
Total	734	736

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, chapter 9, part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2013, there are 38 DROP participants. Since program inception, a total of 98 members have participated in the DROP.

DROP Participation

	6/30/2013	6/30/2012
Participants Beginning of Year	37	37
Participants Added	8	2
Completed DROP	7	2
Participants End of Year	38	37
DROP Distributions	$1,176,526	$352,107

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2013, the MPORS amortizes in 23.8 years. During the fiscal year ended June 30, 2013, the MPORS' assets gained 12.42% on a market basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 11.08%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $7.8 million.

Firefighters' Unified Retirement System (FURS)

Plan Description: The FURS is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other member rights are vested after five years of service.

A brief summary of eligibility and benefits follows.

FURS Summary of Benefits

Member's compensation
Hired prior to July 1, 1981 and not electing GABA - highest monthly compensation (HMC);
Hired on or after July 1, 1981 and those electing GABA - highest average compensation (HAC) during any consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
1) Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:
 2.5% of HMC per year of service; OR
 i) if less than 20 years of service -
  2% of HMC for each year of service;
 ii) if more than 20 years of service -
  50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years
2) Members hired on or after July 1, 1981 and those electing GABA:
 2.5% of HAC per year of service.

FURS Summary of Benefits (continued)

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least ten years of membership service).

At June 30, 2013 FURS had 25 participating employers, one more than in fiscal year 2012. The participating employers consist of:

FURS EMPLOYERS

Employers	June 30, 2013	June 30, 2012
State Agencies - Department of Military Affairs	1	1
Cities	16	16
Rural Fire Districts	8	7
Total	25	24

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal year 2013 are 9.5% for members hired prior to July 1, 1997 and not electing GABA, and 10.7% for members hired on or after July 1, 1997 and members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Employer contribution rates for fiscal year 2013 were 14.36% of the total FURS-covered payroll.

The State contribution was 32.61% of total compensation for all covered firefighters in fiscal year 2013. State contributions are requested at the beginning of each fiscal year based on previous fiscal year salary and are due no later than November 1. (See Contribution Rates in the Required Supplementary Information Section).

During the 2013 Legislative Session, House Bill 95 was passed requiring employer contributions to be paid on working retiree compensation, effective July 1, 2013. Member contributions are not required for working retirees.

FURS Active Membership by Employee Type		
Employee Type	6/30/2013	6/30/2012
GABA	605	584
Non-GABA	5	6
Total	610	590

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2013, the FURS amortizes in 13.9 years. During the fiscal year ended June 30, 2013, the FURS' assets gained 12.43% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 11.05%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $7.8 million.

Volunteer Firefighters' Compensation Act (VFCA)

Plan Description: The VFCA is a statewide retirement and disability plan. This compensation plan was established in 1965 and is governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State of Montana is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages and includes volunteer fire departments, fire districts, and fire service areas under the laws of the State of Montana. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. VFCA also provides limited benefits for death or injuries incurred in the line of duty.

A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

A brief summary of eligibility and benefits follows.

VFCA Summary of Benefits

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

VFCA Summary of Benefits (continued)

Additional benefit
As of April 25, 2005, all retirees may receive a benefit equal to $7.50 per month for each year of credited service, up to 30 years of credited service (maximum benefit $225).

Effective July 1, 2011, members who retire on or after July 1, 2011 and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting 10 years of credited service

Monthly benefit formula
$7.50 per year of credited service

Contributions: The State is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. The State Auditor makes annual payments from the general fund to the Volunteer Firefighters' Compensation Act fund. (Reference Schedule of Contribution Rates on page 89).

Group Insurance Payments: Supplemental payments are available to qualified volunteer fire companies that provide additional group medical insurance for their members in case of death or injury incurred while in the line of duty. The payment is made to the volunteer fire companies and is equal to $75 per year for each mobile firefighting unit owned by the volunteer fire company, up to a maximum of two units.

Actuarial Status: The annual required contribution decreased from $1,125,222 at the June 30, 2012 valuation to $1,116,227 at the June 30, 2013 valuation. The required contribution is determined by amortizing the unfunded actuarial liability over a 20-year period. As of June 30, 2013, the VFCA amortizes in 8.5 years. During the year ended June 30, 2013, the VFCA's assets gained 12.01% on a market value basis. However, due to the asset-smoothing method which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 11.11%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $0.9 million. The assets also experienced a loss of approximately $0.4 million due to retroactive benefit payments and increased benefits going forward as a result of the John Crossman, et al. v. MPERA lawsuit settlement. The retroactive payments were made in January 2013.

Public Employees' Retirement System-DCRP (PERS-DCRP)

Plan Description: The PERS-Defined Contribution Retirement Plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, chapters

2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DCRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

A brief summary of eligibility and benefits follows.

PERS-DCRP Summary of Benefits

Eligibility for benefit
Termination of Service

Vesting
Immediate for participant's contributions and attributable income;
5 years of membership service for the employer's contributions to individual accounts and attributable income.

Benefit
Depends upon eligibility and individual account balance;
Various payout options are available, including: taxable lump sums, periodic payments per participant direction and IRS permitted rollovers.

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2013 are 6.9% of member's compensation for members hired prior to July 1, 2011. Members hired on or after July 1, 2011 have a contribution rate of 7.9%. Contributions are deducted from each member's salary and remitted by participating employers. The entire amount of the member's contribution is credited to the individual account and maintained by the record keeper.

