

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

Thursday, April 10, 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
June Dosier, Information Technology Bureau Chief
Diann Levandowski, Assistant Fiscal Services Bureau Chief
Hollie Koehler, Internal Auditor
Kate Talley, Legal Counsel
Jenny Weigand, Education Supervisor
Cynthia Pearson, Executive Assistant

Public

Cliff Sheets, Eron Krpan, Board of Investments
Tom Schneider, MPEA
Mike O'Connor, Leo Berry, AMRPE
Mark Murphy, MCAA
Jerry Williams, MPPA
Diane Fladmo, MEA-MFT
Rick Ryan, Ed Cleary, Rick Hansen, Jason Baker, Blaine Cowan, Doug Neil, Kevin Benz, MSFA
Sheryl Wood, MACo
Beth Long, GWRS
Kimberly Burdick, Susan Bomstad, MT APCO
K.V. "Ginger" Aldrich, Legislative Services Division
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

All members of the Board were present.

Public Introductions

At the Board's request, public attendees introduced themselves.

Public/Member Comment

There was no public comment.

Investment Update

Clifford Sheets, Chief Investment Officer for the Board of Investments, gave an update to the Board on the retirement system investments. His presentation covered changes to asset allocations; current asset allocation; asset performance; and economy/markets discussion.

Changes to Asset Allocation

Mr. Sheets noted there are new asset allocation ranges but no major changes in the key characteristics of the investment portfolio, including the level of risk. The portfolio remains equity-biased with expected returns similar to the past. Based on an analysis of cash flow, it was determined that no major changes were needed in liquidity at this time.

Current Asset Allocation

Total retirement system asset allocations as of February 28, 2014 are \$9,457,709,192. The change from June 30, 2013 was \$926,939,262, which Mr. Sheets described as a “phenomenal” return on investments.

The current portfolio provides relatively aggressive return and risk attributes, which is appropriate given the objectives and constraints of the pension plans. The expected return on current investments is 7.54%. The standard deviation for risk currently is 13.85.

Asset Performance

Currently, more than half of the portfolio is invested in public stocks (domestic and international). The returns on these public stocks are robust, resulting in strong asset performance. The rate of return for the pension plans is about 11.9% for the fiscal year to date.

Investment returns have been high for the past five years. Performance is, however, vulnerable to spikes in volatility this year.

Economy/Markets Discussion

Economic growth has been slower than desired, but the consensus outlook is positive. This positive outlook is driving Federal policy including tapering.

Capital markets are focusing on interest rates and Federal policy as tapering continues. Equities are problematic in the short term, but positive in the long term.

Mr. Sheets answered a variety of questions from the Board and public attendees.

President Scott Moore called for a 10-minute break beginning at 9:35 a.m.

Consent Agenda

1. Board Meeting Minutes
 - a. Regular Meeting – *March 13, 2014*
 - b. Special Board Meeting – *April 4, 2014*
2. PERS Employer Contract – Ronan Library District
3. Out-of-State Travel – NAPPA Conference, June 24-27, Nashville

President Scott Moore requested item number 3 be pulled for further discussion.

Motion: Vice-President Terrence Smith moved to accept the consent agenda, with item number 3 pulled for discussion.

Second: Member Sheena Wilson

No public comment.

Vote: 7/0

The Board discussed the practicality and expense of having three attorneys attend the NAPPA Conference. While it was agreed the training and information would be beneficial to all attorneys, it was noted MPERA had only budgeted for two attorneys to attend the conference this year.

Motion: President Scott Moore moved to approve conference attendance for two attorneys, as budgeted.

Second: Member Melissa Strecker

No public comment.

Vote: 7/0

Informal Considerations, Late Annual Certificates

Diann Levandowski, MPERA Assistant Fiscal Services Bureau Chief, presented information on two informal considerations concerning late annual certificates.

