HB 1230

HOUSE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
January 25, 2013

Fay Kopp, Interim Executive Director - Chief Retirement Officer
ND Retirement and Investment Office - ND Teachers' Fund for Retirement

Thank you for the opportunity to discuss how HB 1230 would impact the TFFR trust fund, and to review the analysis conducted by TFFR's actuarial consultant. On behalf of the TFFR Board, I am testifying in support of this bill.

BILL SUMMARY

HB 1230 would modify the expiration of the increase in required TFFR contribution rates which are shown below:

Time Period	Employer	Member	Total
7/01/08 – 6/30/12	8.75%	7.75%	16.50%
7/01/12 – 6/30/14	10.75%	9.75%	20.50%
Beginning7/01/14	12.75%	11.75%	24.50%

The higher contributions are not intended to be permanent. Both employer and member rates would revert to 7.75% on the July 1st following the first valuation showing that the funded ratio equals or exceeds 90% on an actuarial basis. The proposed legislation would increase this trigger funded ratio for contribution reversion from 90% to 100%.

2011 LEGISLATION

As you know, the TFFR Board submitted a comprehensive package of benefit and contribution changes which were studied during the 2010 interim and approved by the 2011 Legislature (HB 1134). These changes were designed to improve TFFR funding level over the long term, and reduce the unfunded liability of the plan. The changes included active and re-employed retired member contribution increase, employer contribution increase, and benefit reductions for new and current employees who are more than 10 years away from retirement. See NDTFFR Funding Update and Plan Summary Exhibit.

ACTUARIAL ANALYSIS

TFFR's actuarial consultant, Segal Company, reviewed this bill during the 2012 interim. A copy of their October 19, 2012, letter is attached. According to Segal's actuarial analysis, this bill would not have an actuarial impact on the TFFR's liability immediately. However, it would increase the funded status of the plan starting in 2041 by deferring the contribution reversion to 7.75% from 2040 until 2046. Therefore, the higher member and employer contribution rates would be in effect for a longer period of time, and would be reduced when TFFR's funded status reaches 100%. If investment returns are greater or less than the actuarial assumed rate (8%), funding progress is expected to take more or less time. See Segal Exhibits 1, 2, 3.

INTERIM STUDY

HB 1230 (interim bill no. 43) was studied during the interim by the Legislative Employee Benefits Programs Committee, and was given a favorable recommendation.

SUMMARY

The TFFR Board supports HB 1230 because it is expected to strengthen the financial stability of the plan by keeping the higher contribution rates in effect until TFFR reaches 100% funded ratio, which is the plan's long term funding goal. This bill will help to assure that TFFR benefits are secure for past, present, and future ND educators.

Mr. Chairman and members of the Committee, this concludes my testimony on HB 1230. I would be happy to respond to the Committee's questions. Thank you.

NDTFFR Funding Update

The Issue

Like other investors around the country, NDTFFR experienced significant investment losses as a result of the 2008-09 global recession. A major loss of assets coupled with increasing liabilities (longer life expectancy, salary increases, and benefit changes) had a substantial impact on TFFR's long term funding outlook. Prior to the market meltdown, TFFR's funded level was about 80%. As of the July 1, 2012 actuarial valuation report, TFFR's funded level was 61%. The unprecedented decline in the global markets and the accompanying recession, along with the projected gradual economic recovery, accelerated the need for TFFR to make changes.

