

**Teachers' Retirement Board Meeting
Teachers' Retirement Board Room
1500 East 6th Avenue
Helena, MT
May 13, 2016**

BOARD MEMBERS PRESENT

Kari Peiffer, Chairperson
Scott Dubbs, Vice Chair
Janice Muller, Member
Marilyn Ryan, Member
Daniel Trost, Member
Daniel Chamberlin, Member

STAFF PRESENT

Shawn Graham, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
John Noble, Information Technology Manager
Karin Janssen, Communications Officer
Karla Scharf, Retired Benefit Supervisor
Johnelle Sedlock, Benefits Officer

OTHERS PRESENT

Diane Fladmo, MEA-MFT
Charlene Suckow, Montana Retired Educators
Marilyn Hamer, Montana Retired Educators
Sheri Scurr, Legislative Services
Paul Justice, Retired Teacher
Amy Berry, MUS
Candace Payne, Attorney with Luxan & Murfitt, PLLP
Sandra Watts, Big Horn County Superintendent of Schools

Call to Order

Chairperson Kari Peiffer 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 Peiffer asked for any additions or changes to the agenda. Since there were no changes, the chair requested a motion to adopt the agenda as written.

Motion/Vote: Member Janice Muller moved to adopt the agenda and Member Daniel Trost seconded it. The motion passed unanimously.

Adoption of Minutes

Chairperson Peiffer asked for any changes or corrections to the meeting minutes of February 26, 2016.

Motion/Vote: Member Marilyn Ryan moved to adopt the minutes as written and Member Daniel Trost seconded it. The motion passed unanimously.

Public Comment on Board Related Items

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

Administrative Business

Investment Report

Member Marilyn Ryan gave a brief overview of BOI activity through March 31, 2016. She stated that the April 5 meeting with the BOI, consultants, RVK suggested that the 7.75% return will be a challenge. There also has been a reorganization of staff at the BOI due to a retirement and the new CIO has compiled the various but very similar investment policies for each retirement system into only one policy for all retirement systems.

YTD Financial Statements and Budget Reports

Mr. Brilz, TRS Accounting Manager, presented the year-to-date financial statements and budget reports to the Board. He highlighted that invested assets are valued at \$3.7 billion – an increase over last year. Mr. Brilz also noted that investment revenue increased dramatically year-over-year. Mr. Brilz presented the budget reports for TRS, including the separate budget report for the current phase of the M-Trust project, which is expected to be complete by November 15, 2016.

Personnel Committee Report and Adoption of Progression Criteria

Vice Chair Dubbs presented an overview of the Personnel Committee meeting which met May 13. Most of the committee discussion was centered around the need for a new Retirement Benefits Specialist. We will be adding a position similar to Natalie Chamberlain's under Karla Scharf, TRS Retired Benefit Supervisor, and the position is included in the 2017 budget.

Mr. Graham presented to the Board the proposed progression criteria under the pay plan previously adopted. The recommended target pay zone for an entry level employee being 80-95% of market; market was listed for each position. TRS adopted the 2012 State Human Resource Division market analysis in 2014, and will continue to use the 2012 market until 2018 when we will adopt the 2016 market.

Tentative 2016 Meeting Dates

After discussion, it was decided that the following are the tentative 2016 meeting dates:

- August 3
- October 7
- December 2

Public Comment on Administrative Business

Chairperson Peiffer asked for public comment on any Administrative Business. There was no public comment.

Interest Rate Credited to Member Accounts

Each year, the Board is required to set the rate of interest that is credited to active member accounts. Historically, the interest rate has been set close to the short-term investment rate earned by the Board of Investments. The Board reviewed charts that were compiled by the accounting staff showing the year-to-date short-term returns. The Board of Investment's short-term interest year-to-date rate as of March 31, 2016 was 0.55%

Motion/Vote: Vice Chair Dubbs made a motion to set the interest rate credited to member accounts to 0.55%. Member Trost seconded the motion. The motion passed unanimously.

Renew Ice Miller Contract (Tax Counsel)

Ice Miller has been our tax counsel for IRS compliance and other federal issues since 1997. They are one of a few firms in the country with attorneys who specialize in the area of public pension plan compliance with IRS regulations. Ice Miller keeps the retirement system apprised of impending and actual modifications to tax law/regulation and modifications to regulatory processes that have an impact on the retirement system, and ensures competent, ready representation of the retirement system with the IRS.

