Engrossed HB 1134

Senate Government and Veteran Affairs Committee

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ND Retirement and Investment Office (RIO) - Teachers' Fund for Retirement (TFFR)
March 17, 2011

As fiduciaries of the TFFR trust fund, the TFFR Board is proposing changes included in HB 1134 which are designed to keep TFFR financially strong and sustainable for past, present, and future ND educators. I will briefly highlight TFFR's funding challenge and comprehensive study of funding improvement options as background for TFFR's legislative proposal.

TFFR's Funding Challenge

Unfortunately, like other individual, corporate, and public pension plan investors around the country, TFFR experienced significant investment losses in 2008-09 as a result of the global recession. Obviously, a major loss of assets coupled with increased liabilities (longer life expectancies, salary increases, and benefit changes) has a substantial impact on TFFR's long-term funding outlook. When investment earnings decline, funding levels also decline. Prior to the market meltdown, TFFR's funded level was about 80%. As of the July 1, 2010 actuarial valuation report, TFFR's funded level was about 70% (based on actuarial value) or about 55% (based on market value). See Chart 1 – Active and Retired TFFR Members; Chart 2 - TFFR Investment Performance; Chart 3 - Market Value of Assets; and Chart 4 - TFFR Funded Ratio.

Assuming variable investment returns for the 2010-11 fiscal year, plus 8% returns in the future, Chart 5 shows projected TFFR funding levels if no changes are made. As you can see, with an 8% return this year, and 8% returns every year in the future, TFFR funding levels are projected to decline to less than 50% within the next few years, and will steadily deteriorate in the future.

TFFR has the funds needed to pay current pension benefits when they are due (currently about $127 million each year). However, looking long term, there is a shortfall in the funding of TFFR benefits. If no changes are made, TFFR will eventually be unable to pay benefits.

TFFR's challenge then is to stop this downward trend, stabilize funding, and over the long-term, improve funding levels.

TFFR Funding Improvement Study

In 2009, the TFFR Board took the prudent and proactive step of establishing a TFFR Funding Improvement Study Group. TFFR Board and RIO staff members, along with representatives from the ND Education Association (NDEA), ND Council of Educational Leaders (NDCEL), ND School Boards Association (NDSBA), and ND Retired Teachers Association (NDRTA) spent more than a year studying options to offset 2008-09 investment losses and address declining funding levels.

The Group focused on developing proposals which would reflect the following core principles:

- Restore the financial health of the TFFR plan.
- Maintain adequate retirement security for ND educators.
- Share responsibility for funding improvement with employees and employers.
- Phase changes over time.
- Protect benefits of those employees closest to retirement.

Options considered include: (1) investment performance over 8% assumed return; (2) increasing contributions; (3) reducing benefits; (4) state general fund; (5) and a combined approach. The Study Group discussed in depth the advantages and disadvantages of various alternatives; analyzed actuarial, legal, financial, and policy issues; and seriously considered the impact on members, employers, and the State.

The Board was encouraged and aided by the feedback received from stakeholder groups helping to shape legislative recommendations. As a result, the TFFR Board submitted three bills to the interim Legislative Employee Benefits Programs Committee (LEBPC) for interim legislative review. The Committee studied the bills, received technical and actuarial analysis, took public comment, and gave recommendations on the bills. The interim legislative committee gave the TFFR funding improvement bill (Study Bill 54, now HB 1134) a favorable recommendation.

HB 1134 – TFFR FUNDING IMPROVEMENT

In general, changes included in HB 1134 are designed to improve TFFR funding levels over the long-term by increasing employee, employer, and re-employed retiree contributions. It also reduces future liabilities by raising the retirement age for unreduced benefits and increasing the early retirement reduction factor for reduced benefits for non-retired employees who are more than 10 years away from retirement under special grandfathering criteria. A Summary of HB 1134 provisions is attached (Attachment 1).

I will review each section of the bill, but would like to begin with Section 2, since sections 1, 3, and 4 are closely related and should be reviewed together.

<u>SECTION 2.</u> NDCC 15-39.1-09 Membership in fund and assessments

Actuarial analysis shows that the current statutory contribution rates of 7.75% of salary for employees and 8.75% for employers/school districts are insufficient to amortize TFFR's unfunded liability over 30 years which means there is a funding deficit.

To address this funding shortfall, HB 1134 would increase contribution rates for all employees and employers a total of 8%, shared equally between employees (4%) and employers (4%). The rate increases would be phased in over two bienniums as follows:

	Current 7/1/10	**Proposed 7/1/12**	**Proposed 7/1/14**
Employee	7.75%	9.75%	11.75%
Employer	<u>8.75%</u>	<u>10.75%</u>	<u>12.75%</u>
Total	16.50%	20.50%	24.50%

Under this proposal, the higher contributions are not intended to be permanent. The higher employee and employer contribution rates would be effective until TFFR reaches 90% funded level on an actuarial basis at which time the contribution rates would be reduced to 7.75% each. These were the rates in effect prior to 7/1/07. It should be noted, however, that actuarial projections show the higher contributions would be in effect for at least the next 30 years.

In dollar terms, employee and employer contribution increases are estimated to increase TFFR revenues about $40-45 million each year after both rate increases are fully phased in ($20+ million employee and $20+ million employer). Contribution amounts are estimated at $5 million a year for every 1% increase in TFFR contribution rates and based on current total employee salaries; total contribution amounts will differ based on actual total employee salaries for any given year. (Chart 6 – Projected Contribution Amounts.) Since TFFR retirement benefits are part of a teacher's total compensation package (salary and benefits), TFFR contribution rate increases will likely reduce funding for future salary increases and other benefits.

