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TFFR BOARD GOVERNANCE & POLICY REVIEW COMMITTEE MEETING
Thursday, November 7, 2024, 3:30 p.m.
Virtual Only
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AGENDA

I. **CALL TO ORDER AND ACCEPTANCE OF AGENDA** ***(Committee Action)***

II. **ACCEPTANCE OF MINUTES** ***(Committee Action)***

III. **REVIEW TFFR POLICY MANUAL FOR CHANGES** ***(Committee Action)*** **– MR. ROBERTS (20 MIN)**

IV. **TFFR RMD BILL DRAFT** ***(Information)***

V. **ADJOURNMENT**

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
GOVERNANCE & POLICY REVIEW COMMITTEE
MINUTES OF THE SEPTEMBER 10, 2024, MEETING (VIRTUAL)

BOARD MEMBERS PRESENT: Cody Mickelson, Chair
Mike Burton, TFFR Board
Rob Lech, TFFR Board

STAFF PRESENT: Jan Murtha, Exec. Director
Chad Roberts, DED/CRO
Rachelle Smith, Retirement Prog. Admin. Assistant
Denise Weeks, Retirement Prog. Mngr.
Sarah Mudder, Communication & Outreach Director

CALL TO ORDER:

Mr. Cody Mickelson, Chair of the Teachers' Fund for Retirement (TFFR) Governance & Policy Review (GPR) Committee, called the meeting to order at 3:30 p.m. on Tuesday, September 10, 2024. The meeting was held virtually.

AGENDA:

The Committee considered the agenda for the September 10, 2024, meeting.

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. BURTON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 10, 2024, MEETING.

AYES: MR. BURTON, DR. LECH, MR. MICKELSON
NAYS: NONE
MOTION CARRIED

MINUTES:

The Committee considered the minutes for the May 1, 2024, meeting.

IT WAS MOVED BY MR. BURTON AND SECONDED BY MR. MICKELSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MAY 1, 2024, MINUTES AS DISTRIBUTED.

AYES: MR. BURTON, DR. LECH, AND MR. MICKELSON
NAYS: NONE
MOTION CARRIED

REVIEW OF THE PROPOSED POLICY MANUAL CHANGES FOR THE 2ND TFFR BOARD READING AND DISCUSSION:

Mr. Roberts noted this is a recitation of what was reviewed at the last GPR committee meeting and then presented to the Board. There were no recommended changes. Mr. Roberts asked the committee if there were any changes they would like incorporated into the second reading. Committee discussion followed and guidance was provided to staff on a couple changes.

REVIEW OF THE FY2025 COMMITTEE WORKPLAN AND DISCUSSION:

Mr. Roberts provided an overview of the proposed FY2025 Committee Workplan that follows what has been done in the past two years by breaking the sections up into types, so they may not be sequential order, and reviewed in steps. Staff will make their recommendations and they will be brought to the Board. Discussion followed. Mr. Roberts will add a glossary to the April timeline.

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. BURTON AND CARRIED BY A VOICE VOTE TO ACCEPT THE PROPOSED FY2025 COMMITTEE WORKPLAN.

AYES: MR. BURTON, DR. LECH, AND MR. MICKELSON
NAYS: NONE
MOTION CARRIED

2025 LEGISLATIVE SESSION PLANNING:

Ms. Murtha reviewed the 2025 Legislative Session Planning topics. I. Proposed Legislation Position Recommendations with two bills to review, II. Retirement Education Initiative Planning, III. Teacher Retention and Recruitment Findings Discussion. Committee discussion followed.

ADJOURNMENT:

With no further business to come before the Committee, Mr. Mickelson adjourned the meeting at 4:40 p.m.

Submitted by:

Rachelle Smith, Assistant to the Board

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MEMORANDUM

TO: **TFFR GPR Committee Members**
FROM: **Chad R. Roberts, DED/CRO**
DATE: **November 4, 2024**
RE: **Suggested TFFR Policy Manual Revisions for November 2024 Meeting**

As part of the TFFR GPR Committee work plan adopted at the September 10, 2024, meeting, suggested policy changes for the following are submitted to the TFFR GPR Committee for consideration and acceptance at the November 7, 2024, meeting.

- **Section 1, subsection I:** Corrected the position title of the Deputy Executive Director – Chief Retirement Officer.
- **Section 1, subsection O**: Changed the decision delivery method from "mailed" to "provided" to allow for electronic provision from the pension administration system.
- **Section 1, subsection P:** Corrected the Communications and Outreach Director role title.

As determined in the development of the TFFR GPR Committee work plan established at the September 10, 2024, meeting, the committee will address suggested changes for identified sections over the course of the fiscal year. Upon completion of the full review by the TFFR GPR Committee, a finalized report of all suggested changes will be provided to the TFFR Board of Trustees for consideration.

COMMITTEE ACTION REQUESTED: Committee Acceptance.