Motion/Vote: Member Daniel Trost made a motion to renew the contract with Ice Miller. Member Marilyn Ryan seconded the motion, and the motion passed unanimously.

Renew Cavanaugh Macdonald Contract (Actuary)

Cavanaugh Macdonald has been our contract actuary since 2009. They have conducted annual valuations of the system as well as several experience studies on behalf of TRS. In addition, Cavanaugh Macdonald has been instrumental in our efforts to implement the GASB 67 and GASB 68 standards the last couple of years. The contract addendum would be for the two-year period beginning July 1, 2016 through June 30, 2018. In addition to the annual valuations, we are scheduled to have an experience study for the five-year period ending July 1, 2017.

Motion/Vote: Member Janice Muller made a motion to renew the Cavanaugh Macdonald contract. Member Daniel Chamberlin seconded the motion, and the motion passed unanimously.

Out of State Travel Request

In past years, either in lieu of, or in addition to the NCTR Annual Conference, board members have attended the NCTR Summer Trustee Workshop. The Board discussed which members would be available to attend the annual conference and/or the trustee workshop and authorized out-of-state travel.

NCTR Summer Trustee Workshop

The summer workshop will be held at UC Berkeley July 24-27, 2016. Board members who have attended the summer workshop in the past have indicated that it is most beneficial when two or more Board members attend the conference. Estimated cost: \$4,000/person including a registration fee of \$2,060 for each participant. Member Chamberlin indicated that he would like to attend and will confirm with TRS.

NCTR Annual Conference

The 2016 NCTR Annual Conference will be held in Providence, Rhode Island on October 8-12, 2016. The Executive Director and one or more Board members typically attend the annual conference. Estimated cost: \$4,000/person including a registration fee of \$1,080 for each participant. Chairperson Peiffer and Member Trost indicated they were interested in attending along with Mr. Graham.

Motion/Vote: Member Ryan made a motion to approve travel to the conferences for up to 4 people. Vice Chair Dubbs seconded the motion. The motion passed unanimously.

NCTR System Director's Meeting

The Board reviewed the preliminary agenda for the upcoming directors' only meeting hosted by NCTR June 8-10. As a member of Education Subcommittee, Mr. Graham has been asked to present our Funding and Benefits Policy to the group. Many of Mr. Graham's peers expressed that the directors' only meeting is a great opportunity to strengthen working relationships with system directors from other states. Estimated cost: \$1,800 which includes a registration fee of \$975.

Motion/Vote: Member Ryan made a motion to have Mr. Graham attend the NCTR System Director's Meeting. Member Muller seconded the motion, and it passed unanimously.

FY 2017 TRS Budget Justification/Request

The Board reviewed the proposed budget and justification for the fiscal year beginning July 1, 2016 through June 30, 2017. Mr. Brilz, TRS Accounting Manager, led the Board through the budget justification discussion and provided additional detail and explanation for any listed item at the Board's request. After a line-by-line review, Mr. Graham suggested reductions for the line items for actuarial fees for GASB 67 from \$20,000 to \$16,000; reduce actuarial fees for GASB 68 from \$160,000 to \$80,000 and reduce actuarial fees for MUS Valuation from \$5,000 to \$4,000.

Motion/Vote: Member Janice Muller made a motion to approve the budget as amended. Member Chamberlin seconded the motion. The motion passed unanimously.

Policy Approval – Funding and Benefits Policy

Updates to the Funding and Benefits Policy were noted and discussed at the February 26, 2016 board meeting. Staff recommended approval of the Board Funding and Benefits Policy.

Motion/Vote: Vice Chair Scott Dubbs made a motion to approve the updated Funding and Benefits Policy. Member Trost seconded the motion, and the motion passed unanimously.

Next Meeting – TRS Board Room

After discussion, it was decided to move the next Board meeting date from August 19, 2016 to Wednesday, August 3, 2016.

Executive Director's Report

Staff Update

Mr. Graham updated the Board that TRS hired Shelby Connole as our Administrative Assistant/Quality Control Technician. The position of Administrative Assistant/Quality Control Technician was vacant due to Erin Montgomery moving to Dillon to be closer to her family.