<u>Section 2 Amendment</u>

The House amended section 2 of the bill to require that the new employee contribution increases (7/1/12 and 7/1/14) must be paid by the employee and cannot be negotiated to be paid by the employer. While there are no actuarial implications to this proposed amendment, there are tax related ramifications since it was drafted in such a way that it impacts the tax deferred treatment of employee contributions. We do not believe that this consequence was intended, however, it is the result according to TFFR's outside tax counsel.

Current employer payment plans developed by the TFFR Board allow for tax deferral of employee contributions under three models as follows:

- Model 1: Employee contribution is paid by the employee through a salary reduction and remitted by the employer on a tax deferred basis (43% of employers; 60% of members).

- Model 2 (all) Employee contribution is paid by the employer in lieu of a salary increase and remitted to TFFR on a tax deferred basis (41% of employers; 35% of members).

- Model 2 (partial %) or Model 3 (partial $): A portion of the employee contribution is paid by the employer in lieu of a salary increase and remitted to TFFR on a tax deferred basis. The remaining employee contribution is paid by the employee and remitted by the employer on an after tax basis (9% of employers; 4% of members).

TFFR's outside tax counsel (Calhoun Law Group, Washington DC) has reviewed Engrossed HB 1134, and provided the TFFR Board with a potential amendment that would address the tax related issues for Model 1 (salary reduction) employees. This proposed amendment is attached and is offered to the Committee for your consideration (Attachment 2).

For **Model 1 schools** where the employees are paying the employee contribution through a salary reduction, and it is remitted to TFFR by the employer as tax deferred dollars, the House amendment would impact the tax deferred treatment of the employee contributions – that is, a Model 1 employee as of 7/1/12 would have 9.75% of salary reduced from pay with 7.75% of it tax deferred and the remaining 2% taxed. This would potentially affect about 6,000 TFFR members.

Under TFFR's proposed amendment (suggested by outside tax counsel), by simply moving the House amended language, the House amendment still does what it was intended to do (employers cannot pay the additional employee contribution), but it does not impact the tax deferred treatment of the employee contribution for the employees under Model 1 – the entire 9.75% employee contribution as of 7/1/12 would be reduced from pay and all 9.75% would be remitted by the employer as tax deferred dollars.

However, for **Model 2 schools** where the employers are currently paying all of the 7.75% employee contribution on a tax deferred basis (because it was in lieu of a salary increase), they would automatically become Model 2 partial due to the House amendment, and the additional 2% employee contribution would not be tax deferred. This is how Model 2 partials are handled under current employer payment models. Therefore, the House amendment that no longer allows the 2% employee contribution to be negotiated, will still affect Model 2 employees from a tax perspective under current TFFR employer payment models. The amendment TFFR is proposing would not change the tax treatment of the employee deduction under Model 2 partial schools; consequently about 4,000 TFFR members would not be able to have the additional 2% employee contribution made on a tax deferred basis since it was not done in lieu of a salary increase.

TFFR does not currently allow employers to combine the models. Changing the current models to allow employers to combine the models is something that may need to be considered by the Board later, and will need to be done in consultation with TFFR's outside tax counsel and IRS regulations.

SECTION 1. NDCC 15-39.1-04 (14 and 15) Definitions:

TFFR currently has two tiers of participating members. Tier 1 employees are those who were members of the system prior to 6/30/08. Tier 2 employees are those who began TFFR participation after 6/30/08. The differences in the two tiers relate to their eligibility for and calculation of retirement benefits.

- Tier 1 employees can retire when they reach the Rule of 85, 3 year vesting, and 3 year final average salary calculation.

- Tier 2 employees can retire when they reach the Rule of 90, 5 year vesting, and 5 year final average salary calculation.

Both membership tiers use the multiplier of 2.0% X years of service credit X final average salary in calculating retirement benefits.

Section 1 creates two new definitions for grandfathered and non-grandfathered Tier 1 members. The intent is to "grandfather" or protect those Tier 1 members who are within 10 years of retirement eligibility and allow them to remain under current retirement eligibility provisions. Approximately 3,500 employees (or 35%) would be grandfathered, and would therefore not be affected by unreduced and reduced retirement benefit eligibility changes described in sections 3 and 4. Non-grandfathered Tier 1 members, Tier 2 employees, and future employees would be affected by such changes.

To identify which employees are within 10 years of retirement eligibility, grandfathering criteria would be established as follows:

A Tier 1 grandfathered member is one who, as of 6/30/13, is vested (3 years of service credit) and (a) is at least 55 years of age; or (b) has a combined total of years of service and age which is 65 or greater.

A Tier 1 non-grandfathered member is one who does not qualify as a Tier 1 grandfathered member (i.e. is not vested, is younger than age 55, and has less than Rule of 65 on 6/30/13).

In determining eligibility for grandfathering provisions, the employee's actual age and service credit (including any purchased service credit made before 6/30/13) would be calculated to the nearest thousandth (0.000) according to information on file at TFFR.

Examples:

1) Tier 1 employee is age 57 with 4 years of service credit.
   Yes, employee is grandfathered since vested and over age 55.
2) Tier 1 employee is age 45 with 20 years of service credit.
   45 + 20 = 65 Yes, employee is grandfathered since total is 65 or over.
3) Tier 1 employee is age 40 with 15 years of service credit.
   40 + 15 = 55 No, employee is not grandfathered since total is less than 65.

<u>SECTION 3</u>. NDCC 15-39.1-10. Eligibility for normal unreduced retirement benefits.

Under current law, all vested employees can retire with full unreduced benefits at age 65, or earlier if they reach the Rule of 85 (Tier 1) or Rule of 90 (Tier 2). There are no minimum retirement ages. The changes in HB 1134 refer to whether employees can retire earlier than age 65 based on their age and service.

