

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
MINUTES OF THE  
JULY 28, 2011, BOARD MEETING**

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

**STAFF PRESENT:** Connie Flanagan, Fiscal & Investment Officer  
John Geissinger, Executive Director/CIO  
Fay Kopp, Deputy Executive Director  
Darlene Roppel, Retirement Assistant  
Shelly Schumacher, Retirement Program Manager

**OTHERS PRESENT:** Erica Cermak, NDRTA  
Rolland Larson, NDRTA  
Janilyn Murtha, Attorney General's Office  
Matt Strom, Segal Company (teleconference)

**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, July 28, 2011, 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 meeting agenda. President Gessner requested that Agenda items 3 and 4 be switched in the order of business.

**DR. SANSTEAD MOVED AND MR. CORNEIL SECONDED TO APPROVE THE AGENDA WITH THE REQUESTED CHANGE IN ORDER OF BUSINESS.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**MINUTES:**

The Board considered the minutes of the April 27, 2011, board meeting.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE APRIL 27, 2011, BOARD MEETING AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED.

TRANSITION TO NEW ACTUARY:

Mrs. Fay Kopp, Deputy Executive Director, commented on the importance of a smooth transition from the current actuarial consultant, Gabriel Roeder Smith (GRS), to Segal Company. To that end, a series of meetings has been held with Segal Company over the last few months in order to complete this transition process and have all actuarial valuation procedures and programs in place and validated before the beginning of the first annual valuation cycle with Segal as TFFR actuary.

Mrs. Kopp introduced Mr. Matt Strom, Consulting Actuary, who joined the meeting via teleconference. Mr. Strom explained the process Segal Company is using to transition actuarial services which is described in their July 20, 2011 letter. Mr. Strom reported that the Segal valuation system has been programmed with NDTFFR parameters to replicate key actuarial values from the 2010 valuation performed by GRS. This valuation replication acts as an audit of the prior valuation. Mr. Strom reported that Segal was able to match the 2010 results to well within an acceptable tolerance threshold, and reviewed the results with the Board. Mr. Strom indicated they have a clear understanding of the provisions, assumptions, and methods used by the Fund, and are ready to receive 2011 data to proceed with the valuation for the current fiscal year.

Mrs. Kopp stated Segal is scheduled to present the 2011 Valuation Report and an educational session on proposed GASB changes, national pension issues, defined contribution plans, and hybrid plans at the October 2011 TFFR board meeting.

ELECTION OF 2011-12 OFFICERS:

MR. TOSO MOVED AND MRS. FRANZ SECONDED TO CONTINUE WITH THE SAME SLATE OF BOARD OFFICERS AND COMMITTEE MEMBERS FOR 2011-12 AS THE PREVIOUS YEAR.

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

NAYS: NONE

MOTION CARRIED.

The officers and committee members for 2011-12 are as follows: President-Mike Gessner; Vice President-Lowell Latimer; State Investment Board (SIB) members-Mr. Gessner, Robert Toso, Clarence Corneil, State Treasurer Schmidt (ex-officio) and Superintendent Sanstead, alternate; SIB Audit Committee member-Mr. Gessner.

Board pay was increased in the last Legislative session from \$62.50 to \$148 per day. There was discussion on pay for shorter meetings, conference calls, etc. The board asked Mrs. Kopp to provide options at the September board meeting taking into consideration the decisions made by the SIB and the Public Employees Retirement System (PERS) on the same subject.

