

## Montana Teachers' Retirement System Board Meeting May 13, 2022

### **BOARD MEMBERS PRESENT**

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

### **STAFF PRESENT**

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

### **OTHERS PRESENT**

Todd Green, Cavanaugh Macdonald Consulting  
Bryan Hoge, Cavanaugh Macdonald Consulting  
Diane Fladmo, Montana Federation of Public Employees  
Sarah Piper, Montana Federation of Public Employees (*virtual*)  
Rebecca Power, Montana Legislative Services Division (*virtual*)  
Lindsey Trenary, Montana Department of Administration (*virtual*)

### **Call to Order**

Chairperson Kari Elliott asked Vice Chair Scott Dubbs to facilitate, as she would be unable to attend the entire meeting. Vice Chair 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 Daniel Trost moved to adopt the agenda. Member Daniel Chamberlin seconded the motion and it was approved by all members.

### **Approval of Minutes**

Vice Chair Dubbs requested a motion to approve minutes from the February 18, 2022 meeting.

*Motion/Vote:* Member Dee Brown moved to approve the minutes. Member Chamberlin seconded and the motion 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.

There was no public comment.

### **Actuarial Experience Study**

#### Experience Study and Recommendations

Todd Green and Bryan Hoge of Cavanaugh Macdonald Consulting presented the results of the TRS actuarial experience study for the five-year period ending June 30, 2021.

Mr. Green explained that an actuarial experience study involves the examination of five years of plan and census data to determine how well the retirement system's experience matched the assumptions that were used to calculate liabilities and produce an actuarial valuation of the system each year. Even if the retirement system were closed today, its obligation to pay benefits would not end for another 100 years or more, and for this reason it is important to maintain a long-term view rather than making decisions based on current events and short-term economic conditions. For example, while the Federal Reserve Board had kept interest rates artificially low since the 2008 financial crisis, rates are returning to more typical levels to help stem inflation. In the 1980s, high inflation led to very high interest rates. Despite these extremes, inflation tends to fall within a predictable range when averaged over many decades, and price and wage inflation assumptions may require only modest changes to produce accurate valuations of TRS going forward.

Mr. Hoge reviewed demographic assumptions such as rates of service and disability retirement, merit pay increases, and mortality. While many people had assumed retirements would jump due to the pandemic, data do not yet show significant increases. There are many reasons why a member may choose not to retire when first eligible, such as availability of health insurance. Teachers also tend to be better educated and healthier than some categories of public employees and may be expected to live longer. To account for these demographic factors, the actuaries recommend a generational mortality approach using the most recent mortality tables applicable to teachers. Mr. Green then discussed each economic assumption including investment return, inflation, and payroll growth rates and he answered several questions from the Board.

Executive Director Shawn Graham referred attendees to the board packet for a list of recommended changes, including to increase the price inflation assumption from 2.50% to 2.75%, increase the wage growth assumption from 3.25% to 3.50%, and decrease the actuarially assumed rate of return on investments from 7.50% to 7.30%. While some public retirement systems have reduced their assumed rates of return even farther, Mr. Green noted that no two plans are alike and 7.30% remains in line with TRS's average rate of return since inception, with lower returns in some years being offset by strong returns in other years, including a 27.7% return in FY 2021.

#### Public Comment

Diane Fladmo of the Montana Federation of Public Employees thanked the Board and actuaries for their careful analysis.

## Board Consideration of Actuarial Assumptions

*Motion/ Vote:* Vice Chair Dubbs requested a motion to accept the recommendations presented in the actuarial experience study. Member Chamberlin moved to accept all recommended changes. Chairperson Elliott seconded the motion, and all members except Member Brown voted in favor. With the motion carrying 5-1, the changes will be implemented effective July 1, 2022.

## Executive Director's Report

### Investment Report

Mr. Graham provided the most recent report from the Board of Investments showing TRS investment returns as of March 31, 2021. Member Daniel Trost has been appointed to represent TRS on the BOI Board and will attend the next meeting, but because the seat went unfilled for several months, Mr. Graham spoke with BOI Executive Dan Villa to determine whether any concerns should be brought to the TRS Board's attention. There were none.

