

NDTFFR - 2011 Legislative Impact

**ND Council of Educational Leaders
Summer Conference
June 17, 2011**

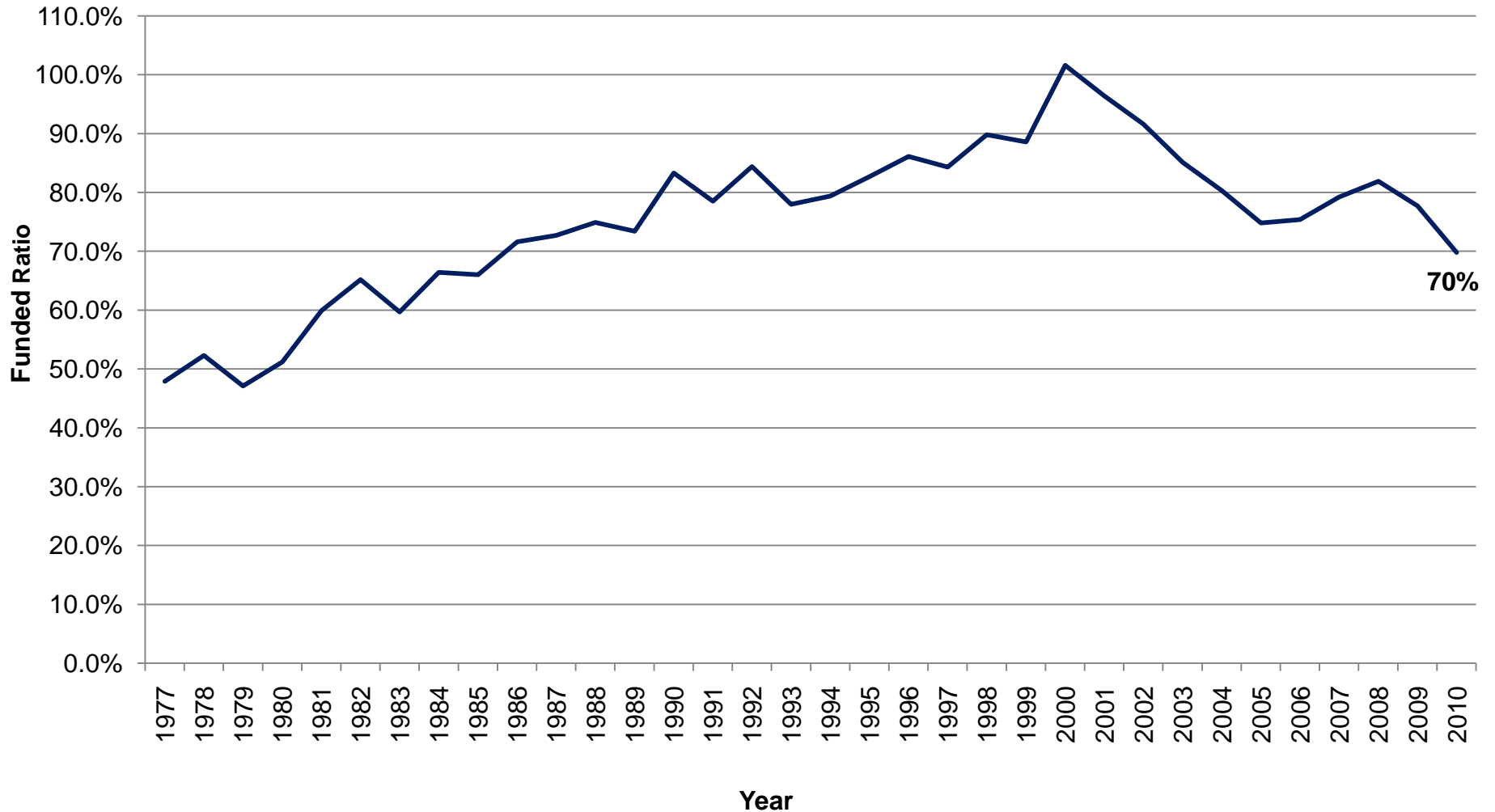
Fay Kopp, Deputy Exec. Director - Retirement Officer
ND RIO – ND TFFR

