

**Teachers' Retirement Board Meeting
Teachers' Retirement Board Room
1500 East 6th Avenue
Helena, MT
December 6, 2013**

BOARD MEMBERS PRESENT

Robert Pancich, Chair
Kari Peiffer, Vice Chair
Lisa Cordingley
Scott Dubbs
Janice Muller
Marilyn Ryan

STAFF PRESENT

Shawn Graham, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel

Rick Bush, Information Technology Manager
Chad Goodman, Accounting/Fiscal Manager
Emma MacKenzie, Public Information Officer
Johnelle Sedlock, Benefits Officer
Karla Scharf, Retired Payroll Supervisor
Natalie Chamberlin, Retired Payroll Benefits Specialist

OTHERS PRESENT

Diane Fladmo, MEA-MFT
Cliff Sheets, Board of Investments

Call to Order

Chairperson Robert Pancich called the meeting to order at 8:30 a.m., in the Montana Teachers' Retirement Board Room 1500 E 6th Ave Helena MT.

Adoption of Agenda

Chairperson Pancich asked for any additions or changes to the agenda. Finding none, the chair requested a motion to adopt the agenda as written.

Motion/Vote: Member Marilyn Ryan moved to adopt the agenda and Member Kari Peiffer seconded it. The motion passed unanimously.

Adoption of Minutes

Chairperson Pancich asked for any changes or corrections to the minutes of September 27, 2013. Member Ryan corrected the minutes of her NCTR Conference Report from "Montana was the most successful" to "Montana was one of the most successful." The chair requested a motion to adopt the minutes as amended.

Motion/Vote: Member Lisa Cordingley moved to adopt the minutes and Member Scott Dubbs seconded it. The motion passed unanimously.

Public Comment on Board Related Items

Chairperson Pancich asked for public comment on any public matter not on the agenda and within the jurisdiction of the Board. There was no public comment.

Adoption of Minutes

Executive Director Shawn Graham reminded Chairperson Pancich about needing a motion regarding the November 12, 2013 minutes. The chair asked for any changes or corrections to the minutes of November 12, 2013. Finding none, the chair requested a motion to adopt the minutes as presented.

Motion/Vote: Member Dubbs moved to adopt the minutes and Member Ryan seconded it. The motion passed unanimously.

Board of Investments Presentation

Chief Investment Officer Cliff Sheets of the Board of Investments gave his annual presentation on the status of the investments of the Teachers' Retirement System. Mr. Sheets reviewed the various investments and said the total value of the investments was \$3.297 billion, up \$143 million for the quarter. Mr. Sheets said most of the positive returns came from the stock portfolio. Mr. Sheets said 7.75% is the average rate of return since 1994. Mr. Sheets said 7.75% is a reasonable rate of return; however, it entails taking risk which can be uncomfortable at times. Member Dubbs asked about the impact of a dysfunctional Capitol Hill on the markets. Mr. Sheets said he thinks the markets are getting used to the idea of a dysfunctional federal government and he is not expecting a reaction to another government shutdown. Mr. Sheets said the real risk comes from a debt ceiling showdown where there might be a technical default by the federal government. Mr. Sheets did not think that would be likely to happen and he said he did not think there would be another government shutdown in January 2014. Chairperson Pancich thanked Mr. Sheets for his presentation.

Executive Director's Report

Executive Summary

Legislative Audit for FY 2013 Update

Mr. Graham said the legislative auditors were finalizing their results. He said he was not aware of any findings at this time.

Ice Miller Cycle C Filing Status

Mr. Graham stated that TRS filed its application for an IRS tax-qualification determination in the current Cycle C filing period; the IRS determination is not expected for some time. He also reported that TRS filed a voluntary correction plan with its qualification application to correct for a HEROES Earnings and Assistance Relief Tax Act (HEART Amendment) provision required to have been included in TRS's plan provisions at an earlier date. Addition of the required plan provision will be a part of TRS's 2015 legislative housekeeping bill.

SAVA & LFC Interim Committee Meetings

Mr. Graham said the results of HB 377 was a topic at the SAVA meeting and there was a discussion regarding the reasonableness of the rate of return. Member Ryan said the negative

liquidity may become the next topic of focus as it was discussed at the last Board of Investments meeting. It was mentioned that the negative liquidity was a function of a mature system.

Mr. Graham said the state IT portfolio would be reviewed at the LFC meeting on December 9, 2013 and he was planning to attend to answer any questions about the M-Trust project.

Mr. Graham said the next SAVA meeting was on December 10, 2013 and he was expecting questions about the GABA lawsuit.

Member Dubbs said Mr. Sheets' presentation at the last SAVA meeting was really good.

Staffing Update

Mr. Graham said the new imaging technician is scheduled to start on December 16, 2013, and TRS is in the process of hiring a technical writer and a test lead for the M-Trust project.

