

# TEACHERS' FUND FOR RETIREMENT BOARD PROGRAM MANUAL



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## TABLE OF CONTENTS

<b>A. Introduction and Purpose .....</b>	<b>1</b>
<b>B. TFFR Program Overview .....</b>	<b>2</b>
1. History .....	2
2. Legal Framework .....	2
<b>C. TFFR Mission, Vision, and Values .....</b>	<b>2</b>
1. Our Mission .....	2
2. Our Vision .....	2
3. Our Core Values .....	2
<b>D. TFFR Board Authority, Composition, Appointment, Terms .....</b>	<b>2</b>
1. Board Authority .....	3
2. Board Composition .....	3
3. Board Trustee Desired Attributes .....	3
4. Board Appointment Process .....	4
5. Trustee Terms, Resignations and Vacancies .....	4
<b>E. TFFR Board - Duties and Responsibilities .....</b>	<b>5</b>
1. Fiduciary Duties .....	5
2. Board Responsibilities .....	5
<b>F. TFFR Board Trustees and Officers – Duties and Responsibilities .....</b>	<b>6</b>
1. TFFR Trustee .....	6
2. TFFR Board President .....	7
3. TFFR Board Vice President .....	8
4. TFFR Representatives to SIB .....	8
5. Alternate TFFR Representative to SIB .....	8
6. TFFR Representative to SIB Audit Committee .....	8
<b>G. State Investment Board .....</b>	<b>8</b>
<b>H. Retirement and Investment Office .....</b>	<b>9</b>
<b>I. Delegation to Staff and Organizational Structure .....</b>	<b>9</b>
<b>J. Staff - Duties and Responsibilities .....</b>	<b>9</b>
1. Deputy Executive Director – Chief Retirement Officer .....	9

2. Executive Director .....	11
<b>K. Service Providers – Duties and Responsibilities .....</b>	<b>12</b>
1. Actuary .....	12
2. Medical Consultant .....	12
3. Legal Counsel .....	13
4. Auditor (External financial) .....	13
5. Investment Consultant, Managers, and Advisors .....	13
<b>L. Election of TFFR Board Officers and SIB trustee positions .....</b>	<b>14</b>
1. Board Officers .....	14
2. Election Procedure .....	14
3. Term .....	14
4. Vacancies .....	14
<b>M. Board and Committee Meetings.....</b>	<b>14</b>
1. Open Meetings .....	14
2. Rules of Order .....	15
3. Meeting Schedule .....	15
4. Meeting Notice .....	15
5. Meeting Agendas .....	16
6. Meeting Materials .....	16
7. Meeting Attendance and Quorum .....	17
8. Voting .....	17
9. Public Access and Comment .....	17
10. Executive Sessions .....	18
11. Closed Meeting Procedures.....	18
12. Meeting Minutes and Records .....	18
13. Meeting Payment and Travel Expense Reimbursement .....	19
<b>N. Committees .....</b>	<b>19</b>
1. Standing Committees.....	19
2. Special Committees .....	19
3. Audit Committee.....	20
<b>O. Board Appeals.....</b>	<b>20</b>
<b>P. Board Communications .....</b>	<b>20</b>
<b>Q. Trustee Orientation and Education Program .....</b>	<b>20</b>
1. Board Member Core Competencies .....	21
2. Board Member Education .....	21
3. New Trustee Orientation .....	21
4. Mentoring Program .....	22

5. Educational Conferences, Workshops, and other Training Programs .....	22
6. In-House Education Sessions .....	23
7. Fiduciary Education and Ethics Training.....	23
8. Open Meetings and Open Records Training .....	23
9. Webinars, Reports, and Studies .....	23
10. Reimbursement of Education Expenses.....	23
<b>R. Board Members' Code of Conduct .....</b>	<b>24</b>
<b>S. Strategic Planning .....</b>	<b>25</b>
<b>T. Board Policy Approval Process.....</b>	<b>25</b>
<b>U. Board Self-Assessment .....</b>	<b>26</b>
<b>Board Governance Section Exhibits .....</b>	<b>27</b>
1. RIO Organizational Chart.....	27
2. TFFR Board Public Participation Guidelines.....	28
3. TFFR Code of Conduct Annual Affirmation .....	30
<b>SECTION II: TFFR Program Policies .....</b>	<b>31</b>
<b>A. Investment Policy Statement.....</b>	<b>31</b>
<b>B. Plan Management Policy Overview .....</b>	<b>37</b>
<b>C. Actuarial Funding Policy Statement.....</b>	<b>41</b>
<b>D. Operations .....</b>	<b>45</b>
1. Membership Data and Contributions .....	45
2. Member Services .....	46
3. Disclosure of Confidential Information for Treatment, Operational, or Payment Purposes .....	47
4. Account Claims .....	48
5. Deductions from Annuity Checks .....	48
6. Military Service Credit .....	49
7. Payment of Benefits .....	49
8. Retirement Benefit Payments .....	49
9. Voiding Checks .....	50
10. In-Staff Subbing Contract Period .....	50
11. Plan Beneficiaries .....	51
12. Head Start Program Employees .....	53
13. PERS Retirement Plan Election (DPI and CTE) .....	53
<b>E. Business partner Policies .....</b>	<b>54</b>
1. Business partner Payment Plan Models .....	54
2. Business partner Reporting Errors.....	54
3. Business partner Reports.....	55
4. Ineligible TFFR Salary.....	55

<b>F. Member Communication .....</b>	<b>56</b>
1. Disclosure to Membership.....	56
2. Information Dissemination.....	56
3. Outreach Program Facilities .....	57
1. Asset Allocation Definitions.....	58
2. Asset Class Definitions .....	60

# TEACHERS' FUND FOR RETIREMENT BOARD PROGRAM MANUAL

## SECTION I: TFFR GOVERNANCE POLICIES

### A. Introduction and Purpose

The North Dakota Teachers' Fund for Retirement (TFFR) Board of Trustees is dedicated to ethically serving the members and stakeholders of the TFFR pension plan and ensuring that the plan is effectively managed. The Board is committed to excellence in Board governance. An effective governance structure is essential to fulfilling fiduciary duties and Board responsibilities in accordance with the highest standards of professional responsibility, accountability, and transparency.

The Board developed and adopted this TFFR Board Program Manual to establish the framework within which the Board intends to set governance and oversight policy.

The purpose of this manual is to:

1. Provide orientation material and exhibits for new TFFR trustees and executive staff as to the roles, responsibilities, policies, procedures, and activities in the governance and oversight of the TFFR plan.
2. Serve as an ongoing reference manual for current trustees and staff.
3. Describe the roles and responsibilities of the Board of Trustees as a Board, Individual Trustees, Committees, Staff, and Service Providers.
4. Describe the relationship between the TFFR Board, the State Investment Board (SIB), and the Retirement and Investment Office (RIO) as it relates to the administration of the TFFR plan.
5. Establish a Board meeting protocol that outlines the manner in which the Board will conduct itself to enable the Board to carry out its responsibilities as effectively and efficiently as possible, and in accordance with state and federal law.
6. Facilitate the organized, efficient, and cohesive functioning of the Board.
7. Facilitate effective communication among the Trustees, staff, plan members, business partners, and other external parties.
8. Define responsibility and accountability for hiring and monitoring outside service providers.
9. Document the method by which the Board will conduct a Board self- assessment.
10. Document Board governance and program policies, administrative rules, and state statutes governing the plan.

The TFFR Board Program Manual is an evolving set of documents that reflect the Board's current governance practices. The manual will be reviewed by the Board on an annual basis.

Board trustees, the Executive Director, Deputy Executive Director-Chief Retirement Officer, and/or legal counsel may recommend modifications for Board consideration and approval.

The contents of the TFFR Board Program Manual are intended to be consistent with state and federal laws, rules, and regulations. If there is any conflict between the provisions included in this manual and state or federal law, the law prevails.

## **B. TFFR Program Overview**

### **1. History**

The TFFR, formerly the North Dakota Teachers' Insurance and Retirement Fund or NDTIRF, was created by the State Legislature in 1913. The defined benefit plan provides lifetime retirement, disability, and survivor benefits for North Dakota public school educators.

Membership participation, benefits provided, contribution requirements, and plan provisions are described in State Law and the TFFR Member Handbook.

### **2. Legal Framework**

[NDCC § 15-39.1](#) contains the legal authority and statutory language governing the TFFR plan, and is supplemented by [NDAC § 82](#). TFFR is a qualified (tax exempt) defined benefit public pension plan covered under [Section 401\(a\)](#) of the Internal Revenue Code (IRC).

## **C. TFFR Mission, Vision, and Values**

### **1. Our Mission**

To administer a comprehensive retirement program that provides North Dakota public educators with a foundation for retirement security.

### **2. Our Vision**

To be a trusted leader in the administration of a financially sound retirement program for North Dakota educators by providing exceptional customer service, professional plan management, and organizational effectiveness by adhering to the principles of good governance, transparency, and accountability.

### **3. Our Core Values**

- a. Customer Satisfaction and Commitment to Excellence which are demonstrated by our trustworthiness, accountability, and respectfulness.
- b. Strong Governance and Operational Effectiveness through our strategic leadership, fiduciary responsibility, ethical practices, and transparency.

## **D. TFFR Board Authority, Composition, Appointment, Terms**

## **1. Board Authority**

TFFR is governed by a Board of Trustees who are charged with oversight, policy making, and administration of the TFFR retirement program as provided under [NDCC § 15-39.1-05](#). The trustees are fiduciaries, and as such have the highest standard of law placed on them.

## **2. Board Composition**

- a. The Board is composed of seven trustees consisting of:
  - 1) Two elected state officials:
    - State Treasurer (ex officio)
    - State Superintendent of Public Instruction (ex officio)
  - 2) Five members appointed by the Governor:
    - Two board members who are actively employed as elementary or secondary teachers in full-time positions not classified as school administrators. The appointment is made from a list of three nominees submitted to the Governor by ND United (NDU).
    - One board member who is actively employed as a full-time school administrator. The appointment is made from a list of three nominees submitted to the Governor by the ND Council of Educational Leaders (NDCEL).
    - Two board members who are retired members of the Fund. The appointment is made from a list of three nominees submitted to the Governor by the NDRTA.

## **3. Board Trustee Desired Attributes**

Board trustees should possess or develop the following desired attributes in order to become an effective board trustee.

- a. Unwaveringly ethical.
- b. Perpetually inquisitive.
- c. Knowledgeable about the membership.
- d. Ability to understand complex actuarial, financial, and investment concepts.
- e. Committed to strong board governance practices.
- f. Diligent and willing to spend time to learn best pension practices.
- g. Professional, respectful, and courteous demeanor.
- h. Proactive and responsive approach to member needs.
- i. Committed and engaged.



- j. Active listening and communication skills.
- k. Critical thinking skills.
- l. Ability to make fair and timely decisions.
- m. Open and accountable to stakeholders.

#### **4. Board Appointment Process**

When a TFFR Board trustee term expires or vacancy occurs, the Executive Director will notify the Governor's Office and the applicable stakeholder group (i.e., NDU, NDCEL, or NDRTA) of the vacancy. Board trustee desired attributes and board responsibilities will be provided to the Governor's Office and applicable stakeholder group to assist them in making board nominee or trustee selection.

NDU, NDCEL, or NDRTA will submit a list of three Board nominees to the Governor's Office, as required by state law. Board nominees must complete the "Application for Boards and Commissions" from the Governor's Office in order to be considered for TFFR Board appointment. This application contains information about the nominee's background, education, experience, financial disclosures, and references.

After reviewing the Board nominee applications, the Governor will make the trustee appointment, and will notify the selected nominee and the Executive Director. The Governor's Office will send the newly appointed trustee a Certificate of Appointment which provides formal documentation of appointment to the TFFR Board. The Governor's office will also send an Oath of Office and Statement of Intent which must be signed by the trustee and returned to the Governor's Office. These documents confirm the trustee's appointment is official. Trustees can then carry out their official duties as a Board member and can be paid for authorized expenses.

#### **5. Trustee Terms, Resignations and Vacancies**

The State Treasurer is an ex-officio member of the Board and serves on the Board throughout the term of the State Treasurer's elected position. A lawful Deputy of the State Treasurer (pursuant to NDCC 44-03-01) may act with the full authority of the State Treasurer, and may vote when serving as the State Treasurer's official designee on the Board.

The State Superintendent of Public Instruction is an ex-officio member of the Board and serves on the Board throughout the term of the State Superintendent's elected position. The State Superintendent may designate an individual to attend and participate in Board meetings, however the designee may not vote since the designee does not have the lawful authority to vote on behalf of the State Superintendent.

Each of the five Governor-appointed trustees are appointed for a term of five years. The terms of office are staggered with the five appointed trustee positions beginning July 1 and expiring on June 30 of each successive year. There is no limit to the number of terms a trustee may serve on the Board. Trustees may remain on the Board until they are reappointed or until their successors are appointed.

Appointed active trustees who terminate employment may not continue to serve on the Board as active teacher representatives. Appointed active and retired trustees may resign from the Board by providing written notice to the Governor and the TFFR Board.

Appointed trustee position vacancies which occur before the expiration of a term will be filled by the Governor, and the new appointee will complete the term for which the original trustee was selected.

## **E. TFFR Board - Duties and Responsibilities**

### **1. Fiduciary Duties**

TFFR trustees are fiduciaries, and as such, have the highest standard of law placed upon them. Trustees are expected to discharge their duties with the utmost honesty and integrity and to act solely in the interest of the members, retirees, and beneficiaries for the exclusive purpose of providing benefits and paying reasonable expenses of administering the TFFR program.

Fiduciary duties include the following:

- a. Duty of loyalty. The obligation to act for the exclusive benefit of the plan participants and beneficiaries. Regardless of how trustees are selected, trustees must put the interests of all plan participants and beneficiaries above their own interests or those of any third parties.
- b. Duty of care. The responsibility to administer the plan efficiently and properly. The duty of care includes consideration and monitoring of the financial sustainability of funding practices and the effective administration of plan benefits in compliance with applicable laws.
- c. Duty of prudence. The obligation to act prudently in exercising power or discretion over the interests that are subject of the fiduciary relationship. A trustee should act in a manner consistent with a reasonably prudent person exercising care, skill, and caution.

### **2. Board Responsibilities**

The TFFR Board of Trustees is responsible for oversight, policy making, and administration of the TFFR plan as provided under NDCC 15-39.1-05.2.

