

Montana Teachers' Retirement System Board Meeting October 7, 2022

BOARD MEMBERS PRESENT

Kari Elliott, Chair
Scott Dubbs, Vice Chair
Daniel Trost, Member
Daniel Chamberlin, Member (*departed meeting at 10:30*)
Dee Brown, Member (*virtual*)
Sarah Hitchcock, Member (*virtual*)

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

Todd Green, Cavanaugh Macdonald Consulting
Bryan Hoge, Cavanaugh Macdonald Consulting
Rebecca Power, Legislative Services Division
Sarah Piper, Montana Federation of Public Employees (*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: Member Daniel Trost made a motion to adopt the agenda and Member Daniel Chamberlin seconded it. The motion was approved by all members.

Approval of Minutes

Chairperson Elliott requested a motion to approve the minutes from the August 5, 2022 meeting.

Motion/Vote: Vice Chair Scott Dubbs moved to adopt the minutes. Member Daniel Trost 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.

Rebecca Power of the Legislative Services Division and State Administration and Veterans' Affairs (SAVA) committee introduced herself to the Board.

Actuarial Valuation

Actuarial Valuation Report – Cavanaugh Macdonald

Todd Green and Bryan Hoge presented results of the July 1, 2022 actuarial valuation to the Board. Mr. Green began with a review of the basic retirement funding equation, whereby contributions plus investment income must equal benefit payments plus expenses. Because the Legislature sets contribution rates, the actuaries do not determine what the rates will be but whether they are sufficient to fully amortize the system in 30 years or less, as required in statute. An advantage of a prefunded plan like TRS is that investment income covers 60 – 70% of liabilities. In a plan that is not prefunded (such as Social Security), contributions must cover all benefit obligations. The role of an actuary is to predict today what a plan’s obligations will be in the future.

As a result of Cavanaugh Macdonald’s actuarial experience study last year, the Board voted in May to revise some actuarial assumptions to improve those predictions. Mr. Green reminded them that the actuarial valuation under review reflects the assumed rate of return of 7.50%, not the reduced rate of 7.30%, which took effect July 1, 2022. TRS assets on a market value basis lost 4.13%, performing better than many other public pensions. The actuarial methodology averages investment returns over a four-year period to avoid large fluctuations in the annual valuation. A large return of nearly 28% in fiscal year 2021 helps to offset the 4.13% loss in 2022 as well as lower-than-expected gains in both 2019 and 2020. As a result of this four-year “smoothing,” the current valuation shows the amortization period increased by only one year (from 24 to 25 years).

Mr. Hoge reviewed demographic trends and assumptions, such as the number of members entering the system, the number who retired or passed away, their average salaries and benefit amounts, and so on. He then described an upcoming change in actuarial standards that will appear in next year’s valuation. The new standard requires that actuaries include a liability measure that estimates what the plan would cost if assets were held in low-risk, fixed-income securities rather than a diversified portfolio with the potential for investment earnings. Board members discussed the need to educate legislators and stakeholders on the new actuarial standard so that they do not misinterpret the low-risk measure. Given that investment income covers 60 – 70% of liabilities, it can be shown that the BOI’s conservative investment approach saves the state money.

Public Comment

Sarah Piper of the Montana Federation of Public Employees (MFPE) expressed appreciation for the actuaries’ presentation and agrees that education of members and lawmakers will be important with respect to the upcoming change in actuarial standards.

Adopt July 1, 2022 Actuarial Valuation Results

Motion/Vote: Vice Chair Dubbs moved to adopt the actuarial valuation. Member Trost seconded the motion and it was approved unanimously.

Administrative Business

Investment Report

Member Daniel Trost reviewed the August 31, 2022 investment report from the Montana Board of Investments, which shows a loss of 5.11% over the previous 12 months. Considering how poorly

the broader markets have performed, he believes any investment professional would consider this a good result. Rising interest rates will help the portion of TRS assets currently invested in the bond market, and other economic factors such as low unemployment should prevent a major recession.

He reported that the BOI has been careful not to overreact to market conditions while keeping enough cash on hand to pay benefits, so that is not a concern. He has been impressed with the BOI board and staff and he believes the fund is in good hands.

Financial Statements and Budget Reports

Nolan Brilz, TRS Accounting/Fiscal Manager, presented financial statements for the period ending August 31, 2022. Total investments are down, but benefit payments and contributions remain consistent with the previous year. He noted there is a surplus in the operating budget due in part to vacant positions. Even though it is early in the fiscal year, Mr. Brilz believes some surplus will carry through to the end of the year. There were no questions from the Board.

