

TEACHERS' RETIREMENT BOARD MEETING
May 13 & 14, 2010

BOARD MEMBERS PRESENT:

Kari Peiffer, Chair
Scott Dubbs
Darrell Layman
Jeff Greenfield
Robert Pancich

ABSENT:

James Turcotte

STAFF PRESENT:

David Senn, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Chief Legal Counsel
Dan Gaughan, Accounting / Fiscal Manager
Bill Hallinan, Information Technology Manager
Charlene Welch, Secretary

OTHERS PRESENT:

Todd Green, Cavanaugh Macdonald Consulting, LLC
Rachel Weiss, Legislative Services
Nick Hill, Legislative Audit Division
Tom Bilodeau, MEA-MFT

CALL TO ORDER

Chairperson Peiffer called the meeting to order at 1:30 PM, in the Board of Investments Conference Room, 2401 Colonial Drive, Helena, Montana.

Adopt Agenda:

Chairperson Peiffer asked for additions or changes to the Agenda for May 13 & 14, 2010.

MOTION/VOTE:

Member Greenfield moved to adopt the agenda as presented. Seconded by Member Layman, the motion passed unanimously.

Approval of Minutes

Chairperson Peiffer called for changes to the February 19, 2010 Board Meeting Minutes. Member Pancich stated that on Page 3 Mick Robinson's name was misspelled as Mick Roberson and on Page 4 under Executive Summary second paragraph, the word should be proceed not precede. He also had a question on Page

7 Paragraph 2 regarding whether it was multiple dates or a singular effective date. Mr. David Senn stated that it should have been the word "date".

MOTION/VOTE:

Member Pancich moved to approve the February 19, 2010 minutes as corrected. Seconded by Member Dubbs, the motion passed unanimously.

PUBLIC COMMENT ON BOARD RELATED ITEMS:

Chairperson Peiffer called for public comment on Board related items.

Mr. Tom Bilodeau from MEA-MFT passed out handouts from the National Institute on Retirement Security. He gave a brief summary of how the entity analyzes existing public and private pension programs for the pluses, minuses, and differences between Defined Benefit (DB) retirement plans and Defined Contribution (DC) retirement plans. Mr. Bilodeau also gave multiple in-depth numbers, details, and reasons on why the MEA-MFT feels a DB plan is a better choice than a DC plan for Montana.

ACTUARIAL EXPERIENCE STUDY:

Experience Study and Recommendations:

Todd Green from Cavanaugh Macdonald began with reviewing the Summary of Results which encompassed all the changes that were being recommended. Mr. Green stated they were not recommending any changes for the Economic Assumptions. The recommended Demographic Assumption changes include:

- Change the rates of withdrawal
- Change the rates of disability.
- Change the service retirement rates.

Mr. Green summarized some of the different options and the recommendations. Beyond full, unreduced retirement, the recommendations were to reduce the assumptions regarding rates of disability, withdrawal, and delayed retirement to more closely reflect actual plan experience, all of which will have the effect of reducing the stated liabilities of the plan.

Mr. Green also reviewed two method change recommendations: 1) change in the calculation of the Normal Rate by using assumed salaries for the same period of time for which the normal rate is to be determined, and 2) instead of offsetting the System's UAL by the present value of the University supplemental contributions, that supplemental contributions be used as additional contributions toward the System's amortizations of unfunded liability.

MOTION/VOTE:

Member Dubbs moved to adopt the recommendations of the consulting actuaries. Seconded by Member Greenfield, the motion passed unanimously.

Annual Required Contribution (ARC):

Mr. Senn discussed the different options for determining the value of the Annual Required Contribution (ARC). He remarked the Actuaries had looked at the issue and the consensus was that the best methodology would be to use the results of the valuation completed in each even numbered year to determine the ARC and to calculate the actuarial funding rates for each of the next two years. The purpose of odd number year valuations would then be to provide a funding progress update and information that could help legislators and others in the interim if it appears that more funding will be required or that funding had improved to the point that the contribution rates could be reduced. This method would avoid the recent concern that arose when the 2009 valuation was released just six months after the Legislature adjourned and showed that the system was not actuarially funded and that a 4.11% contribution rate increase was required. Mr. Senn advised the Board that we would proceed with this method unless the Board wanted additional information, or had other concerns.