Board responsibilities include:

- a. Establish and monitor policies for the administration of the TFFR plan.
- b. Set legislative priorities and positions, submit legislative proposals, and monitor legislation affecting the plan.
- c. Develop and adopt administrative rules and board policies to administer the plan.
- d. Establish and monitor TFFR plan funding policy and progress.
- e. Establish and monitor TFFR investment policies and asset allocation under NDCC 21-10-02.1.

- f. Select and monitor the performance of consultants, advisors, and service providers for the plan.
- g. Select and monitor actuarial consultant(s) to provide actuarial and technical consulting services including annual actuarial valuations and GASB reports, periodic actuarial experience studies, independent actuarial audits, and other special projects and studies; develop and monitor actuarial funding policy, assumptions, methods, and factors; analyze proposed legislative changes; and advise the Board on actuarial, technical, and administrative issues.
- h. Select and monitor medical consultant to conduct disability reviews.
- i. Select and monitor investment consultant to perform asset allocation and liability studies.
- j. Monitor and pay plan benefits, consulting fees, administrative and investment expenditures.
- k. Administer the plan so as to maintain the plan's qualified status under Internal Revenue Code requirements.
- l. Review and approve applications for disability retirement, Qualified Domestic Relations Orders (QDROs), and other special benefit payments.
- m. Review and decide board appeals.
- n. Determine appropriate levels of service and monitor outreach programs provided to members and business partners.
- o. Monitor RIO budget, expenditures, financial reporting system, and financial audit.
- p. Monitor RIO information technology systems, projects, and security.
- q. Select TFFR representatives to serve on SIB and monitor investment program activities and fund performance.
- r. Select TFFR representative to serve on SIB Audit Committee and monitor audit program activities.
- s. Inform the SIB, which is the administrative board of the RIO, of the TFFR program needs, policies, and services expected to be provided through RIO.
- t. Participate with the RIO Executive Director in the hiring of the Chief Retirement Officer – Deputy Executive Director.

## **F. TFFR Board Trustees and Officers – Duties and Responsibilities**

### **1. TFFR Trustee**

Trustees must be willing and able to devote the necessary time to fulfill their duties on the Board. This commitment includes the responsibility to:

- a. Act as a member of a seven-member Board of Trustees to provide leadership, oversee plan administration, and set the strategic direction for the TFFR program.
- b. Prepare for and attend Board and Committee meetings.
- c. Be an informed and active member of the Board, fully participating in the decisions and actions of the Board and its Committees by making independent assessments and reasonable judgments.
- d. Acquire and maintain the knowledge and skills necessary to perform trustee duties.
- e. Follow Board policies and procedures, applicable state and federal laws and rules.
- f. Be accurate when communicating with other trustees, members, beneficiaries, interested parties, the public, and RIO staff.
- g. Act collegially with the other trustees and staff in the conduct of TFFR business.
- h. Bring to the attention of the Board matters of concern that affect the TFFR plan.
- i. Seek the advice of the Executive Director, legal advisor, and other trustees when necessary to fulfill their fiduciary duties.
- j. Comply with the Board's Code of Conduct and Ethics.
- k. Adhere to state law regarding confidentiality of member records and benefits.
- l. Adhere to state law regarding Open Meetings and Open Records.
- m. Evaluate trustee's individual performance and the Board's performance as a whole.

## **2. TFFR Board President**

The Board President's principal role is to lead the Board in the conduct of Board business by managing the affairs of the Board and ensuring the integrity of the Board's process. The Board President must be willing and able to devote the time necessary to fulfill these special responsibilities. This commitment includes the responsibility to:

- a. Convene and preside over all Board meetings in a collegial, fair, and efficient manner following Board policies, procedures, and applicable state laws and rules.
- b. Review and approve the agenda for regular and special Board meetings.
- c. Ensure proper and timely flow of adequate information to the Board.
- d. Solicit input from trustees regarding matters before the Board.
- e. Ensure adequate time is provided for effective study and discussion of business.
- f. Make Committee assignments.

- g. Execute documents and other legal instruments on behalf of TFFR as required by state law, authorized by the Board, or determined in conjunction with the Chief Retirement Officer.
- h. Represent the Board to outside parties and organizations.
- i. Lead the Board's self-assessment and self-development processes.
- j. Perform all other duties identified by the Board.

### **3. TFFR Board Vice President**

The Vice President will perform the duties of the President in the absence of the President.

### **4. TFFR Representatives to SIB**

The TFFR Board selects two trustees to represent TFFR on the SIB. The TFFR Board also selects one trustee as an alternate to serve on the SIB in the absence of either designated representative. TFFR representatives to the SIB must be from the following categories: active or retired members. A third trustee from either category will be appointed to serve as the alternate to the SIB.

The TFFR representatives to the SIB have the same authority and responsibilities as do other SIB trustees as provided in NDCC 21-10 and outlined in the SIB Governance Manual.

### **5. Alternate TFFR Representative to SIB**

The TFFR Board selects one alternate TFFR representative to serve on the SIB.

The Alternate TFFR representative to the SIB will perform the duties of the regular TFFR representative on the SIB in the absence of that trustee.

### **6. TFFR Representative to SIB Audit Committee**

The TFFR Board selects one TFFR representative on the SIB to serve on the SIB Audit Committee, subject to official appointment by SIB Chair.

The TFFR representative on the SIB Audit Committee has the same authority and responsibilities as do other trustees on the SIB Audit Committee which are outlined in the SIB Audit Committee Charter.

## **G. State Investment Board**

The SIB is responsible for oversight, policy making, and administration of the SIB investment program as provided under NDCC § 21-10. As such, TFFR assets, as well as other state pension, insurance, and other state funds, are invested by the SIB.

The SIB is composed of thirteen trustees consisting of:

- a. Governor of the State of North Dakota or Designee
- b. State Treasurer.

- c. Director of Office of Management and Budget.
- d. Director of Workforce Safety & Insurance.
- e. Commissioner of University and School Lands.
- f. Two TFFR trustees.
- g. Two PERS trustees.
- h. Two members, each of whom by experience is familiar with institutional investments, appointed by the governor. One initial appointee shall serve a term of three years, one initial appointee shall serve a term of five years, and all subsequent appointees shall serve five-year terms.
- i. Two members, one from the senate and one from the house of representatives, or the member's designee, who serve on the legacy and budget stabilization fund advisory board, as selected by that board.

Investment of TFFR assets is based on the asset allocation and investment policy statement approved by the TFFR Board and accepted by the SIB. Funds are invested following the “prudent investor rule” and must be invested exclusively for the benefit of TFFR members.

The SIB is also the governing body of RIO.

## **H. Retirement and Investment Office**

RIO coordinates the activities of the TFFR retirement program and SIB investment program as provided under NDCC 54-52.5. The governing body of RIO is the SIB, although the TFFR Board and SIB each maintain their legal identities and authority under state law.

RIO is responsible for developing the agency budget, providing the staff, and allocating necessary resources to administer both the TFFR and SIB programs, subject to budget approval by the Legislature. The TFFR Board and SIB provide input to RIO Executive Management to ensure retirement and investment program needs, policies, and services are considered.

RIO Executive Director is the administrator of RIO and is responsible for oversight and administration of all RIO programs and operations. RIO Deputy Executive Director – Chief Retirement Officer assists in the administration of RIO and the TFFR retirement program.

RIO is an administrative agency of the State of North Dakota and operates from an office located at 1600 East Century Avenue, Suite 3 in Bismarck, North Dakota.

## **I. Delegation to Staff and Organizational Structure**

The TFFR Board delegates administration of the TFFR program to the RIO Executive Director. Daily operations of the program are delegated to the RIO Deputy Executive Director - TFFR Chief Retirement Officer, subject to approval by the RIO Executive Director.

The RIO Deputy Executive Director – TFFR Chief Retirement Officer reports directly to the RIO Executive Director.

## **J. Staff - Duties and Responsibilities**

### **1. Deputy Executive Director – Chief Retirement Officer**

The RIO Deputy Executive Director – Chief Retirement Officer is hired by the RIO Executive Director, serves in an unclassified position, and is paid such salary as the Executive Director determines. The Board delegates responsibility for administering the TFFR program to the RIO Executive Director, some or all of those duties may be delegated to the RIO Deputy Executive Director – Chief Retirement Officer by the RIO Executive Director. The Board will participate with the Executive Director in the hiring of the Deputy Executive Director-Chief Retirement Officer.

Duties and responsibilities include:

- a. Assist the Executive Director in planning, supervising, and directing overall RIO programs in accordance with the SIB governance policies and state laws and rules and represent the Executive Director in his/her absence.
- b. Assist the Executive Director in administering the TFFR retirement program in accordance with governing statutes, rules, and TFFR Board policies and perform related work as assigned by the TFFR Board, including interpretation of the state and federal law which governs the retirement program.
- c. Assist the Executive Director in developing annual and long-range plans for the retirement program.
- d. Assist the Executive Director in the development of administrative rules, policies, and procedures necessary to administer the program.
- e. In the absence of or at the direction of the Executive Director, represent the TFFR Board on retirement program issues.
- f. Assist the Executive Director in the direction of TFFR legislative agenda and process.
- g. Maintain effective relationships with TFFR members, beneficiaries, business partner, state officials, legislators and legislative committees, member and business partner stakeholder groups, the media, and the public at large.
- h. Work with actuarial consultant, medical consultant, legal counsel, auditor, investment consultant, and other service providers in administering the plan, and in coordination with the Executive Director to keep staff and Board members apprised of consultant services and recommendations.
- i. Assist the Executive Director in the formulation of RIO's budget, including staffing needs, program costs, operating costs, information technology requirements, and resources to assure that retirement program obligations are met.
- j. Assist the Executive Director in the development and preparation of Board and Committee meeting agendas and materials, meeting minutes, required notices, procedures, and applicable rules and regulations of the fund, and attend all Board and Committee meetings.
- k. In coordination with the Executive Director, advise the Board on significant issues, problems or developments pertaining to the plan, and provide recommended courses of action as appropriate regarding Board policy or action.

- l. Maintain the data, records, and files of TFFR members, beneficiaries, and business partners including membership data, salary, service, contributions, and benefit payments.
- m. Ensure the accurate and timely collection of member and business partner contributions, maintenance of member accounts, processing of account claims, and payment of pension, disability, death, and refund benefits as allowed under state and federal law.
- n. In the absence of the Executive Director the Deputy Executive Director-Chief Retirement Officer will be responsible for the administration of the TFFR program. In the absence of both the Executive Director and the Deputy Executive Director – Chief Retirement Officer, the TFFR Board may recommend to the SIB that another RIO staff member serve as Interim Deputy Executive Director- Chief Retirement Officer.

## **2. Executive Director**

The Executive Director (ED) is hired by the SIB, serves in an unclassified position at the SIB's pleasure, and is paid such salary as the SIB determines.

Duties and Responsibilities include:

- a. Administer the investment and retirement programs of RIO, oversee planning, supervising, and directing overall RIO programs in accordance with SIB and TFFR governance policies, federal and state laws, and rules, and perform related work as assigned by the SIB and TFFR Board.
- b. Responsible for the developing the annual, biennial, and strategic long-range plans for RIO and both the SIB and TFFR Board.
- c. Develop administrative rules, policies, and procedures necessary to administer the retirement and investments programs and seek committee and board approval for changes when appropriate.
- d. Direct the preparation and execution of the RIO budget and legislative agenda for the agency and both the SIB and TFFR boards.
- e. Represent RIO, promote RIO programs, and has the authority and responsibility to carry out the day-to-day administrative duties for RIO including developing and approving policies relating to the effective operation of the Office.
- f. Develop and prepare or direct the preparation of agendas and materials, meeting minutes, required notices, procedures, and applicable rules and regulations for the retirement and investment programs and attend all meetings of the SIB and TFFR Board and corresponding committees.
- g. Hire staff as necessary to carry out the responsibilities of RIO. Provides leadership, coaching and feedback to assigned staff, recommending measures to improve performance and increase efficiency.



- h. The TFFR Board will participate with the Executive Director in the hiring of the Deputy Executive Director-Chief Retirement Officer and participate in any surveys conducted by the SIB – Executive Review and Compensation Committee for executive team members.
- i. Maintain effective relationships with clients, members, beneficiaries, business partner, state officials, legislators and legislative committees, member and business partner stakeholder groups, the media, and the public at large relevant to both the retirement and investment programs.
- j. Advise the SIB and TFFR Board on significant issues, problems or developments pertaining to the plan, and provide recommended courses of action as appropriate regarding Board policy or action.

## **K. Service Providers – Duties and Responsibilities**

### **1. Actuary**

The TFFR Board is responsible for selecting and monitoring the actuarial consultant for the plan.

Duties and responsibilities include:

- a. Provide actuarial and technical consulting services for the plan.
- b. Prepare annual actuarial valuation and GASB reports, periodic actuarial experience studies, and other special projects and reports.
- c. Develop and monitor actuarial funding policy, assumptions, methods, factors, etc.
- d. Analyze proposed legislative changes.
- e. Advise the Board on actuarial, technical, and administrative issues.

The Board utilizes a request for proposal (RFP) process to periodically select and approve the plan's consulting actuary. It is the Board's intent to issue RFP's every 6 to 10 years, however the timing may be adjusted at the Board's discretion.

The Board monitors actuarial costs and services and may extend the actuarial consulting service contract for 2-year terms, as approved by the TFFR Board.

The Board also hires an independent actuary to periodically perform an actuarial audit of the plan's consulting actuary. The Board utilizes an RFP process to select and approve the plan's actuarial auditor.

### **2. Medical Consultant**

The TFFR Board is responsible for selecting and monitoring a medical consultant for the plan to conduct disability reviews, disability re-certifications, and perform other medical reviews as necessary.

The Board monitors medical consulting costs and services and may extend the medical consulting contract for 2-year terms, as approved by the TFFR Board. The Board may delegate this responsibility to the Executive Director.

### **3. Legal Counsel**

The North Dakota Attorney General's Office (AGO) provides legal services to the TFFR Board and staff. The AGO assigns an assistant attorney general to advise the Board on legal issues related to plan administration.

Duties and Responsibilities include:

- a. Represent the Board and staff in all legal matters.
- b. Draft proposed legislation, administrative rules, and other legal documents.
- c. Review and advise on retirement program issues.
- d. Research and interpret state statutes and federal regulations.
- e. Review Board policies, procedural issues, contracts, and other legal documents.
- f. Respond to legal questions from staff, members, business partners, and other individuals.
- g. Advise and educate the Board and staff on legal matters that relate to the administration of the retirement system including Board appeals, fiduciary duties, ethics, open records and meetings, potential litigation, and other legal issues.
- h. Work with staff from the AGO in representing the retirement plan in administrative hearings, litigation, and other matters involving the AGO.
- i. Work with outside legal counsel on application of Internal Revenue Code technical requirements and plan qualification issues.