Topics

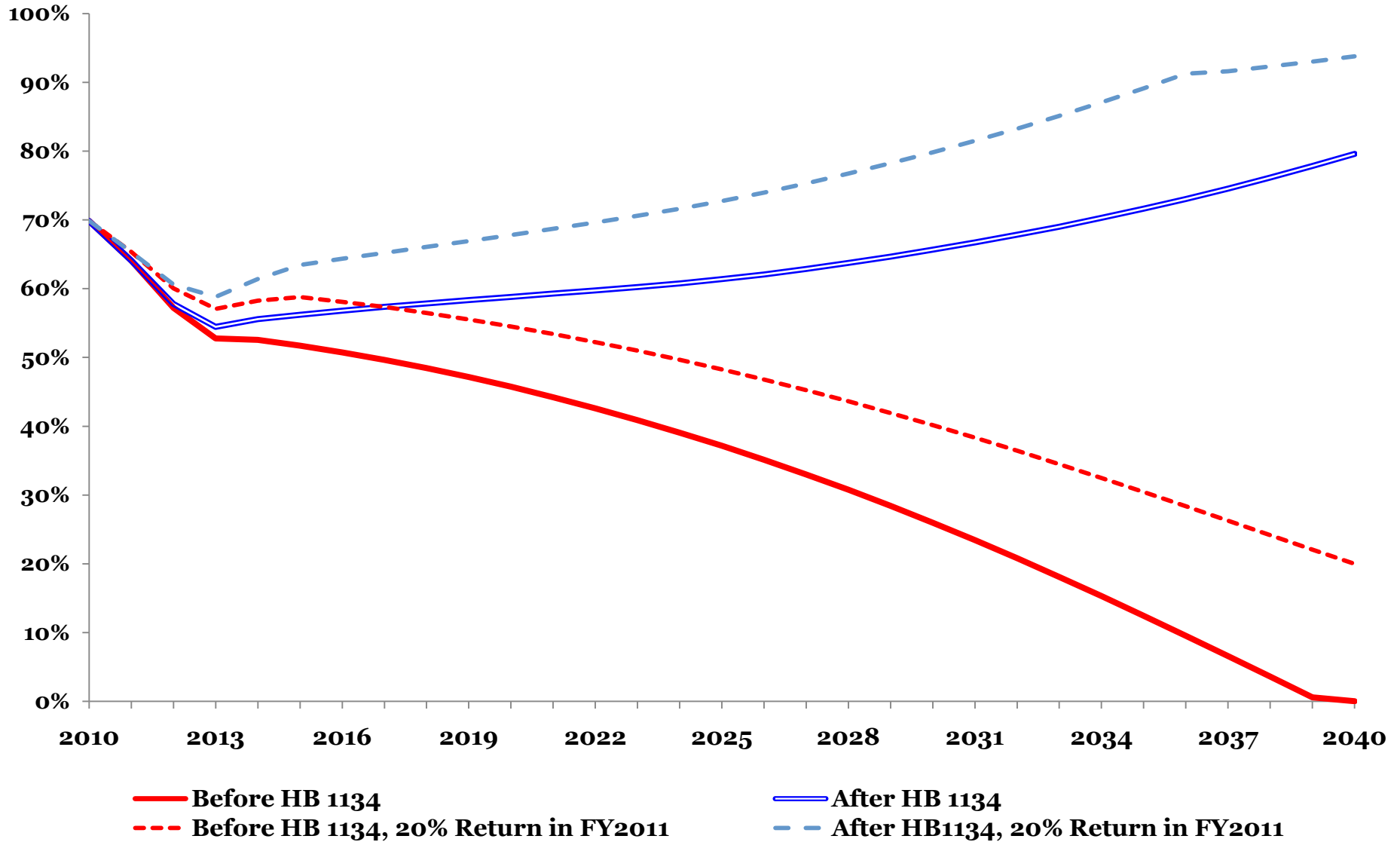
- Funding Projections
- 2011 legislation
- FAQs
- Future of TFFR



