

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JANUARY 24, 2019, BOARD MEETING**

BOARD MEMBERS PRESENT: Rob Lech, President
Mike Burton, Vice President (TLCF)
Kirsten Baesler, State Supt. (TLCF)
Toni Gumeringer, Trustee
Cody Mickelson, Trustee (TLCF)
Mel Olson, Trustee
Kelly Schmidt, State Treasurer (TLCF)

STAFF PRESENT: David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Missy Kopp, Retirement Assistant
Sara Sauter, Audit Services Supvr
Shelly Schumacher, Retirement Program Mgr

OTHERS PRESENT: Kathy Kindschi, NDU-Retired
Kim Nicholl, Segal (VDCF)
Anders Odegaard, Attorney General's Office
Matt Strom, Segal (VDCF)

CALL TO ORDER:

Dr. Rob Lech, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, January 24, 2019, at the Retirement and Investment Office (RIO), Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: SUPT. BAESLER, MR. BURTON, MRS. GUMERINGER, PRES. LECH, MR. MICKELSON AND MR. OLSON.

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the January 24, 2019 meeting.

IT WAS MOVED BY MRS. GUMERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA AS DISTRIBUTED.

AYES: SUPT. BAESLER, MR. BURTON, MR. MICKELSON, MRS. GUMERINGER, MR. OLSON AND PRES. LECH

NAYS: NONE

MOTION CARRIED.

ABSENT: TREASURER SCHMIDT

MINUTES:

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

IT WAS MOVED BY MRS. GUMERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE OCTOBER 25, 2018, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, MR. OLSON, MR. BURTON, SUPT. BAESLER, MRS. GUMERINGER, AND PRES. LECH

NAYS: NONE

MOTION CARRIED.

ABSENT: TREASURER SCHMIDT

Treasurer Schmidt joined the meeting at 1:04 p.m.

2018 GASB 67 & 68 REPORT:

Mr. Matt Strom, Segal Consulting, reviewed the Governmental Accounting Standards Board (GASB) 67 and 68 Report for the period ending on June 30, 2018. The GASB report is used by TFFR participating employers to fulfill certain accounting and disclosure requirements for their financials. The net pension liability decreased from the prior year as a result of strong investment performance. As of June 30, 2018 it was \$1.33 billion compared to \$1.37 billion in the prior year. The pension expense decreased from \$131 million for fiscal 2017 to \$117 million for fiscal 2018. Mr. Strom explained how the proportionate share of the net pension liability and pension expense is allocated over 214 participating employers.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE 2018 GASB 67 & 68 REPORT FROM SEGAL.

AYES: TREASURER SCHMIDT, SUPT. BAESLER, MRS. GUMERINGER, MR. OLSON, MR. BURTON, MR. MICKELSON, AND PRES. LECH.

NAYS: NONE

MOTION CARRIED.

2018 VALUATION UPDATE - ACTIVE MEMBER POPULATION GROWTH:

Mr. Strom presented Segal's analysis of the potential impact of active member population growth which was done at the request of the Legislative Employee Benefits Program Committee (LEBPC). The analysis was based on a 1% growth in active population for fiscal years 2019-2028 and 0% thereafter. This growth rate was provided by RIO staff after consultation with the Department of Public Instruction (DPI).

Based on this projection, TFFR's funded ratio is expected to reach 100% in 2041, two years earlier than without any increase in actives.

DEVELOPMENT OF STOCHASTIC PROJECTIONS AND PLAN MANAGEMENT POLICY:

Mr. Strom and Ms. Nicholl reviewed Segal's proposal to develop stochastic projections and plan management policy. They gave an overview of open group projection, explained deterministic vs. stochastic projections, and described the stochastic modeling process. They explained the steps to develop a plan management policy which would include a scoring system based on plan metrics established by the Board. A plan management policy would allow for a more robust evaluation of the ongoing financial health and sustainability of TFFR, provide a high level of transparency, and include a comprehensive assessment of risks.

