Agenda

ND Teachers' Fund for Retirement Board Meeting

Thursday, April 21, 2016
1:00 pm

Peace Garden Room
State Capitol, Bismarck, ND

1. Call to Order and Approval of Agenda - Pres. Gessner (Board Action) 5 min

2. Approval of Minutes of March 17, 2016 Meeting – Pres. Gessner (Board Action) 5 min

3. Board Education: Fiduciary Duties/Ethics – Jan Murtha, AGO (Information) 30 minutes

4. Annual Pension Plan Comparisons Report – Fay Kopp (Board Action) 30 minutes

5. Ineligible TFFR Salary Policy – Fay Kopp (Board Action) 10 min

6. Experience Study Assumption Changes Update - Shelly Schumacher (Info) 10 min

7. Asset Allocation Implementation Update – Dave Hunter (Information) 10 min

8. Actuarial Audit Update - Fay Kopp (Information) 10 min

9. Federal Issues – Fay Kopp (Information) 10 min

10. Consent Agenda – QDRO and Disability Applications (Board Action) 5 min
    *Executive session possible if Board discusses confidential information under NDCC 15-39.1-30.

11. Executive Session – Benefit Overpayment (Board Action) 10 min
    **Executive Session required since Board will discuss confidential information under NDCC 15-39.1-30.

12. Board Vacancy and Resolution – Fay Kopp, Mike Gessner (Board Action) 10 minutes

13. Other Business
    Next Board Meeting: July 21, 2016

14. Adjournment

Coffee Party Honoring
KIM FRANZ
TFFR Board Trustee, 2006-2016

Any person who requires an auxiliary aid or service should contact the Retirement and Investment Office at 701-328-9885 at least three (3) days before the scheduled meeting.

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
MARCH 17, 2016, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Gessner, President Kirsten Baesler, State Superintendent Mike Burton, Trustee Kim Franz, Trustee Rob Lech, Trustee Mel Olson, Trustee Kelly Schmidt, State Treasurer
STAFF PRESENT:	David Hunter, ED/CIO Fay Kopp, Deputy ED/CRO Terra Miller Bowley, Audit Services Supervisor Darlene Roppel, Retirement Assistant Shelly Schumacher, Retirement Program Manager
OTHERS PRESENT:	Brent Banister, Cavanaugh Macdonald Consulting Patrice Beckham,Cavanaugh Macdonald Consulting Ryan Falls, Gabriel Roeder Smith & Co. Kathy Kindschi, NDU-Retired Janilyn Murtha, Attorney General's Office Joe Newton, Gabriel Roeder Smith & Co. Mark Wagner, NDCTE

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, March 17, 2016, in the Peace Garden Room at the State Capitol in Bismarck, ND.

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

APPROVAL OF AGENDA:
The Board considered the meeting agenda.

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

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

MINUTES:
The board considered the minutes of the TFFR board meeting held January 21, 2016.

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO APPROVE THE MINUTES OF THE TFFR BOARD MEETING HELD JANUARY 21, 2016.

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

ACTUARIAL AUDIT CONSULTANT PRESENTATIONS:
Gabriel, Roeder, Smith & Co. (GRS) and Cavanaugh Macdonald Consulting (CavMac) are the two finalists for conducting the actuarial audit of the current actuary, Segal Company.

MR. LECH MOVED AND MR. BURTON SECONDED TO SEQUESTER COMPETITORS DURING FINALIST PRESENTATIONS PER NDCC 44.04.19.2(6).

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

Mrs. Kopp introduced Mr. Ryan Falls and Mr. Joe Newton from GRS. Mr. Falls and Mr. Newton presented information on their qualifications and experience, approach to the project, and method of communication. Discussion and questions followed. Mr. Falls and Mr. Newton left the meeting after completion of their presentation.

Mrs. Kopp introduced Ms. Patrice Beckham and Mr. Brent Banister, representing CavMac. They reviewed their approach to the actuarial audit process, experience and qualifications, and how they would work with the current actuary. Discussion and questions followed. Ms. Beckham and Mr. Banister left the meeting after completion of their presentation.

Supt. Baesler left the meeting at 1:45 p.m.

The board recessed at 2:27 p.m. and reconvened at 2:45 p.m.

ACTUARIAL AUDIT CONSULTANT SELECTION:
Mrs. Kopp reviewed the process of issuing the Request for Proposal (RFP) for Actuarial Audit Services. Proposals were received from Bolton Partners, CavMac, Cheiron, GRS, Gallagher Benefit Services, and Pension Trustee Advisors (partnered with KMS Actuaries). The proposals were reviewed by the Proposal Evaluation Committee (Mr. Hunter, Mrs. Kopp, and Mrs. Schumacher), and scored. In general, the proposals were of excellent quality. GRS and CavMac were ranked the highest with the greatest number of total points in both technical and cost proposals. Based on the rankings, the Proposal Evaluation Committee selected GRS and CavMac as finalists, and invited them for oral presentations. Mrs. Kopp called additional references on GRS and CavMac and received very positive comments.

After board discussion of the finalists' proposals, experience, qualifications, cost, references, oral presentations, and communication skills,

MR. LECH MOVED AND MR. OLSON SECONDED TO SELECT CAVANAUGH MACDONALD CONSULTING TO CONDUCT AN ACTUARIAL AUDIT OF THE CURRENT ACTUARY, SEGAL COMPANY.

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

ELIGIBLE SALARY DETERMINATION:
Mrs. Kopp reviewed the issue of whether or not payments for certain duties performed by employees licensed by ESPB and contracted to provide teaching, supervisory, administrative, or extracurricular services by a TFFR participating employer are eligible compensation for TFFR purposes. These duties include equipment, machinery and computer maintenance and repair, and jobsite prep or finish work for building construction.

To review this issue, Mrs. Kopp and Mrs. Schumacher met with Mr. Wayne Kutzer and Mr. Mark Wagner, North Dakota Career and Technology Education (NDCTE). A small working group of state and local directors of CTE's also met with TFFR staff to provide input regarding the work duties, employment structures and payments made for these duties. NDCC 15-39.1-04(10)(h) allows the board to make determinations regarding eligible salary. Based on CTE input and RIO audit and retirement staff review, the staff recommends the following: additional payments made by a TFFR participating employer to a TFFR member for equipment maintenance and repair, jobsite prep and finish work, and similar types of nonteaching duties are not eligible salary for TFFR purposes IF the duties are not included on the member's regular teaching contract(s).

Mrs. Jan Murtha, TFFR legal counsel, also reviewed staff's recommendation and had no concerns. After discussion,

MR. OLSON MOVED AND MR. LECH SECONDED TO APPROVE THE STAFF RECOMMENDATION AND TO AUTHORIZE STAFF TO DRAFT BOARD POLICY THAT PROVIDES: ADDITIONAL PAYMENTS MADE BY A TFFR PARTICIPATING EMPLOYER TO A TFFR MEMBER FOR EQUIPMENT MAINTENANCE AND REPAIR, JOBSITE PREP AND FINISH WORK, AND SIMILAR TYPES OF NONTEACHING DUTIES ARE NOT ELIGIBLE SALARY FOR TFFR PURPOSES IF THE DUTIES ARE NOT INCLUDED ON THE MEMBER'S REGULAR TEACHING CONTRACT(S).

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

TFFR QUARTERLY INVESTMENT UPDATE:

Mr. Hunter provided the investment update for the periods ended December 31, 2015. For the one year ended December 31, 2015, TFFR generated a net investment return of 0.64% versus a policy benchmark of 0.15%. TFFR generated a net return of 6.9% for the 5-years ended December 31, 2015, which exceeded the policy benchmark by 0.69%. TFFR's returns have consistently ranked in the 1st or 2nd quartile of the Callan Public Fund database over the last 1-, 3-, and 5-year periods. These returns have been achieved using less risk than peers during the last 1- and 3-year periods. Board discussion followed.

AUDIT SERVICES QUARTERLY UPDATE:

Ms. Miller-Bowley presented the quarterly audit activities report for October 1, 2015 – December 31, 2015. A total of fifteen employer audits have been completed year to date including fourteen TFFR Compliance Audits and one Not in Compliance Review. Eight audits are currently in progress and represent the end of the third audit cycle. The TFFR file maintenance audit was completed with no exceptions noted. The executive limitation audit for calendar year 2015 commenced in November 2015. The Executive Director/CIO requested Audit Services review the reasonableness of the Investment Performance Summary table in RIO's CAFR for the last five fiscal years ended June 30, 2015, and annualized returns for the 3, 5, 10, and 20-year periods ended June 15, 2015. Audit Services will focus on completing the review by the end of the current fiscal year.

President Gessner thanked Ms. Miller-Bowley for the wonderful job she has done since assuming her position.

2016-17 BOARD CALENDAR AND EDUCATION PLAN:

Mrs. Kopp presented the 2016-17 board calendar and education plan. Six board meetings have been scheduled as required by the TFFR board policy C-2, for the day preceding the State Investment Board (SIB) meetings beginning in July 2016. Suggestions are welcome for topics to be covered in Board Education that would assist board members in carrying out their responsibilities. Mr. Lech suggested providing information on other states' teachers' retirement plans.

MR. LECH MOVED AND MR. OLSON SECONDED TO APPROVE THE 2016-17 BOARD MEETING SCHEDULE AND BOARD EDUCATION PLAN AS PRESENTED.

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

TRUSTEE EDUCATIONAL CONFERENCES:

Mrs. Kopp presented information on various 2016 pension trustee educational opportunities. Please contact Mrs. Kopp, Ms. Bonnie Heit or Mrs. Roppel if interested in attending one.

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH CONSISTED OF QDRO'S # 2016-01 AND 2016-02 AND DISABILITY # 2016-2D.

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

OTHER BUSINESS:

The next regular board meeting will be held April 21, 2016, in the Peace Garden Room at the State Capitol.

All presentations and reports from this meeting are on file at RIO.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 3:45 p.m.

Respectfully Submitted:

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

____
Darlene Roppel
Reporting Secretary

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
  - Note: NDCC § 59-09-02(2)
- 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. The trustee's duty of impartiality includes a duty to so invest and administer the trust, or to so account for principal and income, that the trust estate will produce income that is reasonably appropriate to the purposes of the trust and to the diverse present and future interests of its beneficiaries.

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.
- A trustee compliant with the duty of delegation is not liable to the beneficiaries or trust for an action of the agent to whom the function was delegated.

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

  See NDCC § 12.1-13-01: Class C Felony for a public servant to knowingly release confidential information.
- 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

Breach

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

  See NDCC § 12.1-11-06: Class A misdemeanor for public servant to refuse to perform any duty imposed by law.

Breach of Duty of Loyalty:
Stapleton v. PERA, 2013 WL 3943272 (Colo.App.)

- State Treasurer, as member of PERA Board, brought action against co-trustees for breach of fiduciary duty by denying Treasurer unfettered access to PERA records.
- Remaining trustees counterclaimed alleging Treasurer was not entitled to requested records because there was no nexus between request and Treasurer's fiduciary duties to PERA.
- Held: State Treasurer was not entitled to unfettered access to PERA records.

Mistake Avoidance

- Ask questions
- Education
- Ask more questions
- Education

Board Member Liability

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

Definitions: N.D.C.C. Ch. 32-12.2

- "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???

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: April 14, 2016

SUBJ: Annual Public Pension Plan Comparisons Report
2014 Public Fund Survey

Attached is the Public Fund Survey (PFS) for FY 2014 (published March 2016) conducted by NASRA. This survey provides information on key characteristics of most of the nation's largest public retirement systems.

Keep in mind that the survey does not include 2015 actuarial and investment information which will be reflected in next year's survey.

As I do each year, I will make a brief presentation at the meeting comparing NDTFFR to the 2014 Public Fund Survey.

BOARD ACTION REQUESTED: Accept annual public pension plan comparisons report.

