

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
MAY 14, 2009, BOARD MEETING**

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

BOARD MEMBER ABSENT: Kelly Schmidt, State Treasurer

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Rich Nagel, Data Processing Coordinator
Darlene Roppel, Administrative Assistant
Shelly Schumacher, Retirement Program Manager
Gary Vetter, Information Technology Supervisor

OTHERS PRESENT: Greg Burns, NDEA
Erica Cermak, NDRTA
Dr. Warren Henke, Retired Teacher
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, May 14, 2009, at the Bank of North Dakota, Training Room 201, 1200 Memorial Highway, Bismarck, ND.

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

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO APPROVE THE AGENDA AS PRESENTED.

AYES: MRS. FRANZ, MR. TOSO, PRESIDENT GESSNER, MR. CORNEIL, AND DR. LATIMER.

NAYS: NONE

MOTION CARRIED.

Dr. Sanstead arrived at the meeting.

MINUTES:

The Board considered the minutes of the April 23, 2009, board meeting.

DR. LATIMER MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE APRIL 23, 2009, BOARD MEETING.

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

NAYS: NONE

MOTION CARRIED.

ANNUAL TECHNOLOGY REVIEW:

Mr. Gary Vetter, Supervisor of Information Technology, introduced Mr. Rich Nagel, who is the Information Technology Coordinator. He also updated the board on the Retirement and Investment Office's (RIO) technology accomplishments, status of online services for TFFR members and employers, pension administration software changes, office software and hardware updates, and plans for the future. A copy of the reports is on file at RIO.

Board discussion and questions followed.

MR. CORNEIL MOVED AND MR. TOSO SECONDED TO ACCEPT THE ANNUAL TECHNOLOGY REPORT.

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

NAYS: NONE

MOTION CARRIED.

BOARD EDUCATION:

Fiduciary Responsibilities: Mr. Aaron Webb, Attorney General's Office, presented information on the fiduciary responsibilities and obligations of TFFR board members. His presentation described the fiduciary duties of skill, prudence, and loyalty. He also emphasized trustee education, knowing the rules, delegating responsibly, acting prudently and with the best interests of TFFR members, and avoiding any types of conflicts of interest. A copy of the report is on file at RIO.

Board questions and discussion followed.

IRS ISSUES:

Mrs. Fay Kopp, Deputy Executive Director, informed the Board that on April 1, 2009, TFFR began using new tax withholding tables (required under IRS Publication 15-T) to implement the Making Work Pay tax credit enacted by the American Recovery and Reinvestment Act. She explained

that the new withholding tables apply to tax withholding for pension benefits, even though the Making Work Pay tax credit does not apply to pensions. As a result, the new withholding tables create the potential for taxes withheld on pension payments to be less than the full amount required over the tax year. Consequently, some pensioners could be required to pay unexpectedly higher taxes at the end of the year due to the under-withholding.

Mrs. Kopp distributed a May 14, 2009 News Release from the Internal Revenue Service (IRS) announcing a new withholding adjustment option for pension plans. The new withholding adjustment option allows pension plans to continue using the withholding tables in IRS Publication 15-T, or to adopt new procedures to increase taxes withheld on pension payments using additional withholding option tax tables.

Mrs. Kopp said staff will be evaluating this new option as it relates to efforts already undertaken regarding the new tax withholding tables implemented April 1, 2009, necessary educational efforts, retiree responses, and the costs of adopting the new procedures. This topic will be put on the June meeting agenda for further board discussion.

2009 LEGISLATIVE SUMMARY:

Mrs. Kopp reviewed approved 2009 legislation affecting TFFR, and discussed initial implementation plans.

- HB 1080 includes technical and administrative changes to the TFFR program which have no financial impact on the Fund.
- HB 1360 clarifies TFFR statutes by including licensed and contracted employees of Regional Education Associations in the definition of "teacher" for TFFR participation and benefit eligibility purposes.
- HB 1022 includes an employer/school district contribution increase of 0.5% (8.25% increased to 8.75%), which is intended to offset the cost of the one-time TFFR retiree supplemental benefit payment outlined in SB 2277 and begin improving TFFR funding levels.
- SB 2277 provides a one-time supplemental retiree benefit payment to all TFFR retirees and beneficiaries who retired before January 1, 2009 and are receiving annuity benefits on December 1, 2009. The supplemental payment is equal to an amount determined by taking \$20 per year of service credit, plus \$15 per number of years since the member's retirement. The supplemental payment cannot exceed the greater of 10% of the member's annual annuity or \$750. The supplemental payment will be made in December 2009 and will be paid from the TFFR trust fund. The average supplemental payment will be about \$723. The cost will be about \$4.6 million. There will be approximately 700 retirees affected by the limits.

The Board reviewed examples of how the supplemental retiree payment would be administered. They also reviewed the actuarial analysis of the various amendments to SB 2277 and discussed the impact on the TFFR fund. Board discussion followed.

TFFR FUNDING IMPROVEMENT STUDY:

Mrs. Kopp outlined general topics for discussion by the Board as it begins planning for a TFFR Funding Improvement Study. They will invite member and employer group representatives to a future meeting for input. Board members generally began discussing various options to increase revenues, such as increasing contributions. They also discussed possible options to reduce future liabilities, such as benefit changes. Options will need to be evaluated by TFFR's attorney and actuary before a legislative proposal is submitted to the Employee Benefits Programs Committee for study by April 1, 2010.

The Board will continue discussion at the next meeting.

2009-10 BOARD CALENDAR & EDUCATION PLAN:

Mrs. Kopp reviewed the preliminary 2009-10 meeting schedule and education plan. The board agreed to meet monthly during the next year to give additional time to studying TFFR funding improvement issues. The Board decided to have a TFFR meeting on June 25, 2009, and a combined July and August meeting on August 6, 2009, beginning at 10:00 a.m. A final 2009-10 meeting schedule will be provided at the June 25 meeting for board approval.

Dr. Sanstead left the meeting at 3:55 p.m.

INVESTMENT UPDATE:

Mr. Steve Cochrane, Executive Director, gave an update on the TFFR investment program. The estimated net return for the year as of May 13, 2009, is -26.9%. The State Investment Board (SIB) meeting agenda items were reviewed.

NIRS PENSIONOMICS STUDY:

Mrs. Kopp reviewed the economic impact that public pension plans have on the state of North Dakota based on a study done by the National Institute on Retirement Security (NIRS). According to the study, each dollar paid out in pension benefits to ND residents supported \$1.24 in total economic activity in North Dakota. This "multiplier" effect incorporates the direct, indirect, and induced impact of retiree spending as it ripples through the state economy. Also, each dollar in taxpayer contributions to ND state and local pension plans supported \$9.33 in total output in the state. This reflects the fact that, historically, taxpayer

contributions have been a small source of financing for retirement benefits - investment earnings and employee contributions finance the greatest share. A copy of the study is on file at RIO.

Board discussion followed.

OTHER BUSINESS:

The next regular board meeting will be held on June 25, 2009. The location will be announced.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:20 p.m.

Respectfully Submitted:



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



Darlene Roppel
Reporting Secretary

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