

MINNESOTA TEACHERS RETIREMENT ASSOCIATION
Minutes of the Board of Trustees
September 20, 2017

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

Board members: Denise Anderson, Mary Broderick, Paul Moore, Mary Supple, Marshall Thompson

TRA Staff: Susan Barbieri, Carol Diedrich, Laurie Hacking, Leslie Nagel, Jay Stoffel, John Wicklund

Legal Representative: Kathy Woodruff

Others: Rachel Barth, Joan Beaver, Henry Carbone, John Fisher, Curt Hutchens, Tim Moynihan, Walt Munsterman, Larry Riser, and Mark Schmeising

Called to order 9:30

2.a. Approval of minutes

It was moved by Broderick and seconded by Supple to approve the minutes from the August 16, 2017. The motion passed unanimously by the Board.

3.a. August retreat evaluation results

Hacking reviewed the results from the Board Retreat evaluation. The results indicate a longer full day format with more time for discussion is preferable. It was also suggested to have the state demographer at a future retreat.

4.a. Review and adopt FY18 board goals

Zins provided the Board with a list of FY2018 goals that were established at the last meeting. Broderick suggested that the parenthetical phrase on Goal #6 be dropped.

A motion was made by Moore and seconded by Supple to include in the first goal (regarding financial stability) language stating that the board would consider the state's budget status in developing a long-term financial package. The motion failed on a voice vote.

A motion was made by M. Thompson and seconded by Broderick to adopt the goals for the TRA Board for FY18 with revisions. The motion was passed unanimously by the Board.

4.b. Report from Audit Committee meeting, August 15, 2017

M. Thompson reported that the Audit Committee met on August 15, 2017 and received updates on the current audit initiatives. The format for audit reports will change going forward – making them more user readable and user friendly.

4.c. Begin discussion of 2018 legislative strategy and options

Stoffel updated the Board that TRA staff have held meetings and discussions with stakeholder groups. Staff will continue to develop the plan for the 2018 legislative session. Staff have met with Senator Rosen and LCPR staff to get an update about what has occurred during the interim period and to discuss ideas for the 2018 session.

At the Rosen meeting, Stoffel explained that TRA had asked the actuary to do a mini-experience study of the economic assumptions and indicated that the board would be working on a package at its September, November and December meetings.

Stoffel reviewed information in a board memo which included a financial update, projected funded ratios, and a recap of the 2017 legislative session including the elements of the LCPR-passed bill and Senate-passed bill. Stoffel reported that a recent estimate by TRA's actuary shows that the Senate-passed bill with the Schoen amendment would save 7.79 percent of pay and result in a projected funded ratio of 95 percent in 30 years. Hacking described stakeholder feedback and potential options and strategies for the 2018 session.

Anderson asked whether there is a chance pensions could be part of the governor's supplemental bill. Moore stated that he had no information yet on that issue. Moore said that while there was significant money left on the bottom line at the end of the 2017 session, some of that money is likely to dissipate since revenues are coming in lower than previously forecast.

There was discussion about use of the contribution stabilizer. Woodruff said the board has a three-prong fiduciary duty to the members, the state and taxpayers. She said it is important for the board to consider the stabilizer in light of its fiduciary duty. She said that duty does not go away based on what others may or may not do.

Hacking asked the board if they would like additional information and analysis to help with future discussions about a 2018 legislative package. Broderick expressed a concern that some legislators may want TRA's funding situation to worsen. Zins asked Moore about how the current mediation between the governor and legislature is going. Moore said he would expect to know more at the end of September. In response to a question from Anderson, Moore said the next revenue forecast should be available in early December.

Supple said that she would like to bring back the discussion about the stabilizer at the November meeting. Zins asked how teacher contract settlements were going. M. Thompson said that about 100 contracts have been settled.

Anderson said that it would be best if TRA's administrative provisions go through separate from the pension funding bill. Zins said there seem to be a consensus among board members on that point. Supple asked that if there is a special session, the administrative bill could move forward then.

Broderick said that TRA's original bill that had met the board's principles and was supported by stakeholder groups was derailed by the original LCPR proposals which were painful and were ultimately not enacted. Broderick stated that the board can't base its decisions and strategies on how others react but rather should base decisions on the facts and what needs to be done. M. Thompson commented that there are groups out there that want to dismantle defined benefit plans. He expressed concern that TRA's actuaries could recommend a lower investment return assumption and thus would not be taking a long-term approach. He said he was not ready to concede moving to the 7.5 percent assumption because he does not think there is evidence to support going lower. He said that having no bill is better than having a bad bill.

