

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
APRIL 23, 2020 BOARD MEETING**

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

STAFF PRESENT: David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Missy Kopp, Retirement Assistant
Denise Weeks, Retirement Program Mgr

OTHERS PRESENT: Dean DePountis, Atty. General's Office
Noel Johnson, Segal
Kim Nicholl, Segal
Matt Strom, Segal

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, April 23, 2020. The meeting was held at the ND Retirement and Investment Office, Bismarck, ND, but most participants attended via video or teleconference.

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

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the April 23, 2020, meeting.

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

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

NAYS: NONE

MOTION CARRIED

MINUTES:

The Board considered the minutes of the January 23, 2020, meeting.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE JANUARY 23, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

2019 EXPERIENCE STUDY REPORT:

Mr. Matt Strom, Ms. Kim Nicholl, and Mr. Noel Johnson, Segal, reviewed the Experience Study for July 1, 2014-June 30, 2019. An experience study provides the basis for developing recommended assumptions to be used in the annual actuarial valuation. Assumptions are set based on a review of past experience ("actual") and compared with assumptions ("expected"). The study also includes recommendations for modifying certain actuarial assumptions and the actuarial impact of those recommendations on TFFR. Based on the experience study results, the actuary made the following recommendations:

- Inflation - lower from 2.75% to 2.30%
- Return assumption - lower from 7.75% to 7.25%
- Payroll growth - no change to the 3.25% payroll growth assumption
- Mortality - recommend updating base tables to appropriate Pub-2010 mortality tables, with adjustments for TFFR-specific experience where "credible" data exists
- Reflecting future mortality improvement by applying Projection Scale MP-2019 on a generational basis
- Recommend 104% of PubT-2010 Retiree Table, which results in 13,105 proposed deaths
- Recommend 95% of Pub-2010 Contingent Survivor Table, which results in 1,832 proposed deaths
- Mortality (Disabled) - recommend updating to the "non-safety" version of the Pub-2010 mortality table for disabled retirees
- Recommend accounting for future mortality improvement by applying Projection Scale MP-2019 on a generational basis
- Inactive Vested Retirements - recommend maintaining the current 5% assumption at each age prior to normal retirement age
- Termination - recommend minor changes (primarily decreases) to rates of termination
- Disability Retirement - recommend a 20% decrease to current rates related to disability retirement
- Spouse information - recommend no change to these assumptions

The cost impact the recommended assumption changes would have on the fund was reviewed. Based on the July 1, 2019 Actuarial Valuation, the actuarial accrued liability would increase by \$53.5 million, the actuarial value of assets would be unchanged, the unfunded actuarial accrued liability

would increase by \$53.5 million, the funded percentage would decrease by 0.9%, the normal cost would increase by \$2.7 million, the actuarially determined contribution rate would increase by 0.40%, the margin/deficit would decrease by 0.40%, and the effective amortization period would increase by 2 years.

Based on the current methodology, the Policy Score improves from +6 to +7 under the proposed assumptions.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO ADOPT ALL RECOMMENDATIONS IN THE 2019 EXPERIENCE STUDY REPORT.

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

NAYS: NONE

MOTION CARRIED

INVESTMENT AND ECONOMIC UPDATE:

Mr. Hunter provided an update for the investment periods ended December 31, 2019 and February 29, 2020. TFFR investments have averaged over \$2 billion the last 5-years and excess return has generally exceeded 0.50% per annum. TFFR's use of active management has enhanced net returns by \$50 million for the 5-years ended December 31, 2019. Investment returns quickly fell far below long-term expectations in early 2020. TFFR fiscal year to date (FYTD) returns through February 29, 2020 are approximately 1.56%. TFFR indicative estimated FYTD returns through April 15, 2020, is approximately -4%.

The State Investment Board (SIB) approved a RIO recommendation to engage Parametric (an existing manager) to implement an equity overlay strategy using futures contracts in a liquid and relatively inexpensive manner to access public market exposure synthetically. As of April 15, Pension Trust clients were within 1% to 2% of target asset allocations with the U.S. Equities within 0.9%, International Equities within 0.5%, and Fixed Income within 0.1%. SIB client portfolios were rebalanced towards client board approved long-term strategic target asset allocations in a prudent and cost efficient manner in order to benefit from the historical advantages of staying invested. Board discussion followed.

