PUBLIC EMPLOYEES' RETIREMENT BOARD
100 N. Park Avenue, Room 201
Helena, MT 59601

Thursday, March 13, 2014

MINUTES

Scott Moore, President
Terrence Smith, Vice President
Bob Bugni, Member
Mike McGinley, Member
Melissa Strecker, Member
Timm Twardoski, Member
Sheena Wilson, Member

MPERA Staff
Roxanne Minnehan, Executive Director
Melanie Symons, Chief Legal Counsel
Barbara Quinn, Fiscal Services Bureau Chief
Patricia Davis, Member Services Bureau Chief
Hollie Koehler, Internal Auditor
Kate Talley, Legal Counsel
Jenny Weigand, Education Supervisor
Cynthia Piearson, Executive Assistant

Public
Tom Schneider, MPEA
Mike O'Connor, AMRPE
Diane Fladmo, MEA-MFT
Rick Ryan, Ed Cleary, Rick Hansen, Jason Baker, George Richards, Blaine Cowan, Doug Neil, MSFA
Beth Long, GWRS
Yvette Englert, Department of Administration – Human Resources

Call to Order
President Scott Moore called the meeting to order at 8:30 a.m.

Roll Call
Six members of the Board were present. Member Mike McGinley was excused.

Public Introductions
At the Board's request, attendees introduced themselves.

Public/Member Comment
There was no public comment.

Special Recognition of Board Service
The Board recognized Vice President Terrence Smith and Member Bob Bugni, whose terms on the Board expire this month, for their outstanding service and contributions. President Scott Moore presented these individuals with plaques and gifts.

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Consent Agenda
1. Board Meeting Minutes – *February 13, 2014*

Motion: *Member Sheena Wilson moved to accept the minutes as written.*
Second: *Member Melissa Strecker*
No public comment.
Vote: *6/0*

Committee Meeting Minutes
1. Audit Committee Meeting Minutes – February 13, 2014

Motion: *Member Terrence Smith moved to accept the minutes as written.*
Second: *Audit Committee Chairman Bob Bugni*
No public comment.
Vote: *2/0*

DC/457 Plans Administration
There was discussion regarding administrative changes to the Deferred Compensation/457 Plans.

Plan Documents Clarifying Amendment
Melanie Symons, MPERA Chief Legal Counsel, said Montana's Legislative Audit Division had inquired about a call received through the division's fraud hotline. The caller alleged the 457 Plan was "competing with private investment management service providers" by allowing participants who had ceased employment but still had funds in their accounts to roll-in money from other retirement accounts. Ms. Symons said the 457 Plan does, indeed, allow this.

Due to the significance of the allegation, MPERA consulted with its tax counsel, ICE Miller, to ensure the current practice was correct. Ice Miller assured the agency that under Internal Revenue Code, plan participants (active and inactive) are allowed to roll-in funds from other retirement accounts.

Ms. Symons said both Ice Miller and staff agreed that, while the practice was correct, language could be clearer regarding the definition of a plan "participant" in both the 457 and Deferred Compensation plans. Therefore, MPERA is proposing to amend the definition for both plans to more closely reflect language used in the Treasury's Model 457(b) Plan Document. That definition is currently in use by many 457 and Deferred Compensation plans.

It was recommended the change be retroactive to January 1, 2008, the effective date of the current plan document.

Motion: *Member Sheena Wilson moved to amend the definition of "participant" in the 457 Deferred Compensation Plan Document, retroactive to January 1, 2008, the effective date of the current plan document.*
Second: *Vice-President Terrence Smith*
No public comment.
Vote: *6/0*

Motion: *Member Sheena Wilson moved to amend the definition of "participant" in the PERS Defined Contribution Plan Document, retroactive to January 1, 2008, the effective date of the current plan document.*
Second: *Vice-President Terrence Smith*

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No public comment.
Vote: *6/0*

It was requested that information regarding the definition change be published in MPERA's newsletter and communicated to EIAC.

Stable Value Contract Extension
Patricia Davis, MPERA Member Services Bureau Chief, reported MPERA has been working with PIMCO to find additional wrap providers.