Molt Volunteer Fire Department

The Molt Volunteer Fire Department is requesting the Board accept the late-filed Annual Certificate for the fiscal year 2011-2012. Specifically, the request is to approve one year of service for each of two members, as filed on May 23, 2013. The Annual Certificate was signed by the Fire Chief and notarized. Training documentation was included as required.

Staff recommendation is to grant the year of credited service for the two members.

Motion: Member Mike McGinley moved to approve years of service credit to two members of the Molt Volunteer Fire Department, as presented.

Second: Member Sheena Wilson

No public comment.

Vote: 7/0

Libby Volunteer Fire Department

The Libby Volunteer Fire Department is requesting the Board accept the late-filed Annual Certificate for the fiscal year 2002-2003. Specifically, the request is to approve one year of service for one member, as filed on March 5, 2014. The Annual Certificate was signed by the Fire Chief and notarized. Training documentation was included as required.

Staff recommendation is to deny the year of credited service for the member. The amendment of this Annual Certificate is not in compliance with Montana law (MCA 19-17-112 (5)) because the amendment was not filed within three years of the original due date. Also, in FY 2003 fire companies were limited to 28 members and adding this member would have increased the number to 29.

Motion: Member Mike McGinley moved to deny the request to grant one year of service credit to one member of the Libby Volunteer Fire Department, due to tardiness of request and the limited number of members per fire company.

Second: President Scott Moore

No public comment.

Vote: 7/0

2015 Legislative Concepts

Vice-President Terrence Smith, who chairs the Legislative Committee, asked the Board to approve and prioritize the following concepts for the 2015 Legislative Session. Approved concepts must be submitted to the Office of Budget and Program Planning (OBPP) by April 18, 2014.

GWPOORS/SRS Funding

Purpose: Address funding of the Game Wardens and Peace Officers' Retirement System (GWPOORS) and Sheriffs' Retirement System (SRS) through increased employer and employee contributions for all members. Also, explore additional funding resources.

It was noted (1) representatives of these retirement systems appear to be in support of legislation, and (2) feasible funding sources will be determined working in cooperation with OBPP.

Motion: *Member Melissa Strecker moved to proceed with legislative concept for GWPOORS and SRS funding, as presented.*

Second: *President Scott Moore*

No public comment.

Vote: 7/0

PERS-DCRP Disability Fund Allocation

Purpose: Reduce the amount of DCRP employer contributions used to fund the DCRP long-term disability fund.

It was noted (1) a report from the actuary regarding the recommended change has been requested and (2) all DCRP-related changes could possibly be combined into one draft bill.

Motion: *Member Sheena Wilson moved to proceed with legislative concept for PERS-DCRP disability fund allocation, as presented.*

Second: *Member Bob Bugni*

No public comment.

Vote: 7/0

MUS-RP and DCRP Additional Employer Contributions

Purpose: Determine allocation of the additional PERS employer contributions in the MUS-RP and DCRP.

Motion: *President Scott Moore moved to proceed with legislative concept for MUS-RP and DCRP additional employer contributions, as presented.*

Second: *Member Mike McGinley*

No public comment.

Vote: 7/0

Plan Choice Rate Payoff

Purpose: Use a portion of the coal tax funds currently allocated to the PERS-DBRP to pay the balance of the PERS Plan Choice Rate – Unfunded Actuarial Liability (PCR-UAL). Also, reallocate the Plan Choice Rate contributions.

There was discussion by the Board on whether the funding option should be left open, rather than strictly

tied to coal trust funds. It was clarified (1) this is a one-time only payment and (2) coal trust funds are already dedicated to PERS so it would not be new funding.

Vice-President Terrence Smith requested that the paragraph in the background section of the proposed legislation form be rewritten to reflect the actual total for the Unfunded Actuarial Liability.

