

Montana Teachers' Retirement System Board Meeting

Teachers' Retirement Board Room – 1500 East 6th Avenue, Helena, MT

December 8, 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
Chris Bacon, State of Montana Department of Administration

Call to Order

Chairperson Kari Peiffer called the meeting to order at 8:30 a.m. in the Teachers' Retirement Board Room, 1500 E 6th Avenue, Helena, Montana.

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 and Member Daniel Chamberlin seconded the motion, which passed unanimously.

Adoption of Minutes

Chairperson Peiffer asked for a motion to approve the meeting minutes from October 6, 2017.

Motion/Vote: Member Jeff Greenfield made a motion to adopt the minutes as written and Member Janice Muller seconded it. The motion passed unanimously.

Public Comment on Board Related Items

Chairperson Peiffer provided an opportunity for members of the public to comment on any public matter not on the agenda and within the jurisdiction of the Board. TRS Executive Director Shawn Graham introduced Chris Bacon, TRS's Human Resources Business Partner from the Department of Administration, who was attending the meeting as an observer.

M-Trust Phase III Schedule Update

Mr. Graham stated the M-Trust Phase III project schedule has been extended by 2 ½ months, and will use up much of the contingency but currently is projected to come in just under budget. The first enhancement implemented in Phase III improved the way in which “person” records are created and maintained, especially with respect to members’ beneficiary information. TRS Deputy Director Tammy Rau explained this change was complex and required more testing time than originally planned, but the result is a better and more efficient system.

Ms. Rau and Mr. Graham summarized the status of other enhancements in this phase and explained that some planned enhancements, such as the ability for active members to designate beneficiaries online, involved more complex analysis of security and business requirements than anticipated. However, this effort will help lay the groundwork for other online processes.

While additional delays could require an increase in the overall budget request for Phase III, some costs such as software development are fixed. Chairperson Peiffer expressed appreciation for the work done so far and is pleased to have invested in something that helps TRS.

Public Comment

There was no comment from members of the public. TRS Accounting/Fiscal Manager Nolan Brilz thanked members of the Board for their support of the M-Trust project and stated the new system has improved efficiencies in his area (wage and contribution reporting).

TRS Building

NewFields Pre-Renovation Report

Mr. Graham previously had notified members of the Board that the Health Care and Benefits Division is no longer interested in trading physical locations with TRS. One reason is the cost of removing asbestos-containing materials from the TRS building, which is over 45 years old. Mr. Graham reviewed the NewFields Inspection Service pre-renovation report and results of asbestos testing performed in September. Certain materials that tested above allowable thresholds, such as ceiling tiles, vinyl tiles under carpeting, and drywall joint compound, are stable now but would need to be removed by asbestos abatement professionals if renovations would disturb those surfaces.

Board Discussion

Mr. Graham and members of the Board briefly reviewed the various remodeling options discussed in earlier meetings and agreed that asbestos remediation is a priority regardless of whether TRS decides to sell, lease, or occupy the building. It would cost approximately \$400,000 (including remediation) to reconfigure the building to suit TRS’s needs well into the future. TRS staff would need to relocate temporarily while that work is done, and Mr. Graham stated the Department of Administration does have space available in various buildings.

Legislative approval is required for renovations exceeding \$150,000, so a proposal would need to be submitted to the 2019 Legislature. While approval would not be required from the Land Board to sell the building, Mr. Graham indicated it is recommended.

Motion/Vote: Member Greenfield moved to authorize TRS to develop a proposal for the 2019 Legislature to seek approval for remodeling the building. Member Chamberlin seconded the motion. In further discussion on the matter, Vice Chair Dubbs stated that he prefers a remodeling plan that would not only work for TRS but that would appeal to other state agencies as potential tenants or buyers. Chairperson Peiffer agreed and indicated TRS needs a workspace that meets its needs, whether in this building or elsewhere. The motion passed unanimously.

Public Comment

Diane Fladmo of MEA-MFT supports the Board's efforts to provide a productive, safe workspace for employees.

Executive Director's Report

Staff Update

Mr. Graham announced TRS is now fully staffed. Jessica Stevens was hired in the open Retired Payroll position and brings extensive experience in banking and credit unions to TRS.

2017 Special Session Update

Mr. Graham stated that no legislation was passed during the special session that affects TRS directly. Senate Bill 4 directed the Board of Investments to charge a 3% management fee on funds with assets over \$1 billion to fill state budget gaps, and newspaper articles may have suggested funds could be taken from the retirement systems. Mr. Graham was asked to provide analysis on the bill. Because it specifically applies to funds with no unfunded liability and is scheduled to sunset July 1, 2019, he determined the bill has no effect on TRS.

SAVA Update

The SAVA committee meeting scheduled for November 2017 was postponed due to the special session. As required by state law, Mr. Graham will present the results of TRS's actuarial valuation to SAVA at their rescheduled meeting in January and to the Legislative Finance Committee next week.

BOI Update

Mr. Graham presented the TRS actuarial valuation to the Board of Investments on November 15. The BOI seemed pleased with the results and no concerns were raised. This was the meeting at which the BOI was to discuss asset allocation for each of the retirement systems. The investment staff offered three options; Member Greenfield will discuss those in the next agenda item.