Attachment

Public Pension Plan Comparisons

ND Teachers' Fund for Retirement Board

April 2016

2014 Public Fund Survey

- Published March 2016 for FY 2014
  - **Survey results do not include FY 2015 data.**
- Includes key characteristics of 126 large public retirement plans.
- Represents about 85% of entire state and local government (SLG) retirement system community.
- Survey data compiled by Center for Retirement Research at Boston College.
- Sponsored by NASRA since 2001.
- Accessible online at www.publicfundsurvey.org

Public Pension Plans Overview

- Retirement benefits play an important role in attracting and retaining qualified employees needed to perform essential public services, promote orderly turnover of workers, and enhance the retirement security of a large segment of the nation’s workforce.

- Pension plans provide stable and adequate income replacement in retirement for long-term SLG public employees and teachers, and ancillary benefits related to disability and death before retirement.

- SLG systems generally are funded in advance by investing employee and employer contributions during employees’ working years. Benefits are distributed in the form of a lifetime payout in retirement.

Response to 2008-09 Market Decline

- 2008-09 market decline, combined with other factors, increased plan's unfunded liabilities – and the cost of amortizing them - for most public pension plans.
- In past 5 years, many public plan sponsors have responded to higher pension costs by:
  - Raising contributions from employees
  - Raising contributions from employers
  - Reducing benefits (primarily for new hires) – higher retirement ages, lower retirement multipliers, increased vesting requirements, etc.
  - Capping benefits or salaries; addressing salary spiking, etc.
  - Offering DC or hybrid plan designs for new employees.
  - Postponing or reducing future retiree COLAs

Legal Authority to Make Changes

- Authority to revise benefit and financing arrangements varies widely among states, depending on a combination of constitutional and statutory provisions and case law.
  - New hires only
  - Future benefit accrual patterns for existing plan participants
  - Future retiree COLAs
  - Other
- Outcome of lawsuits in various states.

Actuarial Funding Levels

- Funding ratio is most recognized measure of plan’s financial health.
- Determined by dividing actuarial value of assets by liabilities.
- Both fully funded and underfunded plans rely on future contributions and investment returns.
- Plan’s funded status is a snapshot in a long-term, continuous financial and actuarial process.
- Most public pension benefits are prefunded.
  - Significant portion of assets needed to fund liabilities is accumulated during working life of participant.
- Pay-as-you-go is opposite of prefunded
  - Current pension obligations are paid with current revenues.
  - Much more expensive

Actuarial Funding Levels

- Public pension plans are designed to moderate year-to-year changes in funding levels and required costs in the face of events such as investment market volatility. This is accomplished with:
  - Portfolio diversification.
  - Long investment and funding horizons.
  - Actuarial smoothing methods, which phase in investment gains and losses over several years.
  - Amortization periods, which enable plans to set and pursue long-term funding and investment policies.
  - Use of a discount rate that is consistent with historic and projected long-term investment returns.

Actuarial Funding Levels

- Investment returns have a substantial effect on a pension plan's funding level.
  - Investment market performance was relatively strong during the 1990s, followed by two periods, from 2000-02 and 2008-09, of sharp market declines.
- Other factors that affect a plan's funding level include actual contributions received relative to those that are required; changes in benefit levels; changes in actuarial assumptions; and rates of employee salary growth.

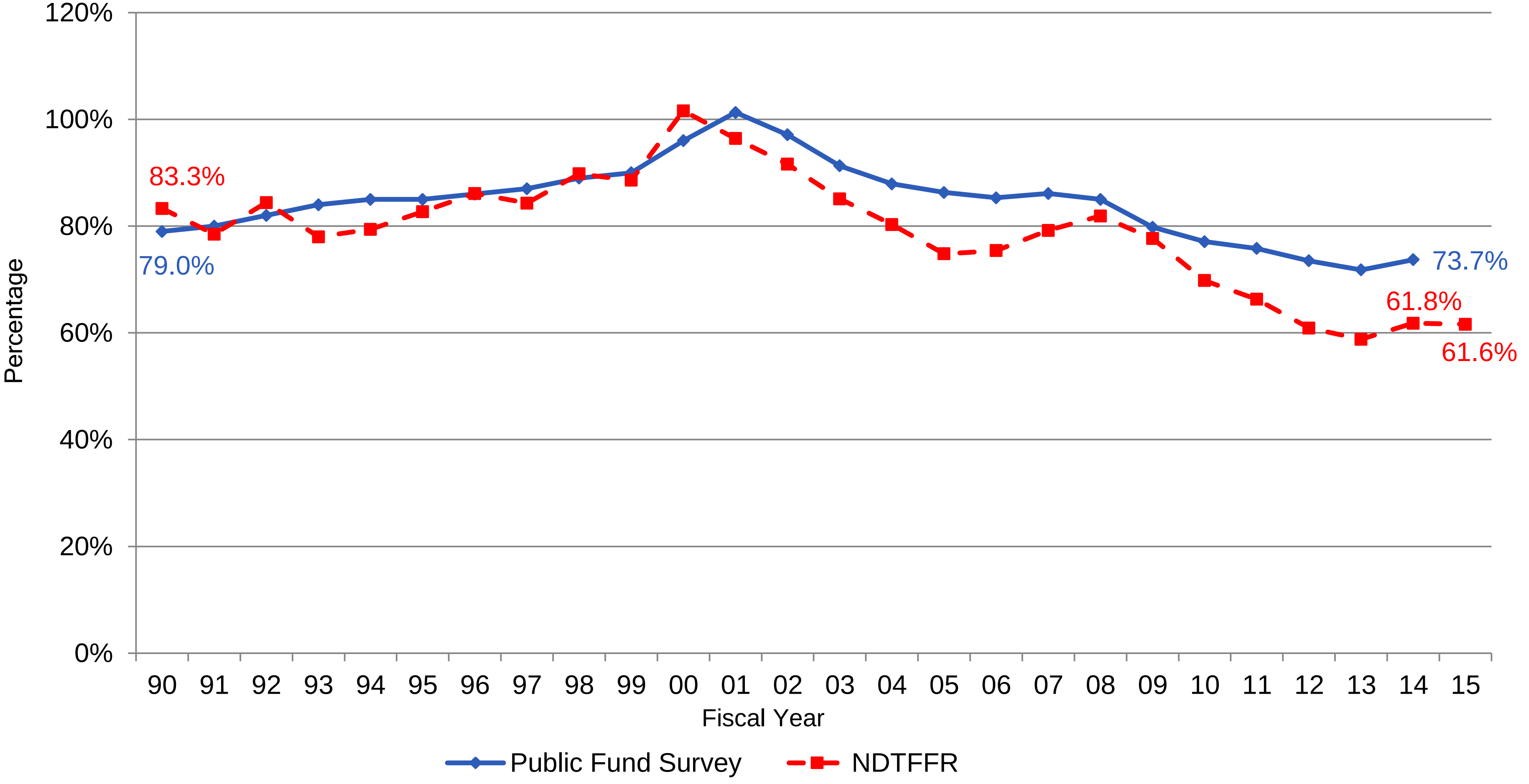
Actuarial Funding Levels

- According to the 2014 Public Fund Survey, the median public pension funding levels improved from 71.8% in FY13 to 73.7% in FY14.

- NDTFFR improved from 58.8% in FY 13 to 61.8% in FY14.
  - NDTFFR ranking is 92 of 126 plans in 2014 Survey. (NDTFFR ranking was 102 of 126 plans in 2013 Survey.)

  - NDTFFR funding level declined slightly to 61.6% in 2015 primarily due to changes in actuarial assumptions (investment return and mortality tables).

Change in Actuarial Funding Levels

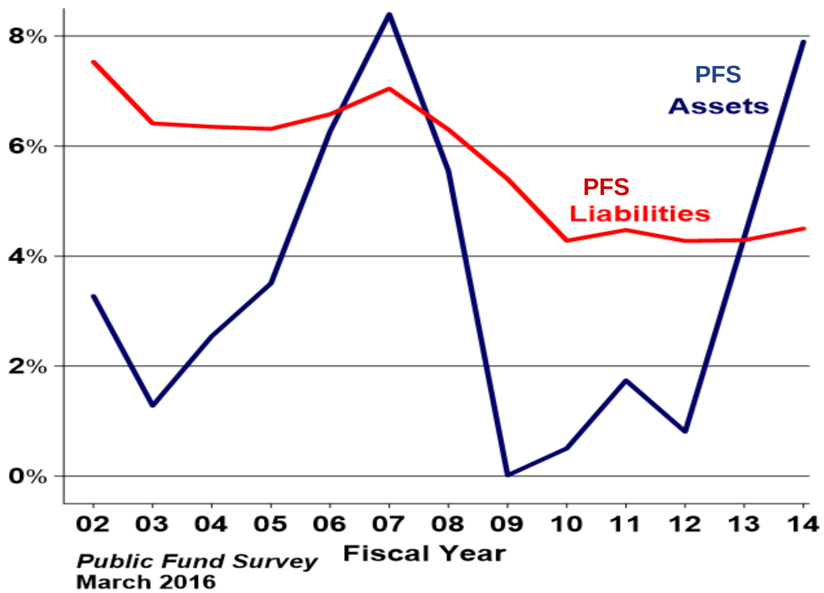


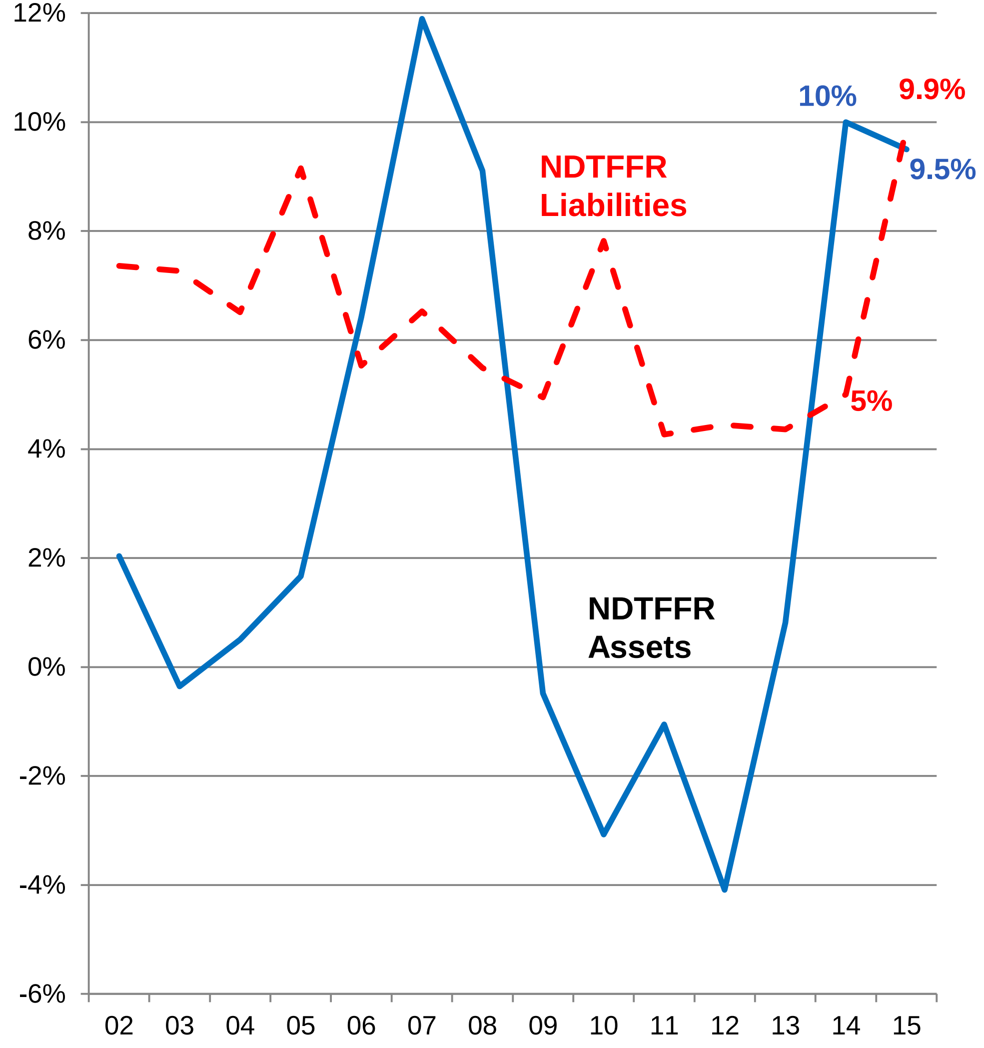
*Note: 1990-2000 PFS funding level numbers are biannual

