

**TEACHERS' RETIREMENT BOARD MEETING**  
**November 14, 2008**

CALL TO ORDER

Tim Ryan called the meeting to order at 8:36:00 a.m. in the Board of Investments Conference Room, 2401 Colonial Dr., Helena, Montana.

BOARD MEMBERS PRESENT:

Mona Bilden  
Scott Dubbs  
Darrell Layman  
Kari Peiffer  
Tim Ryan  
James Turcotte

ABSENT:

None

STAFF PRESENT:

Dan Gaughan  
Bill Hallinan  
Tammy Rau  
Karla Scharf  
Johnelle Sedlock  
David Senn

OTHERS PRESENT:

Mark Olleman- Milliman  
Marco Ferro- MEA- MFT  
Charlene A. Suckow, MREA  
Darrell Rud- SAM  
Bob Vogel- MTSBA  
Madalyn Quinlan - OPI  
Tom Antonick- OPI

**ADOPT AGENDA** – Chairman Tim Ryan asked if there were additions or changes to the Agenda for November 14, 2008. Finding none, Chairman Ryan requested a motion to adopt the Agenda. Seconded by Member Scott Dubbs the motion passed unanimously.

**APPROVAL OF SEPTEMBER 11 & 12, 2008 MINUTES** – Chairman Ryan called for changes to the Board Meeting Minutes September 11 and 12, 2008.

Mr. David Senn stated that it was not clear that the motion regarding the hiring of a full-time Attorney included the recommendation to increase the Budget to cover the additional salary start up cost of \$65,000.00. Member Darrell Layman stated that it was his intent to include the recommended funding amount in the motion.

**MOTION/VOTE:** Member Layman moved that the September 12 minutes be amended to include the budget recommendation for hiring an Attorney. Seconded by Member Dubbs the motion passed unanimously.

Member Layman moved to adopt the September 12 minutes as amended. Seconded by Member Dubbs the motion passed unanimously.

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

**ACTUARIAL VALUATION** - Mr. Mark Olleman, Consulting Actuary, presented the results of the July 1, 2008 Actuarial Valuation. Mr. Olleman explained that the Actuarial Accrued Liability increased from the previous year, while investment losses of \$401 million reduced the value of the actuarial assets, causing the Unfunded Actuarial Accrued Liability (UAAL) to increase. In addition, the Normal Cost was up from last year as a result of the change in the termination assumption. The termination assumption was changed to assume that fewer members will withdraw from the plan, and ultimately retire at a later date. Because it is more expensive when a member retires then when they terminate and withdraw their account, the amortization of the Normal Cost increased. The reduction in the actuarial value of assets combined with the increase in the Normal Cost, resulted in an increase in the amortization period from 28.6 years to 31.3 years.

The report showed that TRS needs to increase the employer contribution rate 0.17%, in order to amortize the UAAL over 30 years as of June 30, 2008. The longer TRS waits to increase the contribution rate the higher the cost will be to amortize the UAAL.

**MOTION/VOTE:** Member James Turcotte moved to accept the 2008 Actuarial Valuation. Seconded by Member Kari Peiffer, motion passed unanimously

## **BOARD OF INVESTMENTS**

Mr. Cliff Sheets, CIO, Board of Investments (BOI), presented the official report for the fiscal year 2008. Mr. Sheets explained that the allocation to equities has declined due to the public market. In the future the BOI plans to move some money from the retirement bond pools to outside core plus managers to give the pension plans a little more diversification with the goal of higher return potential. The BOI hired 4 external fixed income managers, 2 are core plus managers using traditional US bonds, international bonds, and non-index bonds (high yield bonds) with an objective to get more diversification within the traditional fixed income pool which has been

managed internally which did not have an allocation to the low investment grades. Overall summary, the market is bleak and we are in a recession.

#### EXECUTIVE DIRECTOR'S REPORT –

Mr. Senn briefly reviewed the Board's housekeeping proposal LC 262, and the funding proposal, LC 263. Mr. Senn advised the Board that the Heroes Earnings Assistance & Relief Act (HEART), requires qualified pension plans to pay survivor benefits that would normally be payable to the designated beneficiary if the death occurred while a TRS member is performing qualified military service (as defined in chapter 43 of title 38, United State Code), to the extent required by § 401(a)(37) of the Internal Revenue Code. Designated beneficiaries would be entitled to any benefits that the system would provide if the member had resumed employment and then died, that are contingent on the member's death while employed. Mr. Senn recommended this mandatory provision of the HEART Act be added to LC 262.