Public Comment

There was no comment.

Administrative Business

Investment Report

Member Greenfield provided a document obtained at the November BOI meeting that shows a monthly snapshot of all funds managed by BOI. He explained that the BOI sets a range for the percentage of assets to be invested in different investment types, and while the BOI voted to revise some of these ranges, they did not change the asset allocations themselves. Mr. Greenfield noted there was some discussion of reducing risk for the Judges' retirement fund, which is 157%

funded, and thus potentially reducing investment income. However, it was determined to keep the Judges' asset allocation similar to the other retirement plans.

Mr. Graham pointed out the TRS board sets the actuarial assumption while BOI is responsible for asset allocation. Because TRS has an unfunded liability, the current level of risk is appropriate to achieve the expected rate of return. Cavanaugh Macdonald Consulting will start work on TRS's experience study this month, which will project future liabilities and help the Board determine whether to change the actuarial assumption.

Members of the board thanked Member Greenfield for providing the BOI snapshot document. As discussed in the October TRS board meeting, Mr. Graham has requested the BOI provide more information about the value of TRS assets in its quarterly reports. The Board agreed it would prefer to see the up-to-date investment numbers more frequently than once per year.

Financial Statements and Budget Reports

Mr. Brilz reminded the board that the balance sheet reflects the BOI's shift to CAPP. TRS still books expenses (payments to members) each month, even though BOI no longer books revenue monthly, so these amounts will continue to appear out of balance until the end of the year. Member Trost suggested Mr. Brilz could add a "memo" line showing the estimated asset amount discussed earlier. Mr. Graham stated he agreed with this suggestion as long as the board understands no revenue actually will have been booked in SABHRS. Mr. Brilz will confer with BOI to ensure the estimated amounts are meaningful for the TRS board.

He reported TRS's Consolidated Annual Financial Report (CAFR) is complete and he should receive the audit opinion very soon. He reminded board members they can review public information about investments on the BOI website if they have questions. Finally, he reviewed the M-Trust budget and regular TRS operating budget; no concerns were raised.

P2F2 Annual Conference Report

Mr. Brilz reported there have been no major changes to GASB that affect TRS. He attended a panel discussion about how other states have managed electronic signatures and online processes; their experiences might be helpful to us during M-Trust Phase III.

NCTR Annual Conference Report

Mr. Graham and Member Greenfield attended the conference in October. Cybersecurity continues to be a focus. Experts report a 250% increase in ransomware, by which hackers obtain or block access to an organization's data and demand payment to restore access. The average amount is low, around \$1,100, but the best defense is to keep good backups and avoid paying it. Such a breach would require notification to all members. Ms. Pizzini stated TRS executes Third Party Agent agreements with indemnification clauses for outside entities who access any TRS data.

Out of State Travel Request

Ms. Rau did not attend the Government Finance Officers' Association (GFOA) conference in 2017 due to M-Trust project timelines but she would like to attend in 2018. She presented the estimated travel and conference costs.

Motion/Vote: Member Muller moved to approve Ms. Rau's request to attend the GFOA conference. Vice Chair Dubbs seconded the motion, and it was approved unanimously.

Next Meeting Date

The next meeting date is February 16, 2018. One change was made to the 2018 schedule, moving the September 28 meeting to October 5, 2018.

Public comment

There was no comment.

Applications and Benefit Adjustments

Ms. Rau reported that TRS staff closed out 54 retirement applications since the October board meeting. This included an application for a longtime teacher in Anaconda who had 65.68 years of service credit, by far the most in the history of TRS.

Legal Counsel's Report

Chief Legal Counsel Denise Pizzini reported that the Zabrocki matter is still the only contested case. Mr. Zabrocki had been fully briefed by the end of October and Ms. Pizzini expects the hearings examiner to make a determination very soon. Mr. Zabrocki then would have the right to submit exceptions to the findings and to request oral arguments in front of the board, possibly at the February 2018 board meeting.

Ms. Pizzini stated TRS is beginning to review its statutes, administrative rules and policies in preparation for the 2019 legislative session. She mentioned the federal tax overhaul working its way through Congress could affect public pension plans. For example, state governments historically have not been subject to taxes on unrelated business income, but this could change. Mr. Graham stated the BOI also is aware of this and will watch for changes that affect us.

Board and Staff Training

Ms. Pizzini provided each board member a copy Board Member Per Diem Election Form and explained that TRS board members dually employed by a public entity may not receive both a per diem payment from TRS and salary from their employer for their time working on behalf of TRS. Each board member completed and turned in the annual election form.

Ms. Pizzini then reviewed the TRS Ethical Conduct and Conflict of Interest policy with board members. While TRS ensures its policy mirrors the State of Montana's policy for employees, TRS maintains its own policy because board members have additional responsibilities as fiduciaries of TRS. Ms. Pizzini reviewed the policy in detail with the Board. Ms. Pizzini reminded board members they always must act in the best interest of TRS members. Any potential conflict must be reported to TRS legal counsel. In some cases, a potential conflict can be avoided by, for example, abstaining from certain votes but in other cases the appropriate action may be for the member to resign from the board.

Each board member was asked to complete, sign and return the annual conflict-of-interest questionnaire no later than the February 16, 2018 meeting.

