EXHIBIT 2A

MINNESOTA TEACHERS RETIREMENT ASSOCIATION
Minutes of the Board of Trustees
December 13, 2017

Board President Martha Lee Zins called the meeting to order at 9:30 a.m. Those in addition to Zins were:

Board members: Will Baumann, Mary Broderick, Paul Moore, Mary Supple, Kirk Schneidawind, Marshall Thompson

TRA Staff: Susan Barbieri, Carol Diedrich, Laurie Hacking, Tim Maurer, Leslie Nagel, Jay Stoffel, Luther Thompson, John Wicklund

Legal Representative: Kathy Woodruff

Others: Brent Banister, Ben Baratto, Sharon Baratto, Rachel Barth, Joan Beaver, Patrice Beckham, Henry Carbone, Lonnie Duberstein, Paul Eberhard, Chuck Hellie, Curt Hutchens, Susan Lenczewski, Walt Munsterman, Rodney Rowe, Mark Schmiesing, Joel Stencel, Louise Sundin, and Christine Thornburrow.

Called to order 9:30 a.m.

Zins asked for and received unanimous consent to change the order of the agenda to take up New Business (4a), actuarial presentation, before Old business.

2.a. Approval of minutes

It was moved by Moore and seconded by Supple to approve the minutes from the November 15, 2017 meeting with corrections. The motion was deferred until a quorum was present.

4.a. Presentation of FY2017 actuarial valuation report, GASB 67/68 reports and results of economic assumption experience study

TRA's actuaries, Patrice Beckham and Brent Banister from Cavanaugh Macdonald, presented highlights from the FY17 actuarial valuation report. They reported that using an 8.5 percent investment return assumption, the actuarial value funded ratio is 76.8 percent with a 2.5 percent of pay deficiency. On a market value basis, the funded ratio is 77.5 percent with a 2.22 percent of pay deficiency. Using the recommended investment return assumption of 7.5 percent along with other economic assumptions results in an actuarial value funded ratio of 69.4 percent with a deficiency of 7.4 percent of pay and a market value funded ratio of 70.1 percent with a 7.14 percent of pay deficiency.

Discussion continued related to the lower assumption for wage and salary growth, the lower investment return assumption to 7.5 percent, the potential impact of the pending federal tax proposal and predictions for increased inflation, and the effect of the Federal Reserve raising interest rates.

Beckham explained the importance of the short-term investment situation and TRA's cash flow. Beckham said that TRA is a mature plan that has a lot of retiree liability. Because of this, TRA is in a negative cash-flow situation with benefit payments exceeding contribution revenue. This negative cash-flow means it is important to take into account the lower short-term expected investment returns. Even though long-term returns may be higher, because of TRA's cash flow needs, there will be fewer assets to be reinvested to earn the higher returns that are expected to occur in later years. Beckham cited the actuaries' interim experience study which showed that the expected 30-year nominal return, in the absence of external cash flow needs, is 8.16 percent, but after taking into account cash flow needs, the return drops to 7.53 percent over the same period. For this reason, she explained that the short-term assumptions need to be given more weight because of the plan's short-term cash flow needs.

Banister reviewed membership trends and the current active to retiree ratio of 1.3. He emphasized that with a mature system like TRA, asset changes can have outsized impacts on required contribution rates. Banister explained that the new Actuarial Standards of Practice will require actuaries to provide more information relating to these types of measures.

Zins asked about the growth in the number of inactive members. Banister said that this growth has a small financial impact. Wicklund explained that inactives represent less than 3 percent of total liabilities and only one-third of inactives are vested. Banister said that encouraging inactives to leave their funds with TRA can be positive financially since the system expects to earn more on the assets than it pays in interest.

Zins asked what TRA's financial picture would be if the state had continued to pay the higher contribution rates that prevailed before TRA became fully funded. She expressed concern that contribution rates were cut once the fund was fully funded in the late 1990s but those rates were not subsequently increased when the fund dipped below full funding. Banister said it would be hard to estimate "what if" scenarios. Beckham said that some state systems have created contribution stabilizer funds that build up funding in favorable economic times and then are drawn upon when there is a financial need. Supple noted that the current contribution stabilizer permits a reserve by allowing the system to be 110 percent funded before changes can be made.

Baumann asked about the 2.5 percent COLA trigger which the actuaries project to occur in 2045. Banister explained this occurs if the fund attains a 90 percent funded level for two years in a row, but cautioned that this projected COLA increase occurs only if an 8.5 percent investment assumption is used. He said that the higher COLA is not likely to be triggered if using a 7.5 percent assumption.

Banister reviewed the GASB 67 accounting results. He said that under GASB rules, the actuaries must use a specialized calculation that, for TRA, dictates the use of a 5.12 percent blended discount rate instead of 7.5 percent. This discount rate yields a lower 51.57 percent funded ratio for TRA and creates volatile numbers. Beckham observed that if the proposed benefit and contribution changes had been enacted, the GASB numbers would be significantly better. Banister explained that the contributions of new members are counted by the actuaries when doing the funding valuation, but GASB requires that these assets be segregated and cannot be counted in the GASB accounting valuation. Moore noted that credit-rating agencies are increasingly focused on GASB numbers and the importance of passing pension reforms.