Discussion of 2010 Actuarial Valuation Sensitivity Analysis:

Mr. Senn explained that a section on sensitivity analysis had been included in the past few valuation reports to help give the reader an understanding of how the valuation results have affected various changes. The current report includes a sensitivity analysis of the investment return assumption showing the results if the rate is lowered or increased by .05%, and a second analysis describing the impact on funding if all members were allowed to retire when they are first eligible.

Mr. Senn inquired of the Board whether this kind of information is helpful to them, and if they would like to see additional sensitivity analyses in future reports. It was the consensus of the Board that the information was informative and that they would like to continue to include this information.

BREAK

EXECUTIVE DIRECTOR'S REPORT:

Funding and Benefits Policy:

The Board reviewed the draft policy which included the changes proposed during the February 19, 2010 Board meeting. The Board discussed whether the policy should include a requirement that all proposed changes should be forwarded to the Board at least 10 days before any meeting in which they would act on the proposed changes, or if the governing policy on policies should be amended to include a requirement that all policy changes will first be presented to the Board for discussion, and then scheduled for action at the next regularly scheduled board meetings.

MOTION/VOTE:

Member Layman moved to adopt the Funding and Benefits Policy as drafted and to instruct staff to amend the governing policy on policy to require that all policy changes be presented at one meeting for discussion, and then scheduled for action at the next

regularly scheduled board meeting. Seconded by Member Dubbs, the motion passed unanimously.

Request to Cost Legislation:

Mr. Bilodeau gave a brief outline on the different issues MEA-MFT felt the state of Montana was facing with regards to recruitment, retention, and wages of teachers. Mr. Bilodeau reviewed the "Modified PRO" MEA-MFT has proposed to be brought before the Legislature and requested the TRS Board authorize Cavanaugh Macdonald to prepare an estimate of the impact the proposal could have on retirement costs.

Mr. Senn reported that the Actuaries estimated the cost to estimate the impact of the MEA-MFT proposal to be between \$13,000 and \$15,000. Mr. Senn also relayed to the Board that if the State Administrative and Veteran's Affairs (SAVA) committee chose the "Modified PRO" to be one of the plans they were considering, the SAVA committee would ask for, and pay for, the preparation of the estimate. However, Mr. Senn explained that the cost of the full PRO proposal had been estimated prior to the 2009 Session and that the information in the previously completed estimate provided the information that Mr. Bilodeau was requesting.

The Board thanked Mr. Bilodeau for taking the time to keep TRS updated on this issue.

MOTION/VOTE:

Member Greenfield moved to table the request to have the actuaries cost the Modified PRO proposal. Seconded by Member Layman, the motion passed unanimously.

2011 Legislative Concepts:

Mr. Senn summarized the three legislative concepts that had been submitted to the Governor's Budget Office on April 15, 2010.

A Funding Proposal which may include increased employer contribution rates, treating a working retiree employed in multiple positions by a single employer as being employed in a single TRS-reportable position subject to the earnings limit, repeal of the part-time employment requirement for retirees returning to work under §19-20-731, MCA, full Actuarial Reduction for Early Retirement, repeal all or most exceptions to the 10% cap effective July 1, 2011, and charge the actuarial rate of interest on all buybacks.

The TRS Housekeeping proposal would address possible IRS rule changes or changes related to the TRS request for a determination letter, clarification of the Family Law Order provisions, definitions, and other statutory clarifications.

Increase University Supplemental Contribution Rate as required by law. Mr. Senn reviewed the statute regarding employer/employee participation in the Optional Retirement System (ORP), and the requirement that the TRS board periodically review the supplemental employer contribution rate and recommend adjustments as

needed to maintain the target date of July 1, 2033, to amortize the past service liability of the University System when the ORP was created. Mr. Senn reported that based on the July 1, 2009 valuation, the actuaries estimated the supplemental contribution rate would need to be 8.52% of ORP member salaries. This represents an increase of 3.80% from the current rate of 4.72%. This estimate will be finalized once the July 1, 2010 valuation is completed.

