

Montana Teachers' Retirement System Board Meeting August 5, 2022

BOARD MEMBERS PRESENT

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

BOARD MEMBERS ABSENT

Daniel Trost, Member

STAFF PRESENT

Shawn Graham, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Chief Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communication Manager
John Noble, Information Systems Manager

OTHERS PRESENT

Rob Watson, School Administrators of Montana
Kirk Miller, School Administrators of Montana
Sarah Piper, Montana Federation of Public Employees
Kathy Milodragovich, Montana Retired Educators Association (*virtual*)
Dennis Parman, Montana Rural Education Association (*virtual*)

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 meeting agenda.

Motion/Vote: Vice Chair Scott Dubbs moved to adopt the agenda with Member Dee Brown seconding. The motion was approved by all members.

Approval of Minutes

Chairperson Elliott requested a motion to approve minutes from the May 13, 2022 meeting.

Motion/Vote: Member Brown moved to approve the minutes. Vice Chair Dubbs seconded the motion and it was approved by all members.

Public Comment on Board Related Items

This is an opportunity for members of the public to comment on any public matter not on the agenda and within the jurisdiction of the Board.

Kirk Miller, outgoing Executive Director of the School Administrators of Montana, thanked the TRS Board and Executive Director Shawn Graham for listening to school administrators' concerns and working with stakeholders on proposed legislation.

2022 Agency IT Plan

John Noble, TRS Information Systems manager, presented the TRS information technology plan as approved by the State Information Technology Services Division (SITSD). He explained that SITSD develops an IT plan every two years, and each agency then develops a plan supporting it. One of SITSD's primary goals is to increase the online services available to the public.

Mr. Noble reviewed several activities that TRS is pursuing. For example, TRS recently was granted access to the State's new web template, which is fully ADA-compliant as well as responsive, which means the display adjusts to the end user's screen size automatically. TRS now can begin creating a prototype based on the new template. TRS also is exploring additional cybersecurity and fraud protection measures for member and employer portals. The TRS Board incorporates IT-related objectives into the TRS Strategic Plan every two years to ensure accountability.

2023 Draft Legislation

Mr. Graham provided draft language for three bills for the Board's input and discussion. He will present these legislative concepts to the State Administration and Veterans' Affairs (SAVA) committee on August 11 for pre-session authorization, which would allow Legislative Services Division staff to draft them. The Board then will review the bill drafts at a future meeting and decide whether to move forward with them for the 2023 Legislative session.

Mr. Graham and Chief Legal Counsel Denise Pizzini then reviewed the proposed language.

Housekeeping Bill

Several sections of this bill would clarify existing provisions in TRS law, remove obsolete language, or relocate provisions to a more appropriate section of statute. Some clarifications relate to the calculation and transfer of contributions and service credit between PERS and TRS, which can occur due to a member's job change or a reporting error. Another section clarifies that 0.5% is the minimum Guaranteed Annual Benefit Adjustment (GABA) for eligible Tier 2 members, as was the original intent of the GABA provision.

The draft bill includes another proposed change that would establish a statutory time limit by which a deceased member's beneficiaries must respond to receive a share of the member's one-time \$500 death benefit. Another change would allow TRS to presume that an individual providing service in a TRS-reportable position is a common-law employee unless the employer provides documentation that satisfies IRS test criteria for independent contractor status. The final proposed change would comply with the HB 495 Task Force objective to review the use of the term "physician" in statute to

determine whether other provider types should be included while preserving the TRS Board's authority to determine which healthcare professionals are qualified, competent, and necessary to perform medical examinations of a disability retiree or applicant.

University System Supplemental Contribution Rate Bill

This bill satisfies TRS's statutory requirement to periodically review the Montana University System's supplemental employer contribution rate and recommend to the Legislature an increase that is sufficient to amortize, by July 1, 2033, the past service liability of the Teachers' Retirement System for MUS members who do not participate in TRS. The amount of the required increase will not be known until after the July 1, 2022 actuarial valuation is completed.

Working Retiree Bill

In response to feedback from school superintendents around the state, TRS has proposed to change three limitations on postretirement employment so that school districts may have more flexibility to hire retired members into TRS-reportable positions.

