

# Minutes of Meeting

February 25, 2016





**TABLE OF CONTENTS**

Approval of Minutes .....	1
Consent Agenda .....	2
Welcome Mr. John Briscoe, Mr. Patrick McKenna and Mr. Gregg Smith to the Board of Trustees .....	2
Election of Chair.....	2
Election of Vice Chair .....	2
Trustee Code of Conduct and Conflicts of Interest Acknowledgement .....	3
Committee Appointments .....	3
CIO Investment Report	
Investment Performance Report for Quarter Ending December 31, 2015 .....	3
Current Asset Allocation Overview/Positioning Relative to Targets .....	3
Governance Committee Report	
Audit Committee Charter .....	4
Budget Committee Charter .....	4
Governance Committee Charter .....	4
Investment Committee Charter .....	4
Board Charter.....	4
Accountability Chart .....	5
Strategic Planning .....	5
Routine Reports for Monitoring and Reporting List .....	5
Legislative Update.....	5
Disability Program .....	7
Termination of ASO Disability Contract .....	7
Director’s Comments	
Retirement of an MPERS Employee.....	8
Office Security.....	8
IRS Determination Letter .....	8
Board Planning Calendar .....	8
Determination of Annual Cost-of-Living Adjustment Amount for Retirees and Beneficiaries .....	8
Comprehensive Annual Financial Report (CAFR) .....	8
NASRA Winter Meeting .....	8
Mid-Year Budget Report .....	9
MAPERS Conference .....	9

<b>Tentative Board Meeting Scheduled for April 28, 2016 .....</b>	<b>9</b>
<b>Trustee’s Comments .....</b>	<b>9</b>
<b>Report on Trustee Education - FY2016 .....</b>	<b>9</b>
<b>Report of Unaudited Quarterly Financial Statement</b>	
<b>October 2015 to December 2015 .....</b>	<b>9</b>
<b>Membership Information</b>	
<b>Benefit Payments and Member Data – January 2016 .....</b>	<b>9</b>
<b>Retirement Inceptions (FY) – July 2015 through January 2016 .....</b>	<b>9</b>
<b>Vote to Close Meeting .....</b>	<b>10</b>
<b>Report from Closed Session .....</b>	<b>10</b>
<b>Adjourn</b>	



**BOARD OF TRUSTEES' MEETING**

**THURSDAY, FEBRUARY 25, 2016**

**1:00 p.m.**

**1913 William Street  
Jefferson City, Missouri**

**TRUSTEES PRESENT:** Colonel J. Bret Johnson, Acting Chair  
Mr. John Briscoe  
Ms. Sue W. Cox  
Mr. Patrick McKenna (via phone)  
Mr. Mike Pace  
Senator Dave Schatz (via phone)  
Mr. William "Bill" Seibert  
Major Kemp Shoun  
Mr. Gregg Smith  
Mr. Todd Tyler

**TRUSTEES ABSENT:** Representative Shawn Rhoads

**STAFF PRESENT:** Mr. Scott Simon, Executive Director  
Mr. Larry Krummen, Chief Investment Officer  
Ms. Greta Bassett-Seymour, General Counsel  
Ms. Jennifer Even, Chief Financial Officer  
Ms. Lois Wankum, Executive Assistant

**GUESTS/PRESENTERS:** Mr. Kevin Leonard, NEPC  
Mr. Mike Winter, Legislative Consultant

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, February 25, 2016, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Colonel Johnson pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

\* \* \* \* \*

**APPROVAL OF MINUTES**

Upon a motion by Ms. Cox, and seconded by Mr. Tyler, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on November 19, 2015.

The Chair and Executive Director were authorized and directed to sign and certify said minutes and to file same in the office of the Executive Director.

\* \* \* \* \*

**CONSENT AGENDA**

To make the most efficient use of Retirement Board meeting time and to ensure the Trustees are well informed on issues requiring their action, the Executive Director prepares in advance and submits to the Trustees, items consisting of advice, opinions, and recommendations related to subjects on the Board meeting agenda. Items considered by staff to be of a routine or non-controversial nature are placed on the consent agenda. During the meeting, items may be removed from the consent agenda at the request of any one Trustee. Items not removed from the consent agenda are approved with a single motion and a unanimous vote by a quorum of the Trustees in attendance.

