

PUBLIC EMPLOYEES' RETIREMENT BOARD

100 North Park Avenue, Room 201

Helena MT 59601

AGENDA

Thursday, April 14, 2011

REGULAR MEETING

President John Nielsen called the regular meeting to order at 8:35 am Thursday, April 14, 2011. Roll call was taken and six members of the Board were present; Member Patrick McKittrick participated via telephone. Board members and staff present were:

John Nielsen, President
Terry Smith, Vice President
Darcy Halpin, Member
Scott Moore, Member
Dianna Porter, Member
Timm Twardoski, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Chief Legal Counsel
Flora Sebens, Executive Assistant

Other's present: Ralph Pomnichowski, Don Kinman, AFSCME; Mike O'Connor, MPERA; Linda Ulrich and Beth Long, GWRS; Ed Cleary, Rick Ryan, Dax Fraser, George Richards, K. Bentz and Jason Baker, members of the Montana State Firefighter's Association; Don Kinman, AFSCME; Jill Hindoien, MRPEC; Scott Grant, Provaliant; Perry Christie, GWL; Tom Schneider, MPEA; Tammy Rau, TRS; Barbara Quinn, Fiscal Services Bureau Chief; Patricia Davis, Member Services Bureau Chief; Kate Talley, Legal Counsel; Diann Levandowski, Assistant Fiscal Services Bureau Chief, Jenny Weigand, Education Supervisor; Ashley Fregoso, DC Accountant; and Renae Justice, Internal Auditor, joined the meeting.

OPEN MEETING

- I. Roll Call**
- II. Public/Member Comment** - No comments were given.

Action items

III. Approval of Board Meeting Minutes

The minutes of the open meeting of March 10, 2011, were presented.

Motion: Member Dianna Porter moved to approve the minutes of the March 10, 2011, PERB Regular Open Meeting with corrections.

Second: Vice President Terrence Smith

No public comment.

Vote: 6/0 – Member Patrick McKittrick abstained due to his absence from the last meeting.

IV. Investment Update – Clifford Sheets, Chief Financial Officer, BOI
Mr. Sheets presented the BOI quarterly report to the Board. Fiscal year to date rate of return is greater than 18%. Recovery is on track but slow – consumer is over leveraged and paying down debt.

V. Executive Director’s Report – Roxanne Minnehan, Executive Director

A. Board Elections (President John Nielsen)

Board Policy states that the Board shall elect a President and a Vice President in April of each year. The current President is John Nielsen. Terrence Smith is Vice President. Ballots allowed Board members to check the box indicating their choice. The Executive Assistant collected the ballots and Mr. Tom Schneider, MPEA, and Mr. Rick Ryan, MSFA, counted them.

Mr. John Nielsen was elected PERB President with a 6/1 vote.

Mr. Terry Smith was elected PERB Vice President with a 6/1 vote.

B. 2011 Legislative Session (Dianna Porter/Roxanne Minnehan)

HB70, HB119, HB134, HB135 have all been signed into Law and have a chapter number assigned to it.

House Bill 122

This bill was returned to the House with amendments as of March 31, 2011. Legal Counsel, Ms. Kate Talley, noticed that the original amendment that eliminated the increase in employer contributions did not go far enough. The amendment removed the increase from the employer contributions section, but did not remove the increase in the allocations section of the DC plan and the ORP Plan. When we asked the Legislative Services Division if this could be corrected by the Code Commissioner they immediately responded this would need to be corrected through a Free Conference Committee. Representative Malek will request a “do not concur,” then a free conference so that the original amendment can be discussed before it will go back to both houses to be voted upon. As of today this has not shown up on the House agenda. Ms. Minnehan indicated that she has not been able to contact Representative Malek to discuss this with her. Mr. Mike O’Connor mentioned that they also asked for a revised fiscal note, which was just printed yesterday. There are concerns that we are running out of time to get this corrected. Member Dianna Porter questioned if there could be a certain amount of leeway with the amendments when it was obvious that the intent of the amendment should have included the allocations. Ms. Symons responded that if the change could not be implemented then it might be something that could be changed by the Code Commissioner, but the way the amendments are worded it could possibly still be implemented. Member Porter requested that Ms. Minnehan keep the Committee abreast of what happens with this bill via email.

