

Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room – 1500 East 6th Avenue, Helena, MT
May 18, 2018

BOARD MEMBERS PRESENT

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

STAFF PRESENT

Shawn Graham, 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 Consultants, LLC
Joseph Walls, Cavanaugh Macdonald Consultants, LLC
Michael Kauffman, Drake Law Firm
Scott Svec, Jackson, Murdo & Grant, P.C.
Holly Fox, Lesofski Court Reporting

Call to Order

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

Adoption of the Agenda

Chairperson Peiffer requested a motion to adopt the agenda.

Motion/Vote: Member Daniel Trost moved to adopt the agenda as written and Vice Chair Scott Dubbs seconded the motion, which was approved by all members present.

Adoption of Minutes

Chairperson Peiffer asked for a motion to approve the meeting minutes from February 16, 2018.

Motion/Vote: Member Janice Muller made a motion to adopt the minutes as written and Member Trost seconded it. All members present approved the motion.

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 Experience Study

Todd Green and Joseph Walls presented the results of Cavanaugh Macdonald's recent experience study to members of the Board. Experience studies are conducted every four years using TRS data for the preceding five years. Demographic and economic assumptions are used to measure and budget the retirement system's future costs.

The experience study examined data for the five-year period ending July 1, 2017, comparing what actually occurred with what was expected to occur. Demographic factors include rates of retirement, mortality, and withdrawals among TRS members during the review period. For example, fewer full-time teachers withdrew from the system than anticipated, but more part-time teachers withdrew from the system than anticipated. There were more deaths than anticipated, and fewer members took the early retirement option than expected. Due to differences in eligibility, TRS Tier 2 members cannot retire as early as Tier 1 members. Because the eligible age for Social Security benefits also is increasing, TRS probably will continue to see members waiting longer to retire.

Mr. Green then reviewed some economic factors considered in an experience study. He reported that the assumed rates of return on investments continue to edge downward for retirement plans nationwide, partly due to low inflation since the 2008 recession. Low inflation also contributes to low wage growth. With Montana schools continuing to face budget cuts, many use health insurance and other benefits instead of salary increases to attract and retain teachers. Current economic forecasts and the bond market suggest inflation will remain low.

Cavanaugh Macdonald uses the amortization method to predict future costs. TRS is funded on a percentage of payroll, which means lower-than-expected wage growth increases the predicted amortization period. Under current assumptions, the system is 70.49% funded and will amortize in 22 years. Under the new assumptions, the funded status would be 68.39% with an amortization period of 29 years, which is still within the 30 years allowed in statute.

Mr. Green reviewed Cavanaugh Macdonald's recommended changes to actuarial assumptions and answered a number of questions from members of the Board.

Motion/Vote: Member Jeff Greenfield made a motion to:

- Accept all recommended changes to economic assumptions, including a reduction in the expected rate of return on investments from 7.75% to 7.50%;
- Accept all recommended changes to demographic assumptions; and
- Accept the recommendation to reduce the payroll growth assumption from 4.00% to 3.25%, but reject the recommendation to further reduce it by 0.10% each year for ten years until the payroll growth assumption is 2.25%.

Member Trost seconded the motion, and it was approved by all members present.

Public Comment

There was no comment.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

At 10:18 a.m. the meeting was closed to the public for review of applications for disability retirement benefits, since the applicants' right to privacy clearly exceeds the merits of public disclosure. Mr. Graham presented four submissions and the meeting was reopened at 10:35 a.m.

Open Meeting

Applications for Disability Retirement Benefits

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

Motion/Vote: Member Trost moved to approve the disability application, Member Muller seconded it and all members present voted in favor.

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

Motion/Vote: Member Dubbs moved to approve the disability application, Member Muller seconded it and all members present voted in favor.

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

Motion/Vote: Member Muller moved to approve the disability application. Member Trost seconded it and all members present voted in favor.

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

Motion/Vote: Member Greenfield moved to approve the disability application. Member Dubbs seconded it and all members present voted in favor.

Public Comment

There was no comment.

Administrative Business

Investment Report

Member Greenfield reported that Board of Investments (BOI) Executive Director David Ewer is retiring and interviews for a new director are being scheduled. He provided the latest BOI "snapshot" document of TRS performance and summarized other BOI business items, one of which is a proposal to transfer of some real property from the retirement systems' Consolidated Asset Pension Pool (CAPP) to another trust fund. This topic will be on the next BOI agenda.