Minutes reflecting approval of items on the consent agenda are singly reported herein and thus, are intermingled with minutes reflecting action on related subjects as discussed. Reference to “consent agenda” is made in each minute approved via the process described above. Minutes reflecting action on items removed from the consent agenda and openly discussed reflect the open discussion and the vote thereon.

No items were removed from the consent agenda. Upon a motion by Ms. Cox, and seconded by Mr. Pace, all items on the consent agenda were unanimously approved.

\* \* \* \* \*

**WELCOME MR. JOHN BRISCOE, MR. PATRICK McKENNA  
AND MR. GREGG SMITH TO THE BOARD OF TRUSTEES**

The Chairman welcomed Mr. John Briscoe, Mr. Patrick McKenna and Mr. Gregg Smith to the MPERS Board of Trustees. Mr. Briscoe was appointed on January 6, 2016, and replaces Mr. Joe Carmichael, whose term on the Highways and Transportation Commission had expired. Mr. Patrick McKenna became the Director of MoDOT effective December 7, 2015, and replaces Ms. Roberta Broeker, and Mr. Gregg Smith was appointed on December 2, 2015, and replaces Mr. Kelley Martin whose position on the Board was vacated.

\* \* \* \* \*

**ELECTION OF CHAIR**

In accordance with Section 104.170 RSMo., Colonel J. Bret Johnson was elected as Chair of the Board for a one-year term.

\* \* \* \* \*

**ELECTION OF VICE CHAIR**

In accordance with Section 104.170 RSMo., Ms. Sue Cox was elected as Vice Chair of the Board for a one-year term.

\* \* \* \* \*

**TRUSTEE CODE OF CONDUCT AND  
CONFLICTS OF INTEREST ACKNOWLEDGEMENT**

*– by Mr. Scott Simon, MPERS’ Executive Director*

The MPERS Board Governance Policy provides that Trustees shall provide a written acknowledgement that they have received the Trustee Code of Conduct and Conflicts of Interest Policy annually. Each Board member was provided with an acknowledgement form to sign.

\* \* \* \* \*

**COMMITTEE APPOINTMENTS**

*– by Mr. Scott Simon, MPERS’ Executive Director*

Each Board member was provided with an updated copy of committee appointments due to the election of a new chair and vice-chair. Below is the updated list of appointments:

**Audit Committee**

Bill Seibert – *Chair*  
John Briscoe  
Todd Tyler

**Budget Committee**

Colonel J. Bret Johnson – *Chair*  
Sue Cox  
Representative Shawn Rhoads

**Governance Committee**

Sue Cox – *Chair*  
Senator Dave Schatz  
Major Kemp Shoun

**Investment Committee**

Mike Pace – *Chair*  
Gregg Smith  
Bill Seibert  
Patrick McKenna

\* \* \* \* \*

**CIO INVESTMENT REPORT**

*– by Mr. Larry Krummen, MPERS’ Chief Investment Officer, and Mr. Kevin Leonard (NEPC)*

• **Investment Performance Report for Quarter Ending December 31, 2015**

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the quarter ending December 31, 2015. As of December 31, 2015, MPERS’ net asset value was \$1.96 billion. For calendar year 2015, MPERS’ investment return of 3.28% more than doubled the policy benchmark return of 1.55% and ranked in the top 1% of the public fund peer universe. The fund continues to perform well relative to policy benchmarks and the peer universe over longer periods as well.

• **Current Asset Allocation Overview/Positioning Relative to Targets**

As of February 15, 2016, each of MPERS’ sub-asset class allocations are within the acceptable ranges established by the investment policy.

\* \* \* \* \*

## **GOVERNANCE COMMITTEE REPORT**

– by Ms. Sue Cox, Governance Committee Chair

Ms. Cox, Governance Committee Chair, gave a brief recap of the committee meeting held on January 29, 2016. The Committee recommended approval of changes to the following Governance Policies:

### ***Audit Committee Charter***

The changes to the charter stem from the recommendations by audit committee members. The committee recommended three changes to the charter: 1) remove the paragraph related to reviewing policies and procedures in regard to expenses since the Budget Committee also reviews those expenses; 2) include committee members, or at least one member of the committee, in the first meeting with the auditor before the audit begins; and 3) present the audit report to the Audit Committee before it is presented to the full Board.

