A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Teachers' Retirement Board

For the Fiscal Year Ended June 30, 2021

JANUARY 2022

LEGISLATIVE AUDIT
DIVISION

20-09B

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 and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting 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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by September 30, 2022.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

January 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Teachers' Retirement Board, a component unit of the State of Montana, for the fiscal year ended June 30, 2021. This report contains our Independent Auditor's Report which includes an unmodified opinion, meaning the reader can rely on the information presented. The report also includes the board-prepared financial statements, related notes to the financial statements, required supplementary information, and supplementary information. Additional information about the Teachers' Retirement System's total and net pension liability, investments, contributions, and expense data is included in the required supplementary information and supplementary information.

The board's written response to the audit is included in the audit report at page C-1. We thank the Executive Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Figures and Tables

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Appointed and Administrative Officials

	Name	City	Term Expires
Teachers' Retirement Board	Kari Elliot, Chair	Kalispell	July 2022
	Scott Dubbs, Vice Chair	Lewistown	July 2023
	Daniel Trost	Helena	July 2024
	Daniel Chamberlin	Whitefish	July 2025
	Dee Brown	Hungry Horse	July 2026
	Sarah Hitchcock	Glasgow	July 2026

Administrative Officials

Shawn Graham, Executive Director

Tammy Rau, Deputy Executive Director

Nolan Brilz, Accounting and Fiscal Manager

Denise Pizzini, Chief Legal Counsel

For additional information concerning the Teachers' Retirement System, contact:

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Financial Audit 20-09B January 2022

Montana Legislative Audit Division

Teachers' Retirement Board

For the Fiscal Year Ended June 30, 2021

Background

The Teachers' Retirement Board (board) administers the Teachers' Retirement System (system) which is a multiple-employer, cost-sharing, defined-benefit, public pension plan. The board is a fiduciary component unit of the State of Montana. Full-time members of the public teaching profession, including administrative and professional staff, are required by law to be members of the system.

The Montana Constitution requires the system to be funded on an actuarially sound basis. Board policy requires any unfunded liability of the system to amortize over a closed period of no more than 30 years. The most recent actuarial valuation, performed as of July 1, 2021, found the unfunded liability of the system amortizes within 24 years.

Teachers' Retirement Board Chair: Kari Elliot

Executive Director: Shawn Graham

The Teachers' Retirement System investments earned approximately $1.1 billion during fiscal year 2021 because of the approximately 27 percent return on the plan investments; which contributed to an approximately $593 million decrease in the system's net pension liability.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the system's financial statements and note disclosures presented fairly the activity of the system in all material respects and issued an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the system's financial activity, see the financial statements and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:
To the board: 0
To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:
Fully Implemented: 0
Partially Implemented: 1
Not Implemented: 0

SUMMARY OF AUDIT WORK:

Our audit work included reviewing support for contribution receipts and benefit payments and determining the reasonableness of investment balances and associated net investment income. We considered the board's control systems throughout the audit, including the computer system used by the board to electronically process contributions and benefits. We also performed testing to determine the accuracy of the data in this system. We reviewed the financial statements and note disclosures to determine if they were supported by the underlying accounting records and the actuarial valuations as of July 1, 2021.

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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We also hired an independent actuary to provide expertise during the audit. This includes reviewing the system's actuarial valuation and assumptions underlying the calculation of the total pension liability for reasonableness.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 0
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Audit Scope

We performed a financial audit of the Teachers' Retirement Board (board) for the fiscal year ended June 30, 2021. The objectives of our audit were to:

1. Determine whether the Teachers' Retirement System's (system) basic financial statements present fairly, in all material respects, the financial position and the results of operations.
2. Obtain an understanding of the board's controls to the extent necessary to support our audit of the system's financial statements and make recommendations for improvement in the internal controls, if appropriate.
3. Determine compliance with direct and material laws and regulations.
4. Perform the work necessary over the supplementary information to determine whether that information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.
5. Follow up on and determine the implementation status of the prior audit recommendation.

Our audit work included reviewing support for contribution receipts, benefit payments, and determining the reasonableness of investment balances and associated net investment income. We considered the board's control systems throughout the audit, including the computer system the board uses to electronically process contributions and benefits. We also performed testing to determine the accuracy of the data in this system. We reviewed the financial statements and note disclosures to determine if they were supported by the underlying accounting records and the actuarial valuation as of July 1, 2021.

We tested important member census data such as gender, birthdate, hire date, salary, and employment status for 84 new employees at 42 different employers across the state. We also performed analytical procedures over the system as a whole. This testing allows us to determine the accuracy and completeness of the data the board's actuary used to calculate the total pension liability. This is the eighth year we have performed such testing, and we have tested a different group of individual employers each year. We did not identify material errors in this testing; meaning this data can be used to calculate the total pension liability accurately.

We also hired an independent actuary to provide expertise during the audit. This includes reviewing the system's actuarial valuation and assumptions underlying the calculation of the total pension liability for reasonableness.

Background

The board is a fiduciary component unit of the State of Montana. A component unit is a legally separate organization for which Montana is financially accountable. The six-member board, appointed by the governor for five-year terms, governs the system. In addition to providing oversight to system personnel, the board's responsibilities include establishing rules and regulations necessary for the administration and operation of the system and hiring an actuary to provide consultation on the technical actuarial aspects of the retirement system. The executive director and board personnel are responsible for the daily administration of the system. On June 30, 2021, 22 full-time equivalent (FTE) positions were authorized for the system.

The system is defined as a multiple-employer, cost-sharing, defined-benefit, public pension plan. Full-time members of the public teaching profession, including administrative and professional staff, must be members of the system. However, certain employees of the Montana University System hired after July 1, 1993, are not required to be members. The system had approximately 19,650 active contributing members and 9,800 terminated employees not yet receiving benefits on July 1, 2021. The number of retirees or their beneficiaries that were receiving retirement, disability, or survivor benefits as of July 1, 2021, was 16,985.

Actuarial Soundness

Article VIII, Section 15 of the Constitution of the State of Montana requires defined benefit public retirement systems to be funded on an actuarially sound basis. Teachers' Retirement Board policy further requires any unfunded system liability to amortize over a closed period of no more than 30 years. The most recent actuarial valuation, performed as of July 1, 2021, found the system's unfunded liability amortizes within 24 years. Table 1 shows the amortization period for the system at June 30 for the past five years.

Table 1

Teachers' Retirement System Amortization Periods

	Amortization Period
June 30, 2021	24
June 30, 2020	29
June 30, 2019	29
June 30, 2018	31
June 30, 2017	22

Source: Compiled by the Legislative Audit Division from Teachers' Retirement System actuarial information.

The decrease of the amortization period from 2020 to 2021 is primarily due to significantly increased investment returns from fiscal year 2021 offsetting prior losses in the smoothing of actuarial gains and losses over four years.

Pension Liability

The financial statement notes and required supplementary information disclose the total and net pension liabilities for the system and additional investment and contribution data. The total pension liability is the actuarial present value of projected benefit payments attributable to past periods of member service. The net pension liability is a measure of the extent to which the total pension liability is not covered by the fiduciary net position of the pension plan. The total pension liability and net pension liability for the system on June 30, 2021, were approximately $6.7 billion and $1.6 billion, respectively. Table 2 shows the system's total and net pension liabilities at June 30, 2020, and 2021.

Table 2

Teachers' Retirement System Total and Net Pension Liability

	Total Pension Liability	Net Pension Liability
June 30, 2021	$6,773,384,261	$1,656,535,253
June 30, 2020	$6,417,298,230	$2,249,458,672
Increase/(decrease) between years	$356,086,031	($592,923,419)

Source: Compiled by the Legislative Audit Division from Teachers' Retirement System actuarial information.

Generally, the pension liability will increase as members complete an additional year of service or if there are decreases in the assumed rate of return. The decrease in the net pension liability in the table above resulted from the investment returns of 27.73 percent being significantly more than the assumed rate of return of 7.50 percent for the system. These are just the two largest impacts on the liability, but there are many more.

Funding Valuation Versus Financial Reporting Calculations

The actuarial soundness and pension liability sections above discuss the liabilities the system owes to its members. To determine the amortization period discussed in the actuarial soundness section above, the board's actuary calculates an actuarially accrued liability (AAL), the actuarial present value of projected pension plan benefits and expenses. The actuarial value of the system's assets is then subtracted from this amount to determine the unfunded actuarial accrued liability (UAAL).

To determine the total pension liability (TPL) and the net pension liability (NPL) reported in the system's financial statement notes and required supplementary information, the board's actuary calculates the actuarial present value of projected benefit payments attributable to past periods of member service. The system's net position is then subtracted from this amount to determine the net pension liability.

These calculations sound very similar, but have a few important differences:

Table 3

Actuarial Accrued Liability and Total Pension Liability Calculation Elements

	Actuarial Accrued Liability	Total Pension Liability
Actuarial value of assets is used by smoothing gains and losses over 4 years.	✓	
Market value of assets is used.		✓
Rate of return is selected by the board.	✓	
Rate of return must include a municipal bond rate if future assets are projected to be less than benefits.		✓
Rate of return is net of investment expenses.	✓	✓
Rate of return is net of administrative expenses.	✓	

Source: Compiled by the Legislative Audit Division based on Generally Accepted Accounting Principles and Actuarial Standards of Practice.

The use of the market value of assets in the TPL versus the actuarial value in the AAL, and as the smoothing of gains and losses, will cause the NPL to be more volatile than the UAAL. For instance, the NPL is going to recognize the entire 27.73 percent return on investments for fiscal year 2021. Due to smoothing, the UAAL is only going to recognize a portion of that. Additionally, the amount recognized by the UAAL is offset by portions of losses from prior years. Table 4 compares the system's market and actuarial value of assets.

Table 4

Market Asset Value vs Actuarial Asset Values

(as of June 30, 2021)

Actuarial Value	$4,616,374,427
Market Value	$5,116,849,108
Difference	**($500,474,681)**

Source: Compiled by the Legislative Audit Division from board actuarial information.

In addition to the differences above, the assumptions used by the board's actuary for each analysis are not required to be the same; but they were until fiscal year 2020. The funding valuation assumptions are approved by the board as part of the experience study process. While these assumptions can be updated between experience studies based on recommendations from the actuary, this has not happened recently, and they were last updated in May 2018. In contrast, the assumptions for financial reporting are analyzed and justified by the actuary yearly and may change before the funding assumptions. As a result, the assumptions used in the financial report analysis represent the more current outlook for the system and are an early indicator of what will happen in future funding valuations. Essentially, the actuary has determined the assumptions needed to change to reasonably reflect the systems' current position in the financial report, as required by Generally Accepted Accounting Principles (GAAP).

