

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
MINUTES OF THE  
SEPTEMBER 24, 2015, BOARD MEETING**

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

**STAFF PRESENT:** Terra Miller Bowley, Audit Services Supervisor  
Eric Chin, Investment Analyst  
Connie Flanagan, Fiscal & Invest Op Mgr  
David Hunter, ED/CIO  
Fay Kopp, Deputy ED/CRO  
Rich Nagel, Information Systems Supervisor  
Darlene Roppel, Retirement Assistant  
Darren Schulz, Deputy CIO  
Shelly Schumacher, Retirement Program Manager

**OTHERS PRESENT:** Julia Moriarty, Callan  
Janilyn Murtha, Attorney General's Office  
Nancy Peterson, NDU-Retired  
Gordie Weightman, Callan

**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, September 24, 2015, in the Ft. Union Room at the State Capitol in Bismarck, ND.

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

**APPROVAL OF AGENDA:**

The Board considered the meeting agenda. President Gessner requested agenda item #9, ESPB Community Expert Rules, be moved to follow agenda item #2, Approval of Minutes.

**MRS. FRANZ MOVED AND MR. OLSON SECONDED TO APPROVE THE REVISED AGENDA.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**MINUTES:**

The board considered the minutes of the TFFR board meetings held July 23 and July 24, 2015.

MR. OLSON MOVED AND MR. LECH SECONDED TO APPROVE THE MINUTES OF THE TFFR BOARD MEETINGS HELD JULY 23 AND JULY 24, 2015.

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

NAYS: NONE

MOTION CARRIED.

**ESPB COMMUNITY EXPERT RULES:**

Mrs. Kopp commented on the emergency Education Standards and Practices Board (ESPB) community expert rules that were signed by the Governor and in effect for the 2015-16 school year. The rules allow the hiring of non-licensed community experts to fill certain vacant teaching positions if approved by ESPB. These individuals will not be eligible to participate in the TFFR pension plan because they do not have a teaching license. State Superintendent Baesler responded to questions on the rules and process. Board discussion followed.

**ASSET LIABILITY STUDY:**

Mrs. Kopp introduced Callan Associates representatives, Ms. Julia Moriarty, Senior Vice President, Capital Markets Research, and Gordie Weightman, Vice President, Fund Sponsor Consulting. They presented information on the Asset Liability study that Callan will be conducting including the asset-liability study process, capital market expectations, liabilities, risk tolerance, asset classes currently employed, additional asset classes to consider, and study timeline and decisions. The study is meant to set a long term strategic asset allocation. The board will make a recommendation on the active member population growth rate projection in October. Results of the study will be delivered to the TFFR Board at the January 21, 2016 board meeting.

The presentation is on file at the Retirement and Investment Office (RIO).

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO INCLUDE IN THE STUDY THE FUND'S CURRENT ASSET CLASSES WHICH INCLUDES DOMESTIC EQUITY, DOMESTIC FIXED INCOME, INTERNATIONAL EQUITY, INTERNATIONAL FIXED INCOME, REAL ESTATE, WORLD EQUITY, PRIVATE EQUITY, TIMBER, INFRASTRUCTURE, OPPORTUNISTIC, CASH AND EQUIVALENTS, AND TO EXCLUDE HEDGE FUNDS AND CURRENCY.

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

NAYS: NONE

MOTION CARRIED.

ABSENT: SUPT. BAESLER

Supt. Baesler left at 2:20 p.m.

The board recessed at 2:45 p.m. and reconvened at 2:55 p.m.

**ANNUAL TFFR INVESTMENT REPORT:**

Mr. Hunter presented the annual TFFR investment report including asset allocation, investment performance, expenses, and capital markets for the fiscal year ending June 30, 2015. The net investment return for the fiscal year ending 6/30/15 was 3.52%, 5-year average was 10.94%, and 30-year average was 8.37%. During the last 5 years, asset allocation and active management generated approximately \$890 million and \$85 million of TFFR overall investment income, respectively. TFFR's investment returns have consistently ranked in the second quartile of the Callan Public Fund data base over the last 1-, 3-, and 5-year periods. Board discussion followed.

All reports given throughout the meeting are on file at RIO.

**MR. BURTON MOVED AND MRS. FRANZ SECONDED TO ACCEPT THE 2015 ANNUAL INVESTMENT REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: SUPT. BAESLER**

**ANNUAL RIO BUDGET AND EXPENSE REPORT:**

Mrs. Flanagan reviewed the annual RIO budget and expense report. RIO came in under budget for the 2013-15 biennium. Ms. Flanagan discussed continuing appropriations such as investment expenses, member benefit and refund payments, and actuarial, auditing, and legal consulting fees. She also reviewed appropriated expenditures such as salaries and operating expenses. Board discussion followed.

**MR. OLSON MOVED AND MR. LECH SECONDED TO ACCEPT THE 2015 ANNUAL BUDGET AND EXPENSE REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: SUPT. BAESLER**

**SIB CUSTOMER SATISFACTION SURVEY:**

President Gessner presented a summary of the individual TFFR board member responses to the State Investment Board (SIB) customer satisfaction survey. Board discussion followed.

