NDTFFR Board Meeting Agenda

Thursday, April 26, 2018
1:00 pm
ND RIO Conference Room
3442 East Century Avenue
Bismarck, ND

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

2. **Approval of Minutes of March 22, 2018 Meeting** - Pres. Gessner (Board Action) 5 min.

3. **Benefit Appeal– Executive Session Attorney Consultation–** Attorney General's Office, 30 min.
   *Executive session required to discuss confidential member information and for attorney consultation pursuant to NDCC 15-39.1-30, NDCC 44-04-19.1 and 44-04-19.2.

4. **2019 Legislative Planning** – Fay Kopp (Information) 10 min.

5. **RIO Budget Planning** – Fay Kopp (Information) 10 min.

6. **Annual Pension Plan Comparisons Report** – Fay Kopp (Board Action) 30 min.

7. **Quarterly Audit Services Update** – Sara Sauter (Information) 10 min.

8. **Employer Reporting Update –** Fay Kopp and Sara Sauter (Information) 10 min.

9. **Trustee Education** – Fay Kopp (Information) 5 min.

10. **Consent Agenda** – QDRO application – Shelly Schumacher (Board Action) 5 min.
    *Executive session possible to discuss confidential member information pursuant to NDCC 15-39.1-30.

11. **TFFR Trustee Appointment Update –** Fay Kopp (Information) 5 min.

12. **TFFR Board Resolution** – Rob Lech (Board Action) 10 min.

13. **Other Business**
    Next Board Meeting: July 26, 2018

14. **Adjournment**

RETIREMENT COFFEE PARTY HONORING
MIKE GESSNER
TFFR Board Trustee 2005-2018

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 22, 2018, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Gessner, President Rob Lech, Vice President Mike Burton, Trustee Toni Gumeringer, Trustee Mel Olson, Trustee (Telconf) Kelly Schmidt, State Treasurer
BOARD MEMBER ABSENT:	Kirsten Baesler, Supt. DPI
STAFF PRESENT:	Bonnie Heit, Admin Svs Supvr David Hunter, ED/CIO Fay Kopp, Deputy ED/CRO Missy Kopp, Retirement Assistant Sara Sauter, Audit Services Supvr Shelly Schumacher, Retirement Program Mgr Dottie Thorsen, Internal Auditor Connie Flanagan, Fiscal & Invst Ofcr
OTHERS PRESENT:	Patrick Brooke, Attorney General's Office Brian Barrett, APT, INC. John Pretzer (Telconf)

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, March 22, 2018, at the Retirement and Investment Office, Bismarck, ND.

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

AGENDA:

The Board considered the agenda for the March 22, 2018 meeting.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO AMEND THE AGENDA, MOVING ITEM #7 TO #4.

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

MINUTES:

The Board considered the minutes of the January 25, 2018, meeting.

IT WAS MOVED BY MR. LECH AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE JANUARY 25, 2018 MINUTES AS DISTRIBUTED.

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

BENEFIT APPEAL:

Mr. Gessner stated TFFR Benefit Appeal # 2018 – 1A must be discussed in an executive session. The purpose of the executive session is to review confidential information under NDCC 15-39.1-30. The legal authority for closing this portion of the meeting is NDCC section 44-04-19.2.

Executive session began at 1:09 p.m. and ended at 1:52 p.m. The Executive Session was attended by the TFFR Board, RIO staff members, TFFR legal counsel, and member.

The Board discussed whether to go into a second executive session for attorney consultation with TFFR's legal counsel under NDCC 44-04-19.1.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. BURTON AND FAILED BY A ROLL CALL VOTE TO ENTER INTO AN ADDITIONAL EXECUTIVE SESSION FOR ATTORNEY CONSULTATION.

AYES: MR. OLSON, MR. BURTON
NAYS: TREASURER SCHMIDT, MRS. GUMERINGER, MR. LECH, AND PRESIDENT GESSNER
MOTION FAILED.
ABSENT: SUPT. BAESLER

IT WAS MOVED BY MR. LECH AND SECONDED BY TREASURER SCHMIDT AND CARRIED BY A ROLL CALL VOTE TO DENY BENEFIT APPEAL #2018 – 1A.

AYES: MRS. GUMERINGER, MR. BURTON, MR. LECH, TREASURER SCHMIDT, PRESIDENT GESSNER
NAYS: MR. OLSON
MOTION CARRIED.
ABSENT: SUPT. BAESLER

Due to technical difficulties, Mr. Olson was unable to participate in the meeting from approximately 2:00 p.m. – 2:07 p.m.

2019 LEGISLATIVE PLANNING:

Ms. Kopp reviewed the two bill drafts requested by the Board for consideration and possible submission to the Interim Legislative Employee Benefits Program Committee by the April 1, 2018 deadline.
The first bill draft includes IRS compliance updates with required language clarifying direct rollover provisions that apply to the TFFR plan.

The second bill draft addresses retiree re-employment provisions. It clarifies definitions, provides that the retiree annual hours limit would not apply to both contracted and non-contracted substitute teaching, and requires retiree and employer contributions to be paid on all salary except non-contracted substitute teaching.

After discussion,

IT WAS MOVED BY MR. LECH AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO SUBMIT THE IRS COMPLIANCE UPDATE BILL TO THE LEGISLATIVE EMPLOYEE BENEFITS PROGRAMS COMMITTEE FOR INTERIM STUDY.

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

The Board recessed at 2:30 p.m. and reconvened at 2:46 p.m.
Mr. Lech was absent.

QUARTERLY INVESTMENT UPDATE:

Mr. Hunter provided the investment update for the period ending December 31, 2017. For the 1-year period ended Dec. 31, 2017, TFFR earned a net return of nearly 17% versus a policy benchmark of less than 15%. Asset allocation is the primary driver of returns. TFFR earned a net return of nearly 9.3% for the 5-years ended Dec. 31, 2017, which exceeded the policy benchmark by approximately 1%. TFFR's returns were achieved while adhering to board approved risk guidelines.

BOARD EDUCATION: SECURITIES LITIGATION:

Mr. Hunter presented board education on Securities Litigation. The SIB has long recognized the importance of strong corporate governance and board oversight. Given recent developments in global securities litigation, particularly outside the U.S., the SIB engaged Financial Recovery Technology (FRT) in 2017 to perform a review of their historical claims filing experience with regards to securities litigation actions. The review confirmed that over the past 10 years, the SIB's custodian, Northern Trust, had effectively monitored and obtained loss recoveries for the vast majority of U.S. class action claims. It also confirmed the growing need to expand the SIB's international securities litigation monitoring capabilities.

The SIB established a Securities Litigation Committee (SLC) to offer additional oversight. Appointed committee members include the Chief Deputy Attorney General and State Treasurer along with RIO's legal counsel, Chief Fiscal Officer and Executive Director.

DEVILS LAKE MEETING UPDATE:

Ms. Kopp provided an update on the meeting she and Mr. Hunter attended in Devils Lake on November 21, 2017. Ms. Kopp & Mr. Hunter met with a group of active teachers and administrators at the request of the Devils Lake Education Association and ND United. Discussion took place on TFFR related questions and concerns. Overall, the meeting was well attended and the members were very interested in what Ms. Kopp and Mr. Hunter had to say about TFFR plan benefits and investment program.

TFFR MEMBER ONLINE UPDATE:

Ms. Schumacher provided an update on the TFFR Member Online system. TFFR Member Online was officially launched on February 1, 2018. Active and retired members were notified via newsletters, email, and annual statement mailing. Staff will continue to market this service through member outreach materials, correspondence and interactions with members.

As of March 10, 2018, 379 members have signed up for TFFR Member Online. IT staff have been working with members on technical issues when logging in for the first time. Retirement Services staff have been helping members understand the account information that is now available through this online service. Member feedback has been very positive.

2018 TAX WITHHOLDING UPDATE:

Ms. Kopp updated the Board on the 2018 Federal and State Tax withholding changes. TFFR implemented the Federal tax withholding changes for the February 1, 2018 retiree payroll. Annual TFFR Retirement Benefit Change Notices were sent to all retirees showing their updated tax withholding and current net benefit.

The ND State Tax Dept. released the 2018 tax withholding tables on February 26, 2018. Employers were instructed to update their payroll systems even though the changes are very minor. TFFR is implementing the state tax withholding changes for the April 1, 2018 retiree payroll. Retirement Benefit Change Notices will not be sent to retirees again.

TFFR staff has received phone calls from retirees with questions about the amount of their tax withholding. Tax withholding needs of retirees varies greatly depending on their financial situation, thus TFFR encourages all retirees to review their situation with a qualified tax advisor.

ANNUAL RETIREMENT TRENDS REPORT:

Ms. Schumacher presented the annual Retirement Trends and Projections report as of February 2018. Of the 10,981 active members, 1,050 are currently eligible to retire. On average, 384 teachers actually retired each year, or a total of 3,837 for the 10-year period. In the next 10 years, approximately 3,000 TFFR members are projected to retire which reflects the changes in retirement eligibility requirements to minimum age 60 with Rule of 90. After discussion,

IT WAS MOVED BY MRS. GUMERINGER AND SECONDED BY MR. BURTON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE ANNUAL RETIREMENT TRENDS REPORT AS OF FEBRUARY 2018.

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

2018-19 BOARD CALENDAR & EDUCATION PLAN:

Ms. Kopp presented a draft board meeting schedule for 2018-19. Examples of board education from the past three years were also presented, with a request for suggestions from board members for topics of interest to them. After discussion,

IT WAS MOVED BY MR. BURTON AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE 2018-19 BOARD CALENDAR AS PRESENTED.

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

CONSENT AGENDA:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. BURTON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE CONSENT AGENDA WHICH CONSISTED OF QUALIFIED DOMESTIC RELATIONS ORDER #2018-01, AND DISABILITY APPLICATIONS #2018-1D and 2018-2D.

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

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 3:58 p.m.

Respectfully Submitted:

____

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

____

Missy Kopp
Reporting Secretary

MEMORANDUM

TO: TFFR Board
FROM: Fay Kopp
DATE: April 19, 2018
SUBJ: 2019 Legislative Planning

The Legislative Council Employee Benefits Programs Committee is a 13-member interim legislative committee consisting of seven representatives and six senators:

- Representatives: Mike Lefor (Chairman), Randy Boehning, Jason Dockter, Vernon Laning, Alisa Mitskog, Mark Owens, and Roscoe Streyle
- Senators: Dick Dever (Vice Chairman), Brad Bekkedahl, Karen Krebsbach, Oley Larsen, Gary Lee, Carolyn Nelson.

The Committee's next meeting is scheduled for Wednesday, May 2, 2018. The agenda includes:

> *"Presentation of proposals for legislation relating to retirement programs, health programs, and retiree health programs and receipt of testimony and committee work regarding the status of retirement programs, health programs, and retiree health programs."*

The proposed legislative bill draft that was approved at the March 22, 2018 TFFR board meeting (attached) was submitted to the Committee on March 28 which was in advance of the April 2 deadline for bill submission.

Board Information Only. No board action is requested.

Sixty-sixth
Legislative Assembly ________ BILL NO. _____
of North Dakota

Introduced by

A BILL for an Act to amend and reenact section 15-39.1-34 of North Dakota Century Code, relating to Internal Revenue Code compliance.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 15-39.1-34 of the North Dakota Century Code is amended and reenacted as follows:

15-39.1-34. Internal Revenue Code compliance.

The board shall administer the plan in compliance with section 415, section 401(a)(9), section 401(a)(17), and section 401(a)(31) of the Internal Revenue Code, as amended, and regulations adopted pursuant to those provisions as they apply to governmental plans. <u>Pursuant to the rollover rules under section 401(a)(31) of the Internal Revenue Code, a distributee may elect to have an eligible rollover distribution, as defined in section 402(f)(2)(A) of the Internal Revenue Code, paid in a direct rollover to an eligible retirement plan, as defined in section 402(c)(8)(B) of the Internal Revenue Code, specified by the distributee. The definition of eligible retirement plan shall also apply in the case of a distribution to an alternate payee under a qualified domestic relations order, as defined in section 414(p) of the Internal Revenue Code. Any portion of a distribution that consists of after-tax employee contributions which are not included in gross income may be transferred only to an individual retirement account or individual retirement annuity described in section 408 or 408A of the Internal Revenue Code or to a qualified plan or an annuity contract described in section 401(a) and 403(b) of the Internal Revenue Code, respectively, that agrees to separately account for such amounts, including separately accounting for the portion of such distribution which is included in gross income and the portion of such distribution which is not so included.</u>

For purposes of this section, “distributee” includes a nonspouse beneficiary of a deceased member; provided however, that in the case of a nonspouse beneficiary, the direct rollover may only be made to an individual retirement account or individual retirement annuity described in section 408 or 408A of the Internal Revenue Code that is established on behalf of the nonspouse beneficiary and will be treated as an inherited individual retirement account or inherited individual retirement annuity pursuant to section 402(c)(11) of the Internal Revenue Code.

MEMORANDUM

TO: TFFR Board
FROM: Fay Kopp
DATE: April 19, 2018
SUBJ: RIO Budget Planning

RIO is in the process of developing an agency budget request for the 2019-21 biennium. As part of the budget planning process, we are discussing how we can administer the TFFR retirement program in a more efficient and cost effective manner in the future. We believe additional technology enhancements are required in order to improve agency operations and continue providing excellent customer service to TFFR members and employers.

As a result, RIO staff is in the preliminary stages of exploring options for upgrading and/or replacing the current TFFR retirement administration software (CPAS v5.3). The current system is a 13-year old client-server based application that replaced the outdated mainframe system in 2005. In today's environment, a better and more common solution is a web-based application.

There are many business functionality and technical enhancements a web- based system would provide to improve and streamline pension administration processes, reporting capabilities, and the services TFFR members and employers receive, including:

- Enhanced web self-services for members, retirees, and employers.
- Better options for interacting with members by allowing straight-through processing of forms and information sharing.
- Reduced risk of obsolete technology by allowing access via commonly used and supported web browsers.
- Reduced long term cost and necessity of relying on third-party vendors for customized add-ons and support.
- Extensive built-in queries, ad hoc report writing and letter design capabilities.
- And more….

While a retirement administration software upgrade will be costly and time consuming, we believe it may be in the best interests of our members and employers to consider making this type of investment to take advantage of technology improvements that have been made in the 13 years since the current software was implemented.

Besides a possible retirement administration software upgrade, RIO is also discussing data analytics, and other IT projects and initiatives to update existing technology, improve efficiency, and increase our overall use of technology.

Board information only. No board action is requested.

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **April 19, 2018**

SUBJ: **Annual Public Pension Plan Comparisons Report**
2016 Public Fund Survey

Attached is the Public Fund Survey for FY 2016 (published November 2017) conducted by the National Association of State Retirement Administrators (NASRA) with survey data compiled by the Center for Retirement Research at Boston College (CRRBC). 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 2017 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 2016 Public Fund Survey.

Attachment

Board Action Requested: Accept annual public pension plan comparisons report.

Public Fund Survey

SUMMARY OF FINDINGS FOR FY 2016 **NOVEMBER 2017**

ABOUT THE PUBLIC FUND SURVEY

The Public Fund Survey is an online compendium of key characteristics of most of the nation's largest public retirement systems. The Survey is sponsored by the National Association of State Retirement Administrators.