Motion: *Member Bob Bugni moved to proceed with legislative concept for Plan Choice Rate payoff as presented, with requested changes made to the background write-up.*

Second: *Member Melissa Strecker*

Mike O'Connor of AMRPE raised a concern that the Montana Constitution does not allow for diverting any money that is coming into a trust fund; therefore, coal tax funds coming into the DBRP could not be diverted into the DCRP. Vice-President Terrence Smith said he will ask attorneys to review what the law says to ensure there are no issues.

Member Sheena Wilson expressed her desire to keep all legislation simple and to a minimum during the Legislative Session.

Vote: 6/1. *Member Sheena Wilson opposed.*

GABA-related Triggers

Roxanne Minnehan, MPERA Executive Director, reported the SAVVA Committee has been requested to create a draft bill and fiscal note to address GABA-related triggers in a manner similar to the triggers currently in place for the Teachers Retirement System. She said SAVVA would make a decision at the committee's June or August meeting on whether to move forward with the draft bill.

Board members agreed it would be best to have a group other than the Board propose this legislation, and the Board would express support. The Board will, however, need to have analysis for its own consideration and use. The Board took no action on this item.

Disability Earnings Cap

Purpose: Apply earnings limitations on disability requirements in GWPORS, SRS, JRS, HPORS, MPORS, and FURS when a disabled member is able to be gainfully employed. (PERS already has an earnings limitation in place.)

There was discussion by the Board regarding the pros—such as preventing abuse of disability claims—and cons—such as decreasing benefits to members—of making changes to the disability requirements. In addition, some Board members questioned whether this concept is ready for legislation.

Representatives from MSFA, MPPA and MPEA stated they are opposed to this concept as it reduces member benefits; can potentially punish a large majority of members because of disability claim abuse by a very small minority; doesn't show adequate concern for a disability received in a hazardous line of duty; and doesn't effectively resolve inequities between the different retirement systems.

Motion: *Member Bob Bugni moved to table the legislative concept for disability earnings cap, as presented.*

Second: *Member Timm Twardoski*

Vote: 7/0

Transfer Dispatchers from PERS to SRS

Purpose: Transfer all public safety dispatchers from PERS to SRS.

Board discussion included the following thoughts:

- Dispatchers tried to join SRS in the past, with the Board supporting legislative efforts in 2009, 2011 and 2013. However, the efforts were unsuccessful, with cost being a major objection.
- Because counties employ many dispatchers, they would be carrying a large burden in fixing SRS. This is a concern.
- The timing to move dispatchers to SRS may be optimal as legislation for the move would be well-matched with efforts to fix SRS funding.
- The Board may or may not have a responsibility to bring legislation forward, depending on whether the Board is deemed responsible for having members in the “wrong” retirement system.

Representatives of the Montana Association of Public-Safety Communications Officials (MTAPCO) stated that dispatcher jobs are stressful jobs, making it difficult to meet PERS’ requirement for 30 years of service to reach full retirement benefits. The 20 years of service required by SRS would be more appropriate for such demanding jobs. They also said the costs of dispatcher turnover and training new dispatchers would offset costs of the more expensive retirement system to the employers.

Member Sheena Wilson once again expressed her desire to keep all legislation simple and to a minimum during the Legislative Session.

Jerry Williams of MPPA said it was an opportune time for the Board to support this legislation and “do what’s right” for members.

Motion: *Member Timm Twardoski moved to proceed with legislative concept for transferring dispatchers from PERS to SRS, as presented.*

Second: *Member Melissa Strecker*
No public comment.

Vote: 7/0

General Revisions/Federal Tax Qualifications

Purpose: Generally revise retirement systems and ensure federal tax qualification of all Board-administered retirement systems.

It was noted these are two distinct pieces of legislation and, thus, may be prioritized separately.

Motion: *President Scott Moore moved to proceed with legislative concept for general revisions and federal tax qualifications, as presented.*

Second: *Member Bob Bugni*
No public comment.

