

**Teachers' Retirement Board Meeting
BOI Conference Room
Third Floor
2401 Colonial Drive
Helena, MT
May 16, 2014**

BOARD MEMBERS PRESENT

Robert Pancich, Chair
Janice Muller
Kari Peiffer
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
Nolan Brilz, Accounting/Fiscal Manager
Emma MacKenzie, Public Information Officer

OTHERS PRESENT

Todd Green, Cavanaugh Macdonald Consulting LLC
Ed Macdonald, Cavanaugh Macdonald Consulting LLC
Ryan Evans, Governor's Office
David Ewer, Board of Investments
Michael Kauffman, Drake Law Firm
Nathan Sax, Board of Investments
John Semmens, Jackson Murdo & Grant
Cliff Sheets, Board of Investments
J.C. Weingartner, MEA-MFT

Call to order

Chairperson Robert Pancich called the meeting to order at 8:30 a.m., in the Board of Investments Conference Room 2401 Colonial Drive Helena MT.

Chairperson Pancich announced that he is stepping down from the Teachers' Retirement Board of Directors effective June 30, 2014. Executive Director Shawn Graham gave Mr. Pancich a plaque and thanked him for his work on the board on behalf of the Teachers' Retirement System.

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 Vice Chairperson Kari Peiffer seconded it. The motion passed unanimously.

Adoption of Minutes

Chairperson Pancich asked for any changes or corrections to the minutes of February 21, 2014. Finding none, the chair requested a motion to adopt the minutes as presented.

Motion/Vote: Vice Chairperson Peiffer made a motion to adopt the minutes and Member Ryan 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.

Actuarial Experience Study

Executive Director Shawn Graham introduced Todd Green and Ed Macdonald of Cavanaugh Macdonald Consulting LLC. Mr. Green and Mr. Macdonald presented the July 1, 2013 actuarial experience study to the Board. They made the following recommendations to the Board:

1. Update the mortality tables used for healthy and disabled retirees;
2. Change the economic assumption for wage inflation from 4.50% to 4.00%;
3. Leave the economic assumption for investment return at 7.75%;
4. Change how the economic assumption for investment return is calculated to meet the new GASB standards.

Chairperson Pancich asked for comments from the Board. Finding none, the chair asked for comments from the public. Cliff Sheets asked about the smoothing period used for an actuarial value of assets versus the market value and what sort of tailwind there might be in the funded status of the plan. Mr. Green responded that the actuarial smoothing period is four years and that the market value of assets was \$117 million higher than the actuarial value of assets which would be phased into future valuations. Mr. Sheets asked if it was Cavanaugh Macdonald's interpretation that the capital market assumptions were conservative or did R.V. Kuhns communicate to them that the capital market assumptions were conservative. Mr. Green responded that during their conference call with R.V. Kuhns they acknowledged that the capital market assumptions were more conservative due to the run up in the market over the past nine months and that the timeframe for market assumptions for a pension plan is significantly longer than the timeline for capital market assumptions used for investment purposes. Vice Chairperson Peiffer asked if Cavanaugh Macdonald analyzed the effect of a lower rate of return assumption on the amortization period of the plan during the experience study. Mr. Green said that they regularly conduct "sensitivity analysis" with each TRS valuation to indicate what impact other return assumptions would have on the plan; however, during an experience study they do not let the impact on the system drive their recommendations so they did not conduct that analysis.

Chairperson Pancich asked for other comments. Mr. Sheets asked the actuaries if they were recommending the level dollar method as described on page 6 of their presentation, and if the level dollar method was more conservative. Mr. Green said their recommendation is to continue using the level percentage of pay.

Chairperson Pancich asked for additional comments. Finding none, the chair asked for a motion to accept the actuarial experience study and its recommendations.

Motion/Vote: Member Janice Muller made a motion to accept the experience study and to adopt the actuaries' recommended assumptions and Member Lisa Cordingley seconded it. The motion passed unanimously.