We summarized the assumption differences in the table below:

Table 5

Actuarial Accrued Liability and Total Pension Liability Assumption Differences

(at June 30, 2021)

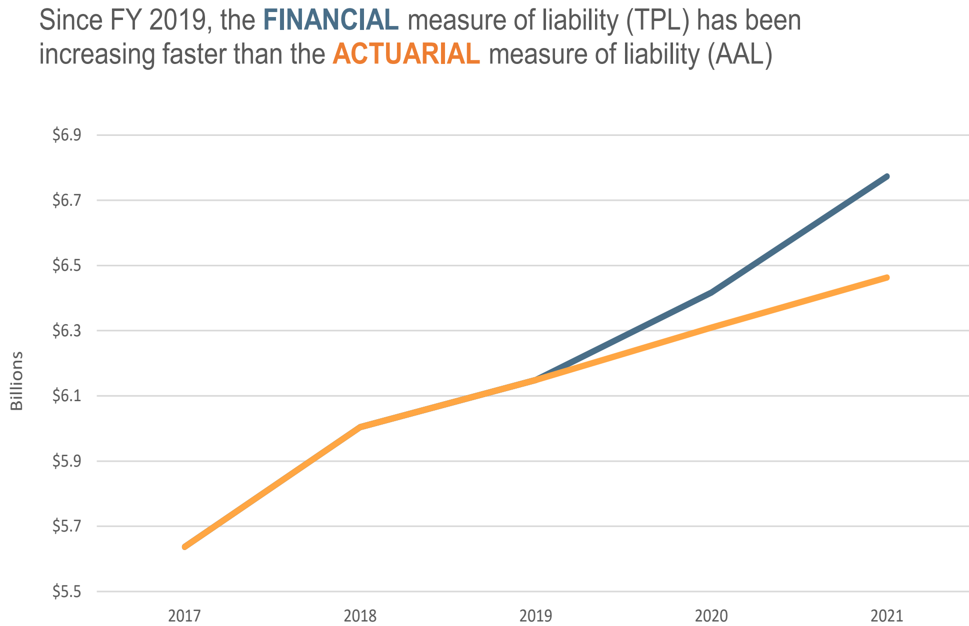
	Actuarial Accrued Liability	Total Pension Liability
Investment rate of return	7.50%	7.06%
Inflation	2.50%	2.40%
Real wage growth	0.75%	0.85%

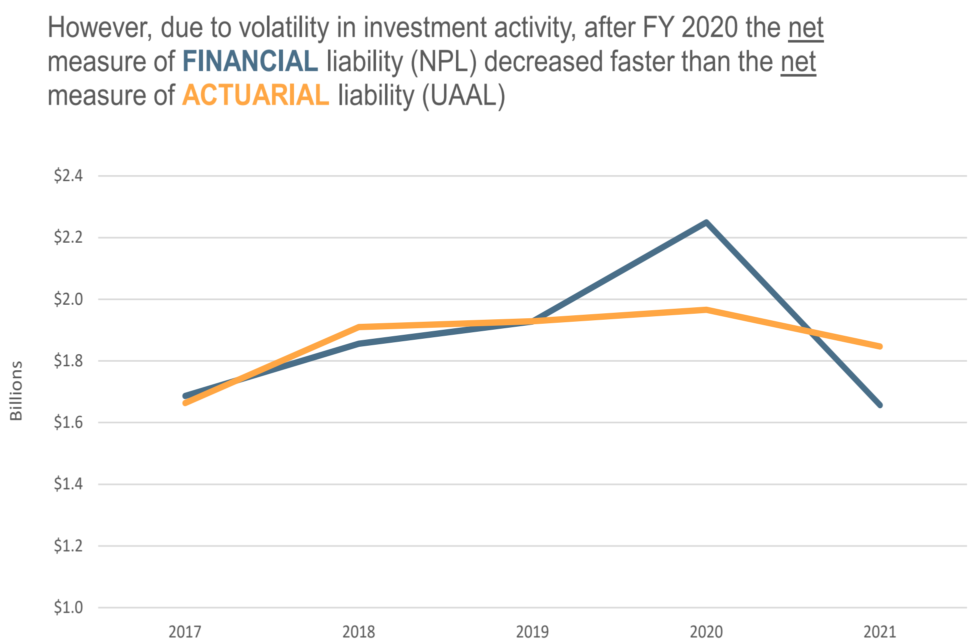
Source: Compiled by the Legislative Audit Division from board actuarial information.

Essentially, these differences in assumptions are going to drive the total liability calculations apart between the two measures, with the total pension liability larger and increasing faster than the actuarial accrued liability.

While these two measures are different, they are often confused as the same calculation and used interchangeably; but they should not be. Figure 1 (see page 5) shows how the total and net measures have moved over the last five fiscal years for the system; illustrating how the differences discussed above have affected it.

Figure 1
Total and Net Measures Over Time





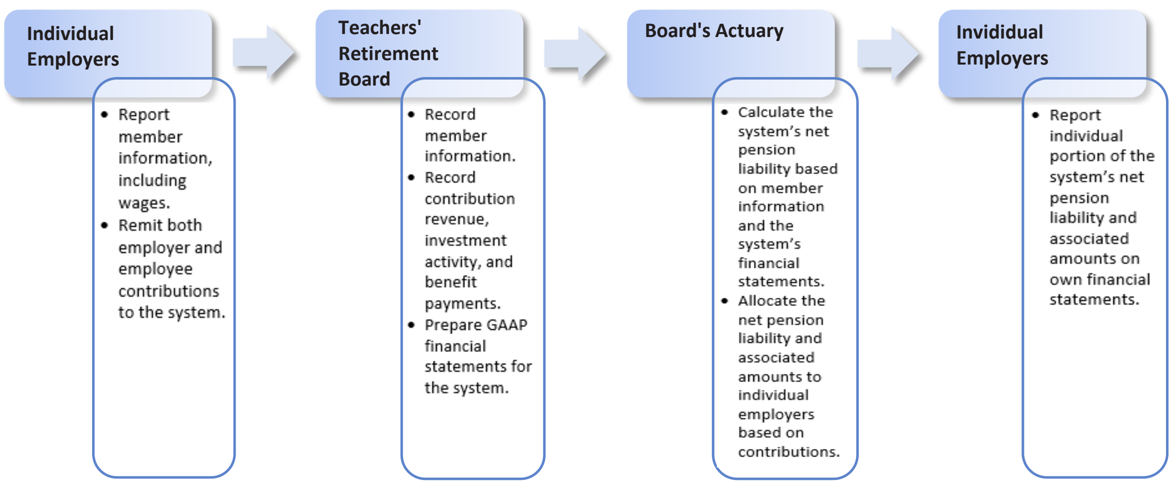
Source: Compiled by the Legislative Audit Division from board actuarial information.

Prior Audit Recommendation

The prior financial-compliance audit report contained one recommendation for internal controls over financial reporting. We performed work during the current audit and determined the board improved internal control procedures to ensure accurate and complete contribution revenue reporting by adding an analytical procedure comparing contribution revenue between years by employer and a targeted review of large employer-reported adjustments in contributions. These procedures focus on identifying items that could be material to the financial statements. The board determined they will only make prior period adjustments to the financial statements if the adjustment is material, as allowed under Generally Accepted Accounting Principles.

However, board staff does not intend to correct the contributions for these identified adjustments before using them as the basis for the pension allocation schedules prepared for employer reporting. The contribution information reported by each employer and the total contributions reported on the financial statements is the basis for determining each employer's share of the system's net pension liability reported in the next fiscal year, as demonstrated in Figure 2. Adjustments to contribution amounts affect the individual employer's contribution, which means the allocation percentage for all employers is impacted to varying degrees, potentially resulting in misstatements in employer financial reports. What is considered immaterial to the financial statements, as a whole, can very well be material to some, or all, of the participating employers in the system when their allocation percentages are calculated.

Figure 2
Teachers' Retirement System Reporting Process



Source: Compiled by the Legislative Audit Division.

Additionally, the pension schedules allocate each employer's share of the net pension liability based on their contributions relative to the whole. Errors in one employer's contributions can significantly affect the amounts allocated to other employers. Other employers have no way of knowing this information unless the board provides it to the actuary to be included as part of the employer pension allocation schedules.

We consider this recommendation partially implemented because of the potential for these immaterial financial statement items to affect employer reporting materially. We will continue to monitor these items as part of future financial statement and employer pension schedule audits but make no further recommendations at this time.

Independent Auditor’s Report and System Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Fiduciary Net Position of the Teachers' Retirement System (system), prepared by the Teachers' Retirement Board (board), a fiduciary component unit of the State of Montana as of June 30, 2021, and the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes which collectively comprise the system's basic 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System as of June 30, 2021, and the respective changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements:

- Management's Discussion and Analysis
- Schedule of Changes in Net Pension Liability-TRS Plan
- Schedule of the Net Pension Liability-TRS Plan
- Schedule of Investment Returns-TRS Plan
- Schedule of Employer and Non-Employer Contributing Entities Contributions-TRS Plan
- Schedule of Proportionate Share of the Net Pension Liability-TRS as Employer of PERS Plan
- Schedule of Contributions-TRS as Employer of PERS Plan
- Other Post-employment Benefits Plan Information
- Related notes

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 Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Payments to Consultants 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2021, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 15, 2021

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Montana Teachers’ Retirement System’s (TRS or the System) provides a narrative overview of TRS’s financial activities for the fiscal year ended June 30, 2021.

Overview of the Financial Statements

The TRS financial statements, notes to the financial statements, and required supplementary information as of June 30, 2021 were prepared in conformity with GASB Statement No. 67, Financial Reporting for Pension Plans and GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the System’s ongoing plan perspective. The Statement of Fiduciary Net Position reflects the resources available to pay benefits to retirees and beneficiaries. The Statement of Changes in Fiduciary Net Position presents the changes that occurred in those resources for the fiscal year ended June 30, 2021.

The Notes to the Basic Financial Statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The required supplementary information (RSI) consists of the following four schedules and notes to those schedules of the defined benefit pension plan administered by TRS: changes in the net pension liability, net pension liability, the money-weighted rate of investment returns, and employer contributions. The RSI also contains the following two schedules and notes to those schedules of the defined benefit pension plan that TRS participates in as an employer: proportionate share of the net pension liability and employer contributions. The RSI also contains a schedule and notes related to Other Post-employement Benefits (OPEB) information.

Financial Highlights

- The TRS fiduciary net position increased by $949 million from $4.168 billion at 06/30/20 to $5.117 billion at 06/30/21, representing an increase of 22.8% from year to year.
- The TRS plan net investment income was $1.130 billion at 06/30/21 compared to $112.6 million at 06/30/20.
- The TRS plan rate of return on investments during FY 2021 was 27.7% compared with FY 2020 rate of return of 2.7%.
- The TRS benefit payments paid to benefit recipients increased 4.0% from $384.4 million to $399.9 million for FY 2021, which is consistent with previous increases.
- Withdrawals from the System increased by 71.9% from $5.2 million in FY 2020 to $8.9 million in FY 2021.

Condensed Financial Information

For comparative purposes, the Condensed Financial Information for the fiscal year ended June 30, 2021 is presented with the previous fiscal year’s financial information.

