

Montana Teachers' Retirement System Board Meeting October 8, 2021

BOARD MEMBERS PRESENT

Kari Elliott, Chair
Scott Dubbs, Vice Chair
Daniel Trost, Member (*virtual*)
Daniel Chamberlin, Member
Dee Brown, Member
Sarah Hitchcock, Member

STAFF PRESENT

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

OTHERS PRESENT

Todd Green, Cavanaugh Macdonald Consulting, LLC
Bryan Hoge, Cavanaugh Macdonald Consulting, LLC
Joseph Walls, Cavanaugh Macdonald Consulting, LLC
Ryan Evans, Governor's Budget Office
Sarah Piper, Montana Federation of Public Employees
Jim Kerins, Communication and Management Services, LLC
Rebecca Power, Montana Legislative Services Division (*virtual*)
Kathy Milodragovich, Montana Retired Educators Association (*virtual*)

Call to Order

Chairperson Kari Elliott called the meeting to order at 8:31 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. Vice Chair Scott Dubbs seconded the motion and all members voted in favor.

Approval of Minutes

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

Motion/Vote: Vice Chair Dubbs moved to approve the minutes as written, with Member Chamberlin seconding the motion. 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. Sarah Piper of the Montana Federation of Public Employees (MFPE) thanked TRS staff for participating in preretirement workshops around the state and for developing an introductory video that helps to educate attendees about the retirement system.

Chairperson Elliott then welcomed two new board members, Dee Brown of Hungry Horse and Sarah Hitchcock of Glasgow. Ryan Evans of the Governor's budget office also introduced himself.

Actuarial Valuation

Todd Green of the actuarial firm Cavanaugh Macdonald introduced the firm's two actuaries for TRS, Bryan Hoge and Joseph Walls. Mr. Hoge, an experienced actuary who was recently added to the TRS team, explained that the purpose of an actuarial valuation is to choose a point in time at which to measure the assets and liabilities of the retirement system. The actuaries perform the valuation as of July 1 each year to provide a consistent date for comparison.

Mr. Hoge reviewed the basic retirement funding equation, $C+I = B+E$. For a pension to meet all current and future obligations to its members, the money coming in (contributions and investment income) must offset the money going out (benefit payments and expenses). Typically, investment earnings cover about 70% of pension costs. For FY 2021, TRS saw a 27.73% market rate of return, which is much higher than the actuarially assumed rate of return (7.50%) and which offsets a low market rate of return (2.72%) the previous year. As of July 1, 2021, TRS is 71.43% funded, up from 68.63% on July 1, 2020, and the amortization period has decreased from 29 to 24 years.

The actuaries answered several questions from the Board and stated they are scheduled to perform an experience study for TRS this year, in which they will examine TRS data for the last five years, compare assumptions to actual experience, and make recommendations to the Board as to whether the actuarial assumptions used for predicting future costs should be revised.

Public Comment

There was no comment.

Motion/Vote: Chairperson Elliott requested a motion to adopt the July 1, 2021 actuarial valuation results. Member Chamberlin moved to adopt the results, and Vice Chair Dubbs seconded it. All members except Member Brown voted in favor, and the motion carried.

Executive Director's Report

Executive Summary – Staff and Operations Update

Executive Director Shawn Graham reported that as of September 7, 2021, all staff transitioned back to working in the office full time and TRS benefit officers have resumed in-person meetings with members. Staff who must work remotely, such as due to a positive Covid test, can easily do so using State-issued laptop computers with Virtual Private Network (VPN) access.

TRS hired Alyson Russell in July to fill the vacant Retired Payroll technician and she is doing very well. The newly created auditor position was advertised in August, but only three applications were received and none of the applicants had the desired qualifications and auditing experience. The posting was removed temporarily but the position will be readvertised in a few weeks.

Hiring an auditor is a Board priority, and while the position will perform some internal auditing of TRS business practices, it will focus primarily on TRS employers to help ensure they accurately report employees to either TRS or the Public Employees' Retirement System (PERS) as appropriate. This will be done in coordination with the auditor at the Montana Public Employees' Retirement Administration (MPERA) to avoid duplication of effort.

Public Comment

There was no comment.

Administrative Business

Investment Report

Mr. Graham provided an update on behalf of Jeff Greenfield, who previously was the TRS Board representative for the Board of Investments (BOI). The Summary of Positions and Returns shows a strong net return of 2.28% on TRS investments for the month of August 2021. Mr. Graham noted that TRS total assets were less than \$3 billion in October 2013 and now exceed \$5 billion, thanks to strong market returns over that eight-year period. The return since inception (July 1, 1994) is 8.24%, surpassing the actuarially assumed rate of return of 7.50%.

Chairperson Elliott asked how Mr. Greenfield's seat on the BOI board will be filled. Mr. Graham explained the Governor's office will appoint a new representative from the TRS Board. Members Trost, Chamberlin, and Brown all expressed interest.

Financial Statements and Budget Reports

Nolan Brilz, TRS Accounting and Fiscal Manager, reviewed the budget and financial statements as of August 31, 2021. The most notable changes compared to August 31, 2020 are the increase in investment income and the sale of the old TRS building in late 2020. To provide context for new members, the group discussed the benefits of renovating and selling that building and explained why finding better office space for TRS staff had been a Board priority in recent years.

