

**Teachers' Retirement System Board Meeting
Teachers' Retirement System Conference Room
1500 Sixth Ave
Helena, Montana
Friday, November 19, 2010**

BOARD MEMBERS PRESENT

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

ABSENT

None

STAFF PRESENT

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

OTHERS PRESENT

Diane Fladmo – MEA-MFT
Cliff Sheets – Montana Board of Investments
Darrell Rud – School Administrators of Montana

CALL TO ORDER

Chairperson Kari Peiffer called the meeting to order at 8:32 AM, in the Teachers' Retirement System Conference Room, 1500 East 6th Ave, Helena, Montana.

Adopt Agenda

Chairperson Peiffer asked for additions or changes to the Agenda for November 19, 2010. Finding none, Chairperson Peiffer requested a motion to adopt the Agenda.

MOTION/VOTE: Member James Turcotte moved that the TRS Board adopt the Agenda as presented. Seconded by Member Jeff Greenfield, the motion passed unanimously.

Approval of September 24, and October 26, 2010 Minutes

Chairperson Peiffer called for changes to the September 24, and October 26, 2010 Board Meeting Minutes. Finding none, Chairperson Peiffer requested a motion to adopt the September 24, and October 26, 2010 Board Minutes.

MOTION/VOTE: Member Robert Pancich moved that the TRS Board adopt the September 24, and October 26, 2010 Board Meeting Minutes. Seconded by Member Jeff Greenfield, the motion passed unanimously.

Public Comment on Board Related Items

Chairperson Peiffer called for public comment on Board related items. No public comments were made.

EXECUTIVE DIRECTOR'S REPORT

Montana University System ORP Supplemental Contribution Valuation

Mr. David Senn reported that Cavanaugh Macdonald had completed the University System Optional Retirement Plan (ORP) Supplemental Contribution Valuation and that as of July 1, 2010, the unfunded prior service liability of the Montana University System (MUS) members is \$287,331,642. Per §19-20-621, MCA, this amount must be amortized by July 1, 2033. The percent of ORP payroll necessary to amortize this liability within the prescribed time frame, beginning July 1, 2011, is 8.54%. This represents an increase of 3.82%. The report states that the dramatic increase from 4.72% to 8.54% is largely due to asset investment performance. The MUS asset market value was \$286 million four years ago, and as of July 1, 2010 is \$204 million.

MOTION/VOTE: Member Darrell Layman moved that the TRS Board adopt the University Optional Retirement Plan Supplemental Contribution Valuation. Seconded by Member James Turcotte, the motion passed unanimously.

2011 Legislation

Mr. Senn reported that staff had completed drafting the Funding Bill and asked if the Board had any more thoughts since their discussion in September about increasing the required break in service before a retiree could return to work.

Member Jeff Greenfield stated that he would like to see at least a 60-day break in service and that for most retirees, 90 days would get them through the summer break. Chairperson Peiffer replied that she would like to see a break of more than 30 days. Member Scott Dubbs responded that 90 days would actually make retirees eligible in October to return to work. Mr. Senn pointed out that using the retirement effective date is simpler because everyone has an understanding of what that is, and 60 days might be more appropriate so that retirees could be rehired at the beginning of the school year. Chairperson Peiffer and Member Turcotte agreed.

Mr. Senn asked Mr. Darrell Rud if he had any comments regarding the required number of days for a break in service. Mr. Rud stated that as long as it was possible for someone to have ample time to prepare for the school year, 60 days was adequate for teachers, and 45 days for administrators was better. Member Greenfield replied that he wanted full-time members contributing to TRS and did not want to see more jobs go to people on a part-time basis. Member Greenfield stated that the job of the TRS Board is to make sure that the system is financially sound and that he is less worried about retirees going back to work than the retirement

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system being financially sound. Member Greenfield suggested that the TRS Board leave the break in service as is for now.

Mr. Senn and Ms. Denise Pizzini reviewed with the Board the language of the Housekeeping Bill and the modification made since the September meeting.