Memo – Insurance Automated Clearing House

Mr. Graham reviewed for the board the draft memorandums regarding sending insurance payments via ACH. He said TRS would like to move employers to using ACH as much as possible to increase administrative efficiencies. Mr. Graham said legislative changes would be needed to make ACH mandatory. Member Dubbs asked what the difference was between the two memorandums. Mr. Graham said one was for employers that are currently ACH capable with TRS and receive insurance premiums payable to the employer. The second was for employers that are currently ACH capable with TRS but currently receive insurance premiums payable to their insurance carrier. In both cases, these employers will need to agree to accept insurance premiums via ACH made payable to the employer.

Instructional Paraprofessionals Update

Mr. Graham gave an update on the issue of instructional paraprofessionals in the Kalispell School District. Mr. Graham said TRS conducted a review to determine whether there was an option of grandfathering members to stay in PERS rather than require transfer to TRS. Based on TRS's review, including consultation with TRS's tax counsel, it appears there is no legal basis for grandfathering, and doing so may create issues with TRS's IRS qualification.

There was a board discussion of how members in similar positions were handled previously, what options are available to members, the impact of transferring their service from PERS to TRS, and if legislation was needed to prevent this issue in the future. Diane Fladmo of MEA-MFT voiced concerns about the impact of the service transfers on their lowest-paid members. Mr. Graham indicated TRS staff would continue to work with school districts, MEA-MFT, and members to ease the transition, and that a follow-up communication to all TRS employers would be issued to make sure the reporting requirement is communicated to all employers and the issue addressed if it exists in other school districts.

Mr. Graham reminded the board that the Kalispell School District had asked for an informal board review of the original TRS staff determination which was tabled until review of the possibility for grandfathering was completed. He indicated he didn't know whether the school district might again request board review following issuance of a new staff determination, but if they do, a board meeting for the review may need to be scheduled before the next regularly scheduled board meeting.

Executive Director's Report

Draft Policy on Electronic/Facsimile Signatures for Correspondence

Mr. Graham presented the draft policy to the board. He said that the M-Trust system will allow digitized signatures on automated letters regularly issued by TRS, and administrative efficiencies would be realized by using digitized signatures. Deputy Director Tammy Rau gave an example of the current process for handling correspondence. Mr. Graham stated that the proposed policy in its final format would be presented for board action at the next board meeting.

Executive Planning Process – 2015 Legislative Concepts

Mr. Graham indicated the budgetary process for the 2015 legislative session will soon begin, and TRS will need to submit its legislative requests to the Governor's Office for review. He said TRS staff has already identified approximately 15 "housekeeping" issues for the 2015 session.

Mr. Graham indicated that TRS staff has considered whether legislation might be helpful to resolve some of the issues TRS keeps encountering regarding TRS positions incorrectly reported to PERS, and whether changing the reporting requirement for classified positions with school districts, community colleges, etc., from PERS to TRS might be advisable. If the board is interested in pursuing such legislation in the future, he suggested that a request for a study bill in 2015 to look at the potential actuarial impacts to the retirement systems might be a good place to start. Member Dubbs voiced concerns that the retirement systems currently have too many administrative issues pending to participate in that kind of study right now. The board indicated its preference that such legislation not be pursued in 2015.

Public Participation

Mr. Graham advised the board that the governor's office has recently published its annual reminder to state agencies that they are obligated to encourage and facilitate public participation in public meetings and agency actions of public interest.

Administrative Business

2014 Board Meeting Dates

Mr. Graham announced the 2014 board meeting dates as February 21, May 9, September 26, and December 5. Chair Pancich asked if the dates worked with board members' schedules.

Motion/Vote: Member Peiffer made a motion to accept the meeting dates for 2014 as February 21, May 9, September 26, and December 5. Member Cordingley seconded the motion. The motion passed unanimously.

Member Dubbs later recalled that he has a conflict with the May 9, 2014 board meeting date.

Motion/Vote: Member Ryan made a motion to move the May 9, 2014 board meeting date to May 16. Member Janice Muller seconded the motion. The motion passed unanimously.

Board Training and/or Strategic Planning Session

Mr. Graham asked the board if they wanted a training session or a strategic planning session in August 2014. Member Peiffer suggested a strategic planning session since Mr. Graham is the new executive director; Member Dubbs suggested a training session would also be valuable. Chair Pancich asked the board if they wanted one day or two for the planning/training session. Mr. Graham suggested the board select one day now and that the dates can be amended later with

the location to be determined. Following discussion of available dates, Chair Pancich asked for a motion to accept August 7, 2014.

Motion/Vote: Member Ryan made a motion to accept August 7, 2014 as the board planning/training date. Member Dubbs seconded the motion. The motion passed unanimously.