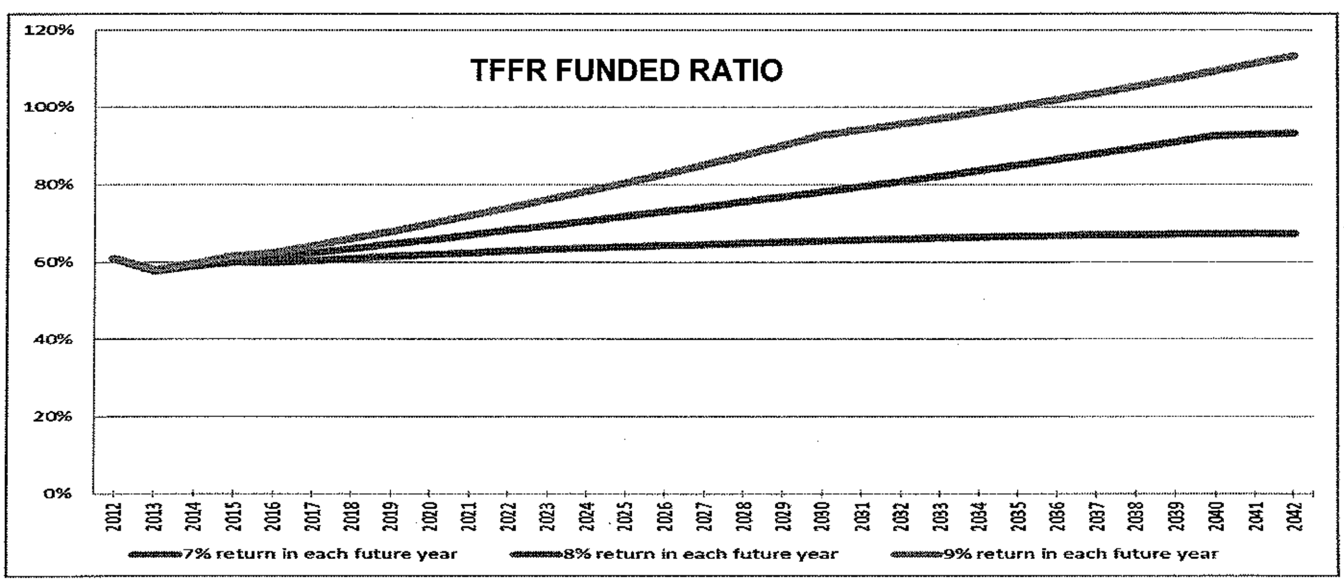
TFFR has the funds needed to pay current pension benefits when they are due. However, looking long term, there was a projected shortfall in the funding of TFFR benefits. TFFR's challenge was to stop the downward trend, stabilize funding, and improve funding levels.

The Plan

During 2009-10, the TFFR Board of Trustees, with input from member and employer interest group representatives, developed a legislative proposal to improve TFFR's funded status. The plan included member and employer contribution increases, and benefit changes for certain non grandfathered and new members of the plan. (See TFFR benefit summary on reverse page.) The plan was studied by the interim Legislative Employee Benefits Programs Committee during the 2010 interim, and given a favorable recommendation. The plan (HB 1134) was then carefully considered and approved by the 2011 Legislature, and signed by the Governor.

The Result

TFFR funding levels are expected to improve in the future. However, until all of the 2008-09 investment losses are recognized in actuarial valuations over the 5-year smoothing period, and until the increased member and employer contributions flow into the plan beginning 7/1/12, funding progress will not be reflected in the valuation reports. As you can see from the exhibit below, with 2011 legislative changes, plus 8% investment returns (middle line) in the future, TFFR's funded level is projected to reach over 90% in about 30 years. If returns are greater (top line) or less (bottom line) than 8%, funding progress will take more or less time. Due to legislative action taken in 2011, TFFR's long term funding outlook is positive, and benefits are secure for past, present, and future ND educators.



TFFR Plan Summary

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Employee Contribution Rates (active and re-employed retirees)			
7/1/10 - 6/30/12	7.75%	7.75%	7.75%
7/1/12 - 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%
Employer Contribution Rates			
7/1/10 - 6/30/12	8.75%	8.75%	8.75%
7/1/12 - 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%
Vesting Period	3 yrs	3 yrs	5 yrs
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years
Disability Retirement	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

***Tier 1** is a member who has service credit in the TFFR plan prior to 7/1/08.*

- ***Tier 1 Grandfathered** is a member, who as of 6/30/13, is less than 10 years away from retirement eligibility. Grandfathered member must be vested, and either age 55 or have a combined total of service credit and age which equals or exceeds 65 on 6/30/13.*
- ***Tier 1 Non Grandfathered** is a member, who as of 6/30/13, is more than 10 years away from retirement eligibility. Nongrandfathered member is less than age 55 and has a combined total of service credit and age which is less than 65 on 6/30/13.*

***Tier 2** is a member who began participation in the TFFR plan on 7/1/08 or after.*

**Contribution rates are in effect until TFFR reaches 90% funded level, then rates reduce to 7.75% each.*

ND Teachers' Fund for Retirement, P.O. Box 7100, Bismarck, ND 58507-7100

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12/2012

SEGAL

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October 19, 2012

Via E-mail

Senator Dick Dever, Chairman
Employee Benefits Programs Committee
c/o Jeff Nelson
ND Legislative Council
State Capitol
600 East Boulevard
Bismarck, ND 58505-0360

Re: Technical Comments on Draft Bill 43

Dear Senator Dever:

The following presents our analysis of the proposed changes found in Draft Bill 43 (Bill Draft 13.0043.02000) that would modify the expiration of the increase in required contributions for both employers and members of the Teachers' Fund for Retirement (TFFR).

