**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT**
**MINUTES OF THE**
**OCTOBER 22, 2015, BOARD MEETING**

| | |
|---|---|
| **BOARD MEMBERS PRESENT:** | Mike Gessner, President<br>Mike Burton, Trustee<br>Kim Franz, Trustee<br>Rob Lech, Trustee<br>Mel Olson, Trustee<br>Kelly Schmidt, State Treasurer |
| **ABSENT:** | Kirsten Baesler, State Superintendent |
| **STAFF PRESENT:** | David Hunter, ED/CIO<br>Fay Kopp, Deputy ED/CRO<br>Terra Miller Bowley, Audit Services Supervisor<br>Darlene Roppel, Retirement Assistant<br>Shelly Schumacher, Retirement Program Manager |
| **OTHERS PRESENT:** | Erica Cermak, NDRTA<br>Janilyn Murtha, Attorney General's Office<br>Kim Nicholl, Segal<br>Nancy Peterson, NDU-Retired<br>Ken Tupa, NDRTA |

**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 22, 2015, in the Peace Garden Room at the State Capitol in Bismarck, ND.

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

Supt. Baesler was absent.

**APPROVAL OF AGENDA:**
The Board considered the meeting agenda.

**MR. LECH MOVED AND MR. OLSON SECONDED TO APPROVE THE AGENDA AS PRESENTED.**

**AYES: MR. BURTON, MR. LECH, MRS. FRANZ, MR. OLSON, AND PRESIDENT GESSNER**
**NAYS: NONE**
**MOTION CARRIED.**
**ABSENT: SUPT. BAESLER AND TREASURER SCHMIDT**

**MINUTES:**
The board considered the minutes of the TFFR board meeting held September 24, 2015.

**MRS. FRANZ MOVED AND MR. LECH SECONDED TO APPROVE THE MINUTES OF THE TFFR BOARD MEETING HELD SEPTEMBER 24, 2015.**

**AYES: MR. LECH, MR. OLSON, MR. BURTON, MRS. FRANZ, AND PRESIDENT GESSNER**
**NAYS: NONE**
**MOTION CARRIED.**
**ABSENT: SUPT. BAESLER AND TREASURER SCHMIDT**

Treasurer Schmidt arrived at 1:25 p.m.

**2015 VALUATION REPORT:**
Ms. Kim Nicholl, Senior Vice President, Segal Consulting, presented TFFR's Actuarial Valuation as of July 1, 2015. 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 actuarially determined contribution (ADC), determine the effective amortization period, provide information for annual financial statements, and identify emerging trends. Segal recently reviewed the TFFR funding policy and found it continues to be appropriate. Ms. Nicholl provided an overview of the valuation process, reviewed actuarial assumptions and methods; and presented the 2015 valuation highlights.

Certain actuarial assumptions were changed as a part of the five year Experience Study which was presented in April 2015. The plan's investment return assumption was lowered from 8.00% to 7.75%, mortality assumption tables were updated to the RP 2014 mortality tables with generational improvement, and other minor assumption changes were adopted. The assumption changes impacted the July 1, 2015 valuation results as follows: accrued liability increased by $171 million; funded ratio decreased by 3.2%; and the effective amortization period increased by 8 years.

The market value of assets (MVA) returned 3.5% for the one year ending June 30, 2015; 5.9% over 10 years, 7.1% over 20 years, and 8.2% over 30 years (Segal calculation). MVA increased from $2.09 billion on June 30, 2014, to $2.14 billion on June 30, 2015. The actuarial value of assets (AVA) increased from $1.94 billion to $2.13 billion. The unfunded actuarial accrued liability (UAAL) increased from $1.198 billion to $1.325 billion. The funded ratio decreased from 61.8% to 61.6%. The ADC increased from 11.57% of payroll to 13.04% of payroll. Based on the employer contribution rate of 12.75% for fiscal year (FY) 2016, the contribution deficiency is 0.29% of payroll. The effective amortization period increased from 24 years to 29 years.

Ms. Nicholl reviewed information on the newly adopted Governmental Accounting Standards Board (GASB) accounting standards. GASB 67 provides for accounting with respect to plans and was effective for TFFR as of June 30, 2014. GASB 68 provides for financial reporting by

employers and is effective for TFFR participating employers as of June 30, 2015. The net pension liability (NPL) is required to be reported in the Fund's financial statements and on each employer's balance sheet (their proportionate share of the collective pension amounts, based on their payroll, for all benefits provided by the Fund). The NPL for TFFR increased from $1.048 billion to $1.308 billion as of June 30, 2015 and the Plan Fiduciary Net Position declined from 66.6% to 62.1% on June 30, 2015. Ms. Nicholl also presented estimated funded ratio projections for 30 years based on FY16 investment return scenarios ranging from -24% to +24% and assuming 7.75% earnings each year thereafter. This includes statutory 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. Funding levels are expected to reach 80-100% in 20-30 years, depending upon investment performance.