Actuarial Assets and Liabilities

- For a pension plan’s funding to improve, its AVA must grow faster than its AVL.
- For most plans in the PFS, liability growth remains lower, at a median rate at or below 4.5% for 5 consecutive years.
  - Lower rate of growth in liabilities is due to low salary growth, declining or stagnant employment levels in most SLGs, and the many reductions in pension benefits enacted in recent years.
  - Rates of liability growth would be lower were it not for many plans reducing their investment return assumptions in recent years, which increases a plan’s liabilities.
- NDTFFR liability growth has generally declined over the past decade, but changes in actuarial assumptions following experience studies increased liabilities in 2005, 2010, and 2015.
- Tepid asset growth from FY09 to FY13 reflects the actuarial smoothing of assets of the sharp market declines experienced in 2008-09. These losses now have been nearly or fully recognized. The strong growth in FY14 reflects improvement in AVA levels as more recent robust market gains are recognized.
- NDTFFR asset growth followed similar trends as the PFS, although asset returns were more volatile.

Change in Actuarial Assets & Liabilities

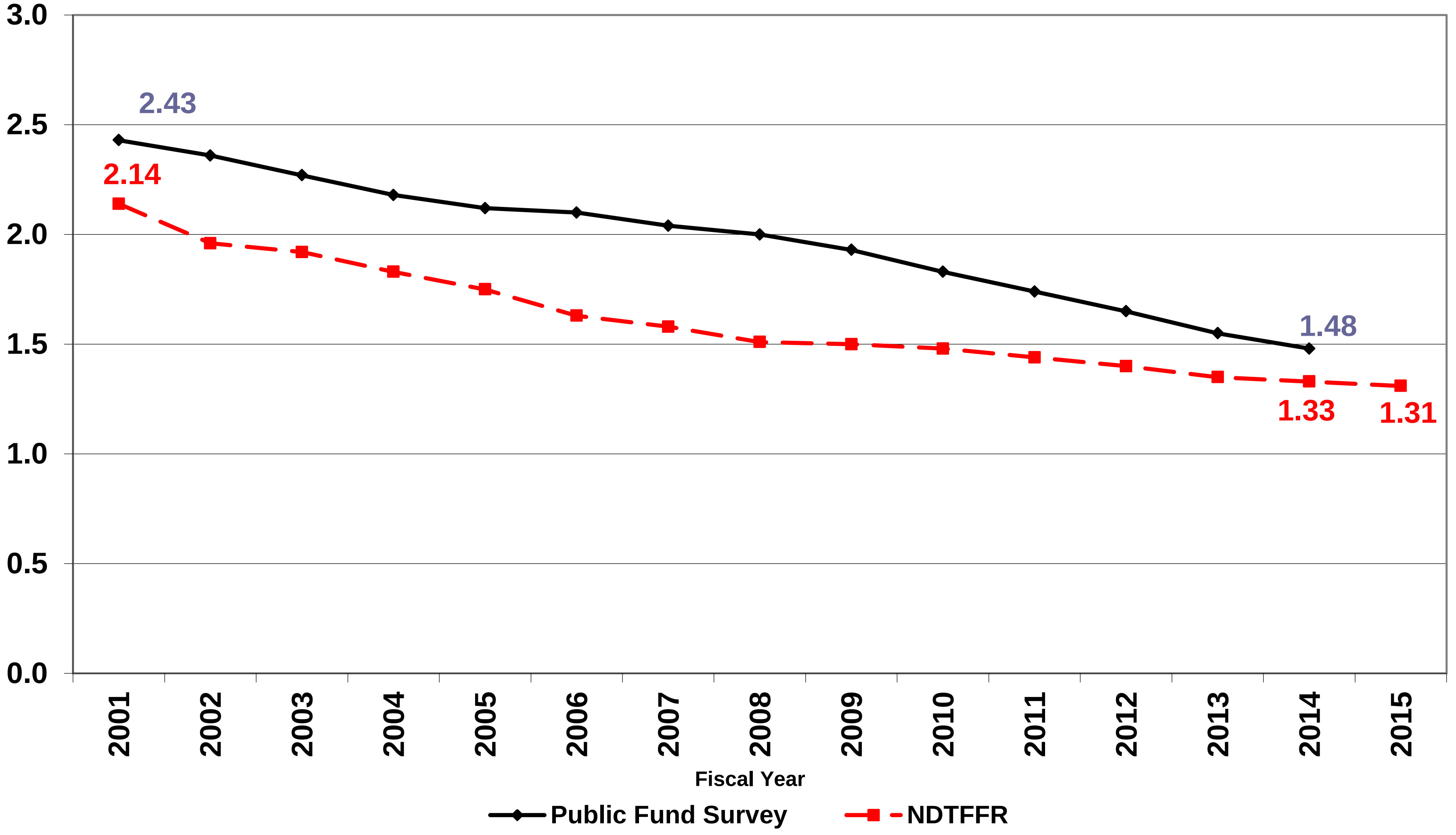




Membership Changes

- PFS shows the rate of increase in annuitants continued a pattern of annual growth of around 4%.
- Number of active members declined for the 6th consecutive year which is consistent with U.S. Census Bureau reports showing a reduction in the number of persons employed by SLGs.
- The difference between the continued increase in annuitants and a declining number of active members is driving a sustained reduction in the overall ratio of actives to annuitants. In FY14, this ratio dropped to 1.48.
- For NDTFFR the ratio was 1.33 in FY 14 (and 1.31 in FY 15).
- Although a declining active-annuitant ratio does not, by itself, pose an actuarial or financial problem, when combined with a poorly-funded plan with a high UAAL, a low or declining ratio of actives to annuitants can result in relatively high required pension costs for plans like NDTFFR.

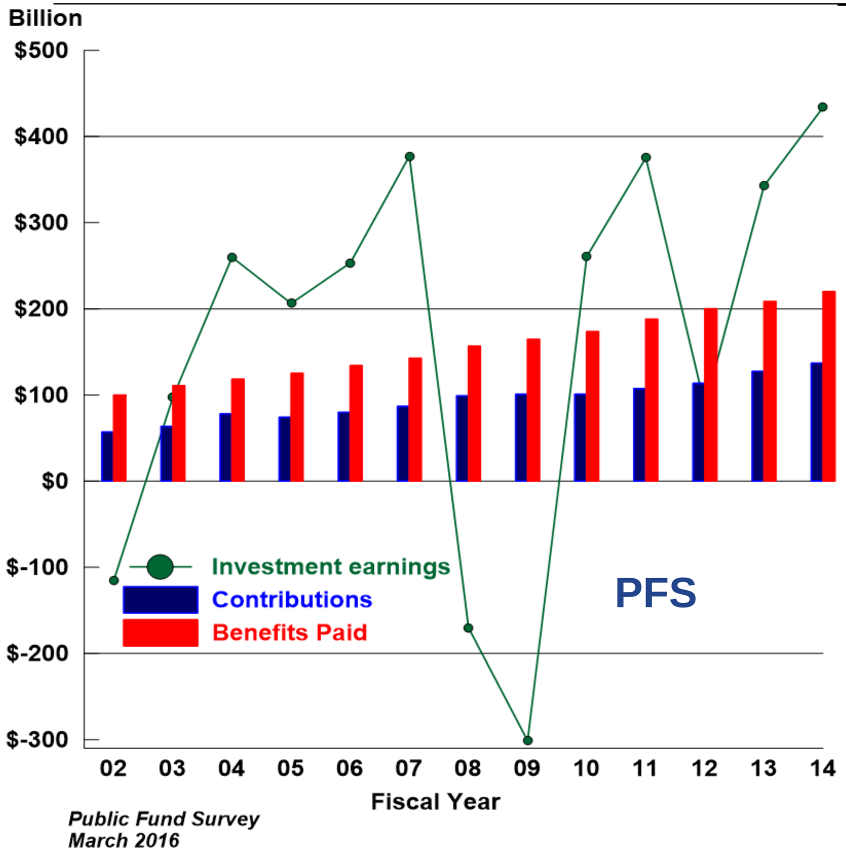
Ratio of Active Members to Annuitants

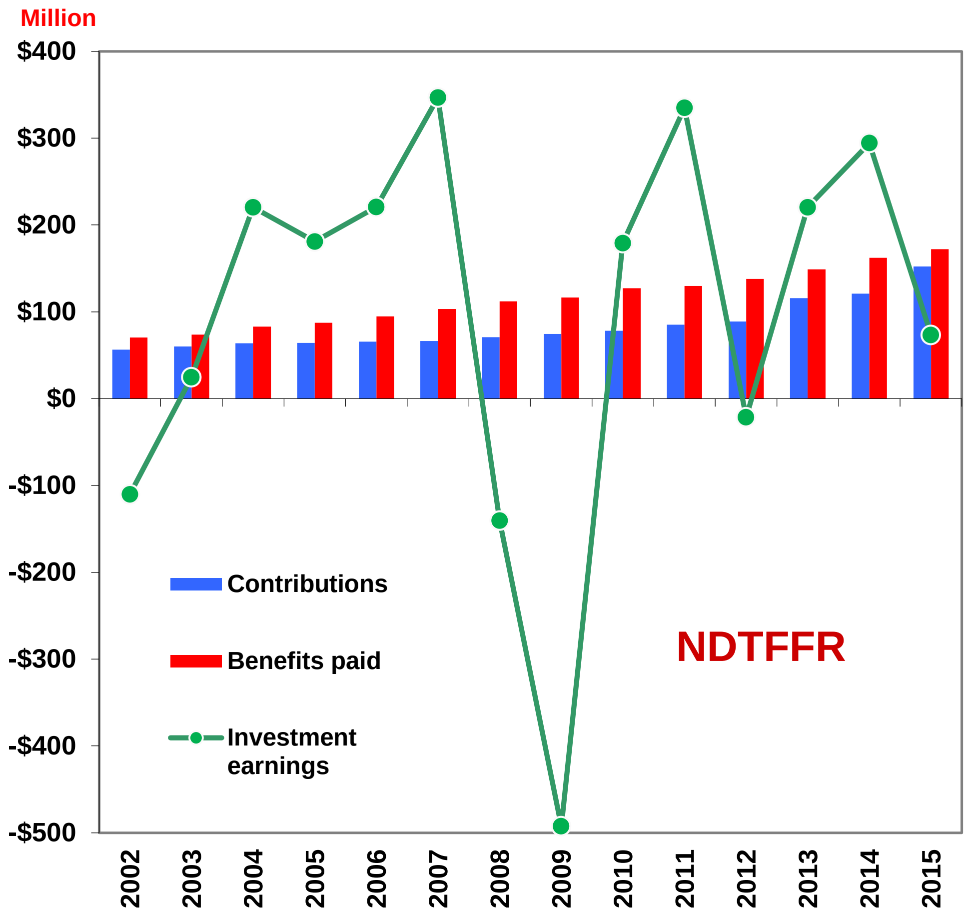


Revenues, Expenditures, and Investment Earnings

- Contributions and investment earnings accrue to pension trust funds, established for the sole purpose of paying benefits and funding administrative costs.
- Benefits paid by public retirement systems are paid from trust funds; pension payments are not made from SLG operating budgets or general funds.
- Growth in levels of contributions and benefits is mostly stable and predictable over time.
- Investment earnings, which comprise over 60% of public pension revenues over the past 30 years, vacillate, often appreciably, depending on market performance.

