# Agenda

## ND Teachers' Fund for Retirement Board Meeting

Wednesday, July 18, 2012
8:30 am
Peace Garden Room
State Capitol, Bismarck, ND

1. Call to Order and Approval of Agenda - Pres. Gessner

2. Approval of Minutes of June 21, 2012 Meeting – Pres. Gessner

3. Election of 2012-13 Officers – Pres. Gessner

4. Development of Funding Policy – Kim Nicholl, Segal

5. SIB Search Committee Update – RIO Organizational Structure - Bob Toso

6. 2013 Legislative Update – Fay Kopp

7. 2011 Legislative Implementation Update – Shelly Schumacher

8. Annual TFFR Program Review – Fay Kopp, Board

9. Annual Customer Satisfaction Reports – Fay Kopp

10. Consent Agenda
    - Disability Applications: 2012-4D and 2012-5D
      *Executive Session pursuant to NDCC 44-04-19.2 possible if Board discusses confidential information under NDCC 15-39.1-30.

11. Executive Session
    - Member Appeal 2012-1A
      *Executive Session required to discuss confidential information under NDCC 44-04-19.2 and NDCC 15-39.1-30.

**Lunch**

12. Board Education
    Impact of Oil Industry on ND Schools
    - Kayla Effertz, Governor's Office
    - Larry Klundt, LAK Educational Consulting
    - Dakota Draper, NDEA

13. Other Business

14. Adjournment

**Next Board Meeting: September 27, 2012**

*Any person who requires an auxiliary aid or service should contact the Deputy Executive Director of the Retirement and Investment Office at 701-328-9885 at least three (3) days before the scheduled meeting.*

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    - Member Appeal 2012-1A
      *Executive Session required to discuss confidential information and for attorney consultation under NDCC 44-04-19.2, NDCC 44-04-19.1, and NDCC 15-39.1-30.

**Lunch**

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**CORRECTED 7-19-12**

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT**
**MINUTES OF THE**
**JUNE 21, 2012, SPECIAL BOARD MEETING**

**BOARD MEMBERS PRESENT:** Mike Gessner, President
Clarence Corneil, Trustee
Kim Franz, Trustee
Lowell Latimer, Vice President
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer
Bob Toso, Trustee

**STAFF PRESENT:** Fay Kopp, Interim Executive Director
Darlene Roppel, Retirement Assistant
Darren Schulz, Interim CIO
Shelly Schumacher, Retirement Program Manager

**OTHERS PRESENT:** Dakota Draper, NDEA
Gloria Lokken, NDEA
Janilyn Murtha, Attorney General's Office

**CALL TO ORDER:**

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the special board meeting to order at 8:30 a.m. on Thursday, June 21, 2012, at the State Capitol, Peace Garden Room, Bismarck, ND.

**THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: PRESIDENT GESSNER, MR. CORNEIL, MRS. FRANZ, DR. LATIMER, DR. SANSTEAD, TREASURER SCHMIDT, AND MR. TOSO.**

**APPROVAL OF AGENDA:**

The Board considered the meeting agenda.

**MR. CORNEIL MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE AGENDA AS PRESENTED.**

**AYES: MR. CORNEIL, TREASURER SCHMIDT, DR. SANSTEAD, MR. TOSO, MRS. FRANZ, DR. LATIMER, AND PRESIDENT GESSNER.**
**NAYS: NONE**
**MOTION CARRIED.**

**MINUTES:**

The Board considered the minutes of the regular board meeting held March 15, 2012.

**DR. LATIMER MOVED AND MRS. FRANZ SECONDED TO APPROVE THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD MARCH 15, 2012, AS PRESENTED.**

**AYES: MR. TOSO, DR. LATIMER, TREASURER SCHMIDT, MR. CORNEIL, DR. SANSTEAD, MRS. FRANZ, AND PRESIDENT GESSNER.**
**NAYS: NONE**
**MOTION CARRIED.**

**IRS DETERMINATION LETTER APPROVAL:**

Mrs. Fay Kopp, Interim Executive Director, reported that on May 30, 2012, the Internal Revenue Service (IRS) granted TFFR a favorable determination letter. This means the TFFR plan documents comply with IRS requirements and therefore, TFFR continues to maintain its qualified status. This determination is subject to adoption of certain proposed amendments which were submitted for interim study to the Legislative Employee Benefits Programs Committee (LEBPC). This determination letter expires on January 31, 2014. Another determination letter will be applied for in 2013-2014. The Board discussed the application process and timing.

**LEGISLATIVE UPDATE:**

Mrs. Kopp commented on the NDTFFR Funding Update fact sheet which includes current and projected funding information and a brief summary of plan provisions and contribution rates for Tier 1 grandfathered, Tier 2 non-grandfathered, and Tier 2 members.

The Legislative Employee Benefits Programs Committee (LEBPC) met on June 7, 2012, to begin consideration of 2013 legislative proposals. Mrs. Kopp gave a brief update on the Retirement and Investment Office (RIO), the interim appointments and the State Investment Board (SIB) search committee members. Mr. Darren Schulz, Interim CIO, also gave an update on TFFR and Public Employees Retirement System (PERS) investment performance and investment climate.

Mrs. Kopp reviewed the provisions of the TFFR Administrative Bill No. 99 which includes technical and administrative changes required to maintain compliance with federal statutes. Rep. Louser introduced Bill No. 43 which would maintain the TFFR member and employer contribution rates approved by the 2011 Legislature until the fund reaches a 100% funded ratio (instead of 90% as provided in current law), at which time rates would be reduced to 7.75% for members and 7.75% for employers. These bills will be sent to the actuary, Segal Company, for actuarial and technical analysis. The Board discussed the possibility of other legislative bills that could be introduced.

**SIB SEARCH COMMITTEE UPDATE:**

Mr. Bob Toso and Treasurer Schmidt, SIB Search Committee representatives, updated the Board on the Committee's exit interview with John Geissinger, and preliminary discussions regarding filling the position. One option under consideration is whether the Chief Investment Officer (CIO) to the State Investment Board (SIB) and Chief Executive Officer (CEO) to the Retirement and Investment Office (RIO) duties should be split. The organizational structure of SIB/RIO/TFFR would need to be carefully studied. Mrs. Kopp presented a brief summarized history of the RIO office. If the RIO office was split, there would most likely be increased administrative costs to implement the two programs separately. Changing the RIO organizational structure or increasing staff would need legislative approval. After discussion, the Board agreed they are open to discussion of different possibilities. The Search Committee will hold their next meeting June 28, 2012. Treasurer Schmidt requested the Search Committee meeting minutes be distributed to PERS and TFFR board members.

**ADJOURNMENT:**

The next regular TFFR board meeting is scheduled for July 18, 2012, with the regular business meeting in the morning, and special speakers in the afternoon to discuss the impact of the oil boom on North Dakota schools and education.

With no further business to come before the Board, President Gessner adjourned the meeting at 10:10 a.m.

Respectfully Submitted:

_____

Mr. Mike Gessner, President
Teachers' Fund for Retirement Board

_____

Darlene Roppel
Reporting Secretary

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Fay Kopp**

**DATE:** **July 11, 2012**

**SUBJ:** **Trustee Re-appointment and Election of Officers**

- Governor Dalrymple has re-appointed Clarence Corneil to another 5-year term on the TFFR Board. Clarence has been a trustee since 2002 representing retired members of the fund. Our sincere thanks for his service on both the TFFR and State Investment Boards.

- The TFFR Board is required to elect officers each year. Enclosed are last year's Board Member assignments for your reference. For the 2012-13 year, the Board will need to elect the positions of President and Vice President. The Board will also select trustees to represent TFFR on the State Investment Board (one active administrator, one active teacher, one retired member), the SIB Audit Committee (one member), and the SIB alternate (one member). The State Treasurer is required by virtue of her position to serve on the State Investment Board, so that is not subject to Board assignment.

Enclosure

# TFFR Board

## 2011 - 2012 Assignments

**Officers of the board**

- President Mike Gessner
- Vice President Lowell Latimer

**Board members serving on the SIB**

- Mike Gessner
- Robert Toso
- Clarence Corneil
- State Treasurer Schmidt (ex-officio)

**SIB Audit Committee**

- Mike Gessner

**SIB alternate**

- Superintendent Sanstead

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Fay Kopp**

**DATE:** **July 11, 2012**

**SUBJ:** **Development of TFFR Funding Policy**

Kim Nicholl, Segal Company, will be at the July board meeting to present information on developing a TFFR funding policy. The Board will be asked for input relating to various elements of a funding policy. Kim will return in October to present a draft funding policy based on the Board's feedback. She will also deliver the 2012 valuation report at that time.

Enclosed is Segal's proposal and a recent Segal publication describing the goals and elements of a funding policy.

Enclosures

THE SEGAL COMPANY
101 North Wacker Drive Suite 500 Chicago, IL 60606-1724
T 312.984.8500 F 312.984.8590 www.segalco.com

April 10, 2012

***VIA E-MAIL***

Ms. Fay Kopp
Deputy Executive Director
ND Retirement and Investment Office
1930 Burnt Boat Drive
Bismarck, ND 58507-7100

**Re: Proposal to Prepare a Statement of Actuarial Funding Policy**

Dear Fay:

As we discussed, we have outlined in this letter our proposal to draft a formal comprehensive statement of actuarial funding policy for the North Dakota Teachers' Fund for Retirement (TFFR).

**Background**

As you know, employer and employee contribution rates are set by statute under the North Dakota Century Code. As a measurement of contribution adequacy on an actuarial basis, the total contribution rate is compared to the Annual Required Contribution (ARC) amount determined under Governmental Accounting Standards Board (GASB) Statement #25. The ARC calculation for TFFR includes a component for recognizing the plan's annual normal cost and a component for amortizing unfunded actuarial accrued liability (UAAL) over 30 years as a level percentage of payroll.

GASB has recently issued an Exposure Draft that revises financial reporting requirements for governmental pension plans and their sponsors. Included in this Exposure Draft is the requirement to identify the "actuarially calculated employer contributions" determined using the funding policy adopted by the governing body. The current ARC as it exists now is abandoned in the Exposure Draft. In addition to creating a basis for measuring statutory contribution rate adequacy, a byproduct of this study will be that TFFR will have a readily accessible comprehensive statement of funding policy to use in meeting the new GASB requirements.

**Fee Proposal**

We estimate that our costs to provide for the above analysis to be about $10,000 to $12,000. However, our actual billing would be based on the actual time charges.

Included in the above fee estimate is one meeting to present the report containing the review of actuarial funding policy to the Board.

In preparing this proposal, we assume that if there is concurrence from all stakeholders to amend the Century Code and/or Administrative Code to introduce elements of the funding policy, such amendment would be prepared by TFFR's legal counsel with relatively high-level input and review from Segal.

Please do not hesitate to contact us with any questions.

