

Montana Teachers' Retirement System Board Meeting

Virtual Meeting

May 8, 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

Mandy Rambo, Montana Department of Administration

Diane Fladmo, Montana Federation of Public Employees

Kathy Milodragovich, Montana Retired Educators Association

Frank Kerins, Montana State University

Ryan Falls, Gabriel Roeder Smith & Co.

Todd Green, Cavanaugh Macdonald Consulting

Joseph Walls, Cavanaugh Macdonald Consulting

Call to Order

Chairperson Kari Peiffer called the meeting to order at 8:30 a.m.

Adoption of the Agenda

Chairperson Peiffer requested a motion to adopt the agenda.

Motion/Vote: Member Jeff Greenfield made a motion to adopt the agenda and Vice Chair Scott Dubbs seconded it. The motion was approved by all members.

Adoption of Minutes

Chairperson Peiffer requested a motion to approve the meeting minutes from February 21, 2020.

Motion/Vote: Member Janice Muller moved to adopt the minutes as written. Vice Chair 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.

Actuarial Audit

Gabriel Roeder Smith Actuarial Audit Report

Ryan Falls of Gabriel Roeder Smith & Company (GRS) presented a summary of his firm's actuarial audit of the assumptions and methodologies used by Cavanaugh Macdonald Consulting to produce the July 1, 2019 actuarial valuation of TRS. There were no findings; GRS found the actuarial valuation to be fair and reasonable assessment of TRS's financial position. The actuarial audit report included several suggestions for Cavanaugh Macdonald to consider for future valuations.

Cavanaugh Macdonald Response

Todd Green of Cavanaugh Macdonald Consulting thanked Mr. Falls for his firm's thorough audit. He provided a response for each recommendation in the GRS report and indicated that many of the suggestions would be included in the next valuation.

Board Discussion

Chairperson Peiffer thanked both Mr. Falls and Mr. Green for their collaboration on the actuarial audit. She commented that many Tier 1 members feel they cannot afford to retire in their first year of eligibility (25 years of creditable service), which supports Cavanaugh Macdonald's expectation of lower retirement rates among those members. Mr. Green noted that because the defined benefit pension does not replace their entire income, they may postpone retirement due to factors such as the cost of healthcare or losses in 403(b) and other retirement accounts during the recession.

TRS Executive Director Shawn Graham drew the Board's attention to some positive comments in the GRS actuarial audit report, including a statement that the Board's funding and benefit policy thoughtfully monitors the health of TRS from many perspectives and serves as a model to other retirement systems.

Public Comment

There was no comment.

Risk Analysis Report

Mr. Green then reviewed the risk analysis report prepared by his firm at the Board's request. The report expands on the July 1, 2019 actuarial valuation by providing an analysis of risks as required under Actuarial Standards of Practice Number 51 (ASOP 51). The greatest risk to any retirement system is the inability to make benefit payments when due. Actuarial assumptions are used to project how contributions and investment returns will provide the necessary cash flow to pay benefits into the future. Mr. Green stated that "risk" in actuarial terms is merely uncertainty, in that actual experience may differ from assumptions in either a negative or positive direction.

The report illustrates several “what if” scenarios based on various economic and demographic risks. Because benefits and contribution rates are fixed in statute, Mr. Green feels short-term investment volatility is the largest risk factor for TRS. For illustrative purposes, the report includes hypothetical projections of a “true” actuarial approach by which the Board and Legislature would have a means to mitigate this risk by adjusting contribution rates.

Mr. Graham asked members of the Board if they want Cavanaugh Macdonald to produce an ASOP 51 risk analysis report on a regular schedule. Chairperson Peiffer suggested waiting to see whether this initial report is useful to legislators and others.

Public Comment

There was no comment.

Administrative Business

Investment Report

Member Greenfield provided an update from the Board of Investments. The COVID-19 situation has increased inquiries to BOI loan programs. BOI department heads are talking daily in light of the pandemic and market conditions. Member Greenfield noted that the BOI’s operations make it easy for the retirement systems to know exactly how much cash is on hand for paying benefits. The recent market crash reduced returns in February, but our conservative approach and the nature of investments has helped protect TRS.

