NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
NOVEMBER 17, 2005, BOARD MEETING

BOARD MEMBERS PRESENT:	Mark Sanford, President Barb Evanson, Vice President Clarence Corneil, Trustee Michael Gessner, Trustee Lowell Latimer, Trustee Kelly Schmidt, State Treasurer
BOARD MEMBER ABSENT:	Wayne Sanstead, State Superintendent
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 Supervisor Dottie Thorsen, Internal Auditor Denise Weeks, Retirement Program Specialist
OTHERS PRESENT:	Chris Conradi, GRS Paul Erlendson, Callan Associates, Inc. Linda Harsche, NDEA Scott Miller, Attorney General's Office Howard Snortland, NDRTA Ken Tupa, NDRTA Tami Wahl, 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, November 17, 2005, at the State Capitol, Fort Union Room, Bismarck, North Dakota.

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

MINUTES:

The Board considered the minutes of the September 15, 2005, meeting.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE SEPTEMBER 15, 2005, MEETING AS PRESENTED.

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

MOTION PASSED

2005 TFFR ACTUARIAL VALUATION REPORT AND FUNDING ISSUES:

Mr. Chris Conradi, Gabriel, Roeder, Smith, and Company (GRS), presented TFFR's Actuarial Valuation as of July 1, 2005, to the Board. Mr. Conradi discussed the variance in employer contribution rates for pension systems nationwide. He attributed these differences to benefit design, statutory limits on contribution rates, funded status, actuarial assumptions, amortization period for Unfunded Actuarial Accrued Liability (UAAL), and demographics. Mr. Conradi pointed out teacher plans generally have more females, and since females have a longer life expectancy, there is a higher cost. He also noted teachers historically retire earlier than general employees, teachers usually have lower turnover, and there are a declining number of active teachers in North Dakota, all of which increase funding costs.

Mr. Conradi discussed the key changes and issues for TFFR. He stated benefit and contribution provisions have not changed materially since 2001. However, based on 2005 Experience Study recommendations from GRS, the Board changed some assumptions effective with the 2005 valuation. Assumption changes include larger salary increases, mortality rates, retirement rates, and termination rates. Assumption changes increased the normal cost and UAAL. The Board also changed how the amortization of the UAAL in the Governmental Accounting Standards Board (GASB) Annual Required Contribution (ARC) is calculated. The ARC was changed from a level dollar amount to a level percent of payroll, and the amortization period increased from 20 to 30 years, which offsets some of the impact of the revised actuarial assumptions.

Mr. Conradi stated the number of active members decreased by .3% from 9,826 to 9,801. Payroll for active members increased 2.7%, from $376.5 million to $386.6 million, with payroll increasing an average of 3.7% per year over the last 10 years. Average pay for active members increased 2.9%, from $38,321 to $39,447, with an average age of 44.9, compared to 42.6 ten years ago. The average years of service is 14.7, compared to 13.4 ten years ago. Presently there are 1,377 inactive, vested members and 168 inactive, non-vested members. The number of retirees increased by 4%, from 5,373 to 5,586, with an average annual retiree benefit of $15,710. Presently there are 1.8 active members for each retiree, a decline from 2.2 per retiree ten years ago.

The fair market value increased from $1,375 million to $1,530 million. Total contributions were $64.1 million, and total distributions were $89.3 million, showing a net external cash flow of -$25.2 million, or -1.6% of market value of assets. The return on market for fiscal year 2005 was 13.3%. For fiscal year 2005, the actuarial value was $1,470 million, and the actuarial return was 3.3%.

TFFR's UAAL increased from $354.8 million to $495.5 million, and the funded ratio decreased from 80.3% to 74.8%. Presently, the UAAL is 128.2% of covered payroll, compared to 94.2% last year. The negative margin increased from -3.59% to -4.37% and the funding period remains infinite. Mr. Conradi stated the actuarial assets are now less than market assets, therefore decreases in funded ratio and increases in UAAL may have ended for awhile. However, long-term problems remain.

Mr. Conradi outlined three major factors contributing to TFFR's present actuarial condition: 1) the investment market losses in fiscal years 2001, 2002, and 2003 (which resulted in actuarial asset losses of $323.5 million over the last five years); 2) actuarial assumption changes (which resulted in a $63.3 million increase in the UAAL); and 3) the 2001 benefit improvements (resulting in a $93.9 million increase in UAAL). He also noted that at the time the benefit improvements were adopted, the plan was overfunded by $20.6 million, and the market value of assets were $96.7 million greater than actuarial assets, which provided a cushion greater than the cost of the benefits.