Sincerely,

Kim Nicholl, FSA, MAAA, EA
Senior Vice President and Actuary

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

5258788v1/13475.003

# NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

## Elements of an Actuarial Funding Policy

July 18, 2012

**Kim Nicholl, FSA**

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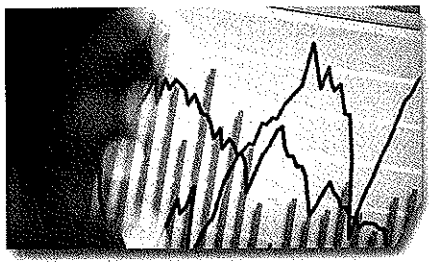
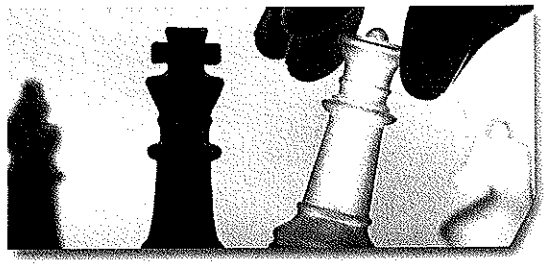




SEGAL

# Agenda

- Background
- Need for a funding policy
- General policy objectives
- Funding policy components
  - Actuarial cost method
  - Asset smoothing method
  - Amortization method
- Summary
- Questions

# Background

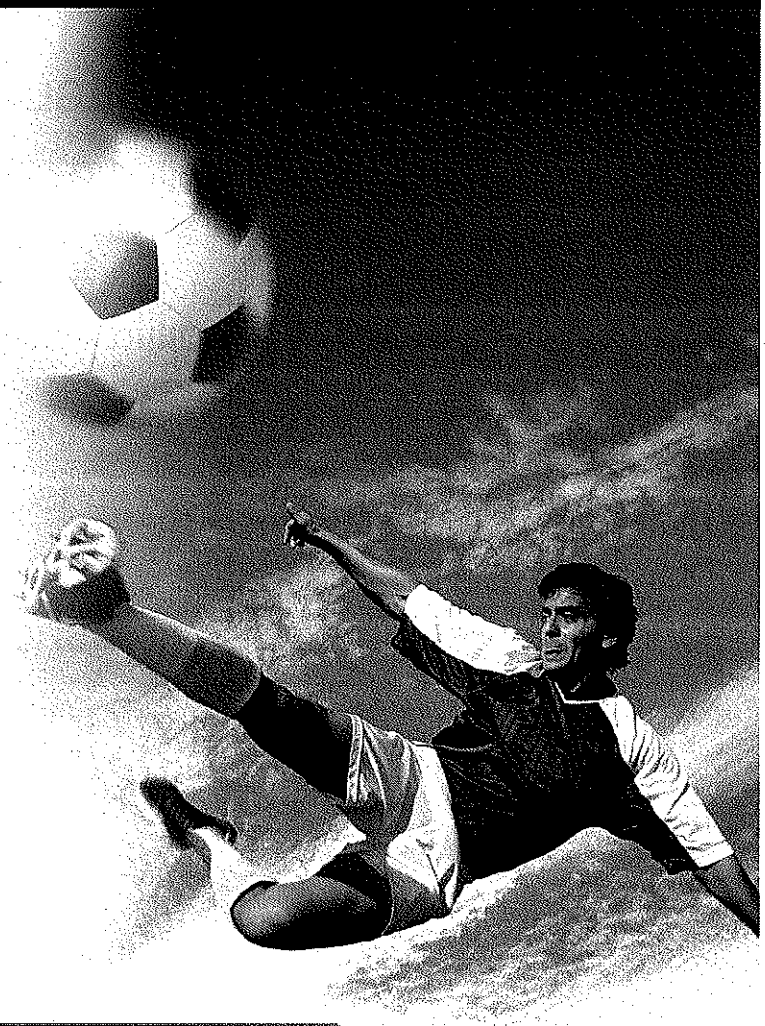
- Current funding policy is the "Annual Required Contribution" (ARC)
  - Defined by current Governmental Accounting Standards Board (GASB) standards
  - Statutory contributions are compared to the ARC
- GASB ARC
  - Entry age normal cost method
  - Asset smoothing method based on 5-year smoothing of investment gains and losses
  - Unfunded actuarial accrued liability (UAAL) amortized over open (rolling) 30-year period

# Renewed Focus on Funding Policy

- Governance issues
  - Independent determination of actuarially based contribution requirements
    - Includes actuarial assumptions and funding policy
  - Contribution rates are set by legislature
    - Actuarially based rates would ensure sound funding
- GASB
  - Requires disclosure of contributions made to the ARC
  - New accounting statements effective in 2014 will eliminate the ARC
    - If a plan has an "actuarially determined employer contribution" (ADEC), then disclose actual contribution and the ADEC
    - If plan does not have an ADEC, no disclosure of actual contributions
  - Current ARC, based on 30-year open amortization of unfunded liabilities, should be revisited
    - Demographic changes (aging population)
    - Mature plan
    - Investment and economic environment
    - Heightened scrutiny of public pension plan funding

# GASB — Net Pension Liability Reported on the Balance Sheet

- Net Pension Liability (NPL)
  - Total Pension Liability minus employer's plan net position (market value of assets)
- NPL is required to be reported on the employer's balance sheet
- Under current standards, for cost sharing plans:
  - Pension expense is statutory contribution
  - UAAL is not reported on the balance sheet



**NPL is a snapshot of unfunded liabilities as of a point in time.**

# Net Pension Liability Reported on the Balance Sheet
*continued*

- Estimated NPL based on July 1, 2011 valuation:

| | |
|---|---|
| Total Pension Liability (AAL) | $ 2.750 billion |
| Market Value of Assets | 1.726 |
| Net Pension Liability (UAAL) | $ 1.024 billion |

- Net Pension Liability
  - Based on blended discount rate, so may be greater
  - Will be reported on the plan's balance sheet
  - Will be allocated to all employers and will be reported on each employer's balance sheet

**Accounting NPL will be more volatile than the current unfunded accrued liability (which will still be used for funding).**

# GASB and Funding Policy

- GASB is eliminating the ARC
  - They are in the "accounting business", not the "funding business"
  - But if plan has a funding policy, the resulting contribution amount is called the "Actuarially Determined Employer Contribution" (ADEC)
- Actuarially Determined Employer Contribution
  - If determined, disclose method and amount
  - Compare statutory contributions to the ADEC
  - GASB provides no basis for the ADEC except "actuarial standards of practice"
  - ADEC is the new ARC
  - For NDTFFR, no ADEC currently exists

**Should the old ARC be NDTFFR's ADEC?**

# General Funding Policy Objectives

1. Actuarially determined employer contribution (ADEC)
   - Future contributions plus current assets sufficient to fund all benefits for current members
   - Contributions = Normal Cost + **full** Unfunded Actuarial Accrued Liability payment
   - Statutory contributions should be compared to the ADEC as a measure of adequacy
2. Intergenerational equity
   - Reasonable allocation of funding to years of service
3. Contributions as a stable percentage of payroll
   - Reasonable management and control of future employer contribution volatility
4. Support public policy goals of accountability and transparency
   - Clear in intent and effect
   - Allow assessment of whether, how and when sponsor will meet funding requirements

# General Funding Policy Objectives (continued)

- Policy objectives 2 and 3 reflect two aspects of the general policy objective of "interperiod equity"
- Objective 2 promotes "demographic matching"
  - ***Intergenerational*** interperiod equity
- Objective 3 promotes "volatility management"
  - ***Period-to-period*** interperiod equity
- These two aspects of interperiod equity tend to move funding policy in opposite directions
  - Policy objectives 2 and 3 combined seek to balance intergenerational and period-to-period IPE
  - Demographic matching vs. volatility management

**Managing policy objectives is a balancing act.**

# Three Funding Policy Components

- **Actuarial cost method** allocates present value of member's future benefits to years of service
  - Defines Normal Cost and Actuarial Accrued Liability (AAL)
  - NDTFFR actuarial cost method is the "entry age normal" method
- **Asset smoothing method** manages short term market volatility while tracking MVA
  - Defines the Unfunded Actuarial Accrued Liability (UAAL)
  - NDTFFR asset smoothing method is based on five year smoothing of annual investment returns that exceed 8% (gains) and fall short of 8% (losses)
    - No market value corridor
    - A corridor would restrict the difference between actuarial value of assets and market value of assets (e.g., 80% to 120%)

# Three Funding Policy Components (continued)

- **Amortization method** sets contributions to systematically pay off the UAAL
  - Length of time and structure of payments
  - NDTFFR contribution rates are fixed and currently compared to GASB ARC
  - GASB ARC amortization policy is open 30-year level percentage of pay
    - UAAL amortized as single layer regardless of source of UAAL
    - Open (or, "rolling") means the UAAL is re-amortized over a new 30-year period every year
    - Level percentage of pay means UAAL amortized with payments that increase each year by payroll growth assumption of 3.25%
    - Combination of open 30-year period and level percentage of payroll means:
      - » Amortization payment does not even cover the interest on the UAAL let alone the principal (more on this later)

# Three Funding Policy Components (continued)

## ➤Current funding policy

| Current ARC/ADEC | |
|---|---|
| Employer Normal Cost | 2.12% |
| 30-year Amortization of UAAL | 11.04 |
| ARC | 13.16% |
| Statutory Contribution | 8.75 |
| Margin | (4.41%) |

| ARC/ADEC with Contribution Increases | |
|---|---|
| Employer Normal Cost | (1.88%)★ |
| 30-year Amortization of UAAL | 11.04 |
| ARC | 9.16% |
| Statutory Contribution | 12.75 |
| Margin | 3.59% ★★ |

★ Member contribution increases by 4% so employer Normal Cost decreases by 4%

★★ With a 15-year amortization of UAAL and after reflecting all contribution increases, the margin would be (2.03%)

**Once all the contribution increases are phased in, the current funding policy based on the ARC generates a margin.**

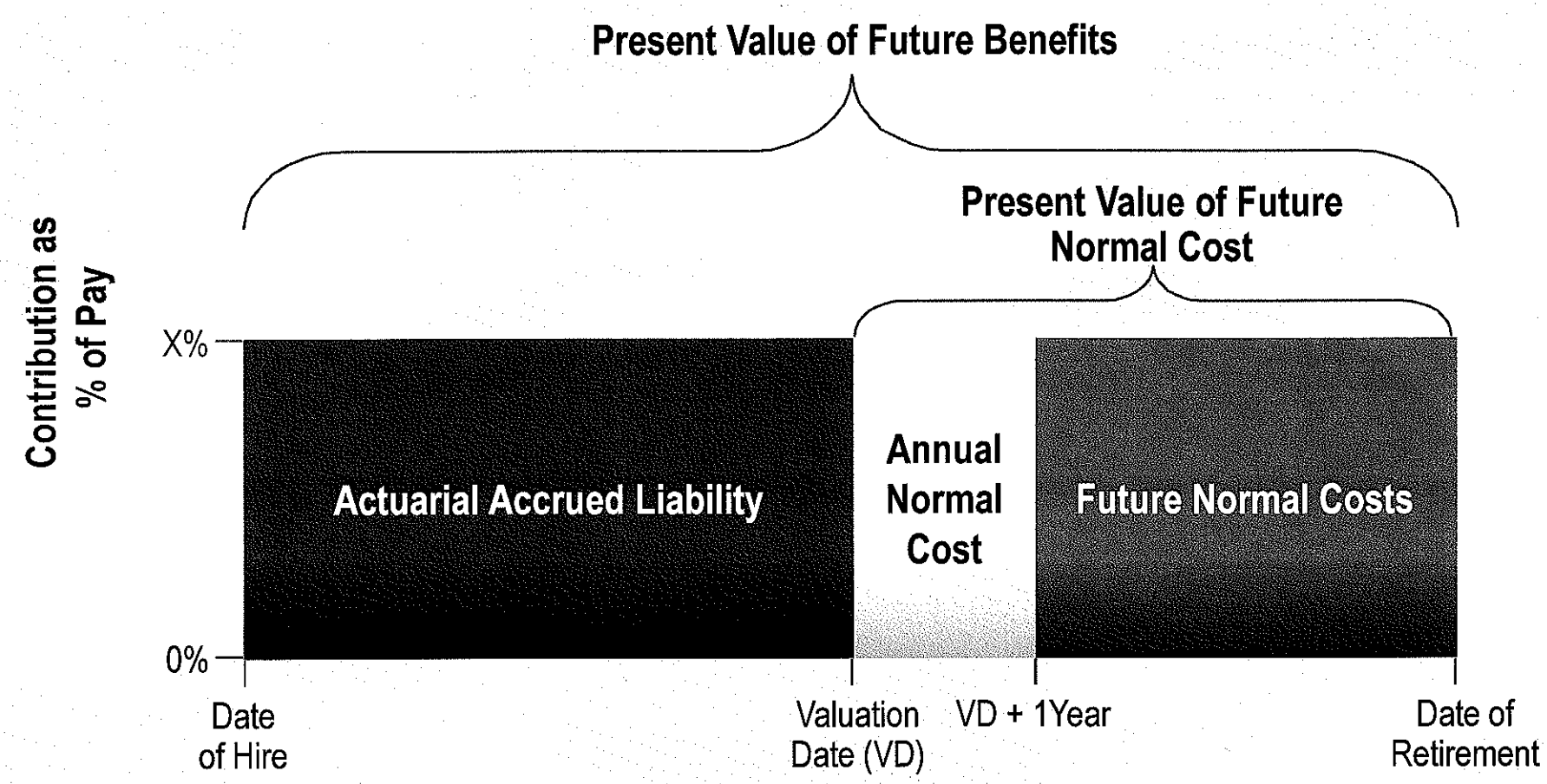
# Actuarial Cost Method — Allocation of Present Value of Future Benefits

- **Present value of future benefits (PVFB)**
  - Present value, as of the valuation date, of benefits expected to be paid in the future for all members of the plan based on the actuarial assumptions and including future service, salaries, and eligibility for benefits

