RETIREMENT TODAY

ND TEACHERS' FUND FOR RETIREMENT — JUNE 2007

Legislature Passes TFFR Funding Improvements

The TFFR funding improvement bill (SB 2046) was amended a number of times before a compromise was reached in the final days of the 2007 legislative session.

The final bill includes contribution and benefit changes designed to enhance revenues and control future liabilities. Approval of this bill by the Legislature, along with positive investment returns, should improve TFFR's overall financial health over the long term without impairing legally protected contractual pension benefits for current active, inactive, and retired teachers and administrators.

Projections indicate that if actuarial and investment assumptions are met (including the 8% investment return assumption), TFFR should reach 90% funded status in about 25 years (2033). If investment returns are greater than 8% over the long term, TFFR should reach the 90% goal sooner.

The final approved TFFR funding improvement bill:

- **Removes automatic refund requirement and reenacts various other provisions to comply with IRS qualification requirements.**
- **Requires employer retirement contributions of 7.75% on re-employed retiree's salary beginning July 1, 2007. Employer contributions increase to 8.25% on July 1, 2008.**
- **Increases employer retirement contributions from 7.75% to 8.25% of active member's salary beginning July 1, 2008. Employer contributions will return to 7.75% once the plan reaches a 90% actuarial funded level.**
- **Creates new tier of reduced member benefits for new TFFR members (and returning refunded members) employed on or after July 1, 2008.**

Tier 1 Members include all current active, inactive, or retired members who have TFFR service credit on July 1, 2008. Tier 1 members who do not refund their service credit would maintain the current TFFR benefit structure and member contribution rates.

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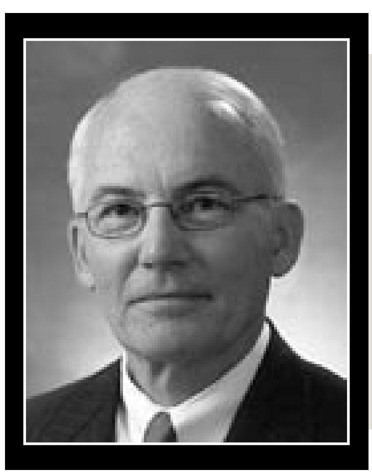


Thank You Mark!

Special thanks to Mark Sanford for 15 years of dedicated service on the Teachers' Fund for Retirement Board and the State Investment Board. We congratulate you on your retirement from Grand Forks Public Schools and wish you many happy and fulfilling retirement years.

Memo to Members

"The road is long, With many a winding turn ..."

Fay Kopp
Deputy Executive Director

Two simple lines from that 1969 hit song, "He Ain't Heavy, He's My Brother," keep running through my head whenever I think about TFFR's funding future. The lines serve to remind me of the effect the overall economy and investment landscape has had on TFFR in the past, and the impact it will have for many years into the future.

TFFR went through some difficult financial times during the early part of this decade. Now, of course, the economy is strong, the stock market is robust, and investment returns are once again stellar. It's so easy to jump to the conclusion that rapid recovery of the pension plan is just around the corner.

Unfortunately, it's probably not going to happen that fast. Improved TFFR funding will take time. It's a long road from TFFR's current 75% funded level to our initial funding goal of 90%. The road to full funding is projected to shorten as a result of 2007 legislation passed (see article on page 1), AND if investment returns continue to be well above average for the next decade or so. On the contrary, if the economy weakens, and the stock market declines for an extended period of time, that road will lengthen again.

Speaking of investments, Chart 1 on page 3 provides "Sources of TFFR Revenue," and illustrates the significant impact that investment returns have on your TFFR pension plan. Nearly two-thirds of your pension benefits are funded through investment earnings, fueled by employee and employer contributions. Every additional dollar in contributions counts and is invested to grow with time. As you can see, over the last 17 years, aggregate earnings from investment income comprised nearly 64% of revenue. Employee contributions (including service purchases) comprised 19% of revenue, and 17% of revenue came from employer contributions.