Transamerica has requested their wrap exposure be reduced from 100% to 33% on the Stable Value Product. The issue may not be resolved before Transamerica's contract termination date of March 31, 2014; therefore, Transamerica has agreed to extend the contract termination date to September 30, 2014.

PIMCO has completed a search for additional wrappers. Contracts will likely be completed by the end of June.

Motion: *Vice-President Terrence Smith moved to approve the Transamerica contract extension.*
Second: *Member Sheena Wilson*
No public comment.
Vote: *6/0*

Building Lease Contract Update
Melanie Symons, MPERA Chief Legal Counsel, reported on MPERA's lease agreements for its second-floor offices, as well as future parking-level space, both in the IBM Building. The lease for the second-floor space has been finalized. Parties currently are working on an agreement for the additional parking-level space, which MPERA hopes to lease beginning in May.

Ms. Symons confirmed the remodeling costs are not a part of these lease agreements.

Committee Updates

Personnel Committee
Chairman Timm Twardoski said the committee has met a few times recently to work on the executive director hiring process.

Audit Committee
Chairman Bob Bugni reported the committee met on February 13. The next meeting was scheduled for May 8, but will be moved to June 12 in order to accommodate the work schedule of internal auditor Hollie Koehler.

Policy Committee
Chairwoman Melissa Strecker scheduled a committee meeting for April 9 at 3 p.m. to make needed policy changes.

Legislative Committee
Chairman Terrence Smith reported the committee will meet today (March 13).

EIAC Committee
Patricia Davis said the next EIAC meeting will be April 17. Topics will include plan document updates;

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Great West presentation on advisor services; Stable Value updates and discussions; and review of the investment policy statements.

GASB Update
Barbara Quinn, MPERA Fiscal Services Bureau Chief, shared the following updates:

- MPERA met with State of Montana Accounting Division and Teachers Retirement System (TRS) representatives on March 7 to ensure decisions are shared and all parties are in agreement. In addition, a planning meeting was held on March 12 with TRS.
- The actuary has provided information on the following: GASB 67; GASB 68; the bond index to be used for a blended rate; the administrative expense assumption; and a number of disclosures. The Board will be asked to consider the administrative expense assumption at next month's meeting.
- MPERA has given the actuary guidance on the 2014 actuarial valuations. Again this year, there will be an official valuation (based on a 1.5% GABA) and a supplemental valuation (based on a 3% GABA).
- MPERA's internal policy committee is going to look at the Funding Policy to determine if changes are needed.
- Employer contact information is being compiled for future communication.
- There have been conversations with Montana's Legislative Audit Division about looking at census and demographic information.

Board of Investments Update
Member Sheena Wilson provided an update on the Board of Investments' meetings and activities.
- BOI recently received the results of its financial and performance audits; an interesting issue will be the law outlining the requirements and standards for individuals who serve on the Board.
- GASB was discussed at the entrance conference for next year's financial audit, and will be an ongoing discussion topic.
- The February meeting was productive, and included an interesting educational presentation on real estate investing.
- The next meeting will be a special meeting on April 8. Topics will include international equities and emergency/disaster preparedness.
- The Quarterly report contained a scatter gram that showed, when compared over five years for all public plans in the $3 billion-plus range, investment returns are a tiny bit higher than the mean and risk is a tiny bit lower than the mean, which is a good place to be.
- The next regular meeting will be May 20-21. Proxy voting will be a topic.

Executive Director's Verbal Update
Roxanne Minnehan, MPERA Executive Director, provided the Board with informational updates.

<u>Board Appointments</u>
Ms. Minnehan contacted the Governor's appointment secretary, who said the Governor's Office hopes to announce Board appointments by mid-April at the latest. To date, there is only one interested candidate, Terrence Smith.

The Governor's Office said board members continue to serve until replaced, which differs from the Board's current interpretation. Melanie Symons, MPERA Chief Legal Counsel, will investigate further.

<u>Staffing Update</u>
MPERA is recruiting and hiring several new positions—an attorney, an accountant, and three call center representatives. In addition, the benefit analyst vacancy is in the process of being filled.