- The **actuarial accrued liability** is the portion of the present value of future benefits that is allocated to members' past years of service
  - **Retirees and beneficiaries**
    - All years of service are in the past, so the **actuarial accrued liability** is equal to the present value of future benefits
  - **Active members**
    - The **actuarial accrued liability** represents the portion of the present value of future benefits that is attributable to the years of service that the members have already worked
    - The **normal cost** represents the anticipated growth in the actuarial accrued liability in the coming year

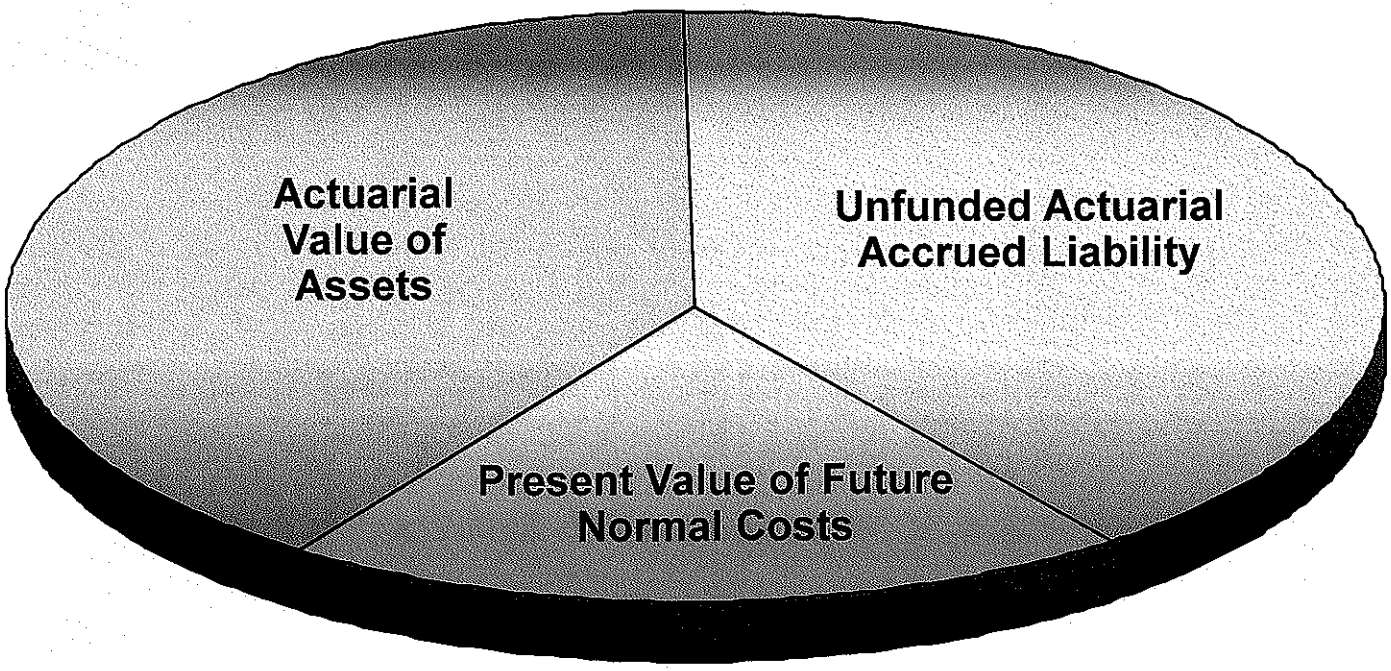
**The actuarial accrued liability is compared to the assets as a measure of funding progress.**

# Actuarial Cost Method — Individual Member



# Actuarial Cost Method — Total Fund

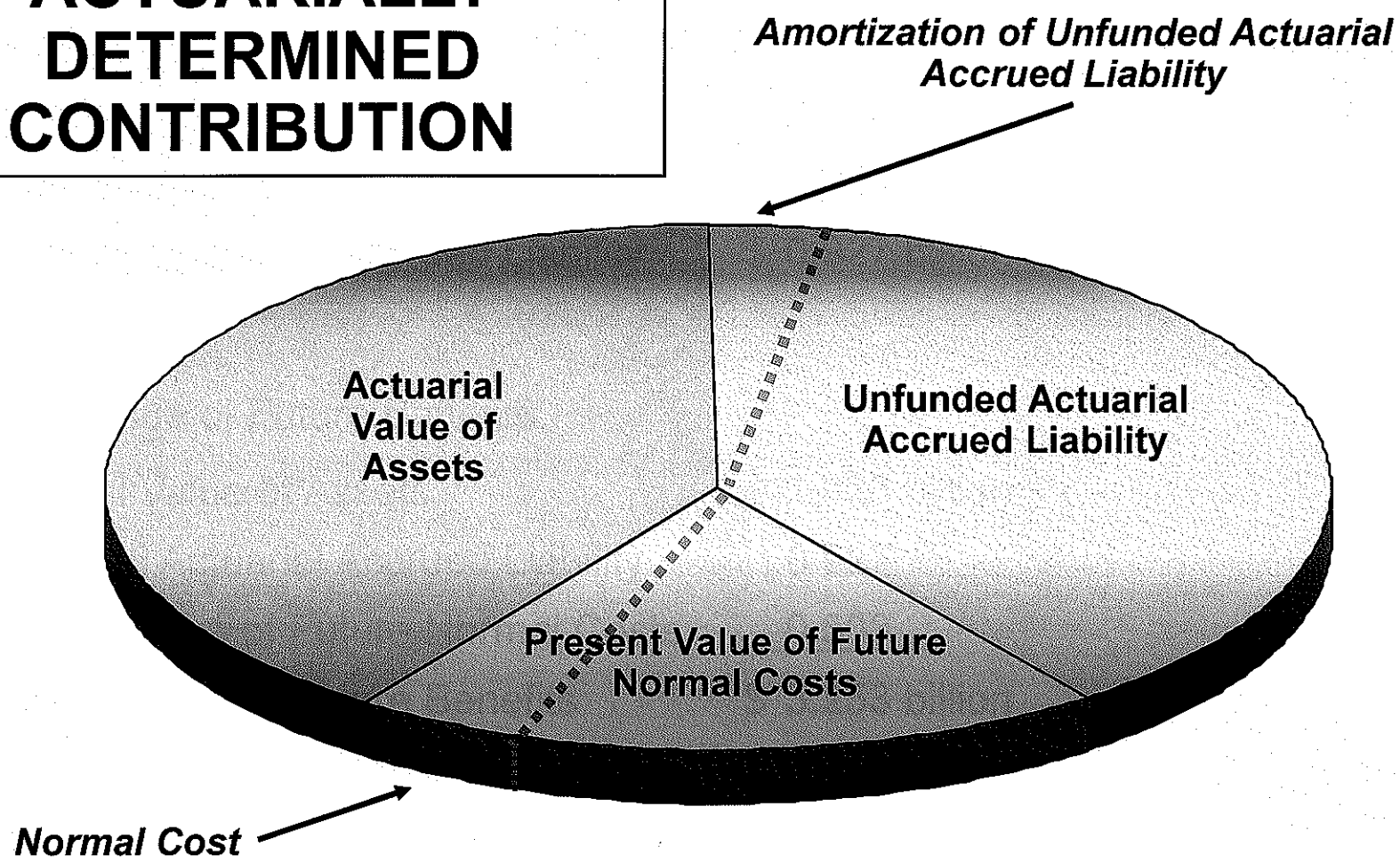
## PRESENT VALUE OF FUTURE BENEFITS




**Actuarial Accrued Liability – Actuarial Value of Assets = Unfunded Actuarial Accrued Liability**

# Actuarial Cost Method — Total Fund

**ACTUARIALLY DETERMINED CONTRIBUTION**




**Actuarially Determined Contribution = Normal Cost + Amortization of Unfunded Actuarial Accrued Liability**

# Summary of Valuation Results for NDTFFR

➤ As of July 1, 2011

- Unfunded Actuarial Accrued Liability:

| | |
|---|---|
| 1. Actuarial Accrued Liability | $ 2.750 billion |
| 2. Actuarial Value of Assets | 1.823 |
| 3. Unfunded Actuarial Accrued Liability (1. – 2.) | $ 0.927 billion |

- Present Value of Future Benefits:

| | |
|---|---|
| 1. Actuarial Value of Assets | $ 1.823 billion |
| 2. Unfunded Actuarial Accrued Liability | 0.927 |
| 3. Present Value of Future Normal Costs | 0.503 |
| 4. Present Value of Future Benefits (1. + 2. + 3.) | $ 3.253 billion |

# Actuarial Cost Method

- Policy considerations
  - Each member's benefit should be funded by the expected retirement date, assuming all assumptions are met
  - The Normal Cost for each member should be reasonably related to the expected cost of that member's benefit
  - Expected cost of each year of service emerges as a level percentage of member compensation
- Entry Age Normal (EAN) cost method is a model practice
  - Used by majority of public pension systems
  - Will be required for accounting purposes under new GASB statements
  - NDTFFR uses the EAN cost method
    - However, NDTFFR's Normal Cost is "Ultimate Normal Cost"

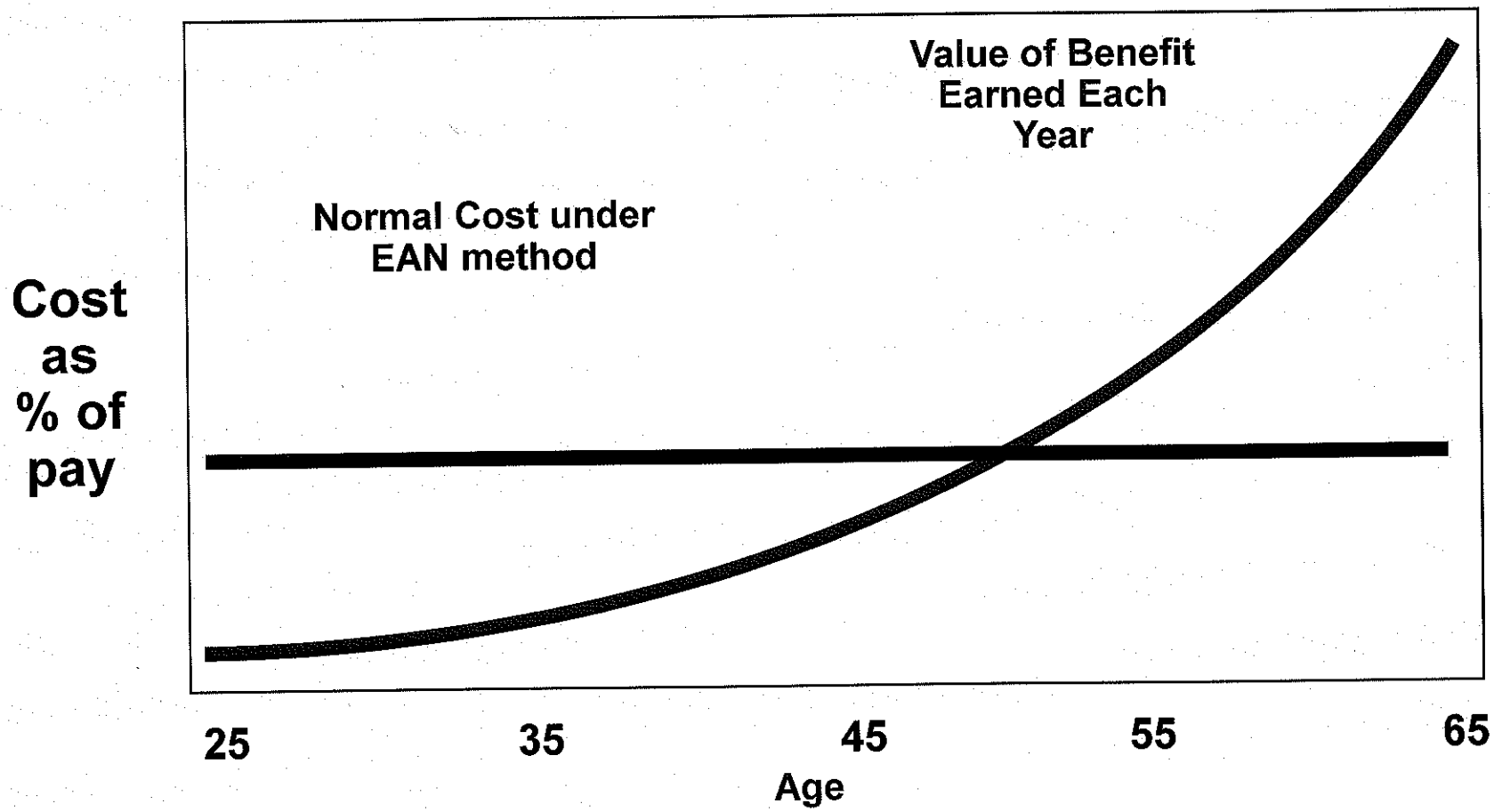
# Actuarial Cost Method — Normal Cost Variations