### **4. Auditor (External financial)**

The North Dakota State Auditor's Office selects the external financial auditor for RIO, with input from the SIB Audit Committee.

Duties and Responsibilities include:

- a. Perform annual audit of RIO's financial statements.
- b. Perform annual audit of TFFR's GASB 68 schedules.
- c. Provide report on internal controls and compliance.
- d. Provide required written communications.

Results of the annual financial audit are reported directly to SIB Audit Committee and communicated to the TFFR Board in conjunction with annual audit services report.

### **5. Investment Consultant, Managers, and Advisors**

The SIB is responsible for investment of TFFR trust fund assets, and selects the investment consultant, managers, custodian, and advisors for the SIB program.

The governing body of each fund invested by the SIB is required to use RIO staff and consultants in developing asset allocation and investment policies. The TFFR Board has contracted with the SIB investment consultants to perform asset allocation and liability modeling studies in the past.

## **L. Election of TFFR Board Officers and SIB trustee positions**

### **1. Board Officers**

The TFFR Board will elect the following Board officers each year. Any trustee may serve as a TFFR Board officer.

- Board President
- Board Vice President

The TFFR Board will select the following representatives to the SIB each year. Any trustee may serve as a TFFR representative to the SIB, except the State Treasurer is required to be an ex officio member of both the TFFR Board and SIB so may not be selected as a TFFR representative to the SIB.

- Two TFFR representatives to SIB
- One TFFR alternate representative to SIB
- One TFFR representative to SIB Audit Committee (from SIB)
- Three Board members to serve on the TFFR Governance & Policy Review Committee.

### **2. Election Procedure**

The TFFR Board will elect the Board officers, TFFR representatives to the SIB, and members of any committees, at the first regular Board meeting immediately following July 1 of each year. There must be a quorum of four board members in attendance to elect officers.

Four affirmative votes are required to elect.

### **3. Term**

Board officers and TFFR representatives to SIB will hold office for one year, or until their successors are elected.

There is no limit to the number of years a trustee may hold office.

### **4. Vacancies**

A Board officer or TFFR representative to the SIB may resign from their position by providing written notice to the Board and Chief Retirement Officer.

Board officer or TFFR representative to the SIB vacancies that occur before the expiration of a term will be filled by the Board at the next regular meeting of the Board following the vacancy.

## **M. Board and Committee Meetings**

### **1. Open Meetings**

All Board and Committee meetings are open to the public in accordance with North Dakota Open Meetings laws pursuant to NDCC 44-04-17.1.

Meetings include any gathering of a quorum of the members of the Board (four members constitute a quorum for TFFR Board) regarding public business, and includes committees, subcommittees, informal gatherings or work sessions, and discussions where a quorum of members are participating by phone or any other electronic communication (either at the same time or in a series of individual contacts).

Emails or text messages between Board members regarding public business may constitute a meeting and violate open meeting laws even if done on personal devices under circumstances and within the parameters established by the North Dakota Office of Attorney General.

Training seminars and purely social gatherings attended by a quorum of the Board or Committee are not meetings, however, as soon as the members discuss any public business, it becomes a meeting.

## **2. Rules of Order**

All Board and Committee meeting will be conducted in accordance with Robert's Rules of Order Newly Revised, except as superseded by state law and Board governance policies.

## **3. Meeting Schedule**

The Board will hold meetings as often as necessary for the transaction of business but will conduct a minimum of six Board meetings each year.

The Board will approve an annual Board meeting schedule identifying the time, date, and location of regular Board meetings. Board meetings will generally be scheduled for the Thursday afternoon preceding SIB meetings beginning in July of each year unless a different day is determined. (Note: SIB meetings are generally scheduled for the 4th Friday of each month.) The Board or Board President may modify this schedule, if needed.

The Board President, or any two members of the Board, may call for special or emergency Board meetings.

At the July Board meeting each year, the Board will elect officers, review governance and program policies, and develop the annual board agenda and education plan.

The Board may hold an annual Board retreat, either on-site or off-site, to focus on board development, strategic planning, legislative planning, developments in public pension administration, and other topics as determined by the Board. A Board Retreat must also be noticed as a meeting of the Board.

## **4. Meeting Notice**

Public notice of all Board and Committee meetings is made in accordance with state law pursuant to NDCC 44-04-20.

Meeting notices are posted on the Secretary of State website, RIO public website, RIO office, and the meeting location.

## 5. Meeting Agendas

An annual schedule of agenda topics, reports, and education items for each regular board meeting will be developed by the Executive Director and approved by the Board. The annual schedule will also include review of the Board Governance Manual over several meetings.

Board meeting agendas will be prepared by the Executive Director and approved by the Board President using the annual schedule as a basis for topics to be included on each regular meeting agenda. Additional topics may be added by the Executive Director, Chief Retirement Officer, Board President, and Board trustees subject to approval by the Board President.

The meeting agenda should contain enough detail so trustees, members, interested parties, and the general public can understand the nature of each agenda item.

Any individual or organization who desires to appear on the agenda of a Board or Committee meeting must notify the Executive Director in writing at least ten working days prior to the meeting date. The request must include the reason or topic to be discussed with the Board. Subject to approval by the Board President, the individual will be placed on a Board meeting agenda.

Regular Board meeting agendas may be added to or altered at the time of the meeting. For special or emergency meetings, only the specific topics included in the meeting notice may be discussed.

The meeting agenda will identify if the item requires Board action, information only, consent agenda, or executive session. The agenda will also note the estimated amount of time expected for each topic.

- a. **Action** items on the agenda contain information that require Board discussion and vote (annual reports, policy changes, benefit determinations, legislative positions, etc.)
- b. **Information** only items contain information that it is important for the Board to know, but do not require Board action or a Board vote (project updates, status reports, education, etc.)
- c. **Consent agenda** items will primarily consist of approval of disability applications, QDROs, business partner reviews, or other routine administrative matters that require Board action as recommended by staff, but which typically do not require Board discussion. Trustees may request any item to be removed from the Consent agenda to allow for Board discussion and action.
- d. If an **Executive session** is required or anticipated, the Executive session must be listed as an agenda item (i.e., confidential member information, attorney consultation, etc.)

## 6. Meeting Materials

The Executive Director will coordinate the preparation of Board meeting materials and develop an Executive Summary.

Meeting materials will generally be sent to trustees 5-7 days before the meeting, unless otherwise indicated.

Materials will be posted on the public RIO website, except for Executive Session or confidential items which will be sent via secure email to the trustees only.

## **7. Meeting Attendance and Quorum**

Attendance at Board meetings is an essential element of a trustee's fiduciary responsibility. Therefore, Board members are expected to attend all Board and applicable Committee meetings.

Board members may attend meetings in person, by telephone or video conference.

A quorum of four members must be present for the Board to conduct business.

Board members should come to meetings having read the materials prepared and circulated by staff and/or consultants.

Board members should be inquisitive, and should appropriately question staff, advisors, and fellow trustees as circumstances require.

Board members should conduct themselves with integrity and dignity, always maintaining the highest ethical conduct.

Board members should make every effort to engage in collegial deliberations and to maintain an atmosphere in which trustees can speak freely and explore ideas before becoming committed to positions.

## **8. Voting**

Voting on matters before the Board will be by roll call vote, except for procedural matters.

Board members have a duty to vote unless there is an applicable statute that would require or permit abstention.

Each Board member is entitled to one vote. Proxy voting is not allowed.

Four members constitutes a quorum.

Four votes are required for resolution or action by the Board.

Board minutes will show the recorded vote of each Board member.

## **9. Public Access and Comment**

All Board and Committee meetings are open to the public and all persons who wish to attend may do so in accordance with North Dakota Open Meeting laws, NDCC 44-04-17.1.

Public participation or comments during Board meetings may be allowed and limited to reasonable time limits at the discretion of the Board President as follows:

- a. By written request to appear on a Board meeting agenda.
- b. By written request to speak on a specific Board meeting agenda topic.

- c. By written request to speak on any TFFR related topic which is not on a regular Board meeting agenda.
- d. By submitting a letter or written document for distribution to the Board.

*See TFFR Board Public Participation Guidelines (Exhibit 2).*

## **10. Executive Sessions**

The Board or Committee may conduct business in Executive Session only as permitted by state law, NDCC 44-04-19.2. Executive sessions shall be presided over by the Board President or Committee Chair.

Only the portions of a public meeting that are specifically confidential or exempt from the Open Meetings law may be closed to the public and held in Executive Session. The remainder of the meeting must be open to the public.

## **11. Closed Meeting Procedures**

State law specifies the following general procedure for holding an executive session.

- a. Convene meeting in an open session preceded by public notice.
- b. Announce during the open portion of the meeting the topics to be considered during the executive session and the legal authority for holding an executive session on those topics.
- c. Pass a motion to hold an executive session unless motion is unnecessary because a confidential meeting is required to discuss confidential information.
- d. Record the executive session electronically.
- e. Limit the topics considered during the executive session to the announced, authorized topics.
- f. Take final action on the topics considered in the executive session during the open portion of a meeting.
- g. All substantive votes must be recorded by roll call.

## **12. Meeting Minutes and Records**

Minutes will be taken at all Board and Committee meetings and presented for approval at the next regular meeting.

At a minimum, minutes must include:

- a. The names of the members attending the meeting.
- b. The date and time the meeting was called to order and adjourned.
- c. A list of topics discussed regarding public business.
- d. A description of each motion made at the meeting and whether the motion was seconded.
- e. The results of every vote taken at the meeting; and
- f. The vote of each member on every recorded roll call vote.

Approved meeting minutes will be made available on the RIO-TFFR website, or upon request. Meeting minutes and records of the Board and Committee activities and actions will be maintained as required by state law.

### **13. Meeting Payment and Travel Expense Reimbursement**

Board members, excluding ex-officio members, will receive compensation and travel expenses for attending Board and Committee meetings as provided in state law, NDCC 15-39.1-08.

Board members will be paid \$148 for each Board or Committee meeting attended. Board members will be paid the full amount for each meeting attended that lasts for two or more hours. Meetings lasting less than two hours will be paid at one half the amount. Mileage and travel expense reimbursement will be paid as provided in state law.

Board members may not lose regular salary, vacation pay, vacation or any personal leave, or be denied attendance by the state or political subdivision while serving on official business of TFFR.

To receive meeting payment, Board members must complete a Board Meeting Payroll & Expenses form SFN62436 and submit it to RIO.

## **N. Committees**

### **1. Standing Committees**

The TFFR Board may establish permanent standing committees. The TFFR Board has created a permanent standing Governance and Policy Review Committee.

a. **POLICY OF THE TFFR BOARD – Governance & Policy Review Committee**

The Governance & Policy Review Committee is authorized to:

- Review and recommend policies for the governance manual.
- Ensure the governance manual reflects best practices and governance.
- As directed by the board, review specific governance concerns, and make recommendations for improvement.
- Request RIO staff for specific topic training or education

### **2. Special Committees**

The Board may establish special ad hoc committees as needed to carry out duties specified by the Board.

The Board President will appoint the Committee Chair and Committee members for special committees.

Committee Chairs are responsible for organizing the work of the Committee. In fulfilling this function, Committee Chairs:

- a. Schedule Committee meetings as often as necessary.
- b. Consult with the Executive Director or designee in setting the meeting agenda in accordance with the Committee's delegated responsibilities.
- c. Conduct Committee meetings in a collegial, fair, and efficient manner following Board policies, procedures, and applicable state law such as the open meetings law.
- d. Ensure the Committee operates to assist the Board consistent with its delegation.
- e. Provide Committee updates and reports to the Board.



When the Committee's duties are completed, the Committee automatically ceases to exist.

### **3. Audit Committee**

The SIB Audit Committee also functions as the Audit Committee for the TFFR Board since the SIB is the governing body of the RIO agency and RIO administers both the TFFR retirement program and SIB investment program.

The TFFR Board selects one TFFR representative on the SIB to serve on the SIB Audit Committee, subject to official appointment by SIB Chair. This representative will act as the TFFR Board's liaison to the SIB Audit Committee.

The TFFR Board's representative on the SIB Audit Committee and/or the Audit Supervisor, will provide Audit Committee updates and monitoring reports to the Board.

## **O. Board Appeals**

Any member, beneficiary, business partner, or affected individual may appeal a determination made by the Executive Director or designee regarding TFFR eligibility, benefits, or other plan provisions with which the individual does not agree.

The affected individual must file a written request for Board review within thirty days after notice of the determination of the Executive Director or designee has been mailed to the affected individual. If a request for Board review is not filed within the thirty-day period, the decision of the agency is final. The request for Board review must include the decision being appealed, the reason(s) the individual believes the decision should be reversed or modified, and any relevant documentation.

To review the matter, an appeal hearing will be scheduled as part of a regularly scheduled Board meeting. A summary of the relevant facts and documentation will be presented. The affected individual and/or designee may attend and speak at the hearing. After review of the facts, documentation, and testimony, the Board will make its decision. The Board's decision will be communicated in writing to the affected individual within 30 days of the decision.

Any individual aggrieved by a decision of the Board may initiate a formal administrative action against the Board in accordance with NDAC § 82-10 and NDCC § 28-32.

## **P. Board Communications**

The TFFR Board President and Executive Director; or Deputy Executive Director – Chief Retirement Officer in the absence of or at the direction of the Executive Director; are authorized to represent the Board on retirement program issues and in announcing Board positions and decisions, unless otherwise determined by the Board.

Board members may respond to general inquiries about the TFFR retirement program, however specific questions from members, beneficiaries, business partners, and the public should be referred to the Communications Director or other RIO staff to provide more detailed information about the retirement program.

## **Q. Trustee Orientation and Education Program**

Trustees are responsible for making policy decisions affecting all major aspects of TFFR plan administration. Therefore, trustees should acquire and maintain an appropriate level of knowledge that provides and improves core competencies necessary to govern a large, complex pension fund.