After board discussion and questions,

**TREASURER SCHMIDT MOVED AND MR. OLSON SECONDED TO ACCEPT THE 2015 ACTUARIAL VALUATION REPORT.**

**AYES: TREASURER SCHMIDT, MRS. FRANZ, MR. OLSON, MR. BURTON, MR. LECH, AND PRESIDENT GESSNER.**
**NAYS: NONE**
**MOTION CARRIED.**
**ABSENT: SUPT. BAESLER**

**ASSET LIABILITY STUDY:**
Mrs. Kopp reviewed information on active member population growth to be used for liability projections in the asset liability study. Mrs. Kopp consulted Mr. Jerry Coleman, Department of Public Instruction (DPI), on projected student enrollment growth and how that might affect active member population growth. Due to increased residents' births, in migration statistics and the strong North Dakota economy, DPI predicts growth in student population could be about 2000-3000 students per year for the next three years. Callan will model two active population projections, one being 0% as the baseline projection reflecting a constant active population.

After board discussion,

**MR. OLSON MOVED AND MR. LECH SECONDED TO USE 0% AND 2% ACTIVE MEMBER POPULATION GROWTH FOR THE NEXT FIVE YEARS FOR THE LIABILITY PROJECTIONS IN THE ASSET LIABILITY STUDY.**

**AYES: MRS. FRANZ, MR. BURTON, MR. LECH, MR. OLSON, TREASURER SCHMIDT, AND PRESIDENT GESSNER.**
**NAYS: NONE**
**MOTION CARRIED.**
**ABSENT: SUPT. BAESLER**

**ACTUARIAL AUDIT:**
Mrs. Kopp reviewed the reasons for an actuarial audit: enhances the credibility of the actuarial valuation process, increases public trust in how the pension plan is being governed, can lead to the remediation of errors that might otherwise go undiscovered, and it can provide recommendations for improving the actuarial valuation process. There are three levels of actuarial audits. TFFR has historically had the level one, full-scope audit conducted.

After discussion and questions,

**TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO CONDUCT A FULL SCOPE ACTUARIAL AUDIT, FOLLOW THE REQUEST FOR PROPOSAL (RFP) PROCESS, GIVE THE STAFF AUTHORITY TO REVIEW RFP'S AND BRING THE TOP TWO OR THREE PROPOSALS TO THE BOARD FOR INTERVIEW AND FINAL SELECTION OF THE REVIEWING ACTUARY.**

**AYES: MR. OLSON, MR. LECH, MRS. FRANZ, TREASURER SCHMIDT, MR. BURTON, AND PRESIDENT GESSNER.**
**NAYS: NONE**
**MOTION CARRIED.**
**ABSENT: SUPT. BAESLER**

**LEGISLATIVE UPDATE:**
Mrs. Kopp provided the board with the agenda for the first Legislative Employee Benefits Program Committee (LEBPC) meeting of the interim, to be held October 27, 2015. Mrs. Kopp will provide an overview of the TFFR plan, and Mr. Hunter will provide an overview of the State Investment Board (SIB) investment program. Mr. Matt Strom, Segal, will present the TFFR 2015 valuation report and funding projections.

**ANNUAL TFFR PROGRAM AUDIT REPORT:**
Ms. Miller Bowley, Audit Services Supervisor, presented the annual TFFR program audit activities report for the year ended June 30, 2015. Ms. Miller Bowley reported 24 school district audits were completed. Twenty-two were found to be in compliance or generally in compliance while two employers were found not in compliance. As of June 30, 2015, twenty-two employers have yet to be audited in the third audit cycle. A TFFR file maintenance audit and a benefits payment audit were also completed with no exceptions noted. The annual salary verification project was also completed with five member accounts being corrected as a result. Following the first TFFR benefit payment cost efficiency review, audit services found that retirement benefits are being paid by TFFR on a cost effective and timely basis.

Mrs. Kopp commended Ms. Miller Bowley and Mrs. Thorsen on the excellent job they have been doing.

**MR. LECH MOVED AND MR. BURTON SECONDED TO ACCEPT THE 2015 TFFR PROGRAM AUDIT REPORT.**

**AYES: MR. BURTON, MRS. FRANZ, MR. OLSON, TREASURER SCHMIDT, MR. LECH, AND PRESIDENT GESSNER.**
**NAYS: NONE**
**MOTION CARRIED.**
**ABSENT: SUPT. BAESLER**

**BOARD EDUCATION - INVESTMENT REPORTS:**
Mr. Hunter provided an overview of how to review "Investment Performance Reports" for the TFFR pension plan. Preliminary monthly performance reports are available on the RIO Reference Library, and quarterly performance reports are available on the RIO website. Mr. Hunter reviewed the reports on the asset classes Global equities, Global fixed income, and Global real assets and how to interpret them. He also emphasized that given the long-term investment horizon of the TFFR pension plan, there should be a greater emphasis placed on 5-year returns over shorter periods.

The SIB meeting will be held Friday, October 23, 2015.

**TRUSTEE EDUCATION:**
Mr. Olson, Mrs. Franz, and Mr. Burton reported on National Council on Teacher Retirement (NCTR) conferences they attended in July and October 2015.

**OTHER BUSINESS:**
An updated board calendar and education plan was included in the board material.

The next regular board meeting will be held January 21, 2016, 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 3:27 p.m.

Respectfully Submitted:

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

Darlene Roppel
Reporting Secretary