

TFFR – 2011 Legislative Impact

ND School Boards Association Convention
October 29, 2011

Fay Kopp, Dep. Exec. Director – Retirement Officer
ND Retirement & Investment Office (RIO)
ND Teachers' Fund for Retirement (TFFR)

TFFR Board of Trustees

TFFR program is managed by a 7-member board of trustees who have a fiduciary responsibility to the fund's beneficiaries. The Board consists of 5 active and retired members appointed by the Governor and 2 state officials.

- **Active School Teachers**

- Mike Gessner, Minot – President
- Kim Franz, Mandan

- **Active School Administrator**

- Bob Toso, Jamestown

- **Retired Members**

- Lowell Latimer, Minot – Vice President
- Clarence Corneil, Dickinson

- **State Officials – Ex officio members**

- Kelly Schmidt, State Treasurer
- Wayne Sanstead, State Superintendent

TFFR Board of Trustees

TFFR Mission:

Advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.



State Investment Board (SIB)

TFFR investment program is implemented by State Investment Board.

State Officials

- Lt. Governor
Drew Wrigley, Chairman
- State Treasurer
Kelly Schmidt
- State Insurance Comm.
Adam Hamm
- State Land Comm.
Lance Gaebe
- Workforce Safety & Insurance
Cindy Ternes

Pension Representatives

- Clarence Corneil (TFFR)
- Mike Gessner (TFFR)
- Bob Toso (TFFR)

- Levi Erdmann (PERS)
- Howard Sage (PERS)
- Mike Sandal (PERS)

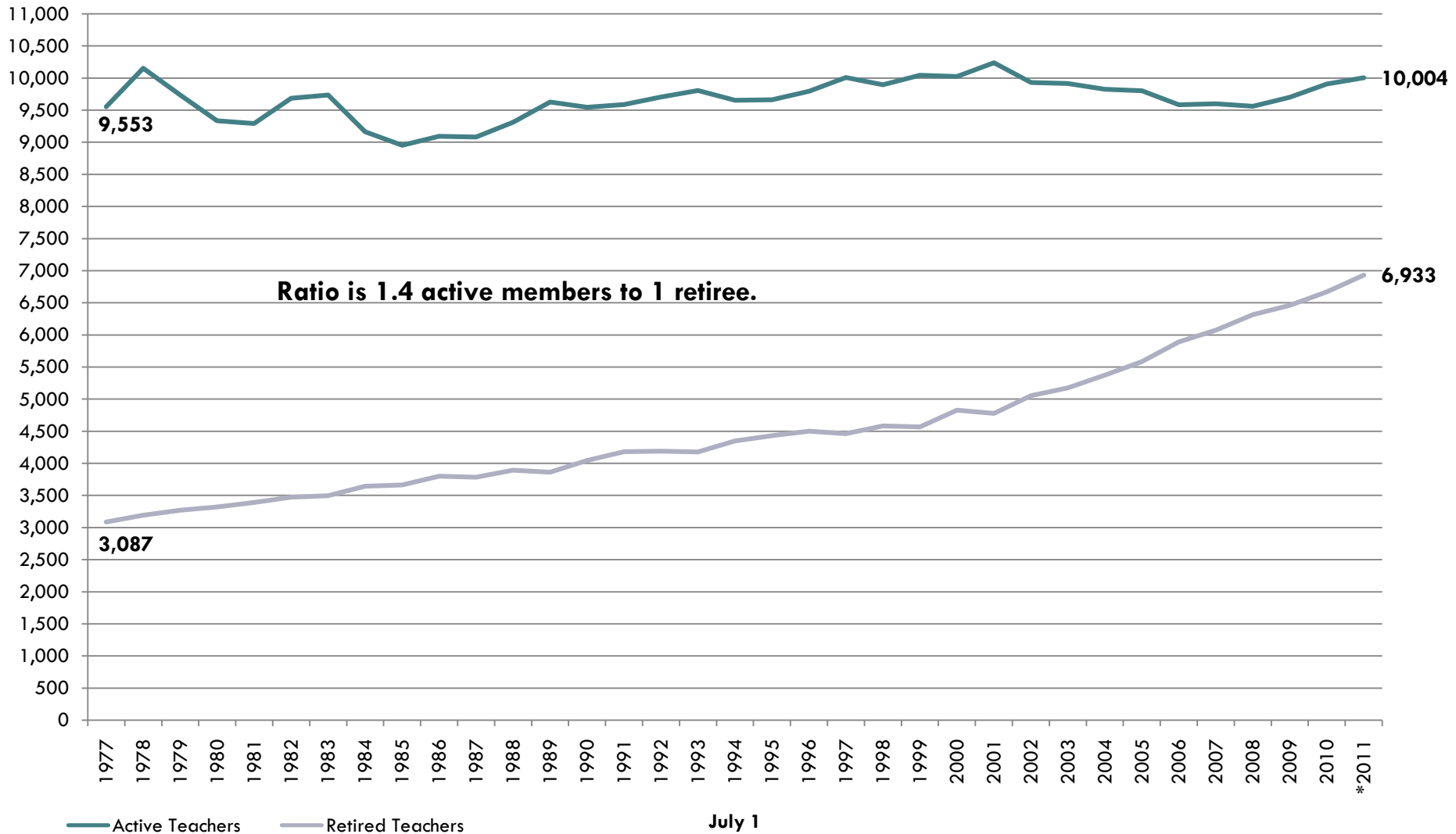
TFFR Background



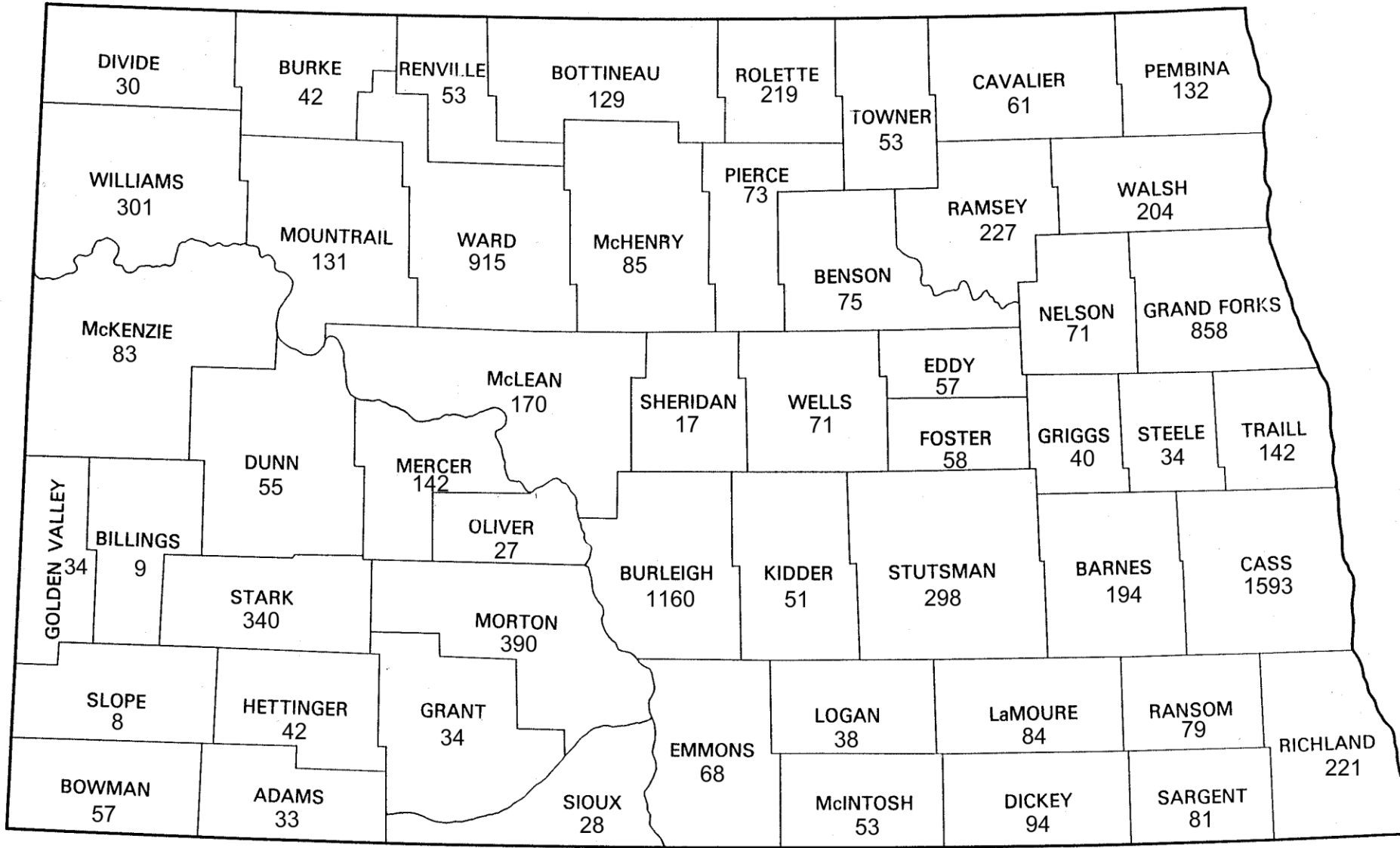
TFFR Participating Employers

▣ School Districts	183	
▣ Special Ed Units		19
▣ Vocational Centers		5
▣ Counties	9	
▣ State Agencies/Institutions	4	
▣ Other – Closed groups		<u>6</u>
2010-11 TOTAL EMPLOYERS		226