Stoffel said that while he agrees personally about the 7.5 percent issue, the tide is against keeping the assumption at 8 percent. If there is no change in the investment assumption, Stoffel stated that TRA is likely to receive qualified audit opinions and not meet actuarial standards.

Broderick said that she does not like the political pressure to lower the investment assumption to 7.5 percent, but if TRA does not go there, someone will put us there. If we have to accept 7.5 percent, then there is a chance to outperform which would help TRA make the case that the assumption is too low. Broderick commented that agreeing to an assumption change could give us an opportunity to achieve other objectives, especially the objective of keeping our defined benefit plan.

4.d. Select NCTR delegates for annual convention

Zins addressed the Board on the upcoming NCTR Conference. The conference will take place October 7-10, 2017 in Tucson, AZ. NCTR requested that TRA appoint delegates to represent TRA at the annual business meeting.

It was moved by Supple and seconded by Broderick to nominate Zins and Broderick as delegates for TRA, M. Thompson as the first alternate and Anderson as the second alternate and Moore as the third alternate. Stoffel will also be a delegate as the chief administrative officer. The motion passed unanimously by the Board.

5. Legislative Update

Stoffel noted that there is a LCPR hearing in the afternoon. The fund directors will review information from last year's bill and the LCPR will hear from the state economist and Mansco Perry.

6.a. Investment Update

Wicklund reviewed the investment return and inflation analysis report for FY18. Through September 20, the year-to-date return was 3.73 percent on assets of \$21.68 billion.

Hacking reported that SBI outperformed their benchmarks in fiscal year 2017 with very strong returns in each asset class. There will be a gradual but significant restructuring of the portfolio in the near future.

6.b. Administrative Update

Maurer reviewed the Inside TRAck for July, August and September. This newsletter updates staff on the status of current projects taking place at TRA, employees that have left and newly hired employees.

6.c. Report from NASRA Annual Conference

Hacking provided the Board with a summary from the NASRA Annual Conference.

6.d. Upcoming meetings and presentations

The schedule of upcoming meetings and TRA presentations with stakeholder groups was reviewed.

6.e. Assistant Attorney General Update

Nothing to report at this time.

6.f. Subcommittee to create a new evaluation process for the Executive Director

Zins noted that Supple has agreed to chair this subcommittee. Zins and Broderick will be on the subcommittee. Any changes in process will come before the board before it is finalized. Supple asked for information about the Managerial Plan's provisions relating to evaluations.

A motion was made by M. Thompson and seconded by Anderson to create a subcommittee to create a new evaluation process for the Executive Director.

The motion was adopted by the Board.

7. Public Comments

Moynihan thanked the TRA staff, Hacking, and Stoffel and said REAM appreciated the opportunity to come to TRA as stakeholders with its thoughts. He said that the retirement boards should bring a unified front to the legislature.

Carbone noted that it is important to get constituents to believe in defined benefit plans and urge legislators to carry forward the will of the people and protect the pensions.

Hutchens noted that the directors need to educate the legislators as most don't understand the process. He said Rep. Mary Murphy will be at the REAM conference next week. Hutchens said legislators need to be reminded that even though the total deficit is overwhelming, they could at least pay the ARC that is set each year.

Beaver expressed a concern that legislators were channeling interest groups that want to get rid of defined benefit plans. She urged TRA to call attention to its earlier study that quantified that it is expensive to go to defined contribution.

Riser expressed appreciation for TRA's work at the legislature and the incredible task.

Munsterman thanked Hacking for attending the Education MN Retired conference last week. He said it is important to build a strong coalition within the PEPC group so that all groups back each other up .

Schmiesing said it is important to have the PEPC group on the same page with the recommendations they are going to be making. He expressed his concern that there is a large attack on defined benefit plans and on education as a whole. He stressed how important it is to convey how much the pension funds funnel into the state's economy.

Dates of next meetings

November 14, 2017, 9:30 a.m. – Audit Committee

November 15, 2017, 9:30 a.m. – Board of Trustees

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

Adjourn

The meeting adjourned at 11:57 a.m. with a motion by Supple, seconded by Moore and a unanimous vote by the Board.

Attest:

J. Michael Stoffel
Executive Director

Martha Lee Zins
President