Agenda

ND Teachers' Fund for Retirement
Board Meeting

Thursday, September 26, 2013
1:00 pm

Ft. Totten Room
State Capitol, Bismarck, ND

1. Call to Order and Approval of Agenda - Pres. Gessner
2. Approval of Minutes of July 25, 2013 Meeting – Pres. Gessner
3. Board Education: Fiduciary Duties/Ethics – Jan Murtha, AGO
4. Legislative Update – Fay Kopp
5. Annual Investment Report – Darren Schultz
6. SIB Update – Darren Schulz
7. Annual RIO Budget and Expense Report – Connie Flanagan
8. SIB Search Committee Update – Treas. Schmidt
9. SIB Audit Committee Update – Pres. Gessner
10. TFFR Policy Changes – Fay Kopp
11. TFFR Centennial – Fay Kopp
12. Other Business
13. Adjournment

Next Board Meeting: October 24, 2013

Any person who requires an auxiliary aid or service should contact the Deputy Executive Director at 701-328-9885 at least three (3) days before the scheduled meeting.

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JULY 25, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Gessner, President Kirsten Baesler, State Superintendent Clarence Corneil, Trustee Kim Franz, Trustee Mel Olson, Trustee
STAFF PRESENT:	Fay Kopp, Interim Executive Director Darlene Roppel, Retirement Assistant Darren Schulz, Interim CIO Shelly Schumacher, Retirement Program Manager Denise Weeks, Retirement Program Specialist
OTHERS PRESENT:	Erica Cermak, NDRTA Rolland Larson, NDRTA Gloria Lokken, NDEA Janilyn Murtha, Attorney General's Office
ABSENT:	Rob Lech, Trustee Kelly Schmidt, State Treasurer

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, July 25, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

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

Mr. Lech and Treasurer Schmidt were absent.

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

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

AYES: MR. CORNEIL, SUPT. BAESLER, MRS. FRANZ, MR. OLSON, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

INTRODUCTION OF NEW BOARD MEMBERS:

President Gessner welcomed Mr. Mel Olson, the newly appointed trustee, representing retired teachers. His five year term is July 1, 2013, - June 30, 2018. Mr. Olson gave a synopsis of his career.

Mr. Rob Lech, Superintendent of Jamestown Public Schools, has been appointed by Governor Dalrymple to represent active administrators. He is filling the unexpired term (July 1, 2013 - June 30, 2015) vacated by Mr. Bob Toso. Due to prior commitments, Mr. Lech was unable to attend this meeting.

MINUTES:

The Board considered the minutes of the regular board meeting held May 16, 2013.

SUPT. BAESLER MOVED AND MRS. FRANZ SECONDED TO APPROVE THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD MAY 16, 2013, AS PRESENTED.

AYES: MR. OLSON, MR. CORNEIL, SUPT. BAESLER, MRS. FRANZ, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

ELECTION OF 2013-14 OFFICERS:

President Gessner opened the floor for nominations for President of the TFFR board.

MR. CORNEIL NOMINATED MR. GESSNER FOR PRESIDENT. SUPT. BAESLER SECONDED THE NOMINATION.

AYES: SUPT. BAESLER, MR. CORNEIL, MRS. FRANZ, MR. OLSON, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

President Gessner opened the floor for nominations for Vice President of the TFFR board.

SUPT. BAESLER NOMINATED MR. CORNEIL FOR VICE PRESIDENT. MRS. FRANZ SECONDED THE NOMINATION.

AYES: MRS. FRANZ, MR. CORNEIL, MR. OLSON, SUPT. BAESLER, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

SUPT. BAESLER MOVED AND MR. OLSON SECONDED TO REAPPOINT PRESIDENT GESSNER, ACTIVE TEACHER, AND MR. CORNEIL, RETIREE, AND APPOINT MR. LECH, ACTIVE ADMINISTRATOR, TO REPRESENT TFFR ON THE STATE INVESTMENT BOARD (SIB).

AYES: MR. OLSON, MRS. FRANZ, SUPT. BAESLER, MR. CORNEIL, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

MR. CORNEIL MOVED AND SUPT. BAESLER SECONDED TO REAPPOINT PRESIDENT GESSNER TO THE SIB AUDIT COMMITTEE.

AYES: SUPT. BAESLER, MRS. FRANZ, MR. OLSON, MR. CORNEIL, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

SUPT. BAESLER MOVED AND MR. OLSON SECONDED TO REAPPOINT MRS. FRANZ AS ALTERNATE TO THE SIB.

AYES: MRS. FRANZ, SUPT. BAESLER, MR. CORNEIL, MR. OLSON, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

BOARD EDUCATION – TFFR PLAN OVERVIEW:

Mrs. Shelly Schumacher, Retirement Program Manager, and Ms. Denise Weeks, Retirement Program Specialist, gave an overview of the TFFR pension plan. Topics included the type of plan, confidentiality of records, membership, service credit, eligible salary, ineligible salary, employee and employer contributions, purchase of service credit, divorce, refunds, benefit formula, benefit options, types of benefits, retiree re-employment and member and employer services. Board discussion and questions followed. The presentation is on file at the Retirement and Investment Office (RIO).

LEGISLATIVE UPDATE:

Mrs. Fay Kopp, Interim Executive Director and Chief Retirement Officer, presented information on the interim Legislative Committees which are responsible for retirement related studies and review of legislative proposals. The Legislative Government Finance Committee has been assigned to study state employee retirement plans, including the possibility of transitioning to a state defined contribution plan, and is scheduled to meet on July 30, 2013. The Legislative Employee Benefits Programs Committee has not yet scheduled their first meeting of the interim.

The board recessed at 2:50 p.m. and reconvened at 3:05 p.m.

ANNUAL TFFR PROGRAM REVIEW:

Mrs. Kopp reviewed the 2012-13 program monitoring summary and the board accomplishments. Mrs. Kopp also provided an overview of the TFFR Board Program Manual. The board discussed the mission, goals, policies and by-laws of the TFFR program. Mrs. Kopp will bring suggested changes for policies B-5, "Investment Policy Statement, C-7 "Employer Reporting Errors" and C-8 "Employer Reports", to the September board meeting. The board members and Mrs. Kopp completed the Code of Conduct affirmation that is required annually.

After discussion,

MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO APPROVE THE ANNUAL PROGRAM REVIEW.

AYES: SUPT. BAESLER, MR. CORNEIL, MRS. FRANZ, MR. OLSON, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

ANNUAL TFFR CUSTOMER SATISFACTION REPORTS:

Mrs. Kopp reviewed responses to the Customer Satisfaction Surveys received from North Dakota Council of Educational Leaders (NDCEL), North Dakota Education Association (NDEA), North Dakota Retired Teacher Association (NDRTA), North Dakota School Board Association (NDSBA), and the North Dakota Association of School Business Managers (NDASBM).

Mrs. Kopp expressed appreciation to the RIO staff for doing an excellent job as is evidenced by the comments and evaluations that were given by members and business managers. Mr. Corneil also expressed his appreciation for the wonderful atmosphere provided by the RIO staff.

With input from the board members, President Gessner completed the SIB annual Customer Satisfaction Survey with an "excellent" in all areas.

MR. OLSON MOVED AND MRS. FRANZ SECONDED TO APPROVE THE ANNUAL CUSTOMER SATISFACTION REPORTS.

AYES: MR. OLSON, MR. CORNEIL, MRS. FRANZ, SUPT. BAESLER, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

Supt. Baesler left the meeting at 4:35 p.m.

MRS. FRANZ MOVED AND MR. CORNEIL SECONDED TO SUBMIT THE SIB CUSTOMER SATISFACTION SURVEY.

AYES: MRS. FRANZ, MR. CORNEIL, MR. OLSON, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

SIB UPDATE:

Mr. Darren Schulz, Interim CIO, gave an investment performance recap for the fiscal year. Mr. Schulz reported the estimated total investment return for fiscal year 2012-13 is 13.55%. Mr. Schulz reviewed the agenda for the SIB meeting to be held July 26, 2013.

SIB SEARCH COMMITTEE UPDATE:

Mr. Schulz updated the board on the progress in hiring the SIB Executive Director/CIO. Approximately 90 investment professionals were contacted by Mr. Michael Kennedy, KornFerry, of whom 14-15 expressed interest in the job. The SIB Search Committee will be conducting three interviews on July 26, 2013, with another interview session to be held soon after. Finalists will be interviewed by the full SIB in September.

SIB AUDIT COMMITTEE UPDATE:

President Gessner gave an update on the Audit Committee activities. Forty-five school district compliance audits were completed by the audit division in 2012-13. Mr. Les Mason, Supervisor of Internal Audit, retired as of July 12, 2013. The position and audit function will be evaluated by the Audit Committee and SIB to see if changes should be made.

CONSENT AGENDA:

MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES FIVE DISABILITY APPLICATIONS – 2013-10D, 2013-11D, 2013-12D, 2013-13D AND 2013-14D.

AYES: MR. OLSON, MRS. FRANZ, MR. CORNEIL, AND PRESIDENT GESSNER.
NAYS: NONE
MOTION CARRIED.

OTHER BUSINESS:

The annual NCTR conference will be held October 5-9, 2013, in Washington, DC. Board members should let the office know by August 30, 2013, if they plan to attend.

Mrs. Kopp encouraged the board to review the reading material included in their packets between board meetings.

No further plans have been made for the TFFR centennial celebration.

The next board meeting will be held September 26, 2013.

ADJOURNMENT:

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

Respectfully Submitted:

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

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Darlene Roppel
Reporting Secretary

MEMORANDUM

TO: **TFFR Board of Trustees**

FROM: **Fay Kopp**

DATE: **September 19, 2013**

SUBJ: **Board education: Fiduciary Duties - Ethics**

Fiduciary responsibilities. Duties of loyalty, prudence and skill. Exclusive benefit rule. Prudent person standard. Ethics. Conflict of interest. Code of conduct.

Sounds complicated, doesn't it? By definition, a fiduciary is one who must exercise a high standard of care in managing another's money or property. TFFR trustees are fiduciaries and have fiduciary responsibilities set forth in state law. You are also subject to ethical practices outlined in TFFR's Code of Conduct policy (enclosed).

Jan Murtha, Assistant Attorney General and legal counsel for TFFR, will provide board education on this important topic.

Enclosure

Handout

North Dakota Teachers' Fund For Retirement Board Member Responsibilities

What is Your Role? (NDCC § 15-39.1-05.1)

- "The authority to set policy for the fund rests in a board of trustees composed.." Of You.

What is a Trustee?

- Trustee: "One who, having legal title to property, holds it in trust for the benefit of another and owes a fiduciary duty to that beneficiary."
- Fiduciary Duty: A duty of utmost good faith, trust, confidence, and candor owed by a fiduciary to the beneficiary.

Black's Law Dictionary 7th ed. 1999.

What guides your actions as a trustee?

- Statute: North Dakota Century Code
- Rule: Administrative Rules
- Policy: Informal and Program Manual
- Case-law/ Legal Treatises
  (Ex: Restatement 3rd of Trusts)
- Your Conscience
  (Miller's Mirror Test)

Fiduciary Duties

- Duty of Loyalty
- Duty of Impartiality
- Duty of Prudence
- Duty of Administration
- Duty of Skill
- Duty of Delegation
- Prudent Investor Rule

Duty of Loyalty

- A Trustee must administer a trust solely in the interests of the beneficiaries.
  - Exclusive Benefit Rule
  - Avoid conflicts
  - Practice Fair dealing and candor with beneficiary.

NDCC § 21-10-07, 54-52-14.3, 59-16-02;

Restatement 3rd of Trusts § 78

Duty of Impartiality

- If a trust has two or more beneficiaries, the trustee shall act impartially in investing, managing, and distributing the trust property, giving due regard to the beneficiaries' respective interests.
- Includes responsibility for Income Productivity.

NDCC § 59-16-03; Restatement 3rd of Trusts § 79

Duty of Prudence

- A trustee shall administer the trust as a prudent person would by considering the purposes, terms, distributional requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.
- May include Duty of Skill.

NDCC § 59-16-04; Restatement 3rd of Trusts § 77

Duty of Administration

- In administering a trust, the trustee may incur only costs that are reasonable in relation to the trust property, the purposes of the trust, and the skills of the trustee.

NDCC § 59-16-05; See also § 21-10-06.2;

Restatement 3rd of Trusts § 76 & 88

Duty of Skill

- A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, shall use those special skills or expertise.
- May also be considered part of the Duty of Prudence.

NDCC § 59-16-06; Restatement 3rd of Trusts § 77

Duty of Delegation

- Ok to delegate if appropriate under the circumstances.
- Be prudent in selecting agent.
- Must establish scope of delegation.
- Monitor.

NDCC § 59-16-07; See also § 21-10-02

Restatement 3rd of Trusts § 80

Prudent Investor Rule

- Exercise all Fiduciary Duties in relation to making investment decisions.
  - Exclusive Benefit Rule
  - Ex: Social Investing

NDCC § 59-17-01 & 02; See also § 21-10-07

Restatement 3rd of Trusts § 90

Specific Application of Fiduciary Duties

- Administration of the Plan

    NDCC § 15-39.1-05.2

- Maintaining the Confidentiality of Records

    NDCC § 15-39.1-30

- Monitoring and Suggesting Improvements to the Plan.

    NDCC § 15-39.1-35

Conflicts of Interest

- Obvious: Direct, Substantial, Personal, Pecuniary.
- Less Obvious: Favors, Gifts, Special Treatment.
- The appearance of impropriety.
- Refer to Code of Conduct for Questions

Disclosure vs. Abstaining

- Common Question: Should I abstain from voting if I think there could be a conflict?
- Answer – No. (but disclosing is not a bad idea)
- Reasoning – In a North Dakota Supreme Court case entitled Northwestern Bell Telephone Company v. Board of Commissioners of the City of Fargo (1973) the Court held:
  - 1) A member of a governmental body who is present has a DUTY to vote, unless abstention is addressed in the law. AND
  - 2) A failure to vote (abstaining) will result in that vote being cast with the majority.

- This is sometimes referred to as the "rule of necessity"

Breach

- Potential ramifications for a breach of fiduciary duties and code of conduct.
  – Board reprimand
  – Loss of Position
  – Civil Liability
  – Criminal Liability

Board Member Liability

- Common Question: Am I personally liable for decisions I make as a board member?

Definitions

- "State employee" means every present or former officer or employee of the state or any person acting on behalf of the state in an official capacity, temporarily or permanently, with or without compensation. The term does not include an independent contractor.
- "State" includes an agency, authority, board, body, branch, bureau, commission, committee, council, department, division, industry, institution, instrumentality, and office of the state.
- "Scope of employment" means the state employee was acting on behalf of the state in the performance of duties or tasks of the employee's office or employment lawfully assigned to the employee by competent authority or law.

Operate within scope of your employment

- NDCC § 32-12.2-03(1-3)

  “Actions against state employees operating within the scope of the employee’s employment must be brought against the state.”

  “A state employee may not be held liable in the employee’s personal capacity for acts or omissions of the employee occurring within the scope of employee’s employment.”

- NDCC § 32-12.2-03(5)

  “A judgment in a claim against the state is a complete bar to any claim by the claimant, resulting from the same injury, against the employee whose act or omission gave rise to the claim.

Who represents me?

- NDCC § 32-12.2-03(6)

  "The state shall defend any state employee in connection with any civil claim or demand, whether groundless or otherwise, arising out of an alleged act or omission occurring within the scope of the employee's employment if the employee provides complete disclosure and cooperation in the defense of the claim or demand and if the employee requests such defense in writing within ten days after being served with a summons, complaint, or other legal pleading asserting a cause of action against the state employee arising out of a civil claim or demand."

Can I choose Who represents me?

- NDCC § 32-12.2-03(7)

  "For any claim brought under this chapter, a state employee may choose to hire the employee's own separate defense counsel to represent the state employee in the litigation. If the state employee chooses to hire separate defense counsel, subsections 4 and 6 do not apply to the state employee in that litigation and the state will not indemnify, save harmless, or defend the state employee nor pay for the state employee's defense or any judgment against the state employee."

Who pays if they win?

- NDCC § 32-12.2-03(4)

  "Except for claims or judgments for punitive damages, the state shall indemnify and save harmless a state employee for any claim, whether groundless or not, and final judgment for any act or omission occurring within the scope of employment of the employee if the employee provides complete disclosure and cooperation in the defense of the claim or demand and if the employee has given written notice of the claim or demand to the head of the state entity that employs the state employee and to the attorney general within ten days after being served with a summons, complaint, or other legal pleading asserting that claim or demand against the state employee."

ANY QUESTIONS???

Policy Type: TFFR Program

Policy Title: Board Members' Code of Conduct

The following shall be the Code of Ethical Responsibility for the TFFR Board of Trustees:

1. Board members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the TFFR members and to strive to avoid not only professional impropriety, but also the appearance of impropriety.

2. Board members shall perform the duties of their offices impartially and diligently. Board members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and to refrain from any form of dishonest or unethical conduct. Board members shall be unswayed by partisan interest, public sentiment, or fear of criticism.

3. Conflicts of interest and the appearance of impropriety shall be avoided by Board members. Board members shall not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members shall refrain from financial and business dealings that tend to reflect adversely on their impartiality or interfere with the proper performance of their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the Board. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction for which the board member has acquired information unavailable to the general public, through participation on the board.

   "Conflict of interest" means a situation in which a board member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

4. The Board shall not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.

5. Board members shall abide by NDCC 21-10-09, which reads: "No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a class A misdemeanor."

6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.

7. Political contributions are regulated under NDCC 16.1-08-03 and are not restricted under this ethics policy.

8. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.

9. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.

10. Violation of these rules shall result in an official reprimand from the TFFR Board. No reprimand shall be issued until the board member has had the opportunity to be heard by the Board.

11. Board members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise.

12. RIO Deputy Executive Director is required to affirm his/her understanding of RIO Administrative Policy – Code of Conduct for RIO Employees – annually, in writing, and must disclose any conflicts of interest that may arise.

TFFR Board Adopted: September 15, 2005.
Amended: September 22, 2011.

MEMORANDUM

TO: **TFFR Board of Trustees**

FROM: **Fay Kopp**

DATE: **September 19, 2013**

SUBJ: **Legislative Update**

Since the Board last met, there have been two interim legislative meetings:

1) Government Finance Committee on July 30, 2013
2) Employee Benefits Programs Committee on August 29, 2013

A copy of the meeting agenda, background information, and TFFR presentation is included for your review.

Enclosures

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Tentative Agenda

GOVERNMENT FINANCE COMMITTEE

Tuesday, July 30, 2013
Roughrider Room, State Capitol
Bismarck, North Dakota

9:00 a.m. Call to order
Roll call
Review of the *Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management*

9:05 a.m. Comments by the Chairman

STATE BUDGET INFORMATION

9:10 a.m. Presentation by the Legislative Council staff of a memorandum regarding other duties of the Government Finance Committee and an overview of the *State Budget Actions for the 2013-15 Biennium* report

9:20 a.m. Presentation by a representative of the Office of Management and Budget regarding:

- Status of the general fund, including major revenue estimate variances
- Estimated turnback from unexpended 2011-13 biennium general fund appropriations
- An overview of general fund revenues for the 2013-15 biennium, including monthly revenue estimates by revenue type

9:40 a.m. Presentation by Mr. Lynn Helms, Director, Department of Mineral Resources, regarding the status of oil and gas development in the state and projected state drilling activities and the effect on state and local infrastructure

10:45 a.m. Presentation by a representative of the Department of Transportation regarding road projects planned for the 2013 construction season and the status of road construction projects, including projects that received funding as a result of 2013 Senate Bill No. 2176

11:05 a.m. Presentation by a representative of the Department of Trust Lands regarding the energy impact grant program, including information on recently awarded grants and the timeline for additional grant awards during the 2013-15 biennium

STUDY OF STATE EMPLOYEE COMPENSATION AND BENEFIT ISSUES

11:30 a.m. Presentation by the Legislative Council staff of a background memorandum regarding the committee's assigned study of the process of appropriating funds for salaries and wages and the state's classification system for employees

11:45 a.m. Committee discussion and comments by interested persons regarding the committee's assigned study of appropriating funds for salaries and wages

12:00 noon Luncheon recess

1:00 p.m. Presentation by the Legislative Council staff of a background memorandum regarding the committee's assigned study of the feasibility and desirability of establishing a maximum state contribution to the cost of state employee health insurance premiums

1:15 p.m. Committee discussion and comments by interested persons regarding the committee's assigned study of state contributions for state employee health insurance premiums

1:30 p.m.	Presentation by the Legislative Council staff of a background memorandum regarding the committee's assigned study of state employee retirement plans, including considerations and possible consequences for transitioning to a state defined contribution plan
1:45 p.m.	Committee discussion and comments by interested persons regarding the committee's assigned study of state employee retirement plans

STUDY OF THE FOUNDATION AID STABILIZATION FUND

2:00 p.m.	Presentation by the Legislative Council staff of a background memorandum regarding the committee's assigned study of the foundation aid stabilization fund
2:10 p.m.	Committee discussion and comments by interested persons regarding the committee's assigned study of the foundation aid stabilization fund

STUDY OF THE LASTING BENEFITS OF THE LEGACY FUND

2:25 p.m.	Presentation by the Legislative Council staff of a background memorandum regarding the committee's assigned study of the lasting benefits of the legacy fund
2:35 p.m.	Committee discussion and comments by interested persons regarding the committee's assigned study of the lasting benefits of the legacy fund
2:50 p.m.	Committee discussion and staff directives
3:30 p.m.	Adjourn

Committee Members

Representatives Jeff Delzer (Chairman), Larry Bellew, Joshua A. Boschee, Bette Grande, Craig Headland, Rick Holman, Lisa Meier, Kylie Oversen, Don Vigesaa, Clark Williams

Senators Dwight Cook, Gary A. Lee, Donald Schaible, Ronald Sorvaag, Terry M. Wanzek, Rich Wardner

Staff Contact: Brady A. Larson, Assistant Legislative Budget Analyst and Auditor

STATE OF STATE EMPLOYEE RETIREMENT PLANS - BACKGROUND MEMORANDUM

STUDY RESPONSIBILITIES

Section 16 (attached as an appendix) of House Bill No. 1452 provides for a study of existing and potential state employee retirement plans, including an analysis of defined benefit and defined contribution plans and the feasibility, desirability, and consequences of transitioning to only a state defined contribution plan. The Legislative Management assigned the responsibility for this study to the Government Finance Committee.

BACKGROUND INFORMATION

The Public Employees Retirement System (PERS) is governed by North Dakota Century Code Chapter 54-52 and includes the PERS main system, judges' retirement system, National Guard retirement system, law enforcement with prior main service, law enforcement without prior main service, and an optional defined contribution retirement plan; Highway Patrolmen's retirement system; Job Service North Dakota retirement plan, and retiree health benefits fund. The plan is supervised by the Retirement Board and covers most employees of the state, district health units, and the Garrison Diversion Conservancy District. A county, city, or school district may choose to participate on completion of an employee referendum and on execution of an agreement with the board.

The Public Employees Retirement System had 21,091 active members on July 1, 2012. Of this total, 20,738 were active members of the main system, 49 were active members of the judges' retirement system, 32 were active members of the National Guard retirement system, 207 were active members of the law enforcement retirement system with prior main service, and 65 were active members of the law enforcement retirement system without prior main service. The Highway Patrol retirement plan had 145 active members and the Job Service retirement plan had 19 active members.

MAIN SYSTEM DEFINED BENEFIT PLAN

The PERS main system defined benefit plan is funded from employer contributions, employee contributions, and investment earnings. Contributions are calculated based on a percentage of gross pay. From 1977 through 1989, the employer contribution was 5.12 percent and the employee contribution was 4 percent. In lieu of state employee salary increases in 1983 and 1984, the state began to pay the 4 percent employee contribution. In 1989 the employer contribution was reduced by 1 percent and reallocated for a retiree health benefit credit.

The following is a summary of employer and employee contributions to the retirement plan since 1989:

1989 Through December 31, 2011		Effective January 1, 2012		Effective January 1, 2013		Effective January 1, 2014	
Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
4.12%	4.00%[1]	5.12%	5.00%[1]	6.12%	6.00%[1]	7.12%	7.00%[1]

[1]The state pays 4 percent of the employee share of retirement contributions.

Benefit Levels and Recent Changes in Benefit Calculations

Members of the main public employees retirement plan are eligible for a normal service retirement benefit at age 65 or when age plus years of service is equal to at least 85 (commonly known as the "Rule of 85"). Retirement benefits under the defined benefit plan are calculated using the following mathematical formula provided in Section 54-52-17(4):

Final average salary[1] x benefit multiplier (2%)[2] x years of service credit[3] = monthly single life retirement benefit

[1]For employees who retired prior to August 1, 2010, the final average salary was the average of an employee's highest salaries in 36 of the last 120 months worked. For members who terminate employment on or after August 1, 2010, it is the average of the employee's highest salaries in 36 of the last 180 months worked.

[2]The benefit multiplier is the rate at which benefits are earned. The current benefit multiplier is 2 percent.

[3]The service credit is the amount of public service an employee has accumulated under PERS for retirement purposes.

The following is a summary of benefit changes approved by the Legislative Assembly since 1977:

Year	Benefit Multiplier	Change in Retirement Rule Levels
July 1977	1.04%	
July 1983	1.20%	
July 1985	1.30%	Rule of 90 established as an alternative for retirement eligibility
July 1987	1.50%	
July 1989	1.65%	

Year	Benefit Multiplier	Change in Retirement Rule Levels
July 1991	1.69%	
August 1993	1.725%	Rule of 90 changed to Rule of 88
January 1994	1.74%	
August 1997	1.77%	Rule of 88 changed to Rule of 85
August 1999	1.89%	
August 2001	2.00%	

Similar adjustments were also made to the benefit calculations of members who retired prior to the above changes being made. Benefits were increased in amounts that equaled the benefit multiplier changes. In addition, retirees received a 13^{th} check in 2006 and 2008. In 2006 the 13^{th} check was equal to half of the retiree's normal monthly check and in 2008 the 13^{th} check was equal to three-fourths of the retiree's normal monthly check.

Funded Ratio

The actuarial funded ratio is the percentage of the retirement fund's actuarial value of assets to its actuarial accrued liabilities. The actuarial value of assets is determined by spreading market appreciation or depreciation over five years. This procedure results in recognition of all changes in market value over five years.

Below is a summary of the actuarial funded ratio of the PERS plan since 1990.

Year	Actuarial Funded Ratio
1990	101%
1991	101%
1992	101%
1993	100%
1994	99%
1995	103%
1996	104%
1997	109%
1998	111%
1999	109%
2000	115%
2001	111%
2002	104%
2003	98%
2004	94%
2005	91%
2006	89%
2007	93%
2008	92%
2009	85%
2010	73%
2011	70%
2012	65%

DEFINED CONTRIBUTION PLAN

The Legislative Assembly authorized the use of an optional defined contribution retirement plan effective January 1, 2000. Chapter 54-52.6 provides the plan is available to state employees who are in positions not classified by Human Resource Management Services, excluding employees of the judicial branch and employees under the control of the State Board of Higher Education. Additionally, between October 1, 2014, and July 31, 2017, any new state employee may elect to participate in the plan. An eligible employee may make an election at any time during the first six months of employment to participate in the defined contribution plan rather than the defined benefit plan. An election to participate in the defined contribution plan is irrevocable. A plan participant will remain in the defined contribution plan if the employee becomes reemployed in a classified position.

The following is a summary of contribution levels for the defined contribution retirement plan:

Prior to December 31, 2011		Effective January 1, 2012		Effective January 1, 2013		Effective January 1, 2014	
Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
4.12%	4.00%[1]	5.12%	5.00%[1]	6.12%	6.00%[1]	7.12%	7.00%[1]

[1]The state pays 4 percent of the employee share of retirement contributions.

Individual accounts are designated for each participant, and retirement benefits are based on the employer and employee contributions to the accounts plan and investment earnings on funds in the account. As of June 2013, there were 218 active members enrolled in the defined contribution retirement plan.

RELATED LEGISLATION PASSED BY THE 2013 LEGISLATIVE ASSEMBLY

Retirement contribution rates and defined contribution plan election - House Bill No. 1452 increases the employee and employer retirement contribution rates by one percent on January 1, 2014. The bill also provides an opportunity for eligible employees who are new members of PERS to transfer to the defined contribution plan, effective October 1, 2014, through July 31, 2017.

OTHER RELATED LEGISLATION CONSIDERED BY THE 2013 LEGISLATIVE ASSEMBLY

Retirement fund stabilization - House Concurrent Resolution Nos. 3003 and 3040 and Senate Concurrent Resolution No. 4010 would have submitted a constitutional amendment to the voters to provide for changes to the foundation aid stabilization fund. Excess fund earnings or fund income would have been allowed to be used for the stabilization of the state retirement fund. All resolutions were defeated.

STUDY PLAN

The following is a proposed study plan for the committee's consideration in its study of state employee retirement plans:

1. Receive information from the Legislative Council regarding the current state employee retirement plans, including the number of participants enrolled in each plan, recent changes to retirement contributions, and estimated fund balances.
2. Receive information from the Legislative Council regarding the use of defined benefit and defined contribution plans in other states, including recent changes to the plans.
3. Receive and review information from the Legislative Council regarding options to transition to a defined contribution plan for all newly hired state employees, including estimated costs, benefits, or other effects.
4. Receive testimony from interested persons regarding the study.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

ATTACH:1

STUDY OF THE FOUNDATION AID STABILIZATION FUND - BACKGROUND MEMORANDUM

STUDY OVERVIEW

Section 40 of 2013 House Bill No. 1015 (Appendix A) provides for a study of the foundation aid stabilization fund including:

- Anticipated growth in the fund;
- Appropriate funding levels;
- Options for the disposition of excess funding if appropriate funding levels are exceeded;
- The reallocation of oil extraction taxes currently being deposited in the fund; and
- The feasibility and desirability of proposing changes to the constitution relating to the fund.

The responsibility for this study was assigned to the Government Finance Committee.

FUND HISTORY

The foundation aid stabilization fund was created in 1994 when the voters of North Dakota approved a constitutional amendment, now Article X, Section 24, of the Constitution of North Dakota (Appendix B), to provide that 20 percent of oil extraction tax revenue be allocated as follows:

- 50 percent (of the 20 percent) to the common schools trust fund.
- 50 percent (of the 20 percent) to the foundation aid stabilization fund.

The principal of the foundation aid stabilization fund may only be spent upon order of the Governor to offset foundation aid reductions made by executive action due to a revenue shortfall. North Dakota Century Code Section 54-44.1-12 (Appendix C) provides the Director of the Budget may order an allotment to control the rate of expenditures of state agencies. This section provides an allotment must be made by specific fund and all departments and agencies that receive money from a fund must be allotted on a uniform percentage basis, except that appropriations for foundation aid, transportation aid, and special education aid may only be allotted to the extent the allotment can be offset by transfers from the foundation aid stabilization fund. One budget allotment has occurred since the foundation aid stabilization fund was created in 1994. During the 2001-03 biennium, funding of $5,500,639 was transferred to the Department of Public Instruction to offset a reduction in state school aid and special education payments resulting from a 1.05 percent budget allotment ordered by Governor John Hoeven in July 2002.

Article X, Section 24, of the Constitution of North Dakota, provides the interest income of the foundation aid stabilization fund must be transferred to the general fund on July 1 of each year. However, the State Treasurer's office allocates the interest income to the general fund on a monthly basis. During the 2009-11 biennium, $511,593 of interest from the foundation aid stabilization fund was allocated to the general fund. For the period July 1, 2011, through May 31, 2013, $368,799 of interest from the foundation aid stabilization fund has been allocated to the general fund.

FUND ANALYSIS FOR THE 2011-13 AND 2013-15 BIENNIUMS

The schedule below provides an analysis of estimated revenues and expenditures of the foundation aid stabilization fund for the 2011-13 and 2013-15 biennnums.

	2011-13 Biennium		2013-15 Biennium	
Beginning balance		$140,193,764		$333,300,116
Add estimated revenues Oil extraction tax allocations	$193,106,352[1]		$282,136,675[1]	
Total available		333,300,116		615,436,791
Less estimated expenditures and transfers Transfer to foundation aid program	$0[2]		$0[2]	
Estimated ending balance		$333,300,116		$615,436,791

[1]Estimated revenues - Based on actual oil extraction tax collections transferred to the fund through April 2013 and estimated allocations for the remainder of the 2011-13 and 2013-15 bienniums per the February 2013 revised revenue forecast. The 2013-15 biennium amount includes an increase of $8,660,000 of oil extraction tax allocations due to the estimated effect of 2013 House Bill No. 1198 which changes the eligibility for stripper well tax incentives.

[2]Estimated expenditures - As provided in Article X, Section 24, of the Constitution of North Dakota, the principal of the foundation aid stabilization fund can only be used to offset foundation aid reductions made by executive action due to a revenue shortfall. No foundation aid reductions as a result of a revenue shortfall are currently anticipated in the 2011-13 or 2013-15 biennium.

HISTORICAL FUND BALANCES COMPARED TO TOTAL FOUNDATION AID OR STATE AID TO SCHOOLS

The schedule below compares the foundation aid stabilization fund balance at the end of each biennium since 1999 to the total funding for foundation aid or state aid to schools appropriated each biennium.

	Foundation Aid Stabilization Fund Balance at the End of the Biennium	Total Foundation Aid or State Aid to Schools Appropriated for the Biennium[1]	Foundation Aid Stabilization Fund Balance at the End of the Biennium as a Percentage of the Total Foundation or State Aid Appropriated for the Biennium
1999-2001	$10,517,143	$585,734,476	1.80%
2001-03	$8,991,303	$628,345,368	1.43%
2003-05	$16,098,385	$665,628,056	2.42%
2005-07	$29,009,838	$698,565,879	4.15%
2007-09	$65,750,547	$780,765,879	8.42%
2009-11	$140,193,764	$1,274,254,480[2]	11.00%
2011-13 estimated	$333,300,116	$1,350,992,316[3]	24.67%
2013-15 estimated	$615,436,791	$1,835,700,000[4]	33.53%

[1]Total foundation aid appropriated from the general fund and state tuition fund.

[2]The Legislative Assembly provided, as part of state school aid, $295 million from the general fund for mill levy reduction grants to school districts. In addition to funding from the general fund and the state tuition fund, the 2009 Legislative Assembly provided, as state school aid, $85.6 million from federal funds available through the American Recovery and Reinvestment Act of 2009.

[3]The Legislative Assembly provided, as part of state school aid, $341.8 million from the general fund for mill levy reduction grants to school districts and $5 million from the oil and gas impact grant fund for rapid enrollment growth grants.

[4]The Legislative Assembly provided integrated formula payments totaling $1.75 billion that includes $656.5 million for the property tax relief component. The Legislative Assembly also provided $13.6 million for rapid enrollment growth grants.

BUDGET STABILIZATION FUND

The budget stabilization fund was established in 1987 and contains funds that may be used to offset a revenue shortfall. Any amount in the state general fund in excess of $65 million at the end of the biennium must be transferred to the budget stabilization fund. However, the maximum balance of the fund is limited to 9.5 percent of the general fund budget as approved by the most recently adjourned Legislative Assembly. Based on general fund appropriations made during the 2013 regular legislative session, the maximum fund balance is currently $583.5 million.

The Governor may order a transfer from the budget stabilization fund to the general fund if the Director of the Office of Management and Budget (OMB) projects general fund revenues for the biennium will be at least 2.5 percent less than estimated by the most recently adjourned Legislative Assembly. The amount transferred is limited to the difference between an amount 2.5 percent less than the original legislative general fund revenue forecast and the revised forecast prepared by OMB.

Use of Budget Stabilization Fund for Foundation Aid Payments

In the event the Governor orders a budget allotment, funding from the foundation aid stabilization fund is to be used to offset the budget allotment for foundation aid, transportation aid, and special education aid payments to schools. If the projected revenue shortfall is 2.5 percent or less, the foundation aid stabilization fund is to be used to offset the entire allotment. If the projected revenue shortfall is 2.5 percent or greater, it appears that any allotment of school aid payments in excess of 2.5 percent may be offset by either a transfer from the foundation aid stabilization fund or the budget stabilization fund. The determination of which funding source to use for allotments in excess of 2.5 percent would be made by the Governor, who has the authority to order transfers from either fund subject to constitutional and statutory provisions. Attached as Appendix D is a copy of a letter from the Legislative Council regarding the use of funds from the foundation aid stabilization fund and the budget stabilization fund.

RELATED LEGISLATION DURING THE 2013 LEGISLATIVE SESSION

House Concurrent Resolution No. 3003

House Concurrent Resolution No. 3003, as introduced (Appendix E), would have submitted a constitutional amendment to the voters to limit the balance of the foundation aid stabilization fund to $150 million. Any excess funds would have been transferred to a public employees retirement stabilization fund, and no additional funds would be allowed to be deposited in the foundation aid stabilization fund until the fund balance fell below $100 million. Once the balance was below $100 million, the foundation aid stabilization fund would again receive deposits and retain interest income until the fund balance reached $150 million. If the balance of the public employees retirement stabilization fund exceeded $450 million, any excess revenue would have been transferred to the state general fund to provide state aid to elementary and secondary education.

The resolution was amended by the House Judiciary Committee to reduce the amount of oil extraction taxes deposited in the foundation aid stabilization fund from 50 percent (of 20 percent of total tax collections) to 20 percent (of 20 percent of total tax collections). The remaining 30 percent (of 20 percent of total tax collections) would have been allocated to a state retirement stabilization fund for the purpose of addressing unfunded retirement benefit obligations of state retirement plans. The amendments also removed the language regarding the maximum fund balance of the foundation aid stabilization fund and the public employees retirement stabilization fund. The resolution, as amended (Appendix F), passed in the House but failed in the Senate.

House Concurrent Resolution No. 3040

House Concurrent Resolution No. 3040, as introduced (Appendix G), would have submitted a constitutional amendment to the voters to limit the maximum balance of the foundation aid stabilization fund. Once the fund reached $100 million, the maximum fund balance would not have been allowed to increase by more than 2 percent per year. Any excess revenues would have been deposited in the common schools trust fund. The resolution also allowed fund income to be expended for school aid in the event of a revenue shortfall, and any income not expended would have been transferred to the general fund.

The resolution was amended by the House Judiciary Committee to limit the balance of the foundation aid stabilization fund to an amount equal to 20 percent of the "grants - state school aid" line item in the prior biennium's appropriation bill for the Department of Public Instruction. Once the maximum fund level was reached, any excess revenue would have been deposited in the common schools trust fund. The resolution also would have allowed fund income to be used to meet benefit obligations of the state retirement plan. The resolution failed to pass the House. A copy of the engrossed resolution is attached as Appendix H.

Senate Concurrent Resolution No. 4010

Senate Concurrent Resolution No. 4010, as introduced (Appendix I), would have submitted a constitutional amendment to the voters regarding the foundation aid stabilization fund. The resolution would have limited the balance of the fund to $300 million, except beginning July 1, 2017, the maximum fund balance would be adjusted biennially based on the rate of inflation. Any excess revenue would have been required to be transferred to another constitutional fund or appropriated for the support of elementary and secondary education in the state.

The resolution was amended by the Senate Education Committee to limit the balance of the fund to an amount equal to 20 percent of the "grants - state school aid" line item in the prior biennium's appropriation bill for the Department of Public Instruction. Once the maximum fund balance was reached, any excess revenue would have been required to be transferred to another constitutional fund or appropriated for the support of elementary and secondary education in the state. A copy of the Senate version of the resolution is attached as Appendix J.

The resolution was amended by the House Judiciary Committee to limit the amount of oil extraction taxes deposited in the fund from 50 percent (of 20 percent of total tax collections) to 20 percent (of 20 percent of total tax collections). The remaining 30 percent (of 20 percent of total tax collections) would have been allocated to a state retirement stabilization fund for the purpose of addressing unfunded retirement benefit obligations of state retirement plans. The House version also would have limited the maximum balance of the foundation aid stabilization fund to an amount equal to 150 percent of the principal amount in the fund on July 1, 2014. Once the maximum fund balance was reached, any excess revenues would have been used as determined by the Legislative Assembly through the enactment of laws. A copy of the House version of the resolution is attached as Appendix K.

The resolution passed the House and Senate in different forms and a conference committee was appointed for the resolution. However, the conference committee version of the resolution was defeated in the Senate.

STUDY PLAN

The following is a proposed study plan for the committee's consideration in its study of the foundation aid stabilization fund:

1. Receive and review information from the Legislative Council regarding the history and purpose of the fund.
2. Review constitutional and statutory provisions relating to the fund.
3. Receive information from the Legislative Council regarding the sources of revenue deposited in the fund, estimated future fund deposits and earnings, and estimated fund balances.
4. Review previous expenditures from the fund due to budget allotments.
5. Review the feasibility and desirability of establishing a maximum fund balance, including what an appropriate maximum fund balance would be.
6. Review options for the reallocation of revenues deposited in the fund if a maximum fund balance is reached.
7. Receive testimony from interested persons regarding the study.
8. Develop recommendations and any bill drafts necessary to implement the recommendations.
9. Prepare a final report for submission to the Legislative Management.

ATTACH:11

NORTH DAKOTA LEGISLATIVE COUNCIL

Tentative Agenda

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Thursday, August 29, 2013
Harvest Room, State Capitol
Bismarck, North Dakota

9:00 a.m.	Call to order Roll call Comments by the Chairman Review of the *Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management*
9:10 a.m.	Presentation by the Legislative Council staff of a background memorandum relating to the statutory duties and past procedures of the Employee Benefits Programs Committee
9:15 a.m.	Comments by interested persons in attendance and committee discussion concerning general requirements for submission and review of legislative retirement, insurance, and retiree health insurance proposals

OVERVIEW OF RETIREMENT, INSURANCE, AND RETIREE HEALTH INSURANCE PROGRAMS

9:25 a.m. Presentation by Mr. Sparb Collins, Executive Director, Public Employees Retirement System (PERS), of an overview of PERS, including:

- Structure of the PERS Board
- Structure of the PERS office
- Retirement programs, including the PERS main system, Highway Patrolmen's retirement system, judges' retirement system, National Guard security police and firefighters' retirement system, law enforcement retirement systems, prior service retiree system, higher education system, defined contribution plan, Job Service North Dakota retirement plan, and the Old-Age and Survivor Insurance System
- Retiree health insurance program
- Health insurance program
- Life insurance program
- Employee assistance program
- Deferred compensation program
- Dental, vision, and long-term care insurance programs
- Flexcomp program

10:25 a.m. Break

10:40 a.m. Presentation by Mr. Collins of proposed modifications to North Dakota Century Code Section 54-52.1-03.4, relating to the uniform group insurance program coverage of temporary employees, as authorized under Section 54-52.1-08.2, which allows modifications of Chapter 54-52.1 to comply with federal law

Comments by interested persons

Committee consideration of whether to approve the proposed modification

11:10 a.m. Presentation by Mr. Darren Schulz, Interim Chief Investment Officer, Retirement and

Investment Office, of an overview of the state's investment program and the current investment climate

12:00 noon Luncheon recess

1:00 p.m. Presentation by Ms. Fay Kopp, Chief Retirement Officer, Teachers' Fund for Retirement, of an overview of the Teachers' Fund for Retirement

HUMAN RESOURCE MANAGEMENT SERVICES

1:45 p.m. Presentation by Mr. Ken Purdy, Classification and Compensation Manager, Human Resource Management Services, Office of Management and Budget, of a report required under Section 54-06-31 on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions

2:15 p.m. Presentation by Ms. Laurie Sterioti Hammeren, Director, Human Resource Management Services, of biennial reports required under Sections 54-06-32, 54-06-33, and 54-06-34 summarizing reports of state agencies providing service awards to employees in the classified service, providing employer-paid costs of training or educational courses to employees in the classified services, and paying employee membership dues for professional organizations and membership dues for service clubs when required to do business or if the membership is primarily for the benefit of the state

2:30 p.m. Committee discussion and staff directives

2:45 p.m. Adjourn

Committee Members

Senators Dick Dever (Chairman), Spencer Berry, Ralph Kilzer, Karen K. Krebsbach, David O'Connell, Connie Triplett

Representatives Randy Boehning, Roger Brabandt, Jason Dockter, Jessica Haak, Scott Louser, Kenton Onstad, Don Vigesaa

Staff Contact: Jennifer S. N. Clark, Counsel

EMPLOYEE BENEFITS PROGRAMS COMMITTEE - STATUTORY RESPONSIBILITIES AND ASSIGNED STUDIES - BACKGROUND MEMORANDUM

STATUTORY RESPONSIBILITIES

The Legislative Management's Employee Benefits Programs Committee, formerly known as the Committee on Public Employees Retirement Programs or the Retirement Committee, resulted from a 1975-76 Legislative Council study undertaken by the interim Legislative Procedure and Arrangements Committee. The committee was established in response to difficulties experienced in past legislative sessions resulting from inadequate prior study of the actuarial impacts of proposed legislative changes on retirement programs for public employees.

In 1977 the Legislative Assembly approved Senate Bill No. 2061, which created the original committee. The provisions were codified as North Dakota Century Code Sections 54-35-02.3 and 54-35-02.4. Those sections were substantially amended in 1981 to expand the scope of the committee's jurisdiction over retirement legislation during legislative sessions and to authorize the committee to establish rules for its operation. Sections 54-35-02.3 and 54-35-02.4 were again substantially amended in 1991 to expand the jurisdiction of the committee to include review of health and retiree health plans of state employees or employees of any political subdivision as well as retirement programs. Section 54-35-02.4 was again amended in 1999 to require the committee to take jurisdiction over any measure or proposal that authorizes an automatic increase or other change in benefits beyond the ensuing biennium which would not require legislative approval. The committee is required to include in the report of the committee a statement that the proposal would allow future changes without legislative involvement.

Section 54-35-02.3 requires the Legislative Management during each biennium to appoint an Employee Benefits Programs Committee in the same manner as the Legislative Management appoints other interim committees. The membership of the committee consists of five members of the House of Representatives and four members of the Senate and is chaired by a legislator designated by the Legislative Management.

Section 54-35-02.4(1) requires the committee to "consider and report on those legislative measures and proposals over which it takes jurisdiction and which affect, actuarially or otherwise, the retirement programs of state employees or employees of any political subdivision, and health and retiree health plans of state employees or employees of any political subdivision." The committee is required to make a "thorough review" of any measure or proposal it takes under its jurisdiction, including an actuarial review, and is required to report its findings and recommendations, along with any necessary legislation, to the Legislative Management and to the Legislative Assembly. As previously noted, the committee is required to take jurisdiction over any measure or proposal that authorizes an automatic increase or other change in benefits beyond the ensuing biennium which would not require legislative approval and include in the report of the committee a statement that the proposal would allow future changes without legislative involvement.

In carrying out its responsibilities, the committee, or its designee, is authorized pursuant to Section 54-35-02.4(2) to:

1. Enter contracts, including retainer agreements, with an actuary or actuarial firm for expert assistance and consultation. However, each retirement, insurance, or retiree insurance program must "pay, from its retirement, insurance, or retiree health benefits fund, as appropriate, and without the need for a prior appropriation, the cost of any actuarial report required by the committee which relates to that program."
2. Call on personnel from state agencies or political subdivisions to furnish such information and render such assistance as the committee may from time to time request.
3. Establish rules for its operation, including the submission and review of proposals and the establishing of standards for actuarial review.

Section 54-35-02.4(3) authorizes the committee to solicit draft measures and proposals from interested persons during the interim between legislative sessions and to study measures and proposals referred to it by the Legislative Assembly or the Legislative Management. Subsection 4 requires a copy of the committee's report concerning any legislative measure, if that measure is introduced for consideration by the Legislative Assembly, be attached to the copy of that measure, which is referred to a standing committee. In previous interims, the committee reports identify the sponsor of a proposal, summarize the proposal, present the actuarial analysis, and include the committee's recommendation. Subsections 5 and 6 prohibit the introduction or amendment of any legislative measure affecting a public employees retirement program, public employees health insurance program, or public employee retiree health insurance program unless it is accompanied by a report from the committee. A majority of the committee members, acting through the Chairman, has sole authority to determine whether any legislative measure affects a public employees program.

Finally, Section 54-35-02.4(7) provides any legislation enacted in contravention of that section is invalid and of no force and effect, and any benefits provided under the legislation must be "reduced to the level current prior to enactment" of the legislation.

Procedures for Solicitation and Review of Retirement Proposals

Under Section 54-35-02.4, the committee must consider and report on those legislative measures and proposals over which it takes jurisdiction and which affect, actuarially or otherwise, the retirement programs, public employees health insurance programs, or public employee retiree health insurance programs of state employees or employees of any political subdivision. The committee must make a thorough review of each measure or proposal, including an actuarial review. Under the law, the committee may solicit draft measures and proposals from interested persons during the interim.

The committee also has the authority to establish rules for its operation, including rules relating to the submission and review of proposals and the establishment of standards for actuarial review. Prior Employee Benefits Programs Committees have limited the persons and entities permitted to submit to the committee legislative proposals affecting retirement programs to legislators and state agencies with the bill introduction privilege and required the proposals be in bill draft form and submitted to the committee before April 1 of even-numbered years to allow enough time for actuarial evaluation. The committee has the authority to waive its self-imposed deadline for proposals received after any deadline established by the committee.

Actuarial Services

The committee is empowered by Section 54-35-02.4 to retain actuarial assistance for the review of proposals submitted to the committee. As a result of 1987 legislation, each program is required to pay for any actuarial reports required by the committee. Thus, much of the actuarial costs involved in the review of legislative measures and proposals have been paid by the retirement, insurance, or retiree health insurance program affected by each proposal. Basically, the committee submits retirement proposals to the affected retirement programs requesting each affected program obtain an actuarial report for each proposal from that program's consulting actuary.

Prior interim Employee Benefits Programs Committees, after obtaining actuarial information on the retirement proposals and receiving relevant testimony, have developed a report with respect to each proposal submitted. The report has included the sponsor of the proposal, a summary of the proposal, the actuarial analysis of the effect on the retirement program of the proposal, and a committee recommendation to the Legislative Management on the proposal's merits. A copy of the committee's report must be attached to each proposal when it is introduced to the Legislative Assembly.

ADDITIONAL COMMITTEE RESPONSIBILITIES

In addition to the committee's statutory responsibilities:

- Section 15-39.1-10.11 requires the Board of Trustees of the Teachers' Fund for Retirement (TFFR) provide annual reports to the committee regarding an annual test of the actuarial adequacy of statutory contribution rate.
- Section 15-39.1-35 provides if the Public Employees Retirement System (PERS) Board for TFFR adopts provisions to modify the law relating to TFFR to comply with applicable federal statutes or rules, the committee shall consider whether to approve such modifications.
- Section 18-11-15(5) requires the committee be notified by a firefighters relief association if it implements the alternate schedule of monthly service pension benefits to members of the association provided in this subsection.
- Section 54-06-31(3) requires Human Resource Management Services to report periodically to a legislative committee designated by the Legislative Management on the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs. The Legislative Management has assigned responsibility to this committee.
- Section 54-06-32 requires the Office of Management and Budget (OMB) to submit to the Legislative Management a report summarizing reports of state agencies providing service awards to employees in the classified service. The Legislative Management has assigned responsibility to this committee.

- Section 54-06-33 requires OMB to submit to the Legislative Management a report summarizing reports of state agencies providing employer-paid costs of training or educational courses to employees in the classified service. The Legislative Management has assigned responsibility to this committee.
- Section 54-06-34 requires OMB to submit to the Legislative Management a report summarizing reports of executive branch state agencies paying employee membership dues for professional organizations and membership and service club dues. The Legislative Management has assigned responsibility to this committee.
- Section 54-52.1-08.2 provides if the PERS Board adopts provisions to modify the law relating to the uniform group insurance program to comply with applicable federal statutes or rules, the committee shall consider whether to approve such modifications.

NDTFFR OVERVIEW

Legislative Employee Benefits Programs Committee

August 29, 2013

Fay Kopp, Interim Executive Director – Chief Retirement Officer

ND Retirement & Investment Office (RIO)

ND Teachers' Fund for Retirement (TFFR)

TFFR Plan

- TFFR is a defined benefit pension plan designed to provide lifetime retirement, disability, and death benefits for ND public school educators and certain state teachers.
- Originally created in 1913. Governing laws: NDCC 15-39.1 and NDAC Title 82.
- Funded by member (teacher) and employer (school district) contributions, and investment earnings.

TFFR Board of Trustees

TFFR benefits program is managed by a 7-member board of trustees who have a fiduciary responsibility to the fund's beneficiaries. The Board consists of 5 active and retired members appointed by the Governor and 2 state officials.