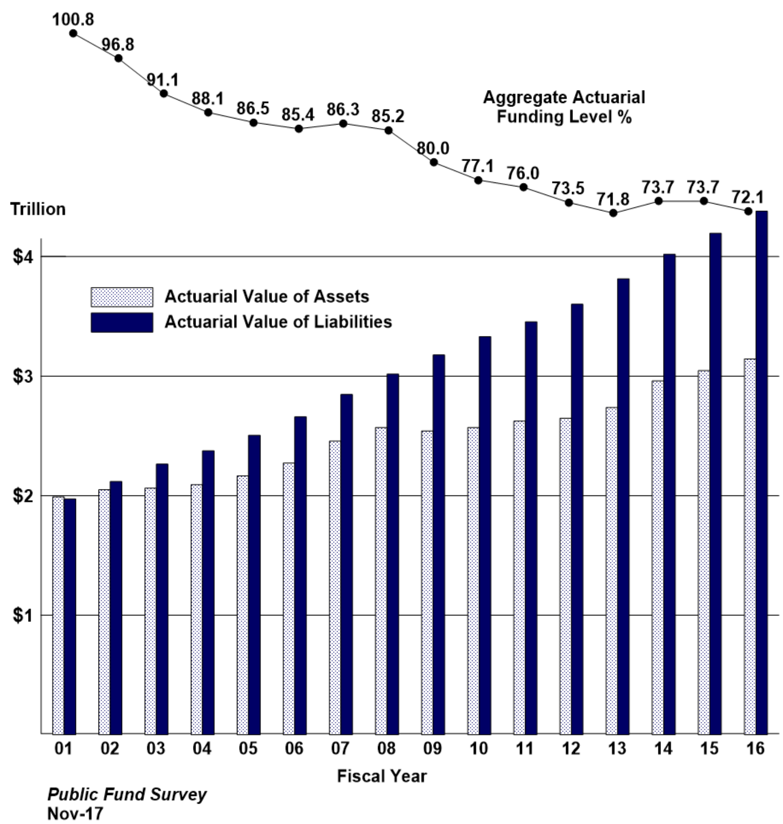
Beginning with fiscal year 2001, the Survey contains data on public retirement systems that provide pension and other benefits for 12.8 million active (working) members and 9.1 million annuitants (those receiving a regular benefit, including retirees, disabilitants and surviving beneficiaries). At the end of fiscal year 2016, systems in the Survey held combined assets of $3.16 trillion. The membership and assets of systems included in the Survey comprise approximately 85 percent of the entire state and local government retirement system community. Since FY 13, survey data has been compiled primarily by the Center for Retirement Research at Boston College.

The primary source of Survey data is public retirement system annual financial reports. Data also is culled from actuarial valuations, benefits guides, system websites, and input from system representatives. This report, focusing on FY 16, uses graphs to illustrate and describe changes in selected elements of the survey.

SUMMARY OF FINDINGS

Figure A plots the aggregate actuarial funding level among plans in the Survey since its inception in FY 2001. The funding level in FY 16 was 72.1 percent, down slightly from the prior year. The aggregate actuarial value of assets grew by 3.3 percent, from $3.05 trillion to $3.15 trillion. Liabilities grew from $4.13 trillion to $4.36 trillion, or 5.7 percent. Liabilities grow primarily as active plan participants accrue retirement benefit service credits. The actuarial value of assets reflects the phasing-in, or smoothing, of investment gains and losses.

Figure A



The latest individual funding levels of the 121 plans in the Survey are depicted in Figure B. The size of each circle in the chart is roughly proportionate to the size of each plan’s actuarial liabilities—larger bubbles reflect larger plans and smaller bubbles reflect smaller plans. The median funding level is 73.8 percent, and the range is 18.9 percent to 110.8 percent.

Figure B

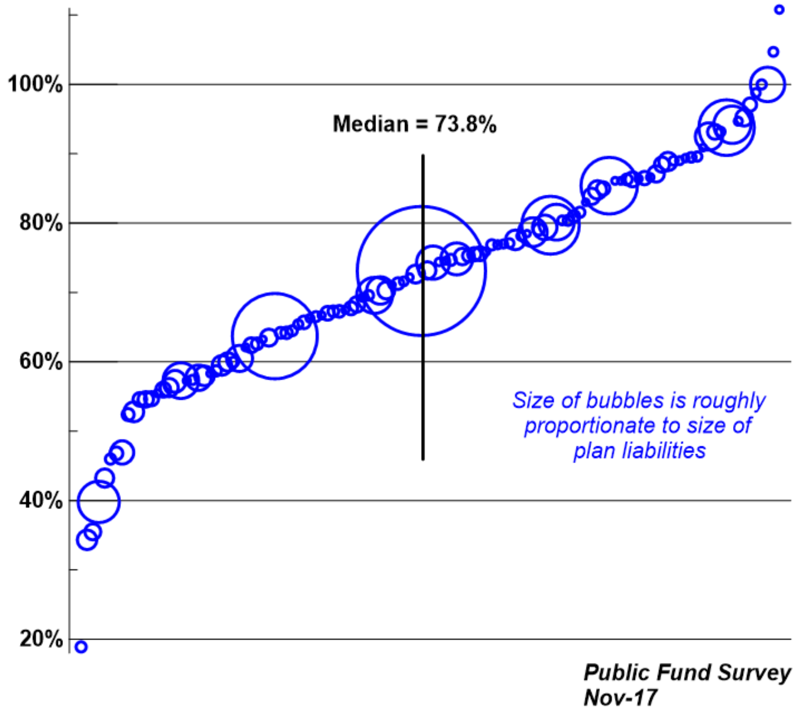
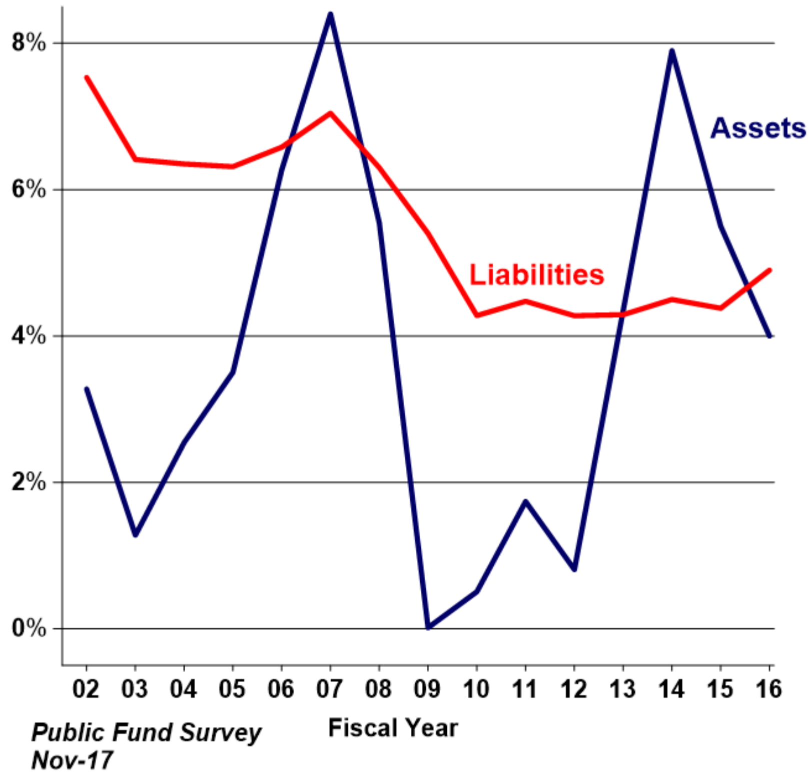


Figure C plots the median annual change among plans in the Survey in the actuarial value of assets and liabilities since FY 01. For a pension plan's funding level to improve, its actuarial value of assets must grow faster than its liabilities. For the sixth seventh consecutive year, at a median rate at or below 5.0 percent, liability growth remains notably lower than historical rates. This lower rate of growth in liabilities is due to several factors, chiefly low salary growth, declining or stagnant employment levels among states and local governments, and the effects of many reforms (chiefly reductions) in pension benefits enacted in recent years (https://www.nasra.org/pensionreform). Rates of liability growth would be lower were many plans not also reducing their investment return assumptions (https://www.nasra.org/returnassumptionsbrief) in recent years (see Figure M), an action that increases a plan's liabilities.

The tepid asset growth from FY 09 to FY 13 reflects the phased recognition (also known as actuarial smoothing of assets) of the sharp market declines experienced in 2008 and early 2009. These losses now have been fully recognized by most plans in the Survey, which is reflected in the stronger growth in FY 14 and FY 15. Weak investment returns in FY 15 and FY 16 caused the rate of asset growth to decline in FY16.

Presenting the annual change in assets and liabilities based on median (midpoint) data, rather than aggregate (total), reduces the effects of very large plans and plans with extreme or exceptional results. This method of presentation enables readers to focus on the experience of a more typical plan instead of results that could be skewed by the experience of one or a few outliers.

Figure C



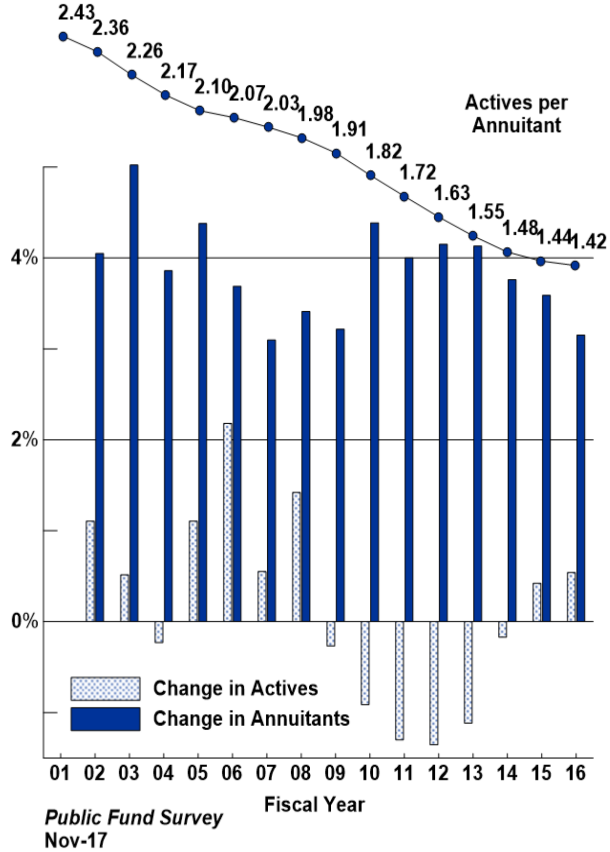
The Survey measures two types of retirement system members: Actives and Annuitants. Actives are those who currently are working and earning retirement service credits; most actives also make contributions toward the cost of their pension benefit. Annuitants are those who receive a regular benefit from a public retirement system; these are predominantly retired members, but also include those who receive a disability benefit, and survivors of retired members or disabilitants.

As shown in Figure D, the median rate of increase in annuitants among systems in the Survey declined for a fourth consecutive year, with FY 16 marking the lowest rate of annuitant growth since FY 09. The number of active members grew for the second consecutive year in FY 16, following six consecutive years of decline, from FY 09 to FY 14. This pattern of change in the number of active members is consistent with US Census Bureau reports showing a reversal of a trend of fewer persons employed by state and local government, a trend Census data shows began in August 2008. A Figure D shows, marginal gains have been reported each since FY 14.

The difference between the continued increase in annuitants and a declining number of active members is driving a secular reduction in the overall ratio of actives to annuitants. In FY 16, this ratio dropped to 1.42, which is the smallest decrease in the ratio since FY 06. A low or declining ratio of actives to annuitants is not necessarily problematic for a public pension plan, because the typical public pension funding model features accumulation, during plan participants' working years, of assets needed to fund retirement benefits, in anticipation of higher rates of payout as members retire.

When combined with an unfunded liability, however, a low or declining ratio of actives to annuitants can cause fiscal distress for a pension plan sponsor. An unfunded liability represents a shortfall in accumulated assets, and results in an increase in the cost of the plan above the normal cost, which is the cost of benefits earned each year. A lower ratio of actives to annuitants results in costs to amortize a plan's unfunded liability being spread over a relatively smaller payroll base, which increases the cost of the plan as a percentage of employee payroll. Thus, although a declining active-annuitant ratio does not, by itself, pose an actuarial or financial problem, when combined with a poorly-funded plan, a low or declining ratio of actives to annuitants can result in higher required pension costs.

Figure D



On a market value basis, as of FY 16, systems in the Survey held a combined $3.16 trillion in assets. Figure E, which plots the fiscal year-end value of public pension funds in the Survey, reflects the result of market volatility in recent years, including the strong asset gains since 2009. As the aggregate market value of assets has grown by roughly $1.0 trillion since FY 09, funds in the Public Fund Survey also have paid out approximately $1.5 trillion in benefits.

Figure E

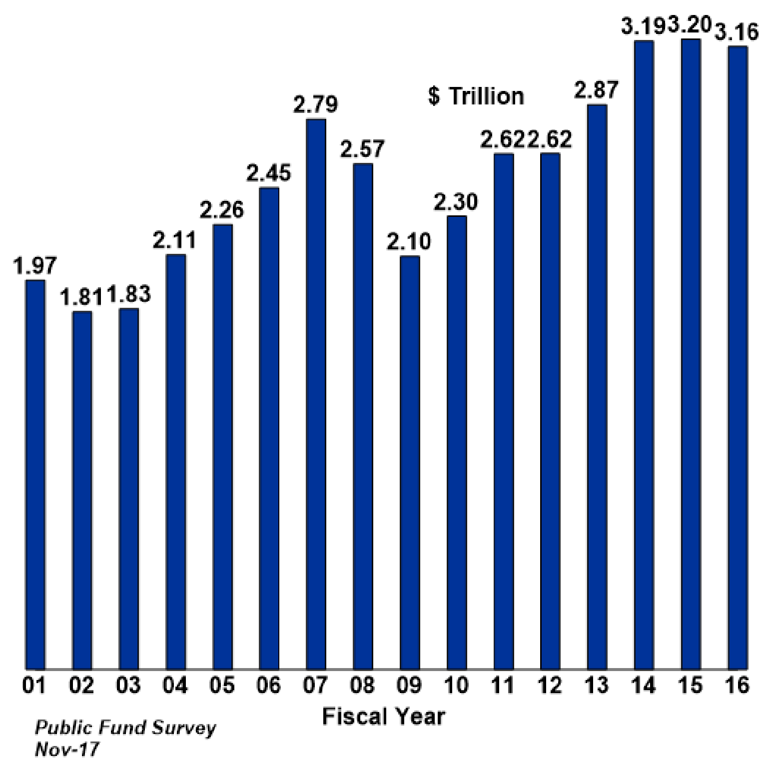


Figure F plots the combined revenues and expenditures of the systems in the Public Fund Survey. The green line reflects investment gains and losses, which vacillate as investment markets fluctuate. Blue bars indicate contributions, from employees and employers, and red bars show benefit payments. Because most plans pay out more each year in benefits than they receive in contributions, contributions are used to pay current benefits (see Figure H), and investment earnings accrue to pension trust funds. Pension trust funds are established for the sole purpose of paying benefits and funding administrative costs. The benefits paid by public retirement systems are paid from trust funds, not from state and local government 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 percent of public pension revenues over the past thirty years, vacillate, often appreciably, depending on market performance (see Figure L).

