

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
MINUTES OF THE  
OCTOBER 27, 2011, BOARD MEETING**

**BOARD MEMBERS PRESENT:** Mike Gessner, President  
Clarence Corneil, Trustee  
Kim Franz, Trustee  
Lowell Latimer, Vice President  
Wayne Sanstead, State Superintendent  
Bob Toso, Trustee

**BOARD MEMBER ABSENT:** Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Paula Brown, Retirement Programs Specialist  
Connie Flanagan, Fiscal & Investment Officer  
John Geissinger, Executive Director/CIO  
Fay Kopp, Deputy Executive Director  
Les Mason, Internal Audit Supervisor  
Darlene Roppel, Retirement Assistant  
Shelly Schumacher, Retirement Program Manager  
Denise Weeks, Retirement Programs Specialist

**OTHERS PRESENT:** Greg Burns, NDEA  
Rolland Larson, NDRTA  
Gloria Lokken, NDEA  
Janilyn Murtha, Attorney General's Office  
Kim Nicholl, Segal Company  
Kayla Pulvermacher, NDEA  
Gary Rath, NDEA  
Cindy Ternes, WSI

**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 27, 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, AND MR. TOSO.**

Treasurer Schmidt was absent.

**APPROVAL OF AGENDA:**

The Board considered the meeting agenda.

**DR. SANSTEAD MOVED AND MRS. FRANZ SECONDED TO APPROVE THE AGENDA AS PRESENTED.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**MINUTES:**

The Board considered the minutes of the September 22, 2011, TFFR board meeting.

**MR. TOSO MOVED AND DR. LATIMER SECONDED TO APPROVE THE MINUTES OF THE SEPTEMBER 22, 2011, TFFR BOARD MEETING AS PRESENTED.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**2011 VALUATION REPORT:**

Ms. Kim Nicholl, Senior Vice President and Actuary with Segal Company, presented TFFR's Actuarial Valuation as of July 1, 2011. Copies of the report and presentation are on file at the Retirement and Investment Office (RIO).

The primary purposes of the valuation report are to report the fund's assets, estimate the fund's liabilities, determine the Annual Required Contribution (ARC) for fiscal year 2012, provide information for annual financial statements, and identify emerging trends.

The 2011 valuation reflects the plan changes that occurred with the passage of House Bill (HB) 1134. The two most important components were the change in eligibility for retirement and the increases in member and employer contribution rates.

According to the 2011 valuation, the number of active members increased from 9,907 to 10,004 (0.9% increase). Payroll for active members increased 5.1%, from \$465.0 million to \$488.8 million. The average age of active members is 43.9 years, compared to 44.2 years last year. The average years of service decreased from 14.0 years to 13.8 years.

The number of annuitants increased from 6,672 to 6,933 (3.9% increase). The average annual benefits increased from \$125.2 million to \$133.6 million (6.7%). The average monthly benefit is \$1,606 compared to \$1,564 last year.

The actuarially calculated return on market value of assets was 23.5% for year ending 6/30/2011. The market value of assets increased from \$1.438 billion to \$1.726 billion. The actuarial value of assets decreased from \$1.842 billion to \$1.823 billion due to the five year smoothing of gains and losses.

The Fund's cash flow (contributions minus benefit payments, refunds, and expenses) as a percentage of the market value of assets is -2.7% as of June 30, 2011, an improvement over the -3.5% figure for the previous year. The scheduled increases in the member and employer contribution rates will further improve the cash flow percentage.

TFFR's Actuarial Accrued Liability (AAL) increased from \$2.637 billion to \$2.75 billion. The Unfunded Actuarial Accrued Liability (UAAL) increased from \$795 million to \$927 million. The funded ratio decreased from 69.8% to 66.3% based on the actuarial value of assets. On a market value basis, the funding ratio increased from 54.5% to 62.8%.

The Annual Required Contribution (ARC) increased from 12.79% of payroll to 13.16%. Based on the employer contribution rate for FY 2012 of 8.75%, there is a contribution deficiency of 4.41% of payroll. Contributions for FY 2011 were 68.4% of Governmental Accounting Standards Board (GASB) ARC rate.

Funding projections show that the 8% contribution rate increases included in HB 1134 address the contribution deficiency, and should improve the plan's funded status. Assuming 8% investment returns in the future, the plan is projected to reach about 90% funded status within 20 years.

After board discussion,

**MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO ACCEPT THE 2011 VALUATION REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED.**

The board recessed at 2:05 p.m. and reconvened at 2:15 p.m.

**BOARD EDUCATION:**

Ms. Nicholl provided board education on two important topics in the public pension community.

