

Montana Teachers' Retirement System Board Meeting February 18, 2022

BOARD MEMBERS PRESENT

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

BOARD MEMBERS ABSENT

Kari Elliott, Chair
Daniel Chamberlin, 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 (*virtual*)
John Noble, Information Systems Manager

OTHERS PRESENT

Dan Villa, Montana Board of Investments
Sarah Piper, Montana Federation of Public Employees
Kathy Milodragovich, Montana Retired Educators Association (*virtual*)

Call to Order

With a quorum present, Vice Chair Scott Dubbs called the meeting to order at 8:30 a.m.

Adoption of the Agenda

Vice Chair Dubbs requested a motion to adopt the meeting agenda.

Motion/Vote: Member Dan Trost moved to adopt the agenda. Member Dee Brown seconded the motion, which was approved by all members present.

Approval of Minutes

Vice Chair Dubbs requested a motion to approve the minutes from the December 2, 2021 meeting.

Motion/Vote: Member Brown moved to approve the minutes and Member Trost seconded the motion. It was approved by all members present.

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.

There was no public comment.

BOI Annual Report

Dan Villa, Executive Director of the Montana Board of Investments, presented an annual report on TRS asset allocation, investment performance, investment goals and strategies, and TRS's performance compared to similarly sized public pensions. The BOI has moved some assets from lower- to higher-yielding investments while remaining within target asset allocation ranges. For example, the amount of TRS assets held in cash was reduced from 3% to 2%, because the BOI has been able to use dividends to pay benefits rather than relying on cash.

Mr. Villa noted that the goal in a private investments portfolio is to achieve higher relative returns while minimizing relative risk, and the BOI achieves this consistently. As assets grow, so do fees; however, the BOI remains focused on keeping overall fees within 0.3%.

After answering questions from the Board about asset allocation, Mr. Villa reviewed the latest State Street investment report. Strong investment gains in the last quarter of 2021 are more than offsetting the recent market losses, and TRS's average annual return continues to exceed the actuarially assumed rate of return. The fund is well diversified and well positioned to weather current economic and market volatility.

Public Comment

There was no comment.

Executive Director's Report

Executive Summary – Operations and Staff Updates

Executive Director Shawn Graham reported high attendance at virtual member education seminars held in December and January. Members appreciate the option of virtual sessions if they are unable to attend live presentations in various communities or at the MFPE educator conference each fall. Based on demand, TRS will plan to continue offering both virtual and live sessions next fall. Videos of these "TRS 101: Retirement System Basics" and "Ready, Set, Retire" presentations also are available online and have received more than 1,000 total views over the past year.

Mr. Graham reported that TRS offered the internal/external auditor position to a candidate who turned it down due to the requirement to live in the Helena area. The position is not purely travel-based and requires an experienced auditor, so the search will continue. State Human Resources has confirmed that many agencies are having difficulty finding qualified candidates. TRS has an imaging technician position to fill as well and will begin interviewing applicants soon.

MASS Meetings

Mr. Graham attended the Southcentral Montana Association of School Superintendents meeting in January and is scheduled to attend several more MASS meetings in the coming months. He said superintendents do recognize the value of TRS and appreciate Mr. Graham's attendance at these meetings to hear their concerns. Many would like greater flexibility in filling open positions with TRS retirees and this issue will likely come before the Legislature once again.

Legislative Interim Committee Update

Mr. Graham attended the joint State Administration and Veterans' Affairs committee (SAVA) and Legislative Finance Committee meeting on December 16, 2021 and presented the results of the July 1, 2021 actuarial valuation. Committee members seemed pleased with the report and had few questions. The next SAVA and pension study group meeting is scheduled for March 24, 2022.

Public Comment

Sarah Piper of MFPE appreciates how well represented TRS is among members. This includes Mr. Graham's participation in MASS and SAVA committee meetings as well as in-person and virtual presentations conducted by staff.

IT Manager's Report

John Noble, TRS Information Technology Manager, reviewed his team's activities over the last year and the current status of the IT budget. He reported that, for example, TRS previously had budgeted \$150,000 for IBM software that would have replaced a legacy IBM Report Manager product that is no longer supported. In 2021 his staff were able to avoid that expense by developing a custom solution to migrate legacy reports from Report Manager and to upload new reports generated by M-Trust into TRS's existing content management system, Perceptive ECM.

TRS no longer owns and maintains physical servers; all its systems and services run on virtualized servers hosted by the State Information Technology Services Division at their Helena data center. Most staff workstations are virtualized as well, meaning that staff log into a virtual desktop using a Virtual Private Network (VPN) for secure access to the State network. Desktop mini-PC devices are being replaced with laptops on a regular replacement schedule. Laptops allow staff to work remotely when necessary, using the same VPN access as when working onsite.