HB 1134 provides for a minimum retirement age of 60 for non-grandfathered employees. However, the bill allows Tier 1 grandfathered employees (those within 10 years of retirement) to remain under current provisions (i.e. Rule of 85) to qualify for unreduced retirement benefits. Non-grandfathered Tier 1 employees, Tier 2 employees, and all future employees would be required to work longer in order to qualify for unreduced retirement benefits.

Effective 7/1/13, non-grandfathered employees would need to work until a minimum of 60 years of age, and could then retire with unreduced benefits if they have the Rule of 90. If, however, they do not have the Rule of 90, they would need to continue working, or defer drawing benefits until they reach the Rule of 90/minimum age 60, or until age 65.

Note that under this proposal, the employee must work until minimum age 60 to receive unreduced benefits, even if they reach the Rule of 90 at an earlier age.

Examples:

1) Grandfathered Tier 1 employee, age 50 @ 25 yrs service credit on 6/30/13.
   Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018
   Proposed: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018 No change

2) Non-grandfathered Tier 1 employee, age 40 @ 15 yrs service credit on 6/30/13.
   Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2028
   Proposed: Elig Age 60 + 35 yrs (R95) in 2033 + 5 yr diff
   (*Reached R90 @ age 58 + 33 = R91)

3) Non-grandfathered Tier 2 employee, age 32 @ 6 years service credit on 6/30/13.
   Current: Elig Rule 90 @ age 58 + 32 years (R 90) in 2039
   Proposed: Elig Age 60 +34 yrs (R94) in 2041 + 2 yr diff

4) Non-grandfathered Tier 1 employees at various age/service combinations after 6/30/13.

   Age 60 + 30 years service or more
   Age 61 + 29 years service
   Age 62 + 28 years service
   Age 63 + 27 years service
   Age 64 + 26 years service
   Age 65 + vested (3 years service or more)

Note: The TFFR Board looked at other alternatives with regard to changing member benefits for future members only OR future members and current nonvested members, however, these produced very small savings. This legislation, by grandfathering members eligible for or near eligibility for retirement, attempts to minimize the impact on members who are making active plans for their retirement, while still producing meaningful savings.

<u>SECTION 4.</u> NDCC 15-39.1-12. Early reduced retirement benefits.

Current statutes also allow a vested member to be eligible to retire before normal retirement age and receive reduced retirement benefits if the employee is age 55 or older. Early retirement benefits are reduced by 6% per year from the earlier of age 65 or the Rule of 85 (Tier 1) or Rule of 90 (Tier 2).

HB 1134 does not change the minimum age 55 eligibility requirement for receiving reduced benefits, but it does increase the 6% per year reduction to 8% per year reduction from the proposed unreduced retirement ages outlined in Section 3. That is, effective 7/1/13, a non-grandfathered member's benefits would be reduced by 8% from the earlier of age 65 OR the later of either age 60 or Rule of 90. The 8% per year reduction approximates a full actuarial reduction while retaining a simplified formula.

Example: Non-grandfathered Tier 1 employee, age 55 @ 19 years of service, FAMS $3,000

Current: Age 65-55 = 10 x 6% = 60% reduction
$3,000 x 19 yrs x 2% = 1140 x 40% = $456 per month at age 55

Proposed Age 65-55 = 10 x 8% = 80% reduction
$3,000 x 19 yrs x 2% = 1140 x 20% = $228 per month at age 55
Difference -$228 month

<u>SECTION 5</u>. NDCC 15-39.1-18. Disability retirements.

Under current law, members are eligible for disability benefits if they have at least one year of service and qualify for total disability as determined by the Board. If approved, the amount of the disability benefit is calculated based on a minimum of 20 years of service credit, for a minimum disability benefit of 40% of final average salary. On average, about 7 members each year are determined eligible for disability benefits.

HB 1134 increases the vesting requirement from 1 year to 5 years, and changes the benefit calculation to using actual service credit earned instead of the 20 year minimum. This change would be effective 7/1/13 for all non-retired Tier 1 and Tier 2 employees.

Example: Teacher age 40 @ 15 years service credit, FAMS $3,000

Current:	$3,000 X 20 X 2.0% = $1,200 mo.	
Proposed:	$3,000 X 15 X 2.0% = $ 900 mo.	
Difference		-$300 month

<u>SECTION 6 .</u> NDCC 15-39.1-19.1 Retired teachers return to active service - Annuities discontinued on resumption of teaching over annual hour limit

<u>SECTION 7.</u> NDCC 15-39.1-19.2 Retired teachers return to active service – Critical shortage areas and disciplines.

Current law allows public school teachers and administrators to return to work after retirement and continue receiving their TFFR benefits under certain employment limitations. The limits apply to TFFR covered employment, but do not apply to non contracted substitute teaching, teaching in a public college, university, or private school, employment outside of education, or employment outside of ND.

Under the general rule, the maximum annual hour limit is based on length of contract duties: 9 month contract = 700 hours; 10 month contract = 800 hours; 11 month contract = 900 hours; 12 month contract = 1,000 hours. If the retiree exceeds the annual hour limit, their monthly retirement is suspended and they are then treated like an active employee with their benefit possibly recalculated upon subsequent retirement if they meet certain conditions outlined in state law.

Under the critical shortage area exemption, retirees can return to TFFR covered employment in an approved critical shortage area and exceed the annual hour limitation (work full time) without losing retirement benefits. A one-year waiting period is required. Critical shortage areas are determined each year by the Education Standards and Practices Board (ESPB). For the 2010-11 school year, ESPB has designated all areas except for elementary education and physical education as critical shortage areas.

Current law requires the employer to pay employer contributions on the salary paid to the re-employed retiree.

During the 2009-10 year, there were 305 re-employed retirees. Of the total, 278 worked part time under the annual hour limit, 20 worked full time under critical shortage area exemption, and 7 worked full time under the benefit suspension and recalculation option. So far in the 2010-11 school year, there are 287 re-employed retirees.