SAVA Interim Committee Report:

Mr. Senn presented a short summary of the March 19, 2010 SAVA meeting which included information and highlights from David Slisinsky and Doug Fiddler of Buck Consultants, about the diverse plan designs that other states are using. The next SAVA meeting is scheduled for May 19, 2010, to review the committee's policy goals for a new pension plan design. At that time, the TRS is hopeful the SAVA committee will use the information collected from the surveys to develop, analyze, and recommend potential design alternatives. Mr. Senn remarked that two of the items the SAVA Committee asked the consultants to put on the list and bring back were the Money Purchase Plan the TRS Board recommended and MEA-MFT's Professional Retirement Option.

The SAVA Committee will meet again on June 24 & 25, 2010, to choose one or two plan designs for the actuaries to cost, and to hear legislative proposals from the retirement boards and other state agencies. The committee will then meet sometime in August 2010 to review the cost estimates prepared by the actuaries.

Mr. Senn reported that TIAA-CREF had proposed moving all new hires to a Defined Contribution (DC) plan, but acknowledged that an annuity provided by TIAA-CREF would produce a smaller benefit than a similarly funded Defined Benefit plan (DB) and that the contribution rate would probably need to be at least 15% rather than the 12% included in their proposal. Mr. Senn stated TIAA-CREF's proposal also failed to address how the DC plan would accomplish the goals of House Bill 659, and what it would cost the TRS if the existing DB plan is closed and replaced with a DC plan.

EXECUTIVE SUMMARY

IRS Qualification Filing:

TRS has received notice that our application for a Determination Letter had been assigned to an IRS Agent and a Determination Letter is expected before the end of 2010.

Performance Audit:

Mr. Senn reviewed the progress being made on the performance audit.

Alternative Work Schedule:

Mr. Senn provided the Board with the TRS office staff's summer work schedule.

OTHER BUSINESS

Interest Rate Credited to Member Accounts:

Each year the Board is required to set the rate of interest that is credited to active members' accounts. The recommendation for the period July 1, 2010 – June 30, 2011, based on the Board of Investment's short-term investment returns, was to reduce the interest rate from 1.0 percent to 0.25 percent. Chairperson Peiffer asked for any comments or discussion on this issue.

MOTION/VOTE:

Member Layman moved to adopt the interest rate of 0.25 percent for active accounts. Seconded by Member Pancich, the motion passed unanimously.

CPI Adjustment Pursuant to §19-20-731, MCA:

Mr. Senn explained that a retiree employed part-time in a position reportable to TRS may earn, without loss of retirement benefits, the greater of one-third of the member's Average Final Compensation (AFC) plus CPI increases or one-third of the median of the average final compensation for members retired during the preceding fiscal year as determined by the Board. In 2009 the CPI increased by a negative 0.4 percent. Mr. Senn remarked there are two questions before the Board:

- Should the minimum a retiree may earn in a TRS covered position ever be reduced below one-third of their AFC?
- Should the amount a retiree may earn be reduced in a year when the CPI decreases rather than increases?

MOTION/VOTE:

Member Greenfield moved to accept that one-third of the retiree's Average Final Compensation is the floor or minimum amount a retiree is allowed to earn under §19-20-731, MCA. Seconded by Member Dubbs, the motion passed unanimously.

Chairperson Peiffer stated that the Board needed another motion to either recognize a negative increase or only recognize a positive increase. Member Dubbs added that another choice would be to change the language of the statute.

MOTION/VOTE:

Member Dubbs moved to ignore the negative CPI and to recognize only a positive increase in CPI. Seconded by Member Greenfield, the motion passed unanimously.

