

**Teachers' Retirement Board Meeting
Board of Investment Conference Room
2401 Colonial Drive
Helena, Montana
September 28, 2012**

BOARD MEMBERS PRESENT

Kari Peiffer, Chair
Marilyn Ryan
Jeff Greenfield
Robert Pancich
James Turcotte
Scott Dubbs participated via conference telephone

STAFF PRESENT

David Senn, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel
Karla Scharf, Retired Payroll Supervisor
Johnelle Sedlock, Benefits Officer
Rex Merrick, Information Technology Specialist
Dan Gaughan, Accounting/Fiscal Manager
Emma MacKenzie, Public Information Officer

OTHERS PRESENT

Edward Macdonald, Cavanaugh Macdonald Consulting
Todd Breen, Cavanaugh Macdonald Consulting
Diane Fladmo, MEA-MFT
Rachel Weiss, Legal Services
Roxanne Minnehan, MPERA
Bob Vogel, MTSBA

CALL TO ORDER

Chairperson Kari Peiffer called the meeting to order at 8:30AM, in the Montana Board of Investments Conference Room, 2401 Colonial Drive, Helena, Montana.

Adopt Agenda

Chairperson Peiffer asked for additions or changes to the Agenda for September 28, 2012. Finding none, Chairperson Peiffer requested a motion to adopt the Agenda.

MOTION/VOTE: Member Robert Pancich moved that the TRS Board adopt the Agenda for September 28, 2012. Seconded by Member Jeff Greenfield, the motion passed unanimously.

Approval of Minutes

Chairperson Peiffer called for changes to the August 7, 2012 Board Meeting Minutes. Finding none, Chairperson Peiffer requested a motion to adopt the August 7, 2012 Board Minutes.

MOTION/VOTE: Member Marilyn Ryan moved that the TRS Board adopt the August 7, 2012, Board Meeting Minutes. Seconded by Member 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.

ACTUARIAL VALUATION

Todd Green and Ed Macdonald of Cavanaugh Macdonald Consulting presented the Actuary Valuation Results as of July 1, 2012. Mr. Green explained the Basic Benefit Financing Equation of Pension funding and the value of pre-funding the system. In the long term, this equation can never be out of balance. The prefunding of retirement plans is important. Market asset return is 2.21% versus 7.75% expected return (5.54% less than expected). Funding declined from 61.53% to 59.24%. As of July 1, 2012, TRS has a \$1.96 billion unfunded liability and is not meeting its 30 year amortization goal. Current statutory contribution rates already fund two-thirds of the liability leaving a shortfall of about \$870 million. This represents a 4.89% gap between current contribution rates and being actuarially funded over 30 years. If the legislature does nothing in 2013, the retirement system would need to earn a 9.00% rate of return in order for current statutory contributions to be sufficient.

Mr. Pancich questioned if funding is guaranteed by the Montana constitution for the MPERA Defined Contribution plan.

Roxanne Minnehan, Executive Director, MPERA responded, no.

Chairperson Peiffer called for public comment.

Diane Fladmo, MEA-MFT commented that they are on board with the SAVA plan of a 1% contribution increase for employees and that the SAVA Committee is continuing to meet. There is also a cash balance plan proposed, and others are interested in a defined contribution plan; MEA-MFT is not interested in either one for our members.

MOTION/VOTE:

Member Greenfield moved that the TRS Board adopt the Actuarial Valuation Results Report. Seconded by Member Jim Turcotte, the motion passed unanimously.

Scott Dubbs joined the meeting vial conference telephone

EXECUTIVE DIRECTOR'S REPORT

Succession Plan

Executive Director, David Senn presented the Teachers' Retirement System Succession Plan with the changes requested by the Board at the May meeting. The goal of the plan is to ensure a smooth leadership transition in the event a key/critical position becomes vacant.

Member Turcotte questioned if resetting compensation for an employee in an interim position after 6 months is standard or can it be adjusted.

