

**Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room
1500 East 6th Avenue
Helena, MT
October 6, 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
Todd Green, Cavanaugh Macdonald
Edward Macdonald, Cavanaugh Macdonald
Joe Cullen, Montana Board of Investments
Julie Feldman, Montana Board of Investments
Sheri Scurr, Montana Legislative Services Division

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 Janice Muller moved to adopt the agenda. Vice Chair Scott Dubbs seconded it, and the motion passed unanimously.

Adoption of Minutes

Chairperson Peiffer asked for a motion to approve the meeting minutes from August 4, 2017.

Motion/Vote: Executive Director Shawn Graham noted that one correction had already been made to the spelling of a name. Member Jeff Greenfield moved to adopt the minutes as written. Member Dan Trost seconded the motion. 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. There was no comment.

Actuarial Valuation

Todd Green of Cavanaugh Macdonald Consulting provided an overview of the basic retirement funding equation used to produce the valuation each year. They look at current actuarial assumptions and past experience to anticipate future benefit payments and, from that, estimate whether contributions are sufficient to cover those future payments. If they were insufficient, the plan would need to consider increasing contributions or decreasing benefits. However, the 2017 actuarial valuation shows that TRS's asset returns were greater than expected, and the funded ratio has increased from 69.28% to 70.49%. With the anticipated increase in the employer supplemental contribution rate, the amortization period has decreased from 24 to 22 years.

Mr. Green fielded questions from board members regarding the health of TRS. The recession that began in 2008 reduced the funded status of many plans, but TRS has recovered well; in fact, TRS has beat its assumed rate of return in five of the last eight years. Cavanaugh Macdonald sees payroll growth as the only real risk over the next two years. Several members of the board as well as Sheri Scurr of the Montana Legislative Services Division requested clarification on the "level percentage of pay" method used to determine the amortization period. Mr. Green and Edward Macdonald explained this approach is more conservative than a "level dollar" approach. The latter would provide more flexibility to increase employer contribution rates, but Montana is one of only a few states that sets employer contribution rates in statute. A small annual increase is built in through 2024. If TRS were to switch to a level-dollar method in the future and if the actuaries recommended a larger contribution increase, a legislative change would be required.

Motion/Vote: Member Greenfield moved to accept the 2017 actuarial valuation, and Member Muller seconded it. The motion passed unanimously.

Consolidated Asset Pension Pool (CAPP) Summary

Joe Cullen of the Montana Board of Investments (BOI) provided a synopsis of BOI's recent changes in investment policies. In the past, funds were invested in six pools, one of which was the short-term investment pool (STIP). STIP currently holds about 2% of assets in cash to pay benefits over the next 12 months. The other five pools can be thought of as asset allocation. Historically, TRS invested in all six pools and BOI paid out investment income and interest each month. Under the new structure, STIP still exists, but the other five pools are consolidated (CAPP). TRS invests in STIP and CAPP, and CAPP invests in the underlying pools. Investment income and interest are distributed at the end of the fiscal year rather than monthly.

Mr. Cullen explained that BOI is required by state law to achieve returns in a prudent way to ensure there is enough cash to pay benefits. Thirty-three percent of total funds invested in CAPP belong to TRS, with the remainder belonging to the Public Employees' Retirement System (PERS). Mr. Cullen fielded questions from board members about the nature of investment types, benchmarks within each asset class and TRS's expected rate of return of 7.75%, which relies on

investing in equities. The rate of return is determined by actuaries looking ahead 40-50 years, and he encouraged the board to focus on long-term growth rather than short-term fluctuations.

Julie Feldman of BOI reviewed the internal controls they used to ensure the transition from six pools to two was done carefully and with no loss of market value. They believe the transition was planned and implemented well, and they obtained an independent review to confirm this. Ms. Feldman also stated BOI will continue to track TRS's assets distinctly and separately, as required under state law.

Mr. Cullen indicated that the past policy of distributing income each month was inefficient and increased the expenses involved with paying benefits. However, he realizes the TRS board relies on monthly income reports to monitor investment returns. He stated the BOI will work with TRS to develop reports that better illustrate TRS's share of CAPP.