TFFR Funded Ratio (AVA) 1977 - 2010



Projected TFFR Funded Ratio (AVA) 8% Future Returns Except as Noted



TFFR Legislation Approved in 2011



TFFR Board Legislative Proposals

- As fiduciaries of the trust fund, TFFR Board recommended legislative changes to help to ensure the long-term solvency of the pension fund.
- After lengthy study and with input from NDCEL, NDSBA, NDEA, NDRTA, the TFFR Board submitted 2 bills to the 2011 Legislature:
 - **HB1134 – TFFR Funding Improvements**
 - **HB1133 – TFFR Technical/Administrative Changes**
- Proposals reflect shared responsibility between teachers and school districts for funding improvement.
- **Both bills received favorable recommendations from interim Legislative Employee Benefits Programs Committee.**
- **Both bills were approved by 2011 Legislative Assembly.**

HB 1134 – Increase Contributions

- Increase TFFR contributions 8% total.
- Split contribution increases equally between employees and employers at 4% each side.
- Phase over 2 biennium at 2% each biennium, each side.
- Increased rates in effect until TFFR reaches 90% funded ratio, then rates reduced to 7.75% each.

HB 1134 – Increase Contributions

RATES %	Employer	Employee	Total	Increase
Current				
7/1/11	8.75%	7.75%	16.5%	---
7/1/12	10.75%	9.75%	20.5%	+4%
7/1/14	12.75%	11.75%	24.5%	+4%

HB 1134 – Increase Contributions

- For those employers who are currently paying all or a portion of employee contributions in lieu of a salary increase (Model 2 or Model 3), they will need to negotiate with the teachers who will pay increased employee contributions beginning 2012-13 year. Amendment was considered by Legislature that would have eliminated that option, but it was not approved in the final version of the bill.
- Employers will need to run calculations based on total annual payroll to determine impact of increased TFFR contributions on school district.
- Employers will need to incorporate new contribution rates into payroll systems effective 7/1/12. Handle internally or work with software vendors to make changes.
- New TFFR Employer Payment Plan forms will need to be completed by every employer prior to 7/1/12 rate increase, and again before the 7/1/14 rate increase.

TFFR Employer Payment Plans 2010-11

	<u>Employers</u>		<u>Members</u>	
Model 1	98	43%	6,352	60%
Model 2 (all)	93	41%	3,714	35%
Model 2 (part %)	13	6%	216	3%
Model 3 (part \$)	6	3%	129	1%
Other	<u>16</u>	<u>7%</u>	<u>101</u>	<u>1%</u>
Total	226	100%	10,512	100%

TFFR Employer Payment Plan (EPP) Models

Payment of employee contributions on a tax deferred basis can be made by the employer through a salary reduction or in lieu of a salary increase.

- Model 1: Employee contribution is paid by the employee through a salary reduction and remitted by the employer on a tax deferred basis.
- Model 2 (all): All of the employee contribution is paid by the employer in lieu of salary increase (per negotiated agreement) and remitted to TFFR on a tax deferred basis.
- Model 2 (partial %) or Model 3 (partial \$): A portion of the employee contribution is paid by the employer in lieu of a salary increase (per negotiated agreement) 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.
- Other: Includes state agencies, closed groups with special provisions, or no model.

HB 1134

Require Re-Employed Retiree Contributions

- Effective 7/1/12, all re-employed retirees will be required to pay employee contributions (at same rate as active members) on salary retiree earns from school district as follows:

	Current 7/1/11	Effective 7/1/12	Effective 7/1/14
▫ Retiree	0.00	9.75%	11.75%
▫ Employer	8.75%	10.75%	12.75%

- For 2011-12 school year, employer contributions only should be paid at current 8.75% rate. Beginning 7/1/12, both employers and re-employed retirees begin paying at increased rates for 2012-13 school year. Rates increase again on 7/1/14 for 2014-15 school year.
- Payment of retiree contributions by employer must be same as what is paid for active members (if any), based on Employer Payment Plan Model.
- Retiree's pension benefit will not increase.

HB 1134

Modify Disability Benefits

- Effective 7/1/13 for all employees
- Change eligibility for disability benefits from 1 year to 5 years of service credit.
- Replace 20 year minimum service credit calculation (40% FAS) with actual service in benefit calculation.
- Example: Teacher age 40 with 15 yrs service credit and Final Average Monthly Salary \$3,000

Current	$\$3,000 \times 20 \times 2.0\% = \$1,200 \text{ mo.}$
Eff. 7/1/13	$\$3,000 \times 15 \times 2.0\% = \underline{\quad 900 \text{ mo.}}$
Difference	- \$ 300 mo.