The Government Accounting Standards Board (GASB) has issued an Exposure Draft which would make fundamental changes to pension accounting standards for state and local governments. Ms Nicholl reviewed the proposed changes and how they would affect the pension funds. Key implications: (1) The Exposure Draft represents a shift of focus from the long-term commitment to fund the plan to a short-term snapshot of funded status based on market assets and a blended discount rate. (2) Putting the net pension liability on the balance sheet will add a large and unstable element to an employer's net financial position as presented in the basic financial statements. (3) Having two different "cost" numbers - funding and expense - will present a communications challenge around what is the "true cost" of the plan. (4) Cost-sharing plans will have new

expense and liability reporting that may be difficult both to produce and to interpret.

Ms. Nicholl provided information, comparisons, and examples of public sector defined benefit, defined contribution and hybrid plans. She also commented on the risks faced by employees and employers relating to investments, inflation, contributions, and longevity.

Board discussion and questions followed. The presentation is on file at RIO.

The board recessed at 3:25 p.m. and reconvened at 3:35 p.m.

**LEGISLATIVE UPDATE:**

Mrs. Shelly Schumacher, Retirement Program Manager, updated the board on implementation of 2011 legislation. Annual statements were sent to all non-retired members in August and included a memo explaining the 2011 legislative changes and why benefit estimates were not included. Presentations explaining the 2011 legislation have been given at annual fall member and employer conventions (NDRTA, NDEA, NDCEL, and NDSBA). Pension software changes for the implementation of HB 1133 have been completed. Phase 1 contribution increases for HB 1134 are on schedule and will be completed by July 1, 2012. Phase 2 benefit changes effective July 1, 2013, will be the next project.

**INVESTMENT POLICY STATEMENT:**

Mr. John Geissinger, Executive Director/CIO, reviewed the revised TFFR Investment Policy Statement and highlighted the changes made since the last meeting. Upon approval by the TFFR board, it will be presented to the State Investment Board (SIB) at their November board meeting. Following board discussion on fund goals included in the investment policy statement,

**DR. LATIMER MOVED AND DR. SANSTEAD SECONDED TO ADOPT THE REVISED TFFR INVESTMENT POLICY STATEMENT AND SUBMIT TO SIB FOR ACCEPTANCE.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**SIB UPDATE:**

Mr. Geissinger updated the board on the agenda for the SIB meeting to be held October 28, 2011.

Mr. Geissinger reported the estimated net investment return as of October 25, 2011, is about -6%.

**ADMINISTRATIVE RULES:**

Mrs. Fay Kopp, Deputy Executive Director, presented the second draft of proposed Administrative Rules relating to TFFR definitions, veterans' rights, contributions, retirement benefits and disability benefits. She also reviewed the proposed timeline with the effective date being July 1, 2012. Board discussion followed. If actuarial or legal review results in any material changes to the proposed rules, Mrs. Kopp will contact board members to schedule a special board meeting in November.

**MR. CORNEIL MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE PROPOSED ADMINISTRATIVE RULES AND FILE WITH THE LEGISLATIVE COUNCIL PENDING ACTUARIAL REVIEW AND MINOR FORMATTING CHANGES.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ANNUAL TFFR ENDS AND STATISTICS REPORT:**

Mrs. Schumacher presented the annual TFFR ends and statistics report for the year ended June 30, 2011. She provided information relating to outreach program participation, service purchases, tier membership, service retirement, disability retirement, option usage, retiree statistics, re-employed retirees, and employer payment plan models. A copy of the report is on file at RIO. After discussion,

**DR. SANSTEAD MOVED AND DR. LATIMER SECONDED TO APPROVE THE ANNUAL TFFR ENDS AND STATISTICS REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ANNUAL TFFR PROGRAM AUDIT REPORT:**

Mr. Les Mason, Internal Audit Supervisor, presented the TFFR Audit Program annual review for the year ended June 30, 2011. Mr. Mason reported 14 school district audits were completed of which two districts were not in compliance, five districts were generally in compliance, and seven districts were in compliance. Other audits conducted include the compliance audit for benefit payments, participants' data for the actuarial valuation and file maintenance audit. No significant exceptions were noted. The annual financial audit of RIO for the year ended June 30, 2011 was conducted by independent external auditors from the accounting firm Eide Bailly LLP. The firm has not yet issued the report. A copy of Mr. Mason's report is on file at RIO. After discussion,

MRS. FRANZ MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE ANNUAL TFFR PROGRAM AUDIT REPORT.

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

NAYS: NONE

MOTION CARRIED.

COLLEGE SAVE PROGRAM REQUEST:

Mrs. Kopp presented a request from James Barnhardt, Bank of North Dakota (BND) College SAVE Plan Administrator, to send information via the TFFR newsletter or blind mailing to TFFR members regarding the ND College SAVE program. After review of the Board Policy, Information Dissemination, and discussion,

MR. TOSO MOVED AND MRS. FRANZ SECONDED TO DENY THE REQUEST TO SEND TFFR MEMBERS INFORMATION ABOUT THE BND COLLEGE SAVE PROGRAM.

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

NAYS: DR. LATIMER AND DR. SANSTEAD.

MOTION CARRIED.

The next meeting will be held January 26, 2012, at 1:00 p.m. unless a special meeting is necessary in November.

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