Mr. Senn responded that the salary adjustment could be changed and that the plan has flexibility within the bands set for positions to allow for changes that are approved by the Board.

MOTION/VOTE: Member Greenfield moved that the TRS Board approve the Teachers' Retirement System Succession Plan. Seconded by Member Pancich the motion passed unanimously.

Funding Policy

Mr. Senn presented the proposed changes to the TRS Governance Policy on Funding and Benefits.

Public Comment on TRS Governance Policy on Funding and Benefits

Chairperson Peiffer called for public comment on the Governance Policy on Funding and Benefits. No public comments were made.

MOTION/VOTE: Member Ryan moved that the TRS Board approve the changes to the TRS Governance Policy on Funding and Benefits as presented. Seconded by Member Greenfield the motion passed unanimously.

2013 Legislative Proposals

Funding Proposal

Mr. Senn explained that the TRS funding proposal was currently being studied by the SAVA and Legislative Finance Committees. The goal is to have one proposal that would be introduced by request of the two committees, the Governor's Office and the TRS Board.

That proposal includes annual contributions of \$25 million from state land revenues, one time transfer of excess county retirement funds, together with a 1.0% increase in the member contribution rate with triggers to adjust the member contribution rate as required. The employer contribution rate would not increase. The proposal would also change benefits for TRS members hired after July 1, 2013.

Mr. Senn stated that in an email Bob Vogel, MTSBA had questioned why the employer contribution was not increased.

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Member Greenfield inquired what the triggers are and who can adjust the rate. Denise Pizzini explained that when the system reaches 90% funded the board can reduce the rate, and if the system falls below 80% funding it can go back up an incremental amount. The bill was drafted specifically to have the State take action to increase employer contributions, whether State or School District contributions, in an amount at least equal to that placed on the member.

Public Comment on Funding Proposal

Chairperson Peiffer called for public comment on the Funding Proposal

Bob Vogel, MTSBA, stated that he was not sure he wanted to bring up questions about employer contributions but he was disappointed to have it off the table and that we should keep it in the mix. Mr. Vogel stated that he feels that it should be in the mix as one of the elements that could potentially be used.

TRS Housekeeping Proposal

Mr. Senn explained that the Housekeeping proposal clarifies the terms "position reportable to the retirement system" and "termination of employment"; clarifies when a retired member is in "retired member status" and eligible for post-retirement employment; amends terms related to purchases of service to appropriately use terms defined by PERS; clarifies procedural requirements for termination pay; amends the definition of normal retirement age and provides for non-forfeitability of benefits upon attainment of normal retirement age as required by IRS qualification standards, and provides for jurisdiction and venue for judicial review of administrative decisions in the first judicial district court.

Working Retiree – Break in Service

Mr. Senn explained that Ice Miller, Tax counsel for TRS, has recommended the Board propose legislation requiring a 180-day break in service before a TRS retired member would be eligible for post-retirement employment in a position reportable to the retirement system. Currently, a retired member may return to work in a TRS reportable position at any time after the retiree has received at least one monthly benefit payment. A longer break in service is necessary to ensure members have terminated employment as required by the IRS and the retirement system is not making prohibited in-service distributions. TRS would provide specific information to members at retirement of the date on which the retired member may return to work.

The 180-day break in service could begin on either the member's date of termination or the first day following the member's date of termination. Mr. Senn asked if the board preferred using the date of termination, or the first of the month following the date of termination. The board expressed a strong preference for using the date of termination.

Public Comment on Working Retiree – Break in Service

Mr. Senn commented that Bob Vogel MTSBA questioned whether the break in service would apply to the current provision that allows districts to hire a retired member full-time if they tried but were unable to fill a position with a non-retired member without affecting their retirement.

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Mr. Senn said that the 180-day break in service requirement would not apply to school districts hiring retirees under the current provision (19-20-732, MCA).

