

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
OCTOBER 25, 2012, BOARD MEETING**

BOARD MEMBERS PRESENT: Mike Gessner, President
Clarence Corneil, Trustee
Kim Franz, Trustee
Lowell Latimer, Vice President (teleconference)
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer
Bob Toso, Trustee

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Officer
Fay Kopp, Interim Executive Director
Les Mason, Internal Audit Supervisor
Darlene Roppel, Retirement Assistant
Darren Schulz, Interim CIO
Shelly Schumacher, Retirement Program Manager
Denise Weeks, Retirement Programs Specialist

OTHERS PRESENT: Greg Burns, NDEA
Erica Cermak, NDRTA
Gloria Lokken, NDEA
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 1:00 p.m. on Thursday, October 25, 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, DR. SANSTEAD, TREASURER SCHMIDT, AND MR. TOSO.

APPROVAL OF AGENDA:

The Board considered the meeting agenda. President Gessner requested that Agenda item 10 be placed after item 5.

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO APPROVE THE AGENDA WITH THE REQUESTED CHANGE IN ORDER OF BUSINESS.

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 regular board meeting held September 27, 2012.

MRS. FRANZ MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD SEPTEMBER 27, 2012, AS PRESENTED.

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

NAYS: NONE

MOTION CARRIED.

2012 VALUATION REPORT:

Ms. Kim Nicholl, Senior Vice President and Actuary with Segal Company, presented TFFR's Actuarial Valuation as of July¹, 2012. 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 2013, provide information for annual financial statements, and identify emerging trends. Ms. Nicholl provided an overview of the valuation process; reviewed the plan's actuarial assumptions, methods, and funding process; and presented 2012 valuation highlights.

The valuation report reflects increases in contribution rates (4% for both members and employers) contained in HB 1134. Member rates increased to 9.75% for fiscal year (FY) 2013 and 2014 and increases to 11.75% for FY 2015 and thereafter. Employer rates increased to 10.75% for FY 2013 and 2014 and will increase to 12.75% for FY 2015 and thereafter. Increases will revert to 7.75% for both members and employers once the plan's funded ratio reaches 90%.

The actuarially calculated return on market value of assets (MVA) was -1.4% for year ending 6/30/2012. The gradual recognition of deferred losses also resulted in -1.4% return on actuarial assets. Unrecognized investment losses represent about 6% of market assets.

TFFR's Actuarial Accrued Liability (AAL) increased from \$2.75 billion in 2011 to \$2.872 billion in 2012. The Unfunded Actuarial Accrued Liability (UAAL) increased from \$927 million to \$1.124 billion. The funded ratio decreased from 66.3% to 60.9% based on the AVA.

The ARC decreased from 13.16% of payroll to 13.02%. Based on the employer contribution rate for FY 2013 of 10.75%, there is a contribution deficiency of -2.27% of payroll. Additional contribution rate increases from HB 1134 (effective 7/1/14) will address this deficiency.

Ms. Nicholl also presented estimated funding ratios assuming variable investment returns in the future.

After board questions and discussion,

MR. CORNEIL MOVED AND DR. SANSTEAD SECONDED TO ACCEPT THE 2012 VALUATION REPORT.

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

NAYS: NONE

MOTION CARRIED.

TFFR FUNDING POLICY:

Ms. Nicholl reviewed the need for a funding policy, funding policy objectives, and funding policy components which were discussed in detail at the Board's July 18, 2012, meeting. She reminded the board that the current funding policy is the ARC which is defined by the current Governmental Accounting Standards Board (GASB) standards. Statutory contributions are then compared to the ARC. Due to governance issues and new GASB requirements, there is a renewed focus on a plan's funding policy.

General funding policy objectives include: 1) actuarially determined contribution (ADC); 2) intergenerational equity; 3) contributions as a stable percentage of payroll; and 4) support public policy goals of accountability and transparency.

