RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT JANUARY 2003

# TFFR Proposes Legislation

The TFFR Board has forwarded one bill to the Legislature for its consideration during the 2003 session. The administrative changes included in this bill were reviewed by the Fund's actuarial consultant and should not have an actuarial cost to the plan. This bill was also studied during the interim by the Legislative Employee Benefits Programs Committee and received a favorable recommendation. A complete bill draft is available at the Retirement and Investment Office. You may also view the entire bill and a summary of the bill status as it moves through the session at www.discovernd.com/rio.

**Senate Bill 2057 (LC30052.0200)**

• Clarifies and updates the definition of salary to reflect the various types of salary and bonus payments that are eligible or not eligible for TFFR benefit calculation purposes.

• Updates dual membership guidelines for retirement plan participation and benefit calculations for individuals whose job duties require participation in TFFR and/or NDPERS.

• Modifies the 700 annual hour limit that a retiree may return to TFFR covered employment and continue to receive monthly benefits. Bases the annual hour limit on length of contract duties.

| | | |
|---|---|---|
| 9 month contract | = | 700 hours |
| 10 month contract | = | 800 hours |
| 11 month contract | = | 900 hours |
| 12 month contract | = | 1,000 hours |

Substitute teaching, extracurricular duties, and continuing professional development do not apply to the annual hour limit.

• Incorporates federal tax law changes (EGTRRA 2001) to allow TFFR to accept eligible rollovers from traditional IRAs, qualified 401(a) and 401(k) plans, 403(b) tax sheltered annuity plans, and governmental 457 deferred compensation plans, for the purchase of TFFR service credit.

• Allows a participating employer to purchase up to three years of service credit on behalf of a member. The member must not be given the option between an employer service purchase and an equivalent amount in cash. To be eligible, the member's age plus service must be equal to or greater than 77; or the member must be at least age 55 with three years of service credit.

• Replaces the 5-year Term Certain and Life Option with a 20-year Term Certain and Life Option to provide a longer time period for beneficiary coverage.

• Adds a Partial Lump Sum Distribution Option (PLSO) for members eligible for an unreduced retirement annuity to provide a lump sum cash payment in exchange for a permanent monthly benefit reduction.

This option allows a member to make a one time election at retirement to receive a lump sum payment equal to 12 times the

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NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
*Teachers' Fund for Retirement*
*State Investment Board*



**ND Retirement and Investment Office**
1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, Toll free: 1-800-952-2970
www.discovernd.com/rio

# The Best of Times

*Fay Kopp*
*Deputy Executive Director*

*"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair..."*

So wrote British novelist Charles Dickens in the opening sentence of his famous novel, *A Tale of Two Cities*. He was, of course, referring to the French revolution in the 1700s, not the pension troubles of the 2000s.

Undoubtedly, the 1980s and 1990s could be considered the "best of times" for pension plans. Double-digit investment returns made everyone cheerful. Teachers were happy because pension benefits improved. Employers were happy because retirement contributions remained steady and there were enough new teachers to replace retiring teachers. The TFFR Board and Legislature were happy because the financial soundness of the plan improved too.

So what's happening now? Unfortunately, the "best of times" are becoming the "worst of times" for many pension plans. Investment gains began disappearing in 2000, and have been replaced by investment losses. The result? All around the country, pension funds like TFFR are seeing deteriorating funding levels.

In North Dakota, your TFFR plan currently has a funded ratio of about 92%, which dropped from 96% last year. The funded ratio is a measure of financial health for a pension plan and refers to the ratio of assets to liabilities. The charts on page 3 show how the funded ratio has grown over the years, while at the same time plan improvements were being made.

However, because all investment losses have not yet been reflected in the actuarial measurements, we expect TFFR's funded ratio to continue to decline in the future. That is why the TFFR Board has not proposed any benefit improvements during this legislative session. The Board is closely monitoring the financial condition of the Fund and is continuing to explore alternatives like increasing contribution rates to deal with potential future funding shortfalls.

Although pension plans are facing some pretty tough times these days, as a member of a defined benefit plan sponsored by the state of ND, your pension benefits are guaranteed. Today's teachers who retire in the future will receive benefits calculated under a formula defined in state law using the 2.0% benefit multiplier. Retirees currently drawing pension benefits will continue to receive the lifetime benefits they have earned.