Following the 2013 Legislative Session, covered members contributions were temporarily increased. Effective July 1, 2013, all members will contribute 7.9% of compensation. This is an increase of 1.0% for members hired prior to July 1, 2011. All member contributions will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reduction of both the employer and member contribution rates. There was no change to the member contributions on January 1, 2014.

Each state agency and university system employer contributed 7.17% of PERS-covered payroll during fiscal year 2013. Participating local government employers contribute 7.07% of PERS-covered payroll during fiscal year 2013. The State contributed the remaining 0.1% for local governments. Participating school districts contributed 6.8% of PERS-covered payroll during fiscal year 2013. The State contributed the remaining 0.37%. (See Contribution Rates in the Required Supplementary Information Section).

The employer rate of 7.17% is allocated as follows: 4.19% to the member's retirement account, 2.64% to the defined benefit plan choice rate, 0.04% to the defined contribution education fund and 0.3% to the long term disability plan.

Following the 2013 Legislative Session, PERS employer contributions were temporarily increased. Effective July 1, 2013, employer contributions will increase 1.0%. Beginning July 1, 2014, employer contributions will increase and additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and member contribution rates. On January 1, 2014, the additional contributions were not terminated. The increase in the employer contributions is allocated to the PERS-DBRP Plan Choice Rate. (See Contribution Rates in the Required Supplementary Information Section).

During the 2013 Legislative Session, House Bill 95 was passed requiring employer contributions to be paid on working retiree compensation, effective July 1, 2013. Member contributions are not required for working retirees.

PERS-DCRP Active Membership by Employer Type

Employer Type	6/30/2013	6/30/2012
State Agencies	957	915
Counties	332	349
Cities	274	263
Universities	123	113
High Schools	3	3
School Districts	237	234
Other Agencies	161	155
Total	2,087	2,032

At June 30, 2013 PERS-DCRP had 263 reporting employers, five more than in fiscal year 2012. The participating employers consist of:

PERS-DCRP EMPLOYERS

Employers	June 30, 2013	June 30, 2012
State Agencies	31	31
Counties	44	44
Cities and Towns	49	47
Universities	5	5
School Districts	92	90
High Schools	2	2
Other Agencies	40	39
Total	263	258

Plan Membership Elections: Included in the financial statements are employer contribution transfers of $6,389 and member contribution transfers of $12,046. These transfers reflect the contribution transfers of DCRP participants that filed elections at or near the June 30 cutoff date, although the contributions were not moved until early fiscal year 2014.

DCRP Education Fund: Implemented July 1, 2002, the DCRP Education Fund (DCEd), as governed by section 19-3-112, MCA, was established to provide funding for the required education programs for members who have joined the PERS-DCRP. The DCEd was funded by 0.04% of the employers' contributions in fiscal year 2013.

DCRP Disability Fund: Implemented July 1, 2002, the DCRP Disability Fund (DC Disability), as governed by section 19-3-2117, MCA, provides disability benefits to eligible members who elect the PERS-DCRP. The DCRP Disability Fund received 0.3% of the employers' contribution in fiscal year 2013.

Participants of the PERS-DCRP direct their contributions and a portion of their employer's contribution among the offered investment options. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired. The remaining portion of the employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP and to fund an employee education program. The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment analyst, and assistance from the statutorily-created Employee Investment Advisory Council.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options.

Variable investments: The variable investment options include a variety of Large, Mid and Small Cap mutual funds, as well as a fixed income bond fund and Target Date Retirement Funds. Options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The investment options as of June 30, 2013 are listed below.

<u>PERS-DCRP Investment Options</u>

International Stock Funds

American Funds New Perspective A
Oakmark International
Vanguard Total International Stock Index
Oppenheimer Developing Markets Y

Small Company Stock Funds

Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal
Target Small Cap Value

Mid-Sized Company Stock Funds

Munder Mid-Cap Core Growth A
Perkins Mid-Cap Value Fund T
MFS Mid-Cap Value

Large Company Stock Funds

Alger Capital Appreciation Z
BlackRock Equity Index - Collective F
Vanguard Equity Income - Adm
JP Morgan US Equity

Balanced Funds

Vanguard Balanced Index - Inst'l

Bond Funds

Vanguard Total Bond Market Index Signal

Target Date Funds
T. Rowe Price Retirement 2005 through 2055

Fixed Investment Options
Montana Fixed Fund

Fixed investments (Stable Value Group Trust): The fixed investments of the PERS-DCRP are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the fixed investment option they are guaranteed a fixed rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Transamerica guarantees the participants' principal investments and earnings. Transamerica calculates the rate of return each quarter, called the "crediting rate", which is used to credit earnings to participant accounts. Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio yield and duration.

All money invested in the Fixed Investments of the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended. Under the Pooled Trust agreement Transamerica provides a guarantee of principal and sets a fixed quarterly crediting rate. The Pooled Trust assets are invested by PIMCO and are held under a custodial agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, Transamerica and PIMCO.

Administrative expenses and revenues are accounted for within the plan. Expenses for the DCRP can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of revenues and expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West Retirement Services (Great-West), withholds the basis point fee from each plan participant's account and submits the remainder to the PERB after paying Great-West fees. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives revenue sharing fees from certain mutual fund company. The PERB uses revenue sharing fees to pay administrative expenses associated with the PERS-DCRP. These amounts are recorded as *Miscellaneous Revenue.*

Record keeping fees: The record keeper, Great-West, charges a set administrative fee to the PERB for all plan participants. Prior to October 1, 2012, the administrative fee was withheld from each plan participant's account. On October 1, 2012, following a review of the plan revenue and expense, the PERB instructed Great-West to eliminate the fee withholding process. These amounts are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC and Transamerica. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense*. The fees charged by Transamerica are classified as *Miscellaneous Expense.*

Mutual funds/variable investments fees: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented in the financial statements. Mutual fund earnings are declared net of all expenses, both investment management and administrative, in accordance with the Securities and Exchange Commission and other regulatory authorities. Current reporting standards for mutual fund companies do not require costs to be made available in the detailed cost reports.