Mr. Senn discussed with the Board the legislative proposal to increase the MUS supplemental contribution rate as recommended by the Cavanaugh Macdonald by phasing in the increase in the contribution rate by 0.5% per year through July 1, 2019. Future increases would not be implemented if the MUS supplemental contribution rate as of the most recent valuation was sufficient to amortize the unfunded prior service liability by July 1, 2033, as required by law.

MOTION/VOTE: Member James Turcotte moved that the TRS Board adopt the Funding Bill, Housekeeping Bill, and the bill to increase the MUS supplemental contribution rate by 0.5% per year for the next 10 years. Seconded by Member Jeff Greenfield, the motion passed unanimously.

SAVA Committee Proposals

Mr. Senn reviewed the SAVA Committee legislative proposals with the TRS Board. Mr. Senn reported that tax counsel, Ice Miller, recommended that the effective date of either proposal should be changed to July 1 after the determination letter has been received from the IRS, rather than on passage and approval. At their September meeting, SAVA modified the "Money Purchase Plan" proposal to grant new employees the option of contributing an additional 0.5% of compensation. Under the modified version, if the employee works for thirty or more years, the employer will match the additional contributions, and if the employee works for less than thirty years, they will not get the additional employer match. There was also a change to the "Modified PRO" proposal to increase the period used to calculate average final compensation from 3 to 5 years, and to change from 5-year vesting to 15-year graded vesting.

Chairperson Peiffer stated that she was not prepared to take a position on these proposals. Member Dubbs mentioned that he would like to support the Modified PRO if it became similar to what the TRS Board supported before. Member Turcotte requested that the TRS Board have another meeting when there is a solid bill to look at, that could be supported or not. Mr. Rud pointed out that the School Administrators of Montana's position on the SAVA version of the bill is that it has many weaknesses and that it was not a good product.

MOTION/VOTE: Member Darrell Layman moved that the TRS Board postpone action on the SAVA Committee legislative proposals until presented with drafts of the bills. Seconded by Member James Turcotte, the motion passed unanimously.

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Other Legislation

Mr. Senn reviewed the modified PRO proposal put forth at the request of MEA-MFT, which would allow full retirement at 30 years regardless of age with a 2% multiplier. The bill will increase the state supplemental contribution rate 0.5% per year through July 1, 2023, and new members' would be required to contribute an additional 0.54% of compensation. To help cover the increased general fund cost in the next biennium, the proposal will transfer surplus county retirement funds reserves above the 20% level to the state general fund.

MOTION/VOTE: Member Jeff Greenfield moved that the TRS Board delay action on this item until they see the proposed legislation and can make a determination. Seconded by Member Scott Dubbs, the motion passed unanimously.

Mr. Senn reported that there were currently other bill drafts that could affect TRS. LC 492 states that all new hires would be moved to a private 401K plan. LC 768 states that there would be a transfer of county retirement funds to TRS and PERS. Finally, LC 820 states that they would revise the state public employee retirement system.

Public Comment on Legislation

Chairperson Peiffer called for any public comment on legislation. Ms. Diane Fladmo, MEA-MFT representative, responded that the MEA-MFT would be in support of TRS legislation and that they have a funding source to help support the shortfalls in the TRS system.

Multiple Public Employment Disclosure

Mr. Senn discussed the revised multiple public employment disclosure form with the Board, and the requirements to report to the Commissioner of Political Practices in certain circumstances. Disclosure forms were provided to and completed by each Board member.

Executive Summary

Mr. Senn reported that the Auditor's office was almost finished with the performance audit of Montana public retirement systems. While they have been able to document cases of salary spiking, they have indicated that it is a relatively rare practice. Two recommendations are anticipated: that the Board seek modification of the exceptions to the 10% cap, which is already included in the Board's proposed funding bill, and that the TRS collect salary information from employers that is delineated by compensation type. While it may be relatively simple for TRS to change the current wage and compensation reporting system, it could be much more difficult and expensive for employers to rewrite their systems to report this additional information.

