

TEACHERS' RETIREMENT SYSTEM BOARD MEETING
Montana Board of Investments Conference Room
2401 Colonial Drive
Helena, Montana
May 11, 2012

BOARD MEMBERS PRESENT

Darrell Layman – Vice Chair
Scott Dubbs
Darrell Layman
Jeff Greenfield
Robert Pancich
James Turcotte

EXCUSED BOARD MEMBERS

Kari Peiffer, Chair
James Turcotte was excused after lunch

STAFF PRESENT

David Senn, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel
Dan Gaughan, Accounting Supervisor
Will Harmon, Communications Manager
Johnelle Sedlock, Benefit Officer

OTHERS PRESENT

David Ewer, BOI
Eric Feaver, MEA-MFT
Diane Fladmo, MEA-MFT
Roxanne Minnehan, MPERA
Sheri Scurr, Legislative Services
Clifford Sheets, BOI
Dan Villa, Budget Office
Bob Vogel, MBBA
Rachel Weiss, Legislative Services

CALL TO ORDER

Mr. Darrell Layman called the meeting to order at 8:33 am, in the Board of Investment Large Conference Room, 2401 Colonial Drive, Helena, Montana.

Adopt Agenda

Mr. Layman asked for additions or changes to the Agenda for May 11, 2012. Finding none, Mr. Layman requested a motion to adopt the Agenda.

MOTION/VOTE: Mr. Robert Pancich moved that the TRS Board adopt the Agenda for May 11, 2012. Mr. James Turcotte seconded, motion passed 5-0. No public comment.

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Approval of Minutes

Mr. Layman called for changes to the February 2, 2012, Board Meeting Minutes. Finding none, Mr. Layman requested a motion to adopt the February 2, 2012 Board Minutes.

MOTION/VOTE: Mr. Jeff Greenfield moved that the TRS Board adopt the Thursday, February 2, 2012, Board Meeting Minutes. Mr. Scott Dubbs seconded, motion passed 5-0. No public comment.

Public Comment on Board Related Items

Mr. Layman called for public comment on Board related items. No public comments were made.

Investments Update

Mr. David Ewer and Mr. Clifford Sheets provided investment updates. Mr. Ewer explained the Montana Board of Investment (MBOI) work plan for 2012. He described each meeting and their agendas to date.

Mr. Sheets gave the Board an update on asset allocations and rates of return through the period ending March 31, 2012. Mr. Sheets noted there were strong and weak quarters giving positive returns over all asset classes. Mr. Sheets explained the current asset allocation has evolved from a simple structure to a more diversified asset mix. TRS net rate of return first quarter of 2012 is 7.91%. Mr. Sheets stated market growth is based upon four items: 1) US Economy – which has been disappointing, 2) European economy – which is weak at best, 3) pending economic flare ups and 4) the upcoming presidential election.

Governor's Pension Funding Proposal

Mr. Dan Villa explained Governor Schweitzer's proposal to fund the pension plans. TRS' current unfunded liability is \$1.8 billion, up from \$1.4 billion in 2009. Converting to a defined contribution plan could increase the unfunded liability to \$3.7 billion. The Governor's proposal to adequately fund the pension plan would: 1) convert the service requirement for full service retirement from 25 years to 30 years, for new hires; 2) raise the highest average compensation from 3 years to 5 years, for new hires; 3) raise the early retirement age from 50 to 55, for new hires; and 4) raise the employee contribution rate by 1%, for new hires and current members; and dedicate \$25 million per year from State Land revenues to TRS. Mr. Villa discussed placing a trigger to drop the employee contribution rate back to 7.15% when funding improves. Mr. Villa stressed, contributions will not go higher than 8.15% for employees, and changes to the multiplier are not currently on the table.

The Board voiced approval of a trigger or sunset to lower contribution rates for employees, when funding improves.

Mr. Greenfield asked Mr. Villa what the recourse would be if the one-time land funds were lower than the Governor projected. Mr. Villa stated the State has bigger problems than pension plans if the land funds were lower than the \$25 million projected.

