

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
MINUTES OF THE  
OCTOBER 23, 2014, BOARD MEETING**

**BOARD MEMBERS PRESENT:** Mike Gessner, President  
Clarence Corneil, Vice Chair  
Kirsten Baesler, State Superintendent  
Kim Franz, Trustee  
Rob Lech, Trustee  
Mel Olson, Trustee  
Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Terra Miller Bowley, Audit Services Supervisor  
Paula Brown, Retirement Program Specialist  
David Hunter, ED/CIO  
Fay Kopp, Deputy ED/CRO  
Shelly Schumacher, Retirement Program Manager  
Dottie Thorsen, RIO Auditor  
Denise Weeks, Retirement Program Specialist

**OTHERS PRESENT:** Aimee Copas, NDCEL  
Janilyn Murtha, Attorney General's Office  
Kim Nicholl, Segal Consulting

**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 23, 2014, at the State Capitol, Peace Garden Room, Bismarck, ND.

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

**APPROVAL OF AGENDA:**

The Board considered the meeting agenda.

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

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

**NAYS: NONE**

**MOTION CARRIED.**

**MINUTES:**

The board considered the minutes of the TFFR board meeting held September 25, 2014.

MR. OLSON MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE TFFR BOARD MEETING HELD SEPTEMBER 25, 2014.

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

NAYS: NONE

MOTION CARRIED.

2014 VALUATION REPORT AND FUNDING PROJECTIONS:

Ms. Kim Nicholl, Senior Vice President, Segal Consulting, presented TFFR's Actuarial Valuation as of July 1, 2014. 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 funding policy actuarially determined contribution (ADC) for fiscal year (FY) 2015, provide information for annual financial statements, and identify emerging trends. Ms. Nicholl provided an overview of the valuation process; reviewed actuarial assumptions and methods; and presented the 2014 valuation highlights.

The 2014 valuation reflects increases in member and employer contribution rates (11.75% member and 12.75% employer effective July 1, 2014). The market value of assets (MVA) returned 16.1% for year ending June 30, 2014 (Segal calculation). MVA increased from \$1.839 billion on June 30, 2013, to \$2.091 billion on June 30, 2014. TFFR's actuarial accrued liability (AAL) increased from \$2.997 billion, to \$3.139 billion. The unfunded actuarial accrued liability (UAAL) decreased from \$1.235 billion to \$1.198 billion. The funded ratio increased from 59% to 62% on the actuarial value of assets (AVA). On a MVA basis, the funded ratio increased from 61% to 67%. The effective amortization period decreased from 28 years to 24 years during the same time period. The ADC increased from 10.26% of payroll to 11.57% of payroll. Based on the employer contribution rate of 12.75%, the contribution sufficiency (margin) has increased to 1.18% of payroll.

Ms. Nicholl also presented estimated funded ratio projections for 30 years based on FY15 investment return scenarios ranging from -24% to +24% and assuming 8% earnings each year thereafter. This includes contribution rates of 11.75% for members and 12.75% for employers until the funded ratio reaches 100% when contribution rates will sunset back to 7.75% each. TFFR funding levels are expected to improve in the future, and are projected to reach 80-100% in 20-30 years, depending upon investment performance.

After board discussion and questions,

MR. LECH MOVED AND SUPT. BAESLER SECONDED TO ACCEPT THE 2014 ACTUARIAL VALUATION REPORT.

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

**NAYS: NONE**

**MOTION CARRIED.**

**GASB INFORMATION:**

Ms. Nicholl gave an overview of the new Governmental Accounting Standards Board (GASB) 67 and 68 requirements. GASB 67, which replaces GASB 25, is effective June 30, 2014, for the TFFR plan. GASB 68, which replaces GASB 27, is effective June 30, 2015, for TFFR participating employers. The new standards require that a proportionate share of TFFR's net pension liability (NPL) is required to be reported on the employer's balance sheet and in the plan's notes to the financial statements. Accounting and financial reporting are divorced from contribution requirements. The annual pension expense for employers is essentially equal to the change in NPL during the year, with deferrals of certain items.

As of June 30, 2014, TFFR's Total Pension Liability (TPL) was \$3.139 billion, Net Plan Position (or market value of assets) was \$2.09 billion, and Net Pension Liability (NPL) was \$1.048 billion. The plan's fiduciary net position as a percentage of the total pension liability is 67%. Samples were given of the proportionate share of the NPL for five of the largest schools, two midrange schools, and three of the very small school districts.

Board discussion and questions followed.

**EXPERIENCE STUDY PLANNING:**

Ms. Nicholl presented information on the Experience Study that Segal Company is conducting for TFFR early in 2015. Actuarial experience studies are conducted every five years for TFFR and serve as the basis for recommended changes in actuarial assumptions and methods. The study will cover the period from 2009-2014 and will compare actual changes in liabilities with expected changes in liabilities. Ms. Nicholl reviewed the various current economic and demographic assumptions. The Board discussed the current investment return assumption (8%). They also discussed the growth in ND residents and school-aged children which is leading to additional schools and teachers, and how it impacts the payroll growth assumption.

Board discussion followed.