### FY 2021 Legislative Audit Report

Nolan Brilz, TRS Accounting/Fiscal Manager, and Mr. Graham reported that TRS received an unmodified opinion on its most recent legislative audit with no recommendations.

### YTD Financial Statements and Budget Reports

Mr. Brilz reviewed the TRS consolidated balance sheet as of March 31, 2022. The most significant change results from a new Governmental Accounting Standards Board (GASB) standard that requires agencies to itemize leases in a specific way on financial statements.

TRS assets increased by approximately \$300 million, but due to investment declines, total revenue was down compared to the same period last year. The end fund balance still exceeded \$5 billion at the end of March. TRS administrative expenses were slightly lower compared to the same period last year, and the operating budget currently shows a surplus of approximately \$150,000, due primarily to position vacancies and amounts budgeted for audit fees. Mr. Graham confirmed that TRS continues the search for a qualified internal/external auditor, and salary budgeted for that position comprises part of the surplus.

### Personnel Committee Report

Member Sarah Hitchcock reported that she and Chairperson Elliott previously had conducted Mr. Graham's performance appraisal by comparing ratings from staff and board member evaluations, which were uniformly positive. The committee is very pleased with his leadership of TRS.

Chairperson Elliott then summarized the work that began last year to transition TRS from its old Broadband 20 pay plan to the Department of Administration's new Broadband 25 pay plan. However, unexpected shifts in market pay ranges would have resulted in unrealistic pay increases or decreases for some staff. The Department of Administration is working on normalizing those ranges and TRS hopes to apply 2022 market rates to staff pay in FY 2024. In the meantime, the FY 2023 budget includes a proposal to fund a reasonable 2.7% retention pay increase for several staff and larger increases for two staff members whose job duties have changed significantly.

## Budget Committee Report

Member Trost reported that he and Member Chamberlin met with Mr. Graham and Mr. Brilz to review the budget request and justification for FY 2023. State law allows administrative expenses up to 1.5% of benefits paid, and TRS consistently has spent far less, even when the amortized costs for the M-Trust pension management system are included. They are pleased with this, but Member Trost said he would be curious to know where the 1.5% threshold came from and whether it is consistent with other state retirement systems.

Member Chamberlin commented that Mr. Brilz and Mr. Graham are always able to answer questions to the budget committee's satisfaction and he has no concerns with the TRS budget request for FY 2023.

## Tentative 2022 Meeting Dates

No conflicts were noted for the August 5 meeting or for the October 7 meeting, at which the actuaries will present results of the annual valuation. The last regular meeting of the year is scheduled for December 2, 2022.

## Public Comment

Diane Fladmo of MFPE is pleased to know TRS will hire an internal/external auditor and appreciates the Board and TRS leadership's efforts to pay staff fairly, to manage the budget carefully, and to provide good service to members and employers across the state.

## Set the Interest Rate Credited to Member Accounts

Mr. Graham provided a rationale for keeping the interest rate unchanged at 0.25% for FY 2023. TRS uses the Short-Term Investment Pool (STIP) rate as a guide but is not required to match it.

*Motion/Vote:* Member Trost made a motion to set the interest rate credited to member accounts at 0.25%. Member Hitchcock seconded the motion and it was approved unanimously.

## Renewal of Contracted Services Agreements

Mr. Graham briefly reviewed the renewal terms for contracts with Ice Miller (legal counsel) and Alfred Munksgard and Associates for continued maintenance on the M-Trust pension management system. Mr. Graham believes both firms provide great value to TRS.

*Motion/Vote:* Member Chamberlin moved to accept the contract renewals for both Ice Miller and Alfred Munksgard and Associates. Member Trost seconded the motion, and it was approved unanimously.

## Out-of-State Travel

Mr. Graham asked if any members of the Board are interested in attending the National Conference on Teacher Retirement (NCTR) Summer Trustee Workshop in Berkeley, California in July 2022. NCTR also holds an annual conference, which is scheduled for October 2022 in Tucson, Arizona, so members who cannot attend the summer workshop may have another learning opportunity.