Fiduciary Net Position
(in millions)

	FY2021	FY2020	Percent Change*
Cash/Short-Term Investments	$ 63.6	$ 33.4	90.6%
Receivables	21.6	17.1	26.4%
Investments (Fair Value)	5,061.6	4,138.6	22.3%
Other Assets (Net)	1.2	2.6	(54.3%)
Total Assets	5,148.1	4,191.7	22.8%
Deferred Outflows	0.6	0.3	128.7%
Liabilities	31.7	23.9	32.7%
Deferred Inflows	0.2	0.3	(39.5%)
Net Position	$ 5,116.8	$ 4,167.8	22.8%

Change in Fiduciary Net Position
(in millions)

	FY2021	FY2020	Percent Change*
Additions:			
Employer Contributions	$ 103.2	$ 102.4	0.8%
Plan Member Contributions	81.1	80.2	1.2%
Other Contributions	47.0	45.9	2.3%
Net Investment Income	1,129.8	112.6	903.4%
Total Additions	1,362.1	341.2	299.2%
Deductions:			
Benefit Payments	399.9	384.4	4.0%
Withdrawals	8.9	5.2	71.9%
Administrative and Other Expenses	4.3	4.0	8.0%
Total Deductions	413.1	393.5	5.0%
Change in Net Position	$ 949.0	$ (52.3)	1,913.3%

**Percentages are calculated based on the actual reported values in the Financial Statements rather than on the amounts rounded to the nearest million in the tables above.*

Financial Analysis

- The increase in Employer Contributions was due in part to HB 377 provisions that took effect in FY 2014, which increase Employer contribution rates by 0.10% each year for ten years.
- The increase in Employer, Plan Member, and Other Contributions are also due do to an increase in Reportable Compensation of the System as a whole.
- The significant increase in Cash and Short-Term Investments was due to timing. MBOI policies dictate TRS's position in cash equivalent assets (STIP). MBOI policy on TRS's STIP position has not changed significantly since 6/30/20.
- The System's Return on Investments considerably outpaced normal capital market conditions in FY 2021. Therefore, the Net Investment Income increased by 903% year over year.
- Net investment income for FY 2021 was up considerably from the previous fiscal year largely due to abnormally positive returns in domestic, international, and private equities.
- The increase in benefit payments from year-to-year reflects an increase in the number of retirees and beneficiaries, plus the 1.5% guaranteed annual benefit adjustment. The increase is comparable to previous fiscal years.
- Administrative Expenses for FY 2021 were 0.98% of Benefit Payments. By the laws set forth in the Montana Code Annotated, TRS is required to keep Administrative Expenses under 1.5% of Benefit Payments.
- The increase in Withdrawals is due to new internal controls for managing Terminated Non-Vested members of the system.

Overview of the Actuarial Funding

An actuarial valuation of the System is performed annually. As a result of the actuarial valuation of the benefits in effect under the Montana Teachers' Retirement System as of July 1, 2021, the statutory employer contributions are sufficient to amortize the Unfunded Actuarial Accrued Liability (UAAL) of the Retirement System within 24 years. The Funded Ratio is 71.43%.

MCA 19-20-201 requires the Valuation report to show how market performance is affecting the actuarial funding of the Retirement System. The July 1, 2021 market value of assets is $500.5 million greater than the actuarial value of assets. This is due to the smoothing of investment gains and losses over a four year period. If the market value of assets was used, the amortization period would be 15 years, and the Funded Ratio would be 79.17%.

The market assets earned 27.73% net of investment and operating expenses. As a result of cumulative unrecognized gains, the actuarial assets earned 10.68% which is 3.18% more than the actuarial assumption of 7.50%. The return on the actuarial assets differs from the return on market assets because the actuarial value of assets spreads gains and losses over four years.

The following table compares the annual returns for the past four fiscal years.

Fiscal Year	Market Return	Actuarial Return	Market Return Over/(Under) Assumption Rate	Actuarial Return Over/(Under) Assumption Rate
7/01/2017 - 6/30/2018	8.82%	6.85%	1.07%	(0.90)%
7/01/2018 - 6/30/2019	5.69%	7.00%	(1.81)%	(0.50)%
7/01/2019 - 6/30/2020	2.72%	7.00%	(4.78)%	(0.50)%
7/01/2020 - 6/30/2021	27.73%	10.68%	20.23%	3.18%

Asset gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption of 7.50% effective July 1, 2018.

The net result as of July 1, 2021 is that the market value of assets is $500.5 million more than the actuarial value of assets. This $500.5 million in unrecognized asset gains will either offset any future investment losses or, if there are none, decrease the amortization period of the UAAL in future valuations.

As of July 1, 2021, the System's Actuarial Value of Assets increased by 272.3 million from $4.344 billion at July 1, 2020 to $4.616 billion at July 1, 2021. The Actuarial Accrued Liability at July 1, 2021 was $6.463 billion. This resulted in an UAAL of $1.846 billion at July 1, 2021. This was a net decrease in the unfunded position of $119.1 million compared to July 1, 2020.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2021

	2021
Assets	
Cash/Cash Equivalents-Short Term Investment Pool (Note B)	$63,632,300
Receivables:	
Accounts Receivable	21,633,398
Interest Receivable	5,253
Total Receivables	$21,638,651
Investments, at Fair Value: (Note B)	
Equity in Pooled Investments	$5,032,461,232
Securities Lending Collateral (Note B)	29,142,270
Total Investments	$5,061,603,502
Assets Used in Plan Operations:	
Leasehold Improvements	$243,881
Less: Accumulated Depreciation	(52,260)
Equipment and Intangible Assets	1,011,758
Less: Accumulated Depreciation/Amortization	(16,286)
Total Other Assets	1,187,093
Total Assets	$5,148,061,546
Pension Deferred Outflows (Note E)	$443,394
OPEB Deferred Outflows (Note G)	$200,590
Liabilities	
Accounts Payable	$139,554
Securities Lending Liability (Note B)	29,142,270
Compensated Absences (Note B)	224,318
OPEB Implicit Rate Subsidy (Note G)	280,652
Net Pension Liability (Note E)	1,885,625
Total Liabilities	$31,672,419
Pension Deferred Inflows (Note E)	$111,924
OPEB Deferred Inflows (Note G)	$72,078
Net Position Restricted for Pension Benefits	$5,116,849,108

The accompanying Notes to the Financial Statements *is an integral part of this financial statement.*

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	2021
Additions	
Contributions:	
Employer	$103,219,072
Plan member	81,120,904
Other	47,020,467
Total Contributions	$231,360,444
Miscellaneous Income	$974,981
Investment Income:	
Net Appreciation/(Depreciation) in Fair Value of Investments	$1,158,261,868
Investment Earnings	133,245
Security Lending Income (Note B)	354,384
Investment Income/(Loss)	1,158,749,497
Less: Investment Expense	(28,928,102)
Less: Security Lending Expense (Note B)	(69,557)
Net Investment Income/(Loss)	1,129,751,837
Total Additions	1,362,087,262
Deductions	
Benefit Payments	$399,897,777
Withdrawals	8,889,937
Administrative Expense	3,936,633
OPEB Expense (Note G)	15,512
Pension Expense (Note E)	337,853
Total Deductions	$413,077,712
Net Increase (Decrease) in Fiduciary Net Position	$949,009,550
Net Position Restricted for Pension Benefits Beginning of the Year	$4,167,839,558
Prior Period Adjustment (Note B)	$0
Net Position End of Year	$5,116,849,108

The accompanying Notes to the Financial Statements *is an integral part of this financial statement.*

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2021

Note A. Description of the Plan

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and other skilled public education professionals in Montana.

The Teachers' Retirement System Board (the Board) and staff administer the retirement system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules may be obtained by visiting the TRS website at trs.mt.gov.

The Montana Board of Investments (MBOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by §19-20-501, MCA. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. MBOI's stand-alone financial statements and information on investment policies, investment activity, investment management fees, and a listing of specific investments owned by the pooled asset accounts can be obtained from the Montana Board of Investments, P.O. Box 200126, Helena, MT 59620-0126. The MBOI website can be found at investmentmt.com.

The Board is the governing body of the System. The System was established by the State of Montana in 1937 to provide retirement, death, and disability benefits to individuals employed in public education in Montana. TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

Board Composition

The Board consists of six members, all appointed by the Governor. Three Board members must be teaching professionals who, when appointed, are active members of TRS; at least one of the active members must be an active classroom teacher. One Board member must be a retired teacher who was a member of TRS at the time of retirement. Two Board members are appointed from the public at large. TRS Board members serve staggered five-year terms. Three Board members constitutes a quorum.

Reporting Entities

At June 30, 2021, the number and type of reporting entities participating in the system were as follows:

Local School Districts, Counties, and Co-ops	351
Community Colleges	3
University System Units	2
State Agencies	7
Total	363

System Membership

At July 1, 2021, the date of the most recent actuarial valuation, system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	16,985
Terminated Members:	
Vested	1,955
Non-vested	7,869
Active Plan Members:	
Full-Time	13,803
Part-Time	5,855
Total Membership	46,467

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan (Tier One). In the Tier One plan, employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

Beginning July 1, 2013, new members in TRS participate in a second benefit tier (Tier Two), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (AFC) (as opposed to 3-year AFC in Tier One);
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service of 25 years in Tier One);
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One);
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service — for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667% x AFC x years of creditable service).

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA is calculated at 1.5% of the benefit payable as of January 1st. For Tier Two members, the GABA to be calculated each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Overview of Contributions

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2021, were required to contribute 8.15% of their earned compensation. School district, education cooperative, county, and community college employers were required to contribute 9.17% of earned compensation. University System and State Agency employers were required to contribute 11.55% of earned compensation.

The TRS funding policy also provides for monthly supplemental contributions at rates specified by state law. The State's general fund contributes an additional 2.38% of earned compensation for school district and community college employees each month. The State's general fund also contributes an additional 0.11% of total earned compensation for all TRS members each month. These monthly general fund contributions along with an annual lump-sum contribution of $25 million from the general fund make up the "Other" contribution category on the financial statements.

Each employer in the Montana University System contributes to TRS a supplemental employer contribution currently at a rate of 4.72% of the total compensation for employees participating in the Montana University System Retirement Program (MUS-RP).

Contribution rates for FY 2020, 2021, and 2022 for school district, education cooperative, county, and community college employers are listed below.

Fiscal Year	Members	Employers	General Fund	Total
July 1, 2019–June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020–June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021–June 30, 2022	8.15%	9.27%	2.49%	19.91%

Contribution rates for FY 2020, 2021, and 2022 for state agencies and university system employers are listed below.

Fiscal Year	Members	Employers	General Fund	Total
July 1, 2019–June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020–June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021–June 30, 2022	8.15%	11.65%	0.11%	19.91%

Pursuant to §19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014 through fiscal year 2024.

Note B. Summary of Significant Accounting Policies

Basis of Accounting

Teachers' Retirement System, a fiduciary component unit Pension Trust Fund of the State of Montana financial reporting entity, prepares its financial statements using the accrual basis of accounting. Member contributions and employer contributions are recognized when due. Revenues are recorded in the accounting period in which they are earned, realized and become measurable in accordance with the terms of the System. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. The System adheres to all applicable Governmental Accounting Standards Board (GASB) Statements.

GASB Statement No. 67 addresses accounting and financial reporting requirements for pension plans. The statement was first implemented for the year ended June 30,2014. The statement required changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes included an actuarial calculation of total and net pension liability. It also included comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total and net pension liability, determined in accordance with GASB Statement No. 67, is presented in Note D.

Prior Period Adjustments

Prior period adjustments relate to corrections of errors and changes in accounting policy from prior periods. The System had no prior period adjustments for the year ended June 30, 2021.

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel. Compensated absences were recorded as a liability of $224,318 at June 30, 2021.

