

Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room, 100 North Park Avenue, Helena, MT
February 21, 2020

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
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communication Manager
John Noble, IT Manager

OTHERS PRESENT

Brett Dahl, Montana Department of Administration
Mandy Rambo, Montana Department of Administration
Jason Butcher, Montana Office of Public Instruction
Diane Fladmo, Montana Federation of Public Employees
Kathy Milodragovich, Montana Retired Educators Association

Call to Order

Chairperson Kari Peiffer called the meeting to order at 8:39 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 Jeff Greenfield moved to adopt the agenda and Member Janice Muller seconded the motion. It was approved by all members.

Adoption of Minutes

Chairperson Peiffer requested a motion to approve the meeting minutes from December 6, 2019.

Motion/Vote: Member Daniel Chamberlin moved to adopt the minutes as written. Vice Chair Scott Dubbs 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 from members of the public in attendance.

Cybersecurity Insurance

Brett Dahl of the Department of Administration's Risk Management and Tort Defense division delivered a presentation on cyber/information security insurance. He reviewed the state's policy on privacy and data security, summarized the risks we face in the digital age, and then described how the state's insurance coverage protects agencies in the event of a breach or data loss.

The State of Montana constantly monitors its data networks for signs of attempted hacking. Scammers also employ sophisticated forms of social engineering to trick people into clicking on links or sharing sensitive information. Prevention is key, and TRS Board and staff complete cybersecurity training each year. Mr. Dahl noted TRS has not filed any claims, as there have been no incidents of data loss or accidental exposure of members' personally identifiable information.

Public Comment

There was no comment.

Board of Investments (BOI) Annual Report

Dan Villa, BOI Executive Director, provided a status report on pension fund investment performance, goals and investment strategies. The Consolidated Asset Pension Pool (CAPP), created in 2017, allows the BOI to efficiently take advantage of buying opportunities following downturns in the market, while about 2% of assets are held in cash in the Short-Term Investment Pool (STIP). The BOI maintains an equity-centric but well diversified portfolio and maintains enough in fixed income to keep risk lower. Short-term market fluctuations are less important, given that pension funds take a very long-term approach to investing.

TRS Executive Director Shawn Graham asked Mr. Villa to comment on whether the BOI could realize savings by bringing investment managers in-house rather than paying management fees to outside firms. Mr. Villa noted that the BOI managed its own investments some years ago, but the size of today's funds would require several additional staff. Attracting talented stock analysts on state government salaries would be difficult. Even with management fees, the performance of Montana's pension fund investments meets or exceeds that of peers.

Mr. Villa said the unfunded liability and expected rate of return are often misunderstood by legislators and critics of defined benefit pensions. TRS's expected rate of return (now 7.50%) is not the return needed to pay benefits; rather, it is the return needed to pay down the unfunded liability over 30 years, as required by statute. As of December 31, 2019, TRS's inception to date rate of

return was 7.75%. Montana currently is adding to CAPP, not depleting assets, as many other states are doing.

Mr. Villa closed by announcing that Jon Putnam, BOI's former Director of Fixed Income, has been named Chief Investment Officer. He replaces Joe Cullen, who left the position last year. Rande Muffick, formerly BOI's Director of Public Market Investments, was named Deputy CIO.

Public Comment

There was no comment.

Administrative Business

2019 Legislative Audit Report

TRS Fiscal Manager Nolan Brilz announced that the Legislative Audit Division had issued an unmodified opinion on our Consolidated Annual Financial Report and TRS once again has received a GFOA certificate of achievement for excellence in financial reporting.

FY 2020 YTD Financial Statements and Budget Reports

Compared to this period last year, total investments are up significantly due to the strong market. Budget reports reflect the capitalization of both the M-Trust Phase III project and leasehold improvements (construction costs) on the Park Avenue office space.

As discussed in previous meetings, the early completion of the M-Trust Phase III project resulted in some additional personal services costs being shifted to the operating budget, but at this time the budget still shows a small surplus.

Personnel Committee Report

Chairperson Peiffer and Member Muller conducted Mr. Graham's annual performance review prior to this meeting. They noted that feedback on voluntary staff surveys was strong again this year, and the Board continues to be very pleased with his leadership. Chairperson Peiffer expressed appreciation for his efforts in acquiring the Park Avenue office space for staff.

Tentative 2020 Meeting Dates

Members of the Board discussed dates for the May, August, and October 2020 meetings. The FY 2021 budget will be discussed at the May meeting, set for Friday, May 8. All agreed to schedule the August meeting to Wednesday, August 5. The fall meeting will be held Friday, October 9.

Out-of-State Travel Requests

TRS IT Manager John Noble, Deputy Director Tammy Rau, Chief Legal Counsel Denise Pizzini, and Director Graham each plan to attend a conference this spring.

Motion/Vote: Vice Chair Dubbs moved to approve the four travel requests. Member Daniel Trost seconded the motion and it was passed by all members.

Next Meeting Date

The next regular meeting of the TRS Board will be held on Friday, May 8, 2020.

Public Comment

There was no comment.

Executive Director's Report

Legislative Interim Committee Updates

In December 2019, Mr. Graham presented the results of TRS's July 1, 2019 actuarial valuation to both the Legislative Finance Committee and its Local Government/Pension subcommittee. He also attended the Legislative Week event in January 2020, at which Todd Green of TRS's actuarial firm Cavanaugh Macdonald spoke to the joint Legislative Finance Committee and State Administration and Veterans' Affairs committee about ASOP 51 Disclosure of Risk reports. Speakers from two other organizations delivered similar messages about the potential value of such risk analyses to lawmakers as well as their limitations. Either Mr. Graham or Mr. Green likely will present a TRS risk disclosure report to the Legislative Finance Committee in March.