- Model practice bases Normal Cost on each member's benefit
  - Known as "Traditional Normal Cost"
  - Is required under new GASB statements
- A variation is called "Ultimate Normal Cost"
  - Normal cost for all members is based on current open tier
    - For NDTFFR the current open tier is Tier 2
  - Normal Cost with all members valued under Tier 2 is lower than total Normal Cost based on each member's benefit
    - Remember, PVFB is allocated into Normal Cost and Actuarial Accrued Liability
    - So, if larger Traditional Normal Cost is used, Actuarial Accrued Liability decreases

| Ultimate Normal Cost | |
|---|---|
| Actuarial Accrued Liability | $ 2,749.8 M |
| Funded Ratio | 66.28% |
| Normal Cost ($) | $ 50.7 M |
| Normal Cost (% of pay) | 9.80% |

| Traditional Normal Cost (est.) | |
|---|---|
| Actuarial Accrued Liability | $ 2,682.4 M |
| Funded Ratio | 67.95% |
| Normal Cost ($) | $ 62.7 M |
| Normal Cost (% of pay) | 12.12% |

# Normal Cost vs. Value of Benefit Earned Each Year



# Asset Smoothing Methods - Objectives

- Policy objectives
  - Unbiased relative to market
    - Same smoothing period for gains and for losses
    - "Market value corridors" symmetrical around market value
      - » For example, actuarial value of assets (AVA) cannot be less than 80% of market value of assets (MVA) nor more than 120% of MVA
    - Do not selectively reset at market value only when market value is greater than actuarial value
    - Do not selectively modify asset smoothing when investment returns fall short of the interest rate assumption
  - Incorporate the Actuarial Standard of Practice No. 44 (ASOP 44) concepts related to smoothing period and range from market value
    - AVA must be likely to return to MVA in a reasonable period
    - AVA must be likely to stay within a reasonable range of MVA
  - Accountability and transparency prefer smoothing methods that provide for full recognition of deferred gains and losses in the UAAL by some date certain

# 5-year Asset Smoothing and MVA Corridor

- Model: 5 years is "sufficiently short" under ASOP 44
  - Long and consistent industry practice
  - 5 year smoothing with no corridor is ASOP 44 compliant
    - But having corridor structure may still be useful
      - » Recognize significant market volatility
- Other reasons to consider MVA corridor
  - Accelerates ADEC increases
    - Market timing – higher ADEC in down market
    - Start discussion with legislature sooner if statutory contributions are not adequate
- NDTFFR asset smoothing method is 5-year smoothing with no MVA corridor

# Asset Smoothing Methods

- Model practice
  - 5 year smoothing with no corridor
  - Consider adding a corridor in the event of extreme market volatility
  - 80%/120% or 70%/130%
- History of AVA/MVA ratio for NDTFFR

| Valuation Date | Ratio of AVA to MVA |
|---|---|
| July 1, 2011 | 105.6% |
| July 1, 2010 | 128.1% |
| July 1, 2009 | 145.1% |

# Amortization of Unfunded Actuarial Accrued Liability

- Source of Unfunded Actuarial Accrued Liability (UAAL/NPL)
  - Gains / losses
  - Assumption or method changes
  - Plan changes
- Amortization method
  - Level dollar amount
    - UAAL is amortized like a mortgage
      - » Payment is the same each year (level)
      - » $1.5 million, $1.5 million, $1.5 million, etc.
  - Level percentage of payroll
    - UAAL is amortized with payments that increase each year
    - Annual increase in payment is based on payroll growth assumption (i.e., 3.25%)
    - $1 million, $1.0325 million, $1.066 million, etc.
    - UAAL continues to grow as payments are less than interest on the UAAL

# Amortization of Unfunded Actuarial Accrued Liability (continued)

- Open ("Rolling") versus Closed Amortization Period
  - Open means the UAAL is re-amortized over a new 30-year period every year
    - Like refinancing your home with a new 30-year mortgage every year
    - Allowed by GASB and viewed as a standard funding policy based on idea that governments are perpetual
      - » Became widely accepted practice
  - Closed means the UAAL will be fully amortized over the 30-year period
    - Like a 30-year mortgage – your home will be paid off after 30 years
  - NDTFFR periodically changes the amortization method based on existing environment
    - Time to revisit again
- Amortization based on one layer or multiple layers
  - One layer means the entire UAAL is amortized per the funding policy regardless of the source of the UAAL
  - Multiple layers will amortize the sources of the UAAL over different periods
    - Gains / losses, assumption or method changes, plan changes
    - Alternatively, each year's change in UAAL is amortized over the same period

# Amortization of Unfunded Liability – Objectives

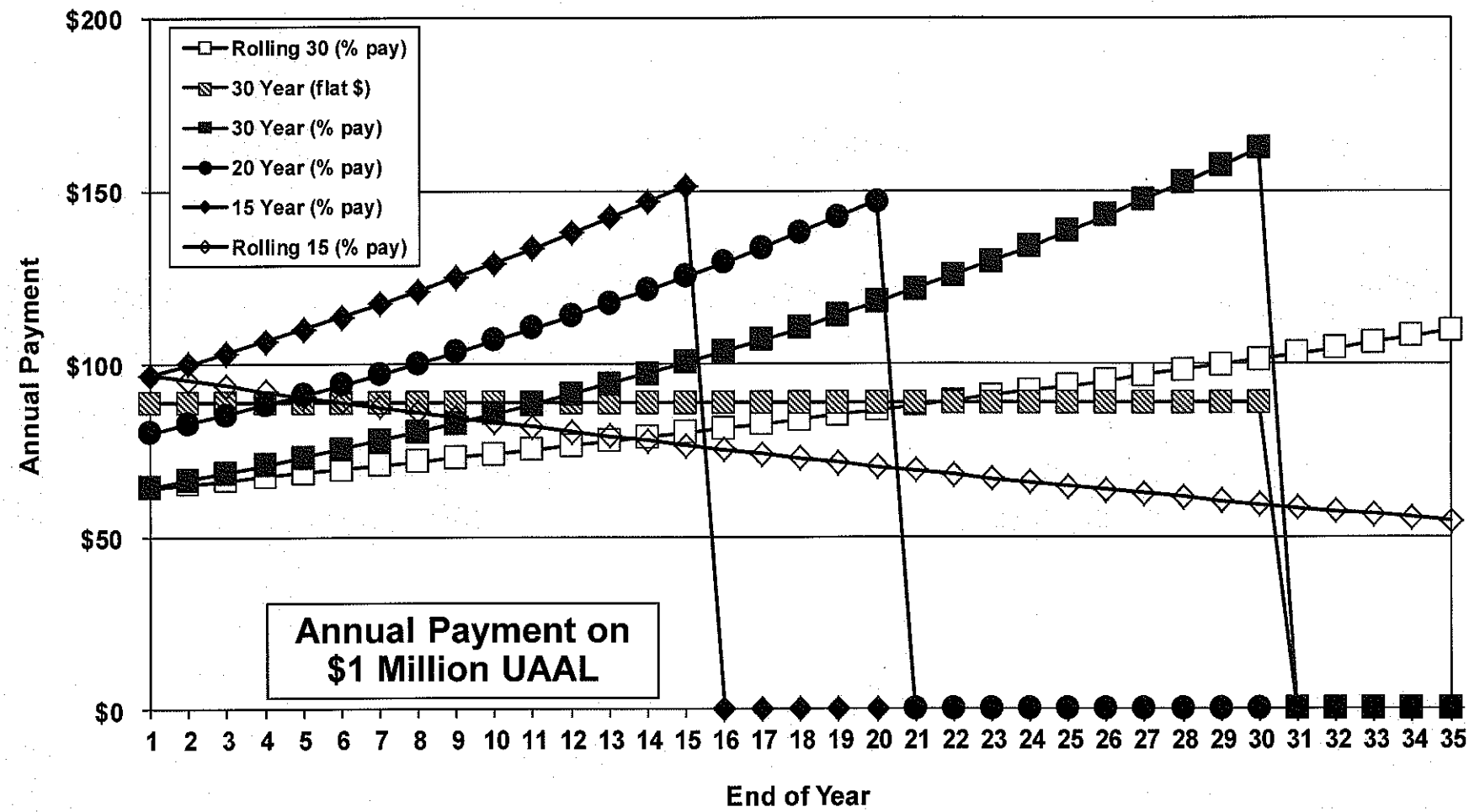
- Policy objectives
  - Amortization period should balance intergenerational equity against goal of keeping contributions level as a percentage of compensation
  - Policy should explicitly consider the following, even if all treated the same way:
    - Experience gains and losses
    - Changes in assumptions and methods
    - Benefit or plan changes
  - Explicitly consider level and duration of negative amortization
  - Consider policies that:
    - Reflect a history of the sources and treatment of UAAL
    - Provide for a full amortization date
  - Separately consider treatment of surplus amortization

# Illustration of Amortization Methods

| 8.00% interest<br>3.25% salary incr. | Rolling 30<br>% of pay | Closed<br>30 years<br>Flat dollar | Closed<br>30 years<br>% of pay | Closed<br>20 years<br>% of pay | Closed<br>15 years<br>% of pay | Rolling 15<br>% of pay |
|---|---|---|---|---|---|---|
| Increase in AAL | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Amortization factor | 15.5913 | 11.2578 | 15.5913 | 12.4895 | 10.3300 | 10.3300 |
| (first year) | 0.064138 | 0.088827 | 0.064138 | 0.080067 | 0.096805 | 0.096805 |
| Amortization amount | | | | | | |
| Year 1 | $ 64,138 | $ 88,827 | $ 64,138 | $ 80,067 | $ 96,805 | $ 96,805 |
| Year 15 | $ 79,947 | $ 88,827 | $ 100,364 | $ 125,290 | $ 151,482 | $ 76,358 |
| Year 20 | $ 86,492 | $ 88,827 | $ 117,768 | $ 147,016 | $ - | $ 70,154 |
| Year 30 | $ 101,233 | $ 88,827 | $ 162,154 | $ - | $ - | $ 59,217 |
| Year 50 | $ 138,680 | $ - | $ - | $ - | $ - | $ 42,193 |
| Total amount paid | | | | | | |
| Principal | $ (1,196,504) | $ 1,000,000 | $ 1,000,000 | $ 1,000,000 | $ 1,000,000 | $ 571,475 |
| Interest | 6,034,635 | 1,664,823 | 2,178,034 | 1,206,993 | 833,831 | 2,720,449 |
| Total | $ 4,838,131★ | $ 2,664,823 | $ 3,178,034 | $ 2,206,993 | $ 1,833,831 | $ 3,291,924★ |

★ Total amount for first 50 years shown here; payments will continue on indefinitely

# Illustration of Amortization Periods – Annual Payment ($ in 000s)



# Negative Amortization

- $1,000,000 liability, 8.00% interest
- First year interest only is $80,000
- With level dollar payments, payments are always greater than interest
- With level percentage of payroll payments, early payments can be less than interest
  - UAAL continues to increase
  - Eventually larger payments may cover interest plus increased UAAL
    - Unless using a rolling/open amortization period greater than 15-20 years

# Model Layered Fixed Periods

- Model approach is layered fixed periods
  - Level percent of pay as opposed to level dollar
  - Sources of UAAL amortized over different periods
    - Gains / losses
    - Assumption or method changes
    - Plan changes
  - Each year's change in UAAL is amortized over a new fixed period
- For gains and losses
  - Under 15 years: too volatile
  - Over 20 years: too much negative amortization

# Model Layered Fixed Periods (continued)

- Assumption change amortization could be longer than gain/loss amortization
  - Assumption changes are long term re-measurements, so longer amortization period is acceptable
  - However, longer than 25 years has substantial negative amortization
- For plan changes
  - Use actual remaining active future service or retiree life expectancy
  - Could use up to 15 years as an approximation
  - Any period that causes negative amortization is not recommended

# Model Layered Fixed Periods (continued)

- For Early Retirement Incentive programs, use a period corresponding to the period of economic savings
  - Consistent with current GFOA guidance
  - Shorter than other plan changes, typically around 5 years
- Surplus amortization
  - Surplus means that AVA is greater than AAL
    - Plan is over 100% funded
  - 30 year period is appropriate
    - Account for overfunded position over a longer time period