Ms. Nicholl explained the three funding policy components: 1) Actuarial cost method which allocates present value of member's future benefits to years of service; 2) Asset smoothing method which manages short term market volatility while tracking MVA; and 3) Amortization method which sets contributions to systematically pay off the UAAL.

She also compared the current funding policy with other possible alternatives:

- Actuarial cost method - recommend continued use of entry age normal, but consider "traditional" rather than "ultimate" normal cost
- Amortization period - consider 15 to 20 year rolling for entire UAAL, or 20 to 30 year closed for entire UAAL
- Asset smoothing method - recommend continued use of 5 year smoothing period, but consider adding use of 20% MVA corridor

Board discussion followed. The board asked Mrs. Kopp, Interim Executive Director and Chief Retirement Officer, and Ms. Nicholl to bring additional information on the different funding policy components to the January 2013 board meeting.

GASB, MOODY'S, AND OTHER NATIONAL PENSION ISSUES:

Ms. Nicholl provided an update on recently approved GASB Statements 67 and 68 which will change the accounting and financial reporting of public employee pensions by state and local governments. GASB 67 provides for accounting with respect to TFFR and replaces GASB 25 effective fiscal year July 1, 2013, to June 30, 2014. GASB 68 replaces GASB 27 and provides for financial reporting by employers with respect to TFFR. It is effective for fiscal year July 1, 2014, to June 30, 2015.

Under the new GASB requirements, the Net Pension Liability (NPL) will be required to be reported in TFFR's footnotes to the financial statements and the employers' balance sheets using the entry age cost method, market value of assets, and a blended discount rate. As part of the new requirements, accounting and financial reporting will be divorced from contribution requirements.

Ms. Nicholl also explained that Moody's has issued a Request for Comment on its proposal to implement four adjustments to pension liabilities and cost information. Moody's will use this information to prepare bond ratings.

The Segal presentations are on file at RIO.

RIO ORGANIZATIONAL STRUCTURE:

Mrs. Kopp reviewed four organizational charts prepared by the staff. The four structures include: 1) Base RIO structure as it was before the Chief Investment Officer (CIO) left; 2) Interim RIO structure as it is now in the absence of the CIO; 3) Modified RIO structure with more separation of the SIB and TFFR programs; and 4) Dissolve RIO and divide the administration of the SIB and TFFR programs into two separate agencies.

Board discussion followed.

Treasurer Schmidt left the meeting at 3:30 p.m.

BOARD RESOLUTION:

President Gessner recognized Dr. Sanstead for his 28 years of distinguished service on the TFFR board, and read the following resolution:

**TFFR Board Resolution
in Appreciation of
Dr. Wayne G. Sanstead**

WHEREAS, Dr. Wayne G. Sanstead, State Superintendent of Schools, served as trustee of the ND Teachers' Fund for Retirement Board with honor for 28 years, from 1985 to his retirement in 2012; and

WHEREAS, Dr. Sanstead has an extensive background of legislative, executive, and educational leadership having dedicated his professional career to the ND education community as the nation's longest serving chief state school officer. He proudly served as State Superintendent for 28 years, state representative for eight years, state senator for two years, and lieutenant governor of North Dakota for eight years; and

WHEREAS, Dr. Sanstead was a vocal and energetic supporter of defined benefit plans, a zealous defender of retirement security for all educators, and an active National Council on Teacher Retirement participant; and

WHEREAS, Dr. Sanstead was dedicated to the mission of the TFFR fund which is to advocate, develop, and administer a comprehensive retirement program for all trust fund members within the resources available; and

WHEREAS, Dr. Sanstead was a tireless champion for active and retired educators and supported efforts to improve member benefits, strengthen TFFR's funding structure, prudently invest trust fund assets, and safeguard the financial integrity of the fund; and

WHEREAS, Dr. Sanstead distinguished himself as an outstanding trustee whose invaluable knowledge, experience, leadership, and genuine compassion served trust fund members with respect; now therefore, be it

RESOLVED, that the TFFR Board express its sincere appreciation to Dr. Sanstead for his dedicated service to the Board, and for his contributions, dedication, and unwavering support of the teachers, students, and citizens of North Dakota; and be it further

RESOLVED, that the Board extends its best wishes to Dr. Sanstead, and his wife, Mary Jane, for a long and happy retirement; and be it further

RESOLVED, that a copy of this Resolution be presented to Dr. Wayne Sanstead, printed in the official TFFR Board minutes, and submitted to the National Council on Teacher Retirement, on behalf of the many lives he has so positively touched.