Mr. Senn reviewed the optional provision of the HEART Act regarding disabilities occurring while a member is performing qualified military service. Mr. Senn explained that this provision has the potential to slightly increase the System's liabilities, and asked if the Board wanted to include it at this time.

**MOTION/VOTE:** Member Dubbs moved to include the disability provision in the housekeeping proposal. It was seconded by member Mona Bilden. Tim Ryan asked for Public comment there was none, the motion failed unanimously.

**MOTION/VOTE:** Member James Turcotte moved to include the mandatory requirement of the Heart Act regarding deaths occurring while a member was performing qualified military service. Motion seconded by Member Layman.

Member Kari Peiffer questioned if this amendment would apply retroactive to January 1, 2007. Mr. Senn responded yes, the Act requires that the amendment be made retroactive to January 1, 2007, but that we were not aware of any deaths that had occurred since 2007 while a member was performing qualified military service. Chairman Ryan asked if there was any public comment on the motion, seeing none, motion passed unanimously.

Mr. Senn reviewed three sections LC 263, the TRS funding proposal. (1) Change the calculation of benefits when a retiree comes out of retirement and returns to active service and then subsequently retires again. (2) Clarify that the retirement effective date for members who terminate within 30 days of the end of the school year would be the first of the month following the last PR or PIR day. (3) Require employer contributions of 9.85% on all wages paid to retirees who return to part-time employment pursuant to §19-20-731, MCA.

Chairman Ryan asked if there were any questions from the public or Board Member on the TRS legislative proposal.

Mr. Senn reviewed several other legislative bill drafts that had been requested by Legislators, including two proposals submitted at the request of MEA-MFT. The MEA-MFT proposals

included LC 107 which would increase the employer contribution rate paid to the University Optional Retirement Plan by 1%. This proposal will be funded with state general fund revenues and would cost approximately \$1.8 million per year. LC 108 is the proposal to increase the TRS multiplier from 1.667% to 2.0% for members retiring with 30 or more years of service and who are at least age 55. This proposal is known as the Professional Retirement Option (PRO), and is expected to cost in excess of \$20 million per year when the contribution rate increase is fully phased in.

Member Layman asked how much the PRO would increase unfunded liabilities, and if the 1.0% increase in the Optional Retirement Plan contribution will impact TRS. Member Mona Bilden asked if the proposals included the required funding? Mr. Senn responded that both proposals included the required funding and that when the Actuary completed his study of the PRO proposal his report would include the estimated increase in the unfunded liabilities.

Member Dubbs stated that he believed the 25 year and out issue was a huge hole that needed to be filled in our system, and that it needs to be addressed either through the PRO or in some other form. As Montana salaries lag near the bottom, neighboring states like Washington and Wyoming salaries are at the top. The PRO would encourage members to work longer before they retire from Montana and then go to another system and live. If we don't find a way to cover the hole soon, our liabilities are going to be much bigger to address later.

PUBLIC COMMENT Mark Ferro, MEA-MFT responded that knowing what the current 25 year provision has done to the TRS, this bill is in our estimation the best way to address the 25 year and out issues. It is with more of a carrot than a stick. We know that there is money involved, this is a perennial bill for us, and we would appreciate any partnership that you might provide us on behalf of this bill.

Bob Vogel with the Montana School Boards Association: The School Boards Association supports the PRO, they see this proposal as part of the solution to their current recruitment and retention problems and to the questions raised about the TRS 25 year and out provision. Mr. Vogel thanked the Board for allowing Mr. Senn to be at the table with them for the last number of months, last couple of years in fact, trying to get our hands around these issues.

Darrel Rud- School Administrators of Montana: The School Administrations also support the PRO proposal. Mr. Rud explained that he is a retired school administrator, and now works in the non-profit sector. He also thanked the Board and staff for their continued work in this area.

ANNUAL PER DIEM ELECTION: Mr. Senn discussed the forms that the Board members have to file regarding their election to receive the \$50.00 pre-diem, if they are on a paid leave from the district.

