NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
MARCH 10, 2005, BOARD MEETING

BOARD MEMBERS PRESENT:	Mark Sanford, President Barb Evanson, Vice President Clarence Corneil, Trustee Lowell Latimer, Trustee Wayne Sanstead, State Superintendent Kelly Schmidt, State Treasurer
STAFF PRESENT:	Steve Cochrane, Executive Director Fay Kopp, Deputy Executive Director Connie Flanagan, Fiscal & Investment Officer Vida Keller, Administrative Assistant Les Mason, Internal Audit Supervisor Shelly Schumacher, Retirement Program Supervisor Dottie Thorsen, Internal Auditor
OTHERS PRESENT:	Mike Carter, GRS Chris Conradi, GRS Flick Fornia, GRS Doug Johnson, NDCEL Gloria Lokken, NDEA Scott Miller, Attorney General's Office Howard Snortland, NDRTA Tami Wahl, NDRTA Joe Westby, NDEA

CALL TO ORDER:

Dr. Mark Sanford, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 10:00 a.m. on Thursday, March 10, 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, DR. LATIMER, AND DR. SANSTEAD.

MINUTES:

The Board considered the minutes of the January 20, 2005, meeting.

MRS. EVANSON MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE MINUTES OF THE JANUARY 20, 2005, MEETING AS PRESENTED.

AYES: TREASURER SCHMIDT, MRS. EVANSON, PRESIDENT SANFORD, DR. SANSTEAD, MR. CORNEIL, AND DR. LATIMER.
NAYS: NONE

MOTION PASSED

2004 ACTUARIAL EXPERIENCE STUDY:

Mr. Chris Conradi, and Mr. Flick Fornia, Gabriel, Roeder, Smith and Company (GRS), presented the results of TFFR's Actuarial Experience Study for the five-year period ending June 30, 2004. Copies of the complete study and presentation are on file at the Retirement and Investment Office (RIO).

The purpose of the Experience Study is to compare actual experience during the last five years with expected results based on current assumptions. The report included a discussion of TFFR experience during the last five years, presented the actuary's recommendations for new actuarial assumptions and methods, and provided information about the actuarial impact of these recommendations on the margin and other key actuarial measures.

Inflation Assumption: TFFR has a current inflation assumption rate of 3%, with actual inflation during the last five years of 2.68%, and the bond market predicting 2.89% over the next 25 years. GRS recommended keeping this assumption rate at 3%.

Investment Return Rate Assumption: TFFR's current investment return rate assumption is 8%, which is comprised of 3% inflation plus 5% real return, after expenses. GRS recommended TFFR continue using the 8% assumption, which is also the most common rate used by large public retirement systems.

Salary Increase Rate Assumption: The current salary increase rate assumption for TFFR averages about 5.2%. The actual average during the last ten-year period was 5.4%. GRS recommended increasing the core salary growth rate from 4.0% to 4.5%, and making minor changes to service-related increases. This will increase the overall salary increase assumption to about 5.7%. This assumption change causes most of the cost and liability increase.

A lengthy discussion relating to whether or not salary increases granted in the past will be continued in the future. It was also noted that rising insurance and benefit costs (including potential retirement contribution increases) could mean less money available for salary increases. Also considered was that average salaries grow less than individual salaries due to retirements and terminations being replaced by lower-paid new entrants.

Post-retirement Mortality Assumption: TFFR's current assumption for nondisabled retirees and beneficiaries is the 1994 Uninsured Pensioner Mortality Table with a two-year setback for males and a three-year setback for females. GRS recommended changing the setbacks one year for both sexes. GRS recommended no change for disabled mortality tables.

Pre-retirement Mortality Assumption: GRS recommended a 65% adjustment factor to the post-retirement rates.

Retirement Assumption: TFFR's current retirement assumption is based on 1999 experience study and rates reflecting age, service, and sex. The assumption consists of three groups: those who retire at Rule of 85; those who retire after the first eligibility for unreduced benefit; and those who retire with a reduced benefit. GRS proposed changing the retirement rates at many age/service combinations which would equate to retirement ages of about 58.1 years for males and 58.9 years for females.

