

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JANUARY 20, 2005, BOARD MEETING

BOARD MEMBERS PRESENT: Mark Sanford, President
Barb Evanson, Vice President
Clarence Corneil, Trustee,
via teleconference
Paul Lofthus, Trustee
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer

BOARD MEMBER ABSENT: Lowell Latimer, Trustee

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Paula Brown, Retirement Program Specialist
Vida Keller, Administrative Assistant
Les Mason, Internal Audit Supervisor
Shelly Schumacher, Retirement Program Supervisor
Dottie Thorsen, Internal Auditor
Gary Vetter, Information Services Supervisor
Denise Weeks, Retirement Program Specialist

OTHERS PRESENT: Sparb Collins, NDPERS
Paul Erlendson, Callan Associates Inc.
Scott Miller, Attorney General's Office
Mario Rodriguez, Boilermakers National Funds
Howard Sage, Department of Commerce
Howard Snortland, NDRTA
Phyllis Stoa, NDRTA
Tami Wahl, NDRTA
Joe Westby, NDEA
LaDonna Whitmore, NDRTA

CALL TO ORDER:

Dr. Mark Sanford, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, January 20, 2005, at Workforce Safety and Insurance (WSI), Bismarck, North Dakota.

**THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM:
PRESIDENT SANFORD, MR. CORNEIL, MRS. EVANSON, TREASURER SCHMIDT,
AND DR. SANSTEAD.**

WELCOME NEW BOARD MEMBER:

Dr. Sanford welcomed State Treasurer Kelly Schmidt to the Board.

MINUTES:

The Board considered the minutes of the November 18, 2004, meeting.

MRS. EVANSON MOVED, AND DR. SANSTEAD SECONDED TO APPROVE THE MINUTES OF THE NOVEMBER 18, 2004, MEETING AS PRESENTED.

AYES: TREASURER SCHMIDT, MRS. EVANSON, PRESIDENT SANFORD, DR. SANSTEAD, AND MR. CORNEIL.

NAYS: NONE

MOTION PASSED

ANNUAL TECHNOLOGY REPORT AND CPAS PROJECT UPDATE

Mr. Gary Vetter, Information Services Supervisor, reviewed the technology, equipment, and programs used by the Retirement and Investment Office. He stated NDRIO's link to the state network was recently upgraded from a T1 line to fiber-optic connection. Mr. Vetter also updated the Board on the CPAS project. To date, the project is near the 50% mark, with documentation and data conversion nearing completion; configuration in process for the benefit estimators, display screens, business processes, accounting, data links; and conversion to the Filenet image system. The web services component is still a number of months away.

Mr. Lofthus entered the meeting.

Board discussion followed. Mrs. Kopp acknowledged the dedicated efforts of Shelly Schumacher, Gary Vetter, and Kelli Schroeder, and other staff of RIO, ITD, and CPAS in this project.

CAPITAL MARKET ASSUMPTIONS AND ASSET CLASSES:

Mrs. Fay Kopp, Deputy Executive Director, stated TFFR's actuary, Gabriel, Roeder, and Smith (GRS), will be presenting the Board with the Experience Study results and setting assumptions for the Asset Liability Modeling (ALM) Study at the March board meeting. To help the Board prepare for the ALM Study, Steve Cochrane provided some background information on asset classes and relevant benchmarks. Paul Erlendson, Callan Associates Inc., discussed Callan's 2005 capital market projections, and information related to asset allocation volatility. Mr.

Erlendson stated the five-year projection period is very common because it allows smoothing of the short-term volatility of returns, captures the business cycle movement, and is a reasonable time period for policy implementation. The Board discussed the different asset classes and variances in capital market assumptions amongst investment consulting firms. A copy of Mr. Erlendson's presentation is on file at RIO.

TFFR INVESTMENT UPDATE:

Mr. Cochrane stated TFFR's estimated fiscal year-to-date investment return through January 19, 2005, is 7.13%. Mr. Cochrane then reviewed the SIB agenda for the January 21, 2005, meeting.

The Board recessed at 2:25 p.m. and reconvened at 2:40 p.m.

2005 LEGISLATION:

Mrs. Kopp reviewed 2005 legislation affecting TFFR.

HB 1023, the RIO budget bill, has been assigned to the Government Performance Division, with no issues of concern at this time.

HB 1067 would allow summer school teachers who are on a short term contract the option to not participate in TFFR. Mrs. Kopp stated that the TFFR Board voted last fall to not support the bill because of potential future negative financial implications for TFFR; perceived unfairness to other summer school teachers, part-time and temporary teaching staff; and employer budget and administrative issues. Mrs. Kopp also indicated the North Dakota Education Association (NDEA), and the North Dakota Council of Educational Leaders (NDCEL), both oppose the passage of this bill.

HB 1068, the TFFR bill which covers IRS compliance language and removes the sunset clause on retired teachers returning to work in critical shortage areas, has been heard by the House Government and Veterans Affairs (GVA) Committee.