Mr. Brilz reported that withdrawals are significantly higher this year compared to last year due to the ongoing effort to contact non-vested members who terminated TRS-reportable employment several years ago and encourage them to request a refund of the member contributions they have on account with TRS, plus interest. He then reviewed the TRS budget report as of August 31, 2021, described each expense category, and answered questions about staffing, salaries, and benefits.

NAPPA Report

Denise Pizzini, TRS Chief Legal Counsel, attended the National Association of Pension Plan Attorneys (NAPPA) Legal Education Conference in June, which was held virtually this year. The conference provides invaluable education for pension attorneys including IRS qualification

standards and plan administration requirements. Ms. Pizzini said this year's conference provided valuable information regarding plan governance standards and practice, including the need to have a strong funding and benefits policy, and reminded the Board its funding and benefits policy has been identified by peer review actuaries as among the best they've reviewed.

Tentative 2022 Meeting Dates

Chairperson Elliott asked members of the Board to review the tentative 2022 meeting dates of February 18, May 6, August 5, October 7, and December 2. There were no known conflicts.

Public Comment

There was no public comment.

Next Meeting

The next meeting will be held Thursday, December 2, 2021.

Strategic Planning

Finalize 2021 Strategic Planning Summary and Commitment Worksheet

Jim Kerins of Communication and Management Services (CMS) joined the meeting to review the draft 2021 Strategic Planning Summary and Commitment Worksheet developed at the August 5, 2021 meeting. Mr. Kerins provided an overview of the planning process and described how results from stakeholder, staff, board, and member surveys are used to guide future efforts. He then reviewed the goals and objectives listed in the draft commitment worksheet and described how progress will be measured. Chairperson Elliott commented on the value of the commitment worksheet as a tool for evaluating Mr. Graham's performance each year.

Board training is one item listed on the commitment worksheet. Mr. Graham, Vice Chair Dubbs, and Chairperson Elliott shared their experience attending National Council of Teacher Retirement (NCTR) conferences and they encouraged new members of the Board to attend a future event. Member Brown requested the addition of a glossary of acronyms to the summary document for NCTR and other organizations.

Mr. Kerins will forward the changes made in this meeting to Mr. Graham for final confirmation. Once finalized, the Strategic Planning Summary and Commitment Worksheet will be posted publicly on the TRS website and Mr. Graham will give a progress report at each Board meeting.

Public Comment

Sarah Piper stated that MFPE appreciates the Board and staff's attention to their fiduciary duties.

Board Training

At the request of Member Brown, Chairperson Elliott asked each Board member as well as Mr. Graham and Ms. Pizzini to introduce themselves and share some background information before proceeding with Board training.

Fiduciary Training

Ms. Pizzini provided each member a copy of an updated Board Member Per Diem Election form and answered questions about the rules for reimbursement. She then reviewed key sections of *Fiduciary Duties* and *Avoiding Conflicts of Interest* documents and noted there are links to these in the recently revised Board Orientation manual for members who may wish to revisit them.

Ms. Pizzini briefly discussed each fiduciary duty and reminded the Board that more in-depth training on ethics and avoiding conflicts of interest will be conducted at a future Board meeting.

Public Comment

There was no comment.

Applications and Benefit Adjustments

Mr. Graham reviewed the board report for the five-month period April 1 – August 31, 2021 and stated this is the time of year in which the bulk of retirement applications are received. TRS staff processed 496 applications for early, regular, survivorship, or disability retirement in that timeframe, with the majority of retirements having taken effect June 1 or July 1, 2021.

Legal Counsel's Report

Summary of Legal Issues

Ms. Pizzini reported that TRS currently has no contested case matters. For the benefit of new Board members, she provided an overview of how contested case matters are conducted and explained that outside counsel is engaged to advise the Board on such matters. The Legal Counsel's report typically provides a status of contested cases rather than a review of all aspects of Ms. Pizzini's role as TRS legal counsel; however, that can change if the Board so desires.

Election of Officers

Election of Chair and Vice Chair

Motion/Vote: Member Chamberlin moved to retain Kari Elliott as Chairperson and Scott Dubbs as Vice Chair. Member Brown seconded the motion, and it was approved unanimously.

Committee Appointments

The Budget and Audit Committee is currently Dan Trost and Dan Chamberlin. Chairperson Elliott currently is on the Personnel and Policy Committee and Vice Chair Dubbs is on the Legislation and Litigation Committee. New members were asked their preference for committee appointments.

Motion/Vote: Member Chamberlin made a motion to retain Members Trost and Chamberlin on the Budget and Audit Committee; to add Member Hitchcock to the Personnel and Policy Committee; and to add Member Brown to the Legislation and Litigation Committee. Vice Chair Dubbs seconded the motion, which was approved by all members.

Adjournment

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

Motion/Vote: Member Brown moved to adjourn the meeting and Member Hitchcock seconded it. All members approved the motion and the meeting was adjourned at 11:58 a.m.

Chairperson /s/ Kari Elliott

Executive Director /s/ Shawn Graham