- Active School Teachers
  - Mike Gessner, Minot, President
  - Kim Franz, Mandan
- Active School Administrator
  - Rob Lech, Jamestown (new)
- Retired Members
  - Clarence Corneil, Dickinson
  - Mel Olson, Fargo (new)
- State Officials – Ex officio members
  - Kelly Schmidt, State Treasurer
  - Kirsten Baesler, State Superintendent

State Investment Board (SIB)

TFFR investment program is implemented by State Investment Board.

State Officials

- Lt. Governor
  Drew Wrigley, Chairman
- State Treasurer
  Kelly Schmidt
- State Insurance Comm.
  Adam Hamm
- State Land Comm.
  Lance Gaebe
- Workforce Safety & Insurance
  Cindy Ternes

Pension Representatives

- Mike Gessner (TFFR)
- Rob Lech (TFFR)
- Clarence Corneil (TFFR)

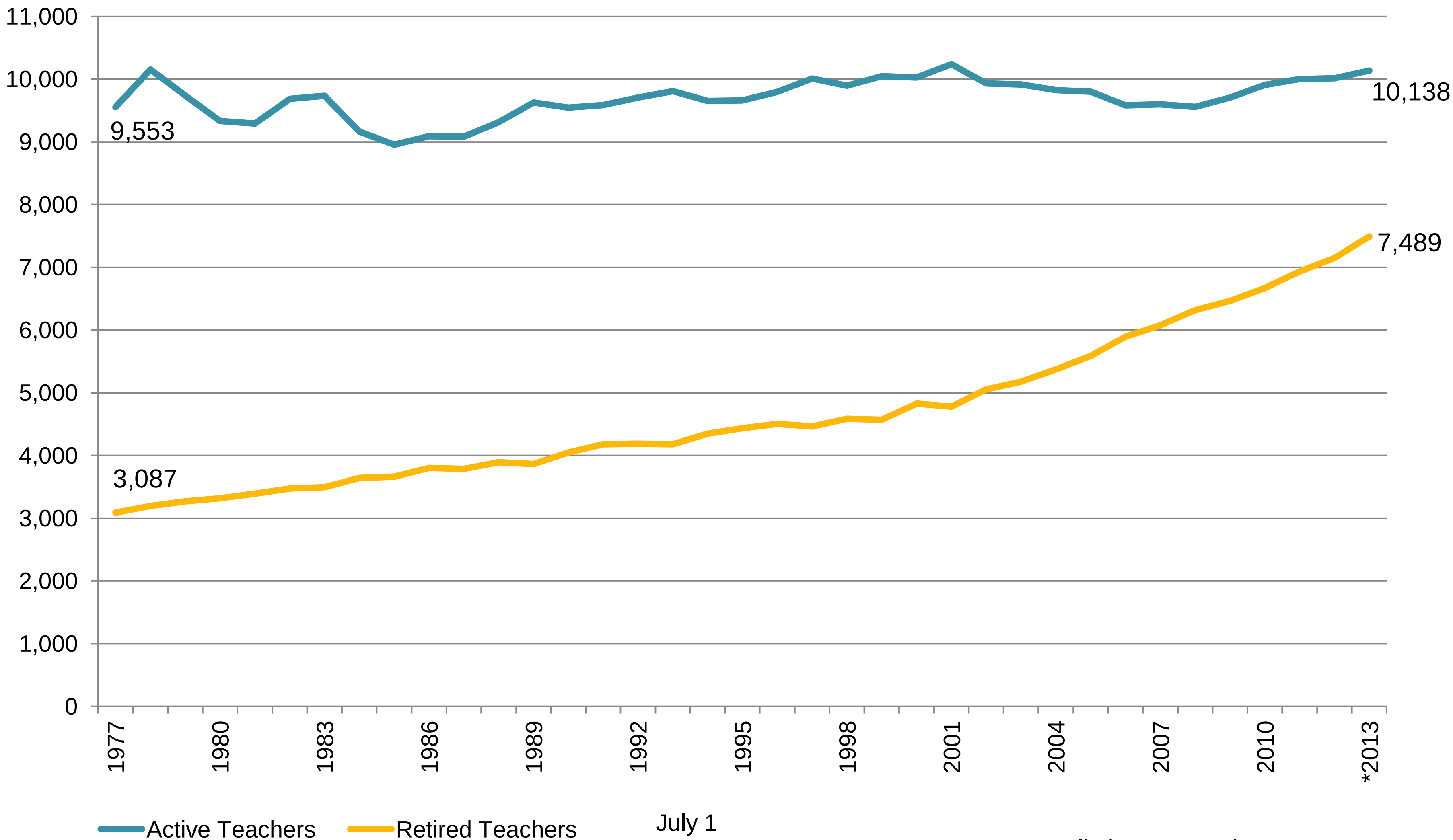
- Tom Trenbeath (PERS)
- Mike Sandal (PERS)
- Howard Sage (PERS)

TFFR Background

TFFR Participating Employers

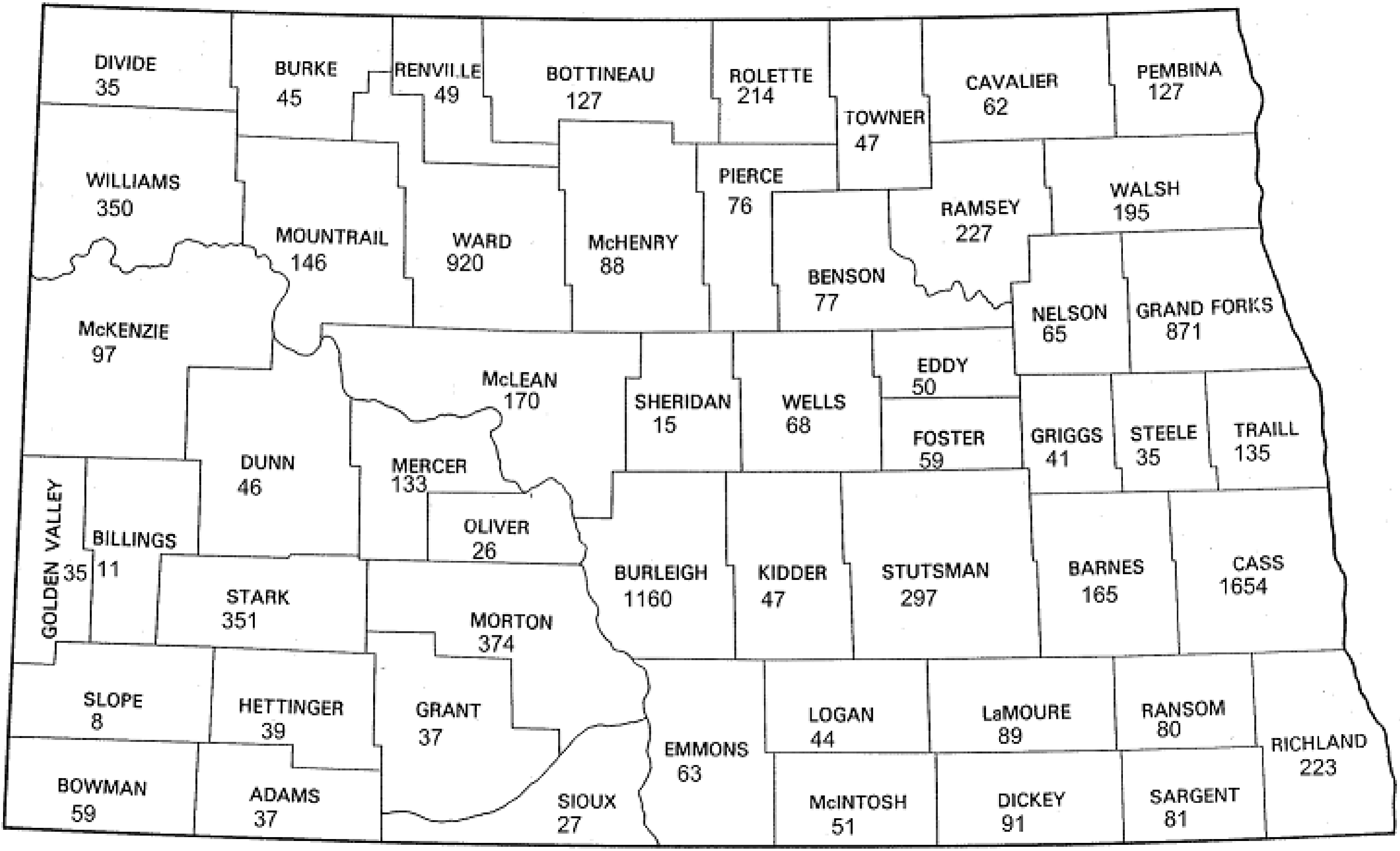
School Districts	181
Special Ed Units	19
Vocational Centers	5
Counties	7
State Agencies/Institutions	4
Other – Closed groups	3
2012-13 Total Employers	**219**

Active and Retired TFFR Members 1977 – Present



*Preliminary 2013 data

TFFR Active Members

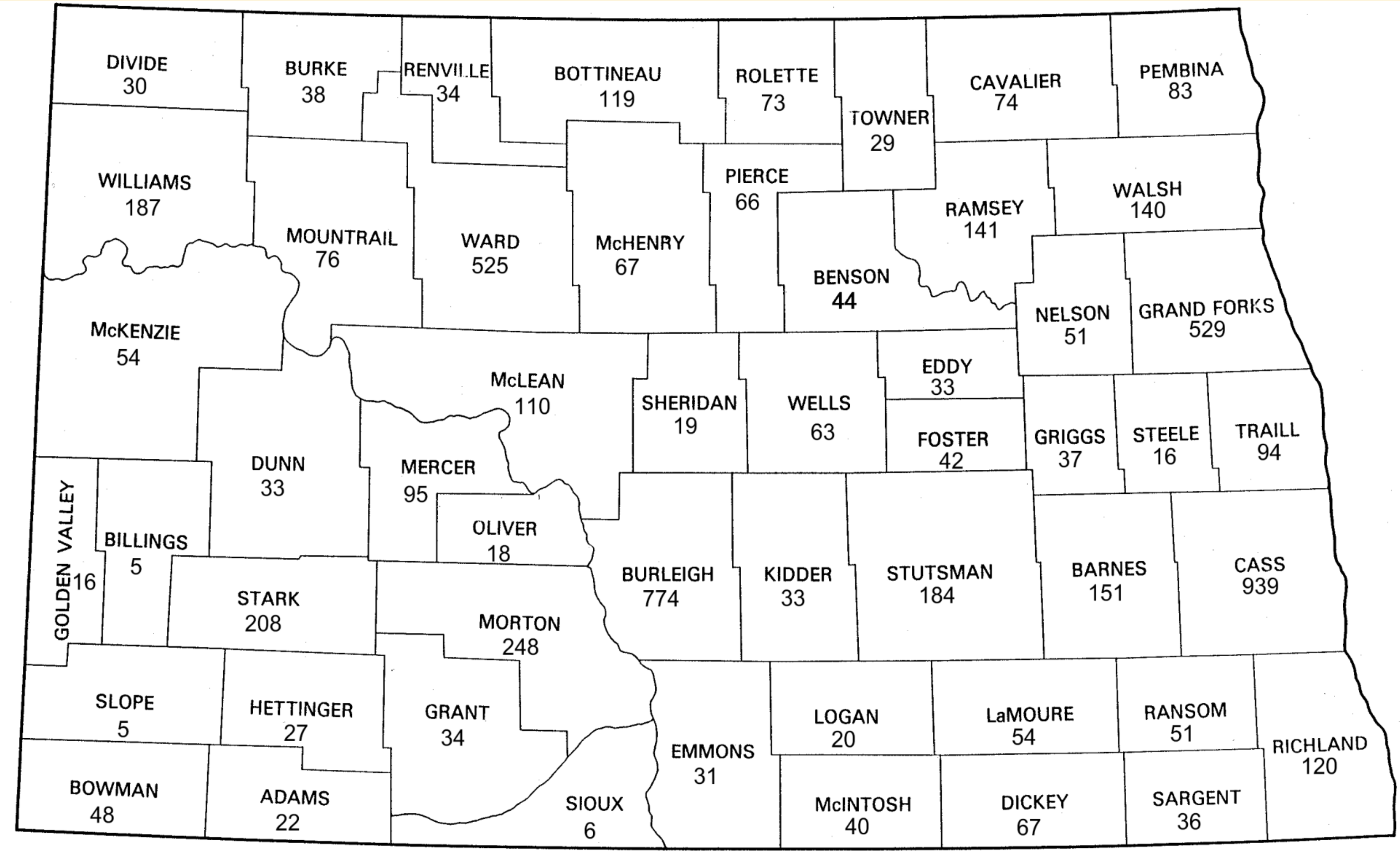


In-state	9,619
Out-of-state	519
Total	10,138

Tier 1G:	3,655
Tier 1NG:	3,445
Tier 2:	3,038
	10,138

*Preliminary 2013 data

TFFR Retired Members



In-state	6,039
Out-of-state	1,450
Total	7,489

*Preliminary 2013 data

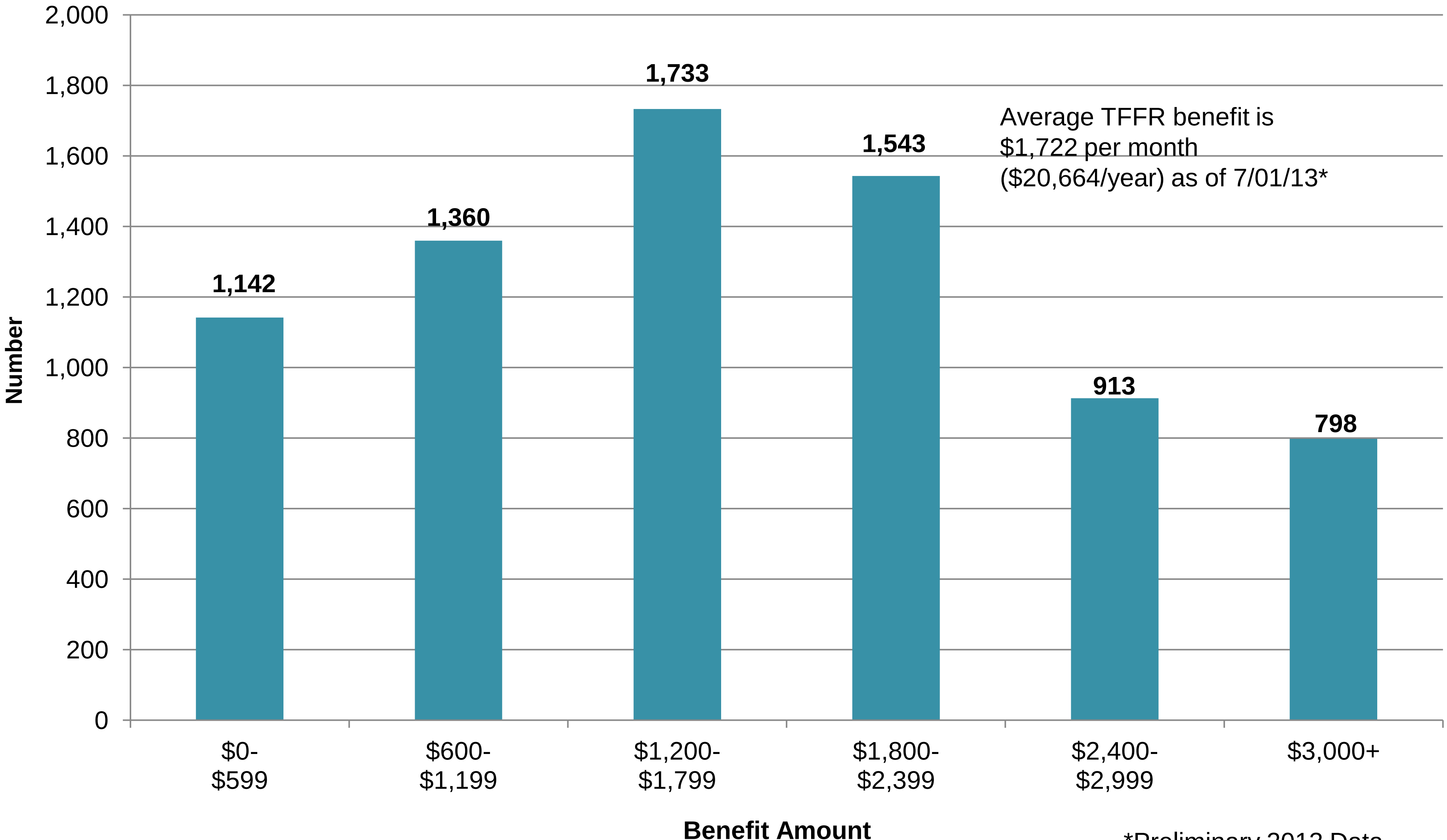
Average Monthly TFFR Benefits by County

(*preliminary 2013 data)

County	Number	Average	Total Benefits
Adams	22	1,610	35,420
Barnes	151	1,854	279,977
Benson	44	1,856	81,663
Billings	5	1,386	6,928
Bottineau	119	1,583	188,341
Bowman	48	1,655	79,429
Burke	38	1,460	55,463
Burleigh	774	1,905	1,474,176
Cass	939	1,978	1,856,967
Cavalier	74	1,457	107,818
Dickey	67	1,390	93,140
Divide	30	2,033	60,999
Dunn	33	1,885	62,194
Eddy	33	1,838	60,646
Emmons	31	1,560	48,373
Foster	42	1,881	79,014
Golden Valley	16	1,347	21,552
Grand Forks	529	1,973	1,043,944
Grant	34	1,326	45,075
Griggs	37	1,616	59,802
Hettinger	27	1,659	44,804
Kidder	33	1,537	50,735
LaMoure	54	1,659	89,563
Logan	20	1,488	29,758
McHenry	67	1,692	113,371
McIntosh	40	1,560	62,404
McKenzie	54	2,010	108,552
McLean	110	1,613	177,416

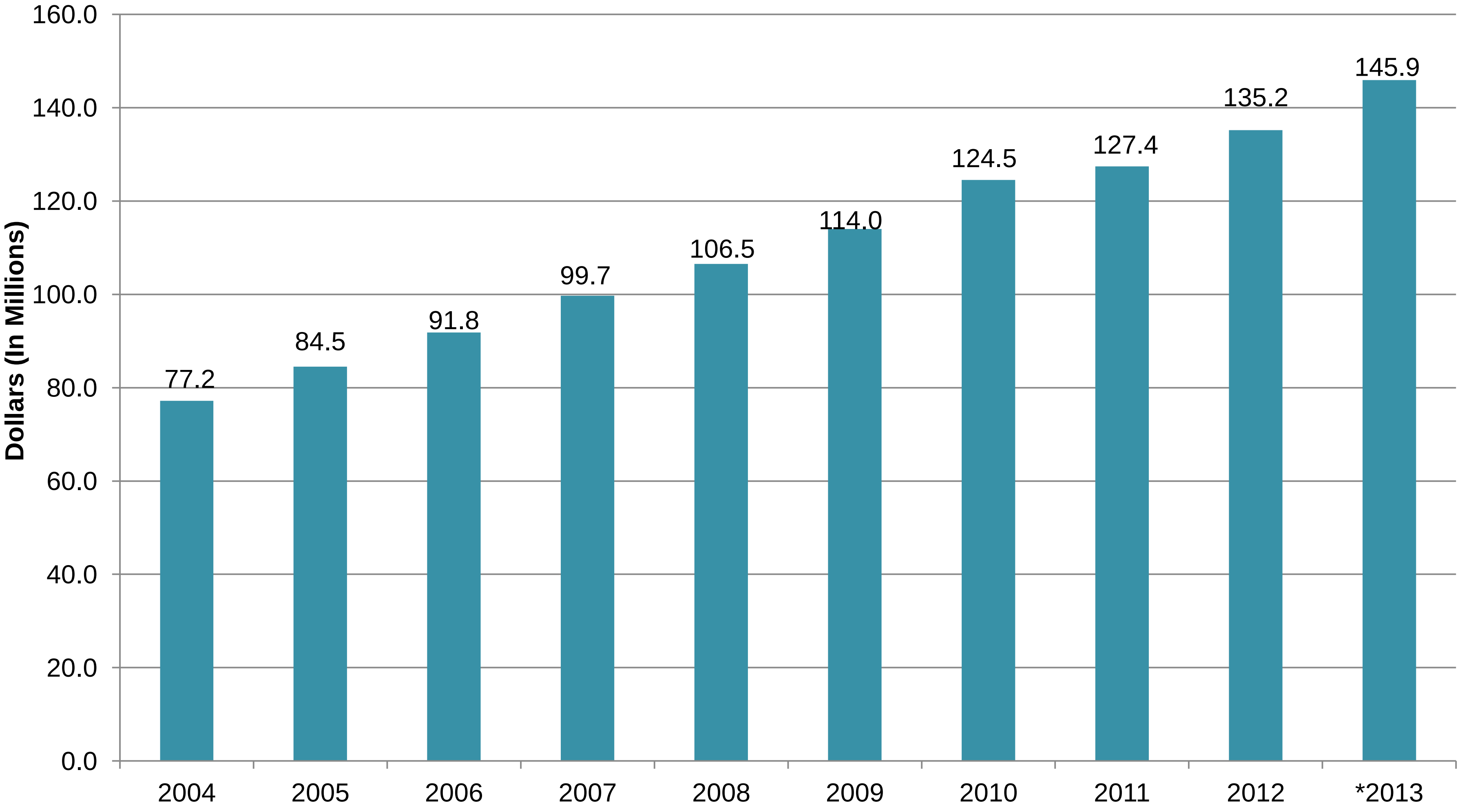
County	Number	Average	Total Benefits
Mercer	95	1,814	172,303
Morton	248	1,748	433,499
Mountrail	76	1,469	111,667
Nelson	51	1,452	74,032
Oliver	18	1,654	29,764
Pembina	83	1,828	151,751
Pierce	66	1,615	106,599
Ramsey	141	1,598	225,327
Ransom	51	1,520	77,516
Renville	34	1,749	59,470
Richland	120	1,889	226,644
Rolette	73	1,638	119,566
Sargent	36	1,385	49,867
Sheridan	19	1,495	28,403
Sioux	6	854	5,121
Slope	5	924	4,622
Stark	208	1,788	371,967
Steele	16	1,499	23,990
Stutsman	184	1,783	328,094
Towner	29	1,504	43,615
Traill	94	1,651	155,196
Walsh	140	1,613	225,885
Ward	525	1,806	947,935
Wells	63	1,657	104,402
Williams	187	1,863	348,297
Totals	**6,039**	**1,796**	**10,843,056**
Out of State	1,450	1,416	2,054,302
Grand Totals	**7,489**	**1,722**	**12,897,358**

Monthly TFFR Benefits by Benefit Amount



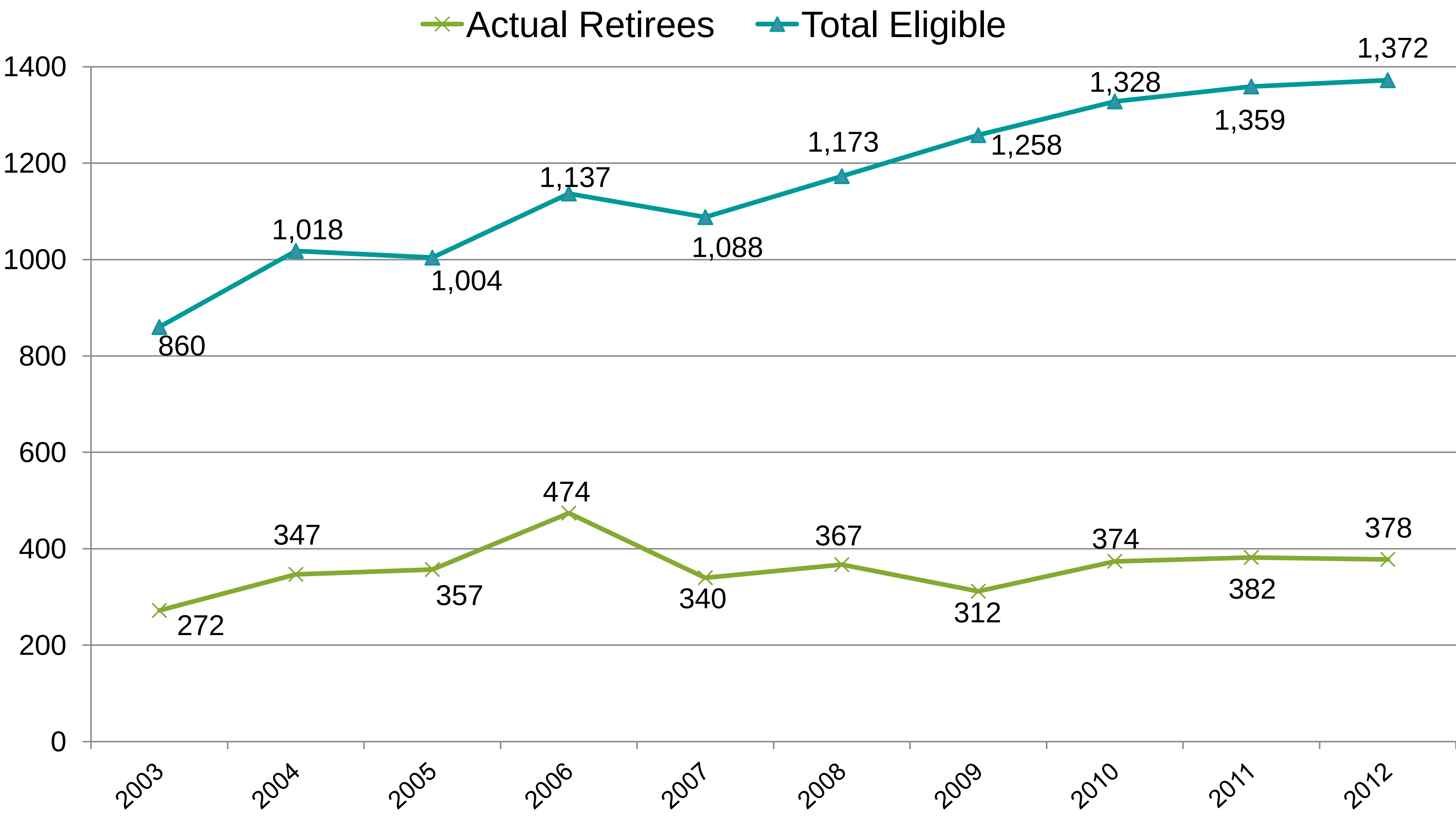
*Preliminary 2013 Data

Annual TFFR Pension Benefits Paid



*Preliminary 2013 data

Actual Retirees and Total Eligible (as of 01-13)



Summary Retirement Projections

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,700 to 4,100 active members are projected to retire in the next 10 years which averages about 400 per year.

	Members	# Retire		Avg/Yr	
		30%	40%	30%	40%
Teachers and Special Teachers	9,643	3,402	3,731	340	373
Superintendents	128	89	97	9	10
Other Administrators	498	207	229	21	23
Total Active Members	**10,269**	**3,698**	**4,057**	**370**	**406**

Note: All retirement projections are estimates only and based on January 2013 membership data.

TFFR Plan Benefits

Membership

- Licensed by Education Standards and Practices Board (ESPB)
- Contracted with participating employer to provide teaching, supervisory, administrative, or extracurricular services
- Other members defined in state law

- **Membership Tiers**
  - **Tier 1** – Members who have TFFR service credit on 7/1/08.
    - Tier 1 Grandfathered Members
    - Tier 1 Non-Grandfathered Members

  - **Tier 2** – Members employed on or after 7/1/08

Grandfathered Members

- **Note: 2011 legislation**
  - Tier 1 grandfathered members - within 10 years of retirement eligibility on 6/30/13 (Vested and Age 55+ or Rule of 65+). Approximately 3,500 members.
  - Tier 1 non-grandfathered and Tier 2 members – more than 10 years away from retirement eligibility on 6/30/13. About 6,500 members.
  - Member's actual age and service credit (including any purchased service credit) will be calculated to the nearest thousandth (0.000).
  - Non-grandfathered members could purchase service credit by 6/30/13 to be grandfathered at actuarial equivalent cost. Actuarial cost to purchase service credit increases significantly if the purchased service allows member to be grandfathered and eligible to retire at the Rule of 85, instead of minimum age 60 with the Rule of 90.

Summary of TFFR Pension Benefits for Membership Tiers

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule of 85	Rule of 90	Rule of 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
x Final average salary (high salaries of career)	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years
Disability Retirement	Yes	Yes	Yes
Retirement formula multiplier (2%) X FAS X total years			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

Retirement Benefit Formula Example

- Employee has 30 years of service credit and career high annual salaries of:

  $42,000
  44,000
  46,000
  48,000
  50,000

  - Tier 1 (FAS 3 years) SLA Benefit Calculation

    48,000 X 2% X 30 yrs = $28,800 (60% FAS)

  - Tier 2 (FAS 5 years) SLA Benefit Calculation

    46,000 X 2% X 30 yrs = $27,600 (60% FAS)

- Benefit Options: single life annuity, 100% and 50% joint and survivor, 10 and 20 year term certain, level income with Social Security, and partial lump sum option.

Contribution Rates

RATES %	Employer	Member	Total	Increase
7/1/10	8.75%	7.75%	16.5%	---
7/1/12	10.75%	9.75%	20.5%	+4%
7/1/14	12.75%	11.75%	24.5%	+4%

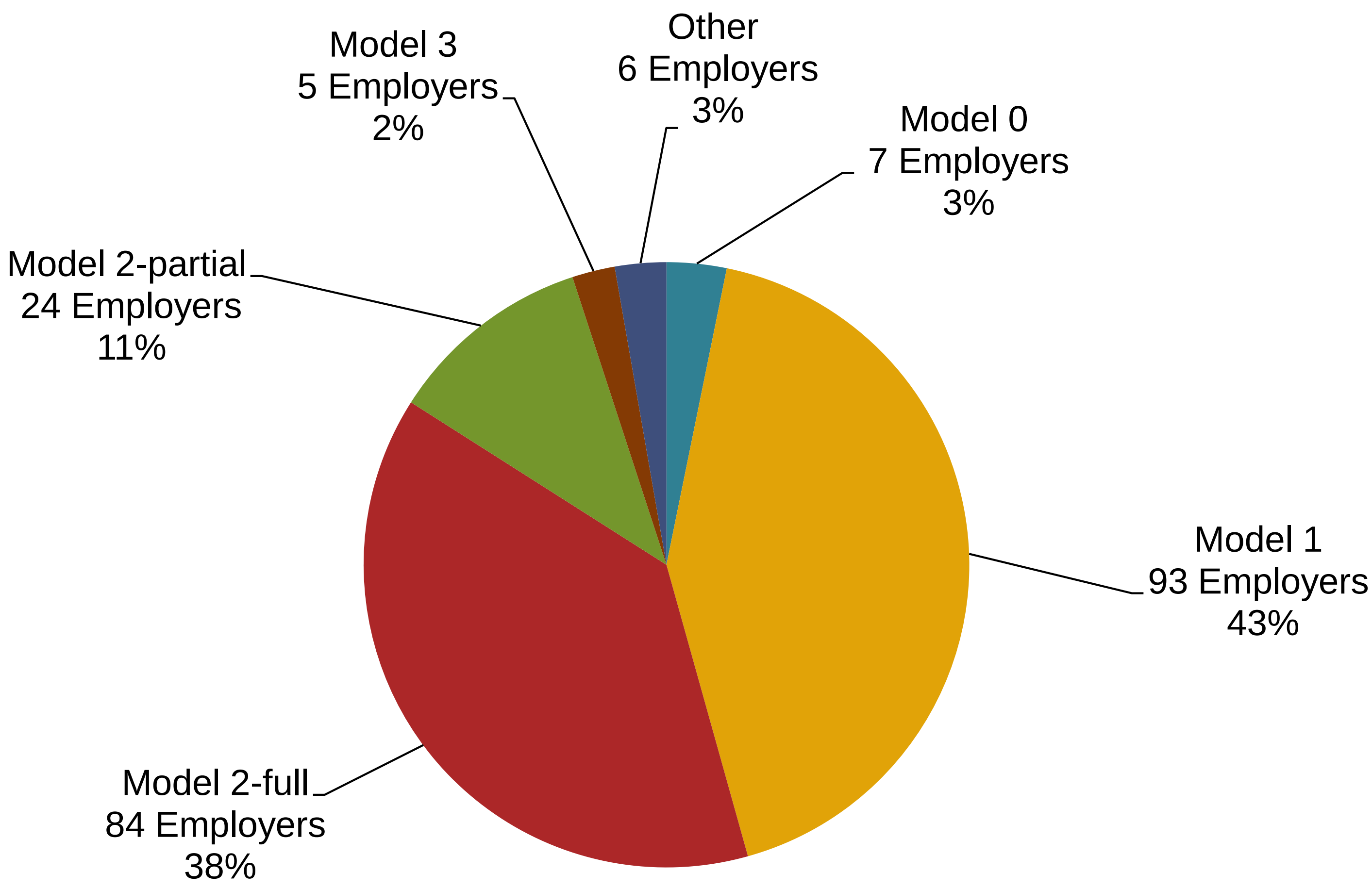
Note: Recent legislation increased rates effective 7/1/12 and 7/1/14 to improve TFFR funding. Increased rates will be in effect until TFFR reaches 100% funded ratio; then rates will be reduced to 7.75% each.

TFFR Employer Payment Plan (EPP) Models

Payment of member contributions on a tax deferred basis can be made by the employer through a: (1) salary reduction or (2) salary supplement.

- **No Model**: Member/employee contribution is paid by employee and remitted by employer as taxed dollars.
- **Model 1**: Member/employee contribution is paid by employee through a salary reduction and remitted by employer as tax deferred dollars.
- **Model 2 All:** Member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars.
- **Model 2 Partial % and Model 3 Partial $:** A portion of the member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars. The remaining employee contribution is paid by employee and remitted by employer as tax deferred dollars. Model 3$ option is no longer available.
- **Other:** Includes state agencies, and closed groups with special provisions.

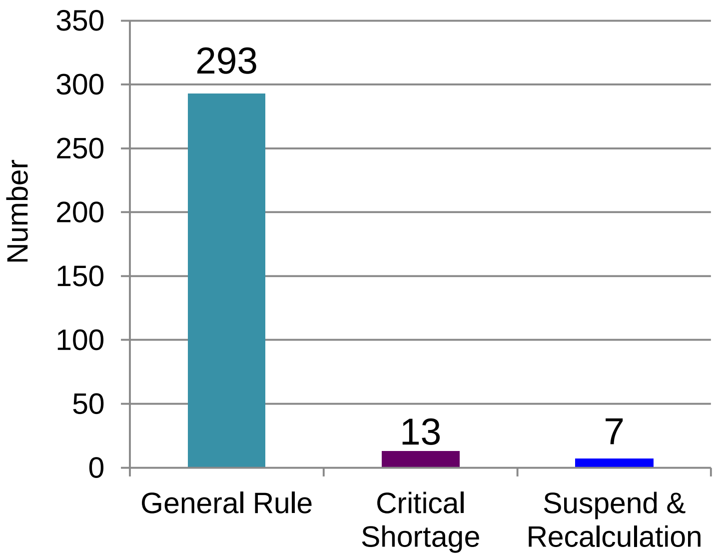
TFFR Employer Models 2012-13

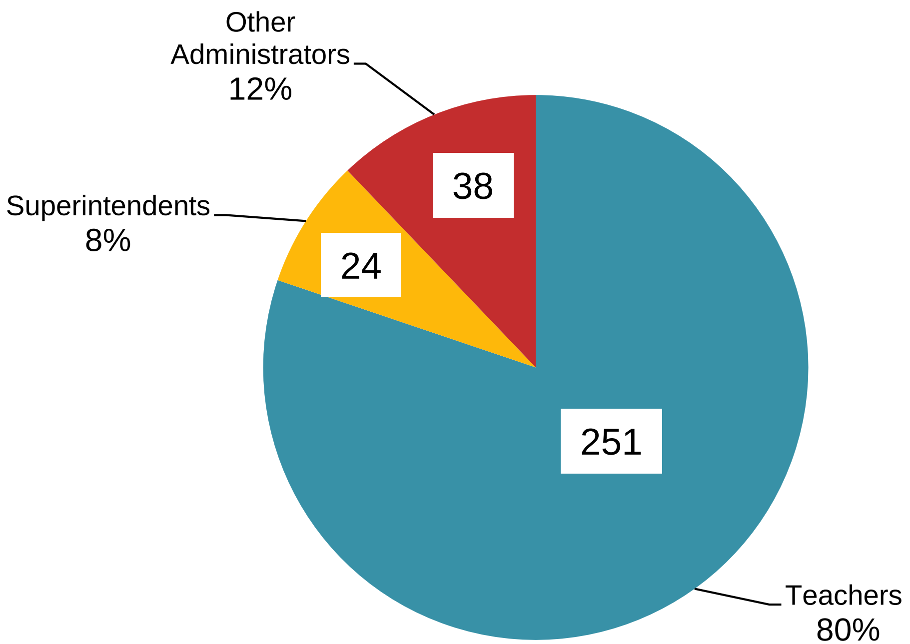


Retiree Re-employment

- **General Rule**
  - Retirees may return to covered employment after 30 day waiting period.
  - Employment is limited to a maximum number of hours in a fiscal year based on length of work arrangement.
    - 9 mo. 700 hours — 11 mo. 900 hours
    - 10 mo. 800 hours — 12 mo. 1,000 hours
  - Retiree continues receiving monthly TFFR retirement benefit, but benefit does not increase as result of returning to employment and payment of TFFR contributions.
  - Both retiree and employer contributions must be paid on retiree salary under the same employer payment plan model as active members.
- **Exceptions to General Rule**
  - Critical Shortage Areas
  - Benefit Suspension and Benefit Recalculation

2012-13 Retiree Re-employment





Total Retirees: 313
Employers: 135

Average Age: 62

Average Salary: $23,600

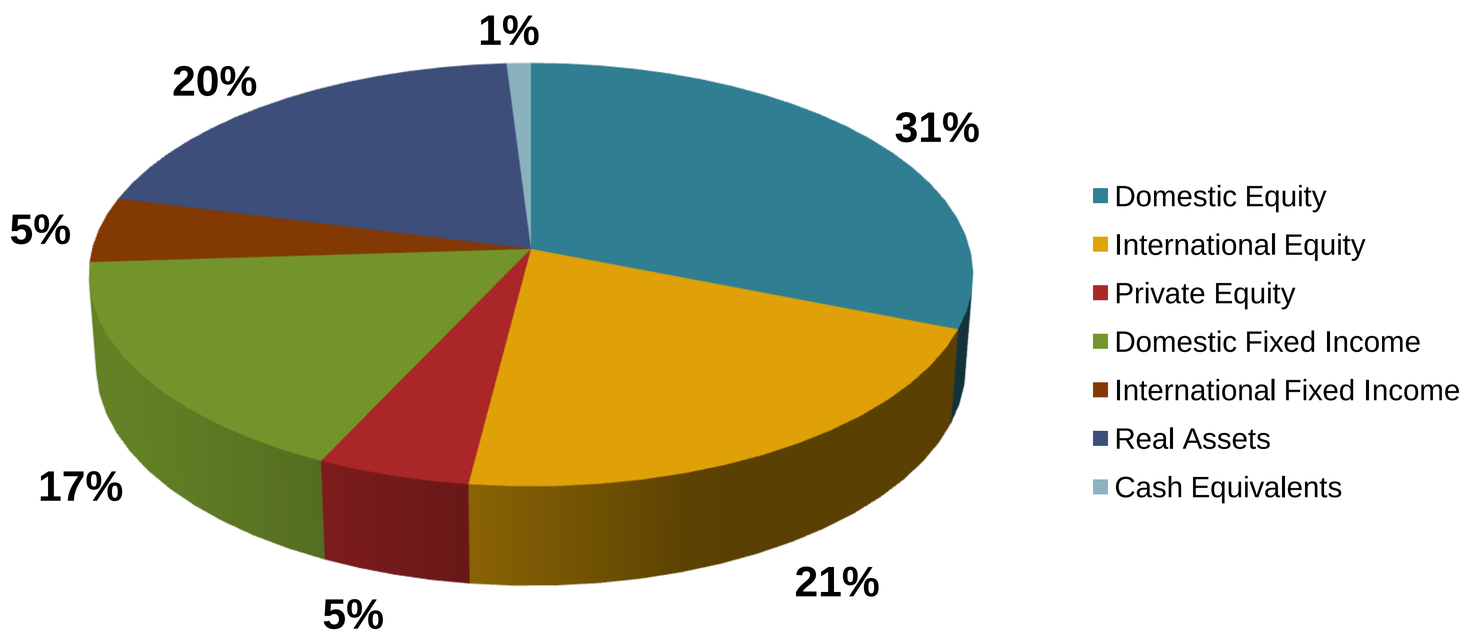
*Preliminary 2013 data

TFFR Investments

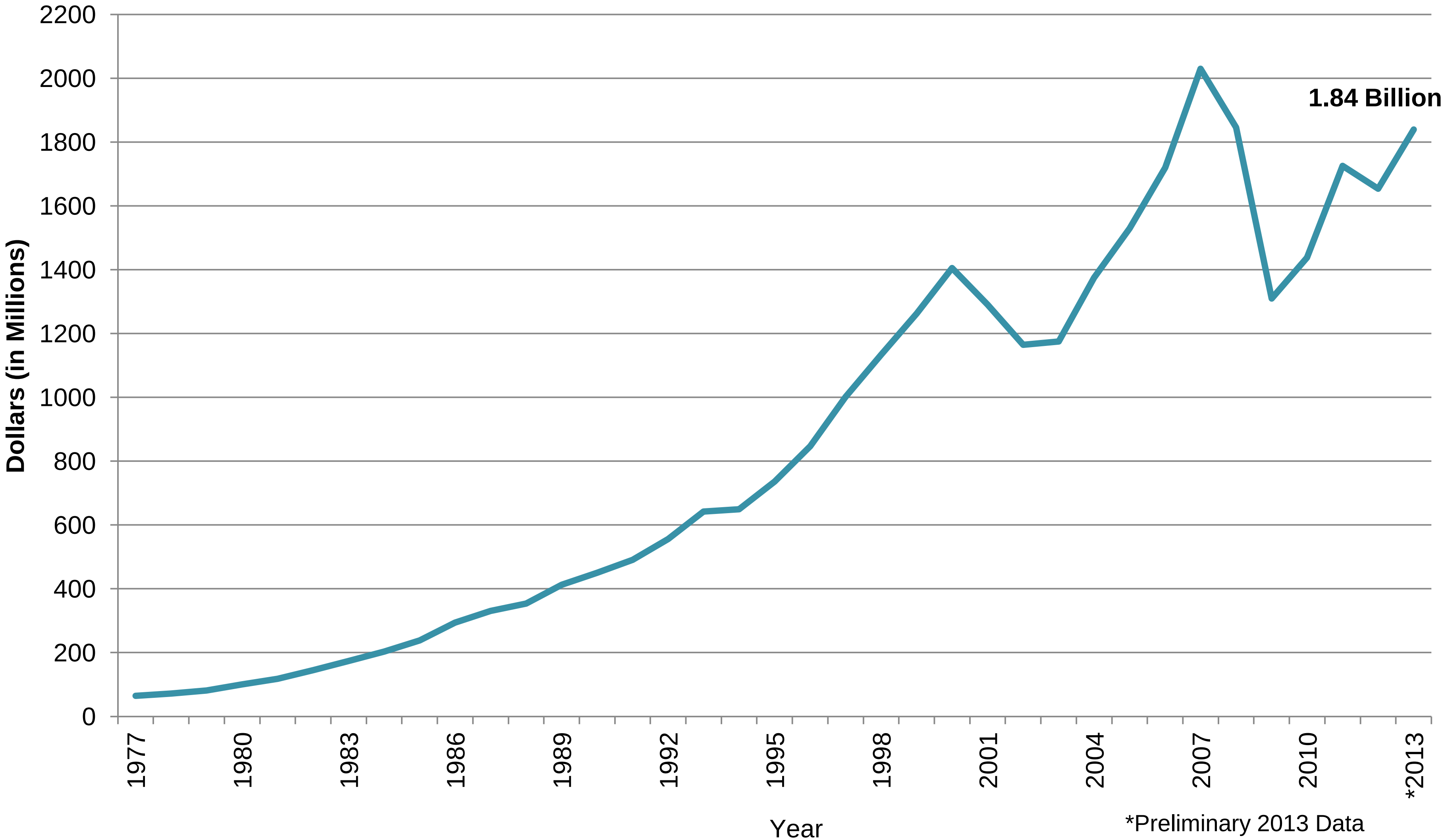
TFFR Investments

- SIB overview – Darren Schulz, SIB Interim Chief Investment Officer
- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Chief Investment Officer.
- Asset Liability study is conducted every 5 years to consider appropriate asset mix for funding TFFR pension liabilities. Most recent Study was completed in Fall 2011.
- TFFR developed a new framework which divides the portfolio into three basic categories, defined by their reactions to specific capital market factors:
  - Equity (growth and capital appreciation)
  - Fixed income (income, low risk, flight to quality, deflation)
  - Real assets (inflation, income, diversification)
- TFFR's long term investment return assumption is 8%.

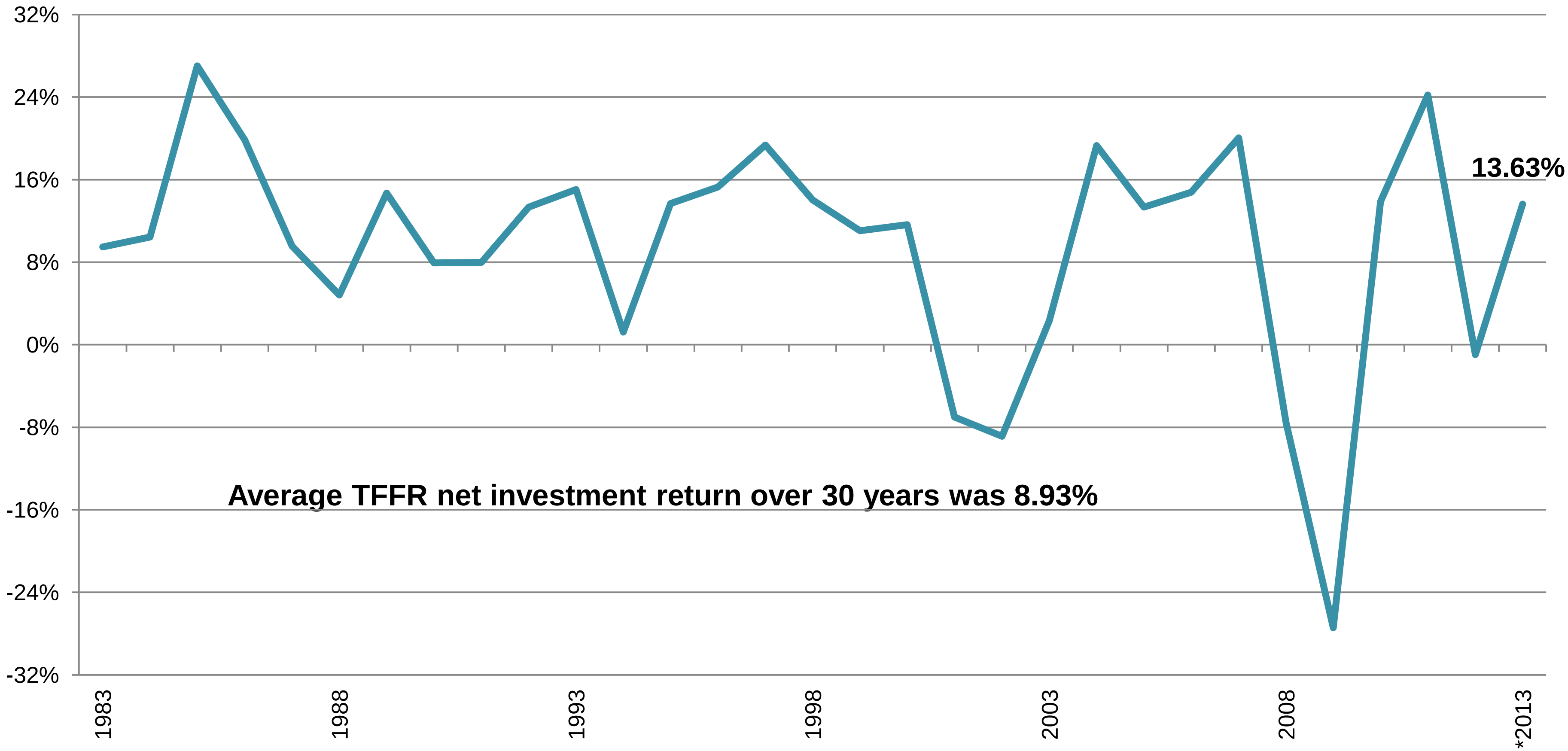
TFFR Asset Allocation



Market Value of TFFR Assets 1977 - 2013



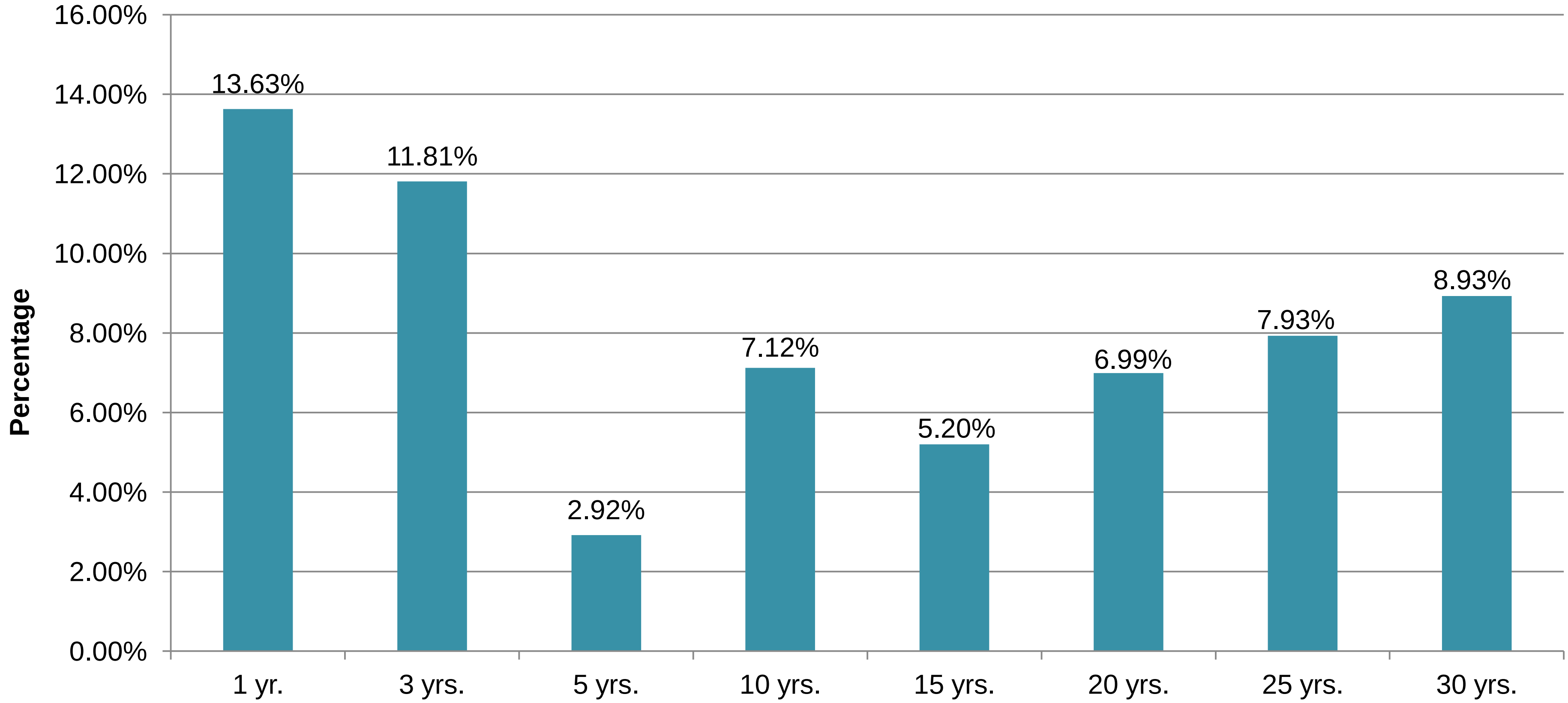
TFFR Net Investment Performance – Annual 1983-2013



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

* Preliminary 2013 data

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2013



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

*Preliminary 2013 Data

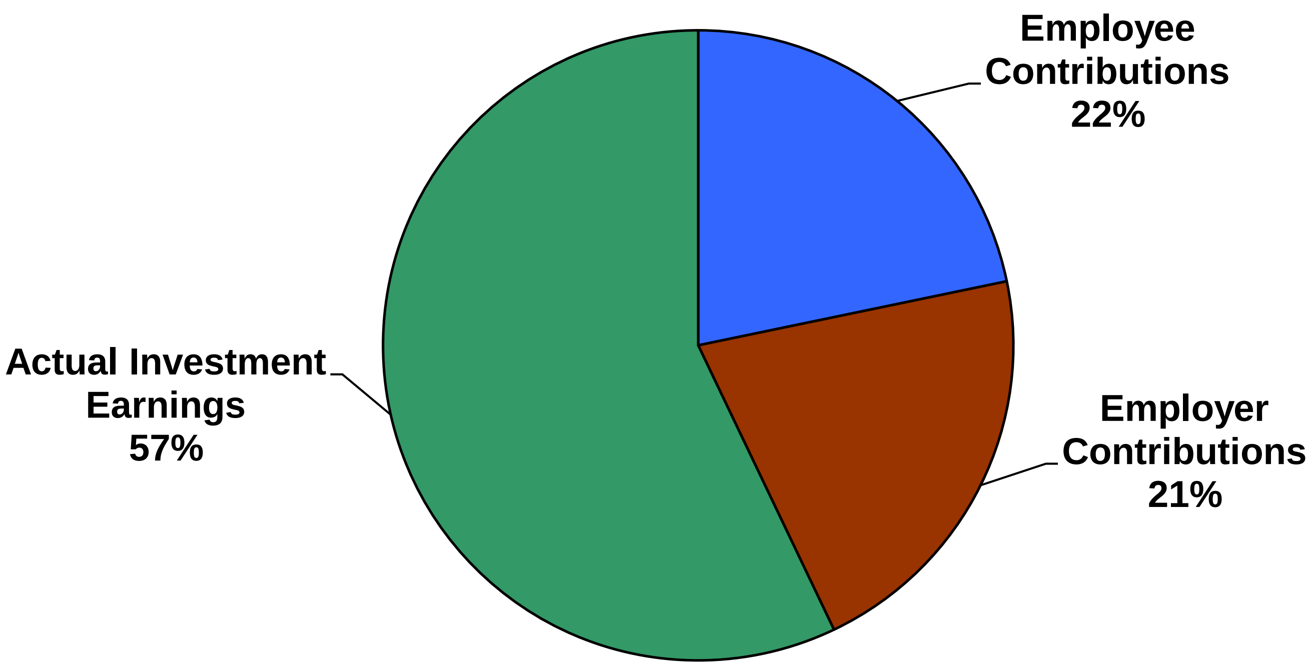
TFFR Funding

Retirement Funding Equation

C + I = B + E

- Contributions + Investments = Benefits + Expenses
- Not just for today, but for the long term.