As currently drafted, the bill would increase a working retiree's allowable earnings limitation from one-third to 49% of their average final compensation or the median salary of all members who retired in the previous year. Second, it would reinsert superintendents and remove the sunset date from existing emergency-hire provisions. Third, it would reduce the break-in-service requirement from 150 to 120 calendar days following the retiring member's last certified date of termination. TRS's consulting actuaries have determined the actuarial impact of these changes would be negligible under current assumptions, although it is difficult to predict whether retiree behavior might change in a way that creates unanticipated risk for the retirement system.

Public Comment

Dr. Rob Watson, Executive Director of the School Administrators of Montana (SAM), commented that a strong retirement system is key to retaining qualified teachers and he thanked Mr. Graham for attending a meeting in every Montana Association of School Superintendents region. He represents SAM as well as the Montana School Boards Association, Montana Rural Education Association, Montana Association of School Business Officials, and Montana Quality Education Coalition in voicing support for the proposed working retiree bill, although he would have preferred a 90-day break in service rather than 120 days to make it easier for superintendents to fill open positions. He also commented that the proposed changes regarding establishing independent contractor status may be problematic for school districts.

Member Brown commented that 90 days is basically a summer break and she questioned whether teachers have even retired if they are allowed to return to work at the start of the next school year. Mr. Graham concurred, stating that 120 days was chosen specifically to discourage "sham" retirements. Ms. Pizzini reminded attendees that the IRS prohibits in-service distributions, which is why each qualified pension plan must enforce a break in service that is appropriate for the industry.

Sarah Piper of MFPE commented that a lack of funding is behind the teacher shortage and she thanked the Board and Mr. Graham for recognizing that the retirement system cannot solve this problem. While educators who have chosen to retire should not feel pressured to return to work, she

indicated that MFPE supports the Board's efforts to make incremental changes to help fill critical classroom vacancies.

Board Training

Funding and Benefits Policy

The Board reviews this policy during the August meeting that precedes a legislative session to ensure all members understand how the policy guides their decision-making process. Mr. Graham reviewed each section of the policy and requested comments from members.

The Board engaged in discussion about what constitutes a benefit enhancement or reduction. Mr. Graham clarified that the proposed working retiree bill, for example, is not a benefit enhancement because the retiree's benefit amount is unchanged. The retiree would be allowed to earn more in TRS-reportable employment, and TRS in turn would collect more in contributions. However, it is impossible to declare there will be no fiscal impact because it is not yet known whether relaxing the rules on postretirement employment will change retiree behavior.

Vice Chair Dubbs favors an incremental approach, whereby the Board recommends only modest changes and applies a sunset date so that the Board and lawmakers can evaluate their effectiveness at that time. Mr. Dubbs hopes that Mr. Graham can explain to legislators and stakeholder groups that the Board has considered all factors, not just the fiscal note attached to the draft bill. The public should be informed about these concepts as well, such as the need for a break in service. Chairperson Elliott agreed and said the Board should oppose any amendment to allow greater leniency for administrators, as it is the Board's duty to ensure members are treated uniformly.

The Board determined that no revisions to the Funding and Benefits Policy were needed. As the 2023 legislative session approaches, Mr. Graham and Ms. Pizzini will monitor all draft legislation and will work closely with the Legislation and Litigation Committee (Members Dubbs and Brown) on any bills that may require a Board decision to support or oppose them.

Public Comment

Sarah Piper of MFPE thanked the Board for the discussion and for recognizing the need to communicate the meaning of "break in service" to members and constituents.

Strategic Planning

Long Range Planning

Mr. Graham led the Board through a review of the two-year strategic plan developed last August and approved in October 2021. No changes were recommended to the TRS mission statement or the three primary goals established last year. Mr. Graham then reviewed the commitment worksheet that lists measurable objectives in support of each goal.

The first goal is to maintain an actuarially sound, qualified retirement plan. Other objectives in support of this goal have been completed or are ongoing, such as Mr. Graham's continued participation in Pension Study Group (HJ 8) committee meetings. Ms. Pizzini reported that the IRS has begun an audit pilot program for public pensions and will select a limited number of plans for

operational and tax-qualification reviews. If selected, another firm besides Ice Miller (TRS's current tax counsel) may need to be engaged to avoid a conflict of interest.

