

NDTFFR UPDATE

ND Retired Teachers Convention – Bismarck
August 31, 2011

Fay Kopp, Deputy Executive Director – Retirement Officer
ND Retirement & Investment Office (RIO)
ND Teachers' Fund for Retirement (TFFR)

NDRTA 1961-2011 Golden Memories Celebration



1960s



1960s



1960s



1960s



1960s



Then and Now

	1961	2011
Fund Name	TIRF	TFFR
Assets	\$16 million	\$1.7 billion
Number of Pensioners	741	6,933
Annual pension payments	\$800,000 yr	\$127 million yr
Average pension payment	\$90 month	\$1,603 month

TFFR Board of Trustees

TFFR Mission:

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



TFFR Board of Trustees

- Retired Members
 - ▣ Lowell Latimer, Minot – Vice President
 - ▣ Clarence Corneil, Dickinson

- Active School Teachers
 - ▣ Mike Gessner, Minot – President
 - ▣ Kim Franz, Mandan

- Active School Administrator
 - ▣ Bob Toso, Jamestown

- State Officials – Ex officio members
 - ▣ Kelly Schmidt, State Treasurer
 - ▣ Wayne Sanstead, State Superintendent

State Investment Board (SIB)

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)

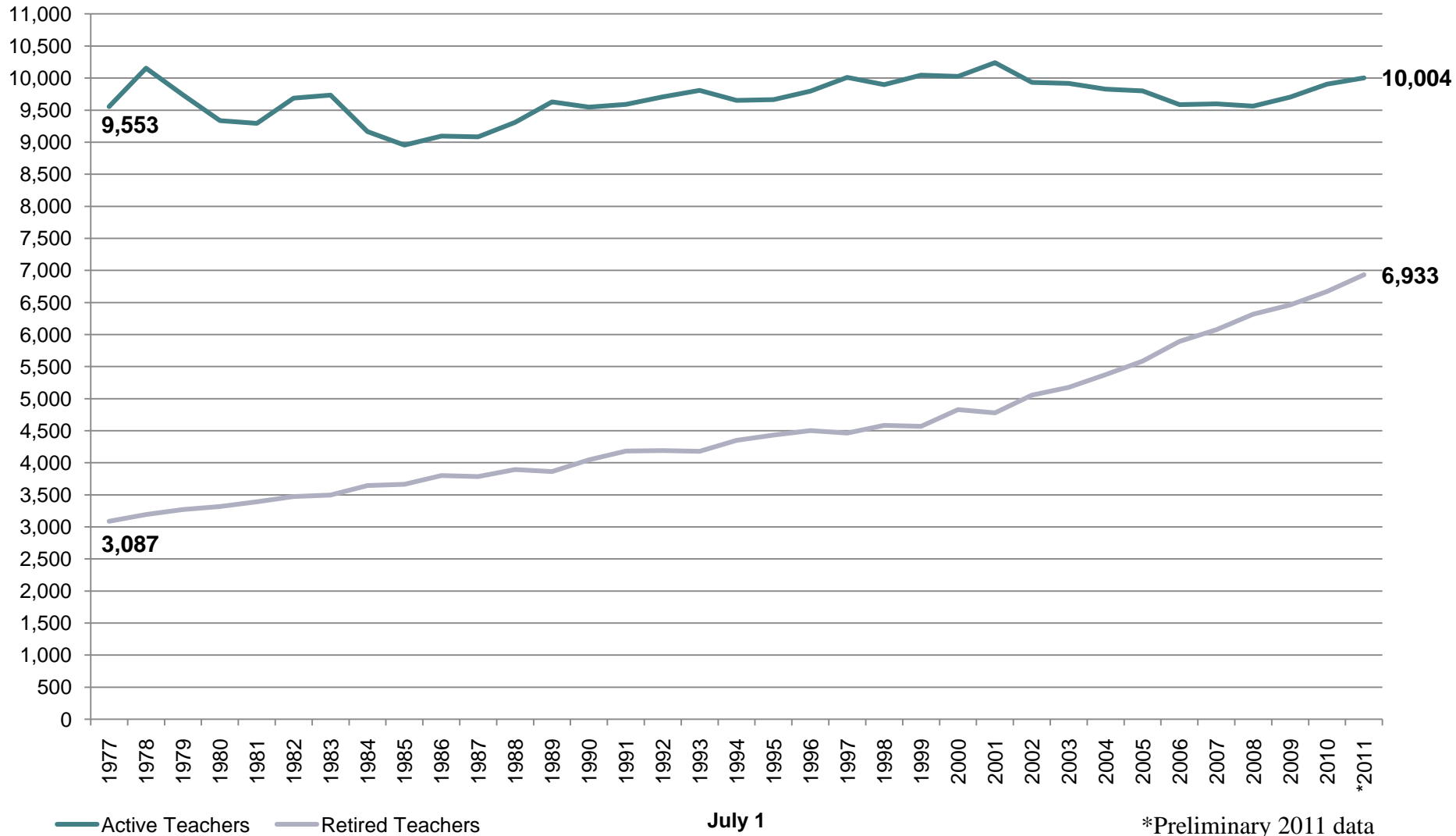
- ▣ Levi Erdmann (PERS)
- ▣ Howard Sage (PERS)
- ▣ Mike Sandal (PERS)

Topics

- Statistics
- Funding
- 2011 legislation
- Frequently Asked Questions
- Future of TFFR