TFFR Revenues and Distributions





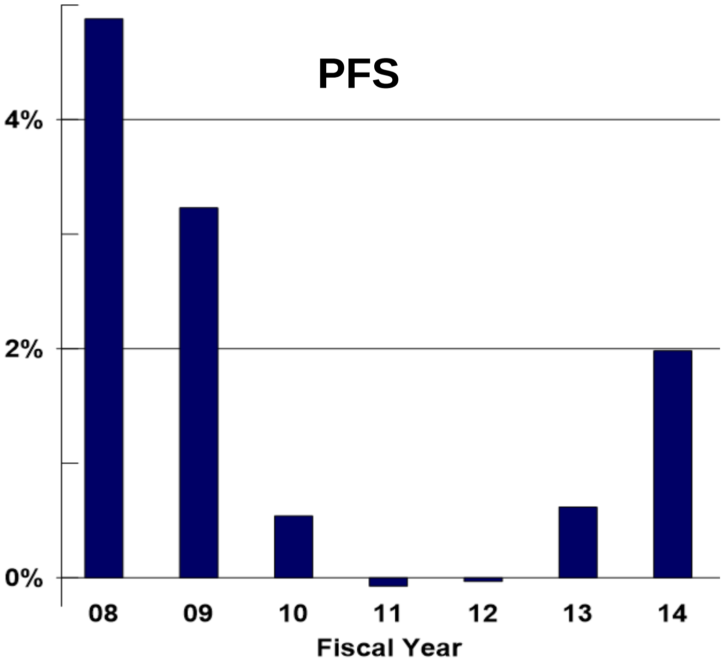
Annual Change in Payroll

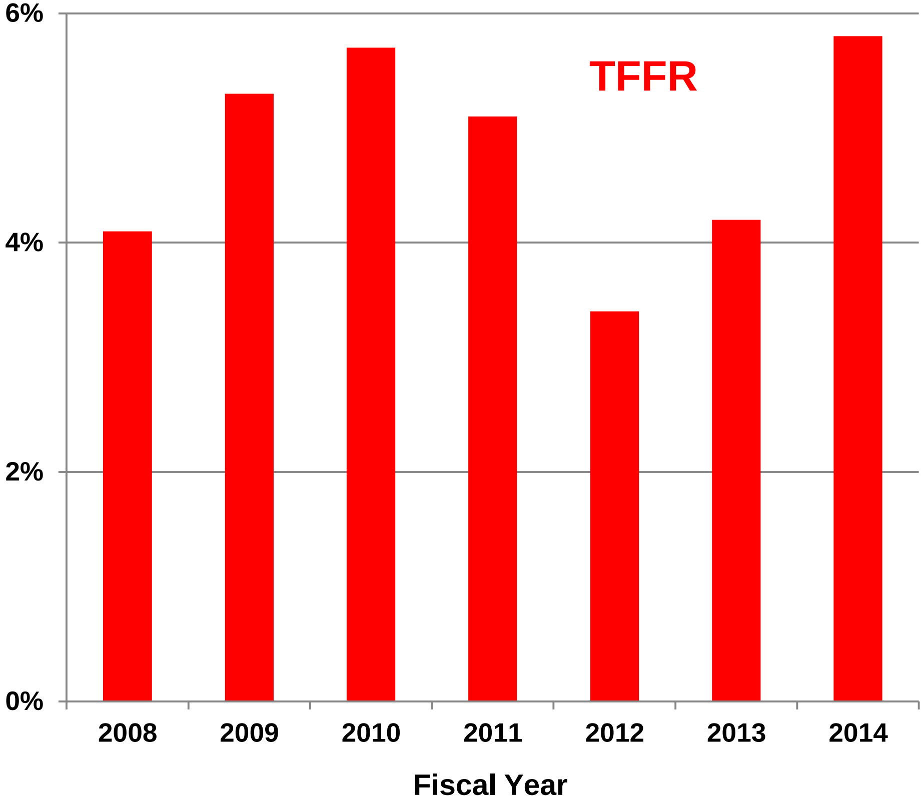
- Median change in active member payroll from FY 09 to FY 12 was either negative or in decline. This reflects:
  - Stagnant or declining employment levels
  - Modest salary growth

- Wage growth for public workers has increased in FY 2013 and 2014 for participants in the survey.

- NDTFFR active payroll increased an average of 4.8% from $417.7 million in 2008 to $557.2 million in 2014.

Annual Change in Payroll

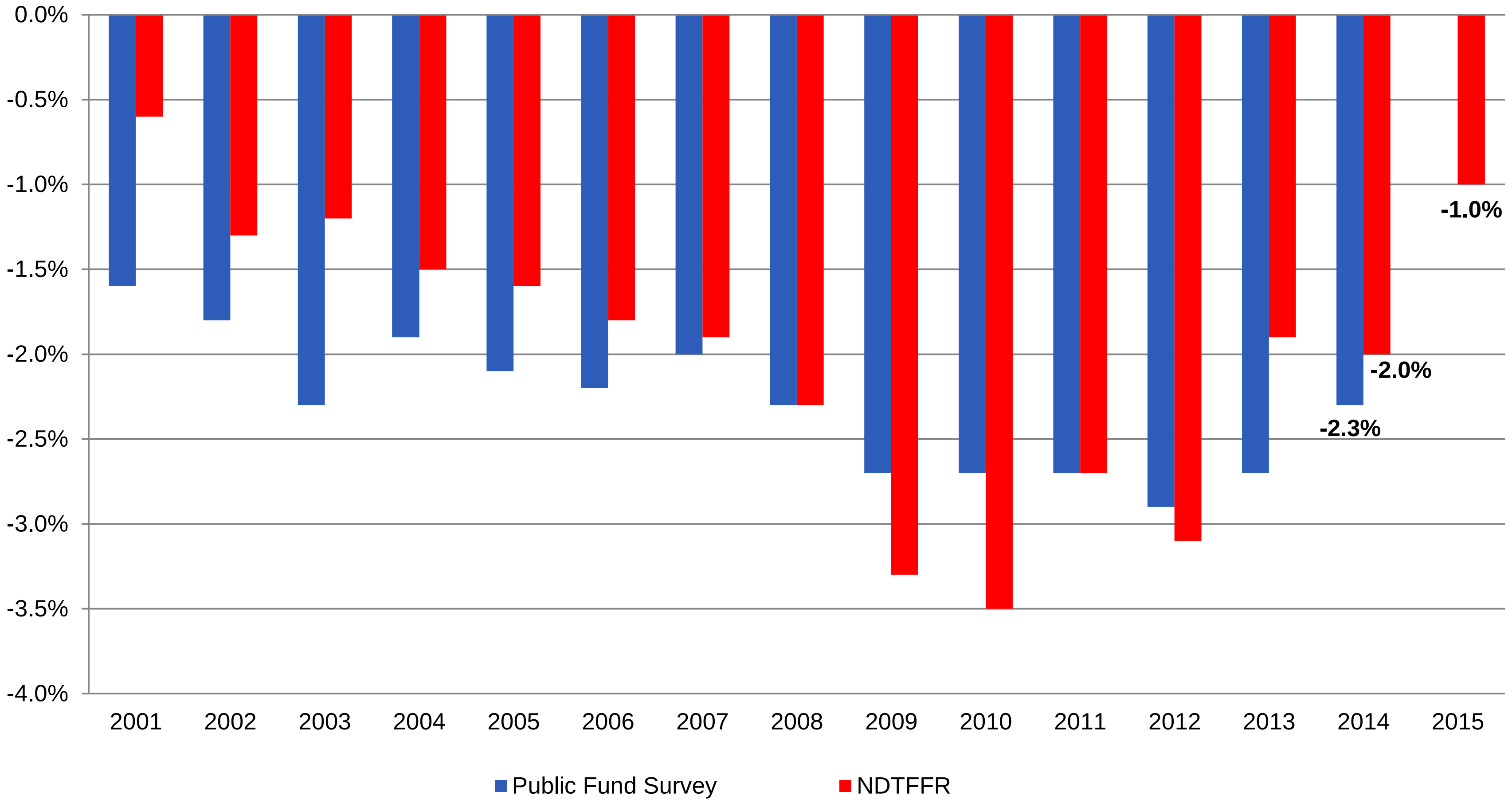




External Cash Flow

- External cash flow is the difference between a system's contributions in and payments out for benefits and administrative expenses, divided into the value of the system's assets.
  - A growing number of annuitants, combined with low or negative rate of growth in active members will result in a reduction in external cash flow.
  - Conversely, a growing asset base will offset a rate of negative cash flow.
- Nearly all systems have external cash flow that is negative, meaning they pay out more each year than they collect in contributions.
  - By itself, negative cash flow is not an indication of financial or actuarial distress.
  - A lower or more negative cash flow may require the system's assets to be managed more conservatively, with a larger allocation to more liquid assets to meet payroll requirements.
- Survey results show external cash flow changed from -2.7% in FY13 to -2.3% in FY 14.
- NDTFFR external cash flow changed from -1.9% in FY13 to -2.0% in FY 14 (and -1.0% in FY 15).

External Cash Flow



Contribution Rates

- Variety of arrangements for payment of employee and employer contribution rates.
  - Employee rates are typically fixed % of pay.
  - Employer rates may be fixed or floating.
  - Rates may be set by statute, actuarial requirements, board, etc.

- Contribution rates differ on basis of Social Security participation.
  - About 30% of employees of SLGs do not participate in Social Security.
  - About 40% of all public school teachers do not participate in Social Security.

- Other considerations include benefit design (benefit multiplier, early retirement eligibility, vesting, automatic retiree increase provisions); statutory limits; funded status; actuarial assumptions; demographics (number of females, retirement rates, termination rates, etc.)