Sources of TFFR Revenue Fiscal Years 1990-2013

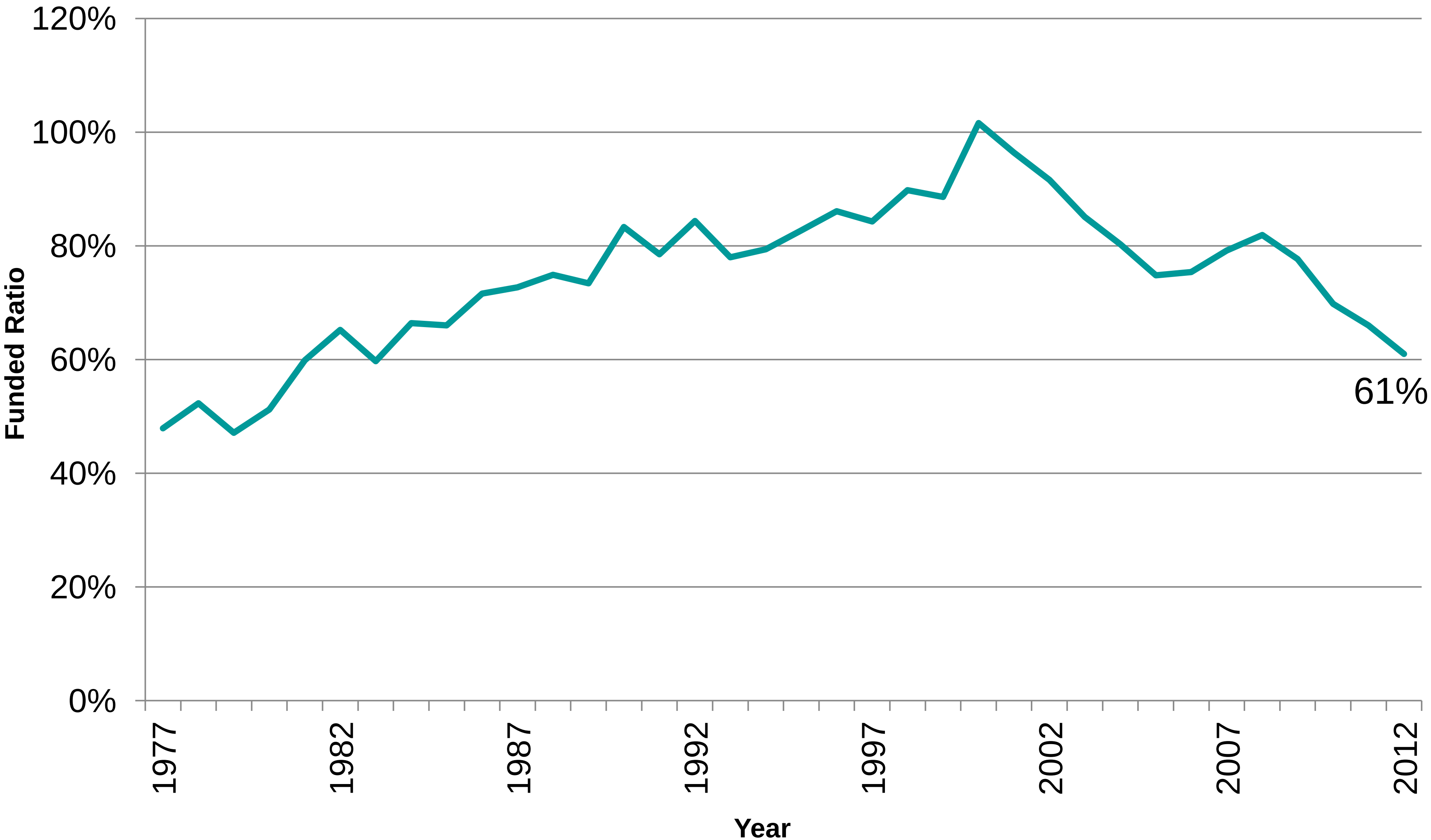


2012 Valuation Report

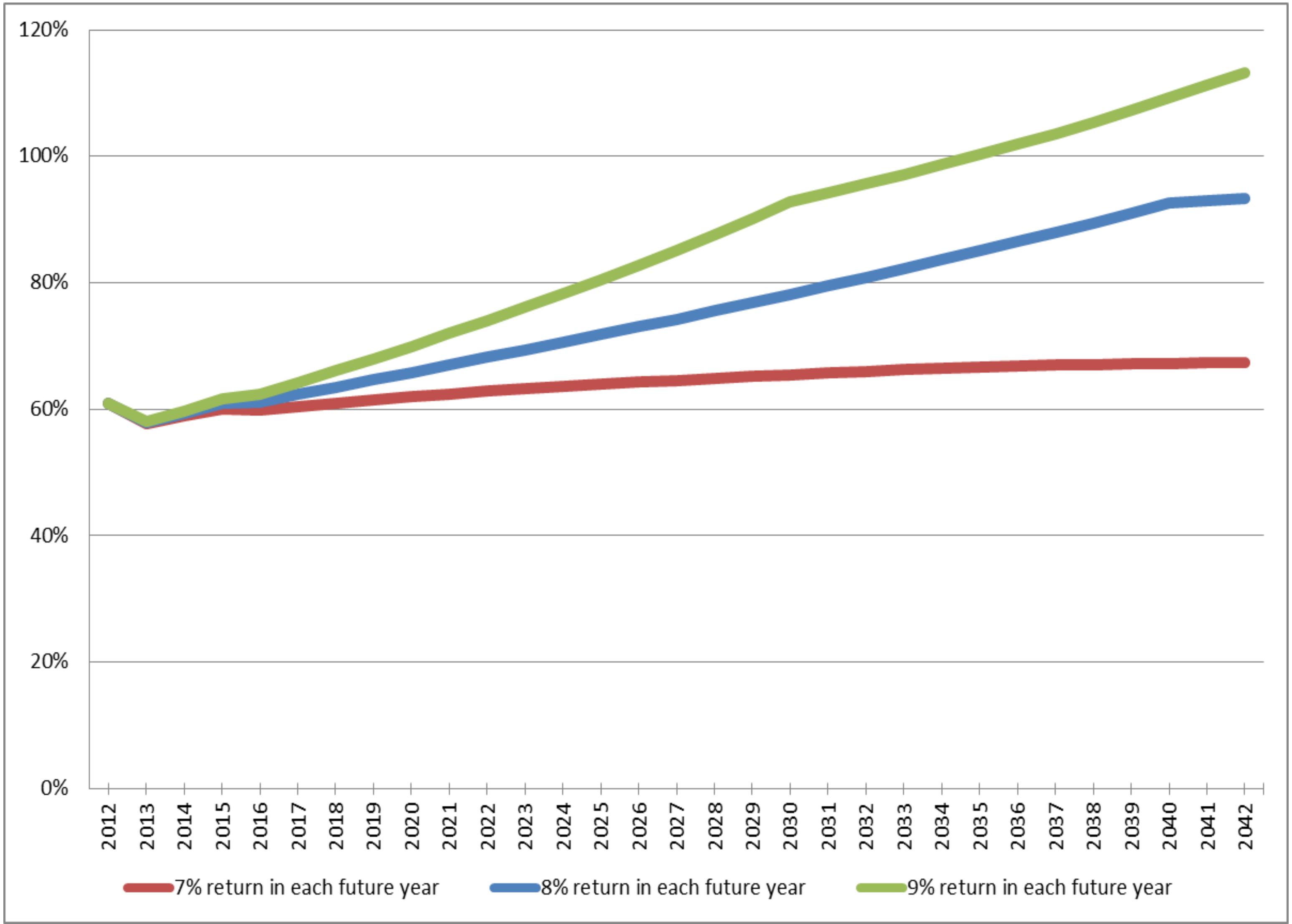
Actuarial Accrued Liability (AAL)		$2.87 billion
Actuarial Value of Assets (AVA)		- 1.75 billion
Unfunded AAL (UAAL)		$1.12 billion
AVA Funded Ratio		**61%**
Market Value of Assets (MVA)		$1.65 billion
MVA Funded Ratio		58%

- **Note: 2013 valuation in process – to be completed late October 2013.**

TFFR Funded Ratio (AVA)
1977 - 2012



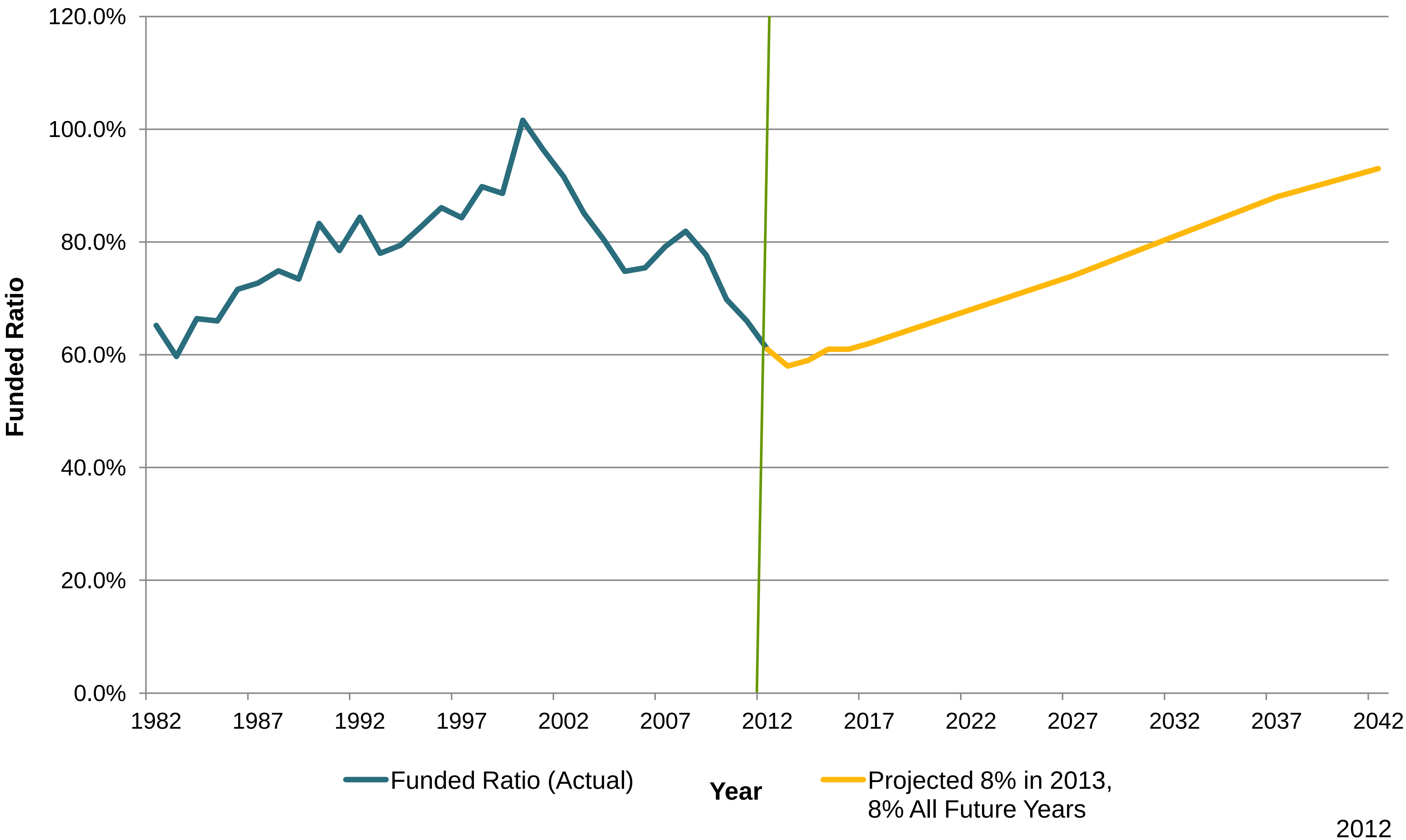
Projected TFFR Funded Ratios (AVA Basis) Actual Returns +1% or -1% of Assumed



TFFR Funding Improvement Expected

- **With the approved 2011 legislative changes, funding recovery is expected to occur gradually over time.**
  - After the 2008-09 investment losses are smoothed into actuarial calculations
  - After increased retirement contributions begin flowing into the plan (phased in 2012 – 14).
- **Time is needed for the changes made to show positive funding results. It will be a long, slow process.**
  - Actuarial projections show 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.
  - If investment returns are greater than 8% over the long term and if TFFR reaches 100% funded level, employee and employer contribution rates will be reduced sooner than expected.
  - If investment returns are less than 8% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.
  - While 2013 fiscal year was a good year in the investment markets, the ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.

TFFR Funded Ratio (AVA) Actual and Projected (based on 2012 valuation)



2013 Approved Legislation

- **SB 2061,** submitted by TFFR Board, includes technical corrections and administrative updates. The changes were not expected to have an actuarial effect on the plan, and were not submitted for funding improvement purposes.

- **HB 2030,** submitted by Rep. Louser, maintains the 11.75% member contribution rate and 12.75% employer rates approved by the 2011 Legislature until the Fund reaches 100% funded ratio. Once full funding is achieved, contribution rates will be reduced to 7.75% for members and 7.75% for employers.

Future Issues

New GASB Standards

- Governmental Accounting Standards Board (GASB) recently approved two new standards that will change the accounting and financial reporting of public employee pensions by state and local governments.

- Statement #67 – Addresses financial reporting for governmental pension plans (NDTFFR).
  - Effective for plan year beginning 7/1/13 – 6/30/14.

- Statement #68 – Establishes new accounting and financial reporting requirements for state and local governments (NDTFFR participating employers, school districts).
  - Effective for plan year beginning 7/1/14 – 6/30/15.

New GASB Standards

- Funding and expense will be decoupled using new pension expense methodology. Having two different "cost" numbers – funding and expense – may be confusing.
- Net pension liability will be placed on employer's balance sheet according to a formula (based on market value of assets and a blended discount rate). This will add a large and unstable element to an employer's net financial position as presented in the basic financial statements.
- Employers in "pooled" plans like TFFR will have that "pooled" net pension liability apportioned to each participating employer (school district, state, etc.).

New GASB Standards

- The guidance contained in these new accounting statements will change how governments calculate and report the costs and obligations associated with pensions.

- Each employer is responsible for implementing the new financial reporting requirements, so will need to work with accounting, audit, and legal specialists for assistance in understanding and implementing the new standards. This is a MAJOR change from previous requirements.

- TFFR is working with actuarial consultant, Segal Company, to understand how GASB changes will impact reporting for TFFR and participating employers.

- **Segal will provide more information on new GASB reporting requirements when they deliver TFFR's 2013 annual actuarial valuation report to the Legislative Employee Benefits Programs Committee in November.**

TFFR Information

TFFR website: www.nd.gov/rio

- Legislation
  - Links to ND Legislative website, bill drafts, actuarial analysis
- Presentations
  - Webcast presentations on funding and legislative proposals
  - Presentations made to member and employer groups
- Publications and Reports
  - Newsletters, handbook, brochures
  - Actuarial and audit reports
- Contact Information
  - Phone: 701-328-9885 or 1-800-952-2970
  - Email: fkopp@nd.gov

Handout

August 5, 2013

North Dakota Teacher Fund for Retirement
Board of Directors
1930 Burnt Boat Drive P O Box 7100
Bismarck, ND 58507-7100

Dear Board,

I retired in 1992 after working 34 years in North Dakota education. As you know, ND Retirement does not have a COLA as do other retirement systems and is dependent upon the generosity of the North Dakota State Legislature to effect an increase.

The monies I received in 1992 were adequate for the time and some TFR increases have been legislated. However, I think it is time for the state legislature to analyze the cost of living increase over time and adjust the payments accordingly.

The stock market has recently hit an all time high so the long term actuarial soundness of the fund should not be a problem if the money has been invested wisely.

I read where North Dakota has been receiving beau coup oil receipts and published reports shows state balances in the billions of dollars.

I think that the educators who spent their lives in the school trenches deserve a piece of the good times. In other words, isn't it a time for an increase in the payment to retired teachers?

Sincerely,

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

August 20, 2013

SUBJECT: TFFR

Dear

Thank you for your letter expressing concerns about the lack of a cost of living adjustment (COLA) in the ND TFFR plan. Your letter will be shared with the TFFR Board at their next regular meeting on September 26, 2013.

As you have stated, the ND TFFR plan does not contain provisions for automatic cost of living adjustments. However, ad hoc benefit increases have been given in the past when positive actuarial margins were available. For example, post retirement benefit adjustments were granted in 1991, 1993, 1997, 1999, and 2001.

Unfortunately, funds are not available in the TFFR trust to support increased retiree benefits at this time. TFFR's current funded status is about 60%. Funding levels are expected to dip for the next few years as 2008-09 investment losses are completely phased in. Active members and school districts are paying increased contributions to offset past investment losses and address the unfunded liability of the plan. Because of these increased contributions, it is expected that TFFR's funding level will slowly begin to rise, and will return to an adequate level over the next 20 – 30 years. This will ensure the long term sustainability of the plan.

While TFFR experienced a very strong year in the financial markets (about 13.5% for fiscal year ending June 30, 2013), it is not enough to offset previous investment losses. Over the long term, however, if investment returns are greater than expected, funding levels will improve sooner, and the long term financial health of the plan will be restored.

, please be assured the TFFR Board recognizes that retired ND teachers have not received an increase in their benefit for many years. Unfortunately, the TFFR trust fund cannot afford to increase retiree benefit payments as it would negatively impact the fund. The Board's highest priority is to ensure that adequate funds will be available to pay all promised benefits to current and future retirees for life.

You also noted that the State of North Dakota is currently experiencing a budget surplus. While that is true, along with the budget surplus is a long list of budget requests. All spending requests are closely scrutinized by the State Legislature, and must be prioritized and sustained over the long term.

Please feel free to give me a call if you would like to discuss.

Sincerely,

Fay Kopp

Fay Kopp
Interim Executive Director/Chief Retirement Officer

dar/

RECEIVED
AUG 2 8 2013
NDRIO

August 24, 2013

Fay Kopp, Interim Executive Director
North Dakota Teacher Fund for Retirement
1930 Burnt Boat Drive P O Box 7100
Bismarck, ND 58507-7100

Dear Fay Kopp,

Thank you for your response to my letter. I didn't really except that someone would respond.

You pointed out that we received raises in 91, 93, 97, 99, and 01. I have been retired out of ND since 92 and the raises indicate that out of the past 21 years, only four years have seen raises, not to mention that no raise has occurred for twelve years.

You mention dips in the market. Need I point out that when I started investing in 1980 or so the Dow Jones Average was somewhere around 1,000. Just recently the Dow was above 15,000 which mean the market has increased at least fifteen fold over the time when I started teaching in 1956.

I get weary of hearing the market blamed for the actuarial problems in the fund. The market over the long haul has not been the problem. If there is a problem with market investments, it would appear that it has more to do with poor investment decisions on behalf of whomever does the investing for the NDTFR Board than on market performance.

I read some time ago reserves for the state of ND were above six billion dollars. For a state of around 600 thousand people, that's a lot of bucks in the bank for a rainy day. Forgive me if I seem a little unconvinced that ND can't afford to share some of its plenty with people who have worked hard to help provide the ongoing intelligencia of the state.

I think it obscene that retired teachers have to beg when this kind of money exists in state coffers.

Please give me a call if you would like to discuss

Sincerely,

Handout

600 E.Boulevard Ave.
Bismark, North Dakota 58505

RECEIVED
JUL 1 2013
BY:

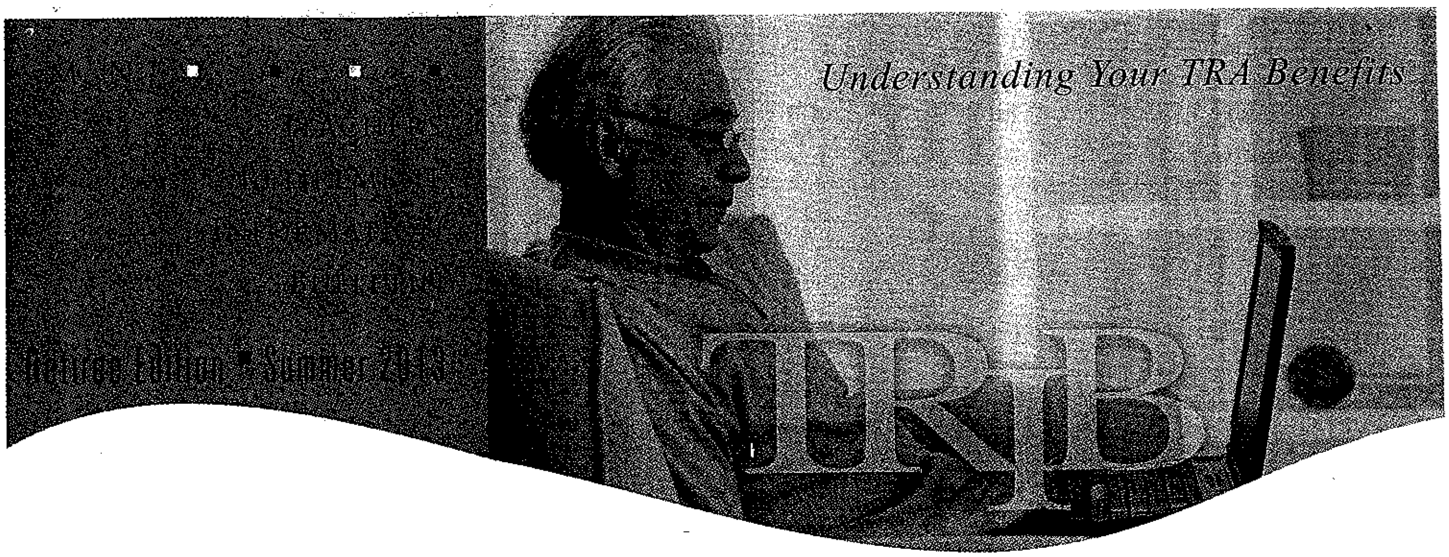
Dear

Enclosed is a newsletter from Minnesota TRA. Gov. Dayton is giving assistance from the State to public employee retirement pensions. As you are probably well aware, North Dakota Teacher's retirement pensions have been "Frozen" since 2001. Minnesota was "Frozen" for two years and now payout with at least the cost of living increase or around 2 per cent.

Minnesota is in the red, yet they can see this as important. North Dakota is not in the red---can't something be done to shore up North Dakota TRA? Our retirement pension is not doing what we expected. What a shame to ignore the situation.

Sincerely,

encl. 1



Gov. Dayton signs 2013 pension bill

Gov. Mark Dayton has signed the 2013 Omnibus Pension Bill, which authorizes changes to public employee early-retirement benefit calculations, two years of increased state aid to the struggling St. Paul and Duluth teachers' retirement funds, and a study on a potential merger of the two independent teacher funds into TRA.

A combined $13 million in aid will be appropriated in each of the next two years on Oct. 1, 2013, and again on Oct. 1, 2014, to help the St. Paul Teachers Retirement Fund Association (SPTRFA) and the Duluth Teachers Retirement Fund Association (DTRFA) achieve solvency. Dayton told lawmakers that he would not make a long-term commitment to state aid beyond two years unless the two funds merge into TRA.

The legislation requires that the merger study be undertaken by the actuaries, boards of trustees and staff of the three funds beginning this summer, and a report is due to the legislature by Jan. 6, 2014.

Bill author Sen. Sandy Pappas, D-St. Paul, chair of the Legislative Commission on Pensions and Retirement (LCPR), called the two-year funding for Duluth and St. Paul Teachers "a temporary Band-Aid while we work on a consolidation plan."

"The cost to consolidate these plans with TRA at the current time are estimated to be three times as large, or $40

(Continued on page 3)

Mary Supple, Rob Gardner and Martha Lee (Marti) Zins won re-election to the TRA Board of Trustees. Story on page 2.

Welcome, new retirees!

Teachers Retirement Association congratulates you on your retirement. You and about 1,800 other members retiring this summer join more than 52,000 TRA retirees and beneficiaries.

You will now receive the retiree edition of the *TRIB* newsletter. Though the newsletter will continue to provide information pertinent to all members, you will now get articles of specific interest to retirees. The same services you had as an active member are still available to you. The TRA website has many account management features retirees can use when accessing an online account.

Questions? Contact TRA Member Services, Monday through Friday, 7:30 a.m. – 4:30 p.m. at 651-296-2409 or 800-657-3669. E-mail us at info@minnesotatra.org. Visit our website: www.minnesotatra.org.

will be used to verify your identity if you forget your ID or password. Once you have completed the registration process, you will receive a confirmation and can log in.

verification from a TRA representative that the request is valid.

Gov. Dayton signs 2013 pension bill

(Continued from page 1)

million a year, so we have to approach consolidation cautiously," Pappas said. The hope is that a couple of good stock market years will increase the funding ratios of the troubled plans and lower the merger cost, she added.

Also stipulated in the law, TRA will be changing calculations for early-retirement reductions on the advice of its actuaries. The changes are effective July 1, 2015, with a five-year phase-in to 2020.

As the legislative session wound down in May, debate on the pension bill heated up on the House and Senate floors. Rep. Mary Murphy (DFL-Hermantown), vice chair of the LCPR, said the bill, which includes measures to stabilize the pension plans for judges and public safety, is "responsible, promotes solvency and stability, and leads us toward keeping our promises."

Other legislators disagreed, questioning the pension systems' sustainability and recommending that the current defined benefit plans be replaced by 401(k)-style plans. Senate Minority Leader David Hann (R-Eden Prairie) called the bill "deeply flawed" and said that the process lacked bipartisan input.

Rep. Mike Benson (R-Rochester), a pension commission member, raised concerns about the increase in state aid going to the Duluth and St. Paul teacher plans. He also said that the consolidation study should not be conducted by the boards and executive directors of the plans.

"The people who are going to do the study are the TRA, who themselves are $6 billion in the tubes," Benson said, adding that TRA would be seeking a "massive infusion of additional capital ... likely another $200 million to $300 million over the next few years." He also criticized the large COLAs paid to retirees in the late 1990s.

Rep. Tim Kelly (R-Red Wing) and Rep. Tony Albright (R-Prior Lake) recommended moving to the 401(k) plans used in the private sector. "The defined-benefit plan is a dinosaur," Kelly said.

"The defined-benefit programs that were established many, many years ago did not contemplate that longevity amongst the participants was going to increase as rapidly as it has over the last 10 years," Albright said.

Rep. Tim O'Driscoll (R-Sartell), another pension commission member, said that despite recent higher investment returns, long-term averages still indicate that the 8 percent investment return assumption currently used by all the pension systems is too high.

The most recent data available from the State Board of Investment (SBI) show annualized TRA returns through March 31, 2013, of 5.7 percent for the past five years, 9.2 percent for the past 10 years, and 9.9 percent since 1980.

Besides the TRA provisions, the pension bill included increased state aid to public safety and volunteer firefighter plans, contribution increases and benefit reductions in the state patrol, fire, judges and police pension plans, and increased service requirements for police and fire pension members.

Direct Deposit Schedule

Mon., July 1
Thurs., Aug. 1
Tues, Sept. 3
Tues., Oct. 1
Fri., Nov. 1
Mon., Dec. 2

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STATE BUDGET SOLUTIONS

REAL Solutions for REAL Budget Problems

Promises Made, Promises Broken — The Betrayal of Pensioners and Taxpayers

By Cory Eucalitto
Editor, State Budget Solutions

September 3, 2013

Comprehensive research into the funded status of state level defined benefit public pension plans reveals that public employee retirement promises are underfunded by $4.1 trillion. Combined, state public pension plans are just 39 percent funded.

States facing a particularly large unfunded liability at a per capita level and as a percentage of their annual gross state product include Illinois, Ohio, New Jersey, Oregon, Connecticut, Nevada, New Mexico, Hawaii, and Alaska.

As this report demonstrates, unfunded public pension liabilities present a unique threat to state government finances. While many have tried to turn a blind eye to the pension crisis, the problem is simply too big to ignore.

Evolving Perspectives

Both the Governmental Accounting Standards Board and Moody's Investors Services have recently made changes to the way they approach public pensions from their respective vantage points. The impetus for those changes was the routine undervaluing of plan liabilities.

With their rejection of an unsatisfactory approach to calculating public pension liabilities, GASB and Moody's have joined a chorus of financial economists and other observers warning that pension funding practices are dangerous for both taxpayers and public employees alike. Despite this progress, many discordant perspectives remain on the true size of these funding gaps.

Breaking Down the Numbers

Flawed funding practices have put public pension systems across the country in peril, but some states are in better shape than others. An unfunded liability dollar amount alone does not tell the whole story. Larger states will, naturally, have a larger unfunded liability than smaller ones.

A funded ratio presents a plan's assets as a percentage of liabilities, or the amount of money owed in benefits. The funded ratio is used as one of the primary measurements of a pension plan's overall funding health. It provides an additional layer of context that an unfunded liability alone does not. For example, California has a larger unfunded liability than Kansas, but based on what the state currently knows it will owe to retirees versus the amount of money they actually have, the funded ratio tells us that Kansas is in worse shape than California, with Kansas' plans being 29% funded and those of the Golden State being 42% funded.

By this measure, the five most poorly funded states are Illinois (24%), Connecticut (25%), Kentucky (27%), and Kansas (29%), along with Mississippi, New Hampshire, and Alaska tied at 30% funded.

At the other end of the spectrum, Wisconsin, the most well funded state in the country, has just a 57% funded ratio, followed by North Carolina (54%), South Dakota (52%), Tennessee (50%) and Washington (49%).

State	Funded Ratio	State	Funded Ratio
Illinois	24%	Wisconsin	57%
Connecticut	25%	North Carolina	54%
Kentucky	27%	South Dakota	52%
Kansas	29%	Tennessee	50%
MS, NH, AK	30%	Washington	49%

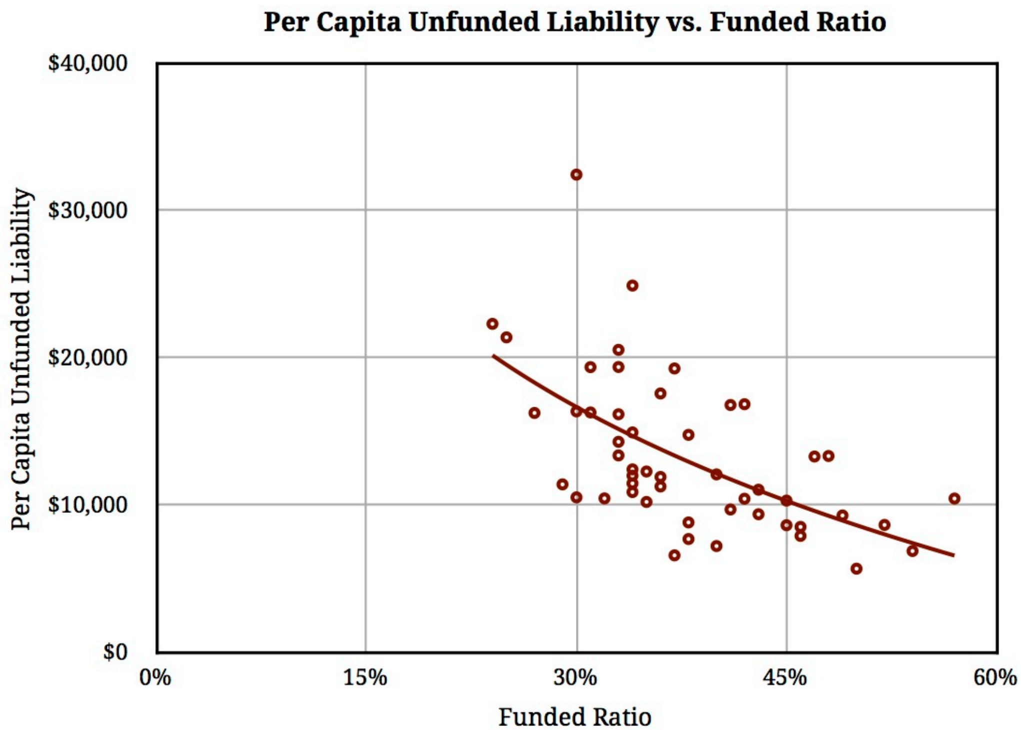
Additional measurements offer a deeper look into what unfunded pension promises mean for taxpayers in a given state.

The unfunded liability of all plans in this study, $4.1 trillion, works out to $13,145 per capita.

The states with the largest unfunded liability per person are Alaska ($32,425), Ohio ($24,893), Illinois ($22,294), Connecticut ($21,378) and New Mexico ($20,530). On the other hand, the states with the smallest unfunded liability per person are Tennessee ($5,676), Indiana ($6,581), North Carolina ($6,874), Nebraska ($7,212) and Arizona ($7,688).

State	Per Capita U.L.	State	Per Capita U.L.
Alaska	$32,425	Tennessee	$5,676
Ohio	$24,893	Indiana	$6,581
Illinois	$22,294	North Carolina	$6,874
Connecticut	$21,378	Nebraska	$7,212
New Mexico	$20,530	Arizona	$7,688

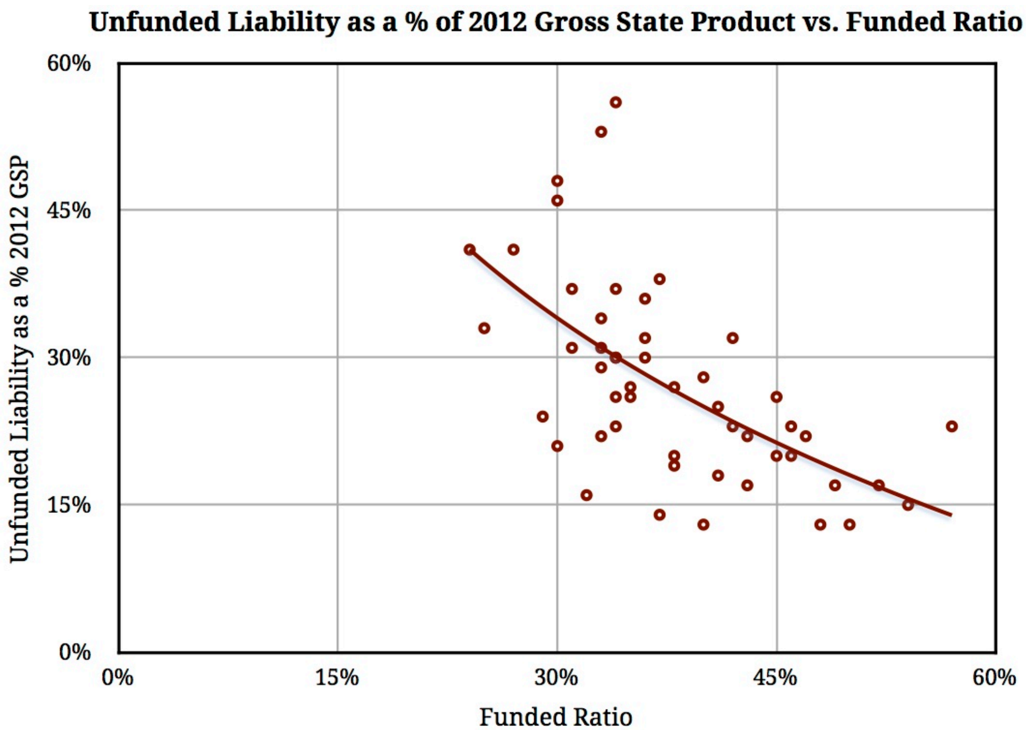
The chart Per Capita Unfunded Liability vs. Funded Ratio demonstrates the connection between a state’s funded ratio and its unfunded liability per capita. The connection is, of course, obvious. States with higher funded ratios also show smaller per capita unfunded liabilities.



An examination of unfunded liabilities as a percentage of each state's gross state product reveals a list similar to that shown on a per capita basis. Ohio (56%), New Mexico (53%), Mississippi (48%), Alaska (46%) and Illinois (41%) have the five largest ratios of unfunded liabilities to 2012 Gross State Product according to the U.S. Bureau of Economic Analysis. Delaware, Tennessee, Nebraska (13%), Indiana (14%), North Carolina (15%), North Dakota (16%), and South Dakota, Washington, and Texas (17%) had the lowest ratios.

State	U.L. as a % of GSP	State	U.L. as a % of GSP
Ohio	56%	DE, TN, NE	13%
New Mexico	53%	Indiana	14%
Mississippi	48%	North Carolina	15%
Alaska	46%	North Dakota	16%
Illinois	41%	SD, WA, TX	17%

The chart Unfunded Liability as a Percentage of 2012 Gross State Product vs. Funded Ratio, similar to the Per Capita Unfunded Liability vs. Funded Ratio one above, demonstrates the connection between a state's funded ratio and its unfunded liability as a percentage of Gross State Product.



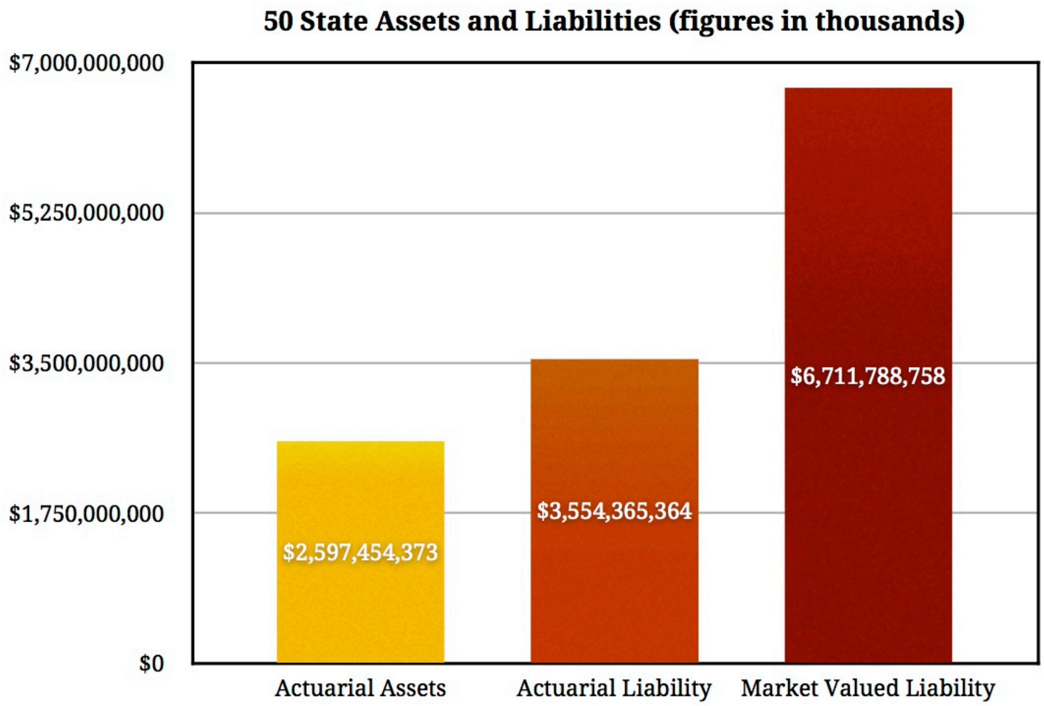
By combining the rankings of per capita unfunded liabilities and unfunded liabilities as a percentage of annual gross state product, it is possible to identify which states stand out on both scales. Nine states are present in the top ten of both lists, showing large unfunded liabilities compared to their populations and economic output. Those states are Illinois, Ohio, New Jersey, Oregon, Connecticut, Nevada, New Mexico, Hawaii, and Alaska.

A Market-Valued Approach

This fair-market valuation shows the tremendous impact that the choice of a discount rate has on funding health. It demonstrates the extent to which current funding practices undervalue the retirement promises made to public employees. According to official reporting, the overall funded ratio of state plans included in this report is 73 percent – a far cry from the 39 percent level that a fair-market valuation has revealed.

The size of a pension plan's liability is based greatly on the discount rate used in a valuation. Public pension plans discount liabilities in order to determine how much must be paid into the fund today to guarantee funding for benefits that will be paid in the future. The process involves starting with the amount of money that is projected will be owed and subtracting interest each year to arrive at a present value.

Current public sector practices involve discounting a liability according to the assumed investment returns of plan assets, typically around 8 percent. Yet with discount rates tied to expected investment performance, plan sponsors can easily take on greater risk in order to make liabilities appear smaller. This reduces the resources required today to pay for the promises of tomorrow.



Accurately accounting for a pension system's liability requires incorporating the nearly certain nature of benefits. That is, once promised, the chances that benefits will not have to be paid are extremely low.

A fair-market valuation does away with optimistic investment return assumptions and instead uses a rate that reflects the risk of the liability itself. One common approach, taken here, is to discount liabilities according to the yield of a 15-year Treasury bond.

Method

This report includes data from over 250 state-level defined benefit pension plans holding nearly $2.6 trillion in assets. Figures were drawn from state Fiscal Year 2012 Comprehensive Annual Financial Reports, as well as the Comprehensive Annual Financial Reports and actuarial valuations published by individual plans. In each case, figures were from the most up-to-date valuation available at the time of research. Plans were compiled based on the United States Census Bureau's 2012 Annual Survey of Public Pensions and state-level financial reports. Plan liabilities were discounted were discounted according to the 15-year Treasury bond yield as of August 21, 2013. That rate was 3.225 percent.

State	Actuarial Assets	Market Valued Liability	Funding Ratio	Unfunded Liability
Note: figures in thousands				
Alabama	$28,136,859	$83,416,289	34%	$55,279,430
Alaska	$10,257,331	$33,972,931	30%	$23,715,600
Arizona	$30,716,205	$81,099,672	38%	$50,383,467
Arkansas	$19,914,988	$55,016,307	36%	$35,101,319
California	$459,450,490	$1,100,068,950	42%	$640,618,460
Colorado	$40,915,702	$124,738,616	33%	$83,822,914
Connecticut	$25,492,957	$102,247,874	25%	$76,754,917
Delaware	$7,862,654	$16,287,446	48%	$8,424,792
Florida	$127,891,781	$280,543,392	46%	$152,651,611
Georgia	$69,392,153	$154,949,799	45%	$85,557,646
Hawaii	$12,242,500	$39,193,563	31%	$26,951,063
Idaho	$11,657,299	$25,241,561	46%	$13,584,262
Illinois	$91,521,686	$378,567,679	24%	$287,045,993
Indiana	$25,156,363	$68,175,596	37%	$43,019,233
Iowa	$25,778,883	$59,705,144	43%	$33,926,261
Kansas	$13,278,490	$46,167,691	29%	$32,889,201
Kentucky	$26,060,181	$97,225,999	27%	$71,165,818
Louisiana	$33,578,010	$108,503,089	31%	$74,925,079
Maine	$11,076,400	$24,761,724	45%	$13,685,324
Maryland	$37,448,661	$110,513,048	34%	$73,064,387
Massachusetts	$43,493,039	$132,310,593	33%	$88,817,554
Michigan	$59,934,079	$178,436,105	34%	$118,502,026
Minnesota	$47,954,571	$127,349,655	38%	$79,395,084
Mississippi	$20,429,973	$69,238,316	30%	$48,808,343
Missouri	$48,699,412	$121,416,557	40%	$72,717,145
Montana	$7,631,673	$22,633,205	34%	$15,001,532
Nebraska	$9,058,379	$22,439,823	40%	$13,381,444
Nevada	$27,466,740	$75,934,905	36%	$48,468,165
New Hampshire	$5,861,896	$19,751,867	30%	$13,889,971
New Jersey	$85,938,988	$257,614,702	33%	$171,675,714
New Mexico	$21,397,284	$64,212,781	33%	$42,815,497
New York	$230,680,400	$490,756,062	47%	$260,075,662
North Carolina	$78,403,200	$145,436,340	54%	$67,033,140
North Dakota	$3,498,700	$10,806,862	32%	$7,308,162
Ohio	$146,123,868	$433,497,668	34%	$287,373,800

State	Actuarial Assets	Market Valued Liability	Funding Ratio	Unfunded Liability
Note: figures in thousands				
Oklahoma	$21,469,876	$62,963,724	34%	$41,493,848
Oregon	$44,943,100	$120,068,763	37%	$75,125,663
Pennsylvania	$85,323,119	$241,959,100	35%	$156,635,981
Rhode Island	$7,533,391	$22,540,481	33%	$15,007,090
South Carolina	$29,555,334	$82,721,841	36%	$53,166,507
South Dakota	$7,935,490	$15,141,572	52%	$7,206,082
Tennessee	$36,680,783	$73,328,483	50%	$36,647,700
Texas	$183,833,884	$427,998,123	43%	$244,164,239
Utah	$21,369,935	$51,129,687	42%	$29,759,752
Vermont	$3,335,632	$8,853,162	38%	$5,517,530
Virginia	$54,473,000	$133,823,921	41%	$79,350,921
Washington	$60,829,300	$124,883,777	49%	$64,054,477
West Virginia	$10,220,671	$29,152,505	35%	$18,931,834
Wisconsin	$78,940,000	$138,707,039	57%	$59,767,039
Wyoming	$6,609,063	$16,284,767	41%	$9,675,704
Total	**$2,597,454,373**	**$6,711,788,758**	**39%**	**$4,114,334,385**

State	Population	Per Capita U.L.	Gross State Product	U.L. as a % of GSP
Note: figures in thousands, except Per Capita				
Alabama	4,822	$11,464	$183,547,000	30%
Alaska	731	$32,425	$51,859,000	46%
Arizona	6,553	$7,688	$266,891,000	19%
Arkansas	2,949	$11,902	$109,557,000	32%
California	38,041	$16,840	$2,003,479,000	32%
Colorado	5,188	$16,158	$274,048,000	31%
Connecticut	3,590	$21,378	$229,317,000	33%
Delaware	632	$13,324	$65,984,000	13%
Florida	19,318	$7,902	$777,164,000	20%
Georgia	9,920	$8,625	$433,569,000	20%
Hawaii	1,392	$19,357	$72,424,000	37%
Idaho	1,596	$8,513	$58,243,000	23%
Illinois	12,875	$22,294	$695,238,000	41%
Indiana	6,537	$6,581	$298,625,000	14%
Iowa	3,074	$11,036	$152,436,000	22%
Kansas	2,886	$11,397	$138,953,000	24%
Kentucky	4,380	$16,246	$173,466,000	41%
Louisiana	4,602	$16,281	$243,264,000	31%
Maine	1,329	$10,296	$53,656,000	26%
Maryland	5,885	$12,416	$317,678,000	23%
Massachusetts	6,646	$13,364	$403,823,000	22%
Michigan	9,883	$11,990	$400,504,000	30%
Minnesota	5,379	$14,760	$294,729,000	27%
Mississippi	2,985	$16,352	$101,490,000	48%
Missouri	6,022	$12,075	$258,832,000	28%
Montana	1,005	$14,925	$40,422,000	37%
Nebraska	1,856	$7,212	$99,557,000	13%
Nevada	2,759	$17,568	$133,584,000	36%
New Hampshire	1,321	$10,517	$64,697,000	21%
New Jersey	8,865	$19,366	$508,003,000	34%
New Mexico	2,086	$20,530	$80,600,000	53%
New York	19,570	$13,289	$1,205,930,000	22%
North Carolina	9,752	$6,874	$455,973,000	15%
North Dakota	700	$10,446	$46,016,000	16%
Ohio	11,544	$24,893	$509,393,000	56%

State	Population	Per Capita U.L.	Gross State Product	U.L. as a % of GSP
Note: figures in thousands, except Per Capita				
Oklahoma	3,815	$10,877	$160,953,000	26%
Oregon	3,899	$19,266	$198,702,000	38%
Pennsylvania	12,764	$12,272	$600,897,000	26%
Rhode Island	1,050	$14,288	$50,956,000	29%
South Carolina	4,724	$11,255	$176,217,000	30%
South Dakota	833	$8,647	$42,464,000	17%
Tennessee	6,456	$5,676	$277,036,000	13%
Texas	26,059	$9,370	$1,397,369,000	17%
Utah	2,855	$10,423	$130,486,000	23%
Vermont	626	$8,814	$27,296,000	20%
Virginia	8,186	$9,694	$445,876,000	18%
Washington	6,897	$9,287	$375,730,000	17%
West Virginia	1,855	$10,204	$69,380,000	27%
Wisconsin	5,726	$10,437	$261,548,000	23%
Wyoming	576	$16,786	$38,422,000	25%
Total	**312,997**	**$13,145**	**$15,456,283,000**	**27%**

About State Budget Solutions

State Budget Solutions' mission is to fundamentally change the way state & local governments do business by engaging journalists, bloggers, state officials and opinion leaders in a new way of thinking geared towards fundamental budget and public pension reforms, transparency, and accountability. State Budget Solutions is non-profit, non-partisan, positive, pro-reform, proactive and anchored in fundamental, systemic solutions.

State Budget Solutions provides research, analysis, commentary and policy expertise about the enormous fiscal challenges facing our state and local governments and is most importantly focused on solving these problems.

State Budget Solutions rejects the business as usual approach that many offer and instead works to promote process and structural reforms allowing state and local governments to better keep their own fiscal house in order and avoid combinations of draconian tax increases and unnecessary cuts to citizen-valued services.

About the Author

Cory Eucalitto is an editor and author at State Budget Solutions. His areas of focus include public pension and state budget reform. Cory holds a B.A. in Politics focused on political theory from The Catholic University of America. He is originally from Florida and now resides in Washington, D.C.