HB 1134

Modify Retirement Eligibility Requirements

- Effective 7/1/13
- Modify eligibility for unreduced retirement benefits
- Modify reduction factor for reduced retirement benefits
- For certain employees
 - Grandfathered
 - Non-grandfathered

Grandfathered Employees

- Grandfathered Tier 1 Employees who are within 10 years of retirement eligibility will not be affected by unreduced and reduced retirement changes.
- Grandfathering Criteria:
 - Vested Tier 1 employee (3 yrs service) on 6/30/13
 - AND**
 - Age 55 or greater on 6/30/13
 - OR**
 - Rule of 65 (age + service) or greater on 6/30/13
- Employee's actual age and service credit (including any purchased service credit made before 6/30/13) will be calculated to the nearest thousandth (0.000).
- Grandfathered employees will have current retirement eligibility provisions (i.e. Rule of 85)
 - Estimate about 3,500 grandfathered employees

Non-grandfathered Employees

- Non-grandfathered employees include:
 - Tier 1 employees who are more than 10 years away from retirement eligibility on 6/30/13
 - Tier 2 employees
 - Future employees
- Non-grandfathered employees will be affected by the unreduced and reduced retirement benefit changes.
 - Estimate about 6,400 non-grandfathered employees
- Non-grandfathered employees will have to work longer before normal retirement eligibility or will have to take a larger benefit reduction if they retire early (note: due to increase in life expectancy.)

Grandfathering Examples

Based on employee's actual age and service credit as of 6/30/13 (including any purchased service credit made before 6/30/13 or eligible dual service credit with NDPERS).

- Tier 1 employee is age 57 with 4 years of service. Age 55+
Yes, employee is grandfathered since over age 55.
- Tier 1 employee is age 50 with 25 years of service. $50 + 25 = 75$
Yes, employee is grandfathered since total is 65 or over.
- Tier 1 employee is age 45 with 20 years of service. $45 + 20 = 65$
Yes, employee is grandfathered since total is 65 or over.
- Tier 1 employee is age 40 with 15 years of service. $40 + 15 = 55$
No, employee is not grandfathered since total less than 65.
- Tier 2 employee is age 30 with 3 years of service. Tier 2
No, employee is not grandfathered since Tier 2.

Non-grandfathered Employees Increase Retirement Age for Unreduced Benefits

- Eligibility age for unreduced benefits will increase for non-grandfathered employees:
 - Current: Rule of 85 (Tier 1) or Rule of 90 (Tier 2)
 - Effective 7/1/13:
 - Minimum Age 60 with Rule of 90+
 - OR
 - Minimum Age 65 without Rule of 90
 - **NOTE:** Must be age 60 to receive unreduced benefits, even if Rule of 90 is reached at earlier age.

Increase Retirement Age Examples

Examples:

- Grandfathered Tier 1 member, age 50 @ 25 yrs service credit on 6/30/13.
Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018
Eff. 7/1/13: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2018
No change
- Non-grandfathered Tier 1 member, age 40 @ 15 yrs service credit on 6/30/13.
Current: Elig Rule 85 @ age 55 + 30 yrs (R85) in 2028
Eff .7/1/13: Elig Age 60 + 35 yrs (R95) in 2033
+ 5 years until eligible to retire with unreduced benefits
- Non-grandfathered Tier 2 member, age 32 @ 6 yrs service credit on 6/30/13.
Current: Elig Rule 90 @ age 58 + 32 yrs (R90) in 2039
Eff .7/1/13: Elig Age 60 + 34 yrs (R94) in 2041
+2 years until eligible to retire

Non-grandfathered Employees Increase Reduction Factor for Reduced Benefits

- Non-grandfathered employees who elect to receive reduced benefits at minimum age 55.
- Increase reduction factor for reduced benefits:
 - Current: 6% per year from earlier of Rule of 85/90 or age 65.
 - Eff. 7/1/13: 8% per year from earlier of Age 65, or later of age 60 or Rule of 90.

