

# TEACHERS' RETIREMENT BOARD MEETING

May 18, 2007

## CALL TO ORDER

Chairman Scott Dubbs called the meeting to order at 9:15 a.m., in the Teachers' Retirement System Conference Room, 1500 East Sixth Avenue, Helena, Montana.

## BOARD MEMBERS PRESENT:

Chairman Scott Dubbs  
Member Darrell Layman  
Member Tim Ryan  
Member James Turcotte  
Member Kari Peiffer

## ABSENT:

Member Mona Bilden

## STAFF PRESENT:

David L. Senn, Executive Director  
Dave Ohler, Legal Counsel  
Janet Cooper, Benefits Officer  
Dan Gaughan, Accounting/Fiscal Manager  
Bill Hallinan, Information Technology Manager  
Karla Scharf, Retired Payroll Manager  
Benefits Officer Janet Cooper

## OTHERS PRESENT:

Charlotte Thomas, Retired Teachers' Association  
Lance Zanto, DOA/WEB

## OPEN MEETING

## CALL TO ORDER

ADOPT AGENDA - Chairman Scott Dubbs called the meeting to order at 9:05 am. He asked for additions or changes to the Agenda for May 18, 2006. Seeing none, Chairman Dubbs requested a motion to adopt the Agenda. Mr. James Turcotte moved that the agenda be approved. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

APPROVAL of February 9, 2007 MINUTES - Chairman Dubbs called for any changes to the February 9, 2007, Board Meeting Minutes. Mr. Senn pointed out that the spelling for Karla Scarf should be corrected to Karla Scharf.

MOTION/VOTE: Mrs. Peiffer moved to accept the February 9, 2007 Minutes as corrected. Seconded by Mr. Darrell Layman, the motion carried unanimously.

**PUBLIC COMMENT** Chairman Dubbs called for Public Comment of Board-Related Items not listed on the Agenda. No Public Comment was made.

### **EXECUTIVE DIRECTOR'S REPORT**

**Contracted Services Agreement - Ice Miller Legal Service** – Mr. Senn informed with the Board that Ice Miller has been the Teachers' Retirement System (TRS) Tax Counsel for Internal Revenue Service (IRS) issues since 1997. In addition to the usual consulting services, the proposed contract also includes a review of the recent changes made in the Pension Protection Act of 2006, and preparation of a request for an updated Determination Letter. Staff recommends that the Board approve the legal services agreement addendum with Ice Miller, not to exceed \$25,000, for fiscal year 2007-08. In addition, the IRS filing fee to request a Determination Letter could run as high as \$15,000.

**MOTION/VOTE:** Mr. Tim Ryan moved to approve the Contracted Services Agreement with Ice Miller Legal Service. Seconded by Mrs. Peiffer, the motion carried unanimously.

**Contracted Services Agreement – Alfred Munksgard & Associates** – Mr. Senn shared with the Board that TRS has essentially been using the same person to maintain the pension administration system, Pension Plus, since 1992. The contract includes a retainer fee of \$4,000 per month, which covers the software, unlimited telephone support, normal maintenance, plus an hourly rate of \$140 for special projects. The proposed budget includes two IT projects, WEB Estimator and Member Address Update, which were budgeted in FY 2007, but have not been started. New IT projects related to legislation adopted during the 2007 regular session includes, contribution rate changes, and calculation of interest on dormant accounts.

**MOTION/VOTE:** Mr. Ryan moved to approve the Contracted Services Agreement with Alfred Munksgard & Associates. Seconded by Mrs. Peiffer, the motion carried unanimously.

**Contracted Services Agreement – Milliman Actuarial Services** – Mr. Senn reviewed the Milliman's proposed fees for the next two years, together with a summary of the additional projects billed on a time and expense basis during the last biennium through March 2007.

Milliman proposed the fixed fee for consulting services for the next two years be limited to the fees charged for the annual Actuarial Valuations and GASB updates, plus any experience studies the Board chooses to complete. In past years, the fixed fee also included a small general consulting retainer. Mr. Senn reported the fixed fees proposed for the actuarial valuations, GASB schedules, and an active member study are; FY 2008 \$85,800, and FY 2009 \$46,000. Staff recommended the Board authorize the completion of an Active Member Demographic Study as discussed in the Milliman proposal. In addition, staff recommended \$32,000 in FY 2008 and \$37,500 in FY 2009 be budgeted for other studies, legislative cost estimates, and miscellaneous costs related to interim legislative work. Staff did not recommend any other special projects discussed in the Milliman proposal.