**MR. BURTON MOVED AND TREASURER SCHMIDT SECONDED TO SUBMIT THE ANNUAL CUSTOMER SATISFACTION SURVEY RESPONSE TO THE SIB.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: SUPT. BAESLER**

**IRS COMPLIANCE REVIEW AND IRS DETERMINATION LETTER:**

Mrs. Kopp reviewed the Internal Revenue Service (IRS) compliance and determination letter process. The program to request a determination letter every five years is being discontinued. This is the last year that a determination letter can be requested. The application fee is \$2,500. Ms. Melanie Walker, benefits consultant with Segal, has conducted an Internal Revenue Code (IRC) compliance review and has determined that the TFFR governing plan provisions substantially comply with written plan requirements for qualified pension plans under IRC section 401(a). She also offered some suggested language relating to the HEART Act which is included in proposed administrative rule changes. Ms. Walker is currently preparing the application forms and necessary information to apply for the IRS determination letter later this year.

**TREASURER SCHMIDT MOVED AND MR. OLSON SECONDED TO APPROVE SUBMISSION OF TFFR PLAN FOR IRS DETERMINATION LETTER AND ASSOCIATED COSTS.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: SUPT. BAESLER**

**PROPOSED ADMINISTRATIVE RULES:**

Mrs. Kopp reviewed proposed administrative rule changes. Rule changes are needed to define certain terms for administrative clarification, update language to maintain compliance with federal IRC requirements (HEART Act) and to reflect the recent revised actuarial assumptions and factors. The timeline was also reviewed.

**MR. OLSON MOVED AND MR. LECH SECONDED TO SUBMIT THE PROPOSED ADMINISTRATIVE RULES TO THE LEGISLATIVE COUNCIL AND DISTRIBUTE FOR PUBLIC COMMENT, SUBJECT TO ACTUARY AND LEGAL COUNSEL FINAL REVIEW AND INCORPORATION OF ANY NONSUBSTANTIVE CHANGES.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: SUPT. BAESLER**

**EXPERIENCE STUDY IMPLEMENTATION:**

Mrs. Schumacher updated the board on the status of changes needed to implement the revised actuarial assumptions approved by the TFFR Board as a result of the 5-year actuarial experience study. This includes updating the ND Administrative Code with new actuarial factors, and incorporating revised interest rate and mortality assumptions into the CPAS pension administration computer system and plan calculations. The programming work should begin in October. Additionally, staff has

incorporated the revised interest rate assumption into late employer reporting and prior fiscal year corrections as of July 1, 2015. Changes have been communicated to members and employers via the employer and member newsletters which contained articles on the Experience Study assumption changes.

**ACTUARIAL AUDIT:**

Mrs. Kopp reviewed a suggested amendment to Board Policy B-9, Trust Fund Evaluation/Monitoring. The board had requested information on the frequency of actuarial audits. Mrs. Kopp indicated that the Government Finance Officers Association (GFOA) recommends that actuarial audits be conducted at least every five years, and it appears that most public plans are following this practice.

**MR. OLSON MOVED AND MRS. FRANZ SECONDED TO ADD THE SENTENCE: "IF THERE IS A CHANGE IN ACTUARIES, A FULL REPLICATION OF THE PREVIOUS ACTUARIAL VALUATION SHOULD BE CONDUCTED AND WILL SERVE AS AN ACTUARIAL AUDIT" TO BULLET #2 IN BOARD POLICY B-9, AS PROPOSED.**

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

**NAYS: NONE**

**MOTION CARRIED.**

**ABSENT: SUPT. BAESLER**

**SIB GOVERNANCE PRESENTATION:**

Mr. Hunter commented on the SIB Governance presentation by Mr. Keith Ambachtsheer on July 24, 2015. The board also provided their feedback.

Treasurer Schmidt left at 4:25 p.m.

**ANNUAL TECHNOLOGY REPORT:**

Mr. Nagel, Information Systems Supervisor, reported on the current activities and future initiatives for the Information Technology department of RIO. The Data Processing Coordinator III position has been vacant twice in the last 18 months and is still vacant. Some projects have been put on hold to ensure that the critical items with highest priority are being completed first. In addition to updating the board on staffing issues, Mr. Nagel also commented on 2015 legislation, member web services, network allocations, records retention, disaster recovery, and IT security. Mr. Nagel reviewed the security incident that occurred on a state ITD server this summer that affected 950 TFFR members, and actions taken by RIO and ITD. Board discussion followed.

**MR. LECH MOVED AND MR. BURTON SECONDED TO ACCEPT THE ANNUAL TECHNOLOGY REPORT.**

**AYES: MR. BURTON, MR. LECH, MRS. FRANZ, MR. OLSON, AND PRESIDENT GESSNER.**

**NAYS: NONE**

**MOTION CARRIED.**

ABSENT: SUPT. BAESLER AND TREASURER SCHMIDT

CONSENT AGENDA:

MR. LECH MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES TWO DISABILITIES, 2015-6D AND 2015-7D, AND TWO QUALIFIED DOMESTIC RELATIONS ORDERS (QDRO), 2015-04 AND 2015-05.

AYES: MR. OLSON, MRS. FRANZ, MR. LECH, MR. BURTON, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

ABSENT: SUPT. BAESLER AND TREASURER SCHMIDT

OTHER BUSINESS:

Mrs. Kopp stated the first meeting of the interim Employee Benefits Programs Committee (EBPC) will be held October 27, 2015. TFFR's actuary, Segal, will present the 2015 Actuarial Valuation report to the committee.

Mrs. Kopp will be presenting to the North Dakota Council of Educational Leaders (NDCEL) and North Dakota School Board Association (NDSBA) at their annual conventions in October.

The next regular board meeting will be held October 22, 2015, in the Peace Garden Room at the State Capitol.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:40 p.m.

Respectfully Submitted:



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



Darlene Roppel  
Reporting Secretary