ACTUARIAL REQUEST FOR PROPOSAL (RFP) Mr. Senn reviewed the process of issuing a state RFP and asked if any Board Members wanted to volunteer to serve on the evaluation committee. Chairman Ryan said he would serve on the Committee. Member Dubbs said that he may also be able to help.

**EXECUTIVE SUMMARY-** Mr. Senn reported that the Legislative Auditor's Office was in the final stages of completing their audit of the TRS financial statements and are expected to issue two recommendations. First, the Board seek actuary funding, and second that the Board adopt an internal control policy.

Mr. Senn advised the Board that Mr. Vogel from SBA asked if the TRS could identify the math and science teachers that will be eligible for retirement in the next few years. Mr. Senn suggested the Board use data collected by OPI though the Annual Data Collection reports to provide this information for all occupations; not just the math and science. Seeing no objections or concerns from the Board, the Chairman stated that it was the consensus of the Board that staff should work with SBA to produce the reports as discussed.

**OTHER BUSINESS:**

**NEXT MEETING DATES:** Mr. Senn asked if the Board wanted to consider alternative dates for the meetings in May and September since these dates seem to run into the most conflicts with school activities.

**MOTION/VOTE:** Member Layman moved that the 2009 meeting dates be February 20, May 8, September 11, and November 13. It was seconded by Member Peiffer. Chairman Ryan asked for any further discussion or any public comment. Seeing none, the motion passed unanimously.

**OUT OF STATE TRAVEL:** Mr. Senn presented out-of-state travel requests for Mr. Senn to attend the NCTR Legislative Committee January 22-28, in Washington D.C., and for Mrs. Rau to attend the Governmental Financial Officers Association meeting June 27 through July 2, 2009, in Seattle, Washington.

**MOTION/VOTE:** Member Scott Dubbs moved to approve Out of State Travel for Mr Senn and Mrs. Rau. Motion seconded by Member Bilden. Chairman Ryan asked for any further discussion or any public comment. Seeing none, the motion passed unanimously.

**PERSONNEL COMMITTEE REPORT:** Board Members Dubbs, Layman, and Turcotte met with Jim Kerins to complete Mr. Senn's performance evaluation. Mr. Dubbs reported that the Committee gave Mr. Senn mostly outstanding ratings, as our Executive Director he is doing a great job in every aspect. He also thanked Mr. Kerins for assisting with the evaluation process.

**MOTION/VOTE:** Member Kari Peiffer moved to accept the committee's report on the evaluation of the Executive Director. It was seconded by Member Mona Bilden, the motion passed unanimously.

**DISCRETIONARY PAY ADJUSTMENT:** Mr. Senn explained that HB13 from the 2007 Session authorized agencies to make discretionary pay adjustments in each year of the biennium based upon, but not limited to, market progression, job performance, or employee competency. In September 2007 the Board approved using the 0.06% increase in 2009 to bring staff below market up to their target market ratio. The motion made by the Board in 2007 was based upon

the 2006 salary survey market salaries adopted by the Board. The Department of Administration has advised that HB 13 limited market salaries to those approved by the Department. Because the Department's market salaries are not based on a survey of public pension plans and they are using older data, their market salaries are lower than those approved by the Board. Therefore, staff recommended that the Board follow the lead of the Director of the Department of Administration, and "based on the current state of our economy and the rising costs of so many day-to-day essentials" that all staff salaries be increased by 0.6%.

**MOTION/VOTE:** Member Mona Bilden moved to adopt staff's recommendation. It was seconded by Member Kari Peiffer, the motion passed unanimously.

**FINANCIAL STATEMENTS:** Mr. Dan Gaughan presented the financial statements, budget, and delinquent agency reports for the Teachers' Retirement System and answered questions.