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TFFR BOARD GOVERNANCE & POLICY REVIEW COMMITTEE WORKPLAN FY2025

September 10, 2024	November 7, 2024	February 4, 2025	April 10, 2025
Review work plan	Review of Board Program Manual Section 1 Sub-section I	Review of Board Program Manual Section 1 Sub-section A	Review of Board Program Manual Section 1 Sub-section G
Review proposed policy manual changes for the 2nd TFFR Board reading	Review of Board Program Manual Section 1 Sub-section J	Review of Board Program Manual Section 1 Sub-section B	Review of Board Program Manual Section 1 Sub-section H
	Review of Board Program Manual Section 1 Sub-section K	Review of Board Program Manual Section 1 Sub-section C	Review of Board Program Manual Section 1 Sub-section M
	Review of Board Program Manual Section 1 Sub-section O	Review of Board Program Manual Section 1 Sub-section D	Review of Board Program Manual Section 1 Sub-section N
	Review of Board Program Manual Section 1 Sub-section P	Review of Board Program Manual Section 1 Sub-section E	Review of Board Program Manual Section 1 Sub-section Q
	Review of Board Program Manual Section 1 Sub-section S	Review of Board Program Manual Section 1 Sub-section F	Review of Board Program Manual Section 1 Sub-section R
	Review of Board Program Manual Section 2 Sub-section A	Review of Board Program Manual Section 1 Sub-section L	Review of Board Program Manual Section 2 Sub-section E
	Review of Board Program Manual Section 2 Sub-section B	Review of Board Program Manual Section 1 Sub-section T	Review of Board Program Manual Section 2 Sub-section F
	Review of Board Program Manual Section 2 Sub-section C	Review of Board Program Manual Section 1 Sub-section U	Review, Discuss, and Approve Recommendations for Program Policy Manual Amendments to the TFFR Board
		Review of Board Program Manual Section 2 Sub-section D	Policy Manual Glossary

TEACHERS' FUND FOR RETIREMENT BOARD PROGRAM MANUAL

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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.

Commented [CR1]: Removed "TFFR" from title as it is not in the actual position title

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.

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~~ provided 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.

Commented [CR2]: This allows for the communication to be transmitted electronically through the new PAS

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 and Outreach Director or other RIO staff to provide more detailed information about the retirement program.

Commented [CR3]: Corrected the position title to the formal title

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.

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:

a. Improve the Plan's funding status to protect and sustain current and future benefits.
b. Minimize the employee and business partner contributions needed to fund the Plan over the long term.
c. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
d. 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 (%)
Global Equity	**55%**
- Public Equity	45%
- Private Equity	10%
Global Fixed Income	**26%**
- Investment Grade	18%
- Non-Investment Grade	8%
Global Real Assets	**18%**
- Real Estate	9%
- Other	9%
Cash & Equivalents	**1%**
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	Date
___________________________	___________________________
Janilyn Murtha Executive Director	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.

a. 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:

Metric	Criteria	Score
The current funded ratio	• Funded ratio of 90% or higher • Funded ratio between 80% and 90% • Funded ratio between 70% and 80% • Funded ratio less than 70%	• +3 • +2 • +1 • +0
The downside funded ratio as of July 1, 2030	• Under 65% funded ratio with less than 20% probability • Under 65% funded ratio with less than 30% probability • Under 65% funded ratio with less than 40% probability • Under 65% funded ratio with more than 40% probability	• +3 • +2 • +1 • +0
The target funded ratio as of July 1, 2040	• 85% or higher with 51% or more probability • Between 80% and 85% with 51% or more probability • Between 75% and 80% with 51% or more probability • Between 70% and 75% with 51% or more probability • Not more than 70% with 51% or more probability	• +4 • +3 • +2 • +1 • +0
Improvement in the funded ratio over a 10-year period	• Funded ratio improves by +5% over 10 years with 66% probability • Funded ratio improves by +5% over 10 years with 50% probability • Funded ratio does not improve by +5% over 10 years with 50% probability	• +2 • +1 • +0
Ability to recover from or withstand a market downturn	• Funded ratio after downturn improves by +5% over 10 years with 50% probability • Funded ratio after downturn improves by +5% over 10 years with 33% probability • Funded ratio after downturn does not improve by +5% over 10 years with 33% probability	• +2 • +1 • +0

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.

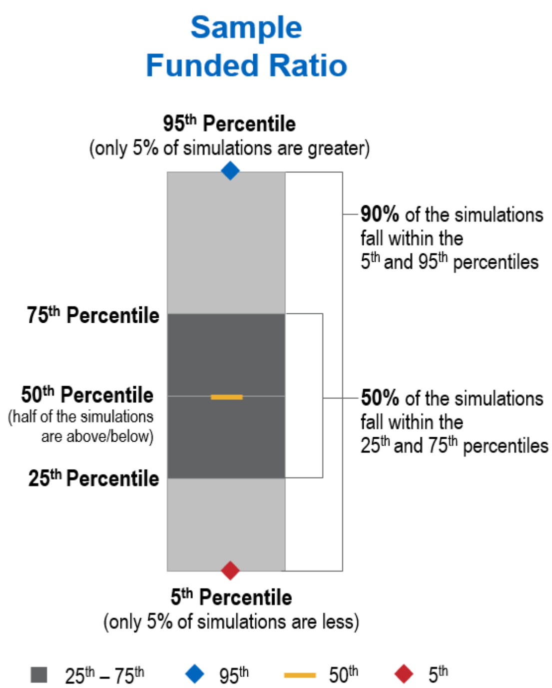
In order to stochastically model investment returns, Capital Market Assumptions are used. Capital Market Assumptions are developed by investment firms and represent expectations for future risk and returns for different asset classes. The Capital Market Assumptions used for the analysis are those published 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 95th percentile in the example below)
b. **Most Likely**: Better or worse cases (50th percentile) are equally likely
c. **Worst Case**: Worse cases would occur only 5% of the time (below the 5th percentile in the example below)



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.

Sixty-ninth
Legislative Assembly
of North Dakota

BILL NO.

Introduced by

Teachers' Fund for Retirement Board of Trustees

A BILL for an Act to amend and reenact subsection 4 of section 15-39.1-10 of the North Dakota Century Code, relating to eligibility for normal retirement benefits.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 4 of section 15-39.1-10 of the North Dakota Century Code is amended and reenacted as follows:

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