TFFR has been in existence for 90 years. As long term investors, we've experienced both up and down markets, and we'll experience more in the future. But through it all, pension checks have been paid each month. This will continue, through both "the best" and "the worst" of times.

# Annual Actuarial Report Shows Losses

Each year, TFFR's actuary, Gabriel, Roeder, Smith & Company (GRS), performs an actuarial valuation. Simply put, an actuarial valuation is a mathematical means of determining if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees.

The TFFR plan represents 16,433 active, inactive, and retired members. The average age of the 9,931 active members was 44.5 years; average service was 14.4 years; and average annual salary was $35,052. As of June 30, 2002, there were 5,054 retirees and beneficiaries receiving average benefits of $1,152 per month.

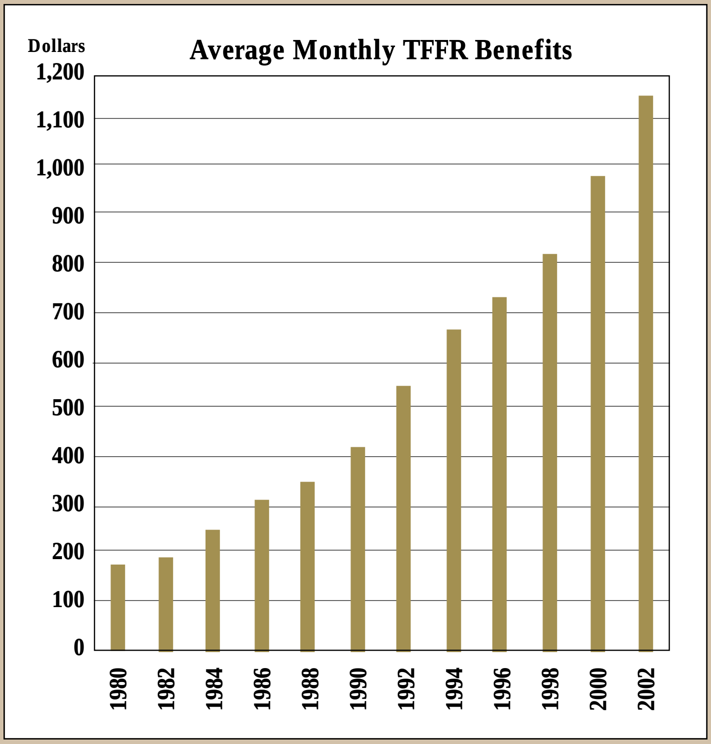
According to the 2002 actuarial report, the member and employer contribution rate of 7.75% each is sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) in level payments over a period of 20 years. The margin between the 7.75% statutory rate and the rate necessary to fund the UAAL is 1.66%. This margin decreased from 3.76% last year, mainly because of recognized investment experience losses.

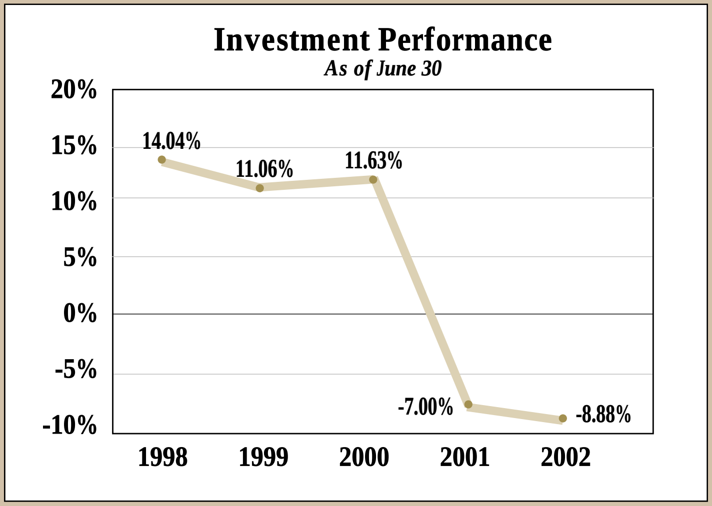
The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio last year was 96.4%, while it is 91.6% this year. This decrease is also due to recognized investment experience losses.