Public Comment

There was no public comment on the IT Manager's Report.

Administrative Business

FY 2021 Annual Comprehensive Financial Report

Nolan Brilz, TRS Accounting and Fiscal Manager, reported that TRS received an unmodified audit opinion on the 2021 ACFR and pointed to sections that may be of interest to members. The main highlights are the 27% rate of return for FY 2021, with an increase in our fiduciary net position of nearly \$1 billion. He expects TRS once again will receive a Certificate of Achievement for Excellence in Financial Reporting from the Government Financial Officers Association (GFOA).

FY 2022 YTD Financial Statements and Budget Reports

Mr. Brilz reviewed financial statements and budget reports as of January 31, 2022. With recent market declines, investment income was down but revenue still exceeded expenses by \$172 million. Withdrawals were higher than in previous years because TRS has contacted thousands of non-vested members whose accounts are dormant to encourage them to withdraw their member

contributions plus interest. Overall membership declined by more than 5,000 non-vested members as a result.

Mr. Brilz then discussed the TRS operating budget, which shows an anticipated surplus of approximately \$150,000, due to unfilled positions and savings in other expense categories.

Personnel Committee Report

Chairperson Kari Elliott and Member Sarah Hitchcock were unable to meet to conduct Mr. Graham's performance appraisal. The topic is tabled until the May meeting.

Tentative 2022 Meeting Dates

Members of the Board reviewed the tentative 2022 meeting dates. Member Hitchcock reported a conflict with the May 6 date and members agreed to move the meeting to May 13. Other tentative meeting dates are August 5, October 7, and December 2, 2022.

Out of State Travel

Mr. Graham presented five staff requests for possible out-of-state travel to conferences in the next few months. He summarized the purpose of each conference and explained how cost estimates are determined. Vice Chair Dubbs voiced support for the value of these events for staff education.

Motion/Vote: Member Brown moved to approve the out-of-state travel requests for TRS staff. Member Trost seconded the motion, and it was approved by all members present.

Public Comment

There was no public comment on Administrative Business.

Next Meeting Date

The next meeting is scheduled for Friday, May 13, 2022.

Legal Counsel's Report

Summary of Legal Issues

Denise Pizzini, TRS Legal Counsel, reported that TRS currently has no contested case matters.

She updated the Board on the Legislature's HB 495 Task Force, which seeks to change the definition of "physician" in statute. TRS has asked to be excluded from their process and will instead propose revisions to disability determination provisions of TRS law with respect to the qualifications of healthcare providers from whom TRS will accept medical opinions of disability status for a member applying for a disability retirement benefit.

Applications and Benefit Adjustments

Regular, Survivorship, Adjustments and Corrections

Deputy Director Tammy Rau reported that 70 applications for retirement were processed between November 1, 2021 and January 31, 2022. She noted that staff recently completed the annual mailing of retirement application packets to members who had requested them. This year, 348 application packets were mailed, which is more than the number mailed last year.

Long Range Planning

2021-2023 Strategic Planning Commitment Worksheet – Updates

Mr. Graham provided updates on objectives listed on the commitment worksheet. Most are in progress, and by the May meeting, Mr. Graham will have completed the objective to attend all regional MASS meetings. Ms. Rau reported progress on education and outreach efforts, including plans to automatically generate letters to newly vested members.

Mr. Graham reminded the Board that the strategic plan will be reviewed again at the August meeting, at which time priorities can be adjusted as needed.

Public Comment

There was no comment.

Board Training

Privacy and Security of Personal Information

Ms. Pizzini began this annual training by explaining the policy comes directly from state statute, and each agency creates its own policy specific to its business practices. She explained that personally identifiable information (PII) is defined as first name or initial with last name, plus another identifying piece of information (e.g., SSN, Tax ID). TRS is authorized to collect and disclose PII, including SSN, from members for the purpose of performing TRS business functions and treats that information as confidential. All staff, contractors, and authorized third-party agents with access to PII are responsible for maintaining the privacy and security of that information.

Public Comment

Sarah Piper of MFPE expressed appreciation for the Board and staff's work to keep the pension strong. This is important for supporting school districts' efforts to attract and retain teachers.

Disability Applications

Ms. Rau announced there were no disability applications for Board review at this meeting.

Adjournment

With no other business before the Board, Vice Chair Dubbs requested a motion to adjourn.

Motion/Vote: Member Trost moved to adjourn the meeting with Member Brown seconding. The motion was approved by all members present and the meeting was adjourned at 10:58 a.m.

Chairperson _____ /s/ Scott Dubbs (Acting Chair)

Executive Director _____ /s/ Shawn Graham