Investments

The Montana Board of Investments (MBOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by §19-20-501, MCA. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. Investments administered by MBOI for TRS are subject to MBOI's investment risk policies. MBOI's stand-alone financial statements and information on investment policies, investment activity, investment management fees, and a listing of specific investments owned by the pooled asset accounts can be obtained from the Montana Board of Investments, P.O. Box 200126, Helena, MT 59620-0126. The MBOI website can be found at investmentmt.com.

At June 30, 2021, TRS investments include the Short-Term Investment Pool (STIP) and the Consolidated Asset Pension Pool (CAPP).

Short-Term Investment Pool (STIP)

The Montana Public Retirement Plans investment in STIP will provide the Plans with exposure to Cash related investments. STIP will be managed internally by MBOI utilizing an active investment strategy. STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 120 days or less. This Pool is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants.

Consolidated Asset Pension Pool (CAPP)

CAPP invests directly in the underlying Pension Asset Classes (PACs) on behalf of the nine retirement systems within the MBOI Board-approved asset allocation ranges. Each PAC has an underlying set of MBOI Board-approved investment objectives and investment guidelines. Below is a short description of each PAC within the CAPP. For liquidity purposes, each PAC and external manager has a limited amount of cash/cash equivalents. With the exception of the Cash PAC, it is invested in the State Street Short Term Investment Fund (STIF), which invests in high quality short-term securities. For external managers, it is invested per MBOI established guidelines.

As part of the asset allocation approved by the Board in November 2020, the Private Equity PAC was renamed the Private Investments PAC and the Natural Resource PAC was renamed the Real Assets PAC. The Private Investments PAC holds Private Equity and Private Credit portfolios. The Real Assets PAC holds Commodities, Infrastructure and TIPS portfolios. These changes were effective in January 2021. The changes did not have an impact on the underlying values of the securities within CAPP.

Domestic Equity PAC

Invests primarily in US traded equity securities such as common stock. The type of portfolio structures utilized are separately managed accounts, commingled accounts, limited partnerships, or limited liability companies, and exchange traded funds.

International Equity PAC

Invests primarily in international equity securities that trade on foreign exchanges in developed and emerging markets. The type of portfolio structures utilized are separately managed accounts, commingled accounts, limited partnerships, or limited liability companies, and exchange traded funds.

Private Investments PAC

Invests in the entire capital structure of private companies. The type of portfolio structures include private partnership interests, separate accounts, commingled funds and exchange traded funds. The investments typically have well-defined strategies such as buyout, venture, or distressed debt. Private Equity investments are considered long-term. Exchange traded funds are utilized to minimize the cash position.

Real Estate PAC

Invests primarily in real estate properties. The type of portfolio structures include private partnership interests, real estate investment trusts (REITs), separate accounts, commingled funds and exchange traded funds. The funds typically have well-defined strategies such as core, value-add, or opportunistic. Real Estate investments generally require long, time horizon to realize the value of the assets. Exchange traded funds are utilized to minimize the cash position.

Real Assets PAC

Invests in energy, timber investments or other commodity related assets. The type of portfolio structures include private partnership interests, separate accounts, commingled funds and exchange traded funds. Natural Resources investments generally require a long, time horizon to realize the value of the asset.

Core Fixed Income PAC

Invests primarily in marketable, publicly traded, investment grade fixed income securities denominated in U.S. dollars. The type of portfolio structures include internally managed portfolios or externally managed separate accounts, commingled funds and limited partnerships.

Non-Core Fixed Income PAC

Invests primarily in marketable, publicly traded, high yield corporate debt, emerging market debt, convertible debt and preferred securities. The type of portfolio structures include separately managed accounts, commingled accounts, and limited partnerships.

Cash PAC

Invests primarily in highly liquid, money-market type securities. The type of portfolio structures include the internally managed Short Term Investment Pool (STIP) or cash vehicles managed through BOI's custodian or other Security Exchange Commission registered U.S. government money market funds.

TRS Investment Portfolio
June 30, 2021

Investment			Fair Value
Short-Term Investment Pool		$	52,313,082
Consolidated Asset Pension Pool			5,032,461,232
	Total	$	5,084,774,314

Consolidated Asset Pension Pool (CAPP)

CAPP is an internal investment pool managed and administered under the direction of the Montana Board of Investments (MBOI) as statutorily authorized by the Unified Investment Program. CAPP is a commingled internal investment pool and only the retirement systems can participate in CAPP. As necessary, redemptions are processed by MBOI in order to maintain required asset allocations and to provide liquidity for retirement benefits. The fair values of the investments in this category have been determined using the Net Asset Value (NAV) per share (or its equivalent) of the investment.

Short Term Investment Pool (STIP)

STIP is an external investment pool managed and administered under the direction of MBOI as statutorily authorized by the Unified Investment Program. It is a commingled pool for investment purposes and participant requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

Refer to the fair value measurement note disclosures within MBOI's annual financial statements for the underlying investments within the fair value hierarchy. The hierarchy is no longer specific to pools. BOI displays the hierarchy in the aggregate for all investment pools.

Investments Measured at Fair Value

Investments	6/30/2021	Fair Value Measurements Using "Quoted Prices in Active Markets for Identical Assets (Level 1)"	"Significant Other Observable Inputs (Level 2)"	"Significant Unobservable (Level 3)"
Total Investments by fair value level	$ -	$ -	$ -	$ -
Investments measured at the NAV				
Consolidated Asset Pension Pool (CAPP)	5,032,461,232			
Short Term Investment Pool (STIP)	52,313,082			
Total investments measured at the NAV	5,084,774,314			

Investments Measured at Net Asset Value

Investments	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Consolidated Asset Pension Pool (CAPP)	5,032,461,232	-	Monthly	30 days
Short Term Investment Pool (STIP)	52,313,082	-	Daily	1 day
Total investments measured at the NAV	$ 5,084,774,314			

Investment Risks

The investment risks for the pooled investments that TRS participates in are described in the following paragraphs. Investments are administered by MBOI, for TRS, as part of the State of Montana's Unified Investment Program. The MBOI Board approves all Investment Policy Statements (IPS), including risk policies. MBOI's stand-alone financial statements detail the investment risks associated with the securities held by the pools.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counter-party to a transaction, the entity will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the MBOI's custodial bank must be rated, at a minimum, at the 6th highest investment grade rating by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) on an annual basis.

As of June 30th, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the MBOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage, and loan investments were purchased and recorded in the MBOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments. Therefore, the MBOI is not subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. Concentration of credit risk is addressed within all IPS's as set by the MBOI Board.

The STIP IPS limits concentration to credit risk exposure by limiting portfolio investment types to 3% in an issuer except for U.S. Treasury and U.S. Agency securities as well as any repurchase agreements with a financial institution.

Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligation. Except for U.S. Government securities, CAPP's fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases around investment grade NRSRO ratings as appropriate. The U.S. Government guarantees its securities directly or indirectly. 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 risk.

As a matter of STIP investment policy, the Board's fixed income investment staff can only purchase securities from a pre-approved "Approved Issuer" list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered "US Treasury" or "US Government" money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Per MBOI policy, there are maximum restrictions that can be held on non-US securities in a foreign currency and only CAPP is allowed to have foreign currency exposure. According to the CAPP IPS, the Core Fixed Income Asset Class and Non-Core Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investment made.

TRS' position in CAPP is approximately 34.95% at June 30, 2021. The Montana BOI CAPP investments in EURO cash and securities had a fair value of approximately $253.0 million at June 30, 2021. The Montana BOI CAPP had cash and securities with a foreign currency value of approximately $999.6 million at June 30, 2021.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. CAPP uses effective duration as a measure of interest rate risk for all fixed income portfolios and STIP uses the weighted average maturity.

According to the STIP investment policy, "the STIP portfolio will minimize interest rate risk by:

- Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
- Maintaining a dollar-weighted average portfolio maturity (WAM) of 120 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities), and
- STIP will maintain a reserve account."

The TRS investments subject to credit and interest rate risk at June 30, 2021 are categorized in the following table:

Investment	Fair Value 6/30/21	Credit Quality Rating 6/30/21	Effective Duration / Weighted Average Maturity 6/30/21
CAPP	5,032,461,232	N/R	N/A
STIP	52,313,081	N/R	0.32 yrs or 115 days WAM

With the exception of the U.S. Government securities, the fixed income instruments have credit risk as measured by major credit rating services. Obligations of the U.S. Government or obligation explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. For a more complete picture of the interest rate risk associated with CAPP please see the MBOI financial statements and IPSs. Interest rate risk is addressed within all IPS's as set by the MBOI Board. CAPP and STIP investments have been rated by investment security type. However, CAPP as an external investment pool and STIP as an internal investment pool, have not been rated.

Securities Lending Activity

The MBOI is authorized by law to lend its securities and has contracted with the custodial bank, to lend the MBOI'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% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The MBOI and the custodial bank split the earnings 80% and 20% respectively, on securities lending activities. The MBOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies the MBOI's credit risk exposure to the borrowers. Only CAPP participates in security lending. There were no failures by any borrowers to return or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. As of June 30, 2021, no securities were recalled and not yet returned.

Note C. Property and Equipment

Property and equipment consist of the amounts shown in the following table as of June 30, 2021. Assets under $5,000 are expensed in the year purchased. Assets valued between $5,000-$500,000 or more are recorded at cost less straight-line depreciation/amortization over the estimated useful life of the asset. Capitalization thresholds are set forth in State of Montana accounting policy and vary by asset type between $5,000 and $500,000. TRS had no asset purchases that met the capitalization thresholds for the fiscal year ended June 30, 2021.

TRS completed Phase II of its upgrade to the pension administration system project (M-Trust) in FY 2017. The system upgrade was implemented on a modular basis with all modules completed by February 2017. In FY 2017 TRS initiated Phase III of the upgrade to the pension administration system project (M-Trust). The system upgrade was implemented on a modular basis with all modules completed by November 2019. The investment in Phase II and Phase III of the M-Trust project as of June 30, 2021 is shown below and on the Basic Financial Statements in the Intangible Assets less Accumulated Amortization line items.

In July 2019 TRS moved to a new location. As part of the move, construction costs were incurred at the new location to make the space fit TRS business needs. The investment in the leasehold improvements at June 30, 2021 are shown below and on the Basic Financial Statements as part of the Land and Buildings less Accumulated Depreciation line items.

In October 2020 TRS sold the building located at 1500 East Sixth Avenue to the Montana Board of Investments. Therefore, the assets are no longer shown on the Basic Financial Statements as part of the Land and Buildings less Accumulated Depreciation line items. The revenue associated with the sale of the building was $848,830 and is recorded on the Basic Financial Statements as part of the Miscellaneous Income line item.

Property and Equipment	2021
Leasehold Improvements	$ 243,881
Less: Accumulated Depreciation	(52,260)
Equipment	16,286
Less: Accumulated Depreciation	(16,286)
Intangible Assets	4,287,347
Less: Accumulated Amortization	(3,291,875)
Net Property and Equipment	$ 1,187,093

Operating Lease – Lessee

Operating leases are rental agreements where the payments are chargeable as rent and recorded as administrative expenses. TRS negotiated a 19-year lease for office space in February 2019, 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. The lease agreement contains a termination clause whereby TRS can terminate the lease for any reason after June 30, 2022, by providing 729 days (2 year) notice. For the fiscal year ended June 30, 2021 TRS lease payments were $108,262. The following table shows the lease payments for the next five fiscal years.