Active and Retired TFFR Members 1977 – Present



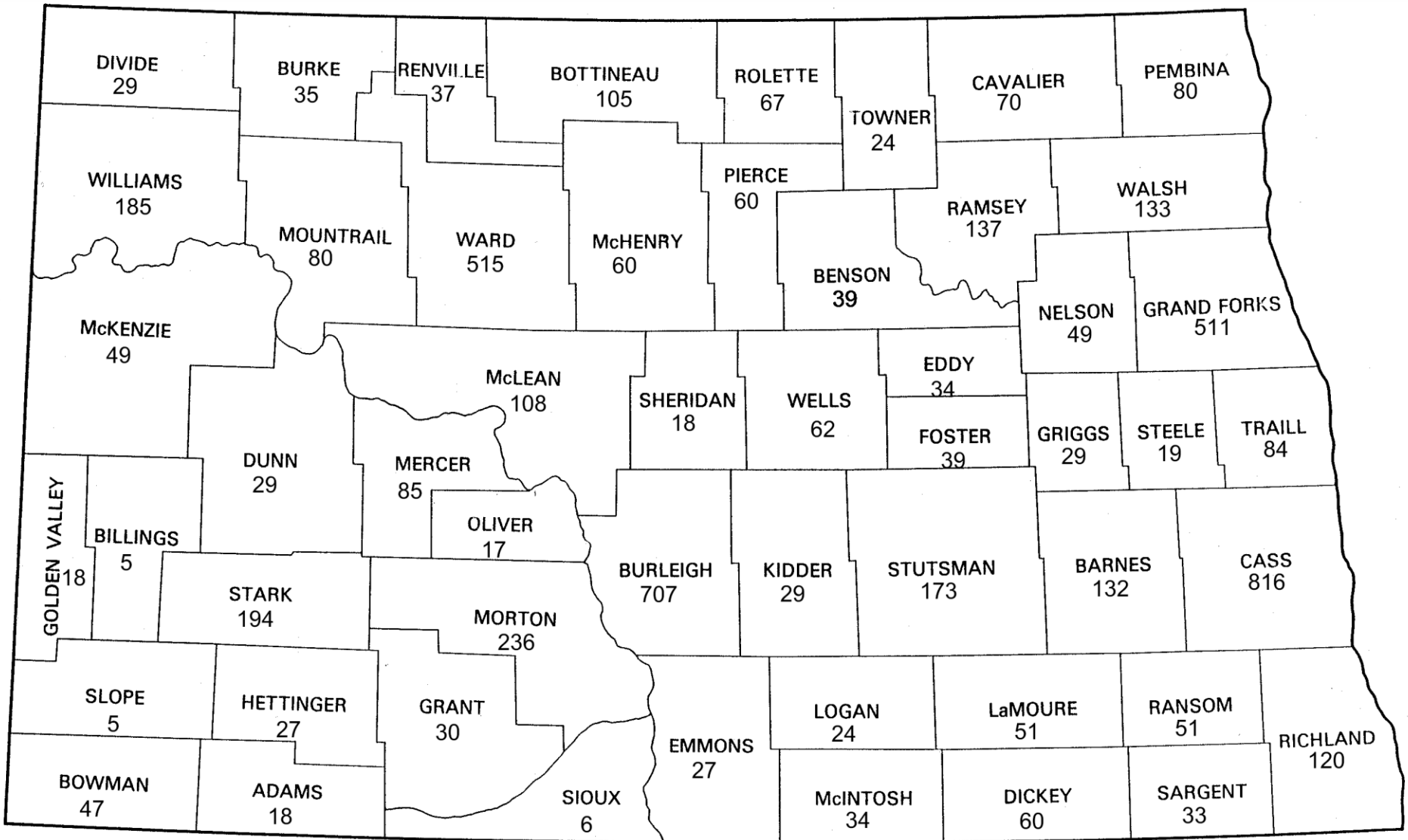
TFFR Active Members



In-state 9,544
 Out-of-state 460
 Total 10,004

Tier 1: 8,078
 Tier 2: 1,926
 Total 10,004

TFFR Retired Members

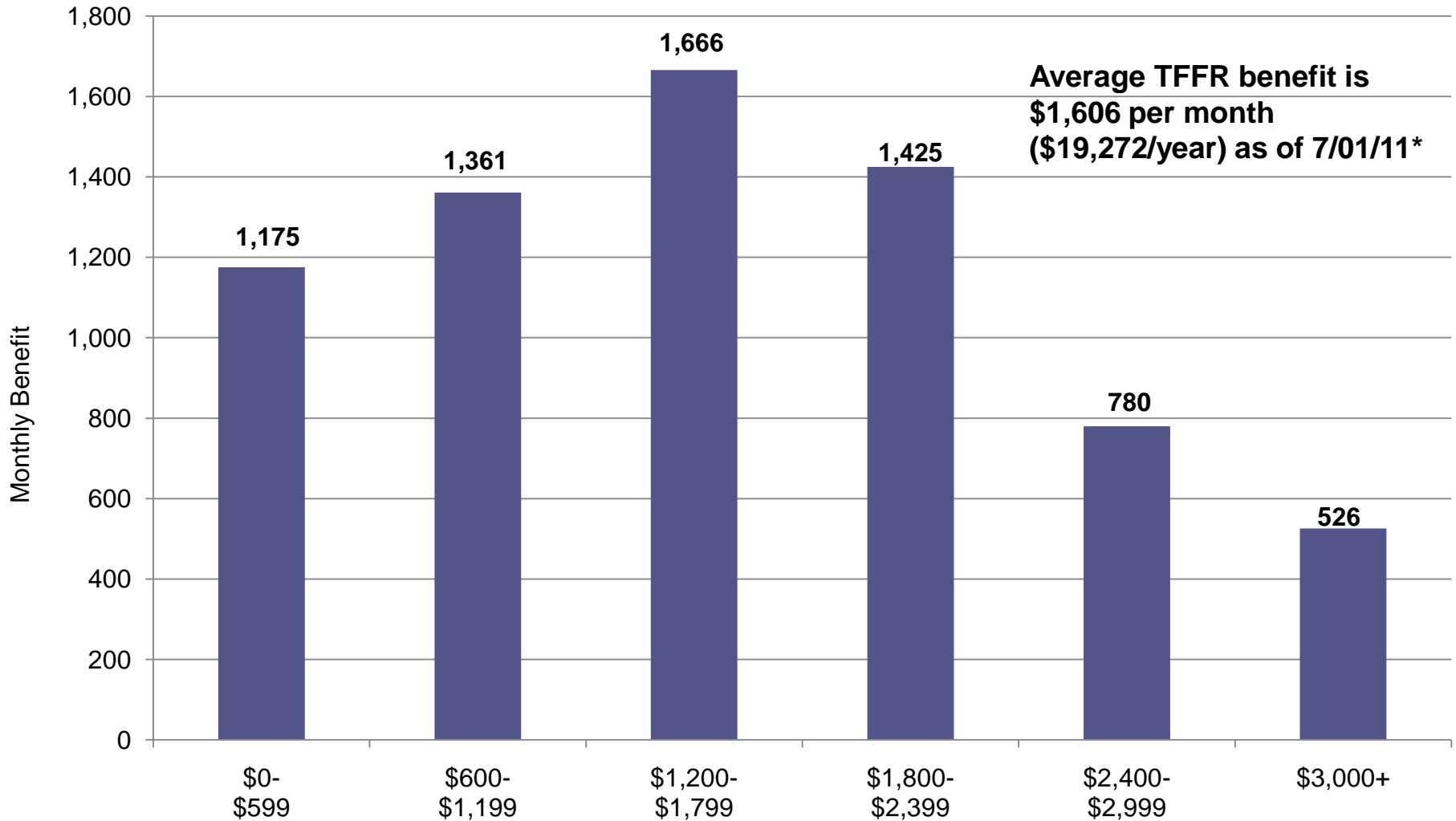


In-state	5,632
Out-of-state	<u>1,301</u>
Total	6,933

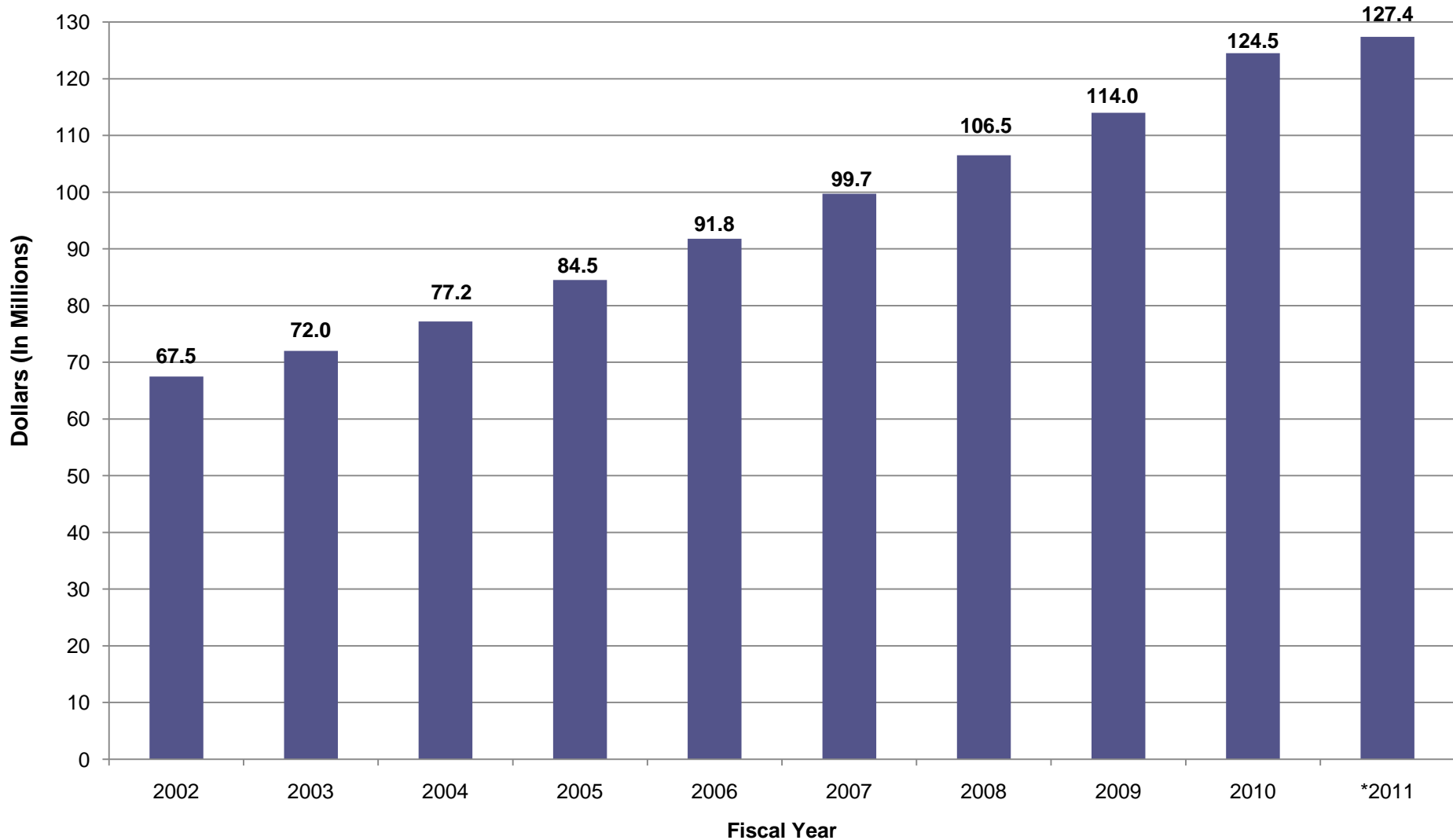
Average Monthly TFFR Benefits by County

County	Ret Count	Avg Benefit	Total Benefit	County	Ret Count	Avg Benefit	Total Benefit
Adams	18	1,485	26,725	Mercer	85	1,746	148,422
Barnes	132	1,722	227,329	Morton	236	1,694	399,842
Benson	39	1,727	67,360	Mountrail	80	1,435	114,777
Billings	5	1,330	6,649	Nelson	49	1,401	68,655
Bottineau	105	1,518	159,434	Oliver	17	1,809	30,758
Bowman	47	1,447	68,025	Pembina	80	1,756	140,481
Burke	35	1,346	47,108	Pierce	60	1,566	93,951
Burleigh	707	1,762	1,245,968	Ramsey	137	1,451	198,726
Cass	816	1,838	1,499,510	Ransom	51	1,337	68,198
Cavalier	70	1,349	94,456	Renville	37	1,653	61,152
Dickey	60	1,165	69,916	Richland	120	1,694	203,328
Divide	29	2,016	58,452	Rolette	67	1,572	105,305
Dunn	29	1,724	49,992	Sargent	33	1,216	40,113
Eddy	34	1,479	50,287	Sheridan	18	1,408	25,351
Emmons	27	1,472	39,733	Sioux	6	854	5,121
Foster	39	1,748	68,176	Slope	5	924	4,622
Golden Valley	18	1,348	24,263	Stark	194	1,595	309,487
Grand Forks	511	1,888	964,614	Steele	19	1,426	27,091
Grant	30	1,298	38,936	Stutsman	173	1,589	274,949
Griggs	29	1,330	38,581	Towner	24	1,528	36,669
Hettinger	27	1,625	43,875	Traill	84	1,508	126,662