#### **2011 LEGISLATIVE IMPLEMENTATION UPDATE:**

Mrs. Kopp updated the board on the progress of implementing the 2011 legislation relating to TFFR, which is the top priority at this time. Mrs. Shelly Schumacher, Retirement Program Manager, is leading this effort. Mrs. Schumacher reported that the changes are being communicated to members and employers through newsletters, business manager workshops, NDCEL Summer Conference, Pre-retirement seminars in Grand Forks, Dickinson and Bismarck, and benefits counseling sessions in 17 locations. The Employer Guide and Member Handbook, available only on the Retirement and Investment Office (RIO) website, have been updated. Annual statements will be sent out in August but will not include benefit estimates for the next two years during the transition to grandfathered or non-grandfathered member status since programming cannot be completed until 2013. New employer payment plan forms, which indicate who will be paying the increased contribution rates, must be submitted prior to the 2012 contribution increases and again before the 2014 contribution increases. HB 1133 goes into effect August 1, 2011. The changes have been made to the programming system and are in final testing. Additional funds were not budgeted for implementation of HB1133 and HB1134, so there may be a budget issue.

Mrs. Kopp stated the Legislative Employee Benefits Program Committee has increased from nine members to thirteen members. Senator Dever is the chairman of this committee. The first meeting will be held in September.

Mrs. Kopp distributed an actuarial projection showing how TFFR's funded ratio is affected with and without HB 1134 using an estimated 20% return in fiscal year (FY) 2011.

#### **EMPLOYER PAYMENT PLAN MODELS:**

Mrs. Kopp and Mrs. Schumacher explained the TFFR employer payment plan models. There are three basic employer payment plan models: Models 1, 2, and 3, with special provisions for state agencies, state institutions, and other unique employers. Under current guidelines for Model 1, the member/employee contribution is paid by the employee through a salary reduction and remitted by the employer as tax deferred dollars. Under Model 2 all, the member/employee contribution is paid by the employer in lieu of a salary increase and remitted to TFFR as tax deferred dollars. Under Model 2 partial(%) and Model 3 partial(\$), a portion of the member/employee contribution is paid by employer in lieu of a salary increase and remitted to TFFR as tax deferred dollars, and the remaining employee contribution is paid by the employee and remitted by the employer as taxed dollars.

During the 2011 legislative session, the employer models were discussed. It was requested that the Board consider allowing TFFR employers using Model 2 partial and Model 3 partial to pick up all of the member contributions on a tax-deferred basis under IRC Section 414(h)(2), even though a portion would be paid by the employer in lieu of a salary increase, and a portion would be paid by the employee under a salary reduction plan. The Board reviewed charts outlining the current and proposed methodology. The proposed change has also been reviewed by TFFR's outside tax counsel, Carol Calhoun.

Members under Model 2 partial and Model 3 partial would benefit from this change since future contributions paid by the employee would be made on a tax deferred basis, instead of on an after tax basis. However, employers will need to carefully calculate, differentiate, and report those member contributions that are paid by the employer and those that are paid by the employee. Tax reporting is an employer responsibility, and employers are responsible for any errors or penalties that occur.

If approved, the change would need to be communicated to members and employers, and computer programs would need to be modified. In preliminary discussions with TFFR and employer software vendors, this is not expected to be a major change, however, adequate time will be needed to communicate, program, and test the changes prior to the effective date. At this time, there are 19 school districts employing about 350 members who would be affected by this change.

After board discussion,

**MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO AMEND THE METHODOLOGY USED FOR THE TAX TREATMENT OF MEMBER CONTRIBUTIONS UNDER MODEL 2 PARTIAL AND MODEL 3 PARTIAL TO ALLOW THE PORTION OF MEMBER CONTRIBUTIONS PAID BY THE EMPLOYEE TO BE DEDUCTED FROM PAY ON A TAX DEFERRED BASIS BEGINNING JULY 1, 2012.**

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

**NAYS: NONE**

**MOTION CARRIED.**

Mrs. Kopp stated the Employer Payment Plan models included in the Employer Guide will be updated and brought to the Board for final approval. Employers will then be notified, and programming and testing could be done with the 2012 contribution increases.