Mr. Conradi stated that the highest liability occurs at the first retirement eligibility. Mrs. Kopp stated early retirements have increased because more members are purchasing service credit in order to reach the Rule of 85 earlier. Mrs. Shelly Schumacher, Retirement Program Supervisor, noted that TFFR's return to work provisions might also affect this assumption.

Termination Assumption: GRS recommended a decrease in the termination rate assumption for all ages and services by 20%.

Disability Assumption: GRS did not recommend making any changes to the disability assumption at this time.

Refund Assumption: GRS recommended maintaining the current refund assumption.

New Entrant Profile Assumption: GRS recommended adopting a new profile based on actual new members joining TFFR in the last five years.

Other Assumptions: GRS recommended no change in other assumptions to include the percentage of members married and age difference between husbands and wives.

Actuarial Asset Valuation Method: GRS recommended no change in the actuarial asset valuation method which uses the actuarial value to smooth over year-to-year variations and the 5 year smoothing of differences between actual and expected returns.

Actuarial Cost Method: GRS currently uses the Entry Age actuarial cost method which still efficiently allocates costs between current and future generations. This method remains the most common for statewide public plans.

Summary of GRS Recommendations: 1) Increase the core salary growth rate from 4.0% to 4.5% and make minor changes to service-related increases; 2) Modify mortality table setbacks to UP-94, with males setback three years, and females setback two years and change pre-retirement mortality to reflect 65% experience; 3) Decrease termination rates by 20% across the board; 4) Increase retirement rates at many age/service combinations; and 5) Revise new entrant profile based on age/sex/pay distribution of new members during fiscal year 2000 through fiscal year 2004.

Actuarial Impact of GRS Recommendations: Mr. Conradi explained if the Board adopts the Experience Study recommendations: 1) the normal cost will increase by 1% to 11.29%; 2) the unfunded actuarial accrued liability (UAAL) will increase by $59.1 million to $413.9 million; 3) the funded ratio will decrease by -2.6% to 77.7%; 4) the Governmental Accounting Standards Board (GASB) 25 annual required contribution will increase by 2.42% to 13.76%; and 5) the margin will decrease by -2.42% to -6.01%.

The Board discussed the recommendations and actuarial impact of the recommendations. Mrs. Kopp asked GRS to provide information comparing benchmark contribution rates using a 30-year amortization period instead of the current 20-year amortization period and using a level percentage of payroll instead of a level dollar amortization method. Mr. Conradi stated that the 30-year amortization period is the maximum allowed by GASB. He also provided the impact of making these changes which would result in a benchmark contribution rate of about 10.88%. Mr. Carter stated that while these changes will slow down the funding of the plan, using a level percent of pay assuming 2% growth and using an amortization period of 30 years, the methods are considered to be reasonable by the actuary and are commonly used by other public retirement systems.

After discussion,

MRS. EVANSON MOVED AND MR. CORNEIL SECONDED TO ADOPT THE RECOMMENDATIONS PRESENTED IN THE ACTUARIAL EXPERIENCE STUDY FOR THE FIVE-YEAR PERIOD ENDING JUNE 30, 2004.

A ROLL CALL VOTE WAS TAKEN AS FOLLOWS: AYES - DR. LATIMER, TREASURER SCHMIDT, MRS. EVANSON, MR. CORNEIL, PRESIDENT SANFORD, AND DR. SANSTEAD. NAYS: NONE. MOTION WAS UNANIMOUSLY APPROVED.

DR. SANSTEAD MOVED AND MRS. EVANSON SECONDED TO CHANGE THE AMORTIZATION PERIOD FROM 20 YEARS TO 30 YEARS AND TO CHANGE THE AMORTIZATION METHOD FROM LEVEL DOLLAR TO LEVEL PERCENT OF PAYROLL ASSUMING 2% PAYROLL GROWTH.

A ROLL CALL VOTE WAS TAKEN AS FOLLOWS: AYES - MR. CORNEIL, MRS. EVANSON, DR. LATIMER, DR. SANSTEAD, TREASURER SCHMIDT, AND PRESIDENT SANFORD. NAYS: NONE. MOTION WAS UNANIMOUSLY APPROVED.

The Board recessed at 12:00 p.m. and reconvened at 12:45 p.m.

ASSET/LIABILITY MODELING STUDY:

Mr. Carter reviewed TFFR's funding situation incorporating the Board's adoption of the Experience Study recommendations and changes to amortization period and method. Mr. Carter then reviewed the Asset/Liability Modeling Study (ALM) process with the Board. A copy of his presentation is on file at RIO.