Figure F

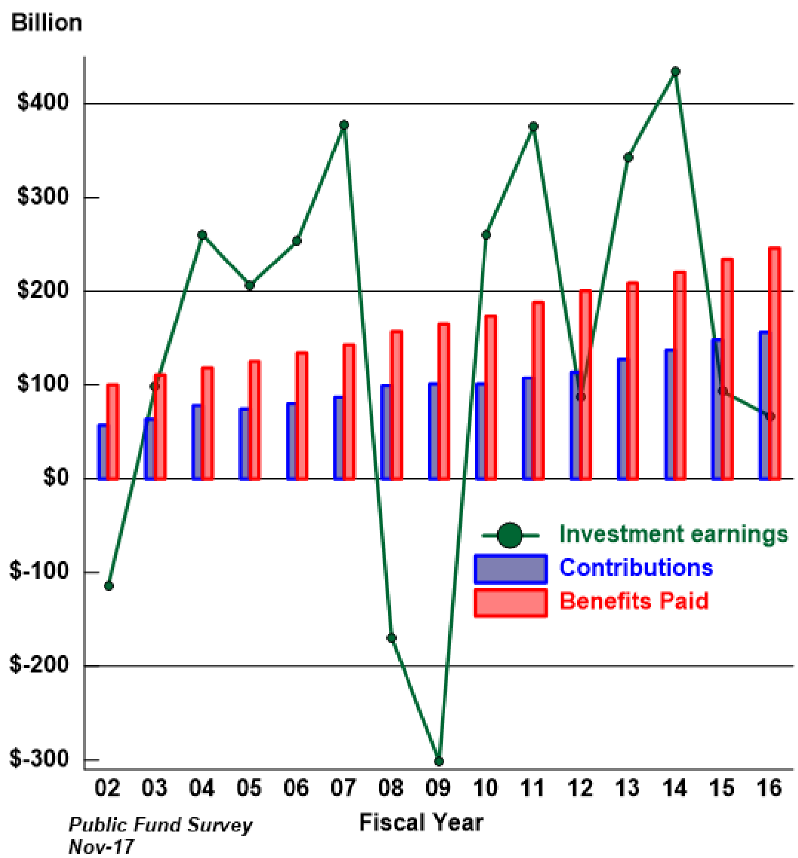


Figure G plots the distribution of annual changes in payroll from FY 02 to FY 16, among plans in the survey for which this data is available. (The chart excludes plans in the Survey that are closed to new hires. Closed plans have no new, active members joining, and the number of annuitants grows each year as active members retire).

As the chart shows, the median change in payroll was either negative or in decline during FY 11 and FY 12, and has been slow compared to historical experience in subsequent years. Negative or declining payroll reflects one or both of two basic factors: stagnant or declining employment levels, and modest salary growth among employees of state and local government. Information provided by the U.S. Bureau of Labor Statistics indicates that annual growth in wages and salaries for employees of state and local government (https://www.nasra.org/content.asp?admin=Y&contentid=182) was below two percent from 2009 through 2014, and has returned to around two percent only since the second quarter of 2016. Higher wage growth beginning in FY 13, and continuing through FY 16, is consistent with BLS data indicating that wage growth for public workers has increased since FY 13 (https://www.nasra.org/content.asp?admin=Y&contentid=181).

Figure G

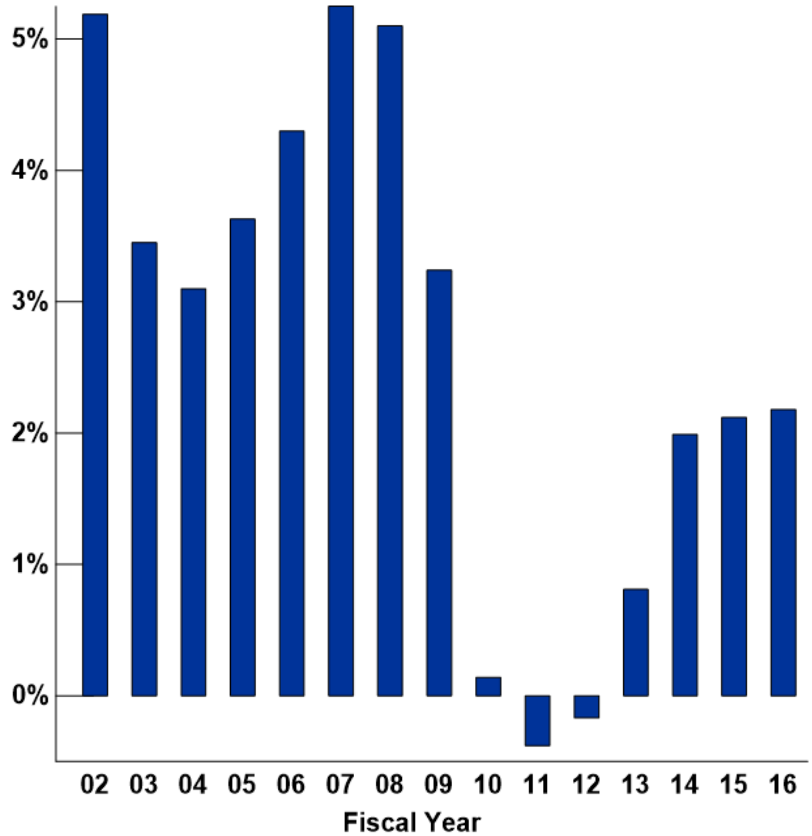
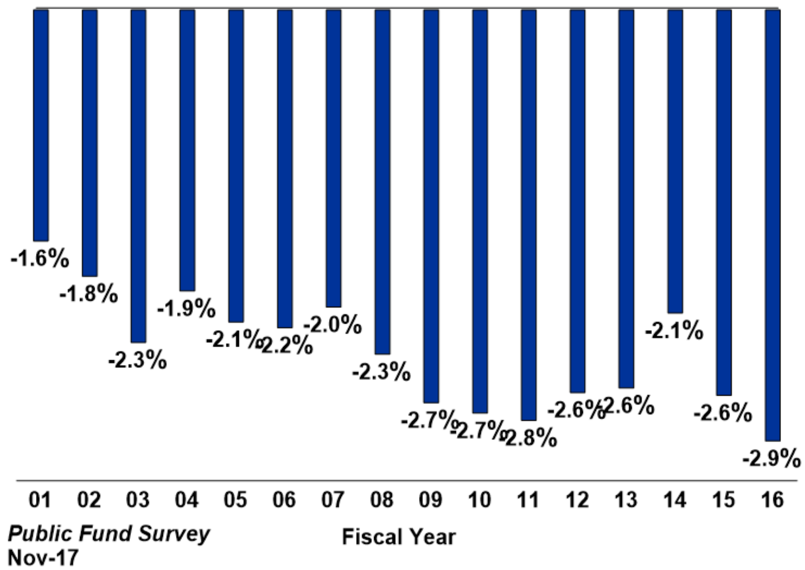


Figure H plots median external cash flow as a percentage of assets since FY 01. External cash flow is the difference between a system's revenue from contributions, and payouts for benefits and administrative expenses. External cash flow excludes investment gains and losses. Dividing a system's cash flow into the market value of the system's assets produces the measure of cash flow as a percentage of assets. A growing number of annuitants, combined with a low or negative rate of growth in active members, will result in a reduction in a retirement system's external cash flow. Conversely, a growing asset base will offset a rate of negative cash flow.

Nearly all systems in the survey have an external cash flow that is negative, meaning they pay out each year more than they collect in contributions. A negative cash flow is not, by itself, an indication of financial or actuarial distress. A lower (more negative) cash flow may require the system's assets to be managed more conservatively, with a larger allocation to more liquid assets in order to meet current benefit payroll requirements.

The median external cash flow in FY 16 is 2.9 percent, down from 2.6 percent in FY 15. At 3.1 percent, the aggregate external cash flow is lower than the median, which reflects the experience of some larger plans with external cash flow levels that are below the median. The reduction in external cash flow that occurred in FY 14 reflects the strong investment performance that year, so that the rate of growth in the value of assets exceeded the relative growth in annual benefit payments.

Figure H



Figures I and J reflect changes in median employee and employer contribution rates. Figure I includes active members who also participate in Social Security; Figure J includes those participants who do not participate in Social Security. These contribution rates apply to general employees and public school teachers; the rates do not reflect those for public safety workers and narrow employee groups, such as legislators, judges, etc.

Approximately 30 percent of employees of state and local government do not participate in Social Security (https://www.nasra.org/socialsecurity), including approximately 40 percent of all public school teachers, and a majority to substantially all state and local government workers in seven states: Alaska, Colorado, Louisiana, Maine, Massachusetts, Nevada, and Ohio.

Nearly every state has made changes to its pension plan(s) since 2009 (https://www.nasra.org/content.asp?admin=Y&contentid=219); the most common change has been an increase in required employee contribution rates. This trend is reflected in Figure I, which shows the median employee rate for employees with Social Security increasing to 6.0 percent in FY 14, after a long period at 5.0 percent. Contribution rates for non-Social Security employees have increased as well, though the median rate remains at 8.0 percent. Contribution rates among both sets of employers—in and out of Social Security—have increased considerably since inception of the survey. FY 02 was at or near the all-time low point for employer contribution rates, following the strong investment gains experienced in the 1980s and 1990s.

Figure I

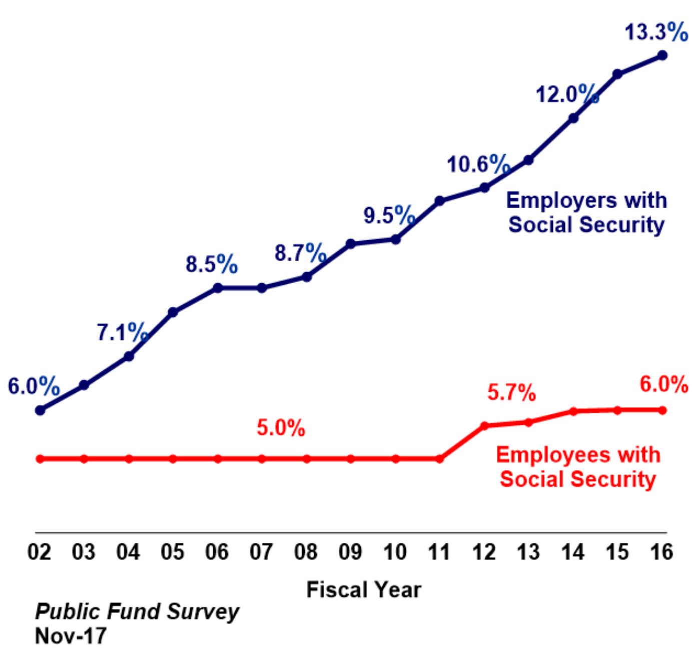


Figure J

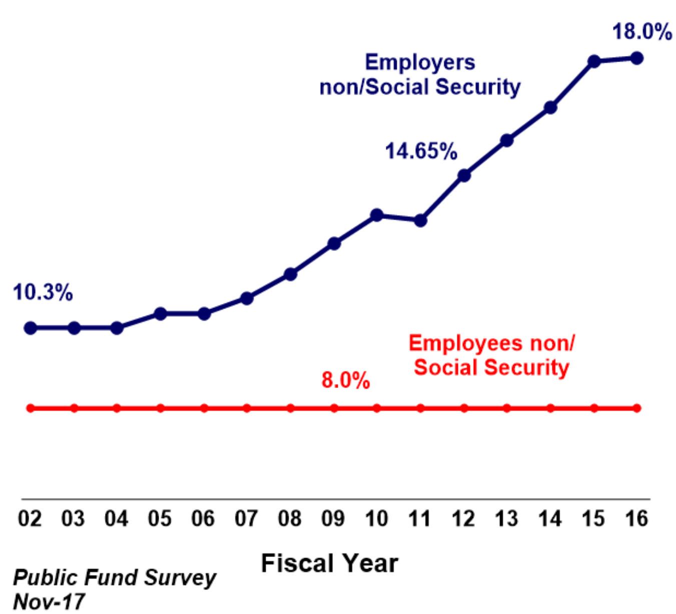
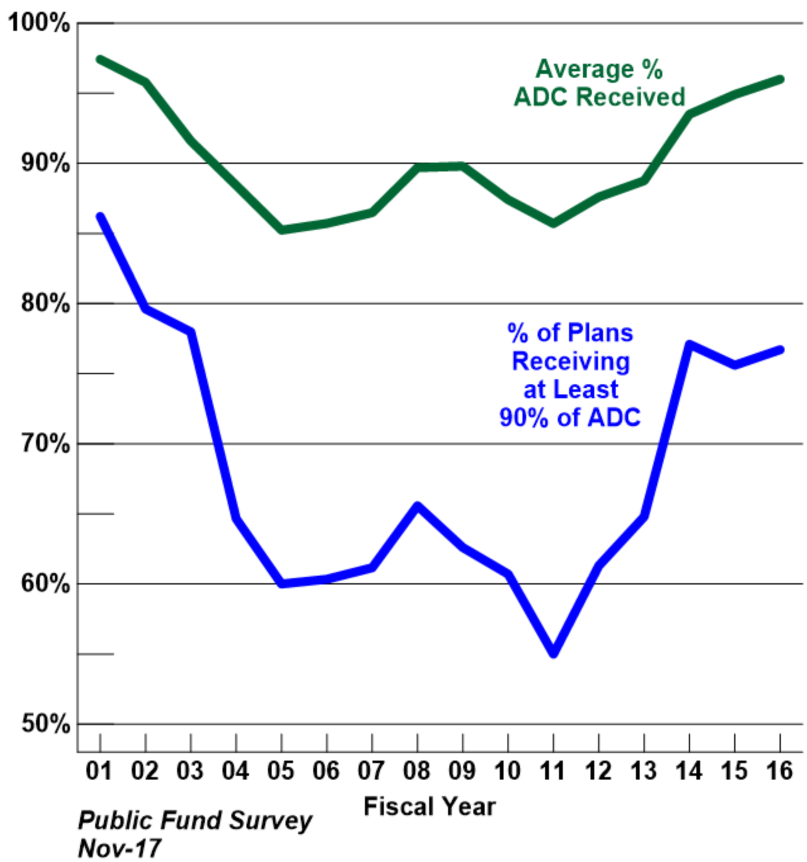


Figure K illustrates the changes over time in two measures pertaining to required pension contributions. Governmental Accounting Standards Board Statements 25 and 27 defined the Annual Required Contribution (https://www.nasra.org/arcspotlight) (ARC) and prescribed its reporting by public pension plans and their sponsoring employers. Effective in FY 2014, public pension plans no longer are required by GASB to calculate and report an ARC. New GASB statements (67 and 68) require that, when an “actuarially determined contribution (https://www.nasra.org/adcbrief),” or ADC, is calculated, information about the ADC should be presented in the financial report of the retirement system and its sponsoring employer(s) (except in cases of agent plans). Per the new statements, an ADC is "a target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted."

Figure K shows the average ARC/ADC received by all plans in the Survey; and the percentage of plans that received at least 90 percent of their ARC/ADC. The investment market losses of 2008-09 increased public pensions’ unfunded liabilities, resulting in higher required costs to amortize those liabilities. Meanwhile, the Great Recession decimated state and local government revenues, impairing, at least temporarily, employers’ ability to pay the higher costs. As the fiscal condition of states and local governments has slowly improved, so has their collective commitment to paying a larger portion of the required cost of employee pension benefits.