**BOARD EDUCATION: DEFINED CONTRIBUTION AND HYBRID PLANS:**

Ms. Nicholl provided an overview of various types of retirement plans including defined benefit (DB), defined contribution (DC), and hybrid plans. Under a DB plan, the benefit is defined and the contribution is not. Under a DC plan, the contribution is defined, but the benefit is not. A hybrid plan is some combination of the features of a DB plan and

a DC plan. DB plans focus on benefit security; DC plans focus on wealth accumulation. Different levels of risk are involved with each plan.

Board discussion and questions followed. All presentations are on file at RIO.

The board recessed at 3:25 p.m. and reconvened at 3:40 p.m.

**LEGISLATIVE UPDATE:**

Mrs. Kopp, Deputy Executive Director/Chief Retirement Officer, reported on the Legislative Employee Benefits Programs Committee (LEBPC) meeting held on September 18, 2014. Mrs. Kopp presented testimony on Bill No. 140 which includes Internal Revenue Code (IRC) updates, and also submitted the proposed amendment approved by the TFFR board. The amended bill has been sent to Segal for final review. Mr. Matthew Strom, Segal, will give TFFR's 2014 actuarial valuation report at the next LEBPC meeting to be held October 29, 2014. The Committee will be making their recommendation on the bill at that meeting. The deadline to prefile a bill for the 2015 session is December 6, 2014.

**TREASURER SCHMIDT MOVED AND MR. OLSON SECONDED TO DIRECT MRS. KOPP TO PREFILE BILL NO. 140 FOR THE 2015 LEGISLATIVE SESSION AFTER THE LEBPC HAS MADE THEIR RECOMMENDATION.**

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

**NAYS: NONE**

**MOTION CARRIED.**

The Legislative Government Finance Committee (LGFC) met on October 8, 2014. The Committee discussed and approved submitting various amended bills to the Legislative Management Committee for consideration. Bill No. 176 would close the Public Employees Retirement System (PERS) defined benefit plan on January 1, 2016, and require all new state employees to participate in the PERS defined contribution plan. Concurrent Resolution 3010 and Bill No. 189 were also reviewed. They would establish a new Public Employee Retirement Stabilization Fund and transfer certain funds from the Foundation Aid Stabilization Fund for the purposes of addressing existing and/or anticipated unfunded benefit obligations of state retirement funds, low interest school construction loans, or other education-related purposes.

Mrs. Kopp reviewed the handout, "NDTFFR 2014 Funding Update".

Board discussion followed.

**NDSBA PROPOSED RESOLUTION:**

Mrs. Kopp reviewed a resolution regarding TFFR contributions and funding that has been approved by the North Dakota School Board Association (NDSBA) Board of Directors and will be presented for

Delegate Assembly approval at the annual convention October 24, 2014. Mr. Lech reported on an amendment to the proposed resolution approved by the Jamestown School Board that will also be presented at the convention. Board discussion followed.

Mrs. Kopp will be presenting a TFFR funding update at the convention.

**GASB PLANNING UPDATE:**

Mrs. Shelly Schumacher, Retirement Program Manager, reported on the progress being made in development of plans for implementation of the new GASB pension reporting standards. TFFR is working closely with plan auditors, CliftonLarsonAllen, and plan actuary, Segal, on implementation details. Full training for all employers of TFFR and PERS, along with their auditors, and the state auditor's office will be held December 11, 2014, from 8:30 a.m. to noon, at the Bismarck Events Center. A video of the training will be available on the RIO website. Board discussion followed.

**ANNUAL TFFR PROGRAM AUDIT REPORT:**

Mrs. Kopp introduced Ms. Terra Miller-Bowley, Audit Services Supervisor, who recently began work at RIO. Mrs. Dottie Thorsen, RIO auditor, presented the annual TFFR program audit activities report for the year ended June 30, 2014. Mrs. Thorsen reported 22 school district compliance audits were completed this year. Twenty-one were in compliance and one generally in compliance. Three not in compliance reviews from past years were also completed.

Other audits conducted during the year included a TFFR file maintenance audit and a benefits payment audit.

The annual financial audit of RIO for the year ended June 30, 2014, 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 20, 2014.

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

**MR. OLSON MOVED AND MR. LECH SECONDED TO ACCEPT THE ANNUAL TFFR PROGRAM AUDIT REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**TRUSTEE EDUCATION/NCTR CONFERENCE:**

Mrs. Franz and Mr. Olson provided a brief report on the education they received at the National Council on Teacher Retirement (NCTR) conference, which they attended.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES ONE DISABILITY APPLICATION - 2014-4D.

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

NAYS: NONE

MOTION CARRIED.

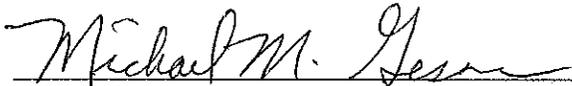
OTHER BUSINESS:

The next board meeting will be held January 22, 2015.

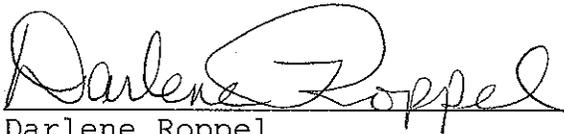
ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 5:10 p.m.

Respectfully Submitted:



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



Darlene Roppel  
Reporting Secretary