HB 1134 would require all re-employed retirees to pay employee contributions on the salary earned from the school district beginning 7/1/12. This is estimated to bring in approximately $600,000 of additional contributions per year based on current contribution rates. The re-employed retiree's pension benefit would not increase as a result of the additional contributions being paid (unless their benefit was suspended because they exceeded the annual hour limit). However, the employee contributions would be included in the retiree's guaranteed account value.

<u>SECTION 8.</u> EFFECTIVE DATES

This section provides for effective dates for the various changes made by the bill. The effective dates for the employee and employer contribution rate increases (section 2) are included in the bill's language and become effective 7/1/12 and 7/1/14. Requiring re-employed retiree contributions (sections 6 and 7) would become effective 7/1/12. The changes relating to unreduced retirement, reduced retirement, and disability benefits (sections 3, 4, and 5) would become effective 7/1/13.

LEGAL ISSUES

HB 1134 does raise some potential legal issues. TFFR's legal counsel from the ND Attorney General's Office (AGO) has examined the issue regarding the legality of pension benefit changes. General conclusions are: (1) State cannot change pension benefits of retired members. (2) State can change benefits of new employees. (3) State can change benefits or contributions of active and inactive members, but any time the benefits or contributions of active and inactive members are detrimentally changed, a potential legal challenge is created. It is difficult to predict the outcome of any challenge, but the risks associated with any detrimental change to member benefits could vary depending upon the level of change or the burden placed upon the members and whether there is a corresponding advantageous change.

ACTUARIAL ANALYSIS

TFFR's actuarial consultant, GRS, conducted an actuarial analysis and technical review of this bill which is described in more detail in their letter dated October 22, 2010.

Chart 7 shows the actuarial impact of the changes outlined in HB 1134. As you can see, without any changes, TFFR funding levels are expected to be exhausted within 30 years even if TFFR earns 8% each year in the future. With HB 1134 changes, plus 8% returns in the future, TFFR's funded level is projected to reach about 80% in 30 years and would return TFFR to its funding level before the 2008-09 market meltdown.

While a 100% funding policy is optimal for many reasons (total cost is less if contributions are made sooner rather than later, inter-generational equity, GASB rules, etc.), the Board recognizes it will take time to reach the 100% funding target. Future investment returns of greater or less than 8% will also change the timing and look of TFFR's funding picture.

The increase in the employee and employer contributions (8.0%) to the plan has the most significant effect on the projected improvement in the plan's funded status under HB 1134 as you can see from the following chart. The combination of all these items included in the bill, when fully phased in, is equivalent to a total of 8.66% of payroll.

	Effect
Increase member contribution rate	4.00%
Increase employer contribution rate	4.00%
Require re-employed retiree member contributions	0.12%
Change retirement eligibility and early retirement reduction factor	0.49%
Change disability provisions	0.05%
Total	8.66%

FISCAL NOTE

This bill increases employer contributions from 8.75% to 10.75% beginning 7/1/12 and from 10.75% to 12.75% beginning 7/1/14 which amounts to an additional $10.6 million for 2011-13 biennium and $33.2 million for 2013-15 biennium. Notice that the rate increases start the 2nd year of each biennium.

This totals $43.8 million increase in employer contributions each biennium after increases are totally phased in until TFFR reaches 90% funded level. Estimates are based on assumptions and calculations from TFFR's actuarial consultant in letter dated 10/22/10. Fiscal impact may be more or less depending on actual salary paid to active members. Here is the breakdown by school districts, counties, and general fund:

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			$75,260		$235,720	
Appropriations			$75,260		$235,720	

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$8,480		$10,516,260	$26,560		$32,937,720

4 state entities currently employ about 74 TFFR participating members (0.71%) and would be required to pay the increased employer contributions of approximately $75,260 for the 2011-13 biennium and $235,720 for the 2013-15 biennium totaling $310,980 for both biennium after increases are phased in:

Bienniums	2011-13	2013-15
ND Center for Distance Education	$22,578	$70,716
ND Youth Correctional Center	$22,578	$70,716
ND School for the Deaf	$15,052	$47,144
ND School for the Blind	$15,052	$47,144

9 counties currently employ 9 county superintendents (0.08%) who are TFFR participating members and would be required to pay the increased employer contributions of approximately $8,480 for the 2011-13 biennium and $26,560 for the 2013-15 biennium totaling $35,040 for both biennium after increases are phased in.

208 school districts, special education units, vocational centers, and other public education entities employ the majority of TFFR participating members (99.21%) and would be required to pay the increased employer contributions of $10,516,260 for 2011-13 biennium and $32,937,720 for the 2013-15 biennium totaling $43,453,980 for both bienniums after increases are phased in.

