

PUBLIC EMPLOYEES' RETIREMENT BOARD

100 North Park Avenue, Room 201

Helena MT 59601

AGENDA

Thursday, June 14, 2012

BOARD MEETING

President Scott Moore called the regular PERB Meeting to order at 8:30 a.m. on Thursday, June 14, 2012. Roll call was taken. Six Board members present. Vice President Terrence Smith participated via conference call. Board members and staff present were:

Scott Moore, President
Terry Smith, Vice President (*via conference call*)
Bob Bugni, Member
Darcy Halpin, Member
Dianna Porter, Member
Timm Twardoski, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Chief Legal Counsel
Flora Sebens, Executive Assistant

Others present: Don Kinman, AFSCME; Tom Schneider, MPEA; Mike O'Connor, AMPRE; Rick Ryan, Rick Hansen, Ed Cleary, Dax Fraser, Doug Neil, Jason Baker, George Richards, MSFA; Jill Hindoien, AFSCME; RaeLynn Nielsen, City of Helena; Shantil Siaperas, MACO; Diane Fladmo, MEA-MFT; Linda Ulrich, GWRS; Mark Murphy, MCCA, MPPA, MACOP; *MPERA staff*: Barbara Quinn, Fiscal Services Bureau Chief; Patricia Davis, Member Services Bureau Chief; June Dosier, Information Systems Manager;; Dave Swenson, IT System Supervisor; and Diann Levandowski, Assistant Fiscal Services Bureau Chief joined the meeting.

OPEN MEETING

I. Roll Call

II. Public/Member Comment

Action items

III. Approval of Minutes

A. Board Meeting –May 10, 2012

The minutes of the May 10, 2012, PERB Regular Meeting were presented.

Motion: Member Darcy Halpin moved to approve the minutes of the May 10, 2012, PERB Regular Meeting.

Second: Member Timm Twardoski

No public comment.

Vote: 5/0 Vice President Terrence Smith abstained due to his absence from the first part of this meeting.

B. Personnel Committee Meeting – May 9, 2012

The minutes of the May 9, 2012, PERB Personnel Committee meeting were presented.

Motion: Member Darcy Halpin moved to approve the minutes of the May 9, 2012, PERB Personnel Committee meeting with corrections.

Second: Member Timm Twardoski

No public comment.

Vote: 3/0

C. Audit Committee Meeting – May 10, 2012

The minutes of the May 10, 2012, PERB Audit Committee meeting were presented.

Motion: Member Terrence Smith moved to approve the minutes of the May 12, 2012, PERB Audit Committee meeting.

Second: Member Dianna Porter

No public comment.

Vote: 3/0

IV. Executive Director's Report

A. DCRP/457 Plan Administration

1. EIAC Appointments – *Patricia Davis*

The Employee Investment Advisory Council (EIAC) bylaws state that members serve staggered, three-year terms. The terms are up for Tom Schneider, MPEA; Edward Dawes, Department of Labor & Industry; and James Helgeson, Great Falls Transit Authority. Staff recommends re-appointment of all three. They have agreed to continue serving.

Motion: Member Bob Bugni moved to approve the re-appointment of Tom Schneider, Edward Dawes and James Helgeson to the Employee Investment Advisory Council (EIAC).

Second: Member Darcy Halpin

No public comment.

Vote: 6/0

2. Contract Renewals – *Melanie Symons*

The contracts for the DC plans record keeper and the investment consultants are nearing expiration. The Board previously approved extending the contracts.

a. Great-West Retirement Services (GWRS)

Staff recommends Addendum 3 to the GWRS contract be adopted. The Addendum extends the term of the existing contract for one year, with a new termination date of June 30, 2013. The Addendum is consistent with the Board's decision at its July 2011 meeting to commence negotiations and extend the contract for one year. GWRS has agreed to the extension under the same terms of the existing contract, including cost.

Motion: Vice President Terrence Smith moved to approve the Addendum to extend the term of the GWRS contract for one year.

Second: Member Darcy Halpin

No public comment.

Vote: 6/0

The current contract between GWRS and the Board identifies the Board's agent as Kathy Samson. The Addendum clarifies that Patricia Davis is now the Board's agent.

Motion: Member Bob Bugni moved to approve the Addendum, clarifying that Patricia Davis is now the Board's agent.

Second: Member Dianna Porter

No public comment.

