

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
OCTOBER 24, 2013, BOARD MEETING**

BOARD MEMBERS PRESENT: Mike Gessner, President
Clarence Corneil, Trustee
Kim Franz, Trustee
Rob Lech, Trustee
Mel Olson, Trustee
Kelly Schmidt, State Treasurer

STAFF PRESENT: Paula Brown, Retirement Programs Specialist
Estelle Kirchoffner, Membership Specialist
Fay Kopp, Interim Executive Director
Darlene Roppel, Retirement Assistant
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Auditor
Gary Vetter, Information Systems Supervisor
Susan Walcker, Investment Accountant
Denise Weeks, Retirement Programs Specialist

OTHERS PRESENT: Janilyn Murtha, Attorney General's Office
Kim Nicholl, Segal Consulting
Stuart Savelkoul, ND United
Matt Strom, Segal Consulting

ABSENT: Kirsten Baesler, State Superintendent

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 24, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: PRESIDENT GESSNER, MR. CORNEIL, MRS. FRANZ, MR. LECH, MR. OLSON, AND TREASURER SCHMIDT.

Supt. Baesler was absent.

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

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

AYES: MR. CORNEIL, TREASURER SCHMIDT, MR. LECH, MRS. FRANZ, MR. OLSON,
AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

MINUTES:

The Board considered the minutes of the regular board meeting held September 26, 2013.

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO APPROVE THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD SEPTEMBER 26, 2013, AS PRESENTED.

AYES: MR. LECH, MR. OLSON, TREASURER SCHMIDT, MR. CORNEIL, MRS. FRANZ,
AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

2013 VALUATION REPORT:

Ms. Kim Nicholl, Senior Vice President, and Mr. Matthew Strom, Consulting Actuary, Segal Consulting, presented TFFR's Actuarial Valuation as of July 1, 2013. Copies of the report and presentation are on file at the Retirement and Investment Office (RIO).

The primary purposes of the actuarial valuation are to report the Fund's actuarial assets, calculate the Fund's liabilities, determine the annual required contribution (ARC) for fiscal year (FY) 2014, determine the funding policy actuarially determined contribution (ADC), provide information for the annual financial statements, and identify emerging trends. Ms. Nicholl and Mr. Strom provided an overview of the valuation process; reviewed actuarial assumptions and methods; explained the reasons and process of doing a 5-year experience study; and presented the 2013 valuation highlights.

The valuation report reflects member contribution increases from 9.75% to 11.75% and employer contribution increases from 10.75% to 12.75% on July 1, 2014. The rates will revert to 7.75% for both members and employers once the funded ratio reaches 100%.

The market value of TFFR assets (MVA) increased from \$1.654 billion (6/30/12) to \$1.839 billion (6/30/13), with an investment return of 13.4% for the year ending 6/30/13.

TFFR's Actuarial Accrued Liability (AAL) increased from \$2.872 billion as of June 30, 2012, to \$2.997 billion as of June 30, 2013. The Unfunded Actuarial Accrued Liability (UAAL) increased from \$1.124 billion to \$1.235 billion. The funded ratio decreased from 60.9% to 58.8% based on the Actuarial Value of Assets (AVA). On a market value basis, the funded ratio increased from 58% to 61%.

The ARC increased from 9.49% of payroll to 10.26%. Going forward, this will be referred to as the Actuarially Determined Contribution (ADC). Compared to the 10.75% employer contribution, this results in a contribution sufficiency of 0.49%. The effective amortization period is 28 years.

Mr. Strom also presented estimated funded ratio projections for 30 years based on FY14 investment return scenarios ranging from -24% to +24%. Projections show funding recovery is expected to occur gradually over time, due to the legislative changes approved in 2011. It will likely take 20-30 years before TFFR reaches 80%-100% funding levels, if the plan meets all actuarial assumptions, including the 8% investment return assumption.

After Board discussion and questions,

MR. OLSON MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE 2013 VALUATION REPORT.

AYES: TREASURER SCHMIDT, MR. CORNEIL, MRS. FRANZ, MR. OLSON, MR. LECH AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

GASB, MOODY'S AND OTHER PENSION ISSUES:

Ms. Nicholl and Mr. Strom reviewed the two new accounting statements the Governmental Accounting Standards Board (GASB) recently approved. GASB 67 replaces GASB 25. It provides for accounting with respect to the TFFR plan, effective fiscal year July 1, 2013, to June 30, 2014. GASB 68 replaces GASB 27. It provides for the financial reporting by employers/school districts with respect to TFFR, effective fiscal year July 1, 2014, to June 30, 2015.