**MOTION/VOTE:** Mr. Turcotte moved to approve the Contracted Services Agreement with Milliman Inc as recommended by staff. Seconded by Mrs. Peiffer, the motion carried unanimously.

Further discussion, the Board expressed a strong desire to review the 2-year contract at the September 2008 Board meeting.

**MOTION/VOTE:** Mr. Turcotte moved that during the September 2008 Board meeting, the Board review options to go out with an RFP for actuarial consulting services. Seconded by Mr. Layman, the motion carried unanimously.

Valuation Asset Smoothing – Mr. Senn informed the Board that "smoothing" is a policy to set aside investment gains in the good years to be offset against losses in the bad years. Prior to the 2006 actuarial valuation, the TRS used a 5-year smoothing method under which only one-fifth of each year's asset gains or losses were recognized in each valuation. Because the smoothing method postponed the recognition of the 2001 & 2002 market losses until the 2005 Legislative Session, the Legislature felt that they were not aware of the funding needs of the system in a timely manner. For this reason, staff recommends the board continue to use market value in future valuations.

Mr. Ryan stated that when dealing with market value, you are dealing with a snapshot that occurs on the 30<sup>th</sup> of June every year. Mr. Ryan added he strongly believes we should continue to smooth asset gains and losses.

Mr. Turcotte made note that he agrees with not smoothing losses, then asked what about smoothing gains over a determined period and recognizing losses immediately.

Mr. Senn responded that actuarial standards require you use the same method for smoothing gains and losses. He added the advantage of smoothing is that it does remove the volatility and questions in required contribution rate changes that can result when there are significant asset gains or losses. If the Board chooses to resume using an asset smoothing method, staff would recommend that gains and losses be smoothed over 4 years, and that the difference between the market value of assets and the smoothed value of assets never be allowed to be more than 15%.

**MOTION/VOTE:** Mr. Turcotte moved that we continue smoothing over 4 years with boundaries that smoothed assets not be more or less than 15% of the market value of the fund. Seconded by Mr. Ryan, the motion carried unanimously.

Workers' Compensation Refund and Policy Endorsements – Mr. Senn provided the Board with two memos from Janet Kelly, Director, Department of Administration (DOA), explaining the workers' compensation refund due the TRS. Director Kelly also requested TRS transfer part of the refund to the DOA to help defray the start up cost for the Department to manage and oversee the state's workers' compensation insurance for all agencies. TRS' donation would be \$205.

Mr. Senn introduced Mr. Lance Zanto, Dept of Administration. Mr. Zanto informed the Board that in the last year, worker's compensation collected \$17.5 million in premiums, for approximately 13,000 state employees. He informed the Board that he will be implementing three different programs next year, of which he will be in charge of the policy development. They will be hiring an early return to work person who will be available for all agencies, and the third area will be a safety person.

Mr. Zanto added that the state has 38 different policies. The State Fund has taken the opinion that they have 38 individual policies with 38 individual agencies. He has tried to come up with ways to represent those agencies in a workers' comp policy pricing, claims management, and underwriting. He added his roll is not to replace or to take over control for a state agency, but more to be a liaison or advocate for them.

**MOTION/VOTE:** Mr. Ryan moved to approve the workers' compensation contribution of \$205 as well as having the Department of Administration represent us in negotiations with workers' compensation. Seconded by Mr. Layman, the motion carried unanimously.

**2007 LEGISLATION** –Mr. Senn informed the Board the status of various bills before the 2007 Legislature.

**Senate Bill 33** would have required state and local government agencies to develop procedures regarding Social Security numbers and to provide notification of any computer security breach involving a government agency or third party contracting with government. This bill was tabled in committee April 18, 2007.

**Senate Bill 467** would have completely revised the Board of Investments (BOI) membership makeup by reducing the size of the Board from 9 members to 7 and adding to the Board the executive directors from TRS and Public Employee Retirement System (PERS). The bill was amended to add two ex-officio legislators to the Board and was signed by the Governor April 10, 2007.

**House Bill 771** affects all three boards; TRS, BOI, & PERS. This bill spells out requirements that must be summarized in annual reports, such as; asset allocation, past and expected investment performance, investment goals and strategies, and investment performance compared with other states. The BOI must also present all this information at a public meeting to the PERS and TRS Board. HB 771 was signed by the Governor April 26, 2007; effective June 1, 2007.