House Bill 632

House Bill 632 was heard in Senate State Administration on April 8, 2011. Senator Balyeat proposed a contingency amendment that this bill would be void unless House Bill 122 and Senate Bill 54 passed specifically stating that all three bills need to pass in order for any system to receive money. Senator Balyeat stated that he felt blindsided by this bill and he did not want to throw money at the retirement systems without any

reform. He mentioned that he had heard that his bill, Senate Bill 54, was going to be vetoed by the Governor. He wanted to ensure that his bill passed if the retirement plans were going to get this money. The amendment and the bill passed 5 to 3. The bill is now scheduled for a second reading today in the Senate.

Balyeat's contingency amendment has no affect on our bill.

House Bill 317

This bill no longer addresses the retirement plans. The specific statutory appropriations have been amended out. The bill has been returned to the House with amendments as of April 11, 2011.

House Bill 508

This bill was transmitted to the Governor on April 4, 2011.

House Bill 552

House Bill 552 was transmitted to the Governor on April 4, 2011.

HB 585 – returned from enrolling.

House Bill 587

This bill is scheduled for its third reading on April 18, 2011 in the House.

House Joint Resolution 38

This bill was transmitted to the Senate Local Government and is scheduled to be heard April 19, 2011.

Senate Bill 120

This bill was transmitted to the Governor on April 11, 2011.

Senate Bill 222

Senate Bill 222 was signed into law on April 12, 2011.

Senate Bill 223

This bill was transmitted to the Governor on April 6, 2011.

Senate Bill 229

Senate Bill 229 was transmitted to the Governor on April 8, 2011.

Senate Bill 328

This bill was tabled on April 7, 2011, in Committee by a 15 to 3 vote.

Senate Resolution 6

This resolution was returned from enrolling and adopted as of April 11, 2011. The appointments of Board members Scott Moore and Timm Twardoski have now been confirmed.

Member Dianna Porter asked when the Legislature would end. Ms. Minnehan speculated that it would be around April 28, 2011.

Ms. Minnehan mentioned that the Governor held a branding ceremony on Wednesday, although she was unsure of what bills he vetoed.

Member Dianna Porter reviewed the list of motions that had been made by the Legislative Committee.

C. *FY 2012 Interest Rate Credited to DB Member Accounts (Barbara Quinn)*

Ms. Barb Quinn, Fiscal Services Bureau Chief, referred the Board to the Interest Rate Policy that was included in the Board packet, along with the Interest Rate Determination, which showed the interest rate being proposed at point 0.25% and 0.5%. Ms. Quinn indicated that the Board is being asked to maintain the interest rate credited to the member accounts of 0.25% for the defined benefit plans, effective July 1, 2011.

Motion: Vice President Terrence Smith moved to maintain the interest rate credited to the member accounts of 0.25% for the defined benefit plans, effective July 1, 2011.

Second: Member Patrick McKittrick

No public comment.

Vote: 7/0

D. *Notice of Rule Adoption – Basic Period of Service (Melanie Symons)*

Ms. Melanie Symons, Chief Legal Counsel, reported that a Notice of Proposed Adoption was issued February 10, 2011, amending ARM 2.43.2105, the Basic Period of Service rule. The proposed amendment grants a full month of service credit for any month during which a member works less than 160 hours, provided the member is full-time and scheduled to work at least 2080 hours in the fiscal year.

One comment was received regarding full-time employees whose flexible work schedule may impact both a calendar month and a calendar year. Under the new rule, the member will receive a full month of service credit, but service credit for the year will be reduced proportionately. MPERA believes this to be consistent with law. If the employer chooses, the work schedule can be amended to comply with the 2080 hour fiscal year.

No other comments were received.

Staff recommends the Board approve the proposed rule adoption to ARM 2.43.2105 and approve submittal to the Secretary of State's Office of the following "Notice of Amendment".

Motion: Vice President Terrence Smith moved to approve the proposed rule adoption to ARM 2.43.2105 and approve submittal to the Secretary of State's Office of the following "Notice of Amendment".

Second: Member Darcy Halpin

No public comment.

Vote: 7/0

E. Union Negotiations (John Nielsen)

Ms. Minnehan stated that in the past the Executive Director would handle the union negotiations, but over time the Board also started becoming involved with the process. It was eventually handed over to the Personnel Committee. Ms. Minnehan requested the Board appoint a Union Negotiations Committee to meet with the union.

Motion: Member Darcy Halpin moved to accept the staff's recommendation that the Board appoint the Board Personnel Committee, Executive Director and Chief Legal Counsel to the Union Negotiations Committee.