**ELIGIBLE SALARY DETERMINATIONS:**

The Underwood School District and Beulah School District have submitted requests for eligible salary determinations for special payments that were recently negotiated. Mrs. Kopp presented background information on the definition of eligible salary for TFFR purposes included in state statutes. With the passage of HB 1133, the salary definition will change effective August 1, 2011, and retention, experience, and service related

bonuses will not be automatically included as eligible retirement salary. Administrative rules will be drafted to further clarify the salary definition and to outline criteria for making salary determinations.

Mrs. Jan Murtha, Attorney General's office, reviewed her July 21, 2011 memo and commented on the legal aspects relating to the effective date of the law change and her analysis of the Underwood and Beulah salary determination requests.

#### Underwood

Mrs. Kopp reviewed information received from Supt. Dick regarding a \$1,500 bonus in 2011-12 and a \$1,500 bonus in 2012-13 which was agreed to as part of the 2011-13 negotiated contract between the Underwood Education Association and the Underwood School Board. The bonuses will be paid to teaching staff over the next two years and will then expire. Mrs. Murtha also provided her legal analysis. Board discussion and questions followed.

**MR. TOSO MOVED AND TREASURER SCHMIDT SECONDED THAT THE UNDERWOOD SCHOOL DISTRICT BONUS IS ELIGIBLE SALARY AND REPORTABLE TO TFFR UNDER THE LAW IN EFFECT AT THE TIME THE CONTRACT WAS MADE (JULY 1, 2011).**

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

**NAYS: NONE**

**MOTION CARRIED.**

#### Beulah

Mrs. Kopp reviewed information received from Supt. Lech regarding a \$1,000 one-time negotiated salary increase for the 2011-12 school year which was agreed to by the Beulah Education Association and the Beulah Board of Education. The payment will go to all certified staff and administrators. Mrs. Murtha discussed the legal aspect of this contract. Board discussion and questions followed.

**MR. TOSO MOVED AND MRS. FRANZ SECONDED THAT THE BEULAH SCHOOL DISTRICT ONE-TIME ACROSS THE BOARD SALARY INCREASE IS ELIGIBLE SALARY AND REPORTABLE TO TFFR UNDER THE LAW IN EFFECT AT THE TIME THE CONTRACT WAS MADE (JULY 1, 2011).**

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

**NAYS: NONE**

**MOTION CARRIED.**

Mrs. Kopp will send a letter to each school district notifying them of the TFFR Board's decision. If similar types of payments are negotiated or made in the future, they will have to be re-evaluated under the new definition of salary which becomes effective August 1, 2011 which does

not include retention, experience, or service related bonus payments as eligible salary.

The board recessed at 3:20 p.m. and reconvened at 3:40 p.m.

**SIB UPDATE:**

Mr. John Geissinger, Executive Director/CIO, reported on the last SIB meeting held July 22, 2011. An extended educational session was provided by Mr. Paul Erlendson, Callan Associates.

TFFR's estimated net return for the fiscal year from July 1, 2010 to June 30, 2011, is approximately 23.4%.

**INVESTMENT POLICY DISCUSSION:**

Mr. Geissinger reviewed information derived from the asset allocation study being conducted by Callan Associates. In Callan's preliminary analysis, the proposed asset allocation targets were arrived at by imposing a constraint on illiquid strategies due to the negative cash flow situation of the fund. Mr. Geissinger has asked Callan to review the liquidity forecast in relation to the passage of HB 1134. The updated proposed asset mix will be presented for final review at the September board meeting.

Mr. Geissinger commented on the importance of the TFFR Investment Policy Statement. The TFFR board is the governing body for the Teacher's Fund for Retirement and the SIB is the implementing body. The Investment Policy Statement is the long term strategic plan as it relates to investments. Mr. Geissinger distributed draft language that could be included in the TFFR Investment Policy Statement for discussion purposes. He stated investment objectives need to be actionable, attainable, reflective of risk tolerance, and consistent with the mission. Asset allocation is the key policy tool to manage risk. Mrs. Kopp stated the investment policy statement (Policy B-5) should be consistent with the Board's stated mission (Policy B-1), funding and investment goals (Policy B-2), or modified as needed. A draft of a full Investment Policy Statement will be included in the September board packet.