HB1134 Summary

- Contribution Increases - total 8%, split 50/50, 2 biennium
 - Increase employee contributions +4%
 - Increase employer contributions +4%
 - Require re-employed retiree contributions
- Benefit Changes
 - Tighten disability retirement eligibility and benefit calculation
 - Raise retirement eligibility age for unreduced benefits for non-grandfathered employees
 - Grandfathered Tier 1 employees within 10 years of retirement would retain current eligibility provisions (i.e. Rule of 85).
 - Non-grandfathered Tier 1, Tier 2, and future employees would have to work until age 60 with Rule of 90 to be eligible for unreduced benefits.
 - Increase reduction factor for early reduced benefits from 6% to 8% for non-grandfathered employees.
- **With HB1134 changes, plus 8% returns in the future, TFFR funded level is projected to reach about 80% over 30-year period.**

HB1133 - Administrative Changes

- Anticipate no actuarial impact on the plan.
- Clarify definition of eligible retirement salary.
 - Remove retention, experience, and service related bonuses from automatically being included as eligible retirement salary.
 - Clarifies the TFFR Board can determine ineligible retirement salary when special benefits or payments are not clearly defined.
- Clarify and update beneficiary definition.
- Modify outdated death benefit payment provisions to clearly describe to whom, under what conditions, and what amount of death benefits should be paid.
- Incorporate federal tax law changes as they relate to qualified plans.

Legislative Proposals Not Approved



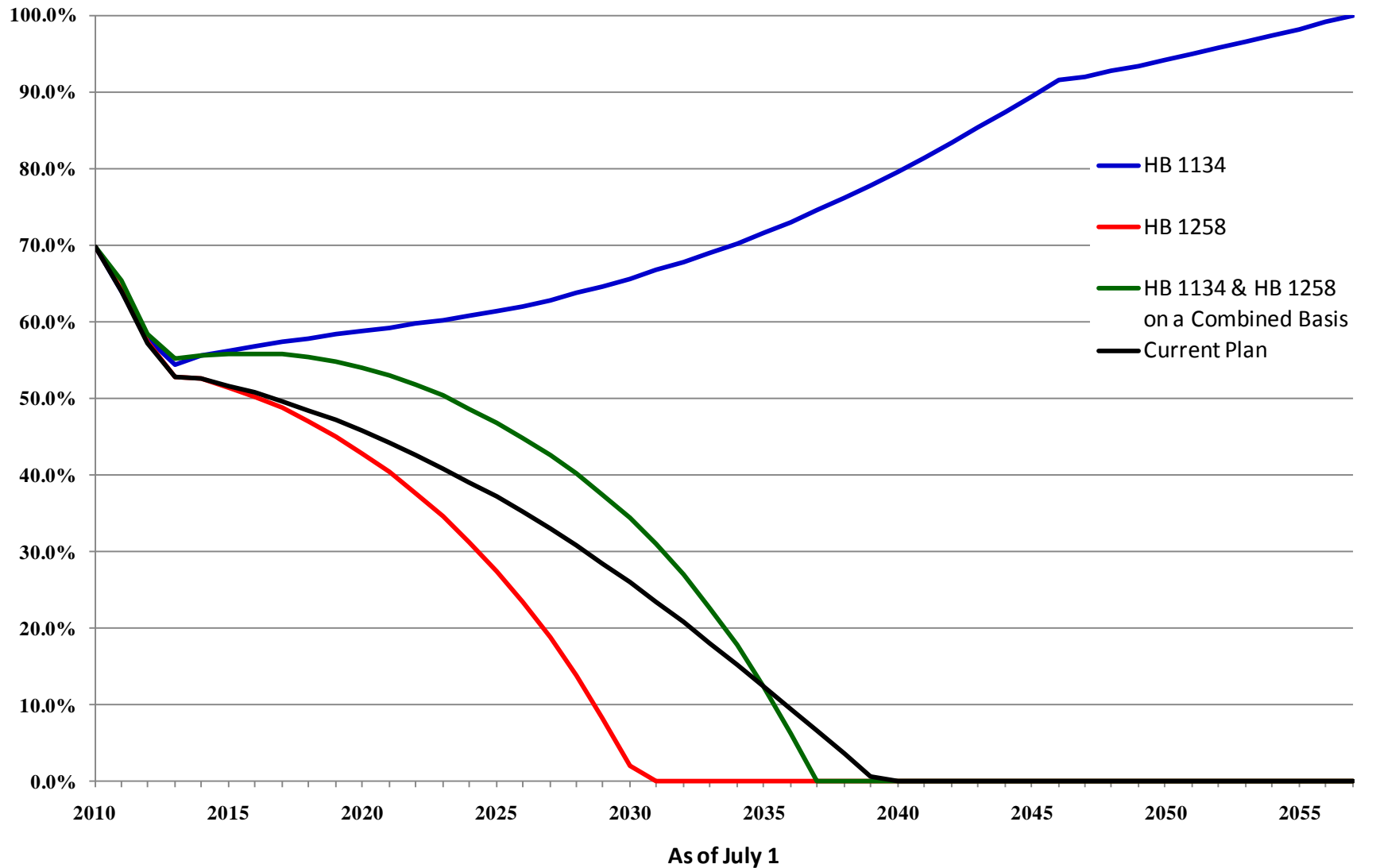
HB 1398 – Final Average Salary Calculation Change for Administrators