ACTUARIAL CONTRACT PROPOSAL:

Ms. Kopp provided background information on actuarial costs and reviewed the January 8, 2019 proposal provided by Segal to extend their actuarial consulting contract for an additional two years. The Board is responsible for choosing an actuarial consultant, monitoring the quality of their work, and reviewing fees. For the fiscal year ending June 30, 2018, actuarial fees paid were less than .003% of the market value of TFFR assets.

Ms. Kopp noted Segal has been TFFR's actuarial consultant since 2011. In 2016, the Board hired Cavanaugh Macdonald Consulting to conduct an actuarial audit of the annual valuation conducted by Segal. The results were very positive with a few minor recommendations. In 2017, the Board requested competitive bids for the actuarial consulting contract and awarded the contract to Segal for July 1, 2017-June 30, 2019 with the option for additional two-year periods. The current proposal has an increase in cost of about 2%.

Board discussion followed.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO EXTEND SEGAL'S CONTRACT FOR 2019-2021 AS OUTLINED IN THE JANUARY 8, 2019 PROPOSAL.

AYES: MRS. GUMERINGER, MR. BURTON, MR. MICKELSON, SUPT. BAESLER, MR. OLSON, TREASURER SCHMIDT AND PRES. LECH.

NAYS: NONE

MOTION CARRIED.

STOCHASTIC PROJECTIONS AND PLAN MANAGEMENT POLICY PROPOSAL:

Ms. Kopp provided comments on the January 15, 2019 proposal provided by Segal to develop stochastic projections and a plan management policy. As outlined in the proposal, phase one would consist of an initial risk assessment and stochastic modeling.

In phase two, the results of the projections and modeling from phase one will be used for future monitoring. Segal will work with RIO staff and the Board to establish an approach to monitoring and scoring the policy. Results of Phase 1 and 2 will be presented to the Board for approval.

Board discussion followed.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE STOCHASTIC PROJECTION AND PLAN MANAGEMENT POLICY PROPOSAL FOR PHASE 1 AND PHASE 2 AS OUTLINED IN SEGAL'S JANUARY 15, 2019 PROPOSAL.

AYES: MR. OLSON, MR. MICKELSON, SUPT. BAESLER, MRS. GUMERINGER, TREASURER SCHMIDT, MR. BURTON AND PRES. LECH.

NAYS: NONE

MOTION CARRIED

The Board recessed at 2:32 p.m. and reconvened at 2:43 p.m.

LEGISLATIVE UPDATE:

Ms. Kopp provided an update on legislative bills being monitored which could impact the TFFR plan: HB 1044 updates TFFR plan language to maintain IRS compliance; HB 1500 relates to a new governance structure for the ND University System; HB 1499 changes duties of the Legislative Employee Benefits Programs Committee (LEBPC); and SB 2022 contains the 2019-21 RIO budget.

HB 1499 was introduced during the interim and received an unfavorable recommendation from the LEBPC. There are concerns of the potential actuarial impact on the TFFR fund if proposed legislation is not submitted to the LEBPC for review, including an actuarial study.

IT WAS MOVED BY MRS. GUMERINGER AND SECONDED BY SUPT. BAESLER AND CARRIED BY A ROLL CALL VOTE TO OPPOSE HB 1499.

AYES: MRS. GUMERINGER, MR. MICKELSON, TREASURER SCHMIDT, SUPT. BAESLER, MR. BURTON, MR. OLSON AND PRES. LECH.

NAYS: NONE

MOTION CARRIED.

Supt. Baesler left the meeting at 3:02 p.m.

INVESTMENT UPDATE:

Mr. Hunter provided an investment update for the periods ending on September 30, 2018. TFFR investments have averaged nearly \$2.2 billion during the last five years and excess return has averaged over 0.50% per annum. TFFR's use of active management has enhanced net investment returns

by \$55 million for the five years ending on September 30, 2018 while adhering to prescribed risk limits.

TFFR earned a net return of 7.8% for the 5-years ending September 30, 2018. During the last five years, TFFR earned approximately \$825 million of net investment income including \$770 million (or 93%) from asset allocation decisions and \$55 million (or 7%) from active management.