Implementing higher contributions, both from employees and employers, takes time. The effect of factors that change contribution rates, such as investment losses and changes in a plan’s actuarial experience, must first be measured through an actuarial valuation. In the case of most statewide plans, a legislature or other governing body must then approve new rates. This cycle, from actuarial event to approval and implementation of higher contribution rates, can take several years. Figure K indicates that efforts to fund public pensions are improving after a period of declining ARC/ADC effort during and after the Great Recession. The average ADC received in FY 16 was 96 percent, and over 76 percent of plans received more than 90 percent of their ADC, representing a continued restoration of funding discipline beginning in FY 12.

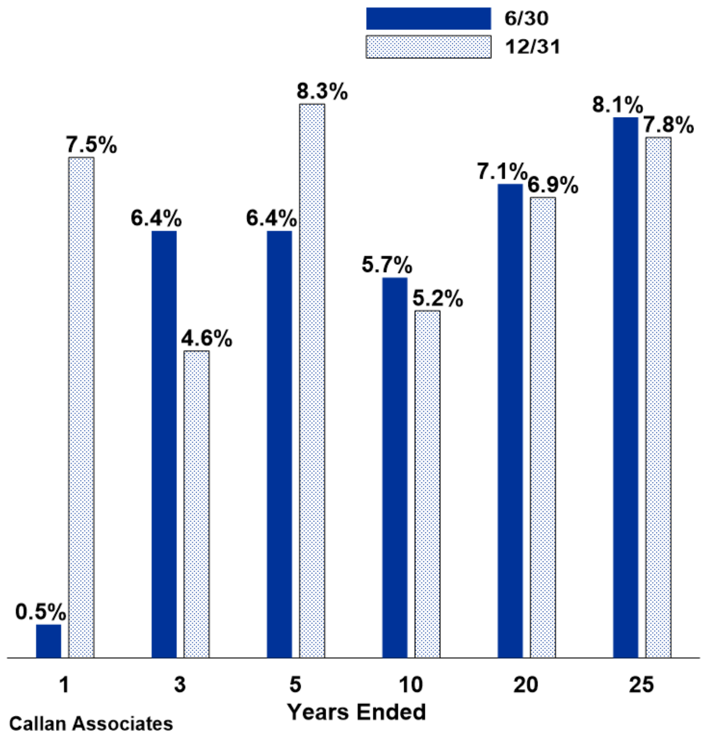
Figure K



As shown in Figure L, the median investment return for plans with a FY-end date of June 30, 2016 (the FY-end date used by approximately three-fourths of the funds in the survey), was 0.5 percent; the return for plans whose fiscal year-end coincides with the calendar year (used by most other plans) was 7.5 percent.

Returns for many of the periods shown have dropped below the assumed investment returns used by most public pension plans, a result largely of sub-par returns over the 10-year period ended 6/30/16 and 12/31/16, and the dropping off of relatively strong returns at the beginning of the measurement periods. These 10-year periods include the sharp market decline of 2008-09. Returns for the 25-year periods ended in FY 16 remain above plans' median long-term return assumption.

Figure L



Of all actuarial assumptions, a public pension plan's investment return assumption (https://www.nasra.org/returnassumptionsbrief) has the greatest effect on the projected long-term cost of the plan. This is because over time, a majority of revenues of a typical public pension fund come from investment earnings. Even a small change in a plan's investment return assumption can impose a disproportionate impact on a plan's funding level and cost.

Until FY 11, the median investment return assumption used by public pension plans was 8.0 percent. Since 2009, a majority of plans have reduced their assumed investment return, resulting in a reduction to the median return assumption to 7.5 percent. Figure M compares the distribution of investment return assumptions for each fiscal year since the inception of the Survey through the present. This chart illustrates the steady reduction in assumed rates of return, particularly since 2009, and the continuation of lower return assumptions beyond FY 16 and through FY 18.

Figure M

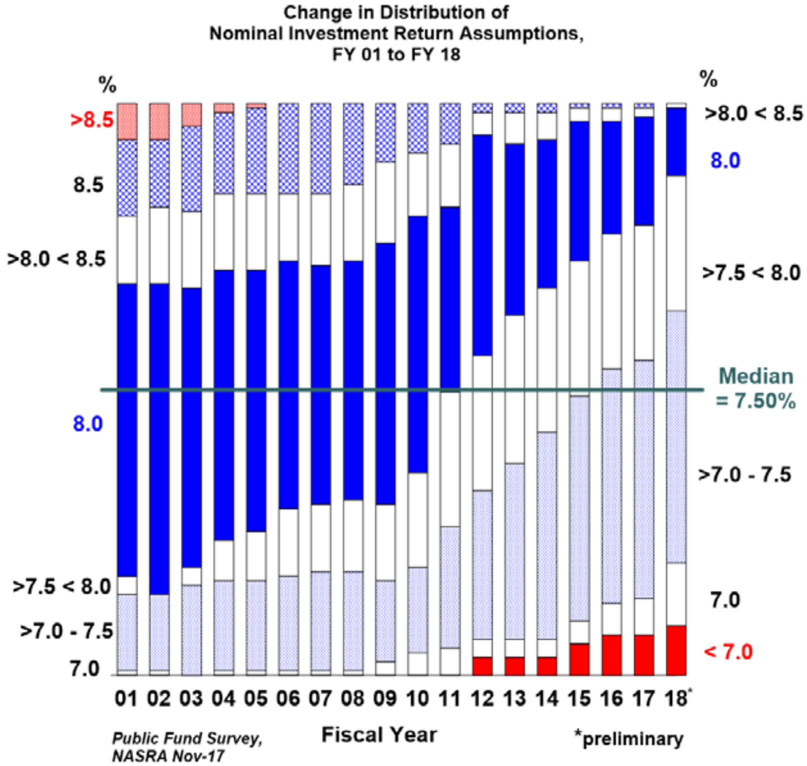
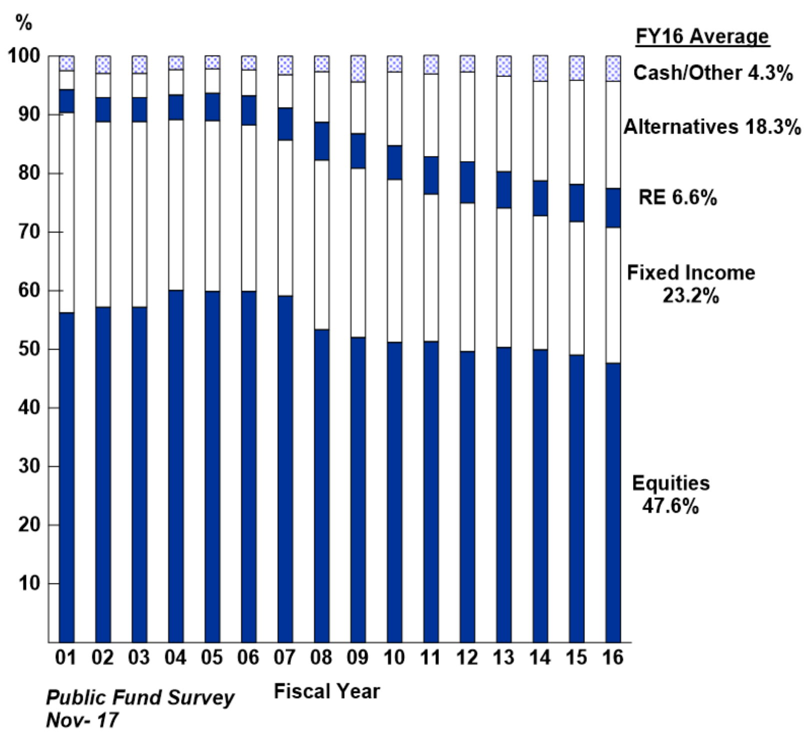


Figure N plots the average asset allocation of 96 funds in the Public Fund Survey since its inception. The average allocation to public equities remains approximately 50 percent, while Fixed Income remains just above 23 percent, its lowest allocation ever. Real Estate remains approximately 6 percent, and the average allocation to Alternatives, which is composed primarily of private equity and hedge funds, has increased to nearly 18 percent.

Figure N



- [Appendix A: Public Retirement System Assets and Membership (https://www.nasra.org//Files/Public%20Fund%20Survey/AppendixA.pdf)](https://www.nasra.org//Files/Public%20Fund%20Survey/AppendixA.pdf)

- Appendix B: Actuarial Funding Levels for FY 16 (https://www.nasra.org/files/Public%20Fund%20Survey/AppendixB.pdf)

See Also

- (https://www.nasra.org/issuebriefs)Public Plans Data (http://publicplansdata.org/)
- NASRA Issue Briefs & Analysis (https://www.nasra.org/issuebriefs)

Prepared by:

Keith Brainard and
(https://www.nasra.org//Files/Public%20Fund%20Survey/AppendixB.pdf)
keith@nasra.org (mailto:keith@nasra.org)
202-624-8464

Alex Brown
(https://www.nasra.org//Files/Public%20Fund%20Survey/Appendix
alex@nasra.org (mailto:alex@nasra.org)
202-624-8461

(https://www.nasra.org//Files/Public%20Fund%20Survey/AppendixB.pdf)

(HTTPS://WWW.NASRA.ORG//FILES/PUBLIC%20FUND%20SURVEY/APPENDIXB.PDF)

(https://www.nasra.org//Files/Public%20Fund%20Survey/AppendixB.pdf)

Public Pension Plan Comparisons

ND TEACHERS' FUND FOR RETIREMENT BOARD

APRIL 2018

2016 Public Fund Survey

- Published November 2017 for FY 2016
  - **Survey results do not include FY 2017 data.**
- Includes key characteristics of 121 large public retirement plans which represents about 85% of entire state and local government (SLG) retirement system community.
- Survey sponsored by NASRA since 2001. Survey data compiled by Center for Retirement Research at Boston College since 2013.
- Public Fund Survey is accessible online at www.nasra.org/publicfundsurvey.

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 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.
- Since 2009, most 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

Actuarial Funding Levels

- Funding ratio is the 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

- 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 adequacy of employer and employee contributions, demographic composition, actuarial methods and assumptions, and changes in benefit levels.

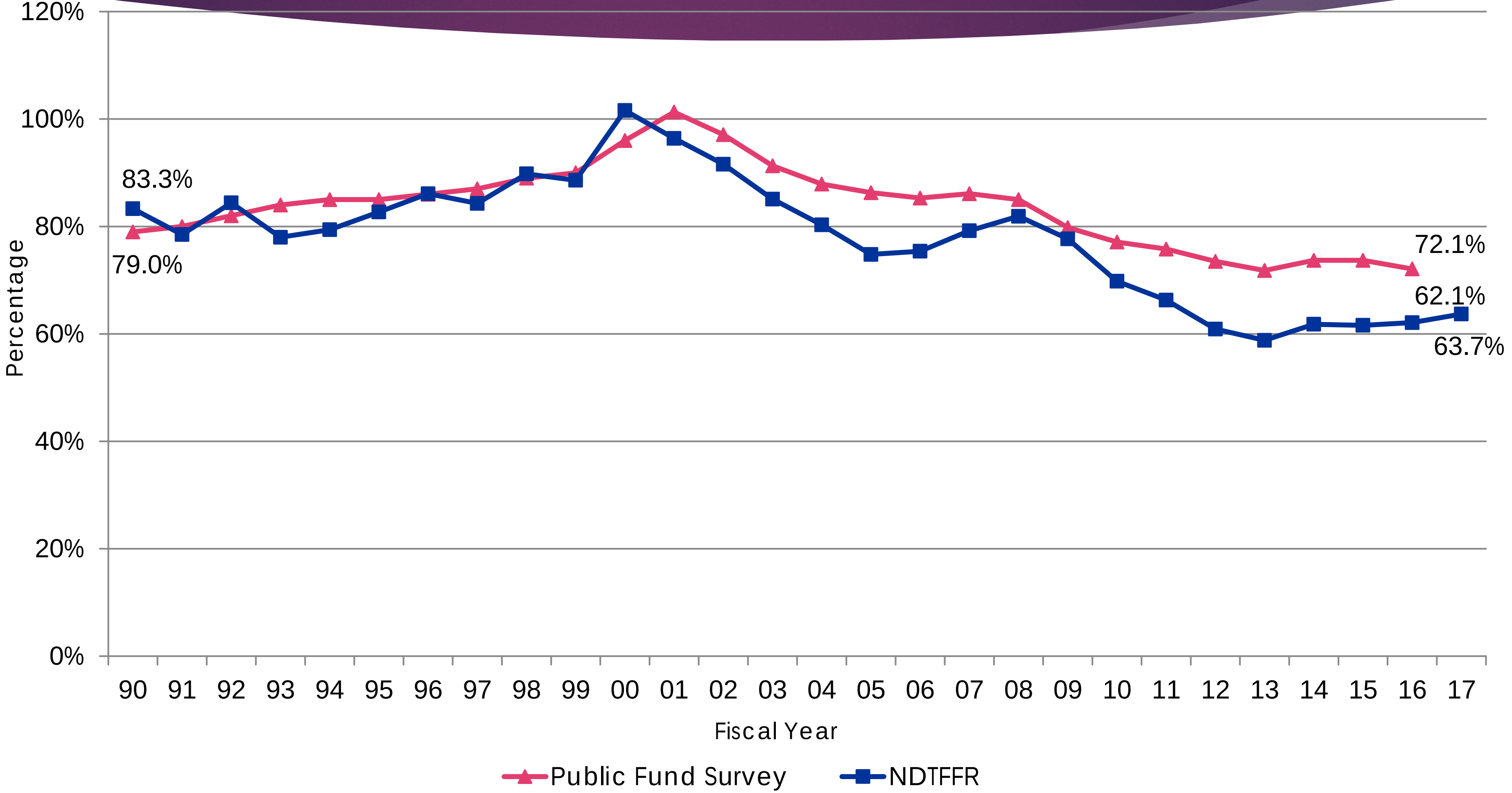
Actuarial Funding Levels

- According to the 2016 Public Fund Survey, public pension funding levels declined from 73.7% in FY15 to 72.1% in FY16.

- **NDTFFR** funding level increased slightly from 61.6% in FY15 to 62.1% in FY16 (and 63.7% in 2017).

  - NDTFFR ranking, in terms of funding level, remained unchanged at 92 of 121 plans in 2016 Survey.