Mr. Pancich expressed concern that the Governor did not address the Guaranteed Annual Benefit Adjustment (GABA) in his pension proposal. Mr. Villa explained that there is money reserved for the GABA so it is not a budgeted item.

Executive Director's Report

Addressing the Funding Shortfall - TRS Outreach Program

Raising Revenues & Reducing Benefits

Mr. Will Harmon, Communications Manager, gave an update on the results of the online survey. Many people voiced concerns about finances; members said the system running out of money is unacceptable. Some members worry that decision makers will overreact and the cure will be worse than the problem. Other members are angry over what they see as the state's failure to fully support the system and its teachers.

Mr. Greenfield expressed appreciation of staff work to educate the public, employers, and employees. Mr. Dubbs said the voters of Montana should be educated on the pension plans so their conversations with legislators are well informed. TRS needs to reach out to the community, educating them on the importance of fixing the pension plans. Mr. Dubbs suggested working with the unions to increase the audience for TRS webinars and educational videos.

Eric Feaver stated MEA-MFT is committed to work with TRS staff to increase education to its members.

Mr. Greenfield also stated working retirees are not paying into the system; these are positions that would be helping the system if contributing members were hired instead of non-contributing retirees.

Contract Rights, Politics, and Other Things that Go Bump in the Night

Denise Pizzini addressed contract rights and litigation from other states looking at the same issues as TRS. Ms. Pizzini stated there are three steps in determining whether contract rights have been impaired: 1) determine whether there is a contract, including what plan provisions are part of the contract and when contract rights attach (vest); 2) determine whether contract rights have been substantially impaired; and 3) if contract rights have been substantially impaired, determine whether the impairment was necessary and reasonable to address a public concern. With respect to the Governor's proposal, Ms. Pizzini stated most of the proposal will not impair contract rights, as they affect only new hires, with the exception of the 1% contribution increase for current (active) members, which would likely result in litigation of contract rights.

Legislative Concepts

Actuarial Funding

The Montana Constitution requires the pension funds be funded on an actuarially sound basis. TRS is no longer actuarially sound. Based on stakeholder feedback, staff recommended the Board explore options for current members which would; 1) increase employee contributions, 2) make changes to the eligibility for survivor and disability retirement benefits, 3) repeal the \$500 death benefit and 4) seek new funding sources, such as has been proposed by the Governor.

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For new hires staff recommend: 1) an employee contribution rate of 8.15%; 2) full service retirement eligibility requirements of age 60 and vested, or any age with 30 years of service. Alternatively a rule of 90; 3) early retirement eligibility of age 55 and vested; 4) 5-year average final compensation; 5) 2.0% multiplier with 30 or more years of service; 6) more limited eligibility requirements for survivor and disability retirement benefits; and 7) elimination of the \$500 death benefit.

Mr. Layman asked the Board members for a motion to direct staff to prepare legislation for final consideration at the September Board meeting.

MOTION/VOTE: Mr. Turcotte moved to direct staff to continue to explore options recommended for changes to the system. Mr. Pancich seconded the motion.

BOARD MEMBER DISCUSSION: Mr. Greenfield recommended the staff look at only changes to current members that potentially have the smallest possibility of litigation. Mr. Turcotte expressed support for a clean-up of the disability and survivor eligibility requirements as they apply to current members. Mr. Dubbs voiced support for continuing the \$500 death benefit. Mr. Dubbs and Mr. Turcotte did not support the 2% increase to the multiplier for new hires at this time. Mr. Greenfield supported the multiplier increase, pointing out that staff recommendation would require new hires to contribute more and work longer; if something is taken away, we should give something back.

PUBLIC COMMENTS: Eric Feaver, MEA-MFT, agreed that the 2% increase to the multiplier for new hires should be pursued. Mr. Feaver further stated that MEA-MFT would not support a hybrid plan proposal for new hires.