Deferred Compensation Plan (457)

Plan Description: The Deferred Compensation (457) Plan is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Code (IRC) §457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. The record keeper for the plan is Great-West Retirement Services (Great-West). Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

A brief summary of eligibility and benefits follows.

Deferred Compensation Plan Summary

Contribution
Voluntary, tax-deferred

Eligibility for benefit
Not available to participant until separation from service, retirement, death, or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met.

Vesting
Participants are fully vested in their accounts immediately.

Benefit
Lump sum or periodic benefit payment, at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible.

At June 30, 2013 the Deferred Compensation Plan had 31 participating employers, an increase of three from fiscal year 2012. The participating employers consist of:

DEFERRED COMPENSATION EMPLOYERS

Employers	June 30, 2013	June 30, 2012
State of Montana*	1	1
Counties	3	3
Colleges and Universities	5	5
School Districts	5	5
Cities	7	6
Other	10	8
Total	31	28

*The State of Montana includes 34 agencies; however, due to the nature of the reporting for the 457 plan we are unable to specifically determine which agencies have participating employees.

Contributions: The Deferred Compensation Plan is a voluntary, tax-deferred retirement plan designed to supplement retirement, Social Security and other retirement plans and savings. Participants designate the amount to contribute within IRC limitations.

Plan participants direct their deferred salary among the offered investment options. The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment analyst, and the statutorily-created Employee Investment Advisory Council. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options.

Variable investments: The variable investment options include a variety of Large, Mid and Small Cap mutual funds, as well as a fixed income bond fund and Target Date Retirement funds. All options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The investment options as of June 30, 2013 are as follows.

Deferred Compensation (457) Plan
Investment Options

International Stock Funds

Artisan International
Mutual Global Discovery Z
Dodge & Cox International
American Funds New Perspective R4
Oppenheimer Developing Markets Y

Small Company Stock Funds

Neuberger Berman Genesis-Trust
Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal

Mid Cap Company Stock Funds
Munder Mid-Cap Core Growth A
Columbia Mid-Cap Value Fund Z

Large Cap Stock Funds
Davis NY Venture A
Vanquard Equity Income
Fidelity Contrafund
Vanguard Institutional Index
Calvert Social Investment Fund Equity

Balanced Funds
Vanguard Balanced Index

Bond Funds
Neuberger Berman
High Income Bond Fund Inv
PIMCO Total Return

Target Date Funds
T. Rowe Price Retirement 2005 through 2055

Fixed Investment Options
Montana Fixed Fund

In addition to the investments listed, plan participants previously had the option to direct a portion of their deferrals to a term life insurance policy provided through Allianz Life Insurance. The ability to invest in life insurance is allowed under the IRC and was offered to plan participants prior to life insurance being offered as a standard component of health insurance benefit packages. This investment option has been discontinued; however, plan participants who had previously elected this option may continue.

Fixed investments (Stable Value Group Trust): The fixed investments of the Deferred Compensation Plan are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the fixed investment option they are guaranteed a fixed rate of return. The fixed investment employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Transameria guarantees the participants principal investments and earnings. Transamerica calculates the rate of return each quarter, called the "crediting rate", which is used to credit earnings to participant accounts. Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio yield and duration.

All money invested in the Fixed Investments in the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended. Under the Pooled Trust agreement Transamerica provides a guarantee of principal and sets a fixed quarterly crediting rate. The Pooled Trust assets are invested by PIMCO and are held under a custodial agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, Transameric and PIMCO.

Administrative expenses and revenues are accounted for within the plan. Expenses for the Deferred Compensation Plan can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of all expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West

Retirement Services (Great-West), withholds the basis point fee from each plan participant's account and submits the remainder to the PERB after paying Great-West fees. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives revenue sharing fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping or marketing. The PERB uses revenue sharing fees to pay administrative expenses associated with the Deferred Compensation Plan. These amounts are recorded as *Miscellaneous Revenue.*

Record keeping fees: The record keeper, Great-West, charges a set administrative fee to the PERB for all plan participants. Prior to October 1, 2012, the administrative fee was withheld from each plan participant's account. On October 1, 2012, following a review of the plan revenues and expenses, the PERB instructed Great-West to eliminate the fee withholding process. These amounts are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC and Transamerica. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense.* The fees charged by Transamerica are classified as *Miscellaneous Expense.*

Mutual fund/variable investments fee: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented on the financial statements. Mutual fund earnings are declared net of expenses, both investment management and administrative, in accordance with the Securities Exchange Commission and other regulatory authorities. Current reporting standards for mutual companies do not require costs to be made available in the detailed cost reports.