SUMMARY

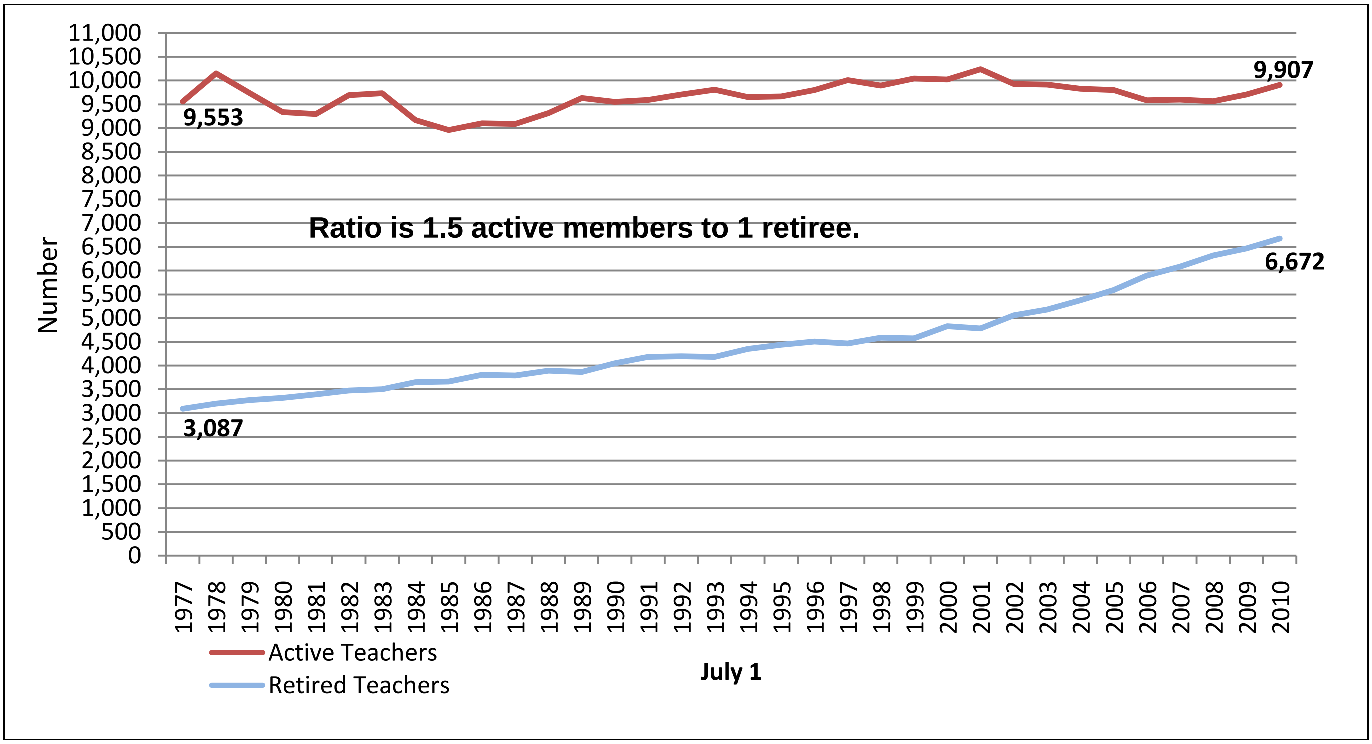
The TFFR Board believes that in addition to future positive investment growth, additional revenue and benefit changes are needed to contribute to TFFR's funding solution. HB 1134 reflects shared responsibility from both employees and employers for TFFR's long term funding improvement.

The interim Legislative Employee Benefits Programs Committee voted unanimously to give this bill a favorable recommendation. The House approved Engrossed HB 1134 by a vote of 92-2. The TFFR Board respectfully requests that your Committee further amend this bill as outlined in the attached amendment, and give HB 1134 a "do pass" recommendation.

Thank you.

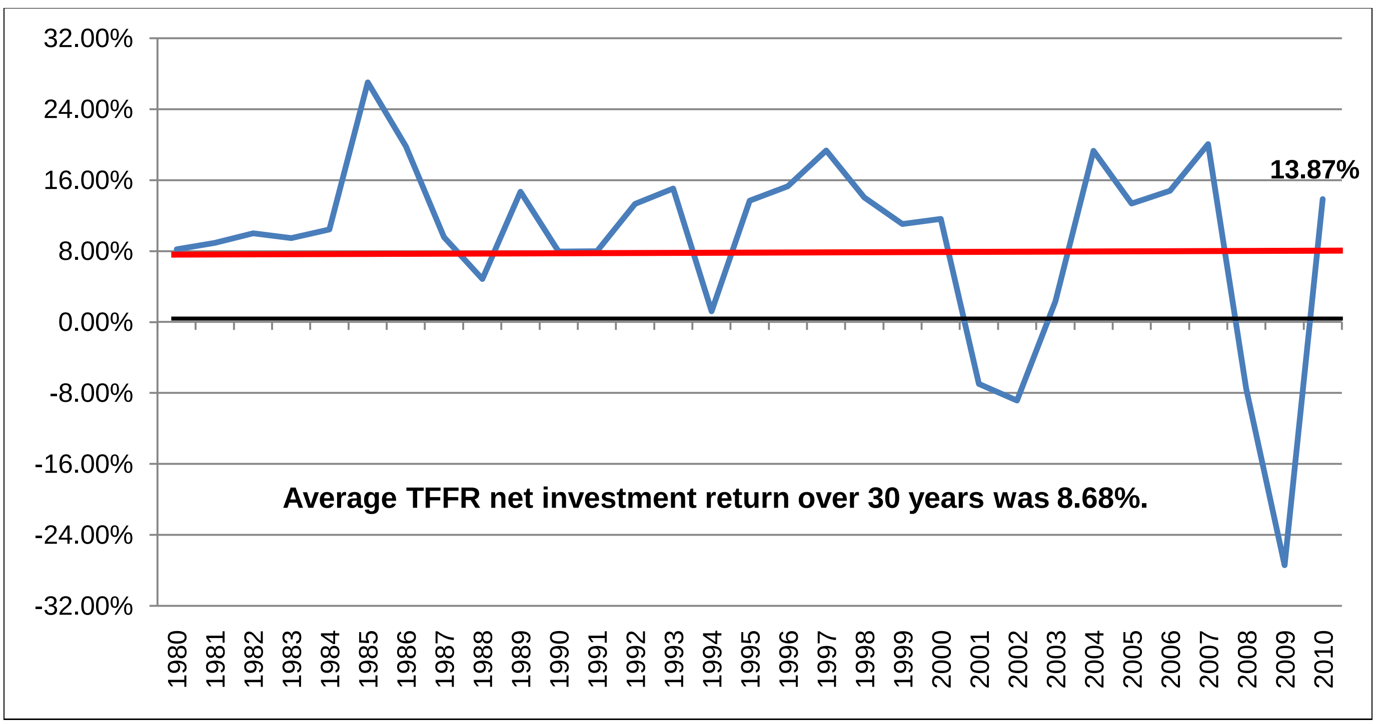
Active and Retired TFFR Members 1977 - Present