Second: President John Nielsen

No public comment.

Vote: 7/0

F. Out of State Travel Authorization (Roxanne Minnehan)

1. Microsoft Tech-Ed – 5/15-19, Atlanta GA – Dave Swenson

This is a Microsoft Tech-Ed Conference from May 15 through May 19, 2011, in Atlanta, Georgia. Mr. Dave Swenson, Computer Software Specialist, would have an opportunity to learn more about the latest Microsoft products and software. The conference fees include a year's subscription to a technical computer software magazine, as well. This was included in the budget approved by the Board.

Motion: Member Darcy Halpin moved to approve the travel authorization for David Swenson to attend the Microsoft Tech-Ed Conference in Atlanta, Georgia, from May 15 through 19, 2011.

Second: Member Scott Moore

No public comment.

Vote: 7/0

2. NAPPA Conference – 6/21-24, Seattle WA – Melanie Symons/Kate Talley

This is a conference that the Chief Legal Counsel and Legal Counsel have attended for the past several years. This was included in the budget approved by the Board.

Motion: Member Dianna Porter moved to approve the travel authorization for Melanie Symons and Kate Talley to attend the National Association of Public

Pension Attorneys (NAPPA) conference in Seattle, Washington from June 21-24, 2011.

Second: Member Darcy Halpin

No public comment.

Vote: 7/0

3. NASRA Conference – 8/5-10, Lake Geneva WI – Roxanne Minnehan
The National Association of State Administrators (NASRA) conference is being held in Lake Geneva, Wisconsin from August 5-10, 2011. This was included in the budget approved by the Board.

Motion: Member Darcy Halpin moved to approve the travel authorization for Roxanne Minnehan to attend the NASRA Annual Conference in Lake Geneva, Wisconsin, from August 5-11, 2011.

Second: Member Dianna Porter

No public comment.

Vote: 7/0

Educational items

G. DC Plans Annual Plan Review (Patricia Davis & Linda Ulrich, Great-West Retirement Services

Ms. Linda Ulrich from Great-West Retirement Services and Ms. Patricia Davis, Member Services Bureau Chief, gave a presentation on the DC Plans Annual Plan Review. Ms. Ulrich stated that overall total assets in the plan were up about \$41.2 million; an 11.4% increase overall in assets. 73% of the \$41.2 million was market recovery. Since 2008 approximately 24% has been recovered in the 457 Plan and 85% in the 401(a) Plan.

Ms. Davis reported that her staff will focus their efforts on making sure that all participants receive the education they need for plan choice and then after they have made their choice in the 401(a) and they start participating in the 457 Plan they will be educated on how to manage their accounts and retirement plans going forward. Ms. Davis stated that her education staff has come up with a good plan to accomplish this and in cooperation with the Great-West Retirement Services staff they will be publishing quarterly training schedules beginning in July. MPERA will start by focusing on mid-career individuals. Member Darcy Halpin asked how the education staff plans to disseminate the information on the educational training courses. Ms. Davis responded that they have a good communication network established with human resource departments and with payroll clerks. They are sent an email and requested to forward it to their staff. The information is also posted on our website. It was suggested that the education staff research what percentage of each department's

employees are signed up in the 457 Plan and possibly target those departments with the fewest employees.

Discussion Items

H. MPERAtiv Program Update (June Dosier & Scott Grant, Provaliant)

Ms. June Dosier, Information Systems Manager, introduced Mr. Scott Grant, the Project Oversight Manager from Provaliant Retirement, LLC. He's been on site since March 14, 2011. The MPERAtiv program is comprised of multiple projects, including business process modification, data cleansing, imaging and a new Line of Business (LOB) information system. Provaliant Retirement, LLC, will provide ongoing project oversight and quality assurance throughout all phases of all MPERA projects included in the MPERAtiv program.

Current status:

- The MPERAtiv Project is underway with work beginning with business process modification and data cleansing.
- MPERAtiv governing documents are being developed.
- A change order was approved to delay imaging to allow for the inclusion of the results of the business process modification recommendations. The timeline of the imaging project is impacted. There is no impact to the MPERAtiv timeline or cost.

Activities completed since last status report:

- The MPERAtiv Program officially started Monday March 14, 2011.
- The official MPERAtiv kick-off was held on March 24, 2011.
- Installation of cubicles is complete and staff has moved to their new locations.