MASS Meeting Updates

Mr. Graham reported he had attended all regional Montana Association of School Superintendents meetings, where he discussed the value of the defined benefit pension and other topics such as working retirees, volunteers, and resources available on the TRS website. Because superintendents can speak to the value of TRS as both participants and employers, he encouraged them to contact their local legislators. Vice Chair Dubbs attended the Lewistown meeting and said attendees appreciated Mr. Graham's offer to answer questions anytime by telephone or email. Mr. Graham would like to attend these meetings in non-legislative years and members of the Board agreed.

1500 E. 6th Ave. Renovations and Lease Terms

Mr. Graham provided an update on the status of renovations at the old TRS building. Construction bids came in lower than expected, helping to offset the cost of replacing the roof, which had not been included in earlier cost projections. The work should be finished by mid-May, and Mr. Graham hopes to have a lease agreement signed with a unit of DPPHS before then. He then reviewed the terms of the ten-year lease with members of the Board.

Motion/Vote: Member Trost moved to approve the 1500 E. 6th Avenue lease terms. Vice Chair Dubbs seconded the motion and it was approved unanimously.

MPERA/PureView Case

PureView Health Clinic intends to separate from Lewis and Clark County, which means its approximately 60 employees will no longer be eligible to participate in the Public Employees' Retirement System. PureView has some retired members who already receive a benefit and several vested members who are entitled to a future retirement benefit. MPERA has filed a petition for declaratory judgment with the Montana Supreme Court to demand payment from PureView for those employees' unfunded liability. Mr. Graham reported that TRS, with the support of the Board's litigation committee, is drafting an amicus brief in support of MPERA.

Chief Legal Counsel Denise Pizzini stated that while TRS is not directly affected, our amicus brief will take the position that the retirement boards have a right under the Montana Constitution and a fiduciary duty to seek payment from employers who leave the system. There is precedent, including that the Legislature required supplemental contributions from the Montana University System after its separation from TRS in the 1990s, with those contributions continuing through at least 2033. If the Court were to reach a different conclusion in the MPERA/PureView case, the remaining PERS employers would have to bear the cost, setting a bad precedent for TRS.

Public Comment

Ms. Fladmo appreciates the Board's support of Mr. Graham and other TRS staff who go out and advocate for TRS. She requests that every member of the Board also take a message to their communities and legislators about the good work being done at TRS.

Disability Retirement Applications

Closed Meeting

Executive Session to Discuss Disability Applications

At 11:48 a.m. the meeting was closed to the public, as a disability applicant's right to privacy clearly exceeds the merits of public disclosure.

Deputy Director Rau presented one application for disability retirement benefits.

Open Meeting

The meeting was reopened at 11:58 a.m. Ms. Pizzini announced that Chairperson Peiffer knows the applicant and therefore has recused herself from the discussion and vote.

Chairperson Peiffer requested a motion on the request for disability retirement for V.A. Member Trost moved to approve the application. Member Muller seconded the motion, and it was passed by five members with Chairperson Peiffer abstaining.

Legal Counsel's Report

Legal Issues

Ms. Pizzini provided an update on the two contested case matters involving retired members. In the Zabrocki matter, all pretrial pending motions have been resolved and orders issued, and attorneys

now are briefing on the underlying issues on the petition for judicial review. Oral arguments are scheduled for May 11, 2020.

The other issue pending petition for judicial review is the Thane matter. Discovery closes on February 28, 2020, on which date Ms. Pizzini and Mr. Graham will travel to Missoula for depositions. She expects motions for summary judgment in the case. If the matter is not decided on those motions it will go to a hearing, scheduled for June 15, 2020. Either way, the case likely will come back before the Board this summer.

Ms. Pizzini and Mr. Graham will keep the Board apprised on these matters and on the status of the MPERA/PureView case.

Applications and Retirement Benefits

Regular, Survivorship, Adjustments and Corrections

Deputy Director Rau reported that staff had processed 48 applications between November 1, 2019 and January 31, 2020, including one for a member with 49 years of service. TRS staff will soon see a large volume of applications for members retiring at the end of the school year.

Vice Chair Dubbs announced his own retirement this year, after 40 years of service as an educator and more than 20 years on the TRS Board. Members of the Board and staff congratulated and thanked him for his dedication.

Long Range Planning

Strategic Planning Commitment Worksheet

Mr. Graham reported that all tasks on the commitment worksheet are on track, but because the document was only recently approved, no updates had been made to it. Chairperson Peiffer and Member Muller said the worksheet helps them evaluate Mr. Graham's performance each year.

Board Training

Privacy and Security of Personal Information

Ms. Pizzini stated that the earlier presentation by Mr. Dahl provided the basis for this annual training, and she reviewed the types of personal information TRS collects about members, why it is collected, and which staff and contractors have access to it. She mentioned that members' full SSNs are only collected on TRS forms when necessary, and TRS staff now write the seven-digit M-Trust Person ID rather than SSN on documents that will be committed to the imaging system.

Adopt Technical Changes to Policy

The TRS Privacy and Security of Personal Information policy had been changed only to correct relevant cross-references to statute.

