

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
MARCH 15, 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
Gary Vetter, Spvr of Information Technology

OTHERS PRESENT: Erica Cermak, NDRTA
Janilyn Murtha, Attorney General's Office
Kim Nicholl, Segal Company (teleconference)
Melanie Walker, 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, March 15, 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 Administrative Rules Public Hearing and the regular board meeting held January 26, 2012.

MR. CORNEIL MOVED AND DR. LATIMER SECONDED TO APPROVE THE MINUTES OF THE ADMINISTRATIVE RULES PUBLIC HEARING AND THE REGULAR TFFR BOARD MEETING HELD JANUARY 26, 2012, AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED.

2012-13 EXPERIENCE STUDY:

As a follow up to discussion at the January 2012 TFFR board meeting, Mrs. Fay Kopp, Deputy Executive Director, asked Ms. Kim Nicholl, Segal Company, to develop a proposal for consideration by the Board to conduct an actuarial experience study in 2012. Ms. Nicholl reviewed her February 27, 2012, letter which provided a cost estimate for performing an Experience Study after the 2012 actuarial valuation is completed, instead of waiting until the regularly scheduled study in 2014 for the reasons outlined in the letter. If approved, the proposed Experience Study would include a review of all the major actuarial assumptions and methods, with special emphasis on interest rate, final average salary, and mortality assumptions. The proposal also included development of a funding policy in response to the proposed GASB changes which will eliminate the Annual Required Contribution (ARC).

After board discussion of the Experience Study proposal,

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO HAVE SEGAL PROCEED WITH THE DEVELOPMENT OF A FUNDING POLICY IN 2012 TO ADDRESS PROPOSED GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) ACCOUNTING CHANGES, AND TO CONDUCT THE EXPERIENCE STUDY WHEN REGULARLY SCHEDULED IN 2014.

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

NAYS: NONE

MOTION CARRIED.

The Board directed staff to work with Segal on the timing and cost of developing a funding policy.

FEDERAL REGULATORY UPDATE AND INTERNAL REVENUE SERVICE (IRS) ISSUES:

Ms. Melanie Walker, Segal Company, gave an update on federal regulations and IRS issues, and their potential implications on TFFR.

Ms. Walker reviewed her memo dated March 1, 2012, on the new IRS regulations relating to "normal retirement age" definition which do not permit a normal retirement age based solely on years of service or on a combination of age and years of service where the age may be below 55. For example, the Rule of 85 (without a minimum age required) would not comply with the regulations, and would need to be changed. TFFR would have to modify the definition of normal retirement, and since the rule of 85 could no longer be defined as normal retirement age, it would have to be changed to be defined as unreduced retirement.

This new regulation is scheduled to be effective in 2013; however, the IRS has extended the compliance deadline twice and may extend it again to address comments on the application of the regulations to governmental plans. Mrs. Kopp indicated the TFFR Board should decide whether to submit legislation in 2013 to address this potential issue. Because it is unknown at this time if the changes will be necessary, the Board decided not to submit legislation in 2013, but to wait for final federal guidance, and if necessary, to address it in 2015.

Ms. Walker also discussed proposed IRS regulations on the definition of a "governmental plan." After review of the discussion draft, Ms. Walker indicated the regulations do not appear to be a problem for TFFR; however, further examination will be necessary when the regulations are finalized as there are likely to be some modifications from their current form.

Ms. Walker reviewed a second memo dated March 2, 2012, which includes a description of the legal requirements and actions necessary to enable mandatory employee contribution amounts to continue to be made on a pre-tax basis, and the FICA tax treatment of employee contributions picked up by the employer. She indicated that recent IRS guidance provides that picked up contributions will be subject to FICA taxes unless paid by the employer as a "salary supplement" in a manner that does not reduce current salary or offset future salary increases. Therefore, in order for TFFR to continue to offer a payment method of employee contributions that is not subject to FICA taxes, the TFFR must permit employer payment of employee contributions as a salary supplement. Ms. Walker noted that it appears that employers utilizing the noncontributory approach to paying mandatory employee contributions do not actually reduce current or future salary amounts, but rather pay these contributions in a manner that is consistent with the salary supplement method under IRS guidance.

In order for TFFR to offer a salary supplement as a payment method of employee contributions, it is necessary to revise the employer's guide to reflect the recent IRS guidance on pick up contributions. The language used to describe the employer payment method in Models 2, 3 and 4 should be revised to employer payment as a "salary supplement", rather than "in lieu of a salary increase" terminology to more accurately reflect how picked up employee contributions should be characterized.

Mrs. Kopp stated this information was also reviewed with Ms. Carol Calhoun, TFFR outside tax counsel, and she agreed with the Segal recommendation.

After discussion and review of the models,

DR. SANSTEAD MOVED AND MR. TOSO SECONDED TO UPDATE THE EMPLOYER PAYMENT PLAN TERMINOLOGY FOR MODELS 2, 3 AND 4 TO "SALARY SUPPLEMENT" AS DESCRIBED IN THE SEGAL MEMO AND OUTLINED IN THE EXAMPLE.