Activities to be completed in the next month:

- Development and approval of initiation documents including MPERAtiv project charter, communication plan and quality assurance plan.
- Perform an in-depth risk assessment.
- Business process modification – continue research on MPERA business processes.
- Data cleansing – continue to collect information on MPERA data.
- Imaging – finalize timeline for imaging to allow for completion of business process modifications so that they can be utilized for the imaging RFP.

I. Conference Report – Fiduciary College (John Nielsen)

On March 24-25, 2011, President John Nielsen attended the Rock Center Fiduciary College 2011 Conference in San Francisco, California. He mentioned that there were five panels and they were well attended.

The first panel keynote speaker talked about “A glimpse into the future of work and retirement.” Afterwards there was the panelist discussion, “Plan Sponsor and Labor Reactions to the Keynote Speaker”. The Planned Sponsor voiced concern over the cost of budget problems and cost of the plans. They mentioned that states cannot file bankruptcy. They can; however, pass down expenses to cities, counties and municipalities and they can file bankruptcy. It was emphasized at this panel that today

agencies need to do more of the work with less personnel because everyone is reducing their work forces. It was also noted that a lot of people are working more years, which results in agencies having more seasoned employees who have more experience and are more dedicated to the company. It seems that younger employees are not so concerned about longevity to a company but they have better technology skills. The Labor Reactions panelist voiced concern over the loss of jobs to overseas companies and the attrition of companies having to lay off employees, which again forces their employees to do more work with less employees.

The second panel's discussion was about Plan Design and Risk Sharing – Pension Plans for Today's New Hires. They discussed the need for plans to be designed for more cost cutting and sharing between the employer and employee. There were a lot of states that increased the benefits without increasing contributions and they relied solely upon their investments. Now that the investments have taken a down turn they are having problems maintaining the benefits with the loss of investments. Many states are changing their actuary factoring and some are considering hybrid plans.

Panel three discussed a Fiduciary Perspective on the Roles and Responsibilities of Retirement Plans, Plan Sponsors, and Members for Plan Funding and Design. Colorado's retirement system was hit harder than Montana's but their pension board took somewhat of the same view that our Board started with, which was realizing that we had just taken a big loss with our investments so we needed to wait to see what the retirement system looked like in a few years. Colorado went to their Legislature with the information they had and the Legislature told them they had eleven months to make the retirement system financially and actuarially sound. They went to their actuary and were told they needed a 21% increase in contributions one month and that if they did not they would be completely out of money by the year 2030. They have similar contract rights so they looked at everything we looked at: more steps for their new members; different retirement calculations, etc. But they discovered that these actions only added 2-3 years before the death of their retirement systems. So they decided to reduce their COLA (which is equivalent to our GABA) from 3.5% to 2%. This resulted in their pension system being funded within a short period of time. Prior to making this decision the Board met with the unions who brought in their own actuaries to review the Colorado's Board's decision and they confirmed what the Board said. The Board also discussed this decision with the public, as well. When asked how they can still consider it a DB plan if the state can be allowed the change the benefits they responded that they were changing the calculations a little bit because it was necessary, but that it was still a defined benefit plan – it was just going to be less of a benefit. President Nielsen stated that the Board may have to re-evaluate their options since the Legislature eliminated the funding from our bills that addressed unfunded liabilities. If we want to stop the Legislature from going to a DC Plan in the future this may be one of the options we have to consider.

In panel four the discussion centered around “Chief Investment Officer Roundtable: Portfolio Returns, Assumptions and Realities”. This panel discussed future investments and what everybody is currently looking at. It was the consensus that most everybody did not think that future gains would be as good as the past. The panelist argued both sides of the issue. It was advised that if you want to invest in US companies then do it

in companies that are dealing overseas. If you were going to invest globally do it in the emerging market countries like India and China.

The panel five discussions were focused on “Pay-to-Play, Pension Spiking, and Other Pension ‘Black Eyes’”. The discussion was focused on overcoming spiking issues and other harmful/negative activities. It was stated that hiring an internal auditor was very important. President Nielsen noted that the Board decided 3-4 years ago to hire an internal auditor to start watching for spiking and to assist in creating rules and policies to avoid spiking.

