

Teachers' Retirement Board Meeting
Teachers' Retirement Board Room
1500 East 6th Avenue
Helena, MT
August 7, 2014

BOARD MEMBERS PRESENT

Janice Muller
Lisa Cordingley
Marilyn Ryan
Scott Dubbs

STAFF PRESENT

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

Rick Bush, Information Technology Manager
Emma MacKenzie, Public Information Officer

OTHERS PRESENT

Diane Fladmo, MEA-MFT
Jim Kerins, CMS
Sheri Scurr, Legislative Services

Call to order

Acting Chairperson Scott Dubbs called the meeting to order at 8:29 a.m. in the Montana Teachers' Retirement Board Room 1500 E 6th Ave Helena MT.

Adoption of Agenda

Acting Chairperson Dubbs 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 Lisa Cordingley moved to adopt the agenda and Member Janice Muller seconded it. The motion passed unanimously.

Adoption of Minutes

Acting Chairperson Dubbs asked for any changes or corrections to the minutes of May 16, 2014. Finding none, the chair requested a motion to adopt the minutes as presented.

Motion/Vote: Member Marilyn Ryan made a motion to adopt the minutes and Member Cordingley seconded it. The motion passed unanimously.

Public Comment on Board Related Items

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

Closed Meeting

Executive Session to Discuss Disability Applications

Acting Chairperson Dubbs directed the meeting to be closed at 8:31 a.m. for the Board to discuss and review the disability applications since the individual's right to privacy pertaining to an application for disability benefits clearly exceeds the merits of public disclosure. The meeting was reopened to the public at 8:40 a.m.

Open Meeting

Applications for Disability Retirement Benefits

Acting Chairperson Dubbs requested motions on the disability applications.

Motion/Vote: Member Cordingley made a motion to approve the disability application of Kathy Gottlob. Member Ryan seconded the motion. The motion passed unanimously.

Motion/Vote: Member Ryan made a motion to approve the disability application of Donna Erickson. Member Muller seconded the motion. The motion passed unanimously.

Executive Director's Report

Draft Ethics/Conflict of Interest Policy Review

Executive Director Shawn Graham presented a draft Ethics/Conflict of Interest Policy for the Board's review. Mr. Graham said the draft policy goes above and beyond the state policy due to the fiduciary duty of TRS. He said the Legislative Audit Division recommended an ethics and conflict of interest policy during their last audit to allow TRS to identify personal relationships that may give rise to a conflict of interest. He explained that TRS staff are in the process of drafting a Conflict of Interest Disclosure Statement which will be completed by TRS staff and Board members annually. Mr. Graham said the policy will be on the agenda again at the September 26, 2014 meeting for final review and approval. Legal Counsel Denise Pizzini explained that staff and Board member training on the Ethics Policy and completion of the annual statements will be scheduled very soon after adoption of the final policy by the Board.

2015 Legislative Session Bill Draft Review

Mr. Graham presented draft versions of TRS legislative proposals for the 2015 legislative session to the Board. He said the bills would be presented to the State Administration and Veterans' Affairs (SAVA) committee on August 15, 2014. The presentation may include distribution of the bill draft language, but ultimately SAVA's action would be to approve the bills for drafting by legislative staff only, and not to take a position on the content. Member Muller asked if there was anything contentious in the bills. Mr. Graham indicated the housekeeping bill is submitted to make general revisions and to implement provisions required for TRS to comply with IRS qualification requirements, so it includes items that are not expected to be contentious. Ms. Pizzini indicated the section in the housekeeping bill regarding the statute of limitation and corrections of errors might raise questions by legislators because it is fairly lengthy, but we don't expect it to be contentious. The housekeeping bill was reviewed section by section.

