

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
APRIL 23, 2009, BOARD MEETING**

BOARD MEMBERS PRESENT: Mike Gessner, President
Clarence Corneil, Trustee
Kim Franz, Trustee
Lowell Latimer, Vice President
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer

BOARD MEMBER ABSENT: Bob Toso, Trustee

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Darlene Roppel, Administrative Assistant
Shelly Schumacher, Retirement Program Manager

OTHERS PRESENT: Ruth Stefonowicz, NDEA-Retired
Aaron Webb, Attorney General's Office

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, April 23, 2009, at the Bank of North Dakota, Executive Conference Room 301, 1200 Memorial Highway, Bismarck, ND. This is the rescheduled meeting for the March 26, 2009, meeting that was postponed due to blizzards and flooding issues.

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

President Gessner congratulated Kim Franz who was reappointed by Governor Hoeven to the TFFR Board for another five-year term effective July 1, 2009 - June 30, 2014.

President Gessner also congratulated Dr. Latimer who was honored by the city of Minot with the first annual Dr. Lowell Latimer Award for his service to education and the Minot community.

APPROVAL OF AGENDA:

The Board considered the meeting agenda. Mrs. Fay Kopp, Deputy Executive Director, asked that agenda item #3, the Annual Retirement and Investment Office (RIO) Technology Review, be postponed until the May meeting.

SUPT. SANSTEAD MOVED AND MR. CORNEIL SECONDED TO APPROVE THE AMENDED AGENDA.

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

NAYS: NONE

MOTION CARRIED.

MINUTES:

The Board considered the minutes of the January 22, 2009, board meeting.

DR. LATIMER MOVED AND MRS. FRANZ SECONDED TO APPROVE THE MINUTES OF THE JANUARY 22, 2009, BOARD MEETING.

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

NAYS: NONE

MOTION CARRIED.

INVESTMENT UPDATE:

Mr. Steve Cochrane, Executive Director, gave an update on the TFFR investment program. TFFR's estimated net return from July 1, 2008, through April 22, 2009, is -26.8%. State Investment Board (SIB) meeting agenda items were discussed.

Board discussion and questions followed.

FUNDING PROJECTIONS:

Mrs. Kopp presented updated funding projections assuming variable investment returns for current and future years. According to TFFR's actuary, it is likely that TFFR's funded ratio will fall to around 50% within the next 5 years, and continue declining. It is doubtful that investment returns alone will be able to return TFFR to current funding levels. It will take a combination of much improved economic conditions, positive investment performance, and contribution increases to offset investment losses and improve the financial soundness of the plan. The presentation is on file at RIO.

Board discussion followed.

LEGISLATIVE UPDATE:

Mrs. Kopp presented the TFFR Legislative Update as of April 23, 2009. HB 1080, TFFR Administrative Changes, has been approved by the Legislature and signed by the Governor. HB 1114, SIB Administrative Changes, has been approved by the Legislature and signed by the Governor. HB 1022,

RIO Budget, and SB 2277, Supplemental Retiree Benefit Payment, are in Conference Committees to work out the differences between the versions of the bills passed by the House and Senate.

Mrs. Kopp indicated that some of the amendments being considered by the Conference Committees would fund the retiree supplemental payment out of the TFFR trust fund, instead of the state's general fund. Also, proposed amendments would increase the employer/school district contribution to TFFR by 0.5% beginning July 1, 2010. The employer contribution increase is intended to offset the cost of the one-time retiree payment over time, and begin "shoring up the fund" which is projecting declining funding levels due to investment losses. It was also noted that since TFFR requested a 1.0% employer contribution increase in 2007, and only received 0.5% (beginning in 2008), that another 0.5% (which would begin in 2010) would be the rest of what TFFR originally requested.

After discussion, the Board generally agreed that they do not support any proposal that would negatively impact the TFFR fund, especially in light of the significant investment losses currently being experienced. However, increased employer contributions would provide some funding improvement which would help the plan over the long term. The Board noted that a 0.5% employer contribution increase alone is not enough to offset the large investment losses which are driving TFFR funding levels down. Therefore, a 0.5% employer contribution increase now is just one small step in remedying a much larger funding problem. The Board also expressed concern that school boards, administrators, and teachers have not had time to consider the possible employer contribution increase and impact on school district budgets and teacher salary negotiations. The Board has been planning to study TFFR funding issues and options with member and employer groups during the 2009-10 interim.

RETIREE TAX WITHHOLDING TABLES:

Mrs. Kopp reported on how certain provisions of the new federal stimulus bill, the American Recovery and Reinvestment Act of 2009 (ARRA) affect TFFR retirees. She explained that the IRS is requiring pension plans to use new withholding tables that reflect the "Making Work Pay" credit, even though pension income is not "earned income" for purposes of eligibility for the credit. The result will be an increased amount in retirees' pension checks beginning April 1, 2009. However, this could also result in underwithholding for many retirees who may not be eligible for the "Making Work Pay" tax credit which could also mean additional taxes, and possible penalties, being unexpectedly owed by retirees.

