

TEACHERS' RETIREMENT BOARD MEETING

FEBRUARY 8, 2008

CALL TO ORDER

Chairman Tim Ryan called the meeting to order at 8:47 a.m., in the Teachers' Retirement System Conference Room, 1500 East 6th Avenue, Helena, Montana.

BOARD MEMBERS PRESENT:

Chairman, Tim Ryan
Mona Bilden
Scott Dubbs~ via conference call
Darrell Layman
Kari Peiffer
James Turcotte

STAFF PRESENT:

David L. Senn, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel
Dan Gaughan, Accounting/Fiscal Manager
Bill Hallinan, Information Technology Manager
Karla Scharf, Retired Payroll Manager
Rita Karnopp, Executive Assistant

OTHERS PRESENT:

Darrell Rud, School Administrators of Montana
Tom Bilodeau, MEA-MFT
Charlene A. Suckow, MREA
Roxanne Minnehan, MPERA
Kim Flatow, MPERA
Madalyn Quinlan, OPI

CALL TO ORDER

ADOPT AGENDA - Chairman Tim Ryan asked for additions or changes to the Agenda for February 8, 2008. Finding none, Chairman Ryan requested a motion to adopt the Agenda.

MOTION/VOTE: Mr. Darrell Layman moved that the agenda be approved. Seconded by Mrs. Mona Bilden, the motion carried unanimously.

APPROVAL OF NOVEMBER 16, 2007 MINUTES - Chairman Ryan called for changes to the September 21, 2007 Board Meeting Minutes. Mr. Senn asked that on page two, last sentence, "the motion carried unanimously" should be moved to the bottom of paragraph five, page three. Mr. Senn clarified the motion should read 'for the retirement benefits effective after July 1, 2008.' Also, on the last page 'Chairman Dubbs' should be changed to 'Chairman Ryan.' 'Chairman Ryan asked for any other changes, finding none he called for a motion.'

MOTION/VOTE: Mrs. Mona Bilden moved that the minutes be approved as corrected. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

PUBLIC COMMENT – Chairman Ryan called for public comment on Board related items. No public comments were made.

EXECUTIVE DIRECTOR'S REPORT

NEW TIER FOR MEMBERS FIRST HIRED AFTER 7/1/2009

At the request of the School Administrators of Montana and the Montana School Boards Association, the Teachers' Retirement System (TRS) Actuary, Mr. Mark Olleman, completed a preliminary study of two alternate plan designs for members hired after June 30, 2009. The Actuary's letter dated January 25, 2008, was discussed by the Board. The proposed plan designs provide greater retirement benefits than the current plan to members who retire at older ages, but less opportunity to retirees at earlier ages.

Mr. Senn distributed a worksheet comparing the different benefit amounts a retiree may receive under the alternative plan designs discussed. He pointed out that one of the advantages of the money purchase plan was that calculated benefits would adjust as people lived longer. Mr. Senn recommended that the Board consider spending \$10,000 to have the Actuary also model a Money Purchase Hybrid Plan that would have a similar cost as the current defined benefit plan.

Mr. Ryan stated he was not sure if the TRS was ready to spend \$10,000 to get examples and find ways to change the existing defined benefit plan.

Mr. Scott Dubbs stated that the Hybrid Plan appears to be a valid option and one the board should check into. He added that the membership does not understand what a money purchase plan could provide, and they might not have the knowledge to understand the many retirement plans available to judge what would be best for a new retirement system.

Tom Bilodeau, MEA-MFT, stated that he really did not have a good understanding of the money purchase plan. He feared the plan had aspects that would appeal to policy makers giving them reason to move toward a defined contribution plan. Right now, the defined benefit plan remained the preferred system and should be maintained. He had misgivings whether the TRS should invest \$10,000 to investigate a money purchase plan.

Mrs. Kari Peiffer expressed that the TRS should move forward to complete the study, giving the Board would have the information they needed to make an educated decision.