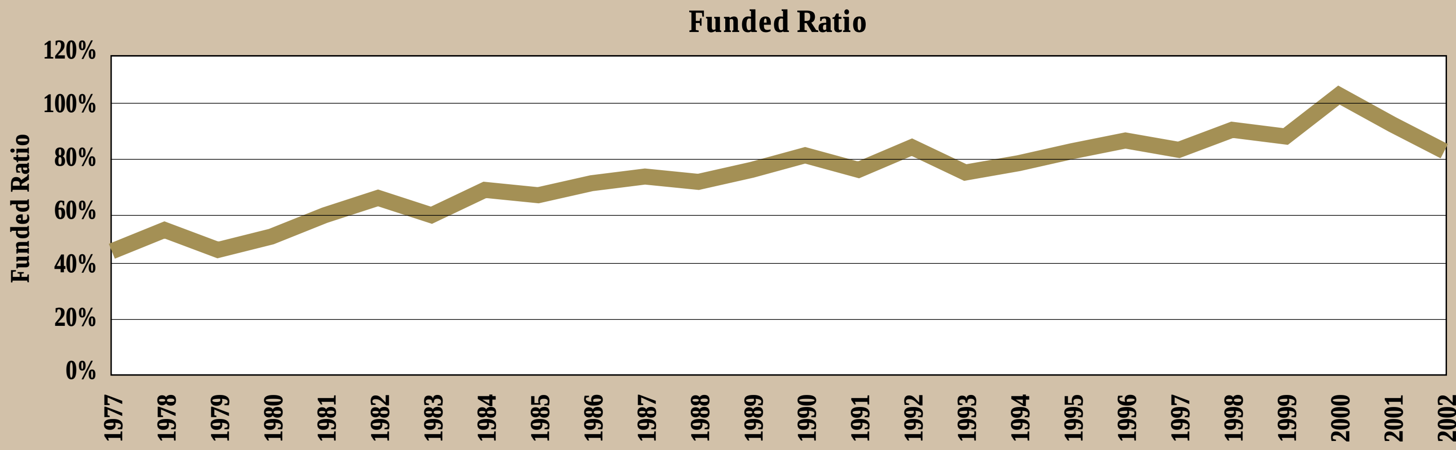
Because of the 5-year smoothing method that TFFR uses, all net investment losses have not yet been reflected in the actuarial measurements. As these losses are recognized over the next four valuations, TFFR's actuary expects the margin to turn negative and the funded ratio to continue to decrease.

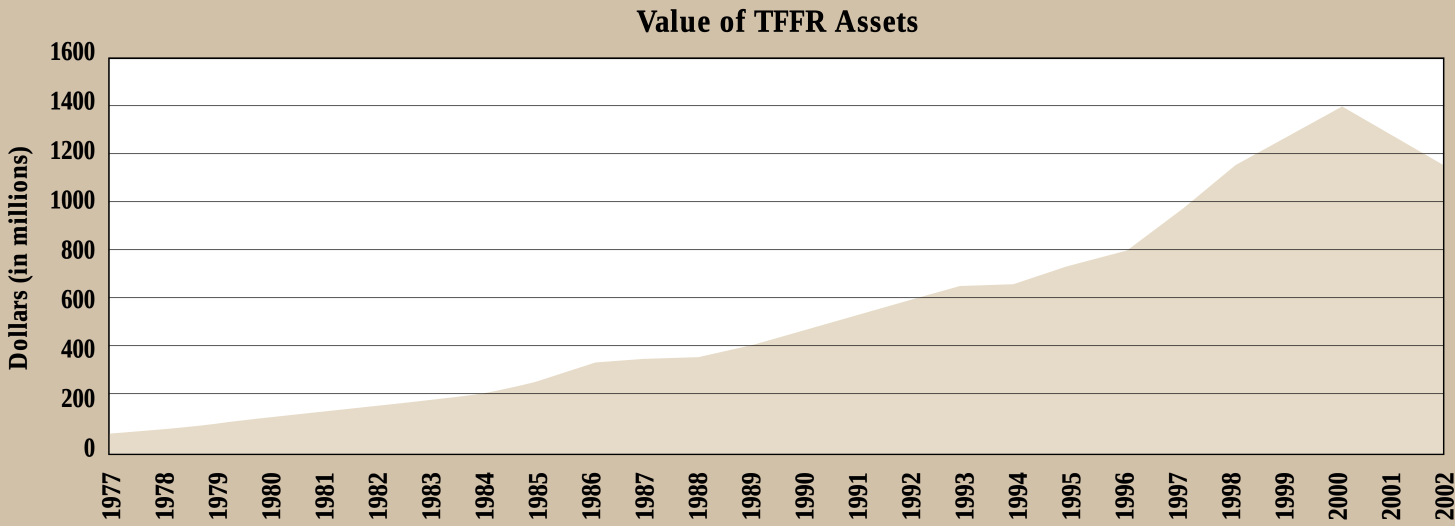
The fund's actuarial consultant and TFFR Board are keeping a close watch on the situation. Options for dealing with future funding issues are being discussed.