The second primary goal is to achieve a high-performance work culture and service excellence, with objectives that focus on staff pay and training, system enhancements, and expanded online services. Mr. Graham reported that TRS is nearly ready to implement an online withdrawal application, but for security reasons will require a notarized signature page. One objective was to obtain certification for staff to perform remote online notarizations, but this has proven to be impractical. Other methods for verifying identity may be more appropriate and TRS is currently researching options. Strong security will be crucial for an online retirement application and other online services that may be extended to members in the future.

Mr. Graham also noted that with only one communications person/technical writer on staff, TRS lacks the capacity to achieve certain objectives, such as developing procedural documentation for each team. TRS may bring a request for additional resources to a future Board meeting.

The third primary goal is to continue and expand TRS's communication and outreach efforts. Several of the related objectives involve external communications and attendance at member and stakeholder events, and many of these have been completed. Other objectives are of an ongoing nature and Mr. Graham provided a status update on each. Chairperson Elliott finds the commitment worksheet to be a useful guide but she recognizes it is a working document, subject to change.

Public Comment

There was no public comment.

Executive Director's Report

Legislative Interim Committee Update

Mr. Graham will attend the next meeting of the State Administration and Veterans' Affairs (SAVA) committee on August 11th to present TRS's legislative concepts for pre-session drafting approval. The HJ 8 Pension Study Group meets on the same day and Mr. Graham will attend that meeting as well. In October, he will present the results of the July 1, 2022 actuarial valuation to SAVA.

Operations Update

Mr. Graham announced several staffing updates. The Internal/External Auditor position was filled by Chris Fish, an 11-year member of the Retired Payroll team. Sherry Smith, who has been a Retired Payroll Specialist for five years, was promoted to Benefit Officer on the Active team. Amber Mullen has been the Executive Secretary for the past two years and is transitioning into a new role as an Active Benefit Specialist. An external candidate named Andrea Davidson recently filled Chris Fish's former Retired Payroll Specialist position, and interviews for Sherry Smith and Amber Mullen's former positions will begin soon.

Mr. Graham announced a new initiative from the Governor's office called ROWS (Remote Office Work Space). The Department of Administration worked with a consultant to analyze all job functions, then gathered input from agencies about positions that could be performed remotely. Some but not all TRS positions will allow staff to work from home one, two, or three

nonconsecutive days per week, provided there is full coverage in the office during normal business hours. Security for remote workers is not a concern because only State-provided laptops can authenticate to the state network using a wireless Virtual Private Network (VPN) connection. Once connected, remote workers are subject to the same security restrictions as onsite workers.

Public Comment

No comments were received.

Administrative Business

Investment Report

Member Daniel Trost attended the Board of Investments (BOI) meeting earlier this week but was unable to attend this meeting. Mr. Graham provided a report showing TRS investment returns as of June 30, 2022, as well as a “snapshot” document of all BOI investments. TRS returns were down 4.33% for the year, but thanks to a net return of 27.71% in the previous fiscal year, Mr. Graham does not expect that the July 1, 2022 actuarial valuation will show a meaningful decrease in TRS’s funded status.

FY 2022 Budget Status Report

Nolan Brilz, TRS Accounting/Fiscal Manager, reported that as of June 30, 2022, TRS’s ending fund balance had declined by approximately \$400 million compared to the previous fiscal year. Investment expenses increased due to the large fund balance (over \$5 billion) that existed for most of FY 2022, with losses occurring only in the last quarter. Mr. Graham pointed out that while external fund management costs increased, BOI’s fees went down.

The FY 2022 operating budget showed a surplus of approximately \$387,000 due to vacancy savings, low legal fees, and actuarial services that were not yet billed by fiscal year end. The Accounting team worked proactively with employers to ensure that year-end reporting deadlines were met, and Mr. Brilz reported there were no delinquent agencies at fiscal year closeout.

PRISM Conference Report

John Noble, TRS Information Systems Manager, reported that cybersecurity was a main theme of the PRISM conference he attended in May. There was much discussion about expanding online services to members and the benefits of using adaptive multifactor authentication to confirm members’ identity. For example, dynamic knowledge-based authentication confirms identity using personalized data that only the member should know. Mr. Noble has begun contacting service providers that already have a relationship with the State of Montana, including Okta and LexisNexis, to determine potential costs. He reported that a presentation on the economics of remote work also aligned with Montana’s new ROWS initiative.

In the interest of time, the Board agreed to postpone staff reports from four other conferences.

Public Comment

No comments were received.

