

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
MINUTES OF THE  
JULY 18, 2012, BOARD MEETING**

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

**BOARD MEMBERS ABSENT:** Wayne Sanstead, State Superintendent  
Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Fay Kopp, Interim Executive Director  
Darlene Roppel, Retirement Assistant  
Shelly Schumacher, Retirement Program  
Manager

**OTHERS PRESENT:** Dakota Draper, NDEA  
Kayla Effertz, Governor's Office  
Edward Erickson, Attorney General's  
Office  
Bill Kalanek, NDRTA  
Larry Klundt, LAK Educational Consulting  
Rolland Larson, NDRTA  
Janilyn Murtha, Attorney General's Office  
Kim Nicholl, Segal Company

**CALL TO ORDER:**

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the board meeting to order at 8:30 a.m. on Wednesday, July 18, 2012, 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, AND MR.  
TOSO.**

Treasurer Schmidt and Dr. Sanstead were absent.

**APPROVAL OF AGENDA:**

The Board considered the meeting agenda.

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

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

**NAYS: NONE**  
**MOTION CARRIED.**

**MINUTES:**

The Board considered the minutes of the special board meeting held June 21, 2012.

**DR. LATIMER MOVED AND MRS. FRANZ SECONDED TO APPROVE THE MINUTES OF THE SPECIAL TFFR BOARD MEETING HELD JUNE 21, 2012, AS PRESENTED.**

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

**NAYS: NONE**  
**MOTION CARRIED.**

**ELECTION OF 2012-13 OFFICERS:**

President Gessner announced that Clarence Corneil was reappointed by Governor Dalrymple to another 5-year term on the TFFR Board.

**MR. TOSO MOVED AND MR. CORNEIL SECONDED TO CONTINUE WITH THE SAME SLATE OF BOARD OFFICERS AND COMMITTEE MEMBERS FOR 2012-13 AS THE PREVIOUS YEAR:**

President - Mike Gessner; Vice President - Lowell Latimer; State Investment Board (SIB) members - Mr. Gessner, Robert Toso, Clarence Corneil, State Treasurer Schmidt (ex-officio) and Dr. Sanstead (alternate); SIB Audit Committee member - Mr. Gessner.

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

**NAYS: NONE**  
**MOTION CARRIED.**

**DEVELOPMENT OF FUNDING POLICY:**

Mrs. Fay Kopp, Interim Executive Director, introduced Ms. Kim Nicholl, Segal Company, who presented information on developing a TFFR funding policy. Ms. Nicholl described the need for a funding policy, general policy objectives, and funding policy components. She explained that in addition to creating a basis for measuring statutory contribution rate adequacy, a byproduct of this funding study will be that TFFR will have a comprehensive statement of funding policy to use in meeting the new Governmental Accounting Standards Board (GASB) requirements.

The three funding policy components include: actuarial cost method which allocates present value of member's future benefits to years of service; asset smoothing method which manages short term market volatility while tracking market value of assets (MVA); and

amortization method which sets contributions to systematically pay off the unfunded actuarial accrued liability (UAAL).

Ms. Nicholl suggested modeling different approaches as follows:

1. Actuarial cost method - recommend continued use of entry age normal; consider "traditional" versus "ultimate" normal cost.
2. Asset smoothing method - recommend continued use of 5 year smoothing period; consider use of MVA corridor.
3. Amortization period - Options to consider: 15 year rolling for entire UAAL; 25 to 30 year closed for entire UAAL; 25 to 30 year closed for each year's change in UAAL.

The Board discussed the various approaches, and requested Mrs. Kopp and Ms. Nicholl to run different projections for discussion at the October TFFR board meeting.

Ms. Nicholl's presentation is on file at the Retirement and Investment Office (RIO).

The meeting recessed at 10:20 a.m. and reconvened at 10:30 a.m.