Vote: 6/0

b. Wilshire Associates

Staff recommends Addendum 1 to the Wilshire contract be adopted. The Addendum extends the term of the existing contract for one year, with a new termination date of June 30, 2013. The Addendum is consistent with the Board's decision at its July 2011 meeting to commence negotiations and extend the contract for one year. Wilshire has agreed to the extension under the same terms of the existing contract, including determination of the annual cost of the services.

Motion: President Scott Moore moved to approve the Addendum to extend the term of the Wilshire Associates contract for one year.

Second: Member Timm Twardoski

No public comment.

Vote: 6/0

The current contract between Wilshire and the Board identifies the Board's agent as Kathy Samson. The Addendum clarifies that Patricia Davis is now the Board's agent.

Motion: Member Dianna Porter moved to approve the Addendum, clarifying that Patricia Davis is now the Board's agent.

Second: Member Darcy Halpin

No public comment.

Vote: 6/0

B. FY 2013 Contracts

Some of the Board administrative contracts are renewed annually.

1. Agency Legal Services Bureau – *Melanie Symons*

Our agency has been a long-term client of the Agency Legal Serviced Bureau (ALSB). We use ALSB services for hearing examiners and when our legal counsel workload is high, or if there is a conflict of interest. ALSB rates have not changed for the second half of the biennium.

Motion: Member Dianna Porter moved to approve the Agreement to the Agency Legal Services Bureau (ALSB), extending the termination date until June 30, 2013.

Second: Member Bob Bugni

No public comment.

Vote: 6/0

2. ICE Miller Tax Counsel – *Melanie Symons*

For specialized tax counsel services we consult with ICE Miller. They provide invaluable service, such as Cycle C filing, 1099R issues and 415 limits. Ice Miller has a significant connection with the IRS. They are one of the only firms that deal with pensions. After Board approval, we will need to submit the contract to the Legal Services Review Committee for approval. This request has met the criteria every year.

Motion: Vice President Terrence Smith moved to approve the Addendum to the Ice Miller Contract.

Second: Member Dianna Porter

No public comment.

Vote: 6/0

3. Medical Consultant – Dr. Schofield – *Patricia Davis*

Dr. Schofield is one of the physicians we contract with to perform medical reviews of disability cases. The contract term is from June 15, 2012, through July 1, 2013, at the current rate of \$100/hour.

Motion: Member Darcy Halpin moved to approve the contract for Dr. Schofield to continue medical reviews of disability cases.

Second: Member Timm Twardoski

No public comment.

Vote: 6/0

C. Fiscal Year 2013 Proposed Budget – *Barbara Quinn*

Ms. Barbara Quinn, Fiscal Services Bureau Chief, presented the proposed budget for Fiscal Year 2013. The Board creates, approves the budget on an annual basis and monitors quarterly. Each year the allocation process is reviewed to ensure we are equitably charging expenses across all programs. No retirement plan can subsidize another.

The total budget is \$7,712,835 – 77% DB plans, 9% DC, 6% 457, 7% DB Ed and 1% DC Ed. The overall increase from last year's budget is about 7%, approximately \$500,000, due to MPERAtiv program costs.

Motion: Member Timm Twardoski moved to approve the Fiscal Year 2013 Budget as presented.

Second: Member Darcy Halpin

No public comment.

Vote: 6/0 Vice President Terrence Smith was not able to view the budget spreadsheet that was presented at the meeting; therefore, he abstained from voting.

D. Fiscal Year 2012 Reserve – MPERAtiv Program – *Barbara Quinn*

For Fiscal Year 2012 the PERB budget is estimated to come in under the allowable statutory cap of 1.5% of benefits paid. Generally, any amount remaining under the CAP reverts to the pension trust funds. Past discussions have centered on the idea of setting aside the excess budget amount from the current fiscal year to be paid in the next fiscal year for the purpose of funding the MPERAtiv program.

Last year staff recommended allowing a cushion of \$100,000 to remain in the prior year budget. This year staff recommends the Board allow a cushion of \$50,000 for any unexpected transactions since the general ledger does not officially close until the

3rd week of July; and allow the remaining \$50,000 to be carried over to the next fiscal year for the purposes of distributing the amount to MPERA employees as MPERAtiv retention incentives, per the direction of the Board's Personnel Committee.