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Presentation
Ms. Minnehan has asked Clifford Sheets of Board of Investments to present an update to the Board at the April 10 meeting. She also will ask Mr. Sheets to assist with new board member orientation regarding investment fundamentals.

SAVA
The next SAVA meeting will be April 8. There are no retirement-related topics on the agenda. The following meeting will be June 5.

At SAVA's August 12 meeting, they will be requesting agency legislative concepts to authorize bill drafting. They no longer entertain individual stakeholder legislation.

LFC
The next LFC meeting will be March 13-14. On March 13 (today) there will be a discussion of pensions at 3:30 p.m.

Remodel/Office Move
Remodeling construction and office moves, which began in mid-January, are progressing well.

Legislative Auditors
This year's financial audit just closed, with an exit conference on February 21. The audit findings will be presented to the Legislative Audit Committee at their next meeting (May or June). It was noted they are concerned with GASB implementation. In addition, MPERA met with the legislative auditors on March 12 for an entrance conference regarding next year's financial/compliance audit.

Following Ms. Minnehan's report, there was a brief discussion by the Board regarding how the actuarial valuation does not recognize the expected decrease in normal cost due to new hires being covered under amended plan provisions. As new hires become more prevalent in the membership, there will be a noticeable decline in normal cost. This will be a positive impact on the liabilities and the amortization of unfunded actuarial liabilities.

Litigation Update
Melanie Symons, MPERA Chief Legal Counsel, reported that the Plan Choice Rate lawsuit has a new scheduling order. Motions for summary judgment will be filed, with MPERA's opening brief now being due on March 28. MPERA currently is working with the Attorney General's office, providing affidavits and declarations from staff and the actuary.

Ms. Symons also reported on the AMRPE lawsuit regarding the GABA. There was a scheduling conference on February 28. MPERA has not yet received the scheduling order; however, the agency has been informed that the trial is set for February 10, 2015.

Kate Talley, MPERA Legal Counsel, gave an update on the Fauque case, which is now before the Supreme Court. The deadline for Fauque to submit an opening brief is March 14; MPERA's response will be due on April 13.

President Scott Moore called for a 15-minute break beginning at 9:30 a.m.

Education – FY 2013 Comprehensive Annual Financial Report
Barbara Quinn, MPERA Fiscal Services Bureau Chief, gave a slide presentation on the FY 2013

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Comprehensive Annual Financial Report (CAFR). The presentation covered accomplishments, financial highlights, actuarial information, and statistics including financial trends, revenue capacity, debt capacity, demographic/economic trends, and operations.

Printed and digital copies of the CAFR were distributed. Handouts of the slide presentation are available upon request at the MPERA office.

MPERAtiv Update
June Dosier, MPERA's Information Systems Manager, updated the Board on the MPERAtiv project. She was assisted by Kirsten Carlson of Provaliant, the vendor providing project oversight management for MPERAtiv.

Ms. Carlson provided a general overview of the project, stating that things are going well overall. There are gaps and issues to be addressed, which is normal, but everyone is working together to achieve resolution. She explained the process being used to deal with gaps and issues, indicating that certain factors—such as legislative changes—could impact the project and extend the project scope and deadline.

Ms. Carlson stressed the importance of good communication and of working closely with the other MPERAtiv project vendors, Sagitec and Ventera, to ensure all aspects of the project are staying on track.

Ms. Dosier stated the MPERAtiv project is a true team effort with all involved parties focusing on the project vision. She noted the project has a backup plan that helps to mitigate project risk.

There was discussion regarding the involvement of the State Information Technology Division, as well as the potential impact of an upcoming information technology audit by the Legislative Audit Division.

Informational Items
There was no discussion by the Board on the following items: NAPPA Conference Reports; Operation Board Summary; and Interim Newsletter.

Adjournment
President Scott Moore adjourned the open meeting at 10:30 a.m.

CLOSED MEETING SUMMARY

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 was closed at 10:30 a.m.

Member Mike McGinley was excused.