Change in Actuarial Funding Levels

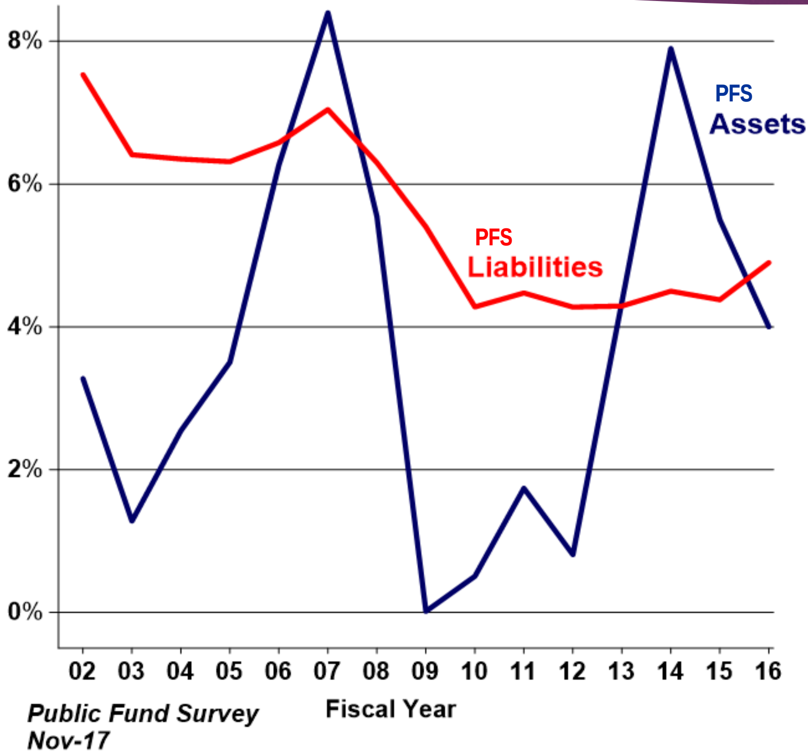


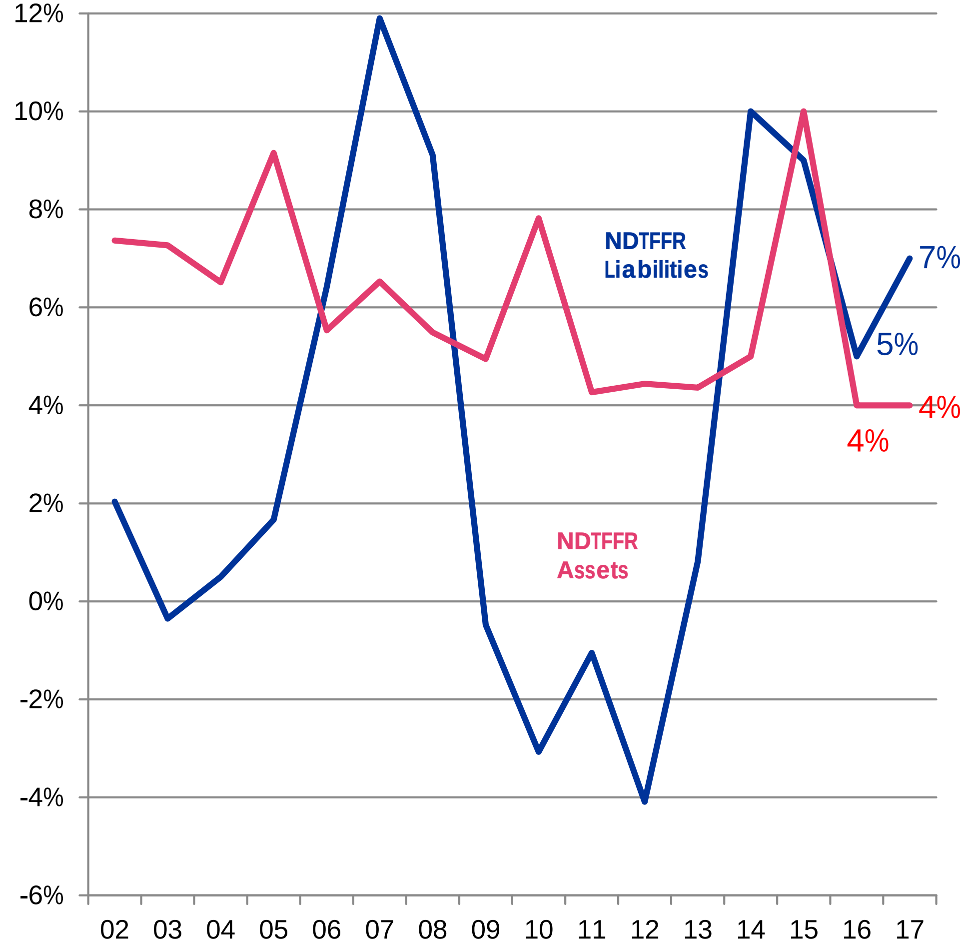
*Note: 1990-2000 PFS funding level numbers are biannual

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 5%, for 7 consecutive years.
  - Lower rate of growth in liabilities is due to low salary growth, declining or stagnant employment levels, and the effects of many reforms (reductions) in pension benefits enacted in recent years.
  - Rates of liability growth would be lower were many plans not also 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 as expected. Liability growth remains at 4%.
- 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 fully recognized. Weak investment returns in FY 15 and FY 16 caused the rate of asset growth to decline in FY 16.
- **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 median rate of increase in annuitants declined for a 4th consecutive year to about 3%.

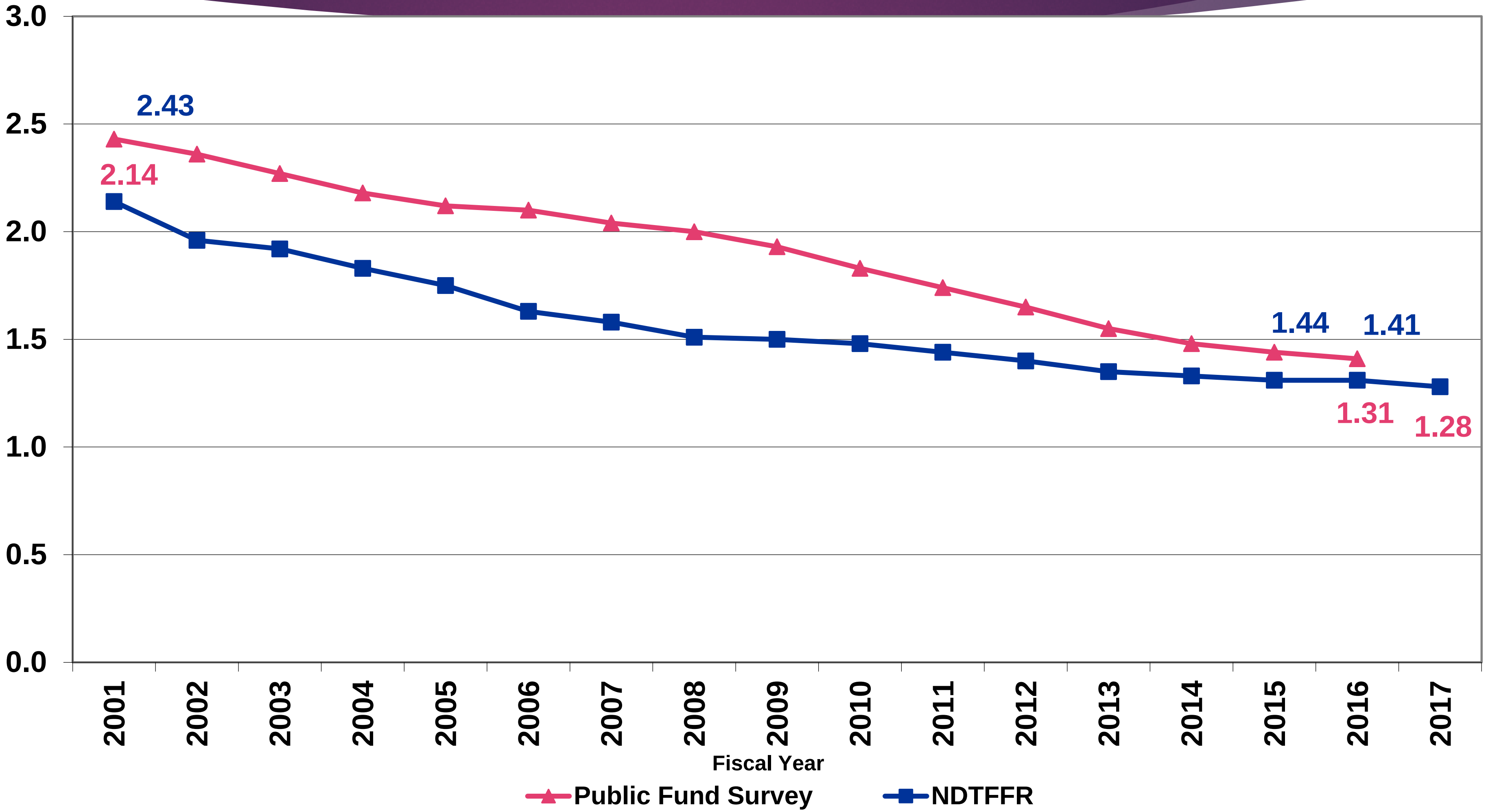
- The number of active members grew for the 2nd consecutive year to about 0.5%, following 6 years of decline.

- The difference between the continued increase in annuitants and a declining number of active members is driving a reduction in the overall ratio of actives to annuitants. In FY 16, this ratio dropped to 1.42%, which is the smallest decrease since FY 06.

- For **NDTFFR** the ratio was 1.31 in FY16 (and 1.28 in FY17).

- 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 higher required pension costs (like NDTFFR).

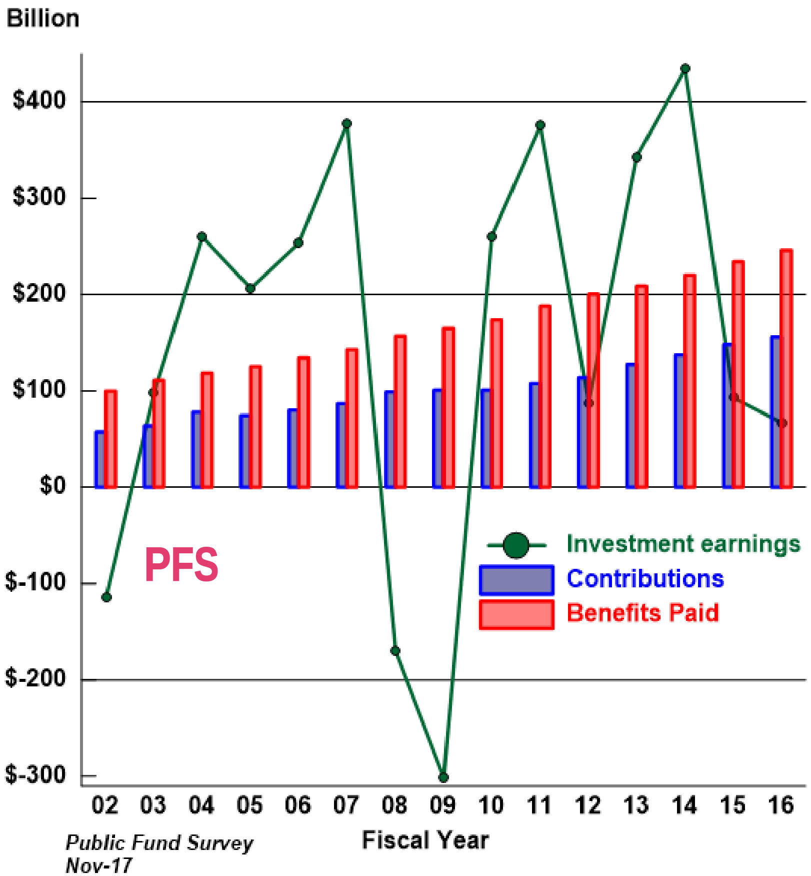
Ratio of Active Members to Annuitants

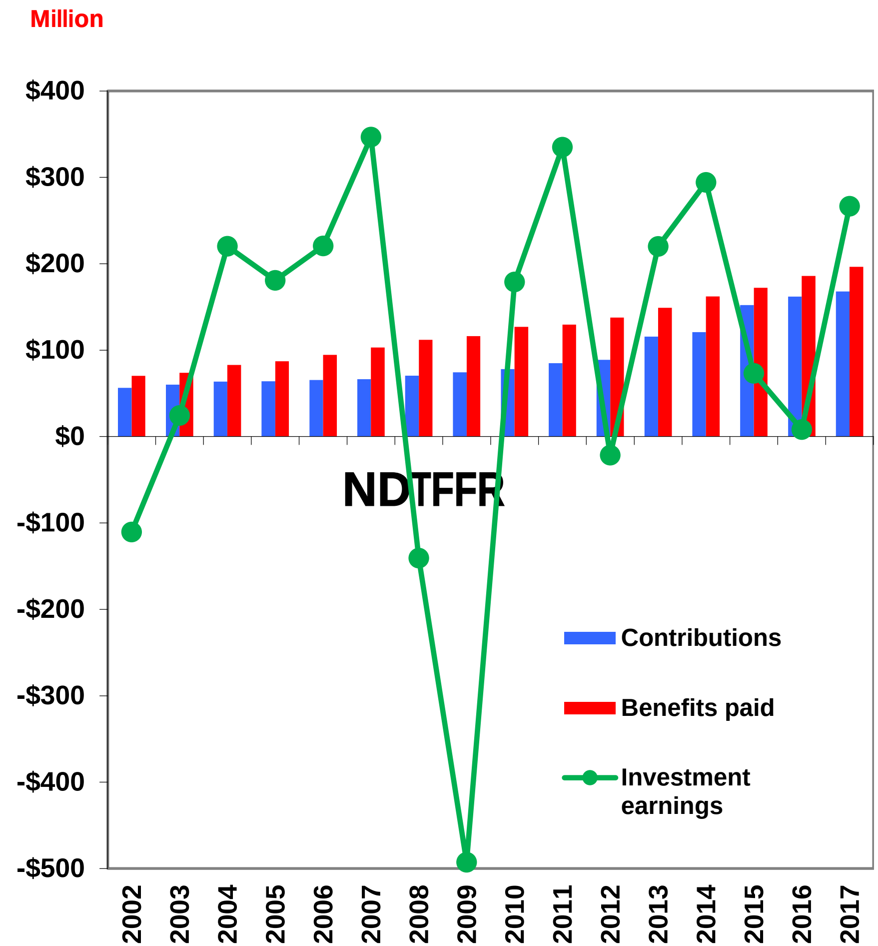


Revenues, Expenditures, and Investment Earnings

- 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





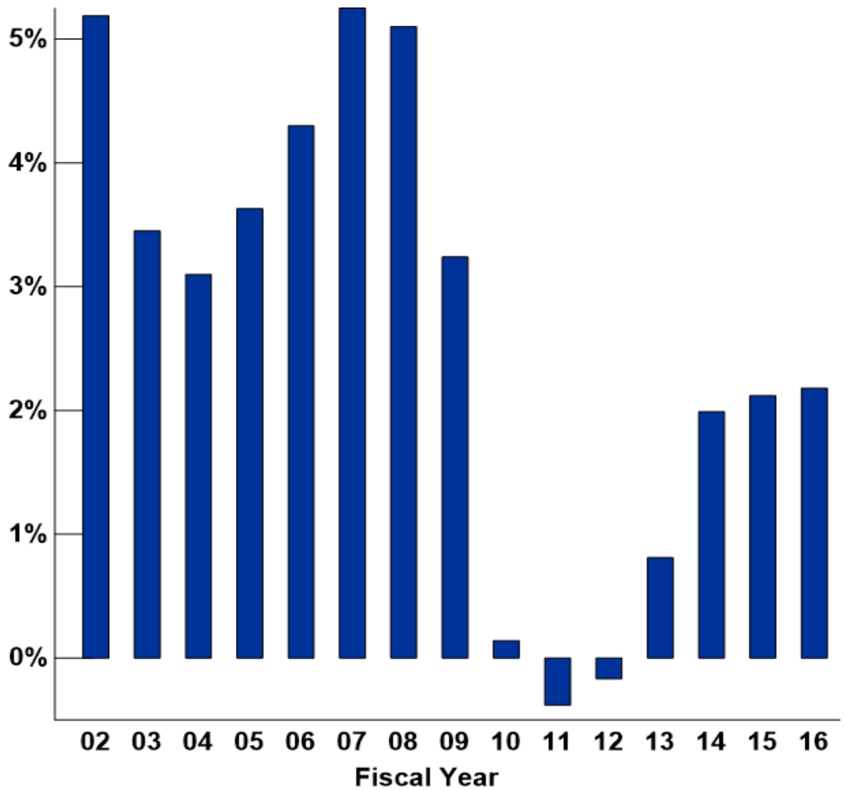
Annual Change in Payroll

- Median change in active member payroll was either negative or in decline during FY 11 and FY12. This reflects:
  - Stagnant or declining employment levels
  - Modest salary growth
- Higher wage growth began in FY 13, and is continuing around 2% through FY16.