YTD Financial Statements and Budget Reports

Accounting/Fiscal Manager Nolan Brilz reviewed the budget report with members of the Board. Strong recent returns resulted in total investment gains since the last report. The operating budget should show a surplus for FY2018 due to lower-than-anticipated costs in the Personal Services

category. Mr. Brilz and Mr. Graham briefly reviewed some factors affecting the M-Trust project schedule and budget, which will be discussed in more detail later in this meeting.

Personnel Committee Report

Chairperson Peiffer and Member Muller discussed the new TRS pay plan policy recently with Mr. Graham and Deputy Director Tammy Rau. The goal of the new plan is to bring TRS salaries closer to market to help attract and retain quality staff. Mr. Graham said each agency's pay plan must be approved by the State Human Resources Division, and that has been done. TRS's new pay plan replaces "step and ladder" career progression criteria with performance-based criteria. If approved by the Board, the pay plan will spread salary increases for eligible employees over the next two years, adopting the 2016 market for FY 2019 and the 2018 market for FY 2020.

Budget Committee Report

Members Daniel Chamberlin (absent) and Daniel Trost recently had reviewed the TRS budget with Mr. Brilz and had no concerns. Some of the largest budget increases are outside TRS's control, such as rates charged by the State Information Technology Services Division. Member Trost said they are pleased that TRS spends only about half the amount allowed by state law.

Mr. Graham directed members to the FY 2019 budget justification sheet, which includes certain increases such as for the new pay plan and the renegotiated maintenance contract for Alfred Munksgard & Associates. These budget items will be voted on later in the meeting.

Tentative Meeting Dates

Upcoming 2018 meeting dates are August 3, October 5, and December 7. There were no changes.

Public comment

There was no comment.

Interest Rate Credited to Member Accounts

The TRS board annually sets the interest rate paid on member accounts as required by statute. Mr. Graham explained that TRS historically has used the STIP (Short-term Investment Pool) rate and he provided justification for the recommendation to increase the rate to 1.40% effective July 1, 2018. Chief Legal Counsel Denise Pizzini clarified that TRS credits interest monthly.

Motion/Vote: Vice Chair Dubbs moved to increase the interest rate credited to member accounts from 0.75% to 1.40% as recommended. Member Trost seconded the motion and it was approved by all members present.

Renewal of Contracted Services Agreements

Mr. Graham and Ms. Pizzini discussed renewal rates for the annual contract with Ice Miller, TRS's tax counsel, and for the amended contract with Alfred Munksgard & Associates (AMA) for M-Trust maintenance services. The higher rate for the AMA contract would apply for 36 months effective July 1, 2018.

Motion/Vote:

- Member Greenfield made a motion to approve the Ice Miller contract, which was seconded by Member Muller and approved by all members present.
- Member Trost moved to approve the amended contract with Alfred Munksgard & Associates. Vice Chair Dubbs seconded it, and it was approved by all members present.

Out-of-State Travel Requests

Two upcoming events provide training opportunities for Board and staff members:

- NCTR Trustee Workshop in July for up to four Board members
- NCTR Annual Conference in October for up to four Board and staff members

Motion/Vote: Vice Chair Dubbs moved to approve both requests for out-of-state travel for the number of attendees listed. Member Greenfield seconded the motion and it was approved by all members present.

TRS Pay Plan Policy

Motion/Vote: Member Greenfield moved to approve the new TRS pay plan policy discussed earlier and Member Trost seconded it. The motion was approved by all members present.

FY 2019 TRS Budget Request/Justification

Motion/Vote: Vice Chair Dubbs moved to approve the FY 2019 TRS budget request. Member Muller seconded the motion and it was approved by all members present.

Next Meeting Date

The next meeting is scheduled for August 3, 2018.

Executive Director's Report

2019 Legislative Concepts

Mr. Graham and Ms. Pizzini provided an update on legislation they are drafting for the 2019 session. Beneficiary provisions currently appear in multiple places in statute and TRS will clarify and consolidate those in TRS law. In addition, TRS will amend statute to clarify its treatment of certain kinds of trusts. When benefits become payable to a Trust beneficiary, TRS policy currently allows only a lump-sum payment since a trust does not have a lifespan. However, a Special Needs Trust can be established to provide financial support for the lifetime of a specific person, and TRS will establish guidelines for making payment under those circumstances.

Members of the Board agreed that TRS should once again request an increase in supplemental contributions from the Montana University System, as their current supplemental rate of 4.72% is insufficient to amortize TRS's past service liability by July 1, 2033 as required in statute.

Staff Update

Mr. Graham reported that TRS is still fully staffed and there are no official pending retirements. He presented an alternative work schedule that allows flexibility for staff during the summer months while ensuring full coverage for TRS members who call or visit the office.