FY 2013 Schedule of Contribution Rates

System	Member	Employer	State
PERS-DBRP*	**6.9%** - hired prior to 7/01/11 [19-3-315(1)(a)(i), MCA] **7.9%** - hired on or after 7/01/11 [19-3-315(1)(a)(ii), MCA]	**7.17%** State & University **7.07%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
PERS-DCRP*	**6.9%** - hired prior to 7/01/11 [19-3-315(1)(a)(i), MCA] **7.9%** - hired on or after 7/01/11 [19-3-315(1)(a)(ii), MCA]	**7.17%** State & University **7.07%** Local Governments **6.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
HPORS	**9.0%** - hired prior to 7/01/97 & not electing GABA **9.05%** - hired after 6/30/97 & members electing GABA [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries – paid from the General Fund [19-6-404(2), MCA]	
SRS	**9.245%** [19-7-403, MCA]	**10.115%** [19-7-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
MPORS	**7.0%** - hired after 6/30/75 & prior to 7/1/79 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6/30/79 and prior to 7/1/97 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6/30/97 & members electing GABA [19-9-710(d), MCA & 19-9-710(2), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries – paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7/1/97 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 06/30/97 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries – paid from the General Fund [19-13-604, MCA]
VFCA			**5.0%** of fire insurance premiums, paid from the General Fund [19-17-301, MCA]

*The employer and/or member contributions rates increase on July 1, 2013 for PERS-DBRP, PERS-DCRP and HPORS.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Funding Progress

(in thousands)

System	Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll [2] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP	06/30/08	$ 4,065,307	$ 4,504,743	$ 439,436	90.25	$ 995,113	44.16
	06/30/09	4,002,212	4,792,819	790,607	83.50	1,043,215	75.79
	06/30/10	3,889,890	5,241,819	1,351,929	74.21	1,083,780	124.74
	06/30/11	3,800,479	5,410,144	1,609,665	70.25	1,071,376	150.24
	06/30/12	3,816,920	5,661,281	1,844,361	67.42	1,081,288	170.57
	06/30/13	**4,139,921**	**5,160,951**	**1,021,030**	**80.22**	**1,104,000**	**92.48**
JRS	06/30/08	62,040	39,435	(22,605)	157.32	5,096	-443.58
	06/30/09	61,929	41,848	(20,081)	147.98	5,110	-392.99
	06/30/10	61,277	42,513	(18,765)	144.13	5,687	-329.95
	06/30/11	61,274	43,414	(17,860)	141.13	5,645	-316.38
	06/30/12	63,195	46,190	(17,005)	136.81	6,193	-274.60
	06/30/13	**70,323**	**49,236**	**(21,087)**	**142.82**	**6,276**	**-336.00**
HPORS	06/30/08	101,500	134,683	33,183	75.36	10,866	305.38
	06/30/09	99,652	137,815	38,163	72.31	11,425	334.03
	06/30/10	97,204	151,177	53,973	64.30	13,036	414.03
	06/30/11	95,274	155,742	60,468	61.17	12,472	484.83
	06/30/12	96,655	167,824	71,169	57.59	13,618	522.62
	06/30/13	**105,736**	**175,594**	**69,858**	**60.22**	**13,484**	**518.08**
SRS	06/30/08	199,453	204,549	5,096	97.51	47,196	10.80
	06/30/09	200,690	223,893	23,203	89.64	51,457	45.09
	06/30/10	200,739	246,734	45,995	81.36	54,681	84.11
	06/30/11	203,689	266,506	62,817	76.43	57,041	110.12
	06/30/12	211,535	284,559	73,024	74.34	59,583	122.56
	06/30/13	**235,310**	**304,185**	**68,875**	**77.36**	**61,467**	**112.05**

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

[1]Refer to the "Notes to the Required Supplementary Information" for the Actuarial Asset Valuation Method.

[2] Applicable only to the PERS-DBRP, the annual covered payroll has been corrected for FY2008 - FY2009 due to a database field that was not sufficient in length. This correction also impacts the UAAL as a percent of covered payroll.

System	Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
GWPORS	06/30/08	$ 77,511	$ 83,449	$ 5,938	92.88	$ 32,365	18.35
	06/30/09	81,177	92,155	10,978	88.09	36,023	30.48
	06/30/10	85,151	113,855	28,704	74.79	39,436	72.79
	06/30/11	90,437	119,881	29,444	75.44	38,306	76.87
	06/30/12	97,691	128,927	31,236	75.77	38,317	81.52
	06/30/13	**112,100**	**139,985**	**27,885**	**80.08**	**39,471**	**70.65**
MPORS	06/30/08	212,312	327,556	115,244	64.82	32,181	358.11
	06/30/09	214,345	345,261	130,916	62.08	34,687	377.42
	06/30/10	217,545	380,393	162,848	57.19	37,220	437.52
	06/30/11	221,669	401,381	179,712	55.23	39,470	455.30
	06/30/12	234,025	427,257	193,232	54.77	41,745	462.89
	06/30/13	**262,678**	**450,043**	**187,365**	**58.37**	**42,796**	**437.81**
FURS	06/30/08	206,127	287,218	81,091	71.77	29,158	278.11
	06/30/09	209,775	306,236	96,460	68.50	30,160	319.83
	06/30/10	213,755	335,463	121,708	63.72	33,339	365.06
	06/30/11	219,959	355,188	135,229	61.93	34,852	388.01
	06/30/12	233,121	377,211	144,090	61.80	36,177	398.30
	06/30/13	**263,483**	**396,769**	**133,286**	**66.41**	**37,963**	**351.10**
VFCA	06/30/08	27,544	32,735	5,191	84.14	N/A	N/A
	06/30/09	27,226	33,548	6,322	81.16	N/A	N/A
	06/30/10	26,576	34,512	7,936	77.01	N/A	N/A
	06/30/11	26,183	35,195	9,012	74.39	N/A	N/A
	06/30/12	26,531	36,146	9,615	73.40	N/A	N/A
	06/30/13	**28,294**	**37,830**	**9,536**	**74.79**	**N/A**	**N/A**