AMENDED MOTION/VOTE: Mr. Turcotte amended the motion to include presenting these drafts with the changes discussed by the Board at the September TRS meeting. Mr. Pancich seconded. Motion passed as amended 5-0.

Housekeeping

Mr. Senn stated action was not necessary individually for the Housekeeping, University, and Working Retiree legislative proposals; a combined motion was suggested.

This proposal cleans up statutes, clarifies and removes archaic language.

University Supplemental Contribution Rate

Mr. Senn stated based upon the 2010 actuarial valuation of the university supplemental rate, the current rate needs to be increased from 4.72% to 8.52%. The 2012 Valuation would include a recommendation for any increase required.

Working Retirees

TRS continues to experience circumstances of retired teachers returning to work as independent contractors or working concurrently in TRS and PERS eligible positions, notwithstanding prior legislative changes to expressly state and clarify working retiree limitations. As well, there currently are pending IRS regulations regarding normal retirement

age and the prohibition on in-service distributions. While TRS is waiting for additional IRS direction, it appears it will be necessary to implement an extended, required break in service, from the current standard that may be met in as little as 30 days, to at least 120 or 180 days. As an example, PERS added a 90 day break in service at the 2011 Legislative session. However, there is reason to believe a longer break in service will ultimately be required in a teachers' pension plan as a 90 day break in service, in many cases, would only account for the normal summer break in a school year.

MOTION/VOTE: Mr. Dubbs moved to approve the proposed legislation for Housekeeping, University Supplemental Contribution Rate, and Working Retirees. Mr. Greenfield seconded the motion.

PUBLIC COMMENT: Mr. Feaver stated it is necessary to establish what a break-in-service is in statute.

VOTE: Motion passed 5-0.

Public Comment/Recommendation on TRS Related Legislation

This was an opportunity for members of the public to comment on the proposed legislative concepts; there was no public comment.

Modifications to the 2012 Actuarial Valuation Report

Mr. Senn explained staff is working with the actuary to improve the 2012 valuation report. Staff recommended removing the Actuary Required Contribution (ARC) rate from future valuation summaries. Mr. Senn compared the ARC to refinancing your mortgage every year, we would always have a 30-year amortization period, and the unfunded actuarial liability would never get paid off. Staff recommended showing only the contribution rate required to actuarially fund TRS over 30 years beginning July 1, 2013. Staff is also recommending changes to the sensitivity section of the report to show all calculation based on a 30-year amortization period. Mr. Senn asked if the board would like to see this section expanded. The consensus of the board was that the current analysis was sufficient.

Executive Summary

In accordance with the Board's alternative work policy, Mr. Senn presented the Board with an alternative summer work schedule. Tammy Rau, Deputy Director, noted this is the busiest time of the year, and these alternate work schedules help get more accomplished during the day and are a morale booster.

Other Business

Interest Rate Credited to Member Accounts

Each year the Board is required to set the interest rate that is credited to active accounts. The current rate is 0.25%. Based on current short term rates, staff recommended the interest rate credited to active member accounts for the period of July 1, 2012 through June 30, 2013, continue at 0.25%.

MOTION/VOTE: Mr. Pancich moved to adopt the staff recommendation and set the interest rate credited to active member accounts at 0.25%, for the period of July 1, 2012 through June 30, 2013. Mr. Turcotte seconded, motion passed 5-0. No public comment.

Contracted Services Agreements

ICE Miller has been TRS' tax counsel for IRS compliance since 1997. ICE Miller keeps the retirement system apprised of impending and actual modifications to tax law, tax regulations, and modifications to regulatory processes. Staff recommended the Board approve the legal services agreement addendum with ICE Miller.

MOTION/VOTE: Mr. Pancich moved to adopt the staff recommendation and approve the legal services agreement addendum with ICE Miller, based on time and materials not to exceed \$25,000, for fiscal year 2012 through 2013. Mr. Dubbs seconded, motion passed 5-0. No public comment.