Mr. Dubbs asked if it would be possible to simply have one joint board meeting a year with all three boards to discuss and share this information.

**House Joint Resolution 59** is a resolution to study public employee retirement systems, produce a legislator's guide on Montana's public employee retirement plans that includes comparisons of plan design and funding options, and offer findings and recommendations. Mr. Senn informed the Board it is his goal to see a study that looks at a new plan design for teachers.

Charlotte Thomas, Retired Teachers' Association, asked Mr. Senn to explain HB 63.

Mr. Senn explained that House Bill 63 was introduced at the request of the Teachers' Retirement Board. As adopted, HB 63 closed loopholes, provided for an infusion of \$50 million, and increased the employer contribution rate 2.0% effective July 1, 2007, and an additional 0.38% effective July 1, 2009. The rate increases will be paid by the state general fund for school districts, counties, and community colleges. HB 63 was signed by the Governor April 27, 2007.

Senate Bill 72 requires members of the Public Employees' Retirement Board to be appointed by the governor and confirmed by the senate. HB 72 was signed by the Governor March 27, 2007.

House Bill 81 was introduced at the request of the Teachers' Retirement Board. HB 81 is a housekeeping, general revision bill, making administrative changes to the Teachers' Retirement System laws. HB 81 was signed by the Governor March 30, 2007.

House Bill 131 is an Administration's bill to make the Public Employees, Sheriffs, and Game Wardens retirement systems actuarially sound. It raises employer contributions in each of the systems and reduces the 3.0% Guaranteed Annual Benefit Adjustment for members hired after July 1, 2007, to 1.5%. HB 131 was signed by the Governor May 3, 2007.

LEGAL CASE UPDATE – Mr. Dave Ohler informed the Board that TRS did receive the \$14,000 in overpaid funds from Merrill Lynch, for deceased member, Inger T. Davidson.

#### OTHER BUSINESS:

Interest Rate Credit to Member Accounts - Each year the Board is required to set the rate of interest that is credited to active member accounts. The current rate is 4.0%. Historically, the interest rate has been set close to the short-term investment rate earned by the Board of Investments, but by statute not less than 4.0%. Amendments included in HB 63 removed the minimum rate of interest the Board may set.

Mr. Senn provided the Board with charts compiled by the accounting staff showing the year-to-date short-term returns. Mr. Senn informed the Board that staff recommends the interest rate credited to member accounts for the period July 1, 2007, through June 30, 2008, be increased to 5.0% percent.

MOTION/VOTE: Mr. Layman moved that the interest rate credited to member accounts for the period July 1, 2007, through June 30, 2008, be increased to 5.0% percent. Seconded by Mrs. Peiffer, the motion carried unanimously.

TRS 2007-08 Budget – Mr. Dan Gaughan presented the proposed budget for the fiscal year beginning July 1, 2007, through June 30, 2008, and justification. Mr. Gaughan informed the Board that the Legislature passed a 3% increase in the base salary amount in each of the next two years, and an increase in the ten-year longevity increment from 1.5% up to 2% effective

July 1, 2007. Mr. Gaughan reviewed health insurance benefits, which is a separate component from salaries, and showed that the single insurance premium reimbursement will go up January 1, 2008, from \$557/month per person to \$590/month per person. Mr. Gaughan continued to review each component of the budget in detail.

Mr. Dubbs asked; what items were listed under 'other compensation' under personal services.

Mr. Gaughan informed the Board that 'other compensation' includes the Board per diem.

Mr. Ryan made note that Mr. Gaughan's report was thorough and he did an excellent job explaining the new budget.

Bill Hallinan, Information Technology (IT) Manager, presented a status report of the TRS computer environment, studies, future needs, and the FY 2008 proposed IT budget. Mr. Hallinan provided and reviewed a worksheet that presented the IT accomplishments this past year and goals for the upcoming year.

In addition, Mr. Hallinan shared that preparing for disaster recovery and business continuity are cost items that will be addressed in future budgets. There are things we can do to improve disaster recovery and business continuity without major costs; for example, we could perform an exercise with a couple of work bins. Have each business unit put all items they feel they would need to perform their work, if they could no longer get into the TRS building. In a month, follow-up with a table exercise where you bring everyone into the room, tell them, "Well the building just shut down lets get back to work." If people don't have what they need on the table they need to give it more thought. It is a good reminder of the importance of disaster planning.