Covered payroll is not applicable to VFCA because members are unpaid volunteers.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Public Employees' Retirement Board

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Required Supplementary Information
Schedule of Funding Progress for OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007		$ 1,047,666	$ 1,047,666	0.00	$1,326,012	79.03%
1/1/2009		$ 686,393	$ 686,393	0.00	$1,438,749	47.71%
1/1/2011*		$ 733,935	$ 733,935	0.00	$1,644,229	44.64%

As of June 30, 2013, the most recent actuarial valuation available was completed by the State of Montana as of January 1, 2011 for the calendar year ending December 31, 2011. This actuarial valuation is completed every two years with the next valuation to be completed as of January 1, 2013 for the calendar year ending December 31, 2013. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2013. This is the OPEB obligation for MPERA as a State of Montana employer and is determined by the State of Montana.

*The Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL) were adjusted for the actuarial valuation date 1/1/2011 to show the inactive membership that was not included in the amounts reported in the FY2012 CAFR.

Public Employees' Retirement Board

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Notes to Required Supplementary Information for OPEB

Valuation Date	January 1, 2011
Actuarial cost method	Projected unit credit funding method
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	Not applicable since no assets meeting the definition of plan assets under GASB 45

Actuarial assumptions:

Projected salary increases	2.50%
Participation	
Future retirees	55.0%
Future eligible spouses	60.0%
Interest/Discount Rate	4.25%

Public Employees' Retirement Board

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Required Supplementary Information

Schedule of Employer Contributions & Other Contributing Entities

System	Year Ended June 30	Annual Required Contributions	Employer Percentage Contributed[1]	Annual Required Contribution Rate	Annual Required State Contribution	State Percentage Contributed
PERS-DBRP[2]	2008	68,165,225	105.98	6.85	377,713	100.00
	2009	99,314,044	76.35	9.52	357,260	100.00
	2010	132,004,388	60.46	12.18	536,881	100.00
	2011	144,957,239	54.56	13.53	545,643	100.00
	2012	148,104,042	53.68	13.70	535,506	100.00
	2013	**86,663,989**	**93.85**	**7.85**	**532,014**	**100.00**
JRS[3]	2008					
	2009					
	2010					
	2011	38,387	3,846.97	0.68		
	2012	137,479	1,162.61	2.22		
	2013					
HPORS[4]	2008	3,947,723	100.03	36.33	289,515	100.00
	2009	2,500,911	165.97	21.89	285,517	100.00
	2010	3,403,692	139.93	26.11	286,829	100.00
	2011	3,926,052	115.69	31.48	278,464	100.00
	2012	4,348,117	114.21	31.93	269,335	100.00
	2013	**4,460,549**	**109.93**	**33.08**	**274,503**	**100.00**
SRS	2008	4,443,543	108.78	9.42		
	2009	6,506,675	79.81	12.65		
	2010	7,734,578	72.88	14.15		
	2011	8,747,310	68.75	15.34		
	2012	9,512,375	63.37	15.97		
	2013	**9,293,836**	**67.49**	**15.12**		

Refer to the "Notes to the Required Supplementary Information".

This schedule reflects the actuarially calculated Annual Required Employer Contribution rather than the statutory rate.

[1] The percentage contributed includes normal payroll contributions, contributions from payroll adjustments, service purchases and transfers between plans.

[2] Applicable only to the PERS-DBRP, the annual covered payroll was changed for FY2008 - FY2009 due to a database field that was not sufficient in length. This change impacts the Annual Required Contributions and Percentage Contributed. For PERS-DBRP the Percent Contributed is less due to the State Contributions being part of the total required contributions.

[3] The actuarial value of assets is greater than the actuarial accrued liabilities for FY2008-FY2010 and FY2013. The funding excess is large enough so that the sum of normal cost and the amortization of the funding excess is negative. If the numbers are negative, this is an indication that no employer contributions would be required for that year and the common actuarial practice would be to set the ARC at zero.

[4] The Annual Required State Contribution for HPORS includes a statutory appropriation from the general fund.

[5] For MPORS and FURS the Annual Required State Contribution is based on covered payroll, which includes payroll adjustments.

System	Year Ended June 30	Annual Required Contributions	Employer Percentage Contributed[1]	Annual Required Contribution Rate	Annual Required State Contribution	State Percentage Contributed
GWPORS	2008	2,540,673	117.23	7.85		
	2009	3,490,652	94.31	9.69		
	2010	4,917,654	73.45	12.47		
	2011	4,903,232	71.85	12.80		
	2012	4,843,235	71.65	12.64		
	2013	**4,716,797**	**75.82**	**11.95**		
MPORS[5]	2008	4,637,223	111.19	14.41	9,451,808	100.00
	2009	3,454,837	146.35	9.96	10,185,974	100.00
	2010	3,896,969	176.04	10.47	10,931,612	100.00
	2011	4,625,936	122.58	11.72	11,593,690	100.00
	2012	5,046,941	119.97	12.09	12,273,769	100.00
	2013	**4,694,688**	**133.77**	**10.97**	**12,572,545**	**100.00**
FURS[5]	2008	4,187,118	106.68	14.36	9,568,388	100.63
	2009	117,622	3,852.37	0.39	9,831,417	100.00
	2010	850,134	603.27	2.55	10,871,717	100.00
	2011	1,341,808	373.29	3.85	11,365,441	100.00
	2012	1,512,185	349.25	4.18	11,797,130	100.00
	2013	**656,756**	**837.35**	**1.73**	**12,357,856**	**100.00**
VFCA	2008				1,562,019	100.00
	2009				1,579,887	100.00
	2010				1,574,589	100.00
	2011				1,596,436	100.00
	2012				1,635,400	100.00
	2013				**1,711,321**	**100.00**

