

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
FEBRUARY 16, 2006, BOARD MEETING

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

BOARD MEMBER ABSENT: Clarence Corneil, Trustee

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: Chris Conradi, GRS, via teleconference
Paul Erlendson, Callan Associates, Inc.
Doug Johnson, NDCEL
Gloria Lokken, NDEA
Scott Miller, Attorney General's Office
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 1:00 p.m. on Thursday, February 16, 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, AND DR. LATIMER.**

MINUTES:

The Board considered the minutes of the January 19, 2006, meeting.

DR. LATIMER MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE MINUTES OF THE JANUARY 19, 2006, MEETING AS PRESENTED.

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

NAYS: NONE

MOTION PASSED

LEGISLATIVE PLANNING:

Mrs. Kopp, Deputy Executive Director, reviewed the status of the 2007 legislative proposals under consideration by the Board. After consideration of a number of options that would improve TFFR's long term financial status, the Board agreed on Alternative A+ which includes the following benefit and contribution changes:

A. The employer contribution rate would be increased from 7.75% to 8.75%.

B. Benefits for members hired on or after July 1, 2007 would be reduced:

- Rule of 90 would replace Rule of 85 for new hires
- Final average salary would be computed as a five-year average, rather than as a three-year average for new hires
- Five-year vesting would replace three-year vesting for new hires
- Early (reduced) retirement eligibility, for those who do not reach the Rule of 90, would become age 65 and five years of service (rather than age 65 and three years of service)
- Normal (unreduced) retirement eligibility, for those who do not reach the Rule of 90, would become age 65 and five years of service (rather than age 65 and three years of service)

C. Employers would be required to make the 8.75% employer contribution to TFFR on the salary of any reemployed retiree.

Scott Miller, Assistant Attorney General, provided an update on the status of the review by the Attorney General's Office on the legality of changing benefits and/or contributions for TFFR members. Mr. Miller reported the Attorney General's Office has concluded their review of the issue, and is in agreement with Mr. Miller's assessment that because of the contract clause in both federal and state constitutions, pension 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.

Mr. Chris Conradi, of Gabriel, Roeder, Smith and Company (GRS), presented actuarial projections and technical comments on Alternative A+ and a variation of Alternative A+ to increase the member contribution rate to 8.75% for new hires.

After discussing the actuarial and financial implications of proposing various benefit and contribution changes,

MRS. EVANSON MOVED AND TREASURER SCHMIDT SECONDED TO INCLUDE IN TFFR'S STUDY BILL AN INCREASE IN THE EMPLOYER CONTRIBUTION RATE, AND BENEFIT CHANGES FOR NEW HIRES AS OUTLINED IN ALTERNATIVE A+. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MR. GESSNER, DR. LATIMER, TREASURER SCHMIDT, MRS. EVANSON, DR. SANSTEAD

NAYS: PRESIDENT SANFORD

MOTION CARRIED.

Mrs. Kopp will work with Mr. Miller to draft the study bill which will include language supporting Alternative A+. The proposed study bill will be presented at the March TFFR board meeting for acceptance, and if approved, the bill will be submitted to the Employee Benefits Programs Committee (EBPC) by the April 1, 2006, deadline.

Mrs. Kopp also reviewed a summary of the pros and cons of proposing legislation to improve TFFR's funding situation.

TFFR INVESTMENT UPDATE:

Mr. Steve Cochrane, Executive Director, reviewed TFFR's investment portfolio. The Fund's value as of December 31, 2005, was approximately \$1.63 billion dollars. The Fund's investment performance for the 2005 calendar year was 13.24% and the current fiscal year-to-date estimated return on investments through February 14, 2006, was 11.52%.

The Pension Trust, the investment vehicle for the TFFR Fund, ranked in the number one percentile in Callan's Public Plan Sponsor database at approximately 12.65% with the volatility of the investment return at approximately an 80th percentile. Mr. Cochrane also noted on a five year basis ending December 31, 2005, the Pension Trust has been in the top seventh percentile

for the last five years. He then reviewed the agenda for the February 17, 2006, SIB Board meeting.

Mr. Paul Erlendson, Callan Associates, Inc., reviewed with the Board his analysis of the SIB's timberland portfolio holdings. He noted the timberland asset has significantly enhanced the total returns and generated cash returns and is one reason why the SIB stands out above their peers.

Mr. Erlendson also reviewed the SIB's timberland portfolio. The portfolio is currently at approximately \$215 million with 363 timberland tracts located in six different states. He also reviewed higher and best use practices and shared his thoughts on the timberland tour he participated in last December.

CPAS PENSION SOFTWARE IMPLEMENTATION UPDATE:

Mrs. Kopp reported the CPAS software implementation project is complete. RIO signed off on Phase 2 on February 2, 2006. TFFR now has a state-of-the art pension administration system up and running thanks to the efforts of the Retirement and Investment Office's (RIO) dedicated core project team - Mrs. Shelly Schumacher, Mr. Gary Vetter, and Ms. Kelli Schroeder, and many others at RIO, Information Technology Department (ITD), and CPAS.

The software implementation project came in approximately \$75,000 under budget and was completed about four months behind the original project schedule. Mrs. Kopp stated that during the same period of time, RIO's image system was also migrated to a Filenet product.

RIO staff will now be working on post implementation activities including additional report development, remaining phases of online web services, and project assessment and closeout. Mrs. Kopp did note that post implementation activities could use up some of the identified savings from the implementation project, but it is too soon to make that determination.

NCTR AND FEDERAL ISSUES:

Mrs. Kopp commented on NCTR activities and federal legislation impacting public pension plans. She also informed the Board that Mr. Lee Snell has replaced Ms. Cindie Moore as NCTR's legal counsel.

MEMBER APPEAL UPDATE:

Mr. Miller updated the Board on the member appeal process and schedule.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO APPROVE ONE QUALIFIED DOMESTIC RELATIONS ORDER AND ONE MEMBER ELIGIBLE FOR PERMANENT DISABILITY.

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

NAYS: NONE

MOTION PASSED

OTHER:

Mrs. Barb Evanson announced her retirement from teaching effective at the end of the 2005-06 school year.

Mrs. Kopp informed the Board that Mrs. Vida Keller, Retirement Administrative Assistant, has accepted a position with the Education Standards and Practices Board (ESPB) effective February 21, 2006.

ADJOURNMENT:

With no further business to come before the Board, President Sanford adjourned the meeting at 2:50 p.m.

Respectfully Submitted:



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



Bonnie Heit (for Vida Keller)
Reporting Secretary