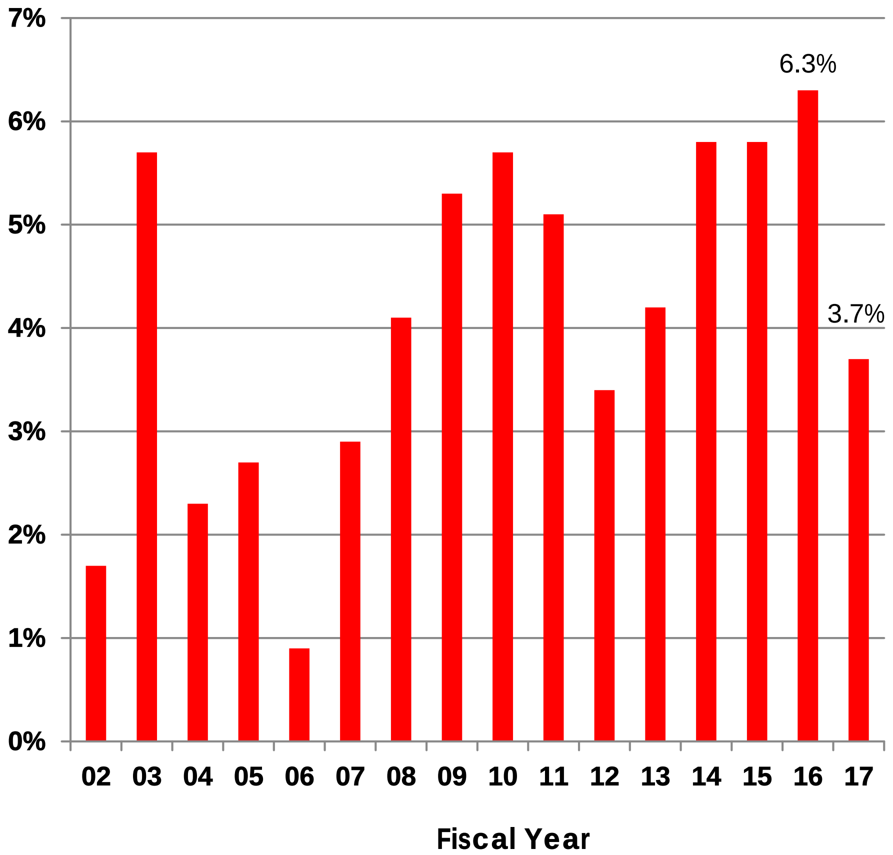
- **NDTFFR** active payroll has increased at higher levels than the PFS in recent years. NDTFFR payroll has increased an average of 5.2% from 2009 to 2016.

Annual Change in Payroll

PFS



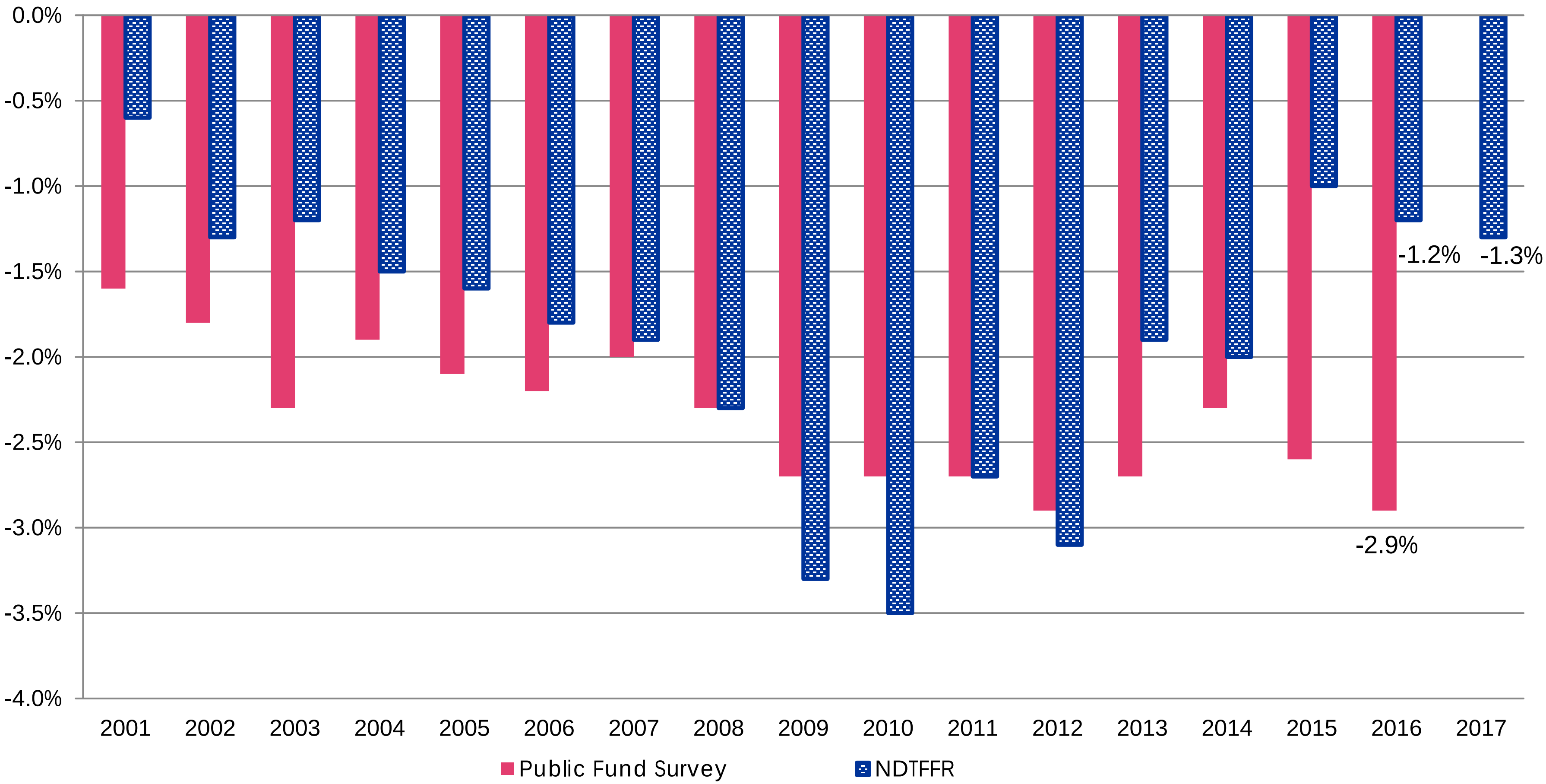
TFFR



External Cash Flow

- External cash flow is the difference between a system's revenue from contributions and payouts for benefits and administrative expenses, divided into the value of the system's assets. It excludes investment gains and losses.
  - 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.
- PFS median external cash flow was -2.6% in FY15, and -2.9% in FY16.
- **NDTFFR** external cash flow was -1.0% in FY15 and -1.2% in FY16 (-1.3% in FY17).

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.)

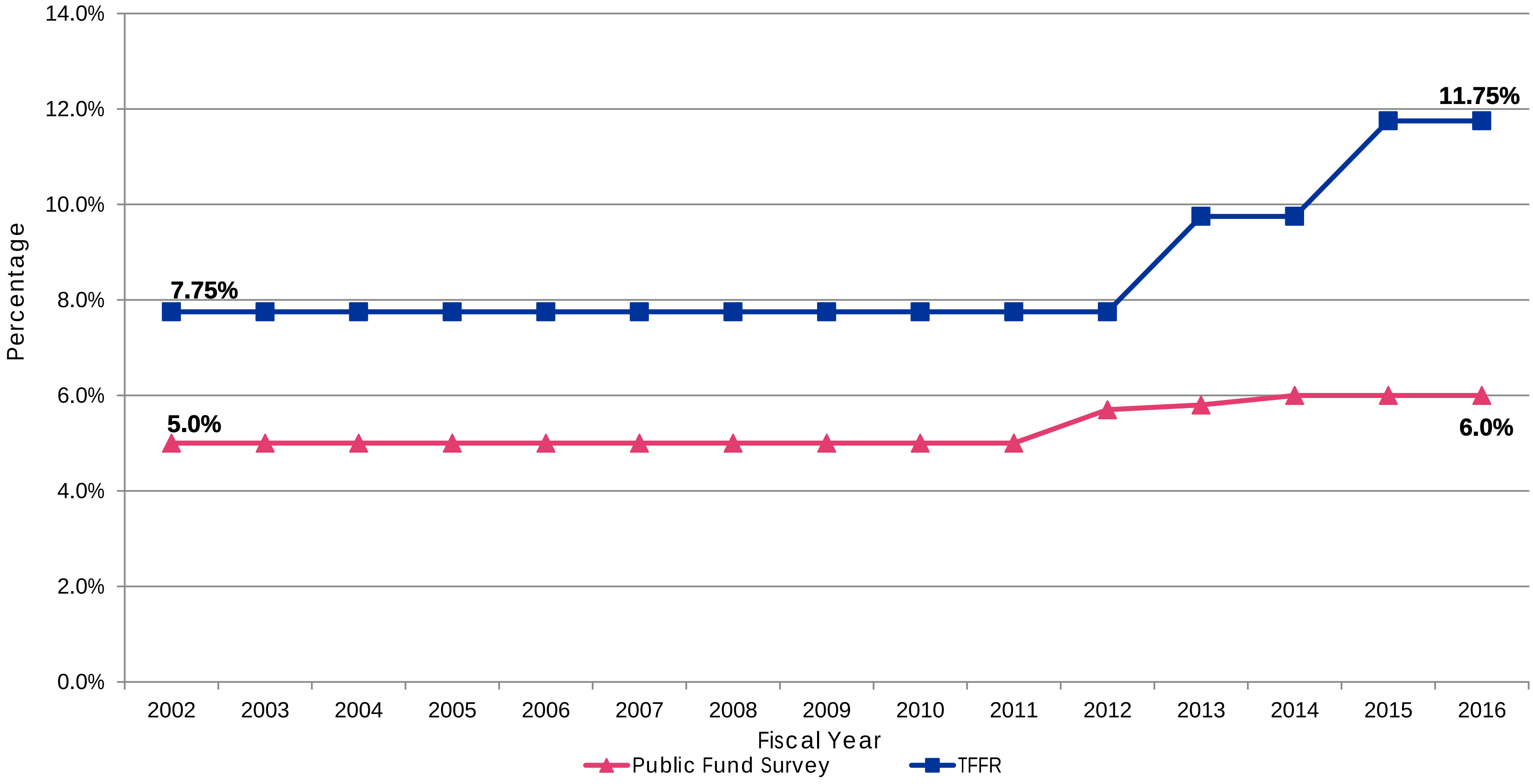
Contribution Rates

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

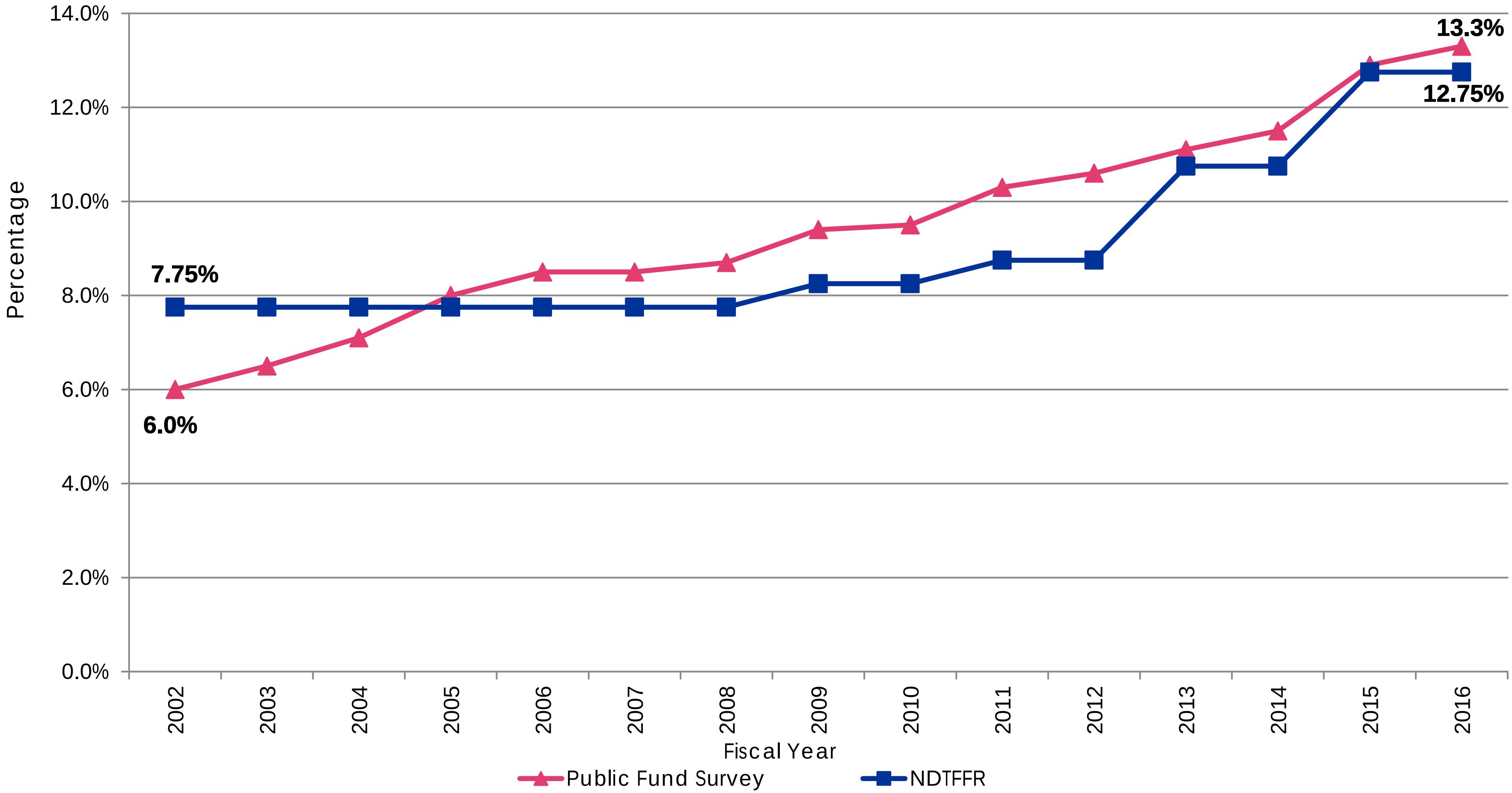
- Median **employee** contribution rate remained at 6.0% in 2016 for Social Security eligible workers.
  - **NDTFFR** employee rate is 11.75% (effective 7/1/14). Rate will be in effect until plan is 100% funded, then reduced to 7.75%.