Public Employees' Retirement Board

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Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of latest actuarial valuation follows:

	PERS-DBRP	JRS	HPORS
Valuation date	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period in years:			
Unfunded Liability[1]	14.5		44.6[1]
Unfunded Credit [2]		0	
Asset valuation method	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
Actuarial assumptions:			
Investment rate of return compounded annually	7.75%	7.75%	7.75%
Projected salary increases			
General Wage Growth*	4.00%	4.00%	4.00%
Merit	0% - 6%	None	0% - 7.3%
*Includes inflation at	3.00%	3.00%	3.00%
Benefit Adjustments			
GABA	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr
Non-GABA	N/A	Biennial increase to salary of active member in like position	2% per yr service, not to exceed 5%, for probationary officer's base pay

[1] The amortization period for the unfunded actuarial liability in the SRS, GWPORS and HPORS exceeds 30 years.

[2] Assets are larger than the past service liability – creating an unfunded credit; the credit is amortized over future costs and the amortization period may not exceed 30 years.

SRS	GWPORS	MPORS	FURS	VFCA
June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level dollar amount, open
Does not amortize[1]	Does not amortize[1]	23.8	13.9	8.5
				Based on Current Revenue
4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
7.75%	7.75%	7.75%	7.75%	7.75%
4.00%	4.00%	4.00%	4.00%	N/A
0% - 7.3%	0% - 7.3%	0% - 7.3%	0% - 7.3%	N/A
3.00%	3.00%	3.00%	3.00%	
3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr	N/A
N/A	N/A	50% newly confirmed officer	50% newly confirmed officer	N/A

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Public Employees' Retirement Board

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Schedule of Administrative Expenses

Year Ended June 30, 2013

	Defined Benefit Plans	PERS-DBRP Education Fund	Defined Contribution PERS-DCRP	Deferred Compensation (457) Plan
Personal Services				
Salaries	$ 1,647,283	$ 136,810	$ 202,999	$ 147,942
Board Members' Per Diem	7,872		960	768
Employee Benefits	555,830	61,648	65,320	39,227
Total Personal Services	2,210,985	198,458	269,279	187,937
Other Services				
Consulting & Professional Services	1,694,794	233	181,296	184,162
Legal Fees and Court Costs	72,029		197	85
Audit Fees	20,451		2,494	1,995
Medical Services	6,210			
Records Storage	4,355		531	425
Computer Processing	296,265		33,917	8,308
Printing and Photocopy Charges	80,986	6,207	8,920	1,066
Warrant Writing Services	23,090		2,816	2,253
Other	118,685	1,175	14,568	11,350
Total Other Services	2,316,865	7,615	244,739	209,644
Communications				
Recruitment Costs	231	16	22	14
Postage and Mailing	113,012	4,068	2,750	2,151
Telephone	19,162	4,043	2,508	1,494
Total Communications	132,405	8,127	5,280	3,659
Other Expenses				
Supplies and Materials	72,050	4,979	8,921	6,228
Travel	23,897	3,482	5,920	5,085
Rent	207,315	18,847	26,924	16,154
Repairs and Maintenance	2,365	215	307	184
Compensated Absences	27,287	(5,938)	4,086	4,235
OPEB Expenses	79,926	9,102	9,475	5,360
Miscellaneous	100,595	5,652	10,509	6,567
Total Other Expenses	513,435	36,339	66,142	43,813
Total Administrative Expenses	**$ 5,173,690**	**$ 250,539**	**$ 585,440**	**$ 445,053**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Investment Expenses

Year Ended June 30, 2013

Plan	Investment Manager	Fees
PERS-DBRP	Board of Investments	$ 20,225,722
JRS	Board of Investments	338,106
HPORS	Board of Investments	514,403
SRS	Board of Investments	1,131,648
GWPORS	Board of Investments	529,580
MPORS	Board of Investments	1,215,279
FURS	Board of Investments	1,215,932
VFCA	Board of Investments	133,883
DC	PIMCO	142,706
	State Street Bank	8,313
	TransAmerica	19,595
457	PIMCO	570,821
	State Street Bank	33,253
	TransAmerica	463,618
Total Investment Expense		**$ 26,542,859**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Professional/Consultant Fees

