

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
MINUTES OF THE  
OCTOBER 25, 2010, 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:** Paula Brown, Retirement Program Specialist  
Connie Flanagan, Fiscal & Investment Officer  
Fay Kopp, Deputy Executive Director  
Darlene Roppel, Retirement Assistant  
Shelly Schumacher, Retirement Program Manager  
Denise Weeks, Retirement Program Specialist

**OTHERS PRESENT:** Greg Burns, NDEA  
Chris Conradi, GRS  
Doug Johnson, NDCEL  
Aaron Webb, Attorney General's Office  
Danny White, GRS

**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 Monday, October 25, 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, AND TREASURER SCHMIDT.**

Mr. Toso was absent.

**APPROVAL OF AGENDA:**

The Board considered the meeting agenda.

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

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

**NAYS: NONE**

**MOTION CARRIED.**

**MINUTES:**

The Board considered the minutes of the September 23, 2010, board meeting.

**TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE MINUTES OF THE SEPTEMBER 23, 2010, BOARD MEETING AS PRESENTED.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**SIB/RIO UPDATE:**

Mrs. Fay Kopp, Deputy Executive Director, reported three candidates were interviewed by the State Investment Board (SIB) and the Retirement and Investment Office (RIO) on October 22, 2010, for the Chief Investment Officer-Executive Director position. The position was offered to Mr. John Geissinger from Darien, CT.

TFFR estimated investment performance fiscal year to date is about 11%.

**2010 ACTUARIAL VALUATION REPORT:**

Mr. Chris Conradi, Senior Consultant, Gabriel Roeder Smith & Company (GRS), Dallas TX, presented TFFR's Actuarial Valuation as of July 1, 2010. A copy of the 2010 report and presentation is on file at RIO. This report will also be given October 26, 2010 to the Legislative Employee Benefits Programs Committee.

There were no changes to the benefit provisions since the prior year evaluation. The actuarial assumptions were updated to incorporate the results of the experience study adopted by the Board January 21, 2010.

The number of active members increased by 200, from 9,707 to 9,907 (2.1% increase). There are 1.5 active members for each annuitant, down from 2.1 members ten years ago. Payroll for active members increased 5.7%, from \$440 million to \$465 million. Average pay for active members increased from \$45,327 to \$46,937 (3.6% increase). The average age of active members is 44.2, compared to 44.5 last year and to 43.9 ten years ago. The average years of service for active members is 14.0, compared to 14.3 last year. There are also 1,472 inactive vested members and 331 inactive non-vested members.

The number of annuitants increased by 206, from 6,466 to 6,672 (3.2% increase). The average annual benefit is \$18,769 (\$1,564 per month).

The return on market was 13.9% in fiscal year (FY) 2010. The fund assumes assets will earn 8.00%, so the investment gain is actually 5.9%. Fair market value increased from \$1,310 million (June 30, 2009) to \$1,438 million (June 30, 2010), or \$128 million. Total contributions in FY 2010

totalled \$78.1 million, compared to \$74.4 million in FY 2009. Total distributions including benefit payments, refunds and administrative expenses, total \$128.9 million, compared to \$118.0 in FY 2009.

TFFR's unfunded actuarial accrued liability (UAAL) increased from \$545.6 million to \$795.2 million. The funded ratio decreased from 77.7% to 69.8%. Funded ratio using market value is 54.5%, up from 53.5% last year. The actuarial value is now 128% of fair market value compared to 145% last year.

TFFR's negative margin (shortfall) declined from -2.53% to -4.04%. Funding period based on 8.75% employer rate is infinite. Contribution for FY 2010 was 76.5% of GASB Annual Required Contribution Rate.

Mr. Conradi presented scenarios based on seven possible investment returns for FY 2011 from -24% to +24% illustrating the effect they would have on TFFR funding levels. Under these projections, TFFR is expected to run out of money within 30 years; the 8.75% employer contribution rate never sunsets; margin never becomes positive, UAAL continues to grow in the future; and funded ratios under all scenarios trend to 0%.

