

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
SEPTEMBER 22, 2011, 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
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: Greg Burns, NDEA
Erica Cermak, 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, September 22, 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.

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

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

NAYS: NONE

MOTION CARRIED.

MINUTES:

The Board considered the minutes of the July 28, 2011, TFFR board meeting.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE JULY 28, 2011, TFFR BOARD MEETING AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED.

Dr. Sanstead arrived at 1:05 p.m.

2011 LEGISLATION - SERVICE PURCHASE COSTS:

Mrs. Fay Kopp, Deputy Executive Director, commented on the impact of HB 1134 which will increase the actuarial cost to purchase service credit. Mr. Matt Strom, Consulting Actuary, Segal Company, joined the meeting via teleconference and reviewed Segal's letter dated September 12, 2011. Mr. Strom explained that the actuarial cost to purchase service credit increases significantly, particularly for a non-grandfathered Tier 1 member if the service purchase allows the member to be grandfathered and eligible to retire at the Rule of 85, instead of waiting until minimum age 60 with the Rule of 90. The reason the service purchase cost is greater is because the cost includes: (1) the value of foregone contributions due to the member being eligible to retire earlier with the purchased service; and (2) the increase in the present value of benefits due to the change in retirement age. Mrs. Kopp stated the new service purchase cost calculation is currently being used for cost estimates requested by members. Once the computer system is programmed with the new cost calculation, invoices will be sent to those members planning to purchase the credit. All members will be informed of the increased service purchase costs in the next TFFR newsletter. Board discussion followed.

ANNUAL INVESTMENT REVIEW:

Mr. John Geissinger, Executive Director/CIO, presented the annual TFFR investment report. The report is on file at the Retirement and Investment Office (RIO). Mr. Geissinger commented on factors affecting the markets, historical market returns by asset class, TFFR policy versus actual asset allocation, TFFR investment performance for FYE June 30, 2011 of 24.21%, TFFR performance attribution, and WG Trading settlement information. Board discussion followed.

The meeting recessed for a fire drill at 1:33 p.m. and reconvened at 1:45 p.m.

DR. SANSTEAD MOVED AND TREASURER SCHMIDT SECONDED TO APPROVE THE ANNUAL TFFR INVESTMENT REPORT.

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

NAYS: NONE

MOTION CARRIED.

ASSET LIABILITY STUDY AND INVESTMENT POLICY:

Mr. Geissinger presented the proposed policy target mix as determined by the Asset-Liability Study done by Callan Associates. A copy of the presentation is on file at RIO. Mr. Geissinger discussed the 8% investment return assumption which is comprised of 3% inflation and 5% real rate of return assumptions. Mr. Geissinger explained that while the expected return using Callan's 2011 capital market expectations is still 8%, the proposed policy target mix reduces risk because there is less equity exposure, more real assets, and more fixed income in the diversified portfolio. The Board discussed the proposed target mix.

<u>Asset Class</u>	<u>Policy Target(%)</u>	<u>Rebalancing Range(%)</u>
Global Equity	57	46-65
Domestic Equity	31	26-36
Large	24	20-28
Small	7	4-10
International Equity	21	16-26
Developed	17	12-22
Emerging	4	2-6
Private Equity	5	4-8
Global Fixed Income	22	16-28
Domestic Fixed	17	13-21
Investment Grade	12	10-18
Non-Investment Grade	5	3-7
International Fixed	5	3-7
Developed	5	3-7
Emerging		0-3
Global Real Assets	20	12-28
Global Real Estate	10	5-15
Other	10	0-15
Infrastructure		0-10
Timber		0-7
Commodities		0-5
Inflation Linked-Bonds		0-10
Other Inflation Sensitive Strategies		0-5
Global Opportunistic		0-10
Cash	1	0-2

After discussion,

MR. CORNEIL MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT STAFF RECOMMENDATION TO APPROVE THE NEW ASSET ALLOCATION AND INCLUDE IN THE TFFR INVESTMENT POLICY STATEMENT.

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

NAYS: NONE
MOTION CARRIED.

Mr. Geissinger stated the new asset allocation will be submitted to the State Investment Board (SIB) and changes will be implemented as promptly as is prudent.

Mr. Geissinger presented a draft investment policy statement for discussion. The board was asked to review the revised investment policy statement and provide Mr. Geissinger with input on any changes or questions. Another draft will be brought to the October TFFR board meeting.

ANNUAL RIO BUDGET AND EXPENSE REPORT:

Mrs. Connie Flanagan, Fiscal and Investment Officer, presented the annual report of TFFR expenses, which included both budget (salaries and office related expenses) and off budget (actuarial, audit, investment expenses). A copy of the report is on file at RIO.

