MINNESOTA TEACHERS RETIREMENT ASSOCIATION
Minutes of the Board of Trustees
November 15, 2017

Board President Martha Lee Zins called the meeting to order at 9:30 a.m. Those present in addition to Zins were:

Board members: Will Baumann, Mary Broderick, Paul Moore, Mary Supple, Kirk Schneidawind, Marshall Thompson

TRA Staff: David Anderson, Susan Barbieri, Carol Diedrich, Laurie Hacking, Tim Maurer, Leslie Nagel, Jay Stoffel, Luther Thompson, John Wicklund

Legal Representative: Kathy Woodruff

Others: Rachel Barth, Joan Beaver, Jodie Buhr, Henry Carbone, Lonnie Duberstein, Paul Ehrhard, John Fisher, Curt Hutchens, Gary Lee, Susan Lenczewski, Tim Moynihan, Walt Munsterman, Rodney Rowe, Joel Stencel, and Catrin Thorman.

Called to order 9:30

2.a. Approval of minutes

It was moved by Schneidawind and seconded by Moore to approve the minutes from the August 16, 2017 meeting with corrections. The motion passed unanimously.

Zins asked for consent to consider agenda item 4.a. before 3.a.

4.a. Report of interim experience study of economic assumptions

Stoffel reviewed the report, Review of Economic Assumptions, prepared by Cavanaugh Macdonald. Stoffel described highlights from section 1-Board Summary, reviewed a chart comparing valuation results and costs, and reviewed recommendations from Cavanaugh Macdonald. The actuaries recommend lowering the inflation assumption from 3 percent to 2.5 percent, lowering the long-term investment return assumption from 8.5 percent to 7.5 percent, lowering the wage inflation assumption from 0.75 percent to 0.35 percent for the next 10 years and 0.75 percent thereafter, lowering the payroll growth assumption from 3.5 percent to 3 percent, and adjusting the salary increase assumption by recommended changes in wage inflation. Also reviewed were staff recommendations.

Supple asked about the economic assumptions which the other systems are likely to recommend. Stoffel responded that he believes the other systems will have similar recommendations. Moore asked about the process the systems have historically used to recommend assumption changes. Stoffel explained that the board has authority to set assumptions other than the investment assumption. The board adopts those other assumptions and notifies the LCPR of its action. Usually the LCPR ratifies the board-adopted assumptions, but if the LCPR takes no action, then within a year of notification, the new assumptions are effective.

> It was moved by Supple and seconded by Schneidawind to adopt the proposed assumptions for the price inflation, the wage inflation, the payroll growth and the total salary increase.

Schneidawind asked what is the staff's recommendation. Stoffel responded that all the assumptions are meant to work as a package and that not adopting all as recommended would cause undesired results. Moore expressed concern about voting on some assumptions and not others and said his understanding is that the assumptions are meant to work together.

> It was moved by Supple and seconded by Moore to postpone the prior motion until the long term investment return is discussed. The motion passed unanimously by the Board.

Schneidawind stated that he believes the board needs to accept the reality of the 7.5 percent investment assumption and should develop a plan with that assumption in mind so that staff can move forward with it. Zins asked if it would be acceptable to wait until December to address those issues. Schneidawind responded yes. Zins said the Cavanaugh Macdonald report provides compelling arguments. Stoffel said that when the board considers a motion they should make the changes in the economic assumptions contingent upon enactment of the 7.5 percent investment assumption in statute so that the assumptions remain an integrated package.

M. Thompson said that the more often the actuaries recommend changes, the less confidence he has in the recommendations. He said he did not find the report as compelling as others. Moore asked what assumption would be used in the FY17 GASB report. Stoffel clarified that the GASB report is for accounting, not funding, and that staff had determined that the set of assumptions recommended by the actuaries, including a return assumption of 7.5 percent, should be used.

Both Moore and Supple stated that it would be best to delay a decision until the December budget forecast is released so that the prospects for the 2018 session would be better understood. Hacking stated that she believes the actuaries did a thorough job in preparing the interim experience study. She said they had a lengthy discussion with SBI staff and exercised their independent, professional judgment about what economic assumptions to recommend.

M. Thompson described sessions at the recent NCTR conference and what appears to be a group think that prevails related to the return assumption among actuaries. Broderick said that while there may be group think, their recommendations can't be ignored since the board is reliant on their advice and has to take it into consideration, even if the board may not agree with it.

3.a. Continue discussion of 2018 legislative package

Stoffel reviewed what was discussed at the previous TRA board meeting. Stoffel noted that since the session ended last year there has been meetings with Senator Rosen, legislative aides and LCPR staff. Stoffel reviewed graphs describing the impact of COLA changes on average benefits, comparison of early retirement factors, comparison of deferred benefit changes, and the potential use of TRA's contribution stabilizer mechanism.