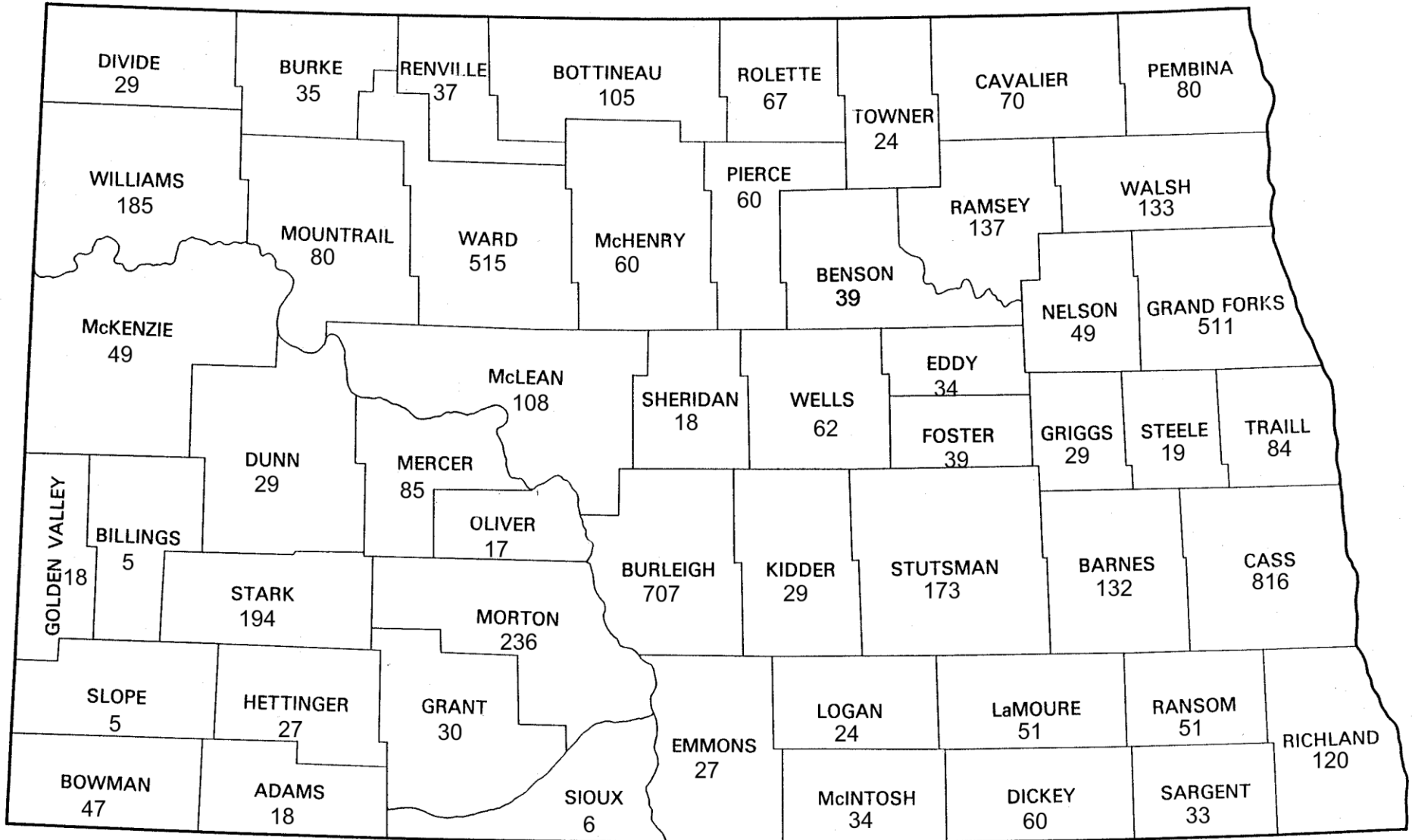
TFFR Statistics

Active and Retired TFFR Members 1977 – Present



*Preliminary 2011 data

TFFR Retired Members



In-state	5,632
Out-of-state	1,301
Total	6,933

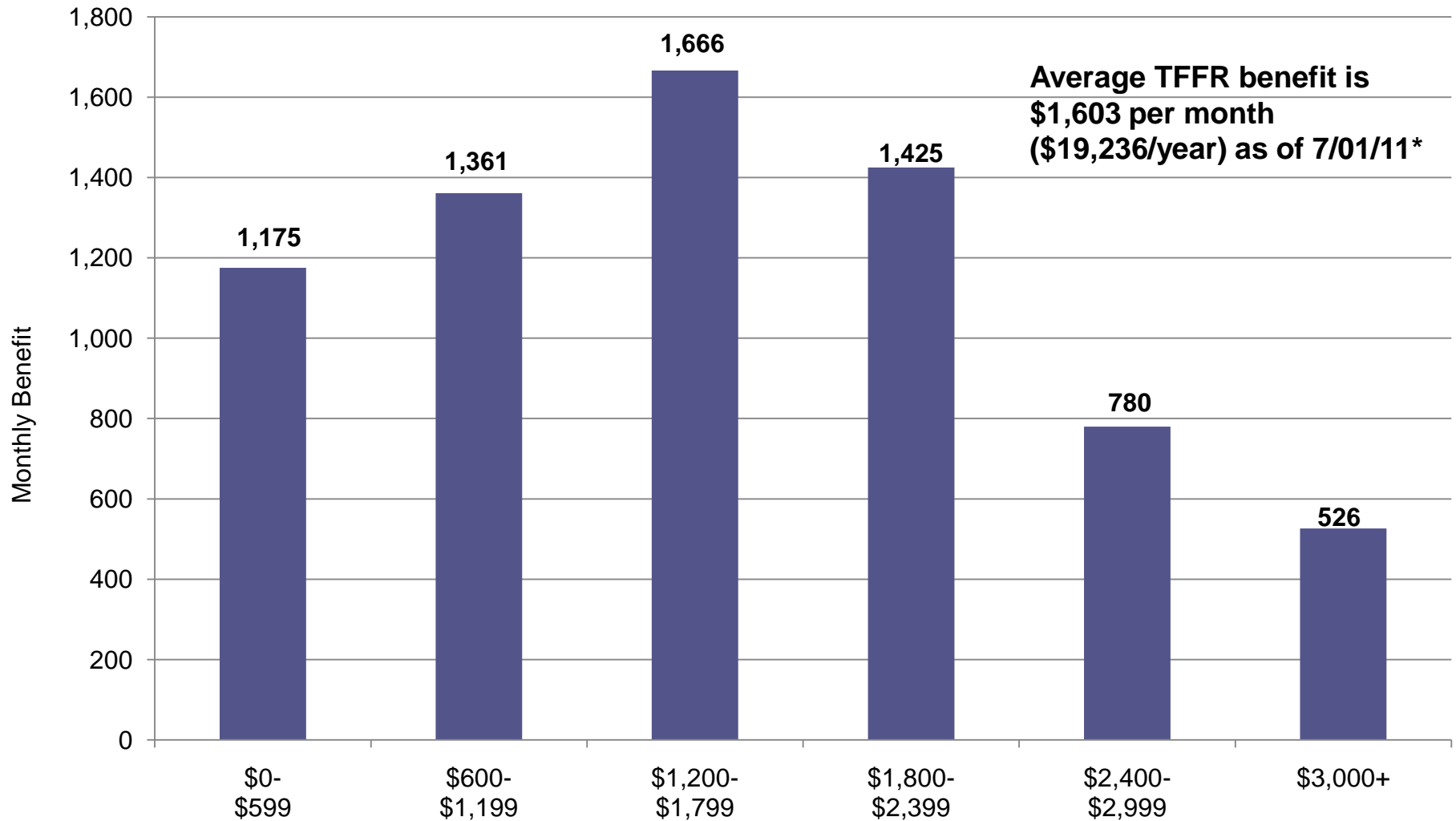
*Preliminary 2011 data

Average Monthly TFFR Benefits by County

(*preliminary 2011 data)

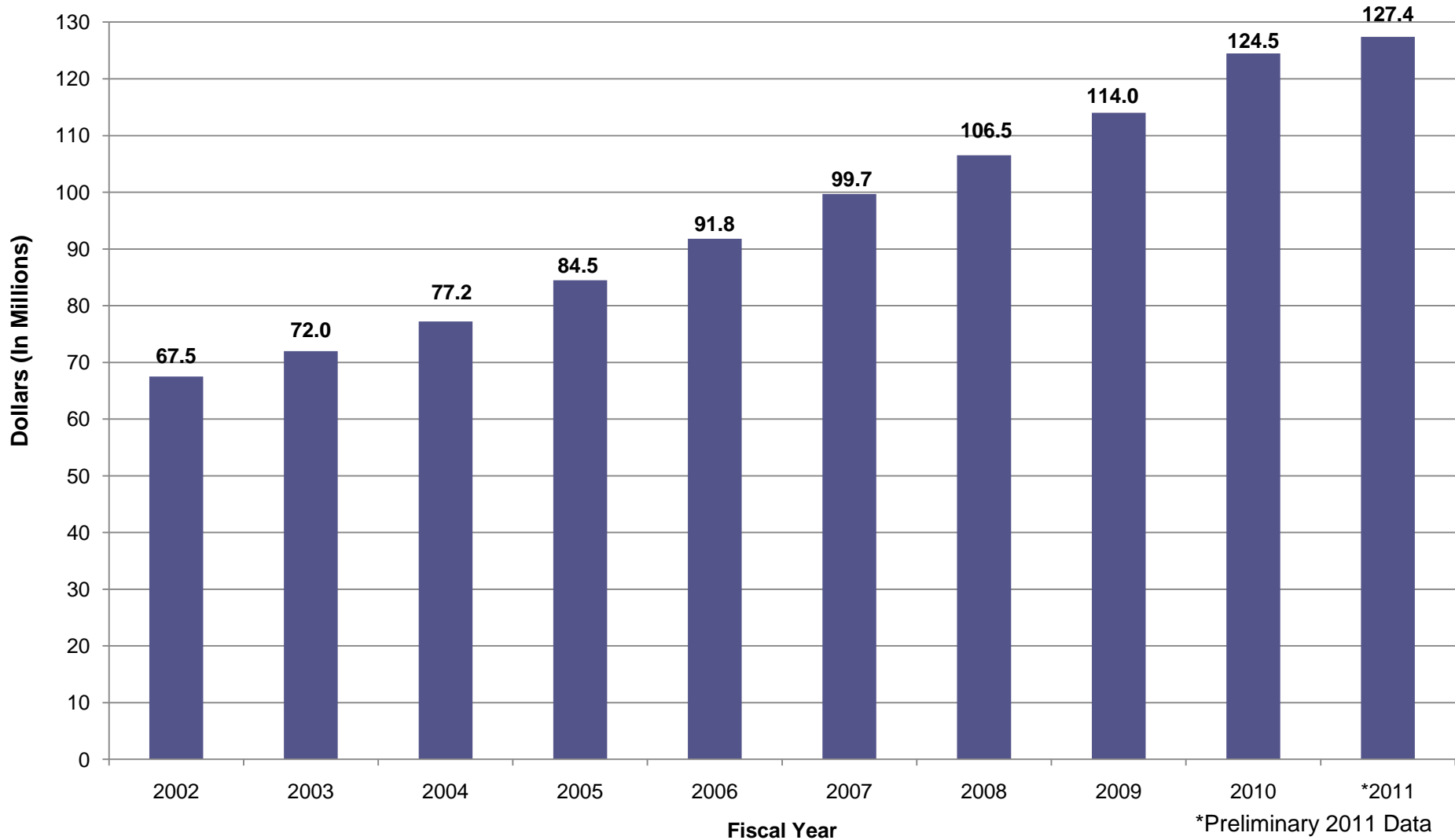
County	Ret Count	Avg Benefit	Total Benefit	County	Ret Count	Avg Benefit	Total Benefit
Adams	18	1,485	26,725	Mercer	85	1,746	148,422
Barnes	132	1,722	227,329	Morton	236	1,694	399,842
Benson	39	1,727	67,360	Mountrail	80	1,435	114,777
Billings	5	1,330	6,649	Nelson	49	1,401	68,655
Bottineau	105	1,518	159,434	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	1,603	11,113,599