Mrs. Kopp stated TFFR is monitoring HB 1172, the child support exemption to TFFR confidentiality provisions bill.

A new bill, HB 1361, would allow Board-approved member interest groups limited access to confidential TFFR records relating to member participation status, name and address. This bill has been referred to the GVA Committee. The Board indicated their support of this bill.

Mrs. Kopp outlined another new bill, HB 1457, which would allow non-retired members of TFFR who received less than one year of service credit for teaching kindergarten programs in a public school prior to July 1, 1987, retroactive service credit. Mrs. Kopp stated this retroactive service credit would be calculated based on the number of hours the member worked in each fiscal year in proportion to 700 hours. Prior to 1987, service credit was calculated based on days worked. Mrs. Kopp outlined the actuarial cost and technical issues raised by TFFR's actuarial consultant. Mrs. Kopp testified before the Employee Benefits Committee (EBPC) that she believed the Board would oppose this bill due to the unknown actuarial cost implications because of the unknown number of teachers this bill would affect and unknown amount of service credit that would be granted retroactively. Mrs. Kopp also indicated concerns about the fairness of granting this credit to a select group of non-retired kindergarten teachers and difficulty in verifying the hours employed due to limited availability of employer and member records prior to 1987. The EBPC Committee gave this bill an unfavorable recommendation (8-0).

Mr. Scott Miller, Attorney General's Office, also outlined his concerns relating to the constitutionality of this bill, specifically the equal protection clause and giving gifts. He also noted federal issues relating to age discrimination and the exclusive benefit rule.

After discussion,

MRS. EVANSON MOVED AND MR. LOFTHUS SECONDED THAT THE TFFR BOARD OPPOSE HB 1457.

AYES: MR. LOFTHUS, TREASURER SCHMIDT, MRS. EVANSON, MR. CORNEIL, PRESIDENT SANFORD, AND DR. SANSTEAD.

NAYS: NONE

MOTION PASSED

Mrs. Kopp then reviewed SB 2193, which would require mandatory North Dakota state income tax withholding for North Dakota residents that receive TFFR periodic or non-periodic lump-sum payments unless the member files an exemption certificate. At this time, Mrs. Kopp has not identified any problems with this bill but will continue to monitor it.

Mrs. Kopp reviewed a letter from GRS dated January 10, 2005, which responded to questions from Rep. Grande about the 2004 actuarial valuation report presentation to the Employee Benefits Programs committee in October 2004.

Mrs. Kopp also stated that at the October 2004 meeting, Rep. Kasper suggested that TFFR conduct an analysis comparing benefits earned from a defined contribution plan with those provided by TFFR. Mrs. Kopp has reviewed this request with the actuary. GRS has estimated the cost for this analysis to be \$7,000. After discussion, the Board decided that such a study is not warranted at this time.

TFFR BENEFITS OVERVIEW:

Mrs. Kopp introduced Ms. Paula Brown and Mrs. Denise Weeks, Retirement Program Specialists, who gave an overview of TFFR plan benefits to the Board. A copy of this presentation is on file at RIO. Board discussion followed. Board members noted that retirement program staff members always receive excellent evaluations from members and stated that TFFR is well-represented by them.

RETIREMENT OFFICER'S REPORT:

Mrs. Kopp stated that TFFR's Comprehensive Annual Financial Report (CAFR) for 2005 is now available on the RIO website. She noted that of the 342 teachers and administrators who retired in 2003-04, their average age was 58.6 years, average service was 27.3 years, average annual salary was \$34,420, and average annual single life annuity benefit was \$18,800. Mrs. Kopp also noted she will be serving on the National Council on Teacher Retirement (NCTR) Legislative Committee for 2005.

CONSENT AGENDA:

DR. SANSTEAD MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE TWO MEMBERS ELIGIBLE FOR TOTAL PERMANENT DISABILITY BENEFITS.

AYES: MR. CORNEIL, MRS. EVANSON, DR. SANSTEAD, TREASURER SCHMIDT, PRESIDENT SANFORD, AND MR. LOFTHUS.

NAYS: NONE

MOTION PASSED

OTHER BUSINESS:

Mrs. Kopp noted that Board meetings have been scheduled for February 17, 2005, and March 10, 2005, to allow the TFFR Board the flexibility of an additional meeting during this legislative session. At this time Mrs. Kopp is not anticipating a meeting for February.

Treasurer Schmidt conveyed her appreciation to Mrs. Kopp, Mr. Cochrane, and Mrs. Flanagan for the informative orientation session conducted for new TFFR trustees.

ADJOURNMENT:

With no further business to come before the Board, President Sanford adjourned the meeting at 4:15 p.m.

Respectfully Submitted:



Dr. Mark Sanford, President
Teachers' Fund for Retirement Board



Vida Keller, Reporting Secretary