Vote: 7/0

The Board determined the following priority order for the above legislative concepts:

1. Federal Tax Qualifications
2. GWPORS Funding
3. SRS Funding
4. Plan Choice Rate Payoff
5. MUS-RP and DCRP Additional Employer Contributions

6. PERS-DCRP Disability Fund Allocation
7. Transfer Dispatchers from PERS to SRS
8. General Revisions

Motion: *Vice-President Terrence Smith moved to proceed with legislative concepts in the given priority order.*

Second: *Member Bob Bugni*
No public comment.

Vote: 7/0

President Scott Moore called for a 10-minute break beginning at 11:35 a.m.

Actuarial Economic Assumption –Administrative Expense

Barbara Quinn, MPERA Fiscal Services Bureau Chief, presented a proposed administrative expense assumption as provided to MPERA in a letter from the actuary dated March 11, 2014.

Ms. Quinn stated this recommendation will fulfill the requirements of GASB 67 and will keep a consistent rate of return for return for the various retirement plans administered.

Staff recommendation is to accept the actuary's recommendation to change the actuarial assumption for administrative expense, effective beginning with the fiscal year 2014 valuation.

Motion: *President Scott Moore moved to accept the actuary's recommendation to change the actuarial assumption for administrative expense, as presented.*

Second: *Vice-President Terrence Smith*
No public comment.

Vote: 7/0

Member Account Interest Rate

Barbara Quinn, MPERA Fiscal Services Bureau Chief, asked the Board to review and set the interest rate credited to member accounts for the defined benefit retirement plans. The options are the current rate of 0.25% or a reduced rate of 0.0%. The effective date will be July 1, 2014.

Staff recommendation is to maintain the interest rate credited to member accounts at 0.25% for the defined benefit retirement plans, as an interest rate of 0.0% is undesirable.

Motion: *President Scott Moore moved to maintain the interest rate credited to member accounts at 0.25% for the defined benefit retirement plans.*

Second: *Member Bob Bugni*

The Board discussed the idea of tying the interest rate to a specific measure, such as the current interest rate on treasury bills, in the future. Such action would require a policy change.

There also was discussion on the potential fiscal impact of the interest rate on the retirement systems. Ms. Quinn said the impact would be very small as the interest rate only applies to account refunds.

Vote: 7/0

Board Officers Election

Roxanne Minnehan, MPERA Executive Director, led the Board in electing its presiding officers for the

coming year, under current Board policy. The new officers will assume their duties in May.

Using an anonymous ballot process, the Board elected Scott Moore as president and Terrence Smith as vice president. It was noted that Mr. Smith's term on the Board has expired and, if he is not reappointed by the Governor, there will need to be a re-election for the vice-president position.

Committee Updates

Policy Committee

Chairwoman Melissa Strecker reported there will be a committee meeting later today (April 10) to make needed policy changes.

Personnel Committee

Chairman Timm Twardoski had no new information to report. He plans to check with MPERA staff regarding any scheduled Labor Management Committee meetings.

Audit Committee

Chairman Bob Bugni reported the committee will meet next on June 12.

Legislative Committee

Chairman Terrence Smith said legislative concepts are due to OBPP on April 18. The committee has not scheduled its next meeting, but may possibly meet on June 12.

EIAC Committee

The next EIAC meeting will be April 17.

GASB Update

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

- A significant amount of work is being done, including regular meetings and reports.
- MPERA is working closely with both Teachers Retirement System (TRS) and State of Montana Accounting to ensure decisions are shared and all parties are in agreement.
- There was a meeting yesterday with the actuary to discuss GASB 67 and GASB 68 reports, as well as proportionate share schedules.
- MPERA has been revising the funding policy to make needed changes.
- The state focus group meeting was cancelled, and an informational email will be sent in lieu of the meeting.
- Next month, the Board will be asked to take action on the actuary's recommendation for a bond index to be used for a blended rate.

Board of Investments Update

Member Sheena Wilson reported the Board of Investments' next meeting is May 20-21.

Executive Director's Verbal Update

Roxanne Minnehan, MPERA Executive Director, provided the Board with informational updates.