Monthly TFFR Benefits by Benefit Amount



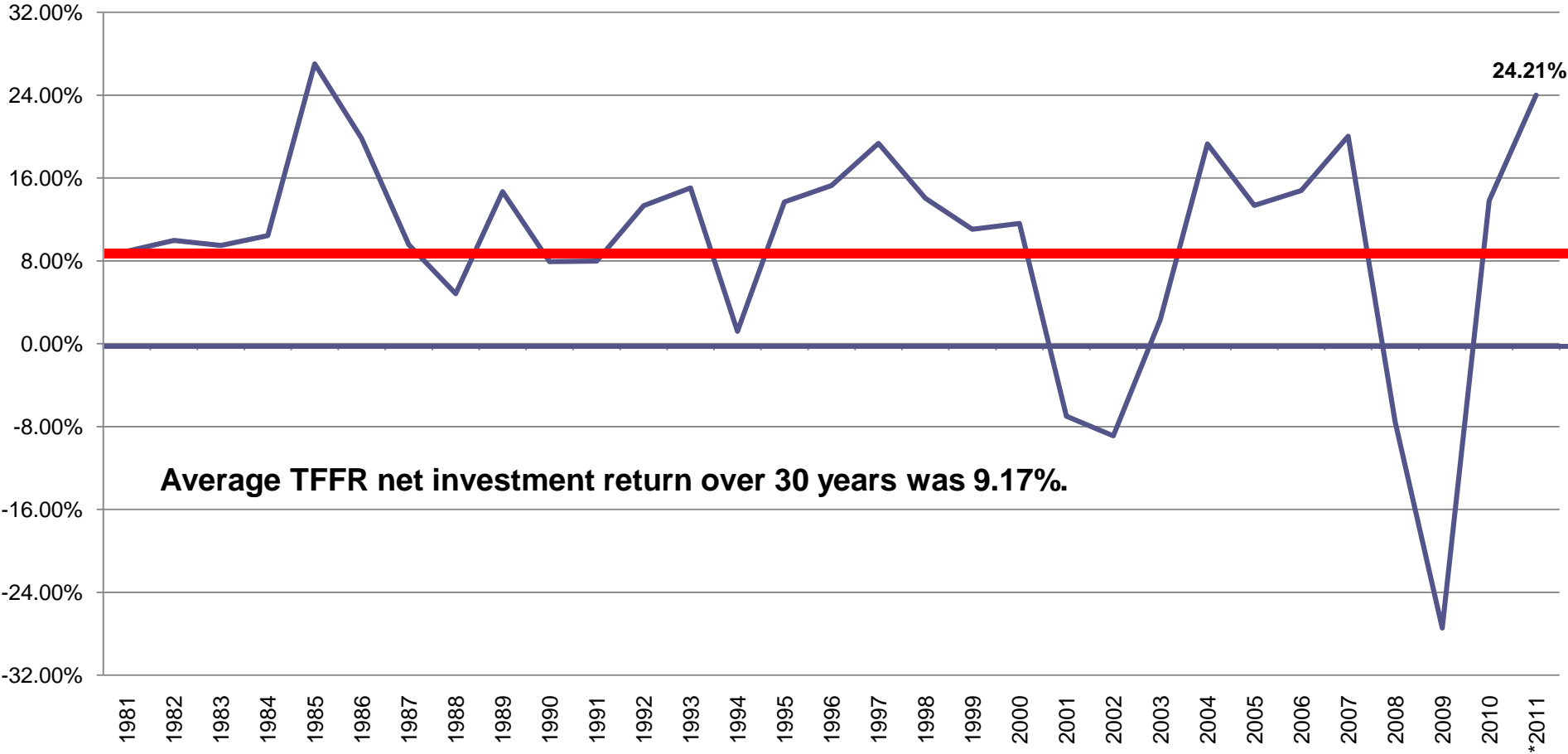
* Preliminary 2011 data

Annual TFFR Pension Benefits Paid



TFFR Investments and Funding

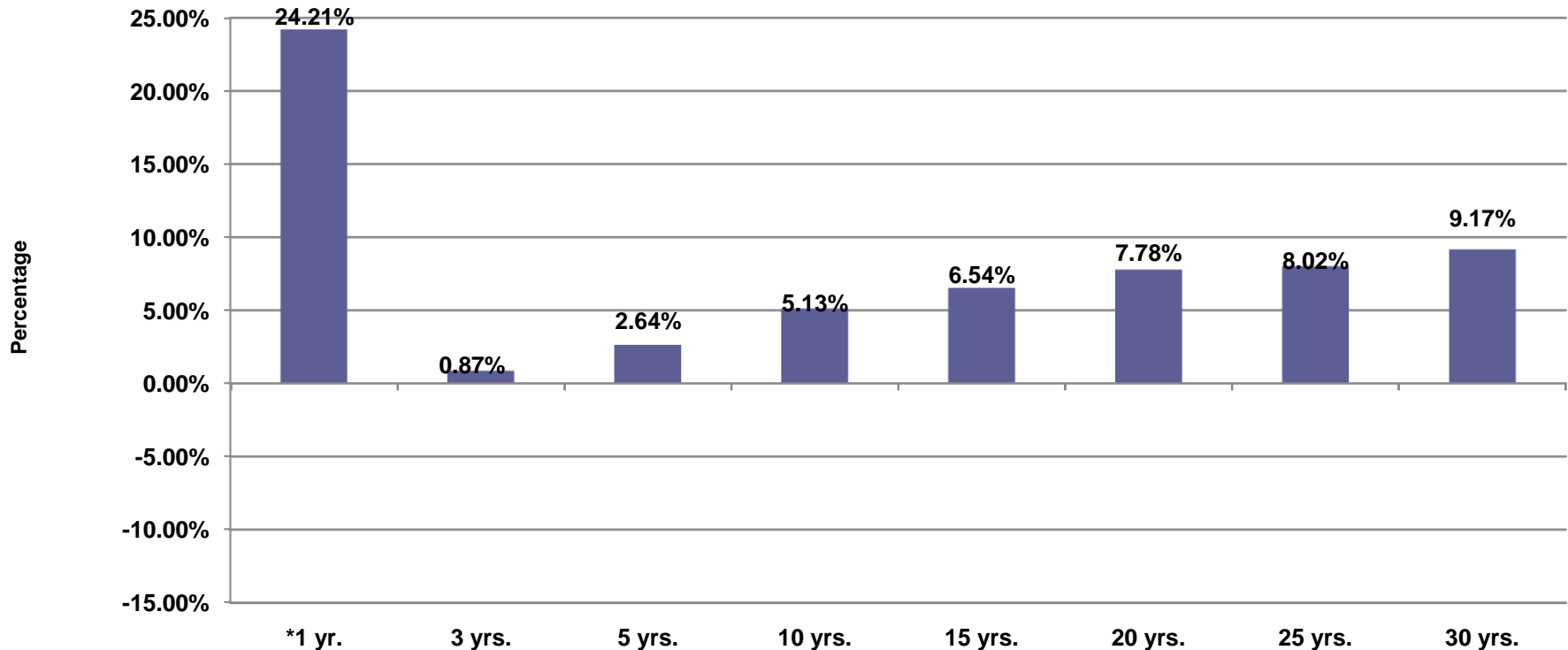
TFFR Investment Performance – Annual 1981-2011