Executive Director's Report

2015 Legislative Concepts

Mr. Graham presented the legislative concepts for the 2015 legislative session. Mr. Graham and Legal Counsel Denise Pizzini explained the housekeeping bill and statute of limitations section of the bill. Ms. Pizzini said the statute of limitations section would likely be added to the housekeeping bill but was drafted separately due to its length. There was a discussion of the housekeeping bill and its various provisions. Ms. Pizzini announced the Cycle C filing was approved by the IRS. Mr. Graham presented the bill related to the Montana University System Retirement Program and the need to change the employer rate to amortize the university system's past service liability; however the exact percentage of TIAA-CREF payroll necessary to amortize the unfunded liability related to the MUS-RP will not be known until after the 7/1/2014 valuation has been completed.

Chairperson Pancich asked for comments from the Board. Finding none, he asked for a motion to approve the 2015 legislative concepts.

Motion/Vote: Member Ryan made a motion to approve the concepts and Member Scott Dubbs seconded it. The motion passed unanimously.

Modifications to the 2014 Actuarial Valuation

Mr. Graham advised the Board that it may be helpful to TRS and to interested parties and the legislature to have some idea of when the triggers for reducing or increasing the supplemental employer and employee contributions might be met in the future and when the GABA rate will be adjusted upward, related to the plan funding changes made by the legislature in 2013. Mr. Graham asked the Board if he should inquire with the actuaries to find out if can reasonable make those determinations in their 2014 valuation. Member Ryan said it would be worthwhile for the actuaries to do so; the other Board members concurred.

Member Handbooks

Mr. Graham presented to the Board the cost and count of mailing the new member handbooks to members nearing retirement rather than to all active members. The Board agreed to initially mail the new handbooks only to members that are age 45 and older with 5 or more years of service. The Board further instructed that the handbook would be posted on TRS's website, and that a notice of the availability of the handbook online or on request would be placed in the next TRS newsletter.

TRS Alternative Work Schedule

Mr. Graham presented the alternative works schedule for TRS staff for June 1, 2014 through August 31, 2014.

Estate of Marjorie Ross overpayment

Mr. Graham presented a letter to the Board from the estate of Marjorie Ross requesting that the Board consider waiving the interest owed on the overpayment since the estate apparently is willing to pay the principal owed immediately. The Board members indicated they would agree to waive the interest if the amount owed were paid immediately and authorized Mr. Graham respond to Ms. Ross's estate accordingly.

SAVA Committee Update

Mr. Graham presented a formal request to TRS received from State Senator Dee Brown, chair of the SAVA committee, asking that TRS hold its board meeting where the meetings can be televised or streamed live via the internet. Mr. Graham said he is currently investigating the available options and would have more information at the August Board retreat. Chairperson Pancich asked Mr. Graham to continue investigating the available options. Vice Chairperson Peiffer asked who would pay for the televising or live streaming of the board meetings and Mr. Graham said the state would.

Applications and Benefits Adjustments Service Retirements and Survivor Benefits

Mr. Graham presented the report on service retirements and survivor benefits.

Legal Counsel's Report Summary of Legal Issues

Ms. Pizzini gave an update on the Adam Priquette contested case matter. She said oral arguments for summary judgment were scheduled for May 22, 2014.

Ms. Pizzini stated the Lynn Mavencamp contested case had been appealed to the Montana State Supreme Court. Ms. Pizzini explained the Supreme Court required mediation and the mediation was scheduled for May 29, 2014 with mediator Stu Kellner. Member Ryan asked what would happen next if the case was not resolved through mediation. Ms. Pizzini responded that the appeal in the Supreme Court would proceed and would likely be decided on briefs; she does not think this is an issue the Supreme Court would hear oral arguments on. Ms. Pizzini indicated a closed session would be held later in the afternoon for the Board to discuss its position and provide instructions to Mr. Graham and Ms. Pizzini for mediation.

Ms. Pizzini indicated the only other pending contested matter is the Edward Zabrocki case, in which case the Board will issue its final determination on motions for summary judgment later this meeting.

Administrative Business Renewal of Contracted Service Agreements Ice Miller

Mr. Graham presented the Ice Miller contract for renewal by the Board. Chairperson Pancich asked for comments from the Board. Member Dubbs asked for the contract to be updated to reflect the change in Executive Directors. Chairperson Pancich asked for a motion to approve the contract with Ice Miller.

Motion/Vote: Vice Chairperson Peiffer made a motion to approve the Ice Miller contract and Member Muller seconded it. The motion passed unanimously.