Board Appointments

Ms. Minnehan said there is no word yet from the Governor's Office regarding Board appointments. She will let the Board know as soon as she hears something.

Staffing Update

- MPERA's receptionist, Donna Budt, is retiring. Her last day will be May 30.
- The new accountant position has been posted and interviews are underway.
- The new attorney position was reposted. Interviews will take place next week.
- A job offer has been made for the benefit analyst position, with the selected candidate scheduled to start on April 22.
- The data cleansing tech has been hired. Wade Cureton started on April 7.
- MPERA's imaging clerk, Jerry Jilderda, will leave on April 11. The position was posted externally after no interest was shown internally.
- The Call Center is up and running. Sheryl Johnson (lead), Staci Brower and Christina Kranich are the new Call Center representatives.

Call Center

The Call Center went live on April 7 and everything is going well. Calls are being answered for MPERA's toll-free number, main number, and roll-over from employee voicemail.

Ms. Minnehan provided statistics for the first days of operation:

- Monday, April 7: 146 calls; 19 transfers (13%); 3 hang ups
- Tuesday, April 8: 93 calls; 14 transfers (15%); 6 hang ups
- Wednesday, April 9: 97 calls; 16 transfers (16.5%); 2 hang ups
- The average call length is 4 minutes.

Jenny Weigand is the supervisor in charge of the call center, and has been responsible for hiring and training the staff.

2015 Legislation

There are two bill draft requests on LAWS: LC 33 from Senator Sue Malek to revise PERS laws related to legislators and LC 79 from Senator Jim Keane to limit total payout from state-managed pension plans.

SAVA Committee

At the SAVA meeting on April 8, Senator Dee Brown asked MPERA to look into and consider video conferencing/streaming at the Capitol for Board meetings. The next SAVA meeting will be June 5. On August 12, SAVA will be asking for agency legislative concepts to authorize bill drafting.

Legislative Finance Committee

At the LFC meeting on March 13, there were pension-related updates regarding legislative concepts, LFD modeling, and litigation. The next meeting will be June 5-6.

Remodel/Move Update

The remodeling and office moves are mostly completed. MPERA is eager to move into the new parking level space that's currently occupied by IBM.

Legislative Auditors

There was an entrance conference yesterday (April 9) for next year's Financial-Compliance Audit. This year's Financial Audit just closed, with an exit conference conducted in February; those audit findings will be presented to the Legislative Audit Committee at their next meeting, either May or June.

Litigation Update

Kate Talley, MPERA Legal Counsel, gave an update on the *Fauque* case. MPERA's brief will be filed with the Supreme Court today (April 10).

Melanie Symons, MPERA Chief Legal Counsel, reported on the AMRPE lawsuit regarding the GABA. A scheduling order was included in the meeting materials.

Ms. Symons also reported on the Plan Choice Rate lawsuit. A motion and brief for summary judgment and a scheduling order were included in the meeting materials.

Education – Information Technology Strategic Plan

June Dosier, MPERA Information Technology Bureau Chief, gave a slide presentation on the information technology strategic plan. The presentation covered various facets of MPERA's information technology, including vision, mission, and goals; environment, success, and capabilities; contributions and strategies; business requirements; principles; governance structure; financial management; services and processes; infrastructure; staffing; vendor partners; risks and issues; and continuity of operations plans. A copy of the presentation is available upon request from MPERA.

Informational Items

There was no discussion by the Board on the following items: MPERAtiv Written Update; Operational Board Summary; and Interim Newsletter.

Adjournment

President Scott Moore adjourned the open meeting at 12:58 p.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 1:08 p.m.

Consent Agenda

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

Motion: *President Scott Moore moved to approve the consent agenda as presented.*

Second: *Member Sheena Wilson*

Vote: *7/0*

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 1:10 p.m. in order for the Board to go into Executive Session to discuss executive director recruitment.

The next regular meeting will be May 8, 2014.