# 2002 ANNUAL REPORT SUMMARY



# TFFR FINANCIAL STATEMENTS

## STATEMENT OF ASSETS AS OF JUNE 30, 2002

| | |
|---|---|
| **ASSETS** | |
| Equities | $ 744,103,649 |
| Fixed Income | 231,816,092 |
| Real Estate | 105,982,182 |
| Private Equity | 40,322,264 |
| Invested Cash | 25,684,813 |
| Invested Securities Lending | 58,369,414 |
| Receivables | 11,268,242 |
| Other Assets | 7,248,921 |
| Total Assets | $ 1,224,795,577 |
| **LIABILITIES** | |
| Accounts Payable | $ 827,630 |
| Accrued Expenses | 219,170 |
| Securities Lending | 58,369,414 |
| Other Liabilities | 9,798 |
| Total Liabilities | $ 59,426,012 |
| **Net Assets on June 30, 2002** | **$ 1,165,369,565** |

## CHANGES IN ASSETS DURING FISCAL YEAR 2002

| | |
|---|---|
| **CASH POSITION** | |
| Net Assets on June 30, 2001 | $ 1,290,662,140 |
| **ADDITIONS** | |
| Member Contributions | $ 27,244,008 |
| Employer Contributions | 27,243,542 |
| Other Additions | 1,927,615 |
| Investment Income | (110,415,541) |
| Total Additions | $ (54,000,376) |
| **DEDUCTIONS** | |
| Benefits Paid | $ 67,482,482 |
| Refunds | 2,743,408 |
| Administrative Expenses | 1,066,309 |
| Total Deductions | $ 71,292,199 |
| **Net Decrease** | **$ 125,292,575** |
| **Net Assets on June 30, 2002** | **$ 1,165,369,565** |

# *Your TFFR Board Members*

*The TFFR Board is made up of two elected officials and five Governor-appointed trustees representing the active and retired membership. The Board is charged with the policy administration of the retirement program and must perform in the interest of all plan participants and beneficiaries.*

*Pictured left to right, back row: Barb Evanson, Mark Sanford, Kathi Gilmore. Front row: Norm Stuhlmiller, Paul Lofthus, Clarence Corneil, Wayne Sanstead.*

## Corneil Appointed to TFFR Board

Governor Hoven appointed Clarence Corneil of Dickinson to a five-year term on the TFFR Board beginning July 1, 2002. He represents retired teachers and also serves on the TFFR Benefits / Services Committee.

Mr. Corneil retired in 1997 from Dickinson Public Schools. His teaching career of 38 years consisted of 13 years as a Science / Math teacher and 25 years as Elementary Principal and Central Office Director. During his career, he received many honors including Teacher of the Year, the Golden Apple Award, and the National Distinguished Principal Award. He has also held leadership roles in several professional organizations and is currently President of the ND Retired Teachers Association.

# RETURN TO TEACH OPTIONS

Retirees continue to ask about re-employment options. Here is a brief description.

**General Rule**
*700 hour limit*

After 30 days elapse from your retirement date, you may return to TFFR covered employment for a maximum of 700 hours in a fiscal year and continue to receive your monthly retirement benefits. (See legislation article on cover for proposed changes to the General Rule.)

Failure to notify TFFR that you have exceeded the 700 hour limit will result in the loss of one month's annuity benefit. Notification must be in writing.

