

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
OCTOBER 22, 2009, BOARD MEETING**

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

BOARD MEMBER ABSENT: Wayne Sanstead, State Superintendent

STAFF PRESENT: Steve Cochran, Executive Director
Connie Flanagan, Fiscal & Investment Officer
Fay Kopp, Deputy Executive Director
Darlene Roppel, Administrative Assistant

OTHERS PRESENT: Chris Conradi, GRS
Dr. Warren Henke, Retired Teacher
Rolland Larson, NDRTA
Bev Nielson, NDSBA
Ken Tupa, NDRTA
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, October 22, 2009, at the State Capitol, Peace Garden Room, Bismarck, ND.

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

APPROVAL OF AGENDA:

The Board considered the October 22, 2009, meeting agenda. Mr. Corneil requested the addition of a report on the National Council on Teacher Retirement (NCTR) convention in Indian Wells, CA from Mrs. Franz and himself. Mr. Toso also requested a report from Mrs. Kopp on her presentation to the North Dakota Council of Educational Leaders (NDCEL) convention earlier today.

MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO APPROVE THE AGENDA WITH THE ADDITIONS.

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

NAYS: NONE

MOTION CARRIED.

MINUTES:

The Board considered the minutes of the September 24, 2009, board meeting.

DR. LATIMER MOVED AND MRS. FRANZ SECONDED TO APPROVE THE MINUTES OF THE SEPTEMBER 24, 2009, BOARD MEETING.

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

NAYS: NONE

MOTION CARRIED.

Treasurer Schmidt arrived at the meeting at 1:10 p.m.

2009 ACTUARIAL VALUATION REPORT AND FUNDING ISSUES:

Mr. Chris Conradi, Senior Consultant, Gabriel Roeder Smith & Company (GRS), Dallas TX, presented TFFR's Actuarial Valuation as of July 1, 2009. A copy of the 2009 report and presentation is on file at the Retirement and Investment Office (RIO).

The report reflects the legislation passed in 2009. This includes the supplemental retiree benefit payment that will be made in December 2009 costing about \$4.4 million. Other legislation increases the employer contribution rate from 8.25% to 8.75% effective July 1, 2010.

Mr. Conradi stated the number of active members increased by 146, from 9,561 to 9,707 (1.5% increase). Payroll for active members increased 3.8%, from \$417.7 million to \$440.0 million. Average pay for active members increased 3.8%, from \$43,684 to \$45,327. The average age of active members is 44.5, compared to 44.6 last year. The average years of service for active members is 14.3, compared to 14.4 last year. There are 1,490 inactive, vested members and 292 inactive nonvested members.

The number of annuitants increased by 149, from 6,317 to 6,466 (2.4% increase). Over the last ten years, the number of retirees has grown an average of 3.5% per year. The average annual retiree benefit is \$18,162. There are 1.5 active members for each retiree.

The return on market was -27.0% in FY 2009, net of investment and administrative expenses. The fund assumes assets will earn 8.00% per year, therefore, the actuarial shortfall is -35.0%. Fair market value decreased from \$1,846 million (June 30, 2008) to \$1,310 million (June 30, 2009), or \$536 million. Total contributions in FY 2009 totaled \$74.4 million, compared to \$70.6 million in FY 2008. Total distributions including benefit payments, refunds and administrative expenses, totaled \$118.0 million. Therefore, net external cash flow (contributions less benefits and refunds) was -\$43.7 million, or -3.3% of market value of assets at end of year. Projections show that while this has not been a

problem in the past, it may increase in the future. Consequently, it may require future adjustments to asset allocation.

All actuarial calculations are based on actuarial value of assets, not market value. Actuarial value reflects the five year smoothing of gains and losses. Actuarial value is now \$1,900 million vs. \$1,909 million last year. There are \$590.6 million in deferred losses, not yet recognized.

TFFR's unfunded actuarial accrued liability (UAAL) increased from \$421.2 million to \$545.6 million. Funded ratio using actuarial value decreased from 81.9% to 77.7%. Funded ratio using market value decreased from 79.2% to 53.5%. The actuarial value is now 145% of fair market value compared to 103% last year. The funding period is infinite.

Mr. Conradi presented scenarios based on seven possible investment returns for FY 2010 from -24% to +24%. Based on these projections, TFFR's funded ratio would continue to decline unless there are actuarial or investment gains and/or contribution or benefit changes in the future.

After board discussion,

MR. CORNEIL MOVED AND MR. TOSO SECONDED TO APPROVE THE 2009 ACTUARIAL VALUATION REPORT.

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

NAYS: NONE

MOTION CARRIED.

TFFR FUNDING IMPROVEMENT STUDY:

Mrs. Kopp informed the board that there is a Legislative Employee Benefits Programs Committee (EBPC) meeting on Monday, October 26, 2009. Mr. Conradi will be presenting the 2009 actuarial valuation report and Mr. Aaron Webb, Assistant Attorney General, will be presenting information on the constitutional implications of reducing benefits or increasing contributions for existing members of public employee retirement plans.

Mrs. Kopp outlined some of the advantages and disadvantages concerning changing contributions and/or benefits discussed by TFFR Funding Improvement Study Group members. She also presented an exhibit which illustrates what the Attorney General's Office has generally concluded with regard to changing contributions and/or benefits. In summary, the Attorney General's Office has determined the State cannot change pension benefits of retired members, but can change benefits of new hires, and possibly nonvested members. It is not clear if the State can change benefits for active and inactive vested members, although there appears to be some protection with vested status, depending upon how vested is defined. The State could face possible legal challenges depending upon

which course of action is taken. If challenged, the Supreme Court would need to make the final determination. Mr. Webb responded to board member questions relating to the term "vesting", the legality of possible benefit and contribution changes, and the potential legal risk to the State in making such changes.