**SIB SEARCH COMMITTEE UPDATE:**

Mr. Toso, SIB Search Committee representative, updated the Board on the committee's last meeting and commented on the letter sent to the TFFR Board from Lt. Governor Wrigley, Chairman of the SIB. The committee will strive to keep the organizations informed on the progress. The committee is requesting input on the job description of the next Chief Investment Officer (CIO). A Request for Proposal (RFP) will be issued for an executive search firm to conduct the search for the CIO. All board members will get copies of the minutes from the Search Committee meetings.

**2013 LEGISLATIVE UPDATE:**

Mrs. Kopp reported that Bill 99 (TFFR-administrative changes) and Bill 43 (Rep. Louser-expiration of the increase in TFFR contribution rates) were submitted to the Legislative Employee Benefits Programs Committee (LEBPC) and have been sent to Segal for actuarial and technical analysis.

Mrs. Kopp stated TFFR's estimated 2012 investment return will be about -1.0%. She provided a graph from the 2011 valuation report showing the projected TFFR funded ratio in 2012 and future years. Actuarial projections indicated TFFR's funded level will continue to decline for the next couple years, and should begin rising in about 2014 after the increased contributions are phased in, and after the remaining 2008-09 investment losses are incorporated into funding calculations, unless returns in the next few years are also less than expected.

**2011 LEGISLATIVE IMPLEMENTATION UPDATE:**

Mrs. Shelly Schumacher, Retirement Program Manager, reported on the implementation of the 2011 legislative changes. The annual statements that are sent to the non-retired members in August will not contain benefit estimates in 2012 and 2013, during the transition to grandfathered or non-grandfathered status since programming cannot be completed until 2013. The 2013 annual statement will show the member's new tier, and the 2014 annual statement will again show benefit projections based on the new tier. CPAS programming cost for Phase 1 of House Bill (HB) 1134 is \$59,910. CPAS estimated cost for Phase 2 of HB 1134 is \$102,080. Additional funds were not budgeted for these charges.

Of the 219 schools who will be reporting to TFFR in 2012-13, 217 have submitted their new employer payment plan forms and have indicated the model under which they will pay member contributions. Twenty-five employers changed models and/or the pickup amount; twelve employers that were picking up the 7.75% member contribution, are not picking up the additional 2.0% member contribution increase effective 7/1/12.

**CONSENT AGENDA:**

**MR. TOSO MOVED AND MR. CORNEIL SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED TWO DISABILITY APPLICATIONS, 2012-4D AND 2012-5D.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**EXECUTIVE SESSION\*:**

Ms. Jan Murtha, Attorney General's office (AGO), introduced Mr. Edward Erickson, also from the AGO, and outlined the general structure of the member appeal and explained the individual roles of legal counsel.

President Gessner advised the Board that it would go into Executive Session to discuss Member Appeal 2012-1A due to the confidentiality of the retirement records being discussed under NDCC 15-39.1-30. The legal authority under which the Board is moving into Executive Session is NDCC 44-04-19.1 and NDCC 44-04-19.2. The topic to be discussed in the Executive Session is a member's appeal of service purchase cost calculation. President Gessner reminded board members to limit their discussion during the executive session to the announced topic.

**EXECUTIVE SESSION - CONFIDENTIAL MEMBER INFORMATION**

Executive session attendees included: Mr. Corneil, Mrs. Franz, President Gessner, Dr. Latimer, Mr. Toso, Ms. Murtha, Mr. Erickson, Mrs. Kopp, Mrs. Schumacher, Mrs. Roppel, and member.

The first executive session began at 11:12 a.m. and ended at 12:11 p.m.

**EXECUTIVE SESSION - ATTORNEY CONSULTATION**

Executive session attendees included: Mr. Corneil, Mrs. Franz, President Gessner, Dr. Latimer, Mr. Toso, Mr. Erickson, and Mrs. Roppel.

The second executive session began at 12:12 p.m. and ended at 12:37 p.m.