TFFR Annual Investment Review

September 26, 2013

Darren Schulz

Interim Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Presentation Agenda

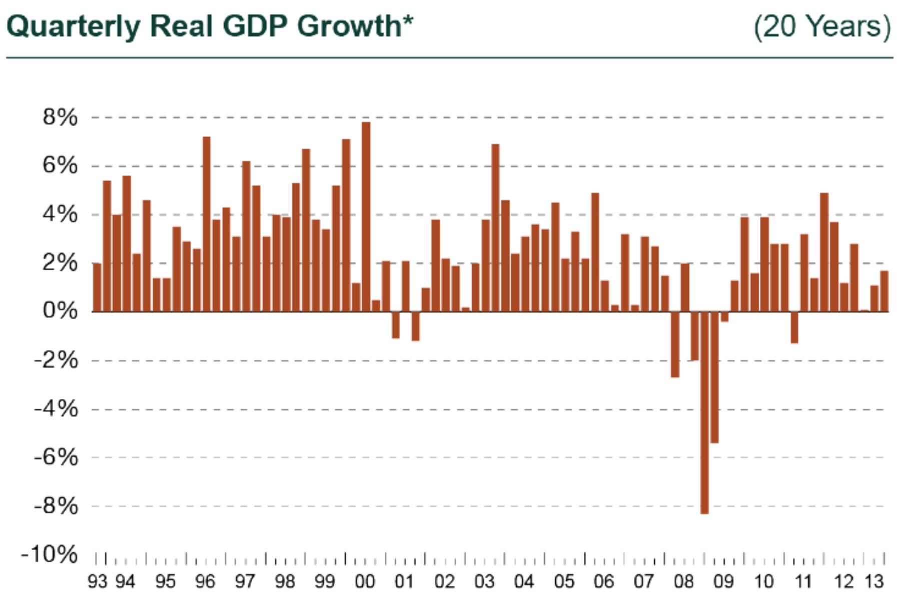
- Fiscal year economic and market highlights
- Historical market values and returns
- Fiscal year investment performance
- Historical asset class returns
- Public fund peer comparison
- Asset allocation
- Callan fee study results

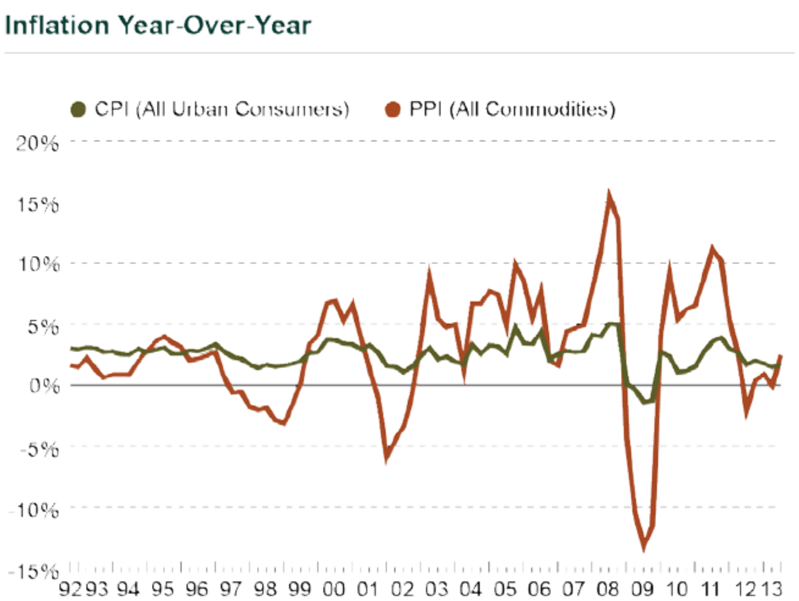
Fiscal Year Highlights

Economic growth subdued globally

- U.S.: Growing at a slow rate
  - Accelerating growth in the private sector has been offsetting the fiscal drag created by tax increases and the impact of sequestration cuts on government spending
  - Massive stimulus by the Fed has led to only 1-3% economic growth and only modest improvement in employment
  - Uncertainty looms over what might happen if the stimulus were reduced (let alone if short-term interest rates were to rise)
- Elsewhere: Slow or no growth in most parts of Europe; slowing growth in emerging markets.

U.S Economy

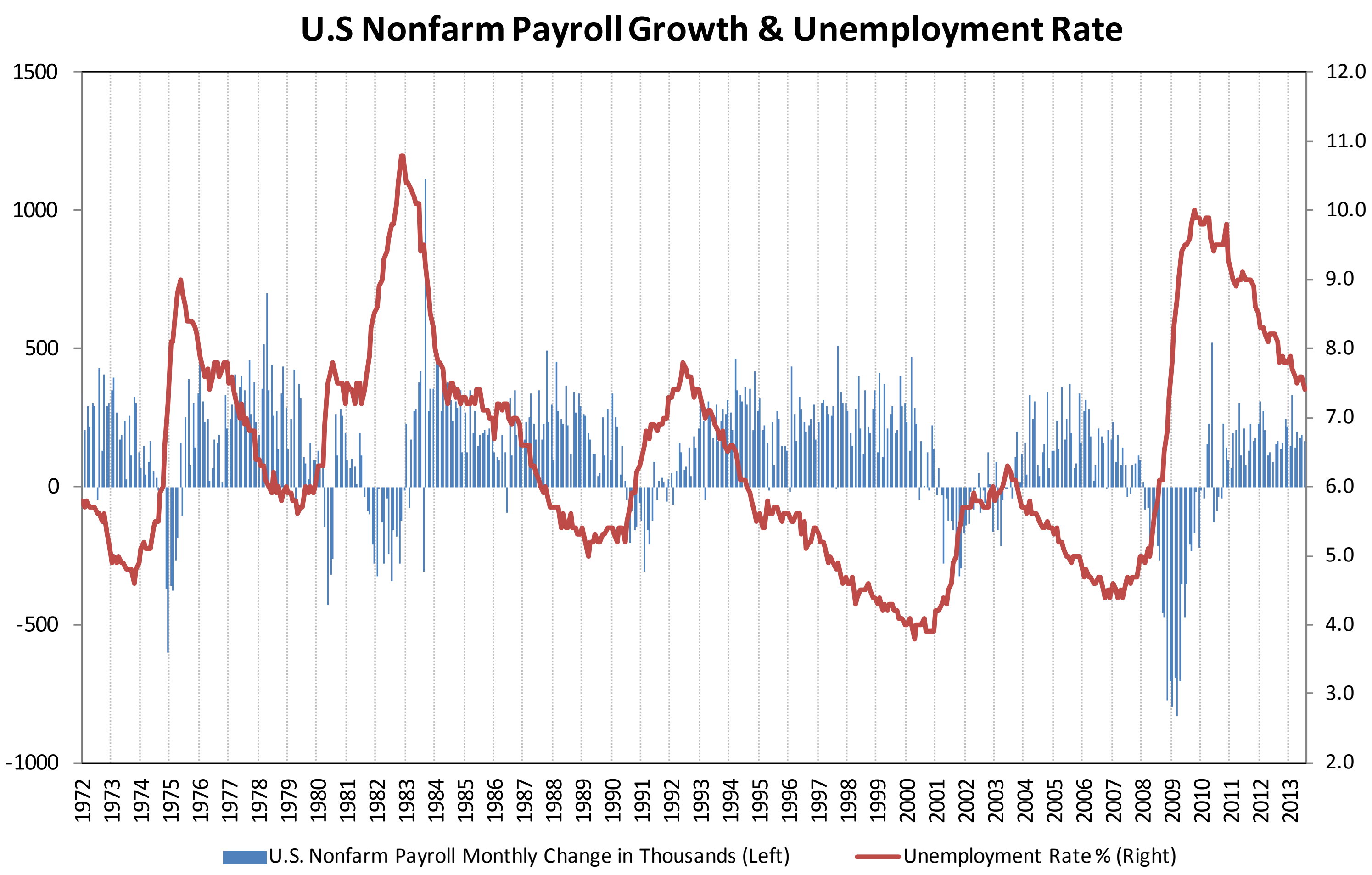




Source: U.S. Department of Labor: Bureau of Labor Statistics

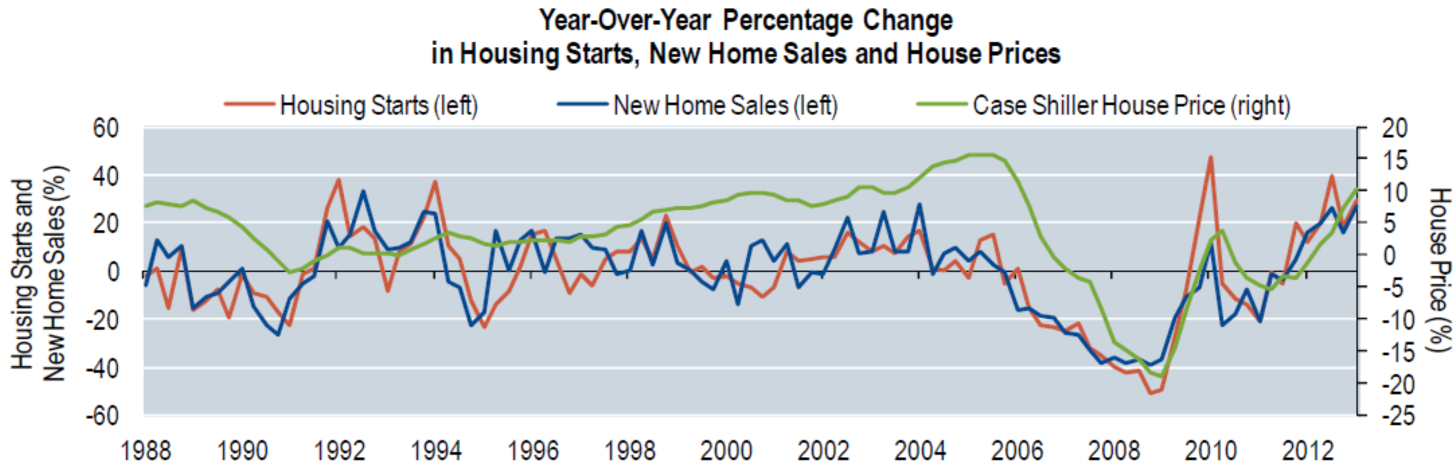
- 2nd quarter GDP rose 1.7% following 1.1% in the 1st quarter
- CPI increased 1.8% over the trailing twelve-months (1.5% in the 1st quarter).

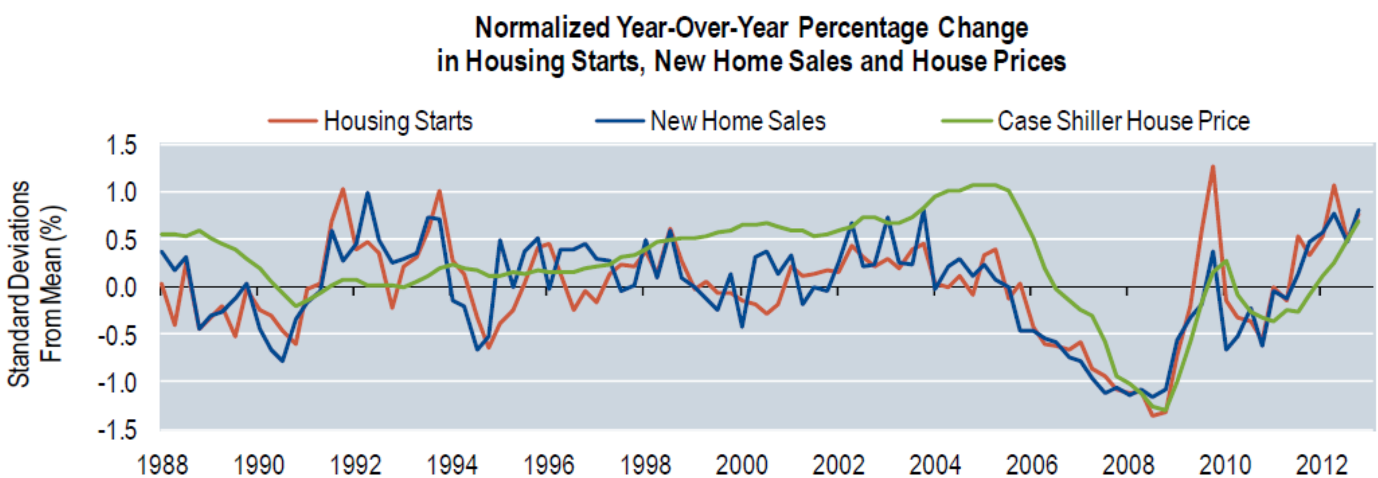
U.S Labor Market Conditions



Source: U.S. Department of Labor: Bureau of Labor Statistics

U.S Housing Trends Suggest Start of Recovery

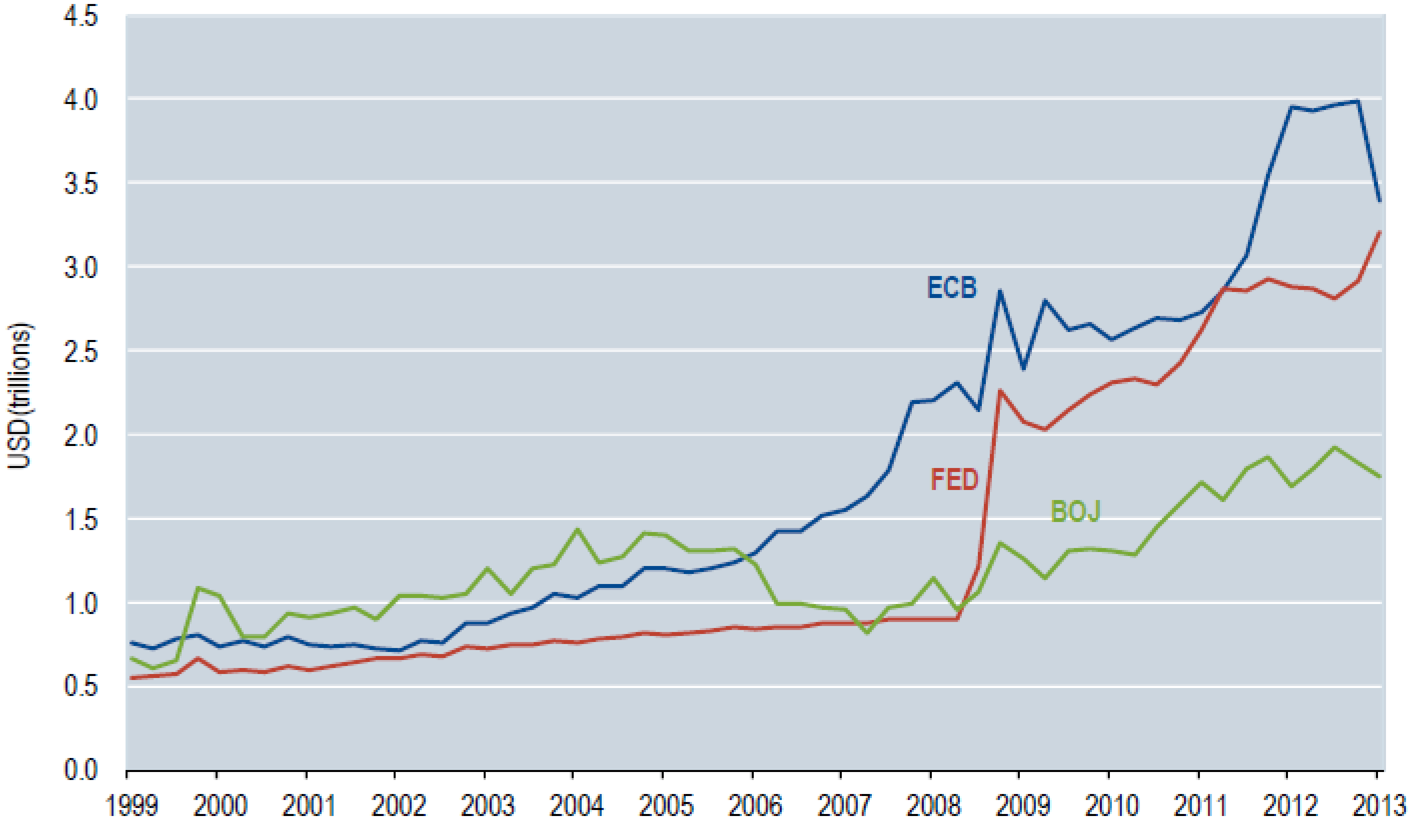




Source: US Census Bureau, Case-Shiller, Bloomberg

Central Bank Balance Sheets

Unconventional monetary policy through quantitative easing by central banks continues to impact financial markets.



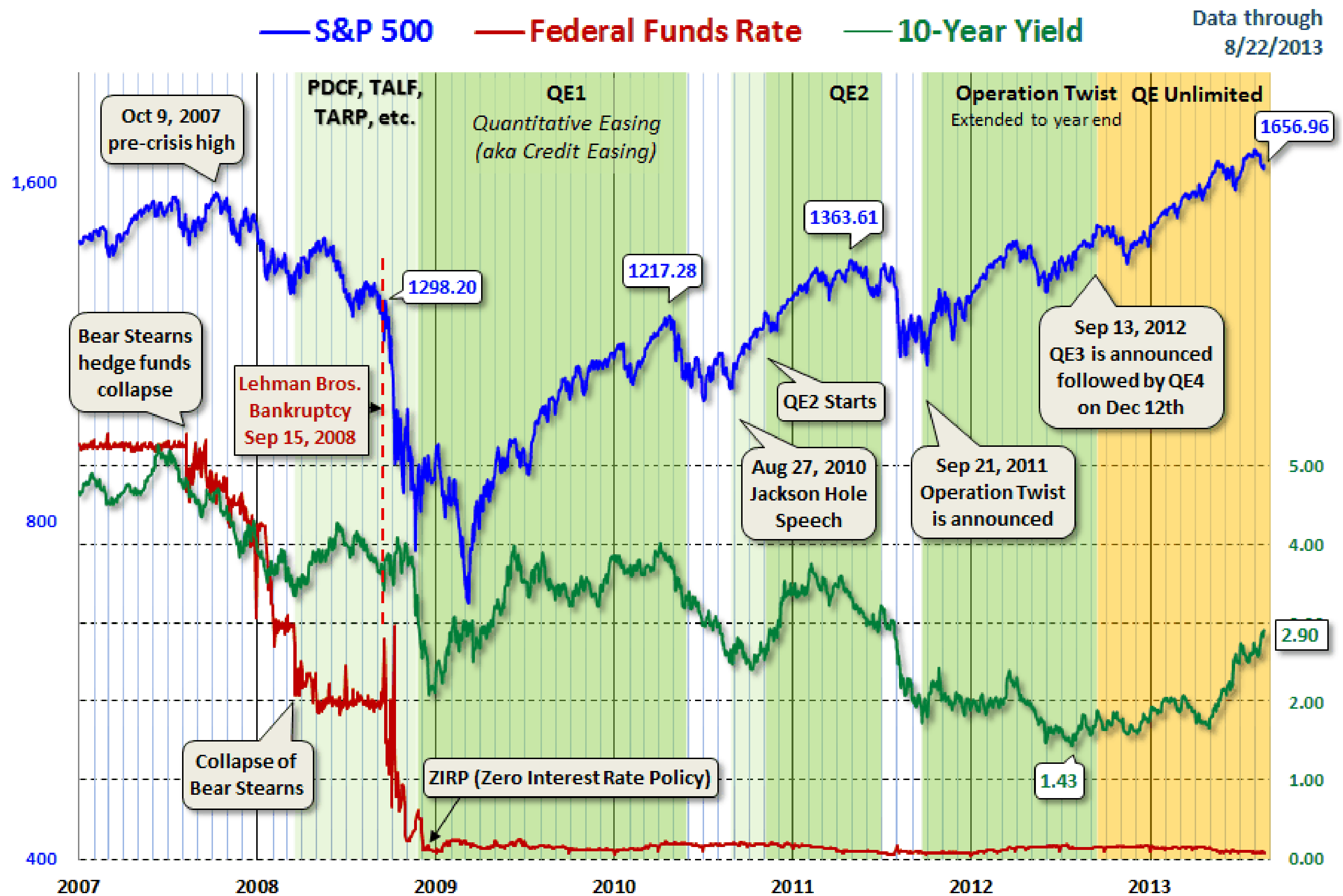
Source: Bloomberg. As of 31 Mar 13

Fiscal Year Highlights

Most equity markets advanced steadily; bonds were “mixed”; central banks’ words and actions provided support

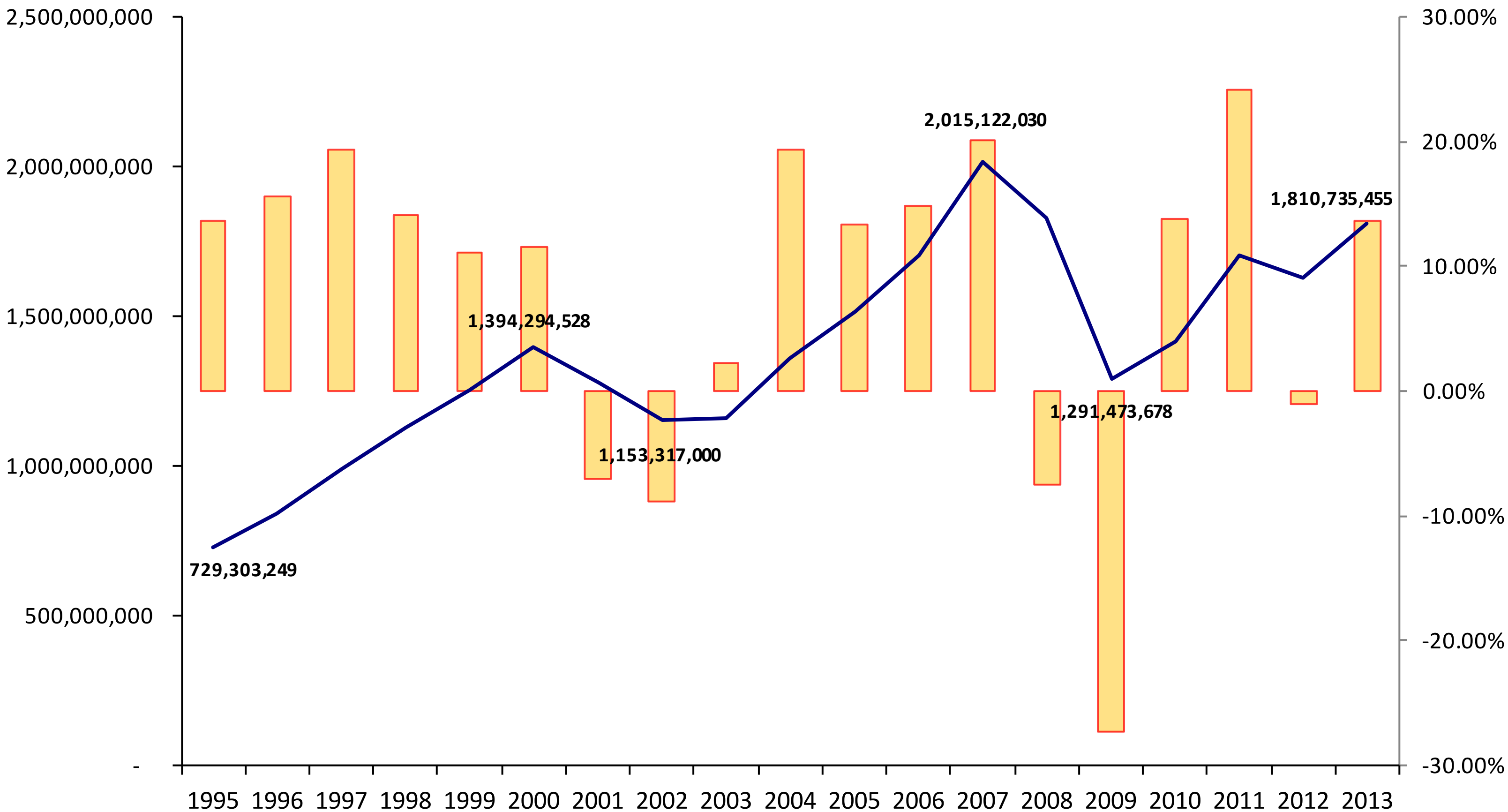
- Nearly all developed country equity market indices hit “all-time highs,” including the U.S.’s S&P 500, which advanced 20%
- Most emerging country equity markets did not sustain strong rallies
- U.S. bond markets weakened as the interest rate on the 10-year U.S. Treasury rose from 1.6% in May to 2.5% at the end of June
- Credit-related fixed income performed well, particularly corporate bonds and loans
- Real assets, such as private real estate and infrastructure, also delivered positive returns

U.S. Equity Market Recovery Continues, While Treasury Yields "Normalize"



Source: Standard & Poor's, Federal Reserve

TFFR Investment Market Value & FY Returns



** As of Fiscal Year-End*

Asset Class & Total Fund Investment Performance
Fiscal Year Ended June 30, 2013

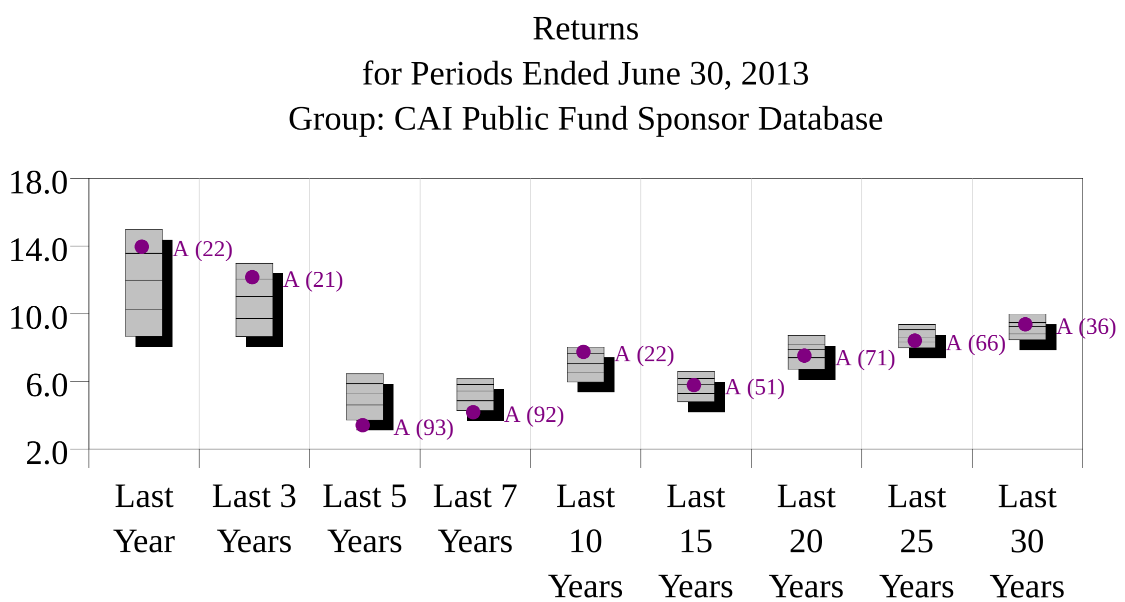
	Actual Return (Net)	Benchmark	Difference
Global Equity	**22.92%**	**21.24%**	**1.68%**
US Large Cap Equity	22.92%	21.24%	1.68%
US Small Cap Equity	26.22%	24.21%	2.01%
Developed International Equity	20.22%	18.62%	1.60%
Emerging Markets Equity	3.82%	2.87%	0.95%
Global Equity	16.32%	18.58%	-2.26%
Private Equity	6.69%	6.69%	0.00%
Global Fixed Income	**5.72%**	**0.90%**	**4.82%**
US Investment Grade Fixed Income	5.04%	-0.69%	5.73%
US High Yield	13.64%	9.50%	4.14%
International Fixed Income	0.48%	-3.40%	3.88%
Global Real Assets	**7.84%**	**8.07%**	**-0.23%**
Real Estate	10.55%	10.72%	-0.17%
Timber	0.58%	9.35%	-8.77%
Infrastructure	11.60%	1.75%	9.85%
Total Fund			
TFFR (net)	13.63%	11.95%	1.68%

Historical Market Returns by Asset Class

		Periods Ended June 30, 2013						
Asset Class	**Represented by**	**1 Year**	**3 Year**	**5 Years**	**10 Years**	**20 Years**	**25 Years**	**30 Years**
Large Cap US Stocks	Russell 1000	21.24%	18.63%	7.12%	7.67%	8.80%	9.89%	10.50%
Small Cap US Stocks	Russell 2000	24.21%	18.67%	8.77%	9.53%	8.88%	9.34%	8.83%
Non-US Stocks (Developed)	MSCI EAFE	18.62%	10.04%	-0.63%	7.67%	5.20%	4.88%	9.20%
Non-US Stocks (Emerging)	MSCI Emerging Mkts	3.23%	3.72%	-0.11%	14.02%	7.56%		
US Bonds	BC Aggregate	-0.69%	3.51%	5.19%	4.52%	5.86%	6.92%	7.84%
High Yield Bonds	BC High Yield Credit	9.49%	10.74%	10.94%	8.91%	7.75%	8.62%	
Non-US Sovereign Debt	Citi World Gov't Bond ex US	-5.72%	2.57%	2.55%	4.78%	5.55%	6.42%	
Inflation Protected	BC Global Inflation Linked	-1.05%	5.88%	2.36%	5.67%			
Real Estate	NCREIF	10.72%	13.14%	2.79%	8.59%	9.11%	7.47%	8.01%
TFFR Total Fund (net of fees)		13.63%	11.81%	2.92%	7.12%	6.99%	7.93%	8.93%

Source: Callan

Public Fund Peer Comparison



	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 25 Years	Last 30 Years
10th Percentile	14.99	12.99	6.46	6.17	8.03	6.60	8.73	9.37	9.99
25th Percentile	13.59	12.06	5.88	5.83	7.68	6.20	8.21	9.06	9.48
Median	11.99	11.02	5.32	5.44	7.06	5.83	7.89	8.63	9.25
75th Percentile	10.28	9.74	4.61	4.86	6.56	5.31	7.40	8.34	8.81
90th Percentile	8.68	8.66	3.72	4.28	5.97	4.81	6.73	7.99	8.47
Member Count	232	217	201	193	173	137	103	66	26
Total Fund TFFR Gross ● A	13.98	12.18	3.42	4.19	7.76	5.80	7.53	8.42	9.39

Source: Callan

TFFR Asset Allocation

	Market Value	Allocation Actual	 Policy	 Δ
TOTAL FUND	**1,810,735,455**	**100.0%**	**100.0%**	**0.0%**
GLOBAL EQUITIES	**1,047,403,951**	**57.8%**	**57.0%**	**0.8%**
Global Equities	296,605,332	16.4%	16.0%	0.4%
Large Cap Domestic	304,716,561	16.8%	16.6%	0.2%
Small Cap Domestic	93,234,814	5.1%	4.8%	0.3%
Developed International	207,424,167	11.5%	11.8%	-0.3%
Emerging Markets	51,237,253	2.8%	2.8%	0.1%
Private Equity	94,185,823	5.2%	5.0%	0.2%
GLOBAL FIXED INCOME	**396,563,174**	**21.9%**	**22.0%**	**-0.1%**
Investment Grade Fixed Income	228,039,860	12.6%	12.0%	0.6%
Below Investment Grade Fixed Income	82,706,429	4.6%	5.0%	-0.4%
International Fixed Income	85,816,885	4.7%	5.0%	-0.3%
GLOBAL REAL ASSETS	**342,402,882**	**18.9%**	**20.0%**	**-1.1%**
Real Estate	181,530,696	10.0%	10.0%	0.0%
Timber	90,734,108	5.0%	5.0%	0.0%
Infrastructure	70,138,078	3.9%	5.0%	-1.1%
Total Cash Equivalents	**24,365,448**	**1.3%**	**1.0%**	**0.3%**

Investment Fee Study

- Conducted by SIB investment consultant, Callan Associates
- Report presented at the February 22, 2013 SIB meeting
- Conclusions:
  - Fees for conventional equity, fixed income and real estate strategies are at or below median industry standards
  - Fees for specialized strategies increase the total fees paid within the asset classes to which these strategies have been assigned
  - There has been value added over and above what would have been received with a more passive strategy associated with lower fees

Contact Information

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AGENDA

NORTH DAKOTA STATE INVESTMENT BOARD MEETING

FRIDAY, SEPTEMBER 27, 2013, 8:30 AM
WORKFORCE SAFETY & INSURANCE
1600 E CENTURY AVE
BISMARCK ND

I. CALL TO ORDER.

II. APPROVAL OF AGENDA.

III. APPROVAL OF MINUTES (AUGUST 23, 2013).

IV. EXECUTIVE DIRECTOR/CHIEF INVESTMENT OFFICER CANDIDATE INTERVIEW PROCESS - Michael Kennedy, Korn/Ferry

9:00 am Board Interview - Deric Righter

10:30 am Break

10:45 am Board Interview - David Hunter

12:15 pm Working Lunch/Board Discussion of ED/CIO Finalists

V. OTHER.

SIB meeting - October 25, 2013, 8:30 a.m. - Peace Garden Room, State Capitol
SIB Audit Committee meeting - September 27, 2013, 2:00 p.m. - Workforce Safety & Insurance

VI. ADJOURNMENT.

Any individual requiring an auxiliary aid or service must contact the Executive Director of the Retirement and Investment Office (701) 328-9885 at least three (3) days prior to the scheduled meeting.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 23, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Sandal, Vice Chair Clarence Corneil, TFFR Board Lance Gaebe, Land Commissioner (teleconference) Mike Gessner, TFFR Board Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
BOARD MEMBERS ABSENT:	Adam Hamm, Insurance Commissioner Drew Wrigley, Lt. Governor, Chair
STAFF PRESENT:	Connie Flanagan, Fiscal & Investment Officer Bonnie Heit, Assistant to the SIB Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS PRESENT:	Weldee Baetsch, former SIB/PERS trustee Steve Center, Callan Associates Bill Howard, Callan Associates Jan Murtha, Attorney General's Office

CALL TO ORDER:

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 23, 2013, in the Peace Garden Room, State Capitol, Bismarck, ND.

Commissioner Hamm was not in attendance due to a National Association of Insurance Commissioner's meeting.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AUGUST 23, 2013, AGENDA.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. LECH, MR. SAGE, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: MR. TRENBEATH, COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

MINUTES:

The minutes were considered from the July 26, 2013, meeting,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE JULY 26, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. LECH, MR. CORNEIL, MR. SANDAL
NAYS: NONE

MOTION CARRIED
ABSENT: COMMISSIONER HAMM, MR. TRENBEATH, LT. GOVERNOR WRIGLEY

EDUCATION:

Fixed Income - Callan representatives reviewed the current environment, role, and potential strategies for fixed income. Mr. Schulz also referenced Callan's research paper "Anchor to Windward or Albatross? Sea Change in Fixed Income."

INVESTMENTS:

Global Equity - Mr. Schulz provided an update on his progress on restructuring the global equity portfolio in the Pension Trust. Mr. Schulz has been looking at the existing managers and structure to determine what still makes sense, analyzing the appropriate structure and number of managers, and identifying and determining options to reduce fees.

Mr. Schulz will be presenting his proposal to Callan Associate's Client Policy Review Committee sometime this fall. The purpose is to have the Committee look at the overall structure, determine what makes sense, and what would be the appropriate structure for the Pension Trust. Mr. Schulz's timeline is to bring back a recommendation to the SIB at their October meeting.

MONITORING REPORTS:

Pension Trust and Insurance Trust Performance Measurement – Callan representatives also reviewed the asset allocation, money manager performance, and total fund results for the Pension Trust and Insurance Trust for the period ending June 30, 2013, and also reviewed the economic and market environment for the same time period. Actual return for the period ending June 30, 2013 for the Pension Trust was 13.84% vs the target return of 11.73%; Insurance Trust 5.98% vs target return of 2.91%.

The SIB recessed at 10:20 a.m. and reconvened at 10:30 a.m.

Watch List – Mr. Schulz updated the SIB on the status of the managers currently placed on the "Watch List." Discussion followed on the purpose and timeline of the list. This item will be addressed at a future meeting to discuss formulizing the process once a manager is placed on the list.

Compliance Reports – Ms. Flanagan reviewed the following compliance reports for FY2013 for the SIB investment managers; Certification of Compliance with Investment Guidelines, Exceptions to Investment Guidelines, and SSAE 16 Reports.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. GESSNER AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING JUNE 30, 2013.

AYES: MR. CORNEIL, COMMISSIONER GAEBE, MR. GESSNER, MR. SAGE, MR. TRENBEATH, TREASURER SCHMIDT, MS. TERNES, MR. LECH, AND MR. SANDAL
NAYS: NONE

MOTION CARRIED
ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

Callan Contract – Mr. Schulz updated the SIB on the Callan contract. Mr. Schulz has been working with Callan to revise the current contract to more accurately reflect the needs of staff. Mr. Schulz and Callan representatives reviewed with the SIB proposed changes to the contract. Mr. Schulz is hoping to have a revised contract in place within the next couple of weeks.

GOVERNANCE:

Search Committee – Mr. Sandal updated the SIB on the Executive Director/Chief Investment Officer search. The Search Committee met on August 12, 2013, and interviewed two candidates. The Search Committee also met on August 22, 2013 to review the two candidates interviewed on August 12, 2013, and the three candidates interviewed on July 26, 2013. The Search Committee has decided to move the following three candidates forward for a second interview before the full SIB; Mr. Deric Righter, Mr. David Hunter, and Mr. Tim Viezer. The interviews will take place at the next regularly scheduled SIB meeting on September 27, 2013, at Workforce Safety & Insurance. Korn/Ferry representatives will also try and coordinate with RIO staff a visit by each of the candidates to the RIO office prior to their interview with the SIB.

OTHER:

The next SIB meeting is scheduled for September 27, 2013, at 8:30 am at Workforce Safety & Insurance, 1600 East Century, Bismarck.

The next SIB Audit Committee meeting is scheduled for September 27, 2013, at 1:00 pm at Workforce Safety & Insurance.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:15 a.m.

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Mr. Sandal, Vice Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2013

	June-13					March-13					December-12					September-12					Current Fiscal YTD		Prior FY12		3 Years Ended 6/30/2013		5 Years 6/30/
		Allocation		Quarter			Allocation		Quarter			Allocation		Quarter			Allocation		Quarter								
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross
TOTAL FUND	1,810,735,455	100.0%	100.0%	1.23%	1.16%	1,793,999,762	100.0%	100.0%	4.69%	4.61%	1,721,114,269	100.0%	100.0%	2.89%	2.81%	1,683,110,433	100.0%	100.0%	4.53%	4.45%	13.97%	13.63%	-0.62%	-0.97%	12.18%	11.81%	3.42%
POLICY TARGET BENCHMARK				0.41%	0.41%				4.55%	4.55%				2.16%	2.16%				4.37%	4.37%	11.95%	11.95%	-0.82%	-0.82%	10.80%	10.80%	4.60%
ATTRIBUTION ANALYSIS																											
Asset Allocation				0.01%	0.01%				0.04%	0.04%				-0.01%	-0.01%				0.01%	0.01%	0.06%	0.06%	0.27%	0.27%	0.03%	0.03%	
Manager Selection				0.81%	0.73%				0.10%	0.02%				0.73%	0.65%				0.14%	0.06%	1.97%	1.62%	-0.07%	-0.43%	1.36%	0.98%	
TOTAL RELATIVE RETURN				0.82%	0.74%				0.13%	0.06%				0.72%	0.64%				0.16%	0.08%	2.03%	1.68%	0.20%	-0.16%	1.38%	1.01%	
GLOBAL EQUITIES	1,047,403,951	57.8%	57.0%	2.00%	1.93%	1,054,873,096	58.8%	57.0%	7.53%	7.44%	991,157,414	57.6%	57.0%	2.80%	2.71%	975,918,182	58.0%	57.0%	5.81%	5.72%	19.30%	18.93%					
Benchmark				0.99%	0.99%				7.40%	7.40%				2.68%	2.68%				6.01%	6.01%	18.07%	18.07%					
Epoch (1)	89,555,050	4.9%	4.5%	3.99%	3.83%	86,292,910	4.8%	4.5%	7.88%	7.72%	78,948,234	4.6%	4.5%	2.68%	2.52%	77,035,363	4.6%	4.5%	4.91%	4.75%	20.85%	20.10%	-1.33%	-2.28%	11.82%	11.41%	6.38%
Calamos	23,973,773	1.3%	1.5%	-1.96%	-2.13%	24,489,756	1.4%	1.5%	4.03%	3.86%	23,228,979	1.3%	1.5%	0.10%	-0.06%	23,245,618	1.4%	1.5%	6.14%	5.97%	8.37%	7.65%	N/A	N/A	N/A	N/A	N/A
LSV	183,076,509	10.1%	10.0%			180,419,640	10.1%	10.0%													N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Global Equities	296,605,332	16.4%	16.0%	1.99%	1.82%	291,202,306	16.2%	16.0%	6.89%	6.72%	102,177,213	5.9%	6.0%	2.08%	1.92%	100,280,981	6.0%	6.0%	5.19%	5.03%	17.06%	16.32%					
MSCI World (2)				0.65%	0.65%				7.73%	7.73%				2.49%	2.49%				6.71%	6.71%	18.58%	18.58%					
Domestic - broad	397,951,375	22.0%	21.5%	3.50%	3.44%	410,969,343	22.9%	21.5%	11.89%	11.82%	472,195,950	27.4%	27.4%	0.82%	0.75%	472,834,867	28.1%	27.4%	6.22%	6.15%	24.02%	23.70%					
Benchmark				2.76%	2.76%				11.29%	11.29%				0.51%	0.51%				6.08%	6.08%	21.93%	21.93%					
Large Cap Domestic																											
LA Capital	120,701,716	6.7%	5.0%	3.13%	3.08%	118,343,647	6.6%	5.0%	10.79%	10.74%	106,051,999	6.2%	6.7%	-1.61%	-1.65%	109,445,344	6.5%	6.7%	5.74%	5.69%	18.86%	18.65%	6.79%	6.56%	19.03%	18.82%	7.30%
Russell 1000 Growth				2.06%	2.06%				9.54%	9.54%				-1.32%	-1.32%				6.11%	6.11%	17.07%	17.07%	5.76%	5.76%	18.68%	18.68%	7.47%
LSV	-	0.0%	0.0%	N/A	N/A	-	0.0%	0.0%	N/A	N/A	112,056,980	6.5%	6.7%	3.35%	3.27%	108,316,199	6.4%	6.7%	7.51%	7.43%	N/A	N/A	-1.21%	-1.51%	N/A	N/A	N/A
Russell 1000 Value				0.00%	0.00%				0.00%	0.00%				1.52%	1.52%				6.50%	6.50%	0.00%	0.00%	3.00%	3.00%			
LA Capital	83,344,626	4.6%	2.9%	4.24%	4.20%	80,822,648	4.5%	2.9%	11.14%	11.09%	72,184,062	4.2%	3.8%	-0.40%	-0.44%	73,757,095	4.4%	3.8%	5.41%	5.37%	21.63%	21.44%	6.37%	6.15%	19.08%	18.81%	7.66%
Russell 1000				2.65%	2.65%				10.96%	10.96%				0.12%	0.12%				6.31%	6.31%	21.24%	21.24%	4.37%	4.37%	18.63%	18.63%	7.12%
Northern Trust	41,768,707	2.3%	2.3%	3.78%	3.71%	40,701,173	2.3%	2.3%	12.23%	12.16%	36,010,671	2.1%	2.1%	-0.81%	-0.88%	36,231,281	2.2%	2.2%	7.05%	6.98%	23.67%	23.35%	6.46%	6.05%	19.75%	19.49%	8.15%
Prudential	-	0.0%	0.0%	N/A	N/A	-	0.0%	0.0%	N/A	N/A	-	0.0%	0.0%	N/A	N/A	163,192	0.0%	0.0%	0.00%	0.00%	N/A	N/A	6.42%	6.25%	N/A	N/A	N/A
Clifton	58,901,513	3.3%	6.4%	2.46%	2.46%	73,641,970	4.1%	6.5%	10.60%	10.60%	36,013,077	2.1%	1.9%	-0.27%	-0.27%	36,576,554	2.2%	1.9%	6.56%	6.55%	20.44%	20.43%	6.57%	6.30%	N/A	N/A	N/A
S&P 500				2.91%	2.91%				10.61%	10.61%				-0.38%	-0.38%				6.35%	6.35%	20.60%	20.60%	5.45%	5.45%	18.45%	18.45%	7.01%
Total Large Cap Domestic	304,716,561	16.8%	16.6%	3.37%	3.33%	313,509,439	17.5%	16.6%	11.58%	11.53%	362,316,788	21.1%	21.2%	0.34%	0.29%	364,489,664	21.7%	21.2%	6.40%	6.35%	23.13%	22.92%	3.68%	3.35%	18.57%	18.23%	3.73%
Russell 1000 (2)				2.65%	2.65%				10.96%	10.96%				0.12%	0.12%				6.31%	6.31%	21.24%	21.24%	5.34%	5.34%	18.62%	18.62%	7.10%
Small Cap Domestic																											
SEI	98,268	0.0%	0.0%	6.52%	6.52%	218,010	0.0%	0.0%	-2.69%	-2.69%	354,211	0.0%	0.0%	371.62%	371.62%	75,044	0.0%	0.0%	-0.49%	-0.49%	386.46%	386.46%	-27.98%	-27.98%	46.90%	46.90%	19.57%
Callan	51,625,638	2.9%	2.4%	4.89%	4.75%	50,034,403	2.8%	2.4%	13.34%	13.19%	54,860,069	3.2%	3.1%	2.17%	2.03%	53,743,850	3.2%	3.1%	5.14%	5.00%	27.71%	27.01%	-3.11%	-3.87%	20.26%	19.54%	9.71%
Clifton	41,510,908	2.3%	2.4%	2.81%	2.69%	47,207,491	2.6%	2.4%	12.42%	12.29%	54,664,882	3.2%	3.1%	2.15%	2.03%	54,526,309	3.2%	3.1%	6.12%	6.00%	25.30%	24.72%	-0.63%	-1.05%	20.17%	19.68%	N/A
Total Small Cap Domestic	93,234,814	5.1%	4.8%	3.89%	3.76%	97,459,904	5.4%	4.8%	12.88%	12.74%	109,879,162	6.4%	6.2%	2.42%	2.29%	108,345,204	6.4%	6.2%	5.63%	5.49%	26.86%	26.22%	0.23%	-0.37%	20.05%	19.46%	10.27%
Russell 2000				3.08%	3.08%				12.39%	12.39%				1.85%	1.85%				5.25%	5.25%	24.21%	24.21%	-2.08%	-2.08%	18.67%	18.67%	8.77%
International - broad	258,661,421	14.3%	14.5%	-1.12%	-1.27%	257,881,616	14.4%	14.5%	4.08%	3.92%	317,695,185	18.5%	18.6%	6.67%	6.51%	299,730,142	17.8%	18.6%	7.22%	7.05%	17.71%	16.98%					
Benchmark				-2.35%	-2.35%				3.83%	3.83%				6.39%	6.39%				7.09%	7.09%	15.51%	15.51%					
Developed International																											
State Street	22,679,904	1.3%	1.3%	0.89%	0.78%	22,335,376	1.2%	1.3%	4.88%	4.76%	21,425,468	1.2%	1.7%	8.40%	8.29%	19,777,366	1.2%	1.7%	7.38%	7.26%	23.17%	22.63%	-17.85%	-18.59%	10.23%	9.54%	-1.10%
MSCI EAFE (3)				-0.98%	-0.98%				5.13%	5.13%				6.57%	6.57%				6.92%	6.92%	18.62%	18.62%	-13.83%	-13.83%	10.04%	10.04%	-0.63%
Capital Guardian	31,185,213	1.7%	2.8%	0.80%	0.70%	30,721,460	1.7%	2.5%	5.58%	5.47%	29,260,135	1.7%	3.8%	6.09%	5.98%	27,586,983	1.6%	3.8%	7.45%	7.34%	21.31%	20.83%	-11.29%	-11.83%	10.29%	9.77%	0.66%
LSV	-	0.0%	0.0%	N/A	N/A	-	0.0%	0.0%	N/A	N/A	56,673,814	3.3%	3.8%	6.85%	6.72%	53,051,809	3.2%	3.8%	8.36%	8.23%	N/A	N/A	-15.65%	-16.14%	N/A	N/A	N/A
MSCI EAFE (4)				-0.98%	-0.98%				5.13%	5.13%				6.57%	6.57%				6.92%	6.92%	18.62%	18.62%	-13.83%	-13.83%	8.10%	8.10%	-0.01%
Clifton	92,196,770	5.1%	5.1%	-0.37%	-0.56%	96,452,982	5.4%	5.4%	3.88%	3.69%	93,279,646	5.4%	2.4%	6.79%	6.59%	87,282,832	5.2%	2.4%	6.10%	5.90%	17.25%	16.39%	-15.37%	-15.46%	9.03%	8.71%	N/A
MSCI EAFE				-0.98%	-0.98%				5.13%	5.13%				6.57%	6.57%				6.92%	6.92%	18.62%	18.62%	-13.83%	-13.83%	10.04%	10.04%	
DFA	28,299,302	1.6%	1.3%	-2.10%	-2.23%	28,718,015	1.6%	1.3%	8.08%	7.94%	26,729,855	1.6%	1.7%	8.89%	8.75%	24,562,387	1.5%	1.7%	8.38%	8.24%	24.89%	24.22%	-17.09%	-17.81%	12.34%	11.63%	2.91%
Wellington	33,062,979	1.8%	1.3%	3.29%	3.12%	31,813,249	1.8%	1.3%	7.94%	7.76%	29,663,333	1.7%	1.7%	5.20%	5.02%	28,227,279	1.7%	1.7%	7.56%	7.38%	26.16%	25.31%	-7.52%	-8.42%	17.16%	16.27%	5.82%
S&P/Citigroup BMI EPAC < $2BN				-3.40%	-3.40%				8.51%	8.51%				5.28%	5.28%				6.96%	6.96%	18.05%	18.05%	-15.07%	-15.07%	9.78%	9.78%	1.26%
Total Developed International	207,424,167	11.5%	11.8%	0.27%	0.11%	210,041,082	11.7%	11.8%	5.22%	5.06%	257,032,250	14.9%	15.0%	6.88%	6.72%	240,488,656	14.3%	15.0%	7.25%	7.10%	20.94%	20.22%	-14.72%	-15.15%	10.69%	10.15%	2.10%
MSCI EAFE (4)				-0.98%	-0.98%				5.13%	5.13%				6.57%	6.57%				6.92%	6.92%	18.62%	18.62%	-13.83%	-13.83%	8.10%	8.10%	-0.01%
Emerging Markets																											
JP Morgan	9,586,653	0.5%	0.5%	-7.03%	-7.22%	10,065,144	0.6%	0.5%	-0.44%	-0.64%	16,449,893	1.0%	0.6%	6.63%	6.42%	15,960,447	0.9%	0.6%	6.49%	6.29%	5.11%	4.28%	-12.96%	-13.67%	4.79%	4.01%	1.36%
PanAgora	6,545,010	0.4%	0.5%	-6.05%	-6.21%	6,800,524	0.4%	0.5%	0.27%	0.11%	6,753,313	0.4%	0.6%	4.36%	4.19%	6,682,088	0.4%	0.6%	8.11%	7.94%	6.28%	5.58%	-14.67%	-15.49%	4.47%	3.72%	-0.81%
UBS	8,908,401	0.5%	0.8%	-8.15%	-8.37%	9,467,495	0.5%	0.8%	-3.51%	-3.74%	16,228,119	0.9%	1.1%	4.16%	3.92%	16,088,098	1.0%	1.1%	7.66%	7.41%	-0.62%	-1.55%	-15.06%	-15.82%	3.19%	2.34%	-0.59%
NTGI	13,133,853	0.7%	0.5%	-8.05%	-8.08%	7,625,172	0.4%	0.5%	-1.80%	-1.84%	7,732,088	0.4%	0.6%	5.75%	5.71%	7,550,007	0.4%	0.6%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DFA	13,063,337	0.7%	0.5%	-8.00%	-8.15%	13,882,200	0.8%	0.5%	2.56%	2.40%	13,499,523	0.8%	0.7%	7.73%	7.55%	12,960,845	0.8%	0.7%	7.40%	7.23%	9.18%	8.47%	-16.19%	-17.02%	6.59%	5.80%	6.52%
Total Emerging Markets	51,237,253	2.8%	2.8%	-7.17%	-7.33%	47,840,535	2.7%	2.8%	-0.62%	-0.79%	60,662,935	3.5%	3.5%	5.83%	5.65%	59,241,486	3.5%	3.5%	7.09%	6.90%	4.55%	3.82%	-9.21%	-9.98%	6.69%	5.97%	2.00%
MSCI Emerging Markets				-8.08%	-8.08%				-1.62%	-1.62%				5.58%	5.58%				7.74%	7.74%	2.87%	2.87%	-15.95%	-15.95%	3.48%	3.48%	-0.25%