Chart 2 provides additional detail about "TFFR Revenues and Distributions." Notice the funding gap that developed in fiscal years 2001 - 2003. It will take time to make up that gap.

As in the past, I'm sure there will be many winding turns, and ups and downs to TFFR funding in the future. However, the best plan is to reduce future liabilities, maintain a steady contribution stream, and prudently invest those contributions so that lifetime benefits to our state's retired educators will be adequately financed.

It's a long road ahead, but improved TFFR funding is once again on the horizon.

TFFR Retiree Benefit Increase Efforts

Approved legislation is expected to improve TFFR funding over the long term, however, it does not provide a retiree benefit adjustment in 2007. While TFFR can make promised retirement benefit payment to retirees for many years into the future, we are not able to fund an increase in those retirement benefits at this time. Our efforts are focused on maintaining adequate funding of all promised benefits, and building a funding cushion to provide for future benefit improvements to our state's retired educators.

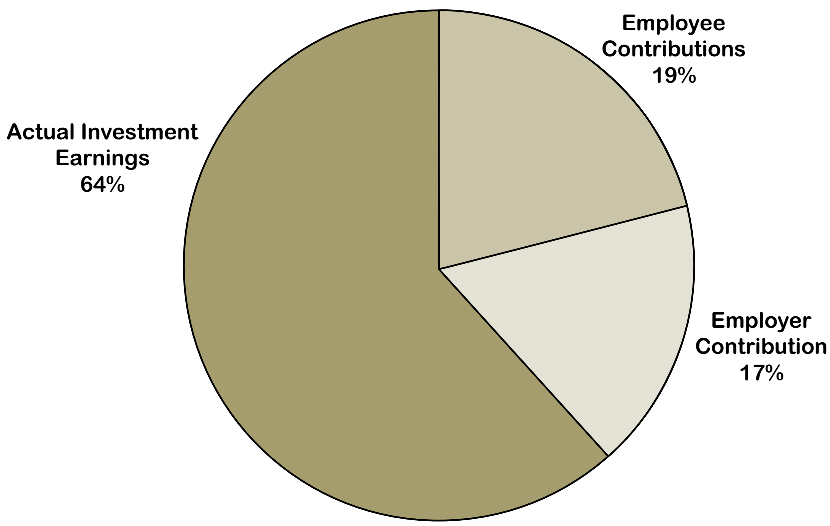
Many current and prospective retirees have asked why ND doesn't have an automatic cost-of-living adjustment like many other states. Because of concerns about the ongoing long-term liability to the fund, the Legislature has not approved such a provision in TFFR statutes. In the past, ad hoc benefit increases were granted by the Legislature when it was determined that funding levels could support such improvements.

We are hopeful that improved funding levels brought about by increased employer contributions and better-than-average investment performance will allow TFFR to provide a modest retiree benefit adjustment in the future.