Mr. Senn reported the Auditors had also completed their financial/compliance audit for the period ending June 30, 2010 and that we did not anticipate any new recommendations; however, the report would state that TRS had not yet complied with the prior recommendations to take necessary measures to actuarially fund the system.

Mr. Senn called to the Board's attention a letter from Governor Schweitzer regarding the statutory requirement to allow for public participation in agency decisions.

BOARD OF INVESTMENTS

Annual Board of Investments Presentation

Cliff Sheets, Chief Investment Officer, Board of Investments, reviewed the investment portfolio allocation and changes for the fiscal year, and third quarter performance, asset allocation and peer group comparisons. He also provided a brief analysis on the economic outlook and investment strategies for the coming year. Mr. Sheets mentioned that recently the Board of Investments agreed to make an allocation to timberland, as a separate category, as it appeared to be a long-term, stable investment with a reasonably high return. He stated that the timberland funds will be part of the real estate pool of investments. Mr. Sheets pointed out that he believed we were in a good position to obtain at least the actuarially assumed rate of 7.75% this fiscal year.

OTHER BUSINESS

2011 Meeting Dates –The Board discussed the meeting dates for the following year's Board meetings and agreed to hold the September meeting on the last Friday in September in order to give the actuaries time to prepare and present the July 1, 2011, actuarial valuation to the Board at that meeting.

MOTION/VOTE: Member Jeff Greenfield moved that the TRS Board accept the meeting dates of February 11, May 13, September 30, and November 18, 2011, for the 2011 year. Seconded by Member Scott Dubbs, the motion passed unanimously.

Out of State Travel Requests

Mr. Senn asked that, if he is asked again this year to serve on the NCTR Legislative Committee, he be allowed to attend the committee's March 2010 meeting in Washington D.C. Mr. Senn also recommend Ms. Tammy Rau attend the GFOA Annual Conference in San Antonio, Texas.

MOTION/VOTE: Member Jeff Greenfield moved that the TRS Board approve the out of state travel for David Senn and Tammy Rau. Seconded by Member James Turcotte, the motion passed unanimously.

Personnel Committee Report

Member Scott Dubbs reported on the results of the staff and Board surveys relative to Mr. Senn's annual performance appraisal. The staff survey results were very positive: however, the Board had a few concerns, although the concerns were not about Mr. Senn himself. The Board felt that it was important to make sure that the Board was more informed and trained on different aspects that pertain to Board related business. Member Dubbs felt that there needed to be more active participation by having a subcommittee of the Board. Member Layman concurred with Member Dubbs. Member Layman stated that the Board needed to bring new

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Board members up to date on its goals and objectives, possibly having two members of the Board act as a liaison committee to set the goals and objectives, and that the Board needed to have training so that the old members were refreshed on items and new members would be able to learn about certain aspects, such as personnel, legal, and financial matters. Member Layman believed that a summer training session would be very beneficial for the Board. Member Layman suggested that the Board members and staff possibly meet on Thursday nights before the Board meeting to socialize and get to know one another.

Financial Statements, Delinquent Agency, Travel, and Budget Reports

Mr. Dan Gaughan gave the Board a report on the financial status of TRS. Mr. Gaughan reported that due to timing, the contribution revenue is less this year as compared to the same time period last year because several large school districts reported their contributions this year during the first week of November versus the last week of October in the prior year. Mr. Gaughan mentioned that approximately 90% of the budget was spent on repairs and maintenance, covering annual contracts on software and maintenance for the entire fiscal year with only \$1,200 left to be expensed in this category. Mr. Gaughan updated the Board on the few school districts who were still delinquent in their monthly reports.