The other change was for the committee to meet one time per year or, as needed, instead of two times per year.

### ***Budget Committee Charter***

This charter was changed for the committee to meet at least once per year instead of twice. The mid-year update is now being sent to the Committee via email rather than holding a meeting.

### ***Governance Committee Charter***

This charter was revised to delete the provision regarding the Executive Director's performance evaluation, as that is performed by the entire Board.

### ***Investment Committee Charter***

This charter indicates the Investment Committee "...periodically evaluates the performance of the investment consultant and investment managers." The Committee evaluates the investment consultant; however, they do not evaluate investment managers. The words "investment managers" were removed since that portion has been delegated to staff.

### ***Board Charter***

This charter indicated this committee approved actuarial reductions of normal annuities for early retirement. The law stipulates actuarial reductions for all plans, except the Closed Plan. The wording has been changed to read: "Approve actuarial reductions for Closed Plan survivor options and for Closed Plan early retirement."

This charter also indicated the Board approve/reject disability applications. Since the disability program has been outsourced, there is no need for the Board to approve/reject disability applications. Therefore, that wording has been removed.

### ***Accountability Chart***

For outside service providers, the Board actually “Approves” all providers instead of “Participates” and the Board Committees typically “Recommends” in lieu of “Participates” so the chart was updated to reflect those changes.

This chart has also been updated to reflect that the Board will determine whether contracts will be formally re-bid “as needed” instead of “every five years.”

### ***Strategic Planning***

This policy reads “Strategic Plan” in several places where it should be worded “Business Plan”. The committee agreed those change should be made.

### ***Routine Reports for Monitoring and Reporting List***

The listing shows various reports that are routinely done on a calendar year basis.

Mr. Tyler made a motion to accept the changes as recommended. Mr. Seibert seconded the motion. By unanimous vote of all members present, the motion carried.

The Governance Committee Charter stipulates the committee will review material used for New Trustee Orientation. A copy of the Board Reference Manual, which has been used since 2014, was reviewed by committee members prior to the meeting. Ms. Cox indicated she refers to this manual often and Major Shoun and Mr. Tyler agreed it is very useful and informative.

\* \* \* \* \*

## **LEGISLATIVE UPDATE**

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon stated only a handful of retirement bills have been presented and just a few of those have implications for MPERS. Some legislative proposals are repeats from prior years. Below are a few of the bills:

### **HB 1472 Affects Public Plans**

The “pension forfeiture bill,” was first passed in 2014. MPERS has supported the sponsor of the bill in getting changes applied to the bill that will make administration of the provisions more practical. This bill, requires the forfeiture of benefits from plans like MPERS if employees are found guilty of certain felonies specified in the act and committed in connection with their employment.

### **HB 1591 Affects MPERS and MOSERS**

This act, first proposed three years ago, would establish a hybrid plan for employees and elected officials becoming employed on and after January 1, 2017. The defined benefit structure would be very similar to the current structure of the 2011 Tier, but utilize a multiplier of 1% rather than 1.7%. The benefit structure would also include a defined contribution component that would include an employee contribution of 1% along with an employer contribution of 3%.



## HB 1687 Affects State Agencies

This bill creates a “budget planning incentive fund” intended to divert unused general revenue funds at year end for distribution to employees in the form of bonuses.

## HB 1783 Affects MPERS and MOSERS

This proposal would materially alter the provisions covering MPERS ability to split benefits as a result of divorce. Since 1994, both MPERS and MOSERS have used what is called a division of benefits order (DBO) to split benefits due to divorce. This proposal would require MPERS to also consider qualified domestic relations orders (QDROs), which are typically applicable to the private sector.

## HB 1896 Affects MOSERS

Any member who first serves in the general assembly on or after January 1, 2017, shall not receive retirement benefits for such service. The same individuals would also forgo life and disability insurance benefits unless the individual paid entirely for the coverage personally. From an employer perspective, this could lead to less interest in the defined benefit structure presently covering 99% of the state’s workforce and ultimately have implications to recruitment and retention efforts.

## HB 1960 Affects MPERS and MOSERS

This would undo the merger of Water Patrol with the Highway Patrol that occurred in 2010. The original merger offered covered employees a one-time irrevocable election to either remain in MOSERS or transfer membership to MPERS. This proposal creates another irrevocable election to transfer back to MOSERS but for closed plan members only.