Summary

The contribution rates, percentage per annum of the teacher's salary, required for employers and TFFR members are shown below:

Period	Employer	Member	Total
July 1, 2008 through June 30, 2012	8.75%	7.75%	16.50%
July 1, 2012 through June 30, 2014	10.75%	9.75%	20.50%
Beginning July 1, 2014	12.75%	11.75%	24.50%

As under present law, the higher contributions are not intended to be permanent. Both employer and member rates would revert to 7.75% on the July 1st following the first valuation showing that the funded ratio, as measured by the ratio of the actuarial value of assets to the actuarial accrued liability, equals or exceeds 90%. The proposed legislation would increase this trigger funded ratio for contribution reversion from 90% to 100%.

Actuarial Analysis

Based on the actuarial analysis, this bill would not have an actuarial impact on the TFFR's liability immediately. It would increase the funded status of the plan starting in 2041 by deferring the contribution reversion to 7.75% from 2040 until 2046. Exhibits I, II and III show 30-year projections of funded status, employer contribution rate, and member contribution rate.

Administrative Costs

This bill would have minimal impact on administrative costs of the TFFR.

General Comments

The projections were made using generally accepted actuarial practices and are based on demographic data as of July 1, 2012, asset returns through July 1, 2012, and use assumptions and methods in place for the July 1, 2012 valuation.

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies describes herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

Please do not hesitate to contact us with any questions or comments.

Sincerely,

Kim Nicholl

Kim Nicholl, FSA, MAAA, EA
Senior Vice President and Actuary

Matthew A. Strom

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

kn/ms/ns

cc: Ms. Fay Kopp, Interim Executive Director, ND Retirement and Investment Office