Legislative Interim Committee Update

The State Administration and Veteran Affairs (SAVA) interim committee met on April 19, 2016. TRS, MPERA and BOI participated in a panel-type discussion of the 0% return analysis requested by the committee chair. Little was made of the projections themselves; the discussion mainly centered on the rate of return assumption as well as the actuarial checks and balances that we have in place such as actuarial experience studies and actuarial audits. The chair of the committee continues to be concerned about the difference between contributions coming into the systems and the benefits that are being paid by the systems, even though this phenomenon is expected and is typical of a mature defined benefit plan. There were no follow-up requests from the committee.

TRS Board Legislative Concepts

Two legislative concepts – housekeeping and the MUSRP supplemental contribution rate increase – were submitted to the Office of Budget and Program Planning on April 15, 2016.

Housekeeping Bill

Each Session, legislation is necessary to correct and/or clarify different provisions of the TRS act, and/or make changes required to comply with IRS qualification requirements. Staff identified eight items for consideration as housekeeping proposals.

Sheri Scurr, Legislative Services, noted that the next SAVA meeting is June 8th and then August 23rd. She stated that the Housekeeping bill will need to be ready by August for SAVA review.

University Supplemental Contribution Rate Increase

When the Optional Retirement Plan was created in 1987 for university system TRS-eligible members, section 19-20-621, MCA, required each employer within the university system with employees participating in the optional retirement program to contribute to TRS a supplemental employer contribution sufficient to amortize by July 1, 2033, the past service liability of the teachers' retirement system for the university system members who do not participate in TRS. The law also requires that the supplemental rate be periodically reviewed and updated. Based on the 2014 valuation of the university supplemental rate, the current rate needs to be increased from 4.72% to 9.75%. However, the actual rate required will not be known until after the July 1, 2016 valuation has been completed.

Alternative Work Schedule

Mr. Graham presented the alternative summer work schedule to the Board. Pursuant to our policy on Alternative Work Schedules, some employees will be working an altered schedule this summer, June 6th – September 2nd.

Public Comment

Chairperson Peiffer asked for public comment on any matter from the Executive Director's Report. There was no public comment.

Information Request for Retiree Benefit Amounts

On March 18, 2016, TRS received a request for information from James DeHaven, a reporter with Lee Newspapers, in which he requested the name and benefit amounts for TRS retired members as well as retired members from each of the defined benefit plans administered by MPERA for the last four years.

A notice to retirees regarding the information request was mailed, and we received 331 total responses. Of those responses, 58% of retirees strongly opposed providing any information and felt their personal contributions are not public information. Of the total respondents to the notice, 26% were in favor of providing the information anonymously, and 11% were in favor of providing all the information that was requested.

Retired member, Paul Justice, addressed the Board and expressed his concerns with releasing the retiree information to Lee Newspapers.

The Board weighed the public's right to know the names and benefit amounts of retired members against the privacy interest of TRS retirees and concluded that retirees are no longer public employees and that their benefits are calculated based on personal decisions, therefore, their benefit amounts are subject to a greater privacy interest than their public salaries. Also, the Board expressed concern over the release of names and benefit amounts as this could subject our retirees to unwanted solicitation, criminal fraud or censure. The Board also considered that retirement benefits are partially funded by member contributions making them more like private assets that are not subject to the public's right to know.

Motion/Vote: Vice Chair Dubbs made a motion to deny the request for information made by Lee Newspapers which included retirees' names, last employer, retirement date, years of service at retirement and monthly benefit amounts for the month of January in 2013, 2014, 2015, and 2016. Member Trost seconded the motion, and the motion passed with a vote of 4-2.

Motion/Vote: Member Ryan made a motion, that in an effort to remain transparent without violating the privacy rights of retired TRS members, to release to Lee Newspapers the last employer, retirement date, years of service at retirement, a unique identifier to replace the first and last names of the retirees where retiree names can be later attached if required by court order, and benefit amounts for the month of January in the years 2013, 2014, 2015, and 2016. Member Chamberlin seconded the motion, and with a vote of 5-1, the motion passed.

The meeting adjourned at 12:45 p.m. for lunch. The meeting reconvened at the Teachers' Retirement System Board Room 1500 East 6th Avenue Helena MT.

Chairperson Peiffer called the meeting to order 1:20 p.m.

Informal Board Review

TRS learned that Sandra Watts had been the elected County Superintendent of Big Horn County since January of 2007 but had not been reported to TRS as an active member. Staff found Ms. Watts was not a retired member of TRS, so she did not have the option to elect not to participate in TRS as an active member while serving as County Superintendent of Schools for Big Horn County. Ms. Watts withdrew her accumulated contributions from TRS on 10/25/2007 and forfeited 1.77 years of service credit – the withdrawn contributions were from teaching service with a school district, and not employment with Big Horn County.