- HB 1398 would have required an administrator who was previously employed as a teacher to complete eight years of service as an administrator before the salaries could be used to calculate retirement benefits.
- Bill was amended to require 5 year final average salary for administrators who were previously teachers.
- HB1398 failed in the House by a vote of 42-51.

HB 1258 – Defined Contribution Plan

- HB 1258 would have closed existing defined benefit (DB) plan to new hires after 6/30/12 and created a defined contribution (DC) plan for new hires hired 7/1/12 or after.
- Rates: Employee 7.75% and Employer 8.75% of salary
- Bill was amended to defer recognition of the fiscal impact (except implementation costs) until next biennium during which time additional actuarial valuations would be performed.
- HB 1258 failed in the House, 38-56.

Exhibit 1 - ND TFFR - Projected Funded Ratio
Actuarial Value of Assets ÷ Actuarial Accrued Liability



HB 1258 – Defined Contribution Plan

- Actuarial review showed the long term financial status of current DB plan would have been negatively affected (unless increased funding) because:
 - Over time employees in closed DB plan would retire or terminate, and new employees would participate in the new DC plan.
 - As number of actives declines in the DB plan, total payroll declines, and contributions paid into the plan drops.
 - This reduces amount of funds to pay unfunded liability of DB plan.
- Projected Year TFFR Assets would be Exhausted

	Current Plan – No Changes	HB 1134	HB 1258	HB 1134 & HB 1258
Year of Exhaustion	2040	Never	2031	2037

HB 1258 – Defined Contribution Plan

- Projected Funding Shortfall on the Defined Benefit Plan

	Current Plan – No Changes	HB 1134	HB 1258	HB 1134 & HB 1258
APV of Future Benefits	\$3,808.9	\$3,762.1	\$3,149.9	\$3,127.7
<i>Less:</i>				
Plan Assets:	1,437.9	1,437.9	1,437.9	1,437.9
APV Future Member Contributions:	915.0	1,336.6	395.3	558.4
APV Future Employer Contribution	<u>1,033.1</u>	<u>987.6</u>	<u>446.3</u>	<u>610.5</u>
APV of total funds available	3,386.0	3,762.1	2,279.5	2,606.8
Funding Shortfall (in millions):	\$422.9	\$0.0	\$870.4	\$520.9

SB 2344 – Change SIB Composition

- Reduced TFFR and PERS representation on State Investment Board, and added banking and investment professionals appointed by the Governor to the SIB.
- Concerns about fiduciary responsibility, need for accountability to members, and potential conflict of interest.
- Senate passed bill 31-16
- Bill failed in House, 43-50.

Frequently Asked Questions (FAQ)



FAQ 1

- How can I find out when I am eligible to retire and how much I will receive when I retire?
 - Request personalized benefit estimate (phone, email, regular mail, conventions). Estimates will be sent to home address.
 - During 2011-13 transition period, staff may be unable to provide individual estimates under every scenario until programming for grandfathering provisions and modified retirement eligibility requirements is completed. Please be patient.
 - Benefit estimates on annual member statements may be limited until programming is completed.

FAQ 2

- On 6/30/13, I will be at the Rule of 63 (age 43 with 20 years service), so will not meet the grandfathering criteria. Can I purchase service credit so I will be grandfathered, and so I can retire at Rule of 85?
 - Yes, you may be able to purchase additional service credit (air time, out of state credit, etc.) to be grandfathered, if you meet the purchase eligibility requirements outlined in state law. For example, you may be able to purchase up to 5 years of “air time” which would allow you to qualify so long as purchase is completed by 6/30/13.