Out-of-State Travel Requests

Mr. Graham presented the request for out-of-state travel for Ms. Rau to attend the GFOA conference in Minneapolis, MN from May 17 – May 22, 2014.

Motion/Vote: Member Cordingley made a motion to allow Ms. Rau to attend the GFOA conference. Member Peiffer seconded the motion. The motion passed unanimously.

Financial Statements and Budget Reports

Accounting/Fiscal Manager Chad Goodman discussed the financial statements, budget and agency delinquency reports. He said that \$18.5 million of the \$20.5 million of the reserve payments have been received. Mr. Graham noted that the increase in the capital outlay budget was due to the M-Trust project. Mr. Goodman said he needed to talk to the state ITSD department regarding billing and coding issues. He said there were no delinquent agency reports at this time.

P2F2 Annual Conference Report

Mr. Goodman gave his presentation on the 2013 P2F2 Conference. He said a majority of the conference was focused on the GASB 67/68 issues. Mr. Graham said TRS would begin working the GASB 67/68 issues in the spring of 2014.

NCTR Annual Conference Report

Mr. Graham gave his presentation on the 2013 NCTR Conference. He thanked the board for the opportunity to attend the conference. He said Chair Pancich and Member Dubbs also attended the conference. One of the conference topics was communications and the use of social media. Usage of the social media outlet Twitter was raised, and Mr. Graham said it could be a topic for future board discussion. Mr. Graham said Chair Pancich, Member Dubbs, and he met with House Representative Steve Daines during the conference.

Update on M-Trust Project

Information Technology Manager Rick Bush gave an update on the M-Trust project. Member Peiffer asked about the hiring of additional staff for the project. Mr. Bush said TRS was using CEP procurement process under the state ITSD master contract to engage contractors to augment TRS technology staff as necessary. Mr. Bush indicated that requests for proposals are currently in process for technical writer, test lead, and IV&V services. Mr. Graham thanked Ms. Rau and the TRS IT department for their hard work on the M-Trust project. The board thanked them as well. Mr. Bush said there would be a demonstration of M-Trust after the lunch break.

The meeting broke for lunch at 12:00 p.m. Chairperson Pancich called the meeting to order at 12:33 p.m.

Legal Counsel's Report Summary of Legal Issues

Legal Counsel Denise Pizzini gave an update in the contested case with Mr. Adam Priquette. Ms. Pizzini said Agency Legal Services hearing examiner Andreas Haliday had been appointed to the case.

Ms. Pizzini announced that the hearings examiner had ruled in favor of TRS in the contested case of Edward Zabrocki and the Yellowstone Academy School District #58. She said a copy of the hearing examiner's ruling had been mailed out to the board earlier in the week. The board asked questions about what would happen if the hearing examiner's ruling was contested, and Ms. Pizzini explained the process. The board agreed to again engage attorney Curt Drake and/or Mike Kaufman as legal advisor to the board in the contested case matter.

Chair Pancich asked if a determination had been made in the judicial review of the Lynn Mavencamp case. Ms. Pizzini said no order has been issued yet. Member Ryan asked why it was taking so long to get a determination. Ms. Pizzini said it could be the judge's workload or that opposing counsel had not prompted the court for the determination.

Ms. Pizzini gave an update on the GABA litigation. She said the preliminary injunction hearing was held on December 4, 2013 and Mr. Graham and she attended the hearing. Mr. Graham said it would be at least two weeks before a ruling would be issued.

Retirement Report

Service Retirements, Adjustments, and Survivors Benefits

Ms. Rau reviewed the November 26, 2013 report of Service Retirements, Adjustments and Survivors Benefits.

Closed Meeting

M-Trust Demonstration

Chairperson Pancich directed the meeting to be closed at 12:55 p.m. for the M-Trust demonstration since the demonstration would include live data and the individual's right to privacy pertaining to their information in M-Trust clearly exceeds the merits of public disclosure. The meeting was reopened to the public at 1:35 p.m.

Open Meeting

Board Training

Certification of Termination

Ms. Pizzini reviewed the new Member and Employer Certification of Termination of Employment form, which replaced the Pre-Arranged Re-Employment Certification form. The Board discussed the form, some of the wording on the form, and who can sign the form for the employer. Chair Pancich and Member Dubbs made suggestions regarding the employer section of the form.

CITRIX Refresher

Mr. Bush gave the board a refresher course on how to use the Citrix system. The Board discussed computer security and options for getting the meeting packet to the board.

Adjournment

Teachers Retirement System Board Meeting
December 6, 2013

Having no more business before them, Chairperson Pancich requested a motion to adjourn the meeting.

Motion/Vote: Member Ryan moved to adjourn. Member Dubbs seconded the motion. The motion passed unanimously.

The meeting adjourned at 2:24 p.m.

Chairperson: /s/ Robert Pancich

Executive Director: /s/ Shawn Graham