Cavanaugh Macdonald Consulting, LLC

Mr. Graham presented the Cavanaugh Macdonald Consulting, LLC contract for renewal by the Board. Mr. Graham explained the additional actuarial services required to comply with the GASB statements 67 and 68 changes are included in the contract and that Cavanaugh Macdonald would pass on cost savings to TRS. Member Ryan asked if the board has a choice regarding GASB, and Mr. Graham said no. Chairperson Pancich asked for comments from the Board. Finding none, the chair asked for a motion to approve the Cavanaugh Macdonald contract. *Motion/Vote*: Member Dubbs made a motion to approve the Cavanaugh Macdonald contract, and Member Cordingley seconded it. The motion passed unanimously.

Interest Rate Credited to Member Accounts

Mr. Graham presented the staff recommendation to lower the interest rate credited to member accounts from 0.25% to 0.20%. There was a discussion about the interest rate and whether or not to go to 0.15%. Finding no further discussion, Chairperson Pancich asked for a motion to accept the staff recommendation of 0.20%.

Motion/Vote: Member Ryan made a motion to accept the staff recommendation of 0.20% interest credited to member accounts, and Vice Chairperson Peiffer seconded it. The motion passed unanimously.

Out-of-State Travel Requests

NCTR Annual Conference/NCTR Summer Trustee Workshop

Mr. Graham presented out-of-state travel requests for Mr. Graham and trustees to attend the NCTR Annual Conference in Indianapolis, IN in October 11-15, 2014 and for trustees to attend the NCTR Summer Trustee Workshop in Berkley, CA in July 27-30, 2014. There was a discussion about which board members could attend which conference and how many members of the board to send to each. Finding no further discussion, Chairperson Pancich asked for a motion regarding the conferences.

Motion/Vote: Member Dubbs made a motion to send up to 4 board members to each the NCTR Annual Conference and the NCTR Summer Trustee Workshop. Vice Chairperson Peiffer seconded the motion. The motion passed unanimously.

Mr. Graham asked the board to clarify whether they wanted him to attend the NCTR Annual Conference in October, as well.

Motion/Vote: Member Dubbs made a motion to send Mr. Graham to the NCTR conference, and Member Cordingley seconded it. The motion passed unanimously.

Public Pension Finance Forum (P2F2) Conference

Mr. Graham presented the out-of-state travel request to send Accounting/Fiscal Manager Nolan Brilz to the conference. Chairperson Pancich asked for comments from the Board. Finding none, the chair asked for a motion to approve sending Mr. Brilz to the P2F2 conference.

Motion/Vote: Member Ryan made a motion to approve sending Mr. Brilz to the P2F2 conference, and Vice Chairperson Peiffer seconded it. The motion passed unanimously.

Investment Report

Member Ryan gave her presentation on the Board of Investments. She said the average investment return for the year to date was 13%.

Next Meeting Date

Mr. Graham confirmed with the board that August 7th still works for the next meeting date. Mr. Graham stated this is not one of the board's regular quarterly meetings, but the meeting held by the Board most years to discuss strategic planning. Mr. Graham indicated that TRS staff would be making proposals for strategic planning issues, and asked the Board members to send their suggestions as well. He indicated that a number of policy reviews are also on the tentative agenda for the meeting.

Chairperson Pancich asked for any comments from the public before the meeting broke. JC Weingartner of the MEA-MFT thanked Chairperson Pancich for his work on the Board.

The meeting broke for lunch at 11:25 a.m. The meeting reconvened at the Teachers' Retirement System Board Room 1500 East 6th Avenue Helena MT.

Chairperson Pancich called the meeting to order 1:30 p.m.

Administrative Business

Personnel Committee Recommended Pay Adjustment

Deputy Director Tammy Rau presented the Personnel Committee report on pay adjustments and the committee's recommendation to adopt the 2012 State Human Resources Division market survey. The Personnel Committee also recommended pay increases for six TRS employees to bring their pay in line with the target market ratios established in TRS's pay plan. Chairperson Pancich asked for comments from the Board. Finding none, the chair asked for a motion.

Motion/Vote: Member Cordingley made a motion to adopt the Personnel Committee's recommendations and Member Muller seconded it. The motion passed unanimously.

TRS 2014-2015 Budget

Accounting/Fiscal Manager Nolan Brilz presented the Fiscal Year 2015 budget. There was a discussion about various line items in the budget. Mr. Graham said TRS would present a Request for Proposal for the scheduled peer review audit of the contracted actuaries.