NAPPA Conference

Denise Pizzini, TRS Chief Legal Counsel, attended the National Association of Pension Plan Attorneys in June 2022. Topics of discussion included diversity, equity, and inclusion (DEI) initiatives; actuarially assumed rates of return; and recent IRS changes to W-4P tax withholding, with Montana being one of the first public pensions to implement those changes. Cybersecurity and fraud prevention continue to be important topics, including discussions of security standards and best practices from the federal Department of Labor. A nonpartisan working group also has published recommendations and objectives for pension plan security, one of which relates to audits of contractors and vendors. Ms. Pizzini will review TRS's third-party agent agreements to determine whether changes might be needed before contracts are renewed.

NCTR Customer Service Workshop

TRS Communication Manager Darla Fitzpatrick provided a report on two conferences. In May 2022 she attended the Montana Notary Conference to gather information about what it would take for TRS staff to perform remote online notarization (RON). In June 2022 she attended the NCTR Customer Service workshop and participated in productive discussions with peers about communication, member education, and regulatory issues, including IRS W-4P changes. As with other conferences, cybersecurity and fraud were topics of discussion. If TRS is to offer more online services to members, it will be important to follow best practices for verifying an online user's identity. An investment in RON technology and training may not be the best approach.

NCTR Directors Meeting

Director Shawn Graham attended the NCTR Directors Meeting, which took place in the same week as the Customer Service Workshop. Directors engage in roundtable discussions to update each other on the pressing issues each is facing and how they plan to address them. In most cases, the various retirement systems face similar issues and take similar approaches to resolving them. For example, nearly all states are facing teacher shortages and many systems are using return-to-work provisions to help school districts. Based on analysis by actuarial firms, there are not enough teachers in the pipeline to fill all vacancies. Montana's colleges and universities do graduate enough new teachers to fill the state's needs, but some of those candidates take positions out of state.

Discussions at this conference helped Mr. Graham solidify the recommendations he made at the last board meeting for a TRS working retiree bill.

NCTR Trustee Workshop

Vice Chair Scott Dubbs and Member Sarah Hitchcock attended the NCTR Trustee Workshop in July 2022. Ms. Hitchcock found the workshop to be very informative and she enjoyed meeting trustees from other retirement systems and learning more about the similarities and differences between systems. She reported that she may have an opportunity to participate on the NCTR Education Committee. Vice Chair Dubbs commented that the trustee workshop differs from the others in that it is educational in nature, ideal for “part time” board members who don’t work in the pension world every day. Presentations and breakout sessions help them better understand their role as trustees. Topics included fiduciary duties, investment strategies, funding methods, cybersecurity, teacher shortages, pension system trends, regulatory issues and more.

Tentative Meeting Dates

Chairperson Elliott reviewed the tentative 2023 meeting dates, which are February 17, May 5, August 4, October 6, and December 1. There were no known conflicts.

Public Comment

There was no comment.

Out-of-State Travel – NCTR Annual Conference

Chairperson Elliott asked for a motion to approve the out-of-state travel requests for Director Graham, Member Brown, and Member Hitchcock to attend the annual conference. Travel costs were already budgeted for and approved at the May 2022 meeting.

Motion/Vote: Member Trost moved to approve the out-of-state travel requests. Member Chamberlin seconded the motion and it was approved unanimously.

Next Meeting Date

The next Board meeting is scheduled for Friday, December 2, 2022.

Executive Director’s Report

Executive Summary – Staff/Operations Update

Mr. Graham updated the Board on the Remote Office Work Space (ROWS) initiative. Out of 20 current staff members, 11 work onsite every day, either because their positions are not eligible for ROWS or because they prefer to work in the office. Nine staff members work remotely one day, two days, or three days per week following an approved schedule.

A new administrative assistant was hired in August but that employee later received a job offer in the private sector at a salary TRS could not match. The position was readvertised and has been offered to another candidate. There are two open positions on the Retired Payroll team. One position should be offered to a candidate soon and the other job posting will close next week.

Legislative Interim Committee Update

Director Graham presented the TRS legislative concepts to the State Administration and Veterans' Affairs (SAVA) committee on August 11 for pre-session drafting authorization. On September 12 he presented a report to the Education Interim Committee on usage of reemployed working retiree provisions in §19-20-732, MCA.

Mr. Graham will present the results of the July 1, 2022 actuarial valuation to the SAVA committee on October 26 and to the Legislative Finance Committee when their meeting is scheduled.

