

**Teachers' Retirement Board Meeting
Teachers' Retirement Board Room
1500 East 6th Avenue
Helena, MT
May 19, 2017**

BOARD MEMBERS PRESENT

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

STAFF PRESENT

Shawn Graham, Executive Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Tammy Rau, Deputy Executive Director
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 Montana Teachers' Retirement Board Room, 1500 E 6th Ave., Helena, MT.

Adoption of the Agenda

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

Motion/Vote: Member Jeff Greenfield moved to adopt the agenda. Member Janice Muller seconded it. The motion passed unanimously.

Adoption of Minutes

Chairperson Peiffer asked for a motion to approve the meeting minutes from February 17, 2017.

Motion/Vote: Member Dubbs moved to adopt the minutes as written and Member 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

Mr. Graham reported on the recent activities of the BOI. BOI has changed their monthly investment report format. Instead of reporting on each major asset class, the latest monthly report from BOI is rolled up to one Consolidated Asset Pension Pool (CAPP) number. At the time of the Board meeting, the Governor's Office has not named a new TRS Board member to serve on the Board of Investments; Mr. Graham will continue to communicate with BOI pending a member appointment.

YTD Financial Statements and Budget Reports

Mr. Brilz presented and provided information regarding the budget reports through April 30, 2017. Mr. Brilz explained that the balance sheets will look different going forward because of the change in investment reporting and that TRS will continue to work with BOI regarding this. Going forward, reports will show only STIP and CAPP amounts, which might affect how often appreciation/depreciation entries are made.

There was discussion regarding the M-Trust project budget and the shift of some personal services costs from the regular TRS budget to the Phase III M-Trust Project budget. Mr. Brilz fielded inquiries from board members on various line items of the budget including contracts and delinquent agencies and discussion followed.

Personnel Committee Report

Chairperson Peiffer and Member Muller provided a verbal report on the Personnel Committee meeting held on May 19th. Chairperson Peiffer addressed trying to get current salaries closer to market progressions. The committee members reviewed analysis from CMS which compared TRS salaries to MPERA salaries and several years' markets, and expressed that the current methodology inherently causes large lags and jumps in salaries. Member Muller discussed how going from a four-year policy to a two-year system could help avoid these lags and jumps. Chairperson Peiffer and Member Muller both recommended approval for this policy change.

Member Daniel Chamberlin raised the question of the difference in percentage increases in employees' salaries. Mr. Graham explained that it is not a cost of living increase, but is based on progression criteria and the market for each position.

The Board discussed how these policies and changes work with the upcoming fiscal year budget, as well as the legislatively adopted 1% increase for all TRS employees.

Budget Committee Report

Members Daniel Trost and Daniel Chamberlin presented items of discussion from the recent Budget Committee meeting, including M-Trust information, IT spending, and percentage of total benefit payments.

There was discussion regarding the format of the Budget Committee meeting and the merits of having the committee hold an in-depth discussion with Mr. Graham and Mr. Brilz to go over the budget prior to the board meeting, rather than discuss it in full during the board meeting.

PRISM Annual Conference Report

TRS IT Manager Mr. John Noble provided a verbal report of the recent PRISM conference he attended, held in Nashville, TN, April 9-12th. Mr. Noble mentioned that there are many pension systems undergoing improvements similar to Montana's M-Trust system, and reviewed the importance of security and protecting assets.

NAPPA Winter Conference Report

Ms. Pizzini provided a verbal report of the recent NAPPA winter conference she attended in Tempe, AZ, February 21-24th. Ms. Pizzini discussed the merits of the winter and summer conferences and expressed that the summer conference would be the priority in the future. Ms. Pizzini also provided discussion related to federal tax law, system data security, and the elimination of the Cycle C qualification process.

Tentative 2017 Meeting Dates

The next meeting date of the TRS Board is scheduled for August 4, 2017.

Public Comment

Ms. Fladmo expressed her appreciation for TRS's prudence with the budget and staff, as well as the importance of retaining a skilled staff. Ms. Fladmo also presented the request that a percentage of budget go toward a strategic plan that includes more training, an internal audit, more webinars, coordination with PERS, etc.