Motion/Vote: Member Hitchcock moved to approve out-of-state travel to send up to two Board members to the NCTR Summer Trustee Workshop. Member Brown seconded the motion, which was approved by all members.

### TRS FY 2023 Budget

Vice Chair Dubbs requested a motion to approve the FY 2023 budget request that was reviewed earlier in the meeting.

Motion/Vote: Member Trost moved to approve the fiscal year 2023 budget request as presented and Member Chamberlin seconded it. There was no further discussion and the motion was approved unanimously.

### Next Meeting Date

The next meeting is scheduled for Friday, August 5, 2022. The agenda will include regular business items but will focus primarily on the strategic plan that was developed last year. Mr. Graham also may schedule a joint luncheon for staff and Board members.

## **Executive Director's Report**

### 2023 Legislative Concepts

Mr. Graham reviewed three placeholder “legislative concepts” documents submitted to the Governor’s Office. He explained these are not yet bill drafts and are required of Executive Branch agencies that plan to request legislative changes.

Mr. Graham and Chief Legal Counsel Denise Pizzini are working on items to be included in the TRS Housekeeping bill and may have draft language ready for review by the Legislative Committee prior to the August meeting. Another placeholder is the University Supplemental Contribution Rate Increase bill, which TRS is required to bring each session when MUS supplemental contributions are insufficient to amortize the past service liability of TRS members.

The third placeholder represents a proactive attempt to provide school districts more flexibility in hiring TRS retirees to fill vacant positions while preserving TRS’s status as a qualified plan. Mr. Graham does not yet have information on the potential financial and legal implications of such changes, but he plans to compile that information for Board consideration at the August meeting.

### Executive Summary

MASS Meetings: Mr. Graham reported that he attended a regional meeting of each Montana Association of School Superintendents (MASS) group between January and May 2022. Member Brown and Vice Chair Dubbs each attended a regional meeting and said the superintendents expressed appreciation for the quality of service they receive when they call TRS and for Mr. Graham’s willingness to meet with them and listen to the challenges they face in attracting and retaining qualified teachers.

Staff Update: Tracy Tice was hired to fill the vacant Imaging Technician position and started his position on April 4. He has prior experience with State Print and Mail and TRS is glad to have him on board. The vacant Auditor position has been posted again and TRS has received a few promising applications. Mr. Graham also announced that Margaux Lilly, one of the benefit officers on the Active Benefits team, recently announced she has accepted an HR position with another state agency that offers more opportunity for advancement. Her position will be posted soon.

#### Public Comment

There was no comment.

### **Legal Counsel's Report**

#### Summary of Legal Issues

Chief Legal Counsel Denise Pizzini was unable to attend the meeting and Mr. Graham provided an update on her behalf. Ms. Pizzini continues to work on administrative rule revisions as discussed at previous meetings, and on the legislative concepts discussed earlier. Currently there are no contested cases or pending legal issues.

### **Applications and Benefit Adjustments**

#### Regular, Survivorship, Adjustments and Corrections

Deputy Executive Director Tammy Rau reported that the Active Benefits team processed 41 applications for retirement in February and March 2022. The months of April, May, and June are the busiest, and more than 600 application packets mailed out to members already. Not all of them will complete the application, but TRS still could receive and process more than usual this year.

### **Long Range Planning**

#### 2021-2023 Strategic Planning Commitment Worksheet – Updates

Mr. Graham listed some objectives that have been completed, including the actuarial experience study, MASS meeting attendance, and updates to the TRS pay plan. Another objective that will be completed soon is to research retirement options and bring forth recommendations to the Board for possible legislation, such as to amend working retiree provisions as discussed earlier.

He and Ms. Rau then discussed progress on the Online Withdrawal Application (OWA) project, which is scheduled for implementation later this fall. TRS intends to let that process run for several months to collect feedback and “lessons learned” before embarking on the larger Online Retirement Application effort, which will require significant time and resources to ensure the requirements analysis, user interface design, and development stages are addressed thoroughly with as little rework as possible.

#### Public Comment

There was no comment.