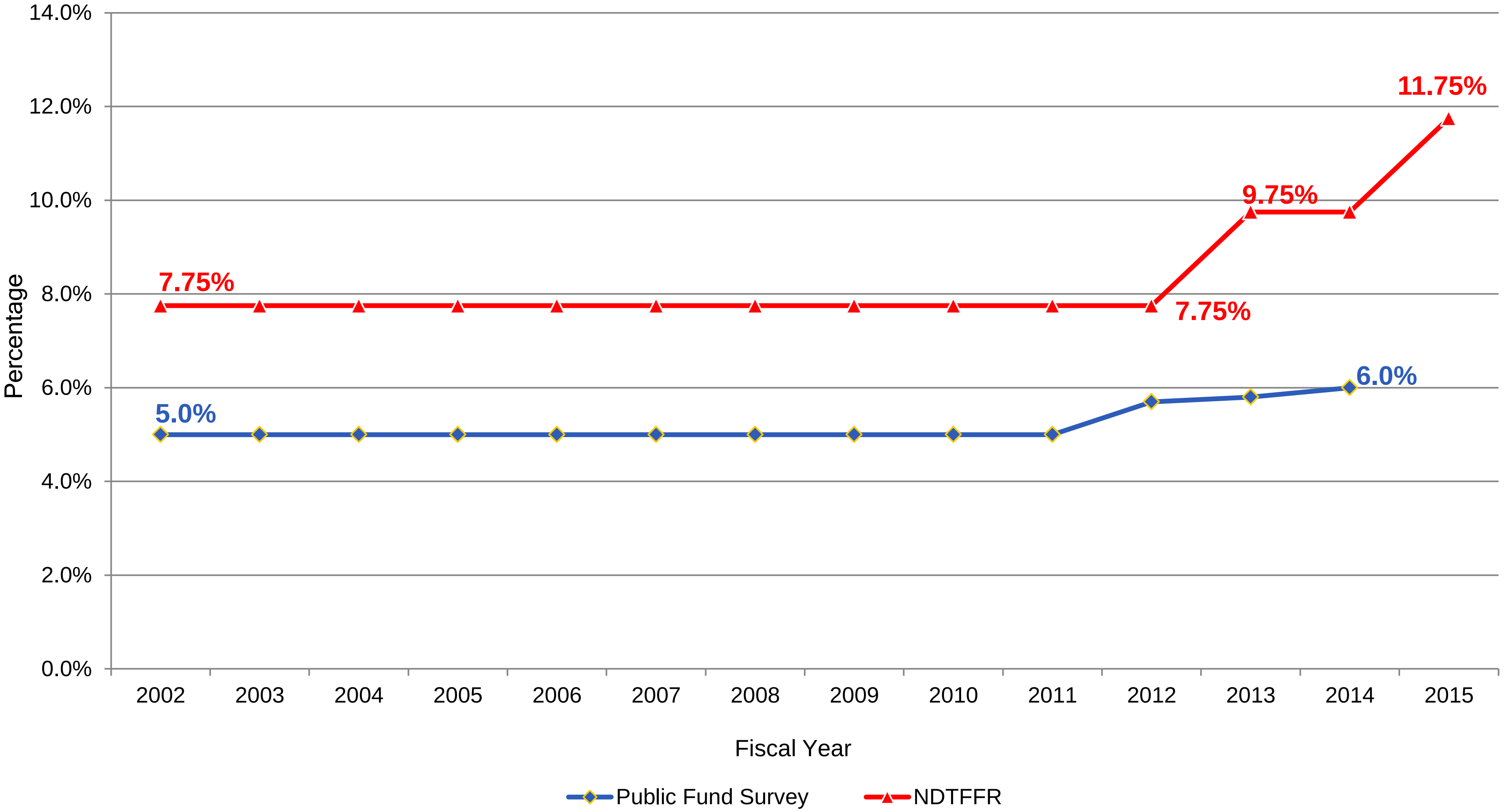
Contribution Rates

- Nearly every state has made changes to its pension plan; since 2009, the most common change has been an increase in required employee contribution rates.

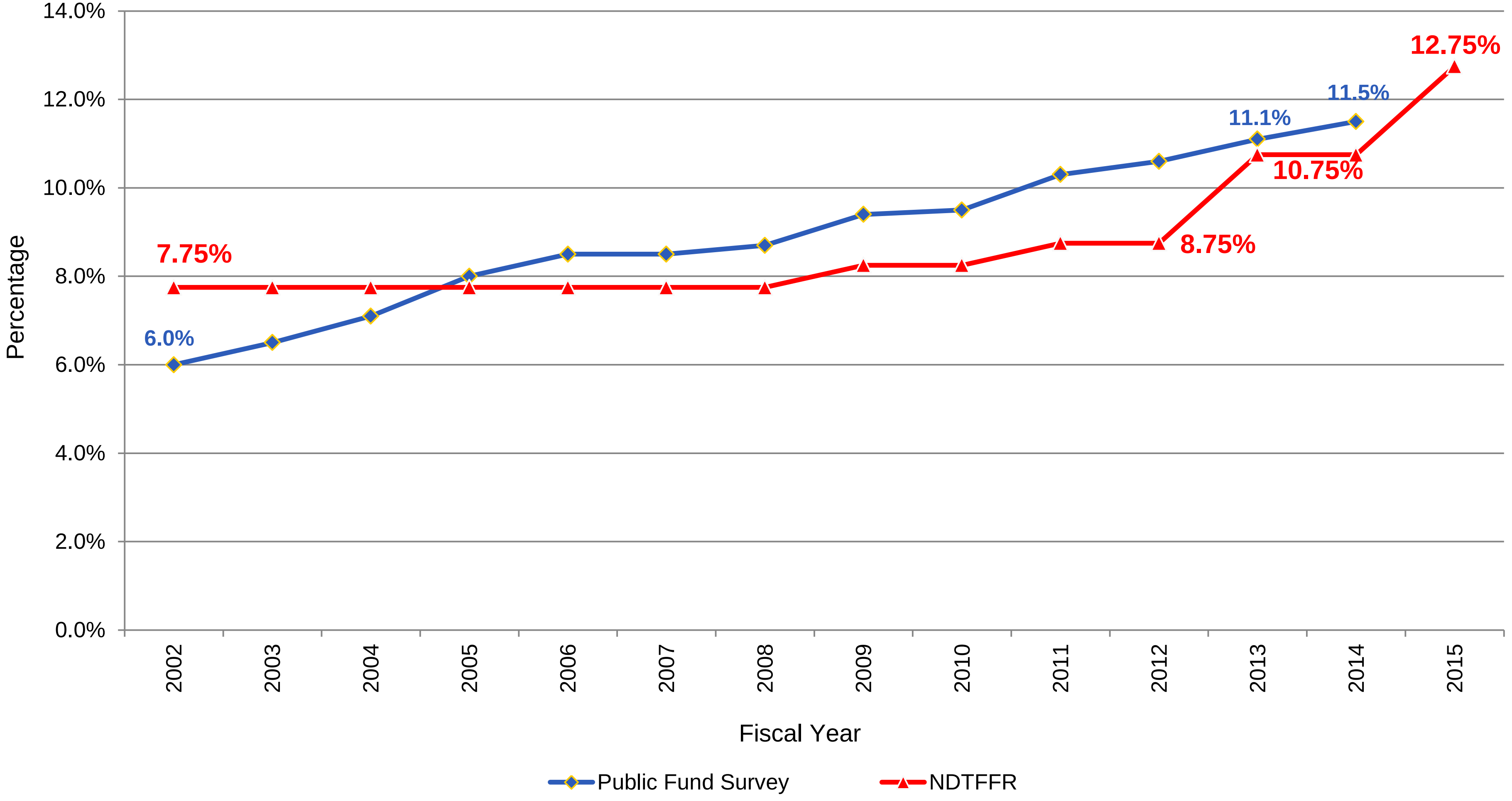
- Median **employee** contribution rate increased to 6.0% in 2014 for Social Security eligible workers.
  - NDTFFR employee rate is 11.75% effective 7/1/14. This rate will be in effect until the plan is 100% funded.

- Median **employer** contribution rate rose to 11.5% in 2014 for Social Security eligible workers.
  - NDTFFR employer rate is 12.75% effective 7/1/14. This rate will be in effect until the plan is 100% funded.

Employee Contribution Rates



Employer Contribution Rates



Actuarially Determined Contribution

- An actuarially determined contribution (ADC)is a target or recommended contribution to a DB pension plan as defined by GASB.

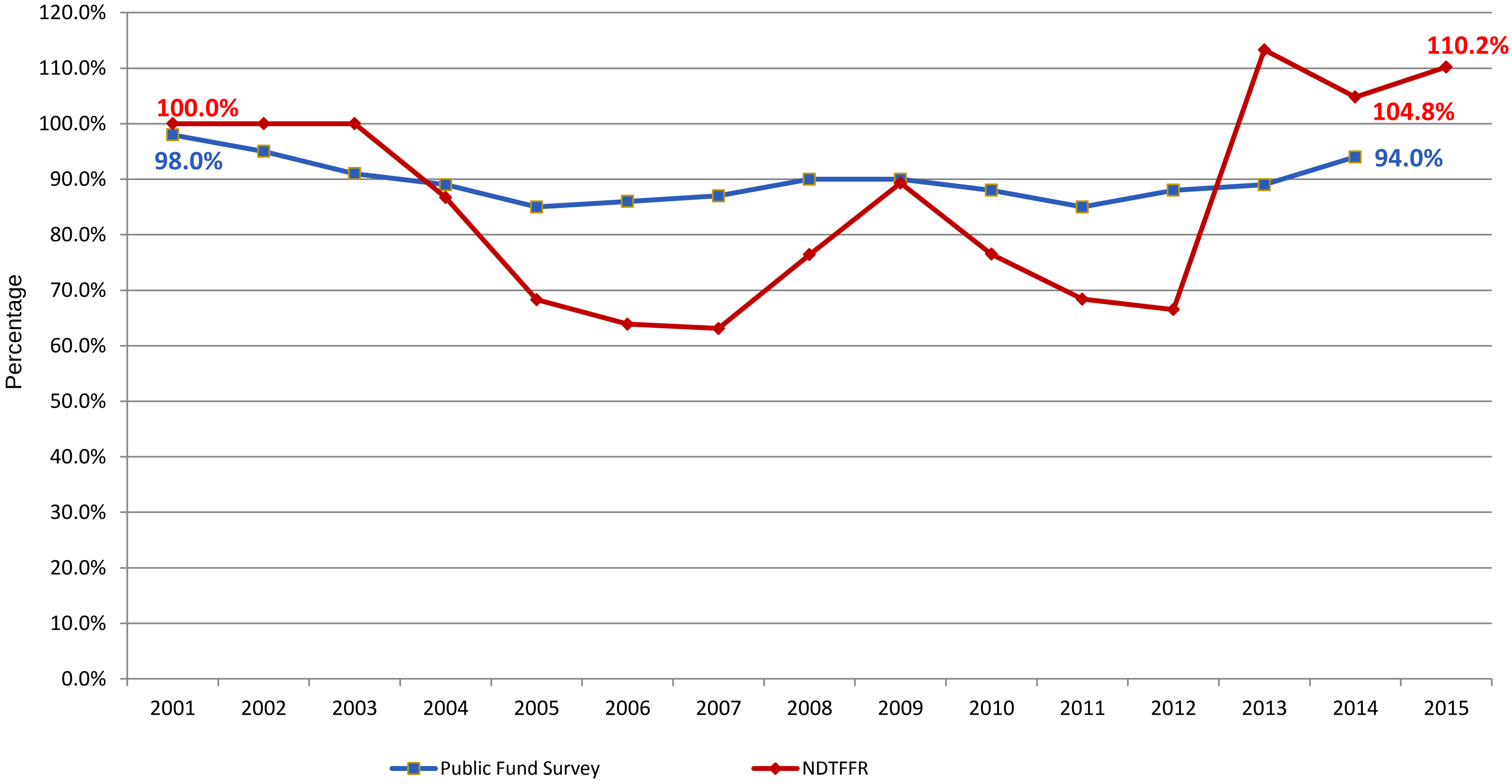
- In the past, GASB 25 and 27 defined the annual required contribution (ARC). Effective in FY 2014, public pension plans are no longer required to report an ARC. Instead, GASB 67 and 68 require that the ADC should be presented in plan and employer financial reports.

- Efforts to fund public pensions are improving after a period of declining ARC/ADC effort during and after the Great Recession.

- The average ARC/ADC received in FY 14 was over 90%
  - Over 70% of plans received more than 90% of their ARC/ADC for the first time since FY 03.

- NDTFFR received 104.8% of ARC/ADC in 2014 (and 110.2% in FY 15).