2.a. Approval of minutes (resumed)

> The motion to approve the minutes from the November 15, 2017 board meeting as corrected was renewed and approved unanimously by the board.

3.a. Adoption of proposed economic assumptions

Stoffel reviewed recommendations contained in the “mini-experience study” report completed by Cavanaugh Macdonald in November 2017 and indicated that staff recommends adoption of the recommended set of assumptions. Stoffel noted that the actuaries emphasized the changes are a complete set that work together and that the changes should be contingent on enactment of legislation lowering the investment return assumption. The recommended assumption changes are: lower price inflation from 3 percent to 2.5 percent; lower wage inflation from 0.75 percent to 0.35 percent for the next 10 years and 0.75 percent thereafter; lower payroll growth from 3.5 percent to 3 percent; adjust total salary increase by the changes in wage inflation; and lower the long-term investment return assumption from 8.5 percent to 7.5 percent.

Zins asked if any board member wanted to remove from the table a prior motion made at the November 15, 2017 board meeting regarding assumption changes. No motion was made.

> It was moved by Supple and seconded by Moore that the TRA board of trustees approve the changes to the actuarial assumptions for investment return, inflation, payroll growth and salary increase as recommended by Cavanaugh Macdonald in their report dated November 6, 2017, effective beginning with the actuarial valuation as of July 1, 2018.
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> The foregoing approval by the TRA board shall take effect only if legislation is enacted lowering the investment return assumption to 7.5 percent.

Supple said the board has heard the data and that she was impressed by the actuaries describing the cash-flow situation and its implications for a lower return assumption. Moore said that the actuaries gave a sound rationale and that the other systems and the governor recommend this change as well. Zins commented that the actuaries' recommendations should have the most influence on the board's actions. M. Thompson said that in the past, recommended assumption changes were connected to funding a higher employer contribution rate. He asked whether this motion de-couples the assumption changes from funding. Stoffel responded that it does.

Motion unanimously approved.

3.b. 2018 Legislative proposal

Stoffel reviewed the staff memo regarding TRA's 2018 legislative options and strategies and referenced the board's guiding principles. He suggested that the board could take a position on each component of the Senate-passed bill or, alternatively, give discretion to staff to use the guiding principles to work on proposals during the upcoming session. Stoffel commented that it might be hard to develop a package without knowing more about the State budget forecast.

Zins asked Moore if state funding might be available. Moore responded that the November forecast showed a $188 million deficit and there is a lot of risk from the federal level given the tax bill and uncertainties in funding for the Children's Health Insurance Program. Moore said he believes the governor and MMB believe it is too early to make budget decisions given these uncertainties and that it is best to wait until the February forecast is released. Moore said he is not comfortable voting on any part of a legislative package today due to these uncertainties.

Zins asked about splitting off TRA's administrative bill from the rest of the legislative package. Stoffel said the administrative language is ready and that staff would recommend that the administrative bill be separated from the sustainability bill, but this decision will be up to the LCPR.

Supple commented that if the board takes no specific positions, staff would follow the principles. She asked for clarification about which package the board would be supporting. Broderick said that perhaps the board should just focus on the administrative bill and discuss the stabilizer. She said a lot of work goes into developing a fair package but if there is no funding, it may not be realistic to expect progress this year. Broderick said the board should take positions on assumption changes and consider the stabilizer. Supple agreed and asked about extending the amortization period. Stoffel said that the amortization issue would be part of the larger package and added that the board may want to evaluate a layered amortization method. Supple asked if that would occur this session. Stoffel said it is unknown and that a change in amortization method would likely involve the other funds.

Schneidawind said that revenue is an issue for the coming session. He voiced concern about the board not recommending a package and said it is important to move forward with a bill this year to impress on the legislature the importance of addressing TRA's financial challenges. L. Thompson commented that it is difficult for a package to advance without funding. He advised moving forward with TRA's administrative bill and the assumption changes and, should any package of reforms advance, he recommended that staff be allowed to evaluate using the board's four guiding principles. He said that all the stakeholder groups will be involved and will weigh in with their recommendations. Moore said that the MSRS Board decided not to vote on a specific proposal and empowered staff to pick up negotiations where they left off with the exception of augmentation and the refund interest rate due to concerns expressed about the impact of those changes on recruitment and retention of employees.

M. Thompson expressed concern that benefit cuts could be enacted without the other changes that make a package fair and balanced. Zins said this would be contrary to the board's principles. Broderick pointed out the board doesn't have a say regarding what's in the bill. Supple said she is not happy with the provisions contained in the final bill. Schneidawind asked if the LCPR-passed bill was driven by board recommendations. Stoffel said that the LCPR-passed bill was different from what TRA recommended, but that the governor's proposal was closer to TRA's recommendations.