Vice President Smith asked if the Personnel Committee had discussed this yet. Member Twardoski responded they had not and clarified that the staff was recommending the Board direct the Personnel Committee to discuss this issue further. and to make a recommendation to the Board at a future date. Ms. Minnehan stated she had contacted President Moore and Member Twardoski to give them a heads-up that the staff would be requesting the Board to direct the Personnel Committee to review and distribute up to \$50,000 to MPERA staff as part of their additional effort in the MPERAtiv Program.

Vice President Smith stated that this made him uncomfortable. He is worried about what message this might send out to the public. He noted that he thinks it is a good idea, but bad timing. Member Twardoski responded that if the Board directs the Personnel Committee to review this matter then they will report back to the Board with a few different options to consider. There are variables that the Personnel Committee needs to discuss, such as talking to the Union, new hires, people leaving, managers, etc.

Ms. Minnehan stated that she did not feel that \$50,000 was that much money to split between 50 people and felt it would be very beneficial for staff. In terms of the MPERAtiv program the staff has been significantly impacted and over-worked. This would be a good way to recognize their efforts. Member Porter agreed that the staff certainly deserves to be rewarded and stated that she will be sure that Vice President Smith's concerns are thoroughly discussed at a meeting if this matter is turned over to the Personnel Committee.

Member Halpin noted in her experience working at MSU-Bozeman, if a department had money in their budget they took a similar action. Member Twardoski mentioned that he cannot imagine that \$50,000 would cause alarm and noted that even if it did the Board's response would be that this is for a program that is going to benefit the members and retirees. There have been other agencies that have given incentive pay and Member Twardoski would like to see this issue directed to the Personnel Committee for further discussion. Member Porter asked to have some information on what other agencies have given incentive pay so that the Personnel Committee would have something to compare it to.

President Moore stated that while initially he had the same reservations as Vice President Smith, he also acknowledged that not everybody received a wage increase. In light of the fact that the workload has increased dramatically because of the MPERAtiv Program, he is supportive of the staff receiving incentive pay. Member Twardoski reiterated President Moore's statement that in our negotiations with the Union not everyone received a wage increase and some people were not happy. The fact that we have over-worked staff, the turn-over has been high and recruitment has been an issue for a while. This action would be a good incentive for staff, as well as a

good way to let them know how much their hard work is appreciated so that we can retain them.

Motion: Member Dianna Porter moved that the Board take the following actions regarding the Fiscal Year 2012 dollars remaining under the statutory CAP:

- ***At a minimum, a balance of \$50,000, rounded to the nearest dollar, will remain in the Fiscal Year 2012 budget;***
- ***The remainder of the excess cap, as allowed by governmental accounting standards and state policy, will be set aside and earmarked for the purposes of funding the MPERAtiv program in Fiscal Year 2013. It is intended that the future spending of this amount will not impact PERB's future budget or budget cap; and***
- ***Allow the Board's Personnel Committee to consider, and report back to the Board on an MPERAtiv retention incentive in Fiscal Year 2013, based on the MPERAtiv allocation.***

Second: Member Timm Twardoski

Public comment: Mr. Doug Neil, MSFA, stated he agreed with Vice President Smith's comments. As a public employee he knows the compensation he is entitled to is determined through the collective bargaining agreement. There would be a storm if this hits the papers.

Vote: 6/0

E. VFCA Informal Consideration – *Diann Levandowski*

The McCormick Rural Volunteer Fire Department is requesting the Board accept a late filed Annual Certificate for FY 2011.

Motion: President Scott Moore moved that the three members of the McCormick Rural Volunteer Fire Department that has been listed on the Fiscal Year 2010-2011 Annual Certificate and verified to receive credit for that fiscal year be granted the year of credited service.

Second: Member Dianna Porter

No public comment.

Vote: 6/0

F. Out of State Travel Authorizations – *Roxanne Minnehan*

1. NAGDCA Annual Conference – September 29–October 3, 2012, San Diego, CA

The National Association of Government Defined Contribution Administrators (NAGDCA) is a professional organization made up of deferred compensation/defined contribution plan administrators from the 50 states and over 100 local governmental entities. It provides sharing of information on investments, marketing, administration, and laws relating to public sector deferred compensation/defined contribution plans. Typically, we have sent two staff and

up to two Board members to this conference. President Moore stated he could go. Member Bugni will check his calendar. Other Board members have attended in the past or had scheduling conflicts.