Cavanaugh Macdonald Consulting, LLC has been TRS' actuary since 2009. Cavanaugh Macdonald agreed to renew the contract for a two-year term with no increase in fees. Staff recommended the Board renew the terms of the contract for two years effective July 1, 2012 through June 30, 2014, exercising the Procurement Act exemption for actuarial service.

MOTION/VOTE: Mr. Greenfield moved to adopt the staff recommendation and renew the terms of the contract for two years effective July 1, 2012 through June 30, 2014, exercising the Procurement Act exemption for actuarial service. Mr. Pancich seconded, motion passed 5-0. No public comment.

Personnel Committee Recommendations – Pay Adjustments

Kari Peiffer, Mr. Layman, Mr. Senn, and Ms. Rau met via teleconference to discuss pay increases for three TRS employees, Johnelle Sedlock, Kim Lloyd, and Denise Pizzini. Two employees' increases are for equity and one would remedy being significantly below the state's pay midpoint. Mr. Layman asked that the Board look at other members of staff at the September TRS Board meeting.

MOTION/VOTE: Mr. Greenfield moved to adopt the staff recommendation and increase the pay \$1.25/hour for the three positions. Mr. Dubbs seconded, motion passed 5-0. No public comment.

Out-of-State Travel Requests

2012 NCTR Conference October 6 – 11 and 2012 NCTR Trustee Workshop July 23 - 25

In the past, the Executive Director and two Board members attended the fall NCTR Annual Convention, with two Board members given the option to attend the Trustee Convention. This year, Mr. Senn recommended two Board members and not the Executive Director attend the NCTR Annual Convention in Tucson, AZ, October 7 through 11, 2012, or attend the July 23 – 25, 2012, NCTR Trustee Workshop held at Stanford University, and that Ms. Rau attend GFOA

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in June. Ms. Peiffer and Mr. Turcotte are scheduled to attend this year, Mr. Senn asked the Board who would be interested in attending, and there were no volunteers.

MOTION/VOTE: Mr. Dubbs moved to approve out-of-state travel for two Board members, to attend the October 2012 NCTR annual conference, or the July 2012 NCTR Trustee Workshop, and excuse Mr. Senn from attendance this year. Mr. Greenfield seconded, motion passed 4-0. No public comment.

2012 GFOA Conference June 10 – 13

In the packet, Deputy Director, Ms. Rau requested to attend the 2012 GFOA conference in Chicago, IL, June 10 through 13, 2012. It was determined to cut costs staff would attend every other year. However, this year's conference focuses on proposed GASB changes, so staff recommended Ms. Rau attend this year's GFOA conference.

MOTION/VOTE: Mr. Pancich moved to approve out-of-state travel for Ms. Rau to attend the 2012 GFOA conference in June. Mr. Dubbs seconded, motion passed 4-0. No public comment.

2012 Public Pension Finance Forum October 7 -10

Staff recommended the Board approve travel for Dan Gaughan to attend the 2012 Public Pension Finance Forum in October.

MOTION/VOTE: Mr. Pancich moved to approve out-of-state travel for Mr. Gaughan to attend the 2012 Public Pension Finance Forum. Mr. Dubbs seconded, motion passed 4-0. No public comment.

TRS 2012-13 Budget

Mr. Gaughan addressed the Board on the fiscal year 2012-13 budget. One item not in the budget is the possibility of purchasing iPads for the Board members. They voiced concern over how this would work and what would happen if iPads were lost or stolen. Mr. Senn said he would have Rick Bush, IT Manger, give a demonstration at the next meeting. They also discussed other means of secure access to the Board packet, which would also let them look at the disabilities before the meeting. Using a drop box or state access was discussed.

Mr. Gaughan pointed out two reductions to the budget, ICE Miller from \$25,000 to \$12,500 and the single user computers and hardware was reduced by \$7,500.

MOTION/VOTE: Mr. Greenfield moved to approve the 2012-13 budget as presented by Mr. Gaughan. Mr. Pancich seconded, motion passed 4-0. No public comment.

