

Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room
1500 East 6th Avenue
Helena, MT
August 4, 2017

BOARD MEMBERS PRESENT

Kari Peiffer, Chairperson
Scott Dubbs, Vice Chair
Janice Muller, Member
Daniel Trost, Member
Daniel Chamberlin, Member
Jeff Greenfield, Member

STAFF PRESENT

Shawn Graham, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communications Officer
John Noble, IT Manager

OTHERS PRESENT

Diane Fladmo, MEA-MFT

Call to Order

Chairperson Kari Peiffer called the meeting to order at 8:34 a.m. in the Teachers' Retirement Board Room, 1500 E 6th Avenue, Helena, Montana. It was agreed that Chairperson Peiffer could facilitate the meeting but would not vote, pending her official reappointment. A quorum of voting members was present.

Adoption of the Agenda

Chairperson Peiffer requested a motion to adopt the agenda as written.

Motion/Vote: Member Daniel Trost moved to adopt the agenda. Member Janice Muller seconded it. The motion passed 5-0, with Chairperson Peiffer abstaining.

Adoption of Minutes

Chairperson Peiffer asked for a motion to approve the meeting minutes from May 19, 2017.

Motion/Vote: Vice Chair Scott Dubbs moved to adopt the minutes with one correction. Member Jeff Greenfield seconded the motion. The motion passed 5-0, with Chairperson Peiffer abstaining.

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. Diane Fladmo had no comment other than to thank the Board and staff for their work.

Board Training

Records Management Primer

The order of agenda items was adjusted to address the Records Management topic first.

Chief Legal Counsel Denise Pizzini reviewed the various sections of Montana law that govern management of public records, protection and storage of essential records, and agency records management duties. Ms. Pizzini described the steps that must be taken for a State agency to declare digital records – including imaged (scanned) versions of paper documents and forms – the official record. An agency also must define a policy for the destruction of paper records once they have been imaged. Ms. Pizzini pointed out the significant overlap between digital records management requirements and modern cybersecurity requirements.

IT Manager John Noble described an approach being considered by the Montana Secretary of State's office for storage and retention of email records. The Capstone model protects important emails from deletion and simplifies technical administration by establishing a classification hierarchy for staff and board members. For example, an Executive Director's emails would be kept indefinitely, while emails for staff at lower levels could be retained for shorter periods of time per the policy.

TRS has established an internal Records Management committee (Ms. Pizzini, Mr. Noble, and Communications Officer Darla Fitzpatrick) to work toward implementation of the latest guidelines. Ms. Pizzini and Executive Director Shawn Graham described TRS's current process for imaging paper records and for storing the digital and paper copies. Mr. Graham also clarified that TRS's records management initiative does not imply a deficiency in this area; it is meant to ensure ongoing compliance through full adoption of best practices.

Fiduciary Training

Ms. Pizzini provided the annual review of fiduciary duties as they pertain to members of public boards and the legal sources from which these duties are derived.

A fiduciary, simply stated, exercises discretion in overseeing someone else's money. Montana Teachers' Retirement System assets are held in a trust, and per the Montana Constitution, TRS Board members are fiduciaries of the trust. A fiduciary is obligated to ensure all decisions and actions are in the best interest of the trust's participants and beneficiaries. Fiduciary duties are applied and enforced through compliance initiatives, such as board education; audits by state and federal regulatory agencies; and legal actions.

Ms. Pizzini outlined the four primary fiduciary duties in common law: (1) duty of loyalty, (2) duty of impartiality, (3) duty of delegation, and (4) duty of prudence (investment). If a violation of fiduciary duties were to occur, a trustee could be found personally liable for damages caused to the retirement system. By reporting any potential conflicts of interest, obtaining expert advice

when appropriate, and being aware of how TRS manages its operations, including cybersecurity and records management, trustees can help ensure no violations occur.

Member Daniel Chamberlin questioned whether members of the Board must be experts in data systems security. They are not expected to be subject matter experts, but must always act as a prudent person would when overseeing TRS operations and delegating responsibility to the TRS Executive Director and staff. Chairperson Peiffer raised a question about the State of Montana's liability coverage for public board members. Ms. Pizzini noted that trustees are considered employees of the State of Montana and are adequately covered for personal liability, so long as they have not engaged in prohibited practices such as self-dealing.

M-Trust New Features

TRS Deputy Director Tammy Rau led attendees through a demonstration of new features recently implemented as part of Phase 3 of M-Trust, TRS's pension administration system.