Mr. Layman asked Mr. Rudd if the retirement plan played a significant roll in teacher retention.

Mr. Rudd shared with the Board that the main reason teachers and administrators leave their positions was compensation. The Board discussed several issues why teachers are leaving Montana positions. They discussed the depth of hiring and how compensation played a factor in the staying power of Montana's teachers.

MOTION/VOTE: Mr. Dubbs moved to spend the \$10,000 to come up with a money purchase plan analysis. Seconded by Mrs. Peiffer, the motion passed four to two.

PROFESSIONAL RETIREMENT OPTION

Mr. Senn discussed the January 25, 2008, letter from Mr. Olleman regarding the MEA-MFT proposed Professional Retirement Option.

Mr. Senn reminded the Board that their Funding and Benefit Policy states that the Board may not support legislation if the system was not actuarially sound with an amortization period of less than 25-years and a funding ratio of at least 85%. As of July 1, 2007, the amortization period was 28.6 years and the System was 79% funded.

Mr. Tom Bilodeau commented that this proposal had been around since the 90's but was still a good idea, one that would help attract professionals and retain staff. Mr. Bilodeau commented he would like to see it presented and discussed further during the next legislative session, and would like to see interested groups present this bill to the legislature.

RETURN TO WORK – The Board reviewed Mr. Olleman's letter of January 25, 2008, discussing one way in which a return to full-time employment, while continuing to receive retirement benefits, might not have an adverse impact on the TRS.

The Actuary concluded that the ultimate cost of any return to work program is heavily dependent on how the program changes active and retired members' behavior. Mr. Olleman strongly recommended that any proposal that is considered include a sunset provision.

Mr. Rudd added that this information was nice to know. He stated that they had fought a few times in the legislature over such topics, such as House Bill 63 and others, but they never had a number. Folks in the field have often asked, what was the age for this scenario? This number will help in regards to those teachers that want to continue after 65, especially those in small/rural schools who might stay on if they could.

1.0% INCREASE IN THE ORP EMPLOYER CONTRIBUTION RATE

The MEA-MFT proposed to increase the Optional Retirement Program (ORP) employer contribution rate contributed to ORP member accounts. The proposal would have the State General Fund contribute \$50 million dollars to the TRS to reduce the University System's unfunded liabilities; hopefully, freeing up around 1.0% of the 4.72% supplemental rate currently paid by the University System to the TRS. This additional 1.0% would then be contributed to the accounts of those participating in the ORP.

WORKING RETIREES-RECALCULATION OF RETIREMENT BENEFITS

Mr. Senn explained that when a retiree returns to work their benefits are terminated and they are reinstated to active status. When they subsequently retire, if they had worked at least one full year, benefits are recalculated as if they have never been retired. This recalculation can result in a significant increase in benefits that are often under-funded. Mr. Senn shared several examples and suggested the Board consider legislation that would suspend benefits when a retiree returned to full-time employment, and then calculate a second benefit based on the new service and salary, which would be added to the original benefit.

Mr. Senn indicated, that as part of the Executive Planning Process, he would be submitting this legislative concept to the Governor's budget office in April.

RETIREMENT EFFECTIVE DATES-MAY/JUNE TERMINATIONS

Pursuant to the Board's discussion in February, Mr. Senn informed the Board that legislative concepts submitted as part of the Executive Planning Process would include a change to provide that if a member terminates within thirty days of the last day of school, they would be deemed to have terminated at the end of their contract, and benefits would be effective the first of the month following the last day of school.

Mrs. Peiffer and Mrs. Bilden both added they felt this language would be most helpful in protecting the TRS.

K-12 TRS/PERS MEMBERSHIP

Mr. Senn informed the Board that the legislative concepts submitted to the Budget Office may also include language to make all compensation paid to a retiree, regardless of the position held, subject to the earnings limitations under §19-20-731, MCA.

