

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JANUARY 19, 2006, BOARD MEETING

BOARD MEMBERS PRESENT: Mark Sanford, President
Barb Evanson, Vice President
Clarence Corneil, Trustee,
via teleconference
Michael Gessner, Trustee
Lowell Latimer, Trustee
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Vida Keller, Administrative Assistant
Les Mason, Internal Audit Supervisor
Shelly Schumacher, Retirement Supervisor
Dottie Thorsen, Internal Auditor

OTHERS PRESENT: Doug Johnson, NDCEL
Rolland Larson, NDRTA
Scott Miller, Attorney General's Office
LeAnn Nelson, NDEA
Bev Nielson, NDSBA
Howard Snortland, NDRTA
Ken Tupa, NDRTA
Tom Tupa, NDRTA
Tami Wahl, NDRTA
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 19, 2006, at the State Capitol, Fort Union Room, Bismarck, North Dakota.

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

MINUTES:

The Board considered the minutes of the November 17, 2005, meeting.

MRS. EVANSON MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE THE MINUTES OF THE NOVEMBER 17, 2005, MEETING AS PRESENTED.

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

NAYS: NONE

MOTION PASSED

BOARD EDUCATION: PENSION PLAN COMPARISONS:

Mrs. Fay Kopp, Deputy Executive Director, presented information from the Public Fund Survey for fiscal year 2004 comparing NDTFFR with other public pension plans. Mrs. Kopp discussed actuarial funding levels, changes in membership, prefunded vs. pay-as-you-go plans, investment and administrative expenses, retirement multipliers, employee and employer contribution rates, actuarial assumptions, and asset allocations. A copy of her presentation is on file at the Retirement and Investment Office (RIO).

LEGISLATIVE PLANNING:

Dr. Sanford thanked the following interest group representatives for their attendance and input on 2007 legislative proposals: North Dakota Council of Educational Leaders (NDCEL), North Dakota Education Association (NDEA), North Dakota Retired Teachers Association (NDRTA), and the North Dakota School Boards Association (NDSBA).

Mrs. Kopp stated the deadline for legislative proposals to be submitted to the Employee Benefits Programs Committee (EBPC) is April 1, 2006, with the next interim EBPC meeting scheduled for February 22, 2006. The EBPC has asked Mrs. Kopp to outline possible legislative proposals the TFFR Board is considering to reduce the TFFR's unfunded liability and to provide statistics on retiree re-employment. Mrs. Kopp also noted the Committee has requested the Attorney General's Office discuss the legality of making contribution and/or benefit changes for active and retired members.

Mrs. Kopp provided the Board with background materials relating to possible contribution and benefit changes. The Board and interest group representatives discussed actuarial, legal, and other consequences of the following possible changes: increase employer contribution rate; increase employee contribution rate for current members and/or new hires; change early retirement eligibility from Rule of 85 to Rule of 90 for new hires; increase vesting requirement for retirement benefits from 3 years to 5 years for new hires; increase final average salary calculation from 3 years to 5 years for new hires; reduce benefit multiplier from 2.0% to 1.88% for new hires; increase vesting requirements for disability benefits from 1 year to 3 or 5 years for new hires; change disability benefit calculation for new hires; reduce interest rate on member accounts for new hires; require member and/or employer contributions on re-employed retirees; disallow air time service purchases or reduce maximum years to purchase from 5 years to 2 years for new hires; change salary definition; change or remove automatic refund provision due to federal law change; reenact federal references relating to Internal Revenue Code (IRC) compliance.

The Board and interest group representatives discussed at length the issue of requiring retirement contributions on re-employed retirees.

Mr. Scott Miller, Attorney General's Office, reviewed his determination that because of the contract clause, benefits and contributions can only be changed for new hires, and cannot be changed for current active members and retirees without a corresponding benefit improvement. He also discussed the legal issues involving whether or not employee contributions could be required when a retiree returns to covered employment.

After discussing the various alternatives in detail, the Board and interest group representatives generally agreed to continue studying the following benefit and contribution changes to improve TFFR's long term financial status:

- Increase employer contribution rate by 1% from 7.75% to 8.75% effective July 1, 2007.
- Change early retirement eligibility from Rule of 85 to Rule of 90 for new hires.
- Increase vesting requirements for retirement benefits from 3 years to 5 years for new hires.
- Increase the final average salary calculation from 3 years to 5 years for new hires.
- Require employer contributions on re-employed retirees.

The Board recessed at 3:30 p.m. and reconvened at 3:45 p.m.

The Board also agreed to include in a legislative proposal removal of the automatic refund provision due to federal law change, and re-enact federal references relating to IRC compliance.

The Board directed Mrs. Kopp to request additional information from the actuary regarding the above mentioned proposal for continued discussion at the February board meeting. The Board also asked that Mr. Miller provide an update on the Attorney General Office's determination of the legality of making contribution and/or benefit changes at the February meeting.

TAXATION OF MEMBER CONTRIBUTIONS:

Mrs. Shelly Schumacher, Retirement Supervisor, reviewed TFFR Employer Payment Plan models which allow employer payment of member contributions to be made on a tax-deferred basis. She explained the special provisions that apply to state agencies and state institutions, and also reviewed a request to modify the state institution model to allow the entire 7.75% member contribution to be tax-deferred.

After discussion relating to whether this request would take a change to board policy, administrative rules, or state law,

TREASURER SCHMIDT MOVED AND DR. LATIMER SECONDED TO DIRECT MR. MILLER AND TFFR STAFF TO RESEARCH THIS REQUEST AND REPORT BACK TO THE BOARD AT A LATER DATE.

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

NAYS: NONE

MOTION PASSED

TFFR INVESTMENT UPDATE:

Mr. Steve Cochrane, Executive Director, stated TFFR's estimated investment return through January 18, 2006, was in excess of 10% for fiscal year to date. He then reviewed the agenda for the January 20, 2006, SIB Board meeting with the Board.

ACTUARIAL CONTRACT:

The Board reviewed a proposal from Gabriel, Roeder, Smith and Company (GRS) to extend their actuarial consulting contract with TFFR for an additional two years. Mrs. Kopp also commented on GRS' services and fee proposal.

After discussion,

DR. SANSTEAD MOVED AND TREASURER SCHMIDT SECONDED TO EXTEND GRS' ACTUARIAL CONTRACT AND FEE PROPOSAL FOR AN ADDITIONAL TWO YEARS TO END JUNE 30, 2008.

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

NAYS: NONE

MOTION PASSED

CPAS PENSION SOFTWARE IMPLEMENTATION UPDATE:

Mrs. Kopp updated the Board on the status of the CPAS pension software implementation project. She stated the Phase 2 deadline was extended to January 20, 2006, in order to complete high priority reports, and deliver the initial phases of online web services. She also stated the project remains under budget.

CONSENT AGENDA:

MRS. EVANSON MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE ONE MEMBER ELIGIBLE FOR PERMANENT DISABILITY.

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

NAYS: NONE

MOTION PASSED

OTHER BUSINESS:

Mrs. Kopp commented on board reading materials and information relating to educational conferences.

ADJOURNMENT:

With no further business to come before the Board, President Sanford adjourned the meeting at 4:25 p.m.

Respectfully Submitted:



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



Vida Keller, Reporting Secretary