

Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room – 1500 East 6th Avenue, Helena, MT
October 5, 2018

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 Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communications Officer

OTHERS PRESENT

Todd Green, Cavanaugh Macdonald
Matthew Yonz, Cavanaugh Macdonald
Sheri Scurr, Montana Legislative Services Division
Diane Fladmo, MFPE
Charlene Suckow, Montana Retired Educators
Marilyn Hamer, Montana Retired Educators

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: Vice Chair Scott Dubbs moved to adopt the agenda. Member Daniel Trost seconded the motion and it was approved by all members.

Adoption of Minutes

Chairperson Peiffer asked for a motion to approve the meeting minutes from August 3, 2018 and August 8, 2018.

Motion/Vote: Member Janice Muller made a motion to adopt the minutes as written. Member Daniel Chamberlin seconded the motion, which was approved 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 were no comments.

Actuarial Valuation

Todd Green and Matthew Yonz of Cavanaugh Macdonald Consulting presented the results of TRS's actuarial valuation as of July 1, 2018. Mr. Green began with a brief review of the firm's retirement funding equation and methodology. He explained that, thanks to the long time-horizon of retirement benefits, investment income covers 60-70% of the amount paid out in benefits.

Executive Director Shawn Graham asked Mr. Green to speak to the effect of changes to actuarial assumptions adopted by the TRS Board in May, including a reduction in the assumed rate of return from 7.75% to 7.50%. Mr. Green clarified those changes are forward-looking. Market gains for the past year were 8.82%, higher than the existing assumption of 7.75%; however, Cavanaugh Macdonald uses a four-year smoothing method for investment returns and the average rate of return for the period 2015-2018 was lower than that for the period 2014-2017. This loss combined with the lower actuarial assumptions produce a 2.3% decrease in the plan's funded status and a projected amortization period of 31 years. Because the amortization period is expected to decrease again next year, TRS will not ask the 2019 Legislature for funding changes.

Motion/Vote: Member Jeff Greenfield moved to adopt the July 1, 2018 actuarial valuation results. Vice Chair Dubbs seconded the motion, and it passed unanimously.

Public Comment

Sheri Scurr of the Montana Legislative Services Division requested and received clarification from Mr. Green on some terms and figures in the actuarial valuation.

Administrative Business

Investment Report

Member Greenfield reported that Dan Villa has started his new role as Executive Director of the Montana Board of Investments (BOI). The BOI deputy director, Geri Burton, has recently announced she will retire in December. Member Greenfield reported that the BOI will transfer some properties to the trust fund and their "as is" value, approximately \$19 million, into CAPP so the retirement systems will continue to see investment growth from their value. He also reviewed the latest BOI investments snapshot document and the BOI Summary of Positions and Returns for TRS.

YTD Financial Statements and Budget Reports

Accounting/Fiscal Manager Nolan Brilz explained for members of the Board that he has changed the way he was estimating TRS investment gains. Last year, the BOI had not recorded investment revenue monthly in SABHRS, but this year they are recording revenue estimates that allow Mr. Brilz to provide more accurate reports to the Board. The TRS operating budget shows

some savings in personnel costs due to open positions, but it is difficult to project expenses so early in the fiscal year. The M-Trust project budget reflects the amendment approved at the last meeting. Mr. Graham noted the project remains on track with the schedule.

NAPPA Report

Chief Legal Counsel Denise Pizzini provided a report from her attendance at the NAPPA conference. We may see continued negative press about defined benefit pension plans and, depending upon results of midterm elections in November, renewed efforts to attach Congressman Nunes' PEPTA bill to other legislation. If passed, the primary effect would be that member contributions and pension accruals would no longer be tax-deferred.

She summarized other topics discussed at the conference, such as payment to trust beneficiaries and best practices for managing dormant member accounts. Board members had several questions about the ways in which TRS communicates with terminated (inactive) members. Vice Chair Dubbs is concerned that younger members who leave the profession may fail to understand the consequences of withdrawing from the retirement system. Ms. Pizzini and Deputy Director Tammy Rau reported that TRS is revising communications that will be sent to terminated members in order to describe as plainly as possible all options available to the member and the consequences of withdrawal.