Chart 1



TFFR Net Investment Performance – Annual 1980 - 2010

Chart 2



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

Chart 3

Market Value of TFFR Assets
1977 - 2010

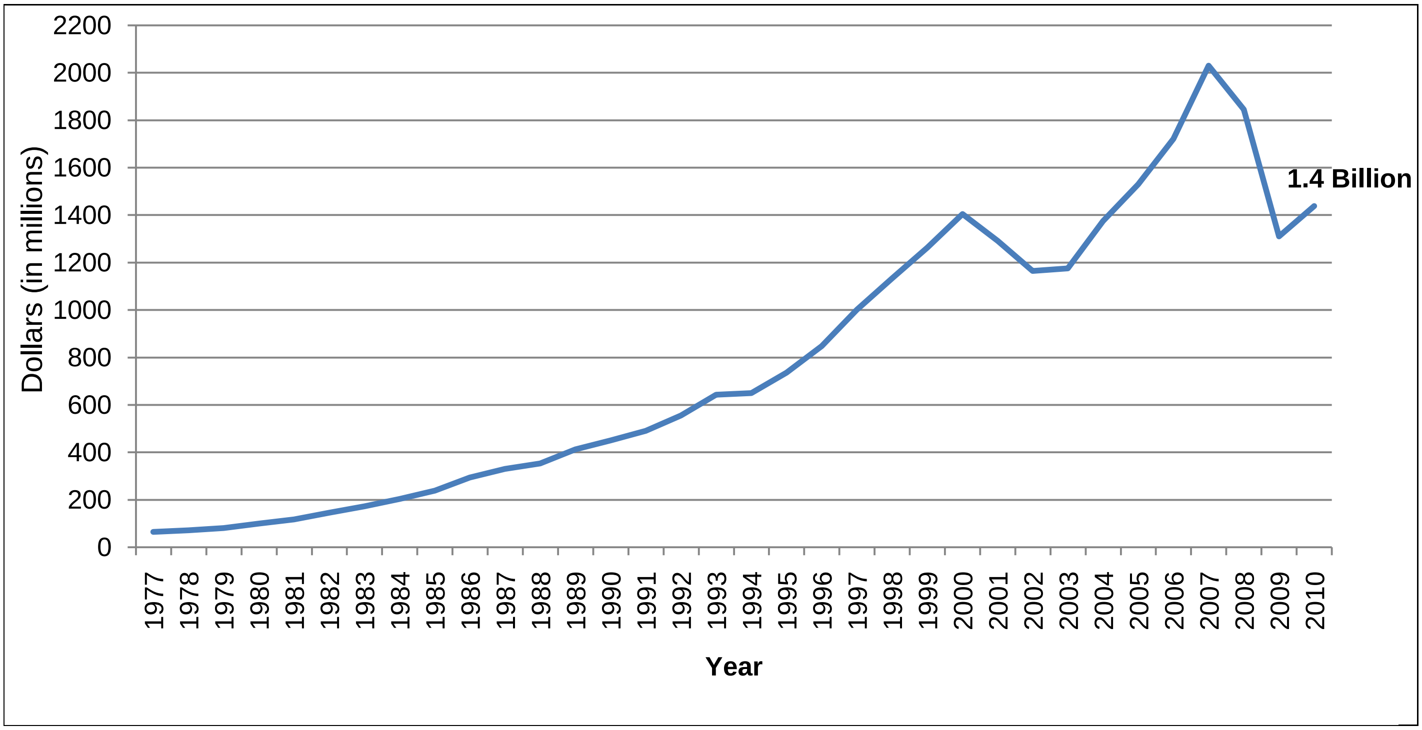


Chart 4