**OPEN SESSION**

**DR. LATIMER MOVED AND MRS. FRANZ SECONDED TO DENY APPEAL # 2012-1A AND REQUEST THE STAFF TO SEND A LETTER TO THE MEMBER EXPLAINING THE REASONS FOR THE DENIAL.**

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

**NAYS: NONE**

**MOTION CARRIED.**

The meeting recessed for lunch at 12:40 p.m.

President Gessner called the meeting back to order at 1:17 p.m.

**BOARD EDUCATION - IMPACT OF OIL INDUSTRY ON ND SCHOOLS**

Mrs. Kopp introduced three guests who shared information on the impact of the oil industry on North Dakota schools.

Ms. Kayla Effertz, Sr. Policy Advisor on Education, Governor's office, reported on some of the challenges schools and administrators are facing in the western part of the state. They include: enrollment projections, facility planning, housing for teachers, funding and others.

Mr. Larry Klundt, LAK Educational Consulting, gave a report on surveys and studies he has done on enrollment and teacher needs. His report is on file at RIO.

Mr. Dakota Draper, North Dakota Education Association (NDEA) president, presented information on enrollment comparisons and salary schedules. North Dakota is now 47<sup>th</sup> out of 51 in teacher salaries. The report is on file at RIO.

Mrs. Kopp commented on how these changes in ND education could impact TFFR in the future: the need for more schools and more teachers; recruitment, retention, and retirement issues; and innovative salary and benefit packages designed to attract and retain teachers.

The Board thanked the presenters for sharing this helpful information.

Upon conclusion of the board education, the business meeting resumed at 2:30 p.m.

**ANNUAL TFFR PROGRAM REVIEW:**

Mrs. Kopp reviewed the TFFR board's 2011-12 accomplishments which included completing the Asset Liability Study, restructuring the asset classes, revamping the Investment Policy Statement, beginning implementation of 2011 legislation, working with a new actuary, receiving a favorable Internal Revenue Service (IRS) determination letter, and receiving board education on a variety of topics. The 2011-12 program monitoring summary and 2012-13 board calendar and education plan were also reviewed. Mrs. Kopp did an overview of the TFFR Board Program Manual. The board members completed the Code of Conduct affirmation that is required annually. Discussion was held on Policy C-17 - Travel. No action is needed.

After discussion of TFFR board policies and program manual,

**MR. TOSO MOVED AND MR. CORNEIL SECONDED TO APPROVE THE ANNUAL PROGRAM REVIEW.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ANNUAL CUSTOMER SATISFACTION REPORTS:**

Mrs. Kopp expressed appreciation to the RIO staff for doing a remarkable job as is evidenced by the comments and evaluations that came back from members and business managers. Positive responses were also received from the North Dakota Council of Educational Leaders (NDCEL), NDEA, North Dakota Retired Teachers Association (NDRTA), and the North Dakota Association of School Business Managers (NDASBM).

President Gessner also expressed his appreciation for work well done by the staff. With input from the board members, President Gessner completed the SIB annual Customer Satisfaction Survey with an "excellent" in all areas.

MR. TOSO MOVED AND DR. LATIMER SECONDED TO ACCEPT THE ANNUAL CUSTOMER SATISFACTION REPORTS.

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

NAYS: NONE

MOTION CARRIED.

The annual National Council on Teacher Retirement (NCTR) convention will be held in Tucson, Arizona, October 6-10, 2012. Board members should let the office know by August 31, 2012, if they plan to attend.

**ADJOURNMENT:**

The next regular TFFR board meeting is scheduled for September 27, 2012.

With no further business to come before the Board, President Gessner adjourned the meeting at 2:55 p.m.

Respectfully Submitted:



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



Darlene Roppel  
Reporting Secretary

\*Complete authority for executive session provided in Corrected Agenda (7-19-12), noting executive session required to discuss confidential information and for attorney consultation under NDCC 44-04-19.2, NDCC 44-04-19.1, and NDCC 15-39.1-30.