Mr. Bilodeau asked how this would affect or if it would include the Special Ed Co-ops?

Mr. Senn responded that he would include Community Colleges, Special Ed Co-ops, and K-12 employers, but it would not include state agencies and university systems.

Mr. Layman asked; if a person was in charge of electronics or computers and they were covered under Public Employees' Retirement System (PERS), and then employed in a teaching position, would they remain under PERS?

Mr. Senn responded that if they do not retire and they change positions, they will fall under whatever retirement system that position covers. If they retire under PERS, then go back to work for a school district, they are subject to the PERS retiree return-to-work provisions. The Board agreed this would need further discussions and information to find a solution.

TRS HOUSEKEEPING

Mr. Senn informed the Board that a housekeeping proposal would be necessary to address changes made by the Pension Protection Act of 2006, regarding the definition of Normal Retirement Age, amendments to clarify provisions of the Family Law Orders statute, together with other minor language changes.

SAVA COMMITTEE REPORT

The State Administration and Veterans' Affairs (SAVA) Committee met on January 7, 2008, and reconfirmed the Principles and Guidelines for Public Employee Retirement Systems adopted last biennium with minor changes. The SAVA Committee Workplan called for them to continue to work on HJR 59, and to hear legislative proposals at their April and June meetings.

EXECUTIVE SUMMARY

Mr. Senn reviewed the major items and deadlines included in the Executive Planning Process.

Mr. Senn informed the Board that he attended the NCTR Legislative Committee Meeting, February 3, 4, and 5th. He shared three areas of importance to the Board; credited interest, normal retirement age, and financial economics.

The Board discussed the challenges with funding benefits and proposed legislative changes. They added this would be a good discussion for an outreach Board meeting. Mr. Ryan asked Mr. Rudd what he thought about this.

Mr. Rudd stated an outreach Board meeting was always a healthy thing, and recommended the agenda include several high-interest agenda themes, that the agenda be publicized well ahead of time, and the folks in MEA help publicize it with fliers and announcements to all the surrounding schools.

Mr. Bilodeau suggested an evening meeting or a Saturday would get the best results for a TRS Board meeting turn out.

The Board discussed times and places to have an outreach TRS Board meeting. It was the consensus that Billings might be the best choice for the upcoming May 2008 board meeting. The Chair directed that the meeting be held in Billings on May 8 and 9, 2008, starting at 4:30 p.m. on May 8.

LETTER FROM MEMBER - Chairman Ryan brought to the Board's attention an incredible letter written by the son of a one of our retirees, Phillip Kerry, regarding Karla Scarf and Natalie Chamberlain. He wanted Karla and Natalie to receive appropriate credit and recognition for their exemplary service.

INDIVIDUAL PETITION

Office of Public Instruction (OPI) – At the November meeting the Board directed staff to work with OPI to gather additional information and to document the reasons for their request to cover all new employees under the PERS. Mr. Senn discussed a memo prepared by Kathy Bramer documenting staff's meeting with Ms. Bramer on November 30, 2007, and OPI's position on why all employees in the Office of Public Instruction should be members of PERS. Ms. Madalyn Quinlan was present representing OPI.

Mr. Senn stated, that if the Board agreed to proceed, he would recommend they identify the population of affected positions and the people who are currently in these positions. This would allow everyone to recognize what positions would be covered by the TRS and the PERS in the future.

Secondly, Mr. Senn commented that we should involve the PERS in this transition, so both can evaluate whether there will be any adverse impact on either retirement systems.

Attorney Denise Pizzini voiced concerns regarding the proposal to cover only new employees under PERS as of a certain date. Mrs. Pizzini stated she felt this might be very problematic to defend against an equal protection argument for the people who are currently in the same type positions.

The other concern she had; was there a broader group of people in similar kinds of positions not working for OPI who would potentially have an equal protection argument as well. She suggested the TRS should look at these issues and understand what the group of potentially affected employees are before the Board makes a determination of how to proceed.