Board members generally agreed that it is the board's fiduciary responsibility to provide the Legislature with a number of reasonable, viable, well thought out options to address TFFR's declining funding status.

The Board discussed broad policy options for addressing TFFR's funding shortfall. Mrs. Kopp presented updated exhibits showing projected funding levels and projected margins under alternative contribution rate increases. Treasurer Schmidt reported that the Common Schools Trust Fund may not be a viable option due to constitutional restrictions on that fund which she discussed with the Attorney General's Office. Board discussion followed on the potential availability of state trust funds, the state's general fund surplus, equity formula for distributing state foundation aid to schools, dedicated property tax, and other possible revenue sources to help fund increased TFFR costs. The Board also discussed cash balance and defined contribution plan options.

In general, the Board agreed that options to be considered by the Board at this time (1) should not include retiree benefit changes; (2) should not include current active/inactive member benefit changes; (3) should include a variety of funding sources including possible state general fund appropriation or other state revenue source, member and employer contribution increases phased in over a number of years, and benefit reductions for new hires. Among other things, possible benefit changes could include reducing the 2.0% multiplier, raising the age of retirement eligibility, modifying retiree re-employment provisions, and tightening standards for disability retirement. The Board directed Mr. Conradi and Mrs. Kopp to provide additional information and actuarial analysis about various options at future meetings.

STATE INVESTMENT BOARD UPDATE:

Mr. Steve Cochrane, Executive Director, reported fiscal year performance from July 1, 2009 to October 22, 2009 is estimated at 15.5%. He reviewed the agenda items for the October 23, 2009 SIB meeting. The meeting has been moved from the Peace Garden Room to the Haugland Room.

2009 RETIREE SUPPLEMENTAL PAYMENT:

Mrs. Kopp highlighted tax withholding issues relating to the 2009 retiree supplemental payment.

DR. LATIMER MOVED AND MR. TOSO SECONDED TO APPROVE THE STAFF RECOMMENDATION TO NOT WITHHOLD FEDERAL AND ND STATE TAX FROM THE 2009 RETIREE SUPPLEMENTAL PAYMENT.

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

NAYS: NONE

MOTION CARRIED.

2010 ASSET LIABILITY MODELING STUDY:

Mrs. Kopp reviewed the memo from she and Mr. Cochrane outlining general options the board has in conducting the 2010 Asset-Liability Study. She also referred to Mr. Cochrane's involvement in other asset liability studies done by other State Investment Board (SIB) clients, including studies done by Callan Associates for Workforce Safety & Insurance (WSI).

After discussion,

MR. CORNEIL MOVED AND DR. LATIMER SECONDED TO CONTACT CALLAN ASSOCIATES TO SUBMIT A WRITTEN PROPOSAL TO CONDUCT THE 2010 ASSET LIABILITY STUDY FOR TFFR.

Board members discussed whether to request a proposal from the SIB's current investment consultant, Callan Associates, or distribute an RFP for the 2010 asset liability study. They also considered timing of the study, due diligence, SIB implementation of asset allocation, and other investment questions.

DR. LATIMER MOVED AND MR. TOSO SECONDED TO TABLE THE DISCUSSION AND PLACE ON THE NOVEMBER BOARD MEETING AGENDA.

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

NAYS: MR. CORNEIL

MOTION CARRIED.

BOARD POLICIES:

Mrs. Kopp reviewed three policies the board had asked to be re-considered at the August meeting:

Policy C-1 Actuarial Margin was discussed by the Board.

TREASURER SCHMIDT MOVED AND DR. LATIMER SECONDED TO RESCIND POLICY C-1 ACTUARIAL MARGIN.

AYES: TREASURER SCHMIDT, MR. TOSO, AND MRS. FRANZ.

NAYS: DR. LATIMER, PRESIDENT GESSNER, AND MR. CORNEIL.

MOTION FAILED.

Policy C-2 Actuarial Review was discussed by the Board.

DR. LATIMER MOVED AND TREASURER SCHMIDT SECONDED TO ADOPT THE AMENDED POLICY THAT AN ACTUARIAL REVIEW OR AUDIT OF THE SYSTEM'S ACTUARIAL VALUATION MUST BE PERFORMED AT LEAST EVERY FIVE YEARS AND UPDATE SOME OF THE LANGUAGE.

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

NAYS: NONE

MOTION CARRIED.

Policy C-5 Board Member's Code of Conduct was discussed. The consensus of the Board was to make no changes to the policy at this time.

SIB AUDIT COMMITTEE REPORT:

President Gessner reported on the SIB internal audit activities. He will give this report quarterly to the TFFR and SIB boards.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED ONE DISABILITY APPLICATION.

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

NAYS: NONE

MOTION CARRIED.

OTHER BUSINESS:

Mr. Corneil and Mrs. Franz reported on the NCTR convention which they attended in Indian Wells, CA, on October 10-15, 2009.

Mrs. Kopp distributed copies of the TFFR funding improvement presentation she gave at the NDCEL convention on October 22. She will also be presenting at the North Dakota School Board Association (NDSBA) convention on October 31, 2009.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 5:20 p.m.

Respectfully Submitted:



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



Darlene Roppel
Reporting Secretary