- Median **employer** contribution rate rose to 13.3% in 2016 for Social Security eligible workers.
  - **NDTFFR** employer rate is 12.75% (effective 7/1/14). Rate will be in effect until plan is 100% funded, then reduced to 7.75%.

Employee Contribution Rates



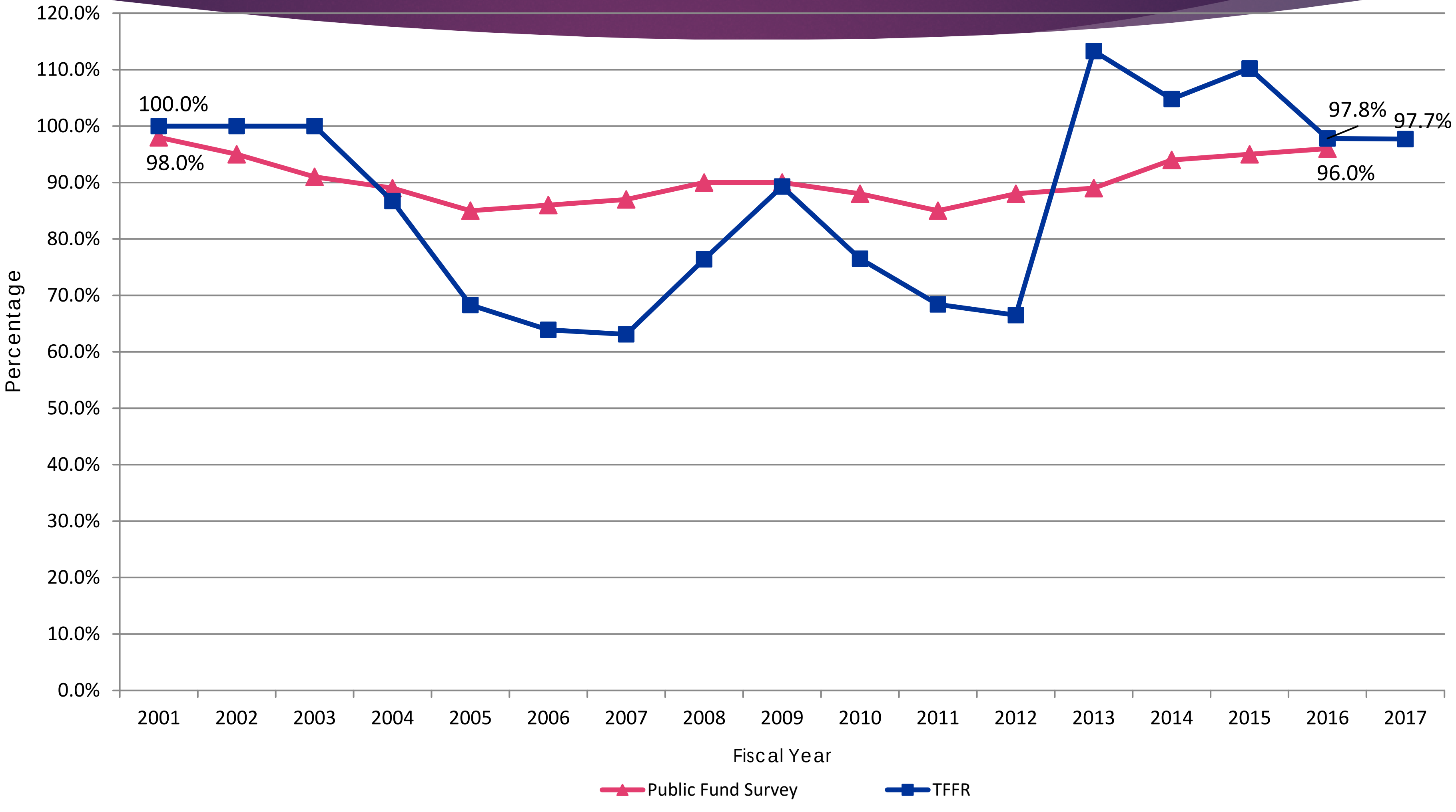
Employer Contribution Rates



Actuarially Determined Contribution

- An actuarially determined contribution (ADC)is a target or recommended contribution to a DB pension plan as defined by GASB.
- Efforts to fund public pensions are improving after a period of declining ARC/ADC effort during and after the Great Recession.
- According to the PFS, the average ARC/ADC received in FY 16 was about 96%. Over 76% of plans received more than 90% of their ADC.
  - **NDTFFR** received 97.8% of ADC in FY16 (and 97.7% in FY17).

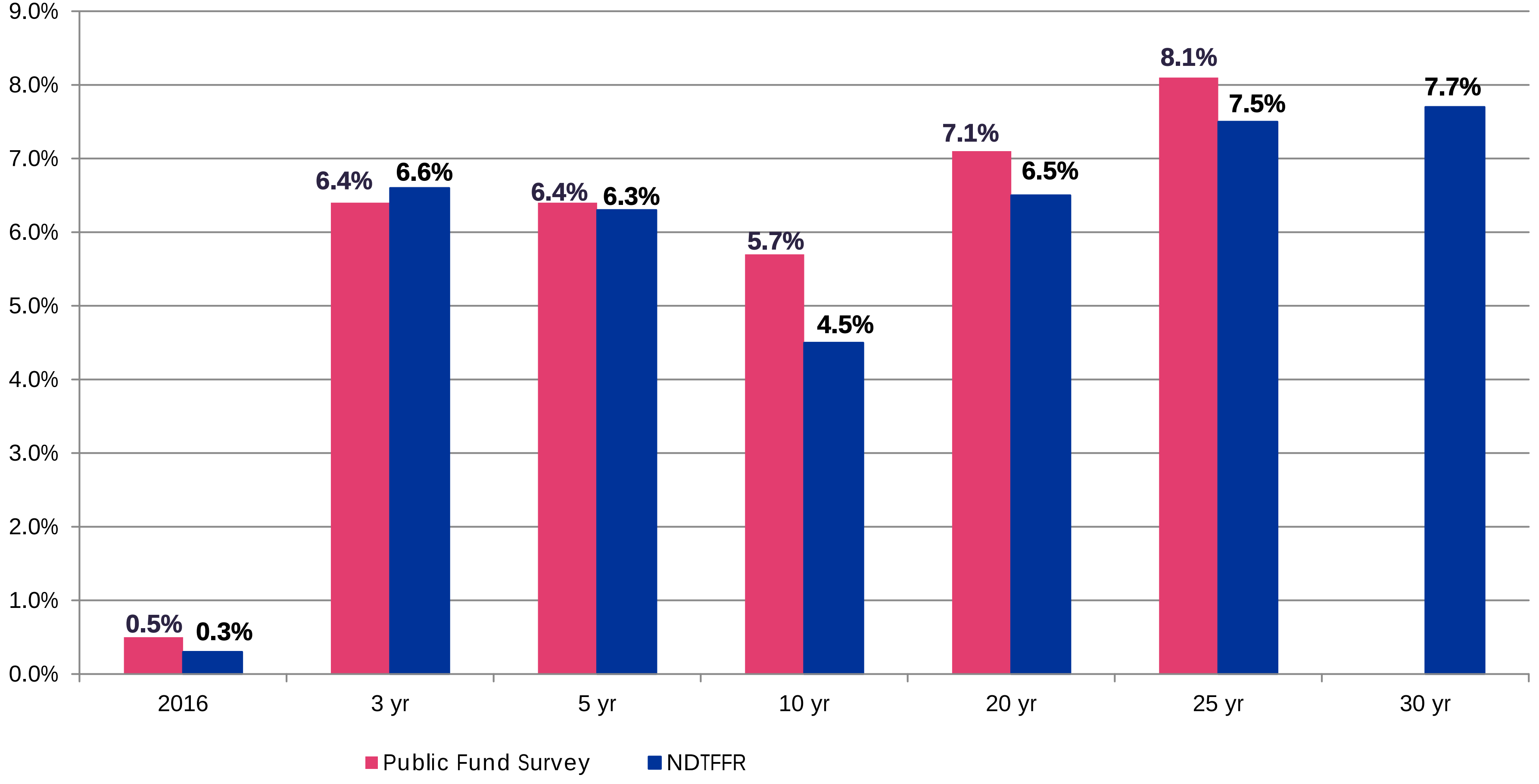
Average ARC/ADC Received



Investment Returns

- Median investment return for plans with FY end date of 6/30/16 (about ¾ of PFS participants), was 0.5%.
- **NDTFFR** return was 0.3% for FY16 (and 12.9% for FY17).
- Returns for many of the time periods have dropped below the assumed investment returns used by most public plans, a result largely of sub-par returns over the 10-year period ended 6/30/16, and the dropping off of relatively strong returns at the beginning of the measurement periods. Returns for the 25-year periods ended in FY16 remain close to or above most plans' long-term return assumption.

Annual Investment Returns (net)



Actuarial Assumptions

Actuarial valuations 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 in 2015; revised assumptions approved by the Board became effective 7/1/15.

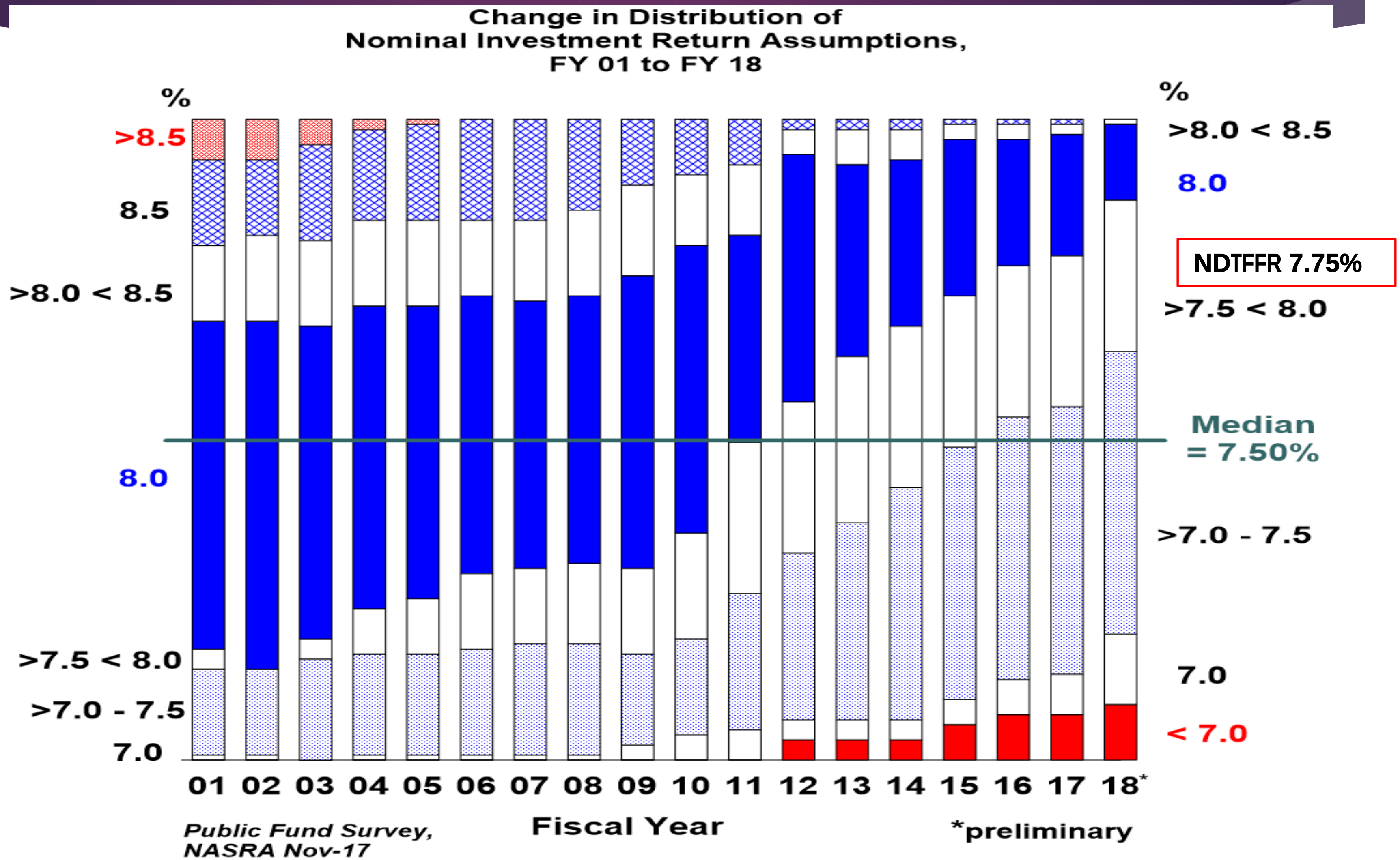
Investment Return Assumption

- 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

- Until FY11, the most common investment return assumption used by public pension plans was 8.0%.
- Since 2009, many plans have reduced their investment return assumption.
- Median investment return assumption was 7.5% in 2016.
- **NDTFFR** investment return assumption was reduced from 8.0% to 7.75% effective 7/1/15.

Investment Return Assumption



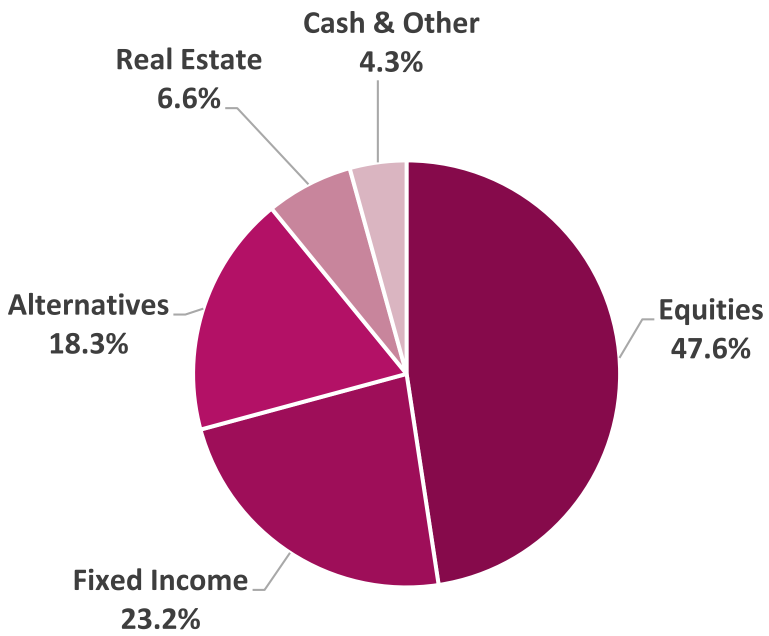
Asset Allocation

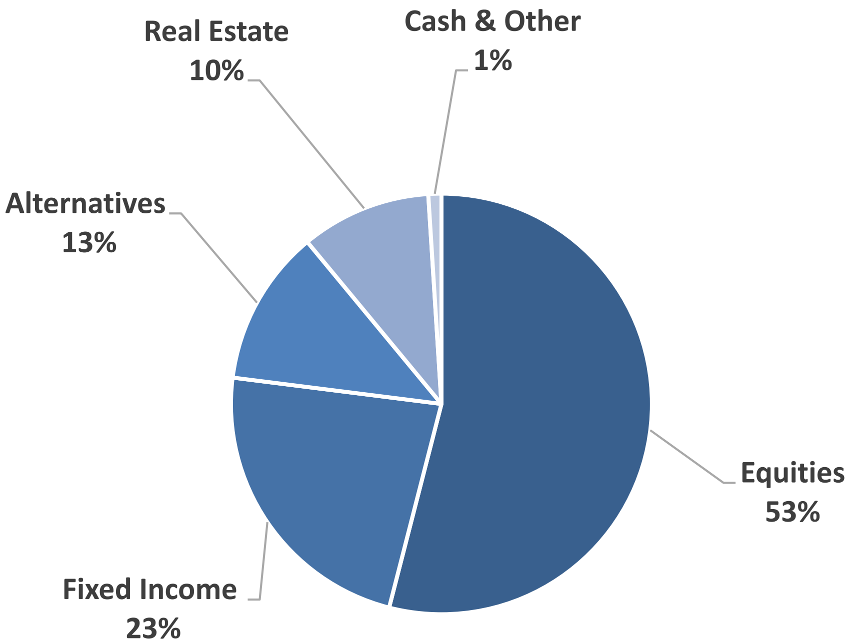
There were minor changes to PFS plan's asset allocations.