TFFR Revenues

Sources of TFFR Revenue Fiscal Years 1990-2006

CHART 1



Tax Withholding Reminder

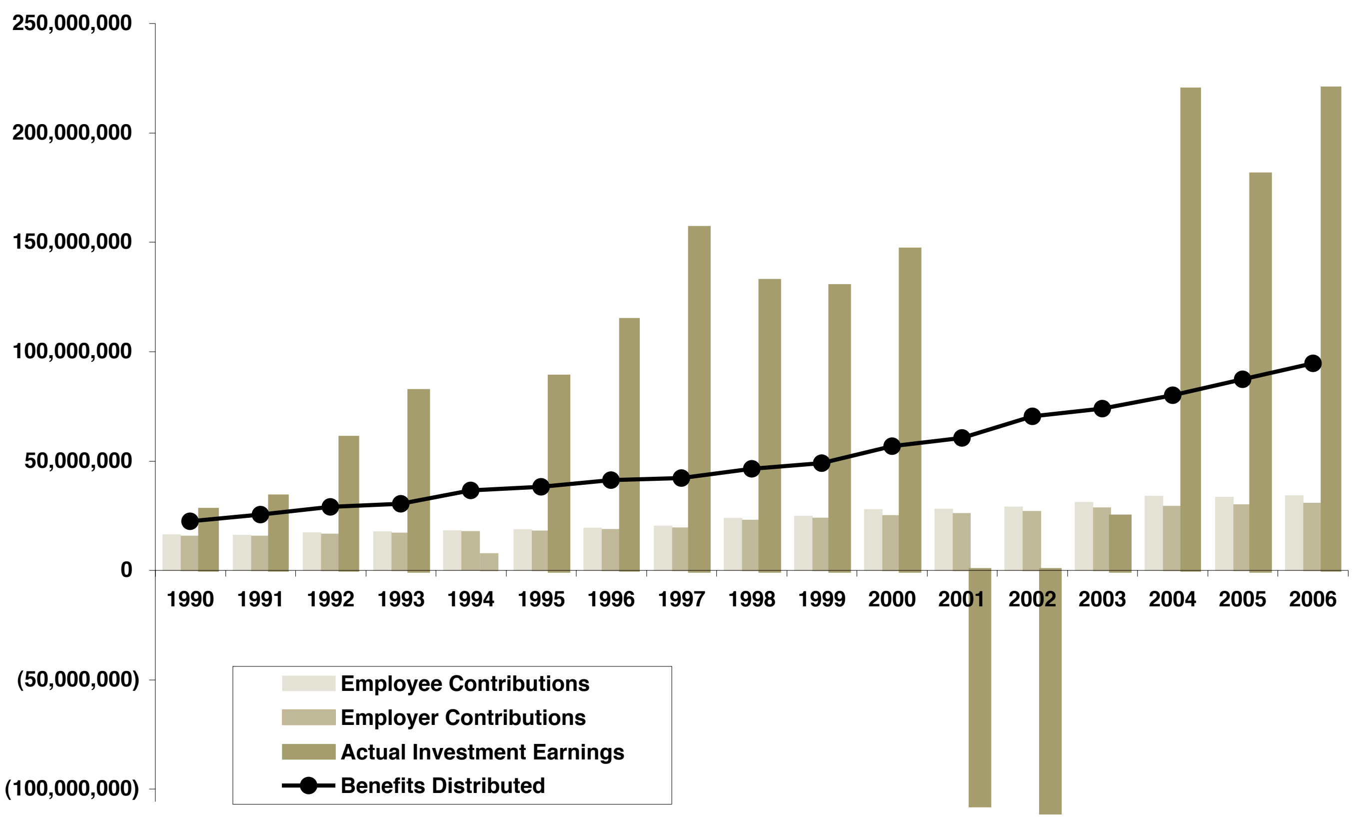
Retirees are not required to withhold federal or state income tax from your TFFR retirement benefit. However, since your TFFR benefits are subject to federal and state taxes, don't forget to periodically review your tax withholding election. If your tax withholding is not adequate, you may have to pay 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 TFFR 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.

TFFR Revenues and Distributions

CHART 2



Addresses Must Comply With Postal Standards

The Teachers' Fund for Retirement would appreciate your help in correcting numerous incorrect or insufficient member addresses. Valid address information will improve mail delivery and save postage costs.

If you have recently moved or if you have not provided TFFR with your 911 address, please complete and return an address change request. Address changes must be in writing. Address change forms can be found on our website at www.nd.gov/rio.

TFFR Funding Improvements

Continued from page 1

Tier 2 Members include all new members and returning refunded members who are employed on or after July 1, 2008. Tier 2 members would have the following benefit changes:

- Rule of 90, instead of Rule of 85
- 5-year vesting, instead of 3-year vesting
- Early (reduced) retirement eligibility would be age 55 and 5 years of service (instead of age 55 and 3 years)
- Normal (unreduced) retirement eligibility would be age 65 and 5 years of service (instead of age 65 and 3 years)
- Final average salary would be computed as a 5-year average, rather than as a 3-year average

TFFR staff is working with school districts on implementation details. Updated publications, forms, and other materials will be available this summer.

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