NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JANUARY 26, 2012, 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: John Geissinger, Executive Director/CIO
Fay Kopp, Deputy Executive Director
Darlene Roppel, Retirement Assistant
Darren Schulz, Deputy CIO
Shelly Schumacher, Retirement Program Manager

OTHERS PRESENT: Greg Burns, NDEA
Erica Cermak, NDRTA
Rolland Larson, NDRTA
Jon Martinson, NDSBA
Janilyn Murtha, Attorney General's Office
Ken Tupa, NDRTA

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:05 p.m. on Thursday, January 26, 2012, at the State Capitol, Peace Garden Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: PRESIDENT GESSNER, MR. CORNEIL (teleconference), MRS. FRANZ, DR. LATIMER, DR. SANSTEAD, TREASURER SCHMIDT, AND MR. TOSO.

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO APPROVE THE AGENDA AS PRESENTED.

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 October 27, 2011, TFFR board meeting.

DR. LATIMER MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE MINUTES OF THE OCTOBER 27, 2011, TFFR BOARD MEETING AS PRESENTED. IT WAS ACKNOWLEDGED THAT TREASURER SCHMIDT HEARD THE 2011 ACTUARIAL VALUATION REPORT GIVEN BY MS. KIM NICHOLL, SEGAL COMPANY, AT THE LEGISLATIVE EMPLOYEE BENEFITS PROGRAM COMMITTEE (LEBPC) MEETING ON JANUARY 12, 2012.

AYES: MR. TOSO, DR. LATIMER, TREASURER SCHMIDT, MR. CORNEIL, DR. SANSTEAD, MRS. FRANZ, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

ADMINISTRATIVE RULES UPDATE:

Mrs. Fay Kopp, Deputy Executive Director, reviewed the timeline for the proposed administrative rules. Public comments will be accepted until February 10, 2012, at which time the rules will be sent to the Attorney General's office for approval. The rules will be brought to the March TFFR board meeting for final adoption, and then submitted to Legislative Council for publication effective July 1, 2012. Mrs. Kopp informed the Board that the Minot Daily News did not publish the Public Notice when originally requested, however it was published on January 15, 2012. Mrs. Janilyn Murtha, Attorney General's office, commented on the timing of the notice publication in the Minot newspaper. She stated TFFR met the minimum administrative rules notice publishing requirements under North Dakota law when it made the request ~~that the notice~~ be published. Since TFFR requested publication of the notice as required by statute, and the notice was actually published, the only deficiency that occurred, through no fault of TFFR, was the lapse of time between the publication and the hearing. The Board took no further action.

2011 CAFR AND PPCC AWARD:

Mrs. Kopp commented on the 2011 Retirement and Investment Office (RIO) Comprehensive Annual Financial Report (CAFR) which provides a detailed look at investment, financial, actuarial, and statistical information. It is posted on the RIO website and notification of its availability on the website was included in the member and employer newsletters. The Government Finance Officers Association (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for 13 years. In order to receive the award, the CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

TFFR has also received the 2011 Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council (PPCC) by certifying that it meets specific standards for a comprehensive benefit program, actuarial valuations, financial reporting, investments, communications to members, and funding adequacy. TFFR has received a PPCC award since 1992.

President Gessner also pointed out that the external auditors issued an unqualified opinion on RIO's financial statements for the fiscal year ended June 30, 2011.

DECEMBER ANNUITY PAYMENT ERROR:

Mrs. Kopp updated the Board on the duplicate December monthly retiree payment error which resulted from a Bank of North Dakota software conversion project. The payment error was promptly discovered and the additional deposit was reversed, so there was no loss of earnings. This was an isolated error, and should not occur again due to procedures implemented by BND. However, the situation generated phone calls, emails, and confusion among retirees and their financial institutions. Board discussion followed.

SIB UPDATE:

Mr. Geissinger introduced and welcomed the new Deputy Chief Investment Officer, Mr. Darren Schulz, who began employment January 3, 2012.

Mr. Geissinger updated the board on the agenda for the State Investment Board (SIB) meeting to be held January 27, 2012.

Mr. Geissinger reported the net investment return through November 2011 is about -6.5%. Through January 23, 2012, it is estimated at about -3%.

The revised TFFR investment policy statement was accepted by the SIB at their November 16, 2011 meeting. Mr. Geissinger provided a comparison of the old and new target asset allocations. Discussion followed.