**Exception B**
*Critical Shortage Area*

You may return to TFFR covered employment in an approved critical shortage area and exceed the 700 hour limitation without losing your retirement benefits. If you retired after January 1, 2001, a one-year waiting period is required before you can consider this option.

**Exception C**
*Educational Foundation Donation*

You may also return to TFFR covered employment with no waiting period for one year only and exceed the 700 hour limitation without losing your retirement benefits. Under this option, you may return to work, earn an additional salary, and donate at least one half of your salary to an educational foundation (nonprofit or charitable organization under Section 501(c)(3) of the Internal Revenue Code). Your employer must pay both the employer and employee contributions to TFFR on your full salary.

Because of the tax implications involved in donating one-half of your salary to an educational foundation, you should also contact your tax advisor for assistance.

**Exception D**
*Benefit Suspension and Recalculation*

After 30 days elapse from your retirement date, you may return to TFFR covered employment and exceed the 700 hour limitation. Under this option, your TFFR benefits will be suspended once you reach the 700 hour limit. At that time, employer and employee contributions must be paid on any salary earned after the 700 hours. Upon your re-retirement your benefits may be recalculated. If you re-retire with:

- Less than 2 years of additional earned service credit – receive discontinued benefit plus benefit increases granted during the benefit suspension and a refund of any additional employee contributions paid plus interest;
- 2-5 years – greater of the discontinued annuity, plus additional years at the new multiplier, plus benefit increases granted during the suspension OR all the years recalculated at the new multiplier, less an actuarial offset for the amount of benefits already paid;
- 5 or more years – greater of the calculation above or the retirement benefit recalculated using all the years at the new multiplier with no actuarial offset.

## 2001 – 2002 STATISTICS

**SUPERINTENDENTS: 18**
**OTHER ADMINISTRATORS: 11**
**TEACHERS: 48**

**77 TOTAL RETIREES**
**AVERAGE AGE: 61**

**GENERAL RULE: 63**
**CRITICAL SHORTAGE: 9**
**SUSPEND & RECALC: 5**
**FOUNDATION DONATION: 0**

# Social Security Benefits

Choosing when to begin receiving Social Security benefits is an important decision. Full Social Security benefits are payable based on birth year. No matter what your "full" retirement age is, reduced benefits may start as early as age 62.

There are advantages and disadvantages to taking your Social Security benefits before full retirement age. The disadvantage is that the benefit is permanently reduced. The advantage is that the benefits are paid for a longer period of time. Contact Social Security before retirement to discuss your options.

**AGE TO RECEIVE FULL SOCIAL SECURITY BENEFITS**

| Year of Birth | Full Retirement Age |
|---|---|
| 1937 or earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |

## SUMMARY OF LEGISLATION *continued from cover*

amount of the Single Life Annuity payable at the same time the monthly retirement annuity begins.

The monthly retirement option selected is actuarially reduced to reflect the partial lump sum payment. Generally, the actuarial reduction for a PLSO is approximately 10 percent.

This option is not available to members who select the level income option, members receiving disability benefits, or to beneficiaries of deceased members.

*Example: Jane retires on August 1, 2003 with the Rule of 85. Her Single Life Annuity Benefit is $1,700 per month. She may elect the regular retirement option and receive $1,700 per month for life or receive a Partial Lump Sum Distribution of $20,400 ($1,700 x 12) and a lifetime benefit of $1,530 per month.*

*Retirees using the PLSO may also select a Joint & Survivor Option or Term Certain Option to provide a continuing benefit to a beneficiary. These options would require another actuarial reduction to the $1,530.*

# Pension Software Study

The TFFR Board recently approved a study of the computer system the agency uses to administer the pension program. TFFR currently uses a system built in 1985 to maintain membership accounts, employer reporting, member services, and benefit claims payments. Due to the increasing difficulty and cost to update and maintain the nearly 20-year-old system, the agency is considering an upgrade or replacement.

Results from the feasibility study conducted by MSI Consultants showed that significant benefit could be derived by replacing the current mainframe pension management system with either commercial off-the-shelf software or custom built software. This would improve service to TFFR members, increase reliability of data, provide tools for improving staff productivity, and enhance system integration capabilities.

TFFR is continuing to explore various pension software solutions and has requested budget approval to pursue a replacement system.

NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE
Teachers' Fund for Retirement
State Investment Board
1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100