Bob Vogel, MTSBA inquired if TRS has any statistics as to how often that has occurred. Mr. Senn responded that there were about 5 in total employed under the current law and most of them had worked for 2 or 3 years. The position must be re-advertised every year and a retiree can work under this provision for a maximum of 3 years in their lifetime.

Bob Vogel asked if there were checks and balances to verify if the advertising and hiring rules are followed. Mr. Senn responded there is a certification form that must be filed with TRS and the Office of Public Instruction.

Bob Vogel stated that he has some reservations as the 180 days does not lineup well with the school year and he is having angst when thinking about circumstances where a school suddenly needs a substitute teacher but the break in service would prevent them from working and the period of need would be now, not later. He understands that the 180-day break in service is a suggestion by the IRS and hopes that another timeframe such as 90 days be considered because it would work better with the school year calendar.

Mr. Senn explained that the IRS does not look at the summer break as a legitimate break in service and therefore Ice Miller has suggested 180 days. Mr. Senn further explained that the proposed legislation includes a specific exception for retirees to be employed as substitute classroom teachers for up to 30 days during the 180-day break in service period.

Increase University Supplemental Contribution Rate

Mr. Senn explained that we are waiting for the actuaries to complete their cost analysis before we can draft the proposal to increase the University System's supplemental contribution rate. Current law requires the University System to make a monthly supplemental contribution that will amortize their unfunded liabilities by July 1, 2033. The supplemental contribution rate is an employer contribution and is not paid by university employees who participate in TIAA-CREF or current TRS members. That rate is currently 4.72%, and is expected to increase to around 10.5%.

Other Legislation

Mr. Senn reported that currently there are 19 retirement-related bill draft requests in the legislative bill tracking system, 6 are put forward by legislators, the other 13 are from the TRS Board and MPERA. LC0018 is requested by Senator Dave Lewis and would require PERS new hires to participate in a DC plan. Senator Edward Walker has requested LC0112, titled "Eliminate Retirement Eligibility for Legislators." Senator Art Wittich has requested LC0237 to allow defined benefit plan members to voluntarily transfer/convert to a DC plan. Senator Tom Facey has requested a bill draft Mr. Senn believes will be the MEA-MFT request for a 2% professional retirement option, similar to Senator Barrett's House Bill 189 carried in the last legislature. Senator Ron Arthun has not submitted a formal bill draft request but is working to put together a cash balance plan that would have an employee contribution of 7.15% and a guaranteed interest rate of 5%, with a 100% match at the time of retirement.

Public Comment on Legislation

Bob Vogel commented that MTSBA's preference at this time is for the TRS plan with adjustments as suggested by TRS with employee and employer contribution increases and outside revenues to address the system shortfall. He stated that he feels a defined contribution plan is definitely not the way to go. The School Boards Association has concerns about a two-tiered system that is dramatically different from the current TRS. The \$25 million in State Land revenue looks like an answer. MTSBA does not have its own bill and is glad to work with TRS on their bill.

Diane Fladmo, MEA-MFT, will be presenting a bill similar to HB 189, so that they have another option but they do support the TRS bill.

Legislative Communication Plan

Mr. Senn with Emma MacKenzie, Communication Manager, presented a draft TRS Communication Plan for the 2013 Legislative Session. Mr. Senn went over the planned outreach meetings. Member Turcotte suggested creating a set of talking points to help when presented with the chance to speak about TRS. Ms. MacKenzie asked for suggestions for champions so we can send those talking points out to different people to talk to their communities.

