

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JANUARY 21, 2010, BOARD MEETING**

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

STAFF PRESENT: Steve Cochrane, Executive Director
Connie Flanagan, Fiscal & Investment Officer
Fay Kopp, Deputy Executive Director
Darlene Roppel, Administrative Assistant
Shelly Schumacher, Retirement Program Manager

OTHERS PRESENT: Josh Askvig, NDEA
Greg Burns, NDEA
Erica Cermak, NDRTA
Chris Conradi, GRS
Doug Johnson, NDCEL
Rolland Larson, NDRTA
Gloria Lokken, NDEA-R
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 10:00 a.m. on Thursday, January 21, 2010, 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, DR. SANSTEAD, TREASURER SCHMIDT, AND MR. TOSO.

APPROVAL OF AGENDA:

The Board considered the January 21, 2010, meeting agenda.

MR. TOSO MOVED AND DR. LATIMER SECONDED TO APPROVE THE AGENDA AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED.

MINUTES:

The Board considered the minutes of the November 19, 2009, board meeting.

DR. SANSTEAD MOVED AND MRS. FRANZ SECONDED TO APPROVE THE MINUTES OF THE NOVEMBER 19, 2009, BOARD MEETING AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED.

ACTUARIAL EXPERIENCE STUDY:

Mr. Chris Conradi, Senior Consultant, Gabriel, Roeder, Smith and Company (GRS), Dallas TX, presented TFFR's Actuarial Experience Study as of June 30, 2009. A copy of the 2009 report and presentation is on file at the Retirement and Investment Office (RIO).

An Experience study is done every five years as required by North Dakota state statutes. The study includes an analysis and comparison of TFFR's actual experience with assumed experience over the last five years. It also includes recommendations for modifying certain actuarial assumptions and the actuarial impact of those recommendations on TFFR. Based on the Experience Study results, the actuary made the following recommendations:

1. Inflation - no change in the current 3.00% assumption.
2. Investment return - no change in the current 8.00% assumption which represents 3% inflation plus 5% net real return.
3. Salary increase - extend the service-based salary schedule to a 25-year schedule for average future salary increase of 6.02%.
4. Membership growth - reduce the 0.5% active membership decrease rate to reflect no change in the active membership in the future.
5. Salary increase for new entrants - no change.
6. Payroll growth assumption - assume 3.25% average payroll growth rate instead of current 2.0% rate.
7. Post retirement mortality - change post retirement mortality tables since North Dakota is among the states with the longest life expectancies and to give a margin for future improvement.
8. Disabled mortality - change disabled mortality rates.
9. Active mortality - change pre-retirement mortality rates.
10. Disability rates - decrease disability rates.
11. Termination rates - Change the termination rates from age-service matrices to service-based rates.
12. Retirement rates - adopt lower retirement rates to reflect lower number of actual retirees.
13. Other assumptions - no changes recommended.
14. Actuarial methods - no changes recommended to entry age normal cost method, 5 year asset smoothing method, and 30 year amortization period.

15. New entrant profile - revise the age/sex/pay profile for new entrants to one based on new members in fiscal years 2005 - 2009.

Mr. Conradi also reviewed the impact of the recommended assumption changes on the fund which would increase the Annual Required Contribution (ARC) by 0.14% and increase the unfunded actuarial accrued liability (UAAL) by \$65.0 million. TFFR's funded ratio would decrease by 2.0% from 77.7% to 75.7% if changes are adopted.

After lengthy board discussion of the data and recommendations,

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO ADOPT THE RECOMMENDED CHANGES DESCRIBED IN THE 2009 ACTUARIAL EXPERIENCE STUDY REPORT.

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

NAYS: NONE

MOTION CARRIED.

ANNUAL PENSION PLAN COMPARISONS:

Mrs. Fay Kopp, Deputy Executive Director, presented a comparison of TFFR to the 2008 Public Fund Survey conducted by National Council on Teacher Retirement (NCTR) and National Association of State Retirement Administrators (NASRA). The survey provides information about funding levels, investments, membership changes, contribution rates, effects of the 2008 market decline, pension and retirement security, and actuarial assumptions.

The presentation and survey are on file at RIO.

STATE INVESTMENT BOARD UPDATE:

Mr. Steve Cochrane, Executive Director, reported fiscal year performance from July 1, 2009 to January 20, 2010 is estimated at 18.24%. He reviewed the agenda items for the January 22, 2010 State Investment Board (SIB) meeting.

