

# RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT

MAY 2000



## 2001 Proposed TFFR Legislation

If approved by the legislature, the TFFR Benefit Increase Bill will provide a postretirement benefit increase to all annuitants receiving benefits on June 30, 2001. Modeled after the 1999 formula, the monthly increase is calculated by multiplying \$2 times the member's years of service plus \$1 times the number of years since the member's retirement.

In addition, a 0.5 percent monthly benefit increase would be granted to

all annuitants each year. The annual percentage increase would assist all retirees in paying for increasing health insurance costs and help retirees protect their purchasing power from the effects of inflation.

This bill will also raise the formula used to calculate retirement benefits from 1.88 percent to 2.0 percent.

The TFFR administrative bill clarifies the definition of "teacher" and "contract." This bill also allows

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**NORTH DAKOTA  
RETIREMENT AND  
INVESTMENT OFFICE**

*Teachers' Fund for Retirement  
State Investment Board*

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*Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.*

## Visit Our Web Site

[www.state.nd.us/rio](http://www.state.nd.us/rio)

The Retirement and Investment Office (RIO) web site at [www.state.nd.us/rio](http://www.state.nd.us/rio) is ready for you! It provides easy access to information about your retirement plan, investments, publications, forms, and a lot more.

When you visit our web site, please take the time to explore the "TFFR" tab. You will find information about the TFFR Board and your pension plan. You can also access publications and forms. Just fill out the form online, print, sign, and send it to our office.

If you are interested in TFFR's investment returns, don't miss the

"SIB" tab. Here you will learn more about the Board who oversees the investment activities. You will also be kept up to date on the investment returns and asset allocation for your fund.

The "NEWS" tab contains a wide range of information that may be of interest to you. It is frequently updated with the latest items affecting RIO.

We plan to continue to improve our web site and welcome your suggestions or comments. Contact us at the administrative office or email us at [rio@state.nd.us](mailto:rio@state.nd.us).

# Fighting Inflation

## The Benefit Protector Approach

By Fay Kopp

Put yourself in the living room of a soon-to-be retired teacher and spouse. You may overhear them discussing the financial ramifications of living without the security of a full-time job and related paycheck. Will their financial resources be sufficient? What type of lifestyle will they be able to afford during their golden years? Will inflation, long life expectancies, and rising health care costs alter their retirement plans?

Many of the answers to the above depend on one word – inflation. And while no one can accurately forecast the rate, it still deserves serious consideration. For example, even if inflation only averages 3 percent each year, then an item that costs \$1 today would cost \$1.34 in ten years and \$1.81 in twenty years. Inflation will erode the value of retirees' financial resources over time.

To offset this inflationary effect, many private and public sector plans across the country provide post employment cost-of-living adjustments (COLAs) to retired workers. In fact, about two-thirds of statewide teacher plans provide automatic benefit increase



Fay Kopp  
Deputy Executive Director

adjustments. As the competition for teachers accelerates, and in order to attract and retain teachers in our own state, the TFFR Board believes it is important to include retirement plan features similar to those found in other states.

The increases granted by the North Dakota Legislature to TFFR retirees in the past years have all been ad hoc COLAs, calculated using a variety of different formulas. Ad hoc increases have the smallest cost impact, since they involve no commitment to grant future increases. Unfortunately, they leave the members uncertain about when and how much their benefits will be increased in the future.

Automatic increases assure retirees that their benefits will be adjusted to offset

all or a portion of the impact of inflation, allowing for better planning by retirees. They also allow the costs of COLA's to be prefunded. Some increases provide for a fixed rate of adjustment; others, like Social Security, might be a floating rate tied to changes in the Consumer Price Index.

As part of its legislative package, the TFFR Board is suggesting a plan to begin building a Benefit Protector – an annual, fixed rate increase for all TFFR retirees to counterbalance purchasing power losses due to inflation. In addition to improving the retirement formula to 2.0 percent for all future retirees, proposed 2001 legislation would provide a retiree increase similar to the 1999 formula and an additional 0.5% Benefit Protector increase. As actuarial margins build, and as more teachers retire under the 2.0 percent multiplier, the Benefit Protector percentage could be increased. This would allow TFFR to transition to a modest fixed rate COLA in the future.

A two-level increase would allow older retirees with low benefits to continue building their retirement benefit with the base increase component. It would also help all retirees to begin protecting their purchasing power through the 0.5 percent Benefit Protector component. It may not amount to much now, but as it grows, the Benefit Protector percentage could help combat the increasing costs of health insurance and other consumer needs.

Imagine, 20 or 30 years from now, all TFFR members retiring with a 2.0 percent multiplier, confident that their retirement benefit will be protected from inflation through an annual fixed rate increase.