LEGAL COUNSEL'S REPORT

NAPPA Conference Report

Denise Pizzini thanked the Board for allowing her to attend the conference because it is the best professional conference she has attended. The Commissioner of the SEC and others discussed SEC actions this year in light of the anticipated Dodd-Frank regulations, which are moving slowly. Action has been taken on only 2 items this year in comparison to 58-60 over prior years. Even with the slow rate of action in general, there continues to be discussion on the public pension plans as "too big to fail," which hints at additional regulation. The ethics portion of the conference included discussion about the role of in-house counsel in administrative proceedings and recent lawsuits asserting due process violations related to counsel representing the retirement system in administrative proceeding and then representing the Board in its decision making process. TRS has previously revised its processes based on the same concerns, so may be somewhat ahead of the curve. There was discussion about use of social media. Plans that use social media extensively have not indicated adequate consideration for member privacy, which is an issue. The NAPPA attorneys generally do not appear to support broad use of social media as they see little upside and tremendous potential legal downside to its use. Tammy Rau commented that they had the same response at the GFOA conference. Ms. Pizzini went on to explain that in the small and medium plan group plan segment the discussion was about current political atmosphere and its meaning for pension plans. Overall sense was an anticipation of another legislative season with strong pushes to abandon defined benefit plans in favor of defined contribution plans and the coercive tactics being considered in some states to get current plan members to elect to move to a defined contribution. There was discussion about the municipal bankruptcy issue and what that means

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for pension plans. A recent court decision in California held that the pension plan contribution obligations of municipalities filing for bankruptcy are not preeminent to other creditor claims. The court determined that the bankruptcy law supersedes contract rights of members. Bond disclosure requirements and the new GASB standards were explained and discussed. There was also conversation about the proposed federal regulations defining "governmental plan." Ms. Pizzini was a panel member discussing TRS's written comments to the proposed rules, which take issue with the fact that school districts would likely not be deemed to be political subdivisions of the state under the rules. That would mean that school district's affiliated entities, such as special education cooperatives, curriculum consortiums, etc., would not be eligible to participate in the retirement system. Ice Miller conveyed that the IRS has received thousands of comments on the planned definitions and will now be having meetings to discuss those comments. The implementation of final rules is likely far down the road.

Summary of Legal Issues

TRS has not yet received a decision from Judge Langton in the Mavencamp matter.

Curt Drake will likely be contacting Board Members soon to schedule a determination hearing time for pending motions in the Walsh matter.

Ms. Pizzini advised the Board that they would receive, approximately a month in advance of the next board meeting, materials related to an informal board review of a final TRS staff determination in a matter pertaining to, Edward Zabrocki, a superintendent who was retired from Yellowstone Public Elementary School District in 2007. Ms. Pizzini further advised the Board that, in reviewing the materials, they will be made aware of facts regarding the interrelationship of the Yellowstone Public Elementary School District, which is wholly contained within the boundaries of the Yellowstone Boys and Girls Ranch, and a private high school operated by the Boys and Girls Ranch. In reviewing the Zabrocki matter, it became apparent that teaching and administrative services for the two legally distinct educational entities have been routinely commingled with service time for both entities reported to TRS. There are potential IRS qualification issues related to participation in TRS by employees of a private school. TRS continues to work with the public school district and the Yellowstone Boys and Girls Ranch, the OPI, and tax counsel to address this matter.

Ms. Pizzini reported that on September 4, 2012, the MT Supreme Court issued a ruling in a contested case matter from MPERA. The Supreme Court held, essentially, that MPERA was subject to Montana law that provides for a standard temporary restraining order issued in divorce cases in Montana even though MPERA was not a party to the restraining order. The Court held that a beneficiary designation change made by the member during the pendency of his divorce, removing his spouse as his beneficiary, was void.

TRS will be equally bound by the Court's decision, and it will result in the need for changed administrative practices to prohibit members from removing spouses as beneficiaries while a divorce is under way, as it also currently allows beneficiary designation changes without question. Tammy Rau reported there were approximately 460 active members who changed beneficiaries from a spouse to something other than a spouse in the last year and a half to two years. Staff continues to consider the best administrative practices for addressing the Court's decision.