Fiscal Year Ended June 30:	Total Lease Payments	
2022	$	149,711
2023	$	154,202
2024	$	158,828
2025	$	163,593
2026	$	168,501

Operating Lease – Lessor

TRS and DPHHS negotiated a 10-year lease for office space in April 2019 at the location of 1500 East 6th Avenue, Helena, MT. TRS owned the building as the lessor for three months of the fiscal year ended June 30, 2021. The building was then sold to MBOI on October 30, 2020. For the fiscal year ended June 30, 2021, TRS rental income was $31,114. There will be no rental income for TRS for the foreseeable future.

Note D. Net Pension Liability – TRS Plan Reporting

Net Pension Liability – TRS Plan

Fiscal Year Ending June 30, 2021		
Total Pension Liability	$	6,773,384,361
Fiduciary Net Position	$	5,116,849,108
Net Pension Liability	$	1,656,535,253
Ratio of Fiduciary Net Position to Total Pension Liability		75.54%

The net pension liability is the retirement system's total pension liability (TPL) determined in accordance with GASB No. 67 less the fiduciary net position (FNP). As of June 30, 2021, the TRS net pension liability is $1,656,535,253. July 1, 2021 is the date of the actuarial valuation upon which the TPL is based. Roll forward procedures were not used.

Actuarial valuation of the ongoing System involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The most recent experience study was performed in May of 2018 for the five year period ending July 1, 2017. The Schedule of Net Pension Liability presents multi-year trend information about whether the plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability. This schedule is presented in the Required Supplementary Information section.

Summary of Actuarial Assumptions – TRS Plan

The TPL as of June 30, 2021, is based on the results of an actuarial valuation date of July 1, 2021. There were several significant assumptions and other inputs used to measure the total pension liability.

The actuarial assumptions used in the July 1, 2021 valuation were based on the results of the last actuarial experience study, dated May 3, 2018. Among those assumptions were the following:

Salary Increases*	3.25% to 7.76%
Investment Rate of Return**	7.06%
Price Inflation	2.40%
Growth in Membership	0.00%
Post-retirement Benefit Increases (Starting Three Years After Retirement) - Tier 1 members	1.50%
Post-retirement Benefit Increases (Starting Three Years After Retirement) - Tier 2 members	0.50%
Interest on Member Accounts	5.00%

**Total Wage Increases include 3.25% general wage increase assumption and a range of 0.00% to 4.51% merit and longevity increases based on years of service.*
***The Investment Rate of Return assumption decreased from 7.34% at June 30, 2020 to 7.06% at June 30, 2021.*

Target Allocations – TRS Plan

Asset Class	Target Asset Allocation (a)	Long-Term Expected Real Rate of Return Arithmetic Basis (b)	Portfolio Long-Term Expected Rate of Return* (a) x (b)
Domestic Equity	30.00%	5.90%	1.77%
International Equity	17.00%	7.14%	1.21%
Private Investments	15.00%	9.13%	1.37%
Real Assets	5.00%	4.03%	0.20%
Real Estate	9.00%	5.41%	0.49%
Core Fixed Income	15.00%	1.14%	0.17%
Non-Core Fixed Income	6.00%	3.02%	0.18%
Cash	3.00%	(0.33%)	(0.01%)
Totals	100.00%		5.38%
		Inflation	2.40%
		Portfolio long-term expected rate of return	*7.78%*

**The portfolio long-term expected rate of return above of 7.78% differs from the total TRS long-term rate of return assumption of 7.06% (Discount Rate). The assumed rate of 7.06% is comprised of a 2.40% inflation rate and an expected long-term real rate of return of 4.66%.*

The average long term capital market assumptions published in the Survey of Capital Market Assumptions 2021 Edition by Horizon Actuarial Service, LLC, yield a median real return of 4.66%. Assumed inflation is based on the intermediate inflation assumption of 2.40% in the 2021 OASDI Trustees Report used by the Chief Actuary for Social Security to produce 75 year cost projections. Combining these two results yields a nominal return of 7.06%.

The discount rate (long-term rate of return assumption) used to measure the total pension liability was 7.06%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana State Code. These rates are shown in the following tables. In addition to these contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was used in determining the discount rate.

History of Legislated Contributions – School Districts, Community Colleges, Counties, and Education Cooperatives by Percent of Covered Payroll

	Members	Employers	General Fund	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	7.47%	2.49%	17.11%
July 1, 2013 to June 30, 2014	8.15%	8.47%	2.49%	19.11%
July 1, 2014 to June 30, 2015	8.15%	8.57%	2.49%	19.21%
July 1, 2015 to June 30, 2016	8.15%	8.67%	2.49%	19.31%
July 1, 2016 to June 30, 2017	8.15%	8.77%	2.49%	19.41%
July 1, 2017 to June 30, 2018	8.15%	8.87%	2.49%	19.51%
July 1, 2018 to June 30, 2019	8.15%	8.97%	2.49%	19.61%
July 1, 2019 to June 30, 2020	8.15%	9.07%	2.49%	19.71%
July 1, 2020 to June 30, 2021	8.15%	9.17%	2.49%	19.81%
July 1, 2021 to June 30, 2022	8.15%	9.27%	2.49%	19.91%
July 1, 2022 to June 30, 2023	8.15%	9.37%	2.49%	20.01%
July 1, 2023 to June 30, 2024	8.15%	9.47%	2.49%	20.11%

State and University Employers

	Members	Employers	General Fund	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 to June 30, 2013	7.15%	9.85%	0.11%	17.11%
July 1, 2013 to June 30, 2014	8.15%	10.85%	0.11%	19.11%
July 1, 2014 to June 30, 2015	8.15%	10.95%	0.11%	19.21%
July 1, 2015 to June 30, 2016	8.15%	11.05%	0.11%	19.31%
July 1, 2016 to June 30, 2017	8.15%	11.15%	0.11%	19.41%
July 1, 2017 to June 30, 2018	8.15%	11.25%	0.11%	19.51%
July 1, 2018 to June 30, 2019	8.15%	11.35%	0.11%	19.61%
July 1, 2019 to June 30, 2020	8.15%	11.45%	0.11%	19.71%
July 1, 2020 to June 30, 2021	8.15%	11.55%	0.11%	19.81%
July 1, 2021 to June 30, 2022	8.15%	11.65%	0.11%	19.91%
July 1, 2022 to June 30, 2023	8.15%	11.75%	0.11%	20.01%
July 1, 2023 to June 30, 2024	8.15%	11.85%	0.11%	20.11%

Pursuant to §19-20-609, MCA, the employer contribution rate will increase by 0.10% each year beginning July 1, 2014, through fiscal year 2024.

Sensitivity Analysis – TRS Plan

	1.0% Decrease (6.06%)	Current Discount Rate	1.0% Increase (8.06%)
Net Pension Liability	$ 2,461,288,724	$ 1,656,535,253	$ 984,981,456

In accordance with GASB 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.06%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.06%) or 1.00% higher (8.06%) than the current rate.

Schedule of Investment Returns – TRS Plan

TRS Plan Schedule of Investment Returns

	2021
Annual Money Weighted Rate Return, Net of Investment Expense	27.714%

The annual money-weighted rate of return on pension plan investments expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Note E. Net Pension Liability – Employer Reporting

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, TRS is required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 includes requirements to record and report employers' proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

In accordance with Statement 68, the State of Montana has a funding situation that is Special Funding whereby the State general fund provides statutorily required contributions to the PERS plan. Due to the existence of a special funding situation, TRS is required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with TRS. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2021 and June 30, 2020 (reporting dates).

Net Pension Liability – PERS Plan

	Net Pension Liability as of 6/30/21	Net Pension Liability as of 6/30/20	Percent of Collective NPL as 6/30/21	Percent of Collective NPL as 6/30/20	Change in Percent of Collective NPL
TRS Proportionate Share	$ 1,885,625	$ 1,457,558	0.0714%	0.0697%	0.0017%
State of Montana Proportionate Share Associated with TRS	$ 571,643	$ 456,803	0.0217%	0.0219%	(0.0002%)
Total	$ 2,457,268	$ 1,914,361	0.0931%	0.0916%	0.0015%

At June 30, 2021, TRS recorded a liability of $1,885,625 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2019, with update procedures to roll forward the TPL to the measurement date to June 30, 2020. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the effects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

TRS' proportion of the Net Pension Liability was based on the employer contributions received by PERS during the measurement period July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2021, the TRS' proportion was 0.0714 percent.

Summary of Actuarial Assumptions – PERS Plan

Changes in actuarial assumptions and methods:

The following changes in assumptions or other inputs were made that affected the measurement of the TPL.

- The discount rate was lowered from 7.65% to 7.34%
- The investment rate of return was lowered from 7.65% to 7.34%
- The inflation rate was reduced from 2.75% to 2.40%

Changes in benefit terms:

There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share:

There were no changes between the measurement date of the collective Net Pension Liability and TRS's reporting date that are expected to have a significant effect on the TRS's proportionate share percentage of the collective NPL. However, between the measurement date of the collective Net Pension Liability and TRS's reporting date, the investment rate of return of the PERS plan was 27.72%, substantially higher than the investment return assumption of 7.65%. Therefore, TRS's proportionate share amount of the collective NPL is expected to decrease as a result.

Pension Expense – PERS Plan

	Pension Expense as of 6/30/21	
TRS Proportionate Share	$	244,365
Proportionate Share of Montana State General Fund Appropriation Associated with TRS	$	93,488
Total	$	337,853

At June 30, 2021, TRS recognized a Pension Expense of $337,853 for its proportionate share of the PERS' pension expense. TRS also recognized grant revenue of $93,488 for the support provided by the State of Montana for the proportionate share of the general fund contributions made to PERS that are associated with TRS.

Deferred Inflows and Outflows – PERS Plan

At June 30, 2021, TRS reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences Between Expected and Actual Economic Experience	$	30,438	$	53,913
Changes in Actuarial Assumptions	$	163,278	$	0
Difference Between Projected and Actual Investment Earnings	$	130,572	$	0
Changes in Proportion and Differences Between TRS Contributions and Proportionate Share of Contributions	$	0	$	58,011
*Contributions Paid to PERS Subsequent to the Measurement Date – FY 2021 Contributions	$	119,105	$	0
Total	$	443,393	$	111,924

**Amounts reported as deferred outflows of resources related to pensions resulting from TRS's contributions in FY 2021 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:*

Fiscal Year Ended June 30:	Amount Recognized as an Increase (or Decrease) to Pension Expense in Future Years	
2022	$	(403)
2023	$	114,923
2024	$	57,051
2025	$	40,793
Thereafter		–

Plan Description – PERS Plan

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 and 3, MCA. This plan provides retirement benefits to covered employees of 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-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions 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.

Summary of Benefits – PERS Plan

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.

For PERS-DCRP Plan members are eligible for benefit at termination of 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.

Vesting

Five years of membership service.