Kidder	29	1,495	43,364	Walsh	133	1,561	207,548
LaMoure	51	1,494	76,208	Ward	515	1,722	886,959
Logan	24	1,523	36,554	Wells	62	1,502	93,140
McHenry	60	1,425	85,473	Williams	185	1,687	312,172
McIntosh	34	1,685	57,273	Totals	5,632	1,673	9,420,517
McKenzie	49	1,719	84,217	Out of State	1,301	1,317	1,693,082
McLean	108	1,524	164,560	Grand Totals	6,933	1,606	11,113,599

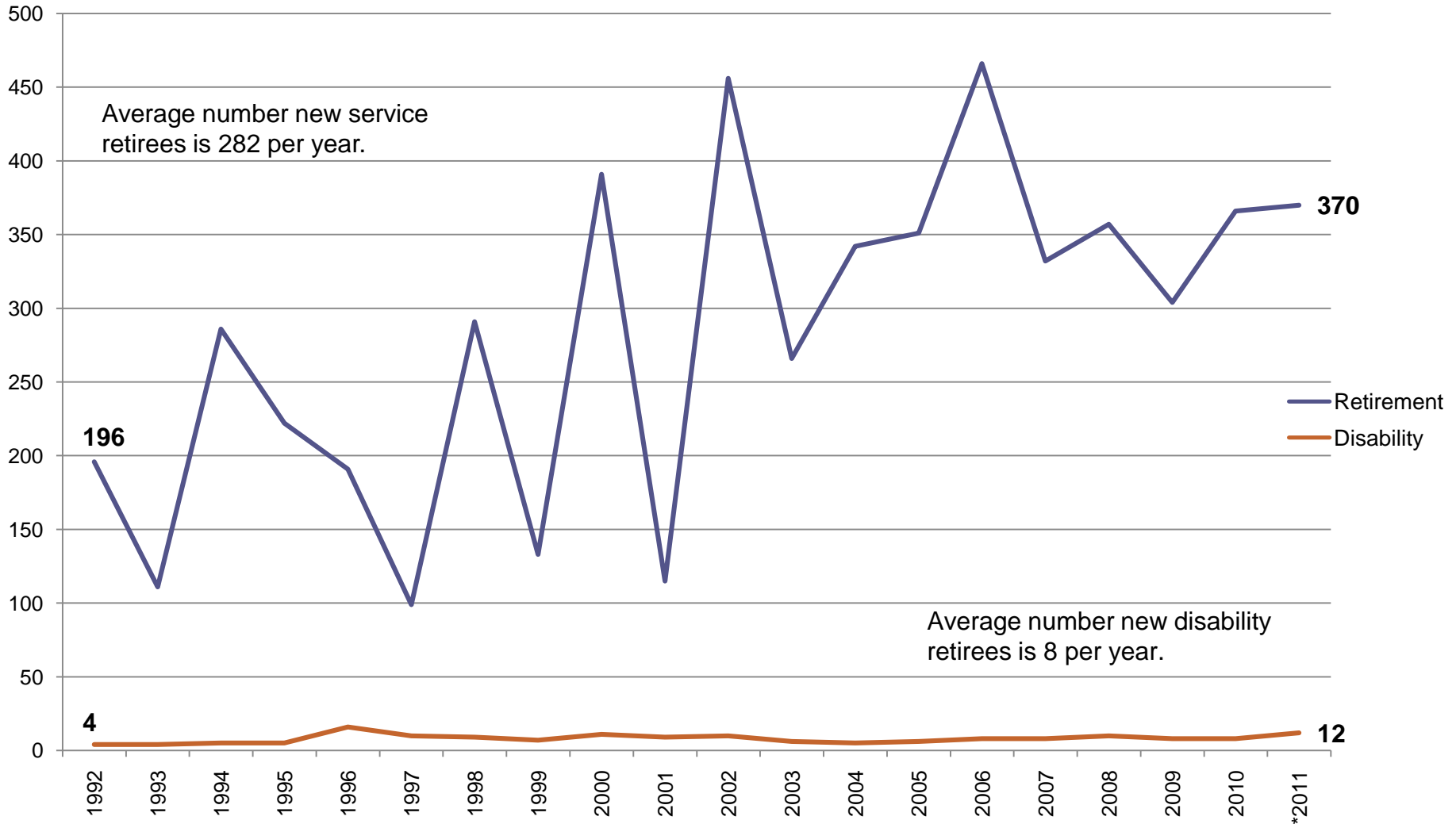
Monthly TFFR Benefits by Benefit Amount



Annual TFFR Pension Benefits Paid



New Service and Disability Retirees



TFFR Plan Benefits



Membership

- Licensed by Education Standards and Practices Board (ESPB)
- Contracted with participating employer to provide teaching, supervisory, administrative, or extracurricular services
- Other members defined in state law
- Membership Tiers
 - Tier 1 – Members who have TFFR service credit on 7/1/08.
 - Tier 1 Grandfathered Members
 - Tier 1 Non-Grandfathered Members
 - Tier 2 – Members employed on or after 7/1/08
- **Note: 2011 legislation**
 - Tier 1 grandfathered members - within 10 years of retirement eligibility (Age 55+ or Rule of 65+ on 6/30/13) – estimate 3,500
 - Tier 1 non-grandfathered members – more than 10 years away from retirement eligibility – estimate 6,500

Contribution Rates

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

Note: 2011 legislation increased rates effective 7/1/12 and 7/1/14 to improve TFFR funding level. Increased rates will be in effect until TFFR reaches 90% funded ratio; then rates will be reduced to 7.75% each.