FY 2020 YTD Financial Statements and Budget Reports

TRS Fiscal Manager Nolan Brilz reviewed the most recent financial statements, reiterating what Member Greenfield said about the market declines in the first quarter of 2020. Revenue and expenses are similar to those from this time last year. As discussed in prior meetings, the operating budget shows a deficit in personal services, while audit fees were lower than budgeted.

Personnel Committee Report

Member Muller and Chairperson Peiffer summarized their earlier meeting on the TRS pay plan policy and noted that they value TRS staff and want to ensure their pay is competitive. Mr. Graham noted there is an action item on the agenda to approve adjustments to staff salaries.

Budget Committee Report

Members Dan Trost and Dan Chamberlin met with Mr. Graham and Mr. Brilz recently to review the proposed budget for FY 2021 and felt comfortable with the justifications provided.

Tentative 2020 Meeting Dates

The Board confirmed the next two meeting dates will be August 5 and October 9, 2020.

Public Comment

There was no comment.

Interest Rate Credited to Member Accounts

Mr. Graham reviewed the average Short-Term Investment Pool (STIP) interest rate and recommended that the Board reduce the interest rate on member accounts from 2.30 to 1.00%. Member Trost felt that 1.00% might be too high and believes the STIP rate will drop further. He and Member Greenfield asked about the possibility of adjusting the rate twice in a fiscal year, but Legal Counsel Denise Pizzini confirmed that statute directs the Board to set the rate annually.

Motion/Vote: Member Trost moved to set the interest rate credited to member accounts at 0.85%. Vice Chair Dubbs seconded the motion, and it was approved unanimously.

Renew Ice Miller Contract (Tax Counsel)

Mr. Graham summarized the proposed hourly rates for FY 2021. He feels their services have been very valuable to TRS.

Motion/Vote: Member Greenfield moved to approve the Ice Miller contract renewal and Member Muller seconded the motion. It was approved by all members.

Renew Cavanaugh Macdonald Contract (Actuarial Services)

Mr. Graham reviewed the actuary's proposed rates for July 1, 2020 through June 30, 2024.

Motion/Vote: Vice Chair Dubbs commented that he is pleased with the actuary's responsiveness to TRS's needs and he made a motion to approve the contract renewal. Member Trost seconded it, and the motion was approved unanimously.

Renew Alfred Munksgard & Associates Contract (M-Trust System Maintenance)

Mr. Graham explained the contract would renew AMA's services through June 30, 2022. The contract negotiated in 2018 anticipated a reduction in their monthly rate for ongoing maintenance, but the proposed contract keeps the rate unchanged due to the size and complexity of the system. Mr. Graham and Vice Chair Dubbs commented on the value AMA brings to TRS.

Motion/Vote: Member Muller moved to approve the AMA contract renewal. Member Trost seconded the motion and it was approved by all members.

Out of State Travel Request – NCTR Trustee Workshop

This annual workshop was scheduled for June, but Mr. Graham and Chairperson Peiffer both expect it to be cancelled. Some conferences may proceed in a virtual format, but registration fees are included in the budget request and this action item is for travel expenses only.

Motion/Vote: Members of the Board agreed no motion was required.

TRS Pay Plan Policy

Mr. Graham reviewed the proposed pay ranges for individual positions. Under the TRS pay plan policy, every two years the market salary range is adopted from two years prior, so the proposed pay adjustments would bring staff up to the 2018 market for FY 2021 and 2022.

Motion/Vote: Member Muller moved to adopt the pay plan policy and Vice Chair Dubbs seconded the motion, which was passed unanimously.

FY 2021 TRS Budget Request

Mr. Graham reviewed the budget request for the Board, explaining line items that reflect significant increases or decreases, such as M-Trust costs that previously were included in a separate project budget. He described the system enhancements planned for FY 2021. Vice Chair Dubbs asked whether the COVID-19 work-from-home directive has affected operating expenses. Mr. Graham said the only tangible cost has been to increase the number of laptop computers available for staff use. No significant savings can be realized, since expenses such as leases are fixed.