For PERS-DCRP Plan, members are vested immediately for participant's contributions and attributable income. Member's must have 5 years of membership to become eligible for the employer's contributions to individual accounts and attributable income.

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.

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.

For PERS-DCRP, Plan member's benefit depends entirely on vesting and individual account balance. Various payout options are available, including: taxable lump-sum payouts, periodic payments, per member instructions and IRS permitted rollovers.

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 other adjustments to the member's benefit.

- GABA is 3% for members hired prior to July 1, 2007.
- GABA is 1.5% for members hired on or after July 1, 2007.
- Members hired on or after July 1, 2013:

  (a) 1.5% for each year PERS is funded at or above 90%;

  (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and

  (c) 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions – PERS Plan

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan.

1. Member contributions to the system of 7.9% are temporary and 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.

2. Employer contributions to the system:

   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1, following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.

   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

3. Non-employer Contributions:

   a. Special Funding

      i. The State contributes 0.1% of members' compensation on behalf of local government entities.

      ii. The State contributes 0.37% of members' compensation on behalf of school district entities.

      iii. The state contributed a Statutory Appropriation from the General Fund of $33,951,150.

Stand-Alone Statements – PERS Plan

The PERS financial information is reported in the Public Employees' Retirement Board's (PERB) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended. It is available from the PERB at 100 North Park Ave, PO Box 200131, Helena MT 59620-0131, 406-444-3154.

ACFR information including PERS stand-alone financial statements and the GASB 68 report can be found on their website at https://mpera.mt.gov.

The latest actuarial valuation and experience study can also be found at their website at https://mpera.mt.gov.

Actuarial Assumptions – PERS Plan

The Total Pension Liability measured as of June 30, 2020 is based on the results of an actuarial valuation date of June 30, 2019 with update procedures to roll forward the TPL to June 30, 2020. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the valuation and roll-forward procedures were based on the results of the last actuarial experience study, dated May 2017, for the six-year period July 1, 2010 to June 30, 2016. Among those assumptions were the following:

General Wage Growth*	3.50%
*Includes Inflation at	2.40%
Admin Expense as % of Payroll	0.30%
Merit Wage Increases	0% to 4.80%
Investment Return	7.34%
Post-retirement Benefit Increases	

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 other adjustments to the member's benefit.

- GABA is 3% for members hired prior to July 1, 2007.
- GABA is 1.5% for members hired on or after July 1, 2007
- GABA is 1.5% for members hired on or after July 1, 2013 for each year PERS is funded at or above 90%. The 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%
- GABA is 0.0% for members hired on or after July 1, 2013 for each year the PERS amortization period is 40 years or more

Mortality assumptions among contributing members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.

Mortality assumptions among disabled members are based on RP 2000 Combined Mortality Tables with no projections.

Discount Rate – PERS Plan

The discount rate used to measure the Total Pension Liability was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the PERS Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.10% of salaries for local governments and 0.37% for school districts. In addition, the State contributes a statutory appropriation from the general fund. Based on those assumptions, the PERS' fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations – PERS Plan

Asset Class	Target Asset Allocation	Long- Term Expected Real Rate of Return Arithmetic Basis
Cash Equivalents	2.0%	0.11%
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Private Investments	14.0%	10.37%
Natural Resources	4.0%	3.43%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
Total	100.0%	

The most recent experience study, performed for the period covering fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and can be located on the MPERA website. The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the Plan. The long-term rate of return as of June 30, 2020 was calculated using the average longterm capital market assumptions published in the Survey of Capital Market Assumptions 2020 Edition by Horizon Actuarial Service, LLC, yielding a median real rate of return of 4.94%. The assumed inflation is based on the intermediate inflation of 2.40% in the 2020 OASDI Trustees Report by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.34%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2020 are summarized in the Target Allocations – PERS Plan table above.

Sensitivity Analysis – PERS Plan

	1.0% Decrease (6.34%)	Current Discount Rate (7.34%)	1.0% Increase (8.34%)
TRS' Proportion of Net Pension Liability	$ 2,595,451	$ 1,885,625	$ 1,289,376

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.34%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.34%) or 1.00% higher (8.34%) than the current rate.

Summary of Significant Accounting Policies – PERS Plan

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position, and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, 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 they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Defined Contribution Plan – PERS Plan

TRS contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for TRS employees that have elected the DCRP. The PERS-DCRP plan is administered by MPERA.

All new PERS 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 participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. For the year ended June 30, 2021, member contributions were 7.9% of gross compensation and Employers contributed 8.87% of gross compensation on behalf of DCRP members.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2020, TRS did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 329 employers that have participants in the PERS-DCRP totaled $775,195.

Note F. TRS Plan Contributions

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members, for the fiscal year ending June 30, 2021, were required to contribute 8.15% of their earned compensation and the employer contribution rate for school district, education cooperative, county, and community college employers for the fiscal year ending June 30, 2021 was 9.17% of earned compensation. For state agency and university system employers, the employer contribution rate was 11.55% of members' earned compensation.

The State's general fund contributed an additional 2.38% of earned compensation for TRS members employed at school districts, community colleges, educational cooperatives, and counties in Montana. In addition, the State's general fund contributed 0.11% of earned compensation for all TRS members. The State's general fund also contributes a statutory supplemental contribution of $25 million to TRS due on July 1st each year. Each employer in the Montana University System contributed 4.72% of earned compensation for all employees participating in the Montana University System Retirement Program (MUS-RP).

The TRS actuary determines the actuarial implications of the funding requirement in annual actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age actuarial cost method, with both normal cost and amortization of the accrued liability determined as a level percentage of earned compensation. Contribution rates consist of an amount for normal cost, the estimated amount necessary to finance benefits earned by the members during the current year, and an amount for amortization of the unfunded actuarial accrued liability.

Contributions made by employers and members were in accordance with actuarially computed funding requirements. Information with regard to contributions to the System, for the year ended June 30, 2021, is indicated in the Required Supplemental Information, Schedule of Employer Contributions.

Note G. Other Post-Employment Benefits

Plan Description

TRS through the State of Montana provides optional post-employment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan.

In accordance with GASB Statement No. 75, Accounting and Financial Reporting for Post Employment Benefits Other than Pensions, TRS is required to recognize and report certain amounts associated with their employees and dependents that are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. Statement 75 includes requirements to record and report employers' proportionate share of the collective Total OPEB Liability, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources associated with OPEB.

The State of Montana OPEB plan is not administered through a trust; as such, there are no plan assets accumulated to offset the total OPEB liability. The State of Montana OPEB plan is reported as a single-employer plan.

The State of Montana pays for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-811, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Plan coverage is on a calendar year basis. For GASB Statement No. 75 reporting, the State Group Benefits Plan is considered a single-employer plan.

As of December 31, 2020, the State Plan's administratively established retiree medical contributions vary between $448 and $1,777 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between $41.10 and $70 and vision hardware contributions vary between $7.64 and $22.26 depending on the coverage selected. The plan is financed on a pay-as-you-go basis. Therefore, there are no investment objectives of the OPEB plan.

The following estimates were prepared based on an actuarial valuation prepared as of the year ending December 31, 2020 for the Department of Administration, with update procedures to roll forward the OPEB amounts to the measurement date of March 31, 2021. The resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits (OPEB) contains the TRS data and is available through the following address.

Montana Department of Administration
State Accounting Division
Room 255, Mitchell Bldg
125 N Roberts Street
PO Box 200102
Helena, MT 59620-0102

Total OPEB Liability and Changes in Total OPEB Liability

TRS' Total OPEB Liability as of June 30, 2021 was $280,653. TRS proportionate share of the collective Total OPEB Liability was 0.19026%. The basis on which TRS' proportionate share was calculated was by taking TRS calculated OPEB Liability as a percentage of the Total OPEB Liability for the State of Montana.

The following table presents the Changes in the Total OPEB Liability:

Schedule of Changes in Total OPEB Liability

		TRS
Balance as of 06/30/20	$	88,643
Changes for the Year:		
Service Cost		3,165
Interest		2,496
Diff b/w Expected and Actual Experience		6,016
Changes of Assumptions and Other Inputs		182,421
Benefit Payments (Contributions)		(2,088)
Net Changes in TOL		192,010
Balance as of 06/30/21	$	280,653

Actuarial Assumptions and Other Inputs

The Total OPEB Liability in the latest actuarial valuation dated December 31, 2020, the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Contributions: $2,088
- Actuarial valuation date: December 31, 2020
- Experience Study Period: January 1, 2018 through December 31, 2020
- Actuarial measurement date*: March 31, 2021
- Actuarial cost method: Entry age normal funding method
- Actuarial Assumptions:
  - Discount rate: 2.23%
  - Projected payroll increases: 2.50%
  - Participation: Future retirees 40.00%, Future eligible spouses 70.00%
  - Marital status at retirement: 70.00%

** Update procedures were used to roll forward the total OPEB liability to the measurement date.*

Mortality – Healthy: For the OPEB Plan, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality – Disabled: For the OPEB Plan, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date:

- Changes in actuarial assumptions include a reduction in the interest/discount rate based on the average of multiple March 31, 2021 municipal bond rate sources.

Changes in benefit terms since last measurement date:

- None

Sensitivity Analysis

Sensitivity of the total OPEB liability to changes in the discount rate:

The following table presents the total OPEB liability of TRS if it were calculated using a discount rate that is 1.00% lower (1.23%) or 1.00% higher (3.23%) than the current discount rate (2.23%):

Discount Rate	1% Decrease (1.23%)	Discount Rate (2.23%)	1% Increase (3.23%)
Total OPEB Liability	$354,418	$280,653	$225,420

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates:

The following table presents the total OPEB liability of TRS if it were calculated using healthcare cost trend rates that are 1.00% lower (5.0%) or 1.00% higher (7.0%) than the current healthcare cost trend rate (6.0%):

Healthcare Rate	1% Decrease (5.00%)	Healthcare Rate (6.00%)	1% Increase (7.00%)
Total OPEB Liability	$220,965	$280,653	$363,290

OPEB Expense

For the year ended June 30, 2021, TRS recognized an OPEB expense of $15,512.

Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, TRS recorded deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	$6,016	$56,734
Changes of assumptions of other inputs	$214,426	$30,742
Prior Period Amortization of outflows/inflows	($3,025)	($8,422)
FY 21 Amortization of outflows/inflows	($16,827)	($6,976)
*Benefit Payments associated with transactions subsequent to the measurement date of the total OPEB liability	$0	$0
Total	$200,590	$72,078

**Amounts reported as deferred outflows of resources related to OPEB resulting from TRS's Benefit Payments in FY 2021 (April 1, 2021 through June 30, 2021) subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:*

Fiscal Year	Amount recognized as Increase or (Decrease) to OPEB Expense
2022	$9,851
2023	$9,851
2024	$9,851
2025	$9,851
2026	$9,851
Thereafter	$79,258

Note H. Pending Litigation

As of June 30, 2021, TRS had no pending litigation that would significantly affect the information presented in this financial report.

