

TEACHERS' RETIREMENT BOARD MEETING
May 19, 2006

CALL TO ORDER:

Chairman Scott Dubbs called the meeting to order at 8:30 a.m., in the Board of Investments Conference Room, 2401 Colonial Drive, Helena, Montana.

BOARD MEMBERS PRESENT:

Chairman, Scott Dubbs
Tim Ryan
Mona Bilden
Kari Peiffer
James Turcotte
Darrell Layman

STAFF PRESENT:

David L. Senn, Executive Director
Tammy Rau, Deputy Executive Director
Dave Ohler, Legal Counsel
Natalie Chamberlain, Benefits Specialist/Retired Payroll
Dan Gaughan, Accounting/Fiscal Manager
Bill Hallinan, Information System Manager
Janet Cooper, Benefits Officer
Johnelle Sedlock, Benefits Officer
Rex Merrick, Information Systems Analyst

OTHERS PRESENT:

Mark C Olleman, Actuary, F.S.A., M.A.A.A., Milliman
Roxanne Minnehan, Executive Director (MPERA)
Charlotte Thomas, Legislative Chair, Montana Retired Educators' Association
Merle Farrier, Retired Teacher
Tom Bilodeau, MEA-MFT

CALL TO ORDER

Adopt Agenda - Chairman, Scott Dubbs called for additions or changes to the Agenda for May 19, 2006. Seeing none, Chairman Dubbs requested a motion to adopt the Agenda. Mr. Tim Ryan moved that the agenda be approved. Seconded by Mr. Darrell Layman, the motion carried unanimously.

Approval of February 10, 2006 Minutes –

Chairman Dubbs called for a motion to approve the February 10, 2006, Board meeting minutes. Mrs. Mona Bilden moved that the February 10, 2006 minutes be adopted. Seconded by Mr. Layman, the motion carried unanimously.

PUBLIC COMMENT

Chairman Dubbs called for public comment on Board related items. Seeing none, Mr. Dubbs introduced Mr. Mark C. Olleman, Actuarial Consultant.

ACTUARIAL FUNDING

Mr. Mark Olleman submitted results of the July 1, 1999 – June 30, 2005 mortality experience study and gave recommendations to the board. Mr. Olleman's recommendations are designed to anticipate the emerging experience of the System. Data was found to be reasonably consistent and comparable with data used for other purposes. The actuarial assumptions were broken into three broad groups: 1) Active Demographic Assumptions. 2) Retired Mortality and 3) Economic Assumptions. Using data received from the above studies, assumptions were made that changes in mortality are likely.

Mr. Olleman's recommendations to the board included adopting new assumptions that are consistent with the most recent tables published by the Society of Actuaries and TRS mortality experience of the last six years. Secondly, project mortality improvements to the year 2008 and lastly study mortality again four years from now and give serious consideration at that time to adopting "generational" mortality assumptions, which vary for members born in different years. This approach directly reflects improvements in mortality that is expected to occur in the future. This methodology is currently uncommon, however, it is believed to be reasonable and expect this to be common in the future.

Recommendations are that the System wait until this method has been more thoroughly developed and tested before continuing a method which incorporates the same margins of mortality improvements for members born in all years.

MOTION/VOTE Mr. Ryan moved that Mr. Olleman's recommendations be adopted. Seconded by Mrs. Mona Bilden, the motion carried unanimously.

2006 VALUATION ASSET METHOD

Mr. Mark Olleman stated that the asset valuation method we use with the retirement system takes any asset gain or loss which occurs over the year and breaks them into five pieces, and then recognizes one piece over the next five years. Mr. Olleman recommended that for the 2006 valuation the Board use the market value of assets without any smoothing. For future valuations we will continue to review asset valuation methods and make recommendations as appropriate.

Mr. Ryan moved that Mr. Olleman's recommendations be adopted to use the market value for 2006. Seconded by Ms. Kari Peiffer, the motion carried unanimously.

EXECUTIVE DIRECTOR'S REPORT

Contracted Services Agreements -

Mr. Senn recommended the Board extend the following Contracted Services Agreements.