### **1. Board Member Core Competencies**

Board members should develop and maintain their knowledge and understanding of the issues involved in the prudent management of the retirement plan. Specific areas include:

- a. Public pension plan governance
- b. Asset allocation and investment management
- c. Actuarial principles and funding policies
- d. Financial reporting, controls, and audits
- e. Benefits administration
- f. Open meeting and open records laws
- g. Fiduciary responsibilities
- h. Ethics and conflicts of interest

### **2. Board Member Education**

To permit Board members to develop core competencies, discharge their fiduciary duties, and ensure Board members have a full understanding of the issues facing the TFFR plan, the Board encourages trustee education including:

- a. New trustee orientation
- b. Mentoring program
- c. Educational conferences, workshops, and other training programs
- d. In-house education sessions
- e. Fiduciary education and ethics training
- f. Open meeting and open records training
- g. Webinars, Reports, and Studies

Board members should identify areas in which they might benefit from additional education, and work with the Executive Director to find or develop educational opportunities to best address those needs.

Board members must annually report trustee education received each year. See *TFFR Board Education Report Form*.

### **3. New Trustee Orientation**

Each new Board member should attend a new trustee orientation session(s) as soon as possible after appointed to the Board or elected to office. The orientation sessions will be developed by the Executive Director, and will include, at minimum, review of the following topics and materials:

- a. Introduction to RIO staff
- b. Tour of RIO office
- c. Board Governance Manual
- d. Board duties and responsibilities
- e. History and overview of the plan

- f. Overview of TFFR-SIB-RIO organizational structure
- g. Laws, rules, and board policies governing the plan
- h. Benefit structure, administration, outreach services
- i. Fiduciary responsibilities, conflict of interests, and ethics
- j. Open meetings and open records
- k. Board meeting schedule and protocol
- l. Board meeting minutes and materials
- m. Actuarial valuation report, assumptions, methods, and funding policy
- n. Actuarial experience report
- o. Actuarial audit report
- p. Annual financial report
- q. Investment program, investment policy statement, asset allocation, and performance
- r. RIO website – TFFR and SIB sections
- s. Legislative issues
- t. List of educational conferences and training sessions
- u. Other relevant information or materials deemed appropriate

#### **4. Mentoring Program**

The Board President will assign each new trustee an experienced Board mentor to assist the new trustee in becoming familiar with Board responsibilities. The Board mentor should have at least two years of experience on the Board.

The Board mentor should contact the new Board member periodically outside of regularly scheduled Board meetings for consultation or discussion related to Board member duties and responsibilities. The new Board member should contact the Board mentor as often as necessary.

Appointment of a Board mentor does not constitute appointment of a committee and does not implicate open meeting notice requirements.

#### **5. Educational Conferences, Workshops, and other Training Programs**

The Executive Director or designee will maintain a list of educational conferences, workshops, and other training programs appropriate for Board members to attend. The list will be provided at least annually to Board members. Board members may attend such conferences or others deemed to be appropriate by the Executive Director.

Subject to budget availability, Board members may attend at least one out of state educational conference each year. New trustees, or trustees with investment or other specialized Board responsibilities, may attend additional educational training sessions to help develop core competencies and become proficient in performing their duties.

The Executive Director will review conference agendas and materials to ensure they are geared toward trustee education, and subject to budget availability, will approve Board travel requests. Board travel outside of the continental United States must be approved by the Board President and Executive Director.

Any Board member who attends a conference, workshop, or other training program will present an oral report to the Board.

The Executive Director will inform the Board of educational conferences, workshops, or other training programs attended by trustees on an annual basis.

## **6. In-House Education Sessions**

Based on the education needs identified by Board members, the Executive Director will arrange for staff or outside service providers to conduct educational sessions at regularly scheduled Board meetings. Topics may include pension board governance, actuarial and funding issues, investments, retirement operations and benefits, workforce demographics and shortages, and other topics determined by the Board.

## **7. Fiduciary Education and Ethics Training**

At least every two years, a fiduciary education and ethics training session will be conducted at a regularly scheduled Board meeting. The session will review and update trustees regarding fiduciary issues and ethical conduct affecting their service on the Board.

## **8. Open Meetings and Open Records Training**

At least every two years, an open meetings and open records training session will be conducted at a regularly scheduled Board meeting. The session will review and update trustees regarding open meetings and open records requirements affecting their service on the Board.

## **9. Webinars, Reports, and Studies**

Board members are encouraged to subscribe to mailing lists and review websites for information about public pension plan conferences, webinars, reports, and studies from pension and investment organizations. Examples include:

- a. National Council on Teacher Retirement (NCTR)
- b. National Institute on Retirement Security (NIRS)
- c. National Education Association-Retired (NEA-R)
- d. National Retired Teachers Association (NRTA-AARP)
- e. International Foundation for Employee Benefit Plans (IFEBP)
- f. Center for State and Local Government Excellence (SLGE)
- g. Center for Retirement Research at Boston College (CRR)
- h. Callan Investment Institute (Callan)
- i. Council of Institutional Investors (CII)

The Chief Retirement Officer will also provide links to recent published reports and studies with Board meeting materials.

## **10. Reimbursement of Education Expenses**

Trustees must request approval for travel to educational conferences or other educational programs. Trustees should notify the Chief Retirement Officer of their interest in attending an educational conference or other program. RIO will complete the travel authorization form which must be signed by the trustee and approved by the Executive Director. *See North Dakota Authorization for Out of State Travel.*

RIO will make all travel arrangements and pay conference registration fees, unless otherwise agreed to by the Chief Retirement Officer and trustee.

Payment of travel-related expenses for trustee education will be in accordance with state of North Dakota travel policies. Trustees will be reimbursed for travel related expenses including lodging, meals, transportation, etc. In order to receive reimbursement, a trustee must complete an expense form and attach receipts as required. See *RIO Travel Authorization Form*).

## **R. Board Members' Code of Conduct**

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

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

Board members should perform the duties of their offices impartially and diligently. Board members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and regulations and to refrain from any form of dishonest or unethical conduct. Board members should be unwayed by partisan interest, public sentiment, or fear of criticism. Conflicts of interest and the appearance of impropriety shall be avoided by Board members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the board. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include but are not limited to: receiving consideration for advice over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction involving for which the board member has acquired information unavailable to the general public, through participation on the board.

1. "Conflict of Interest means a situation in which a board member has a conflict of interest as that term is defined in North Dakota statute and rules promulgated by the North Dakota Ethics Commission under N.D.A.C. Chapter 115-04-01.
2. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
3. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
4. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.

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

5. Violation of these rules shall result in an official reprimand from the TFFR Board. No reprimand shall be issued until the board member has had the opportunity to be heard by the board.
6. Board members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise. *See TFFR Code of Conduct Annual Affirmation (Exhibit 6)*
7. RIO Deputy Executive Director- Chief Retirement Officer is required to affirm his/her understanding of RIO Administrative Policy – Code of Conduct for RIO Employees – annually, in writing, and must disclose any conflicts of interest that may arise.
8. RIO Executive Director is required to affirm his/her understanding of RIO Administrative Policy – Code of Conduct for RIO Employees – annually, in writing, and must disclose any conflicts of interest that may arise.

## **S. Strategic Planning**

The Board and RIO Executive Director will work collaboratively to develop a long-term strategic plan which may:

1. Identify and prioritize TFFR program issues and initiatives.
2. Assess the strengths, weaknesses, opportunities, and threats for TFFR.
3. Focus resources on high value activities.
4. Develop strategies to address priorities.
5. Monitor the progress and implementation of the strategic plan.
6. Work with RIO to ensure adequate resources are in place to support the successful execution of the plan.

## **T. Board Policy Approval Process**

Board governance and program policies may be adopted or amended from time to time based on the following process.

New policies or policy amendments may be proposed by RIO staff or a Board member. The Executive Director shall maintain an internal agency process for the development and presentation of staff recommendations. All new policies or amendments must be submitted to the Board's legal counsel at the Attorney General's office for review prior to Board approval.

Upon request of RIO staff or a Board member, a new policy or amendment shall be placed on the Board's agenda for action as follows:

1. Introduction and first reading. A brief explanation or summary of the new policy or amendment shall be presented to the Board. Upon approval of introduction and first reading, the policy shall be placed on the agenda of the next scheduled meeting of the Board for second reading and adoption. When appropriate, the policy shall be distributed to interested parties.
2. Second reading and adoption. Interested parties and the public shall be allowed an opportunity to comment on the policy or amendment before final action by the Board. The

policy shall take effect immediately following second reading and adoption by the Board unless a different effective date is stated.

3. Amendments. Amendments may be proposed at any time before final adoption of the policy. Upon determination by the Board that adoption of an amendment constitutes a substantive change that significantly changes the meaning or effect of the policy, the Board shall continue consideration of second reading and adoption to the next meeting to permit further review and comment.
4. Emergency measures. Upon determination that an emergency or other circumstances calling for expeditious action exists; the Board may waive the requirement of a second reading and immediately approve the new policy or amendment following introduction and first reading.

Board policies will be reviewed at least annually, or more often as needed.

## **U. Board Self-Assessment**

On an annual basis, the Board will engage in a self-assessment process to evaluate the trustee's individual performance and the Board's overall performance. The Board President is responsible for overseeing implementation of this assessment, with assistance of the Executive Director and Supervisor of Audit Services.

Individual Trustee and Overall Board Assessments may contain topics including:

1. Board and staff roles.
2. Board and Committee structure.
3. Board meetings.
4. Policy making and reviews.
5. Financial management practices.
6. Pension plan administration practices.

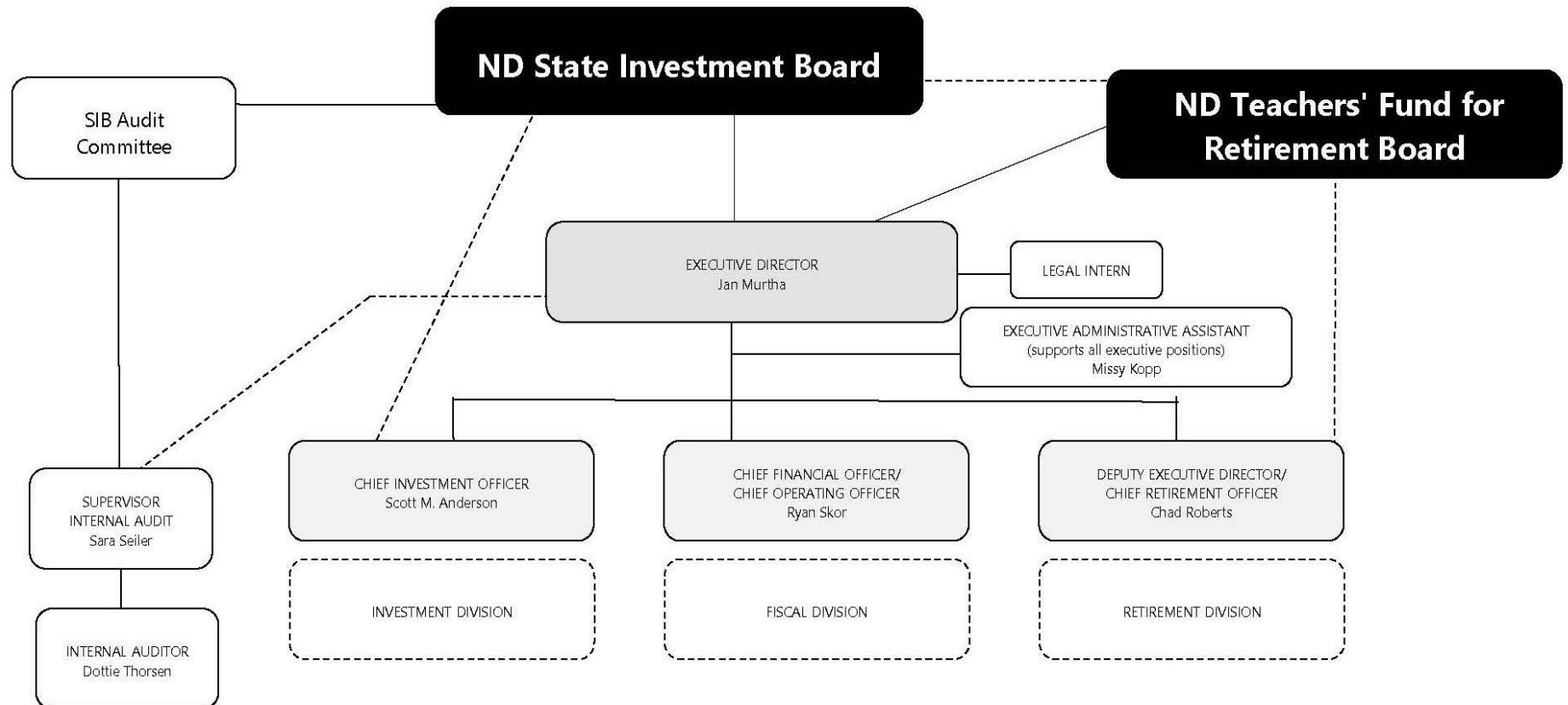
*See TFFR Board Self- Assessment (Exhibit 8 Process and Survey to Be Developed).*

**Board Governance Policies Approved September 26, 2024.**

## Board Governance Section Exhibits

### 1. RIO Organizational Chart

# RETIREMENT AND INVESTMENT OFFICE ORGANIZATIONAL CHART





## 2. TFFR Board Public Participation Guidelines



Teachers' Fund For Retirement  
RETIREMENT & INVESTMENT

### TFFR Board Meeting Public Participation Guidelines

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All TFFR Board and Committee meetings are open to the public and all persons who wish to attend may do so in accordance with North Dakota Open Meetings laws, NDCC 44-04-17.1.

The Board is responsible for oversight, policy making, and administration of the TFFR plan. The Board may seek public input to assist in making decisions, but time spent answering routine questions or criticisms must not be taken from Board business. Generally, if an individual has a question or concern about the operation of the TFFR program or a specific member or business partner issue, he/she is encouraged to contact the Executive Director or Chief Retirement Officer to get the needed response directly.

Although there is no legal requirement that the public be given an opportunity to speak at TFFR Board meetings, it is the Board's policy that public participation or comments during Board meetings may be allowed and limited to reasonable time limits at the discretion of the Board President. (See TFFR Board and Committee Meetings – Public Access and Comment, Policy M-9.)

**Subject to approval of the Board President, public participation or comments may be provided to the Board as follows:**

- 1) **By written request to appear on a Board meeting agenda.** The request must include the topic to be discussed and must be provided to the Executive Director at least ten working days prior to the meeting date.
- 2) **By written request to speak on a specific Board meeting agenda topic at the meeting.** The request must include the topic to be discussed and must be provided to the Executive Director at least two hours prior to the meeting.
- 3) **By written request to speak on any TFFR related topic which is not on a regular Board meeting agenda under "Other Business."** The request must include the topic to be discussed and must be provided to the Executive Director at least two hours prior to the meeting.
- 4) **By submitting a letter or written document** to the Executive Director for distribution to the Board.