TFFR Funded Ratio (AVA)
1977 - 2010

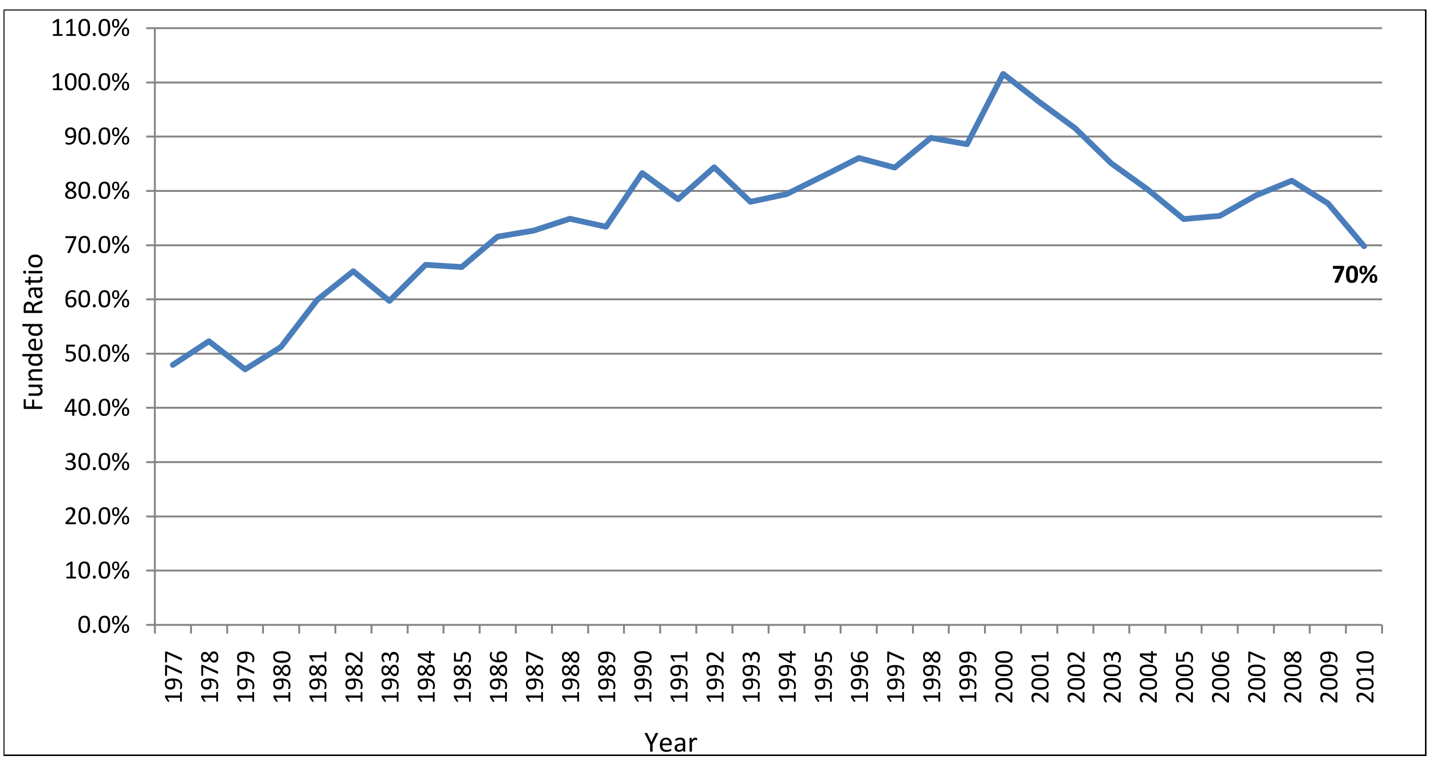
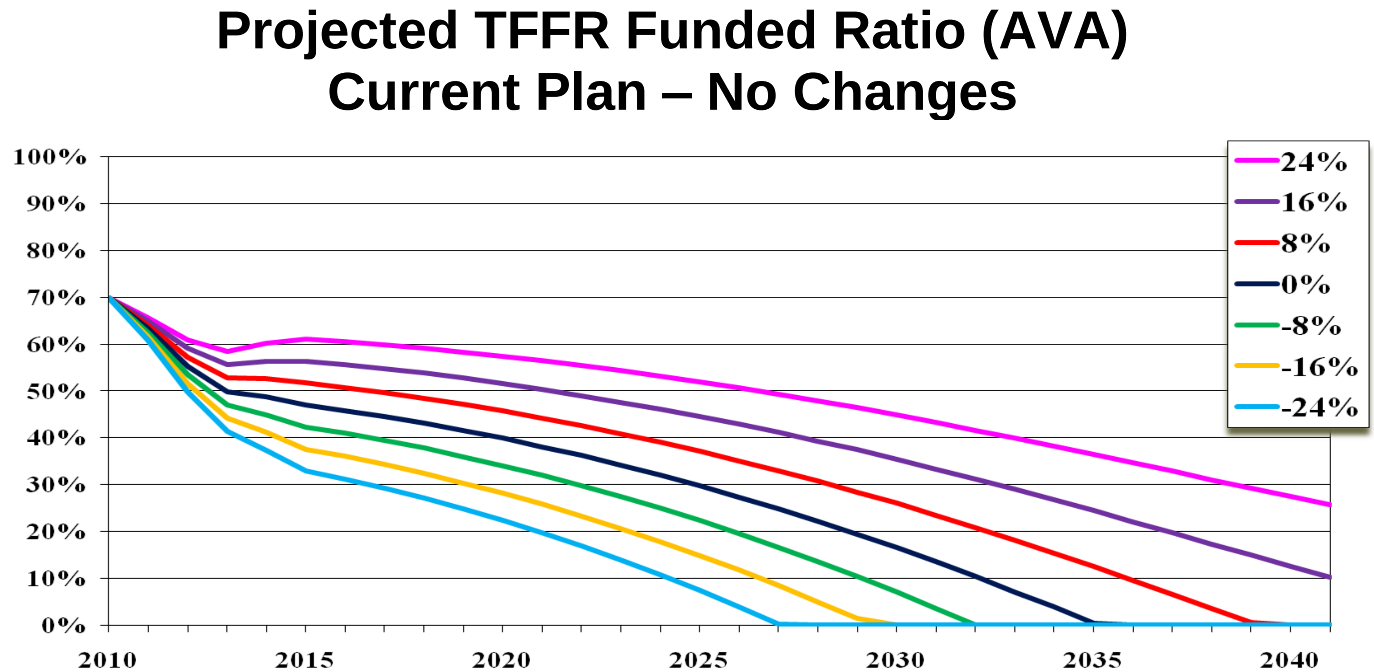


Chart 5



Note: Projections assume variable market returns for FY 2011, and 8% returns in 2012 and all years thereafter.