Ice Miller Legal Service – Ice Miller has been TRS counsel for IRS issues since 1997, the proposed legal services agreement addendum with Ice Miller, is for time and materials not to exceed \$12,000, for fiscal year 2006-07.

Alfred Munksgard & Associates – Alfred Munksgard & Associates has maintained our pension administration system, Pension Plus, since 1992. The contract includes a retainer fee, which covers normal maintenance, and an hourly rate for special projects. These rates have not changed since 2001. The proposed contract calls for an increase in the retainer fee from \$3,500 to \$4,000, and an hourly rate increase from \$135.00 to \$140.00.

MOTION/VOTE Mr. Ryan moved to extend the contracted services agreements for both Ice Miller Legal Service and Alfred Munksgard & Associates. Seconded by Mr. Turcotte, the motion carried unanimously.

Funding and Benefits Policy –

The Funding & Benefits Policy Committee, Tim Ryan, Jim Turcotte, and Darrell Layman, met on April 19, 2006. The Committee's recommend changes to enhance and clarify the policy were reviewed by the Board.

MOTION/VOTE Mr. Turcotte moved that the proposed changes be made to the policy to include 'funded ratio' together with the amortization period to the equation for determining if the system would remain solvent. Seconded by Ms. Peiffer, the motion carried unanimously.

Benefit Adjustment – Michael Lies

Sometime in 1990 a change was made on the TRS database overstating Mr. Michael Lies' service by 26 years, causing post-retirement cost of living adjustments to be overstated and then compounded to when we discovered the error. Mr. Lies had been overpaid \$6,018.07. He was retired at the time of the error and it did not affect his retirement benefit calculation. . Effective with Mr. Lies' February 2006 payment, his benefit was corrected from \$1,115.40 to \$1,093.96 per month.

Mr. Lies said he would leave it up to the Board to decide what is fair. He didn't understand what took so long to find the error.

Mr. Senn responded, that the Board's policy allowed the Board to waive interest in cases where a system error caused the overpayment.

MOTION/VOTE Mr. Darrell Layman moved that we recover 50% of Mr. Lies overpayment over a 60-month period with reduced benefits or lump sump payment, which ever Mr. Lies chooses. Seconded by Ms. Peiffer, the motion carried unanimously.

2007 Board Legislative Concepts

Mr. Senn reviewed the Board's three legislative proposals for the 2007 Session. Actuarially Fund the Teachers' Retirement System as required by the Montana Constitution, Article VIII, Section 15' A general housekeeping proposal clarifying provisions of the Teachers' Retirement Act, and request the Legislature create a commission to study new plan designs.

Other Legislative Proposals

Mr. Senn reported there are 15 bill draft requests on the Legislative Council's website regarding retirement.

Joint Issues Committee – The first meeting of the Joint Issues Committee was held on April 3, 2006. The committee includes two members from each of the boards as follows:

Public Employees' Retirement Board
John Paul
Carol Carey

Board of Investments
Terry Cohea
Jack Prothero

Teachers' Retirement Board
Scott Dubbs
Tim Ryan

The committee agreed that more communication between the three boards would help all members better understand each other's roles and responsibilities, and provide opportunities to help each other on joint issues such as improved investment returns and actuarially funding the pension systems. The next Joint Issues Committee meeting is scheduled for Thursday, May 18, 2006.

State Administration and Veterans' Affairs **Interim Committee** –The SAVVA committee met on March 6, and April 21. In March, the Committee discussed several bill drafts addressing concerns committee members had with the Public Employees' Retirement Board over administrative rules and their hiring process for a new Executive Director; and finalized their process for review proposed retirement legislation.

In April, the Committee focused on developing principles and guidelines for the state's public retirement systems as required under House Bill No. 2, December 2005 Special Session. In addition, the committee directed that a letter be sent to the TRS and PERS requesting an

estimate of the cost and potential impact of moving all new members to a defined contribution plan. We are working with our Actuaries to draft a reply.

Executive Summary –

Revised TRS Annual Statement of Account – Tammy Rau presented a revised Annual Statement of Account for fiscal year ending June 30, 2006.