Contracted Services Agreements:

MOTION/VOTE:

Member Layman moved to approve the contracts with Ice Miller, Legal Service, and Alfred Munksgard & Associates as presented by staff for the 2010-2011 fiscal year. Seconded by Member Pancich, the motion passed unanimously.

TRS 2010-2011 Budget:

Mr. Dan Gaughan presented to the Board the proposed TRS budget for the fiscal year beginning July 1, 2010, through June 30, 2011. Mr. Gaughan gave a brief summary of the different categories that make up the budget along with a brief explanation of each item and provided additional detail on the major changes. The 2011 proposed budget was 6.3 percent less than the projected expenditures in the current fiscal year.

MOTION/VOTE:

Member Layman moved to adopt the budget as presented. Seconded by Member Pancich, the motion passed unanimously.

Out-of-State Travel Requests:

MOTION/VOTE:

Member Pancich moved to approve the Out-of-State Travel Requests for Members Dubbs and Greenfield to attend either the NCTR trustee workshop or the NCTR annual convention, and for Mr. Senn to attend the NCTR annual convention. Seconded by Member Layman, the motion passed unanimously.

ADJOURNED

MOTION/VOTE:

At 4:35 PM Member Layman moved to adjourn until 8:00 AM Friday, May 14, 2010. Seconded by Member Pancich, the motion passed unanimously.

CALL TO ORDER

Chairperson Peiffer reconvened the meeting of the Teachers' Retirement Board at 8:05 AM, in the Teachers' Retirement System conference room, 1500 East Sixth Ave. Helena, Montana.

BOARD MEMBERS PRESENT:

Kari Peiffer, Chair
Scott Dubbs
Darrell Layman
James Turcotte

Jeff Greenfield
Robert Pancich

ABSENT:

None

STAFF PRESENT:

David Senn, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Chief Legal Counsel
Dan Gaughan, Accounting / Fiscal Manager
Bill Hallinan, Information Technology Manager
Charlene Welch, Secretary

OTHER BUSINESS - Continued

Financial Statements, Delinquent Agency & Travel Reports:

Mr. Gaughan presented and reviewed the reports with the Board.

Update on Legislation:

Mr. Senn reported he had received a memo from the Budget office advising that the TRS Board's proposals to actuarially fund TRS, and the request that the University System's ORP supplemental contribution rate be increased to amortize the ORP unfunded liability by July 1, 2033, as required by statute, had been disapproved as a legislative proposal to be submitted at the request of the executive agency. However, the Board's Housekeeping proposal was approved. Mr. Senn indicated that some or all of the funding bill proposals might be picked up by the SAVA Committee as a portion of its obligation to recommend legislation under HB 659, and that the Board could decide to find a legislative sponsor for funding proposals that are included in SAVA recommended legislation.

Investment Report:

Jim Turcotte gave a brief summary that included how TRS investments were developing in the current economy. Mr. Turcotte indicated the market was going through another correction phase and Montana was actually in much better shape than most other states. He also remarked that to date, the dip in the market had not affected the Retirement Funds a great deal.

Next Meeting Dates:

No conflicts were identified with the approved TRS Board meeting dates for the remainder of the year.

INDIVIDUAL PETITIONS

Jerry Scott – Ace Consortium Director:

Ms. Denise Pizzini provided the Board with a summary of Mr. Scott's petition and the requests he had made at the last TRS Board meeting. Mr. Scott is a working Retiree receiving a monthly benefit from TRS while working as the Director of the Alliance for Curriculum Enhancement (ACE). Mr. Scott's position as the ACE Director has been incorrectly reported to PERS instead of TRS, since July 1, 1998. Ms. Pizzini then reviewed with the Board the proposed settlement agreement drafted by TRS staff, Jerry Scott and his legal counsel.

MOTION/VOTE:

Member Pancich moved to approve the proposed settlement agreement with Jerry Scott. Seconded by Member Dubbs, the motion passed unanimously.