# Model Layered Fixed Periods (continued)

| Source | Model Funding Policy Period | New GASB Period |
|---|---|---|
| Experience Gain/Loss | 15 to 20 | Future working lifetime |
| Assumption Changes | 15 to 25 | Future working lifetime |
| Active Plan Changes | Demographic | Immediate |
| Inactive Plan Changes | Demographic | Immediate |
| Early Retirement Incentives | 5 or less | Immediate |

# Other Model UAAL Amortizations

- Single and closed amortization layer for entire UAAL
  - 30 years or less is acceptable
- Single and rolling amortization layer for entire UAAL
  - Acceptability depends on period used for rolling amortization
  - 15 years or less is acceptable
- Annual closed layers for all UAAL sources
  - 30 years or less is acceptable

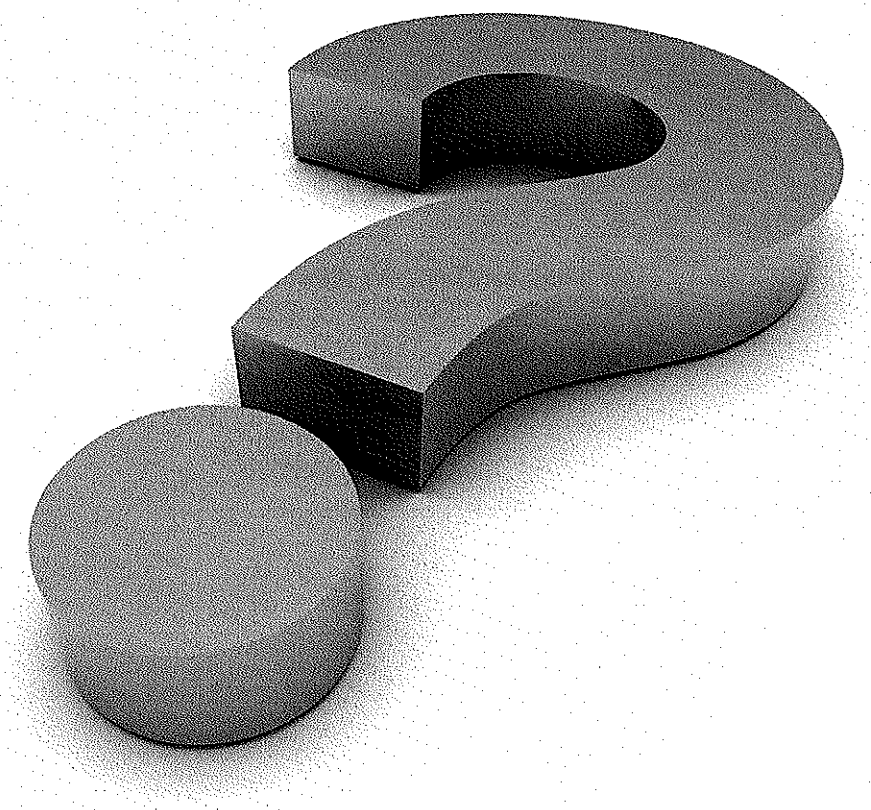
# Summary of Amortization Methods

- Two trains of thought on amortization methods
  - Single period
    - Simple
    - Easy to understand
    - Appropriate as long as it pays off the UAAL
  - Layers
    - Shows the reasons for changes in UAAL
    - Recognizes that certain portions of changes in UAAL should be recognized more rapidly than others
    - Consistent with new GASB standards
      - But cannot fund according to new standards
        - Amortization periods are too short
        - Costs would be too volatile

# Summary of Funding Policy Elements

- Actuarial cost method
  - Recommend continued use of entry age normal
  - Consider "traditional" versus "ultimate" normal cost
- Asset smoothing method
  - Recommend continued use of 5 year smoothing period
  - Consider use of MVA corridor
- Amortization period
  - Options to consider
    - 15 year rolling for entire UAAL
    - 25 to 30 year closed for entire UAAL
    - 25 to 30 year closed for each year's change in UAAL
      - » Different periods depending upon source?
    - Other?

# Questions?



# Thank You!

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# Public Sector Letter

Benefits, Compensation and HR Consulting NOVEMBER 2011

## Planning a Successful Pension Funding Policy

With governmental budgets under strain across the country, officials are taking a careful look at what their pension plan costs are today and where those costs are likely to head in the future. Decision makers are busy crafting plans to ensure they will be able to meet their current and future obligations.

But how can stakeholders be assured that their plan's funding approach will result in adequate assets to pay benefits? Reviewing and, if necessary, updating the plan's funding policy is a good first step.

A pension plan funding policy determines how much should be contributed each year by the employer and the active participants to provide for the secure funding of benefits in a systematic fashion.[1] This *Public Sector Letter* explores important considerations that stakeholders should keep in mind when evaluating their plan's funding policy.

### Goals of a Pension Plan Funding Policy

A comprehensive funding policy seeks to ensure that a pension plan is on track to achieve three key goals:

- ***Contribution and Budgetary Predictability*** This goal, which is so important to governmental employers, can be achieved if the funding policy is purposely designed to develop costs that are expected to bear a reasonable relationship to payroll. This includes designing a funding policy so as to manage and control contribution volatility. It is also essential that contributions be based upon actuarial assumptions — demographic and economic — that reflect best estimates of future experience. The process of setting assumptions generally involves policy considerations separate from setting funding policy. The text box on page 2 provides a brief discussion on setting assumptions.
- ***Benefit Payment*** The payment of benefits is the reason the plan exists. For that reason, funding policies are designed to accumulate assets over time to provide for all benefits to be earned by current participants in the plan. This includes benefits for current retirees and beneficiaries, benefits already earned by current active participants and future benefits to be earned by those current participants. Generally, this key goal is what is meant by having an actuarially determined funding policy, one that is based on actuarial principles.
- ***Intergenerational Equity*** This goal, which consists of ensuring a fair sharing of the costs of the plan across generations of taxpayers, will be achieved if the funding policy ensures a reasonable allocation of the cost of benefits provided by the plan to the years of service worked by employees. In particular, a funding policy can help ensure that the cost of benefit improvements is recognized and paid for during the working careers of those who will receive them.

IN THIS ISSUE:

- Goals of a Pension Plan Funding Policy
- Elements of a Funding Policy
- Actuarial Cost Method
- Asset-Smoothing Method
- UAAL Amortization Policy
- The GASB Effect: Funding Policy in the Spotlight
- Conclusion

To some extent, there may be trade-offs involved in meeting all three of these goals simultaneously, but a well-crafted funding policy will ensure that its various elements, working in combination, contribute to the achievement of these important objectives.

### Elements of a Funding Policy

To achieve all three of the policy goals described above (management of contribution volatility, funding based on actuarial principles, and intergenerational equity), a comprehensive and well-designed funding policy will include the following three elements:

- An actuarial cost method,
- An asset-smoothing method, and
- An amortization policy.

"A pension plan funding policy determines how much should be contributed each year by the employer and the active participants to provide for the secure funding of benefits in a systematic fashion."

[1] Another timely reason for this discussion involves the Governmental Accounting Standards Board (GASB). GASB's proposed revisions to accounting standards for public plans and their sponsors include fundamental changes in guidance related to funding policy. The nature and consequences of GASB's changing role regarding funding policy are discussed on the last page of this *Public Sector Letter*.

Of course, any funding policy will only be as effective as **the sponsor's commitment to make plan contributions on time and in full.** Contributions are often made in accordance with a plan's funding policy. However, in some instances, plan sponsors' annual contribution rates are fixed in statute or determined in some other manner other than by strict adherence to a funding policy. Fixed contributions, in particular, can pose risks, especially when the plan has a limited ability to adjust benefits. Even in cases where the contribution rate, as originally established, was actuarially determined, if changes in the plan or plan experience occur (*e.g.*, benefit improvements, mortality improvements and/or asset losses), the fixed contribution rate may no longer be sufficient for the plan to achieve its goal of paying all benefits when due. The result could be a rapid escalation in actuarially required contributions, thereby adding to the sponsor's fiscal commitments.

The next three sections of this *Public Sector Letter* are devoted to each of the three elements of a funding policy.

### The Role of Assumptions in Plan Funding

Aside from funding methods, assumptions are also critical to the funding of a plan. Forward-looking assumptions about plan demographics, wages, inflation, investment returns and more drive the measurement of pension liabilities and costs, and therefore affect funding. Unlike the selection of funding methods, which involves a fair degree of policy discretion, the selection of assumptions should be based solely on best estimates of actual future experience. While it may be tempting to set assumptions based on how they might affect current contribution requirements, such "results-based assumption setting" should be avoided. It is the plan's actual experience that ultimately determines the cost of the benefits, so the assumptions should try to anticipate actual experience.

Periodic reexamination of plan assumptions is an essential part of any plan's actuarial processes. As a general rule, many plans conduct an experience study every three to five years, an interval that should help ensure that assumptions remain appropriate in the face of evolving conditions and experience. In the current environment, certain assumptions may be worth extra scrutiny.

For example, when it comes to payroll growth, ask the question, "do changes in demographics of the workforce suggest future changes in payroll growth rate?" Typically, plans have an indefinite, open-ended assumption about payroll growth — for instance, that head count will remain stable and that payroll dollars will grow by 3 percent to 4 percent per year, indefinitely. However, during periods when the workforce contracts and/or when annual pay increases disappear because of fiscal strain, the payroll growth assumption may not prove accurate. This creates a risk that plan costs (as a percent of payroll) will escalate, especially in cases where a substantial unfunded actuarial accrued liability (UAAL)* exists.

Another assumption that might be ripe for reexamination is the expected investment return. Here the question is, "do changes in asset allocation or in financial markets suggest a reevaluation of the plan's long-term earnings prospects?" Here again, making an assumption change — and absorbing any cost increases up front — might head off an unwelcome upward trend in plan costs down the road.

A third example is mortality improvements. Does the plan proactively account for the costs that will be associated with the trend towards future increases in life expectancy? Factoring in these likely costs will avoid cost increases in the future and so help to ensure that costs will be more equitably allocated over time.

These are just a few examples of how careful consideration of plan assumptions can avoid unwelcome surprises down the road.

* UAAL is discussed on pages 3 and 4.

### Actuarial Cost Method

The actuarial cost method is the means by which the total present value of all future benefits for current active and retired participants is allocated to each year of service (*i.e.*, the "normal cost" for each year) including past years (*i.e.*, the "actuarial accrued liability"). There are several available actuarial cost methods, but most governmental plans use the entry age normal (EAN) cost method while a significant minority use the projected unit credit (PUC) method.

Although the EAN and PUC cost methods are both considered reasonable under actuarial standards of practice and current GASB rules in most circumstances, it is important for plan stakeholders to understand the implications of either method. EAN tends to recognize actuarial liabilities sooner than PUC, and it also tends to result in a more stable normal cost pattern over time, even in the face of demographic shifts. The more stable normal cost pattern over time

"The actuarial cost method is the means by which the total present value of all future benefits for current active and retired participants is allocated to each year of service....including past years."

should help in reducing the risk of higher levels of future contributions.

Under the PUC method, the plan's normal cost is the present value of the benefits "earned" during the year, but based on projected pay levels at retirement. For an individual participant, the PUC normal costs increase each year because the present value increases as the participant gets a year closer to retirement. In contrast, under the EAN method, the normal cost is specifically determined to remain a level percentage of pay over each participant's career.

Because EAN normal cost rates are level for each participant, the normal cost pattern for the entire plan under EAN is more stable in the face of demographic shifts in the workforce. It is this normal cost stability that makes the EAN method the preferred funding method for public plans. Also, GASB has recently reaffirmed their tentative decision to require governmental plans to base their financial statement reporting on the EAN method. This requirement will occur when GASB's proposed changes to financial statement reporting are effective, which is currently scheduled for as early as 2012-2013 fiscal years.

### Asset-Smoothing Method

The next element of a comprehensive funding policy is the asset-smoothing method. Because investment markets are volatile and because pension plans typically have long investment horizons, asset-smoothing techniques can be an effective tool to manage contribution volatility and to provide a more consistent measure of plan funding over time. Asset-smoothing methods reduce the effect of short-term market volatility on contributions while still tracking the overall movement of the market value of plan assets, by recognizing the effects of investment gains and losses over a period of years.

"Asset-smoothing methods reduce the effect of short-term market volatility on contributions while still tracking the overall movement of the market value of plan assets, by recognizing the effects of investment gains and losses over a period of years."

Determining the ideal asset-smoothing policy involves balancing the two goals of ensuring fairness across generations of taxpayers and controlling contribution volatility for plan sponsors. A very long smoothing period will greatly reduce contribution volatility, but this may mean current taxpayers are deferring the cost of recent investment experience to future taxpayers. However, a very short smoothing period (or none at all) may result in contribution requirements that fluctuate dramatically from year to year.