Public Comment

There was no comment.

2023 Board Legislation

Mr. Graham briefly reviewed the draft legislation that had been discussed in the August meeting, focusing on additional language changes made by TRS. The full text of each bill draft was included in their packets.

Housekeeping Bill

Language in this bill is substantially unchanged from the August draft except for new language to clarify that TRS has the authority to request, for audit purposes, an employer's payroll records for all individuals, not just those being reported to TRS.

University System Supplemental Contribution Rate Bill

As required by §19-20-621, MCA, this bill would adjust the Montana University System Retirement Program supplemental contribution to a rate sufficient to amortize, by July 1, 2033, the past service liability of TRS for university system employees who do not participate in TRS. Based on the results of the July 1, 2022 actuarial valuation, the supplemental employer contribution rate would need to increase from 4.72% to 13.53%.

Working Retiree Bill

A sunset date of June 30, 2029 has been inserted in this bill, which would loosen certain restrictions on TRS retirees who return to work in TRS-reportable positions. The sunset date was requested by Vice Chair Dubbs and Member Brown at the previous meeting.

Public Comment

There was no comment.

Approve TRS Legislation for 2023 Session

Motion/Vote: Vice Chair Dubbs moved to approve TRS legislation. Member Trost seconded the motion. Member Chamberlin had left the meeting prior to the discussion but the motion was approved by all remaining Board members.

Strategic Planning

Summary and Commitment Worksheet Update

Mr. Graham gave a progress report on objectives listed in the Strategic Plan and Commitment Worksheet.

The objective to have three staff certified to perform online notarizations was deferred. Ms. Pizzini clarified that TRS can accept forms that have been notarized electronically but will not pursue the training necessary for our own notaries to do it. Instead, TRS is looking at other solutions to electronically verify the identity of members who log into My TRS, the online member portal.

Mr. Graham provided an update on two other items on the commitment worksheet that had been completed. There were no further questions from the Board.

Public Comment

There was no public comment.

Applications and Benefit Adjustments

Regular, Survivorship, Adjustments & Corrections

Deputy Director Tammy Rau reported that between April 1 and August 31, 2022, staff processed 552 applications for retirement. Applicants' average age was 61 years and they had slightly less than 24 years of service on average. Members Trost and Brown asked whether retirements had increased. Ms. Rau and Mr. Graham noted that retirements did increase slightly from 2021 to 2022 but remained consistent with the average over the last five to ten years.

Legal Counsel's Report

Summary of Legal Issues

Ms. Pizzini reported there are no legal issues pending and no contested cases.

Election of Officers

Election of Chair and Vice Chair

Chairperson Elliott asked for input on current officers and committee appointments. Vice Chair Dubbs suggested that another member should take over as Vice Chair. Sarah Hitchcock agreed to consider the role.

Motion/Vote: Vice Chair Dubbs moved to retain Kari Elliott as chair and elect Sarah Hitchcock as Vice Chair. Member Trost seconded the motion and it was approved by all members present.

Committee Appointments

Member Trost expressed interest in moving from Budget and Audit to Legislation and Litigation. Vice Chair Dubbs agreed to switch appointments with him. No other changes were requested.

Chairperson Elliott read the revised committee appointments and requested a motion:

Budget & Audit Committee: Daniel Chamberlin and Scott Dubbs

Legislation & Litigation Committee: Dee Brown and Daniel Trost

Personnel & Policy Committee: Kari Elliott and Sarah Hitchcock

Motion/Vote: Member Trost moved to approve the revised committee appointments. Member Hitchcock seconded the motion and it was approved by all members present.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

The meeting was closed to the public at 11:32 a.m., as a disability applicant's right to privacy clearly exceeds the merits of public disclosure.

Open Meeting

The meeting was reopened at 11:43 a.m.

Approval of Applications for Disability Retirement Benefits

Motion/Vote: Member Trost moved to disapprove the disability retirement application for J. A. Member Hitchcock seconded the motion and all members voted in favor of disapproval.

Motion/Vote: Vice Chair Dubbs moved to approve the disability retirement application for S. B., with Member Trost seconding. The motion was approved by all members present.

Adjournment

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

Motion/Vote: Member Trost moved to adjourn the meeting with Vice Chair Dubbs seconding. The meeting adjourned at 11:45 a.m.

Chairperson /s/ Sarah Hitchcock (Vice Chair)

Executive Director /s/ Shawn Graham