Zins asked if there was a consensus to move forward with staff's recommendations. Stoffel repeated staff recommendations: the administrative bill and assumption changes should move forward; any additional pension changes would be evaluated using the board's principles; any contribution increases needs to be funded. There was a question of whether the contribution increases for both employers and employees would be funded. Moore asked how employee increases would be funded and questioned whether MMB could support funding for employee increases since this would be contrary to the shared sacrifice principle. Broderick said the board has evaluated the shared sacrifice principle using a bigger picture that includes actuarial estimates of the impact of all provisions, not just contribution increases. Supple said she believes that reforms need to be funded and that there should not be unfunded mandates.

3.c. Contribution rate stabilizer

Stoffel reviewed the contribution stabilizer mechanism and said that given the uncertainties surrounding next year, it may be difficult to use the stabilizer. Broderick asked for clarification that there is a February 1 deadline for invoking the stabilizer. M. Thompson asked what the effective date would be of contribution increases if the stabilizer were used. Stoffel responded July 1, 2018. Zins commented that using the stabilizer to increase contribution rates would be going against the board's position that contribution increases be funded. Broderick said that using the stabilizer would show a commitment by the board to stabilize the fund and would send the message that inaction undermines the fund. Broderick said it is not acceptable to have the board's fiduciary responsibilities undermined by the political inaction. She said using the stabilizer is the only action the board is allowed to take on its own.

Moore said that MSRS is not planning on using the stabilizer, but explained that MSRS does not have as large of a deficiency and he understands that TRA has a stronger case for using the stabilizer. L. Thompson reminded the board that the LCPR wanted to remove the stabilizer authority for all the funds.

Supple asked how MSBA would react to using the stabilizer. Schneidawind replied that employers would not support any action to increase the employer rate without funding. Broderick stressed that it is important to keep the plan properly funded for the future. L. Thompson said that the board could recommend contribution rate increases using the stabilizer, but make the rate increases contingent on funding.

4.b. TRA Comprehensive Annual Financial Report(CAFR) highlights
Wicklund reviewed selected pages from the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2017. Staff has sent the report to the Office of the Legislative Auditor for their review. Among the statistics on membership there are over 100 benefit recipients who are 100+ years old, and two-thirds of retirees retired after the year 2000. As of February 1, 2017, 85.1 percent of our retirees continue to keep their home addresses in Minnesota.

4.c. Internal Audit Charter – Annual Review
M. Thompson reviewed the TRA Internal Audit Charter noting language changes to the charter.

> It was moved by M. Thompson, Chair of the Audit Committee, to approve the modifications to the TRA Internal Audit Charter with a modification to the draft, with a committee second. The motion was approved.

5.a. Legislative Update
L. Thompson noted is a tentative date set for a LCPR meeting on January 12, 2018.

6.a. Investment Update
Wicklund reviewed the fiscal 2018 Investment Return and Inflation Analysis handout through December 12, 2017. The fiscal year to date return was 7.52 percent on assets of $22.2 billion.

Stoffel reviewed the report on the IAC/SBI meeting held on November 20, 2017. Stoffel reviewed performance through September 30, 2017 as well as the performance compared to other funds around the country.

6.b. Administrative Update
Maurer reviewed the Inside TRAck for December.

6.c. Update on FY18 Board Goals
Stoffel noted that going forward this will be included in the board packet quarterly.

6.d. Upcoming meetings and presentations
Stoffel reviewed a list of upcoming meetings and presentations with stakeholder groups.

6.e. Assistant Attorney General Update
Woodruff noted that there has been a benefit appeal which will go to administrative fact finding first and to the ALJ in late January or early February.

7. Public comments

Sundin said that she is hearing comments that the Duluth and Minneapolis mergers caused TRA's financial problems and that these inaccurate statements need to be corrected. She said she is surprised the board is not endorsing a specific package and she has heard the LCPR chair plans to start where the Commission left off last year.

Munsterman said he is glad the board is holding off on a package. He encouraged TRA to keep stakeholder groups involved and to have meetings with them.

Duberstein and Ehrhard said that REAM is working hard to encourage its members to vote and understand where their legislators stand on pensions.

Hutchens asked about pending federal tax legislation and its effect on the taxability of pension system investment income. Hacking responded that SBI and the pension systems are monitoring the tax bill and hope the Unrelated Business Income Tax provisions will be removed from the tax bill.

Carbone said that it is important to remember that pensions are deferred compensation and that they are very important to teachers.

Schmiesing thanked Stoffel for being willing to speak to EdMN's Pension Task Force next weekend.

Adjourn

The meeting adjourned at 12:56 p.m. with a motion by Schneidawind, seconded by Supple and a unanimous vote by the Board.

Attest:

J. Michael Stoffel
Executive Director

Martha Lee Zins
President