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2013

	June-13					March-13					December-12					September-12					Current Fiscal YTD		Prior FY12		3 Years Ended 6/30/2013		5 Years 6/30/
		Allocation		Quarter			Allocation		Quarter			Allocation		Quarter			Allocation		Quarter								
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross
Private Equity																											
Brinson IVCF III	-	0.0%		N/A	N/A	40,180	0.0%		0.00%	0.00%	40,180	0.0%		-0.24%	-0.24%	40,278	0.0%		0.00%	0.00%	N/A	N/A	9.19%	9.19%	N/A	N/A	N/A
Coral Partners V	-	0.0%		N/A	N/A	1,429	0.0%		0.00%	0.00%	1,429	0.0%		0.00%	0.00%	1,487	0.0%		0.00%	0.00%	N/A	N/A	12.85%	12.85%	N/A	N/A	N/A
Coral Partners V - Supplemental	-	0.0%		N/A	N/A	92,044	0.0%		0.00%	0.00%	92,044	0.0%		0.00%	0.00%	95,761	0.0%		0.00%	0.00%	N/A	N/A	-58.37%	-58.37%	N/A	N/A	N/A
Coral Momentum Fund (Formerly Fund VI)	1,357,487	0.1%		12.47%	12.47%	1,213,638	0.1%		4.99%	4.99%	2,054,608	0.1%		1.99%	1.99%	2,095,983	0.1%		-5.18%	-5.18%	14.19%	14.19%	4.47%	4.47%	-4.54%	-4.54%	-15.94%
Brinson 1998 Partnership Fund	59,671	0.0%		9.44%	9.44%	54,822	0.0%		0.87%	0.87%	54,349	0.0%		3.83%	3.83%	54,460	0.0%		1.44%	1.44%	16.27%	16.27%	-14.46%	-14.46%	4.87%	4.87%	-5.39%
Brinson 1999 Partnership Fund	530,791	0.0%		3.06%	3.06%	517,872	0.0%		0.20%	0.20%	516,856	0.0%		2.49%	2.49%	524,650	0.0%		3.42%	3.42%	9.46%	9.46%	-5.66%	-5.66%	10.71%	10.71%	0.36%
Brinson 2000 Partnership Fund	1,676,743	0.1%		2.75%	2.75%	1,640,910	0.1%		-1.19%	-1.19%	1,660,697	0.1%		1.97%	1.97%	1,931,983	0.1%		2.43%	2.43%	6.03%	6.03%	6.74%	6.74%	12.52%	12.52%	2.75%
Brinson 2001 Partnership Fund	1,721,922	0.1%		6.41%	6.41%	1,895,948	0.1%		0.90%	0.90%	2,065,828	0.1%		4.94%	4.94%	2,199,468	0.1%		-0.22%	-0.22%	12.43%	12.43%	4.90%	4.90%	14.42%	14.42%	4.80%
Brinson 2002 Partnership Fund	1,032,484	0.1%		5.16%	5.16%	1,112,198	0.1%		-1.36%	-1.36%	1,127,503	0.1%		2.98%	2.98%	1,309,434	0.1%		-0.29%	-0.29%	6.52%	6.52%	12.41%	12.41%	17.45%	17.45%	4.71%
Brinson 2003 Partnership Fund	391,346	0.0%		2.64%	2.64%	383,385	0.0%		1.33%	1.33%	378,345	0.0%		2.61%	2.61%	416,104	0.0%		-0.58%	-0.58%	6.11%	6.11%	-5.78%	-5.78%	8.51%	8.51%	2.19%
Total Brinson Partnership Funds	5,412,957	0.3%		4.54%	4.54%	5,605,136	0.3%		-0.21%	-0.21%	5,803,578	0.3%		3.25%	3.25%	6,436,099	0.4%		0.88%	0.88%	8.66%	8.66%	4.35%	4.35%	13.26%	13.26%	3.18%
Brinson 1999 Non-US Partnership Fund	242,008	0.0%		1.43%	1.43%	239,917	0.0%		12.63%	12.63%	213,011	0.0%		2.46%	2.46%	216,285	0.0%		9.24%	9.24%	27.87%	27.87%	-0.36%	-0.36%	27.63%	27.63%	10.48%
Brinson 2000 Non-US Partnership Fund	513,113	0.0%		-0.27%	-0.27%	517,306	0.0%		-0.45%	-0.45%	519,634	0.0%		-0.45%	-0.45%	622,195	0.0%		0.04%	0.04%	-1.13%	-1.13%	-3.49%	-3.49%	9.56%	9.56%	-2.18%
Brinson 2001 Non-US Partnership Fund	358,316	0.0%		5.30%	5.30%	342,166	0.0%		-0.69%	-0.69%	344,526	0.0%		8.52%	8.52%	384,710	0.0%		-3.59%	-3.59%	9.41%	9.41%	-14.12%	-14.12%	4.02%	4.02%	-7.57%
Brinson 2002 Non-US Partnership Fund	1,031,017	0.1%		-1.10%	-1.10%	1,283,448	0.1%		2.31%	2.31%	1,366,133	0.1%		4.43%	4.43%	1,434,234	0.1%		2.74%	2.74%	8.55%	8.55%	-2.78%	-2.78%	15.73%	15.73%	-2.33%
Brinson 2003 Non-US Partnership Fund	901,617	0.0%		0.63%	0.63%	900,900	0.1%		12.39%	12.39%	876,862	0.1%		7.51%	7.51%	848,524	0.1%		9.23%	9.23%	32.82%	32.82%	-11.60%	-11.60%	20.45%	20.45%	6.27%
Brinson 2004 Non-US Partnership Fund	581,411	0.0%		1.79%	1.79%	606,003	0.0%		3.70%	3.70%	613,191	0.0%		1.26%	1.26%	629,998	0.0%		1.53%	1.53%	8.52%	8.52%	-8.24%	-8.24%	9.90%	9.90%	-2.30%
Total Brinson Non-US Partnership Fund	3,627,482	0.2%		0.62%	0.62%	3,889,739	0.2%		4.63%	4.63%	3,933,357	0.2%		4.15%	4.15%	4,135,946	0.2%		3.21%	3.21%	13.16%	13.16%	-6.71%	-6.71%	14.49%	14.49%	0.02%
Adams Street 2008 Non-US Partnership Fd	2,156,397	0.1%		1.53%	1.53%	2,026,863	0.1%		3.19%	3.19%	1,964,221	0.1%		1.73%	1.73%	1,904,878	0.1%		3.75%	3.75%	10.58%	10.58%	-1.84%	-1.84%	9.37%	9.37%	2.05%
Brinson BVCF IV	2,392,944	0.1%		16.37%	16.37%	2,067,571	0.1%		18.51%	18.51%	1,744,589	0.1%		-3.65%	-3.65%	1,883,774	0.1%		0.00%	0.00%	32.89%	32.89%	64.19%	64.19%	83.51%	83.51%	53.63%
Adams Street Direct Co-investment Fund	7,510,344	0.4%		9.72%	9.72%	7,783,595	0.4%		3.79%	3.79%	7,924,163	0.5%		-1.87%	-1.87%	8,869,298	0.5%		0.00%	0.00%	11.74%	11.74%	5.82%	5.82%	13.70%	13.70%	3.10%
Adams Street 2010 Direct Fund	410,810	0.0%		0.04%	0.04%	395,633	0.0%		3.21%	3.21%	355,674	0.0%		-0.86%	-0.86%	348,088	0.0%		0.00%	0.00%	2.36%	2.36%	22.19%	22.19%	4.96%	4.96%	N/A
Adams Street 2010 Non-US Emerging Mkts	151,413	0.0%		-1.78%	-1.78%	136,895	0.0%		-1.12%	-1.12%	124,499	0.0%		-1.61%	-1.61%	109,865	0.0%		-0.62%	-0.62%	-5.04%	-5.04%	-21.77%	-21.77%	N/A	N/A	N/A
Adams Street 2010 Non-US Developed Mkts	679,671	0.0%		0.78%	0.78%	561,271	0.0%		2.82%	2.82%	530,315	0.0%		4.05%	4.05%	487,997	0.0%		3.38%	3.38%	11.47%	11.47%	4.57%	4.57%	0.81%	0.81%	N/A
Adams Street 2010 Partnership Fund	1,323,778	0.1%		3.22%	3.22%	1,211,123	0.1%		1.85%	1.85%	1,189,102	0.1%		3.47%	3.47%	1,106,337	0.1%		1.41%	1.41%	10.31%	10.31%	8.84%	8.84%	15.54%	15.54%	N/A
Total Adams Street 2010 Funds	2,565,672	0.1%		1.76%	1.76%	2,304,922	0.1%		2.16%	2.16%	2,199,590	0.1%		2.60%	2.60%	2,052,288	0.1%		1.52%	1.52%	8.27%	8.27%	8.71%	8.71%	9.88%	9.88%	N/A
Matlin Patterson Global Opportunities	5,493	0.0%		0.00%	0.00%	5,523	0.0%		-6.26%	-6.26%	5,891	0.0%		1.64%	1.64%	6,031	0.0%		24.07%	24.07%	18.21%	18.21%	-21.48%	-21.48%	-1.05%	-1.05%	10.88%
Matlin Patterson Global Opportunities II	678,090	0.0%		-11.03%	-11.03%	766,358	0.0%		-1.26%	-1.26%	776,169	0.0%		0.02%	0.02%	807,371	0.0%		0.00%	0.00%	-12.14%	-12.14%	-79.03%	-79.03%	-53.08%	-53.08%	-45.68%
Matlin Patterson Global Opportunities III	12,386,062	0.7%		0.46%	0.46%	12,805,167	0.7%		12.96%	12.96%	11,336,141	0.7%		10.22%	10.22%	11,199,258	0.7%		0.00%	0.00%	25.08%	25.08%	124.86%	124.86%	41.76%	41.76%	16.69%
InvestAmerica (Lewis and Clark Fund)	2,923,723	0.2%		7.48%	7.48%	2,914,287	0.2%		9.58%	9.58%	2,659,637	0.2%		0.00%	0.00%	3,284,605	0.2%		0.00%	0.00%	17.77%	17.77%	6.13%	6.13%	10.58%	10.58%	7.57%
L&C II	4,372,893	0.2%		1.78%	1.78%	4,320,034	0.2%		-5.85%	-5.85%	3,973,060	0.2%		0.00%	0.00%	4,017,598	0.2%		0.00%	0.00%	-4.18%	-4.18%	-3.26%	-3.26%	-5.04%	N/A	N/A
Corsair III (2)	5,310,211	0.3%		-1.06%	-1.06%	5,319,529	0.3%		-3.41%	-3.41%	5,488,830	0.3%		-6.23%	-6.23%	5,980,998	0.4%		-0.60%	-0.60%	-10.93%	-10.93%	-1.10%	-2.14%	-1.72%	-2.07%	-5.61%
Corsair III - ND Investors LLC (2)	5,320,176	0.3%		10.71%	10.71%	4,820,282	0.3%		-1.82%	-1.82%	4,886,595	0.3%		-0.47%	-0.47%	5,083,961	0.3%		0.00%	0.00%	8.19%	8.19%	5.30%	5.04%	4.27%	4.18%	2.33%
Corsair IV	4,725,097	0.3%		12.27%	12.27%	4,180,842	0.2%		-0.22%	-0.22%	4,451,879	0.3%		-1.74%	-1.74%	4,843,042	0.3%		-1.20%	-1.20%	8.75%	8.75%	-15.55%	-16.03%	-5.01%	-5.19%	N/A
Capital International (CIPEF V)	8,746,563	0.5%		3.16%	3.16%	10,505,237	0.6%		-11.90%	-11.90%	11,896,058	0.7%		-0.55%	-0.55%	11,631,956	0.7%		-0.47%	-0.47%	-10.03%	-10.03%	-4.74%	-4.74%	6.63%	6.63%	3.60%
Capital International (CIPEF VI)	2,737,670	0.2%		-14.99%	-14.99%	2,491,452	0.1%		-1.87%	-1.87%	3,023,081	0.2%		-4.12%	-4.12%	2,367,140	0.1%		-2.95%	-2.95%	-22.38%	-22.38%	N/A	N/A	N/A	N/A	N/A
EIG (formerly TCW)	13,279,487	0.7%		2.56%	2.56%	13,794,910	0.8%		-2.23%	-2.23%	15,809,140	0.9%		-0.33%	-0.33%	16,744,602	1.0%		0.42%	0.42%	0.37%	0.37%	7.17%	7.17%	6.67%	6.67%	11.10%
Quantum Resources	4,365,874	0.2%		8.14%	8.14%	4,092,554	0.2%		0.00%	0.00%	4,698,490	0.3%		4.33%	4.33%	5,351,643	0.3%		21.08%	21.08%	36.60%	36.60%	-0.85%	-0.85%	38.33%	38.33%	-31.99%
Quantum Energy Partners	4,311,199	0.2%		12.35%	12.35%	3,778,538	0.2%		0.00%	0.00%	4,326,334	0.3%		8.29%	8.29%	4,235,403	0.3%		-2.37%	-2.37%	18.79%	18.79%	30.29%	30.29%	23.23%	23.23%	9.73%
Total Private Equity (8)	**94,185,823**	**5.2%**	**5.0%**	**4.06%**	**4.06%**	**94,819,832**	**5.3%**	**5.0%**	**0.36%**	**0.36%**	**99,089,065**	**5.8%**	**5.0%**	**1.27%**	**1.27%**	**103,072,192**	**6.1%**	**5.0%**	**0.88%**	**0.88%**	**6.69%**	**6.69%**	**5.12%**	**5.12%**	**8.85%**	**8.85%**	**0.59%**
GLOBAL FIXED INCOME	***396,563,174***	***21.9%***	***22.0%***	***-2.13%***	***-2.19%***	***384,849,003***	***21.5%***	***22.0%***	***0.98%***	***0.92%***	***382,688,047***	***22.2%***	***22.0%***	***2.89%***	***2.83%***	***375,572,494***	***22.3%***	***22.0%***	***4.19%***	***4.13%***	***5.94%***	***5.71%***					
Benchmark				***-2.29%***	***-2.29%***				***-0.22%***	***-0.22%***				***0.62%***	***0.62%***				***2.88%***	***2.88%***	***0.93%***	***0.93%***					
Domestic Fixed Income	***310,746,289***	***17.2%***	***17.0%***	***-1.77%***	***-1.82%***	***295,630,580***	***16.5%***	***17.0%***	***1.90%***	***1.85%***	***291,600,781***	***16.9%***	***17.0%***	***3.42%***	***3.37%***	***286,690,303***	***17.0%***	***17.0%***	***3.91%***	***3.87%***	***7.56%***	***7.37%***					
Benchmark				***-2.06%***	***-2.06%***				***0.76%***	***0.76%***				***1.11%***	***1.11%***				***2.44%***	***2.44%***	***2.22%***	***2.22%***					
Investment Grade Fixed Income																											
PIMCO (DiSCO II) (8)	42,848,243	2.4%	1.9%	0.78%	0.78%	41,965,230	2.3%	1.9%	4.97%	4.97%	40,140,981	2.3%	1.9%	14.74%	14.74%	34,973,450	2.1%	1.9%	9.64%	9.64%	33.07%	33.07%	N/A	N/A	N/A	N/A	N/A
BC Aggregate				***-2.33%***	***-2.33%***				***-0.12%***	***-0.12%***				***0.21%***	***0.21%***				***1.58%***	***1.58%***	***-0.69%***	***-0.69%***					
Bank of ND (9)	5	0.0%	0.0%	N/A	N/A	19,182,179	1.1%	1.2%	-2.35%	-2.37%	19,727,199	1.1%	1.2%	-0.63%	-0.64%	19,848,156	1.2%	1.2%	-1.20%	-1.21%	N/A	N/A	9.53%	9.47%	N/A	N/A	N/A
State Street	21,356,974	1.2%	1.2%	N/A	N/A	-	0.0%	0.0%	N/A	N/A	-	0.0%	0.0%	N/A	N/A	-	0.0%	0.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BC Long Treasuries				***-5.58%***	***-5.58%***				***-2.38%***	***-2.38%***				***-0.77%***	***-0.77%***				***0.20%***	***0.20%***	***-8.36%***	***-8.36%***					
PIMCO (Unconstrained) (9)	26,507,159	1.5%	1.4%	-2.01%	-2.01%	24,576,290	1.4%	1.4%	0.84%	0.84%	24,471,302	1.4%	1.4%	0.76%	0.76%	28,336,708	1.7%	1.4%	2.65%	2.65%	2.20%	2.20%	N/A	N/A	N/A	N/A	N/A
3m LIBOR				***0.07%***	***0.07%***				***0.08%***	***0.08%***				***0.08%***	***0.08%***				***0.11%***	***0.11%***	***0.34%***	***0.34%***					
Declaration (Total Return) (9)	26,367,293	1.5%	1.4%	-1.32%	-1.32%	24,275,421	1.4%	1.4%	2.60%	2.60%	23,756,419	1.4%	1.4%	2.92%	2.92%	23,075,219	1.4%	1.4%	3.49%	3.49%	7.83%	7.83%	N/A	N/A	N/A	N/A	N/A
3m LIBOR				***0.07%***	***0.07%***				***0.08%***	***0.08%***				***0.08%***	***0.08%***				***0.11%***	***0.11%***	***0.34%***	***0.34%***					
Western Asset	44,673,061	2.5%	2.4%	-2.29%	-2.33%	40,818,070	2.3%	2.4%	-0.08%	-0.13%	41,036,466	2.4%	2.4%	-0.24%	-0.28%	41,139,291	2.4%	2.4%	1.33%	1.29%	-1.31%	-1.48%	N/A	N/A	N/A	N/A	N/A
PIMCO (MBS)	66,287,126	3.7%	3.6%	-2.14%	-2.19%	60,343,501	3.4%	3.6%	-0.27%	-0.31%	60,778,912	3.5%	3.6%	-0.04%	-0.08%	60,810,157	3.6%	3.6%	2.05%	2.01%	-0.45%	-0.62%	N/A	N/A	N/A	N/A	N/A
BC Mortgage Backed Securities Index				***-1.96%***	***-1.96%***				***-0.05%***	***-0.05%***				***-0.20%***	***-0.20%***				***1.13%***	***1.13%***	***-1.10%***	***-1.10%***					
Total Investment Grade Fixed Income	**228,039,860**	**12.6%**	**12.0%**	**-1.76%**	**-1.78%**	**211,160,692**	**11.8%**	**12.0%**	**1.03%**	**1.01%**	**209,911,279**	**12.2%**	**12.0%**	**2.82%**	**2.80%**	**208,182,981**	**12.4%**	**12.0%**	**3.02%**	**3.00%**	**5.13%**	**5.04%**	**6.24%**	**6.01%**	**5.86%**	**5.65%**	**4.28%**
BC Aggregate				***-2.33%***	***-2.33%***				***-0.12%***	***-0.12%***				***0.21%***	***0.21%***				***1.58%***	***1.58%***	***-0.69%***	***-0.69%***	***7.47%***	***7.47%***	***3.51%***	***3.51%***	***5.19%***
Below Investment Grade Fixed Income																											
Loomis Sayles	76,080,613	4.2%	4.6%	-2.56%	-2.67%	78,422,009	4.4%	4.7%	4.17%	4.06%	75,155,791	4.4%	4.6%	4.41%	4.30%	72,288,176	4.3%	4.6%	6.38%	6.26%	12.75%	12.25%	2.57%	2.07%	11.41%	10.91%	10.28%
Goldman Sachs 2006 Fund (8)	1,962,115	0.1%	0.1%	6.88%	6.88%	1,893,127	0.1%	0.1%	7.32%	7.32%	1,854,931	0.1%	0.1%	2.92%	2.92%	1,842,965	0.1%	0.1%	0.37%	0.37%	18.49%	18.49%	-20.28%	-20.28%	6.96%	6.96%	3.82%
Goldman Sachs Fund V (8)	4,663,700	0.3%	0.3%	9.08%	9.08%	4,153,271	0.2%	0.2%	2.26%	2.26%	4,678,780	0.3%	0.3%	6.04%	6.04%	4,376,180	0.3%	0.3%	-1.00%	-1.00%	17.11%	17.11%	7.04%	7.04%	15.96%	15.96%	13.95%
PIMCO (8)	-	0.0%	0.0%	N/A	N/A	1,482	0.0%	0.0%	N/A	N/A	0	0.0%	0.0%	N/A	N/A	0	0.0%	0.0%	386.85%	386.85%	N/A	N/A	5.54%	5.54%	N/A	N/A	N/A
Total Below Investment Grade Fixed Income	**82,706,429**	**4.6%**	**5.0%**	**-1.84%**	**-1.94%**	**84,469,889**	**4.7%**	**5.0%**	**4.13%**	**4.02%**	**81,689,502**	**4.7%**	**5.0%**	**4.98%**	**4.87%**	**78,507,322**	**4.7%**	**5.0%**	**6.33%**	**6.23%**	**14.10%**	**13.64%**	**3.45%**	**3.06%**	**11.75%**	**11.35%**	**8.27%**
LB High Yield 2% Issuer Constrained Index				***-1.44%***	***-1.44%***				***2.89%***	***2.89%***				***3.29%***	***3.29%***				***4.53%***	***4.53%***	***9.50%***	***9.50%***	***7.21%***	***7.21%***	***10.69%***	***10.69%***	***11.00%***
International Fixed Income	**85,816,885**	**4.7%**	**5.0%**	**-3.32%**	**-3.40%**	**89,218,423**	**5.0%**	**5.0%**	**-1.96%**	**-2.04%**	**91,087,266**	**5.3%**	**5.0%**	**1.20%**	**1.11%**	**88,882,192**	**5.3%**	**5.0%**	**5.11%**	**5.02%**	**0.83%**	**0.48%**					
Benchmark				***-3.08%***	***-3.08%***				***-3.51%***	***-3.51%***				***-1.03%***	***-1.03%***				***4.37%***	***4.37%***	***-3.40%***	***-3.40%***					
Developed Investment Grade Int'l FI																											
UBS Global (Brinson)	40,568,123	2.2%	2.5%	-3.26%	-3.33%	42,144,160	2.3%	2.5%	-3.93%	-4.00%	43,903,978	2.6%	2.5%	-0.84%	-0.92%	43,731,242	2.6%	2.5%	4.77%	4.69%	-3.45%	-3.74%	-0.87%	-1.16%	3.64%	3.34%	2.89%
BC Global Aggregate ex-US (6)				***-3.08%***	***-3.08%***				***-3.51%***	***-3.51%***				***-1.03%***	***-1.03%***				***4.37%***	***4.37%***	***-3.40%***	***-3.40%***	***-0.64%***	***-0.64%***	***3.46%***	***3.46%***	***3.11%***
Brandywine	45,248,763	2.5%	2.5%	-3.37%	-3.47%	47,074,263	2.6%	2.5%	-0.12%	-0.22%	47,183,288	2.7%	2.5%	3.17%	3.07%	45,150,950	2.7%	2.5%	5.45%	5.35%	5.00%	4.59%	9.67%	9.25%	9.95%	9.53%	8.53%
BC Global Aggregate (ex-US)				***-2.79%***	***-2.79%***				***-2.10%***	***-2.10%***				***-0.48%***	***-0.48%***				***3.27%***	***3.27%***	***-2.18%***	***-2.18%***	***2.73%***	***2.73%***	***3.55%***	***3.55%***	***3.43%***
Total Developed Investment Grade Int'l FI	**85,816,885**	**4.7%**	**5.0%**	**-3.32%**	**-3.40%**	**89,218,423**	**5.0%**	**5.0%**	**-1.96%**	**-2.04%**	**91,087,266**	**5.3%**	**5.0%**	**1.20%**	**1.11%**	**88,882,192**	**5.3%**	**5.0%**	**5.11%**	**5.02%**	**0.83%**	**0.48%**	**4.61%**	**4.25%**	**6.89%**	**6.53%**	**5.97%**
BC Global Aggregate ex-US				***-3.08%***	***-3.08%***				***-3.51%***	***-3.51%***				***-1.03%***	***-1.03%***				***4.37%***	***4.37%***	***-3.40%***	***-3.40%***	***-0.64%***	***-0.64%***	***3.46%***	***3.46%***	***3.11%***

ND TEACHERS FUND FOR RETIREMENT
INVESTMENT PERFORMANCE REPORT AS OF JUNE 30, 2013

	June-13					March-13				
		Allocation		Quarter			Allocation		Quarter	
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net
GLOBAL REAL ASSETS	***342,402,882***	***18.9%***	***20.0%***	***2.69%***	***2.60%***	***329,632,534***	***18.4%***	***20.0%***	***0.74%***	***0.65%***
Benchmark				***1.74%***	***1.74%***				***2.04%***	***2.04%***
Global Real Estate										
INVESCO - Core	65,494,188			4.69%	4.57%	62,589,602			5.44%	5.32%
INVESCO - Fund II (8)	10,769,127			14.66%	14.66%	17,210,405			-1.52%	-1.52%
INVESCO - Fund III (9)	18,522,722			13.71%	13.71%	9,236,118			-1.56%	-1.56%
INVESCO - Asia Real Estate Fund (8)	10,550,963			-1.54%	-1.54%	10,711,024			-8.18%	-8.18%
J.P. Morgan Strategic & Special Funds	58,758,727			3.92%	3.70%	56,646,606			3.57%	3.36%
J.P. Morgan Alternative Property Fund	2,654,351			-5.34%	-5.37%	2,802,964			9.73%	9.71%
J.P. Morgan Greater Europe Fund (8)	4,624,857			-12.80%	-12.80%	1,767,351			-7.71%	-7.71%
J.P. Morgan Greater China Property Fund (8)	10,155,761			0.75%	0.75%	10,081,641			-2.66%	-2.66%
Total Global Real Estate	**181,530,696**	**10.0%**	**10.0%**	**4.34%**	**4.23%**	**171,045,710**	**9.5%**	**10.0%**	**2.30%**	**2.19%**
NCREIF TOTAL INDEX				***2.87%***	***2.87%***				***2.57%***	***2.57%***
Timber										
TIR - Teredo (7)	35,765,603	2.0%		4.49%	4.49%	34,417,435	1.9%		-5.49%	-5.49%
TIR - Springbank	54,968,505	3.0%		-0.89%	-0.89%	55,780,150	3.1%		-1.78%	-1.78%
Total Timber	**90,734,108**	**5.0%**	**5.0%**	**1.17%**	**1.17%**	**90,197,584**	**5.0%**	**5.0%**	**-3.23%**	**-3.23%**
NCREIF Timberland Index(8)				***0.93%***	***0.93%***				***1.53%***	***1.53%***
Infrastructure										
JP Morgan (Asian)	13,213,281	0.7%		3.34%	3.34%	11,653,916	0.6%		-1.65%	-1.65%
JP Morgan (IIF)	43,338,772	2.4%		-2.64%	-2.88%	44,678,623	2.5%		4.03%	3.78%
Credit Suisse	13,586,025	0.8%		8.16%	8.16%	12,056,701	0.7%		-0.28%	-0.28%
Total Infrastructure (8)	**70,138,078**	**3.9%**	**5.0%**	**0.38%**	**0.22%**	**68,389,239**	**3.8%**	**5.0%**	**2.39%**	**2.23%**
CPI				***0.30%***	***0.30%***				***1.52%***	***1.52%***
Cash Equivalents										
Northern Trust STIF	24,365,448			0.02%	0.02%	24,645,129			0.03%	0.03%
Total Cash Equivalents	**24,365,448**	**1.3%**	**1.0%**	**0.02%**	**0.02%**	**24,645,129**	**1.4%**	**1.0%**	**0.03%**	**0.03%**
90 Day T-Bill				***0.02%***	***0.02%***				***0.02%***	***0.02%***

	December-12					September-12					Current Fiscal YTD		Prior FY12		3 Years Ended 6/30/2013		5 Years 6/30/
		Allocation		Quarter			Allocation		Quarter								
	Market Value	Actual	Policy	Gross (8)	Net	Market Value	Actual	Policy	Gross (8)	Net	Gross (7)	Net	Gross (7)	Net	Gross	Net	Gross
GLOBAL REAL ASSETS	***325,523,640***	***18.9%***	***20.0%***	***3.28%***	***3.18%***	***322,866,740***	***19.2%***	***20.0%***	***1.36%***	***1.27%***	***8.29%***	***7.89%***					
Benchmark				***2.48%***	***2.48%***				***1.59%***	***1.59%***	***8.09%***	***8.09%***					
Global Real Estate																	
INVESCO - Core	59,551,703			-0.10%	-0.22%	60,772,364			2.80%	2.68%	13.36%	12.84%	8.97%	8.54%	15.85%	15.38%	0.04%
INVESCO - Fund II (8)	20,752,901			9.32%	9.32%	19,782,387			0.00%	0.00%	23.44%	23.44%	28.70%	28.70%	35.58%	35.58%	-15.67%
INVESCO - Fund III (9)	9,394,137			4.34%	4.34%	9,178,937			0.00%	0.00%	16.79%	16.79%	N/A	N/A	N/A	N/A	N/A
INVESCO - Asia Real Estate Fund (8)	8,814,404			8.07%	8.07%	8,315,072			-3.39%	-3.39%	-5.61%	-5.61%	1.09%	1.09%	-4.32%	-4.32%	N/A
J.P. Morgan Strategic & Special Funds	54,887,648			2.74%	2.52%	54,593,439			3.65%	3.43%	14.62%	13.66%	13.33%	12.37%	16.20%	15.23%	0.20%
J.P. Morgan Alternative Property Fund	2,684,553			7.61%	7.58%	7,794,835			3.11%	3.08%	15.24%	15.13%	27.71%	27.38%	15.71%	15.35%	-6.30%
J.P. Morgan Greater Europe Fund (8)	1,929,444			-23.63%	-23.63%	3,127,503			-16.43%	-16.43%	-48.64%	-48.64%	-100.01%	-100.01%	-106.48%	-106.48%	N/A
J.P. Morgan Greater China Property Fund (8)	10,369,607			1.73%	1.73%	10,691,423			-4.30%	-4.30%	-4.51%	-4.51%	-4.20%	-4.20%	2.30%	2.30%	1.53%
Total Global Real Estate	**168,384,396**	**9.8%**	**10.0%**	**2.57%**	**2.45%**	**174,255,960**	**10.4%**	**10.0%**	**1.42%**	**1.31%**	**11.04%**	**10.55%**	**12.97%**	**12.46%**	**15.90%**	**15.36%**	**-1.43%**
NCREIF TOTAL INDEX				***2.54%***	***2.54%***				***2.34%***	***2.34%***	***10.72%***	***10.72%***	***12.04%***	***12.04%***	***13.14%***	***13.14%***	***2.79%***
Timber																	
TIR - Teredo (7)	36,416,561	2.1%		6.97%	6.97%	32,948,859	2.0%		0.00%	0.00%	5.64%	5.64%	-2.76%	-2.76%	3.09%	3.09%	5.33%
TIR - Springbank	56,805,785	3.3%		0.19%	0.19%	54,886,635	3.3%		0.02%	0.02%	-2.45%	-2.45%	-5.48%	-5.48%	-3.02%	-3.02%	-4.88%
Total Timber	**93,222,345**	**5.4%**	**5.0%**	**2.73%**	**2.73%**	**87,835,494**	**5.2%**	**5.0%**	**0.01%**	**0.01%**	**0.58%**	**0.58%**					
NCREIF Timberland Index(8)				***5.92%***	***5.92%***				***0.75%***	***0.75%***	***9.35%***	***9.35%***	***1.49%***	***1.49%***	***3.71%***	***3.71%***	***0.47%***
Infrastructure																	
JP Morgan (Asian)	8,971,625	0.5%		21.99%	21.99%	7,491,263	0.4%		0.00%	0.00%	*23.99%*	23.99%	*-4.29%*	-4.29%	6.83%	6.83%	N/A
JP Morgan (IIF)	43,058,330	2.5%		4.42%	4.17%	42,053,403	2.5%		4.61%	4.35%	10.64%	9.57%	4.51%	3.22%	7.42%	6.12%	-0.12%
Credit Suisse	11,886,945	0.7%		1.77%	1.77%	11,230,619	0.7%		-0.31%	-0.31%	9.43%	9.43%	N/A	N/A	N/A	N/A	N/A
Total Infrastructure (8)	**63,916,900**	**3.7%**	**5.0%**	**6.02%**	**5.84%**	**60,775,286**	**3.6%**	**5.0%**	**3.09%**	**2.92%**	**12.33%**	**11.60%**					
CPI				***-1.01%***	***-1.01%***				***0.95%***	***0.95%***	***1.75%***	***1.75%***					
Cash Equivalents																	
Northern Trust STIF	21,745,167			0.03%	0.03%	8,753,017			0.03%	0.03%	0.10%	0.10%	0.13%	0.13%	0.12%	0.12%	0.33%
Total Cash Equivalents	**21,745,167**	**1.3%**	**1.0%**	**0.03%**	**0.03%**	**8,753,017**	**0.5%**	**1.0%**	**0.03%**	**0.03%**	**0.10%**	**0.10%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.35%**
90 Day T-Bill				***0.04%***	***0.04%***				***0.03%***	***0.03%***	***0.11%***	***0.11%***	***0.06%***	***0.06%***	***0.11%***	***0.11%***	***0.30%***

NOTE: Monthly returns and market values are preliminary and subject to change.
New asset class structure began October 1, 2011. Composite returns for new composites not available prior to that date.
Portfolios moved between asset classes will show historical returns in new position.

(1) Epoch was included in the Large Cap Domestic Equity composite through 12/31/11.
(2) Prior to January 1, 2012, the benchmark was S&P 500.
(3) This benchmark was changed to the MSCI EAFE (unhedged) as of December 1, 2004.
(4) This benchmark was changed to the MSCI EAFE (unhedged) as of April 1, 2011.
(5) Prior to January 1, 2005, the benchmark was the First Boston Convertible Index.
(6) Prior to December 1, 2009, the benchmark was the Citigroup World Gov't Bond Index ex-US
(7) Prior to June 1, 2006, the Teredo properties were under the management of RMK.
(8) All limited partnership-type investments' returns will only be reported net of fees, which is standard practice by the investment consultant.
(9) BND was terminated effective April 30, 2013. Account was frozen until State Street began transition services to take over the account in June.

ND TEACHERS FUND FOR RETIREME
INVESTMENT PERFORMANCE REPOR

	Ended 2013 Net
TOTAL FUND	**2.92%**
POLICY TARGET BENCHMARK	*4.60%*
ATTRIBUTION ANALYSIS	
Asset Allocation	
Manager Selection	
TOTAL RELATIVE RETURN	
GLOBAL EQUITIES	
Benchmark	
Epoch (1)	5.23%
Calamos	N/A
LSV	N/A
Total Global Equities	
MSCI World (2)	
Domestic - broad	
Benchmark	
Large Cap Domestic	
LA Capital	7.08%
Russell 1000 Growth	***7.47%***
LSV	N/A
Russell 1000 Value	
LA Capital	7.39%
Russell 1000	***7.12%***
Northern Trust	7.95%
Prudential	N/A
Clifton	N/A
S&P 500	***7.01%***
Total Large Cap Domestic	**3.29%**
Russell 1000 (2)	***7.10%***
Small Cap Domestic	
SEI	19.06%
Callan	9.16%
Clifton	N/A
Total Small Cap Domestic	**9.59%**
Russell 2000	***8.77%***
International - broad	
Benchmark	
Developed International	
State Street	-1.80%
MSCI EAFE (3)	***-0.63%***
Capital Guardian	0.12%
LSV	N/A
MSCI EAFE (4)	***-0.01%***
Clifton	N/A
MSCI EAFE	
DFA	2.21%
Wellington	4.90%
S&P/Citigroup BMI EPAC < $2BN	***1.26%***
Total Developed International	**1.54%**
MSCI EAFE (4)	***-0.01%***
Emerging Markets	
JP Morgan	0.57%
PanAgora	-1.55%
UBS	-1.46%
NTGI	N/A
DFA	5.78%
Total Emerging Markets	**1.17%**
MSCI Emerging Markets	***-0.25%***

ND TEACHERS FUND FOR RETIREME
INVESTMENT PERFORMANCE REPOR

	Ended 2013 Net
Private Equity	
Brinson IVCF III	N/A
Coral Partners V	N/A
Coral Partners V - Supplemental	N/A
Coral Momentum Fund (Formerly Fund VI)	-16.01%
Brinson 1998 Partnership Fund	-5.63%
Brinson 1999 Partnership Fund	0.11%
Brinson 2000 Partnership Fund	2.50%
Brinson 2001 Partnership Fund	4.55%
Brinson 2002 Partnership Fund	4.45%
Brinson 2003 Partnership Fund	1.94%
Total Brinson Partnership Funds	2.93%
Brinson 1999 Non-US Partnership Fund	10.21%
Brinson 2000 Non-US Partnership Fund	-2.43%
Brinson 2001 Non-US Partnership Fund	-7.82%
Brinson 2002 Non-US Partnership Fund	-2.59%
Brinson 2003 Non-US Partnership Fund	6.00%
Brinson 2004 Non-US Partnership Fund	-2.55%
Total Brinson Non-US Partnership Fund	-0.24%
Adams Street 2008 Non-US Partnership Fd	-2.17%
Brinson BVCF IV	53.35%
Adams Street Direct Co-investment Fund	2.69%
Adams Street 2010 Direct Fund	N/A
Adams Street 2010 Non-US Emerging Mkts	N/A
Adams Street 2010 Non-US Developed Mkts	N/A
Adams Street 2010 Partnership Fund	N/A
Total Adams Street 2010 Funds	N/A
Matlin Patterson Global Opportunities	10.07%
Matlin Patterson Global Opportunities II	-45.80%
Matlin Patterson Global Opportunities III	15.28%
InvestAmerica (Lewis and Clark Fund)	6.05%
L&C II	N/A
Corsair III (2)	-6.74%
Corsair III - ND Investors LLC (2)	2.09%
Corsair IV	N/A
Capital International (CIPEF V)	2.40%
Capital International (CIPEF VI)	N/A
EIG (formerly TCW)	10.10%
Quantum Resources	-37.56%
Quantum Energy Partners	7.86%
Total Private Equity (8)	**0.27%**
GLOBAL FIXED INCOME	
Benchmark	
Domestic Fixed Income	
Benchmark	
Investment Grade Fixed Income	
PIMCO (DiSCO II) (8)	N/A
BC Aggregate	
Bank of ND (9)	N/A
State Street	N/A
BC Long Treasuries	
PIMCO (Unconstrained) (9)	N/A
3m LIBOR	
Declaration (Total Return) (9)	N/A
3m LIBOR	
Western Asset	N/A
PIMCO (MBS)	N/A
BC Mortgage Backed Securities Index	
Total Investment Grade Fixed Income	**3.78%**
BC Aggregate	***5.19%***
Below Investment Grade Fixed Income	
Loomis Sayles	9.77%
Goldman Sachs 2006 Fund (8)	1.93%
Goldman Sachs Fund V (8)	13.42%
PIMCO (8)	N/A
Total Below Investment Grade Fixed Income	**7.62%**
LB High Yield 2% Issuer Constrained Index	***11.00%***
International Fixed Income	
Benchmark	
Developed Investment Grade Int'l FI	
UBS Global (Brinson)	2.59%
BC Global Aggregate ex-US (6)	***3.11%***
Brandywine	8.11%
BC Global Aggregate (ex-US)	***3.43%***
Total Developed Investment Grade Int'l FI	**5.61%**
BC Global Aggregate ex-US	***3.11%***

ND TEACHERS FUND FOR RETIREME
INVESTMENT PERFORMANCE REPOR

	Ended 2013 Net
GLOBAL REAL ASSETS	
Benchmark	
Global Real Estate	
INVESCO - Core	-0.46%
INVESCO - Fund II (8)	-16.63%
INVESCO - Fund III (9)	N/A
INVESCO - Asia Real Estate Fund (8)	N/A
J.P. Morgan Strategic & Special Funds	-0.82%
J.P. Morgan Alternative Property Fund	-7.55%
J.P. Morgan Greater Europe Fund (8)	N/A
J.P. Morgan Greater China Property Fund (8)	0.33%
Total Global Real Estate	**-2.21%**
NCREIF TOTAL INDEX	***2.79%***
Timber	
TIR - Teredo (7)	5.20%
TIR - Springbank	-4.92%
Total Timber	
NCREIF Timberland Index(8)	***2.51%***
Infrastructure	
JP Morgan (Asian)	N/A
JP Morgan (IIF)	-1.56%
Credit Suisse	N/A
Total Infrastructure (8)	
CPI	
Cash Equivalents	
Northern Trust STIF	0.30%
Total Cash Equivalents	**0.34%**
90 Day T-Bill	***0.30%***

NOTE: Monthly returns and market values are preliminary
New asset class structure began October 1, 2011. Compo
Portfolios moved between asset classes will show histori

(1) Epoch was included in the Large Cap Domestic Equity com
(2) Prior to January 1, 2012, the benchmark was S&P 500.
(3) This benchmark was changed to the MSCI EAFE (unhedge
(4) This benchmark was changed to the MSCI EAFE (unhedge
(5) Prior to January 1, 2005, the benchmark was the First Bost
(6) Prior to December 1, 2009, the benchmark was the Citigrou
(7) Prior to June 1, 2006, the Teredo properties were under the
(8) All limited partnership-type investments' returns will only be
(9) BND was terminated effective April 30, 2013. Account was

RIO APPROPRIATED EXPENDITURES

FOR THE BIENNIUM ENDED JUNE 30, 2013

	2011-2013 BUDGET	ADJUSTED APPROPRIATION	EXPENDITURES BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 3,203,114.00	$ 3,203,114.00	$ 2,804,242.46	$ 398,871.54	12.45%	0.00%
OPERATING EXPENDITURES	947,840.00	947,840.00	882,397.74	65,442.26	6.90%	0.00%
CONTINGENCY	82,000.00	82,000.00	48,087.67	33,912.33	41.36%	0.00%
TOTAL	$ 4,232,954.00	$ 4,232,954.00	$ 3,734,727.87	498,226.13	11.77%	0.00%

RIO EXPENDITURE REPORT

BIENNIUM ENDED JUNE 30, 2013

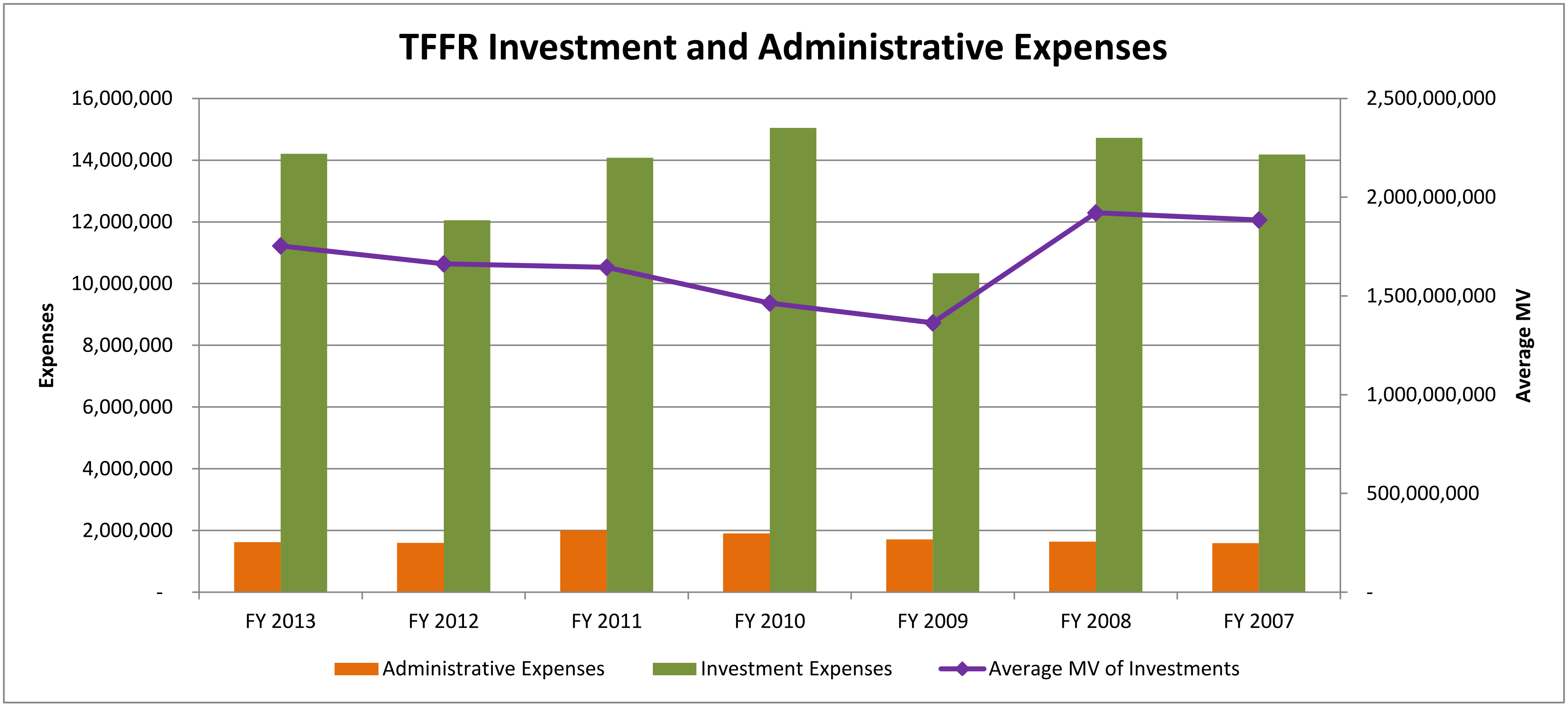
		2011-13 BIENNIUM	% of Total
CONTINUING APPROPRIATIONS			
INVESTMENT EXPENDITURES	$	79,668,310.40	21.5%
MEMBER CLAIMS			
1. ANNUITY PAYMENTS		281,193,891.00	
2. REFUND PAYMENTS		5,532,589.00	
TOTAL MEMBER CLAIMS		286,726,480.00	77.3%
OTHER CONTINUING APPROPRIATIONS		574,013.13	0.2%
TOTAL CONTINUING APPROPRIATIONS		366,968,803.53	99.0%
BUDGETED EXPENDITURES			
1. SALARIES & BENEFITS			
SALARIES		2,102,489.06	
OVERTIME/TEMPORARY		0.00	
TERMINATION SALARY & BENEFITS		0.00	
FRINGE BENEFITS		701,753.40	
TOTAL SALARY & BENEFITS		2,804,242.46	0.8%
2. OPERATING EXPENDITURES			
DATA PROCESSING		141,185.61	
TELECOMMUNICATIONS - ISD		23,914.57	
TRAVEL		53,223.92	
IT - SOFTWARE/SUPPLIES		645.07	
POSTAGE SERVICES		73,591.44	
IT - CONTRACTUAL SERVICES		277,957.25	
BUILDING/LAND RENT & LEASES		155,930.92	
DUES & PROF. DEVELOPMENT		27,983.95	
OPERATING FEES & SERVICES		53,162.13	
REPAIR SERVICE		1,073.95	
PROFESSIONAL SERVICES		21,090.00	
INSURANCE		2,075.54	
OFFICE SUPPLIES		4,306.69	
PRINTING		31,545.04	
PROFESSIONAL SUPPLIES & MATERIAL		4,289.41	
MISCELLANEOUS SUPPLIES		2,672.75	
IT EQUIPMENT UNDER $5000		4,542.50	
OTHER EQUIPMENT UNDER $5000		3,207.00	
TOTAL OPERATING EXPENDITURES		882,397.74	0.2%
3. CONTINGENCY (Korn/Ferry)		48,087.67	0.0%
TOTAL BUDGETED EXPENDITURES		3,734,727.87	1.0%
TOTAL EXPENDITURES	$	370,703,531.40	

Schedule of Consultant Expenses
Pension and Investment Trust Funds
For the Fiscal Years Ended June 30, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Actuary fees:				
Segal Company	$ 94,848	$ 93,777	$ -	$ -
Auditing fees:				
CliftonLarsonAllen LLC	45,385	44,755	26,290	24,220
Eide Bailly, P.C.	-	(5,461)	-	(2,789)
Total Auditing Fees	45,385	39,294	26,290	21,431
Disability consulting fees:				
Dr. G.M. Lunn	775	300	-	-
Legal fees:				
Calhoun Law Group P.C.	-	5,748	-	-
K&L Gates LLP	9,073	6,742	10,692	8,508
Jenner & Block	2,337	978	3,644	1,903
ND Attorney General	13,751	15,491	11,323	14,736
Total legal fees:	25,161	28,959	25,659	25,147
Total consultant expenses	$ 166,169	$ 162,330	$ 51,949	$ 46,578

ND Teachers' Fund for Retirement
Schedule of Investment Expenses

	FY 2013			FY 2012		
	Average Market Value	Fees in $	Fees as % of Average MV	Average Market Value	Fees in $	Fees as % of Average MV
Investment managers' fees:						
Global equity managers	197,566,458	1,403,825	0.71%	91,293,405	628,427	0.69%
Domestic large cap equity managers	336,258,113	661,279	0.20%	368,332,482	1,162,581	0.32%
Domestic small cap equity managers	102,229,770	656,041	0.64%	117,011,562	674,689	0.58%
Developed international equity managers	228,746,539	911,366	0.40%	243,490,701	1,027,046	0.42%
Emerging markets equity managers	54,745,552	378,684	0.69%	61,537,609	428,517	0.70%
Investment grade domestic fixed income managers	214,323,703	2,787,286	1.30%	199,221,601	712,767	0.36%
Below investment grade fixed income managers	82,893,062	1,604,541	1.94%	80,052,955	990,581	1.24%
Developed international fixed income managers	88,751,191	317,489	0.36%	81,420,595	293,376	0.36%
Real estate managers	173,804,190	1,863,035	1.07%	167,242,121	1,628,104	0.97%
Timber managers	90,497,383	349,639	0.39%	89,196,442	451,879	0.51%
Infrastructure managers	65,804,876	939,370	1.43%	55,512,867	886,429	1.60%
Private equity managers	97,761,570	1,850,618	1.89%	92,563,766	2,798,325	3.02%
Cash & equivalents managers	19,877,190	26,873	0.14%	15,437,756	23,326	0.15%
Total investment managers' fees	**1,753,259,597**	**13,750,047**	**0.78%**	**1,662,313,863**	**11,706,050**	**0.70%**
Custodian fees		257,367	0.01%		247,562	0.01%
Investment consultant fees		198,775	0.01%		96,205	0.01%
Total investment expenses		**14,206,189**	**0.81%**		**12,049,817**	**0.72%**
Performance Fees (included in totals above)						
Declaration TALF					48,435	
LSV		474,389				
Northern Trust		122,899			129,538	
Clifton		231,323			316,931	
PIMCO DiSCO		1,864,559			(53,969)	
TIR TEREDO		-			109,836	
Goldman Sachs Fund V		188,405			93,139	
INVESCO III		327,319				
PIMCO Distressed		881,491			288,211	
Credit Suisse		64,695			-	
Total Performance Fees Paid		**4,155,080**	**0.24%**		**932,122**	**0.06%**


TFFR Investment and Administrative Expenses
Expenses
Average MV
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
2,500,000,000
2,000,000,000
1,500,000,000
1,000,000,000
500,000,000
-
FY 2013
FY 2012
FY 2011
FY 2010
FY 2009
FY 2008
FY 2007
Administrative Expenses
Investment Expenses
Average MV of Investments

2013-2015 RIO BUDGET SUMMARY

	2011-2013 Approved Budget	2013-2015 Original Base Budget Request	Additional Request - Investment Analyst	Legislative Changes	2013-2015 Approved Budget
SALARIES & BENEFITS					
SALARIES - PERMANENT	2,395,202	2,496,864	205,000		2,701,864
SALARY/BENEFIT INCREASES	-	-		161,112	161,112
ACCRUED LEAVE PAYMENTS *				71,541	71,541
TEMPORARY	8,000	8,000			8,000
BENEFITS	799,912	841,132	60,396		901,528
TOTAL SALARIES & BENEFITS	**3,203,114**	**3,345,996**	**265,396**	**232,653**	**3,844,045**
OPERATING EXPENSES					
DATA PROCESSING	192,724	171,140	960		172,100
TELECOMMUNICATIONS	25,520	23,760	2,547		26,307
TRAVEL	127,239	126,111	4,000		130,111
IT SOFTWARE/SUPPLIES	4,500	10,170	600		10,770
POSTAGE	90,710	93,138			93,138
IT CONTRACT SERVICES	199,265	194,005			194,005
LEASE/RENT - BLDG./LAND	155,636	159,636			159,636
PROFESSIONAL DEV.	46,020	43,660	1,000		44,660
OPERATING FEES & SERV.	28,305	31,588	300		31,888
REPAIRS	1,000	1,000			1,000
PROFESSIONAL SERVICES	21,960	23,970			23,970
INSURANCE	2,427	1,379			1,379
OFFICE SUPPLIES	9,460	8,755	150		8,905
PRINTING	27,303	25,975			25,975
PROF. SUPPLIES	3,000	4,000			4,000
MISC. SUPPLIES	5,171	4,810			4,810
OTHER EQUIPMENT < $5000	3,500	-	5,950		5,950
IT EQUIPMENT < $5000	4,100	32,070	2,650		34,720
TOTAL OPERATING EXPENSES	**947,840**	**955,167**	**18,157**	**-**	**973,324**
TOTAL BEFORE CONTINGENCY	**4,150,954**	**4,301,163**	**283,553**	**232,653**	**4,817,369**
CONTINGENCY	**82,000**	**82,000**	**-**	**-**	**82,000**
TOTAL BUDGET	**4,232,954**	**4,383,163**	**283,553**	**232,653**	**4,899,369**
% Increase over 2011-2013		**3.55%**	**6.70%**	**5.50%**	**15.74%**

Appropriation Line Item Transfers: Upon approval of the respective boards, the retirement and investment office and the public employees retirement system may transfer from their respective contingencies line items…to all other line items. The agencies shall notify the office of management and budget of each transfer made pursuant to this section.