Year Ended June 30, 2013

Individual or Firm	Nature of Service	Amount Paid
Consultant/Professional Fees		
Amdec, LTD	Computer Programming Services	$ 132,160
Beki Glyde Brandborg	Facilitator	1,950
A 2 Z Personnel	Temporary Employment Serivces	17,310
C. Christensen Consulting	Facilitator	1,900
Cheiron, Inc	Actuarial Consultant	162,723
Commissioner of Political Practices	Lobbyist Services	300
Comserv, Inc.	Death Validation Services	1,400
Ecofile	Imaging Services	16,698
Government Finance Officers Assoc	CAFR Review	725
Ice Miller	Tax Consultants	72,116
Informatix, Inc.	Imaging Services	110,467
Julie Benson-Rosston	Facilitator	3,330
Montana Board of Public Accountants	CPA Services	150
Provaliant Retirement, LLC	Project Management	139,911
Recall Secure Destruction Services	Secure Shredding Services	583
Sagitec Solutions, LLC	Pension Systems Design	1,259,904
Seisint, Inc.	Risk Data Management Services	488
Westaff	Temporary Employment Services	35,370
Wilshire Associates Inc.	Mutual Funds Performance Review	103,000
Consultant Fees Subtotal		2,060,485
Other Professional Fees		
Dean Gregg, PHD	Medical Consultant	1,208
Department of Justice	Legal Services	21,104
Drake Law Firm	Legal Services	28,220
Legislative Audit Division	Independent Auditors	24,941
Timothy D Schofield, MD PLLC	Medical Consultant	3,952
Other Professional Fees Subtotal		79,425
Total Professional/Consultant Fees		$ 2,139,910

Public Employees' Retirement Board

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Detail of Fiduciary Net Position (PERS-DBRP and PERS-DBEd)

as of June 30, 2013

	PERS-DBRP	PERS-DBEd	TOTAL
Assets			
Cash and Short-term Investments	$ 57,848,408	$ 2,581,609	$ 60,430,017
Securities Lending Collateral	192,287,344	7,120	192,294,464
Receivables			
Interest	4,884,241	402	4,884,643
Accounts Receivable	1,563,225	35,594	1,598,819
Due from Other Funds	444,696	12,581	457,277
Notes Receivable	23,110		23,110
Total Receivables	6,915,272	48,577	6,963,849
Investments, at fair value			
Montana Domestic Equity Pool (MDEP)	1,643,008,769		1,643,008,769
Retirement Fund Bond Pool (RFBP)	950,298,397		950,298,397
Montana International Pool (MTIP)	712,586,855		712,586,855
Montana Private Equity Pool (MPEP)	536,542,371		536,542,371
Montana Real Estate Pool (MTRP)	393,155,169		393,155,169
Structured Investment Vehicles (SIV)	710,520	33,840	744,360
Total Investments	4,236,302,081	33,840	4,236,335,921
Capital Assets			
Property and Equipment, at cost,			
net of Accumulated Depreciation	9,061		9,061
Intangible Assets, at cost,			
net of Amortization Expense	114,235		114,235
Total Capital Assets	123,296		123,296
Total Assets	4,493,476,401	2,671,146	4,496,147,547
Liabilities			
Securities Lending Liability	192,287,344	7,120	192,294,464
Accounts Payable	695,166	9,261	704,427
Due to Other Funds	387,836	1,325	389,161
Deferred Revenue	203,971		203,971
Compensated Absences	259,598	13,934	273,532
OPEB Implicit Rate Subsidy LT	404,143	45,182	449,325
Total Liabilities	194,238,058	76,822	194,314,880
Net Position Restricted for Pension Benefits	**$ 4,299,238,343**	**$ 2,594,324**	**$ 4,301,832,667**

Public Employees' Retirement Board

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Detail of Changes in Fiduciary Net Position (PERS-DBRP and PERS-DBEd)

for the Fiscal Year Ended June 30, 2013

	PERS-DBRP	PERS-DBEd	TOTAL
Additions			
Contributions			
Employer	$ 81,337,420	$ 438,592	$ 81,776,012
Plan Member	80,768,508		80,768,508
Membership Fees	41		41
Interest Reserve Buyback	120,703		120,703
Retirement Incentive Program	60,013		60,013
Miscellaneous Revenue	725		725
State Contributions	532,014		532,014
Total Contributions	162,819,424	438,592	163,258,016
Investment Income			
Net Appreciation (Depreciation) in Fair Value of Investments	356,138,177		356,138,177
Interest	157,511,676	6,306	157,517,982
Dividends	10,724,045		10,724,045
Investment Expense	(20,225,722)		(20,225,722)
Net Investment Income	504,148,176	6,306	504,154,482
Securities Lending Income			
Securities Lending Income	1,193,057	25	1,193,082
Securities Lending Rebate and Fees	(296,012)	(8)	(296,020)
Net Securities Lending Income	897,045	17	897,062
Total Net Investment Income	505,045,221	6,323	505,051,544
Total Additions	667,864,645	444,915	668,309,560
Deductions			
Benefits	274,021,249		274,021,249
Refunds/Distributions	11,253,670		11,253,670
Refunds to Other Plans	383,738		383,738
Transfers to DCRP	871,636		871,636
Transfers to ORP	339,312		339,312
OPEB Expenses	72,907	9,102	82,009
Administrative Expenses	3,519,421	241,437	3,760,858
Total Deductions	290,461,933	250,539	290,712,472
Net Increase (Decrease)	377,402,712	194,376	377,597,088
Net Position Restricted for Pension Benefits			
Beginning of Year	**3,921,812,233**	**2,399,948**	**3,924,212,181**
Prior Period Adjusment	**23,398**		**23,398**
End of Year	**$ 4,299,238,343**	**$ 2,594,324**	**$ 4,301,832,667**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