Ms. Pizzini explained the enhanced processes for communications regarding membership status in order to prevent members from going dormant. She explained that TRS members do not forfeit their right to their member accounts or vested benefits, even if they become dormant, and that their beneficiaries or next of kin may recover their member contributions up to five years after the member's death. Unclaimed member accounts are forfeited to the retirement system only if no claim is made in that timeframe.

Tentative 2019 Meeting Dates

Members of the Board reviewed their calendars and agreed to the February 15, 2019 meeting date. Dates for future meetings will be discussed later.

Public Comment

There was no comment.

Contract Renewal

The Board reviewed the contract renewal for Drake Law Firm, TRS's outside legal counsel. The contract would extend services through June 30, 2021 and increase the rate for Mike Kauffman and each associate attorney by \$10.00/hour. Their hourly rates would remain fixed for the contract period. Ms. Pizzini reminded the Board of existing language that allows the firm to work with TRS staff to review and suggest revisions for the contested case processes employed by the retirement system. Members of the Board confirmed their intent that Drake Law Firm would continue those efforts with TRS staff.

Motion/Vote: Member Greenfield moved to approve the contract renewal for Drake Law Firm. Member Trost seconded the motion, and it passed unanimously.

Executive Director's Report

2019 TRS Board Legislation

Mr. Graham reviewed some changes made to the draft TRS Housekeeping bill that was discussed at the last meeting. One change adds a requirement for TRS employers to submit a wage and contribution report each month even if no wages have been paid, such as for summer months. This requirement will allow TRS Accounting staff to readily identify whether any employers are delinquent in reporting. Another new section in the housekeeping bill clarifies that TRS may not make payment directly to a minor child beneficiary. The new section permits a designator to name a custodian to receive payment on the child's behalf. Ms. Pizzini clarified that pursuant to the Montana Uniform Transfers to Minors Act, a minor child is anyone under the age of 21.

Other changes are intended to clarify TRS requirements for designating a trust beneficiary. Member Trost mentioned that people with IRAs and 401(k)s often are advised to designate a trust. Ms. Pizzini agreed, stating that members and their attorneys must understand that in a defined-benefit plan, a trust beneficiary may receive payment only of the member's account balance as a lump sum. A trust may not receive a lifetime monthly benefit, as may be paid to an individual beneficiary.

Mr. Graham reviewed the bill requesting an increase in the Montana University System supplemental contribution rate to amortize the past service liability. Based on the July 1, 2018 MUS actuarial valuation, contributions need to increase from 4.72% to 11.89%. Mr. Graham also reported that Rep. Marilyn Ryan will carry the TRS housekeeping bill if she is reelected, and Rep. Ryan Lynch will sponsor the bill to increase the MUS supplemental contribution rate.

Request for Public Information

On September 14, 2018 TRS received a request via email from Rachel Vogel, who represents an organization called American Transparency or Openthebooks.com. Ms. Vogel requested the first name, middle initial, last name, reported pensionable wages, employer name, and employer Zip code for all members who were active in TRS in 2017.

Members of the Board are concerned about providing names of TRS members to a third party, and believe compensation information should be requested directly from the employers rather than through the retirement system.

Motion/Vote: Vice Chair Scott Dubbs made a motion to provide reported wages, employer name and Zip code and substitute TRS-generated ID numbers for members' names. Member Trost seconded the motion. Member Muller voted in favor, but with Member Greenfield, Member Chamberlin and Chairperson Peiffer opposing it, the motion failed.

The topic will be tabled until the December meeting.

Public Comment

There was no comment at this time. Members of the Board had requested comment earlier in the discussion, and Diane Fladmo of the Montana Federation of Public Employees had suggested TRS and the Board determine which specific costs could be passed on to the requestor.