Board Travel Budget Guidelines: Our approved budget includes funding for approximately 20 out of state trips for board members (TFFR and SIB). General rule will be one trip per board member plus one additional trip if member of both boards. Additional trips may be approved based on budget availability.

In-State Reimbursment Rates: Lodging rate is 90% of Federal GSA rate for ND (currently $77) so current rate is $69.30 plus tax (some higher exceptions in oil counties). Mileage is linked to federal GSA rate which is currently $0.565 per mile. In-state meal rates: Breakfast: $7.00; Lunch: $10.50; Dinner: $17.50

*** Accrued Leave Payments Line:** The Legislature carved out a percentage of each agency's salary line to be designated for payment of accrued leave to employees upon termination/retirement. Original language required Emergency Commission approval to use funds from this line for other salary needs. Governor vetoed that portion of the bill but encourages limited use of this line during the biennium as a test of the need for such designation in the future.

STATE INVESTMENT BOARD SEARCH COMMITTEE
MINUTES OF THE
SEPTEMBER 12, 2013, MEETING

COMMITTEE MEMBERS PRESENT:	Lt. Governor Wrigley, Chair Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Mike Sandal, PERS Board Kelly Schmidt, State Treasurer
STAFF PRESENT:	Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS:	Michelle Booth, Korn/Ferry Michael Kennedy, Korn/Ferry

CALL TO ORDER:

A teleconference meeting of the State Investment Board Search Committee was held at 9:00 a.m. on Thursday, September 12, 2013.

The meeting was held for the purposes of formulizing the schedule for the three candidate's second round of interviews which is scheduled for September 27, 2013, with the full SIB and to also receive updates on the candidates.

Korn/Ferry updated the Committee on the three candidates and informed the Committee that Mr. Timothy Viezer has accepted a position with North Carolina and will no longer be in the running for the North Dakota ED/CIO position. Mr. Deric Righter and Mr. David Hunter, the two remaining candidates, are still viable candidates and both are looking forward to the opportunity. Korn/Ferry is in the process of finalizing itineraries for their interviews. Korn/Ferry also indicated they had put together a homework assignment for the two candidates. The assignment was distributed to the Search Committee on September 11, 2013, for their review and consideration. The assignment will be given to the candidates about a week in advance of the interviews.

The two candidates will also be meeting with the Retirement and Investment Office staff the morning of September 26, 2013. Ms. Kopp reviewed staff's tentative schedule with the Committee. Ms. Kopp also reviewed a tentative schedule for the interviews on the 27th. The SIB meeting will begin at its regularly scheduled time of 8:30 a.m. The two candidates will be interviewed in the morning; the SIB will then have a working lunch with wrap up scheduled around 1:30 p.m.

Korn/Ferry also discussed the possibility of adding a third candidate to the mix. Korn/Ferry has been conversing with an individual who they feel would also be of interest to the Committee. Discussion followed on whether or not to bring in another candidate. After discussion, the Committee felt it was not necessary to bring in a third candidate at this stage of the game.

Korn/Ferry also reviewed with the Committee interview questions which Korn/Ferry had formatted. After review and discussion, a number of revisions were suggested. Korn/Ferry will revise the questions and resend them to the Committee for finalization.

The Committee also discussed with Korn/Ferry reference and background checks. Typically, Korn/Ferry conducts reference and background checks on the finalist. The Committee requested the checks be completed on both candidates prior to the interviews on the 27th so the information is available to the SIB.

ADJOURNMENT:

With no further business to come before the Search Committee, Lt. Governor Wrigley adjourned the meeting at 9:40 a.m.

Lt. Governor Wrigley, Chair
State Investment Board Search Committee

Bonnie Heit
Assistant to the Board

STATE INVESTMENT BOARD SEARCH COMMITTEE
MINUTES OF THE
AUGUST 22, 2013, MEETING

COMMITTEE MEMBERS PRESENT:	Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Mike Sandal, PERS Board Kelly Schmidt, State Treasurer
ABSENT:	Lt. Governor Wrigley, Chair
STAFF PRESENT:	Connie Flanagan, Fiscal & Investment Officer Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS:	Michael Kennedy, Korn/Ferry

CALL TO ORDER:

A teleconference meeting of the State Investment Board Search Committee was held at 3:00 p.m. on Thursday, August 22, 2013.

The meeting was held for the purposes of reviewing the three candidates interviewed by the Search Committee on July 26, 2013, and the two candidates interviewed on August 12, 2013.

Mr. Kennedy had visited with Lt. Governor Wrigley, prior to the August 22, 2013, meeting, to gain his insight on the five candidates and expressed those to the Committee.

After reviewing the five candidates with Korn/Ferry,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY COMMISSIONER GAEBE TO MOVE FORWARD FOR SECOND INTERVIEWS BEFORE THE FULL SIB THE FOLLOWING CANDIDATES; MR. DERIC RIGHTER, MR. DAVID HUNTER, AND MR. TIMOTHY VIEZER.

AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER GAEBE, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR DALRYMPLE

The Search Committee discussed timelines for the second interviews and determined the interviews would be held at the next regularly scheduled SIB meeting on September 27, 2013, at Workforce Safety & Insurance.

Korn/Ferry will try and coordinate having the candidates also come into the Retirement and Investment Office to meet with staff prior to their interview with the SIB. Staff is to put together a schedule that would work on their end and forward that on to Korn/Ferry.

The Search Committee discussed the interview process with Mr. Kennedy. Mr. Kennedy will put together interview questions and formulize the process for the interviews.

ADJOURNMENT:

With no further business to come before the Search Committee, Mr. Sandal adjourned the meeting at 3:30 p.m.

Mr. Mike Sandal, Vice Chair
State Investment Board Search Committee

Bonnie Heit
Assistant to the Board

STATE INVESTMENT BOARD SEARCH COMMITTEE
MINUTES OF THE
AUGUST 12, 2013, MEETING

COMMITTEE MEMBERS PRESENT:	Lt. Governor Wrigley, Chair Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Mike Sandal, PERS Board Kelly Schmidt, State Treasurer
STAFF PRESENT:	Connie Flanagan, Fiscal & Investment Officer Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS:	David Hunter, Candidate Michael Kennedy, KornFerry Bryan Klipfel, WSI Deric Righter, Candidate

CALL TO ORDER:

Lt. Governor Wrigley called the meeting of the State Investment Board Search Committee to order at 8:30 am on Monday, August 12, 2013, at Workforce Safety & Insurance, 1600 E Century Avenue, Bismarck, ND.

The meeting was held for the purposes of conducting interviews with the second round of candidates selected by Korn/Ferry.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY COMMISSIONER GAEBE AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE AUGUST 8, 2013, MEETING.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, MR. GESSNER, AND LT. GOVERNOR WRIGLEY
ABSENT: NONE
MOTION CARRIED

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE JULY 26, 2013, MEETING.

AYES: MR. SANDAL, MR. GESSNER, TREASURER SCHMIDT, COMMISSIONER GAEBE, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

The Search Committee and Mr. Kennedy reviewed Korn/Ferry's recruiting process, backgrounds, and expertise of the candidates brought forth thus far and discussion occurred on whether these candidates' are in line with the position specifications.

Treasurer Schmidt was unable to attend the July 26, 2013, meeting but was able to review the first set of three interviews recorded by the reporting secretary. Korn/Ferry will arrange interactive video interviews with Treasurer Schmidt and the three candidates, if desired, to allow her an opportunity to interact with the candidates.

After discussion, the Search Committee felt they are on track with the process and Korn/Ferry is providing candidates whose backgrounds are in correlation to the job specifications for the ED/CIO.

Mr. Kennedy reviewed the backgrounds of the next two candidates. The Search Committee conducted interviews with Mr. Hunter and Mr. Righter.

The Search Committee reviewed the five candidates interviewed thus far and their perspective of each.

Lt. Governor Wrigley exited the meeting at 11:40 a.m. and Mr. Sandal presided over the remainder of the meeting.

The Search Committee and Korn/Ferry will continue their review of the five candidates at their next meeting. In the interim, Korn/Ferry will continue to look for candidates and will discuss their efforts at the next Search Committee meeting.

ADJOURNMENT:

With no further business to come before the Search Committee, Mr. Sandal adjourned the meeting at 12:15 p.m.

Lt. Governor Wrigley, Chair
State Investment Board Search Committee

Bonnie Heit

Bonnie Heit
Assistant to the Board

STATE INVESTMENT BOARD SEARCH COMMITTEE
MINUTES OF THE
AUGUST 8, 2013, MEETING

COMMITTEE MEMBERS PRESENT:	Lt. Governor Wrigley, Chair Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Mike Sandal, PERS Board Kelly Schmidt, State Treasurer
STAFF PRESENT:	Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director
OTHERS:	Michael Kennedy, KornFerry

CALL TO ORDER:

A teleconference meeting of the State Investment Board Search Committee was held at 9:00 a.m. on Thursday, August 8, 2013.

The meeting was held for the purposes of reviewing the candidates scheduled for preliminary interviews on August 12, 2013, and to follow-up on the interviews conducted on July 26, 2013.

The Search Committee and Mr. Kennedy discussed the backgrounds and expertise of the candidates brought forth and if these candidates' portfolios are in line with the position specifications.

The Search Committee and Mr. Kennedy will review the process thus far on the recruitment of candidates for the ED/CIO position after the conclusion of interviews on August 12, 2013.

ADJOURNMENT:

With no further issues to come before the Search Committee, the meeting adjourned at 9:30 a.m.

Lt. Governor Wrigley, Chair
State Investment Board Search Committee

Bonnie Heit
Assistant to the Board

STATE INVESTMENT BOARD SEARCH COMMITTEE
MINUTES OF THE
July 26, 2013, MEETING

COMMITTEE MEMBERS PRESENT:	Lt. Governor Wrigley, Chair Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Mike Sandal, PERS Board
COMMITTEE MEMBER ABSENT:	Kelly Schmidt, State Treasurer
STAFF PRESENT:	Bonnie Heit, Office Manager Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS:	Frank Bello, Candidate Bruce Fink, Candidate Michael Kennedy, KornFerry Brian Klipfel, Workforce Safety & Insurance Jan Murtha, Attorney General's Office Dave Thompson, Prairie Public Radio Tim Viezer, Candidate

CALL TO ORDER:

Lt. Governor Wrigley called the meeting of the State Investment Board Search Committee to order at 12:15 pm on Friday, July 26, 2013, at Workforce Safety & Insurance, 1600 E Century Avenue, Bismarck, ND.

The meeting was held for the purposes of conducting preliminary interviews with the first round of candidates selected by Korn/Ferry.

MINUTES:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE JULY 11, 2013, APRIL 26, 2013, MARCH 12, 2013, MARCH 4, 2013, FEBRUARY 12, 2013, AND JANUARY 4, 2013, MEETINGS.

AYES: COMMISSIONER GAEBE, MR. SANDAL, MR. GESSNER, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED
ABSENT: TREASURER SCHMIDT

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE SUB-SET OF THE SEARCH COMMITTEE FOR APRIL 25, 2013, APRIL 3, 2013, AND MARCH 28, 2013.

AYES: MR. GESSNER, MR. SANDAL, COMMISSIONER GAEBE, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED
ABSENT: TREASURER SCHMIDT

Mr. Kennedy reviewed the structure of the interviews, criteria for assessing the candidates, and the interview questions.

KornFerry will also continue to reach out to other candidates to bring before the Search Committee sometime in August.

Mr. Kennedy suggested the Search Committee narrow the candidates down to two - three candidates once the preliminary interviews have been completed and bring those individuals in for second interviews with the Search Committee.

Mr. Kennedy reviewed the background of each of the candidates prior to their interview. The Search Committee then interviewed the following candidates - Mr. Bello, Mr. Viezer, and Mr. Fink.

After the interviews, the Search Committee and Mr. Kennedy discussed the interviews and their next steps. The next group of preliminary interviews will be conducted either the week of August 12th or 19th.

ADJOURNMENT:

With no further issues to come before the Search Committee, Lt. Governor Wrigley adjourned the meeting at 5:37 p.m.

Lt. Governor Wrigley, Chair
State Investment Board Search Committee

Bonnie Heit
Assistant to the Board

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 17, 2013 MEETING

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Lonny Mertz, Vice Chair
Mike Gessner, TFFR Board/Liaison to the SIB
Mike Sandal, PERS Board

COMMITTEE MEMBERS ABSENT: Cindy Ternes, Workforce Safety & Insurance

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Officer
Fay Kopp, Interim Executive Director
Les Mason, Internal Audit Superviser
Darlene Roppel, Retirement Assistant
Dottie Thorsen, Internal Audit

OTHERS PRESENT: Thomas Rey, CliftonLarsonAnderson

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, May 17, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the May 17, 2013, agenda.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MAY 17, 2013, MEETING.

AYES: MS. DORWART, MR. SANDAL, MR. MERTZ, AND MR. GESSNER
NAYS: NONE
MOTION CARRIED
ABSENT: MS. TERNES

MINUTES:

The Audit Committee considered the minutes from the February 22, 2013, meeting.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE FEBRUARY 22, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, MS. DORWART, MR. SANDAL, AND MR. MERTZ
NAYS: NONE
MOTION CARRIED
ABSENT: MS. TERNES

EXTERNAL AUDIT:

Mr. Thomas Rey, CliftonLarsonAllen, reviewed the Retirement and Investment Office's financial audit scope and approach for the period of July 1, 2012 to

June 30, 2013. CliftonLarsonAllen is performing preliminary field work the week of May 13, 2013.

Mr. Rey reviewed clarity audit standards, that primarily the external auditors will need to follow, and new GASB statements: Statement 67 (Financial Reporting for Pension Plans) and Statement 68 (Accounting and Financial Reporting for Pensions) that RIO will be required to meet in 2014 and 2015, respectively.

IT WAS MOVED BY MR. MERTZ AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT CLIFTONLARSONALLEN'S AUDIT SCOPE AND APPROACH FOR THE RETIREMENT AND INVESTMENT OFFICE FOR THE PERIOD OF JULY 1, 2012 - JUNE 30, 2013.

AYES: MR. MERTZ, MS. DORWART, MR. SANDAL, AND MR. GESSNER
NAYS: NONE
MOTION CARRIED
ABSENT: MS. TERNES

INTERNAL AUDIT ACTIVITIES:

Mr. Mason reviewed the Internal Audit Division's work activity for the period of July 1, 2012 through May 10, 2013.

School District Audit Progress – The objective is to complete 43 or more school district audits during FY2013. Currently, 37 audits have been completed, four audits are in progress, and information on four or more school districts has been received, and information has been requested from seven additional school districts.

Ms. Dorwart and Ms. Kopp have been meeting with Mr. Mason on a biweekly basis to review and revise the policies and procedures as they relate to the school district audit process, monitoring workflow, and discussing any concerns staff may have as they work through the audits.

TFFR File Maintenance – Ms. Thorsen reported she reviewed various member account transactions to the member accounts for the months of January – March 2013. There were no exceptions noted.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT DIVISION'S INTERNAL AUDIT ACTIVITY REPORT FOR THE PERIOD OF JULY 1, 2012 - MAY 10, 2013.

AYES: MS. DORWART, MR. GESSNER, MR. MERTZ, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: MS. TERNES

WORK PLAN:

Proposed Work Plan – Mr. Mason reviewed the proposed work plan, budgeted hours, and risk assessment/selection of school district audits for fiscal year July 1, 2013 through June 30, 2014.

Discussion followed on the content of the work plan, policies, procedures, and practices that are in place to achieve the work plan that had been presented to the Audit Committee.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE JULY 1 2013 - JUNE 30, 2014 WORK PLAN.

AYES: MR. SANDAL, MR. GESSNER, MS. DORWART, AND MR. MERTZ
NAYS: NONE
MOTION CARRIED
ABSENT: MS. TERNES

CHARTER:

Mr. Mason stated a revised charter will be presented at the September 27, 2013, meeting for the Audit Committee's consideration. Mr. Mason is in the process of gathering information to reference and also comparing the language of the charter to other entities. Mr. Mertz volunteered to work with staff on updating the charter.

Mr. Gessner noted he will begin providing updates on the Audit Committee meetings to the Teachers' Fund for Retirement Board.

MEETING SCHEDULE:

Mr. Mason reviewed the July 1, 2013 – June 30, 2014, Audit Committee meeting schedule. The Audit Committee was in agreement with the schedule.

OTHER:

The next Audit Committee meeting is scheduled for September 27, 2013, at 1:00 p.m. at the State Capitol, Peace Garden Room.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:30 p.m.

Respectfully Submitted:

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Ms. Rebecca Dorwart, Chair
SIB Audit Committee

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Bonnie Heit
Assistant to the Audit Committee

North Dakota Retirement and Investment Office
THIRD AUDIT CYCLE FOR SCHOOL DISTRICT AUDITS
January 2010 to June 2013

Total Members served in the third audit cycle	10,138
Total Audits completed in the third audit cycle	108
Remaining Districts to be audited	64
Total Audits in the third cycle	172

In compliance	87
Generally in compliance	10
Not in compliance	11
	108

10 members or less	29	(Not audited)
State agencies/or other	19	(Not audited)
Consolidations/closures	11	
More than 10 members	172	(audited)
Total District	231	

FISCAL YEAR 2009/ 2010 (finished cycle 2 and started cycle 3-one-half of the year)

Barnes County North	3/26/2010	47	Generally in compliance		
Belfield	5/17/2010	27	In compliance		
Bottineau	4/29/2010	63	In compliance		
Central Cass	6/21/2010	64	In compliance		
Edinburg	5/27/2010	16	In compliance	I/C	16
Ellendale	5/12/2010	35	In compliance	GIC	2
Garrison	6/3/2010	39	In compliance	NIC	0
Grenora	6/22/2010	16	In compliance	Audits	18
Harvey	5/17/2010	43	In compliance	Cycle 2	17
Larimore	1/12/2010	51	In compliance		35
Lidgerwood	5/3/2010	21	In compliance		
Max	1/19/2010	23	In compliance		
Roosevelt/Carson	4/30/2010	21	In compliance		
Rugby	3/15/2010	59	In compliance		
Sargent Central	1/15/2010	27	Generally in compliance		
Scranton	4/13/2010	21	In compliance		
South Valley Spec. Education	11/12/2009	39	In compliance		
Valley City School	2/8/2010	85	In compliance		
18		697	Teachers		

FISCAL YEAR 2010/ 2011 (full year)

Alexander	2/14/2011	14	In compliance		
Bowman	8/11/2010	47	Generally in compliance		
Burke Central	7/29/2010	22	In compliance		
Glenburn	6/16/2011	30	Generally in compliance	I/C	7
Grafton	4/5/2011	88	Generally in compliance	GIC	5
Griggs County Central	6/24/2011	65	Generally in compliance	NIC	2
Halliday	6/22/2011	12	Not in compliance	Audits	14
Hettinger	10/25/2010	35	In compliance		
Lakota	12/14/2010	26	In compliance		
Minot	7/22/2010	629	In compliance		
Tioga	4/14/2011	30	In compliance		
United	4/1/2011	49	Generally in compliance		
Velva	5/17/2011	49	Not in compliance		
Washburn	5/9/2011	27	In compliance		
14		1,123			

North Dakota Retirement and Investment Office
THIRD AUDIT CYCLE FOR SCHOOL DISTRICT AUDITS
January 2010 to June 2013

FISCAL YEAR 2011/ 2012 (full year)

Anamoose	7/25/2011	17	In compliance		
Beulah	1/6/2012	64	In compliance		
Bowbells	3/14/2012	13	In compliance		
Carrington	2/22/2012	51	In compliance		
Cavalier	12/30/2011	49	In compliance		
Central Valley	10/25/2011	24	In compliance		
Dakota Prairie	5/25/2012	37	In compliance		
Divide	12/29/2011	32	In compliance		
Drayton	11/8/2011	24	In compliance	I/C	26
Edgeley	5/29/2012	29	In compliance	GIC	2
Eight Mile	12/5/2011	24	Not in compliance	NIC	3
Fairmount	5/29/2012	17	In compliance	Audits	31
Finley-Sharon	5/21/2012	24	In compliance		
Gackle-Streeter	4/26/2012	15	Generally in compliance		
Hatton	6/13/2012	24	In compliance		
Hillsboro	1/4/2012	38	In compliance		
Hope	6/12/2012	11	In compliance		
Kidder County	3/14/2012	50	In compliance		
LaMoure	12/27/2011	29	In compliance		
Langdon Area Schools	4/3/2012	41	In compliance		
Leeds	10/27/2011	21	Generally in compliance		
Linton	1/23/2012	33	In compliance		
Lisbon	11/23/2011	56	In compliance		
Mandan	1/31/2012	297	In compliance		
Mandaree	5/21/2012	33	In compliance		
McKenzie County	8/4/2011	51	In compliance		
Milnor	6/6/2012	28	In compliance		
Richardton-Taylor	12/30/2011	31	In compliance		
Solen-Cannonball*	1/10/2012	41	2011/12 review required		
Williston	5/23/2012	198	Not in compliance		
Wilton	10/3/2011	23	In compliance		
31		1,425			

*District was not in compliance in 2008/09 and 2009/10 (second cycle). Audit policy is to review a sample of salary one year after the audit to ensure reporting practices were amended.

FISCAL YEAR 2012/ 2013 (full year)

Ashley	2/21/2013	19	In compliance		
Beach	3/25/2013	40	In compliance		
Belcourt	3/5/2013	150	In compliance		
Bismarck	9/13/2012	1054	In compliance		
Center-Stanton	4/4/2013	26	In compliance		
Drake	3/25/2013	13	In compliance		
Dunseith	4/30/2013	56	Not in compliance		
Enderlin	3/21/2013	36	In compliance		
Fessenden-Bowdon	4/4/2013	19	In compliance		
Fort Yates	1/16/2013	88	Not in compliance		
Hankinson	4/24/2013	31	In compliance		
Hazen	5/13/2013	50	In compliance		
Kenmare	5/23/2013	32	In compliance		
Killdeer	9/18/2012	45	In compliance		
Kindred	2/26/2013	52	Not in compliance		
Mapleton Elementary	5/16/2013	11	In compliance	I/C	38
McClusky	7/30/2012	22	Not in compliance	GIC	1

North Dakota Retirement and Investment Office
THIRD AUDIT CYCLE FOR SCHOOL DISTRICT AUDITS
January 2010 to June 2013

Minnewaukin	3/12/2013	33	Not in compliance	NIC	6
Mott-Regent	11/6/2012	31	In compliance	Audits	45
Mt. Pleasant	5/16/2013	33	In compliance		
Napoleon	11/9/2012	29	In compliance		
Newburg	9/13/2012	19	In compliance		
New England	7/17/2012	21	In compliance		
New Rockford/Sheyenne	6/12/2013	35	In compliance		
New Salem/Almont	5/31/2013	31	In compliance		
New Town	5/16/2013	76	In compliance		
North Sargent	4/29/2013	25	In compliance		
North Star	1/16/2013	31	In compliance		
Northern Cass	5/20/2013	48	In compliance		
Northwood	12/14/2012	28	In compliance		
Oakes	6/12/2013	38	In compliance		
Park River	3/12/2013	48	In compliance		
Powers Lake	1/3/2013	23	Not in compliance		
Richland (Colfax)	5/15/2013	34	In compliance		
Rolette	2/21/2013	23	Generally in compliance		
Rural Cass Special Ed.	5/1/2013	20	In compliance		
St. Thomas	5/29/2013	18	In compliance		
Sawyer	5/10/2013	21	In compliance		
Souris Valley	2/20/2013	28	In compliance		
Stanley	2/25/2013	56	In compliance		
Strasburg	3/8/2013	20	In compliance		
Thompson	4/5/2013	37	In compliance		
Underwood	2/7/2013	29	In compliance		
Upper Valley Spec. Ed.	5/20/2013	45	In compliance		
Wahpeton	6/14/2013	112	In compliance		

Not in compliance reviews:

Eight Mile	5/8/2013		Salaries OK-no further review
Halliday	6/28/2013		Salaries not in compliance
			- Will look at again September 2014
Solen-Cannonball	6/27/2013		Salaries OK-no further review
Velva	5/1/2013		Salaries OK-no further review
45		2,736	

MEMORANDUM

TO: TFFR Board of Trustees

FROM: Fay Kopp

DATE: September 19, 2013

SUBJ: TFFR Policy Changes

At the July meeting, the TFFR Board conducted its annual review of TFFR program mission, goals, and policies. As part of that review, staff identified a number of policies for additional board discussion and possible changes. Draft policy changes are included for your review.

BOARD POLICY		RECOMMENDED ACTION
B-5	Investment Policy Statement	Amend
C-7	Employer Reporting Errors	Amend
C-8	Employer Reports	Amend
C-9	Head Start Program Employees	Amend

Enclosure

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five active and retired members of the fund appointed by the Governor of North Dakota and two elected officials - the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit public pension plan that provides retirement, disability, and death benefits in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of service X 2.0% X Final Average Salary. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions scheduled to increase as follows:

	7/1/11	7/1/12	7/1/14
Employee	7.75%	9.75%	11.75%
Employer	8.75%	10.75%	12.75%

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches ~~90%~~ 100% funded level on an actuarial value basis.

The TFFR Board has an actuarial valuation performed annually and an Experience Study and Asset Liability Study performed every five years. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment office (RIO).

2. FUND GOALS

The Plan benefits are financed through both statutory employer and employee contributions and the investment earnings on assets held in the Fund. The TFFR Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.

- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State/School District's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places a greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important state/local projects.

3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

4. RISK TOLERANCE

The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the State/School Districts ability to continue to provide pension benefits to plan participants. Thus, the Board actively seeks to lower the cost of funding the Plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the Board believes that such an approach, prudently implemented, best serves the long-run interests of the State/School District and, therefore, of plan participants.

5. INVESTMENT OBJECTIVES

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB

1) The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2) The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.

3) The risk adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

6. POLICY ASSET MIX

Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target (%)	Rebalancing Range (%)
Global Equity	57	46-65
Domestic Equity	31	26-36
Large	24	20-28
Small	7	4-10
International Equity	21	16-26
Developed	17	12-22
Emerging	4	2-6
Private Equity	5	4-8
Global Fixed Income	22	16-28
Domestic Fixed	17	13-21
Investment Grade	12	10-18
Non-Investment Grade	5	3-7
International Fixed	5	3-7
Developed	5	3-7
Emerging		0-3
Global Real Assets	20	12-28
Global Real Estate	10	5-15
Other	10	0-15
Infrastructure		0-10
Timber		0-7
Commodities		0-5
Inflation Linked-Bonds		0-10
Other Inflation Sensitive Strategies		0-5
Global Alternatives		0-10
Cash	1	0-2

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Board does not intend to engage in tactical asset allocation. Allocations to Global Alternatives will result in pro-rata reduction in the policy targets.

7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
c. No transaction shall be made which threatens the tax exempt status of the Fund.
d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
e. No unhedged short sales or speculative margin purchases shall be made.

f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

1) The cost does not exceed the fair market value at the time of investment.

2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar task.

3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

8. INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

9. EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

1) A list of the advisory services managing investments for the board.
2) A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.

3) Earnings, percentage earned, and change in market value of each fund's investments.
4) Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.
5) All material legal or legislative proceedings affecting the SIB.
6) Compliance with this investment policy statement.

TFFR Board Adopted: May 25, 1995.
Amended: November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006; September 20, 2007; October 27, 2011.

Approved by SIB: November 18, 2011

Policy Type: TFFR Program

Policy Title: Employer Reporting Errors

It shall be the policy of the TFFR Board of Trustees that when an unintentional error in the reporting of retirement contributions by a ~~school district~~ TFFR participating employer is discovered during an employer compliance audit ~~or other review~~, the following policy shall be in effect:

- The ~~school district~~ employer will be billed for all material shortages due plus interest or refunded for all material overpayments.

  Materiality limit to be used in determining if a member's account will be adjusted is an aggregate total of $300 in salary per individual member per year.

- The interest charged to the ~~school district~~ employer shall be the actuarial investment assumption for earnings of the trust.

- The time period shall be from the onset of the error or three years prior to the beginning of the current school year.

- Failure of the ~~school district~~ employer to pay the required shortages or provide required information will constitute "failure to make required reports and payments" and require application of section 15-39.1-23, NDCC.

- The TFFR board reserves the right to negotiate with an ~~school district~~ employer in special situations.

If, as the result of an employer compliance audit ~~or other review~~, the participating employer is found not to be in compliance with NDCC 15-39.1:

- The employer must respond in writing to the audit finding(s) and/or recommendation(s) within 30 days of the report.

- NDRIO will conduct a follow-up review of the audit finding(s) and/or recommendation(s) one year following the date of the report~~.~~ or as determined by the Deputy Executive Director/Chief Retirement Officer.

TFFR Board Adopted: February 22, 1996.
Amended: July 16, 1998; January 24, 2002; April 15, 2004; July 14, 2005; September 20, 2007.

Policy Type: TFFR Program

Policy Title: Employer Reports

It shall be the policy of the TFFR Board of Trustees to require all participating employers ~~units~~ to report the collection and payment of member and employer contributions on a monthly basis to the RIO. Both payment and report must be postmarked or sent via the internet by the 15th day of the month following the end of the reporting period. Employer reports must be in a format approved by the TFFR board. ~~and may~~ Effective July 1, 2014 reports must be submitted in one of the following ~~ways~~ formats: 1) ~~manual –~~ paper reports, ~~2) electronically – diskettes,~~ 2~~3~~) internet ~~.~~unless approved by the Deputy Executive Director/Chief Retirement Officer.

The administrative office will monitor late TFFR reports and payments by employers. Employers that do not meet the established deadlines for filing required reports shall be assessed a civil penalty as required in NDCC 15-39.1-23 unless the Deputy Executive Director/Retirement Officer approves a request for a waiver of the penalty under special circumstances such as:

- Death, surgery, or illness of the individual responsible for TFFR reports or their family.

- “Acts of God” that require an employer to close school such as blizzards, storms, or floods.

- Unforeseen events such as resignation of the individual responsible for TFFR reports, computer malfunction, etc.

The request for a waiver must be in writing and signed by the administrator.

In all late situations, member and employer contributions will be collected from the employer at the earliest date possible. Employers cooperating with TFFR to resolve the late filing of a report shall not have their state apportionment money (foundation payments) withheld, but will be assessed interest as required in NDCC 15-39.1-23.

TFFR Board Adopted: August 29, 1996.
Amended: July 16, 1998; November 18, 1999; March 22, 2001; September 20, 2007.

Policy Type: TFFR Program

Policy Title: Head Start Program Employees

It shall be the policy of the TFFR Board of Trustees that employees of a Head Start Program ~~(which is not a U.S. Department of Education Program)~~ who are certified to teach and contracted with a school district or other participating employer, are members of TFFR if the following conditions are met:

- Grantee agency for the Head Start Program is the school district which is governed by the local school board.
- Head Start Program employees are on the school district teaching or administrative faculty in positions such as coordinator, director, teacher, or home visitor.
- Head Start Program employees are on the school district salary schedule and negotiate for salary and benefits like other school district teaching faculty.

TFFR Board Adopted: November 20, 1997.

TFFR Board

2013 - 2014 Assignments

Officers of the board

- President — Mike Gessner
- Vice President — Clarence Corneil

Board members serving on the SIB

- Mike Gessner
- Rob Lech
- Clarence Corneil
- State Treasurer Schmidt (ex-officio)

SIB Audit Committee

- Mike Gessner

SIB alternate

- Kim Franz

MEMORANDUM

TO: TFFR Board of Trustees

FROM: Fay Kopp

DATE: September 19, 2013

SUBJ: TFFR CENTENNIAL RECOGNITION EVENTS

I am pleased to announce that active and retired member groups are honoring TFFR's 100- year anniversary at their fall meetings.

- ND Retired Teachers Association (NDRTA) annual convention was in Fargo on August 28. At the convention, TFFR's 100 year anniversary was recognized, and I provided highlights of TFFR's history as part of my annual presentation.

- ND United (formerly ND Education Association and ND Public Employees Association) is hosting the NDU Common Core Assessment Conference on October 17-18 at Century High School in Bismarck. They have scheduled time to recognize TFFR's 100- year anniversary from 3:00 to 3:30 pm on Thursday, October 17. I plan to put together a centennial slide show highlighting TFFR's history to share with the teachers who are attending this conference.

- ND Council of Educational Leaders (NDCEL) is also holding their annual conference on October 17-18 at the Ramkota Inn in Bismarck. They have scheduled a TFFR celebration from 9:00 to 9:30 am on Friday, October 18 to recognize TFFR's 100-year anniversary. I will also be presenting the TFFR centennial slide show for the administrators who are attending this conference.

TFFR board members are invited to attend either of these upcoming events.

In addition, at the October 24 TFFR Board meeting, the Board can also formally recognize TFFR's 100-year anniversary.

NDTFFR UPDATE

ND Retired Teachers Convention - Fargo

August 28, 2013

Fay Kopp, Interim Executive Director – Chief Retirement Officer

ND Retirement & Investment Office (RIO)

ND Teachers' Fund for Retirement (TFFR)

ND RTA 2013 Convention Theme

- The New 3R's of Retirement:
  - Reconnect – Revitalize – Rediscover
- Maybe there is a 4th R:
  - Rejoice.................

    that you have a TFFR defined benefit plan which will provide you benefits for life.

TFFR Celebrates 100 Years

- 2013 marks the 100-year anniversary of the ND Teachers' Fund for Retirement (TFFR).
- In 1913, the ND Legislature approved a bill creating the Teachers' Insurance and Retirement Fund (TIRF)
- During its 100-year history, the Fund has seen many changes and weathered many storms.
- TFFR has a long tradition of dedicated service and helping ND teachers and administrators prepare for the future.
- The TFFR Board and staff are committed to preserving this legacy of trust and lifetime retirement security for current and future generations of ND educators.

Watch for retiree newsletter highlighting TFFR's history!

NDTFFR
CELEBRATES
100
YEARS
1913-2013

TFFR Board of Trustees

TFFR benefits program is managed by a 7-member board of trustees who have a fiduciary responsibility to the fund's beneficiaries. The Board consists of 5 active and retired members appointed by the Governor and 2 state officials.

- Active School Teachers
  - Mike Gessner, Minot, President
  - Kim Franz, Mandan
- Active School Administrator
  - Rob Lech, Jamestown (new)
- Retired Members
  - Clarence Corneil, Dickinson
  - Mel Olson, Fargo (new)
- State Officials – Ex officio members
  - Kelly Schmidt, State Treasurer
  - Kirsten Baesler, State Superintendent

State Investment Board (SIB)

TFFR investment program is implemented by State Investment Board.

State Officials

- Lt. Governor
  Drew Wrigley, Chairman
- State Treasurer
  Kelly Schmidt
- State Insurance Comm.
  Adam Hamm
- State Land Comm.
  Lance Gaebe
- Workforce Safety & Insurance
  Cindy Ternes

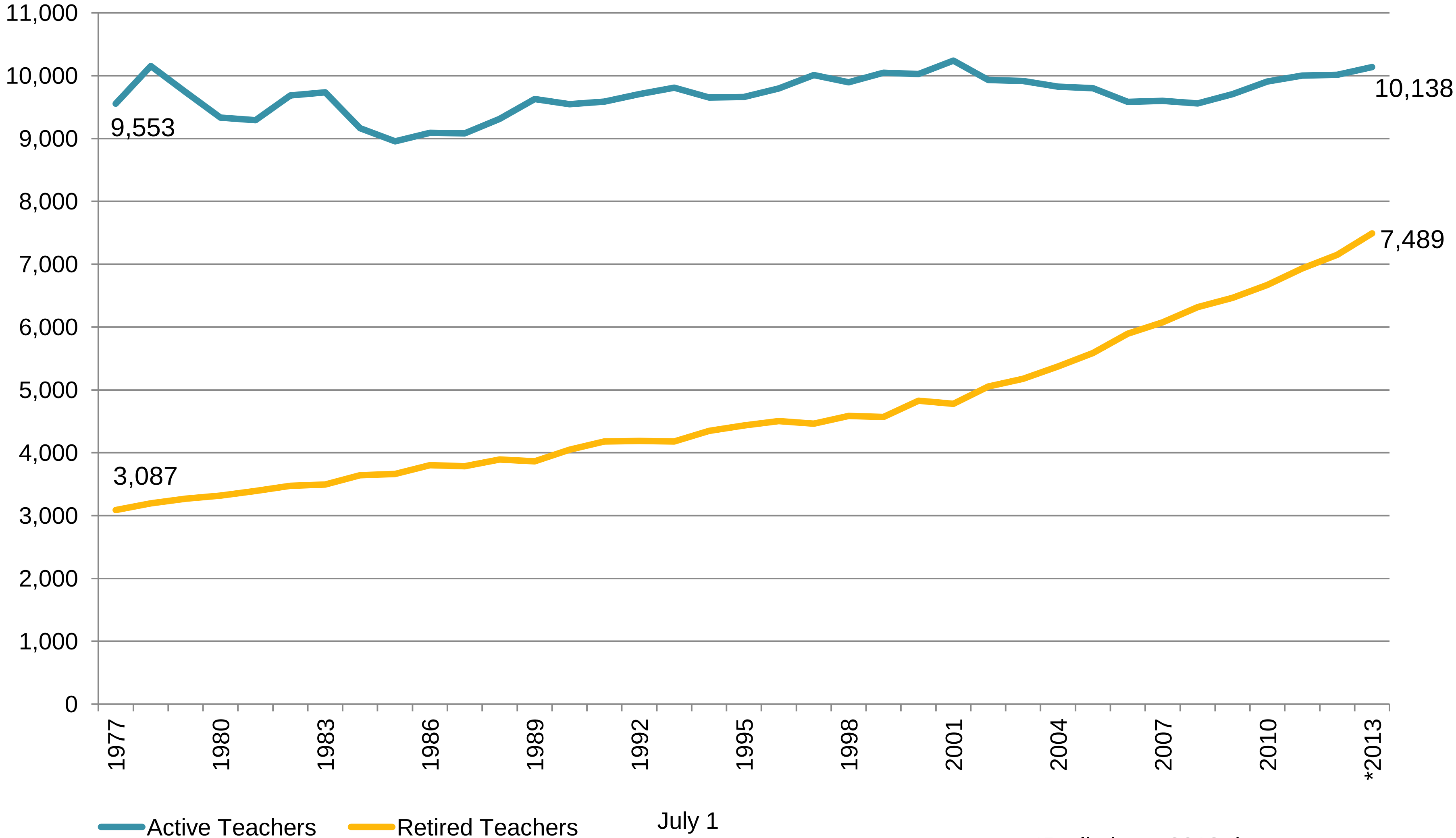
Pension Representatives

- Mike Gessner (TFFR)
- Rob Lech (TFFR)
- Clarence Corneil (TFFR)

- Tom Trenbeath (PERS)
- Mike Sandal (PERS)
- Howard Sage (PERS)

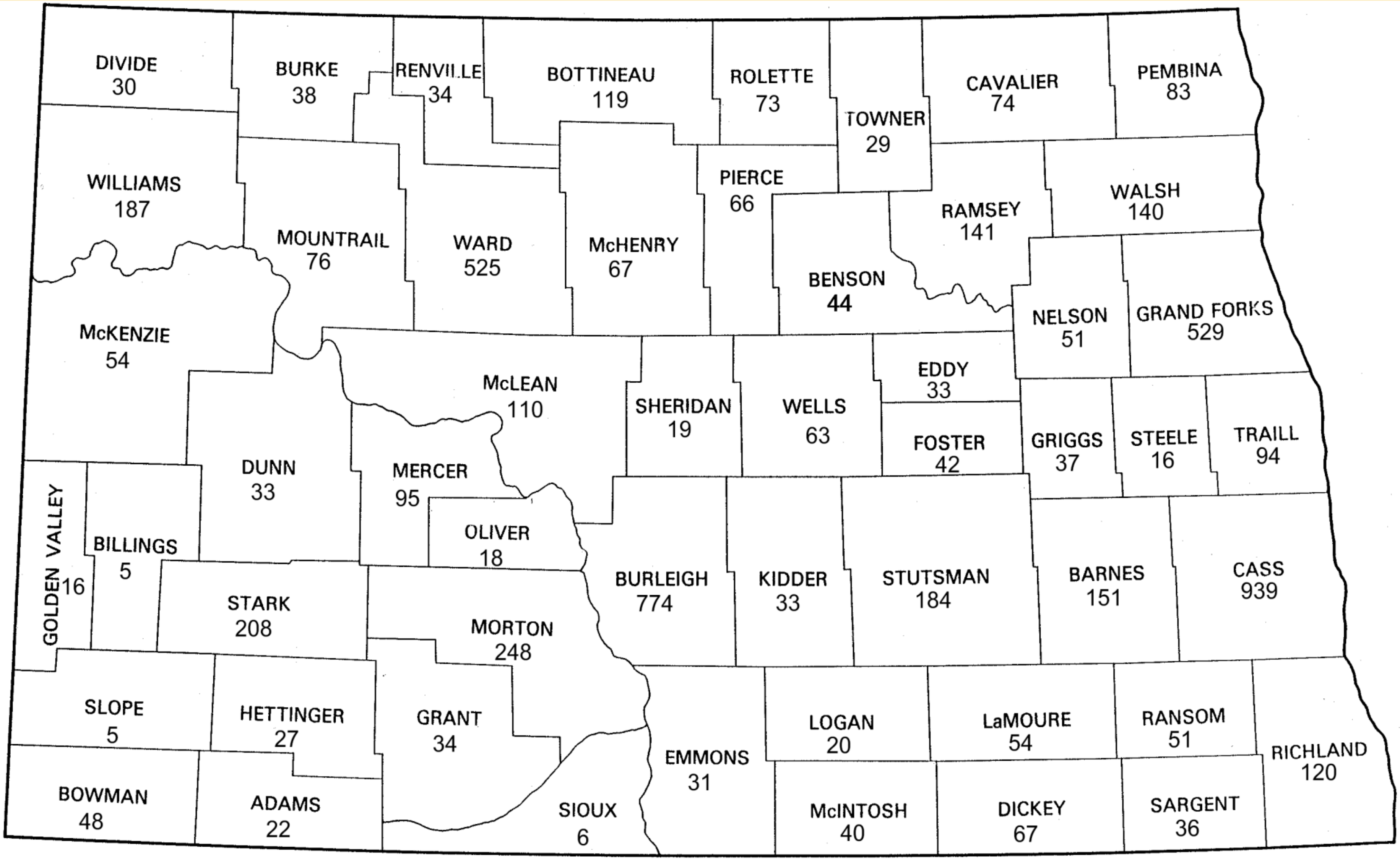
TFFR Background

Active and Retired TFFR Members 1977 – Present



*Preliminary 2013 data

TFFR Retired Members



In-state	6,039
Out-of-state	1,450
Total	7,489

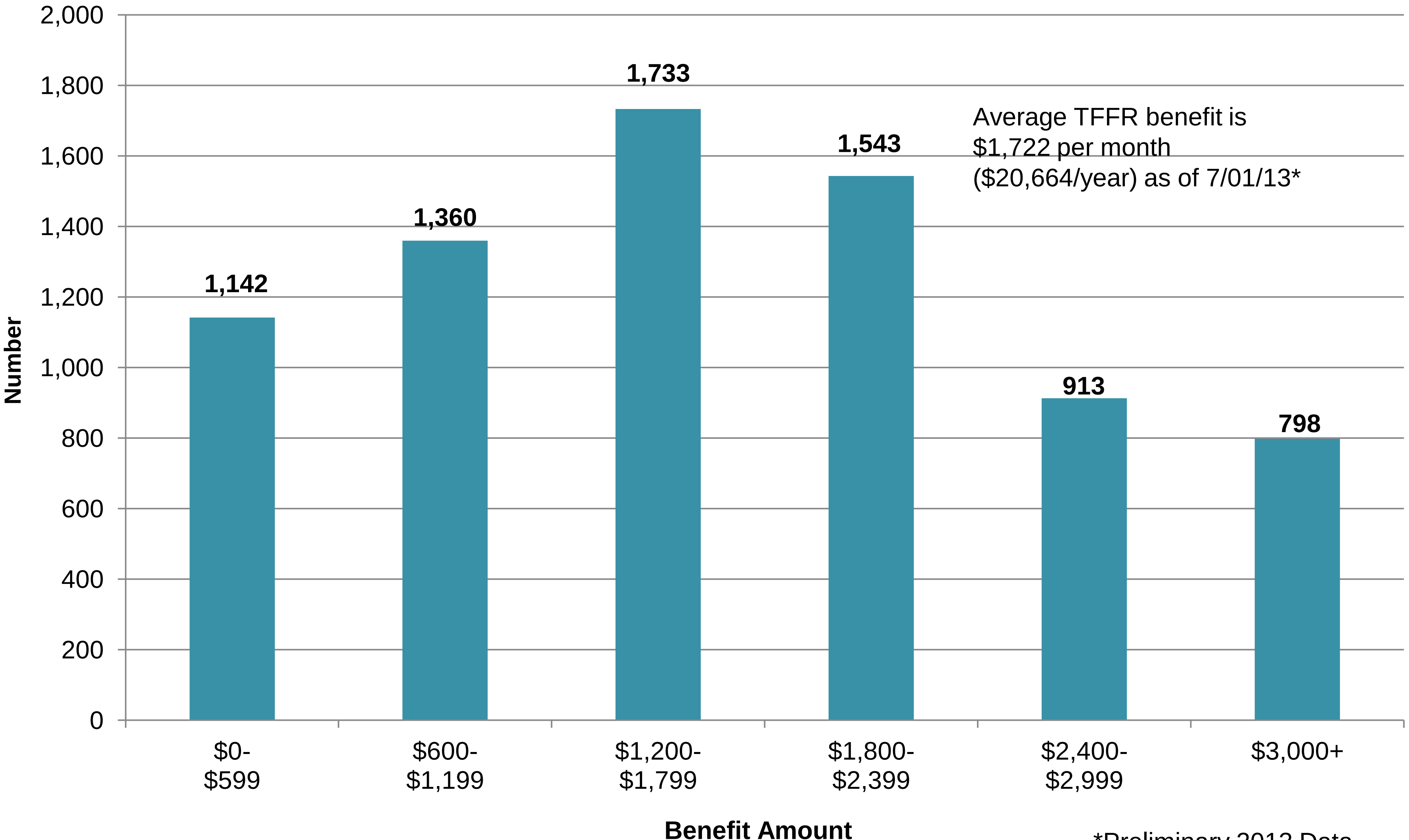
*Preliminary 2013 data

Average Monthly TFFR Benefits by County

(*preliminary 2013 data)

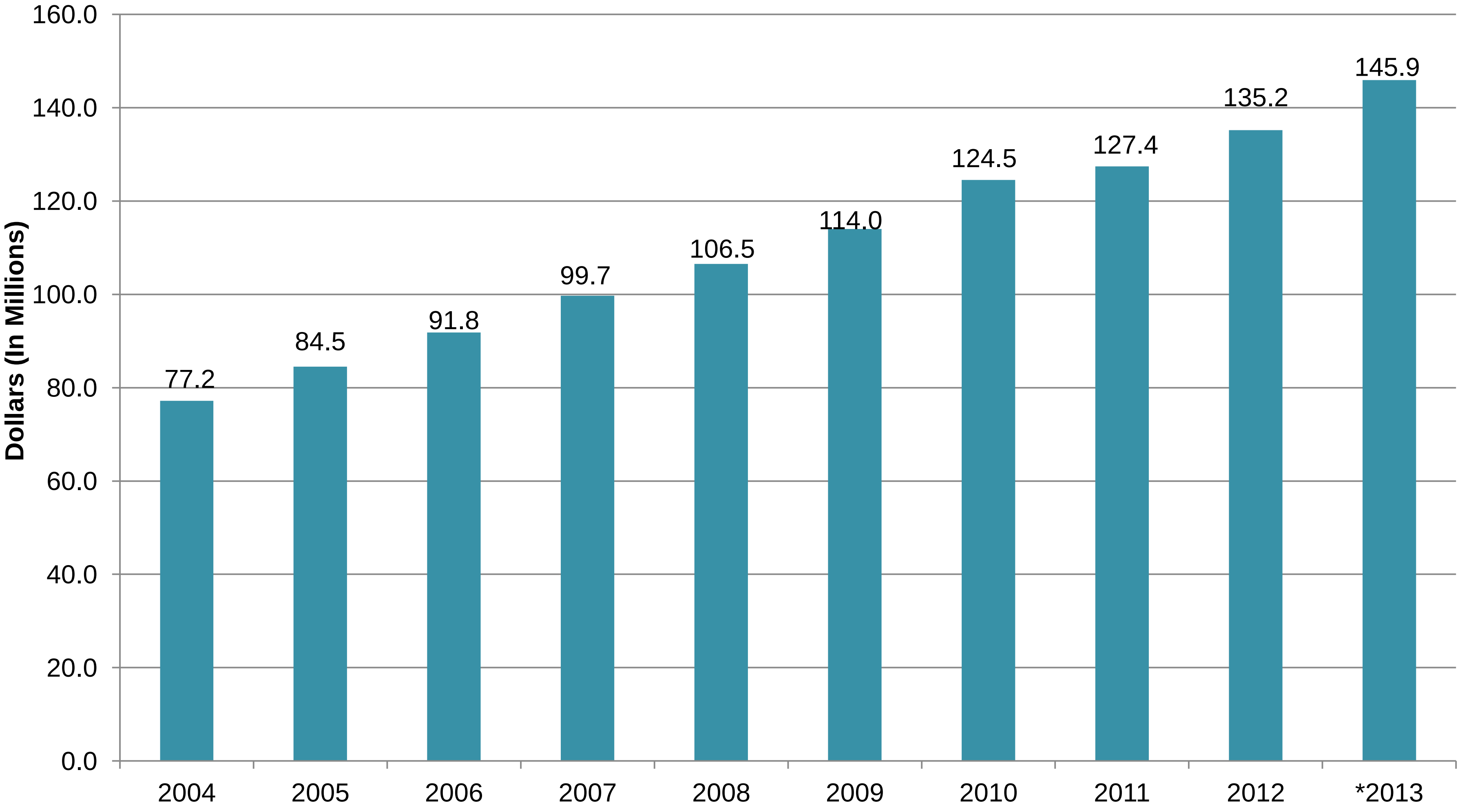
County	Number	Average	Total Benefits	County	Number	Average	Total Benefits
Adams	22	1,610	35,420	Mercer	95	1,814	172,303
Barnes	151	1,854	279,977	Morton	248	1,748	433,499
Benson	44	1,856	81,663	Mountrail	76	1,469	111,667
Billings	5	1,386	6,928	Nelson	51	1,452	74,032
Bottineau	119	1,583	188,341	Oliver	18	1,654	29,764
Bowman	48	1,655	79,429	Pembina	83	1,828	151,751
Burke	38	1,460	55,463	Pierce	66	1,615	106,599
Burleigh	774	1,905	1,474,176	Ramsey	141	1,598	225,327
Cass	939	1,978	1,856,967	Ransom	51	1,520	77,516
Cavalier	74	1,457	107,818	Renville	34	1,749	59,470
Dickey	67	1,390	93,140	Richland	120	1,889	226,644
Divide	30	2,033	60,999	Rolette	73	1,638	119,566
Dunn	33	1,885	62,194	Sargent	36	1,385	49,867
Eddy	33	1,838	60,646	Sheridan	19	1,495	28,403
Emmons	31	1,560	48,373	Sioux	6	854	5,121
Foster	42	1,881	79,014	Slope	5	924	4,622
Golden Valley	16	1,347	21,552	Stark	208	1,788	371,967
Grand Forks	529	1,973	1,043,944	Steele	16	1,499	23,990
Grant	34	1,326	45,075	Stutsman	184	1,783	328,094
Griggs	37	1,616	59,802	Towner	29	1,504	43,615
Hettinger	27	1,659	44,804	Traill	94	1,651	155,196
Kidder	33	1,537	50,735	Walsh	140	1,613	225,885
LaMoure	54	1,659	89,563	Ward	525	1,806	947,935
Logan	20	1,488	29,758	Wells	63	1,657	104,402
McHenry	67	1,692	113,371	Williams	187	1,863	348,297
McIntosh	40	1,560	62,404	**Totals**	**6,039**	**1,796**	**10,843,056**
McKenzie	54	2,010	108,552	Out of State	1,450	1,416	2,054,302
McLean	110	1,613	177,416	**Grand Totals**	**7,489**	**1,722**	**12,897,358**

Monthly TFFR Benefits by Benefit Amount



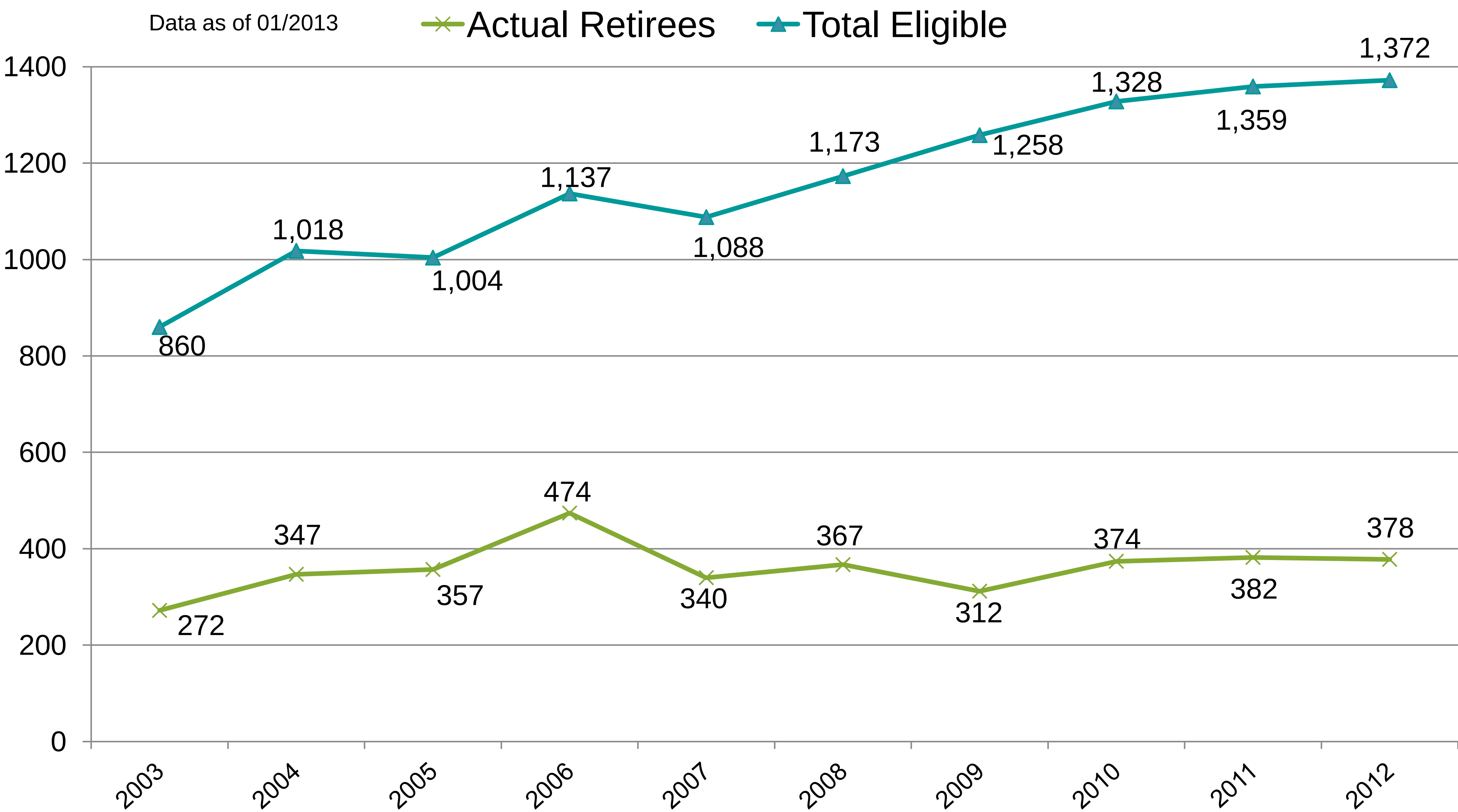
*Preliminary 2013 Data

Annual TFFR Pension Benefits Paid

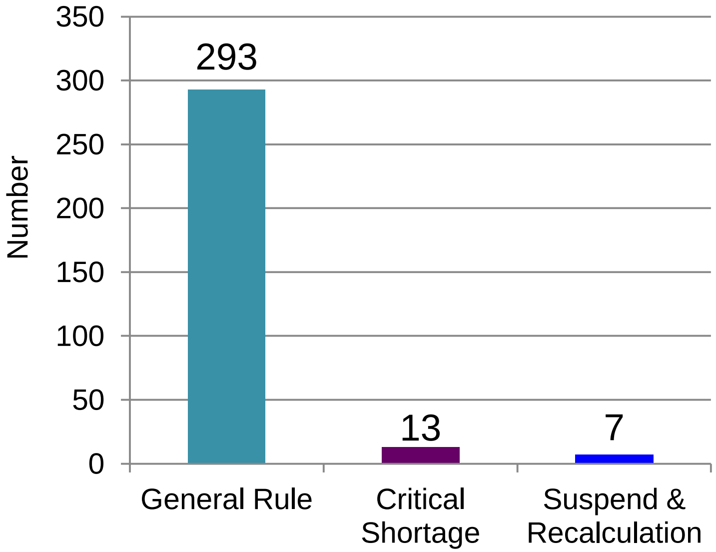


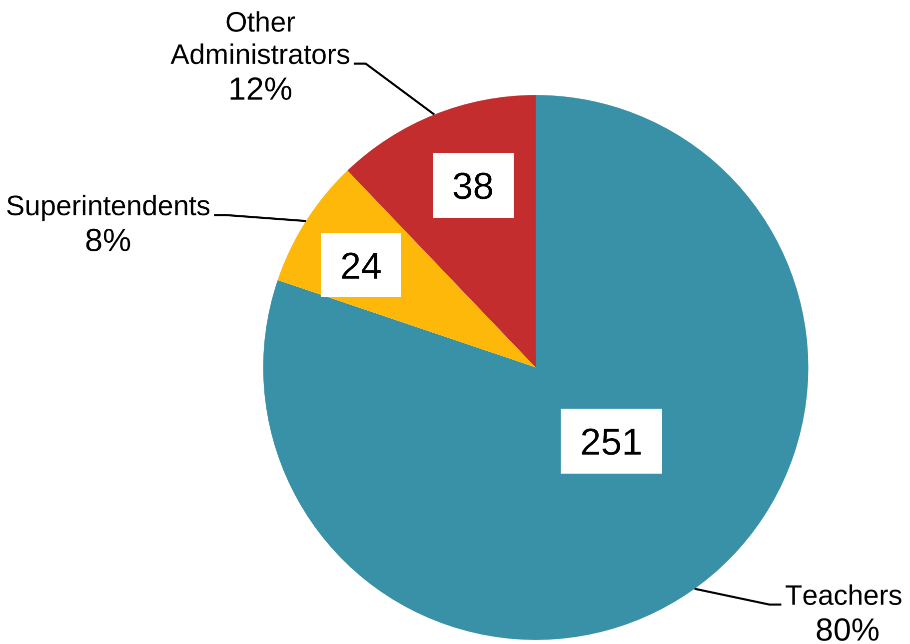
*Preliminary 2013 data

Actual New Retirees and Total Eligible



2012-13 Retiree Re-employment





Total Retirees: 313
Employers: 135

Average Age: 62

Average Salary: $23,600

*Preliminary 2013 data

Contribution Rates

RATES %	Employer	Member	Total	Increase
7/1/10	8.75%	7.75%	16.5%	---
7/1/12	10.75%	9.75%	20.5%	+4%
7/1/14	12.75%	11.75%	24.5%	+4%

Note: Recent legislation increased rates effective 7/1/12 and 7/1/14 to improve TFFR funding. Increased rates will be in effect until TFFR reaches 100% funded ratio; then rates will be reduced to 7.75% each.