#### **SPEAKER INFORMATION**

- Speaker should stand (if able to do so) and be recognized by the Board President.
- Speaker should state Name and Organization Representing (if applicable).
- Speaker should state agenda number and topic which the speaker will address.
- 5-minute time limit for speaker unless additional time is allowed by Board President.
- No undue interruption, disorderly conduct or remarks made out of order.
- No charges or complaints against staff will be allowed.
- Questions and comments by the Board and Executive Director will be allowed.
- Board or Staff response to the Speaker's remarks will be allowed but is not required.

**TFFR BOARD**  
**PUBLIC PARTICIPATION REQUEST FORM**

Date and Time Submitted \_\_\_\_\_

Name \_\_\_\_\_

Organization Representing (if applicable) \_\_\_\_\_

Contact Information (phone number, email, or mailing address) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Topic or Agenda Item \_\_\_\_\_

### 3. TFFR Code of Conduct Annual Affirmation



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## MEMORANDUM

**TO:** TFFR Board  
**FROM:** Name, Title  
**DATE:** Month ##, YYYY  
**RE:** Annual Affirmation of Code of Conduct Policy

The *TFFR Board Members' Code of Conduct and Ethics Policy*, which is attached to this memorandum, details the Code of Ethical Responsibility for the TFFR Board. Item #11 of this policy indicates that each Board Member is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

*"I have read and understand TFFR Board Members' Code of Conduct and Ethics Policy. I have disclosed any conflicts of interest as required by this policy."*

Name (printed) \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Detail of any conflicts of interest (if any):

## SECTION II: TFFR Program Policies

### A. Investment Policy Statement

#### 1. Plan Characteristics and Fund Constraints

TFFR is a successor pension benefit plan to the Teachers' Insurance and Retirement Fund (TIRF). TIRF was established in 1913, 24 years after North Dakota became a state, to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. TIRF became TFFR in 1971. The plan is administered by a seven-member Board of Trustees comprised of: two active teachers, two retired teachers and one school administrator appointed by the Governor of North Dakota and two elected officials - the State Treasurer and the State Superintendent of Public Instruction.

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

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

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

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

The TFFR Board has an actuarial valuation performed annually and an Experience Study and Asset Liability Study performed every five years. The actuarial assumed rate of return on assets was reduced to 7.25% from 7.75% as of July 1, 2020. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment office (RIO).

#### 2. Fund Goals

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

As a result, the Fund goals are to:

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

The Board acknowledges the material impact that funding the pension plan has on the

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

### **3. Responsibilities and Discretion of the State Investment Board**

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

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

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

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

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

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

#### 4. Risk Tolerance

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

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

#### 5. Investment Objective

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

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

#### 6. Policy Asset Mix

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

Asset Class	Policy Target (%)
<b>Global Equity</b>	<b>55%</b>
- Public Equity	45%
- Private Equity	10%
<b>Global Fixed Income</b>	<b>26%</b>
- Investment Grade	18%
- Non-Investment Grade	8%
<b>Global Real Assets</b>	<b>18%</b>
- Real Estate	9%
- Other	9%
<b>Cash &amp; Equivalents</b>	<b>1%</b>
Total	100%

An allocation to Global Alternatives of up to 10% is authorized but shall not increase the expected volatility of the portfolio as measured in Section 5; and if utilized, all other targets will be adjusted pro-rata. The Board does not endorse tactical asset allocation; therefore, it is anticipated the portfolio be managed as close to the policy target as is prudent and practicable while minimizing rebalancing costs. Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

## 7. Restrictions

- a. While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:
  - 1) Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
  - 2) Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
  - 3) No transaction shall be made which threatens the tax-exempt status of the Fund.
  - 4) All assets will be held in custody by the SIB's master custodian, or such other custodians as are acceptable to the SIB.
  - 5) No unhedged short sales or speculative margin purchases shall be made.
  - 6) Social investing is prohibited unless it meets the Exclusive Benefit Rule, and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- b. For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect

other than a maximized return to the intended beneficiaries."

- 1) Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.
- c. For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

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

- 1) The cost does not exceed the fair market value at the time of investment.
- 2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar task.
- 3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- 4) The safeguards and diversity that a prudent investor would adhere to are present.

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

## **8. Internal Controls**

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

## **9. Evaluation and Review**

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

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

A list of the advisory services managing investments for the board.



A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.

Earnings, percentage earned, and change in market value of each fund's investments.

Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.

All material legal or legislative proceedings affecting the SIB.

Compliance with this investment policy statement.

TFFR Board Adopted: May 25, 1995.

Amended: November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006; September 20, 2007; October 27, 2011; September 26, 2013; January 21, 2016; September 21, 2017; January 25, 2018; November 19, 2020, April 22, 2021, and July 22, 2021.

Approved by SIB: November 18, 2011, February 26, 2016, September 22, 2017, February 23, 2018, November 20, 2020, May 21, 2021, and October 28, 2022.

North Dakota Teachers' Fund for Retirement

North Dakota State Investment Board

\_\_\_\_\_  
Date

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Date

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Janilyn Murtha  
Executive Director

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Scott Anderson  
Chief Investment Officer

## B. Plan Management Policy Overview

TFFR Plan Management Policy is a risk assessment and management tool that monitors the ongoing health of TFFR using the most recent actuarial valuation results and stochastic projections. The objective of the Plan Management Policy is to provide a basis for balancing the Fund's obligations with current assets and expected future contributions in order to maintain its long-term health and viability. The Policy also provides a framework that the Board can follow in establishing metrics for future funding and benefit changes. The Plan Management Policy is based upon metrics and a scoring system that were established at the July 24, 2019, Board meeting. The Plan Management Policy Score will be updated subsequent to each annual actuarial valuation.

### 1. Background

The Plan Management Policy is different from the Funding Policy. The Funding Policy sets parameters for the determination of the actuarially determined contribution (ADC) as of each actuarial valuation date. The Plan Management Policy establishes the parameters for a forward-looking assessment of TFFR.

An ADC is used as a benchmark to compare to the statutory contribution rate. An ADC reflects an asset valuation method (i.e., smoothing method), actuarial cost method (e.g., entry age normal), and amortization method for paying down unfunded liabilities or recognizing surplus assets. A description of the ADC is contained in a separate document ("Actuarial Funding Policy Statement"). In summary, the current TFFR funding policy relies on an ADC that is equal to the sum of (a) the business partner normal cost rate and (b) the level percentage of pay required to amortize the unfunded actuarial accrued liability over the 30-year closed period that began July 1, 2013.

### 2. Risk Assessment and Management

The Plan Management Policy is a risk assessment tool. The risks facing TFFR can be broadly classified into three categories: risks related to economic variables, risks related to demographic events, and risks related to external forces. An overview of the primary risks facing TFFR stakeholders follows.

a. Risks related to economic variables:

- 1) Investment return – the risk that actual returns will be different than expected and more volatile than desired.
- 2) Inflation (price inflation, wage inflation) – the risk that measures of inflation will be inconsistent with other economic measures.

b. Risks related to demographic events:

- 1) Mortality/longevity – the risk that participants will live longer than expected
- 2) Payroll and/or population growth – the risk that aggregate payroll will increase at a rate less than expected. This is relevant since contributions to TFFR are collected as a percentage of member payroll.
- 3) Retirement/disability/termination experience – the risk that members leave active service in a manner than generates actuarial gains or losses relative to the assumptions.

There are even risks related to external forces (e.g., governance risk, regulatory risk, litigation risk, political risk), but these risks are difficult – or impossible – to manage.

The Plan Management Policy is a tool that measures investment return risk since investment return risk has the most significant impact on TFFR's long term financial health.

### 3. Scoring System Metrics

The scoring system metrics that will be monitored on a periodic basis are:

- a. **The current funded ratio:** This is equal to the ratio of the market value of assets to the actuarial accrued liability as of the latest actuarial valuation date. The purpose of this metric is to assess the current funded status of TFFR.
- b. **The downside funded ratio as of July 1, 2030:** Based on stochastic projections, determine the probability that the funded ratio will be less than 65%. The purpose of this metric is to assess the likelihood of the funded ratio not improving over the short term. The lower the likelihood that the funded ratio will not increase, the higher the score.
- c. **The target funded ratio as of July 1, 2040:** Based on stochastic projections, determine whether the funded ratio is projected to increase above certain thresholds over a longer time horizon with 51% or more probability.
- d. **Improvement in the funded ratio over a 10-year period:** Based on stochastic projections, determine the probability that the funded ratio will improve by 5% over the following 10 years.
- e. **Ability to recover/withstand from a market downturn:** Based on stochastic projections, determine the probability that the funded ratio improves by 5% over 10 years following a market downturn. A market downturn is defined as a two-year period with a compound average return of -10% or worse.

### 4. Policy Score

The Policy Score is the sum of the points that have been assigned to each metric and can range from 0 to 14 and correspond to a color ranging from red to green. A higher score indicates better overall health of TFFR. The Policy Score is grouped into the following categories:

Color	Policy Score	Indication
Green	11 to 14	TFFR objectives are being met or likely to be met
Yellow	7 to 10	TFFR objectives may be met over a longer period
Orange	4 to 6	Continue to monitor TFFR
Red	0 to 3	Changes to TFFR should be considered



## 5. Policy Scoring System

Each metric is assigned a score based upon the results of the annual actuarial valuation and resulting analysis as follows:

<b>Metric</b>	<b>Criteria</b>	<b>Score</b>
The current funded ratio	<ul style="list-style-type: none"> <li>Funded ratio of 90% or higher</li> <li>Funded ratio between 80% and 90%</li> <li>Funded ratio between 70% and 80%</li> <li>Funded ratio less than 70%</li> </ul>	<ul style="list-style-type: none"> <li>+3</li> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
The downside funded ratio as of July 1, 2030	<ul style="list-style-type: none"> <li>Under 65% funded ratio with less than 20% probability</li> <li>Under 65% funded ratio with less than 30% probability</li> <li>Under 65% funded ratio with less than 40% probability</li> <li>Under 65% funded ratio with more than 40% probability</li> </ul>	<ul style="list-style-type: none"> <li>+3</li> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
The target funded ratio as of July 1, 2040	<ul style="list-style-type: none"> <li>85% or higher with 51% or more probability</li> <li>Between 80% and 85% with 51% or more probability</li> <li>Between 75% and 80% with 51% or more probability</li> <li>Between 70% and 75% with 51% or more probability</li> <li>Not more than 70% with 51% or more probability</li> </ul>	<ul style="list-style-type: none"> <li>+4</li> <li>+3</li> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
Improvement in the funded ratio over a 10-year period	<ul style="list-style-type: none"> <li>Funded ratio improves by +5% over 10 years with 66% probability</li> <li>Funded ratio improves by +5% over 10 years with 50% probability</li> <li>Funded ratio does not improve by +5% over 10 years with 50% probability</li> </ul>	<ul style="list-style-type: none"> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
Ability to recover from or withstand a market downturn	<ul style="list-style-type: none"> <li>Funded ratio after downturn improves by +5% over 10 years with 50% probability</li> <li>Funded ratio after downturn improves by +5% over 10 years with 33% probability</li> <li>Funded ratio after downturn does not improve by +5% over 10 years with 33% probability</li> </ul>	<ul style="list-style-type: none"> <li>+2</li> <li>+1</li> <li>+0</li> </ul>

For purposes of scoring, probabilities and funded ratios will be rounded to the nearest whole percentage. For example, a probability of 49.6% would be rounded up to 50%.

## 6. Outside Factors

Other factors outside of TFFR could have an effect on the directional trend of future Policy Scores. These factors include, but are not limited to:

- a. Projected economic conditions
- b. Market cycles
- c. North Dakota economy

TFFR Staff and the actuary will discuss the appropriate outside factors and determine whether these factors are expected to potentially improve or worsen the Policy Score.

## 7. Actuarial Assumptions

The actuarial assumptions used will be the same as those used for the annual actuarial valuation. The actuarial assumptions are described in detail in the actuarial valuation report. The funded ratio used in the plan management policy is based upon the market value of assets.

In order to stochastically model investment returns, Capital Market Assumptions are used. Capital Market Assumptions are developed by investment firms and represent expectations for future risk and returns for different asset classes. The Capital Market Assumptions used for the analysis are those published in the most recently available Horizon's Annual Survey of Capital Market Assumptions. If Horizon discontinues the publication of this survey, a suitable replacement or alternative will be used.

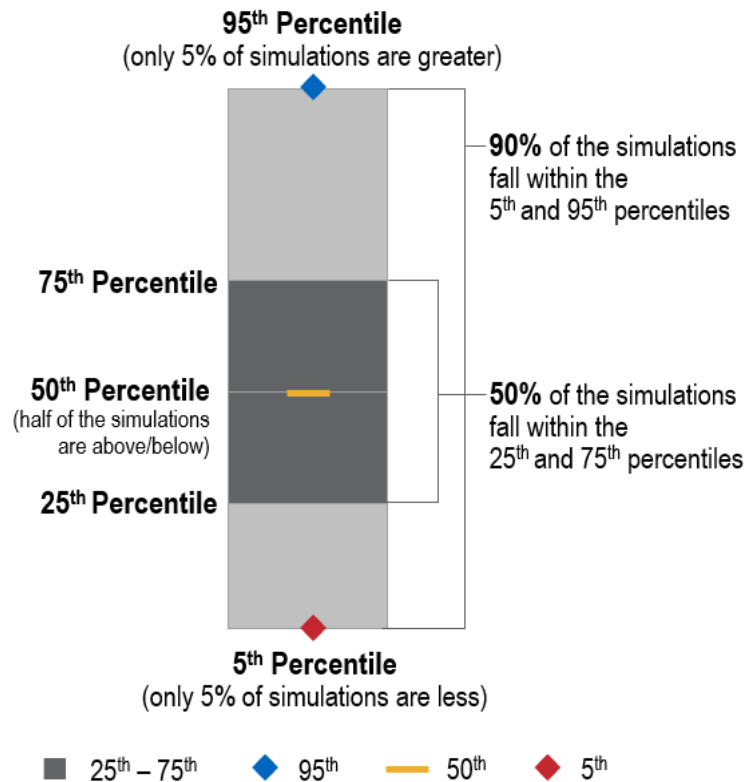
Projected liabilities are based upon an "open group" liability forecast. An open group projection generates projected populations for each future valuation date based on assumptions related to retirement, termination, salary increases, mortality, etc. New entrant records are generated to replace active members that decrement in the model in order to maintain a level active membership in the future. The profile of new entrants is based on recent demographics of new hires, subject to input from TFFR staff and Board.