Motion: Member Dianna Porter moved that two staff and up to two Board members attend the NAGDCA Annual Conference in San Diego, California, September 29 – October 3, 2012.

Second: President Scott Moore

No public comment.

Vote: 6/0

2. P2F2 Annual Conference – October 7-10, 2012, New Orleans, LA
The Public Pension Financial Forum provides education, pension advocacy and networking. This is a fairly new organization that is much needed for public pension financial personnel. Ms. Quinn attended last year's conference and found it very beneficial. We are proposing Ms. Quinn attend this conference again this year.

Motion: Member Darcy Halpin moved the Board authorize up to \$2,200 for Barbara Quinn to attend the P2F2 Annual Conference in New Orleans, Louisiana, October 7 – 10, 2012.

Second: Member Bob Bugni

No public comment.

Vote: 6/0

Education Items

G. The Board's Budget

The Board does not go through the Legislative Process for its budget. Ms. Quinn elaborated on the process and talked about applicable laws. The Board has its own budget, which is developed annually. Each retirement plan and trust fund must be kept separate. No one plan can subsidize another. Staff prepares the annual budget for Board review and approval. Reports on the budget status are presented quarterly.

Discussion Items

H. SAVA Update – Roxanne Minnehan

- SAVA voted to move our bills into the process.
- TRS Actuaries presented information on the discount rate.
 - The discount rate of 7¾% includes a base inflation rate of 3.5% plus a recommendation for the real rate of return of 2-4%.

- They stated that by not funding the ARC, in essence, the legislature is assuming an 8.5% rate of return.
- LFD/LSD presented their report.
- David Niss told the Committees not to view case law as an impediment to impairing contract rights but a road map of how to impair contracts.
 - 1) Is it an impairment?
 - 2) Is it a substantial impairment?
 - 3) If it is substantial (and anything financial is), did they consider non-impairing or less substantial options first?
- We received an estimate from the actuary to provide the numbers to their schedules in Appendix B, based on 2012 actuary valuation. Schedules B1-B7 \$7,000-10,000. To cost the new tier of benefit would be \$18,000-20,000.
- One LFC member stated LFC wanted numbers like TRS on the impact of legislative proposals.
- LFC Members expressed disappointment that the Governor's proposal had received no analysis and was not presented or considered.
- A Joint Subcommittee was established to get more information on the Governor's Plan. SAVA is represented by Senator Jent and Senator Arthun. Representative Sesso was not in attendance to appoint LFC members. Scheduled to report back at the August meeting.
- Stephanie Morrison has developed a model to do "back of the envelope" estimates on retirement proposals. Dave Senn, Barb Quinn and Ms. Minnehan are going to view it this afternoon.
- Tom Schneider, MPEA commented:
 - "If the Legislature had kept the ER funding in House Bill 122 we wouldn't be here today."
 - Supports Board proposals.
 - Encouraged working with what we have.
 - Get the plan back on track.
- Diane Fladmo, MEA-MFT commented:
 - Understand seriousness.
 - Support governor's plan.
 - Need to share in solution.
 - Use creative funding sources.
 - Stick with DB plan.
- Alec Hanson, League of Cities/Towns
 - Can't afford increase in ER rates.
 - Cut services.
 - Prepared to deal with reasonable, incremental solution.
- Sheryl Wood, MACO commented
 - Local governments have no control or input on the retirement plans.
 - They would like the Board to include representation from them.
 - They are unhappy with the investment returns and think the BOI should be required to invest in less risky instruments similar to them. Counties did not lose money during the recession.
 - MPERA pays BOI way too much in investment fees.
 - They should not have to book an UAL of which they had no control.

- Ms. Wood did express appreciation over an incremental approach of increasing ER contributions at 0.25% per year – a more palatable and absorbable number.

I. MPERAtiv Program Update – *June Dossier*

June Dossier, Information Systems Manager, provided a monthly update on the MPERAtiv program. Overall, the program has a “Green Status”. Contract negotiation meetings were held with Sagitec for the Line of Business. The data analysis phase of the Data Cleansing project is complete and the data cleansing phase has started. The new imaging system went live on May 23, 2012. Informatix staff was on site to assist MPERA staff during this time.