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TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION AND NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2021

Schedule of Changes in the Net Pension Liability – TRS Plan

	2021*	2020*	2019*	2018*
Total Pension Liability				
Service Cost	$ 81,016,509	$ 76,334,643	$ 75,236,616	$ 76,009,950
Interest	461,973,793	452,258,006	441,958,241	428,866,673
Benefit Changes		-	-	-
Difference Between Expected and Actual Experience	21,712,947	22,424,700	6,775,269	14,571,084
Changes of Assumptions	200,170,596	107,293,117	(6,059,430)	206,321,172
Benefit Payments	(399,897,777)	(384,396,941)	(367,779,905)	(352,854,025)
Refunds of Contributions	(8,889,937)	(5,171,751)	(6,008,447)	(5,322,642)
Net Change in Total Liability	356,086,131	268,741,774	144,122,344	367,592,212
Total Pension Liability Beginning	$ 6,417,298,230	$ 6,148,556,456	$ 6,004,434,112	$ 5,636,841,900
Total Pension Liability Ending (a)	$ 6,773,384,361	$ 6,417,298,230	$ 6,148,556,456	$ 6,004,434,112
Fiduciary Net Position				
Contributions - Employer	$ 103,219,072	$ 102,420,318	$ 97,303,048	$ 94,233,469
Contributions - Member	81,120,904	80,194,548	78,150,923	74,594,333
Contributions - Non-Employer Contributing Entities	47,020,904	45,948,388	45,495,334	45,005,672
Miscellaneous Income	974,981	51,927	31,040	31,829
Net Investment Income	1,129,751,837	112,588,645	227,892,287	343,720,833
Benefit Payments	(399,897,777)	(384,396,941)	(367,779,905)	(352,854,025)
Administrative Expenses	(3,936,633)	(3,767,693)	(2,947,109)	(2,849,527)
Refund of Contributions	(8,889,937)	(5,171,751)	(6,008,447)	(5,322,642)
Other	(353,364)	(204,156)	(174,476)	(157,777)
Net Change in Fiduciary Net Position	949,009,550	(52,336,715)	71,962,695	197,402,165
Fiduciary Net Position - Beginning	4,167,839,558	4,220,285,752	4,148,324,206	3,950,761,443
Prior Period Adjustment	–	(109,479)	(1,149)	160,598
Fiduciary Net Position - Ending (b)	$ 5,116,849,108	$ 4,167,839,558	$ 4,220,285,752	$ 4,148,324,206
Net Pension Liability - Ending (a - b)	$ 1,656,535,253	$ 2,249,458,672	$ 1,928,270,704	$ 1,856,109,906

	2017*	2016*	2015*	2014*
Total Pension Liability				
Service Cost	$ 71,429,117	$ 73,530,938	$ 73,820,438	$ 77,006,174
Interest	417,307,148	402,339,969	390,555,879	373,456,442
Benefit Changes	-	-	-	-
Difference Between Expected and Actual Experience	5,420,919	(5,245,998)	9,660,152	20,297,029
Changes of Assumptions	-	(12,445,656)	(4,670,553)	46,502,421
Benefit Payments	(333,633,717)	(320,810,259)	(303,675,300)	(285,182,358)
Refunds of Contributions	(7,355,344)	(5,086,816)	(5,368,359)	(4,788,688)
Net Change in Total Liability	153,168,123	132,282,178	160,322,257	227,291,020
Total Pension Liability Beginning	$ 5,483,673,777	$ 5,351,391,599	$ 5,191,069,342	$ 4,963,778,322
Total Pension Liability Ending (a)	$ 5,636,841,900	$ 5,483,673,777	$ 5,351,391,599	$ 5,191,069,342
Fiduciary Net Position				
Contributions - Employer	$ 91,853,678	$ 88,643,646	$ 87,290,863	$ 83,439,612
Contributions - Member	74,253,046	72,740,665	72,215,797	70,468,354
Contributions - Non-Employer Contributing Entities	44,414,109	43,902,606	43,389,534	64,923,320
Miscellaneous Income	27,504	29,123	27,297	6,000
Net Investment Income	427,042,359	71,487,661	165,684,953	540,277,362
Benefit Payments	(333,633,717)	(320,810,259)	(303,675,300)	(285,182,358)
Administrative Expenses	(2,459,458)	(2,318,818)	(2,035,081)	(2,022,636)
Refund of Contributions	(7,355,344)	(5,086,816)	(5,368,359)	(4,788,688)
Other	(211,532)	(142,849)	(140,631)	(58,073)
Net Change in Fiduciary Net Position	293,930,645	(51,555,041)	57,389,073	467,062,894
Fiduciary Net Position - Beginning	3,656,830,798	3,708,385,838	3,652,220,265	3,185,064,406
Prior Period Adjustment	–	–	(1,223,501)	92,965
Fiduciary Net Position - Ending (b)	$ 3,950,761,443	$ 3,656,830,798	$ 3,708,385,838	$ 3,652,220,265
Net Pension Liability - Ending (a - b)	$ 1,686,080,457	$ 1,826,842,979	$ 1,643,005,761	$ 1,538,849,077

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Note to RSI - Schedule of Changes in the Net Pension Liability and Schedule of Net Pension Liability

The TPL contained in these schedules was provided by the System's actuary, Cavanaugh Macdonald Consulting, LLC. The TPL is measured as the TPL less the amount of the FNP of the Retirement System. Prior to the fiscal year ended June 30, 2018, the Net Investment Income, Net Change in Fiduciary Net Position, and Prior Period Adjustment items in the Schedule of Changes in Fiduciary Net Position matched the Statement of Changes in Net position. However, there was an ACFR only adjustment in FY2018 that was issued by the BOI after the Schedule of Changes in Fiduciary Net Position above had been complete. The adjustment affected the Net Investment Income, Net Change in Fiduciary Net Position, and Prior Period Adjustment items by $56,880 (the amount of the ACFR only adjustment).

Schedule of the Net Pension Liability – TRS Plan

	2021*	2020*	2019*	2018*
Total Pension Liability	$ 6,773,384,361	$ 6,417,298,230	$ 6,148,556,456	$ 6,004,434,112
Fiduciary Net Position	5,116,849,108	4,167,839,558	4,220,285,752	4,148,324,206
Net Pension Liability	$ 1,656,535,253	$ 2,249,458,672	$ 1,928,270,704	$ 1,856,109,906
Ratio of Fiduciary Net Position to Total Pension Liability	75.54%	64.95%	68.64%	69.09%
Covered Payroll	$ 922,764,585	$ 880,667,518	$ 857,467,932	$ 829,708,595
Net Pension Liability as a Percentage of Covered-Employee Payroll	179.52%	255.43%	224.88%	223.71%

	2017*	2016*	2015*	2014*
Total Pension Liability	$ 5,636,841,900	$ 5,483,673,777	$ 5,351,391,599	$ 5,191,069,342
Fiduciary Net Position	3,950,761,443	3,656,830,798	3,708,385,838	3,652,220,265
Net Pension Liability	$ 1,686,080,457	$ 1,826,842,979	$ 1,643,005,761	$ 1,538,849,077
Ratio of Fiduciary Net Position to Total Pension Liability	70.09%	66.69%	69.30%	70.36%
Covered Payroll	$ 818,122,561	$ 795,920,906	$ 768,718,699	$ 750,604,063
Net Pension Liability as a Percentage of Covered-Employee Payroll	206.09%	229.53%	213.73%	205.01%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of Investment Returns – TRS Plan

	2021*	2020*	2019*	2018*
Annual Money Weighted Rate Return, Net of Investment Expense	27.714%	2.719%	5.611%	8.880%

	2017*	2016*	2015*	2014*
Annual Money Weighted Rate Return, Net of Investment Expense	11.919%	1.986%	4.618%	17.18%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of Employer and Non-employer Contributing Entities Contributions – TRS Plan

	2021	2020	2019	2018	2017
Actuarially Determined Employer Contributions	$ 150,239,539	$ 148,368,706	$ 143,107,320	$ 139,239,141	$ 136,267,787
Actual Contributions:					
Employers	103,219,072	102,420,318	97,303,048	94,233,469	91,853,678
Non-Employer Contributing Entities	$ 47,020,467	$ 45,948,388	$ 45,495,334	$ 45,005,672	$ 44,414,109
Total	$ 150,239,539	$ 148,368,706	$ 142,798,382	$ 139,239,141	$ 136,267,787
Annual Contribution Deficiency/ (Excess)	–	–	308,938	–	–
Covered Payroll	922,764,585	880,667,518	857,467,932	829,708,595	818,122,561
Actual Contributions as a Percentage of Covered-Employee Payroll	16.28%	16.85%	16.65%	16.78%	16.66%

	2016	2015	2014	2013	2012
Actuarially Determined Employer Contributions	$ 132,546,252	$ 130,680,397	$ 148,362,932	$ 130,533,530	$ 108,993,492
Actual Contributions:					
Employers	88,643,646	87,290,863	83,439,612	74,113,191	72,422,404
Non-Employer Contributing Entities	$ 43,902,606	$ 43,389,534	$ 64,923,320	$ 17,521,347	$ 16,843,766
Total	$ 132,546,252	$ 130,680,397	$ 148,362,932	$ 91,634,538	$ 89,266,170
Annual Contribution Deficiency/ (Excess)	–	–	–	38,898,992	19,727,322
Covered Payroll	795,920,906	768,718,699	750,604,063	742,608,987	735,586,961
Actual Contributions as a Percentage of Covered-Employee Payroll	16.65%	17.00%	19.77%	12.34%	12.14%

Note to RSI - Schedule of Employer Contributions

The actuarially determined employer contributions and amount of those contributions actually made are presented in the schedule.

Note to RSI - Actuarial Assumptions – TRS Plan

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board. Additional information as of the latest actuarial valuation follows.

Changes of Benefit Terms – TRS Plan

The following changes to the plan provision were made as identified:

2013

The 2013 Montana Legislature passed HB 377, which provides additional revenue and creates a two-tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013, and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013, or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The GABA for Tier 1 members: permanent injunction limits application of the GABA reduction passed under HB 377.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below:

1. Final Average Compensation: average of earned compensation paid in five consecutive years of full-time service that yields the highest average.
2. Service Retirement: Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55.
3. Early Retirement: Eligible to receive an early retirement allowance if a member is not eligible for service retirement, but has at least five years of creditable service and attained age 55.
4. Professional Retirement Option: if the member has been credited with 30 or more years of service and has attained the age of 60, the member is eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%.
5. Annual Contribution: 8.15% of member's earned compensation.
6. Supplemental Contribution Rate: On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%, and
    b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years, and
    c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
7. Disability Retirement: A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination.
8. Guaranteed Annual Benefit Adjustment (GABA):
    a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers, and the State by means of the following changes:

- An annual State contribution equal to $25 million paid to the System in monthly installments.
- A one-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.

- A 1% supplemental employer contribution, which will increase the current employer rates as follows:
    - School district contributions will increase from 7.47% to 8.47%.
    - Montana University System and State agency contributions will increase from 9.85% to 10.85%.
    - Supplemental employer contributions will increase by 0.1% each fiscal year for fiscal year 2014 through fiscal year 2024. For fiscal years beginning after June 30, 2024, the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013, (Tier One) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in Actuarial Assumptions and Methods – TRS Plan

The following changes to the actuarial assumptions were adopted in 2021 for the GASB 67/68 report and disclosures only:

- The discount rate was lowered from 7.34% to 7.06%.
- The investment rate of return assumption was lowered from 7.34% to 7.06%.