MR. TOSO MOVED AND MR. CORNEIL SECONDED TO APPROVE THE RESOLUTION HONORING DR. SANSTEAD, TO INCLUDE IT IN THE OFFICIAL TFFR BOARD MINUTES, AND SUBMIT IT TO THE NATIONAL COUNCIL ON TEACHER RETIREMENT.

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

NAYS: NONE

DR. SANSTEAD ABSTAINED.

ABSENT: TREASURER SCHMIDT

MOTION CARRIED.

On behalf of the board and staff, President Gessner presented Dr. Sanstead with a retirement gift. Dr. Sanstead commented on his tenure with TFFR and invited everyone to his office for cake and coffee.

The board recessed at 3:40 p.m. and reconvened at 4:15 p.m.

Mr. Toso left the meeting at 3:40 p.m.

LEGISLATIVE UPDATE:

Mrs. Kopp commented on the agenda of the Legislative Employee Benefits Program Committee (LEBPC) meeting which will be held October 30, 2012. The 2012 Valuation report will be presented by Ms. Nicholl. The final letters from Segal with technical comments on Bill 99 and Bill 43 will be reviewed by the committee.

Bill No. 13.0099.03000 now includes the amendment to incorporate Internal Revenue Code language to clarify that increases in maximum benefit limits under section 415 would apply to former employees as well as current employees.

MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO PRE-FILE BILL NO. 13.0099.03000 WITH THE LEGISLATIVE COUNCIL FOR CONSIDERATION DURING THE 2013 LEGISLATIVE ASSEMBLY.

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

NAYS: NONE

MOTION CARRIED.

Mrs. Kopp reviewed the final actuarial report from Segal on bill 43, which was introduced by Representative Louser. The bill would modify the expiration of the increase in required contributions for both employers and members of TFFR until the fund reaches 100% funded ratio, not 90% as provided in current law. It would defer the contribution reversion to 7.75% from 2040 until 2046.

ANNUAL TFFR ENDS AND STATISTICS REPORT:

Mrs. Shelly Schumacher, Retirement Program Manager, presented the annual TFFR ends and statistics report for the year ended June 30, 2012. She provided information relating to employer information, employer and member 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,

MRS. FRANZ MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE ANNUAL TFFR ENDS AND STATISTICS REPORT.

AYES: DR. SANSTEAD, 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 annual TFFR program audit review for the year ended June 30, 2012. Mr. Mason

reported 31 school district audits were completed of which three districts were not in compliance, two districts were generally in compliance, and 26 districts were in compliance. A review of deaths, purchase of service, refunds, long outstanding checks, and long term annuitants was completed to determine that established policy and procedures are being followed by the retirement services division. No exceptions were noted. The annual financial audit of RIO for the year ended June 30, 2012, was conducted by independent external auditors from the accounting firm CliftonLarsonAllen. A copy of Mr. Mason's report is on file at RIO. After discussion,

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

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

NAYS: NONE

MOTION CARRIED.

CONSENT AGENDA:

DR. SANSTEAD MOVED AND MR. CORNEIL SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES ONE QUALIFIED DOMESTIC RELATIONS ORDER #2012-3Q.

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

NAYS: NONE

MOTION CARRIED.

ADJOURNMENT:

The next regular TFFR board meeting is scheduled for January 24, 2013.

With no further business to come before the Board, President Gessner adjourned the meeting at 5:02 p.m.

Respectfully Submitted:


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


Darlene Roppel
Reporting Secretary