Discussion followed on the benefits of training opportunities for clerks and members at schools, and this can be addressed at the August meeting as well.

Interest Rate Credited to Member Accounts

Mr. Graham discussed the STIP return and his recommendation to set the interest rate credited to member accounts be increased to 0.75% for the period of July 1, 2017 to June 30, 2018.

Member Daniel Chamberlin asked if it is possible to make mid-year changes. Mr. Graham responded no, that the statute states that it is annual.

Member Jeff Greenfield asked for clarification of the rates historically, in comparison to the recommended rate, and discussion followed.

Motion/Vote: Member Jeff Greenfield moved to set the rate at 0.75%. Member Daniel Trost seconded the motion. The motion passed unanimously.

Renewal of Ice Miller Contracted Services Agreement

Mr. Graham provided background information regarding Ice Miller, TRS's tax counsel since 1997, including that we utilize their services more frequently prior to or during legislative sessions.

Motion/Vote: Member Janice Muller moved to renew the Ice Miller contract. Member Scott Dubbs seconded the motion. The motion passed unanimously.

Out-of-State Travel

There was discussion among members of the board and staff related to several travel requests for various upcoming conferences and workshops.

NCTR Summer Trustee Workshop

Motion/Vote: Member Jeff Greenfield moved to allow up to four trustees to attend the trustee workshop in July. Member Daniel Trost seconded, and the motion passed unanimously.

NCTR Annual Conference

Motion/Vote: Member Jeff Greenfield moved to allow up to four board members to go to the annual conference. Member Janice Muller seconded the motion. The motion passed unanimously.

NCTR Annual Conference and NCTR System Director's Meeting

Motion/Vote: Member Jeff Greenfield moved for Mr. Graham to attend both conferences. Member Daniel Trost seconded the motion. The motion passed unanimously.

P2F2 Annual Conference

Motion/Vote: Member Jeff Greenfield moved to approve the travel. Member Daniel Trost seconded the motion, and the motion passed unanimously.

FY 2018 TRS Budget Justification/Request

It was noted that it is not necessary to go through the budget line-by-line unless requested, as the Budget Committee has already done so. There was discussion on general information and the documents within the budget.

Mr. Brilz pointed out the nearly 3% budget increase from FY 2017 to FY 2018 and discussed the major increases and decreases within the budget:

Personal services decreased by 5.68%, which is due to how TRS is required to track personal service costs related to the M-Trust Project. Approximately \$155,000 of the personal services budget has been moved to the M-Trust Project for FY 2018. Mr. Graham called attention to this, as it should be noted that around $\frac{3}{4}$ of these personal services costs will return in the FY 2019 budget, and 100% in the FY 2020 budget. The FY 2017 personal services budget also includes a legislatively adopted 1% per hour increase for all TRS employees beginning February 15, 2018.

Contracted services increased by 15.94%, from \$525,267 to \$608,980, largely due to IT convergence from TRS-owned hardware to fully hosted SITSD hardware.

Total operating costs increased by \$166,024 (from \$923,659 FY 17 to \$1,089,683 FY 18), \$90,000 of which is attributable to front-loaded audit costs. Most other increases to the

operating budget are due to fixed cost increases and projected SITSD costs related to IT convergence.

Motion/Vote: Member Daniel Trost moved to approve the FY 2018 budget. Members Jeff Greenfield and Daniel Chamberlin seconded the motion. The motion passed unanimously.

Information Item

The next board meeting will be held August 4, 2017 in the TRS board room.

Board Training

Privacy and Security of Personal Information

Ms. Pizzini led the board through a review and discussion of the Privacy and Security of Personal Information and Notification of Breach of the Security of Data System policy. Ms. Pizzini mentioned this policy will become part of a larger body of policies related to records and information management, which will include enhanced periodic staff training. Ms. Pizzini discussed specifically the breach notification process and incident response plan, as well as insurance policy requirements. Member Muller raised the question of ransomware and Ms. Pizzini noted that ransomware is covered by the insurance policy.