Consent Agenda

- Closed Meeting Minutes – *February 13, 2014*
- Disability Report
- Finalized Service Retirements/Death Benefits

Motion: *President Scott Moore moved to approve the consent agenda as presented.*
Second: *Member Bob Bugni*

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Vote: *6/0*

Disability Denials

Sarah Skubinna, MPERA Disability Examiner, presented two disability denials to the Board.

PERS, LG
The claimant is alleging disability due to a long-standing history of Crohn's Disease. The employer indicates that accommodations were requested and were supported by a physician's statement. These accommodations were provided; however, the employer noted part-time work could not be accommodated beyond a specific date.

Ms. Skubinna noted insufficiencies in the claimant's records. She also noted the claimant was refusing to take prescribed medications, but she was not clear whether this was due to anticipated side effects or affordability issues.

The claimant has indicated disinterest in submitting any more medical records regarding the disability, despite wanting the claim to move forward. Staff recommendation was to deny the disability claim because inadequate information has been provided.

Motion: *President Scott Moore moved to deny the disability claim of LG.*
Second: *Member Bob Bugni*
Vote: *6/0*

PERS, DH
The claimant has a primary diagnosis related to lumbar surgery. There was physical therapy following the surgery but it was not completed. The claimant also alleges multiple other medical conditions.

The employer indicated the claimant's medical issues prior to termination were accommodated. However, they noted the claimant resigned for "non-medical reasons."

Ms. Skubinna stated the claimant's current conditions are caused from an incident that occurred after termination of employment. She also noted insufficiencies in the claimant's records, including lack of a completed physician's form from any treating physician to prove a disability prior to termination. Staff recommendation was to deny the disability claim due to inadequate records and insufficient evidence to support work duties could not be performed.

Motion: *Member Sheena Wilson moved to deny the disability claim of DH.*
Second: *Vice-President Terrence Smith*
Vote: *6/0*

Contested Cases

Informal Consideration, PERS, Arbitration Agreement, DD
Melanie Symons, MPERA Chief Legal Counsel, reported on a request by a PERS member to receive service credit and membership service related to back pay received from an employer.

DD was awarded four-and-one-half months of back pay under a confidential agreement and general release with the employer. MPERA has received full payment of both the employer and employee contributions necessary to award service credit in PERS for this period of time. Staff recommendation

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was to grant the service credit and membership service.

Motion: *Member Sheena Wilson moved to grant service credit and membership service to DD as presented.*
Second: *President Scott Moore*
Vote: *6/0*

Informal Reconsideration, PERS, Disability Retroactive Payment, SS
Barbara Quinn, MPERA Fiscal Services Bureau Chief, presented information on the reconsideration of a request by a PERS member. SS is requesting the Board to reconsider its January 2014 decision denying an additional retroactive disability benefit payment of approximately $30,000. The Board also was asked to consider taking responsibility for paying tax liability on the original retroactive disability benefit paid to SS.

The claimant's spouse, DS, participated in the informal reconsideration by telephone. DS has power of attorney for SS.

Ms. Quinn provided an overview of the informal reconsideration process. Both Ms. Quinn and DS presented information to the Board regarding the matter. Board members were informed of the process and timeline of the retroactive disability claim, as well as how MPERA handled and corrected multiple errors in staff-provided information.

Staff recommendation was to deny the request because, despite miscommunication and clerical errors, SS was paid the correct retroactive disability benefit based on the monthly benefit earned and was responsible for any related tax liability.

Motion: *Vice-President Terrence Smith moved to deny SS's request for MPERA to pay additional funds related to a retroactive disability benefit payment.*
Second: *Member Melissa Strecker*
Vote: *4/2. Members Bob Bugni and Sheena Wilson opposed. Motion passes.*

Legal Cases Update
Melanie Symons, MPERA Chief Legal Counsel, and Kate Talley, MPERA Legal Counsel, had no additional updates beyond what was reported in the open meeting.

Adjournment
President Scott Moore excused MPERA staff from the closed meeting at 11:50 a.m. in order for the Board to go into Executive Session to discuss executive director recruitment.

The next regular meeting will be April 10, 2014.

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