TRS law requires participation of elected or appointed County Superintendents of Schools in TRS with the only exception applying to retired members of TRS who are elected or appointed to serve as County Superintendent after they retire from TRS. Regarding Ms. Watts, it seems that the HR staff of the County may have inappropriately applied the PERS exception for part time elected officials which requires the filing of an irrevocable election within 90 days of taking office. PERS has no record of Ms. Watts filing the irrevocable election opting out of participation in PERS under the part time elected official exception nor was Ms. Watts reported to PERS for any time worked as County Superintendent. Had an irrevocable election form been filed, Ms. Watts would have been informed that the exception does not apply to County Superintendent of Schools and this service not reported to TRS would have been caught and corrected within 90 days of Ms. Watts taking office.

Lance Pedersen, legal counsel for the Big Horn County Commissioners, joined the meeting via telephone and stated that Big Horn County does not disagree with who pays what. As a compromise, Big Horn County would ask that interest be forgiven if they would make an immediate payment of \$19,684.80, which consists of employer contributions due from July 1, 2007 through July 1, 2015.

Candace Payne, attorney for Sandra Watts, addressed the Board, stating that Big Horn County gave Ms. Watts incorrect information as to whether her position as County Superintendent of Schools was reportable to either TRS or PERS. Ms. Watts has no intention in paying into a system where she already withdrew, and that she will quit her employment if TRS forces her to pay contributions owed.

Board discussion ensued. Statute says we must collect overdue contributions to make the system whole. Big Horn County is responsible for contributions for the employer contributions and employee contributions from July 1, 2015 to the present. Ms. Watts represented to the Board that she will not apply for a retirement benefit from TRS in the future, and the Board agreed to require but not actively pursue the payment by Ms. Watts of the unpaid employee contributions from January 1, 2007 through June 20, 2015 with the understanding that upon termination, Ms. Watt's would withdraw her employee contributions. If Ms. Watts' employment and retirement plans change and she, at any time in the future, applies for retirement benefits from TRS based on her employment with Big Horn County, the full amount of employee contributions and accrued interest owed for creditable service to be credited to Ms. Watts will be required to be paid to TRS.

Motion/Vote: Member Ryan made a motion that TRS require the employer and employee to pay their respective contributions and TRS will waive the interest in both cases. The motion passed 5-1.

Applications and Benefit Adjustments

Deputy Director, Ms. Rau, presented the information on retirement applications and benefit adjustments, stating that 42 total applications were processed since the last board meeting with an average service of 16.84 years and an average age of 60.62 years. She also noted that this is a slow time for processing retirement applications but that is due to change shortly.

Legal Counsel's Report

Regarding the Zabrocki matter, Ms. Pizzini reported that the appeal has been referred on briefs to a 5-judge panel of the Supreme Court. Ms. Pizzini stated that there should not be oral arguments, and she fully expects it to be remanded back to TRS again and back to the hearings examiner for a hearing.

We have one other case pending in District Court in which a declaratory judgment action has been filed on who the appropriate beneficiary is for a deceased member. TRS will be filing a motion for summary judgment in this case. TRS will not pay benefits while the beneficiary is in dispute, but will pay retroactively once the correct beneficiary is determined.

Public Comment

Chairperson Peiffer asked for any public comments on the Legal Counsel's Report. There was none.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The meeting closed to the public at 2:50 p.m. 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 2:55 p.m.

Open Meeting

Applications for Disability Retirement Benefits

Chairperson Peiffer requested a motion on the disability applications.

Motion/Vote: Member Ryan made a motion to approve the disability application of Brad King. Member Trost seconded the motion. The motion passed unanimously.

Public Comment

Chairperson Peiffer asked for public comment on the Disability Applications. There was none.

Long Range Planning

Due to time constraints, the Strategic Planning Worksheet Updates was tabled until the next Board meeting on August 3, 2016.

Adjournment

Having no more business before them, Chairperson Peiffer asked for a motion to adjourn the meeting.

Motion/Vote: Member Daniel Trost moved adjourn the meeting and Member Muller seconded it. The motion passed unanimously, and the meeting was adjourned at 2:56 p.m.

Chairperson  _____

Executive Director  _____