Chart 6

North Dakota Teacher's Fund for Retirement

Comparison of Projected Contributions under Current Law and HB 1134

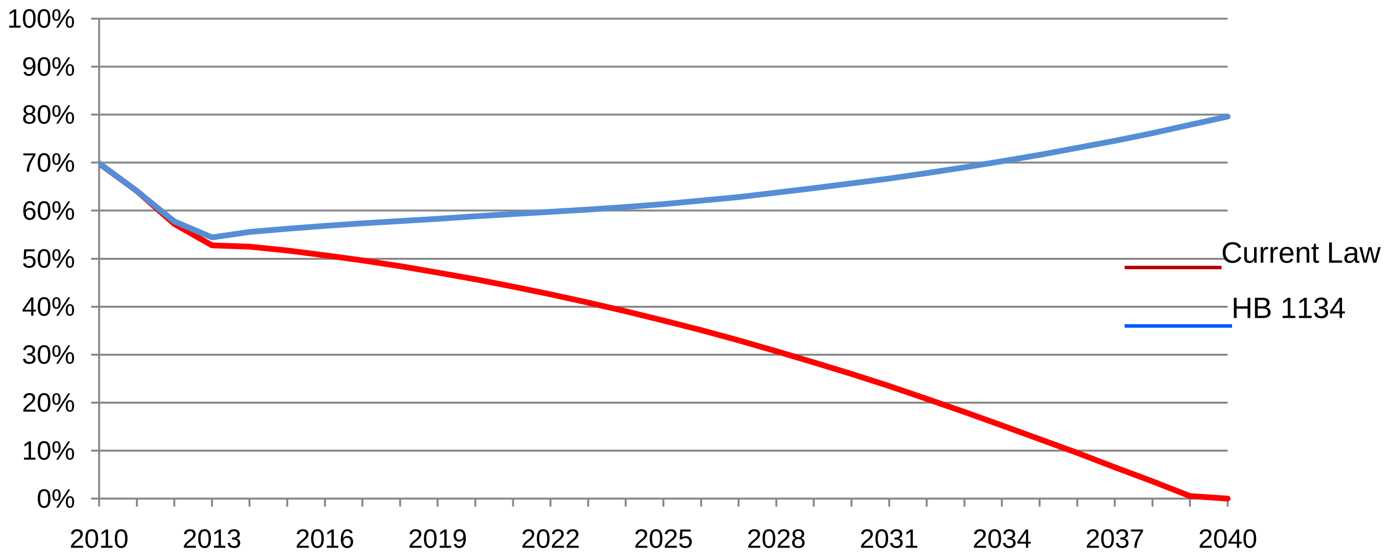
Fiscal Year Beginning July 1,	Projected Payroll	Current Law Provisions			Bill 54			Total Increase (8)-(5)
		Employer Contributions	Employee Contributions	Total Contributions (3) + (4)	Employer Contributions	Employee Contributions	Total Contributions (6) + (7)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2010	$ 493.5	$ 43.9	$ 38.2	$ 82.1	$ 43.9	$ 38.2	$ 82.1	$ 0.0
2011	505.5	44.9	39.2	84.1	44.9	39.2	84.1	0.0
2012	519.2	46.1	40.2	86.3	56.7	51.4	108.1	21.8
2013	533.9	47.4	41.4	88.8	58.3	52.9	111.2	22.4
2014	549.9	48.9	42.6	91.5	71.2	65.6	136.8	45.3
2015	566.7	50.4	43.9	94.3	73.4	67.6	141.0	46.7

Amounts shown in millions
Projections are based on July 1, 2010 actuarial valuation
Projections assume 8.00% net investment return in FY 2011 and all future years
Contribution rates under current law for all years: employee 7.75%, employer 8.75%
Contribution rates under bill 54:

- Fiscal years beginning July 1, 2012 and July 1, 2013: employee 9.75%, employer 10.75%
- Fiscal years beginning July 1, 2014 and thereafter: employee 11.75%, employer 12.75%

Chart 7

Comparison of Projected TFFR Funded Ratios (AVA)
HB 1134 – Contribution Increases and Benefit Changes



Attachment 1

HB 1134 - TFFR Funding Improvement (TFFR Board)

- **Increase employee (teacher) contributions 4% over 2 bienniums**
  Current 7.75%   Proposed 9.75% on 7/1/12 and 11.75% on 7/1/14
  (Return to 7.75% when TFFR reaches 90% funded level)

- **Increase employer (school district) contributions 4% over 2 bienniums**
  Current 8.75%   Proposed 10.75% on 7/1/12 and 12.75% on 7/1/14
  (Return to 7.75% when TFFR reaches 90% funded level)

- **Require re-employed retirees to pay employee contribution rates beginning 7/1/12**

- **Modify disability benefits** for all employees by changing eligibility from 1 year to 5 years of service credit and replacing 20 year minimum with actual service in benefit calculation.

- **Modify eligibility for unreduced retirement benefits and reduction factor for reduced retirement benefits for certain employees described below:**

  Grandfathered Tier 1 Employees who are within 10 years of retirement eligibility would not be affected by unreduced and reduced retirement changes.

  - Tier 1 employees who are vested (3 years of service credit) and at least age 55 OR have the Rule of 65 or greater (age + service) on 6/30/13 would be grandfathered under current retirement eligibility provisions (i.e. Rule of 85).

  Non-grandfathered Tier 1 Employees and all Tier 2 Employees would be affected and would have the following benefit changes as of 7/1/13:

  - Unreduced retirement: Eligibility age would increase from Rule of 85 (Tier 1) or Rule of 90 (Tier 2) to Minimum Age 60 and the Rule of 90+, OR Minimum Age 65 for those employees who do not reach the Rule of 90.

  - Reduced retirement: Reduction factor would increase from 6% to 8% per year from the earlier of Age 60/Rule of 90 or Age 65.

- **Estimated Impact - TFFR funded level projected to reach 80% over 30 years.**

Attachment 2

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1134

Page 2, line 20, remove the overstrike over "~~Each~~", remove "Except for the member contribution increases beginning after June 30, 2012,"

Page 2, line 21, remove "each"

Page 3, line 2, after "or" insert ", except for the member contribution increases beginning after June 30, 2012,"

Renumber accordingly