Mr. Graham presented the Montana University System Retirement Plan (MUSRP) supplemental contribution bill. The Board is required by 19-20-621, MCA, to periodically review the supplemental contribution rate on TIAA-CREF salaries necessary to pay off the unfunded liability created when MUS faculty were no longer required to be members of TRS. There was a discussion regarding the bill to raise the university contribution rate from 4.72 percent to 9.04 percent. Mr. Graham said the 9.04 percent rate is a holdover from the bill in 2013, and would

change once the 2014 actuarial valuation is complete. There was a discussion regarding whether or not a gradual rate increase would work. Mr. Graham said he would talk to the actuaries about the idea of a gradual rate increase. Member Muller asked if the legislature could change the rate, and Mr. Graham answered yes.

Mr. Graham said the final versions of the bills will be presented to the Board for their approval at the September 26, 2014 meeting. Sherri Scurr of Legislative Services asked if the Board was going to adopt the bills at this meeting or at the September meeting. Mr. Graham said the Board would adopt them at the September meeting.

Draft IT Security Plan

Mr. Graham presented to the Board the TRS's draft IT security plan. Information Technology Manager, Rick Bush, reviewed the plan for the board. The Board raised the question whether "volunteers", "previous employees", and "paid contractors" should be included in the description of individuals subject to the plan if TRS does not use volunteers, etc. In conversation, it was decided that the plan should cover anyone who has access to State or TRS data systems or information related to work done on behalf of TRS, and that general language to that effect might be more useful than trying to specifically identify all types of individuals that might be included. Mr. Graham and Ms. Pizzini said they would review the language of the security plan to make sure all such individuals are adequately included in the IT security plan language.

Executive Summary

Agency IT Plan

Mr. Graham presented TRS's IT plan to the Board, which has been reviewed and approved by State Information Technology Services Division.

Updated M-Trust Schedule and IV&V Report

Mr. Graham presented to the Board the first Independent Verification and Validation report from Sabot Consulting. It was announced that the M-Trust steering team agreed with many of the report's findings. The steering team had decided to add time to each of the upcoming modules to improve the requirement gathering phase of each module, as recommended by the report. As a result of the additional time needed for the requirement gathering phase, the final deadline for the M-Trust project was moved from April 2016 to June 2016. Acting Chairperson Dubbs felt this change would make the process easier for everyone. Mr. Graham and Deputy Director Tammy Rau noted the excellent work by project manager Jane Fournier, test lead Monica Arsenault, and technical writer Darla Fitzpatrick.

It was announced that the report was written by independent verification and validation contractor Darren Chiappinelli based on the M-Trust data and phone and email conversations with TRS staff. Mr. Chiappinelli recently visited TRS and will return in October 2014 when Alfred Munksgard and Associates are also on site at TRS. While Mr. Chiappinelli's first report reviewed work that had already been completed in M-Trust, future reports and discussions will focus on the project's future and the need to be proactive about potential issues and risks.

It was announced that the M-Trust project is running smoothly as each module goes from design to rollout. The Insurance Deduction System for TRS employer went live on August 1, 2014 with minimal requests from employers for assistance. It was announced that a second set of employers

will be at TRS on August 14, 2014 to test the Wage & Contribution Reporting System. Ms. Rau and test lead Monica Arsenault will facilitate the testing.

Acting Chairperson Dubbs asked about security regarding M-Trust. Mr. Graham and Mr. Bush reported that a contract has been entered into with a State security contractor for a two-tier web application security review, and the initial phase of the security review is in process. Mr. Bush indicated that additional services for web security and firewalls are being put in place, and that, long-term, ongoing security review services will be employed to continue to ensure security of TRS data systems and information.

Administrative Business

NCTR Trustee Workshop Report

Member Cordingley and Member Muller gave their presentation on the 2014 NCTR Trustee Workshop. They said they were very glad for the opportunity to attend the workshop and learned a lot from the sessions they attended. They learned it was important for board trustees to have enough critical knowledge about their respective pension systems to know which questions to ask and when.