Average ARC/ADC Received



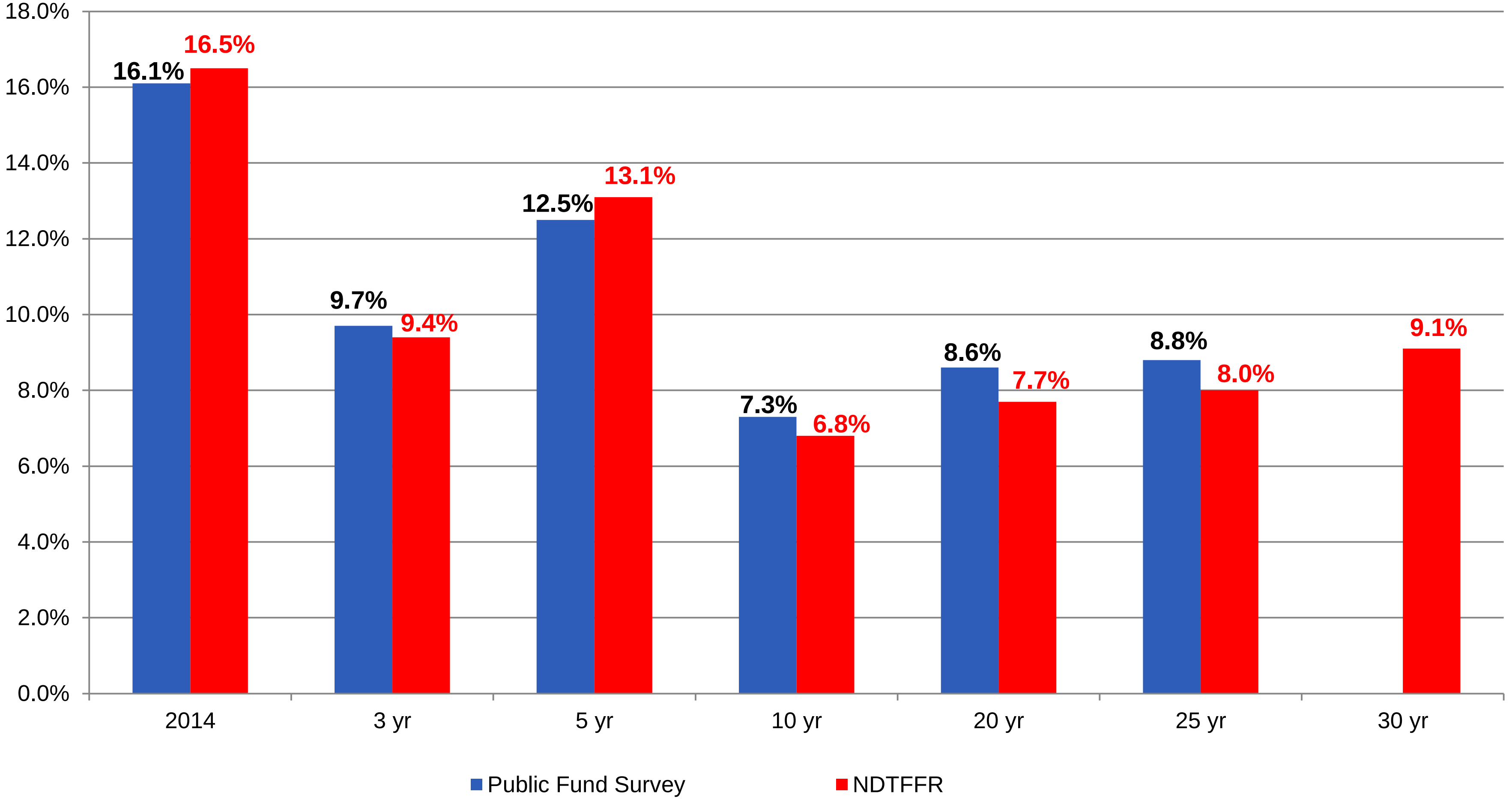
Investment Returns

- Median investment return for plans with FY end date of 6/30/14 (about ¾ of survey participants), was 16.1%.

- NDTFFR return was 16.5% for FY14 (and 3.5% for FY 15).

- Returns for longer periods are mostly strong. Notably, for 20+ year periods, median public pension fund returns are consistent with or greater than the investment return assumptions used by most plans.

Annual Investment Returns (net)



Actuarial Assumptions

Actuarial valuation contains many assumptions.

- Demographic
  - Retirement rate
  - Mortality rate
  - Turnover rate
  - Disability rate
- Economic
  - Investment return rate
  - Inflation rate
  - Salary increase rate

- NDTFFR Experience Study was conducted after the 2014 valuation report. Revised assumptions approved by the Board became effective 7/1/15.

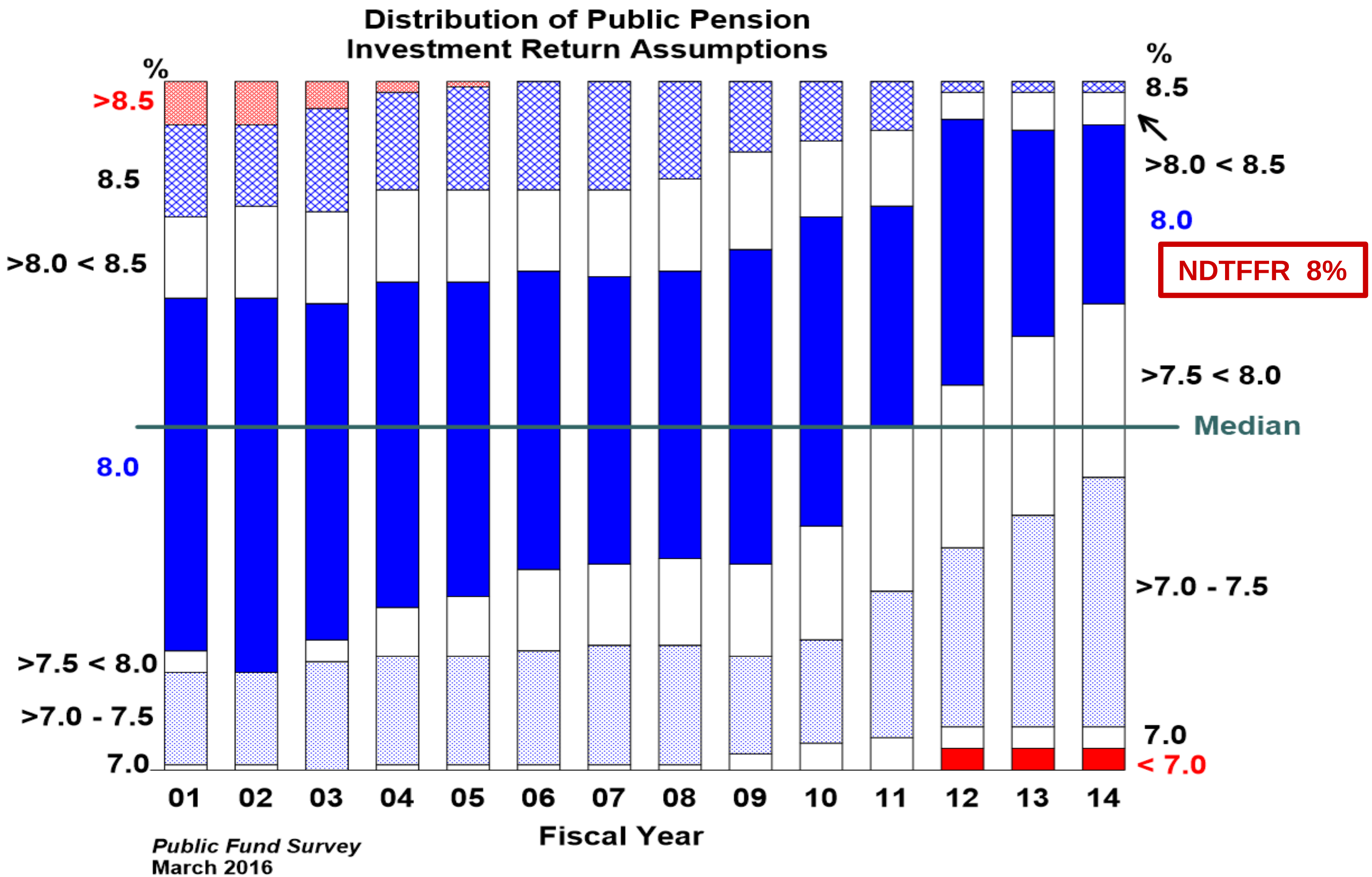
Investment Return Assumption

- Of all assumptions, a public pension plan's investment return assumption has the greatest effect on the long-term cost of the plan. Because a majority of revenues of a typical fund come from investment earnings, even a minor change in a plan's investment return assumption can impose a disproportionate impact on a plan's funding level and cost.
- Investment assumption is made up of 2 components
  - Inflation assumption
  - Real return assumption which is investment return net of inflation.

Investment Return Assumption

- The most common investment return assumption used by public pension plans <u>was 8.0% </u>for most of the PFS measurement period.
- Since 2009, many plans have reduced their investment return assumption.
- Median investment return assumption <u>is 7.75% </u>in 2014.
- NDTFFR investment return assumption was 8.0% in FY 2014; and reduced to 7.75% with the 2015 valuation.

Investment Return Assumption

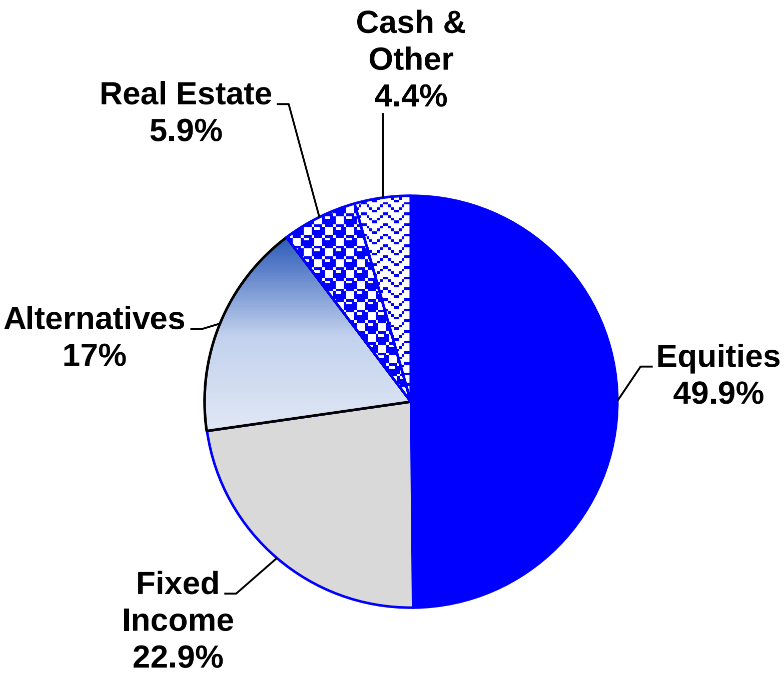


Asset Allocation

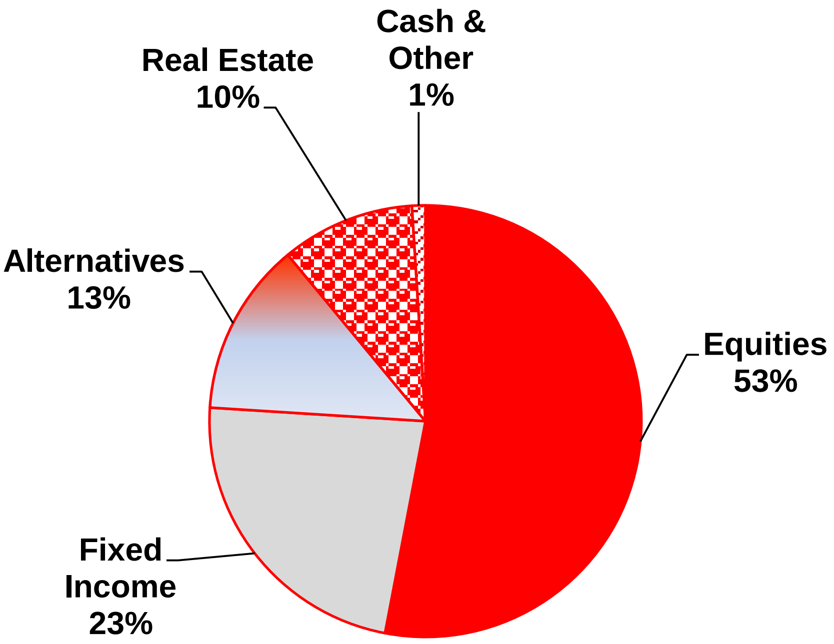
- PFS average allocation to Equities remains at 50%.
- Fixed income declined to below 23%, its lowest allocation ever.
- Real Estate decreased to just below 6%.
- Alternatives (composed of primarily private equity and hedge funds) increased to about 17%.