Motion/Vote: Member Greenfield moved to adopt the budget request. Member Trost seconded the motion and it was approved by all members.

Next Meeting Date

The next regular meeting of the TRS Board will be Wednesday, August 5, 2020, and may once again be a virtual meeting.

Executive Director's Report

TRS Building Update

Remodeling work on the old TRS building at 1500 East Sixth Avenue is nearly complete and Mr. Graham noted the space looks much brighter and more modern. The project will be finished on schedule and slightly under budget, and the new tenant should be able to move in by mid-May.

Executive Summary – Operations Update

Mr. Graham reported that he and three staff members continue to work onsite daily, with 17 staff primarily working from home, with scheduled stops at the office to pick up and drop off files. Staff have managed all work seamlessly and he has received no complaints from members.

Public Comment

There was no comment.

Legal Counsel's Report

Summary of Legal Issues

Ms. Pizzini provided an update on contested cases.

In the Zabrocki matter, all motions have been responded to and orders have been issued. She and Mr. Graham will be present for oral arguments on the final briefing next week, and the case then will be in the District Court judge's hands.

In the Thane matter, there was a motion for summary judgment on the issue of amounts Mr. Thane was paid under his contract and which TRS denied as reportable compensation. Ms. Pizzini expects the hearings examiner to issue a written decision soon, after which time the Drake Law Firm will notify members of the Board that a proposed order has been issued.

Communication Manager's Report

Communication Items

TRS Communication Manager Darla Fitzpatrick reported on COVID-19 activities, noting that under Mr. Graham's leadership and strong team collaboration, TRS was able to quickly close the office to the public, modify certain forms and business processes, post updates on our website, and distribute necessary information to employers. Ms. Fitzpatrick then reviewed progress toward communication-related goals on the Commitment Worksheet. One such project will automate steps in the new member enrollment process, enabling earlier communication with them and reducing the number of forms that employers must distribute and collect.

Two online surveys were created for active and retired members, and the 234 responses received to date show strongly positive results overall. Statistics from the TRS YouTube channel indicate that recorded "TRS 101" and "Ready, Set, Retire" presentations are viewed several hundred times each year. Plans for an animated introductory video about TRS also are in the works.

Vice Chair Dubbs expressed interest in reading the aggregate member survey results, noting that it is often difficult for Board members to know how members feel about TRS.

Public Comment

There was no comment from members of the public.

Applications and Benefit Adjustments

Regular, Survivorship, Adjustments and Corrections

TRS Deputy Director Tammy Rau reported that 73 applications for retirement were processed between February 21 and April 30, 2020. The bulk of applications will arrive in the next several weeks and staff will continue to manage the workload as usual, despite working remotely.

Long Range Planning

Strategic Planning Commitment Worksheet

Mr. Graham provided updates for several goals and objectives on the Commitment Worksheet, including a recommendation to postpone hiring an auditor/compliance person until FY 2022.

Public Comment

Diane Fladmo of MFPE expressed appreciation for the work done by the TRS Board and staff.

Disability Retirement Applications

Closed Meeting

Executive Session to Discuss Disability Applications

At 12:24 p.m. the virtual 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 two applications for disability retirement benefits.

Open Meeting

The meeting was reopened at 12:35 p.m.

Chairperson Peiffer requested a motion on the request for disability retirement for member J.G. Vice Chair Dubbs moved to approve the application, which Member Greenfield seconded. The motion was approved by all members.

Chairperson Peiffer requested a motion on the request for disability retirement for member S.M. Member Trost made a motion to approve the application, Member Chamberlin seconded the motion, which was approved by all members.

Public Comment

No members of the public were present.

Adjournment

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

Motion/Vote: Member Muller moved to adjourn the meeting and Member Greenfield seconded it. The motion carried and the meeting was adjourned at 12:38 p.m.

Chairperson _____ /s/ Scott Dubbs (acting chair)

Executive Director _____ /s/ Shawn Graham