ANNUAL RETIREMENT TRENDS REPORT:

Mrs. Shelly Schumacher, Retirement Program Manager, presented the 2011 annual retirement trends report. The number of members who are eligible to retire continues to grow. There are 1,372 active members eligible to retire this year. Approximately 3,800 to 4,100 active members are projected to retire in the next 10 years, an average of about 400 per year. This report is on file at RIO.

After discussion,

DR. SANSTEAD MOVED AND MR. TOSO SECONDED TO ACCEPT THE ANNUAL RETIREMENT TRENDS REPORT.

AYES: TREASURER SCHMIDT, DR. SANSTEAD, MR. CORNEIL, MRS. FRANZ, DR. LATIMER, MR. TOSO AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

ANNUAL PENSION PLAN COMPARISON REPORT:

Mrs. Kopp presented the annual Pension Plan Comparison report, comparing TFFR to the 2010 Public Fund Survey conducted by National Council on Teacher Retirement (NCTR) and National Association of State Retirement Administrators (NASRA). It includes about 85% (126 plans) of the entire state and local government retirement system community. The survey provides information about funding levels, investments, membership

changes, contribution rates, pension and retirement security, and actuarial assumptions.

The report and presentation are on file at RIO.

After discussion,

MR. TOSO MOVED AND MRS. FRANZ SECONDED TO ACCEPT THE ANNUAL PENSION PLAN COMPARISON REPORT.

AYES: MRS. FRANZ, MR. CORNEIL, MR. TOSO, DR. LATIMER, DR. SANSTEAD, TREASURER SCHMIDT AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

The board recessed at 2:50 p.m. and reconvened at 3:10 p.m.

2013 LEGISLATIVE PLANNING:

Mrs. Kopp updated the Board on the January 12, 2012, LEBPC meeting. She reviewed the 2012-13 legislative timeline and stated the deadline for TFFR to submit bill drafts for study is April 1, 2012.

Mrs. Kopp reviewed information relating to 2013 legislative planning. She highlighted information from the 2011 actuarial valuation report and actuarial projections of future funding levels. Based on the 2011 projections, no additional contribution or benefit changes are needed at this time. Additional changes may be needed if future investment returns, actuarial experience, or legislative actions negatively impact the plan. However, at this time, it appears that the contribution and benefit changes made in the 2011 legislative session will address fund sustainability.

The Board and interest group representatives also discussed alternative plan designs including Defined Benefit (DB), Defined Contribution (DC), and Hybrid plans. After reviewing the advantages and disadvantages of various plan designs, transition issues, examples of public sector hybrid and DC plans, and recent state plan changes made in 2010-2011, the group agreed that the contribution and benefit changes made to the TFFR plan in the 2011 legislative session need to be given time to work before any additional changes are considered. Since funding levels are projected to improve because of the 2011 changes, the group believes it is premature to propose additional changes at this time. The Board will continue to closely monitor events and actions that could affect TFFR funding levels.

The Board also discussed the current statutory definition of salary which allows all pay for teaching, supervisory, administrative, or extra-curricular duties to be included as eligible retirement salary. Mrs. Kopp indicated that there appears to be some unanticipated salary increases in final average salary at retirement. This is possibly due to additional pay for work performed for extra-curricular duties, extra classes, summer programs, professional development, grant program administration, or

other duties performed. The Board agreed that this could be looked at in a future Experience Study to identify whether there is any impact on the Fund.

To address suggestions from the actuary relating to funding policy, interest rate assumption, salary increase assumption, and mortality table review, the board discussed having an actuarial Experience Study conducted after the 2012 Actuarial Valuation is completed, instead of waiting until the regularly scheduled one in 2014. Mrs. Kopp will ask the actuary, Segal Company, for a cost proposal for the next board meeting.

Mrs. Kopp commented on possible statutory changes relating to Internal Revenue Code compliance and other administrative or technical issues. Mrs. Kopp will work with Mrs. Murtha to draft a bill for review at the March board meeting.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES ONE QUALIFIED DOMESTIC RELATIONS ORDER (QDRO) #2012-1Q.

AYES: DR. LATIMER, MR. CORNEIL, DR. SANSTEAD, MR. TOSO, TREASURER SCHMIDT, MRS. FRANZ, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

The next meeting will be held March 15, 2012, at 1:00 p.m. in the Peace Garden Room at the State Capitol.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:20 p.m.

Respectfully Submitted:

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

Darlene Roppel
Reporting Secretary