Results of the DLI & OPI data evaluations – A comparison of the TRS database of retirees to wages reported by school districts during FY 2005 to the Department of Labor and Industry (DLI) and to the FTE data on the 2005 Office of Public Instruction Fall Report found over 1,168 retired members on either the DLI or OPI databases. Historically, approximately 500–700 retirees are reported each year by school districts as working in a part-time position with earnings not exceeding the maximum allowed.

New Staff – Mr. Senn reported Heather J. Heisel has been hired to fill the second Receptionist position. Heather succeeds Alison Peterson who was promoted to the Executive Secretary position. Gayle Eby was hired to fill the Payroll Benefit Technician position vacated by Karen Hardison, who moved out of state last fall with her husband. In addition, Alison Person has given notice that she will be resigning her position effective May 19, 2006.

Correction of Working Retiree's Contracts – Mr. Senn reported TRS had received a request to review the post-retirement contracts between Fromberg Public Schools and Robert B. Vogele for the past four years. The contracts included both, compensation for Mr. Vogele's teaching duties plus, an additional amount for "special benefits". The special benefits contract for the 2005-06 school year stated that the additional amount was "in place of wages earned during the 2005-06 school year".

The "special benefits" contracts clearly states the additional amounts are paid "in place of wages earned", and therefore, are includable in the maximum amount Mr. Vogele is eligible to earn under either §19-20-731, MCA (or it's predecessor §19-20-804, MCA). The School Boards' Legal Counsel, Michael Dahlem, has submitted a draft agreement in which Mr. Vogele and the School Board would agree to rescind the "Special Benefits" agreements dated January 13, 2003, August 24, 2004 (Amended May 9, 2005), and August 16, 2005.

Canyon Creek Elementary - Arbitration found against two teachers and one retired teacher, at Canyon Creek School, who received master's degrees from a bogus online college. In 1999, teachers Beverly Henckel, Candice Holzer and Richard Swander received master's degrees from Columbus University, an online institution not recognized by formal accrediting agencies. Mr. Swander retired in 2003. As a result of the Arbitrator's decision, we will correct the salaries reported to TRS and refund the employee and employer contributions to the District. In addition, Mr. Swander's benefits will be recalculated and any benefits overpaid recovered. Staff estimated the overpayment to be \$5,852.38, plus interest.

Other Business

Interest Rate Credited to Member Accounts –

Each year, pursuant to 19-20-501, MCA, the Board is required to set the rate of interest that is credited to active member accounts. The minimum rate allowed under §19-20-501 MCA, is 4.0%.

MOTION/VOTE Mr. Layman moved the interest rate remain at 4.0%. Seconded by Ms. Peiffer, the motion carried unanimously.

TRS 2006-07 Budget – Mr. Dan Gaughan, Accounting/Fiscal Manager presented the proposed budget and justification for the fiscal year beginning July 1, 2006 through June 30, 2007. Bill Hallinan, IT Manager, presented a report on the status of the TRS computer environment, future needs, the PRISM conference he attended in April, and FY 2007 proposed IT budget.

MOTION/VOTE Mr. Ryan moved that the proposed budget and justification for the fiscal year beginning July 1, 2006 through June 30, 2007 be passed. Seconded by Ms. Bilden, the motion carried unanimously.

Out-of-State Travel Request – Mr. Senn presented an out-of-state travel request for two Board members and the Executive Director to attend the NCTR Annual Conference to be held in Austin, Texas, October 13-18, 2006. T

The NCTR also offers a Trustee Workshop each summer, which could be attended in lieu of the annual conference if there were any scheduling conflicts or in addition to the annual conference as another educational opportunity for Board members. This year's summer workshop is scheduled for July 29 – August 1, Stein Eriksen Lodge, Park City, Utah.

MOTION/VOTE Mr. Ryan moved that approve the out of state travel requests for board members to attend either the annual conference or the trustee's workshop. Seconded by Ms. Bilden, the motion carried unanimously.

Alternative Pay Plan – Ms. Rau and the Personnel Committee, Scott Dubbs and Mona Bilden, reported Kristin Jacobson from Communication and Management Services (CMS) completed a market survey to compare salaries paid to Montana TRS staff to those in like positions in Montana and the surrounding states. The survey results reflected an average increase in the market rates of 12%.