## 8. Stochastic Modeling

The Capital Market Assumptions are used with TFFR's target asset allocation in order to simulate 5,000 investment portfolio return scenarios, each simulation representing a 20-year period. The simulated investment returns, along with open group liability forecasts, are used to model the projected funded ratio. The results are grouped into percentiles and summarized as a range:

- a. **Best Case:** Better cases would occur only 5% of the time (above the 95<sup>th</sup> percentile in the example below)
- b. **Most Likely:** Better or worse cases (50<sup>th</sup> percentile) are equally likely
- c. **Worst Case:** Worse cases would occur only 5% of the time (below the 5<sup>th</sup> percentile in the example below)

## Sample Funded Ratio



**TFFR Board Adopted:** October 24, 2019

**Amended:** January 23, 2020

### C. Actuarial Funding Policy Statement

#### 1. Introduction

The purpose of this Actuarial Funding Policy is to record the funding objectives and policy set by the Board of Trustees (Board) for TFFR. Effective with the July 1, 2013, actuarial valuation, the Board establishes this Actuarial Funding Policy to help ensure the systematic funding of future benefit payments for members of TFFR. The contributions made to TFFR are set by statute. These statutory contributions will be compared to the contributions determined under the funding policy in order to assess the appropriateness of the statutory contributions. Based upon this comparison, the Board will decide what action to take, if any. The business partner contribution determined under the funding policy is called the actuarially determined business partner contribution (ADEC). In addition, this document records certain guidelines established by the Board to assist in administering TFFR in a consistent and efficient manner.

This Actuarial Funding Policy supersedes any previous Actuarial Funding Policies and may be modified as the Board deems necessary.

## 2. Goals of Actuarial Funding Policy

- a. To achieve long-term full funding of the cost of benefits provided by TFFR;
- b. To seek reasonable and equitable allocation of the cost of benefits over time;
- c. To maintain a policy that is both transparent and accountable to the stakeholders of TFFR, including plan participants, business partners, and residents of the State of North Dakota.

## 3. Actuarially Determined Business partner Contribution and Funding Policy Components

TFFR's actuarially determined business partner contribution is comprised of the Normal Cost and an amortization of the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amortization of the UAAL are determined by the following three components of this funding policy:

- a. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefits to a given period;
- b. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
- c. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

## 4. Actuarial Cost Method:

The Entry Age Normal method shall be applied to the projected benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined as a level percentage of pay on an individual basis for each active member.

## 5. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets. Deferred investment gains or losses cannot exceed 20% of the Market Value of Assets (i.e., the Actuarial Value of Assets cannot be more than 120%, nor less than 80%, of the Market Value of Assets as of any valuation date).

## 6. Amortization Policy:

- a. The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets), as of July 1, 2013, shall be amortized over a "closed" 30-year period. In other words, the UAAL as of July 1, 2014, shall be amortized over 29 years, the UAAL as of July 1, 2015, shall be amortized over 28 years, etc.

- b. Beginning with the July 1, 2024, valuation, the Board shall have the discretion to continue the “closed” amortization period, or instead to amortize the UAAL over another period, not to exceed 20 years.
- c. Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period equal to the amortization period of the UAAL. The Board shall have the discretion to amortize the new UAAL as a result of change in actuarial assumptions or methods over a period of 20 years.
- d. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis, the increase in UAAL as a result of any plan amendments will be amortized over a period not to exceed 20 years.
- e. In a situation where the amortization of the UAAL has more than one component, a single equivalent amortization period will be determined by the Actuary.
- f. UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.
- g. If an overfunding exists (i.e., the UAAL becomes negative so that there is a surplus), such surplus and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any subsequent UAAL will be amortized over 20 years as the first of a new series of closed period UAAL amortization.

## 7. Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- a. Demographic assumptions – including rates of termination, retirement, disability, mortality, etc.
- b. Economic assumptions – including investment return, salary increase, payroll growth, inflation, etc.

The actuarial assumptions are described in detail in the actuarial valuation report. They represent the Board’s best estimate of anticipated experience under TFFR and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

Actuarial experience studies are completed every five years or at the Board’s direction.



## 8. Glossary of Funding Policy Terms

- a. **Present Value of Benefits (PVB) or total cost:** the “value” at a particular point in time of all projected future benefit payments for current plan members. The “future benefit payments” and the “value” of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all current members, including future service and salary increases for current active members.
- b. **Actuarial Cost Method:** allocates a portion of the total cost (PVB) to each year of service, both past service and future service.
- c. **Normal Cost:** the cost allocated under the Actuarial Cost Method to each year of active member service.
- d. **Entry Age Normal Actuarial Cost Method:** A funding method that calculates the Normal Cost as a level percentage of pay or level dollar amount over the working lifetime of the plan’s members.
- e. **Actuarial Accrued Liability (AAL):** the value at a particular point in time of all past Normal Costs. This is the amount of assets the plan would have today if the current plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true.
- f. **Market Value of Assets (MVA):** the fair value of assets of the plan as reported in the plan’s audited financial statements.
- g. **Actuarial Value of Assets (AVA):** the market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.
- h. **Unfunded Actuarial Accrued Liability (UAAL):** the portion of the AAL that is not currently covered by the AVA. It is the positive difference between the AAL and the AVA.
- i. **Surplus:** the positive difference, if any, between the AVA and the AAL.
- j. **Actuarial Value Funded Ratio:** the ratio of the AVA to the AAL.
- k. **Market Value Funded Ratio:** the ratio of the MVA to the AAL.
- l. **Actuarial Gains and Losses:** changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or “actuarial gain” as of the next valuation. These

include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.

m. **Valuation Date:** July 1 of every year.

## D. Operations

### 1. Membership Data and Contributions

A. Ensure the security and accuracy of the members' permanent records and the collection of member and business partner contributions from every governmental body employing a TFFR member.

B. Accordingly, the administrative means will be to:

1. Retain member and business partner documents applicable to the retirement program.
2. Safeguard TFFR files.
3. Protect the confidential information contained in member and business partner business partner files.
4. Collect the member and business partner contributions from the business partners based on retirement salary earned by the member.
5. Monitor the business partner reporting process including the timely filing of information, consistency of month-to-month data, and changes in the business partner payment plan models.
6. Review the individual member data, salary, and service credit for accuracy.
7. Post and validate the data received from the business partner to the individual member accounts.
8. Provide annual statements to every member.
9. Summarize the member data reported and notify the business partners annually of the prior fiscal year information.

10. Perform reviews to monitor whether individuals employed as “teachers” in North Dakota school districts, political subdivisions, and state institutions are reported to TFFR in compliance with the North Dakota Century Code (NDCC).
11. Provide publications and reporting instructions to business partners on TFFR.

Transfer member and business partner contributions to the investment program in a timely manner.

**C. Monitoring** (Method, Responsibility, Frequency)

1. Internal Report
  - a. Disclosure of compliance to the board from RIO’s internal auditors.
  - b. Compliance for individual accounts is monitored through internal audits of staff compliance with state laws, rules, board policy, and procedures.
2. External Report
  - a. Disclosure of compliance to the board by RIO’s external auditors as a part of the annual audit.
  - b. Disclosure of compliance to members through annual statements.

**2. Member Services**

Provide direct services and public information to members of TFFR.

**A.** Accordingly, the administrative means will be to:

1. Enroll, update, maintain, and certify all member accounts.
2. Respond to member inquiries on the retirement program.
3. Provide statewide benefits education services to members.
4. Make group presentations and distribute information at conferences and conventions throughout the state.
5. Coordinate and conduct retirement education programs for members on a statewide basis.
6. Certify eligibility for TFFR benefits and purchase of service credit.
7. Calculate and process claims for refund, retirement, disability, survivor, and

Qualified Domestic Relations Order (QDRO) benefits, as well as claims for purchasing credit.

8. Permit members to change designated beneficiaries in the event of life occurrences identified in the administrative rules.
9. Close retirement accounts of deceased members.
10. Develop and distribute information to the members on the retirement program and related topics through newsletters, annual reports, member handbooks, brochures, and retirement planning materials.
11. Maintain a website and provide online services to provide members with a variety of access methods for TFFR information.

**B. Monitoring (Method, Responsibility, Frequency)**

**1. Internal Report**

- a. Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
- b. Periodic presentations by staff at board meetings.

**2. External Report**

- a. Receive annual reports from leadership of groups representing the plan's beneficiaries.
- b. RIO's annual audit by independent auditor.
- c. Written and oral communication with board members from members regarding payment and processing of benefit claims.

**3. Disclosure of Confidential Information for Treatment, Operational, or Payment Purposes**

The TFFR Board of Trustees has determined that confidential information for treatment, operational, or payment purposes under NDCC 15-39.1-30(12) includes:

- A. Information related to enrollment, participation, benefits, contributions, and otherwise necessary for the administration and operation of the program may be shared with participating employers or TFFR contractors, attorneys, and consultants.
- B. Information relating to the death benefits and beneficiary designations of a member or beneficiary may be shared with any other person if the beneficiary is unknown or unable to be located, only to the extent necessary to accurately

identify the appropriate beneficiary or to close an account subsequent to the death of a member or beneficiary.

**TFFR Board adopted:** September 25, 2014

#### **4. Account Claims**

- A. Ensure the payment of benefit claims to members of TFFR.  
Accordingly, the administrative means will be to:
  - 1) Pay retirement benefits based on an estimated final salary for members retiring upon completion of their teaching contract and whose final salary has not been reported to TFFR.
  - 2) Allow retired members receiving an annuity from TFFR to have payroll deductions subtracted from their monthly benefit, pursuant to section II.D.5.
  - 3) Distribute payments for benefit claims (annuities, PLSOs, refunds, and rollovers) once per month.
  - 4) Distribute special payments for benefit claims in the event of unforeseen circumstances (i.e., death, disability, Court Order, staff processing delay, etc.) if approved by the Deputy Executive Director/Chief Retirement Officer.
  - 5) Produce and make available new account notices and account change notices to retired members and beneficiaries receiving benefits.
- B. Monitoring (Method, Responsibility, Frequency)
  - 1) Internal Report
    - i. Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
  - 2) External Report
    - ii. Disclosure of compliance to the board through annual audit by RIO external auditors.

#### **5. Deductions from Annuity Checks**

- A. It shall be the policy of the TFFR Board of Trustees to allow retirees and beneficiaries receiving annuity payments to have payroll deductions subtracted from their monthly payments.
- B. To initiate, change, or stop a deduction, the retiree must notify the administrative office in writing at least ten working days prior to the date the monthly benefit is issued. All deductions withheld will be forwarded to the appropriate entity within three working days after the first of the month or as required by federal/North Dakota state law. Authorization forms are to be kept on file at the administrative office.

The following deductions are available to retirees and beneficiaries receiving monthly annuity benefits:

- 1) Health, life, and other insurance premiums payable to the NDPERS.
  - 2) Annual dues payable to the NDRTA and the NDU Retired organization.
  - 3) Federal and North Dakota income tax withholdings.
  - 4) Court ordered payments including child support orders, Qualified Domestic Relations Orders (QDRO), IRS tax levies, federal garnishments, and other court ordered payments, subject to approval by the Attorney General's office.
4. Additional deductions may be added upon approval by the board.

## **6. Military Service Credit**

It shall be the policy of the TFFR Board of Trustees that a teacher purchasing military service be credited with a full year of credit if the service was rendered for at least 175 school days or a period of nine months within any fiscal year.

## **7. Payment of Benefits**

It shall be the policy of the TFFR Board of Trustees to distribute payments for benefit claims (annuities, refunds/rollovers) once per month. Distributions will be mailed on the last working day of the previous month payable on the first working day of each month.

In order for a teacher to assure receipt of a benefit payment on the first working day of the month, the required information and forms must be filed with the administrative office at least ten working days prior to the distribution date.

The Deputy Executive Director/Chief Retirement Officer may authorize special payments to pay benefit claims due to unforeseen circumstances that delay the processing of the claim.

Payments to a member approved for a refund/rollover will include all contributions and interest paid by a teacher for the purchase and repurchase of service credit. This is in addition to the entitled refund of member contributions plus interest. The Executive Director or Deputy Executive Director/Chief Retirement Officer may waive the 120-day waiting period for refunds/rollovers based on necessary documentation.

## **8. Retirement Benefit Payments**

- A. It is the policy of the TFFR Board of Trustees that new retirees will have their initial retirement benefit payment calculated using either estimated or final salary and service credit information:
  - 1) Estimated salary and service credit information

The member's initial retirement benefit is calculated using 90% of the estimated current year salary for final average salary calculation purposes. If the final information reported by the business partner is different than the estimated information, the member's monthly retirement benefit will be adjusted retroactive to the member's retirement date. Using estimated information allows a member to begin receiving retirement benefits sooner but results in correction of benefits at a later date retroactive to the member's retirement date.

2) Finalized salary and service credit information

The member's retirement benefit is calculated using finalized current year salary and service credit information. After salary, service credit, and last date of employment are reported by the business partner and verified by TFFR, the member's retirement benefit is calculated, and claim is processed. Using finalized information delays a member's first retirement benefit payment, but when payment is made, it is retroactive to the member's retirement date.

- B. Under all circumstances, if any change or error in the records of TFFR or a participating business partner or if any calculation results in a member receiving more or less in benefits than the member is entitled to receive, TFFR will correct the error and adjust the benefit (NDCC 15-39.1-31 and 32).

## 9. Voiding Checks

It shall be the policy of the TFFR Board of Trustees to void any uncashed benefit checks for the payment of retirement, disability, survivor, and refund benefits after six months. Should the payee request payment after six months, the RIO will reissue a check, but without additional interest.

## 10. In-Staff Subbing Contract Period

It is the policy of the TFFR Board of Trustees that the following guidelines apply for the purpose of determining the contract period for in-staff subbing for active members and re-employed retirees as provided for in NDCC 15-39.1-04 (4) and (12), 15-39.1-19.1, 15-39.1-19.2, and NDAC 82-05-06-01.

