

# Montana Teachers' Retirement System Board Meeting November 30, 2023

## **BOARD MEMBERS PRESENT**

Kari Elliott, Chair (*joined virtually at 9:58 a.m. and departed at 10:57 a.m.*)

Daniel Chamberlin, Vice Chair

Dee Brown, Member (*virtual*)

Elliott Crump, Member

- *A quorum is reached when three members are present. Member Crump was recently appointed to the Board and one seat remains vacant.*

## **BOARD MEMBERS ABSENT**

Daniel Trost, Member

## **STAFF PRESENT**

Shawn Graham, Executive Director

Tammy Rau, Deputy Executive Director (*virtual*)

Denise Pizzini, Chief Legal Counsel

Nolan Brilz, Accounting/Fiscal Manager

Darla Fitzpatrick, Communication Manager

John Noble, Information Systems Manager

## **OTHERS PRESENT**

Erik Burke, Montana Federation of Public Employees

Ben Ternes, Governor's Office of Budget and Program Planning (*virtual*)

Catrina Moura, Reorg Research (*virtual*)

## **Call to Order**

As Chairperson Kari Elliott was unable to attend the entire meeting, Vice Chair Daniel Chamberlin called the meeting to order at 8:32 a.m.

### Adoption of the Agenda

Member Chamberlin requested a motion to adopt the meeting agenda.

*Motion/Vote:* Member Dee Brown moved to adopt the agenda. Member Elliott Crump seconded the motion, which was approved by those present.

### Approval of Minutes

Member Chamberlin requested a motion to approve the minutes from the October 6, 2023 meeting.

*Motion/Vote:* Member Crump moved to approve the October 6 minutes as written, and Member Brown seconded the motion. Minutes were 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.

## **Administrative Business**

### **Investment Report**

TRS Executive Director Shawn Graham provided a report from the Board of Investments (BOI) on Member Daniel Trost's behalf. The return on investments for the first four months of the fiscal year (through October 2023) was negative, but markets have rebounded in November and TRS's rate of return is above zero currently. If trends continue, TRS may be able to reach its assumed rate of return by the end of FY2024.

Director Graham also reported that the BOI just wrapped up its annual audit and there were no findings or recommendations. He spoke with BOI Executive Director Dan Villa, who reported assets are up and the BOI's expense ratio remains flat. Their board is scheduled to review asset allocations in December and Director Villa is recommending no changes to current allocations for TRS. Member Chamberlin commented that he agrees there is room for optimism in the markets.

### **Budget Status and Financials Report**

TRS Accounting/Fiscal Manager Nolan Brilz reviewed the October 31, 2023 fund balance sheet, which shows that total assets declined since the last report but increased by \$250 million compared to one year ago. Expenses (including benefit payments) currently exceed revenue and the current fund balance is approximately \$4.7 billion. Member Crump asked for clarification on the target rate of return. Director Graham explained that TRS's actuarially assumed rate of return of 7.30% is the target over a long period of time (30-50 years), with the understanding that returns will be higher in some years and lower in other years. To date, TRS's overall rate of return still exceeds 7.30%.

Mr. Brilz then reviewed the TRS operating budget and noted everything seems to be on track. Director Graham noted that inflation has driven up prices, and this is reflected in line items for things like software enterprise agreements and other fixed costs billed by SITSD. Some expenses, such as legal services and medical review fees, vary from year to year based on circumstances.

Member Crump asked questions about the two school districts that are delinquent in remitting contributions to TRS. Director Graham indicated this is not a common occurrence and reflects unusual circumstances with those employers. The main concern is that members' account balances and service credit will be inaccurate until their employers remit all contributions owed to TRS.

### **P2F2 Annual Conference Report**

Mr. Brilz thanked the Board for the opportunity to attend the Public Pension Financial Forum (P2F2) conference to network with and learn from his counterparts at other systems. Ethics is always a popular topic covered at this event, and Mr. Brilz also was impressed by the employer education programs offered by some of the larger plans. He reported that TRS seems to be ahead of the curve in providing an electronic wage and contribution reporting system for our employers.

## NCTR Annual Conference Report

Director Graham reported that the annual conference provides an opportunity for both directors and trustees to network with their counterparts from other systems. It was mentioned in an actuarial panel discussion that some systems may have reduced their assumed rates of return too low in the years following the Great Recession. TRS kept its rate well above 7.00%, a level to which some plans now are returning. Actuaries also noted that, in a mature system like TRS, it is normal for expenses to exceed revenue. Member Crump asked for clarification and Director Graham explained that in the early years of a pension plan, before members have begun retiring, the plan is collecting contributions and building assets to be invested. As more members begin receiving retirement benefits, ideally the growth on investments will cover the largest share of those expenses.