The personnel committee recommended the Board approve adjusting staff compensation to move members closer to market and that any resulting pay increase be limited to a maximum of 8.5%, which includes the 4% legislative adjustment payable October 2006. Ms. Rau reported the cost this fiscal year would be approximately \$6,000, which is within the current approved budget. Staff also believes the impact on the FY 2006-07 budget around \$39,200, can be absorbed through anticipated vacancy savings next year.

MOTION/VOTE Mr. Ryan moved the Alternative Pay Plan with an 8.5% increase. Seconded by Ms. Peiffer, the motion carried unanimously.

Next Meeting Dates – The Board will meet on September 8 and November 17, 2006.

Investments Report – The Board of Investments have been moving ahead on a number of different areas. The asset/liability model presented yesterday, and then the asset allocation recommended will allocate investments among different investment alternatives, resulting in improved returns.

Mr. Turcotte reported that the investments have been managed in a relatively conservative manner from the standpoint of there has not been a lot alternative investments placed into the portfolios of any of the retirement systems. Part of that lack of diversification has been somewhat detrimental over the years to the overall returns of the retirement system. The idea behind an asset allocation is to try to average out the volatility of the portfolio. It doesn't eliminate the volatility and it does not eliminate the fact you can have losses or returns that are less than your actuarial assumptions, but this is a great step forward in trying to professionally manage an account and put it into a situation that hopefully will somewhat ameliorate those ups and downs as far as the market is concerned. Currently we're looking at about a little over 9% returns for the fiscal year 2006.

The next project the BOI will be entering into is to hire an external auditor. The external auditor will advise the Board and be directly responsible to the Board for assessing how our external managers perform. He will also assess how our internal managers are doing. The auditor will be guiding the Board, which has not been the case in the past, with staff mostly being the advisor in terms of making sure we are following the rules and regulations of State Law with respect to investing money for the retirement plans and other entities. The BOI will also expand into some real estate areas.

Asset/Liability Model –On Thursday, May 18th R.V. Kuhns presented to the TRS, PERS, and BOI Boards the asset/liability model developed for the TRS.

Financial Statements, 2006 Budget, Delinquent Agency, & Travel Reports – Dan Gaughan reported on the TRS financial statements and budget status.

Legal Counsel Report

Dave Ohler advised the Board that Judge Sherlock had remanded the Board's motion for summary judgment to the Board for proceedings directing that the Board address three issues.

- (1) Whether the Board is entitled to receive reimbursement for the benefits paid to Mr. Farrier and to which by law he was not entitled;
- (2) The amount owed and how it will be repaid or offset; and
- (3) Mr. Farrier's presentation of any equitable or legal defenses that would preclude the Board from seeking recovery.

MOTION/VOTE Mr. Layman moved that the Board hire a hearing examiner, from Agency Services, to conduct a hearing and make recommendations on how to proceed on this case. Seconded by Mr. Turcotte, the motion carried unanimously

Case Update

Mr. Senn brought it to the Board's attention that we did receive a payment from Roger Ogren, who was ordered to repay TRS \$100,000.00 he fraudulently received. Since May 2006, Mr. Ogren has been making monthly payments of \$1,296.00

DISABILITY APPLICATIONS

Executive Session to Discuss Disability Applications & Annual Reviews:

The Chair directed the meeting closed at 2:15 p.m. to review disability applications since the individual's right to privacy of information pertaining to disability benefits clearly exceeds the merits of public disclosure.

Disability Retirement Applications – The meeting was reopened to the public at 2:30 p.m.

The staff recommends that the following disability retirees be approved for disability retirement benefits: Mrs. Andrea M. Shannon and Robert M. Risley.

MOTION/VOTE Ms. Bilden moved that the disability applications of Mrs. Andrea M. Shannon and Mr. Robert M. Risley be approved. Seconded by Mr. Layman, the motion carried unanimously.

The staff recommends that the following disability retirees be removed from future disability reviews: Patti S. Rafferty and Marcie R. Mosley.

MOTION/VOTE Ms. Peiffer moved that both disability retirees be "excluded" from future disability reviews. Ms. Bilden seconded the motion. The motion carried unanimously.

ADJOURNMENT

There being no further business, the meeting was adjourned at 2:40 pm.

Chairperson _____

Executive Director _____