The following changes to the actuarial assumptions were adopted in 2020 for the GASB 67/68 report and disclosures only:

- The discount rate was lowered from 7.50% to 7.34%.
- The investment rate of return assumption was lowered from 7.50% to 7.34%.
- The inflation rate was reduced from 2.50% to 2.40%.

The following changes to the actuarial assumptions were adopted in 2019:

- The Guaranteed Annual Benefit Adjustment (GABA) for Tier Two members is a variable rate between 0.50% and 1.50% as determined by the Board. Since an increase in the amount of the GABA is not automatic and must be approved by the Board, the assumed increase was lowered from 1.50% to the current rate of 0.50% per annum.

The following changes to the actuarial assumptions were adopted in 2018:

- Assumed rate of inflation was reduced from 3.25% to 2.50%
- Payroll growth assumption was reduced from 4.00% to 3.25%
- Investment return assumption was reduced from 7.75% to 7.50%.
- Wage growth assumption was reduced from 4.00% to 3.25%
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
    - For Males and Females: RP-2000 Healthy Combined Mortality Table projected to 2022 adjusted for partial credibility setback for two years. The tables include margins for mortality improvement which is expected to occur in the future.
- Mortality among disabled members was updated to the following:
    - For Males: RP 2000 Disabled Mortality Table, set back three years, with mortality improvements projected by Scale BB to 2022.
    - For Females: RP 2000 Disabled Mortality Table, set forward two years, with mortality improvements projected by Scale BB to 2022.
- Retirement rates were updated.
- Termination rates were updated.
- Rates of salary increases were updated.

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility.
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%.
- Payroll Growth Assumption was reduced from 4.50% to 4.00%.
- Assumed real wage growth was reduced from 1.00% to 0.75%.
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:
  - For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members was updated to the following:
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Note to RSI – Method and Assumptions Used in Calculations of Actuarially Determined Contributions – TRS Plan

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	29 years
Asset Valuation Method	4-year Smoothed Market
Inflation	2.50 Percent
Salary Increase	3.25 – 7.76 Percent, Including Inflation for Non-University Members and 4.25 Percent for University Members including inflation;
Investment Rate of Return	7.50 Percent, Net of Pension Plan Investment Expense, and Including Inflation

Schedule of Proportionate Share of the Net Pension Liability – TRS as Employer of PERS Plan

TRS' Proportion of the Net Pension Liability
TRS' Proportionate Share of the Net Pension Liability
State of Montana's Proportionate Share of the Net Pension Liability Associated With the TRS
Total NPL
Covered Payroll
TRS' Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll
Fiduciary Net Position as a Percentage of the Total Pension Liability

The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Contributions – TRS as Employer of PERS Plan

Contractually Required Contributions
Contributions in Relation to the Contractually Required Contributions
Contribution Deficiency (Excess)
Covered Payroll
Contributions as a Percentage of Covered-Employee Payroll

The amounts presented above for each fiscal year were determined as of June 30th, the most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

	2021	2020	2019	2018	2017	2016	2015
	0.0715%	0.0697%	0.0691%	0.0896%	0.0882%	0.0843%	0.08102%
	$1,885,625	$1,457,558	$1,443,205	$1,745,606	$1,502,397	$1,177,820	$1,009,567
	$571,643	$456,803	$464,136	$0	$0	$0	$0
	$2,457,268	$1,914,361	$1,907,341	$1,745,606	$1,502,397	$1,177,820	$1,009,567
	$1,185,534	$1,137,253	$1,123,898	$1,098,725	$1,043,891	$971,504	$905,963
	159.1%	128.2%	128.4%	158.9%	143.9%	121.2%	111.4%
	68.9%	73.9%	73.5%	73.8%	74.7%	78.4%	79.9%

	2021	2020	2019	2018	2017	2016	2015
	$120,200	$104,324	$98,599	$95,649	$93,731	$89,396	$82,288
	$120,200	$104,324	$98,599	$95,649	$93,731	$89,396	$82,288
	$0	$0	$0	$0	$0	$0	$0
	$1,396,200	$1,185,534	$1,137,460	$1,123,898	$1,098,725	$1,043,891	$971,504
	8.61%	8.80%	8.67%	8.51%	8.53%	8.56%	8.47%

Note to RSI - Changes of Benefit Terms – PERS Plan

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

Working Retirees - House Bill 95

- The law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. PERS working retirees may still work up to 960 hours a year, without impacting benefits.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

- All PERS members hired on or after July 1, 2013, are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.
- All bonuses paid to PERS members on or after July 1, 2013, will not be treated as compensation for retirement purposes.

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

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% for members hired prior to July 1, 2007.
- 1.5% for members hired on or after July 1, 2007, and before July 1, 2013.
- Members hired on or after July 1, 2013:
  - b. 1.5% each year PERS is funded at or above 90%;
  - c. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%, and
  - d. 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit

1. Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment and accumulate less than 2 years of service credit before retiring again:
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination, and
   - GABA starts again in the January immediately following second retirement.
2. For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
   - member receives a recalculated retirement benefit based on laws in effect at second retirement, and
   - GABA starts in the January after receiving recalculated benefit for 12 months.

3. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
   - refund of member's contributions from second employment plus regular interest (currently 0.25%);
   - no service credit for second employment;
   - start same benefit amount the month following termination, and
   - GABA starts again in the January immediately following second retirement.
4. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
   - member receives same retirement benefit as prior to return to service;
   - member receives second retirement benefit for second period of service based on laws in effect at second retirement, and
   - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Employer Contributions and the Defined Contribution Plan

The Plan Choice Rate (PCR) was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

2017 Legislative Changes:

Working Retiree Limitations

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds

1. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
2. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
3. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest credited to member accounts

Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum payouts

Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

PERS Statutory Appropriation – House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to the PERS defined benefit trust fund will be replaced with the following statutory appropriations:

1. FY2018 - $31.386 million
2. FY2019 - $31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
   a. FY2020 - $32.277 million
   b. FY2021 - $32.6 million
   c. FY2022 - $32.926 million
   d. FY2023 - $33.255 million
   e. FY2024 - $33.588 million
   f. FY2025 - $33.924 million

Note to RSI – Changes in Actuarial Assumptions and Methods - PERS Plan

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 30, 2019 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increases	0% to 8.47%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Mortality (Healthy members)	For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table
Admin Expense as % of Payroll	0.30%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount varies from year to year based on the prior year's actual administrative expenses.

Other Post-employment Benefits Plan Information

	2021*	2020*	2019*	2018*
TRS Proportionate Share of the Total OPEB Liability	0.19026%	0.18724%	0.24391%	0.27378%
TRS Total OPEB Liability	$280,653	$88,643	$135,851	$138,145
Covered Payroll	$1,396,200	$1,307,760	$1,123,898	$1,098,725
TRS Total OPEB Liability as a percentage of covered payroll	20.10%	6.78%	12.09%	12.57%

**The amounts presented above for each fiscal year were determined as of June 30th, the measurement date. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Note to RSI – OPEB Information

The State of Montana OPEB plan is not administered through a trust; as such, there are no plan assets accumulated to offset the total OPEB liability. The State of Montana OPEB plan is reported as single-employer plan.

Actuarial assumptions and other inputs:

The total OPEB liability in the latest actuarial valuation dated December 31, 2020, the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial valuation date: December 31, 2020
- Actuarial measurement date*: March 31, 2021
- Actuarial cost method: Entry age normal funding method
- Amortization method: Open basis
- Asset valuation method: Not applicable since no assets meet the definition of plan assets under GASB 75

- Actuarial Assumptions:
    - Discount rate: 2.23%
    - Projected payroll increases: 2.50%
    - Participation: Future retirees 40.00%, Future eligible spouses 70.00%
    - Marital status at retirement: 70.00%

* Update procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Healthy: For the OPEB Plan, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For the OPEB Plan, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULES / SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2021

SCHEDULE OF ADMINISTRATIVE EXPENSES

Expenses for the administration of the plan, excluding compensated absences, depreciation and amortization are budgeted and approved by the TRS Board. The administrative costs of TRS are financed through realized investment income. The expenses, less amortization of assets, may not exceed 1.50% of retirement benefits paid. Administrative expenses for the fiscal year ended June 30, 2021, were 0.98% of benefits paid. The administrative expenses by category are outlined below:

Administrative Expenses

		2021
Personal Services:		
Salaries	$	1,403,800
Other Compensation		2,700
Employee Benefits		497,551
Total Budgeted Personal Services	**$**	**1,904,051**
Operating Expenses:		
Contracted Services	$	893,969
Supplies and Material		52,454
Communications		93,958
Travel		4,981
Rent		134,799
Repair and Maintenance		12,388
Other Expenses		82,963
Total Budgeted Operating Expenses	**$**	**1,275,512**
Non-Budgeted Expenses:		
OPEB Contribution Expense	$	(2,088)
Pension Contribution Offset		(120,200)
Compensated Absences		29,244
Amortization Expense		796,871
Depreciation Expense		53,243
Total Non-Budgeted Expenses	**$**	**757,070**
Total Administrative Expenses	**$**	**3,936,633**

SCHEDULE OF INVESTMENT EXPENSES

Investment	BOI	Custodial Bank	External Managers	Other	Total
Short-Term Investment Pool	$ 17,840	$ 2,954	N/A	$ 18,518	$ 39,312
Consolidated Asset Pension Pool	$ 1,837,611	$ 440,143	$ 18,917,379	$ 7,693,657	$ 28,888,790
Totals	**$ 1,855,451**	**$ 443,097**	**$ 18,917,379**	**$ 7,712,175**	**$ 28,928,102**

SCHEDULE OF PAYMENTS TO CONSULTANTS

Costs included in the table below are a result of administrative expenses, as well as several costs associated with the M-Trust project as of June 30, 2021.

		2021
Actuarial Services	$	127,278
Project Consulting Services		117,978
Legal Services		38,743
Audit Services		59,686
Medical Evaluations		625
IT Contracts		11,403
Non-Project IT Services and Consulting		144,000
Project IT Services and Consulting		78,400
Total Consultant Payments	**$**	**578,113**

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position of the Teachers' Retirement System prepared by the Teachers' Retirement Board (board), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated December 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the board's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 15, 2021

Teachers' Retirement Board

Board Response

TEACHERS' RETIREMENT SYSTEM

GREG GIANFORTE, GOVERNOR

www.trs.mt.gov

STATE OF MONTANA

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January 20, 2022

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Maciver:

Thank you for the opportunity to provide a response to the financial audit report of the Teachers' Retirement Board for the fiscal year ending June 30, 2021. The Teachers' Retirement Board appreciates the services provided by your staff in conducting the audit. As of July 1, 2021, the Teachers' Retirement System is 71.43% funded and can fully amortize any unfunded liabilities in 24 years compared to 68.84% funded and a 29 year amortization period the previous year.

We are pleased with the unmodified opinion on the financial statements for the fiscal year ending June 30, 2021 and I would like to thank Mr. Maciver and his staff (Kelly Zwang, Shenae Stensaas, Chris Darragh, Jennifer Erdahl, and Kylie Sadat) for their professionalism and courtesy as they conducted the audit.

Sincerely,

Shawn Graham
Executive Director
Teachers' Retirement System