TFFR Employer Payment Plan (EPP) Models

Payment of member 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: Member contribution is paid by the member through a salary reduction and remitted by the employer on a tax deferred basis.
- Model 2 (all): All of the member 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 member 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 member contribution is paid by the member and remitted by the employer on an after tax basis. **Effective 7/1/12, all member contributions (whether paid by employer or member) will be made on a tax deferred basis.**
- Other: Includes state agencies, closed groups with special provisions, or no model.

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%

Eligible Salary

- Eligible salary (reportable) includes a member's earnings in eligible employment for performance of duties:
 - ▣ Teaching
 - ▣ Supervisory
 - ▣ Administrative
 - ▣ Extracurricular services



Ineligible Salary

- Ineligible salary (non-reportable) includes benefits or certain payments made to a member:
 - Fringe benefits – insurance programs, annuities, transportation, housing or expense allowances, etc.
 - Insurance programs – medical, dental, vision, disability, life, ltc, etc.
 - Payments for unused sick, personal, vacation, or other unused leave
 - Recruitment bonuses
 - Early retirement incentive pay, severance pay, or other payments conditioned on or made in anticipation of retirement or termination
 - Teacher's aide, ticket taking, referee, bus driver, janitorial pay
 - Amounts received by a member in lieu of previously employer provided benefits or payments
 - Other benefits or payments the TFFR Board determines to be ineligible TFFR salary.

Vesting and Benefits

- Vesting status – entitled to lifetime annuity benefit at normal retirement age.
 - Tier 1 (employed before 7/1/08) - 3 years
 - Tier 2 (employed after 7/1/08) - 5 years
- Benefits Available
 - Retirement Benefits
 - Disability Benefits
 - Death Benefits
 - Refund/Rollover of member contributions + interest

Retirement Eligibility

- **NOTE: 2011 legislation raised retirement eligibility age for unreduced benefits and increased reduction factor for early reduced benefits for non grandfathered members who are more than 10 years away from retirement eligibility on 6/30/13.**

Unreduced benefits (normal retirement):

- Tier 1 Grandfathered members
 - ▣ Age 65 with 3 years; or
 - ▣ Any age with Rule of 85 (age + service = 85+)
- Tier 1 Non-grandfathered and Tier 2 members
 - ▣ Age 65 with 3 years (Tier 1) or 5 years (Tier 2); or
 - ▣ Minimum age 60 with Rule of 90 (age + service = 90+)

Reduced benefits (early)

- Tier 1 Grandfathered members
 - ▣ Age 55, benefits reduced 6% year
- Tier 1 Non-grandfathered and Tier 2 members
 - ▣ Age 55, benefits reduced 8% year

Retirement Benefit Formula

■ Benefit Formula :

Final Average Salary (FAS) X 2% (multiplier) X Years of Service

Tier 1: 3 year FAS Tier 2: 5 year FAS

■ Example:

□ \$3,000 FAS X 2% X 30 yrs = \$1,800 month

60% of final average salary for career teacher

□ \$3,000 FAS X 2% X 15 yrs = \$900 month

30% of final average salary

■ **Benefit Options:** single life annuity, 100% and 50% joint and survivor, 10 and 20 year term certain, level income with Social Security, and partial lump sum option.

Summary of TFFR Pension Benefits for Membership Tiers

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule of 85	Rule of 90	Rule of 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 FAS	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years

Disability Benefits

- Effective 7/1/13
- Eligibility
 - ▣ 5 years of service credit
- Disability must be total – permanent or temporary
 - ▣ Review by medical consultant
 - ▣ Approval by TFFR Board
- Formula
 - ▣ Retirement formula with no age reduction
 - ▣ Final average salary X service X 2%

Retiree Re-employment

□ **General Rule**

- Retirees may return to covered employment after 30 day waiting period.
- Employment is limited to a maximum number of hours in a fiscal year based on length of work arrangement.
 - 9 mo. 700 hours 11 mo. 900 hours
 - 10 mo. 800 hours 12 mo. 1,000 hours
- Retiree continues receiving monthly TFFR retirement benefit, but benefit does not increase as result of returning to employment.
- Employer contributions are paid based on retiree salary. Retiree member contributions will also be paid (**2011 leg effective 7/1/12**).

□ **Exceptions to General Rule**

- Critical Shortage Areas
- Benefit Suspension and Benefit Recalculation

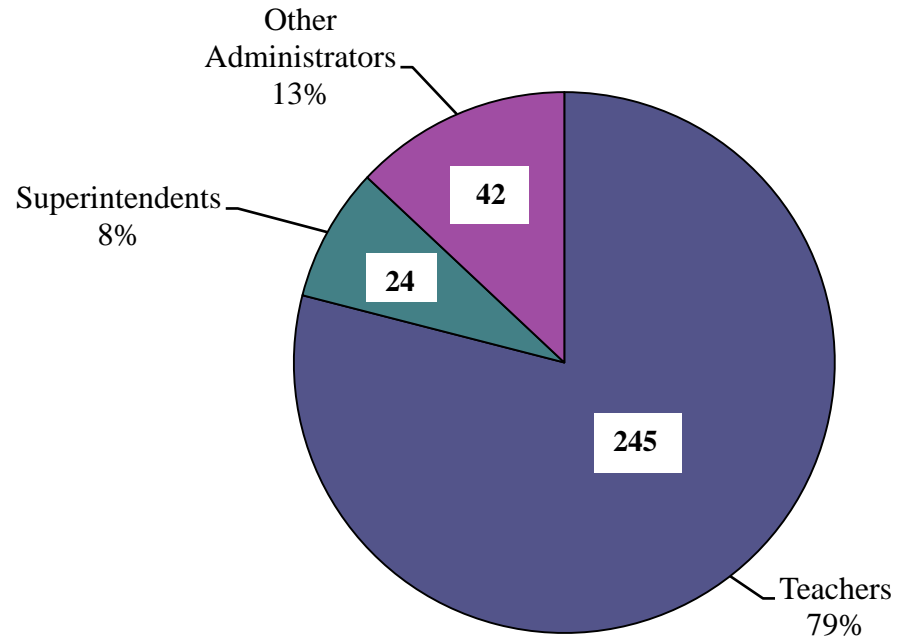
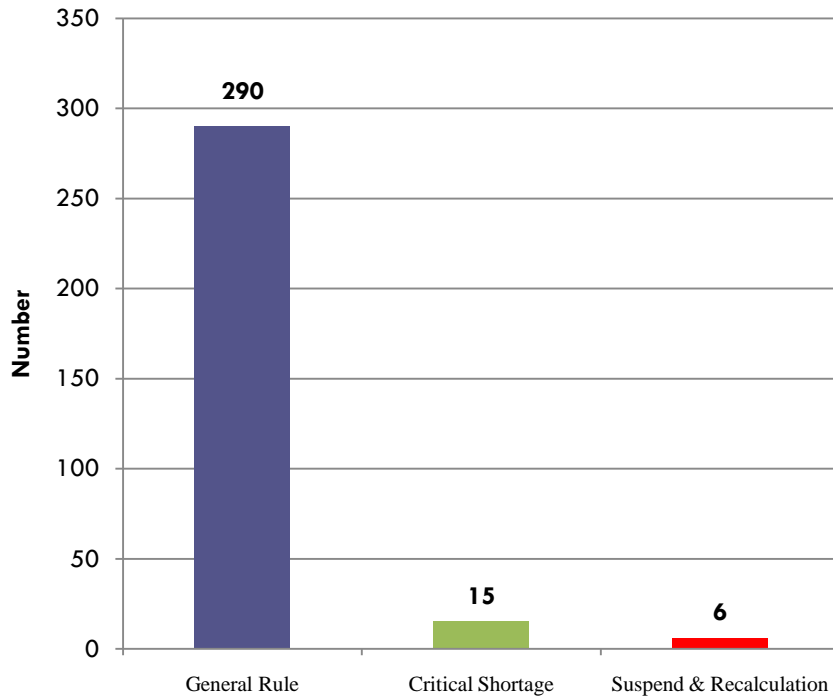
Require Re-Employed Retiree Contributions

- Effective 7/1/12, member contributions will be required on all re-employed retirees on salary earned in covered employment.