J. Committee Reports (Committee Chairs)

Audit Committee

Vice President Terrence Smith stated that the Audit Committee had met on March 10, 2011. Ms. Renae Justice, Internal Auditor, reported on the internal control audits, as well as the employer audits. The internal control audits will be done by the end of this Fiscal Year and so far they are going very well. Ms. Justice spent the first year putting all the plans together for the employer audits and is now doing site visits with several agencies. Ms. Justice also completed drafting a questionnaire that will go out this month on cafeteria plans. She is trying to develop a new cafeteria plan process because it is important that participants follow the rules in order to remain qualified.

Legislative Committee

Member Dianna Porter reported that the Legislative Committee continues to have a regular conference call meeting and although the Legislature is starting to wind down it was felt that it was still worthwhile to have this weekly meeting.

Member Darcy Halpin noted that there is a Personnel Committee meeting scheduled at 1:30 p.m. today after the Board meeting.

Member Scott Moore mentioned that there was nothing new to report on the Policy Committee.

K. Executive Director Verbal Update (Roxanne Minnehan)

Ms. Roxanne Minnehan reported that the File Clerk position had been filled. Ms. Tasha McCourt starts April 25, 2011. The Benefit Analyst position was filled internally by Ms. Shani Anderson and she will begin her new duties on April 11, 2011, and she will also work part-time in her other position until it is filled. The Refund Clerk position was posted internally on April 12, 2011. Interviews will begin on April 13, 2011, for the Retiree Database Support position. We are currently reviewing external applications for the Active Database Support position and the Software Specialist position is currently in the process of being classified. We are hopeful that it will be posted by end of this week. Ms. Minnehan mentioned that Mr. Jeff Bryce, one of the IT contractors, has accepted a job in Colorado and has resigned his position.

CEM Benchmarking, Inc.

Ms. Minnehan mentioned that Provalient Retirement, LLC stated we need a cost effectiveness measurement. They asked if we had considered CEM. CEM Benchmarking, Incorporated, started in Toronto, Canada in 1992. CEM is an independent provider of objective actionable benchmarking information for pension

investment and administrative operations. Both Provaliant and CEM have suggested using a benchmarking tool to provide a baseline to measure improvements gained through the MPERATiv project. It will also provide justification of the MPERATiv project for the Legislature and others who might question MPERATiv at this time. Fiduciaries have an obligation to ensure that the fees paid and services rendered are reasonable to some goal or standard. A complete service costs \$37,500. A 40 page survey would be completed. There is also a scaled down service that addresses smaller organizations. That would cost approximately \$20,000.

Ms. Minnehan stated that the staff would like the Board to entertain the smaller survey because it is less expensive and there would be less impact on staff. President John Nielsen voiced concern about the cost of this service. Mr. Scott Grant explained that benchmarking would provide good information to the Legislature. CEM would research how well MPERA provides services currently and will discover how good we are at getting information to our members as a service industry and how members feel about the timeliness and content of the information. It was asked if there had been complaints from the Legislature about our service delivery and Ms. Minnehan responded there had not.

It was noted that a copy of the survey from CEM would be made available to the Board. Member Dianna Porter stated that she did not think it would hurt to hear more information on it. Vice President Terrence Smith requested a draft that justifies the service and the cost.

It was agreed that CEM would give a presentation at the next Board meeting.

Board Retreat

Ms. Minnehan suggested that it would be a good time to focus on the DC Plan, 457 Plan, contracts, etc. at the next Board Retreat. She asked if the Board would like a facilitator at the retreat. The consensus was that they did not feel an external facilitator was needed and suggested that maybe someone from the MPERA staff could perform this task. Ms. Minnehan noted that the last retreat was at the end of March 2010. It was agreed that possible retreat dates would be discussed at the next Board meeting.

L. Verbal Update – Litigation (Melanie Symons, Kate Talley)

Ms. Melanie Symons mentioned that there was nothing new to report on the open issues.

M. Next Board Meetings – April 14, May 12, June 9

The next Board meetings will be on May 12, 2011, and June 9, 2011.

CLOSED MEETING

The following portion of the meeting relates to matters of individual privacy. The Board President determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed as of 11:50 a.m.

OPEN MEETING

President Nielsen called the regular meeting back to order at 12:35 p.m.

ADJOURNMENT

There being no further business before the Board, President Nielsen adjourned the regular meeting at approximately 12:35 p.m. The next regular meeting will be Thursday, May 12, 2011, at 8:30 am.

John Nielsen, President

ATTEST:

Roxanne M. Minnehan, Executive Director