TFFR's gross returns were ranked in the 34th percentile for the five years ending on September 30, 2018, based on Callan's Public Fund Sponsor Database.

TFFR assets declined to \$2.43 billion at November 30, 2018, from \$2.53 billion at June 30, 2018. TFFR estimated fiscal year to date returns as of December 31, 2018 are down about 5%. Board discussion followed.

EMPLOYER REPORTING REVIEWS UPDATE:

Ms. Kopp provided an update on TFFR Employer reporting reviews. Based on a recommendation from RIO's legal counsel, Audit Services will no longer communicate its finding from employer audits to participating employers. Therefore, Retirement Services will now take over the communication and follow up functions for employer reporting reviews. Retirement Services plans to request that school boards and administrators acknowledge acceptance of the report and provide a written explanation of their plan to comply with findings and recommendations. Employer reporting review reports will be presented to the TFFR Board for acceptance. Board discussion followed.

AUDIT UPDATE:

Ms. Sauter provided an update of audit activities for the second quarter, September 1 - December 31, 2018. Audit Services has three employer audits completed and three employer audits in progress. They are working on a Cost Benefit Effective Benefit Payment Audit, which is close to completion. Audit Services and the Information Technology(IT) Division have been working with ND ITD to develop data analytics to help streamline the TFFR employer salary, service hours and eligibility review process. Audit Services provided support to the external auditor, CliftonLarsonAllen (CLA), during the GASB 68 census data audits.

The annual Executive Limitation Audit is in progress. Audit Services is working with Investment and Fiscal Services to work on the development of an Investment Due Diligence Audit. This audit includes reviewing the procedures and documentation that is being done on the investment managers by RIO staff.

Treasurer Schmidt left the meeting at 3:19 p.m.

RETIREMENT STATISTICS REPORT:

Ms. Schumacher reviewed the TFFR Ends and Retirement Statistics for the year ending June 30, 2018. The information provided indicates that the

TFFR Ends policies formally adopted by the TFFR Board and accepted by the SIB are being implemented. Board discussion followed.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MRS. GUMERINGER AND CARRIED BY A VOICE VOTE TO APPROVE THE ANNUAL RETIREMENT STATISTICS REPORT.

AYES: MR. BURTON, MRS. GUMERINGER, MR. OLSON, MR. MICKELSON AND PRES. LECH.

NAYS: NONE

MOTION CARRIED.

ABSENT: SUPT. BAESLER AND TREASURER SCHMIDT

CAFR AND PPCC AWARDS:

Ms. Kopp informed the Board that the 2018 RIO Comprehensive Annual Financial Report (CAFR) has been completed. RIO has been awarded a Certificate of Achievement for Excellence in Financial Reporting for the past 20 years from the Government Finance Officers Association (GFOA).

Ms. Kopp noted that TFFR has also received the Public Pension Coordinating Council (PPCC) 2018 Public Pension Standards Award for administration. TFFR has received the award for administration and/or funding from PPCC since 1992.

Ms. Kopp thanked Ms. Connie Flanagan, Ms. Schumacher and other staff, for their efforts.

CONSENT AGENDA:

IT WAS MOVED BY MRS. GUMERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE CONSENT AGENDA (QDRO 2019-01 AND Disability 2019-1D).

AYES: MR. OLSON, MR. BURTON, MR. MICKELSON, MRS. GUMERINGER AND PRES. LECH

NAYS: NONE

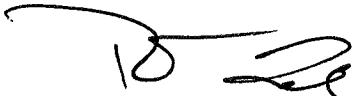
MOTION CARRIED.

ABSENT: SUPT. BAESLER AND TREASURER SCHMIDT


ADJOURNMENT:

With no further business to come before the Board, President Lech adjourned the meeting at 3:49 p.m.

Respectfully Submitted:



Dr. Rob Lech, President
Teachers' Fund for Retirement Board



Missy Kopp
Reporting Secretary