

Montana Teachers' Retirement System Board Meeting May 7, 2021

BOARD MEMBERS PRESENT

Kari Elliott, 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 (*via Zoom*)
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communication Manager
John Noble, IT Manager

OTHERS PRESENT

Sarah Piper, Montana Federation of Public Employees
Mandy Rambo, Montana Department of Administration (*via Zoom*)
Kathy Milodragovich, Montana Retired Educators Association (*via Zoom*)
Sheryl McGinnis, retired member (*via Zoom*)

Call to Order

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

Adoption of the Agenda

Chairperson Elliott requested a motion to adopt the agenda.

Motion/Vote: Member Daniel Chamberlin moved to adopt the agenda and Member Janice Muller seconded the motion. It was approved by all members.

Approval of Minutes

Chairperson Elliott requested a motion to approve the minutes from the February 5, 2021 meeting.

Motion/Vote: Member Daniel Trost moved to approve the minutes as written. Vice Chair Scott Dubbs seconded the motion and it was approved by all members.

Public Comment on Board Related Items

Chairperson Elliott 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. No comments were received.

Executive Director's Report

2021 Legislative Session Summary

TRS Executive Director Shawn Graham reported the 2021 legislative session was mostly successful for TRS, including passage of HB 88, the TRS housekeeping bill. Among other changes, HB 88 clarified the definition of earned compensation to reflect that cash paid in lieu of a benefit is not reportable to TRS when the employee was allowed to choose between cash or the benefit. The bill also implemented an IRS rule change that extends the age for required minimum distributions from 70 ½ to 72.

As required by statute, TRS requests a bill each session to increase the Montana University System's supplemental employer contribution rate to a level necessary to amortize the unfunded liability of their TRS retirees by 2033. The bill (SB 46) died in committee, as it has for the last several sessions.

The Legislature passed a joint resolution (HJ 8) that will require an interim study of Montana's public pensions to help legislators and stakeholders better understand the effects of various funding changes. A few other bills that could have affected the retirement system did not pass.

Executive Summary

Mr. Graham noted that the TRS office reopened to the public on April 19, 2021. Onsite staffing is still reduced but TRS maintains 100% coverage for members who call or visit in person. Covid-19 protocols are still in place, such as the requirement for staff and visitors to wear a mask in common areas. Mr. Graham expects the Governor's office to issue new guidance soon.

Public Comment

There were no comments.

Administrative Business

Investment Report

Member Jeff Greenfield provided an update on the latest Montana Board of Investments activities, including a recent review of their continuity plan to ensure all operations can be managed remotely in the event of a disaster. Mr. Greenfield reported that investments have performed well in the first quarter of 2021, thanks to a focus on domestic equities. The BOI currently has over \$23 billion under investment, up from approximately \$19 billion in early 2020. Since inception, the return on TRS investments is just under 8%, which is above target.

YTD Financial Statements and Budget Reports

Nolan Brilz, TRS Fiscal and Accounting Manager, reported that total TRS investments have increased approximately \$600 million compared to the same period last year, when markets had declined sharply. TRS's operating budget for FY 2021 continues to show a surplus, and currently there are no delinquent agencies, thanks in part to improved communication with employers.

Budget Committee Report and Budget Justification

Mr. Brilz provided an overview of expense categories shown on the FY 2022 budget request and the reason for increases and decreases in each category. The planned addition of a full-time internal auditor position accounts for much of the increase over last year's budget.

Mr. Graham then fielded questions about certain expenses for software and contracted services and highlighted the value they bring to TRS. For example, one contracted service helps to obtain current addresses for inactive, nonvested members with whom TRS has had no contact for several years. This helps ensure TRS remains in compliance with IRS rules on required minimum distributions by notifying these members of their right to withdraw their member account balance.

Members Dan Trost and Dan Chamberlin had discussed the proposed budget with Mr. Brilz and Mr. Graham and reported they had found no areas of concern. They stated they continue to be impressed by TRS's responsible and conservative fiscal management.

Personnel Committee Report

Chairperson Elliott and Member Muller had reviewed TRS's proposed salary increase and offered their full support. Mr. Graham reported that State HR recently adopted new job classification standards (Broadband 25) across all state agencies and TRS has revised its pay plan policy accordingly. However, TRS is entering the second year of the two-year pay plan approved by the Board last year, and the proposed pay adjustments for FY 2022 remain in line with that plan with the exception of band 7 and band 8 employees which were held flat. Next year's budget proposal will need to adjust pay to the new Broadband 25 schedule.

Tentative 2021 Meeting Dates

Tentative dates were August 6, October 8, and December 3, 2021. Due to conflicts, members of the Board agreed to move the August meeting to Thursday, August 5, 2021.

Public Comment

There were no comments.

Motion/Vote: Interest rate credited to member accounts

Vice Chair Dubbs moved to set the interest rate at 0.25% to mirror the BOI's Short Term Interest Pool (STIP) rate. Member Muller seconded the motion, which was approved by all members.

Motion/Vote: Ice Miller contract (tax counsel)

Member Greenfield made a motion to approve the renewal contract with Ice Miller. Member Chamberlin seconded the motion and it was approved by all members.

Motion/Vote: Drake Law Firm contract (Board counsel)

Member Muller moved to renew the contract with Drake Law Firm. Member Trost seconded the motion, which was approved by all members.

Motion/Vote: TRS pay plan policy

Vice Chair Dubbs moved to approve the TRS pay plan and Member Chamberlin seconded it. The motion was approved by all members.