Mrs. Flanagan gave a summary of the 2011-2013 budget request and also the expense report for the 2009-11 biennium. Mrs. Flanagan also explained the schedule of investment expenses. After discussion,

MR. TOSO MOVED AND DR. SANSTEAD SECONDED TO ACCEPT THE ANNUAL BUDGET AND EXPENSE REPORT.

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

NAYS: NONE
MOTION CARRIED.

The meeting recessed at 3:30 p.m. and reconvened at 3:45 p.m.

LEGISLATIVE UPDATE:

Mrs. Kopp reported on the first meeting of the interim held September 20, 2011, with the Legislative Employee Benefits Program Committee (LEBPC), at which she presented an overview of TFFR. A copy of the presentation was distributed. Mr. Geissinger also gave an overview of the SIB program. The LEBPC committee has expanded from nine to thirteen members. The next LEBPC meeting will be held in November 2011.

EMPLOYER PAYMENT PLAN MODELS:

Mrs. Kopp submitted the amended TFFR Employer Payment Plan which was updated with changes approved at the July 28, 2011, board meeting to amend the methodology used for the tax treatment of member contributions under Model 2 partial and Model 3 partial. The change will allow the portion of member contributions paid by the member to be deducted from pay on a tax deferred basis beginning July 1, 2012.

TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE AMENDED EMPLOYER PAYMENT PLAN AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED.

BOARD POLICIES:

Mrs. Kopp reviewed board policy changes as discussed at the July 2011 board meeting.

Board Policies B-2 "Investment and Funding Goals" and B-5 "Investment Policy Statement" will be updated in the new Investment Policy Statement that is being drafted.

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

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

NAYS: NONE

MOTION CARRIED.

DR. LATIMER MOVED AND MRS. FRANZ SECONDED TO APPROVE THE AMENDED POLICY C-3 "BOARD MEETINGS".

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

NAYS: NONE

MOTION CARRIED.

TREASURER SCHMIDT MOVED AND DR. LATIMER SECONDED TO APPROVE THE AMENDED POLICY C-4 "BOARD MEMBERS' CODE OF CONDUCT".

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

NAYS: NONE

MOTION CARRIED.

Board members and Mrs. Kopp will sign the annual disclosure of conflict of interest statements and they will be kept on file at RIO.

TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO APPROVE THE AMENDED POLICY C-7 "EMPLOYER PAYMENT PLAN MODELS" AND TO RESCIND C-8 "EMPLOYER PAYMENT PLAN MODELS-STATE AGENCIES AND INSTITUTIONS" AS IT IS INCORPORATED IN POLICY C-7.

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

NAYS: NONE

MOTION CARRIED.

TREASURER SCHMIDT MOVED AND DR. LATIMER SECONDED TO APPROVE THE AMENDED POLICY C-16 "PAYMENT OF BENEFITS"

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

NAYS: NONE

MOTION CARRIED.

TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO RESCIND POLICY C-19 "TIAA-CREF OFFSET CALCULATION".

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

NAYS: NONE

MOTION CARRIED.

MR. TOSO MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE AMENDED BY-LAWS-POLICY D-4 "MEETINGS".

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

NAYS: NONE

MOTION CARRIED.

ADMINISTRATIVE RULES:

Mrs. Kopp presented the first draft of changes that will need to be made to the Administrative Rules to implement 2011 legislation. Board discussion followed. Another draft will be provided at a future meeting after additional staff, legal and actuarial review.

ELIGIBLE SALARY DISCUSSION:

Mrs. Kopp outlined the changes made to the definition of eligible retirement salary as a result of passage of HB1133. She also reviewed salary definitions from other teacher and/or public employee systems. The board discussed draft administrative rule definitions for "bonus" and "performance or merit pay". The board also reviewed proposed rules outlining the criteria and documentation needed by the Board to determine whether special benefits or payments made to TFFR members are eligible retirement salary as authorized by the North Dakota Century Code (NDCC). Mrs. Kopp will get additional input from stakeholder groups and bring back to a future board meeting.

CONSENT AGENDA:

MR. TOSO MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES TWO DISABILITY APPLICATIONS - 2011-9D AND 2011-10D.

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

NAYS: NONE

MOTION CARRIED.

The next meeting will be held October 27, 2011, at 1:00 p.m. in the Peace Garden room at the State Capitol. The actuary, Segal Company, will be giving the 2011 valuation report and also providing board education on several topics.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 5:05 p.m.

Respectfully Submitted:



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



Darlene Roppel
Reporting Secretary