LEGAL COUNSEL'S REPORT

FBAR Reporting Requirement:

Ms. Pizzini updated the Board on the potential federal requirements recently identified by the IRS as likely applying to public pension plans requiring reporting of funds maintained in foreign financial accounts. All inquiries of BOI by TRS have resulted in responses from BOI indicating that there isn't a current reporting obligation for funds managed by BOI. TRS can only rely on the determinations of BOI in this regard.

Proposed Administrative Rule Revisions:

Staff proposed noticing, without hearing, amendments to Administrative Rules, 2.44.304, Qualification of the Actuary, and 2.44.524, Adjustment of Disability Allowance for Outside Earnings. Rule 2.44.304, would be amended to update the minimum qualification requirements for the Actuary to reference the recently published standards of the American Academy of Actuaries. Rule 2.44.524, would be amended to eliminate the requirement that a disabled member submit an annual earnings statement after age 60 unless they are gainfully employed.

MOTION/VOTE:

Member Greenfield moved to authorize TRS staff to notice the proposed administrative rule revisions. Seconded by Member Layman, the motion passed unanimously.

Case Updates:

Ms. Pizzini reported we received the decision from Judge Kathy Seeley denying Mr. Farrier's request for relief on his petition for judicial review of the Board's denial of his request for recalculation of his retirement benefit to include his time under the ORP.

Requirement for Compliance Process – Governmental Code of Fair Practices:

Ms. Pizzini informed the board that a compliance process would need to be undertaken to ensure compliance with the Governmental Code of Fair Practices provisions under the state human rights laws, including that policies would need to be drafted and an employee education process would need to be implemented. Ms.

Pizzini indicated that there had been no complaint of human rights violations, but that the GCFP, as construed by the Human Rights Bureau in recent cases, requires implementation of a compliance program in order to avoid liability under the act if a complaint is raised.

APPLICATIONS AND RETIREMENT BENEFITS

Regular, Survivorship, and Adjustments:

The Board reviewed the list of members who had recently retired.

CLOSED MEETING

DISABILITY APPLICATIONS

Executive Session to Discuss Disability Applications & Annual Reviews:

Chairperson Peiffer directed the meeting to be closed at 9:50 AM to discuss and review disability applications since the individual's right to privacy of information pertaining to their application for disability benefits clearly exceeds the merits of public disclosure.

OPEN MEETING

Chairperson Peiffer reopened the meeting to the public at 9:54 AM. Ms. Pizzini noted for the record that Chairperson Peiffer has a conflict of interest with respect to participating in Board actions related to consideration of the Disability of Dirk L. Niebaum. Chairperson Peiffer knows Mr. Niebaum and has discussed his application for disability retirement with him. Due to the conflict of interest, Chairperson Peiffer will be abstaining from any discussion or voting in this matter. Ms. Pizzini noted for the record that Member Layman has a conflict of interest with respect to participating in Board actions related to Joan Temple's request for disability benefits. Mr. Layman is friends with Ms. Temple and is familiar with her health issue. Mr. Layman will abstain from discussion and voting on the Temple application.

Approval of Applications for Disability Retirement Benefits:

MOTION/VOTE:

Member Turcotte moved to approve Douglas H. Mack's disability application. Seconded by Member Layman, the motion passed unanimously.

MOTION/VOTE:

Member Pancich moved to approve Sally G. O'Leary's disability application. Seconded by Member Dubbs, the motion passed unanimously.

MOTION/VOTE:

Member Layman moved to approve Dirk L Niebaum's disability application. Seconded by Member Pancich, the motion passed unanimously, with Chairperson Peiffer abstaining.

MOTION/VOTE:

Member Pancich moved to approve Joan K. Temple's disability application. Seconded by Member Turcotte, the motion passed unanimously, with Member Layman abstaining.

MOTION/VOTE: Member Darrell Layman moved to approve Marti Oram Johnson's disability application. Seconded by Member Robert Pancich, the motion passed unanimously.

ADJOURNMENT:

MOTION/VOTE:

Member Darrell Layman moved to adjourn the meeting. Seconded by Member James Turcotte, the motion passed unanimously.

There being no further business, the meeting was adjourned at 10:00 AM.

Chairperson _____

Executive Director _____