Executive Director's Report

Electronic Records

Mr. Graham discussed the need for TRS to update its record retention schedule. There was discussion among the Board regarding a possible transition to TRS using electronic records as the official business record of the agency. This topic brought discussion of how much is currently being physically stored, as well as the merits of keeping or changing TRS's records plan and for how long, in what instances, and what type of records should be kept.

Staff Update

Mr. Graham introduced TRS's newest staff members.

Karla Scharf has announced her plans to retire from TRS effective June 30, 2017. Karla has been a valued member of the TRS staff for over 36 years, most recently serving as the Retired Payroll Supervisor. TRS and the Board thank Karla for her years of dedicated service to TRS.

2017 Legislative Session Summary

Mr. Graham gave updates on various legislative proposals from the 2017 legislative session, including HB 67, HB 68, SB 115, SB 121, and SB 143. Mr. Graham stated that although there were not many changes this session, there are several updates that now need to be made, especially to TRS forms and correspondence documents.

Communications

Mr. Graham noted that every two years, following adjournment of the Legislature, TRS must communicate statutory revision to its various stakeholders. Legislative changes from the 2017 legislative session will result in targeted communications to its active members, retirees, and employers. TRS is in the process of updating the active Member Handbook, the Benefit Recipient Handbook, and the Employer Manual. There was general discussion on the merits of

distributing this information to applicable subsets of members, which are outlined in the board packet. Member Chamberlin asked for Ms. Fladmo's opinion on this matter, and both Ms. Fladmo and Chairperson Peiffer agreed that it is beneficial for new hires to receive a physical copy of the TRS handbook.

Executive Summary

Alternative Work Schedule

Having already completed the Staff Update portion of the meeting, Mr. Graham moved to the second Executive Summary agenda item and introduced the planned Summer Work Schedule, to begin 6/5/17 and end 9/1/17.

Public Comment

Chairperson Peiffer asked if there was any public comment, and there was none.

Legal Counsel's Report

Summary of Legal Issues

Ms. Pizzini provided a verbal procedural update of one pending contested case (Zabrocki matter) and stated there are no other contested cases at this time.

IT Manager Report

Incident Response Plan

Mr. Noble detailed the Incident Response Plan included in the board packet. This plan describes the steps TRS will take and by whom in the event it ever has an incident where its information assets are compromised. The State of Montana Risk Management and Tort Defense Division's procedure for reporting a cyber/data information security incident is incorporated within TRS' Incident Response Plan. This plan will likely be incorporated by reference into TRS's overarching records management policy.

The importance of having such a plan in place prior to an incident was noted, as well as Mr. Noble's desire to perform more monitoring so that ideally, TRS is the first to know when something out of the ordinary occurs.

Applications and Benefit Adjustments

Regular, Survivorship, Adjustment & Corrections

Ms. Rau shared that TRS has retired fifty-four members during the past three months and noted that the next three months are our busiest time of the year for processing retirement applications.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The meeting was closed to the public at 11:47 a.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. Ms. Rau presented the two submissions. The meeting was reopened at 12:02 p.m.

Open Meeting

Applications for Disability Retirement Benefits

Chairperson Peiffer requested a motion on the disability application for J.Y.

Motion/Vote: Member Muller made a motion to approve the disability application. Member Dubbs seconded the motion. The motion passed unanimously.

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

Motion/Vote: Member Trost moved to approve the disability application. Member Greenfield seconded the motion. The motion passed unanimously.

Chairperson Peiffer requested a motion to discontinue disability review on M.Z.

Motion/Vote: Member Dubbs made a motion to discontinue disability review. Member Trost seconded the motion, and the motion passed unanimously.

Long Range Planning

Strategic Planning Worksheet Updates

Mr. Graham expressed that conversations regarding building plans and a possible location swap stalled slightly due to a change in leadership at DoA and the legislative session. These conversations have recently been reinvigorated, but at this time, there isn't anything of substance to report for this meeting.

Public Comment

At this time in the meeting, there were no longer any members of the public present at the meeting to comment.

Adjournment

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

Motion/Vote: Member Muller moved to adjourn the meeting, and Member Trost seconded it. The motion passed unanimously.

Chairperson /s/ Scott Dubbs (acting chair) _____

Executive Director /s/ Shawn Graham _____