An ALM study is used to evaluate, modify, or establish investment, benefits, and funding policies; changing demographics and bubbles in membership; and future liquidity needs. Because liabilities have significant impact on a fund's desired asset allocation, an ALM study provides trustees with important information to make funding and investment decisions.

Mr. Carter reviewed the asset classes currently being used by TFFR and Callan's 2005 expected return and volatility assumptions. After discussion, the Board agreed to use the same asset classes and Callan capital market assumptions. The Board also agreed to incorporate the following portfolios in the ALM study:

Asset Class	**Portfolios**			
	A	**B**	**C**	**D**
Large Cap Equities	30	30	28	30
Small Cap Equities	10	10	10	13
International Equities	10	20	18	20
Real Estate - Direct	5	9	9	10
Alternative Investments (General)	5	5	5	5
Emerging Markets Equities	5	5	5	7
Domestic Fixed Income	24	7	12	9
International Fixed Income	5	5	5	0
High Yield Bonds	5	7	7	5
Cash	1	2	1	1
Total	**100**	**100**	**100**	**100**

Mr. Carter then led the Board in a discussion relating to the liability forecast assumptions to be used in the 2005 ALM Study as follows:

Number of new entrants	Assume a ½% decrease in the active population with not less than 8,000 active members.
New entrants' age/sex/pay profile	Remain consistent with the 2004 Experience Study.
Retirements, deaths, disabilities, and terminations	Remain consistent with the 2004 Experience Study.
Pay increases for continuing employees	Model's inflation plus Step-Rate/Promotional component and Productivity component for salary scale from 2004 Experience Study
Starting pay increases for future new entrants	Model's inflation plus real increase of 1% per projection year.
Cost-of-living (COLA)adjustments	No COLA adjustments.
Benefit provisions	Keep current benefit provisions.
Employer contribution rate	Keep current 7.75% employer rate.
Employee contribution rate	Keep current 7.75% member rate.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO MODEL THE ABOVE PORTFOLIOS AND LIABILITY FORECAST ASSUMPTIONS AS DISCUSSED BY THE BOARD.

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

NAYS: NONE

MOTION PASSED

Mr. Carter stated GRS will provide a preliminary report of the ALM results in early June, with a presentation to the TFFR Board at the June meeting.

TFFR INVESTMENT UPDATE:

Mr. Cochrane reviewed the agenda for the March 11, 2005, SIB Board meeting. He stated TFFR's estimated investment return through March 9, 2005, is 9.96%.

2005 LEGISLATION:

Mrs. Kopp reviewed 2005 legislation affecting TFFR with the Board. HB 1068 (retiree re-employment in critical shortage areas and IRS compliance) has been signed by the Governor.

CPAS PENSION SOFTWARE IMPLEMENTATION UPDATE:

Mrs. Kopp reviewed the March 9, 2005, Steering Committee Report and Summary with the Board. The CPAS project as a whole is about 65% complete. At present, the project is on budget, but slightly behind schedule primarily due to data conversion issues which is affecting report development. The FileNet image conversion project is complete and in use.

RETIREMENT OFFICER'S REPORT:

Mrs. Kopp stated the North Dakota Education Association (NDEA), is in the process of selecting qualified candidates to complete Mr. Paul Lofthus' unexpired term on the TFFR Board which ends June 30, 2006.

MR. CORNEIL MOVED AND DR. LATIMER SECONDED TO APPROVE MRS. EVANSON AS A REPLACEMENT FOR MR. LOFTHUS ON THE SIB AND SIB AUDIT COMMITTEE.

AYES: DR. SANSTEAD, MRS. EVANSON, MR. CORNEIL, TREASURER SCHMIDT, DR. LATIMER, AND PRESIDENT SANFORD.
NAYS: NONE

MOTION PASSED

OTHER BUSINESS:

The next TFFR Board meeting is scheduled for June 16, 2005, with a tentative start time of 8:30 a.m.

ADJOURNMENT:

With no further business to come before the Board, President Sanford adjourned the meeting at 3:25 p.m.

Respectfully Submitted:

Mark Sanford

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

Vida Keller

Vida Keller, Reporting Secretary