**LEGISLATIVE UPDATE:**

Mr. Conradi presented technical and actuarial analysis of the various legislative proposals using updated 2010 actuarial information. The following bills were reviewed and discussed at length: No. 54, 55, 56, 2, 39, 40 and 217.

Mr. Doug Johnson, Executive Director of NDCEL, reviewed a possible recommendation from the Governor's Commission on Education relating to pension funding.

Mrs. Kopp reviewed an amendment to Bill No. 56 making additional changes to the definition of beneficiary and salary. After discussion,

**DR. SANSTEAD MOVED AND MR. CORNEIL SECONDED TO APPROVE THE PROPOSED AMENDMENTS TO BILL NO. 10056.0100.**

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

**NAYS: NONE**

**MOTION CARRIED.**

The meeting recessed at 3:10 p.m. and reconvened at 3:25 p.m.

Mr. Conradi reviewed the actuarial analysis of Bill No. 2, and how it would impact the current TFFR defined benefit (DB) plan. Principal actuarial conclusions are as follows:

- Without additional funding or other changes, the current DB plan is projected to eventually run out of funds. However, the DB plan is

projected to run out of money sooner under Bill 2 (FY 2030) than under current law (FY 2040).

- Bill 2 leaves the DB plan with a projected shortfall of \$888 million with no funding source, more than double the \$423 million shortfall without a funding source under the current plan. The elimination of liabilities for future members in the DB plan is less than the reduction in contributions related to those future members, leaving the DB plan worse off.
- At the point the DB plan runs out of funds, the plan's liabilities would still have to be met, and the member-plus-employer contributions needed to pay the benefits in that year would spike to over 47% of total pay under Bill 2 (in FY 2031). In contrast, under current law, after the DB plan runs out of funds, the total contributions would jump to just over 30% of pay.
- It would require a larger increase in DB contribution rates to adequately prefund the DB plan under Bill 2 (37%) than it would under the current open-group structure (26%).
- One financial benefit the defined contribution (DC) plan gives the State/employers is that it removes risk of employer contribution rate increases due to poor market performance or higher than expected salary increases or longer than anticipated life expectancies, but this bill does so only at a cost.
- DB plans tend to favor career employees more than DC plans, so a switch like this would be better for some employees and worse for others. In addition, the DB plan provides meaningful death and disability benefits, while the only death or disability benefit available under the DC plan is a refund of the account balance.
- A switch to DC moves investment risk and longevity risk from the pooled DB plan, and by extension, the employers, to the individual members. The risk is not eliminated. TFFR would need to provide additional education to its members, both on choosing appropriate investments while working and on managing the distribution of the assets to last for their lifetime.

Board discussion continued on the legislative proposals.

Due to a fire drill, the meeting recessed at 3:33 p.m. and reconvened at 3:50 p.m.

**GASB UPDATE:**

Mr. Danny White, Senior Consultant, GRS, presented a summary of Governmental Accounting Standards Board (GASB) preliminary views on proposed changes to accounting and financial reporting standards for state and local government employers that sponsor DB pension plans. GASB

is in the process of gathering public comments on their suggested changes. Mr. White explained the potential impact it would have on TFFR. Several organizations have expressed their opposition to the changes. Board discussion followed.

**CONSENT AGENDA:**

**TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED ONE DISABILITY APPLICATION.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**OTHER BUSINESS:**

Dr. Latimer reported on the National Council on Teacher Retirement (NCTR) Conference he attended in San Antonio, TX October 9-14, 2010.

The next TFFR board meeting will be held Thursday, November 18, 2010. There will not be a meeting in December 2010.

**ADJOURNMENT:**

With no further business to come before the Board, President Gessner adjourned the meeting at 4:40 p.m.

Respectfully Submitted:



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



Darlene Roppel  
Reporting Secretary