Mrs. Kopp also described what TFFR is doing to implement the required new tax withholding tables. A TFFR Retiree Change Notice was sent to retirees who have taxes withheld from their monthly pension benefit showing retirees the difference in their net benefit amount as well as a brief

explanation of the reason for the change. Information was posted on the TFFR website, and an article will be included in the next retiree newsletter.

IRS DETERMINATION LETTER:

Mrs. Kopp informed the board about the IRS Governmental Plans Initiative designed to provide education, outreach, and guidance, and to promote voluntary compliance with applicable federal tax laws. Governmental pension plans are subject to several tax qualification requirements established under 401(a) of the Internal Revenue Code (IRC). Upon request, the Internal Revenue Service (IRS) will review pension plans to make a determination of whether a retirement plan meets the qualification requirements of the IRC. The ND TFFR plan applied for an IRS determination letter in 2000, and received a favorable determination letter in January 2001.

Mrs. Kopp suggested TFFR request an IRS determination letter in Cycle E (February 1, 2010-January 31, 2011) to confirm that TFFR plan provisions continue to be in compliance. In order to move forward, TFFR would need to work with the ND Attorney General's office and retain outside tax counsel to assist in filing an application for another IRS determination letter in 2010. The Board requested a cost estimate be brought to a future board meeting before making a decision.

The meeting recessed at 2:30 p.m. and reconvened at 2:40 p.m.

DISABILITY STATISTICS REPORT:

Shelly Schumacher, Retirement Program Manager, provided an overview of the process of applying for disability benefits, how a teacher qualifies for disability benefits and recertification for disability benefits. Mrs. Schumacher also provided disability statistics that dated back to 1990. This report is on file at RIO.

RETIREE STATISTICS REPORT:

Mrs. Kopp presented the annual Retiree Statistics Report. Retiree data was sorted into three categories: fiscal year of retirement, retirement formula and retirement type. Retiree data included: monthly pension amount, annual salary, service credit, retirement age of member, current age of recipient, and number of retirees. A copy of the report is on file at RIO.

EDUCATIONAL CONFERENCES:

Mrs. Kopp described budget and travel related issues. Board members on the TFFR board only are budgeted one trip per year. Board members on both the TFFR and SIB boards are budgeted 1.5 trips per year. Additional

funds are also available for new board members or current board members who may require additional education.

After discussion, the Board reaffirmed their commitment to ongoing professional education which helps them fulfill their fiduciary responsibilities for managing the TFFR trust fund in a prudent manner. Board members stressed the importance of attending pension and investment related educational conferences in order to stay abreast of current issues and developments involving public pension plans.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED TWO DISABILITIES AND ONE Qualified Domestic Relations Order (QDRO).

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

NAYS: NONE

MOTION CARRIED.

OTHER BUSINESS:

Mrs. Kopp presented a draft of the TFFR and SIB meeting schedule for 2009-2010, with a proposed monthly TFFR meeting, rather than every other month. The board will bring suggestions to the next TFFR meeting.

The next regular board meeting will be held on May 14, 2009, at the State Capitol, Ft. Union room, Bismarck ND.

EXECUTIVE SESSION - BENEFIT OVERPAYMENT:

President Gessner advised the Board that it would go into Executive Session to discuss the overpayment of benefits to the deceased beneficiary of a deceased TFFR retiree. The legal authority for closing this portion of the meeting is NDCC 44-04-19.1(2). Discussion must be limited to the announced topic and confidential member information. Final action will be taken during the open portion of the meeting. The executive session will be recorded separately from the public Board meeting.

EXECUTIVE SESSION

EXECUTIVE SESSION INCLUDED MR. CORNEIL, MRS. FRANZ, DR. LATIMER, DR. SANSTEAD, TREASURER SCHMIDT, PRESIDENT GESSNER, MR. WEBB AND RIO STAFF.

The Executive Session began at 3:32 p.m. and ended at 3:40 p.m.

OPEN SESSION

TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO WRITE OFF THE BENEFIT OVERPAYMENT TO THE DECEASED BENEFICIARY AND CLOSE THE ACCOUNT.

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

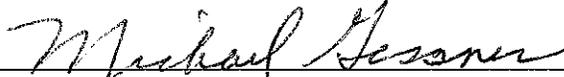
NAYS: NONE

MOTION CARRIED.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 3:45 p.m.

Respectfully Submitted:



Mr. Mike Gessner, President
Teachers' Fund for Retirement Board



Darlene Roppel
Reporting Secretary