Board discussion followed.

**ANNUAL TFFR PROGRAM REVIEW:**

Mrs. Kopp reviewed the TFFR board's 2010-11 accomplishments, 2010-11 program monitoring summary, and 2011-12 board calendar and education plan.

As requested by the Board, Mrs. Kopp reviewed the TFFR Board Program manual. Policy B-8, Trust Fund Evaluation/Monitoring policy requires an actuarial review or audit of TFFR's actuarial valuation performed at least every five years by an independent actuary. This was fulfilled with Segal's audit of the 2010 valuation completed by GRS.

Discussion was held on the following policies:

- B-2 Goals - update consistent with Investment Policy Statement
- C-1 Actuarial Margin - possibly rescind
- C-4 Board Members Code of Conduct - require annual disclosure by board members and retirement officer regarding conflicts of interest
- C-6 Disclosure to Membership - retirement benefit estimates will not be included with member's statements for the next two years
- C-16 Payment of Benefits - update
- C-19 TIAA-CREF Offset Calculation - rescind
- D-4, Section 4-9 Compensation for board members - provide options

Mrs. Kopp also noted that due to 2011 statutory changes, the Administrative Rules will need to be updated.

After discussion,

**DR. SANSTEAD MOVED AND MRS. FRANZ SECONDED TO APPROVE THE ANNUAL PROGRAM REVIEW, AND DIRECT STAFF TO PRESENT RECOMMENDED POLICY CHANGES FOR BOARD CONSIDERATION AT A FUTURE MEETING.**

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

**NAYS: NONE  
MOTION CARRIED.**

**ANNUAL CUSTOMER SATISFACTION REPORTS:**

Mrs. Kopp reviewed the customer satisfaction surveys from the North Dakota Council of Educational Leaders (NDCEL), North Dakota Education Association (NDEA), North Dakota Retired Teachers Association (NDRTA), and the North Dakota School Business Managers Association (NDSBMA). All were very supportive of TFFR and the RIO staff. Responses from members and business managers were also very positive and complimentary.

**MR. CORNEIL MOVED AND MR. TOSO SECONDED TO APPROVE THE ANNUAL CUSTOMER SATISFACTION REPORTS.**

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

**NAYS: NONE  
MOTION CARRIED.**

President Gessner requested the TFFR Board's input for completion of the SIB annual Customer Satisfaction Survey. The Board rated the RIO staff and services provided as "excellent" in all areas, except for "above average" for "Detail provided on reports".

**MR. TOSO MOVED AND MRS. FRANZ SECONDED TO SUBMIT THE TFFR BOARD COMMENTS ON SIB'S ANNUAL CUSTOMER SATISFACTION SURVEY.**

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

NAYS: NONE

MOTION CARRIED.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT  
AGENDA WHICH INCLUDES THREE DISABILITY APPLICATIONS - #2011-6D, 2011-7D,  
AND 2011-8D.

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

NAYS: NONE

MOTION CARRIED.

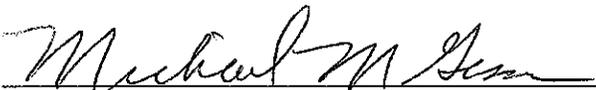
OTHER BUSINESS:

The National Council on Teacher Retirement (NCTR) National Convention  
will be held in Baltimore, Maryland on October 9-13, 2011.

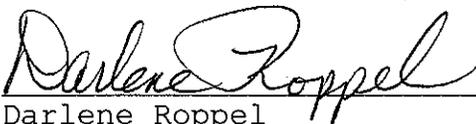
ADJOURNMENT:

With no further business to come before the Board, Treasurer Schmidt  
moved to adjourn the meeting at 5:00 p.m.

Respectfully Submitted:



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



Darlene Roppel  
Reporting Secretary