Summary of TFFR Pension Benefits for Membership Tiers

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule of 85	Rule of 90	Rule of 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
x FAS	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years
Disability Retirement	Yes	Yes	Yes
Retirement formula multiplier (2%) X FAS X total years			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

TFFR Investments

Investment and Funding Goals

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of retirement benefits.

TFFR Investments

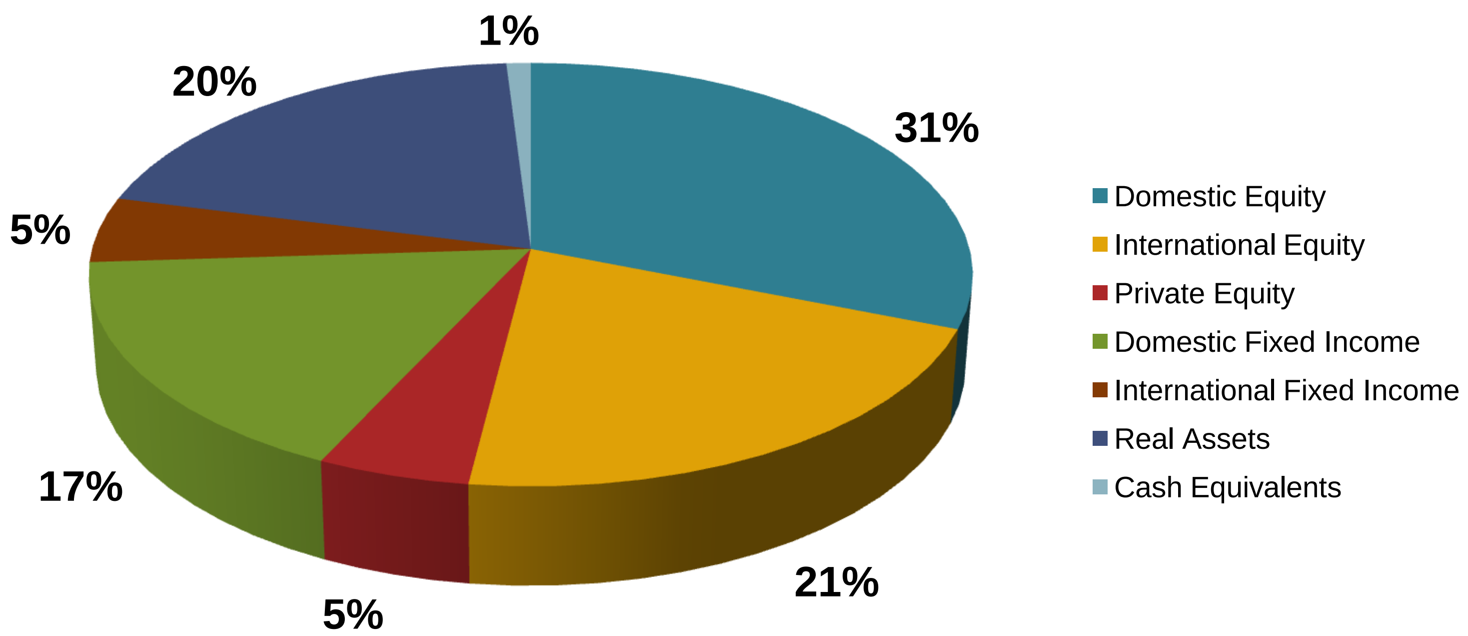
- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Chief Investment Officer.

- Asset Liability study is conducted every 5 years to consider appropriate asset mix for funding TFFR pension liabilities. Most recent Study was completed in Fall 2011.

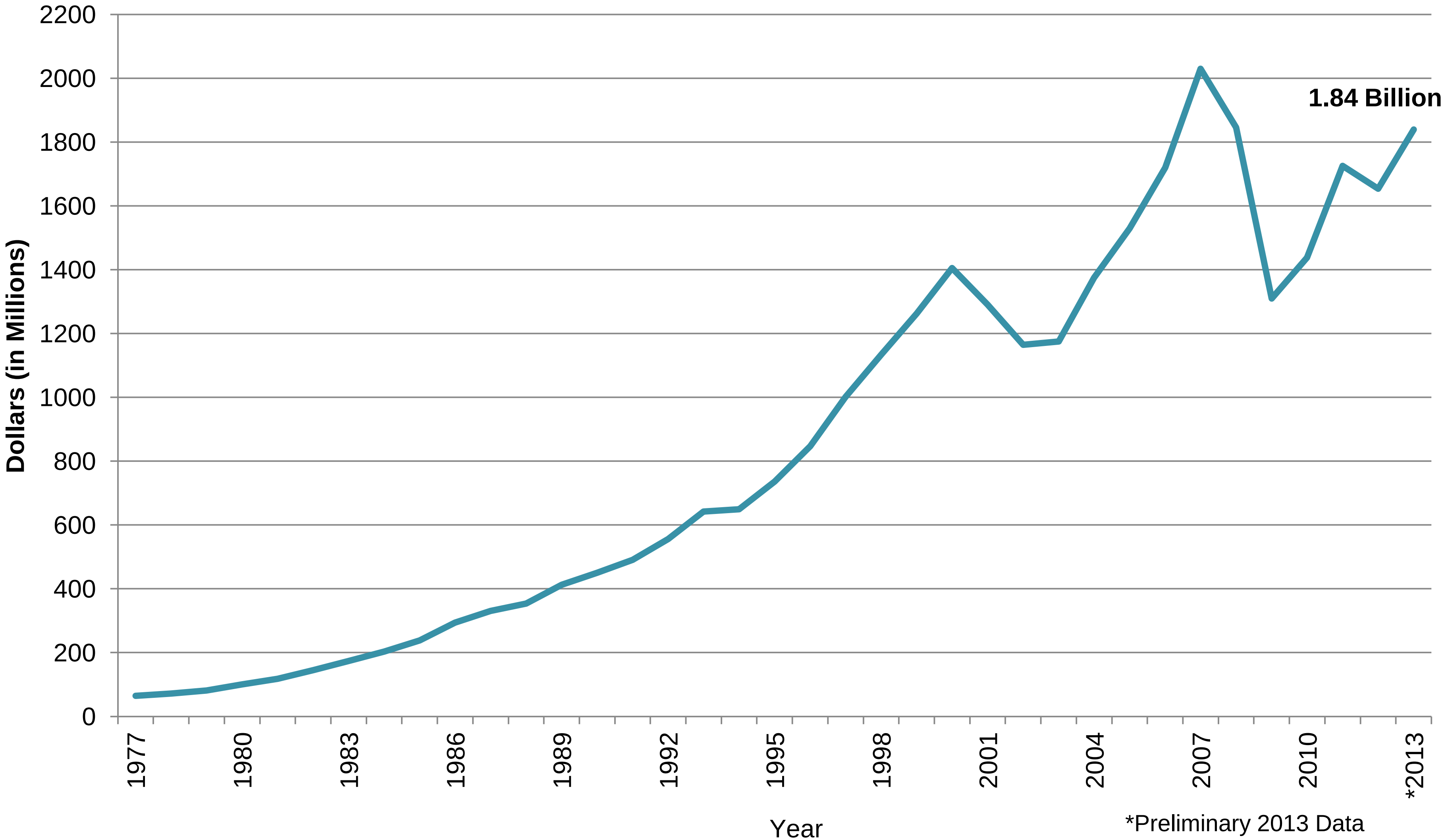
- TFFR developed a new framework which divides the portfolio into three basic categories, defined by their reactions to specific capital market factors:
  - Equity (growth and capital appreciation)
  - Fixed income (income, low risk, flight to quality, deflation)
  - Real assets (inflation, income, diversification)

- TFFR's long term investment return assumption is 8%.

TFFR Asset Allocation

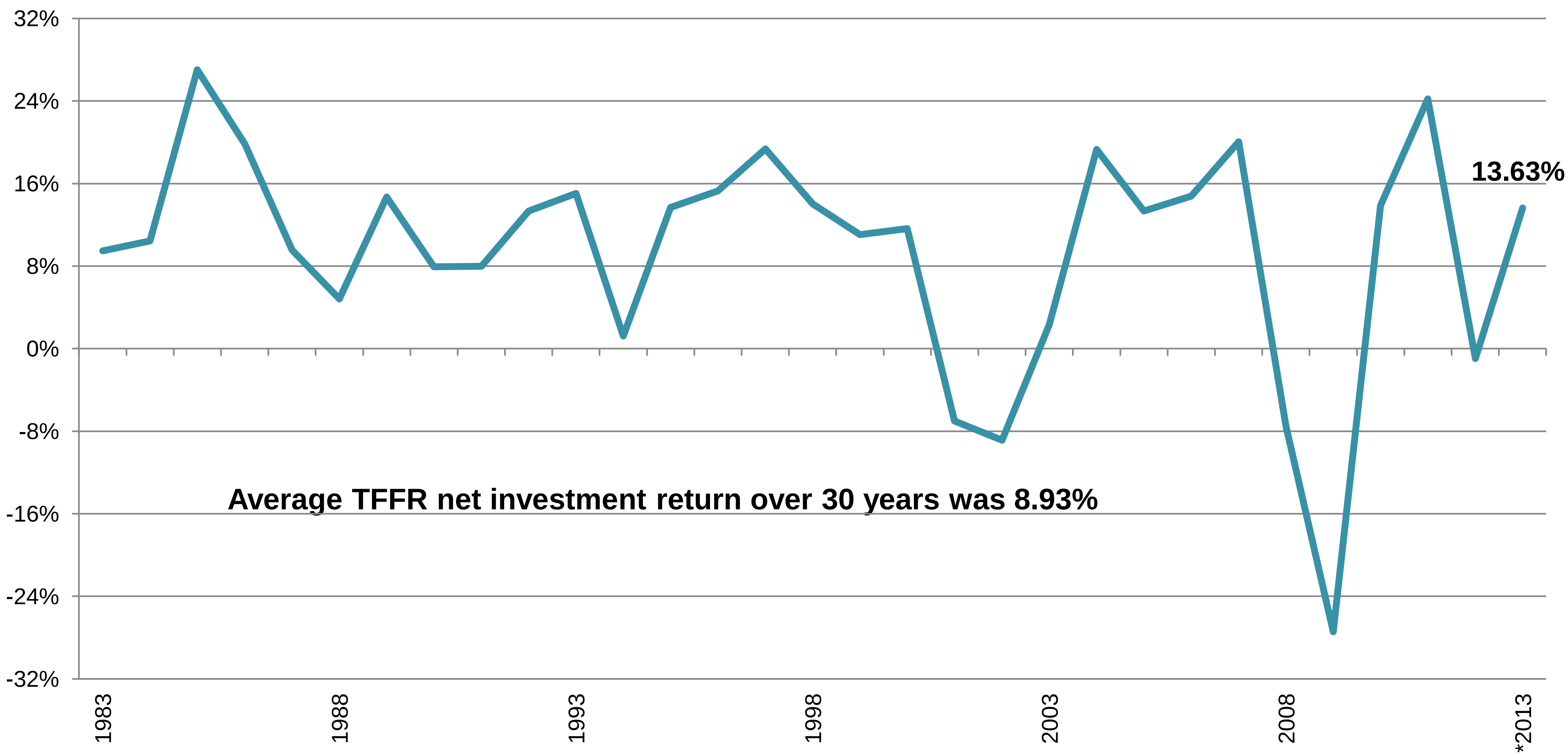


Market Value of TFFR Assets 1977 - 2013



*Preliminary 2013 Data

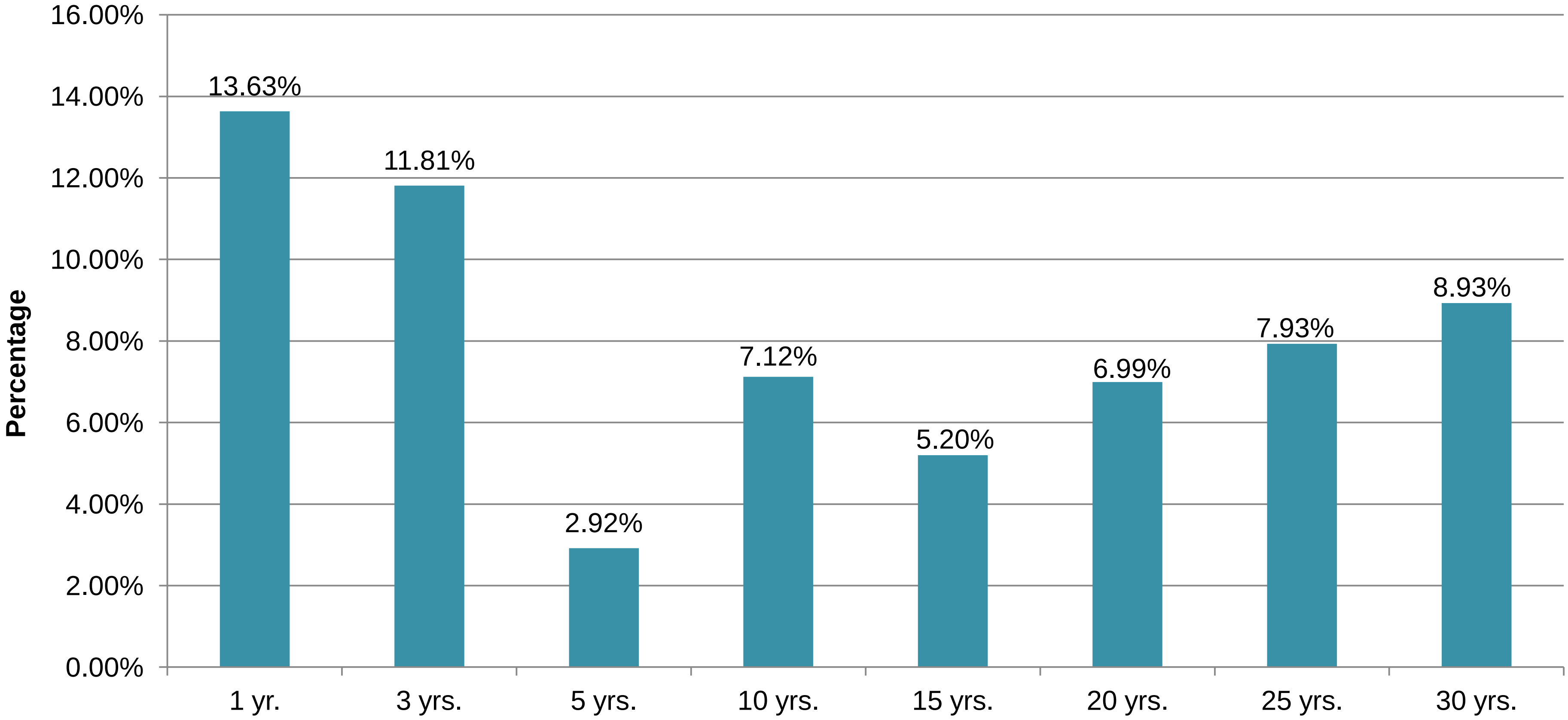
TFFR Net Investment Performance – Annual 1983-2013



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

*Preliminary 2013 Data

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2013



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

*Preliminary 2013 Data

TFFR Funding

Retirement Funding Equation

$$C + I = B + E$$

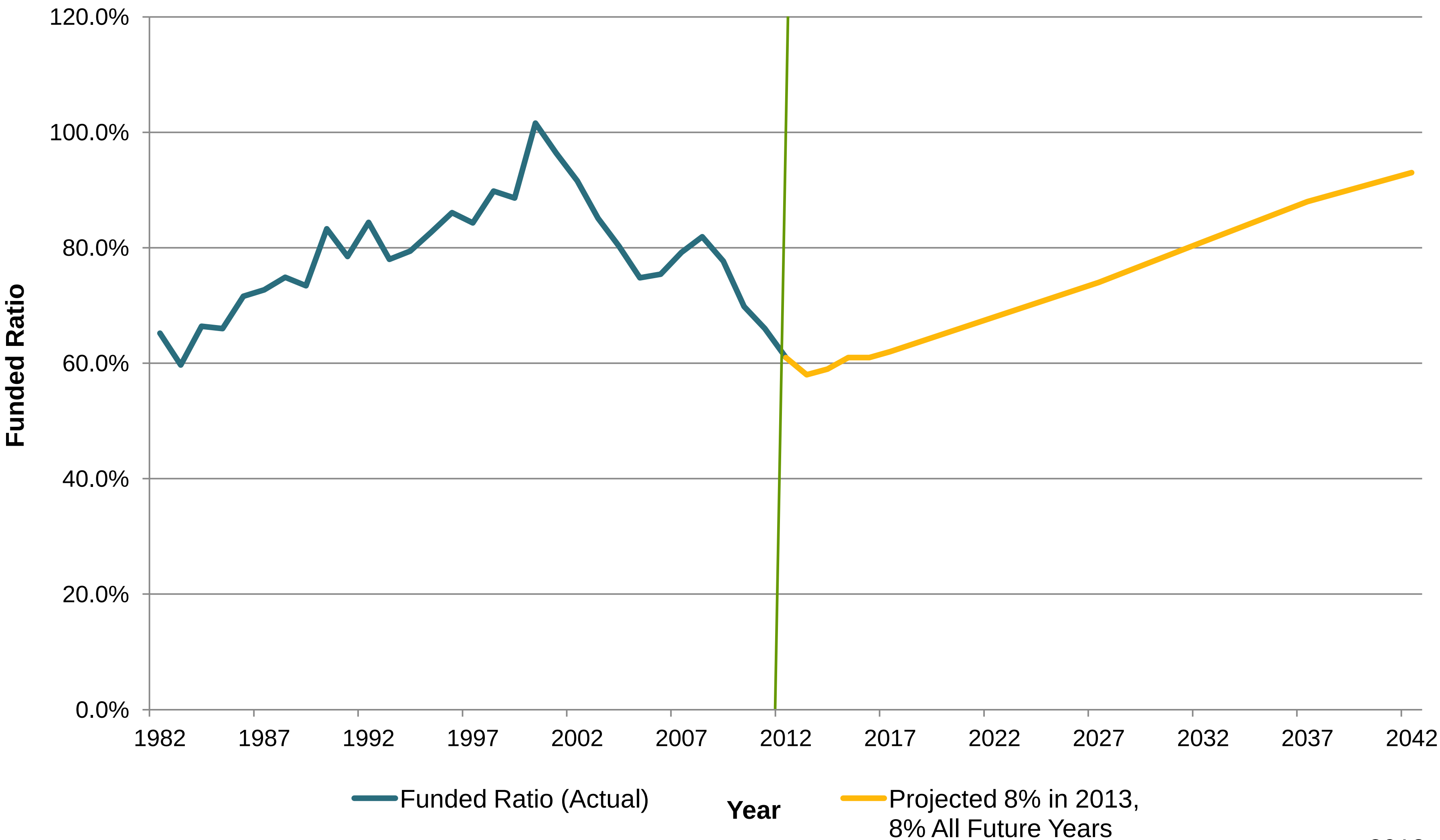
- Contributions + Investments = Benefits + Expenses
- Not just for today, but for the long term.

2012 Valuation Report

Actuarial Accrued Liability	(AAL)	$2.87 billion
Actuarial Value of Assets	(AVA)	- 1.75 billion
Unfunded AAL	(UAAL)	$1.12 billion
AVA Funded Ratio		**61%**
Market Value of Assets (MVA)		$1.65 billion
MVA Funded Ratio		58%

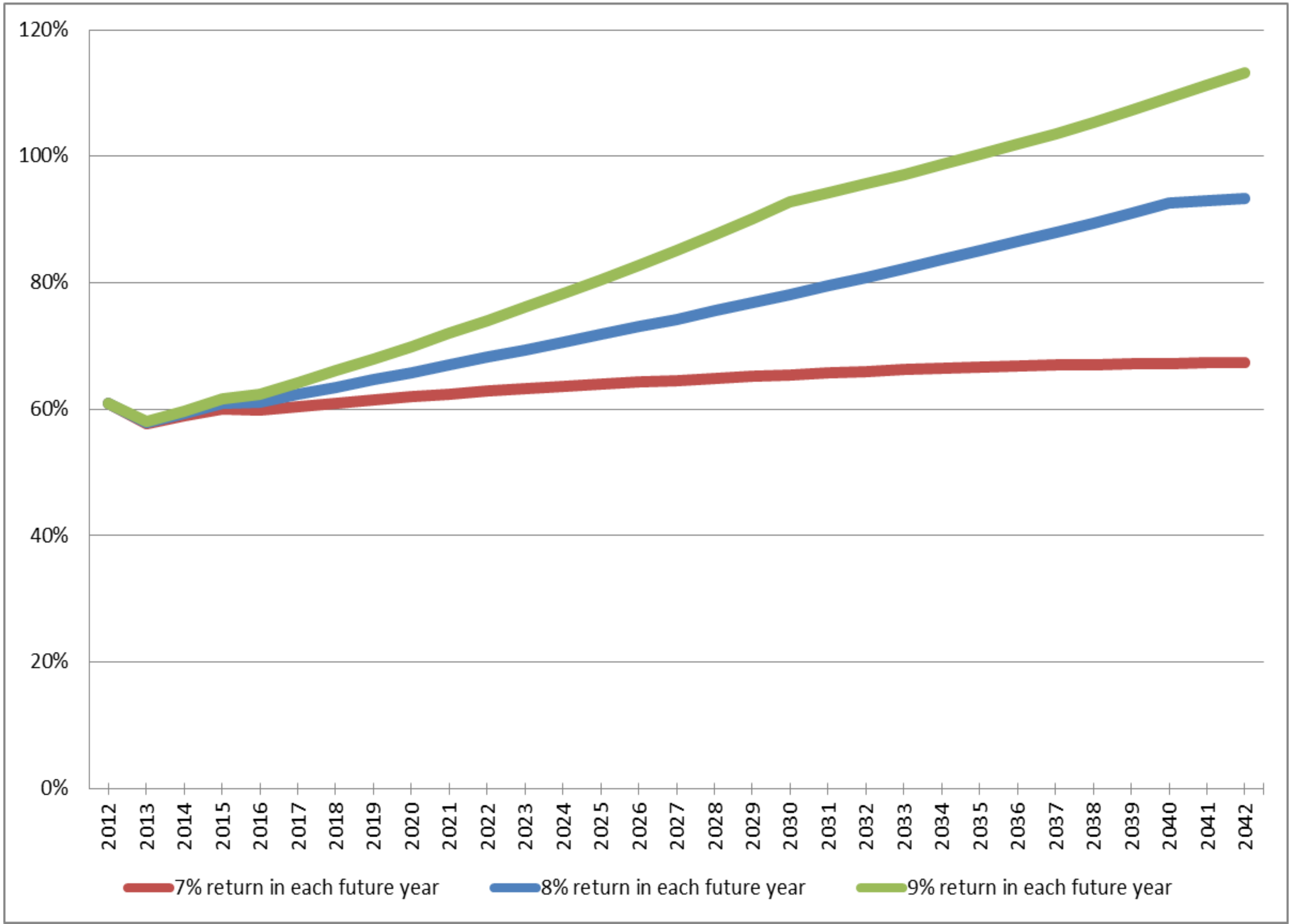
- **Note: 2013 valuation in process – to be completed late October 2013.**

TFFR Funded Ratio (AVA) Actual and Projected (based on 2012 valuation)



2012

Projected TFFR Funded Ratios (AVA Basis) Actual Returns +1% or -1% of Assumed



2013 Approved Legislation

- **SB 2061,** submitted by TFFR Board, includes technical corrections and administrative updates. The changes were not expected to have an actuarial effect on the plan, and were not submitted for funding improvement purposes.

- **HB 2030,** submitted by Rep. Louser, maintains the 11.75% member contribution rate and 12.75% employer rates approved by the 2011 Legislature until the Fund reaches 100% funded ratio. Once full funding is achieved, contribution rates will be reduced to 7.75% for members and 7.75% for employers.

2013-14 Interim Legislative Committees

- Legislative Government Finance Committee
  - Study feasibility and desirability of existing and possible state retirement plans, including an analysis of transitioning state plan (PERS) from defined benefit to defined contribution plan.
  - TFFR not directly affected by above study at this time.

- Legislative Employee Benefits Programs Committee
  - Review all legislative proposals affecting TFFR and PERS plans.
  - Receive annual actuarial valuation reports of state pension plans.

Frequently Asked Questions

1) Is TFFR's funding situation improving?

- Funding recovery is expected to occur gradually over time. It will be a long, slow process.
  - Funding levels are expected to dip for the next few years as 2008-09 investment losses are phased in, and then should begin to improve as increased member and employer contributions begin to flow into the system (2012 and 2014).
  - Actuarial projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions.
  - If investment returns are greater than 8% over the long term and if TFFR reaches 100% funded level, member and employer contribution rates will be reduced sooner than expected.
  - If investment returns are less than 8% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.
- While 2013 fiscal year was a good year in the investment markets, the ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.

2) When will I receive an increase in my monthly TFFR benefit?

- The TFFR trust fund cannot afford to increase retiree benefit payments as it would negatively impact the fund.
- TFFR does not anticipate being in a financial position to fund retiree benefit improvements for many years in the future due to a funding shortfall.
- The Board’s highest priority is to ensure that adequate funds will be available to pay all promised benefits to current and future retirees.
- **Because TFFR is a defined benefit pension plan, current retiree benefits will be paid for life.**

3) Since ND has a budget surplus, why can't the State fund a retiree increase?

- While the State of ND has a budget surplus, it also has a long list of budget requests. These spending requests are closely scrutinized and prioritized by the Legislature, and must be sustained over the long term.
- How state funds are spent is ultimately a decision of the Legislature.
- Historically, the Legislature has only approved TFFR retiree increases when the funding source was the TFFR trust fund.

4) Why is my check amount different than it was last month?

- Tax table changes (January), or if you changed tax withholding amount.
- NDRTA or NDEA-R annual dues (July)
- Benefit correction for new retirees
- Other

5) What is the difference between a defined benefit and defined contribution plan?

- **Defined benefit plan (DB**) – the benefit is defined, but the contribution is not (i.e. TFFR).
  - Employer bears most plan risks.
  - Focus is on benefit security.
- **Defined contribution plan (DC**) – the contribution is defined, but the benefit is not (i.e. 401k, 403b, 457 plans)
  - Employee bears plan risks.
  - Focus is on wealth accumulation.
- **Hybrid plan** – a combination of a DB plan and a DC plan
  - Combined, crossover, cash balance are examples.
- **There is no magic equivalent plan.**
  - Difference rests in risk and performance.

TFFR Information

TFFR website: www.nd.gov/rio

- Legislation
  - Links to ND Legislative website, bill drafts, actuarial analysis
- Presentations
  - Webcast presentations on funding and legislative proposals
  - Presentations made to member and employer groups
- Publications and Reports
  - Newsletters, handbook, brochures
  - Actuarial and audit reports
- Contact Information
  - Phone: 701-328-9885 or 1-800-952-2970
  - Email: fkopp@nd.gov

Fay Kopp

> “TFFR will continue to ask North Dakota United for their support, assistance and involvement.”

Q & A WITH FAY KOPP,
Administrator of the Teachers' Fund for Retirement

By Linda Harsche, NDU Communications

Q: What is the Teachers' Fund for Retirement (TFFR)?

A: TFFR is a defined benefit pension plan for North Dakota public school educators who are licensed and contracted to teach. TFFR provides lifetime financial security to nearly 7,500 currently retired educators, and 10,000 more future retirees.

Q: How does TFFR work?

A: Teachers and their employers pay a certain percentage of salary into TFFR. Those dollars are invested over the course of their career, and at retirement the teacher is eligible to receive a lifetime benefit based on their years of service credit, final average salary, and a benefit multiplier, which is currently two percent. Benefits are funded through member and employer contributions and investment earnings.

Q: Will the merger to North Dakota United have any impact on the TFFR?

A: The merger between NDEA and NDPEA should have no impact on TFFR. As mentioned earlier, TFFR is the pension plan for North Dakota public school teachers, and is a state entity. As we have done for 100 years, the TFFR benefits program will continue to be administered by the TFFR board and staff. TFFR will still provide retirement benefits administration, member and employer services, and educational outreach programs.

TFFR will continue to ask North Dakota United for their support and input where appropriate, however, it is important to note that TFFR and ND United are two distinctly separate entities with different purposes.

Q: What kind of tips do you have for retiring teachers?

A: TFFR is committed to helping teachers prepare for their retirement. Throughout their careers, it is important for teachers to pay attention to their retirement plan. Take a look at the Member Handbook on the TFFR website at www.nd.gov/rio/tffr. Read the retirement and investment newsletters that are sent out each quarter. Most importantly, closely review the annual statements mailed to you in August to ensure salary, service credit, and personal information (including beneficiary) is accurate and up to date. If teachers keep track of benefit estimates and retirement information throughout their career, they will have a better understanding of when they can retire and what they can expect to receive.

During their last 5-10 years before retirement, teachers should take advantage of the TFFR individual benefits counseling program, where we go around the state visiting schools and talking with educators one-on-one about their retirement plan and personal retirement concerns.

In addition, TFFR hosts full-day pre-retirement seminars where we bring in professionals to talk about the TFFR plan, and also Social Security benefits, health insurance options, financial and estate planning, and adjusting to retirement. Teachers considering retirement should sign up for a preretirement seminar to help them explore these important retirement issues before they make the decision to retire.

Q: What is the actual process when a teacher is ready to retire?

A: The retirement process is simple and efficient. We have helpful and experienced TFFR benefits counselors who will assist teachers as they go through the process. At least 3 months prior to retirement, teachers should contact the TFFR office to calculate the benefit amount, review the retirement process, and request a notice of termination form. This form, along with copies of proof of age, proof of beneficiary's age, teaching contract, salary verification form, and letter of resignation and acceptance should be submitted to the TFFR office. TFFR will then conduct a salary and service credit review before sending retirement forms to the teacher to sign and return to our office. Retirement benefits are paid retroactive to the date of the teacher's initial retirement eligibility.

Q: If teachers leave the state, can they take their retirement with them?

A: A member who terminates employment, and does not plan to return to covered employment in North Dakota is eligible for a refund of the member contributions they have paid in to TFFR plus six percent interest. The refundable balance does not include the employer contributions. A refund closes a member's account and all service credit earned to that point is forfeited. The refund will be paid after 120 days have passed. If the teacher wants to request a waiver of the 120-day requirement, they can provide TFFR with proof that they are not returning to covered employment in the state.

Q: What is the difference between a defined benefit plan and a defined contribution plan?

A: In a defined benefit plan, such as TFFR, recipients are paid a certain amount for their lifetime, based on a defined formula that includes salary, service credit, and benefit multiplier. Employee and employer contributions are pooled and invested by the plan. The focus in a defined benefit plan is on benefit security.

In a defined contribution plan, like a 401(k) plan, the contributions paid into the plan are defined. The employee and employer contributions go into a fund designated specifically for the employee and benefits are paid out based solely upon what recipients accumulate in their account. In a defined contribution plan, the focus is on wealth accumulation.

Q: Do you want to explain the changes in the TFFR since the 2007 Session?

A: Both benefit and contribution changes have been made in the past few legislative sessions to address TFFR's funding shortfall brought on by the financial market downturn. Major plan changes include:

Employer contributions increased from 7.75% to 8.25% in 2008, 8.75% in 2010, 10.75% in 2012, and will increase to 12.75% on 7/1/14. Member contributions increased from 7.75% to 9.75% in 2012, and will increase to 11.75% on 7/1/14.

Retirement eligibility is the Rule of 85 for Tier 1 employees who are within 10 years of retirement eligibility as of 6/30/13 (grandfathered Tier 1 employees). Retirement eligibility is the Rule of 90 with minimum age 60 for all other employees (non grandfathered Tier 1 and all Tier 2 employees). Members can still retire at normal retirement age 65 or take a reduced early retirement benefit at age 55.

Tier 1 employees have 3 year vesting and 3 year final average salary calculation. Changes made to Tier 2 employees (hired after 6/30/08) include 5 year vesting and 5 year final average salary calculation.

The TFFR Member Handbook describes benefits for all classes of TFFR participants and is available on the TFFR website.

Q: Should teachers rely solely on TFFR, or should they have other investments?

A: The TFFR pension plan is not designed to replace all of a teacher's pre-retirement income. For the average teacher who retires with 30 years of service, TFFR will replace about 60 percent of pre-retirement income. So, a teacher is going to need additional personal savings plus Social Security in order to replace all of their pre-retirement earnings. We recommend that all employees invest in other retirement savings vehicles to offset the rising cost of health insurance and long term effects of inflation.

Q: How is the TFFR money invested and by whom?

A: The TFFR Board is responsible for developing the asset allocation and setting the investment policy for the Fund. However, the State Investment Board (SIB) implements TFFR's investment program. The SIB pools TFFR assets with other pension trust assets (like PERS, for example), and selects and monitors investment managers, consultants, and other service providers to carry out the program. TFFR's long term investment strategy is sound, our portfolio is professionally managed, and assets are well diversified. *(Watch for Q&A on PERS next issue.)*

NASRA Issue Brief:
State Hybrid Retirement Plans

September 2013

Although hybrid plans have been in place in public sector retirement systems for decades, this plan design has received increased attention in recent years. This new focus occurs as states find that closing their traditional pension plan to future (and, in some cases, existing) employees could increase—rather than reduce—costs,[1] and that providing only a 401(k)-type plan does not meet important retirement security, human resource, or fiscal objectives. While most states have chosen to retain their defined benefit (DB) plan by modifying required employer and employee contributions, restructuring benefits, or both,[2] some also have looked to so-called "hybrid" plans that combine elements of traditional pensions and individual account plans.

Although a hybrid retirement plan may take one of many forms, this brief examines two broad types in use in the public sector. The first is a cash balance plan, which marries elements of traditional pensions with individual accounts into a single plan (see Table 1). The second type combines a smaller traditional DB plan with an individual defined contribution (DC) retirement savings account, referred to in this brief as a "DB+DC plan" (see Table 2). Despite variability among these plans, most contain the core features known to promote retirement security: mandatory participation, shared financing between employers and employees, pooled assets invested by professionals, a benefit that cannot be outlived, and survivor and disability protections.

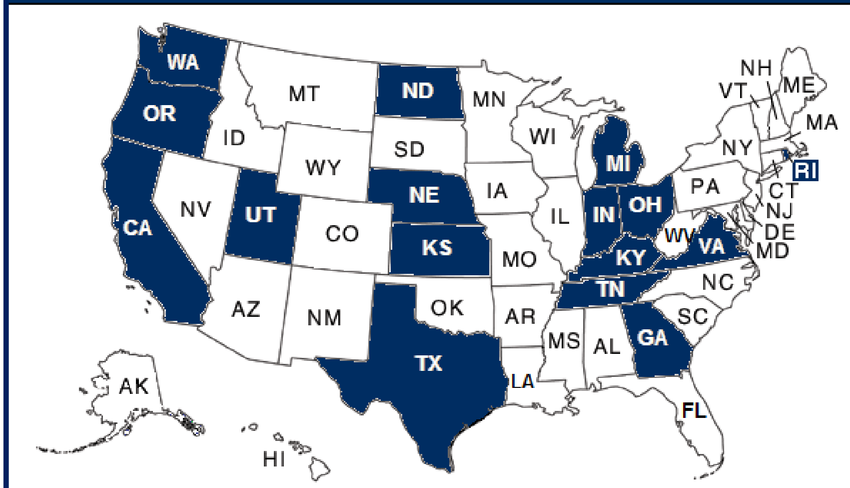
Mandatory Participation

In the private sector, just one-half of the workforce participates in an employer-sponsored retirement plan,[3] widely recognized as a major factor contributing to the nation's retirement insecurity. By contrast, for nearly all employees of state and local government, retirement plan participation is mandatory.

Employee participation remains mandatory in state hybrid plans. One partial exception is the Georgia Employees' Retirement System (ERS), which administers a hybrid plan for many of its members. Participation in the DB component of the plan is mandatory, and participants may elect to not participate in the DC component (although the vast majority have not exercised this election).

Most public employees also have access to a supplemental, voluntary individual retirement savings plan, such as a 401(k), 403(b) or 457 plan. In addition to mandatory participation in the primary plan, some public employers automatically enroll new hires in supplemental retirement savings plans, and participants may opt-out at any time.

Figure 1: States that administer CB or DB+DC plans as a mandatory or optional primary retirement benefit for groups of general or K-12 educational employees



Shared Financing among Employers and Employees

Nearly all traditional pensions in the public sector require employees to contribute toward the cost of their retirement benefit,[4] and in the wake of the 2008-09 market decline and the Great Recession, many states have increased employees' required contributions.[5]

Hybrid plans also typically employ a shared financing approach to retirement benefits. State cash balance plans, which feature accruals on employee accounts (cash balances), are funded with mandatory contributions from both employees and employers.

DB+DC plans vary regarding the level to which employees and employers are required to contribute toward the DB and DC components. As examples, for the hybrid plans in Indiana, Ohio, Oregon, and Washington, the employer finances the DB component, and the DC component is funded by mandatory employee contributions (ranging from 3 percent to 15 percent of salary). The Michigan Public Schools hybrid plan requires employees to contribute to the DB component on a graduated scale based on pay, and employers finance the remainder; employees are also required to make a mandatory 2-percent-of-salary contribution to the DC component, which employers match at a 50 percent rate.

> **North Dakota PEP**
>
> North Dakota offers most of its workers an optional hybrid retirement plan designed to provide greater portability.
>
> Known as "PEP" —Portability Enhancement Program— North Dakota PERS participants can vest in the employer's portion of the defined benefit plan by participating in a supplemental deferred compensation account, funding a benefit that is more portable than the traditional defined benefit plan and similar to a defined contribution plan.

The Georgia ERS hybrid requires employees to contribute 1.25 percent of salary to the DB component, with the remainder financed by the employer. Employees are automatically enrolled in the DC component at 1% of salary, but may opt out or contribute more. Employers match the first 1 percent of salary and one-half of the next 4 percent of salary voluntarily contributed by the employee to the DC plan.

The Utah retirement system requires employers to contribute 10 percent of salary (12 percent for public safety) toward the DB plan's cost.[6] If the cost is less than the employer's 10 percent contribution rate, the difference goes into employees' individual 401(k) savings account. If the cost of the DB plan exceeds the employer's 10 percent contribution rate, employees must contribute the difference to the DB plan. In either instance, employees may elect to make additional contributions to the 401(k) plan. (Employers in Utah must also contribute five percent of pay to the Utah Retirement System to amortize the unfunded pension liability.)

Pooled Assets

Retirement assets that are pooled and invested by professionals offer important advantages over individual, self-directed accounts. Combined portfolios have a longer investment horizon, which allows them to be better diversified and to sustain greater market volatility. In addition, the professional asset management and lower administrative and investment costs in pooled arrangements result in higher investment returns.

As with traditional pension plan assets, cash balance plan assets are pooled, invested by professionals, and guarantee annual returns to plan participants. Likewise, DB+DC plans pool assets in the DB component; the manner in which DC plan assets are managed varies. Most plans provide a range of risk-based investment options: some are retail mutual funds and others are maintained by the retirement system and available only to plan participants. Assets in the Oregon DC component, for example, are pooled and invested in a fund similar to the DB plan fund; participants do not have a choice regarding how their DC plan assets are managed. Similarly, Washington State provides an option for employees to invest their DC assets in a fund that emulates the DB plan fund.

Required Lifetime Benefit Payouts

A core objective of retirement plans is to provide lifetime income insurance. A major threat to lifetime income is known as longevity risk, which is the danger of exhausting assets before death. Ensuring lifetime income can be accomplished in part by pooling longevity risk, i.e., distributing that risk among many plan participants. The alternative is an arrangement, embodied in defined contribution plans, in which longevity risk is borne by individuals.

Most public sector plans require some or all of the pension benefit to be paid in the form of an annuity – installments over one's retired lifetime – rather than allowing benefits to be distributed in a lump sum. This not only better ensures participants will not exhaust retirement assets, but it also reduces costs by allowing retirement assets to be invested as part of the trust over a longer period, and by funding for average longevity rather than the maximum longevity.

As examples, the two statewide cash balance plans in Texas require participant accounts to be paid in the form of a lifetime benefit; county and district employees may elect to receive 100% of their benefit as a partial lump sum upon retirement. The Nebraska cash balance plan gives employees the option of receiving a lifetime benefit payout on any portion of their account balance, and to receive any portion of their retirement benefit as a lump sum.

DB+DC plans normally require the DB portion of the plan to be paid in the form of a lifetime annuity. The DC portion, however, usually may be paid out in various forms including a lifetime benefit, a lump sum or partial lump sum of the account balance, or installments over a certain term (e.g., 5, 10, 15 or 20 years).

Social Security, Disability and Survivor Benefits

Approximately 25 percent of state and local government employees do not participate in Social Security.[7] While most public sector retirement plan designs seek to replace a targeted percentage of income, they often also reflect the presence or absence of income from Social Security.

Benefits that provide income insurance in the event of death or disability are an important feature among public sector employers, particularly for jobs that involve hazardous conditions. Most public sector retirement plans—whether traditional or hybrid—include survivor and disability benefits, which is a cost-effective method for sponsoring these benefits.

Conclusion

Nearly every state has made changes in recent years to the retirement plans.[8] While DB plans remain the prevailing model, cash balance and DB+DC plans have been in place for many years in some states, and are new in others. The diversity in public sector plan design reflects the fact that a one-size-fits-all solution does not meet public employer human resource and fiscal objectives. Like defined benefit plans, cash balance and DB+DC plans in the public sector vary from one jurisdiction to the next, and no single design will address the cost and risk factors of every state or local government.

A key factor in evaluating a retirement plan is the extent to which it contains the core elements known to best meet human resource and retirement policy objectives of state and local governments: mandatory participation, shared financing, pooled investments, benefit adequacy, and lifetime benefit payouts. These features are a proven means of delivering income security in retirement, retaining qualified workers who perform essential public services, and providing an important source of economic stability to every city, town, and state across the country.[9]

Most public retirement systems seek to provide a benefit that meets these objectives while balancing risk between employees and employer units. The information in the tables below illustrates the degree to which states are using various cash balance and DB+DC designs to achieve these objectives.