- A. In-staff subbing is defined as substitute teaching duties performed by a contracted teacher for the contracting TFFR participating business partner.
- B. If the active member or re-employed retiree has a contract or written agreement with the participating business partner for full or part time work, TFFR will view the beginning and ending calendar dates indicated on the contract as the contract term to determine the contract period, unless the contract period is otherwise specifically detailed in the active member or re-employed retiree's contract.
- 1) If substitute teaching duties are performed during the contract term, those duties are considered in-staff subbing, and retirement contributions are required to be paid on the substitute teaching pay. The in-staff subbing hours are reported as compensated hours for active members and are counted toward the annual hour limit for re-employed retirees (700 – 1000 hours depending upon length of contract).

- 2) If substitute teaching duties are performed before the beginning calendar date or after the ending calendar date of the contract term, those duties are not considered in-staff subbing, and no retirement contributions are required to be paid on the substitute teaching pay. The subbing hours are not reported as compensated hours for active members and are not counted toward the annual hour limit for re-employed retirees.
- C. If the active member does not have a contract or written agreement with the participating business partner, then no retirement contributions are required to be paid on the substitute teaching pay. The subbing hours are not reported as compensated hours for active members. If a re-employed retiree does not have a contract or written agreement with the participating business partner then professional development, extracurricular duties and non-contracted substitute teaching duties are not counted toward the annual hour limit and no contributions may be collected for these activities.
- D. This policy does not prohibit the Board from making an eligible salary determination for an individual member pursuant to N.D.A.C. 82-04-02-01.

## **11. Plan Beneficiaries**

TFFR beneficiaries are:

### **A. Plan Members:**

- 1) Active – all persons who are licensed to teach in North Dakota and who are contractually employed in teaching, supervisory, administrative, or extracurricular services:
  - i. Classroom teachers
  - ii. Superintendents, assistant superintendents, county superintendents
  - iii. Business managers
  - iv. Principals and assistant principals
  - v. Special teachers
  - vi. Superintendent of Public Instruction, professional employees of Dept. of Public Instruction and Dept. of Career and Technical Education, unless transferred to North Dakota Public Employees Retirement System (NDPERS)
  - vii. Professional or teaching staff of Center for Distance Education, Youth Correctional Center, School for the Blind and School for the Deaf.
  - viii. Other persons or positions authorized in state statutes
- 2) Annuitants – All persons who are collecting a monthly benefit:
  - i. Retirees
  - ii. Disabilitants
  - iii. Survivors/Beneficiaries
- 3) Inactive members:
  - i. Vested
  - ii. Nonvested

### **B. Business partners:**

- 1) School districts, special education units, vocational centers,



- County superintendents, Regional Education Associations (REA)
- 2) State institutions and agencies defined in state statutes
- 3) Other TFFR participating business partners

## **12. Head Start Program Employees**

It shall be the policy of the TFFR Board of Trustees that employees of a Head Start Program who are certified to teach and contracted with a school district or other participating business partner, are members of TFFR if the following conditions are met:

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

## **13. PERS Retirement Plan Election (DPI and CTE)**

- A. NDCC 15-39.1-09(3) allows new employees of the Department of Public Instruction (DPI), who are eligible for TFFR coverage and hired after January 6, 2001, excluding the State Superintendent of Public Instruction, to elect to become participating members of North Dakota Public Employees Retirement System (PERS).
- B. NDCC 15-39.1-09(4) allows new employees of the Department of Career and Technical Education (CTE) who are eligible for TFFR coverage and hired after July 1, 2007, to elect to become participating members of PERS.
- C. It is the policy of the TFFR Board of Trustees to allow the PERS retirement plan election by eligible new DPI and CTE employees under the following guidelines:
  - 1) Any new employee who is required to participate in TFFR under NDCC 15-39.1-04(11)(b) and who is entered onto the payroll of DPI after January 6, 2001 (except the Superintendent of Public Instruction), or CTE after July 1, 2007, is eligible to make the election to become a participating member of NDPERS.
  - 2) If eligible, the new employee must complete the "NDPERS/TFFR Membership Election" form within ninety days of hire. Until this election is made, the employee will be enrolled in the NDPERS retirement plan. If no election is made, the employee will be transferred to TFFR.
  - 3) If the new employee is a former DPI employee or is retired from DPI and receiving TFFR benefits, the employee must have a one-year break in service to be eligible to elect participation in PERS. If the new employee is a former CTE employee or is retired from CTE and receiving TFFR benefits, the employee must have a one-year break in service to elect participation in PERS.
  - 4) If the new employee is a TFFR retiree (but not a former DPI or CTE employee), the retiree may elect participation in PERS upon date of hire. The retiree is not subject to the one-year waiting period and is not subject to

the TFFR retiree annual hours limit.

## **E. Business partner Policies**

### **1. Business partner Payment Plan Models**

- A. The TFFR Board has developed models relating to business partner payment of member contributions as provided for in NDCC 15-39.1-09 and NDAC 82-04-01. The models are outlined in business partner instructions prepared by the fund. Special provisions apply to state agencies and institutions, and business partners that have not adopted a model.
- B. Business partners must select the business partner payment plan model under which they will pay member contributions through the method prescribed by the administrative office. The model selected by the business partner can only be changed once each year at the beginning of the fiscal year.
- C. The following business partner payment plan models are available to participating business partners:
- 1) Model 1: Member contributions are paid by the member through a salary reduction and remitted to TFFR by the business partner as tax deferred contributions.
  - 2) Model 2 All: Member contributions are paid by the business partner as a salary supplement and remitted to TFFR as tax deferred contributions.
  - 3) Model 2 Partial (%): A fixed percentage (1% minimum and increasing increments of full percentages only effective July 1, 2025) of the member contributions are paid by the business partner as a salary supplement and remitted to TFFR as tax deferred contributions. The remaining member contributions are paid by the member and remitted by the business partner as tax deferred contributions.
  - 4) Model 3 Partial (4): Model eliminated effective July 1, 2019.
  - 5) Model 4 State Agencies: Four Percent (4%) of the member contributions (or the % of member contributions the State agrees to pay) are paid by the State as a salary supplement and remitted to TFFR as tax deferred contributions. The remaining member contributions are paid by the member and remitted by the business partner as tax deferred contributions.
- D. Business partners who do not select one of the above models must report member contributions paid by the member and remitted by the business partner as taxed contributions. Payment of member contributions cannot be made on a tax deferred basis unless one of the above approved models is selected in writing.

### **2. Business partner Reporting Errors**

It is the policy of the TFFR Board of Trustees that when an unintentional error in the reporting of retirement contributions by a TFFR participating business partner is discovered during an business partner audit, the following guidelines will apply:

- a. The business partner will be billed for all material shortages due plus interest or refunded for all material overpayments.
- b. Materiality limit to be used in determining if a member's account will be corrected is an aggregate total of \$500 in a fiscal year per individual member per year, unless otherwise approved by the Deputy Executive Director-Chief Retirement Officer.
- c. The interest charged to the business partner will be the actuarial investment return assumption.
- d. Failure of the business partner to pay the required shortages or provide required information will constitute "failure to make required reports and payments" and require application of section 15-39.1-23, NDCC.
- e. The TFFR board reserves the right to negotiate with a n business partner.
- f. The business partner must respond in writing to the finding(s) and/or recommendation(s) within 30 days of being notified.

### **3. Business partner Reports**

- A. It shall be the policy of the TFFR Board of Trustees to require all participating e m p l o y e r s to file reports and make payment of member and business partner contributions on a monthly basis to the RIO. Both payment and report are due by the 15th day of the month following the end of the reporting period.
- B. The administrative office will monitor late TFFR business partner reports and payments and establish procedures for minor processing delays. Except for unintentional reporting errors, business partners that do not meet the established deadlines for filing required reports shall be assessed a civil penalty as required in NDCC 15-39.1-23 unless the Executive Director or Deputy Executive Director/Chief Retirement Officer approves a request for a waiver of the penalty under special circumstances such as:
  - 1) Death, surgery, or illness of the individual responsible for TFFR reports or their family.
  - 2) "Acts of God" that require an business partner to close school such as blizzards, storms, or floods.
  - 3) Unforeseen events such as resignation of the individual responsible for TFFR reports, computer malfunction, etc.
- C. The request for a waiver must be in writing and signed by the administrator.

### **4. Ineligible TFFR Salary**

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

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

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

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

## **F. Member Communication**

### **1. Disclosure to Membership**

It shall be the policy of the TFFR Board of Trustees that member handbooks, member statements, member newsletters, and financial reports be prepared and made available for TFFR members. RIO staff will prepare, and the TFFR Board of Trustees will review for approval at least once a biennium a communications plan that summarizes the content and method for providing member and business partner education and publications.

### **2. Information Dissemination**

It is the policy of the TFFR Board of Trustees to allow member and business partner interest groups and other approved third parties to send specific information to the TFFR membership using a “blind mailing” method. The information to be mailed and third-party organization must be approved by the Executive Director in advance. Member and business partner interest groups include, but are not limited to, NDCEL, North Dakota United (NDU), NDRTA, and North Dakota School Boards Association (NDSBA).

Under the “blind mailing” method, the third party must submit information or materials they wish to send to TFFR members. The third party must sign an agreement that they will not use the mailing to engage in partisan political activities.

If approved, the third party will forward the materials to an independent mailing company approved by TFFR. The mailing company must sign a “no disclosure” agreement with TFFR.

Agreements between TFFR and the mailing companies and third parties must be executed prior to the providing the membership information.

TFFR will then supply membership mailing information to the mailing company. The mailing company will combine the material from the third party with the mailing list and send to TFFR members. The cost of the mailing will be paid by the third party.

**TFFR Board Adopted:** July 15, 1999.

**Amended:** November 15, 2001.

### **3. Outreach Program Facilities**

It shall be the policy of the TFFR Board of Trustees that school district facilities used for TFFR outreach programs must meet ADA requirements. In addition, authorized school district employees must be present to direct guests to the proper meeting room and lock the building at the close of the program. RIO employees who are conducting outreach programs for TFFR members are not allowed to be in school district buildings without the presence of an administrator, teacher, or other authorized school district employee.

RIO staff will not be able to conduct outreach programs at that site if the above conditions are not met.

## Section II: Program Policies Section Exhibits

### 1. Asset Allocation Definitions

#### Overview of Asset Class Definitions

There are three major asset classes:

- Equity
- Debt
- Real Assets (or Other)

*Alternative Investments* are often cited as the fourth major asset class, but can frequently be re-classified into one of the other three categories with some exceptions (i.e. total return strategies using debt and equity).

**Equity investments represent an ownership claim on the residual assets of a company after paying off debt.**

Equities should be segregated into two major sectors, Public and Private, given major differences in liquidity:

1. Public equities are generally highly liquid and *valued on a daily basis* in the financial markets. Examples include common stock (Apple, Coca-Cola or McDonalds), options and futures.
2. Private equities are generally less liquid and often *valued on a less frequent basis* (quarterly).

Public equity markets are often sub-classified by geographic region (U.S., International or Global), market capitalization (Large, Medium or Small), investment style (core, growth or value) and level of economic development (developed or emerging markets). The top U.S. and global equity benchmarks are discussed below.

**Five major U.S. equity benchmarks** include the **S&P 500**, **Russell 1000**, **2000** and **3000**, and **Dow Jones Industrial Average ("Dow")**. The **S&P 500** is based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The **Russell 1000** represents the highest-ranking 1,000 stocks in the Russell 3000 Index, and represents about 90% of the total market capitalization of that index. The Russell 1000 has a weighted average market capitalization of over \$100 billion with a median of approximately \$8 billion. The **Russell 2000 Index** is a small-cap index and represents the bottom 2,000 stocks in the Russell 3000 Index. The Russell 2000 has a weighted average market capitalization of less than \$2 billion with a median of less than \$1 billion. The Russell 2000 is the most common benchmark for funds that identify themselves as "small-cap", while the **S&P 500** index is used primarily for large capitalization stocks. The **Dow** is a price-weighted measure of 30 U.S. blue-chip companies. **The Dow** covers all industries with the exception of transportation and utilities, which are covered by the Dow Jones Transportation Average and Dow Jones Utility Average. While stock selection is not governed by quantitative rules, a stock typically is added to The Dow only if the company has an excellent reputation, demonstrates sustained growth and is of

interest to a large number of investors. Maintaining adequate sector representation within the indices is also a consideration in the selection process.

The MSCI All Country World Index (or “ACWI”) measures the equity market performance of developed and emerging markets and consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The ACWI includes approximately 2,500 large and mid-cap equity securities and covers 85% of the global investable market. The **MSCI ACWI Investible Market Index** (or “ACWI IMI”) captures large, mid and small cap securities across 23 developed and 24 emerging market countries with over 8,700 constituents and covering approximately 99% of the global investment opportunity set. The **MSCI EAFE Index (Europe, Australasia, Far East)** measures the equity market performance of the developed market countries, excluding the US & Canada. The **MSCI Emerging Markets Index** measures equity market performance of emerging markets and consists of 24 countries.

Public equity has historically provided **high investment returns with high volatility and high liquidity when compared to Bonds or Real Assets**. Most investment consultants believe that Private Equity can provide an even higher investment return than Public Equity, albeit with significant less liquidity and potentially higher volatility.

**Debt represents a legal obligation between a borrower and a lender for a stated period of time and rate.**

Debt or “Bonds” are classified as fixed or floating depending upon whether the interest rate is derived using a fixed rate (i.e. 5%) or a floating rate (i.e. Prime + 1.00%). Duration risk within fixed income is a major driver of investment risk and return particularly for longer term securities, including U.S. Treasury bonds.

Debt is often sub-classified into investment grade (rated BBB- or better) or non-investment grade (rated less than BBB- or non-rated) or by geographic region (U.S., International, Developed Markets or Emerging Markets). Debt can be issued by governments, agencies or companies and represent general obligations of the issuer or be backed by a specified pool of assets (i.e. mortgage backed securities). Bonds serve to diversify a portfolio by offering **lower volatility** than equities along with a **lower expected return and generally high liquidity**. **Real Assets represent an ownership interest in physical assets** such as real estate, infrastructure (airports, electrical grids, energy pipelines, information technology data centers and systems, shipping ports, toll roads, and water supply and treatment facilities), timberland and certain commodities (gold, oil, wheat). Real assets are expected to provide inflation hedging characteristics in periods of unanticipated inflation and diversify a portfolio consisting of debt and equity.