According to Segal, funding/contribution reporting requirements will be different than accounting/financial reporting requirements under the new GASB standards. The net pension liability (NPL) will be placed in the footnotes of TFFR financial statements and the employer/school district's balance sheet. Each employer/school district will also be required to disclose in their financial statements, their proportionate share of net pension liability, pension expense, and deferred outflows and deferred inflows of resources related to pensions. The proportionate share for each employer/school district will be allocated based on total TFFR covered payroll. Segal provided examples of sample calculations for a large employer and a small employer.

A copy of this presentation is on file at RIO.

Board discussion and questions followed.

The board recessed at 3:05 p.m. and reconvened at 3:15 p.m.

LEGISLATIVE UPDATE:

Mrs. Fay Kopp, Interim Executive Director and Chief Retirement Officer, informed the board of the Legislative Employee Benefits Program Committee (LEBPC) meeting to be held on November 6, 2013. The Public Employee Retirement System (PERS) and TFFR valuations will be presented by Segal at this meeting, along with a presentation on GASB changes. The Legislative Government Finance Committee will meet on November 7, 2013. The agendas and information will be sent to the Board as it becomes available.

Board discussion followed.

2011 LEGISLATIVE IMPLEMENTATION:

Mrs. Shelly Schumacher, Retirement Program Manager, gave an update on the implementation of the 2011 Legislative changes. Since the last report in May 2013, all the required programming has been completed to implement the legislative changes. The only remaining change is for employers to update their payroll systems to reflect the last contribution increase that becomes effective July 1, 2014. The employers also have to complete a new Employer Payment Plan form.

ANNUAL TFFR ENDS AND STATISTICS REPORT:

Mrs. Schumacher presented the annual TFFR ends and statistics report for the year ended June 30, 2013. She provided information on employers and members, collections and payments of contributions, employer and member outreach programs 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 MR. OLSON SECONDED TO APPROVE THE ANNUAL TFFR ENDS AND STATISTICS REPORT.

AYES: MRS. FRANZ, MR. CORNEIL, MR. LECH, MR. OLSON, TREASURER SCHMIDT, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

ANNUAL TFFR PROGRAM AUDIT REPORT:

Mrs. Dottie Thorsen, RIO Auditor, presented the annual TFFR program internal audit review for the year ended June 30, 2013. Mrs. Thorsen reported 45 school district audits were completed this year. Thirty-eight were in compliance, one was generally in compliance, and six were not in compliance. Due to significant reporting problems, onsite work was conducted for two of the audits.

Other audits conducted during the year included a benefits payments audit and quarterly file maintenance audits.

The annual financial audit of RIO for the year ended June 30, 2013, was conducted by independent auditors from the accounting firm CliftonLarsonAllen. The report will be presented at the SIB Audit Committee meeting to be held November 22, 2013.

Due to the retirement of the internal audit supervisor, adjustments to the 2013-14 work plan will be made since fewer audits are expected to be completed in the upcoming year.

A copy of Mrs. Thorsen's report is on file at RIO. After discussion,

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO APPROVE THE ANNUAL TFFR PROGRAM AUDIT REPORT.

AYES: MR. OLSON, MR. LECH, MRS. FRANZ, MR. CORNEIL, TREASURER SCHMIDT, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

SIB SEARCH COMMITTEE UPDATE:

Treasurer Schmidt gave an update on the State Investment Board (SIB) Search Committee activities. The employment offer that was made to the top finalist for the Executive Director (ED)/Chief Investment Officer (CIO) position was withdrawn due to concerns raised during negotiations. The second finalist is scheduled to make another presentation to the SIB on October 25, 2013.

CONSENT AGENDA:

MR. LECH MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES ONE DISABILITY APPLICATION - 2013-15D.

AYES: MRS. FRANZ, MR. OLSON, TREASURER SCHMIDT, MR. LECH, MR. CORNEIL, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

OTHER BUSINESS:

The next board meeting will be held on January 23, 2014.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:10 p.m.

TFFR CENTENNIAL CELEBRATION

The TFFR Board and RIO staff celebrated TFFR's centennial following adjournment of the meeting. Mrs. Kopp presented a slide show which highlighted TFFR's 100-year history from 1913-2013. Cake was served.

Respectfully Submitted:



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



Darlene Roppel
Reporting Secretary