RATES %	Employer	Retiree	Total
Current			
7/1/11	8.75%	0.0%	8.75%
7/1/12	10.75%	9.75%	20.5%
7/1/14	12.75%	11.75%	24.5%

- 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.

2010-11 Retiree Re-employment



Total Retirees: 311
Employers: 127

Average Age: 61

Average Salary: \$24,700

2011 Legislation



Legislation

TFFR Legislation

Approved:

- HB 1134 TFFR Funding Improvement
- HB 1133 TFFR Administrative Changes
 - Note: Administrative rules are being drafted.

Failed:

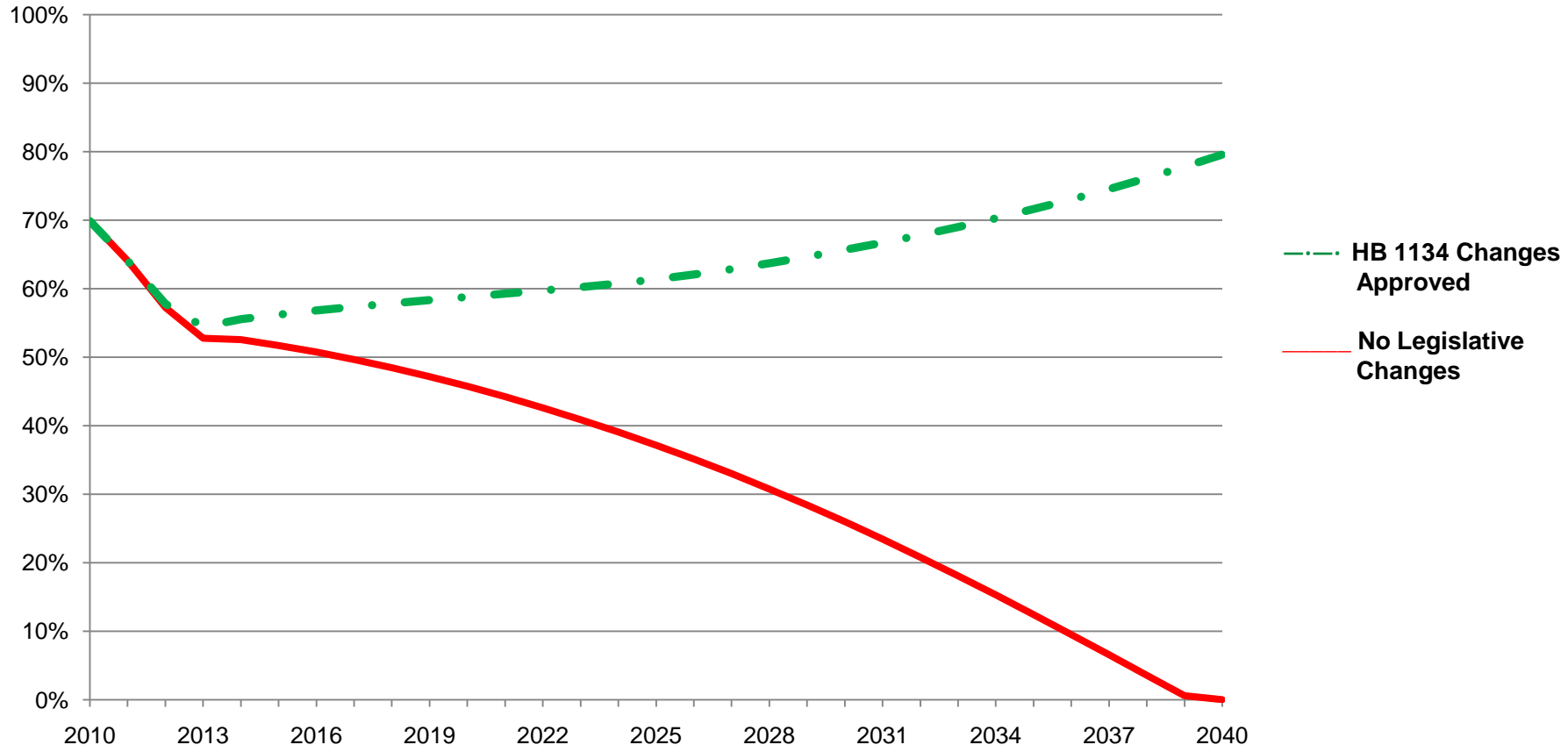
- HB1258 Defined Contribution Plan
- HB 1398 Modified Final Average Salary for Administrators
- SB 2344 Change Composition of SIB

HB1134 TFFR Funding Improvement

- Contribution Increases - total 8%, split 50/50, 2 biennium (7-1-12 and 7-1-14)
 - Increase member contributions +4%
 - Increase employer contributions +4%
 - Require re-employed retiree contributions

- Benefit Changes (7-1-13)
 - 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.

Projected TFFR Funded Ratio (AVA) HB1134 – Contribution Increases and Benefit Changes



With HB1134 changes, plus 8% returns in the future, TFFR funded ratio is projected to reach about 80% over 30-year period.

HB1133 - Administrative Changes

- 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.

TFFR Employer Responsibilities

Information will be sent to all employers in November regarding TFFR employer reporting changes **effective 7/1/12**. Employer responsibilities are as follows:

- All employers will need to incorporate new member and employer contribution rates into payroll systems.
- All employers will need to incorporate payment of member contributions on re-employed retirees into payroll systems.
- Employers who are currently paying all or a portion of member contributions in lieu of a salary increase (Model 2 and Model 3) will need to negotiate who will pay increased member contributions.
- Model 2 partial and Model 3 partial employers will also need to update payroll software to reflect change in tax treatment of member contributions.
- All Employers must complete new TFFR Employer Payment Plan forms indicating how payment of member contributions will be made prior to 7/1/12 rate increase. Forms will also need to be filed before the 7/1/14 rate increase.

HB 1258 – Defined Contribution Plan

- HB 1258 would have closed existing defined benefit (DB) plan to new employees hired after 6/30/12 .
- HB 1258 would have created a defined contribution (DC) plan for new employees 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.