**OFFICE OF PUBLIC INSTRUCTION (OPI):** Madalyn Quinlan Chief of Staff at the Office of Public Instruction (OPI) and Tom Antonick Human Resource Manager for OPI were present to address the assignments of OPI positions to PERS and TRS. Ms. Quinlan explained that OPI has a request to the Board to support changing or assigning that all OPI positions to PERS. Ms. Quinlan referenced a letter sent to Mr. Senn, regarding an issue that there is a perception that a person can come to OPI and they can choose a retirement system, and that is not true. OPI has a policy where before we hire for that position, we determine whether it is going to be assigned to PERS or TRS. We have positions that we put under the PERS because they are not in a position that provides instructional services to students or evaluates teachers. Those positions that were currently in a TRS position we have left those positions in TRS, if a new hire is assigned to TRS they are reported to TRS.

Ms. Quinlan stated there are over 300 employees currently employed in OPI, 30 of these positions are being reported to TRS, and that OPI would like the support of the Board in seeking legislation to assign all OPI positions to PERS.

Mr. Senn responded that the Board would need to work with our actuary to estimate the cost of moving all positions to PERS and how this would impact funding benefits for those OPI members that remain in TRS or those receiving retirement benefits.

Member Layman asked if this change would result in TRS recruiting members for OPI, for example, if word gets around that one can retire in TRS and go to work for OPI. Member Peiffer responded that if we let one agency do it then we're opening the door for everyone else. Member Layman commented the Board needs to get more information on the positions affected to better understand the situation and that any change should not be funded by the TRS and must be actuarially funded.

**MOTION/VOTE:** Member Turcotte moved to not support the wholesale movement of OPI employees to PERS and that the Board work with OPI to more clearly define which positions are required to be covered under TRS. Motion was seconded by Member Layman. The Chairman called for public comment, seeing none, the motion passed unanimously.

UPDATE ON IT STATUS- Mr. Bill Hallinan reported that he has been exploring options to meet the future hardware and software needs of TRS. Mr. Hallinan gave the Board the example of how the TRS IT system went down for three days and that it took two days for the parts to come in. One option is to use the State's Destruction Service to host our operations. The cost for this service is \$60,000 per year; which is 3 times our normal cost. Chairman Ryan asked if the cost would come down if there were more users. Mr. Hallinan responded that it could, and that at that time it might be more cost effective for TRS to use the State services.

NCTR- Annual conference report: Mr. Senn and Member Layman reported on the 2008 NCTR conference held in Washington D.C.

### STRATEGIC PLANNING SESSION

Member Layman suggested that the Board meet for a special strategic planning session to discuss more in depth on the following issues:

- 1) Assigned positions to TRS and PERS
- 2) Legal issues
- 3) 25 year retirement issue
- 4) Plan design

Mr. Senn suggested that the board schedule the session as soon as possible and that they hire Jim Kerins to lead and assist with the planning session. Tentative meeting dates were set for December 14, & 15. 2008.

### LEGAL COUNSEL REPORT:

#### CLOSED MEETING

Chairman Ryan directed the meeting be closed at 3:27:07 p.m. to discuss legal strategy which is protected by attorney-client privilege.

#### OPEN MEETING

Ms. Pizzini reported on several questions that had recently come up regarding membership eligibility and re-employment of retirees. The Chair directed that time be scheduled on the February 2009 agenda for further review of the circumstances surrounding the re-employment of the retired school principal by the Frontier School District.

### APPLICATIONS FOR DISABILITY RETIREMENT

#### CLOSED MEETING

Chairman Ryan directed the meeting be closed at 3:27:33 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.

#### OPEN MEETING

Application for Disability Retirement Benefits – The meeting was reopened to the public at 3:50:22 p.m.

**MOTION/VOTE:** Member Dubbs moved that Carol A. Beyer's disability application be approved. Seconded by Member Turcotte the motion passed unanimously.

**MOTION/VOTE:** Member Bilden moved that Kristal R. Rootes's disability application be approved. Seconded by Member Layman the motion passed unanimously.

**MOTION/VOTE:** Member Turcotte moved that Linda K. Borntrager's disability application be tabled pending additional medical documentation. Seconded by Member Layman the motion passed unanimously.

**MOTION/VOTE:** Member Peiffer moved that Katherine H. Martin have an independent medical evaluation. Seconded by Member Bilden the motion passed unanimously.

**ADJOURNMENT**

**MOTION/VOTE:** Member Layman moved that the meeting be adjourned.

There being no further business, the meeting was adjourned at 4:07 p.m.

Chairperson \_\_\_\_\_

Executive Director \_\_\_\_\_