Acting Chairperson Dubbs mentioned a study released by the National Institute on Retirement Security titled "Pensionomics 2014" which addresses, state-by-state, the positive economic impacts of public pension benefits on local communities, and that continuing to provide similar information to TRS stakeholders will be important. There was a discussion about the effects of Pew, the Arnold Foundation, and others negatively influencing public perception regarding the value of defined benefit pension plans. The Board and staff agreed that TRS should continue to participate in efforts to make sure stakeholders are fully informed about the benefit value and relative costs of defined benefit pension plans versus defined contribution and cash balance plans for the upcoming election and legislative cycle.

NCTR Annual Conference

Mr. Graham asked the Board to let him know who would be interested and able to attend the NCTR Annual Conference in Indianapolis, IN in October 11-15, 2014. Member Cordingley indicated that she might be able to attend the conference. Mr. Graham said he will ask Interim Chairperson Kari Peiffer if she would be able to attend the conference as the other members are not able to attend.

Next Meeting Date

Mr. Graham confirmed with the board that September 26, 2014 still works for the next meeting date. Member Ryan said she would not be able to attend the meeting. Mr. Graham said the actuaries would be presenting their valuation.

Approve Formatting Changes to Policies

Mr. Graham presented five policies for board approval on the formatting changes to the policies: Board Communications, Policy on Policies, Telework Policy, Electronic Authorization of Correspondence, and Privacy and Security of Confidential Information. Acting Chairperson Dubbs asked for additional comments from the Board. Finding none, the chair asked for a motion.

Motion/Vote: Member Cordingley made a motion to approve the formatting changes to the five policies and Member Ryan seconded it. The motion passed unanimously.

Revoke Policies Covered by State ARM or Statute

Mr. Graham presented three policies for board approval to revoke as these policies are covered by Administrative Rules for the State of Montana or by state statute: Employee Records, Comp Time for Exempt Employees, and Non-Smoking Policy. Acting Chairperson Dubbs asked for additional comments from the Board. Finding none, the chair asked for a motion.

Motion/Vote: Member Cordingley made a motion to revoke the three policies and Member Muller seconded it. The motion passed unanimously.

Strategic Planning

Jim Kerins of CMS led the Board and TRS staff in a review of the previous strategic plan developed in 2009. Due to time constraints, it was decided to complete the strategic planning at a future board meeting.

Legal Counsel's Report

Summary of Legal Issues

Ms. Pizzini gave the Board an update on the pending GABA lawsuit. She said the plaintiffs have filed a motion for summary judgment and she did not know when the response from the Attorney General's office was due. She stated that she anticipates the lawsuit will be resolved on summary judgment motions as the facts are not in dispute.

Ms. Pizzini announced that, following mandatory mediation held on May 29, 2014, Lynn Mavencamp has withdrawn his appeal to the Montana Supreme Court.

Ms. Pizzini gave a procedural update on the Adam Priquette contested matter. The hearings examiner has entered a proposal for decision that grants summary judgment to TRS. Mr. Priquette's attorney has until August 25, 2014 to file exceptions to the ruling and TRS has until September 15, 2014 to respond, and that the Board may hear oral arguments on the exceptions at the September 26th Board meeting, and/or take action in consideration of the Hearing Examiner's proposed decision. Ms. Pizzini requested the Board's direction regarding legal representation for the Board in the Board's consideration of the proposed decision. The Board instructed Ms. Pizzini to prepare a contract for continued services of the Drake Law Firm.

Ms. Pizzini indicated that Edward Zabrocki, following the Board's order remanding the contested case to the Hearing Examiner for an evidentiary hearing, has filed a petition for judicial review in District Court. A scheduling order has been issued by the District Court. She indicated this contested case will continue to be treated as a pending administrative matter as the petition for judicial review may be dismissed and sent back for a contested case hearing and final decision by the Board.

Adjournment

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

Motion/Vote: Member Cordingley moved to adjourn. Member Muller seconded the motion. The motion passed unanimously.

Teachers' Retirement System Board Meeting
August 8, 2014

The meeting adjourned at 3:00 p.m.

Chairperson _____

Executive Director _____