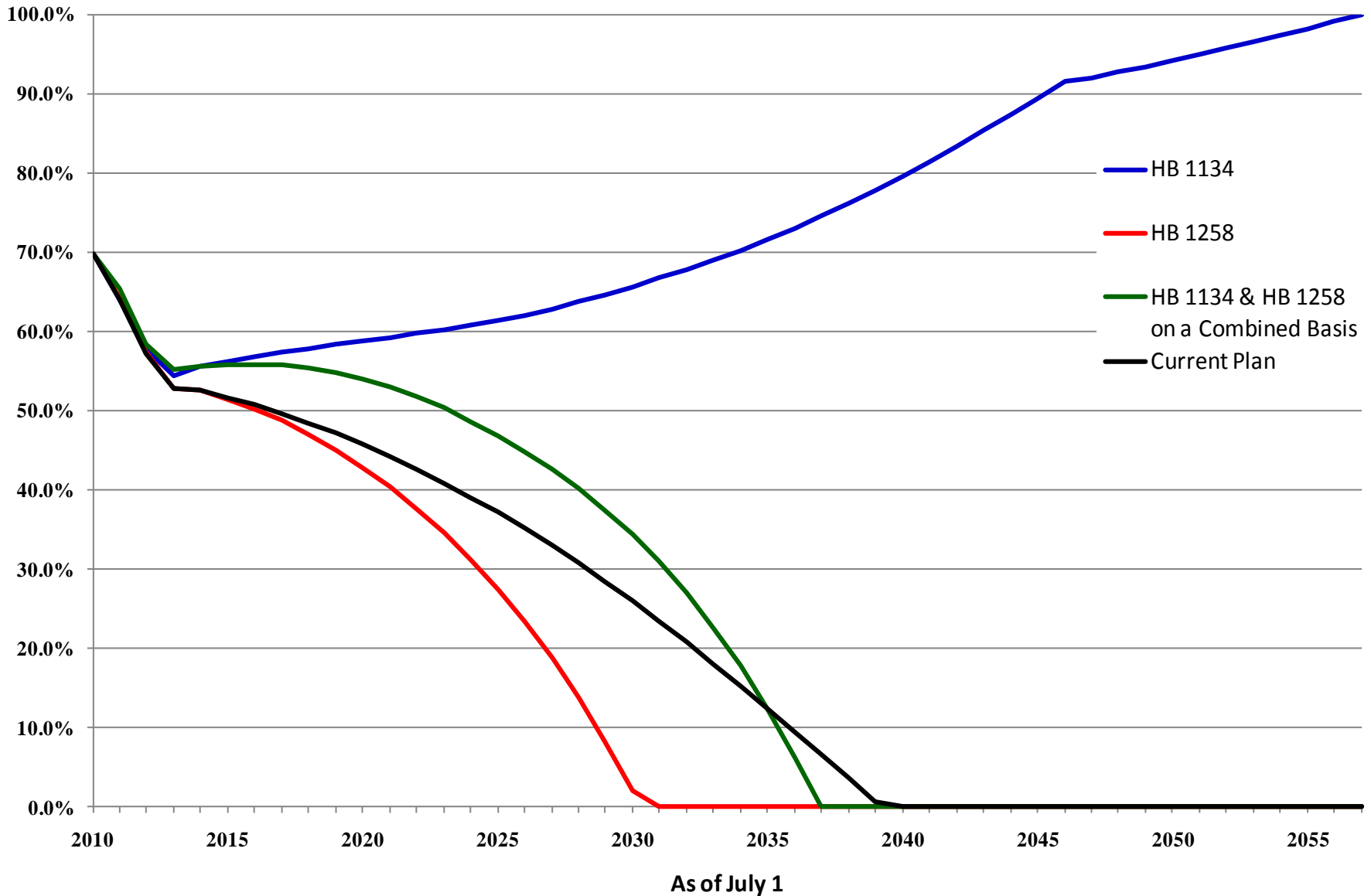
HB 1258 – Defined Contribution Plan

- 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

Exhibit 1 - ND TFFR - Projected Funded Ratio

Actuarial Value of Assets ÷ Actuarial Accrued Liability



Future Legislative Proposals?

- 2013 legislative session
 - The TFFR Board will determine the need for any future legislation after receipt of 2011 valuation report and projections. At this time, no significant changes are being discussed.
 - Study bills must be filed with interim Legislative Employee Benefits Programs Committee by 4/1/12.
 - Expect continued discussion in future about financial sustainability of current defined benefit plan, and possible creation of defined contribution and/or hybrid plans.

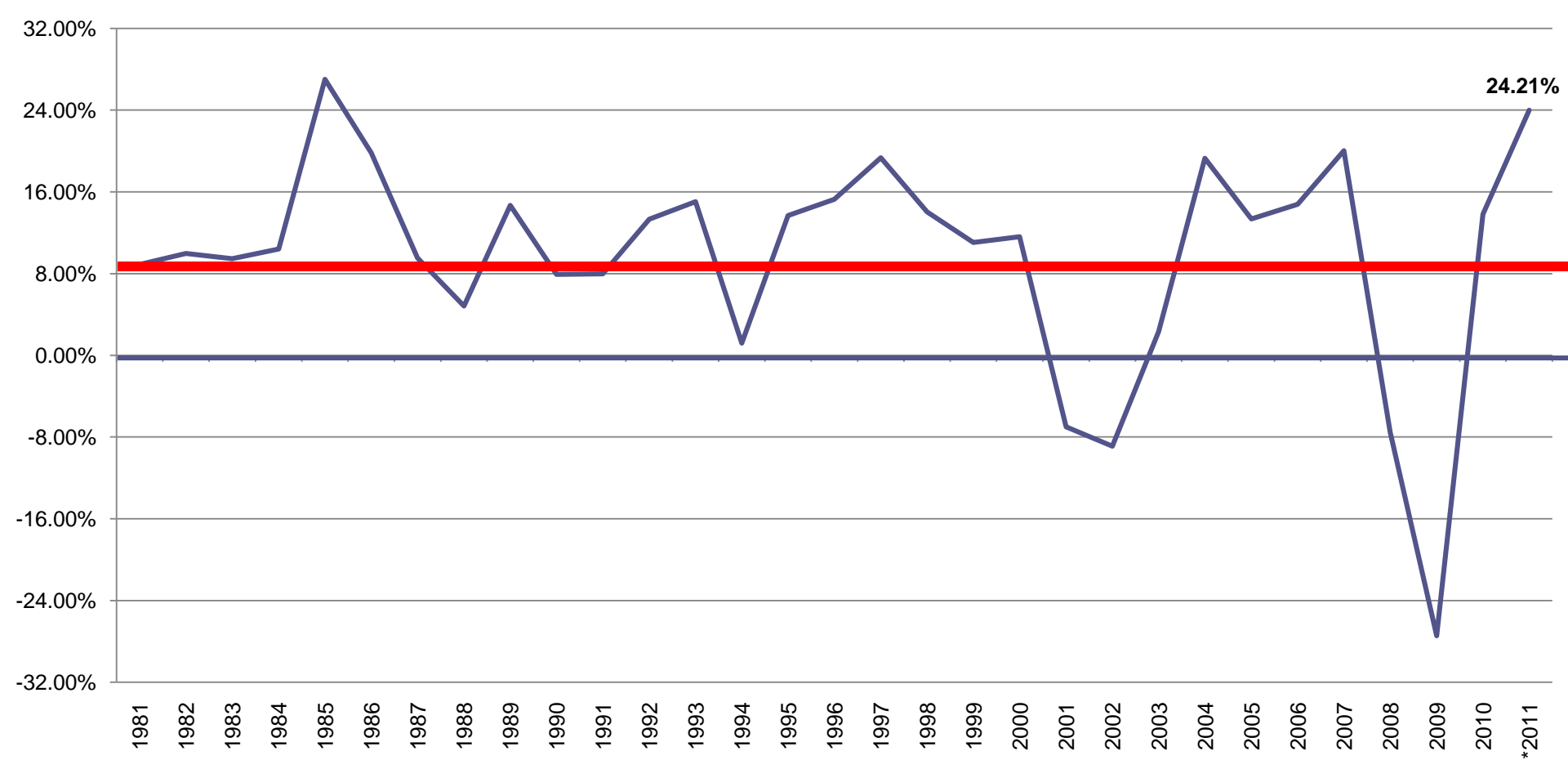
TFFR Investments



TFFR Investments

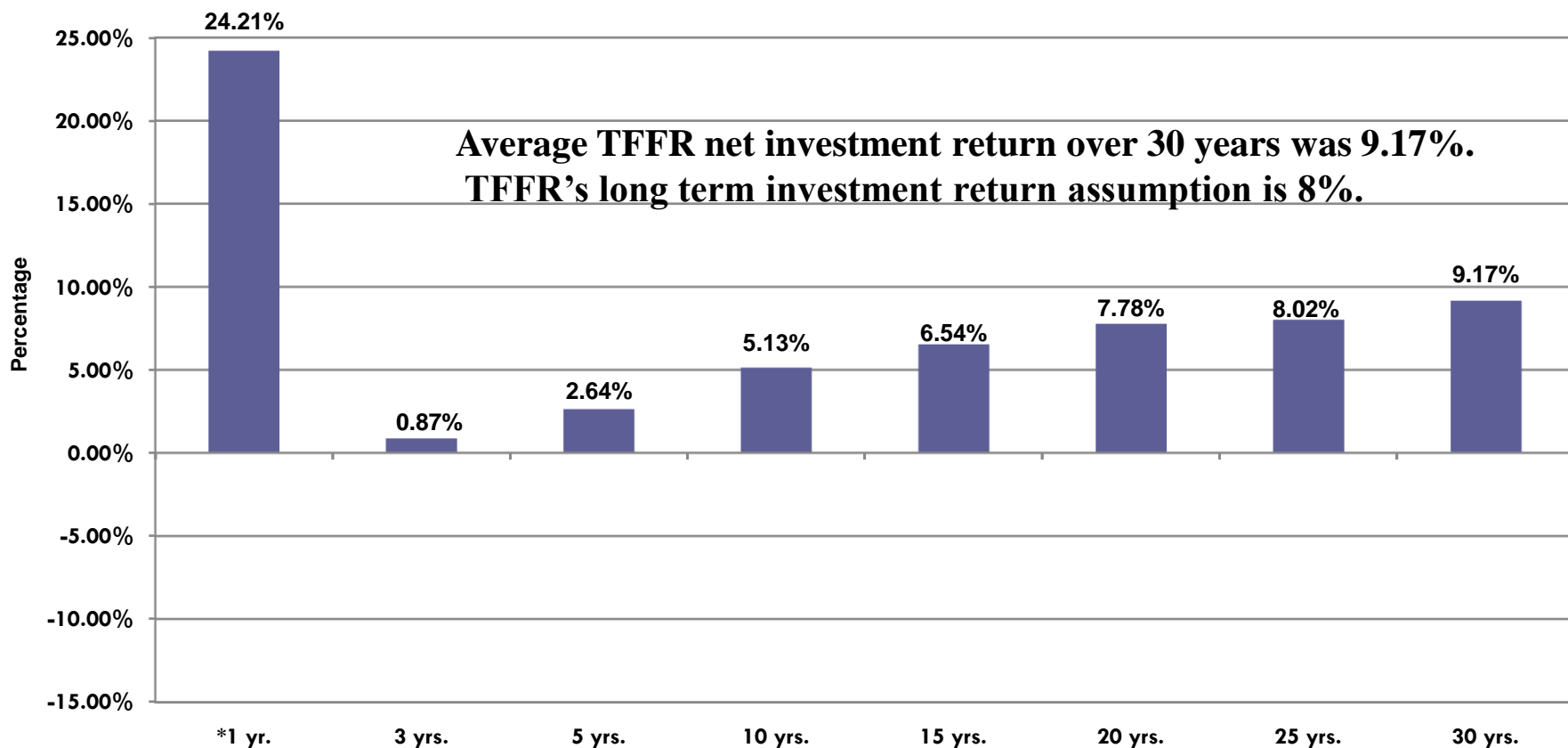
- Asset allocation and investment policy is determined by TFFR Board, with assistance from SIB Investment Director.
- Asset Liability study is conducted every 5 years to consider appropriate asset mix for funding TFFR pension liabilities.
- Study was recently completed, and TFFR Board is updating investment policy statement to include revised asset class descriptions and target asset mix for SIB implementation.
- More information will be provided in next SIB newsletter regarding TFFR asset liability study results.