ASSET LIABILITY STUDY PLANNING:

Ms. Kopp provided information on the need for an Asset Allocation and Liability Modeling Study. For TFFR, the study must be performed at least every 5 years, which falls into 2020. Studies are also often done following a significant market event that might leave a plan's funded status greatly changed. Board discussion followed.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO REQUEST A PROPOSAL FROM CALLEN FOR AN ASSET LIABILITY STUDY.

AYES: MS. GUMERINGER, MR. BURTON, MR. MICKELSON, MR. OLSON, TREASURER SCHMIDT, AND PRES. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: SUPT. BAESLER

2021 LEGISLATIVE PLANNING:

Ms. Kopp provided an update on legislative planning. At the January 2020 meeting, the Board decided that it will not submit any legislative proposals for interim study by the Legislative Employee Benefits Programs Committee (LEBPC) for the 2021 legislative session. Legislative Council was notified that the TFFR Board is not submitting any proposed legislation at this time.

In December 2019, Congress passed the SECURE Act which increased the age at which required minimum distribution from a qualified public pension plan must begin, from age 70.5 to age 72. Although TFFR is not required to make the change in statutes immediately, TFFR must begin administering the change to the required minimum distribution age requirement as soon as possible in order to be in operational compliance. State law requires that TFFR receive approval from the LEBPC.

The suggested change to state statutes related to increasing the required minimum distribution age from 70.5 to 72:

15-39.1-10. Eligibility for normal retirement benefits.

4. Retirement benefits must begin For a member who attains age seventy and one-half prior to January 1, 2020, the member's required beginning date is no later than April first of the calendar year following the year the member attains age seventy and one-half or April first of the calendar year following the year the member terminates covered employment, whichever is later. For a member who attains seventy and one-half after December 31, 2019, the member's required beginning date is no later than April first of the calendar year following the year the member attains age seventy- two or April first of the calendar year following the year the member terminates covered employment, whichever is later. Payments must be made over a period of time which does not exceed the life expectancy of the member or the joint life expectancy of the member and the beneficiary. Payment of minimum distributions must be made in accordance with section 401(a)(9) of the Internal Revenue Code, as amended, and the regulations issued under that section, as applicable to governmental plans.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO ADOPT THE SUGGESTED LANGUAGE CHANGE TO NDCC 15-39.1-10 RELATED TO REQUIRED MINIMUM DISTRIBUTION AGE AND SUBMIT TO THE LEGISLATIVE EMPLOYEE BENEFITS PROGRAMS COMMITTEE FOR INTERIM APPROVAL.

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

NAYS: NONE

MOTION CARRIED

TFFR PROGRAM OPERATIONS (COVID-19):

Ms. Kopp provided an update on TFFR program operations during the COVID-19 pandemic. RIO is following CDC, Governor's Office, and State recommendations in an effort to reduce the spread of the virus. The RIO office is closed to the public and many staff members are working remotely. TFFR member and employer services are functional and are primarily being delivered by electronic means. Various COVID-19 related communications for active and retired members and employers have been developed and are available on our website.

BOARD PROGRAM MANUAL - 1ST READING:

Mr. Mickelson provided a summary of the proposed updated board governance policies contained in the TFFR Board Program Manual developed by the TFFR Governance and Policy Review Committee (GPR).

Board discussion followed.

IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MR. BURTON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE INTRODUCTION AND 1ST READING OF SECTION I: BOARD GOVERNANCE POLICIES INCLUDED IN UPDATED TFFR BOARD PROGRAM MANUAL AND TO REPEAL CERTAIN CURRENT TFFR ENDS, PROGRAM POLICIES, AND BY-LAWS AS LISTED (A-1, B-1, B-2, EXHIBITS B-I, B-II, & B-III, C-1, C-2, C-3, C-18, C-21, C-22, C-23, D-1, D-2, D-3, D-4, D-5, D-6, D-7, & D-8.)