Cybersecurity and IRS rule changes on Required Minimum Distributions (RMDs) were other topics of discussion at the conference. Member Brown and Chairperson Kari Elliott also attended the conference, and Member Brown commented on the value of meeting trustees from other public retirement systems to learn about the differences and similarities between systems.

## Tentative 2024 Meeting Dates

Proposed meeting dates for 2024 were February 16, May 3, August 2, October 4, and December 6. Due to scheduling conflicts, the February meeting was rescheduled for February 21, 2024.

## Public Comment

Erik Burke of MFPE introduced himself and stated his appreciation for the work of this Board.

## Request for Public Information or Records – Fees Policy

Director Graham provided a brief summary of the policy, a previous version of which was reviewed at a previous meeting. Prior to its adoption, the Department of Administration (DOA) issued a new policy and procedures to implement provisions enacted by the 2023 Montana Legislature. They also established a new Office of Public Information Requests (OPIR) to collect and track all requests for affected agencies. All Executive Branch agencies, including TRS, were instructed to update their public information policies to mirror the new DOA policy.

Member Chamberlin requested a motion to adopt TRS's updated policy.

*Motion/Vote:* Member Brown moved to adopt the Requests for Public Information or Records – Fees policy. Member Crump seconded the motion and it was approved by all members present.

## Next Meeting Date

The Board's first meeting of the new year will be held on Wednesday, February 21, 2024.

## **Executive Director's Report**

### Executive Summary – Staff and Operations Update

After the October 2023 meeting in which the Board authorized a budget amendment to hire an additional communications specialist, TRS advertised and received several applications for that position. Jennifer Van Syckle, who holds a related position with another state agency, was selected for her combination of education, skills, and experience. She will join TRS on December 18, 2023 and will occupy an underutilized training room that has been converted to office space.

Director Graham also reported that he is scheduled to attend meetings in each Montana Association of School Superintendents (MASS) region in the spring.

#### SAVA Committee Update

Director Graham presented the 2023 TRS actuarial valuation results to the State Administration and Veterans' Affairs (SAVA) committee on November 8, 2023. A significant portion of that meeting was set aside for the first meeting of the SJ 4 Pension Study Group, comprised of all SAVA committee members and four members of the Legislative Finance Committee (LFC). The study group also has set their work plan for the next meeting, which will include a review of pension reforms implemented by the 2013 Legislature. That meeting is scheduled for January 25, 2024.

#### BOI Update

As required by statute, Director Graham will attend the Board of Investments' December 12, 2023 meeting to present the TRS actuarial valuation results.

#### LFC Update

On December 14, 2023, Director Graham will present the results of the 2023 TRS actuarial valuation to the Legislative Finance Committee.

#### Public Comment

There was no public comment.

### **Board Training**

#### Ethics/Conflict of Interest Policy

Chief Legal Counsel Denise Pizzini led the Board through a review of the TRS policy on the ethical obligations of staff, which includes members of the Board. The TRS policy encompasses the State's policy but provides more stringent protections with respect to the fiduciary duties of Board members. TRS employees and members of the Board act in the exclusive interest of TRS members and beneficiaries and must not use their position at TRS to advance any private interest.

Ms. Pizzini provided examples of actions and situations that may represent unethical conduct or the appearance of a conflict of interest. Board and staff members must report any violation of the policy or law or any conflict of interest of which they become aware. In response to a question from Member Crump, Ms. Pizzini clarified that his status as a TRS member and his role as a school superintendent are not themselves conflicts of interest, but if (for example) TRS receives an application for disability retirement from a teacher in his school district, he may need to abstain from the discussion and Board action to avoid the appearance of a conflict of interest.

Director Graham and Ms. Pizzini then described the Ethical Conduct/Conflict of Interest Annual Disclosure Statement that would be forthcoming from TRS for electronic signature.

#### Per Diem Election Form

Each year, members of the Board elect to receive either the TRS per diem or their regular salary for the time they spend preparing for and attending TRS Board meetings. Board members who are also public employees may not receive duplicate compensation for the same hours of service.

Chairperson Kari Elliott joined the meeting remotely at 9:58 a.m.

### **IT Manager's Report**

TRS IT Manager John Noble reviewed a status report on TRS information technology initiatives and expenditures. He described a recent change to the way the State Information Technology Services Division (SITSD) manages IT infrastructure. TRS no longer manages its own servers and virtual desktop environments but pays SITSD for software and platform as a service.