Update on IT Status

Mr. Bill Hallinan reviewed the status of the information technology updates since the September Board meeting. Mr. Hallinan stated that seven members of TRS staff participated in vendor demonstrations, sponsored by MPERA, on new pension administration systems and what the vendors had to offer. Following the demonstrations, TRS staff met with Audrey Hinman, ITSD, to discuss what was liked/disliked and/or needed/not needed in updating our current pension administration system. Mr. Senn pointed out that the TRS current system, while it performs adequately, does need an update since no one in the state uses the same language that TRS is using, making support more difficult to obtain when issues/problems arise. Mr. Hallinan reported that what we learned would be shared with our current vendor and that we would continue to evaluate our options, either to update the current system, or to purchase a new system.

NCTR Annual Conference Report

Mr. Senn and Mr. Dubbs reported on the NCTR Annual Conference they attended in October 2010. Mr. Senn stated that he heard many reports on how the market is rebounding, although states will struggle to find the funding required to actuarially fund public defined benefit plans. Mr. Senn mentioned that some states are looking at hybrid plans or redefining defined benefit plans to provide smaller benefits for newly hired employees. Mr. Dubbs commented that he did attend several speakers' presentations that spoke on a variety of topics, and that he would put together an email with the names and topics of the various speakers he recommends. The speakers Mr. Dubbs recommended are Peter Leyden, who spoke on "Our Age of Transformation: What's Next in Our High-Tech, Global 21st-Century World", Mark Halperin, who spoke on "2010 and Beyond", and Peter Ricchiuti, who presented "Economic Forecast."

Policy of Nondiscrimination in Employment and Provision of Services

The Board reviewed the draft policy on complying with the requirements of the Human Rights Act and the Governmental Code of Fair Practices. The final policy will be presented to the Board for their approval in February.

LEGAL COUNSEL'S REPORT

Summary of Legal Issues

Ms. Pizzini informed the Board that Chairperson Peiffer signed the final decision of the Board on the Mavencamp issue on October 27th. TRS mailed the notice of entry of judgment and a copy of the final decision to Mr. Mavencamp and his counsel on Oct. 29th, 2010. Ms. Pizzini explained that they have 30 days from the date they receive the notice to file a petition for judicial review, and that she expects to see a petition for judicial review. Ms. Pizzini reported that Mr. Mavencamp would have to file for a restraining order in district court to stay TRS actions on the Board's final decision pending judicial review.

Ms. Pizzini informed the Board of an issue with a working retiree with Ennis Public Schools. Ms. Pizzini informed the Board that the working retiree is working as a superintendent earning 1/3 of his AFC, as well as under a variety of second contracts since his retirement in 2001. She also stated that the retiree is now being reported to PERS as a bus supervisor. Ms. Pizzini informed the Board that this issue came to light when Mr. Senn was informed of the issue by Montana Watchdog. Ms. Pizzini stated that a retired attorney from Vermont, Mr. David Kelly, has filed a lawsuit against the Ennis School Board as a taxpayer of the state of Montana, alleging nine counts including counts specifically related to violation of TRS statutes. Ms. Pizzini reported that Ennis School Board members seem to be under the impression that Mr. Kelly has filed the lawsuit on behalf of the Montana Teachers' Retirement System and that we (TRS) are working with him in this legal action, which, Ms. Pizzini clarified is not accurate. Rather, TRS is conducting an administrative investigation of the circumstances of the retiree's post-retirement employment with the school district in order to determine his eligibility for retirement benefits from the time of his retirement. Mr. Senn reported that TRS has hired private investigators from Orion International Corporation to conduct some of the investigation on behalf of TRS. Staff has not made any determination at this time and will not until the investigation is complete.

RETIREMENT REPORTS

Service Retirements and Survivor Benefits

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

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BOARD TRAINING

Nondiscrimination in Employment and Provision of Services

Training was conducted by Linda Davis and John Pavao from the State Human Resources Division. Board members present were Chairperson Kari Peiffer, Member Jeff Greenfield, Member Darrell Layman, Member James Turcotte, Member Scott Dubbs, and Member Robert Pancich. Staff members present were David Senn, Tammy Rau, Karla Scharf, Dan Gaughan, Sandra Donahue, Bill Hallinan, Denise Pizzini, and Melissa Michalk.

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 3:35 PM.

Chairperson _____

Executive Director _____