

Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room, 100 North Park Avenue, Helena, MT
October 11, 2019

BOARD MEMBERS PRESENT

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

STAFF PRESENT

Shawn Graham, Executive Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communication Manager

OTHERS PRESENT

Sheri Scurr, Legislative Services Division
Todd Green, Cavanaugh Macdonald
Joseph Walls, Cavanaugh Macdonald
Jim Kerins, Communication and Management Services, LLC
Diane Fladmo, Montana Federation of Public Employees

Call to Order

Chairperson Kari Peiffer called the meeting to order at 8:34 a.m. in the Teachers' Retirement Board Room at 100 North Park 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. Member Janice Muller seconded the motion and it was approved by all members.

Adoption of Minutes

Chairperson Peiffer requested a motion to approve the meeting minutes from August 1, 2019.

Motion/Vote: Member Jeff Greenfield 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 Joseph Walls of Cavanaugh Macdonald presented a summary of the 2019 TRS actuarial valuation. Mr. Green explained the role of an actuary is to estimate future benefits and make sure contributions are adequate, and he pointed out that 60-70% of the amount TRS pays out each year is covered by investment income.

As of June 30, 2019, the funded status has improved to 68.63%, up from 68.19% last year. The amortization period also decreased from 31 to 29 years. Mr. Walls stated that active membership had increased, but not as much as the number of retirees. Diane Fladmo of MFPE asked how long Tier 2 retirees might have to wait for a Guaranteed Annual Benefit Adjustment (GABA) increase. Legislation passed during the 2013 session requires the plan to reach at least 90% funded status before the Board can recommend an increase, and that will take several years. However, it will be many years before large numbers of Tier 2 members (those who entered the system on or after July 1, 2013) will be eligible for retirement.

Actuarial valuations conducted after November 1, 2018 must provide pension plans with certain risk disclosures under Actuarial Standards of Practice (ASOP) 51 requirements. The ASOP 51 standard allows actuarial firms to demonstrate they are operating under consistent practices. The TRS valuation includes a new Risk Considerations section that meets ASOP 51 requirements, and Cavanaugh Macdonald can conduct a more in-depth risk analysis if desired.

Mr. Green explained that the safest, most risk-averse approach would require much higher contributions to fund benefits. That approach is costly and impractical, so defined benefit pension plans instead look for acceptable risk that provides long-term growth as the reward. Cavanaugh Macdonald can produce stochastic analyses for the Board to model any number of risk scenarios (if returns are lower than expected for several years, if another major recession hits, and so on) and to illustrate the effect of various funding changes. Because the Legislative Fiscal Division soon will request pension data for its liability study (HB 533), Executive Director Graham recommended that the Board authorize an expanded risk analysis.

Public Comment

Ms. Fladmo supported the recommendation to have TRS's actuaries conduct an expanded risk analysis. Sheri Scurr of the Legislative Services Division asked several questions about Cavanaugh Macdonald's methodology for evaluating probabilities and assessing risk.

Motion/Vote: Member Greenfield moved to adopt the July 1, 2019 valuation results from Cavanaugh Macdonald, including the new ASOP 51 section. Vice Chair Scott Dubbs seconded the motion, and it was passed by all members.

Motion/Vote: Vice Chair Dubbs made a motion to authorize Cavanaugh Macdonald to perform an expanded TRS risk analysis. Member Trost seconded the motion, and it was passed unanimously.

Strategic Planning

Jim Kerins of Communication and Management Services (CMS) presented an updated draft of the TRS Strategic Plan and Commitment Worksheet, which had been discussed in detail at the August 1, 2019 meeting. Mr. Kerins and the TRS leadership team then met in September to refine the plan and to assign target completion dates to items on the commitment worksheet.

Members of the Board suggested additional refinements to the TRS mission statement and the list of strengths, challenges, opportunities and threats, and they concurred with TRS's proposed timeframes for achieving specific objectives. The final 2019-2021 Strategic Plan Summary will be posted on the TRS website and the Board will conduct another thorough review in 2021.

Public Comment

Ms. Fladmo thanked the TRS Board and management team for incorporating suggestions from MFPE and for their commitment to member education.

Administrative Business

Investment Report

Member Greenfield provided the latest monthly Board of Investments snapshot document showing the status of TRS assets. He mentioned that while growth was positive for the year, economic factors such as recent trade tariffs were affecting all plans.

Mr. Greenfield announced that Joe Cullen, the BOI's Chief Investment Officer, had resigned to take another position outside BOI. Before beginning a search for Mr. Cullen's replacement, the BOI Board discussed overall staffing and leadership roles and ultimately agreed that the CIO position brings value to the organization. They also will begin interviewing candidates to replace the Deputy Director, who had retired. Member Greenfield expressed confidence in the BOI's leadership and investment management strategies.