Mr. Conradi explained that almost all statewide pension systems were damaged by what happened in the investment markets, many worse than TFFR. He also noted that projections show that the Fund will be able to pay all of the promised benefits for at least the next 30 years. A copy of the valuation report and presentation is on file at the Retirement and Investment Office (RIO).

After discussion and questions relating to the 2005 actuarial valuation report,

MR. CORNEIL MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE THE 2005 VALUATION REPORT AS PRESENTED.

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

MOTION PASSED

The Board recessed at 2:25 p.m. and reconvened at 2:31 p.m.

Mr. Conradi presented funding options for Board consideration including earning higher investment returns, increasing contribution rates, reducing benefits for new hires, and reducing investment and administrative expenses. He described what other statewide pension systems are doing to improve their funding situations. Mr. Conradi also presented 30-year projection results covering combinations of various benefit changes for new hires, contribution changes, and the impact of future investment returns. Board discussion followed.

LEGAL ISSUES AND LEGISLATIVE PLANNING:

Mr. Scott Miller, Assistant Attorney General, discussed contractual rights of teachers and how it relates to TFFR pension benefits. Mr. Miller indicated he has not completed his research of legal issues relating to requiring member contributions on re-employed retirees and continuing contract rights for teachers. The Board discussed requesting a formal Attorney General's opinion on the question of whether the state can change contributions and benefits for TFFR members. Mrs. Kopp noted the legislative Employee Benefits Programs Committee (EBPC) questioned Mr. Miller's conclusion that benefits and contributions can only be changed for new hires, and not for current active members and retirees. The legislative committee requested the Attorney General's office be present at their next meeting to discuss this issue.

After board discussion,

TREASURER SCHMIDT MOVED AND MRS. EVANSON SECONDED TO REQUEST A FORMAL ATTORNEY GENERAL'S OPINION.

Discussion continued on the advantages, disadvantages, and timing of an Attorney General's opinion.

MR. CORNEIL MOVED AND DR. LATIMER SECONDED TO TABLE THE MOTION UNTIL THE MARCH MEETING.

A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:
AYES: MRS. EVANSON, DR. LATIMER, MR. CORNEIL.
NAYS: TREASURER SCHMIDT, PRESIDENT SANFORD, AND MR. GESSNER.

MOTION FAILED

Discussion ensued and the Board voted on the original motion.

A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:
AYES: MRS. EVANSON AND TREASURER SCHMIDT.
NAYS: PRESIDENT SANFORD, DR. LATIMER, MR. GESSNER, AND MR. CORNEIL.

MOTION FAILED

Mr. Conradi asked if the Board would like additional actuarial information or projections. Board members should notify Mrs. Kopp by November 30, 2005, if more information is requested for the January meeting.

TFFR INVESTMENT UPDATE:

Mr. Steve Cochrane, Executive Director, stated TFFR's estimated investment return to date is 4.59%. He then reviewed the agenda for the November 18, 2005, SIB Board meeting with the Board.

ACTUARIAL CONTRACT:

Mrs. Kopp stated TFFR's actuarial contract with GRS will expire June 30, 2006. She provided the Board with a summary of fees paid to GRS for contracted actuarial studies and consulting services. The Board discussed whether to issue a Request for Proposal (RFP) for actuarial services or to negotiate an extension of TFFR's contract with GRS for another two years. After discussion,

DR. LATIMER MOVED AND MR. CORNEIL SECONDED TO AUTHORIZE STAFF TO BEGIN FEE NEGOTIATIONS WITH GRS FOR A TWO YEAR EXTENSION OF THE ACTUARIAL CONTRACT, AND TO CONSIDER A FEE PROPOSAL FROM GRS AT THE NEXT MEETING.

A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

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

MOTION PASSED

CPAS PENSION SOFTWARE IMPLEMENTATION UPDATE:

Mrs. Shelly Schumacher, Retirement Supervisor, updated the Board on the status of the project. Mrs. Schumacher stated RIO went into production using CPAS software on September 28, 2005. She indicated the first payroll run from the new system went well and Phase 1 is basically completed. Phase 2, which includes seminar tracking and web services, has been extended to November 30, 2005. The project is presently under budget.

Mrs. Kopp stated the number of member outreach programs was reduced due to the software implementation project. RIO staff plan to increase the program schedule in the 2006-07 fiscal year in response to member needs.

MEMBER APPEAL:

Mr. Miller updated the Board on the status of the member appeal.

ADJOURNMENT:

With no further business to come before the Board, President Sanford adjourned the meeting at 4:55 p.m.

Respectfully Submitted:

Mark Sanford

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

Vida Keller

Vida Keller, Reporting Secretary