- Compared to the 2014 PFS, NDTFFR has less in Cash and Alternatives, about the same in Fixed Income, and more in Real Estate and Equities.
  - NDTFFR recently had asset liability study conducted, and made minor allocation changes effective in 2016.

Asset Allocation



Public Fund Survey
Fiscal Year 2014



NDTFFR
2014

Conclusion

- Most plans have completed recognition of the sharp investment losses incurred in 2008-09. Such losses have also been offset by asset gains since the market decline.
- As a result, **funding levels are beginning to improve.**
- Currently a very difficult operating environment featuring volatile investment markets, criticism of public employees, their benefits, and their governing boards, and challenging fiscal conditions facing many SLG.
- **Most public retirement systems strive to maintain sound investment, funding, and governance practices, and seek opportunities to continuously improve in those areas.**

Until next year's survey….Questions?

MEMORANDUM

TO: TFFR Board
FROM: Fay Kopp
DATE: April 14, 2016
SUBJ: Other Public Pension Databases, Reports, and Studies

In addition to the Public Fund Survey conducted by NASRA, there are other databases, reports, and surveys conducted on public pension plans which are intended to serve as a reliable source of accurate information for those involved with pension and retirement security policy. For example:

1) Public Plans Database (PPD) is a publicly accessible database of financial, actuarial, and other plan data for 150 of the nation's largest SLG public pension plans. The PPD was originally developed in 2007 as a partnership between the Center for State and Local Government Excellence (CSLGE) and the Center for Retirement Research at Boston College (CRR). It was recently expanded to include the National Association of State Retirement Administrators (NASRA). Consequently, the NASRA Public Fund Survey data is now compiled by CRR, and so the data is consistent. Data comes from the CAFRs, actuarial reports, benefit summaries, and other information on system's websites.

2) NEA Characteristics of Large Public Education Pension Plans is a detailed study conducted by the National Education Association (NEA) every 5 years and includes data from 114 large plans which contain pre-k-12 and higher education employees. Survey topics include plan administration, investment, retirement eligibility, COLA, contribution rates, benefit formulas, actuarial methods and funding, and retirement board membership.

Mike Burton received extra hard copies of the NEA Report which will be available for other board members at the April meeting.

3) NCPERS Public Retirement Systems Study is an annual survey conducted by the National Council of Public Employee Retirement Systems (NCPERS) which analyzes the most current data available on 179 SLG funds' fiscal condition and steps being taken to ensure fiscal and operational integrity. The most recent study finds that public funds continue to respond to changes in the economic, political and social landscape by adopting substantial organizational and operational changes to ensure long-term sustainability for their stakeholders. Efforts include increasing member contribution rates, expanding operational benchmarking and more diligent oversight.

BOARD INFORMATION ONLY.
Attachments

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **April 14, 2016**

SUBJ: **Ineligible TFFR Salary Policy**

At the March meeting, the TFFR Board discussed whether or not certain CTE related duties are eligible TFFR salary. The Board determined that additional payments made by a TFFR participating employer to a TFFR member for equipment maintenance and repair, jobsite prep and finish work, and similar types of nonteaching duties are not eligible salary for TFFR purposes IF the duties are not included on the member's regular teaching contract.

Attached is a board policy which reflects that decision. The draft policy has also been reviewed by TFFR legal counsel, Jan Murtha. Please review and plan to discuss at the meeting.

BOARD ACTION REQUESTED: Approve or modify draft board policy on "Ineligible TFFR Salary."

If approved, business managers will be informed of the policy through the TFFR Employer newsletter which is emailed each quarter (end of April). Shelly plans to review this topic at the Spring Business Manager Workshop which will be held in Mandan in early May. Employer contacts will also be sent an email regarding the new policy, and employer reporting instructions available on the website will be updated.

Attachment

Policy Type: TFFR Program
Policy Title: Ineligible TFFR Salary

The TFFR Board desires to provide guidance to TFFR employers regarding how eligible salary shall be determined for payments made to licensed teachers for performing certain duties.

NDCC 15-39.1-04(10)(h) provides that eligible salary does not include "*other benefits or payments not defined in this section which the board determines to be ineligible teachers' fund for retirement salary.*"

It is the policy of the TFFR Board of Trustees that effective July 1, 2016, additional payments made by a TFFR participating employer to a licensed TFFR member for equipment maintenance and repair, jobsite prep and finish work, and similar types of nonteaching duties are not eligible salary for TFFR purposes if the duties are not included on the member's regular teaching contract(s).

This policy does not prohibit the Board from making an eligible salary determination for an individual member pursuant to N.D.A.C. § 82-04-02-01.

TFFR Board Adopted:

MEMORANDUM

TO: TFFR Board
FROM: Shelly Schumacher
DATE: April 21, 2016
SUBJ: Experience Study Implementation Update

The implementation to incorporate the revised actuarial assumptions into plan rules, calculations, and documents is complete. The new actuarial assumptions were approved by the TFFR Board as a result of a 5-year Actuarial Experience Study and were used in the July 1, 2015 actuarial valuation report. The following is a summary of the completed implementation plan.

1) Update ND Administrative Code

Actuarial factors contained in NDAC 82-05-04 were reviewed by Segal and suggested changes were incorporated into TFFR's administrative rules. A public hearing was held on the proposed rule changes and the Attorney General's Office approved the changes. The TFFR Board adopted the updated rules on January 21, 2016. The Legislative Administrative Rules Committee reviewed the rules on March 14, 2016, and the new rules became effective April 1, 2016. Total cost for developing and adopting the rules was $9,866.

2) Incorporate revised interest rate and mortality assumptions into CPAS pension administration computer system and plan calculations.

The revised assumptions were incorporated into the CPAS pension administrative software effective April 1, 2016. The changes impact certain member calculations including, but not limited to, election of optional forms of benefit payments at retirement, service credit purchases, and installment payment schedules. The CPAS cost to program and test the changes was $25,740.

3) Incorporate revised interest rate assumption into late employer reporting and prior fiscal year corrections.

State law and board policy requires that the interest rate to be charged to employers for unintentional late reporting of contributions is the actuarial assumption for investment earnings of the trust. This is also the interest rate charged for prior fiscal year corrections. The interest rate in the template calculation worksheets was reduced from 8.0% to 7.75% effective July 1, 2015.

4) Communicate changes to members and employers.

The July 2015 employer newsletter and the August 2015 member newsletter contained an article on the Experience Study assumption changes. The TFFR Member Handbook and the Purchase of Service brochure have been updated to reflect the changes.

BOARD INFORMATION ONLY.

TFFR Investment Policy Statement

Approved by the TFFR Board on January 21, 2016

April 11, 2016

Dave Hunter, Executive Director/CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

TFFR Investment Policy Statement
Summary of TFFR and SIB Approved Revisions

- RIO and Callan recommended relatively minor revisions to TFFR's existing investment policy statement noting the vast majority of the changes are conforming in nature:

  1. Reducing the actuarial rate of return on assets to 7.75% from 8.00%; and
  2. Adopting the asset class terminology used in Callan's "Asset Liability Study".

  As example, Global Equity allocations are segmented into Public and Private, while Global Fixed Income allocations are segmented into Investment Grade and Non-Investment Grade.

TFFR engaged Callan to conduct an asset liability study which resulted in the following asset allocation recommendation after review and discussion with RIO staff.

Asset Class	Current Target	TFFR Board Approved
Global Equity	57%	58%
Public	52%	52%
Private	5%	6%
Global Fixed Income	22%	23%
Investment Grade	17%	19%
Non-Investment Grade	5%	4%
Global Real Assets	20%	18%
Real Estate	10%	10%
Other	10%	8%
Global Alternatives	0%	0%
Cash Equivalents	1%	1%
Totals	100%	100%
Expected Return	7.1%	7.1%
Standard Deviation	14.7%	14.7%

The SIB approved TFFR's new asset allocation on February 26, 2016. The new allocation includes a 1% increase to both Global Equity and Fixed Income and a 2% decrease to Global Real Assets (Timber) while maintaining a consistent profile for Expected Return and Risk (as measured by Standard Deviation).

TFFR Investment Policy Statement Implementation Update

RIO will implement TFFR's new asset allocation in the public markets by June 30, 2016, with:

1) Equity increasing from 57% to 58%;
2) Fixed Income increasing from 22% to 23%; and
3) Real Assets decreasing from 20% to 18%.

Asset Class	Prior Target	TFFR Board Approved
Global Equity	57%	58%
Public	52%	52%
Private	5%	6%
Global Fixed Income	22%	23%
Investment Grade	17%	19%
Non-Investment Grade	5%	4%
Global Real Assets	20%	18%
Real Estate	10%	10%
Other	10%	8%
Global Alternatives	0%	0%
Cash Equivalents	1%	1%
Totals	100%	100%
Expected Return	7.1%	7.1%
Standard Deviation	14.7%	14.7%

Real Assets consists of Real Estate (10%) and Other (8%). The "Other" component includes target allocations of 5% to Infrastructure and 3% to Timber.

As of March 31, 2016, the Timber allocation (within Global Real Assets) approximates 3% which is consistent with the "TFFR Board Approved" policy.

Callan's "Expected Return" does not incorporate "active management premiums" and "are below longer-term expectations" with a lower inflation assumption.

- While the Fund's expected return over the next 10 years falls short of the 7.75% return assumption, there are a few key items not factored into the 7.1% projection.
  - Callan's public market return projections do not incorporate active management premiums.
    - *Active management premiums accrue when investment firms selected by the State Investment Board outperform their passive benchmarks. It is important to note, though, that investment firms will at times underperform their passive benchmarks. The Plan's returns have benefitted from active management by approximately 50 basis points over the past five years.*
  - Callan's 10-year numbers are below longer-term expectations due to the current economic environment and the forecast for the next several years.
    - *Callan's 10-year return projections are approximately 50 to 200 basis points below longer-term (30+ years) expectations depending on the asset class.*
  - The actuary assumes 2.75% price inflation versus Callan's 2.25% assumption which means the liability return is closer to 7.4% rather than 7.75%.
    - *The 7.75% return is not reduced by a full 50 basis points since retirees do not receive an automatic COLA (100% CPI) every year.*
  - The Plan still has a reasonable chance of achieving a 7.75% return over 10 years (46% probability).
- In general, the efficient mixes suggest greater allocations to private equity and fixed income in lieu of real assets.

Source: Callan's *Asset Allocation and Liability Study* for the North Dakota Teachers' Fund for Retirement dated January 21, 2016.

2015 Capital Market Expectations: Return and Risk

Summary of Callan's Long-Term Capital Market Projections (2015-2024)

- Most capital market expectations represent passive exposure (beta only); however, return expectations for private market investments such as real estate and private equity reflect active management premiums.
- Return expectations are net of fees.
- Shaded rows represent current asset classes.