## HB 2459 Affects Public Plans

Similar to the “defund Iran initiative,” this proposal would stipulate divestiture of stock of a foreign company with ties to state sponsors of terror. Furthermore, it would require asset managers that invest in international equities to acknowledge, twice a year, that they have no holdings as prescribed by this bill (something equity managers are not doing at this time).

## SB 573 Affects Public Plans

This bill is labeled the “defund Iran initiative,” and proposes to have public retirement funds divest investments that support terrorist activities in specific countries. This bill has been third read in the Senate and will be referred to the House.

## SB 680 Affects MOSERS

This proposal creates a defined contribution plan for members of the General Assembly and statewide elected officials taking office on and after January 1, 2017.

## SB 980 Affects Public Plans

This proposal mandates the communication of various plan measures (i.e. funding level, benefits accrued, retirement eligibility, etc.) for the benefit of transparency to MPERS covered members. Furthermore, the bill modifies the criteria for when a public retirement plan will be deemed delinquent.

The bill changes the age of mandatory retirement from 60 to 65 for uniformed members of the highway patrol.

Mr. Simon indicated he will continue to monitor these bills along with any other related bills that may surface as session continues and keep the Board apprised should any additional discussion be necessary.

\* \* \* \* \*

**DISABILITY PROGRAM**

*– by Mr. Scott Simon, MPERS’ Executive Director*

Standard Insurance, the company that administers MPERS’ disability program, has agreed to continue the present premium (0.53% of monthly payroll) for disability coverage through June 30, 2020. The stability of a four-year rate guarantee is an attractive option in an environment that is often seeing costs on the rise. Standard Insurance also offered a Claim Fluctuation Reserve (CFR) to the new contract effective July 1, 2016. The refund mechanism is credited as positive claim experience (i.e., fewer claims historically) recognized and will help offset periods of negative claim experience (i.e., more claims in the future).

\* \* \* \* \*

**TERMINATION OF ASO DISABILITY CONTRACT**

*– by Mr. Scott Simon, MPERS’ Executive Director*

In 2004, Standard Insurance and MPERS entered into a primary contract for disability services for those claims made on and after the time when Standard became the insurer. They also entered into an administrative services only (ASO) contract for the claims being paid directly by MPERS at that time. For practicality and budget purposes, Mr. Simon recommended the ASO contract be terminated since these claims have been on the books for at least ten years and very likely will remain on disability for the duration of the members’ lives. Mr. Briscoe made a motion to terminate the ASO contract effective June 30, 2016. Mr. Pace seconded the motion. The following vote was taken:

- Colonel J. Bret Johnson, Aye
- Mr. John Briscoe, Aye
- Ms. Sue W. Cox, Aye
- Mr. Patrick McKenna (not in attendance)
- Mr. Mike Pace, Aye
- Senator Dave Schatz (via phone), Aye
- Mr. William “Bill” Seibert, Aye
- Major Kemp Shoun, Aye
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler, Aye

Motion carried to terminate the ASO contract with Standard Insurance.

\* \* \* \* \*

## DIRECTOR'S COMMENTS

- **Retirement of an MPERS Employee**

Mr. Simon informed the Board he received notice of Ms. Pam Henry's retirement and thanked Ms. Henry for her years of service. Ms. Henry began employment with MPERS on October 30, 2008.

- **Office Security**

Mr. Simon informed the Board that security has been enhanced at the MPERS office. Panic buttons are located at the two reception areas near the front entrance and a security clearance was added to the elevator.

- **IRS Determination Letter**

MPERS received an IRS Determination letter on July 17, 2015; however, it indicated the letter expired on January 31, 2014. Ms. Greta Bassett-Seymour has applied for a new determination letter. Mr. Simon will advise if, and when, a new determination letter is received.

- **Board Planning Calendar**

The Board was provided with a planning calendar for 2016 that shows significant dates of interest to the Board.

- **Determination of Annual Cost-of-Living Adjustment Amount for Retirees and Beneficiaries**

Mr. Simon informed the Board that Sections 104.103 and 104.1045 of the Revised Statutes of Missouri require an annual cost-of-living adjustment (COLA) to be determined in January of each year, based upon the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) over the preceding calendar year. This amount will be used in calculating the annual benefit increases for retirees and survivors. The COLA for calendar year 2016 will be 0.095%.