Such volatility may also result from an asset-smoothing method that constrains how far the smoothed value can get away from the market value by imposing a market value "corridor." A corridor is typically expressed as a ratio of the smoothed value of assets to the market value of assets.

Actuarial standards of practice and related actuarial studies seek to identify asset-smoothing methods that achieve a reasonable balance between how long it takes to recognize investment experience (the smoothing period) and how much smoothing is allowed in the meantime (the corridor). The resulting smoothing periods are in the range of three to 10 years (with five the most common) and a corridor wide enough to allow the smoothing method to function except in the most extreme conditions. Furthermore, the corridor generally should narrow as the smoothing period gets longer, so there is a trade-off between longer smoothing periods (which reduce volatility) and narrower corridors (which can increase volatility after a large investment loss or gain).[2]

"Even more so than asset-smoothing methods, amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations."

### UAAL Amortization Policy

The third element of a funding policy concerns amortization of the unfunded actuarial accrued liability (UAAL). This policy element determines how current and future UAAL will be paid off or "amortized," and so includes how changes in benefits or actuarial assumptions that affect the actuarial accrued liability should be funded over time. Even more so than asset-smoothing methods, amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. Longer amortization periods help keep contributions stable, but excessively long periods may inappropriately shift costs to future generations. In seeking to achieve a "sweet spot" between these two important policy

[2] Asset-smoothing methods, including the relationship between smoothing period and market value corridor, are governed by Actuarial Standard of Practice No. 44, Selection and Use of Asset Valuation Methods for Pension Valuations, which can be accessed from the following page of the Actuarial Standards Board's website: http://www.actuarialstandardsboard.org/asops.asp. In particular, see Sections 3.3 and 3.4.

goals, a comprehensive amortization policy will involve the following distinct elements:

- Payment basis,
- Payment structure, and
- Amortization period.

Each of these elements is discussed individually in the following paragraphs.

### Payment Basis: Level Dollar vs. Level Percent of Pay

One of the first considerations is whether amortization payments will be set at a level dollar amount (similar to a home mortgage) or as a level percent of pay. The great majority of public pension plans use level-percent-of-pay amortization where the payments toward the UAAL increase each year at the same rate as is assumed for payroll growth. Compared with the level-dollar approach, payments start at a lower dollar amount under the level percent approach, but then increase in proportion to payroll until they are higher.

The level-dollar method is more conservative in that it funds the UAAL faster in the early years. However, the level-percent-of-pay approach is consistent with the pay-related structure of benefits under most public plans. Moreover, because the normal cost is also determined as a level percent of pay, level percent amortization provides a total cost that remains level as a percentage of pay. In contrast, level-dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period. A plan should balance these considerations in choosing between level-percent and level-dollar amortization.

### Payment Structure

Amortization policy must also consider how amortization payments should be structured. For example, should the entire UAAL be aggregated and amortized as a single amount, or should the plan track multiple "layers" for each source of UAAL or surplus each year, and amortize these separately? Should the amortization period be fixed or should it be open or "rolling" (with the amortization period restarted each year)? For plans using amortization layers and fixed periods, is it ever appropriate to "restart" with a single amortization layer or otherwise combine the layers?[3]

"Although use of a single amortization layer provides simplicity, use of separate amortization layers for each source of UAAL has the advantage of tracking separately each new portion of underfunding."

Although use of a single amortization layer provides simplicity, use of separate amortization layers for each source of UAAL has the advantage of tracking separately each new portion of underfunding. Under this approach, over time there will be a series of these layers, one for each year's gain or loss as well as for any other changes in UAAL. This is perfectly manageable and in fact provides useful information to stakeholders, as they can view the history of the sources of a plan's UAAL in any year. In practice, the number of layers will be limited by the length of the amortization period as eventually layers are fully amortized, and so are no longer part of the UAAL.

Fixed amortization periods identify a date certain by which each portion of the UAAL will be funded. This can be contrasted with open or rolling amortization, whereby the plan "resets" its amortization period every year. This is analogous to a homeowner who refinances his mortgage each year. Although both methods are common in current practice, fixed amortization periods have the advantage of providing stakeholders with a clearer understanding of the ultimate funding target (full funding) and the path to get there. It is the structure required for private sector pensions, and is increasingly common for public pension plans.

There may be conditions where a plan would want to consider action whereby all the amortization layers are wiped out ("considered fully amortized") and the series is restarted — for example, when the system goes from surplus to UAAL, or from UAAL to surplus. There are other situations when the amortization layers might be restarted or combined. One is when there are alternating years of gains and losses of relatively equal size. In general, plans should reserve the right to restart or otherwise combine the amortization layers whenever appropriate circumstances arise. However, plans using fixed amortization periods should avoid restarting the amortization periods so often that the policy in effect becomes rolling amortization.

### Amortization Period

Once the amortization policy has determined the basic structure of payments (*e.g.*, level percent of pay, multiple closed layers), the question becomes, "What is the appropriate period of time over which amortization should occur?" The answer can depend on the source of the UAAL being amortized, as discussed below:

- ***UAAL Due to Actuarial Gains/ Losses*** Actuarial gains and losses arise when there is a difference between the actuary's estimates (assumptions) and the actual experience of the plan. They can result

[3] Note that depending on plan experience there can be some contribution volatility when gain and loss layers are fully amortized. This can be avoided by selectively combining offsetting gain and loss layers, without affecting the overall amortization periods.

from demographic experience (*e.g.*, the number of new retirees is higher or lower than expected), investment experience (*e.g.*, returns that are higher or lower than expected), or other economic experience (*e.g.*, payroll growth that is higher or lower than expected). In determining the appropriate period for amortizing gains and losses, plan sponsors should strike a balance between reducing contribution volatility (which would lead to longer amortization periods) and maintaining a closer relationship between contributions and routine changes in the UAAL (which would lead to shorter amortization periods). For many plans, amortization periods in the range of 15 to 20 years for gains and losses would assist plans in achieving a balance between these objectives. This "sweet spot" would also reduce or avoid negative amortization, which is discussed in the accompanying text box.

- ***UAAL Due to Changes in Actuarial Assumptions*** Assumption changes (*e.g.*, a modification to the mortality assumption to anticipate future improvements in life expectancy) will result in an increase or decrease in the UAAL. Unlike gains and losses, which reflect actual past experience, assumptions are modified when future expectations about plan experience change. This amounts to taking the effect of future expected gains or losses and building it into the cost today. For that reason, and because of the long-term nature of assumption changes, a plan could be justified in using a longer amortization period than that used for actuarial gains or losses, perhaps in the range of 15 to 25 years.
- ***Amortization of UAAL Due to Plan Amendments*** Because plan amendments are under the control of the plan sponsor, managing contribution volatility is generally *not* a consideration for plan amendments. This means that the primary rationale in selecting the period is to support intergenerational equity by matching the amortization period to the demographics of the participants receiving the benefit. This leads to shorter, demographically based amortization periods. For active participants, this could be the average future working lifetime of the active participants receiving the benefit improvement, while for retirees, this could be the average life expectancy of the retired participants receiving the benefit improvement. This approach would usually result in no longer than a 15-year amortization period for benefit improvements. This is a change from past practice when many plans used a long (*e.g.*, 30-year) period for amortizing the effect of plan amendments.

  It is also advisable to consider any special circumstances that may apply to a specific benefit improvement in determining the appropriate amortization period. For example, early retirement incentives or "windows" generally call for much shorter amortization periods, to better match the period of the economic impact of the retirement incentive.
- ***Amortization of UAAL Due to Surplus*** Although today, with most plans underfunded, the thought of amortizing surpluses may seem irrelevant, the need for caution in treatment of such accumulated gains should be remembered, even if it may be many years before plans actually need to deal with this situation. One of the most significant changes in industry thinking and practice to come from the market experience around the turn of the 21st century is the way surplus is recognized in public pension funding policy. By the late 1990s, as many plans came close to being fully funded or even overfunded,

### Negative Amortization

An equitable amortization policy should ensure that the UAAL will be paid off in a reasonable period of time. Long amortization periods can make paying down the UAAL appear more affordable, but, because interest charges accrue and compound on the unpaid UAAL, it is prudent to set amortization periods that are not excessively long. This is especially important where level percent of pay amortization is being used.

With long amortization periods, the UAAL may increase during the early years of the amortization period, even though contributions are being made to amortize the UAAL. This phenomenon, known as "negative amortization," occurs only with level percent of pay amortization. This can happen because, under level percent of pay amortization, the lower early payments can actually be less than interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plans, this happens whenever the average amortization period is longer than about 16 to 18 years.

While there is nothing inherently wrong with negative amortization in the context of a public plan, stakeholders should be aware of its consequences, especially for amortization periods substantially longer than 20 years.

Negative amortization is of particular concern for plans using open, or rolling, amortization periods. As described above, plans that use open/rolling amortization method "reset" to a new amortization period every year. By contrast, a plan using closed amortization commits to paying down the UAAL over a fixed period.

there was a trend toward amortization periods as short as 10 or even five years. This led to rapid reductions in contributions (to levels even below normal cost) when the large investment gains from that period were recognized over such short periods. The investment losses in the early 2000s abruptly reversed this situation, leading to rapid cost increases. The general conclusion from this experience was that a contribution level less than the normal cost should always be viewed with caution, as ultimately the normal cost will reemerge as the basic cost of the plan. One possible response would be to require that contributions never fall below the normal cost level. However, that would be inconsistent with the actuarial principle that funding policy should target 100-percent funding, and not sustain a level that is either higher or lower than 100 percent. That leads to the general conclusion that surplus should be amortized, but over very long periods such as 30 years.

Each of these potential sources of UAAL deserves individual consideration in setting an amortization policy.

### The GASB Effect: Funding Policy in the Spotlight

The Government Accounting Standards Board's proposed revisions to pension accounting standards are also bringing renewed attention to funding policy. First, GASB is proposing a separation of accounting from funding, so that the old rules for determining pension expense will no longer serve as a *de facto* standard for funding policy. Second, GASB is proposing that plans disclose the basis and amount for their "actuarially calculated employer contributions," along with a schedule showing whether those "ACEC" amounts were actually funded. In effect, GASB is leaving it to the plans to develop a funding policy but still requiring comprehensive disclosure of the operation of such a policy. Finally, a key technical point: GASB's new method for setting the discount rate involves a projection of plan assets, including employer contributions "based on current contribution policies and practices."[4] These GASB-related considerations make a review of a plan's funding policy all the more timely.

"The Government Accounting Standards Board's proposed revisions to pension accounting standards are also bringing renewed attention to funding policy."

### Conclusion

A comprehensive funding policy is critical to navigating the rough waters surrounding pensions in the current environment. This *Public Sector Letter* identifies some goals and targets to aim for as well as some pitfalls to avoid. A careful review of the approach to funding will enable stakeholders to gain a clearer understanding of costs and to develop a realistic plan to pay these over time.

Funding policies can be modeled under alternative future circumstances that affect valuation results, such as investment returns, demographic changes, or liquidity requirements. Available tools range from a simple sensitivity analysis to a full asset and liability modeling. This latter type of review provides a range of outcomes as to how funding might be impacted under different economic circumstances and can assist in setting both investment strategies and funding policy.

Now is an appropriate time for a funding policy review. In many cases, stakeholders will be reassured about the path they have been following. In others, trustees and plan sponsors may discover that the commitments they have made in the past will require greater contributions. Still others may find that their commitments are no longer affordable and that benefits need to be reevaluated. In any of these scenarios, officials may also conclude that having a comprehensive statement of their funding policy in a single document is advantageous. A well-conceived funding policy can do more than ensure a well-funded plan; it can enlighten benefit policy, an issue that will be discussed in greater detail in a future *Public Sector Letter*.[5]

■ ■ ■

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[4] For information about GASB's Exposure Draft, see The Segal Company's August 2011 *Bulletin*: http://www.segalco.com/publications/bulletins/aug2011GASB.pdf

[5] Sponsors of public sector pension plans might also be interested in Segal's June 2011 *Public Sector Letter*, "Actual Cost vs. Market Price: Does Market Valuation of Pension Liabilities Fit the Public Sector?": http://www.segalco.com/publications/publicsectorletters/june2011.pdf

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# ND Retirement and Investment Office

*Teachers' Fund for Retirement*
*State Investment Board*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
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July 11, 2012

Mike Gessner
President
ND Teachers' Fund for Retirement Board
4871 46th Ave NE
Minot ND 58703-4912

Dear Mike,

I am writing in my capacity as the Chairman of the State Investment Board (SIB). As you have heard, family considerations led John Geissinger to step down as our Chief Investment Officer (CIO), effective May 31, 2012. We appreciated John's service to the SIB and the clients it serves, and we wish him the very best.