Ms. Pizzini reported that she has been working on reviewing policies organizing policies according to the Policy on Policy recently adopted by the Board. She indicated there are policies that don't require substantive amendment but need to be titled and numbered correctly, and questioned whether the Board had any reservations about allowing the Board Chair to sign off on these technical revisions without the Board having to review the policies. The Board felt that the Board should review any governance policies that are being changed, even if the changes are not substantive.

ADMINISTRATIVE BUSINESS

Member Email Subscription Services

Staff recommended TRS contract with MailChimp to manage electronic communications. Mr. Senn reported the cost of the recommended service would not require a budget amendment and over time, TRS should save money by using the Email service. Emma MacKenzie commented that the Email service would have a "subscribe" and "unsubscribe" button so members could control what they receive. The contact information entered by the TRS member would be used to update the TRS database to avoid sending information as both email and regular mail to the same member. The program offers a setup for different categories and TRS can track different information to help target the recipients. The service is provided in blocks of "pay as you go" pricing that TRS would purchase as needed.

MOTION/VOTE: Member Turcotte moved that the TRS Board approve the use of Email Subscription Service as recommended. Seconded by Member Greenfield the motion passed unanimously.

Scott Dubbs left the meeting

Backup System for Database

Mr. Senn asked the Board for a budget amendment of \$12,746.72 to cover replacement of the TRS backup and disaster recovery system. The cost covers the purchase of a new disk-to-disk backup server and purchase of backup software to provide real-time backup of servers, workstations and the FileNet document database. TRS has outgrown the current backup system that was implemented 3 years ago. The current backup system does not work well with the TRS system. The system that is proposed is a Dell system with four times TRS's current capacity and is expandable.

MOTION/VOTE: Member Turcotte moved that the TRS Board approve the Budget Amendment as recommended. Seconded by Member Ryan the motion passed unanimously.

Personnel/Policy Committee Report

Mr. Senn presented a proposal to approve a pay adjustment for employees who were hired before the pay freeze and have not received an increase, or have only received a longevity adjustment or the one-time \$450 adjustment. This proposal is in response to the Board's

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request at the May 2012 Board meeting to look at staff hired before the pay freeze. The suggested \$1.25 per hour increase for the eight eligible employees effective September 24, 2012 would be an average increase of 5.36%. The total annual cost would be approximately \$25,800, including benefits. Mr. Senn opted out of the pay increase at this time which would lower the cost of the increases by approximately \$3,000. The amount is within the current TRS budget.

MOTION/VOTE: Member Turcotte moved that the TRS Board approve a \$1.25 increase for the eligible employees, excluding the Executive Director. Seconded by Member Pancich the motion passed unanimously.

Public Comment

Karla Scharf thanked the Board for their support

Investment Report

Member Turcotte presented the investment report. Notable activity was the international portfolio has been moved from individual managers to index managers. Mr. Turcotte voted against this move. A large portion of the domestic portfolio has also been moved to an index. The rationale is that the cost of hiring index managers is cheaper. Mr. Turcotte feels that even though it is cheaper there is no control over hired index managers because the same companies do not stay in that index. Mr. Turcotte did not feel that the amount of money being saved justifies the lack of performance. There is still some active management.

BOI is also going through the procurement process to engage an investment consultant.

Oracle Conversion Status Report

Mr. Senn updated the Board on the database conversion process from the current RMS database to the Oracle system. The full data conversion was completed on September 8, 2012. The next phase is to move the application software. This phase should be in place and be tested by the first of the year and then a proposal will be brought forward to convert that to a new web-based system. This will be an additional cost of approximately \$1 million. The other option would be to buy a new system. MPERA is currently purchasing a system that is costing \$8 million. Mr. Senn recommended hiring a project manager to do an evaluation, provide the board with recommendations, and cost estimates. This is approximately a 2-year project. The Oracle database will cost approximately \$5,000 more a year.

PRISM Conference Report

Mr. Bush had submitted a written report, as he was unable to attend the board meeting. The PRISM conference was informative and Mr. Senn reported that Rick Bush noted that meeting with peers and other IT people was very valuable.