TFFR Net Investment Performance – Annual 1981-2011



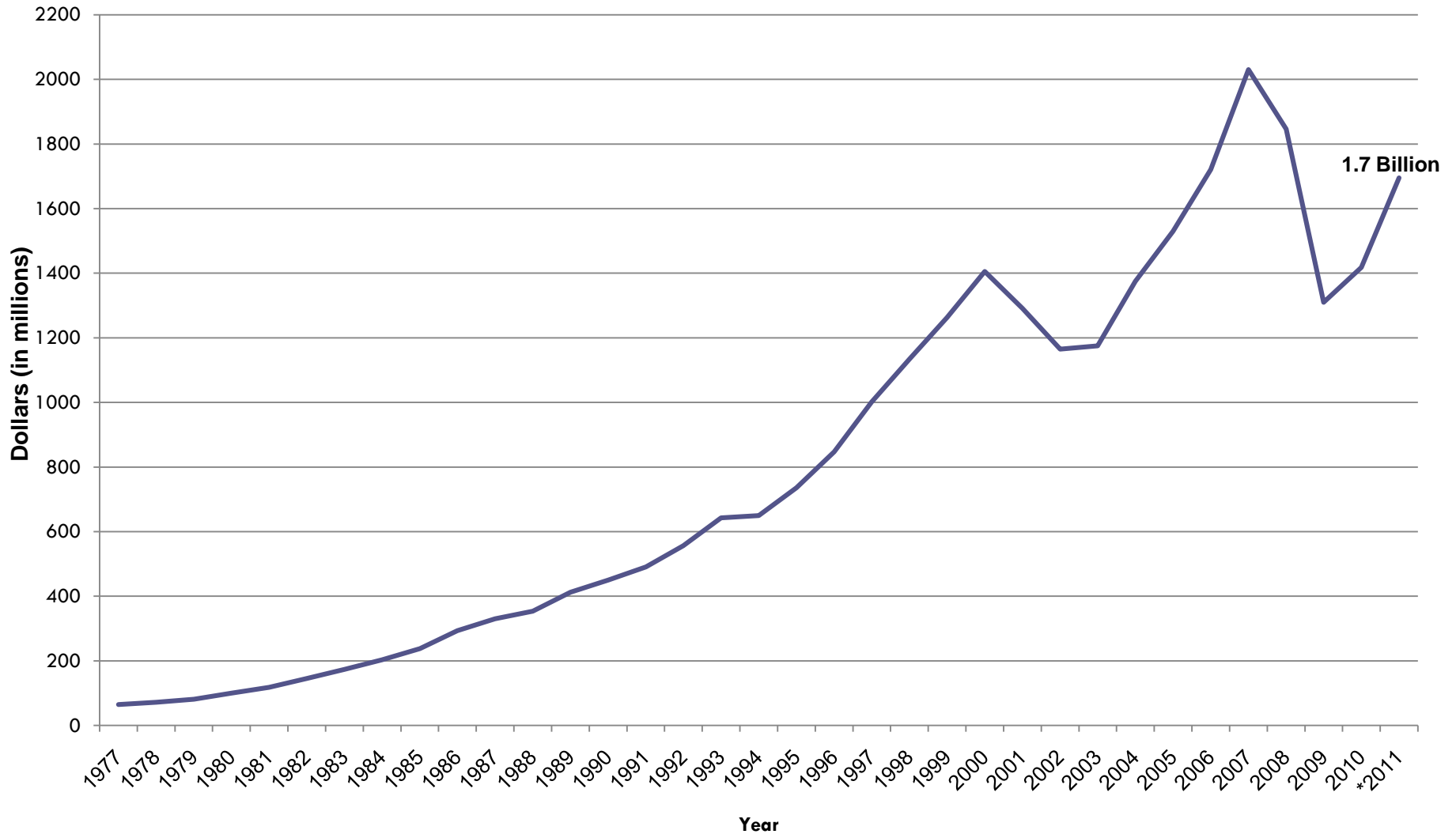
Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a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

TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2011



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.

Market Value of TFFR Assets 1977 - 2011



Investment Outlook

- As encouraging as investment returns were for fiscal year ending June 30, 2011, the outlook for capital market returns going forward is somber.
- Overall economy continues to show troubling signs of weakness.
 - Downgrade of the U.S. credit rating
 - Persistent high unemployment
 - Weak consumer spending
 - Struggling housing market
 - Sluggish growth
 - Another potential recession??
- Current fiscal year to date estimated performance is about -6%.
- Recovery may take a number of years.

TFFR Funding



Retirement Funding Equation

$$C + I = B + E$$

Contributions + Investments = Benefits + Expenses

Not just for today, but for the long term.



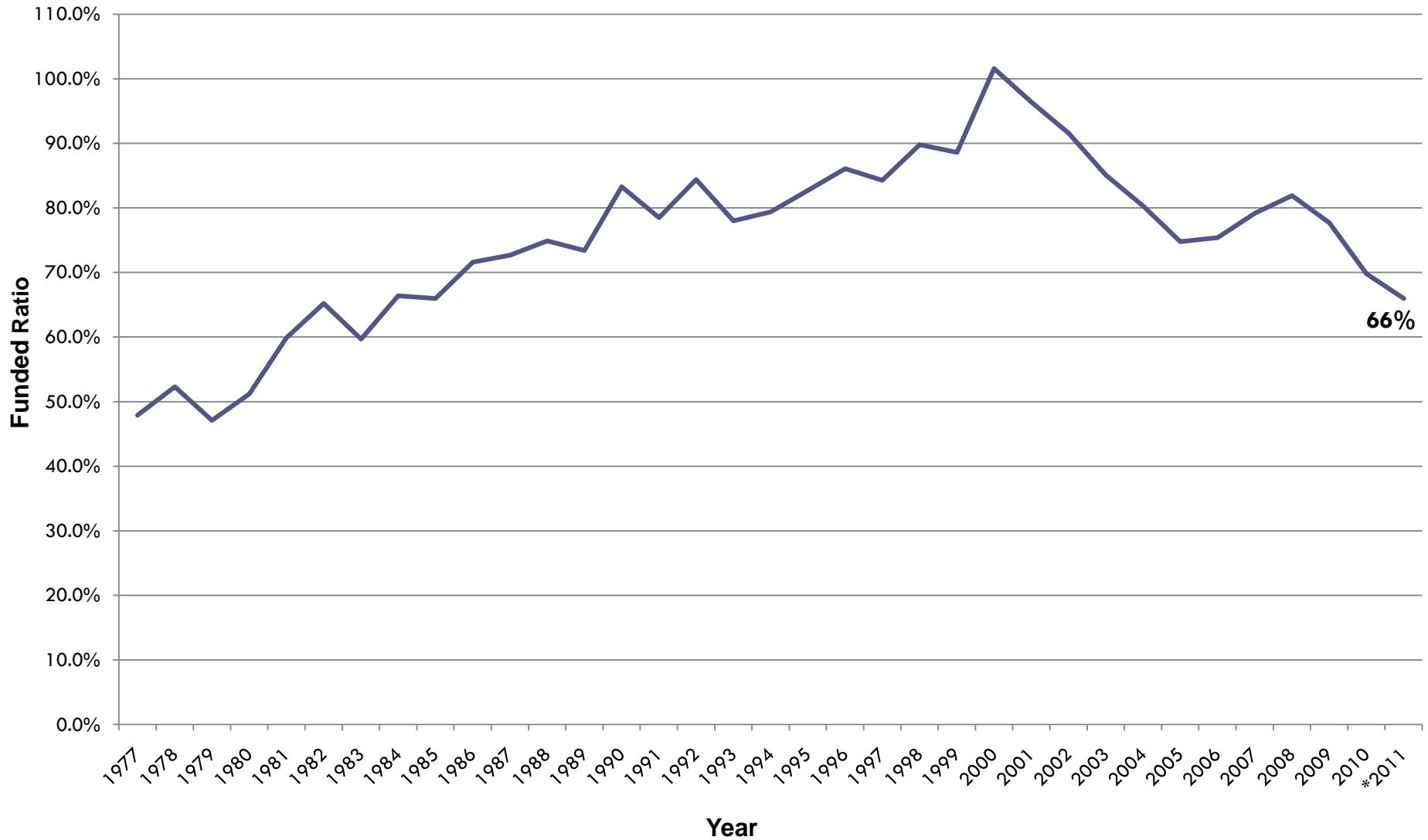
2011 Actuarial Valuation Report

Actuarial Accrued Liability (AAL)	\$ 2.7 billion
Actuarial Value of Assets (AVA)	<u>-1.8 billion</u>
Unfunded AAL (UAAL)	\$ 0.9 billion
AVA Funded ratio	66%