2015 Average Index .....	237.017	% of Increase (2014 to 2015).....	0.119%
2014 Average Index .....	236.736	80% of CPI-U.....	0.095%

Calculation:  $(237.017 - 236.736)/236.736 = 0.119 \times 80\% = 0.095\%$

The minimum COLA adjustment is 4% for those members hired before August 28, 1997, and retired under the Closed Plan. The COLA rate of 0.095% will be effective for those members who have reached their original 65% cap under the Closed Plan, or who were first hired on or after August 28, 1997, and for all members retired under the Year 2000 Plan.

- **Comprehensive Annual Financial Report (CAFR)**

Each Board member was provided a copy of the 2015 CAFR.

- **NASRA Winter Meeting**

Mr. Simon stated that he and Ms. Greta Bassett-Seymour are scheduled to attend the (National Association of State Retirement Administrators) NASRA Winter Meeting being held February 28<sup>th</sup>-March 1<sup>st</sup> in Washington, DC.

- **Mid-Year Budget Report**

The Governance Policy requires a budgetary review twice a year – once when the budget is approved by the Board and a second time, at mid-year, to illustrate whether expenses are coming in as anticipated. The Budget Committee was provided with mid-year numbers of the System’s budget as of December 31, 2015. All expenses were found to be within the budgeted allowances.

- **MAPERS Conference**

Mr. Simon encouraged Board members to attend the Missouri Association of Public Employee Retirement Systems (MAPERS) Conference scheduled for July 13-16, 2016, at Tan-Tar-A Resort at Lake of the Ozarks. Mr. Simon stated registration information will be forthcoming.

- **Tentative Board Meeting Scheduled for April 28, 2016**

Mr. Simon asked Board members to keep their calendars open for the meeting tentatively scheduled for April 28<sup>th</sup>. He indicated it may be beneficial to conduct a meeting due to the volatility in the markets.

\* \* \* \* \*

**TRUSTEE’S COMMENTS**

None.

\* \* \* \* \*

**REPORT ON TRUSTEE EDUCATION – FY2016** *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the “*Report on Trustee Education*” for FY2016. Via approval of the consent agenda, the Board unanimously accepted the report.

\* \* \* \* \*

**REPORT OF UNAUDITED QUARTERLY FINANCIAL STATEMENT  
OCTOBER 2015 TO DECEMBER 2015** *(Consent Agenda)*

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$1,963,297,379 as of December 31, 2015. This is an increase of \$14.5 million from the value of \$1,948,747,605 as of September 30, 2015.

Via approval of the consent agenda, the Board unanimously accepted the reports and directed that they be filed in the office of the Executive Director.

\* \* \* \* \*

**MEMBERSHIP INFORMATION** *(Consent Agenda)*

- **Benefit Payments and Member Data – January 2016**

The Executive Director provided current member and benefit data to the Board. Via approval of the consent agenda, the Board unanimously accepted the reports.

\* \* \* \* \*

**RETIREMENT INCEPTIONS** *(Consent Agenda)*

The Executive Director provided the Board with a summary of retirement inceptions for the months of July 2015 through January 2016. Via approval of the consent agenda, the Board unanimously accepted the report.

\* \* \* \* \*

**VOTE TO CLOSE MEETING**

The Board voted to close its meeting on February 25, 2016, concerning attorney-client privileged communications and records protected from disclosure by law. Upon a motion made by Mr. Briscoe and seconded by Major Kemp Shoun to convene in closed session, the following roll call vote was taken:

- Colonel J. Bret Johnson, Aye
- Mr. John Briscoe, Aye
- Ms. Sue W. Cox, Aye
- Mr. Patrick McKenna (not in attendance)
- Mr. Mike Pace, Aye
- Senator Dave Schatz (not in attendance)
- Mr. William "Bill" Seibert, Aye
- Major Kemp Shoun, Aye
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler, Aye

\* \* \* \* \*

**REPORT FROM CLOSED SESSION**

- **Personnel Issues**

Colonel Bret Johnson stated the Board approved a retention incentive for Mr. Scott Simon, MPERS' Executive Director.

\* \* \* \* \*

**ADJOURN**

A motion to adjourn was made by Ms. Cox and seconded by Mr. Tyler. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.