Zins asked whether there has been any indication from Sen. Rosen about funding. Stoffel said that funding is still unclear and that Rosen indicated that funding is a challenge and that components of the package included in the final bill last session is a delicate balance. Stoffel stressed that while we have had stakeholder support in the past, that support could be lost without funding. He said he has heard discussion that a pension bill might have to wait if there is no state money available next year.

Supple asked if the administrative bill could be separated from the reform bill so that at least the administrative bill could be enacted. Moore agreed and asked staff to encourage LCPR leadership to take up the administrative bill.

M. Thompson said he believes there is a danger in recommending any changes in a non-budget year. Supple asked what the governor's position is on pension funding. Moore responded he has had no indication from Commissioner Frans on a supplemental budget bill because it is contingent on the November forecast due in early December.

Stoffel summarized the three issues the board will need to discuss: 1) actuarial assumptions and methods, 2) benefit reductions, and 3) contribution rates.

Moore expressed concerns about the proposed changes in deferred augmentation and lowering the interest rate paid on refunds. He said MMB staff have reservations about these changes which he fears could have unintended consequences. He said the purpose of current law provisions is to encourage more members to keep their dollars with the fund in order to enhance their retirement security and be less depending on public programs.

Baumann asked how the savings from the deferred augmentation change compare with the proposal to cut COLAs for retirees whose benefits exceed inflation. Wicklund and Hacking explained that there is little savings in that specific COLA change. Old estimates from 2010 showed a 0.5 percent to 0.7 percent of pay savings, but those savings would be a lot lower now due to the shortened remaining life expectancy of this group.

M. Thompson said that if there is funding provided to offset employer contribution increases, then there should be corresponding funding to offset employee contribution increases. Moore asked what the mechanics of that funding might be. M. Thompson responded that it could be on the school aid formula. Zins commented that there has been a strong stakeholder opinion that TRA funding should not be mingled with general education money. Moore said that he believes direct aid to TRA is a non-starter. Stoffel acknowledged that there is a strong push to increase employee contributions.

Broderick said there is a risk that benefit cuts would be enacted without employer contribution increases, especially if there is no state funding available. She said the board should discuss the possibility that, if no state funding is available, then it may be best to wait to advance a bill until there is funding. Stoffel said that a piecemeal approach to benefit cuts and contribution increases would be a mistake and that benefit cuts should be put on hold if funding is not available. Stoffel said the board would have to discuss what to do about the economic assumptions if no pension reform bill advances. Supple agreed that it might be better to not advance a bill if funding is not available. L. Thompson asked whether the funding set aside for MSRS, PERA and SPTRFA during the last session is still available. Moore said that funding had been available, but the November forecast could change that.

Stoffel said that another piece of the puzzle is potential use of the contribution stabilizer. Woodruff commented that the stabilizer tool is available although it could be revoked or later rescinded. The Legislature could veto the board’s stabilizer actions, but the board cannot control what others do. Woodruff said that if the board thinks it has a fiduciary obligation to the fund, then it can use this stabilizer tool. She also noted that since the fiscal year 2017 valuation report and the November forecast are yet to be delivered and would influence the board's thinking, the stabilizer decision is a decision for a later date. Moore said that the board should decide the actuarial assumption first since this would affect financing. Broderick expressed her frustration that the Legislature seems to want to take away the board's stabilizer authority, yet over the last two years the Legislature has not taken action on the board's recommendations, making it very difficult for the board to be good fiduciaries. Moore said that there may be value in using the stabilizer. Supple said that, without funding, we could be undermining the board's position. Broderick said there may be value in taking a small step such as a 0.25 percent increase in both employer and employee contributions. She said lack of action puts the fund in peril.

4.b. Report from Audit Committee meeting, November 14, 2017
M. Thompson reported that the Audit Committee met on August 15, 2017 and received updates on the current audit initiatives. He said the board can review and approve the updated charter at the December meeting.

4.c. Updated actuarial equivalence basis for optional form factors
Stoffel reviewed the handout on revised annuity plan factors as well as the Cavanaugh Macdonald letter regarding Updated Actuarial Equivalence Basis for Optional Form Factors.

> A motion was made by M. Thompson and seconded by Baumann that the Board should adopt the recommendations specified in the August 29, 2017 letter from TRA's actuaries regarding the updated actuarial equivalence basis to be used for calculating optional forms of payments for TRA retirement benefits and other related calculations. The motion passed unanimously by the Board.

4.d. Improved money purchase rate approval
Wicklund said the board is required every year to approve a rate used for accounts eligible for the improved money purchase annuity (IMP). There are four active and 17 inactive people in this program. These are people who were eligible under pre-1969 law for a defined-contribution plan. Contributions accumulate, then the IMP rate is applied. TRA has calculated and now proposes a 17.0 percent rate for this year.

> Broderick made a motion, Supple seconded, to adopt the 17.0 percent improved money purchase rate for the coming year. The motion passed unanimously by the board.

4.e. Information Security Update
TRA staff, D. Anderson, reviewed the handouts on a two-factor authentication process for online services and Information Security Updates.