See Also

National Association of State Retirement Administrators, Resolution 2010-01: *Guiding Principles for Retirement Security and Plan Sustainability*, http://www.nasra.org/resolutions.htm#201001

National Association of State Retirement Administrators Issue Brief: Shared-Risk Arrangements, http://www.nasra.org/resources/issuebrief120801.pdf

National Conference of State Legislators, State Defined Contribution and Hybrid Pension Plans, http://www.nasra.org/resources/NCSL_DC_Hybrid.pdf

National Institute on Retirement Security, *A Better Bang for the Buck: The Economic Efficiencies of Pensions*, 2008, http://www.nirsonline.org/index.php?option=com_content&task=view&id=121&Itemid=48

National Institute on Retirement Security, *Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers*, 2011, http://www.nirsonline.org/storage/nirs/documents/Decisions%20Decisions/final_decisions_decisions_report.pdf

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U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in States and Local Government in the U.S.*, March 2011, http://www.bls.gov/ncs/ebs/benefits/2011/ownership/govt/table02a.pdf

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[1] NASRA, "Costs of Switching from a DB to a DC Plan," http://www.wikipension.com/index.php?title=Studies_and_reports#State_Studies

[2] NASRA, "Selected Approved Changes to State Public Pensions to Restore or Preserve Plan Sustainability," http://www.nasra.org/resolutions.htm#200701

[3] U.S. Department of Labor, Bureau of Labor Statistics, Retirement Benefits: Access, Participation and Take-Up Rates, July 2013, http://www.bls.gov/news.release/pdf/ebs2.pdf

[4] Public Fund Survey, www.publicfundsurvey.org

[5] NASRA, "Selected Approved Changes," supra

[6] Employers are also required to contribute an actuarially determined rate each year to amortize the DB plan unfunded liability

[7] U.S. Government Accountability Office, "Social Security: Issues Regarding the Coverage of Public Employees," 2007, http://finance.senate.gov/imo/media/doc/1110607testmn1.pdf

[8] National Conference of State Legislatures, "State Retirement Legislation," http://www.ncsl.org/documents/employ/Basic-Presentation-July2012.pdf

[9] National Institute on Retirement Security, *Pensionomics: Measuring the Economic Impact of State & Local Pension Plans,* 2009, http://www.nirsonline.org/index.php?option=com_content&task=view&id=189&Itemid=48

Table 1: Overview of Cash Balance Hybrid Plans						
	TX Municipal	**TX County and District**	**CA State Teachers**	**NE County and State**	**KS PERS**	**KY RS**
Year plan approved	1947	1967	1995 for the Cash Balance Benefit Program, 2000 for the Defined Benefit Supplement	2002	2012	2013
Employee groups affected	Mandatory for EEs of 800+ cities that have elected to participate in the TMRS	Mandatory for EEs of 600+ counties and special districts that have elected to participate in the TCDRS	The Cash Balance Benefit Program is optional for part-time and adjunct educational workers; the Defined Benefit Supplement is a cash balance plan provided to full-time educators	Mandatory for county and state EEs* hired after 2002 and those hired previously who elected to switch from the DC plan	Mandatory for EEs of state and local government, including education employees, hired after 1/1/15	Mandatory for new state and local EEs, judges, and legislators who become members on or after January 1, 2014
Contributions	EEs pay 5%, 6%, or 7%, depending on ER* election ER pays 100%, 150%, or 200% of EE rate, also depending on ER election, and adjusted based on unfunded liability	EEs pay 4%, 5%, 6%, or 7% depending on ER election ERs pay normal cost plus amount to amortize the unfunded liability within a 20-year closed period	EEs in the Cash Balance Benefit Program typically pay approximately 4% of earnings, depending on local bargaining agreements; Defined Benefit Supplement EEs contributed 2% from 2001-2010 Beginning in 2011, ER and EE contributions to the Defined Benefit Supplement are 8% each on compensation in excess of one-year of service credit ER must contribute at least 4% for Cash Balance Benefit participants and the combined EE/ER rate must be at least 8%	State EEs contribute 4.8%, county EEs contribute 4.5% State contributes 156% of EE rate; counties contribute 150% of EE rate	EEs contribute 6% ER contributes between 3-6% depending on how long the member has been employed	EEs contribute 5%; public safety EEs contribute 8% State contributes 4%; , 7.5% for public safety EEs

	TX Municipal	TX County and District	CA State Teachers	NE County and State	KS PERS	KY RS
Rate of return applied to cash balances	5% (set by statute): The TMRS Board determines the allocation of any excess amounts; the board is authorized to distribute such amounts a) to reduce cities' unfunded liabilities; b) to EEs' individual accounts, and/or c) to a reserve to help offset future investment losses	7% (set by statute): Used to reduce ERs' Members' accounts receive an annual interest credit of 7% as specified by statute	Guaranteed minimum interest rate is based on 30-year U.S. Treasury bonds for the period from March to February immediately prior to the plan year (3% for plan year 2013-14)	Based on the federal mid-term rate plus 1.5%: When the mid-term rate falls below 3.5%, EEs receive a 5% minimum credit rate When favorable returns combine with an actuarial surplus, the governing board may approve a dividend payment to EE accounts	Members are guaranteed an annual rate of return of 5.25% on their accounts	Employee accounts are guaranteed 4% annual return; accounts also receive 75% of all returns above 4%
Benefit payment options	Annuity with or without a partial lump sum, depending on EE election	LIfetime annuity based on EE final savings account balance, less any EE-elected partial lump-sum payment, plus ER matching	Lump-sum and/or monthly lifetime annuity or period certain monthly annuity	Retiring participants may annuitize any portion of their cash balance and take a lump sum of any remainder. Members electing an annuity may also elect to take a reduced benefit with an automatic annual COLA	Retiring participants may annuitize their cash balance and may elect to take up to 30 percent as a lump sum. Participants may also elect to use a portion of their balance to fund an auto-COLA	Member may choose annuity payments, a payment option calculated as the actuarial equivalent of the life annuity, or a refund of the accumulated account balance
Info online	www.tmrs.com/down/pubs/tmrs_facts.pdf	http://www.tcdrs.org	http://www.calstrs.com/sites/main/files/file-attachments/basics_cash_balance_plan.pdf	www.npers.ne.gov	http://www.kpers.org	https://kyret.ky.gov/images/uploads/news/Summary_of_Senate_Bill_2_changes.pdf

* EE = employee; ER = employer

Table 2: Overview of Defined Benefit + Defined Contribution (DB+DC) Hybrid Plans											
	IN Public RS	**WA Dept of RS**	**OH State Teachers' RS**	**OH Public Employees' RS**	**OR PERS**	**GA Employees' RS**	**MI Public Schools RS**	**UT RS**	**RI ERS**	**VA RS**	**TN Consolidated Retirement System**
Year plan approved	1955	1996	2001	2002	2003	2008	2010	2010	2011	2012	2013
Employee groups affected	Mandatory except for EE hired after 2011 who may elect a DC plan only	Optional for most employee groups	Optional for new hires and non-vested workers since 2001	Optional for new hires and non-vested workers since 12/31/02	Mandatory for all EEs (existing and new) since 2004	Mandatory for new hires since 2009; optional for those hired before 2009 (EE* may opt-out of DC component within 90 days)	Mandatory for all new hires after 06/30/2010	Mandatory for new hires as of 07/01/2011; all EEs may elect DC-only plan	Mandatory for existing members of ERS as of July 1, 2012, as well as new hires (except judges and some public safety members)	Mandatory for most state and local employees, educational employees, and judges, hired on or after 1/1/14 – excluding state police and other law enforcement officers	Mandatory for new state and higher education employees and teachers hired after July 1, 2014; optional for local government entities
Defined Benefit Portion											
DB benefit formula (having met age/service requirements)	1.1% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x up to 30 years of service x final average salary + 1.25% x years in excess of 30 x final average salary = annual benefit	Varies depending upon date of hire and which of 3 DB plans EE is enrolled in	1% x years of service x final average salary = annual benefit	1.5% x years of service x final average salary = annual benefit	1.5% x years of service x final average salary = annual benefit For public safety: 2% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x years of service x final average salary = annual benefit	1% x years of service x final average salary (maximum annual pension benefit of $80,000, indexed by CPI)

	IN Public RS	WA Dept of RS	OH State Teachers' RS	OH Public Employees' RS	OR PERS	GA Employees' RS	MI Public Schools RS	UT RS	RI ERS	VA RS	TN Consolidated Retirement System
DB plan contributions	ER funds the DB benefit	ER funds DB benefit	ER funds DB benefit	ER funds DB benefit	ER funds DB benefit	EE contributes 1.25% and ER contributes the remainder of the annual actuarially determined contribution rate	EE contributes on a graduated scale based on pay; ER contributes remainder	ER pays up to 10% of pay, 12% for public safety (+ 5% to amortize the DB unfunded liability). EEs pay into DB only if the normal cost of the plan exceeds maximum ER contribution	State EEs and teachers contribute 3.75% to the DB plan; municipal EEs contribute 1% or 2% based on COLA election; municipal police and fire contribute 7 or 8% based on COLA election. ER contributions to the DB plan remain unchanged	EE contributes 4% to the DB plan ER contributes an actuarially determined amount to fund the DB benefit (less employer DC contributions)	EE contributes 5% to the DB plan ER contributes 4%
Defined Contribution Portion											
Employer DC plan contributions	None	None	None	None	None	100% ER match on EE's 1st 1% of salary and 50% match on next 4% of salary for a maximum ER contribution of 3%	ER contributes 1% of salary	ER contributes 10% (12% for public safety); if DB cost is more, EE must pay but if less, the difference is applied to EE's DC account	ER contributes 1% to the DC plan for state and local EEs and teachers; 3% for municipal police and fire EEs not covered by Social Security	Mandatory ER contributions of 1% - increases with EE contributions up to 3.5% maximum	ER contributes 5% to the DC plan

	IN Public RS	WA Dept of RS	OH State Teachers' RS	OH Public Employees' RS	OR PERS	GA Employees' RS	MI Public Schools RS	UT RS	RI ERS	VA RS	TN Consolidated Retirement System
Employee DC plan contributions	3% of salary	5% to 15% of salary depending on EE	10% of salary	10% of salary	6% of salary	EE auto enroll at 1% of salary contribution but may vary contribution rate up or down; participants may opt-out of the DC plan within 90 days of their date of hire	2% of salary	EE contributions optional	State and local EEs and teachers contribute 5% to the DC plan; 3% for municipal police and fire EEs not covered by Social Security	EEs may contribute up to 5% to the DC plan (1% minimum)	EEs contribute 2%, with opt-out feature
DC plan investment options	7 options ranging from conservative to aggressive, and 10 target date funds, all administered by the retirement system	Either the total allocation portfolio, which mirrors DB plan fund, or 7 self-directed funds ranging from conservative to aggressive, plus target date funds	8 STRS Ohio-sponsored options ranging from conservative to aggressive plus a guaranteed return option and target date funds	16 OPERS-sponsored funds including core and target date funds, plus a brokerage window	All DC plan contributions are invested in a single, pooled fund that mirrors the DB plan fund	16 options ranging from conservative to aggressive, plus 5 lifecycle funds	Choice of active and passive investment options, target date funds, and a brokerage window	12 risk-based options	12 target date funds and 10 funds ranging from conservative to aggressive	11 options ranging from conservative to aggressive, plus 10 target date funds.	11 target date funds and 15 options ranging from conservative to aggressive

	IN Public RS	WA Dept of RS	OH State Teachers' RS	OH Public Employees' RS	OR PERS	GA Employees' RS	MI Public Schools RS	UT RS	RI ERS	VA RS	TN Consolidated Retirement System
Default DC plan investment options	The Guaranteed Fund, which earns a fixed rate established annually by the Board	Target Date Funds	Earliest target date fund	Target Date Fund closest to the year the participant turns 65	DB plan fund	Lifecycle funds based on age	Target Retirement Fund that matches the year the participant will be eligible to retire	Medium Horizon Fund, which features a diversified investment portfolio	Age appropriate Target Retirement Fund	Target Date Funds based on the participant's age at enrollment	Age appropriate Target Date portfolio
DC plan withdrawal options	Annuity, rollover, partial lump sum and annuity, deferral until age 70½	Lump sum, direct rollover, scheduled payments, personalized payment schedule, and annuity purchase	Annuity including partial lump sum, lump sum or rollover	Annuity, including partial lump sum option plan; deferral until age 70½	Lump sum payment or in installments over a 5-, 10-, 15-, or 20-year period or the EE's anticipated lifespan	Rollover, annuity, lump sum, partial lump sum, installments	Lump sum, consolidation from other plans, direct rollover to an IRA, periodic distribution	After 4-year vesting period: lump sum, partial balance, periodic distribution, direct rollover, direct rollover to an IRA	Lifetime annuity, lump-sum distribution, or distribution in installments (rolling assets into an IRA or leaving assets in the plan)	Depend on the circumstances at termination; DB/DC combo plan requires coordination between the two components with respect to termination options	Lump sum, periodic payments, minimum required distributions, or annuity; beneficiaries may use a combination of more than one payment method
Info online	www.in.gov/inprs/index.htm	http://www.drs.wa.gov (Go to "my plan 3 account")	http://www.strsoh.org	http://www.opers.org	http://www.oregon.gov/PERS	www.ers.ga.gov	https://stateofmi.ingplans.com/eportal/welcome.do	http://www.urs.org	https://www.ersri.org/public/documentation/FINAL_RIRSAGuide_January2012.pdf	http://www.varetire.org/employers/member-benefits/hybrid-plan/index.asp	http://treasury.tn.gov/tcrs/PDFs/HybridPlanSummarySheet.pdf

VIEWPOINT: Neither ocean tsunami nor "pension tsunami" threaten N.D.

By Nick Archuleta, *NDU President 08/25/13*

In a recent Grand Forks Herald editorial, it was disappointing not only to read about a nonexistent pension tsunami poised to inundate North Dakota, but also to see the editorial use this mischaracterization to call for drastically altering the retirement security of North Dakota's public workforce ("Once-faint pension alarms sound louder clang," Page C4, Aug. 18).

Our public retirement systems are critical to providing a secure retirement for thousands of North Dakotans. Our teachers, highway patrol officers, snowplow drivers and school administrators have earned a reliable retirement.

To weaken the system with any of the American Legislative Exchange Council-supported pension overhaul proposals would have serious consequences for retirees and taxpayers.

The editorial misrepresents the health of North Dakota's public employee retirement systems— the North Dakota Public Employees Retirement System and the Teachers Fund for Retirement— to advocate fora "hybrid" system, a plan with a track record of undermining the retirement security of state employees while achieving little to address the fiscal red flags.

The editorial sets the stage by erroneously casting North Dakota as the next victim of the public pension tsunami, comparing it to other well-known failing public pension systems in the Midwest.

It is woefully inaccurate to group North Dakota's retirement systems with the public pension systems of Detroit, Illinois and others. Our retirement systems possess important safeguards and healthy fiscal practices that differentiate them from the other tsunami-swept public pension systems.

First, North Dakota's public pension contributions amount to little in state spending. According to the U.S. Census Bureau, state and local government contributions to pensions made up only 1.2 percent of overall spending in 2012. This pales in comparison to other systems that are struggling with pension woes, including Illinois (4.75 percent) and California (3.58 percent).

Additionally, the average monthly retirement benefit for North Dakota state retirees is a modest $1,013 per month — hardly the budgetary anvil that is characteristic of other pension systems.

Moreover, North Dakota public employees do not get cost-of-living adjustments as part of their pensions. This keeps the pension fund's liabilities from growing in down markets.

Also, North Dakota's retirement systems get a sustainable contribution from the earnings of investment returns. The average return on investment, according to PERS Executive Director Sparb Collins, has been 8.5 percent per year.

While 11 percent is ideal, experts suggest that 8 percent returns are considered sufficient to keep our systems afloat and healthy.

According to a report compiled by the Economic Policy Institute, the Rhode Island hybrid plan that the editorial supports has failed to close the state's shortfall due to a 401(k) component that increased the state's contribution amount.

Savings for the state were achieved only by drastically slashing the retirement security of Rhode Island state employees and teachers. The only takeaways from Rhode Island are those of failed reform that placed an irreversible share of burden solely on the backs of middle-class workers and retirees.

None of these points deter the editorial from entertaining the notion of "sensible" reform by advocating for an inferior "hybrid" plan, based on the work of Dan Liljenquist of ALEC.

The editorial is, however, deterred from educating its readers of the fact that ALEC has been a leading force for eliminating— not reforming— state public pensions across the country.

Painting any proposal put forth by ALEC as sensible is both misleading and preposterous.

Thankfully, state lawmakers took the initiative to pass measures in 2009 and 2010 that set the fiscal course straight for the Teachers' Fund for Retirement. However, during the 2013 legislative session, House Majority Leader Al Carlson, R-Fargo, killed a bill endorsed by the governor and the state Senate that would have returned NDPERS to fully funded status.

Instead of advocating for drastic proposals like a hybrid plan, Herald editorials should call on lawmakers to pass measures that return NDPERS back to 100 percent funding.

While it's always important to keep a watchful eye on the health of North Dakota's public pension system, it's more crucial to hold the Legislature accountable for responsible fiscal practices that will ensure the long-term solvency of NDPERS.

Nevertheless, based on both the structural safeguards of our public pension systems and sound actuarial projections, there is no pension tsunami headed for North Dakota and no reason for Herald editorials to advocate for destructive alternatives.

Minnesota's largest public pension system is investigating how widespread retirement plan spiking is among local government worker members.

Duluth News Tribune

The Public Employees Retirement Association, or PERA, has started looking into the issue of workers boosting their final average salary, primarily through massive amounts of overtime, according to the St. Paul Pioneer Press.

The move came after the newspaper's investigation that revealed spiking among supervisors in the St. Paul Fire Department.

When that story was published in December 2012, PERA Executive Director Mary Vanek said the pension system has no way of determining whether workers are boosting their "high five" salaries with overtime because employers report only a worker's total salary, without breaking out how much came from overtime. However, PERA routinelyreceives complaints from workers about how others are spiking their pensions, she said.

Earlier this year, PERA requested three years' worth of salary data, including the overtime amounts, from local governments, in order to determine whether spiking is happening more broadly. Vanek said a report about this analysis should be ready for the Board of Trustees' Dec. 12 meeting.

On Thursday, Vanek and PERA's actuary told board members about an innovative approach to limit spiking, which a public pension system in Ohio launched in January.The Ohio Public Employees Retirement System attempts to find "outliers" who have an initial pension benefit that is "out of proportion" with the contributions they made during their working years, said Bonnie Wurst, an actuary with Gabriel Roeder Smith & Co."It's an ingenious approach," Vanek said, noting that Ohio is the only state using it.PERA board members did not discuss the idea, however.

Vanek said the other anti-spiking option her office will investigate is a limit on how much salary can increase during a worker's "high five" earning years. New York and Texas both use this provision, excluding from the final average salary any pay increases above 10 percent.

At least 15 other states have enacted "anti-spiking" provisions in recent years, including California, which prohibits overtime from being included in final average salary calculations for new hires.

Minnesota has some provisions already that limit the potential for spiking, including using a five-year window for the average salary calculation and preventing sick and vacation payouts from being counted as salary.

State pension fund had good year

By Lloyd Dunkelberger, Herald-Tribune, Friday, August 9, 2013

Florida's pension fund that pays for the retirement of state workers, school employees and county workers had a very good year.

Ash Williams, head of the State Board of Administration, which oversees the $132 billion fund, told Gov. Rick Scott and the Cabinet this week that the fund ended the fiscal year in June with 13.2 percent return. The retirement fund increased by $9.65 billion during the last year even after making payments of $6.2 billion to retirees.

The gains are line with other government pension plans across the country. Bloomberg reported this week — based on data from Wilshire Associates — that state and local-government pension funds realized a median gain of 12.4 percent for the year ending in June. Propelled by a strong stock market, the government funds have had a three-year annualized median return of 11.4 percent, with assets exceeding their pre-Great Recession peak.

The Florida pension fund's stocks and other investments performed well, with the global equity asset class leading the way with an 18.56 percent return. Other assets did well, ranging from a 10.65 percent return for private equity to 16.16 percent for strategic investments. With low interest rates, the fund's fixed income and cash assets showed paltry gains of less than 0.5 percent.

Williams said while the annual gain was a very positive sign, he considers the long-term performance more critical for the fund. And the numbers showed Florida’s 20-year return at 7.99 percent and 25-year return at 8.93 percent.

“The strong long-term performance can be attributed to continued prudent diversification of assets, cost controls and excellent fund manager selection,” Williams said.

The positive news on the pension funds was cited by Democratic lawmakers and lobbyists for public workers as another sign that Florida has a healthy pension fund that does not to be dramatically changed.

But House Speaker Will Weatherford, R-Wesley Chapel, made it clear again this week that he is not backing off his effort to end the traditional public pension fund for new workers, while replacing the pension plan with a program more akin to the 401(k) plans used by private-sector companies.

“Make sure Florida doesn’t go bankrupt like Detroit — Retweet if you support pension reform,” Weatherford said in a tweet linking to a Tampa Tribune editorial that supported his plan.

Detroit’s pension plan has a deficit that could be as high as $6 billion and it is part of the $18 billion in liabilities that the city cited in trying to win bankruptcy court protection.

Florida’s pension is in much stronger shape, with enough assets and projected funding to pay 86 percent of its future liabilities — a very high rate nationally among government pension funds.

Nonetheless, Weatherford points out the state still has to set aside some $500 million each year for the unfunded liability, which is money that could be used for other state programs.

What this all means is despite the good news on Florida’s pension fund, you can expect another major push from Weatherford in the 2014 session.

The House has already backed Weatherford’s plan. It will again come down to the Senate, where lawmakers this year narrowly rejected the House speaker’s plan this year, opting for a proposal that provided more incentives for new workers to use a 401(k)-type plan, although they still had the option of the traditional pension plan.

The financial stability of Colorado's $42 billion state pension fund will get worse before it gets better.

By Megan Schrader, August 19, 2013, Colorado Springs Gazette

The Public Employees' Retirement Association is $22.7 billion shy of what is needed to pay out retirement benefits over the next 30 years. That unfunded liability grew by $143.4 million in 2012 despite a 12.9 percent return on investments.

But Greg Smith, executive director of PERA, said that's part of a deliberate long-term plan to get the fund's liability back in the black. "We could have immediately increased contributions by the percentage it's going to eventually get to in 2017, but that would have put our divisions of government under stress and really impacted their ability to serve their residents," Smith said.

Instead, SB1 - passed during the 2010 legislative session - takes a 40-year trajectory at fully funding the retirement system. The legislation reduced lucrative retirement benefits for new hires, reduced the cost-of-living adjustments for retirees and increased the contributions required by employers incrementally over the next several years.

But whether PERA is in good shape after reforms that also did away with abusive loopholes depends on whose crystal ball you consult.

State Treasurer Walker Stapleton - who sits on the PERA board as an honorary member - said the fund is too far underwater for reforms made in 2010 to rescue the system from disaster.

"I want to see PERA succeed and make promises to workers it can fulfill," Stapleton said. "First and foremost, PERA needs to get to a rational and realistic rate of return, and then it needs to fund the plan properly. They're spending money in anticipation of investment returns that I don't believe in the long run they are going to earn."

But actuaries hired by PERA to forecast the pension's long-term viability have found the state will pay off the $22.7 billion unfunded liability within the next 40 years. That's a trajectory that is outside the general accounting principal of a 30-year outlook but still bodes well for the long-term finances of a plan that half a million people rely on for retirement.

Those predictions assume an average 8 percent return on investments. Stapleton said that number is unattainable in the new reality of the stock market. The past five years saw returns of 2.6 percent, including some spectacularly frightening single-year losses. Smith points out the fund has averaged 9.4 percent in the past 30 years.

Common problem in U.S.
Almost all state pension plans across the U.S. are in the red - lacking the funds to cover the future cost of retirement pensions promised to workers.

"What we've seen over the past few years is a decline in these funded ratios for a variety of reasons, most notable the fact that the equity markets took a pretty substantial hit in 2009," said John Sugden, senior director in Standard & Poor's U.S. Public Finance Ratings Group, who wrote a pension report outlining the bumpy road ahead for the funds. "You're capturing at a potentially low point. We're going to see the market strengthen. We've seen these numbers fluctuate over time. Back in 1975, it was 51 percent, and with the market boom in the '90s, it was 100 percent or close to that."

Colorado now has one of the worst-funded pensions in the nation, according to two separate studies of 2011 financial data, and ranks as low as 10th in the U.S. in one study.

According to Standard & Poor's - one of the leading credit rating agencies in the world - the average funding ratio for public pension funds was 72.9 percent in 2011.

Using the same analysis, Colorado's funded ratio was 60 percent in 2011.The funds are now at 61.9 percent funded, a slight increase according to the June 2013 Comprehensive Annual Financial Report.

But PERA has become a black mark in the state's debt and liability category of financial ratings. "The debt and liability score for the state is one of the weaker of the scores of the various sections that we consider," said David Hitchcock, Standard & Poor's senior Colorado analyst. "Their debt load is pretty low, so it's really the pension issue that is in our view creating a weakness. It does affect the rating. Most other things in the state are ranked relatively highly . and it is one of the things that is holding the state back from potentially a higher rating."
PERA wasn't always in bad shape.

In 2000, PERA was 104 percent funded. Then Lehman Brothers collapsed in September 2008, and everything changed. That year, PERA lost $10.5 billion in the stock market. Most pensions took the loss from the financial crisis in 2008 and spread it out over multiple years to soften the blow. PERA just finished paying off those losses. And the strong returns in 2012 helped speed along that recovery.

Stapleton cautions that a single year's return is no indication of future performance and that averaging the assumed 8 percent return on investment over the next 30 years is too ambitious. Each pension board sets its assumed rate of return, and 8 percent is a common assumption, although tending toward the high end. For the PERA board, the vote has become closer every year and the debate more pronounced in part because of Stapleton's drumbeat.
Perhaps more troubling than the assumed rate of return is the fact that Colorado's unfunded liability is continuing to grow. "Even at 8 percent, they're not funding what they would need to, to amortize the unfunded liability," Hitchcock said. "You might say the 8 percent is aggressive or unaggressive, but even with 8 percent, they're not funding what they need to."

In 2012, to pay off the state's unfunded liability within the next 30 years, an additional $143.3 million was needed for PERA. That deficit reached a high point in 2010 at $440.9 million, but recent reforms have helped close the gap - but not entirely.

PERA is instead paying annually what it would need to pay off the unfunded liability in the next 53 years.

Smith said that when you account for the lesser benefits that will be paid out to employees hired beginning in 2010, that payoff time drops to 35-40 years.

That payoff rate varies significantly among the five retirement funds PERA manages and the two health insurance funds.

The local government fund - made up of the retirements for municipal employees - is in the best shape, set to be 100 percent funded in 27 years.The judicial fund is arguably in the worst shape with no clear picture of when the liability will be fully funded. It's projected at more than 100 years. It's a small pool of highly paid individuals. "The judicial division is only about 600 people total," Smith said. "In 2010, when we were looking at it, it was better funded than all the other divisions . now it's slipped over a little bit that's because it's such a small group that just a few employers not doing what was expected, like not giving any raises or people retiring a little earlier . very small changes make a difference in that division."And like all the funds, it's not at risk of being unable to pay off obligations.

Caught between this debate - being played out publicly in the early campaigning for 2014 - are taxpayers, retirees and public employers who seem cautiously optimistic about changes PERA has made to curb hemorrhaging retirement dollars and waning revenues.

State to begin reporting pension liabilities

Tuesday August 20, 2013
by Zack Harold, Daily Mail Capitol Reporter, Charleston Daily Mail

CHARLESTON, W.Va. -- New government accounting standards set to begin next year could put the hurting on states that do not adequately fund their pension programs, although officials do not expect West Virginia to experience much of a change.

Starting July 1, 2014, the Governmental Accounting Standards Board will require state governments to calculate unfunded pension liabilities — the amount of money still owed on state employees' retirement plans — into their financial statements.

For the first time, pension debts will appear alongside other liabilities like employee payroll and bond payments.
Harry Mandell, actuary for the West Virginia Consolidated Public Retirement Board, said that will be bad news for states and cities where officials have neglected paying into pension plans, allowing debt to climb and climb.

With information about pension debts front and center, debt-ridden municipalities could have a difficult time borrowing money.

But Mandell said West Virginia has focused on paying its pension liabilities. While the Mountain State also will be required to report its pension debt alongside other liabilities, it probably will not affect the state's reputation with lenders, Mandell said.

"We're making our required contributions. It will affect other states more than it will us," retirement board executive director Jeffrey Fleck said.

It hasn't always been that way.

In 1991, West Virginia's Teachers Retirement System was only funded at 8.8 percent. Lawmakers eventually got their act together in 1994, adopting a 40-year plan to pay off the unfunded liability.
At the end of fiscal year 2012, the teacher pension plan was funded at $5.14 billion, or 53 percent. Fleck said 2013's figures are not complete yet, but he expects the teachers' pension plan is now funded at about 56 percent. "Which is the best it's been in the history of the plan," he said.

The state's other major pension plan, the Public Employees' Retirement System, is 77 percent funded at the end of fiscal year 2012, with an unfunded liability of $1.2 billion. The state also is on track to pay off that account.

A report by Moody's Investor's Service recently found West Virginia's unfunded pension liability was 86.2 percent of its annual revenue in 2011. That's the 13th highest percentage in the country.

The state's pension liability, as reported by Moody's, is the 24th largest in the nation at $9.2 billion.

The ranking is based on the Teachers' Retirement System and the Public Employees Retirement System.

West Virginia still is much better off than states like Illinois or Connecticut, where unfunded liabilities are 241 percent and 190 percent of the states' annual revenues, respectively.

In the wake of Detroit's municipal bankruptcy filing, CNBC has released a report this month on the condition of state and municipal pension obligations. The report found that Connecticut's level of unfunded pension liabilities is one of the highest in the country. State Representative Gail Lavielle (R-143) today released the following statement on the report.

“As of its last biennial actuarial evaluation in 2012, Connecticut had $9.7 billion in assets and $23 billion in liabilities in its State Employees' Retirement System (SERS), meaning that only 42.3% of its obligations were funded, and $13.3 billion, or about 58%, were unfunded. While an 80% funded ratio (20% unfunded) is generally considered healthy, Connecticut is one of nine states, according to CNBC, that have a ratio of less than 60%, and among those nine, it is near the bottom of the list. Viewed another way, almost 60% of Connecticut's employee pension fund liabilities are unfunded, which is nearly three times the 20% level that would be considered healthy.

“When new rules imposed by the Government Accounting Standards Board are implemented next year, Connecticut's funding ratio may deteriorate further. This is because, among other things, the rules require public pension fund managers to adopt more realistic assumptions when estimating future investment returns.

“The effect of Connecticut's unfunded pension liabilities on the state's bond ratings is certainly cause for concern. In early 2012, Moody's downgraded its rating for Connecticut from Aa2 to Aa3, citing ‘Connecticut's high combined fixed costs for debt service and post employment benefits relative to the state's budget’ and ‘pension funded ratios that are among the lowest in the country and likely to remain well below average’. This year, Fitch has downgraded its outlook for Connecticut's bonds from ‘stable’ to ‘negative’, citing ‘significant pension obligations’ as one of the reasons. Lower ratings make borrowing money more expensive for the state and, by extension, for its taxpayers.

“It's also worth noting that the $13.3 billion in unfunded SERS obligations represent only a portion of the state's unfunded long-term liabilities. Unfunded obligations related to the Teachers' Retirement Fund and post-employment health and life benefits for both teachers and other state employees total about $25 billion. The state also has outstanding long-term debt of about $19 billion. The total is about $65 billion.

“Looking just at SERS, since 2007 Connecticut's funded ratio has declined from 53.6% to 42.3%. As the unfunded obligations increase, the annual contributions necessary to cover them by the time they come due increase as well. Finding the money to make those contributions means either generating more revenue or cutting spending in other areas. Residents feel the effects either way. For the current year, the planned contribution to SERS is about $1.27 billion, around 6% of the total budget.

“Given the state's level of debt, its heavy borrowing to pay operating expenses, and sluggish economy, it will be difficult to sustain annual contributions at that level or to increase them.

Other states that have faced this problem, like Rhode Island and California, have determined that keeping up with or even increasing the contributions isn't enough and are attempting to slow the growth rate of the obligations themselves in order to reduce their unfunded pension liabilities. Examples of their proposals include raising the minimum retirement age for state employees, moving active employees to hybrid defined benefit/defined contribution systems, suspending cost-of-living adjustments for retirees until funding ratios improve, increasing employees' share of contributions to the pension fund, and changing the way base salaries are determined for pension payment calculations.

"In Connecticut any changes like these must be negotiated between the governor and state employee union leadership. Although it has not exercised it in recent years, the legislature does have the right – and many of us believe, the obligation – to vote on any negotiated changes. It should do its part to ensure accountability and taxpayer representation. "

KPERS' unfunded liability rises to $10.2B
Investment earnings surge in 2012 to 14.5%

Posted: September 4, 2013 - 2:48pm, By Tim Carpenter

Investment earnings in the state's public pension system logged robust double-digit gains last year, but future unfunded liability expanded to $10.2 billion as the system grappled with lingering repercussions of recession, an official said Thursday.

The Kansas Public Employees Retirement System reported a 14.5 percent net return on investment in 2012 and documented net returns during the current year of 14 percent, said Alan Conroy, executive director of KPERS. Over the past 25 years, the average annual return for the system is slightly above 8 percent.

Conroy told House and Senate members the gap between actuarial liabilities and assets increased by $1 billion last year largely because of deferred losses from the massive market collapse in 2008. It translated to a system funded in 2012 at 56.4 percent of future liability, a decrease from 59.2 percent in 2011.

Conroy said the industry standard was to achieve 80 percent funding of pension systems. A pension system falling in the 60 percent to 80 percent range is cause for concern, he said. "If 60 percent and below — problem," he said. "The red flags certainly should be up on addressing that unfunded liability."

KPERS serves 156,000 active employees in state, local and school governments, as well as 84,000 retirees. Progress on the unfunded liability was derailed in 2008 when KPERS' returns plummeted 30 percent.

In 2012, the Legislature and Gov. Sam Brownback embraced reforms that increased employee and employer contributions and added a cash balance plan in 2015 to help with long-term solvency of the retirement system. The cash balance approach is a blending of the 401(k)-style option and the traditional defined benefit pension.

State lawmakers considered during the 2013 session, but didn't embrace, the idea of converting KPERS to a 401(k)-style defined contribution plan.

Another discarded proposal involved issuance of $1.5 billion in bonds, which would have infused cash into KPERS in an effort to inflate earnings and more quickly reduce the liability. The bonding option is off the table at this juncture, said Rep. Steven Johnson, R-Assaria. Johnson said rising interest rates on bond debt made the approach less appealing because it would be more difficult for the KPERS board of trustees to secure return on investment necessary to justify borrowing.

Pension liability looms over U.S. states' economies: group

Tue, Sep 3 2013, Sacramento Bee

WASHINGTON (Reuters) - Public pension liabilities in five U.S. states could represent more than 40 percent of their local economies, according to an analysis released on Tuesday by a conservative group that lowered the assumed rate of return for pensions' investments.

The group, State Budget Solutions, which aims to reform budgeting practices by state and local governments, used a rate of return that is less than half the historical averages that are used by most public pensions.

State Budget Solutions found retirement systems are short $4.1 trillion to pay future benefits in total, based on a projected rate of return on investments of 3.225 percent, which it said was the 15-year Treasury bond yield on August 21.

Historical averages are usually between 7 percent and 8 percent. Because they have to deal with long periods of time, pension administrators prefer the averages, which they say are the safest measures for anticipating future performance.

Ohio has the greatest shortfall as a percentage of its gross state product, at 56 percent, followed by New Mexico, at 53 percent, according to State Budget Solutions.

Conservative political leaders such as Senator Orrin Hatch, a Republican from Utah who is making a strong push for public pension reform, say pension systems should rely on a "risk-free rate" in line with the yields paid by Treasuries.

Projected rates of return have been at the heart of public pension battles over the last half-decade, as investments provide about 60 percent of the systems' revenues.

Using the "risk-free" rate, State Budget Solutions said Ohio has a shortfall at $287.37 billion.

Other states with big shortfalls as a percentage of their economies are Mississippi, at 48 percent; Alaska, at 46 percent; and Illinois, at 41 percent, according to State Budget Solutions.

On the other side of the spectrum, South Dakota, Washington, and Texas have the smallest pension gaps, equal to 17 percent of their gross state products.

Looking at how much states have on hand to cover pension payments, State Budget Solutions found Illinois has the smallest amount, at only 24 percent of the funding needed. In June, a comparison by Moody's Investors Service of pension liabilities to states' revenues found that Illinois was in the worst shape, with a pension bill equal to 241 percent of all its revenues.

Critics such as Hatch, who introduced legislation to put public employees into annuities, and Representative Devin Nunes, a Republican from California with his own bill on the funds' projections, say those averages are too high and force pensions into risky investments.

Currently, Treasuries only make up 20 percent of pensions' portfolios, and equities more than 55 percent, according to Wilshire Associates.

Few researchers, analysts or retirement administrators expect pensions to see the meager returns that State Budget Solutions anticipates in the near future. In a report last month, Wilshire found that over the last year public pensions had a median return of 12.4 percent and over the last five years, which encompasses the financial crisis, the median return was 5.2 percent.

The crisis devastated pensions' investments. At the same time, states that had short-changed their pensions for years pulled back even further as their own revenues buckled during the 2007-09 recession.

Of late, though, the stock market has bounced back, and states are pitching in more - all leading to a turnaround in many pensions' finances.

Pension assets surpassed pre-recession peaks this year to reach record highs, according to the U.S. Census.

Both Fitch Ratings and Standard & Poor's Ratings Service have said that recent reforms and slowing declines are leading to better financial performance.

NM court hears case over educator pension cuts

By BARRY MASSEY, Associated Press

SANTA FE, N.M. -- New Mexico highest court will issue a decision later in a potentially far-reaching legal challenge over whether the state can cut cost-of-living increases for retired government workers to shore up a pension system's long-term finances.

The state Supreme Court heard from lawyers Wednesday in a case brought by four retired educators, who contend the state Constitution protects their pensions from reductions such as those required under a law enacted this year. There's no deadline for a ruling by the five justices.

The outcome of the case could end up affecting the benefits paid to nearly 70,000 current retirees in New Mexico's two main retirement plans — one for educators and another for state and local government workers.

"It's very important. It gets to a very fundamental question of whether or not the Legislature is allowed to make changes in the retirement plan," Jan Goodwin, executive director for the Educational Retirement Board, said after the court hearing.

The lawsuit before the court involves only the educational retirement plan but a lawyer for retirees, Sara Berger, said a court ruling likely will establish a precedent affecting all public employee pensions in the state.

"I don't think retirees should ever have to shoulder the burden of the state's financial woes," Berger told reporters after the hearing.

She asked the court to block pension administrators from lowering cost-of-living adjustments for current retirees as well as workers who are eligible to retire but remain on the job.

Berger said that New Mexico law gives retired educators a "vested property right" in their pensions and they are legally entitled to the cost-of-living adjustments previously promised, which would have been 2 percent this year without the change in law.

Assistant Attorney General Scott Fuqua, who represented the retirement system, said the state Constitution includes a provision that allows pensions to be modified to preserve the solvency of a retirement plan.

However, the retirees contend that provision only applies to pension benefits before an employee works long enough to become vested in a retirement system.

Fuqua also maintained that the cost-of-living adjustments were separate from the base benefits earned by an educator under state law. No changes were made by the Legislature in those core benefits for educators who were in their jobs before July when the new law took effect.

Pension benefits largely depend on how long an educator or public employee works for the government and their average salary over a period years.

The Democratic-controlled Legislature and Republican Gov. Susana Martinez agreed on a package of pension changes this year to improve the solvency of the educational retirement program, which has a $6 billion gap between its assets and the benefits expected to be paid out in the future.

Besides trimming cost-of-living adjustments, the new law requires teachers and other educators to pay more into their retirement system if they earn more than $20,000 a year. It also changes benefits for newly hired educators, including imposing a minimum retirement age of 55.

Current retirees saw their pensions go up by either 1.6 percent or 1.8 percent after the cuts were implemented in July, instead of the 2 percent they would have otherwise received. The reductions are lower for long-term retirees who receive below average pension benefits. The pension plan will save about $2 million this year because of the lower inflation adjustments.

The educational retirement plan covers about 37,000 retirees and 61,000 active workers.

The Legislature approved a separate measure this year that lowered inflation adjustments for pension benefits under the Public Employees Retirement Association, which covers nearly 90,000 state and local government workers, including about 31,000 retirees. Lawmakers also have been debating how to overhaul a financially struggling pension plan for judges.

Alaska employees retirement gap grows, legislative attention increases

September 4, 2013, Published on *Alaska Dispatch* (http://www.alaskadispatch.com)

The unfunded liability of Alaska's state employees retirement fund is still growing, even to the point of threatening future budgets, and it looks as if the Alaska Legislature is about to address the problem.

JUNEAU -- Legislators searching for solutions to Alaska's school funding battles are finding that their hands may be tied by costs of ongoing retirement funding, even as they deal with other education needs and problems.

A series of major education issues are confronting Alaska. Those ranging from a strong desire from local school districts to an increase in the Base Student Allocation, the per-student amount each district get, to the state's implementation of a new school "stars" rating system to replace the failed No Child Left Behind process, and implementation of new education standards known as "common core" and state standards testing.

All, of those may be shoved aside by increasing retirement costs stemming from the $12 billion unfunded liability in the Public Employees Retirement System and Teacher Retirement System.

Budgets under threat

Over the last 10 years, education funding has increased by a billion dollars a year, but a big chunk of that was for paying off the retirement debt, said David Teal, legislative finance director. That amounted to $334 million this year, a cost that wasn't even part of the budget a decade ago, he said.

That amount is growing, and concerns are rising.

Teal said the top two questions his non-partisan budget analysis office is getting from legislators are about retirement and education. That's a strong indication of what issues are going to be in the forefront of legislative debate next session, he said.

Teal himself has been raising concerns about the cost of retirement funding for some time, and has been briefing the interim meetings on that issue as well.

Legislators this year have been focusing on topics such as education in a way they haven't done in the past. Last year similar promises were made by legislative leaders that they'd do so, but those meetings never took place.

Next year's legislators, however, will have to cope with fewer dollars available due to the oil tax cuts passed this year.

Teal was stark in his warnings that the retirement costs, for the Public Employee Retirement System and Teacher Retirement System, are threatening to overwhelm state budgets.

The cost of retirement spending, he said, was already larger than the state's Medicaid budget on an annual basis, and is soon to exceed K-12 education as well.

"I think it is safe to say the public doesn't know how much is going to these retirement costs," Teal said.

Who's to blame?

Under questioning from legislators, Teal said there wasn't anyone to blame now, but that failed actuarial assumptions and stock market losses both played a role.

Because of flawed actuarial assumptions, essentially a guess of what future costs would be, Alaska didn't put aside enough money in the past to meet those costs.

The unfunded liability is the difference between what the state expects its retirement trust funds to be worth in the future, and how much money it will need to pay pension and health care obligations for retirees.

The state claimed errors by its former actuarial firm, Mercer, cost it $2.4 billion. It sued, and settled its case for a record half billion dollars. The were another couple of billion in stock market losses he said.

How Alaska will deal with those costs has been debated for the last several years as the scope of the unfunded liability has become known, with the state continuing to make the minimum contributions required by law to the funds each year.

Kristin Erchinger, finance director for the City of Seward and a member of the Alaska Retirement Management Board, urged one of the legislative committees to support the board's call for a cash infusion into the retirement trust funds. Late in the last legislative session the ARM Board proposed a $2 billion deposit, spread over four years.

"The unfunded liability is enormous, and it is growing," she said. That's because the board assumes it will earn 8 percent a year on its investments, but there's not enough money in the trust funds being invested.

Investment returns this year were more than 12 percent, but the state still fell behind, she said.

Cash investment?

NEA-Alaska union leader Ron Fuhrer echoed the call for a cash infusion into the trust funds, but wanted it even faster than the ARM Board sought.

"We're hoping the the Legislature will be able to see the wisdom of an infusion of, say, $2 billion, which will then reduce the draw from the general fund in future years," he said.

Because there will be decades of investment earnings on that money, a $2 billion investment will bring down the unfunded liability by a far larger amount than that.

That would then free up money for other expenditures, one of which may well be education, he said.

The growing costs required to pay off the unfunded liability is likely to bring political pressure, Teal warned, when it competes with other expenditures in a time of declining budgets.

There will be tough questions for legislators about "spending a billion dollars a year to bail out bureaucrats' retirement systems," he said.

That's money that some count as education spending, but which doesn't help local school boards balance their budgets.

That's because the state government, which provides most school funding, has assumed direct responsibility for most of the retirement costs.

"Kids never see a dollar of it, teachers never see a dollar of it, the districts never see any of it," he said.

The Alaska Constitution requires that those retirement promises, once made, must be kept. Gov. Sean Parnell and legislative leaders have said they're committed to doing that.

Pension reform debate heating up

By Chris DayStillwater NewsPressThe Stillwater News PressSat Sep 07, 2013, 08:30 STILLWATER, Okla.

Oklahoma doesn't have enough money to fulfill the retirement promises it has made to state employees.

Oklahoma isn't the only one state struggling to meet its obligations.

The Pew Center on the States reported in 2010 that only four states — Florida, New York, Washington and Wisconsin — had fully funded pension systems. The report also indicates the gap between the amount of money the states have set aside to pay employee retirement benefits and the money needed to meet their obligations has reached $1 trillion.

Oklahoma's funding gap was $16 billion in 2010. Two years ago, state statutes were revised to prevent legislators from scheduling cost of living adjustments without appropriating money to fund them.

In March, State Treasurer Ken Miller told the NewsPress those changes had trimmed that gap to $11 billion. More reform was needed. The state has seven separate pension boards, which should be consolidated into one. It also needed to switch from plans that specified a monthly retirement payment based on an employee's earning history and years of employment, which is called a defined benefit plan, to an employee contribution plan with a state match, similar to a 401K plan, which is called a defined contribution plan.

In May, Gov. Mary Fallin vetoed a pension reform bill that let new state employees select either a defined benefit plan or defined contribution plan. The governor said the bill was window dressing instead of real reform.

Pension reform will be a key issue when the legislature returns for the 2014 session in February, Oklahoma Council of Public Affairs, Inc. President Michael Carnuccio said last week.

The Oklahoma Council on Public Affairs is an independent, nonprofit public policy research organization — a think tank — based in Oklahoma City. It primarily focuses on state issues.

Carnuccio received a bachelor's degree in broadcast journalism and master's degree in political science from Oklahoma State University.

Carnuccio and Director of External Relations Dave Bond discussed pension reform, Medicare funding and worker's compensation during an interview at the NewsPress Thursday.

"We are now growing back up. We are north of $11.5 billion now — heading toward $12 billion pretty quick because we still have a defined benefit system," Carnuccio said.

The state needs an 8 percent return on its retirement system investments to pay for its commitments. The state hasn't come close to having an 8 percent return, he said.

The funding gap has harmed the state's credit rating and bonding capabilities, he added.

"We also have public employees that are starting their services to the state that ... are not guaranteed to receive that. ... Their pension is not guranteed. Mathematically, it's not possible to meet that benefit unless the state drastically increases taxes or cuts out funding for schools or something else to meet those obligations," Carnuccio said.

The private sector has moved from direct benefit pension plans to 401K plans with employer contributions since the 1960s, he said. The state needs to do the same.

"The catch is how do you get there in an election year," he said. "What our position at OCPA is 'you have to stop the bleeding.'"

All new hires would join a defined contribution system and the defined benefit system would be phased out, he said.

"It stops the state from continuing to go further in debt," he said.

It will be a battle.

Recently, a group called Keep Oklahoma's Promises issued a news release that said a move away from a direct benefit plan would "retire a generation of Oklahomans into poverty."

"Fallin has partnered behind closed doors with big-money outsiders and hedge fund managers who want to send the life savings of working Oklahomans to the same Wall Street gamblers who crashed our economy in the first place," the release states.

Keep Oklahoman's Promises is comprised of teachers, firefighters, police, nurses and others.

Retirees or state workers close to retirement could be grandfathered into the system, Carnuccio said. The big question is how will the state handle workers in the middle of their employment?

"Anything the state does short of a defined contribution system for new employees would continue to be a failure and continue to lead us to a condition where the state can't afford its obligations and state employees do not have a future they can count on," he said.

Eagle editorial: KPERS fixes can work

Tuesday, Sep. 10, 2013

Though the $1 billion year-to-year growth in the unfunded liability of the Kansas Public Employees Retirement System is troubling, there are reasons to be optimistic about KPERS' long-term prospects. With enough time, and a robust enough economic recovery, the recently approved legislative remedies should work.

As Alan Conroy, executive director of KPERS, recently wrote in a retiree newsletter: "With continued strong investment returns and the positive effects of last year's benefit change legislation, KPERS is on a clear path to financial soundness. Projections show the actuarial liability will be paid off by 2033."

Still, Conroy had a sobering report for lawmakers during last week's special session. He said KPERS' unfunded liability increased by $1 billion to $10.2 billion in 2012, despite 14.5 percent net return on investment during the year. Deferred losses relating to the 2008 market collapse are to blame, he told the legislators, having decreased the system's funding to 56.4 percent of future liability compared with 59.2 percent in 2011.

That 56.4 percent is moving the wrong direction – and is a long way from the industry standard of 80 percent funding.

As a result, expect more debate at the Statehouse in 2014 about Gov. Sam Brownback's goal of converting KPERS to a 401(k)-style defined-contribution plan.

Steve Anderson, the state's former budget director, pushed that view to the Wichita Pachyderm Club last week, noting that official accounting changes soon will require school districts to carry unfunded pension debt on their balance sheets. "The only fix is a conversion to a defined-contribution (plan) for a least new members," Anderson said.

To its credit, the Legislature has hardly left KPERS' future solvency problems unattended over the past decade. Bills variously increased contribution rates and authorized bonding, and made changes affecting new hires. A study commission provided the 2012 Legislature with ideas to strengthen KPERS long term, and lawmakers acted in 2012 and 2013 to make changes enabling higher employer and employee contribution rates, providing larger state contributions from lottery revenue, and creating a type of cash-balance plan – a blend of the defined-benefit and 401(k) option – for new hires beginning in 2015. They also earmarked 80 percent of the proceeds of surplus real estate sales to go toward KPERS' unfunded liability.

Whether the changes lead to a funded ratio of 100 percent by 2033 will depend on how the investments perform, as well as whether lawmakers continue the current funding plan. Certainly last year's 14.5 percent net return on investment was encouraging, as are documented net returns of 14 percent so far in 2013.

Lawmakers and KPERS trustees alike will need to monitor the system's recovery with caution, and act if necessary.

The 156,000 active employees in state, local and school governments, as well as the 84,000 retirees already receiving KPERS benefits, deserve to know the system is sound and on track to close the gap between assets and liabilities. So do taxpayers.

Public Employees Retirement Board receives mixed news on fund

13 HOURS AGO • ASSOCIATED PRESS

HELENA — The board that runs the state's public employee pension system was told Thursday it should expect less earnings on its investments, a key assumption used to predict the solvency of the system.

But the Montana Public Employees Retirement Board also got some good news from an actuarial consultant used to project the system's health.

The board was told Thursday it doesn't have to worry about a technical problem that could have inadvertently gutted the fix the Legislature made to help the pension system. The issue arose from a trigger in the law that could have later this year wrongly ended the increased contribution amounts that were put in place just two months ago.

The board had taken some steps at an emergency meeting last month aimed at putting together a patchwork fix to avoid the problem.

But actuary Stephen McElhaney said the problem will be avoided altogether because the financial trigger of overall system health won't be met this year, based on his analysis.

Attention at Thursday's meeting focused on the pension system's assumed investment return of 7.75 percent. McElhaney said there is a 60 percent chance that investment earnings fall short of that figure. He said market experience over the past decade suggests that a reduction to 7.5 percent is a more realistic long-term expectation for the board to count on.

Decreasing the figure would increase the amount of shortfalls projected in the future.

A split board, at the urging of the governor's budget office, decided against making any changes, arguing the system is still adjusting to all the changes the Legislature made to increase contributions and cut benefits. It also rejected a suggestion to reduce the pay raises public employees are expected to receive.

"We've just got to give this bill a little time to breathe," Dan Villa, the governor's budget director, told the board.

The actuary reported that the Legislature's fix would ensure that in about 16 years, the system will have enough assets to meet its obligations, if temporary increases to employee and employer contributions remain in place. Without those contributions, it would take about 26 years to balance the system.

Without the Legislature’s action to increase contributions and cut benefits, the system was never projected to be able to meet its obligations and would eventually run out of money in the coming decades.

A portion of the fix, though, is still subject to a lawsuit from retirees.

Retired public employees have threatened to sue, saying that the reduction of inflationary increases to the retirement benefit constituted an unconstitutional change in their contract with the state. A lawsuit could come later this month, or next month, a retiree group has said.

A similar lawsuit is expected against a similar legislative fix for the teacher’s retirement program.

Known hand to head investment board

BRIAN BAKST, Associated Press | Posted: Thursday, September 12, 2013 8:06 am

ST. PAUL — After a national search, Minnesota officials turned to a hometown candidate and known hand to steer the state's $68 billion investment portfolio.

By unanimous vote, the State Board of Investment selected Mansco Perry III on Wednesday to be executive director — the first in more than three decades. Perry served for many years as a deputy in the office and most recently managed the endowment at St. Paul's Macalester College. He replaces former boss Howard Bicker, who is retiring next month.

Perry was the sole finalist interviewed publicly by the board, which is comprised of the governor, attorney general, state auditor and secretary of state. The search started with 55 candidates from the public and private sectors and was whittled down through several stages. Minnesota contracted with an executive search firm and paid about $100,000 for the personnel hunt.

It's the first new face at the top since 1981, when Bicker took over what was then a $6 billion fund. The state has averaged a 10 percent annual return during his tenure.

In bidding farewell at Wednesday's board meeting, Bicker said he tried to chart a steady course for a fund made up of public worker pension accounts and other state holdings.

"We may miss the big home run. We're not worried about that. We'd rather do just fine," Bicker said.

Perry, 60, said he has a similar investment philosophy: Stick to a disciplined strategy and avoid exotic investments that can bring big gains or terrible losses.

"I'm probably as conservative as Howard is although I'm willing to look at the new thing in the event that sometime down the road it becomes more traditional," Perry told the board in his brief interview preceding the vote. "I'm probably less faddish than Howard is."

Perry said the search firm approached him several times before he decided to lend his name to the mix.

He will earn a salary of $325,000 a year — almost three times the governor's pay. He was earning $319,000 at Macalester.

A married father of two, Perry lives in Eagan. Away from investing, he's an avid collector of sports memorabilia who dabbles in baseball history, coin collecting and golf.

Perry is originally from New Jersey, but came to Minnesota to pursue a degree in history from Carlton College in Northfield. He later added a master's degree in business from the University of Chicago and a law degree from William Mitchell College of Law in St. Paul.

His professional career began in the private sector, working for well-known companies Cargill, Citibank and Dayton Hudson. He entered state government in 1987 as an analyst at the Department of Revenue before sliding over to the State Board of Investment, where he held various roles over 18 years.

His stint as the chief investment officer at the Maryland State Retirement Agency — a $33 billion enterprise — lasted only a couple of years. He has been back in Minnesota since 2010 at Macalester.

Judy Mares, the top investment officer at Alliant Tech Systems, was involved in screening candidates. She said Perry quickly rose to top and engendered "recommendations and respect from us and his peers within the industry."

After the meeting, Perry headed over to his former mentor for a handshake. Bicker smiled, telling Perry with a hearty laugh, "It's all yours baby."