GFOA Conference Report

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Tammy Rau reported on The GFOA Conference that she attended. The conference was timely in the area of the funding policy that TRS adopted today as well as plan design and what should and should not be in a defined benefit plan. Emphasis on making sure to communicate with key stakeholders and getting them involved early and as often as possible. They also looked at communication plans and what should and should not be included in a communication plan. They discussed the different forms to use making sure to keep in mind, place, gender, age and roles when communicating.

The conference was very good and Tammy expressed her gratitude in being able to attend.

Financial Statements, Budget, Delinquent Agency & Travel Reports

Dan Gaughan, Accounting/Fiscal Manager presented the TRS financial reports. The Balance sheet is a snapshot of one day at the end of the month so some assets do not appear. Some of our investment values are down from last year. The changes in fund balance for the first two months show contributions being slightly better than last year but the investment earnings are down. Benefits are increasing each year. The investment revenues biggest difference is in the securities. Administrative expenses are similar to last year. Contracted expenses are up because of the Oracle Conversion. The amount that the state accounting system, SABHRS, budgeted for was reduced giving TRS a \$14,236 savings. At this time, we do not have any delinquent agencies. There are a few trips planned for seminars in Billings, Stevensville, and Whitefish.

Next Meeting Date

Chairperson Peiffer asked if there were any conflicts with the proposed December 7, 2012 Board meeting date. Mr. Senn also commented that the proposed dates for 2013 might change with developments during the legislative session. There were no conflicts with the December 7, 2012 date.

APPLICATIONS AND BENEFIT ADJUSTMENTS

Regular, Survivorship, Adjustment, and Corrections

Mr. Senn reported that there were approximately 650 applications this year which is similar to last year.

CLOSED MEETING

DISABILITY APPLICATIONS

Executive Session to Discuss Disability Applications

Chairperson Peiffer directed the meeting to be closed at 1:25 PM to discuss and review disability applications since the individual's right to privacy pertaining to their application for disability benefits clearly exceeds the merits of public disclosure.

OPEN MEETING

Applications for Disability Retirement Benefits

MOTION/VOTE:

Mr. Pancich moved to approve the disability retirement request for Ms. Jane E Brinkman. Ms. Ryan seconded, motion passed 4-0.

Mr. Turcotte moved to approve the disability retirement request for Mr. James N Ehlers. Mr. Pancich seconded, motion passed 4-0.

Mr. Pancich moved to approve the disability retirement request for Ms. Tanya L Gray. Ms. Ryan seconded, motion passed 4-0.

Mr. Pancich moved to approve the disability retirement request for Ms. Diane R Lehman. Ms. Ryan seconded, motion passed 4-0.

Mr. Turcotte moved to approve the disability retirement request for Ms. Cheryl A Storey. Mr. Pancich seconded, motion passed 4-0.

ELECTION OF OFFICERS

Keri Peiffer called for election of Chair and Vice-Chair. Ms. Peiffer asked that because of her changed situation she not be considered for either position, as she did not feel she could commit the needed time.

MOTION/VOTE: Member Pancich moved to nominate Jeff Greenfield to the position of Chair. Seconded by Member Ryan, the motion passed unanimously. Jeff Greenfield abstained.

MOTION/VOTE: Member Turcotte moved to nominate Robert Pancich to the position of Vice-Chair. Seconded by Member Greenfield, the motion passed unanimously. Robert Pancich abstained.

Committee Appointments

Chairperson Peiffer appointed Marilyn Ryan to the Personnel/Policy committee to fill the vacancy left by Darrell Layman resignation from the Board.

ADJOURNMENT

MOTION/VOTE: Member Pancich moved to adjourn the meeting. Seconded by Member Greenfield, the motion passed unanimously.

There being no further business, the meeting was adjourned at 1:50PM.

Chairperson _____

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Executive Director _____