5. Legislative Update
L. Thompson noted that there are no LCPR meetings scheduled. Lenczewski was invited to offer any information and noted that the Legislative Coordinating Commission (LCC) is meeting to determine whether the LCC's carry forward of funding will be moved over to the senate and house which would delay a possible furlough of employees.

6.a. Investment Update
Wicklund reviewed the fiscal 2017 Investment Return and Inflation Analysis handout. Through November 14, the year-to-date return was 3.49 percent on assets of $21.89 billion.

6.b. Administrative Update
Maurer reviewed the Inside TRAck, TRA's internal newsletters from October and November. This newsletter updates staff on the status of current projects taking place at TRA, employees that have left TRA, reallocations and newly hired employees.

Stoffel noted that Hacking's resignation letter was submitted to the board and accepted.

6.c. Update on FY18 Board Goals
Stoffel reviewed the TRA Board of Trustees FY2018 goals noting that this will be a part of the Board packet on a regular basis so the board can see the progress that is being made.

Stoffel also noted that TRA has been in contact with NIRS to see if they would consider conducting a study on the value of MN defined benefit retirement plans in the recruitment and retention of teachers.

6.d. Upcoming meetings and presentations
Stoffel reviewed a list of upcoming meetings and presentations with stakeholder groups.

6.e. Assistant Attorney General Update
Nothing to report at this time.

7. Public Comments
Lonnie Duberstein, President of REAM, noted that REAM's proposal is quite different from last year's. REAM is emphasizing that retirees, actives and school boards are not

the ones to blame for the decline in funding for TRA, rather it is the state that bears responsibility because it has not been contributing the actuarial required contribution. He said that if that had been done, TRA would be well funded. Duberstein said that the actives contribute well over the national average and the school districts have been contributing less than the national average. He said retirees took a zero COLA for 2 years that will never be made up. He stated that Minnesota is ranked near the bottom, 47 out of 50 for payment to pension plans compared to total budget. Minnesota is getting a wonderful bang for the buck and the pension economics studies show that a pension dollar is worth a lot to the state economy.

Tim Moynihan, REAM, commented that TRA has not been asking for much from the legislature. Moynihan thanked everyone for their service in helping keep a good fund for all retirees and actives. He said the pensionomics studies show that the economic well-being for the state is improved by the existence of the pension fund and the state's bond rating depends upon pension funding. Moynihan said that because retirees and actives pay taxes, that message is going to be a strong message from REAM to legislators this year. Regarding the Senate-passed amendment, Moynihan said REAM cannot support it. Moynihan said that at a conference he recently attended in Washington DC, NIRS Director Diane Oakley provided data that demonstrates how pensions are good for every part of our business and educating children.

Henry Carbone, REAM, stated that REAM supports lowering the assumption rate to 7.5 percent on a temporary basis until the next experience study is out when, hopefully it will go back to 8 percent. Carbone said it is important to remember that pensions are deferred compensation, because employees work for school boards and make a contract with them to work for lower wages so the schools will pay towards retirement benefits.

Paul Ehrhard, REAM, described REAM's activities around the state, aimed at encouraging teachers to vote.

Curt Hutchens, REAM and EdMN Retired, expressed his concern that actives and retirees have sacrificed a lot in recent years, compared to what the state has kicked in. Hutchens stated that Minnesota's rank of 47 out of 50 for pension funding is a black eye for the state. Hutchens said it is important to educate legislators. He expressed his concern for active teachers who are paying about 75 percent of their pension and now there are proposals to make them contribute more.

John Fisher, REAM, urged the board to read the position statement of REAM on the topic of cost of living adjustments, interest rate assumptions, contributions to TRA, and pensionomics contributions to the state. He said it is important to try to get members to really be aware of what is happening with pensions.

Joan Beaver, Ed MN Retired, stated that her organization met and discussed presenting something to the board at this time, but decided to wait to see what the actuarial report was today, especially the recommended investment return assumption rate. Beaver said her organization feels very strongly that the assumption rate should not change unless there is strong data to support a change. EdMN believes that if the assumption is reduced, then there has to be funding for it because otherwise critics will say the defined benefit can no longer be afforded. Beaver said that at this point EdMN Retired does not have a position to reduce the COLA for retirees.

Dates of next meetings

December 13, 2017, 9:30 a.m. – Board of Trustees
February 20, 2018, 9:30 a.m. – Audit Committee
February 21, 2018, 9:30 a.m. – Board of Trustees
April 10, 2018, 9:30 a.m. – Audit Committee
April 11, 2018, 9:30 a.m. – Board of Trustees
May 23, 2018, 9:30 a.m. – Board of Trustees
June 20, 2018, 9:30 a.m. – Board of Trustees

Adjourn

The meeting adjourned at 12:48 p.m. with a motion by Broderick, seconded by M. Thompson and a unanimous vote by the Board.

Attest:

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J. Michael Stoffel
Executive Director

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Martha Lee Zins
President