2019 TRS Board Legislation – Motion/Vote: Member Muller made a motion to approve the proposed language changes in the two bills discussed earlier in the meeting. Vice Chair Dubbs seconded the motion, which passed unanimously.

Executive Summary

Staff Update: Mr. Graham announced that Sandy Donahue will retire from TRS on November 2nd and he encouraged members of the Board to thank her for service to TRS. Margaux Lilly was the successful candidate to fill the vacant Benefit Officer position. Margaux has relevant benefit experience from past positions with Costco Corporate and Montana State University.

Legislative Interim Committee Update: Mr. Graham presented TRS legislative concepts to the State Administration and Veteran Affairs (SAVA) committee on September 6, 2018; however, SAVA is not approving any agency bills for pre-drafting. As mentioned previously, the TRS bills will be introduced and carried by Reps. Ryan and Lynch.

Public Comment

Ms. Scurr thanked Mr. Graham and staff for providing input for the TRS legislative guide.

Strategic Planning

Executive Director Graham announced that Darla Fitzpatrick, TRS Communications Officer, has developed a presentation for early- and mid-career educators, which will be presented for the first time at the MFPE conference this month. Slides are available now on the TRS website and a video recording also is planned. The new web page for school board members, a draft of which was reviewed at the August meeting, also will go live very soon.

Public Comment

There was no comment.

Applications and Retirement Benefits

Regular, Survivorship, Adjustments, and Corrections

Deputy Director Tammy Rau announced that in the months of April, May, and June 2018, TRS staff processed 527 applications for benefits. These are the busiest months of the year, and most of those applications were received from retiring school district employees.

Legal Counsel's Report

Legal Issues

Chief Legal Counsel Denise Pizzini provided a procedural update on the only pending case, which is the contested case (Zabrocki) on which members of the Board made their final decision in August. Mr. Zabrocki has filed an appeal for judicial review in district court. The case was

originally assigned to Judge Reynolds, who reportedly has a substantial backlog, so TRS has filed a motion to substitute the district court judge. Ms. Pizzini expects judicial review of the case will take a significant amount of time.

Mr. Graham advised the Board that TRS will seek payment of unpaid employer contributions in the meantime, and will actuarially adjust Mr. Zabrocki's benefits to recover unpaid member contributions and overpaid benefits. Adjustment of Mr. Zabrocki's benefit will include additional service credit for the period of time he should have been reported to TRS.

Election of Officers

Election of Chair and Vice Chair and Committee Appointments

Motion/Vote: Member Chamberlin moved to retain the current board officers and committee appointments. Member Muller seconded the motion. Chairperson Peiffer requested confirmation that no members wished to change their roles or committee assignments. There was no further discussion and all members voted in favor.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications and Annual Reviews

At 11:58 a.m. the meeting was closed to the public, as matters of individual privacy clearly exceed the merits of public disclosure.

Ms. Rau presented two proposals to discontinue annual review of disability, and the meeting was reopened to the public at 12:04 p.m.

Open Meeting

Approval of Applications for Disability Retirement Benefits

Chairperson Peiffer requested a motion on the proposal to discontinue disability review on behalf of D.E.

Motion/Vote: Member Greenfield made a motion to discontinue disability review. Member Chamberlin seconded the motion, which passed unanimously.

Chairperson Peiffer requested a motion on the proposal to discontinue disability review on behalf of B.K.

Motion/Vote: Vice Chair Dubbs moved to discontinue disability review. Member Muller seconded it, and the motion passed unanimously.

Public Comment

There was no comment.

Adjournment

With no other business before the Board, Chairperson Peiffer requested a motion to adjourn.

Motion/Vote: Member Trost moved to adjourn and Member Muller seconded it. The motion passed and the meeting was adjourned at 12:05 p.m.

Chairperson /s/ Kari Peiffer

Executive Director /s/ Shawn Graham