- PFS average allocation to Public Equities is nearly 48%.
- Fixed Income remains just above 23%, its lowest allocation ever.
- Real Estate remains at about 6.5%.
- Alternatives (composed of primarily private equity and hedge funds) increased to 18%.

- Compared to the 2016 PFS, **NDTFFR** has less in Cash and Alternatives, about the same in Fixed Income, and more in Real Estate and Equities.
  - NDTFFR Asset Liability Study was conducted in 2015-16, with minor allocation changes effective in 7/1/16.

Asset Allocation





**Public Fund Survey
Fiscal Year 2016**

**NDTFFR
2016**

Conclusion

- A very difficult operating environment currently exists featuring volatile investment markets; criticism of public employees, their benefits, and their governing boards; and challenging fiscal conditions facing many state and local governments.

- **Like NDTFFR, 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 19, 2018
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 on public pension plans which are intended to serve as a source of information for those involved with pension and retirement security policy. Here are a few examples:

1) Public Plans Database (PPD) is a publicly accessible database of financial, actuarial, and other plan data for 170 of the nation's largest state and local government (SLG) public pension plans which accounts for 95% of state/local pension assets and members in the U.S. The PPD is a partnership between the Center for State and Local Government Excellence (CSLGE), the Center for Retirement Research at Boston College (CRR), and the National Association of State Retirement Administrators (NASRA). Data comes from the annual financial reports, actuarial reports, benefit summaries, and other information on system's websites.

2) PEW Pension Funding Report is a report sponsored by the PEW Charitable Trusts which analyzes the state pension funding for all 50 states. The most recent report includes funded ratios, sources of change in pension debt, investment returns, actuarial assumptions, amortization of pension debt, and cash flow ratios.

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 164 SLG funds' fiscal condition and steps being taken to ensure fiscal and operational integrity. Survey topics include expenses, actuarial assumptions, investment returns and allocation, funding levels, cost of living adjustments, trends in plan changes, retirement benefits, business practices, and oversight practices, and innovations/best practices.

4) NEA Characteristics of Large Public 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.

Board Information Only. No board action is requested.

RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES
2017-2018 Third Quarter Audit Activities Report
January 1, 2018 – March 31, 2018

The audit objective of Audit Services is twofold: first, to provide comprehensive, practical audit coverage of the Retirement and Investment Office (RIO) programs; second, to assist RIO management and the State Investment Board (SIB) by conducting special reviews or audits.

Audit coverage is based on the July 1, 2017 through June 30, 2018 work plan approved by the SIB Audit Committee. The audit activities undertaken are consistent with the Audit Services charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

Retirement Program Audit Activities

- **TFFR Employer Audit Program**

We examine employer reporting to the Teachers' Fund for Retirement (TFFR) to determine whether retirement salaries and contributions reported for members of TFFR are in compliance with the definition of salary as it appears in NDCC 15-39.1-04(10). Other reporting procedures reviewed during the audit process are calculation of service hours and eligibility for TFFR membership. A written report is issued after each audit examination is completed. The TFFR Employer Audit Program includes Compliance Audits, Not in Compliance (NIC) Reviews, and Special Audits requested by Retirement Services.

Status of TFFR Employer Audits as of March 31, 2018:

- Nine (9) employer audits had been completed.
- Three (3) employer audits were in progress.
- Five (5) employer audits were pending but not yet started.
- Three (3) employer audit notifications were sent

The three employer audits in progress include Alexander and Grenora which are both small schools part of the normal cycle and Parshall which is a special audit. Parshall will be a 100% audit of one year since it is a special audit.

This is an area that requires special emphasis due to the level of risk identified through previous audit results. Our long-range plans include auditing each employer over an eight year period.

- **TFFR File Maintenance Audit**

A review of changes made to TFFR member account data by Retirement and Investment Office employees is reviewed on a quarterly basis. The TFFR File Maintenance Audit for the first quarter of July 1, 2017 through September 30, 2017. The field work was completed and the report was issued in April 2018.

- **Regional Education Association (REA)**

Audit Services and Retirement Services developed a joint questionnaire that was sent to the eight REA's in North Dakota. The REA responses to the ten questions gave TFFR and Audit Services a better understanding to how the REA's are reporting to TFFR. Audit Services and Retirement are still following up on information received. Going forward, a plan will be developed to address any issues.

Investment Audit Activities

- **Executive Limitation Audit**

On an annual basis, Audit Services reviews the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation Policies A- 1 through A-11. The Executive Limitation Audit for calendar year 2017 was completed in February 2018. Audit Services was sufficiently satisfied that the Executive Director/CIO was in compliance with the SIB Governance Manual Executive Limitation policies A-1 through A-11 during calendar year 2017. The SIB Audit Committee approved the Executive Limitation Audit on February 22, 2018 and the SIB approved the Executive Limitation Audit on February 23, 2018.

In February 2018, the SIB approved the formation of the Executive Review Committee for the purpose of evaluating the Executive Director/CIO of the North Dakota Retirement and Investment Office, Mr. David Hunter. The assistance of Audit Services was required to facilitate a survey to the current SIB members and a survey to RIO staff. The survey to RIO staff was completed in March 2018 and the SIB survey was administered in April 2018. Audit Services compiled the results and reported to the Executive Review Committee.

Administrative Activities

- **Supervisor Training**

The new Supervisor of Audit Services, Sara Sauter, started January 1, 2018. Time was spent getting up-to-date with the agency and what all audit services does. Time was spent reading manuals, regulation, attending Business Manager Training, and getting to know the staff.

- **Professional Development/CE/General Education**

Audit Services continued its participation with the Institute of Internal Auditors (IIA) Central NoDak Chapter by attending February and March monthly IIA meetings. The February meeting was a working group on operational auditing and enterprise risk management. The March meeting was a presentation about Bismarck/Mandan area development.

- **Meetings**

Audit Services attended various meetings during the third quarter. The Supervisor of Audit Services attended monthly agency supervisor and staff meetings; also attended two TFFR meetings, three SIB meetings, and one SIB Securities Litigation meeting. There was biweekly meetings held with the Deputy Director/CRO and multiple meetings held with Executive Director on various topics. The Internal Auditor attended one TFFR meeting and monthly staff meetings. Audit Services also meet with the internal audit department at NDPERS.

Summary

Audit effort is directed to activities that are of greatest concern to the SIB Audit Committee, RIO Management, and our external audit partners. Audit Services will continue to work closely with the SIB Audit Committee, RIO Management, and our external audit partners to continue to improve overall efficiency, effectiveness, and economy of total audit activity.

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp, Chief Retirement Officer**
Sara Sauter, Supervisor of Retirement Services

DATE: **April 19, 2018**

SUBJ: **TFFR Employer Audit Reporting Process**

The RIO Audit Services team is considering changes to the TFFR employer compliance audit reporting process. As you know, the primary purpose of employer auditing is to determine if the retirement salaries and contributions reported to TFFR by a participating employer are in compliance with the definition of salary as it appears in state statutes. Reported service hours and eligibility for TFFR membership are also verified.

Currently, Audit Services works with the business manager of the school district/ participating employer to conduct TFFR employer reporting compliance audits. At the conclusion of the audit, an audit report is issued to the Superintendent or Director of the school district/employer, and a copy is sent to the Business Manager. Under TFFR Board Policy C-8, the employer must respond in writing to the audit findings and/or recommendations within 30 days of the report. For those employers who are not in compliance, a follow up review is conducted by Audit Services once one year of unaudited salary is available, or as determined by the Chief Retirement Officer.

Auditing best practices recommend that all audit reports be issued to the governing body of the entity being audited. For TFFR employers, this is typically the school board, or other governing body of a participating employer.

RIO Audit and Retirement Services staff are discussing the possibility of issuing all future TFFR employer compliance audit reports to both the Superintendent/Director and School Board/Governing Body President. TFFR audit reports would be submitted for acceptance by the full school board at a regular meeting of the governing body. The Superintendent/Director <u>and</u> School Board/Governing Body president would then sign off on the audit report, and respond in writing to audit findings and/or recommendations, if any. This would be the process for both “in compliance” and “not in compliance” audit reports.

Considerations:

- Revised reporting procedure would follow audit best practices for audit reporting to the school board/governing body.

- Provides opportunity for school board/governing body to review TFFR employer compliance audits, including findings and recommendations, if any.

- Increases visibility of TFFR plan at the school board/employer level.

- Requires additional steps to the audit reporting process: school board/governing body would need to add TFFR compliance audit to meeting agenda for acceptance; board president and superintendent would need to sign off on the audit report.

- For the vast majority of TFFR employer audits found to be “in compliance,” the audit report would reflect the excellent work done by the Business Manager/Payroll staff with regards to complex TFFR reporting activities.

- For those TFFR employer audits found to be “not in compliance,” the audit report would also reflect the work done by Business Manager/Payroll staff, and appropriate action, if any, could be considered at the employer level (i.e. payroll software changes, additional training, improved documentation and record keeping practices, etc.).

- Accurate employer reporting results in accurate retirement benefit payments to TFFR members.

As Audit and Retirement Services staff consider this possible audit reporting change, we are interested in TFFR Board and Audit Committee feedback. Based on the outcome of these discussions, a TFFR Board policy change may be requested this summer.

Board Information and Discussion Only. No board action is requested.

MEMORANDUM

TO: TFFR Board
FROM: Fay Kopp
DATE: April 19, 2018
SUBJ: Trustee Education

Here are some dates and links to upcoming pension trustee educational opportunities. If you are interested in attending any of the following conferences or training programs, or if there are other trustee educational opportunities that you are aware of, please contact Fay.

National Council on Teacher Retirement (NCTR)

• NCTR Trustee Workshop	July 23-25, 2018	UC, Berkeley, CA
• NCTR Annual Conference	October 7-9, 2018	Washington, DC

Callan Associates

• Callan Intro to Investments	July 24-25, 2018 October 2-3, 2018	San Francisco, CA Chicago, IL

International Foundation of Employee Benefit Plans (IFEBP)

- 2018 Public Employee Program Schedule
- 2018 Employee Benefit Education Catalog

National Conference on Public Employee Retirement Systems (NCPERS)

- 2018 NCPERS Educational Programs

Board Information Only. No Board action is requested.

MEMORANDUM

TO: **TFFR Board**

FROM: **Fay Kopp**

DATE: **April 19, 2018**

SUBJ: **TFFR Trustee Appointment Update**

As you know, Mike Gessner is retiring from Minot Public Schools on May 24, 2018. Mike has served on the TFFR Board for 13 years, and the State Investment Board and Audit Committee for 12 years. Due to Mike's retirement, he will no longer be eligible to serve on the TFFR Board representing active teachers.

Also, Mel Olson's current term on the TFFR board ends June 30, 2018. Mel has represented retired members on the TFFR Board for 5 years, and served on the State Investment Board for 3.5 years. Mel's position is up for re-appointment.

I have informed the Governor's office, and have also notified ND United and NDRTA of their statutory requirement to submit names of active (NDU) and retired (NDRTA) members to the Governor's office for appointment or re-appointment to the TFFR Board. To date, Governor appointments have not yet been made. I will stay in touch with the Governor's Office, and notify the Board as soon as I am informed.

Board Information Only. No board action is requested.

MEMORANDUM

TO: TFFR Board

FROM: Fay Kopp

DATE: April 19, 2018

SUBJ: TFFR Board Resolution

I have drafted the enclosed resolution for the TFFR Board's consideration in recognition of Mike Gessner's many years of dedicated service to the TFFR Board, State Investment Board, and SIB Audit Committee.

Since the April meeting will be Mike's last regular TFFR Board meeting, we will also host an informal retirement coffee party in his honor after the meeting.

Attachment

BOARD ACTION REQUESTED: Approve board resolution for Mike Gessner.

ND TFFR Board Resolution
in Appreciation of
Michael Gessner

WHEREAS, Mr. Michael Gessner has served as trustee of the ND Teachers' Fund for Retirement Board representing active teachers for 13 years, from 2005 until his retirement in 2018, assuming the leadership positions of Vice President for 2 years and President for 11 years; and

WHEREAS, Mr. Gessner has also served on the ND State Investment Board and Audit Committee representing TFFR members during his tenure; and

WHEREAS, Mr. Gessner has dedicated his entire professional career to the ND education community as a caring, respected, and outstanding Math Teacher at Minot Public Schools for 46 years; and

WHEREAS, Mr. Gessner has been actively involved in many professional, community, and state activities and associations during his teaching career; and

WHEREAS, Mr. Gessner has been committed to preserving the defined benefit structure of the TFFR plan to provide lifetime retirement security for ND educators and their beneficiaries; to prudently investing trust fund assets; to supporting efforts to strengthen TFFR's funding structure; and to safeguarding the financial integrity of the fund; and

WHEREAS, Mr. Gessner has provided steadfast leadership on pension issues, and earned a reputation as a strong advocate for protecting the retirement interests of education professionals, providing cost efficient pension administration, and delivering high-quality customer service; and

WHEREAS, Mr. Gessner has distinguished himself as an outstanding trustee whose knowledge, experience, integrity, and courage has respectfully served trust fund members; now therefore, be it

RESOLVED, that the ND TFFR Board express its sincere appreciation to Mr. Gessner for his dedicated service to the Board, and for his unwavering support of educators, students, and citizens of North Dakota; and be it further

RESOLVED, that the Board extends its best wishes to Mike, and his wife, Sibley, for a long and happy retirement; and be it further

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

DATED this 26th day of April, 2018

Rob Lech, Vice President	Mel Olson, Trustee
Toni Gumeringer, Trustee	Mike Burton, Trustee
Kelly Schmidt, State Treasurer	Kirsten Baesler, State Superintendent

North Dakota Teachers' Fund For Retirement

NDTFFR Board Reading
April 2018

- National Association of State Retirement Administrators (NASRA): Public Pension Plan Investment Return Assumptions- February 2018

- National Association of State Retirement Administrators (NASRA): State and Local Government Spending on Public Employee Retirement Systems – March 2018

- Center for Retirement Research at Boston College: How have Pension Cuts Affected Public Sector Competitiveness? – April 2018

- Center for Retirement Research at Boston College: How Medicaid Helps Older Americans – March 2018