**Alternative Investments** can include precious metals, art, antiques, and financial assets such as derivatives, commodities, private equity, distressed debt and hedge funds. Real estate, infrastructure and forestry/timber are also often termed alternative. Alternatives are sometimes used as a tool to reduce overall investment risk through diversification and may offer lower correlation with traditional financial investments such as stocks and bonds, although it may be difficult to determine the current market value of the asset, may be illiquid, purchase and sales costs may be high, and there may be limited historical risk and return data, all of which makes analysis complex.



## 2. Asset Class Definitions

### Global Equity

#### Definition

Investment represents an ownership claim on the residual assets of a company after the discharge of all senior claims such as secured and unsecured debt.

### Public Equity

Public equity is traded on a national exchange. Includes common stock, preferred stock, convertible to stock, options, warrants, futures and other derivatives on equities or composites of equities, exchange-traded funds and equity-linked notes, units and partnership shares representing ownership interests in an underlying equity investment.

### Private Equity

Private equity represents equity or equity linked securities in operating companies that are not publicly traded on a stock exchange.

#### Types of investment strategies

- *Leveraged buyout (LBO)* – Acquisition of a company with the use of financial leverage
- *Growth capital* – Investment in mature companies looking for capital to expand, restructure, enter new markets
- *Venture capital* – Investment in typically less mature companies, for launch, early development, or expansion
- *Mezzanine* – Subordinated debt/preferred equity used to reduce amount of equity capital required to finance LBOs
- *Distressed* – Equity securities of financially stressed companies
- *Secondary* – Investment in existing private equity assets

#### Types of structures

- *Direct investment* – Direct purchase of equity securities of a private company
- *Co-investments* – Investments in equity securities of a private company alongside the manager of a direct fund
- *Direct fund* – Pool of capital formed to make direct investments
- *Fund-of-funds* – Pool of capital formed to make investments in direct funds

#### Strategic Role

- High long-term real returns
- Hedge against active (pre-retirement) liabilities
- Private equity enhances total portfolio return as a tradeoff for illiquidity

#### Characteristics

##### Public Developed Markets

- Relatively high returns (long-term) as compared to fixed income and real assets
- Relatively high volatility (standard deviation of returns) as compared to fixed income and real assets
- Relatively high liquidity
- Diversification
- Historically, public developed equities exhibit high correlation with private equity and high yield bonds, moderate correlation with investment grade corporate bonds and real assets,

- and negative correlation with sovereign debt.
- Currency adds to volatility but can be hedged, which mutes the diversification benefits

### **Public Emerging Markets**

- Higher expected returns due to economic growth potential
- Liquidity risk is significant, particularly in frontier markets
- High volatility, particularly in frontier markets
- Historically, public emerging equities exhibit high correlation with high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- FX markets not sufficiently developed to hedge currency risk
- Limited access to markets
- Market information less abundant than for developed markets
- Counterparty risk and settlement delays pronounced in frontier markets

### **Private Equity**

- Illiquid, long-term time horizon (7-12 year closed-end partnerships)
- Quality of the managers selected is the key determinant of success
- High volatility of returns compensated by higher expected returns
- Historically, public emerging equities exhibit high correlation with high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- Encompasses three stages: fundraising, portfolio construction and investment, exit and return realization

### **Risks**

#### **Public Equity**

- *Absolute risk* – Possible magnitude of price decline
- *Liability hedging risk* – Risk that assets will not increase when liabilities increase
- *Regulatory risk* – Changes may adversely affect markets
- *Tax risk* – Changes may adversely affect markets
- *Liquidity risk* – Difficulty trading securities under adverse market conditions
- *Firm specific risk* – Unique risks associated with a specific firm
- *Tracking risk* – Magnitude of performance deterioration from a benchmark
- *Time horizon* – Horizon too short to weather cycles
- *Benchmark risk* – Benchmark not appropriate proxy
- *Market risks* – Price decline
- *Currency risk* – Unanticipated changes in exchange rate between two currencies
- *Counterparty risk* – Counterparty does not live up to its contractual obligations

#### **Private Equity**

- *Liquidity risk* – Absence of liquidity and appropriate exits could significantly increase time horizon
- *Firm specific risk* – Unique risks associated with a specific firm
- *Leverage risk* – Historical excess use of leverage and current inability to secure financing may adversely affect LBOs
- *Manager selection risk* – Selecting managers that fail to deliver top performance results
- *Diversification risk* – Inability to properly diversify the portfolio by vintage year, industry

- groups, geography
- *Tax risk* – Changes may adversely affect markets
- *Regulatory risk* – Changes may adversely affect markets
- *Strategy risk* – Continuing applicability of investment strategy in context of capital flows
- *Market risks* – Price decline

## Global Fixed Income

### Definition

Investment represents a legal obligation between a borrower and the lender with a maturity in excess of one year. Evidence of indebtedness and securities that evidence an ownership interest in debt obligations that are issued, insured, guaranteed by, or based on the credit of the following: companies, governmental entities or agencies, banks and insurance companies. Includes agency and non-agency mortgage-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, private placements, and options, futures or other derivatives on fixed income securities or components of fixed income.

### Strategic Role

- Diversification within a multi-asset class, total return portfolio
- Hedge against a long duration accrued liability
- Current income
- Non-U.S. provides hedge against unanticipated domestic inflation and diversification to U.S. assets

### Characteristics

- Medium volatility asset class
- Relatively high liquidity
- Broadly diversified by market sector, quality, and maturity
- Historically, developed sovereign debt exhibits low to negative correlation with real assets and negative correlation with equities; investment grade corporate bonds exhibit moderate correlation with equities and low correlation with real assets; high yield exhibits high correlation with equities and moderate correlation with real assets.
- A large currency component exists within international fixed income returns
- Developed markets are extremely liquid. Many issues of less developed markets are also relatively liquid.

### Risks

- *Duration risk* – Price volatility from a change in overall interest rates
- *Convexity risk* – Negative convexity is the risk of price declines being greater than the price increase due to interest rates moving equally up versus down
- *Default or credit risk* – The uncertainty surrounding the borrower's ability to repay its obligations
- *Structure risk* – Risk that arises from the options implicit in bonds (like call ability and sinking funds) or the rules that govern cash flow differ from expectations
- *Sector risk* – Risk of holding sectors that are in different proportions than the benchmark
- *Liquidity risk* – Cost of trading in a security which is reflected in the bid-ask spread or the cost of selling due to cash flow needs
- *Reinvestment risk* – The uncertainty surrounding future yield opportunities to invest funds which come available due to call, maturities, or coupon payments

- *Benchmark risk* – Risk of the benchmark being inappropriate
- *Yield curve risk* – Price changes induced by changes in the slope of the yield curve
- *Currency risk* – The risk of currency movements vs. the dollar for each market. Currency may contribute greatly to return and lower correlation.

## Global Real Assets

### Definition

Investment represents an ownership interest in real return assets that provide inflation hedging characteristics in periods of unanticipated inflation. Includes inflation-linked securities, private or public real estate equity or equity-linked investments, private or public real estate debt, infrastructure, timber, real asset mezzanine debt or equity, non-fixed assets and other opportunistic investments in real assets.

### Strategic Role

- Reduces risk of composite multi-asset portfolios through diversification
- Relatively low correlations to traditional asset classes
- Can serve as a possible inflation hedge during periods of high inflation
- Provides an attractive return relative to fixed income asset class in periods of low to moderate inflation
- Infrastructure provides inflation protection as the revenues of the underlying assets are typically linked to CPI
- Potential for high returns in niche opportunities

### Characteristics

#### Real Estate

- *Risk* – Volatility of private real estate falls between publicly-traded debt and publicly-traded equities
- *Returns* – Nominal returns are expected to fall between equities and fixed income
- *Correlation* – Expected to exhibit low to no correlation with government and investment grade corporate bonds, and moderate correlation with high yield and equities.
- *Illiquidity* – Transactions require a significantly longer period to execute than other asset classes
- *Inefficient Market* – Information affecting real estate asset valuation and market trading is not rapidly, accurately, or efficiently reflected or interpreted in its pricing

#### Infrastructure

- *Long life assets* – Capital intensive assets with 25 to 99 year concessions, match for liability duration
- *Inflation protection* – Revenues typically linked to CPI
- *Monopoly or quasi monopoly* – High barriers to entry due to scale and capital cost
- *Steady and predictable cash flow* – Produce strong and predictable yields
- *Low correlation* – Provides portfolio diversification, low beta; expected to exhibit low to no correlation with fixed income and equities
- *Inelastic demand* – Predictable demand with little volatility, less susceptibility to economic downturns
- *Limited commodity risk* – Not subject to commodity pricing
- *Insensitive to changes in technology* – Low risk of redundancy or technology obsolescence
- Investments are usually illiquid and involve a long (10 to 20 year) holding period

## Timberland

- *Return* – Low correlation with other asset classes, returns stem from four distinct sources: biological growth, timber prices, land values and management strategy
- *Income* – Driven almost entirely by the sale of harvested mature trees
- *Correlation* – Expected to exhibit low to no correlation with government and investment grade corporate bonds, and moderate correlation with high yield and equities.
- *Appreciation* – Driven by increased volume and value on timber and appreciation of underlying land
- Categorized by type of land (e.g. plantation, natural forest), type of tree (e.g., hardwood, softwood), country and region

## Commodities

- *Real assets* – Raw materials that are the physical inputs of production, relatively homogenous in nature, lending itself to be traded via contracts with standardized terms
- *Inflation protection* – Storable commodities (such as energy) directly related to the intensity of economic activity exhibit positive correlation with unexpected inflation
- *Insurance risk premium* – Commodity futures prices tend to be priced at a discount to spot prices in order to induce speculators to bear volatile commodity price risk that inventory holders and producers wish to lay off
- *Positive event risk* – Surprises that occur in the commodities markets tend to be those that unexpectedly reduce the supply of the commodity to the market, resulting in price spikes
- *Negatively correlated with financial assets* – Unlike stocks and bonds, commodities are not as directly impacted by changes in discount rates as they are by the current supply and demand of the underlying commodity, thus they should be expected to have little or even negative correlation with capital assets.

## Risks

### Real Estate

- *Property type risks* – Negative changes in demand/supply conditions by property type (e.g., office, industrial, retail, lodging, mixed-use, multi-family)
- *Location risks* – Local market condition relative to the adverse changes surrounding a property, or in discovery of hazardous underlying conditions, such as toxic waste
- *Tenant credit risks* – Failure by a tenant to pay what is contractually owed
- *Physical/functional obsolescence* – Negative influences on buildings due to technological changes, outdated layout and design features, and physical depreciation
- *Interest rate risk* – Higher rates can negatively impact both sales strategies and leveraged properties at refinancing
- *Reinvestment risk* – In a declining rental rate market, cash flow received may not be reinvested at the same level
- *Business cycle risk* – As economies slow down, there may be less demand for space
- *Inflationary risk* – Rent levels may not always keep up with rising operating expense levels
- *Illiquidity* – Inability to effectively liquidate a property into cash
- *Natural disaster risk* – Weather, floods, earthquake
- Regulatory concerns are critical, especially in emerging markets
- Capital and managerial intensive

## Infrastructure

- *Leverage* – Deals with leverage between 40% and 80% can transform low risk assets into risky investments. Changes in the credit environment alter refinancing risk.
- *Market inefficiencies* – Competitive auctions lead to overpaying. There is a limited history and track record in the U.S. infrastructure space.
- *Political and headline risk* – Public acceptance and understanding of infrastructure needs to expand. In addition, the political landscape in every state and municipality differs.
- *Regulatory risk* – Regulated assets are subject to government changes
- *Construction and development* – Project overruns and delays should be shared with construction partners. Volume/demand risk for new developments can vary.
- *Labor issues* – Greenfield projects could generate new jobs while the privatization of brownfield assets could eliminate skilled labor members
- *Asset control* – Stipulations via concession agreements limit some management control (pricing, growth, decision approvals, etc.). Asset control needs to be appropriately priced.
- *Firm specific risk* – Unique risks are associated with specific firm

## Timberland

- *Liquidity risk* – Liquidity is thin, marketplace characterized by few buyers and sellers, transactions are complicated and can take many months to execute
- *Valuation risk* – Annual appraisal process can lead to disparities between carrying value and realized sales prices during downturns
- *Physical risk* – Subject to losses from natural and human-caused events such as fire, insect and vermin infestations, disease, inclement weather, and theft
- *Political and regulatory risk* – Environmental regulations can restrain or prohibit timberland management activities
- *Leverage* – Can amplify volatility and potentially lead to an inability to refinance properties or lead to a distressed sale, requires a minimum level of generated income
- *Location risks* – Real estate dispositions may also be impacted by weakness in local residential real estate markets

## Commodities

- *Price risk* – Commodities with difficult or non-existent storage situations (heating oil, live cattle, live hogs, copper) coupled with a long-lead time between the production decision and the actual production of the commodity can lead to very volatile spot prices
- *Negative futures roll* – When the future contract's price is at a premium to the spot price, the cost to roll contracts forward is negative: an investor continuously locks in losses from the futures contracts converging to a lower spot price
- *Regulatory risk* – Concerns about the role played by investors in commodity markets could lead to new regulations impacting available investment opportunities, ultimately affecting investors' "license to invest".
- *Leverage* – A commodity futures program that is not fully collateralized (for every desired \$1 in commodity futures exposure, an investor sets aside \$1 in cash) can amplify volatility and potentially lead to greater losses
- *Implementation* – Because futures contracts are levered, cash management for the collateral is an important consideration due to the value

## Global Alternatives

### Definition

Investment has a distinct return/risk factor profile as compared to other specified broad asset class groupings. Examples: Low market exposure/absolute return strategies such as market neutral, and other niche strategies with low asset class beta such as insurance-linked investments, volatility, intellectual property, healthcare royalty, shipping, litigation finance and fine art.

### Strategic Role

- More robust diversification achieved through the introduction of non-traditional return driver/risk factors
- Low or negative correlations to other asset classes
- Return profile less dependent on economic growth and interest rates
- Potential for attractive risk-adjusted returns

### Characteristics

- *Returns* – Exhibits lower correlations to broader equity and credit markets in periods of market distress
- *Illiquidity* – Transactions may require a longer period to execute than other asset classes
- *Inefficient Market* – Information affecting asset valuation and market trading may not be accurately or efficiently reflected or interpreted in its pricing

### Risks

- *Market risk* – Cost of carry on being long volatility
- *Natural disaster risk* – Weather, floods, earthquake affect natural catastrophe-based insurance-linked products
- *Due diligence* – Complicated to evaluate and monitor
- *Illiquidity* – Transactions may require a longer period to execute than other asset classes
- *Implementation* – Complexity of implementation may be an impediment