Motion/Vote: FY 2022 TRS budget request

Member Trost made a motion to approve the FY 2022 budget request. Vice Chair Dubbs seconded the motion and it was approved by all members.

Next Meeting

The 2022-23 strategic planning session will be held Thursday, August 5, 2021.

Public Comment

Sarah Piper of MFPE thanked the Board and staff for their diligence in monitoring the TRS budget on behalf of members.

Board Training

Nondiscrimination in Employment and Provision of Services

Denise Pizzini, TRS Chief Legal Counsel, reviewed the nondiscrimination policy with the Board. She explained how TRS trains and enforces the policy with staff and how it applies to the day-to-day work of determining member eligibility, issuing benefits, and providing documentation.

Informal Board Review

Sheryl McGinnis – Earned Compensation

Mr. Graham summarized the actions taken on Ms. McGinnis' application for retirement effective July 1, 2021. After teaching for many years, Ms. McGinnis was hired as superintendent in another school district at a higher salary for the last three years of her career. TRS staff determined that, due to the "110% cap" law (19-20-715(2), MCA), the salary for each of her final three years must be capped at 110% of the previous year's salary for purposes of calculating her average final compensation and retirement benefit. Her written request to remove the 110% cap was denied by TRS staff, and she exercised her right to request Board review of the final staff determination.

Ms. McGinnis read a prepared statement for the Board, and discussion followed. It was pointed out that between 1997 and 2011, the Board had discretion to allow exceptions to the 110% cap on a case-by-case basis. However, the 2011 Legislature disallowed this; statute now permits removal of the 110% cap only if a member's increase in earned compensation resulted from movement on an employer's adopted salary matrix. This exception does not apply to Ms. McGinnis.

Motion/Vote: Member Greenfield moved to accept the final staff determination. Member Chamberlin seconded the motion, which passed unanimously. Ms. Pizzini stated that Ms. McGinnis will be notified by mail of her right to request a contested case proceeding.

Legal Counsel's Report

Summary of Legal Issues

On February 23, 2021, the Montana Supreme Court issued its final decision upholding the TRS Board determination in the Edward Zabrocki contested case matter. The deadline by which Mr. Zabrocki could have requested reconsideration has passed, and the case now is closed.

Ms. Pizzini provided an update on several legal matters, including that TRS has contracted with two experienced medical professionals for review of TRS disability retirement applications, replacing two physicians who announced their retirement. She made the Board aware of several new laws from the 2021 legislative session that could affect TRS, including a new community college that would be a TRS employer. Another statutory amendment changes venue (county) for judicial review in a contested case matter.

Public Comment

There were no comments.

Communication Manager's Report

Darla Fitzpatrick summarized her activities over the past year, which included frequent updates to the TRS website during the 2021 legislative session and throughout the Covid-19 pandemic. Recently she has been heavily involved in the business analysis and user interface design for the upcoming system enhancement that will allow inactive, nonvested members to use *My TRS* to submit a withdrawal (refund) application online.

Ms. Fitzpatrick worked with a school district clerk last year to develop training materials on the topic of termination pay. Another collaborative effort resulted in a two-page handout designed to explain TRS funding in simple terms for members and other stakeholders. She continues to work closely with Tammy Rau and Denise Pizzini to revamp existing TRS forms and letters for improved communication with members, and currently she is drafting a member newsletter and revising presentations for upcoming conferences.

Public Comment

There were no comments.

Applications and Benefit Adjustments

Regular, Survivorship, Adjustments and Corrections

Deputy Executive Director Tammy Rau reported that during the months of January, February, and March 2021, TRS staff processed 74 applications for retirement, and many more applications are currently in process. Applications will continue to increase through the summer months.

Long-Range Planning

2019-2021 Commitment Worksheet Update

Mr. Graham reminded the Board that strategic planning for the next two-year period is scheduled to occur at the August meeting and will be facilitated once again by Jim Kerins of Communication and Management Services (CMS). Among other objectives, the Board should discuss the scope and timing of future enhancements to the M-Trust system, such as to implement an online retirement application and to automate other business processes for improved efficiency.

Mr. Graham briefly reviewed progress on various items listed on the current commitment worksheet and noted that TRS hopes to fill the new internal auditor position later this summer.

Public Comment

There was no comment.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The meeting was closed to the public at 11:31 a.m., as a disability applicant's right to privacy clearly exceeds the merits of public disclosure.

Deputy Director Rau presented three application for disability retirement benefits.

Open Meeting

The meeting was reopened at 11:49 a.m.

Motion/Vote: Chairperson Elliott requested a motion on the disability retirement application for member P.W. Member Chamberlin moved to approve the application. Vice Chair Dubbs seconded the motion, and it was approved by all members.

Motion/Vote: Chairperson Elliott requested a motion on the disability retirement application for member C.M. Member Muller moved to approve the application, and it was seconded by Vice Chair Dubbs. The motion was approved by all members.

Motion/Vote: Chairperson Elliott requested a motion on the disability retirement application for member D.K. Vice Chair Dubbs moved to approve the application. Member Muller seconded the motion, and it was approved by all members.

Public Comment

No members of the public were present.

Adjournment

Before adjourning, Chairperson Elliott announced this was Member Muller's final meeting as a member of the Board and she thanked her for many years of service and dedication to TRS.

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

Motion/Vote: Member Muller moved to adjourn the meeting and Member Trost seconded it. The motion carried and the meeting was adjourned at 11:51 a.m.

Chairperson /s/ Kari Elliott

Executive Director /s/ Shawn Graham