On May 18, 2012, the SIB members voted unanimously on the interim leadership structure for the Retirement and Investment Office (RIO). The Deputy CIO for the SIB, Darren Schulz, was selected as the Interim CIO. Fay Kopp, who has long-served as the Deputy Executive Director for RIO and Chief Retirement Officer for the Teachers' Fund for Retirement (TFFR), was selected as the Interim Executive Director for RIO. The SIB members have full confidence in this leadership team, in conjunction with the experienced and professional staff of RIO. The transition has been seamless and smooth, for which we thank the leadership and staff.

With a strong interim leadership team and staff in place, the SIB plans to take some time to reflect upon the organizational structure of RIO. Your input is welcome as are your questions.

Please do not hesitate to contact me during this interim period and beyond. Our members appreciate the confidence that you place in the SIB and our professional staff, and we value your input.

Sincerely,


Drew H. Wrigley
Lieutenant Governor
Chairman, State Investment Board
(701) 328-4222
pfelch@nd.gov

**NORTH DAKOTA STATE INVESTMENT BOARD SEARCH COMMITTEE**
**MINUTES OF THE**
**MAY 29, 2012 MEETING**

**BOARD MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair
Mike Sandal, PERS Board
Lance Gaebe, Land Commissioner
Kelly Schmidt, State Treasurer
Bob Toso, TFFR Board

**STAFF PRESENT:** John Geissinger, Executive Director/CIO
Bonnie Heit, Office Manager

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) Search Committee meeting to order at 1:07 p.m. on Tuesday, May 29, 2012 at the State Treasurer's Office, State Capitol, Bismarck, ND.

The SIB Search Committee meeting was held for the purposes of conducting an exit interview with Mr. Geissinger. The following issues were discussed.

The Committee asked about the executive search firm. Mr. Geissinger indicated the headhunting firm, EFL, was chosen to conduct the Executive Director search, and overall did a great job. He recommended in the next process that a search firm be chosen that specialized in the investment business. However, the retainer may need to be increased in order to attract a wider range of firms. The Committee discussed the RFP process, fees, and open records requirements.

The Committee asked Mr. Geissinger to comment on the organizational structure of RIO. Mr. Geissinger stated the current structure of the Retirement and Investment Office (RIO) is such that the Chief Investment Officer (CIO) is the CIO to the State Investment Board and is also the Executive Director of the Retirement and Investment Office which oversees the Teachers' Fund for Retirement (TFFR)program. The Deputy Executive Director of RIO works as the Executive Director of TFFR, and reports to the Executive Director of RIO. The Internal Audit Division of RIO spends most of their time conducting the compliance audits for the school districts, but reports to the SIB because the SIB is the administrative board of RIO. The Information Technology Division of RIO works primarily with the TFFR pension administration software provider. While the current structure is clumsy, it has worked because of the staff of RIO.

Mr. Geissinger explained the SIB treats all of their clients the same. But, with the current structure of RIO, the CIO of the SIB is also the Executive Director of one of its clients, TFFR, which could have a perception of being a conflict of interest or favoritism. The perception is that the SIB and TFFR are more intricately linked than they really are. In reality, if it is a TFFR pension issue, Fay handles it, and if it is an SIB investment issue, then John handles it. The organizational structure of RIO was brought up in 2010 during the Performance Audit of RIO and in Callan's 2010 recommendation.

Mr. Geissinger stated the SIB and TFFR were combined, initially, to save money. The Public Employees Retirement System (PERS) and TFFR are the two retirement systems. There could be cost savings if you had a pension office where you would have PERS and TFFR with separate governing boards and the personnel sharing administrative duties. Dividing RIO into separate SIB and TFFR offices, or combining with other entities is something that could be studied in the future. Legislative changes would likely be required.

Mr. Geissinger noted that with the rate of growth in oil revenues, the SIB at some point in the future could be overseeing more non pension fund assets than pension fund assets.

The Committee asked about recruitment of a CEO/CIO position. Mr. Geissinger commented that if the job was strictly a CIO, the search would be simpler and the SIB would be able to cast a broader net because the playing field has been narrowed down to investment professionals only. It is getting more and more difficult to find an Executive Director/CIO.

The Committee asked about the Carver board governance model. Mr. Geissinger indicated he believes the Carver governance model is not being fully implemented by the SIB. If the Carver principles were to be truly followed, then oversight, direction, and more decision making would have to be delegated to staff. Not every decision would come before the SIB. Staff would report to the SIB on progress. There needs to be more education on governance practices and policies so the SIB can decide if they really have the right model that works for them, as well as for staff, so both parties have a thorough understanding of their roles.

The Committee asked whether public sector experience is required for the CIO position. Mr. Geissinger commented that an important qualification is someone who has experience working with boards. Although helpful, the candidate doesn't have to be from the public sector, but could also have experience working with an endowment, foundation, or consulting firm.

The Committee asked about market competitiveness of current CIO salary. Mr. Geissinger stated the compensation of the CIO depends on the size of the assets and if they are managed internally or externally. Cost of living is also a consideration.

The Committee asked about communication with the Board. Mr. Geissinger noted communication and accessibility between the CIO and the SIB was good.

The Committee asked about the new Deputy CIO position that was approved by the Legislature. Mr. Geissinger commented that hiring the Deputy CIO was beneficial to RIO and the SIB in that additional manager due diligence, number crunching, and analytics is taking place which allowed the CIO to focus on bigger strategic issues which hopefully will be more important in the long run. Overseeing the investment portfolio for the State of North Dakota is large and complex.

The Committee asked about current and upcoming issues. Mr. Geissinger noted issues to monitor in the interim include the international structure, manager consolidations, and the private equity allocation. Also the Callan contract needs to be revised to more accurately reflect the needs of the SIB and staff. The contract is structured to pay Callan for performance monitoring and the use of their software program, PEP, which staff has access to their database. There needs to be a retainer in place for additional utilization of their services.

The Committee asked about interim staff appointments and salary increase recommendations. Mr. Geissinger noted that the SIB and RIO are well positioned in the interim. The Deputy CIO and Interim Executive Director need to be compensated appropriately. A range of 10-15 percent for the Deputy CIO and 5-10 percent for the Interim Executive Director would be appropriate based on their roles.

**ADJOURNMENT:**

With no further issues needing to be discussed, Lt. Governor Wrigley adjourned the meeting at 2:50 p.m.

Respectfully Submitted:

_____
Lt. Governor Wrigley, Chair
State Investment Board

_____
Bonnie Heit
Assistant to the Board

# NORTH DAKOTA STATE INVESTMENT BOARD
# MINUTES OF THE
# MAY 9, 2012 BOARD MEETING

**BOARD MEMBERS PRESENT:**
Drew Wrigley, Lt. Governor, Chair (teleconference)
Mike Sandal, Vice Chair
Clarence Corneil, TFFR Board (teleconference)
Levi Erdmann, PERS Board (teleconference)
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board (teleconference)
Adam Hamm, Insurance Commissioner (teleconference)
Howard Sage, PERS Board (teleconference)
Kelly Schmidt, State Treasurer
Cindy Ternes, WSI (teleconference)

**BOARD MEMBER ABSENT:**
Bob Toso, TFFR Board

**STAFF PRESENT:**
Connie Flanagan, Fiscal & Investment Officer
John Geissinger, Executive Director/CIO
Bonnie Heit, Office Manager
Fay Kopp, Deputy Executive Director
Darren Schulz, Deputy CIO

**OTHERS PRESENT:**
Bryan Klipfel, WSI (teleconference)
Jan Murtha, Attorney General's Office
Dave Thompson, Prairie Public Radio

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 9:05 a.m. on Wednesday, May 9, 2012 at the Retirement and Investment Office, 1930 Burnt Boat Drive, Bismarck, ND.

A quorum was present for the purpose of conducting business.

The special board meeting was held to discuss Mr. Geissinger's resignation.

Mr. Geissinger stated he has thoroughly enjoyed his job and the people he has worked with. The challenges of being away from family have been much more difficult then he and his wife ever envisioned. Mr. Geissinger stated personally he knows it's the right decision but that doesn't make it easy. No one ever said doing the right thing is the easy thing. Mr. Geissinger thanked the Board for the opportunity to work with them and the staff.

Mr. Geissinger reflected on his tenure. The asset allocation studies were completed for the Public Employees Retirement System (PERS) and the Teachers' Fund for Retirement (TFFR). Some of the SIB's other contracted entities are also following suit and adopting the same framework. To manage the risk of the portfolios, there was a confirmed and increased commitment to real assets which provides increased diversification and protection of the portfolios against future inflation. Mr. Geissinger stated the SIB's asset allocation is up there on the cutting edge and where a lot of other plans are hoping to get to. The fixed income portfolio has been restructured in the Pension Trust to enhance the risk adjusted returns going forward. The monitoring process is in place to measure the risk adjusted performance of the portfolios. The Governance policies have been

improved as recommended by the performance audit. Lastly, the addition of Mr. Darren Schulz, Deputy Chief Investment Officer, has provided increased investment experience.

Mr. Geissinger thanked the board for everything that has been accomplished and that a large part of his heart is going to be filled with all the friends and colleagues that he has met in North Dakota.

Lt. Governor Wrigley thanked Mr. Geissinger for his time, stating Mr. Geissinger is a steady hand and the board has benefitted very much from his service particularly the educational sessions at the meetings, communications with the board and legislature, and his accessibility. Lt. Governor Wrigley stated he appreciates Mr. Geissinger's friendship and we are all going to miss him.

Treasurer Schmidt stated Mr. Geissinger leaves us in a very good place. She stated the board and staff are better for having him at the helm and the people of North Dakota have been very well served. Treasurer Schmidt stated she too will miss him as a friend, colleague, and teacher. He has taught her a lot in the past 18 months and wishes him nothing but the very best.

Mr. Geissinger read his letter of resignation:

It is with deep regret I must inform you of my decision to resign as Executive Director and Chief Investment Officer of the North Dakota Retirement and Investment Office. I have thoroughly enjoyed every moment serving the State Investment Board, and working with you and staff to ensure the investment portfolios are on a secure and stable path. I am confident the funds entrusted to you are well positioned and are in good hands.

While I have found this position professionally stimulating and rewarding, my wife has found the distance from family much more difficult than either of us envisioned. Anne and I have struggled with this decision, but have come to the conclusion it is best for our family to move back east. I will miss all of you.

I wish you all future success, and I will always have a special place in my heart for my friends and colleagues in North Dakota!

Respectively yours,
John W. Geissinger

**TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO ACCEPT WITH GREAT REGRET THE RESIGNATION OF THE RETIREMENT AND INVESTMENT OFFICE EXECUTIVE DIRECTOR/CIO, MR. JOHN GEISSINGER, EFFECTIVE MAY 31, 2012.**

**AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. ERDMANN, MR. SAGE, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**
**ABSENT: MR. TOSO**

The Board discussed the next steps for finding a replacement and also who will be overseeing the Retirement and Investment Office in the interim. The Board will be discussing these items at the next SIB meeting on May 18, 2012.

**ADJOURNMENT:**

**TREASURER SCHMDIT MOVED AND MR. SANDAL SECONDED TO ADJOURN THE MEETING.**

Lt. Governor Wrigley adjourned the meeting at 9:25 a.m.

Respectfully Submitted:

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

**NORTH DAKOTA STATE INVESTMENT BOARD**
**MINUTES OF THE**
**MAY 18, 2012 BOARD MEETING**

**BOARD MEMBERS PRESENT:**
Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, TFFR Board
Levi Erdmann, PERS Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (teleconference)
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Bob Toso, TFFR Board

**STAFF PRESENT:**
Connie Flanagan, Fiscal & Investment Officer
John Geissinger, Executive Director/CIO
Bonnie Heit, Office Manager
Fay Kopp, Deputy Executive Director
Leslie Moszer, Compliance Officer
Darren Schulz, Deputy CIO
Susan Walcker, Investment Accountant

**OTHERS PRESENT:**
Dan Allen, Los Angeles Capital Mgmt
Weldee Baetsch, former SIB trustee
Sparb Collins, PERS
Jeff Engleson, Land Dept.
Paul Erlendson, Callan
Bryan Klipfel, WSI
Jan Murtha, Attorney General's Office
Sherry Neas, Procurement Office
Tricia Opp, Procurement Office
Tom Stevens, Los Angeles Capital Mgmt

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:32 a.m. on Friday, May 18, 2012, at the Peace Garden Room, State Capitol, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

The agenda was reviewed.