Investment Report

Mr. Turcotte was excused; he left word that no further investment report was needed due to Mr. Ewer's and Mr. Sheets' investment update earlier in the meeting.

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Financial Statements and Delinquent Agency

Mr. Gaughan presented the financial statements as of April 30, 2012. The balance sheet shows the Mortgages and Real Estate Investments are zero due to the division of investment pools. This year's contributions were similar to last year's contributions. Mr. Gaughan believes the contributions from members are the same due to pay increases being frozen. Investment Earnings showed a less profitable activity. Communications showed an increase due to postage for the Horizons newsletter and member handbooks.

Mr. Gaughan explained a difference on the budget reports, a \$5,000 Hewlett Packard credit on contracted services not carried over to budget justification form.

Sunset Elementary School is the only school on the Delinquent Agency list, they paid before the meeting.

TRS Information Technology Plan, Fiscal Years 2012 - 2017

Mr. Senn reviewed the Executive Summary, Goals, and Objectives from the TRS Information Technology Plan submitted to the Department of Administration, State Information Technology Services Division.

Draft Policy on Succession Planning

Mr. Senn informed the Board the final Policy on Succession Planning will be presented at the September Board meeting. The Policy on Succession Planning ensures that the functions of key positions are cross trained with another member of staff. Mr. Senn gave an example; if he was to retire then the Board President would implement the Policy on Succession Planning, however, if it were the Accountant/Fiscal Manager to retire, Mr. Senn would implement the Policy of Succession Planning. Mr. Layman suggested two Board members work with staff; the Board President should not make the decision alone.

Next Meeting Dates

The next TRS Board meetings are scheduled, Friday, September 28, 2012 and Friday, December 7, 2012.

The Board and staff agreed on a summer meeting, to be held Tuesday, August 7, 2012 at 9 am. Location to be announced. Mr. Senn suggested reviewing the funding and benefits policy, governmental retirement plan definition, and legislative proposals. Mr. Senn asked for other topics to discuss during the August meeting, none were given.

LEGAL COUNSEL'S REPORT

Summary of Legal Issues

Ms. Pizzini informed the Board that the court's order on judicial review of the Mavencamp matter has not yet been issued.

CLOSED MEETING

DISABILITY APPLICATIONS

Executive Session to Discuss Disability Applications

Mr. Layman directed the meeting to be closed at 2:05 pm to discuss and review disability applications since the individuals' right to privacy pertaining to their application for disability benefits clearly exceeds the merits of public disclosure.

OPEN MEETING

Mr. Layman reopened the meeting to the public at 2:30 pm.

Applications for Disability Retirement Benefits

MOTION/VOTE:

Mr. Greenfield moved to approve the disability retirement request for Mr. Bruce Barta. Mr. Dubbs seconded, motion passed 4-0.

Mr. Dubbs moved to approve the disability retirement request for Ms. Carol Barth. Mr. Greenfield seconded, motion passed 4-0.

Mr. Pancich moved to approve the disability retirement request for Ms. Catherine Conaway. Mr. Dubbs seconded, motion passed 4-0.

Mr. Greenfield moved to approve the disability retirement request for Ms. Lynn Deming. Mr. Dubbs seconded, motion passed 4-0.

Mr. Dubbs moved to approve the disability retirement request for Mr. Henry Hamill. Mr. Layman seconded, motion passed 4-0.

Mr. Pancich moved to discontinue disability reviews for Ms. Gwen E. Bolstad. Mr. Greenfield seconded, motion passed 4-0.

Mr. Greenfield moved to discontinue disability reviews for Ms. Rebecca M. Vinton. Mr. Pancich seconded, motion passed 4-0.

ADJOURNMENT

MOTION/VOTE: Mr. Pancich moved to adjourn the meeting.

There being no further business, the meeting was adjourned at 2:35 pm.

Chairperson _____

Executive Director _____