Legislation being proposed today reflects this vision. With your support, it could become a reality for future generations of retired teachers.

## Tax Withholding Reminder

Since your TFFR benefits are subject to taxation, don't forget to review your tax withholding election periodically. If your tax withholding is not adequate, you may have to pay estimated taxes during the year or a tax penalty at year end.

You may elect no withholding, specify withholding based on marital status and allowances, or specify withholding plus an additional amount. You may also have North Dakota state taxes withheld from your retirement benefit. Keep in mind we can not withhold taxes for another state. If you would like to start, change, or stop tax withholding, contact our office for a tax withholding form.

The amount of your withholding may change when the federal tax rates are adjusted each year on January 1. You may also see a change to your withholding if a benefit change occurs. Watch for a change notice to inform you when this occurs.

# Proposed Legislation

(continued from cover)

limited disclosure of retirement-related information to a member's employer, state and federal agencies, and member interest groups approved by the TFFR Board.

After an extensive review, the Board is requesting modifications to the return to teach provisions. If passed, the waiting period before a retiree can return to TFFR covered employment would be reduced from 60 days to 30 days. The current 90 working day limitation of 4 hours or more (or less than 4 hours unlimited) will remain the same. In addition, this bill improves the

recalculation of benefits for a retiree who returns to covered employment, exceeds the 90-working day limit, and re-retires with two or more years of additional earned service credit. The new recalculation would be the greater of:

- The sum of the discontinued annuity plus an additional amount based on the additional service, salaries and new multiplier, if applicable, plus any post retirement increases granted during the re-employment.

OR...

- A recalculated annuity based on

the current multiplier and total years of service and salaries earned during both employment periods, offset by the actuarial value of any payments already received.

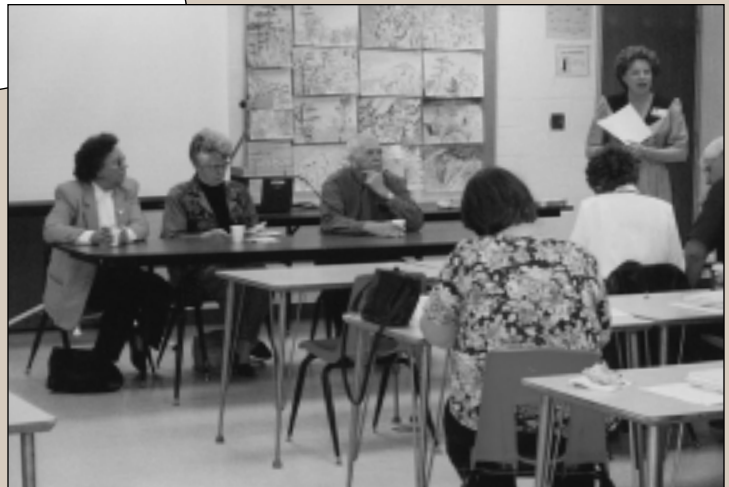
Both TFFR bills were submitted for study to the Legislative Employee Benefits Programs Committee. TFFR's actuary, Watson Wyatt, will prepare the July 1, 2000 actuarial valuation report this fall. Results of the valuation will determine the amount of actuarial reserves available for funding the plan improvements. Detailed bill drafts are available at the administrative office.

## Thank you!

*A special thank you to  
all the retirees who have  
participated in  
TFFR Pre-retirement seminars.*

*Devils Lake Pre-retirement seminar  
participants take the opportunity to ask  
questions of the retiree panel.*

*Williston area retirees participating in the "Adjusting to Retirement" segment of the seminar.*



# Experience Study Results

TFFR's actuary, Watson Wyatt & Company, recently completed an Actuarial Experience Study. The study compares TFFR's actual plan experience to the expected experience over a five-year period.

TFFR uses the study to evaluate the accuracy of the assumptions used in annual valuations. The experience study revealed a need to adjust some of the assumptions.

At their March meeting, the TFFR Board approved the following:

- Change the inflation rate from 4 percent to 3 percent.
- Leave the investment return rate at 8 percent.



- Update the salary increase rates.
- Change the mortality rates for both male and female.
- Increase the disability incidence rates by 60 percent.
- No change to the disability mortality assumption.
- No change to the termination rates.

- Modify retirement rates to assume a greater number of members retiring when first eligible.
- Update the profile of a new member.
- Change asset valuation method to smooth all investments returns over a five-year period. The current method does not smooth interest and dividend income, only realized and unrealized gains and losses.

According to Michael Carter, Watson Wyatt, "With the Board's approval of the recommendations in this report, we believe the actuarial condition of TFFR will be more accurately portrayed."

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