This change involved consolidation of multiple "person" records for any individual with multiple roles, such as a person who is a TRS member and is also a beneficiary of another member. Each person record was given a seven-digit Person ID number. TRS must store members' Social Security numbers for tax purposes, but in the future may use the Person ID for all other transactions. M-Trust Phase 3 work is scheduled to continue through the fall of 2018.

Strategic Planning

Long-range Planning

Jim Kerins, managing consultant for Communication and Management Services, LLC, led attendees through a review of the responsibilities of a public board, followed by a review of TRS's existing mission and vision statements, guiding principles, and purpose. Member Chamberlin questioned the mission statement, specifically the phrase "maintaining the stability of the fund," given that TRS does not manage the fund's investments directly. Vice Chair Dubbs and Mr. Graham clarified that investments are only one factor; others include interest rates, contribution rates and retirement eligibility decisions, all of which require Board input and approval. Upon discussion, no changes to the statements were proposed.

Mr. Kerins then highlighted several positive changes that have occurred since 2009, when the long-term plan was initially developed. Mr. Graham reviewed the objectives from the 2016-2017 Commitment Worksheet and provided a status on each. Attendees discussed TRS's successful implementation of Governmental Accounting Standards Board (GASB) standards and the possible need to add an auditor to TRS staff to help ensure employers are reporting positions and earnings timely and correctly.

TRS's 2014 SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) then was handed out and reviewed, and several updates were discussed. It was noted that the retirement system has grown but TRS currently does not have the physical space to add more staff. Discussion of opportunities centered around communicating the value of defined benefit plans and better educating school board members and others who make decisions that could affect the retirement system. Legislative and economic unknowns will continue to be a threat, but some concerns such as disaster recovery readiness have diminished.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The meeting was closed to the public at 12:01 p.m. so the Board could discuss and review disability retirement applications, since the individual's right to privacy pertaining to an application for disability benefits clearly exceeds the merits of public disclosure. Ms. Rau presented the two submissions and the meeting was reopened at 12:13 p.m.

Open Meeting

Applications for Disability Retirement Benefits

Ms. Pizzini stated that Vice Chair Dubbs has a personal relationship with applicant M.S., so he did not participate in the discussion for that application and would not be voting on it.

Chairperson Peiffer requested a motion on the disability application for T.H.

Motion/Vote: Member Greenfield moved to approve the disability application. Vice Chair Dubbs seconded the motion. The motion passed 5-0, with Chairperson Peiffer abstaining.

Chairperson Peiffer requested a motion on the disability application for M.S.

Motion/Vote: Member Trost moved to approve the disability application. Member Muller seconded the motion. The motion passed 4-0, with Vice Chair Dubbs and Chairperson Peiffer abstaining.

Strategic Planning – Continued

Long-range Planning

Mr. Kerins led attendees through a draft 2017-2018 strategic planning commitment worksheet. Member Chamberlin asked about how priorities are assigned, and discussion followed.

New or remodeled workspace continues to be a high priority so that TRS can achieve other objectives involving workplace efficiency and staffing. Discussions are already under way with the Department of Administration to lease a different space and to lease the TRS building to another group within the department, with the goal of causing as little disruption to TRS members and staff as possible.

Some upcoming infrastructure changes will affect the target date of several objectives. For example, a new document management system called Perceptive is already scheduled for implementation, which in turn will enable efficiencies such as digital phone records, digital records management, and automated workflow management that integrates with M-Trust.

Several communication objectives from the 2016-2017 commitment worksheet had been carried over to the draft 2017-2018 worksheet. Many involved a specific product, such as a video or web page devoted to a specific topic or user group, but did not address possible deficiencies in

existing materials. After discussion, it was agreed it would be best to declare a broader objective to review existing information and explore ways to improve its presentation.

The final discussion topic involved staff training, retention, recognition and compensation. Ms. Rau suggested adding an objective to update desk reference manuals and ensure TRS has an effective training program for new employees. It was understood that workflow processing and other upcoming changes would affect these efforts, and Mr. Kerins suggested TRS consider a formal change management effort to help staff adapt to all changes being discussed.

Mr. Kerins stated he would forward the updated commitment worksheet to Mr. Graham for internal discussion and refinement prior to the next board meeting.

Public Comment

Ms. Fladmo suggested TRS consider notifying members when they become vested. Attendees discussed this idea and offered additional suggestions.

Adjournment

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

Motion/Vote: Member Muller moved to adjourn the meeting, and Member Greenfield seconded it. The motion passed and the meeting adjourned at 3:04 pm.

Chairperson /s/ Kari Peiffer

Executive Director /s/ Shawn Graham