Financial Statements and Budget Reports

TRS Fiscal Manager Nolan Brilz reviewed financial statements for the fiscal year that ended June 30, 2019. These will be included in the Consolidated Annual Financial Report. TRS's fiduciary net position increased by \$72 million for the year and net investment income, while positive, was lower than in the previous year. Contributions increased, as did benefit payments, as expected. The TRS operating budget showed a surplus, but audit fees will cut into that. The fund balance statement mirrored information provided earlier by Member Greenfield.

Phase 3 of the M-Trust project is scheduled to end in a few weeks and should come in under budget. Mr. Graham reminded the Board that although the project is ending, some additional system enhancements are planned, and he will bring a budget amendment to the Board next May to cover contractor expenses for the remainder of the current fiscal year. The current project manager, Jane Fournier, is retiring but TRS will retain Monica Arsenault, who will take over project management duties in addition to working as the system test lead.

Mr. Graham praised the M-Trust project team and reported that staff are happy with the system. Mr. Brilz said employers often compliment TRS on its employer reporting systems as well.

NAPPA Report

Chief Legal Counsel Denise Pizzini attended the NAPPA conference in June. Fiduciary duties and litigation were the focus of discussion this year. For example, a lawsuit was brought against another state's retirement system for failing to provide adequate information about whether a spouse would be entitled to benefits after the retiree's death. Ms. Pizzini and Mr. Graham assured the Board that our retirement application and other materials are very clear on this point; in fact, if a married retiree elects the Normal Form single-life annuity, TRS requires the spouse's notarized signature. The group engaged in further discussion about how TRS communicates this kind of information to members prior to retirement.

Tentative 2020 Meeting Dates

The first two meetings in 2020 are scheduled for February 14 and May 8. There were no known conflicts. Other tentative dates are August 7, October 9, and December 4, 2020.

Public Comment

There was no comment.

Next Meeting Date

The next regular meeting of the TRS Board will be held on December 6, 2019.

Executive Director's Report

Executive Summary

No staffing changes had occurred since the August meeting; however, Mr. Graham had not yet announced the hiring of Jacie Vonada, who previously worked for the Legislative Services Division. She replaced Christian Ward as the TRS Executive Secretary in June when Mr. Ward transitioned into Kim Lloyd's former position on the Accounting team.

TRS had received a preliminary schedule and schematic drawings for remodeling the TRS building on Sixth Avenue. Work should be complete by spring 2020, and another state agency is interested in leasing it. Mr. Graham reported he will continue to pursue sale of the building, potentially to the Department of Administration or Board of Investments.

Mr. Graham announced he will speak at each regional meeting of the Montana Association of School Superintendents this winter. The goal is to encourage superintendents to promote TRS as a recruitment and retention tool. Kirk Miller, Executive Director of the School Administrators of Montana, helped to secure time on the MASS agendas for TRS. Mr. Graham stated he would like to attend these meetings in every non-legislative year, and the Board agreed.

Public Comment

No members of the public were present.

Board Training

Fiduciary Duties

As part of annual fiduciary duty and conflict of interest training, Ms. Pizzini discussed with the Board the meaning of the term “fiduciary,” and the history of the development of fiduciary duties. Ms. Pizzini provided information regarding statutes, regulations and other sources of fiduciary duties applicable to the TRS board, and examples of circumstances that have been determined to be violations of fiduciary duties or conflicts of interest.

Public Comment

There were no members of the public in attendance.

Applications and Benefit Adjustments

Mr. Graham reported that TRS staff processed 521 applications for retirement between April 1 and August 31, 2019, which comprise the bulk of retirement applications for the year. The average retiree age was 61.55 years with an average 25.5 years of service and average benefit of \$2,341 per month.

Legal Counsel’s Report

Legal Issues

Ms. Pizzini updated the Board on the procedural status of the Zabrocki contested case. She reported the district court granted TRS’s motion to dismiss Zabrocki’s claim seeking a declaratory judgment on the constitutional issue raised prior to hearing as an improper matter to be determined through judicial review. She indicated that unless Zabrocki attempts to directly appeal the dismissal to the Supreme Court, the next step should be for Judge Menahan to issue an overall briefing schedule on the underlying issues in the case.

The other pending legal issue is the Thane matter, which was brought before the Board at the August 1, 2019 meeting. A hearings examiner has been assigned and preliminary statements are due October 18. The normal process of discovery will proceed thereafter. Once the hearings examiner has issued a proposed order, it will come back to the Board for their final decision.

Ms. Pizzini informed the Board that a TRS retiree has requested time on the December 6, 2019 meeting agenda to discuss some concerns regarding a past contested case. She advised the Board that the concerns he intends to raise are not entirely clear, but he will be asked to clarify the issues for presentation to the Board prior to the meeting and information will be provided in the Board packet. She explained that any member of the public may attend and comment at meetings, but if