Public Comment

Ms. Fladmo wished to thank TRS for the time and dedication of staff in participating in the annual MEA-MFT Educator's Conference and preretirement workshops across the state.

Administrative Business

Investment Report

To follow up on the report from BOI, Member Greenfield stated he believes the expected annual rate of return of 7.75% is attainable. He also said that since he joined the BOI board he has gained a better understanding of the short-term investment pool (STIP).

Financial Statements and Budget Reports

Nolan Brilz presented year-to-date budget reports and financial statements and reiterated that, because of BOI's shift to CAPP, the financial statements look significantly different than they have in the past. Revenue (income) is reinvested rather than being booked in SABHRS, the state's accounting system. Mr. Brilz and Mr. Graham will pursue a different means to obtain relevant financial information so both TRS and the board can monitor revenue vs. expenses throughout the year. The operating budget was reviewed next with no outstanding questions or concerns.

NAPPA Conference report

Denise Pizzini, TRS legal counsel, provided a report from the NAPPA summer conference held in June. Of note, a private letter ruling issued to another public pension plan is consistent with TRS's treatment of termination pay and instruction to employers. Ms. Pizzini reminded those involved in collective bargaining agreements to contact TRS with any questions about termination pay.

Ms. Pizzini mentioned continued efforts to undermine defined benefit plans. NAPPA members in other states also report problems with employers seeking to avoid working retiree earning limitations by using third-party entities to place educators in schools. Montana statute is clear that these positions are still reportable to TRS regardless of who does the hiring.

NCTR Trustee Conference report

This item was removed from the agenda as it was covered in the August meeting.

Tentative 2017-2018 meeting dates

Board members confirmed upcoming meetings on December 8, 2017 and February 16, 2018.

Public comment

Ms. Fladmo commented that she appreciates TRS's continued diligence on the independent contractor issue regarding working retirees.

Executive Director's Report

Staff update

Mr. Graham announced two new employees. Sherry Smith was hired in August as a new Retired Payroll Specialist and has several years of payroll and benefits experience. JoLynn Genzlinger joined the I.T. staff in September in as an imaging technician and verifier. She has relevant experience from her previous position with the Montana State Library.

Upcoming meetings

Mr. Graham will report on the 2017 TRS actuarial valuation at the upcoming BOI meeting and the SAVA committee meeting, both of which are scheduled for November 14. He will present the valuation to the Legislative Finance Committee in December as well.

Public comment

There was no comment.

Strategic Planning

Mr. Graham briefly reviewed updates that TRS made to the strategic plan commitment worksheet following discussion at the August board meeting. He provided an opportunity for the board to provide feedback. Two minor spelling and punctuation changes were discussed but there were no concerns about objectives or timelines. Mr. Graham will continue to report progress to the board.

Public comment

There was no comment.

Applications and Benefit Adjustments

Deputy Director Tammy Rau reported that TRS staff processed over 500 applications between May and July, peak season for retirements. More than 600 members retired in fiscal year 2017. Member Daniel Trost asked about the typical time frame to process an application. Ms. Rau and Mr. Graham described the process and stated that nearly all applicants, even those who submit final required materials at the last minute, receive their first benefit payment on time. TRS has added two positions in recent years to assist with the workload.

Legal Counsel's Report

TRS will submit the post-hearing briefing on the Zabrocki case by October 11 and then will await a response from the hearings examiner. This is the only contested case at this time.

Election of officers

Mr. Graham reviewed the current officers and committee appointments.

Motion/vote: Member Daniel Chamberlin proposed a single motion to sustain the current officers as well as committee assignments. Member Greenfield seconded the motion, and it was approved unanimously.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The meeting was closed to the public at 11:40 a.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 11:46 a.m.

Open Meeting

Applications for Disability Retirement Benefits

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

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

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

Motion/Vote: Member Muller made a motion to approve the disability application. Member Trost seconded it, and the motion passed unanimously.

Adjournment

Members of the board and Ms. Fladmo were invited to tour TRS’s proposed work space at 100 N. Park Avenue after lunch.

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 Trost seconded it. The motion passed and the meeting adjourned at 11:49 a.m.

Chairperson /s/ Kari Peiffer

Executive Director /s/ Shawn Graham