J. PRISM Conference Report – *June Dossier/Dave Swenson*

Ms. Dossier and Mr. Swenson attended the Public Retirement Information Systems Management conference. The theme of this year’s conference was “Project Management: Planning, Practice and Pitfalls”. The conference depends on a very generous group of sponsors who help defray conference expenses. On Monday afternoon the sponsors of the conference introduced themselves in a round table format. This was followed by the Member Roundtable. During the member roundtable, each state summarized their most significant projects. This allowed us to report on our successes and to seek out others who are working on similar projects. On Monday afternoon there was an opportunity to meet one-on-one with sponsors to discuss their services and software. The remainder of the conference we participated in breakout sessions. This provides opportunities to learn more and share information about technologies that are available and are being used by retirement systems to deal with today’s challenges. These sessions were all facilitated by the retirement systems.

K. Committee Reports – *Committee Chairs*

- *Legislative Committee* – Chairman Terrence Smith reported that the Legislative Committee met via teleconference on June 4, 2012, and again on June 7, 2012. The Committee reviewed the DC plan study and discussed what was going to be released to the public. The document, “Dollars & Sense” was presented at the SAVA/LFC joint meeting. Ms. Minnehan indicated she will email it to the entire Board for their review. The Committee also talked about the funding bills and the upcoming 2013 Legislation. The next meeting will be scheduled in the very near future.
- *Personnel Committee* – Chairman Twardoski indicated there were no updates at this time.
- *Policy Committee* – Chairwoman Halpin indicated that there were no updates at this time.
- *Audit Committee* – Chairman Bugni reported that the Audit Committee met after last Board meeting on May 10, 2012. They met with the new Internal Auditor, Hollie Koehler. The information from this meeting is contained in the meeting minutes that were just approved.

L. Board of Investors Update – *Member Bob Bugni*

Member Bob Bugni reported the Board of Investments held a 2-day meeting on May 22-23, 2012. At this meeting Mr. Clifford Sheets reported they were up 4% on returns, but it still does not look like they’re going to meet the actuarial return this year. They asked their consultant to run an analysis on the probability of meeting the 7 ¾

assumption rate. With the current asset allocation they are estimating a 44% chance of hitting 7 ¾ percent. With a more aggressive asset allocation the probability would increase up to 60%. However, that would require more private equity and less fixed income.

Mr. Bugni also reported that the consultant contract for R.B. Kuntz was up for renewal. An RFP will be released in July 2012 and the responses will be reviewed in September 2012 by a sub-committee. The contract is for approximately \$300,000. They provide performance, independent analysis and recommendations to BOI.

Their consultant also recommended the domestic equity pool be restructured. BOI is not getting a fair return on the returns for the large cap equity pool. They recommend returning to a passive approach. BOI agreed they needed to look at the international equity pool due to underperformance to the indexing. BOI is concerned and considering taking a more passive approach to this, as well.

M. Executive Director Update – *Roxanne Minnehan*
Staffing Update

- Disability Examiner – Position was offered on June 12, 2012 – awaiting a reply.
- LAN Administrator – Position was filled by Kelly Winterburn. She starts on June 25, 2012.
- DC Accounting Tech – Position closed May 14, 2012. We are now in the second round of interviews. After the first round there was one withdraw due to salary, and one “now show”.
- DC Accountant – Position closed May 14, 2012. In the process of scoring applications and are hoping to begin interviews Friday, June 15, 2012.
- Paralegal position was reclassified as a Program Specialist – Rick Dendinger started May 31, 2012.
- Benefit Analyst – Angie Fiskum accepted a new position at SAF. Position is in the process of being reclassified.

N. Litigation Update – *Melanie Symons/Kate Talley*

We are still waiting for a decision on the Ober Spear case. The Erene Briese case was classified for submission on briefs to the Supreme Court en banc on May 16, 2012. Work is continuing on the Center for Mental Health case.

O. SAVA Meeting – *August 8-9 and September 6*

P. LFC – *Mid-September*

Q. Board Meetings – *July 12, August 9 and September 13*

R. Board Retreat – *FWP Communication/Education Center, September 12, 2012*

ADJOURNMENT

There being no further business before the Board, President Scott Moore adjourned the Regular meeting at approximately 1:00 p.m. The next regular meeting will be Thursday, July 12, 2012, at 8:30 am.

Scott Moore, President

ATTEST:

Roxanne M. Minnehan, Executive Director