Chairperson Pancich asked for additional comments from the Board. Finding none, the chair asked for a motion.

Motion/Vote: Member Dubbs made a motion to approve the 2014-2015 budget and Vice Chairperson Peiffer seconded it. The motion passed unanimously.

M-Trust Budget

Mr. Brilz presented the budget for the M-Trust project. Mr. Graham said the costs are being capitalized. Chairperson Pancich asked for additional comments from the Board. Finding none, the chair asked for a motion.

Motion/Vote: Member Ryan made a motion to approve the M-Trust budget and Vice Chairperson Peiffer seconded it. The motion passed unanimously.

Financial Statements and Budget Reports

Mr. Brilz presented the financial statements and budget reports. Mr. Brilz said Lamotte Elementary, Whitehall Public Schools, and Malta Public Schools are caught up on their delinquent reports. He said he is working with Cleveland Elementary to get them caught up on their reports.

It was announced that Fromberg Public Schools had paid their delinquent reserve sweep. Mr. Graham said they had protested the concept of the reserve sweep. Mr. Graham explained that TRS is working with OPI and Lodge Grass Public Schools in regards to the calculation of their reserve sweep. Member Muller asked if North Harlem had paid their reserve sweep. Mr. Brilz said they had paid half of it and he was in contact with them regarding the other half.

TRS IT Plan – FY 2014 – 2019

Information Technology Manager Rick Bush presented the IT plan. Mr. Bush said the main focus for the next two years is the M-Trust project, and gave an update on the project. Ms. Rau gave an update on the testing of some of the M-Trust modules. Mr. Bush said the next IT project would be the imaging system and the upgrade of the FileNet imaging software. He said the state IT department is looking into possible imaging upgrades for the state. Mr. Bush said TRS has submitted its disaster recovery plan to the state IT department.

Closed Meeting

Executive Session to Discuss Litigation Strategy in the Mavencamp contested case

Chairperson Pancich directed the meeting to be closed at 2:19 p.m. so the Board could discuss litigation strategy with legal counsel regarding Lynn Mavencamp's appeal to the state Supreme Court and required mediation of the case on appeal.

Executive Session to Discuss Disability Applications

The meeting remained closed to the public so the Board could 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 3:10 p.m.

Open Meeting

Applications for Disability Retirement Benefits

Chairperson Pancich requested motions on the disability applications.

Motion/Vote: Vice Chairperson Peiffer made a motion to discontinue the board review of Cheryl Storey's disability file. Member Ryan seconded the motion. The motion passed unanimously.

Motion/Vote: Member Cordingley made a motion to discontinue the board review of Bruce Barta's disability file. Member Ryan seconded the motion. The motion passed unanimously.

Motion/Vote: Vice Chairperson Peiffer made a motion to approve the disability application of Lisa Michael. Member Muller seconded the motion. The motion passed unanimously.

Motion/Vote: Member Dubbs made a motion to approve the disability application of Chris Windchief. Member Ryan seconded the motion. The motion passed unanimously.

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

Contested Case

Zabrocki – Board Determination re Hearing Examiner's Proposed Orders on Motion for Summary Judgment

Michael Kauffman of the Drake Law Firm attended as legal representative for the Board in this contested case matter. Mr. Kauffman stated that, at its prior meeting, the Board heard oral arguments on exceptions filed by Mr. Zabrocki to Hearing Examiner, John Melcher's, proposed order on competing motions for summary judgment and instructed Mr. Kauffman and Curt Drake to advise the Board on the legal arguments raised. At the Board's direction, Mr. Kauffman had drafted the Board's proposed final order on the motions for summary judgment, which proposed order had been distributed to the Parties. The proposed order remands the matter back to the Hearing Examiner for a full evidentiary hearing with instructions to the Hearing Examiner to work with the parties to narrow and clarify the issues to be decided, and to resolve all pending matters prior to submission of a proposed order to the Board.

Chairperson Pancich asked for a motion regarding the Board's proposed order.

Motion/Vote: Member Ryan made a motion to adopt the proposed order as the Board's final determination on the motions for summary judgment, and Vice Chairperson Peiffer seconded the motion. The motion passed unanimously.

Adjournment

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

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

The meeting adjourned at 3:18 p.m.

Chairperson _____

Executive Director _____