2009 RETIREE SUPPLEMENTAL PAYMENT REPORT:

Mrs. Shelly Schumacher, Retirement Program Manager, gave a final report on the 2009 retiree supplemental payment and implementation costs. The supplemental payment was made on December 15, 2009 and cost \$4.4 million paid from the TFFR trust fund. There were 6,159 retirees who received the supplemental payment which averaged \$715. Total implementation costs were \$26,862, of which the majority was prepaid software programming costs.

Meeting recessed at 12:10 p.m. and reconvened at 1:00.

TFFR FUNDING IMPROVEMENT STUDY:

President Gessner welcomed the TFFR Funding Improvement Study Group members to the table including representatives from North Dakota Education Association (NDEA), North Dakota Council of Educational Leaders (NDCEL), North Dakota School Board Association (NDSBA), and North Dakota Retired Teachers Association (NDRTA). He extended the Board's appreciation to the stakeholder groups for their active involvement in working with the Board on possible funding solutions.

Mrs. Kopp reported that TFFR and most interest group organizations recently sent out member newsletters which included articles about TFFR's funding situation. Mrs. Kopp also met with the NDEA board on January 9, 2010, and is presenting at the North Dakota Association of School Administrators midwinter conference on January 26, 2010.

Mr. Conradi reviewed information requested by the Board at the November 2009 meeting. A copy of his January 14, 2010 letter and related funding projections is available at the administrative office. Mr. Conradi discussed the possible impact from a state general fund appropriation, increased contributions, and/or certain benefit reductions. He reviewed the savings from possible multiplier changes and alternative age requirements for unreduced retirement either for future hires only, or for all members. He reviewed projected funded ratios with alternative phased employer increases only, employer and employee increases, employer and employee increases with modifications for future hires, and employer and employee increases with modifications for future hires both with and without a \$75 million lump sum appropriation from the state.

Actuarial projections show that contributions should be increased at least 8-10% to return TFFR to adequate funding levels, and more would be needed to bring TFFR to 100% funding. The Study Group is also considering possible benefit reductions in order to reduce the contribution increases necessary. Reducing the 2.0% benefit multiplier was discussed, however, at this time it is not being included in funding alternatives.

The Study Group discussed at length the importance of maintaining a financially sound defined benefit plan, the challenges involved in possible funding solutions, potential legal ramifications, and how to minimize benefit reductions and contribution increases for various stakeholder groups while improving TFFR's long term financial health. They discussed multiple strategies involving a shared approach.

The meeting recessed at 3:10 p.m. and reconvened at 3:20 p.m.

After discussion, the study group agreed to request additional actuarial information and cost savings from other possible contribution increase and benefit reduction alternatives for further review and consideration as follows:

- Member and employer contribution increase - total 8%, split equally between employees and employers, phased in over 4 years at 2% each side, each biennium, beginning July 1, 2012.
- Require re-employed retirees to pay member contributions, with no increase in benefit amount.
- Benefit changes
 - Retirement eligibility for unreduced benefits EXCEPT those who are 5 years from unreduced retirement eligibility are grandfathered in under current retirement eligibility provisions. For all other Tier 1, Tier 2, and new employees, retirement eligibility age would be increased to:
 - 1) Rule of 90/minimum age 62, or if no Rule/minimum age 65; OR
 - 2) No Rule, minimum age 65.
 - Retirement eligibility for reduced benefits - change to 5 years before unreduced benefit eligibility and use 10% per year reduction instead of 6%.
 - Disability benefits - change to 5 year vesting, and use actual service in benefit calculation
- Above changes, with and without \$75 million state general fund appropriation.

The study group discussed other possible benefit changes including reducing the benefit multiplier, interest earned on member accounts, retiree re-employment provisions, service purchase provisions, and other benefit provisions. Mrs. Kopp indicated staff is also working with legal counsel on a bill draft that would include administrative changes to clarify the definition of eligible retirement salary, update death benefit provisions, and update IRS compliance provisions which will be presented to the Board at a future meeting.

The next meeting to discuss TFFR funding improvement options will be held Tuesday, February 16 at 1:00 p.m.

ACTUARIAL CONTRACT:

Mrs. Kopp reviewed the GRS proposed fees and services for FY 2011 and 2012 and options relating to a one or two year contract extension.

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO APPROVE A ONE YEAR CONTRACT EXTENSION (JULY 1, 2010-JUNE 30, 2011) WITH GRS AND TO DISTRIBUTE A REQUEST FOR PROPOSAL (RFP) FOR ACTUARIAL CONSULTING SERVICES IN 2011.

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

NAYS: NONE

MOTION CARRIED.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:30 p.m.

Respectfully Submitted:



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



Darlene Roppel
Reporting Secretary