Mr. Turcotte asked; if we lose our one consultant, Alfred, would we be able to continue with our operation without change. Bill responded that if we no longer had Alfred, we could continue our operation for about one year. It would be advisable at that time to consider putting another system in place. Mr. Dubbs asked; what are the possibilities of our system becoming obsolete soon. Bill responded our system is fairly stable and does what we need it to do. We are continually looking at other systems and will continue to prepare for future needs.

**MOTION/VOTE:** Mr. Ryan moved to adopt the budget recommended by staff for FY 2008. Seconded by Mr. Turcotte, the motion carried unanimously.

Out-of-State Travel – Mr. Senn presented out-of-state travel requests for two Board members and the Executive Director to attend the NCTR Annual Conference to be held in Scottsdale AZ, October 6-11, 2007. Board members scheduled to attend this year's convention are Tim Ryan and Scott Dubbs.

Mr. Senn informed the Board that the NCTR also offers a Trustee Workshop each summer, which could be attended in lieu of, or in addition, to the annual NCTR conference as another educational opportunity for Board members.

**MOTION/VOTE:** Mr. Layman moved to approve Mr. Ryan, Mr. Dubbs, and the Director, David Senn, to attend the NCTR Annual Conference or the NCTR workshop of their choice. Seconded by Mr. Turcotte, the motion carried unanimously.

PRISM Conference Report – Bill Hallinan reported the major value of attending the April PRISM conference is networking with 50 other IT managers, finding out what and how are they planning their retirement systems, and hearing three exceptional background speakers. Bill reported on various workshops he attended...

Mr. Turcotte asked if it would be wise for PERS to backup TRS and vice versa. Mr. Hallinan responded; that scenario really wouldn't be a recovery system. Mr. Turcotte added that we should keep in mind that it might be financially beneficial to share a facility with PERS, at an off-site, non-local recovery location.

Mr. Hallinan shared information regarding call centers, and how they could help members get information during a crisis or disaster. Mr. Turcotte asked if having phone calls logged to a member's file would be of value. Bill took note of the suggestion.

Next Meeting Date – Mr. Senn reminded the Board that the next two Board meetings are set for September 7, and November 16, 2007.

Mrs. Peiffer commented that her position will soon expire. Mr. Senn suggested she reapply through the governor@mt.gov link. Mr. Senn added he would be willing to write a letter of recommendation to the Governor. Mr. Dubbs also offered to give Mrs. Peiffer a recommendation.

Investment Report – Mr. Turcotte shared with the Board an interesting article on Private Equity and reviewed the asset allocation and performance reports, which showed the asset allocation broken down by individual plan and the returns for the quarter ending March 31,, 2007. Mr. Turcotte pointed out that the total value of the pension assets grew by 142 million during the quarter reflecting positive returns across all asset classes.

Financial Statements, Budget, Delinquent Agency, and Travel Reports - Mr. Gaughan reviewed the financial statements with the Board. Mr. Gaughan pointed out that the change in the fund balance and investment earnings is well above last years earnings at this point in time. Mr. Gaughan explained that the fund balance does not reflect the \$50 million infusion..

There were no delinquent agencies to report.

RETIREMENT REPORT - Service Retirements and Survivor Benefits – Staff provided the Board with a list of members who have recently retired.

## CLOSED MEETING

Chairman Dubbs directed the meeting closed at 12:16 p.m. to review disability applications since the individual's right to privacy of information pertaining benefits clearly exceeds the merits of public disclosure.

OPEN MEETING

Application for Disability Retirement Benefits – The meeting was reopened to the public at 12:44 p.m.

**MOTION/VOTE:** Mrs. Peiffer moved to approve the disability application for Nora L. Kohler. The motion was seconded by Mr. Turcotte. Finding none, the motion unanimously carried.

**MOTION/VOTE:** Mr. Ryan moved to approve the disability application for Jeannice R. Malsom. The motion was seconded by Mr. Turcotte. Finding none, the motion unanimously carried.

**MOTION/VOTE:** Mr. Turcotte moved to approve the disability application for Marilyn L. Grismer. The motion was seconded by Mrs. Peiffer. Finding none, the motion unanimously carried.

**MOTION/VOTE:** Mr. Layman moved to approve the disability application for Ronda L. Noland. The motion was seconded by Mrs. Peiffer. Finding none, the motion unanimously carried.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:44 p.m.

Chairperson S/S/ Scott Dubbs

Executive Director S/S/David Senn