Ms. Madalyn Quinlan, Chief of Staff, Office of Public Instruction, commented that **it was a matter of the duties of the position not a particular superintendent. The No Child Left Behind (NCLB) Act** might change and positions may change, perhaps in the future OPI might have classroom positions again, but that would take the action of the legislature. She added it was unlikely that these office positions would morph into that, and similar situations might arise in the future.

Mr. Ryan asked what the issues were in the OPI, and what difference does it make to OPI which retirement system members are paying into?

Ms. Quinlan commented that it is not the issue which retirement system a member is paying into, it is an issue of looking at the job description and where does it fit. She indicated they do not have positions right now in the OPI that are instructional capacity positions. They do not have people who are going into the classroom teaching or developing curriculum. They have people who talk to schools about best practices, about aligning their curriculum with state standards, and focused on accountability. Ms. Quinlan stated there was a shift there, and also there was the recruitment issue, and being able to hire experienced teachers for these positions.

Mr. Ryan asked; how many positions does this issue affect?

Ms. Quinlan stated there were 15 positions presently in the TRS and another 20 positions that were in the PERS, and in the state payroll system they have all been called instructional coordinators.

Mr. Ryan asked; if there were retired teachers in these positions?

Ms. Quinlan responded that they were a mix of age and backgrounds.

Ms. Rau asked; if there were seasonal positions as well that fell under this same issue?

Ms. Quinlan answered there were seasonal positions that could be affected by this issue. But what determination that is made with this issue might change that in the future.

Mr. Turcotte stated he was not inclined for the Board to support this request. If they wanted to go to the legislature and take it on, he thought that might be more appropriate.

Mr. Dubbs commented that he believed this was a situation where we could clean up some problems, and we need to be proactive as a Board to clean them up. He added he did not totally agree that we were doing things a whole lot differently than we did before, or that we were going to be doing them differently in the future.

Mr. Dubbs stated that a lot of the justifications for the type of jobs were certainly tied to education. These positions were administrative and not that different from duties of superintendents and administrators from around the state.

Mr. Dubbs further stated that right now if someone were to go to the legislature and say we needed to change this, our office would need to have an opinion as to how it should change and what changes made sense. Again the only way to do this would be to study the issue.

Mr. Senn indicated that legal research should be done to answer the question if there were equal protection issues, and what are our options.

Mr. Ryan agreed that the first issue should be the legal question, because that would change the approach that the Board would take for the study.

Mr. Senn recommended the Board direct staff to complete the preliminary legal investigation and get the information needed, work with Mr. Olleman to get an actuarial work estimate, and present the results at the May Board meeting.

Chairman Ryan asked the Board for a motion.

MOTION/VOTE: Mrs. Mona Bilden moved to table this item until the May 9, 2008, meeting, giving staff time to gather pertinent information the Board needed to make a decision. Seconded by Mrs. Peiffer, the motion passed unanimously.

LEGAL COUNSEL REPORT

Case Update - Farrier - Attorney Denise Pizzini informed the Board that Mr. Farrier filed his third appeal on his request for concurrent TRS retirement benefits

with full-time employment at the University of Montana. The issue currently under consideration was the TRS counterclaim to recover the erroneously paid benefits, plus interest.

Case Update – Colter - Mr. Paul Johnson has been appointed the hearings officer by Agency Legal Services and he issued a scheduling order with discovery to be completed by March 21, 2008. All pre-hearings, motions, and briefs have to be filed by April 11, 2008, with response briefs by April 25, 2008, and reply briefs by May 7, 2008. Pre-hearing memoranda and service of exhibits are required on or before May 14, 2008, and a pre-hearing conference will be held on May 21, 2008. Hearing is scheduled for June 4, 2008.

OTHER BUSINESS

Out of State Travel - Dan Gaughan to attend two GFOA training classes; one on internal controls and the other on preparing the comprehensive annual financial report. Denise Pizzini to attend the June National Association of Public Pension Attorneys conference in Boston.