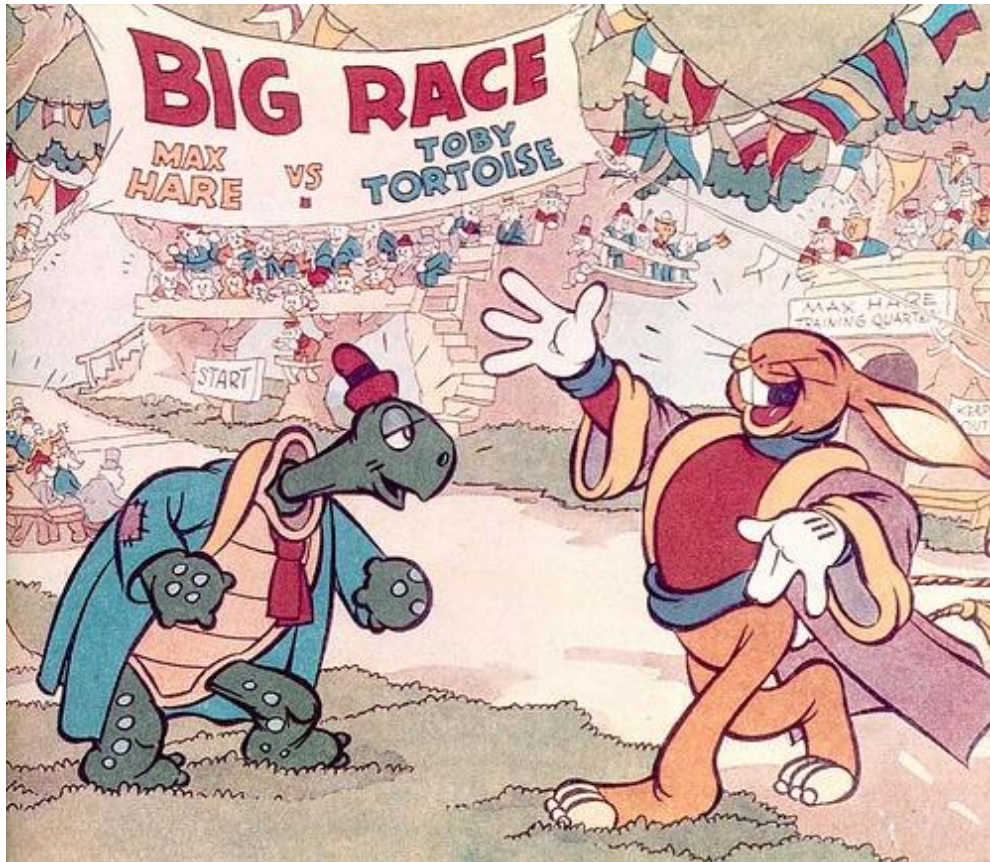
FAQ 3

- Will this year's excellent investment performance (estimate about 20%) close TFFR's funding gap?
 - No, a funding deficit will still exist.
 - 1 or 2 good years of strong investment returns will not undo the funding damage from the 2008-09 market meltdown.
 - Funding levels are expected to dip for the next few years as 2008-09 investment losses are phased in, and then should increase.
 - If investment returns are greater than 8% over the long term and if TFFR reaches 90% funded level, contribution rates will be reduced sooner than expected.
 - Funding improvement will be a long, slow process.

Future of TFFR

- 2013 legislative session
 - The TFFR Board will determine the need for any future legislation during 2011-12 interim. At this time, no significant changes are being discussed.
 - Expect more discussion in future about financial sustainability of current defined benefit plan, and possible creation of defined contribution and/or hybrid plans.
 - Expect more discussion about 2% benefit formula, retirement eligibility age, salaries used in benefit calculation, etc.
- 2013 - 100 year anniversary of TFFR

Slow and Steady Wins the Race.



Thank you for your support of TFFR.

TFFR Information

TFFR website: www.nd.gov/rio

- Legislation
 - Links to ND Legislative website, bill drafts, actuarial analysis
- Presentations
 - Webcast presentations on funding and legislative proposals
 - Presentations made to member and employer groups
- Publications and Reports
 - Newsletters, handbook, brochures
 - Actuarial and audit reports
- Contact Information
 - Phone: 701-328-9885 or 1-800-952-2970
 - Email: fkopp@nd.gov