Summary of Callan's Long-Term Capital Market Projections (2015 - 2024)

Asset Class	Index	Projected Return*	Projected Risk
Equities			
Broad Domestic Equity	Russell 3000	7.60%	19.00%
Large Cap	S&P 500	7.50%	18.30%
Small/Mid Cap	Russell 2500	7.85%	22.95%
International Equity	MSCI World ex USA	7.50%	20.20%
Emerging Markets Equity	MSCI Emerging Markets	7.90%	27.95%
Global ex-US Equity	MSCI ACWI ex USA	7.80%	21.45%
Fixed Income			
Short Duration	Barclays 1-3 Yr G/C	2.40%	2.25%
Domestic Fixed	Barclays Aggregate	3.00%	3.75%
Long Duration	Barclays Long G/C	3.20%	11.40%
TIPS	Barclays TIPS	3.00%	5.30%
High Yield	Barclays High Yield	5.00%	11.10%
Non-US Fixed	Barclays Global Aggregate ex-USD	2.30%	9.40%
Emerging Market Debt	EMBI Global Diversified	4.70%	10.00%
Other			
Private Equity	TR Post Venture Capital	8.50%	33.05%
Hedge Funds	Callan Hedge FoF Database	5.25%	9.30%
Real Estate	Callan Real Estate Database	6.15%	16.50%
Timberland	NCREIF Timberland	6.30%	17.50%
Infrastructure	S&P Global Infr/JPM Infr	6.65%	19.00%
Real Assets (Private)	60 Real Est, 15 Timber, 25 Infrastr	6.60%	15.60%
Commodities	Bloomberg Commodity	2.75%	18.50%
Cash Equivalents	90-Day T-Bill	2.25%	0.90%
Inflation	CPI-U	2.25%	1.50%

** Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).*

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **April 14, 2016**

SUBJ: **Actuarial Audit Update**

At the March meeting, the TFFR Board awarded the contract to conduct actuarial audit services to Cavanaugh-Macdonald Consulting (CavMac). Since that time, the following actions have been taken:

1) Contract between CavMac and TFFR has been negotiated and signed.

2) CavMac requested that RIO provide membership data and asset/financial information which was sent to Segal for the 2015 valuation (completed).

3) CavMac requested that Segal provide the data files used for the 2015 valuation, actuarial assumptions, and information regarding data adjustments, special methods, and other details regarding valuation and projections (completed). Cav Mac will request detailed sample life output from Segal at a later date.

4) CavMac and RIO project kickoff conference call is scheduled for April 12, 2016. Information is being reviewed, and questions responded to in a timely manner.

To date, the Actuarial Audit project is on schedule and proceeding as planned. While there is much work to be done in the next few months, absent any significant issues, CavMac will present the final Actuarial Audit report at the July 21 board meeting.

BOARD INFORMATION ONLY.

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **April 14, 2016**

SUBJ: **Federal Issues**

There is much discussion around the country about retirement security for both public and private employees. Here are some examples of legislative proposals being considered.

1) PEPTA proposal

Rep. Devin Nunes (CA), along with eight cosponsors, has reintroduced the Public Employee Pension Transparency Act (PEPTA), H.R. 4822. The bill is virtually identical to earlier versions of PEPTA introduced in the last three Congresses, and would threaten the loss of the Federal tax exempt status for the bonds of non-compliant plan sponsors. No companion bill has yet been introduced in the Senate, but Puerto Rico assistance legislation introduced in the Senate late last year includes a similar provision. Opponents of public pension plans continue to use efforts to address Puerto Rico's financial crisis as a vehicle to impose reporting provisions on all state and local governments and their retirement systems.

PEPTA would require that, in order to retain Federal tax-exempt status for their bonds, sponsors of state and local pension plans (other than defined contribution plans) must file an annual report disclosing their plans' liabilities with the Secretary of the Treasury. In addition, supplementary reports restating these liabilities using a so-called "risk-free" assumed rate of return could also be required. The data would then be entered into a Federal database that would be accessible to the public. Finally, the bill makes it explicitly clear that public pension obligations are solely the responsibility of state and local governments and that the Federal government will not provide a bailout.

Based on analysis by NCTR and other national organizations, PEPTA would impose inappropriate, costly and burdensome unfunded federal mandates on sovereign states and local governments, and would additionally threaten the tax-exempt status of their municipal bonds. These new and conflicting Federal reporting guidelines would be on top of existing public pension disclosures, requiring State and local governments to report as though they are invested only in U.S. Treasuries and not the diversified portfolios actually in use.

PEPTA does not save taxpayer dollars, protect employee pension benefits, or improve state and local retirement system funding. To the contrary, it creates an expensive federal bureaucracy and red tape on government operations that will only serve to divert taxpayer resources from other priorities.

State and local governments have the fiscal responsibility for these programs, have comprehensive oversight and reporting requirements in place, and have recently taken steps to strengthen their retirement systems.

- The Governmental Accounting Standards Board (GASB), which sets public pension accounting and reporting standards, has recently reviewed and significantly modified these standards (GASB 67 and 68), which must be followed by governments and their retirement systems in order to receive a clean audit.

- The financial condition of the plan, including the funded status and necessary contributions, must be certified by enrolled actuaries that adhere to Actuarial Standards of Practice maintained by the Actuarial Standards Board.

- NDTFFR/NDRIO has received the Certificate of Achievement in Financial Reporting for its comprehensive annual financial report (CAFR) for 17 consecutive years from the Government Finance Officers Association (GFOA). NDTFFR has also received the Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council (PPCC) for many years. These awards recognize the excellence in professional standard, reporting, and disclosure.

NCTR and 17 other national organizations representing state and local governments, public finance professionals, employee organizations, and state and local retirement system have gone on record in opposition to PEPTA (PEPTA opposition letter attached).

2) SAFE Act Annuities Proposal

In the last Congress, Sen. Hatch (UT) introduced legislation creating an optional, Federally-regulated “annuity accumulation retirement plan” for State and local governments known as the “Secure Annuities for Employees” (SAFE) Retirement Act. This proposal would replace traditional public employee pension plans with private annuities. It would permit state and local governments to purchase fixed annuity contracts from insurance companies for each employee every year during their working career, following detailed, proscriptive Federal rules that would effectively preclude the ability to continue to provide DB benefits to employees enrolled in such an annuity plan. Other sections of the bill would allow small businesses without retirement plans to offer their employees “starter” 401(k) plans with annual tax-deferred employee contributions. Senator Hatch has not filed similar legislation in the current Congress, although it is believed that legislation could still be in the works.

NCTR and NCPERS have indicated their opposition to this, and similar legislation (Hatch Opposition letter attached). The organizations have stated that any Federal action intended to enhance retirement security for public employees should be "as free as possible from any restrictions or mandates, and should preserve, to the maximum extent possible, the ability of each state to design the program that best addresses its unique interests and requirements."

3) **State Based Secure Retirement Proposals**

Efforts by state governments to expand private sector retirement coverage continue to be considered. The state-based efforts often include encouraging or requiring workplace access, automatic enrollment, financial incentives, and program simplification. For example, there is a proposal in California for a new mandatory payroll deduction IRA program for private sector workers who have no employer-provided retirement plan.

Some marketplace participants are voicing opposition to such proposals, and believe that a more effective approach to enhance retirement coverage would build upon the national, voluntary private-sector system of tax-deferred employer plans.

BOARD INFORMATION ONLY.

Summary of Public Employee Pension Transparency Act (PEPTA)

This bill amends the Internal Revenue Code to deny tax benefits relating to bonds issued by a state or political subdivision during any period in which such state or political subdivision is noncompliant with specified reporting requirements for state or local government employee pension benefit plans.

The bill requires plan sponsors of a state or local government employee pension benefit plan to file with the Secretary of the Treasury a report for each plan year beginning on or after January 1, 2017, setting forth:

- *a schedule of the funding status of the plan;*
- *a schedule of contributions by the plan sponsor for the plan year;*
- *alternative projections for each of the next 60 plan years of the cash flows associated with the current plan liability;*
- *a statement of the actuarial assumptions used for the plan year;*
- *a statement of the number of plan participants who are retired or separated from service and are either receiving benefits or are entitled to future benefits and those who are active under the plan;*
- *a statement of the plan's investment returns;*
- *a statement of the degree to which unfunded liabilities are expected to be eliminated;*
- *a statement of the amount of pension obligation bonds outstanding; and*
- *a statement of the current cost of the plan for the plan year.*

The Secretary shall develop model reporting statements and create and maintain a public website, with searchable capabilities, for purposes of posting pension plan information required by this Act.

The bill grants the United States an exemption from liability for any current or future shortfall in any state or local government employee pension plan.

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: April 14, 2016

SUBJ: Benefit Overpayment
Executive Session (confidential member information)

ND Administrative Code 82-05-03-03, Overpayment of retirement benefits – Write-offs, provides that *"if the cost of recovering the amount of the overpayment of retirement benefits is estimated to exceed the overpayment, the TFFR Board may consider the repayment to be unrecoverable and written off."*

A summary of an overpayment of retirement benefits to a deceased retiree account is attached for board review and discussion. Because the Board will be discussing confidential member information under NDCC 15-39.1-30, the Board must go into Executive Session. The legal authority for closing this portion of the meeting is NDCC 44-04-19.1(2).

As you can see from the account summary, TFFR legal counsel, Jan Murtha, has reviewed the account, and has determined that the cost of recovering the amount of the overpayment ($2,150.72) will likely exceed the amount of the overpayment and may reasonably be considered unrecoverable. Jan will be available at the meeting to discuss the infeasibility of collection attempts.

Staff recommendation is to write off the overpayment of $2,150.72 and close the account.

BOARD ACTION REQUESTED: Board motion to either turn the account over to the Attorney General's Office for collection, OR write off the overpayment in the amount of $2,150.72 and close the account.

Attachment

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: April 14, 2016

SUBJ: Board Vacancy Update - Board Resolution

As you know, Kim Franz has resigned from the TFFR Board effective June 30, 2016. Kim has been a dedicated, knowledgeable, and respected board member during 10 very challenging years for public pension plans.

Also, Mike Gessner's term on the board ends June 30, 2016, therefore his position is up for reappointment.

The Governor's office has been informed, and NDUnited has been notified of their requirement to submit names of full time active teachers to the Governor's office for consideration on the TFFR Board. To date, I have not heard of any new appointments.

I have drafted the enclosed resolution for the TFFR Board's consideration in recognition of Kim Franz' dedicated service.

Since the April meeting will be Kim's last regular TFFR Board meeting, we will also host a coffee party in her honor after the meeting.

BOARD ACTION REQUESTED: Approve board resolution for Kim Franz.

Attachment

ND TFFR Board Resolution
in Appreciation of
Kim Franz

WHEREAS, Kim Franz served as trustee of the ND Teachers' Fund for Retirement Board representing active members with distinction for 10 years, from 2006 to 2016; and

WHEREAS, Mrs. Franz has dedicated 32 years to teaching elementary students and continues to serve the Mandan community as a caring, respected, and outstanding teacher; and

WHEREAS, Mrs. Franz has been a strong voice for both active and retired teachers, and has unequivocally supported initiatives that have been in the best interests of TFFR members; and

WHEREAS, Mrs. Franz has been committed to preserving the defined benefit structure of the retirement plan; to safeguarding the assets TFFR holds in trust to provide lifetime retirement security for ND educators and their beneficiaries; and to protecting the interests of education professionals; and

WHEREAS, Mrs. Franz has provided thoughtful guidance and tremendous insight on educators' pension issues, supported efforts to strengthen TFFR's funding structure and safeguard the financial integrity of the fund, and

WHEREAS, Mrs. Franz has distinguished herself as a knowledgeable and experienced trustee whose commitment to integrity and excellence have earned her the respect of those who have worked with her; now therefore, be it

RESOLVED, that the TFFR Board express its heartfelt thanks to Mrs. Franz for her dedicated and compassionate service to the Board, and for her steadfast commitment to excellence in pension administration; and be it further

RESOLVED, that the Board wishes Kim Franz, and her husband, Mike, good health and happiness; and be it further

RESOLVED, that a copy of this Resolution be presented to Mrs. Franz, printed in the official TFFR Board minutes, and submitted to the National Council on Teacher Retirement, on behalf of the many lives she has so positively touched.

DATED this 21st day of April, 2016

Mike Gessner, President	Robert Lech, Trustee
Mel Olson, Trustee	Mike Burton, Trustee
Kelly Schmidt, State Treasurer	Kirsten Baesler, State Superintendent

BOARD READING

http://www.nasra.org/returnassumptionsbrief

http://www.nasra.org/content.asp?admin=Y&contentid=116