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

NAYS: NONE

MOTION CARRIED.

The board recessed at 2:25 p.m. and reconvened at 2:40 p.m.

ADMINISTRATIVE RULES UPDATE:

Mrs. Kopp updated the board on the administrative rules process. There have been only minor technical changes to the rules since initial board approval on October 27, 2011. The rules have been approved as to their legality by the Attorney General's office, and once adopted by the Board, can be submitted to Legislative Council.

TREASURER SCHMIDT MOVED AND MR. TOSO SECONDED TO ADOPT THE PROPOSED RULES AND SUBMIT TO THE LEGISLATIVE COUNCIL FOR PUBLICATION.

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

NAYS: NONE

MOTION CARRIED.

2011 LEGISLATIVE IMPLEMENTATION:

Mrs. Shelly Schumacher, Retirement Program Manager, reported on the implementation of 2011 legislation which continues to be the #1 priority for the TFFR staff. She commented on the status of member and employer communications, publications and forms, system programming modifications, and employer issues, and stated that implementation projects are on schedule. She also advised the Board of potential budget issues relating to system programming modifications. The Board requested additional information at a future meeting regarding how employers handled the member and employer contribution increases and other legislative changes.

Mrs. Kopp thanked Mrs. Schumacher and the Information Technology department for all the work they have done to get the new legislation implemented.

2013 LEGISLATIVE PLANNING:

Mrs. Kopp reviewed a bill drafted by Mrs. Jan Murtha, Attorney General's office, relating to proposed administrative/technical changes to the TFFR plan. Most of the changes were recommended by Carol Calhoun, outside tax counsel, for IRS compliance purposes. The changes relate to federal tax law changes, IRS updates, adding and updating definitions for actuarial equivalent and normal retirement age, and adding savings clause.

After board discussion,

DR. LATIMER MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE BILL DRAFT AND AUTHORIZE MRS. KOPP TO SUBMIT IT TO THE INTERIM LEGISLATIVE EMPLOYEE BENEFITS PROGRAMS COMMITTEE (LEBPC) FOR STUDY BY THE APRIL 1, 2012 DEADLINE.

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

NAYS: NONE

MOTION CARRIED.

Because questions have been asked about retirement participation of a new state superintendent, Mrs. Kopp updated the Board on this issue. Based on review of the current statutes by Mrs. Murtha, a new state superintendent is required to participate in the TFFR plan. If the new state superintendent is already an active TFFR member, the individual would continue participating in the plan as an active member. If the new state superintendent is a retired TFFR member, the individual would be treated like any other retiree who has returned to covered employment, and return to work limitations and provisions would apply. Even if the new state superintendent is not a licensed teacher, the individual is still required to participate in the TFFR plan by virtue of the position. A new state superintendent does not have the option to participate in the Public Employees Retirement System (PERS). The Legislature would have to approve any change to the retirement participation of a new state superintendent.

TFFR GOALS:

Mrs. Kopp reviewed proposed changes to TFFR program goals in TFFR Ends Policy B-2 to align with the Fund goals in the Investment Policy Statement which was approved by the Board last fall. After discussion,

MR. TOSO MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE TFFR ENDS POLICY B-2 GOALS AS DRAFTED.

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

NAYS: MR. CORNEIL

MOTION CARRIED.

SIB UPDATE:

Mr. Geissinger, Executive Director/CIO, reported on the State Investment Board (SIB) activities on behalf of TFFR in optimizing the risk reward tradeoffs with the portfolios, specifically as it relates to the fixed income structure.

Mr. Geissinger reported the estimated fiscal year to date returns has moved into positive territory as a result of the improving financial market conditions.

ANNUAL TECHNOLOGY REVIEW:

Mr. Gary Vetter, Supervisor of Information Technology, updated the board on technology accomplishments, status of online services for TFFR members and employers, and office software and hardware updates. He also commented on the agency disaster recovery plan, records retention and purging, system security, and new telephone system. A copy of the report is on file at the Retirement and Investment Office (RIO).

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

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

NAYS: NONE

MOTION CARRIED.

PROPOSED 2012-13 BOARD CALENDAR:

Mrs. Kopp presented the first draft of the board meeting schedule for 2012-13. At this time, there are no business items for the May 2012 meeting so it may be cancelled. The July TFFR board meeting will be held July 18, 2012, rather than July 19, possibly all day with a retreat format and special speakers.

After discussion,

MR. TOSO MOVED AND MRS. FRANZ SECONDED TO ADOPT THE MODIFIED 2012-13 BOARD CALENDAR.

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 INCLUDED THREE DISABILITY APPLICATIONS AND ONE QUALIFIED DOMESTIC RELATIONS ORDER (QDRO).

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

NAYS: NONE

MOTION CARRIED.

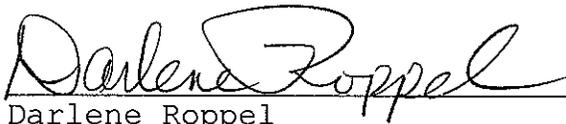
ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 3:55 p.m.

Respectfully Submitted:



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



Darlene Roppel
Reporting Secretary