Attachments

Exhibit I

Projection of Funded Status

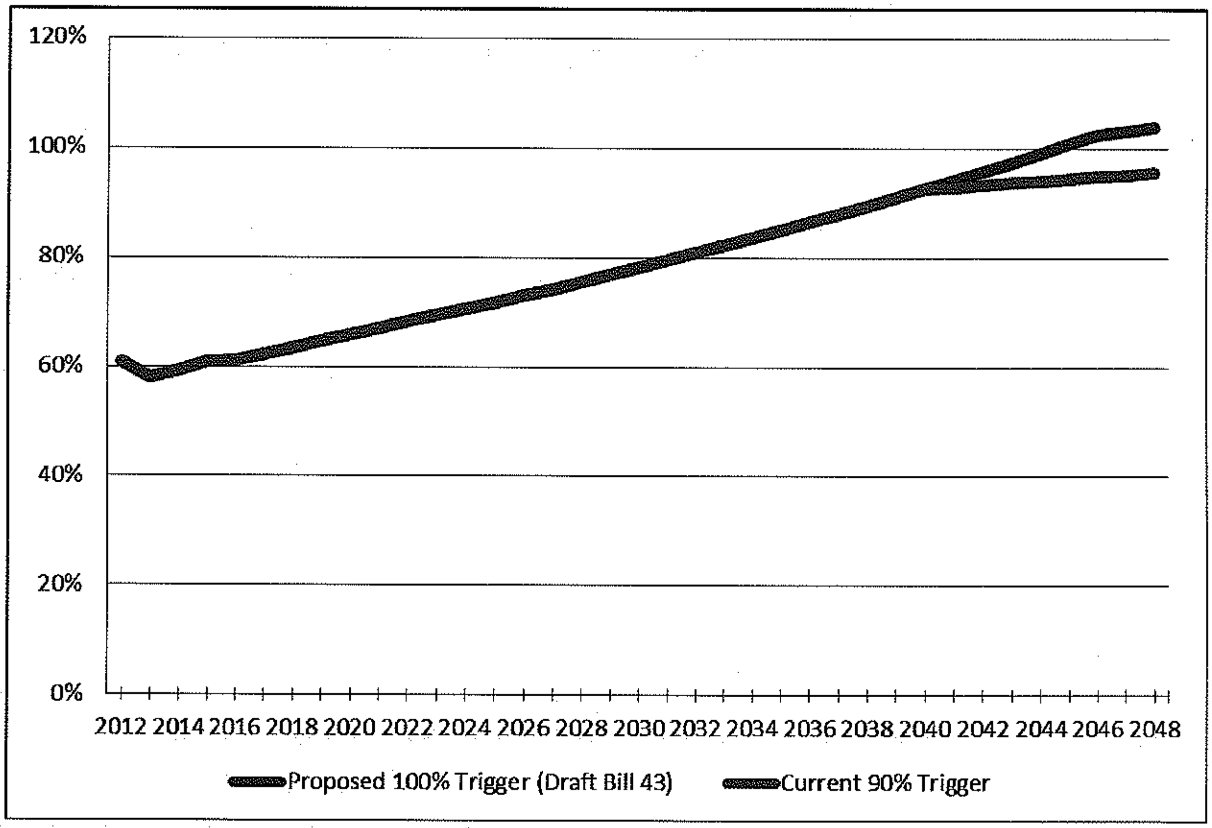

Exhibit II

Projection of Employer Contribution Rate

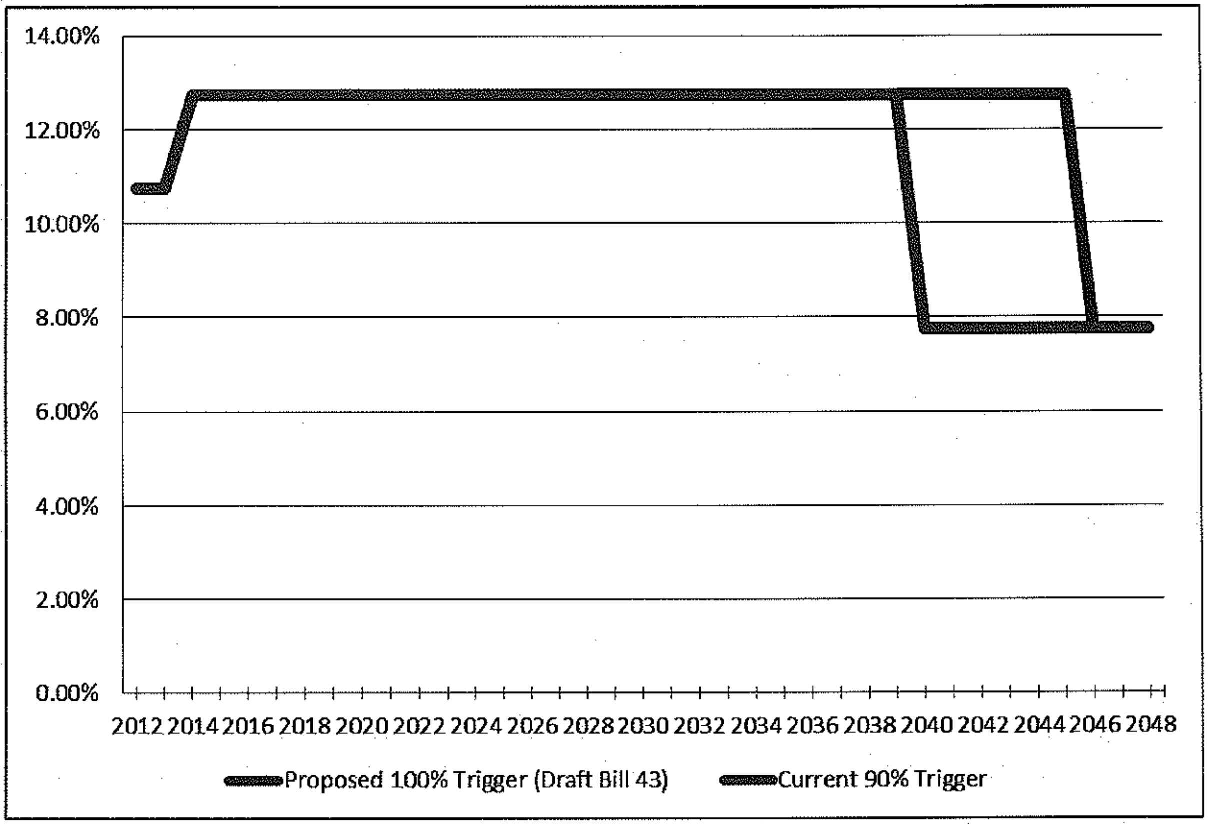

Exhibit III

Projection of Employee Contribution Rate