MOTION/VOTE: Mr. Layman moved to approve the requested travel requests for Mr. Gaughan and Mrs. Pizzini. Seconded by Mr. Turcotte, the motion passed unanimously.

2008 Budget Amendment - Mr. Senn explained that when we presented the FY 2007-08 budget for Milliman's services, we did not anticipate the additional \$15,000 charge to develop actuarial tables approved by the Board last fall. However, Mr. Senn explained that there were significant savings in other areas of the budget and to date, there was a budget surplus of approximately \$57,000. Mr. Senn recommended that the Board table the request for a budget amendment.

MOTION/VOTE: Mr. Turcotte moved to table the request for a 2008 Budget Amendment. Seconded by Mrs. Bilden, the motion passed unanimously.

Investment Report - The Board received a copy of the Board of Investment's annual report. Mr. Turcotte informed the Board that the major issue before the Board of Investments was the SIV investments included in STIP, and explained what had happened.

Comprehensive Annual Financial Report Presentation:

Mr. Gaughan reviewed the Comprehensive Annual Financial Report pointing out that the new report provided more information than in the past. Mr. Gaughan also informed the Board that the TRS received both the GFOA Certificate of Achievement for Excellence in Financial Reporting and the PPCC Public Pension Standards Award for meeting professional standards for plan design and

administration this year. He further shared he would continue to implement improvements, such as better paper and perhaps color graphics, enhancing the report as time progressed.

Financial Statements - Mr. Gaughan pointed out that on Changes in Fund Balance Statement, under Expenses and Benefits Paid, the \$97 million number did not reflect the January payment of approximately \$16 million, because of timing. The financial statement showed that revenues this year were running behind revenues compared to last year.

Budget - Mr. Gaughan added the biggest change to the budget was the state-wide cost allocation, which \$77,000 was budgeted; we were actually billed a total of only \$22,000 for the TRS share.

Mr. Ryan asked; what happened on the rent budget? Mr. Gaughan explained we were originally paying a two part billing; general building and the grounds maintenance. When putting the budget together, Mr. Gaughan explained he did not include the grounds and maintenance number, therefore, we were \$3,000 short.

Mr. Ryan inquired about the increase in benefits, since there were the same number of employees? Dan explained that the employer's contribution to employee health insurance increased from \$530 to \$570 a month for each individual.

Mr. Ryan asked; what items are put into "other expenses"? Mr. Gaughan explained that educational expenses, registrations, organization dues, training costs, conferences; and basically non-specific item expenses.

Mr. Gaughan pointed out the new line item of \$21,000 was for a new scanner and software for development of the web estimator.

Mr. Ryan asked; contracted services was basically for contracts, but if we did something more with Milliman, would it go over into consulting and professional? Mr. Gaughan indicated that work with Milliman would stay in the contracted services line, but what he had pulled out of the contracted services was the specific web estimator, because it was going to be capitalized and expensed over a four-year period.

Delinquency Agency Report: Dan reported that there were no exceptions at this time.

Next Meeting Dates: - The next meeting dates have been scheduled for May 8 & 9, September 5, and November 14, 2008.

CLOSED MEETING

Chairman Ryan directed the meeting be closed at 12:25 p.m. to review disability applications since the individual's right to privacy of information pertaining to benefits clearly exceeds the merits of public disclosure.

Mr. Scott Dubbs left the Board meeting and therefore, did not participate in the discussion on disabilities or the remaining agenda items.

OPEN MEETING

Application for Disability Retirement Benefits – The meeting was reopened to the public at 12:35 p.m.

MOTION/VOTE: Mr. Turcotte moved to approve the disability application for D'Ann Irene Finlinson. Seconded by Mr. Layman, the motion carried unanimously.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:30 p.m.

Chairperson _____

Executive Director _____