Mr. Noble stated that expenditures for software and infrastructure will increase for the next biennium. He reviewed some current and planned software expenses and described some technical challenges his staff is currently working to resolve with vendors. He then provided an update on IT projects completed over the last year as well as some projects planned for 2024.

### **Tier 2 Contribution Rate**

#### **§19-20-608(2), MCA**

At Member Chamberlin's request, Chairperson Elliott provided a brief summary of a bill passed in 2013 that instructs the TRS Board to consider, on or after January 1, 2023, whether the contribution rate for Tier 2 members should be increased. The provision defines three triggers that may prompt the Board to impose an increase and Chairperson Elliott asked Director Graham to clarify these triggers to help all Board members understand their responsibility.

Director Graham's understanding is that the Board is authorized (but not required) to increase the Tier 2 contribution rate by 0.50% if, based on the last three actuarial valuations, TRS's funded ratio is less than 80% (currently it is 72.49%) and the period necessary to amortize all liabilities of the system is greater than 20 years (currently the amortization period is 24 years). The third trigger considers the amount of any state or employer rate increase or flat dollar contribution to the retirement system trust fund as compared to the value of any Tier 2 supplemental contribution imposed by the Board.

He pointed out that, if actuarial assumptions are met, the funded ratio and amortization period should improve each year and the triggers may no longer apply in a few years. Importantly, TRS's actuarial consultants have determined that increasing the Tier 2 contribution rate by 0.50% would improve TRS's funded ratio and amortization period only slightly. In addition, if a rate increase were imposed, the Board could not decrease or eliminate it until the funded ratio reached 90% and the amortization period decreased to 15 or fewer years.

Member Brown voiced support for increasing the contribution rate on Tier 2 members now rather than waiting to see what happens in the future. Chairperson Elliott stated that Tier 2 members generally are paid lower salaries and she feels it is unfair to ask them to pay more than Tier 1 members for a lesser benefit. She believes that because the 2013 reforms have worked well, the retirement system is in good financial shape and there is no reason to increase the contribution rate.

Member Crump requested clarification on the state's annual contribution of \$25 million. Director Graham explained it is a statutory appropriation from the general fund that would not be affected by the provision being discussed. He also clarified that the current meeting agenda allows only for discussion, although the Board can request to place an action item on the February 2024 agenda.

Today's discussion satisfies their statutory obligation to consider whether an increase is necessary, and they may decide to take no action at all.

Member Brown suggested the Board postpone any action and discuss this issue again a year from now so that Board action, if any, could occur at the February 2025 meeting. Chairperson Elliott, Member Chamberlin, and Member Crump agreed. Director Graham asked for clarification that the Board intends to discuss §19-20-608(2), MCA again at the December 2024 meeting. Member Brown agreed and commented that TRS should know by then whether lawmakers intend to propose legislation affecting TRS during the 2025 session.

### Public Comment

Eric Burke of MFPE strongly encouraged the Board to exercise caution before asking Tier 2 members to pay additional contributions. He believes TRS benefits play a role in attracting and retaining educators, and asking more of the lowest paid teachers could harm that. He supports the Board's decision to revisit the issue a year from now.

Chairperson Elliott left the meeting at 10:57 a.m.

### Strategic Planning

#### 2023-2025 Strategic Planning Summary and Commitment Worksheet

Director Graham mentioned for Member Crump's benefit that TRS just completed its two-year strategic planning process in August 2023 and will do a shorter review in August 2024. He reviews the commitment worksheet at each meeting and Board members may recommend adding, removing, or changing objectives on the worksheet at any time.

He provided an update on the objective related to system security and identity verification. TRS received a cost estimate to implement LexisNexis security and identity verification services for online transactions in *My TRS* (the online member portal). Contracting with LexisNexis would cost approximately \$30,000 per year, but the objective to implement an online retirement application and other online services will depend on having adequate security measures in place.

As mentioned earlier in the meeting, TRS has completed the objective to hire a communications specialist to assist with member outreach and other communications objectives. Mr. Graham also is fulfilling his commitment to attend regional MASS meetings next spring.

### Public Comment

No members of the public were present.

### Legal Counsel's Report

Ms. Pizzini reported there are no contested case matters at this time, but there is one unusual situation that may come before them at the next meeting. TRS issued a final staff determination to an employer regarding their failure to correctly report a working retiree. The letter notified them of their right to request an informal board review, but TRS received no response from the employer. She will notify Board members of the status of this matter prior to the February 2024 meeting.