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

*Preliminary 2011 Data

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

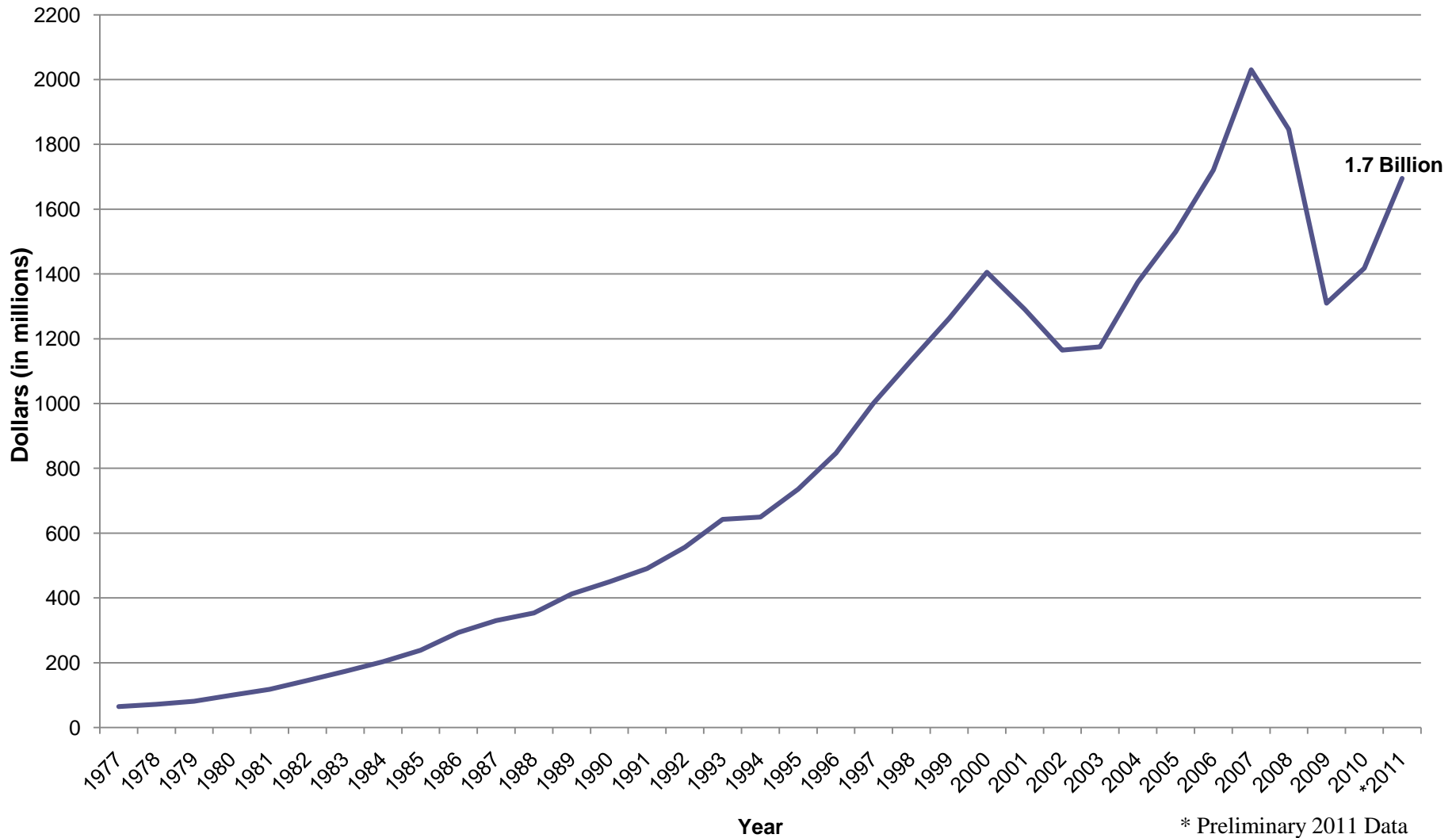


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*Preliminary 2011 Data

Market Value of TFFR Assets

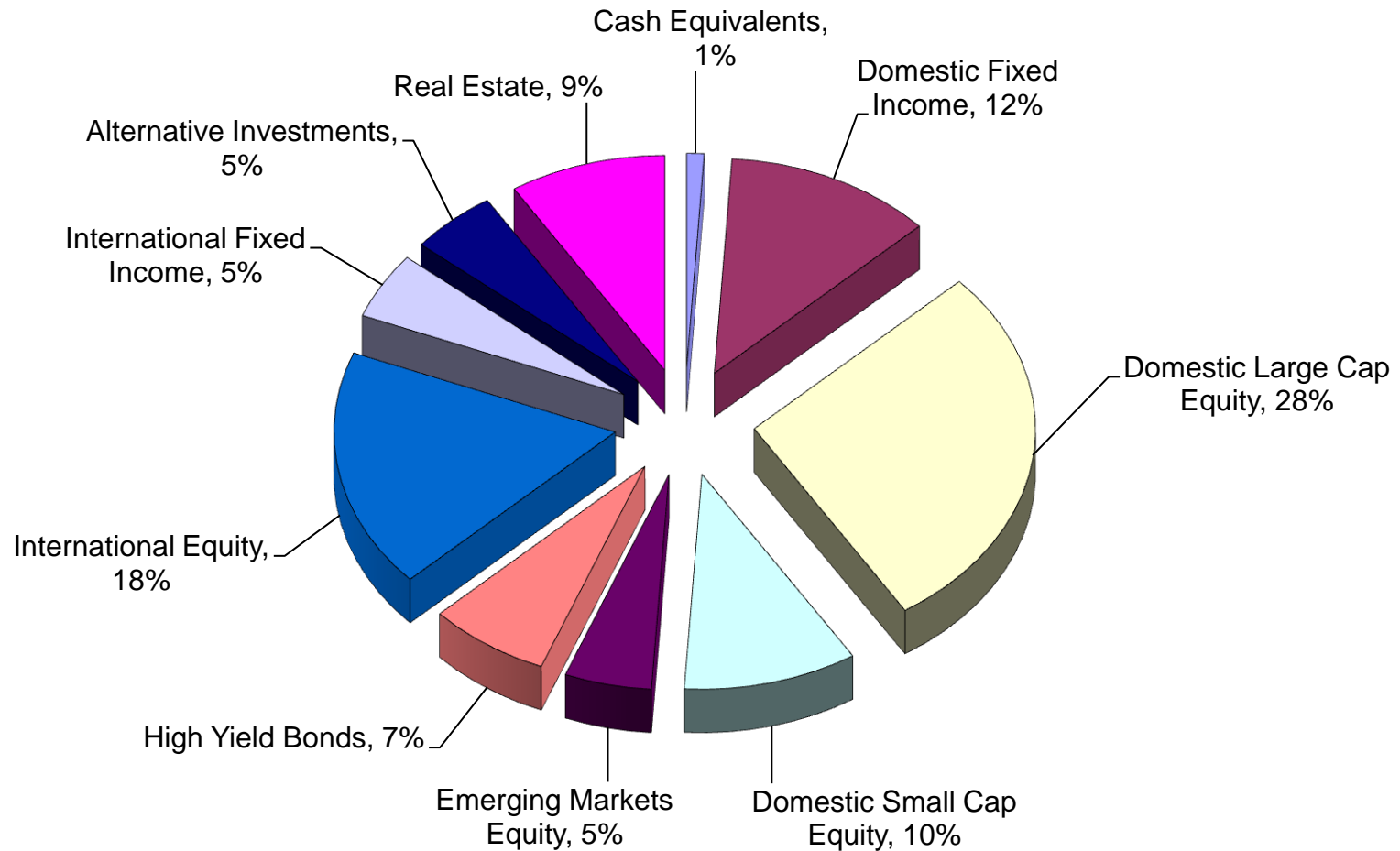
1977 - 2011



Asset Liability Study

- ❑ Asset Liability Study currently in process.
- ❑ Purpose is to evaluate long-term investment objectives, return goals, and risk tolerance, and to consider asset allocation strategies along with pension liability projections.
- ❑ Preliminary results under discussion by TFFR Board:
 - TFFR's asset allocation policy is similar to other large public pension funds (although implementation of certain asset classes include special strategies).
 - Investment results alone will not close TFFR's funding gap.
 - Meaningful improvement of the Plan's overall financial health will require changes to funding and benefits policies.
- ❑ Investment consultant is updating projections with 2011 legislative changes.
- ❑ TFFR is updating asset class descriptions and investment policy statement.
- ❑ Target completion – Fall 2011