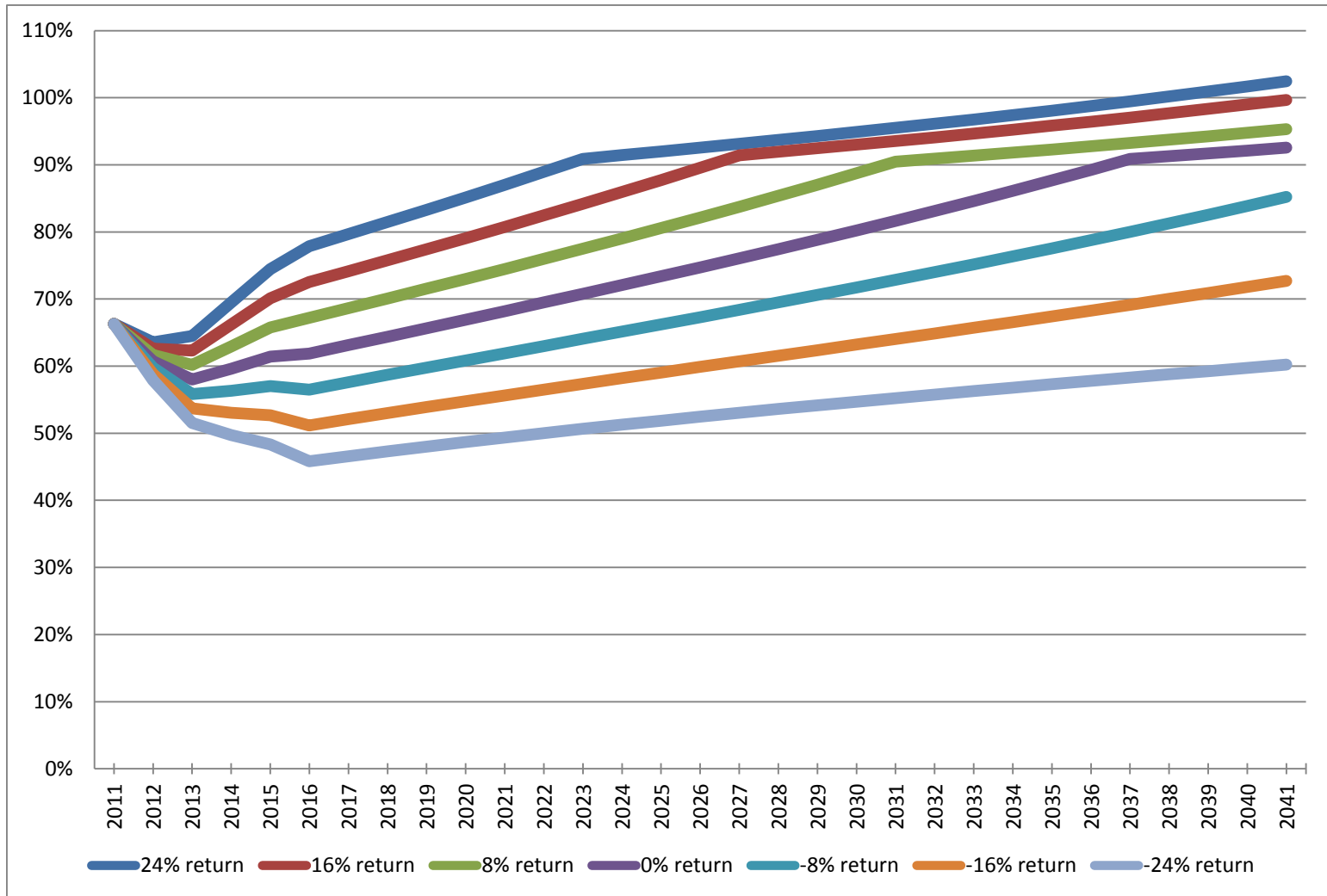
Note:

Market value of assets (MVA)	\$ 1.7 billion
MVA Funded ratio	63%

TFFR Funded Ratio (AVA) 1977 - 2011

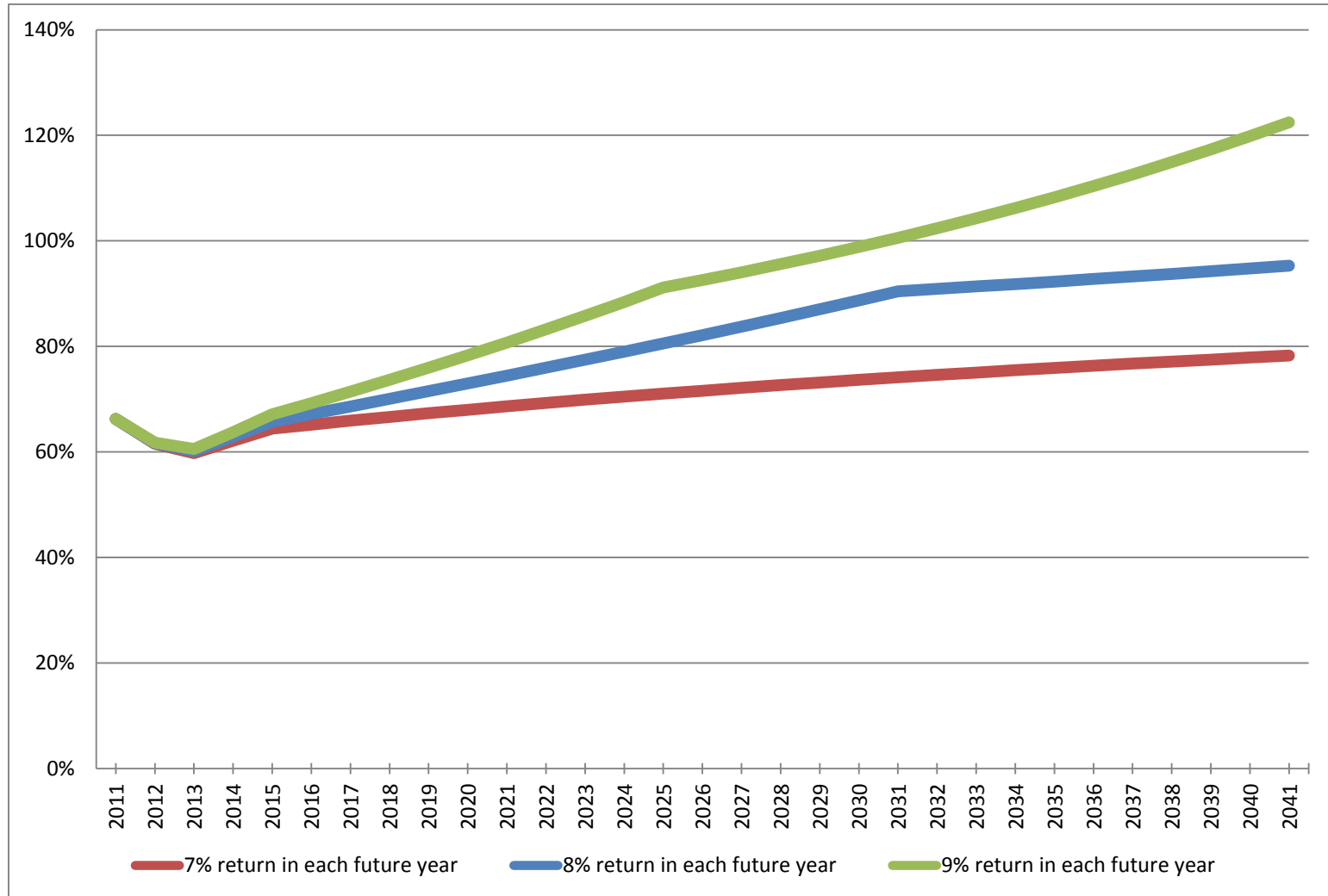


Projected Funded Ratios (AVA Basis)



Projected Funded Ratios (AVA Basis)

Actual Returns +1% or -1% of Assumed



Summary

- 2008-09 financial market meltdown negatively affected TFFR funding levels.
- After lengthy study, and input from member and employer groups, TFFR Board submitted legislation to address declining funding levels (HB1134).
- **2011 Legislature took action to address funding shortfall:**
 - Increased member and employer contributions (7/1/12 and 7/1/14)
 - Reduced member benefits for non-grandfathered employees (7/1/13).
- **Updated projections show TFFR funded level projected to reach 80- 90% within 30 years.**
 - Funding levels are expected to dip for the next few years as 2008-09 investment losses are fully 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. If returns are less than 8% over the long term, contribution rates will remain at the higher levels for a longer period of time.
- **TFFR long term funding outlook is positive.**

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
 - Email: sschumacher@nd.gov