as of June 30, 2013

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Assets				
Cash and Short-term Investments	$ 1,477,191	$ 149,959	$ 2,172,143	$ 3,799,293
Securities Lending Collateral	3,805	481	5,936	10,222
Receivables				
Interest	215	27	334	576
Accounts Receivables	52,896	5,478		58,374
Due from Other Funds	365,532	1,325	9,723	376,580
Total Receivables	418,643	6,830	10,057	435,530
Investments, at fair value				
Defined Contributions Fixed Investments	10,572,868			10,572,868
Defined Contributions Variable Investments	90,794,494			90,794,494
Structured Investment Vehicles (SIV)	18,086	28,216	2,288	48,590
Total Investments	101,385,448	28,216	2,288	101,415,952
Property and Equipment, at cost, net of Accumulated Depreciation (Note A2)	2,042			2,042
Intangible Assets, at cost, net of Amortization Expense (Note A2)	27,292			27,292
Total Assets	103,314,421	185,486	2,190,424	105,690,331
Liabilities				
Securities Lending Liability	3,805	481	5,936	10,222
Accounts Payable	113,236	1,490		114,726
Compensated Absences	28,561	2,402		30,963
OPEB Implicit Rate Subisidy LT	46,531	4,947		51,478
Total Liabilities	192,133	9,320	5,936	207,389
Net Position Restricted for Pension Benefits	**$ 103,122,288**	**$ 176,166**	**$ 2,184,488**	**$ 105,482,942**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

for the Fiscal Year Ended June 30, 2013

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Additions				
Contributions				
Employer	$ 4,039,342	$ 46,129	$ 288,382	$ 4,373,853
Plan Member	6,943,409			6,943,409
Miscellaneous Revenue	52,753			52,753
Forfeiture of Nonvested Member	398,447			398,447
Total Contributions	11,433,951	46,129	288,382	11,768,462
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	9,865,161			9,865,161
Interest	1,983,774	437	5,064	1,989,275
Investment Expense	(170,614)			(170,614)
Net Investment Income	11,678,321	437	5,064	11,683,822
Securities Lending Income				
Securities Lending Income	14	2	20	36
Securities Lending Rebate and Fees	(4)	(1)	(6)	(11)
Net Securities Lending Income	10	1	14	25
Total Net Investment Income	11,678,331	438	5,078	11,683,847
Total Additions	23,112,282	46,567	293,460	23,452,309
Deductions				
Benefits			29,460	29,460
Distributions	4,349,438			4,349,438
OPEB Expensee	8,038	1,437		9,475
Administrative Expenses	537,794	38,171		575,965
Miscellaneous Expenses	161,980			161,980
Total Deductions	5,057,250	39,608	29,460	5,126,318
Net Increase (Decrease)	18,055,032	6,959	264,000	18,325,991
Net Position Restricted for Pension Benefits				
Beginning of Year	**85,067,256**	**169,207**	**1,920,488**	**87,156,951**
Prior Period Adjustment				
End of Year	**$ 103,122,288**	**$ 176,166**	**$ 2,184,488**	**$ 105,482,942**

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Public Employees' Retirement Board

Board Response

MONTANA PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

STEVE BULLOCK
GOVERNOR

ROXANNE MINNEHAN
EXECUTIVE DIRECTOR

STATE OF MONTANA

MPERA
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March 6, 2014

Tori Hunthausen, CPA, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
Helena, MT 59650

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

We appreciate the opportunity to respond to the recommendation in the Financial Audit of the Public Employees' Retirement Board (PERB) for fiscal year ended June 30, 2013. We understand there is one recommendation.

<u>Recommendation #1</u>
We recommend the Public Employees' Retirement Board continue to work with the legislature to ensure all defined benefit pension plans are actuarially sound.

<u>Response</u>
We concur. The retirement systems are to be funded on an actuarially sound basis as required by the Montana Constitution and state law.

In the 2013 Legislative Session, the Public Employees' Retirement Board (PERB) proposed legislation to address the actuarial soundness in the Public Employees' Retirement Systems (PERS), Sheriffs' Retirement System (SRS) and the Game Wardens' and Peace Officers' Retirement System (GWPORS). The Association of Montana Troopers proposed legislation to address the funding in the Highway Patrol Officers' Retirement System (HPORS).

The Joint Select Committee on Pensions decided to focus on the larger system – PERS. The HPORS legislation was routed through a different committee. Both systems are now on solid footing. PERS is actuarially sound, amortizing in 14.5 years. HPORS' amortization period was reduced from 49.7 years to 44.6 years. HPORS will continue to improve with the plan design changes and additional funding. HPORS is anticipated to become actuarially sound by FY 2016.

A change to the Guaranteed Annual Benefit Adjustment (GABA) in PERS has been challenged with a lawsuit. The GABA was reduced to a range from 0% to 1.5% based on the systems' funding status. On December 20, 2013, a preliminary injunction was issued by Judge James Reynolds of the First Judicial District Court of Montana. Until this complaint of unconstitutionality is resolved in District Court, retirees hired prior to July 1, 2007 will continue to receive a 3% GABA.

The PERB's legislative committee is currently discussing legislative concepts for the 2015 Legislative Session. We plan to work closely with the stakeholders, Governor's Office and the Legislature to propose legislation addressing the actuarial funding in the Sheriffs' Retirement System (SRS) and the Game Wardens' and Peace Officers' Retirement System (GWPORS).

We appreciate the time and effort expended to complete this financial audit. Your staff worked hard to accommodate our need to submit our annual report to the Government Finance Officers' Association for consideration of the Certificate of Achievement for Excellence in Financial Reporting. This is a prestigious award that we are very proud to have received for the last fifteen years. We appreciate the courtesy and consideration extended during the audit.

Thank you for your assistance.

Sincerely,

Roxanne M. Minnehan

Roxanne M. Minnehan
Executive Director