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

NAYS: NONE

MOTION CARRIED

TFFR PENSION ADMINISTRATION SYSTEM (PAS) PROJECT UPDATE:

Ms. Kopp provided an update on the TFFR PAS project. RIO staff met with ND Procurement, the ND Attorney General's Office and ND Information Technology staff to begin discussion regarding the PAS project. Discussion focused on the procurement process and the development of two request for proposals (RFP) for the project. The first RFP will be for a business consultant with expertise in pension system solutions to assist with

business process reengineering, procurement of the software solution, and implementation of the software.

Ms. Kopp currently serves as the TFFR PAS project sponsor. With her retirement, an interim project sponsor should be named to keep the project moving forward. It was discussed that Mr. Rich Nagel will fill in as the project sponsor on an interim basis until the new Deputy Executive Director/Chief Retirement Officer position is filled.

Board discussion followed.

RETIREE PAYMENT INCIDENT:

Ms. Kopp informed the Board about an incident that occurred regarding the direct deposit of a member's retirement benefit. In January 2020, a TFFR retiree notified TFFR that her January benefit payment was not deposited into her bank account. It was determined that someone fraudulently submitted an address change form, followed by a direct deposit change form which was processed by TFFR following standard procedures. The retiree informed staff that she had not moved and had not changed her bank account. After review of the issue, staff suggested that the member file a police report. TFFR submitted an incident report to the State Risk Management Fund and the retiree also submitted a claim.

TFFR staff did a thorough review of address and direct deposit change processes. Additional procedures have been put into place to reduce the likelihood of this happening in the future.

PENSION PLAN COMPARISON REPORT:

Ms. Kopp presented the annual Public Pension Plan Comparison Report comparing TFFR to the FY 2018 Public Fund Survey (PFS) conducted by the National Association of State Retirement Administrators (NASRA). This survey provides information on key characteristics of most of the nations' largest public retirement systems including actuarial funding levels, membership, cash flow, contribution rates, investment returns, actuarial assumptions, and asset allocation.

TFFR ENDS ANNUAL REVIEW:

Ms. Kopp reviewed the TFFR Ends and Retirement Statistic 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.

RETIREMENT TRENDS REPORT:

Ms. Kopp presented the annual Retirement Trends and Projections report as of January 2020. Of the 11,383 active TFFR members, 954 are currently eligible to retire. On average, 1,220 teachers have been eligible to

retire, and 389 actually retired each year, or a total of almost 3,889 for the 10-year period. Approximately 2,400 to 2,600 active members are projected to retire in the next 10 years which averages about 252 per year.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE FOLLOWING ANNUAL REPORTS: PUBLIC PENSION PLAN COMPARISON REPORT, TFFR ENDS & STATISTICS REPORT, AND RETIREMENT TRENDS AND PROJECTIONS REPORT.

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

NAYS: NONE

MOTION CARRIED

CONSENT AGENDA:

IT WAS MOVED BY MR. BURTON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE CONSENT AGENDA, DISABILITY 2020-03D.

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

NAYS: NONE

MOTION CARRIED

BOARD MEETING SCHEDULE:

Ms. Kopp talked to the Board about the option of scheduling a meeting in May or June.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. BURTON AND CARRIED BY A VOICE VOTE TO SCHEDULE A SPECIAL TFFR BOARD MEETING FOR THURSDAY, JUNE 25, 2020.

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

NAYS: NONE

MOTION CARRIED

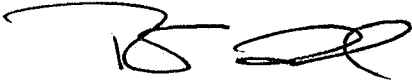
RIO STAFFING UPDATE:

Mr. Hunter provided an update on the two open TFFR positions. Interviews were held for the Retirement Programs Specialist position. An offer is going to be made to one of the candidates this week. Interviews for the Deputy Executive Director/Chief Retirement Officer will be on May 1, 2020. Three candidates will be interviewed.

ADJOURNMENT:

With no further business to come before the Board, President Lech adjourned the meeting at 4:11 p.m.

Respectfully Submitted:



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



Missy Kopp
Reporting Secretary