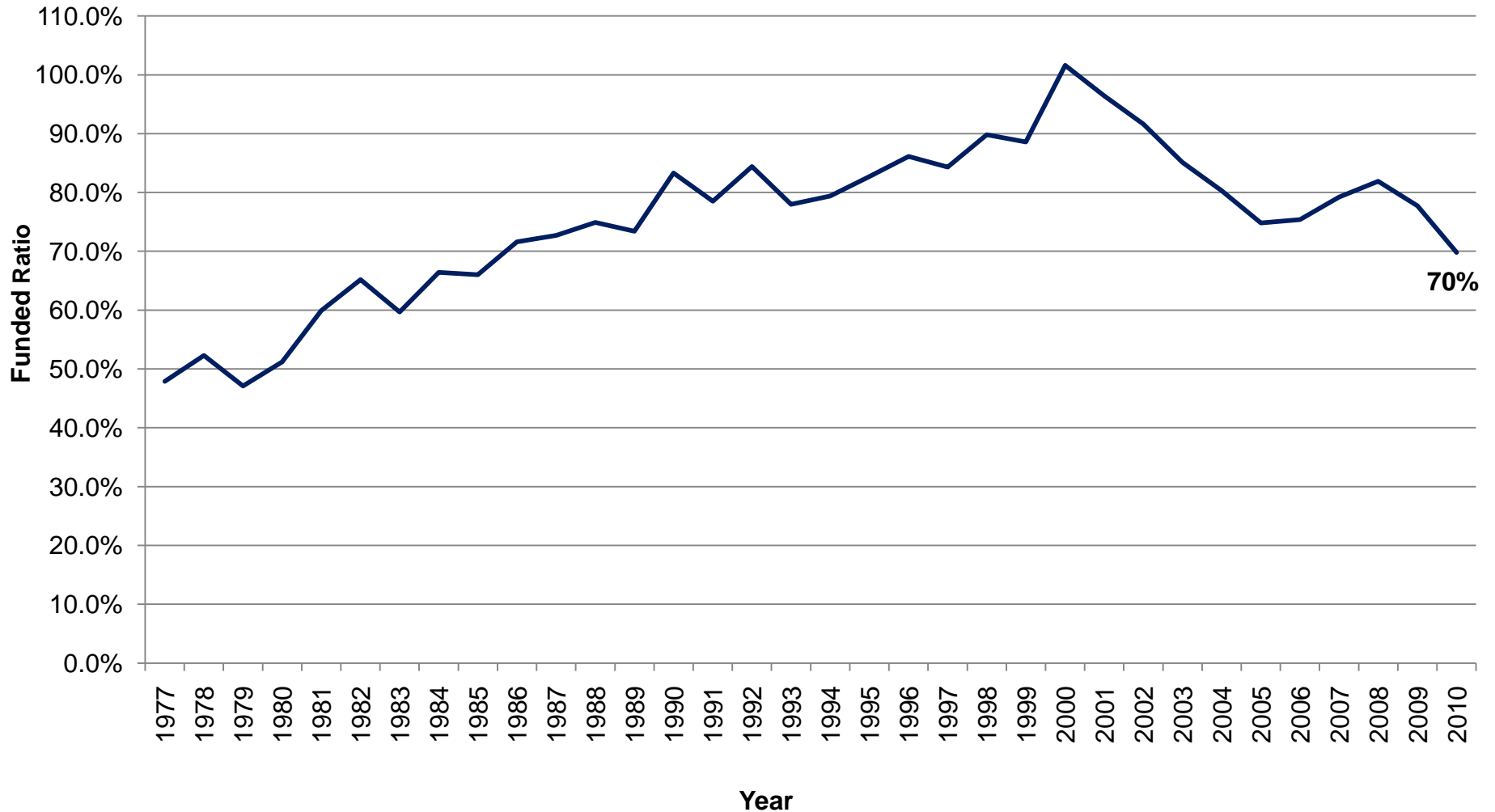
TFFR Asset Allocation



Investment Outlook

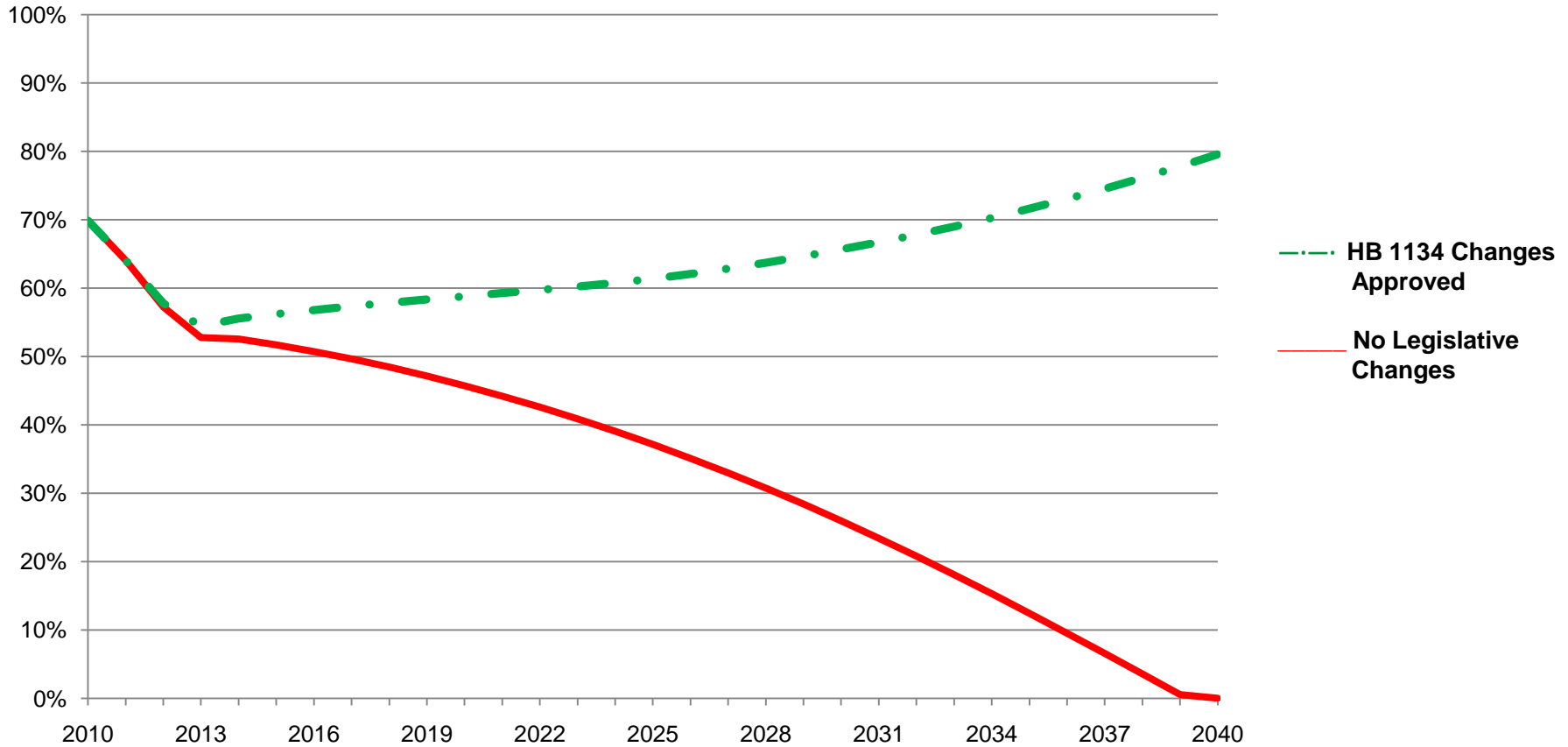
- As encouraging as investment returns were for fiscal year ending June 20, 2011, the outlook for capital market returns going forward is somber.
- Overall economy continues to show troubling signs of weakness.
 - Downgrade of the U.S. credit rating
 - Persistent high unemployment
 - Weak consumer spending
 - Struggling housing market
 - Sluggish growth
 - Another potential recession??
- Recovery may take a number of years.

TFFR Funded Ratio (AVA) 1977 - 2010



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.

TFFR Legislative Proposals Approved

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 Employee and Employer 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 Employee and Employer 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

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 - 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 will retain current eligibility provisions (i.e. Rule of 85).
 - Non-grandfathered Tier 1, Tier 2, and future employees will have to work or defer 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.

Legislative Proposals Not Approved

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.

HB 1258 – Defined Contribution Plan

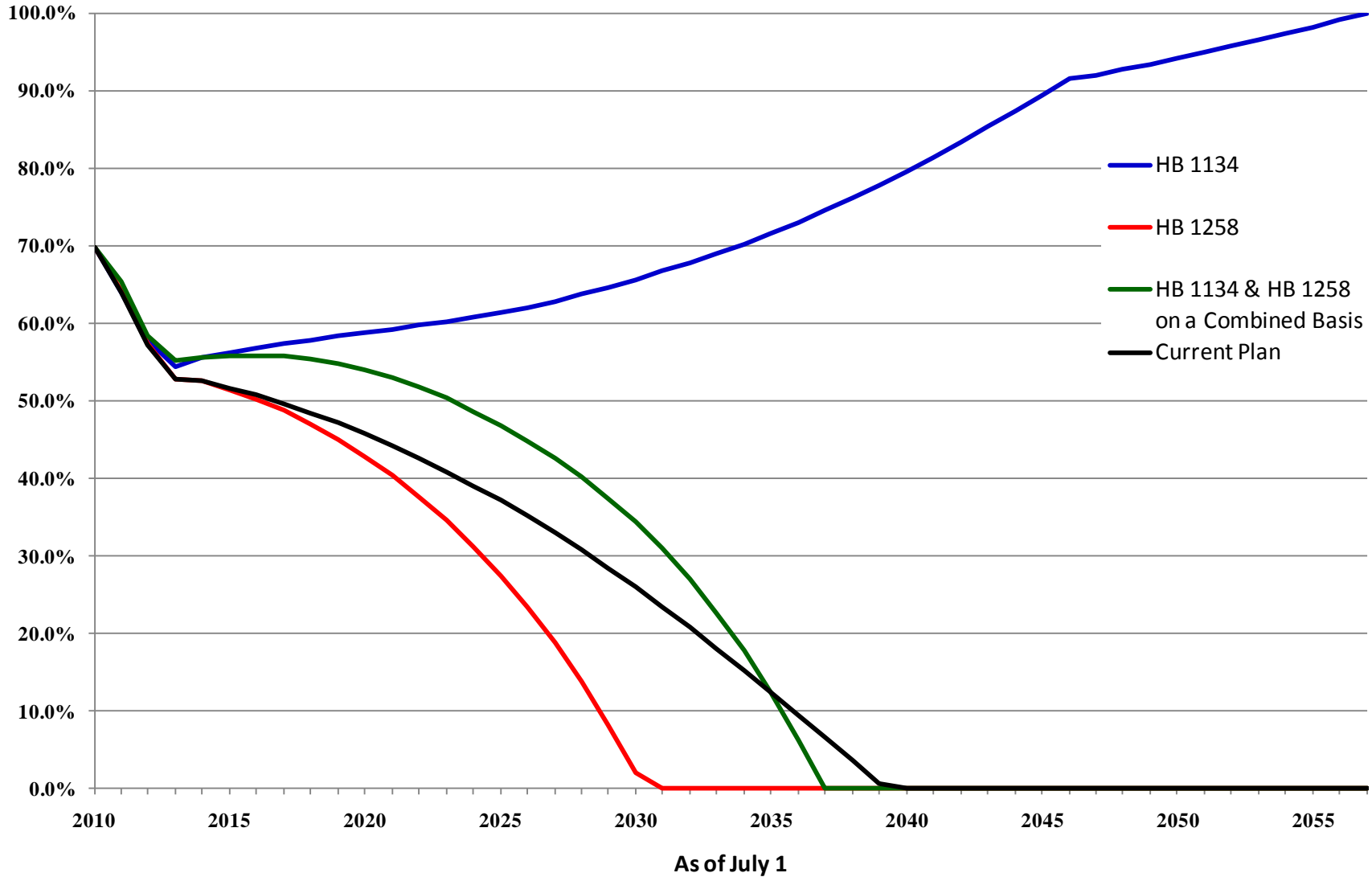
- Actuarial review showed the long term financial status of current DB plan would have been negatively affected (unless increased funding) because:
 - Over time employees in closed DB plan would retire or terminate, and new employees would participate in the new DC plan.
 - As number of actives declines 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



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

- Will this year's excellent investment performance 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 begin to improve.
 - If investment returns are greater than 8% over the long term and if TFFR reaches 90% funded level, employee and employer contribution rates will be reduced sooner than expected.
 - If investment returns are less than 8% over the long term, higher contribution rates will remain in effect, and funding progress will be much slower.
 - Funding improvement will be a long, slow process.

FAQ 2

- When will I receive an increase in my pension benefit amount?
 - TFFR does not anticipate being in a financial position to fund retiree benefit improvements for many years in the future.
 - However, because TFFR is a defined benefit pension plan, current retiree benefits will be paid for life, and cannot be reduced.

FAQ 3

- What if TFFR trust fund runs out of money?
 - TFFR is a defined benefit pension plan sponsored by the State, so retiree benefits are guaranteed.
 - TFFR can pay promised benefits to current retirees for many years into the future, but funding improvement is needed to ensure funding levels do not deteriorate and TFFR can continue paying benefits to current and future retirees.

FAQ 4

- Why is my check amount different than it was last month?
 - Tax table changes (January), or if you changed tax withholding amount.
 - NDRTA or NDEA-R annual dues (July)
 - Benefit correction for new retirees
 - Other

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 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

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