**MR. CORNEIL MOVED AND MS. TERNES SECONDED TO ACCEPT THE AGENDA.**

**AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. ERDMANN, MR. TOSO, MR. SAGE, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**

**MOTION CARRIED**

**MINUTES:**

The minutes were considered from the April 27, 2012 and May 9, 2012 meetings.

**TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO APPROVE THE APRIL 27, 20 MINUTES AS REVISED AND THE MAY 9, 2012 MINUTES.**

**AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, MR. SANDAL, LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**

**EDUCATION:**

Los Angeles Capital Management - Representatives provided an overview of the firm, the firm's investment philosophy and process, changing market dynamics, and also reviewed the SIB mandates and performance.

Mr. Schulz presented an educational segment on equity market globalization.

The Board recessed at 9:40 am and reconvened at 10:10 am

**INVESTMENTS:**

Blackfriars - Staff conducted additional due diligence to determine wheth Blackfriars is capable of providing reasonable assurance that the Pension Trust investment objectives will be met in the future and following their review, a recommending the emerging markets mandate be terminated in addition to the reasons staff reviewed at the April 27, 2012 board meeting - organizational changes, concerns regarding the implementation of the SIB mandate, and underperformance.

Staff also recommended the assets be transitioned into a passively managed MSCI emerging markets mandate managed by The Northern Trust Global Investments.

After discussion,

**MR. GESSNER MOVED AND MR. SANDAL SECONDED TO ACCEPT STAFF RECOMMENDATION AND TERMINATE BLACKFRIARS AND TRANSITION THE ASSETS TO THE NORTHERN TRUST IN A MSCI EMERGING MARKETS MANDATE.**

**AYES: MR. CORNEIL, MR. ERDMANN, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, MR. SANDAL, MS. TERNES, MR. TOSO, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**
**ABSENT: TREASURER SCHMIDT**

Westridge/WG Trading - Mr. Geissinger informed the board oral arguments were held on May 16, 2012 by the Second Circuit for the appeal of the receiver's initi

distribution of the Westridge/WG Trading assets. Both sides presented their arguments and no ruling was made. Staff will keep the board informed.

City of Fargo and City of Grand Forks Asset Allocation - Ms. Flanagan requested acceptance of the revised asset allocations for the City of Fargo and City of Grand Forks Pension Funds. Staff recommended the asset allocations be revised to reflect the same model as the other clients in the Pension Trust for consistency and reporting purposes.

**TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT STAFF RECOMMENDATION AND APPROVE THE REVISED ASSET ALLOCATIONS FOR THE CITY OF FARGO EMPLOYEE PENSION FUND AND THE CITY OF GRAND FORKS EMPLOYEE PENSION FUND.**

**AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, COMMISSIONER GAEBE, MR. SAGE, MR. TOSO, MR. SANDAL, MR. ERDMANN, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**

**GOVERNANCE:**

Executive Director Replacement Process - Mr. Geissinger stated the current structure of the Retirement and Investment Office is supporting two roles - the State Investment Board and the Teachers' Fund for Retirement. Mr. Geissinger recommended that the organizational structure of the Retirement and Investment Office continue as is and appoint Mr. Darren Schulz as Interim Chief Investment Officer, overseeing the administration of the investment program of the State Investment Board, and Ms. Fay Kopp as Interim Executive Director, overseeing the administration of the Retirement and Investment Office and the Teachers' Fund for Retirement, until the State Investment Board determines what their next steps will be.

**MR. GESSNER MOVED AND MR. CORNEIL SECONDED TO ACCEPT STAFF RECOMMENDATION AND APPOINT MR. DARREN SCHULZ AS INTERIM CHIEF INVESTMENT OFFICER AND MS. FAY KOPP AS INTERIM EXECUTIVE DIRECTOR, EFFECTIVE JUNE 1, 2012.**

**AYES: MR. SAGE, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. TOSO, MR. ERDMANN, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**

Discussion followed on compensation levels of staff during the interim.

**MS. TERNES MOVED AND MR. CORNEIL SECONDED TO DIRECT THE EXECUTIVE DIRECTOR COMPENSATION REVIEW COMMITTEE TO REVIEW THE EMPLOYEES AT THE RETIREMENT AND INVESTMENT OFFICE AND DETERMINE WHICH EMPLOYEES SHOULD RECEIVE ADDITIONAL COMPENSATION AND HOW MUCH AND BRING THEIR RECOMMENDATION BACK TO THE BOARD. ANY ADJUSTMENTS IN COMPENSATION WOULD BE RETROACTIVE TO JUNE 1, 2012.**

**AYES: MR. ERDMANN, TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER GAEBE, MR. TOSO, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**

The board discussed the process for replacing the Executive Director/CIO.

Ms. Sherry Neas, Procurement Office, updated the board on the Request for Proposal (RFP) process. The RFP issued in 2010 expired on November 30, 2010. The State reserved the right to extend the contract for an additional period of time, not to exceed six months, thus a new RFP will need to be issued. After discussion,

**MS. TERNES MOVED AND MR. CORNEIL SECONDED TO HAVE THE CHAIR OF THE SIB APPOINT A SEARCH COMMITTEE AND SERVE AS ITS CHAIR. THE SEARCH COMMITTEE'S DIRECTIVE IS TO CONDUCT AN EXIT INVERVIEW WITH MR. GEISSINGER AND BRING BACK THEIR RECOMMENDATIONS, WHICH THEY HAVE DERIVED FROM THE INTERVIEW, TO ASSIST THE BOARD IN DETERMINING WHAT THE NEXT STEPS WILL BE.**

**AYES: MS. TERNES, MR. CORNEIL, COMMISSINER HAMM, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. ERDMANN, MR. TOSO, MR. SANDAL, MR. SAGE, MR. GESSNER, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**

Lt. Governor Wrigley stated he will appoint one member from the elected, appointed, Public Employees Retirement System, and TFFR representatives to serve on the Search Committee.

**MONITORING REPORTS:**

Mr. Erlendson reviewed the Performance Measurement of the Pension and Insurance Trusts for the period ending March 31, 2012.

**TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO ACCEPT THE CALLAN PERFORMANCE MEASUREMENT REPORT FOR THE PERIOD ENDING MARCH 31, 2012.**

**AYES: COMMISSIONER HAMM, MS. TERNES, MR. CORNEIL, MR. SANDAL, TREASURER SCHMIDT, MR. GESSNER, COMMISSIOBER GAEBE, MR. TOSO, MR. ERDMANN, AND LT. GOVERNOR WRIGLEY**
**NAYS: NONE**
**MOTION CARRIED**
**ABSENT: MR. SAGE**

**OTHER:**

Lt. Governor Wrigley received a written inquiry on the Executive Director/CIO position. Any interest received in the interim, will be forwarded on to the executive recruitment firm once a contract is in place.

The next SIB meeting is scheduled for June 22, 2012 at 8:30 a.m., at the State Capitol, Peace Garden Room, Bismarck ND.

The next SIB Audit Committee meeting is scheduled for June 22, 2012 at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

The Board thanked Mr. Geissinger for his service and wished him well. Mr. Geissinger's resignation is effective May 31, 2012.

Tribune Company - Ms. Murtha stated various motions have been filed. The Attorney General's Office is in the process of finalizing the contract with K&L Gates. Ms. Murtha will keep the board informed of any developments.

**ADJOURNMENT:**

**TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO ADJOURN THE MEETING.**

Lt. Governor Wrigley adjourned the meeting at 12:10 p.m.

Respectfully Submitted:

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

**ND TEACHERS FUND FOR RETIREMENT**
**INVESTMENT PERFORMANCE REPORT AS OF MAY 31, 2012**

| | May-12 | | | | | April-12 | | | | | March-12 | | | | | December-11 | | | | | September-11 | | | | | Current Fiscal YTD | | Prior FY11 | | 3 Years Ended 6/30/2011 | | 5 Years Ended 6/30/2011 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Allocation | | Month | | | Allocation | | Month | | | Allocation | | Quarter | | | Allocation | | Quarter | | | Allocation | | Quarter | | | | | | | | | |
| | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Gross (7) | Net | Gross (7) | Net | Gross | Net | Gross | Net |
| **TOTAL FUND** | **1,589,013,601** | **100.0%** | **100.0%** | **-4.40%** | **-4.42%** | **1,664,061,883** | **100.0%** | **100.0%** | **-0.30%** | **-0.32%** | **1,670,643,141** | **100.0%** | **100.0%** | **7.73%** | **7.67%** | **1,563,760,487** | **100.0%** | **100.0%** | **5.34%** | **5.26%** | **1,496,550,631** | **100.0%** | **100.0%** | **-11.00%** | **-11.08%** | **-3.73%** | **-3.99%** | **24.63%** | **24.21%** | **1.47%** | **0.86%** | **3.31%** | **2.64%** |
| *POLICY TARGET BENCHMARK* | | | | *-4.35%* | *-4.35%* | | | | *-0.27%* | *-0.27%* | | | | *7.11%* | *7.11%* | | | | *5.25%* | *5.25%* | | | | *-10.63%* | *-10.63%* | *-3.90%* | *-3.90%* | *22.50%* | *22.50%* | 4.09% | 4.09% | 4.84% | 4.84% |
| ATTRIBUTION ANALYSIS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Asset Allocation** | | | | **-0.16%** | **-0.16%** | | | | **-0.04%** | **-0.04%** | | | | **0.14%** | **0.14%** | | | | **0.27%** | **0.27%** | | | | **0.11%** | **0.11%** | **0.29%** | **0.29%** | **-0.31%** | **-0.31%** | | | | |
| **Manager Selection** | | | | **0.11%** | **0.09%** | | | | **0.01%** | **-0.01%** | | | | **0.48%** | **0.42%** | | | | **-0.18%** | **-0.26%** | | | | **-0.47%** | **-0.55%** | **-0.13%** | **-0.38%** | **2.44%** | **2.01%** | | | | |
| TOTAL RELATIVE RETURN | | | | -0.06% | -0.07% | | | | -0.03% | -0.05% | | | | 0.62% | 0.56% | | | | 0.09% | 0.01% | | | | -0.36% | -0.44% | 0.17% | -0.09% | 2.13% | 1.70% | | | | |
| ***GLOBAL EQUITIES*** | ***889,801,882*** | ***56.0%*** | ***57.0%*** | ***-7.34%*** | ***-7.36%*** | ***982,360,347*** | ***59.0%*** | ***57.0%*** | ***-0.98%*** | ***-1.01%*** | ***996,127,083*** | ***59.6%*** | ***57.0%*** | ***11.35%*** | ***11.28%*** | ***903,047,679*** | ***57.7%*** | ***57.0%*** | ***7.59%*** | ***7.51%*** | ***916,665,173*** | ***0.61*** | | | | | | | | | | | |
| ***Benchmark*** | | | | ***-7.64%*** | ***-7.64%*** | | | | ***-1.09%*** | ***-1.09%*** | | | | ***11.30%*** | ***11.30%*** | | | | ***7.84%*** | ***7.84%*** | | | | | | | | | | | | | |
| Epoch (1) | 70,488,829 | 4.4% | 4.5% | -8.34% | -8.35% | 76,888,295 | 4.6% | 4.5% | -0.52% | -0.53% | 76,949,348 | 4.6% | 4.5% | 11.79% | 11.53% | 73,967,628 | 4.7% | 4.7% | 7.08% | 6.83% | | | | | | 9.15% | 8.46% | 26.85% | 25.67% | 4.55% | 3.21% | N/A | N/A |
| Calamos | 21,433,403 | 1.3% | 1.5% | -6.88% | -6.89% | 23,064,022 | 1.4% | 1.5% | -1.56% | -1.57% | 23,271,732 | 1.4% | 1.5% | N/A | N/A | - | | | N/A | N/A | | | | | | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Total Global Equities** | **91,922,231** | **5.8%** | **6.0%** | **-8.00%** | **-8.02%** | **99,952,317** | **6.0%** | **6.0%** | **-0.76%** | **-0.77%** | **100,221,080** | **6.0%** | **6.0%** | **11.18%** | **10.94%** | **73,967,628** | **4.7%** | **4.7%** | **7.08%** | **6.83%** | | | | | | | | | | | | | |
| ***MSCI World (2)*** | | | | ***-8.63%*** | ***-8.63%*** | | | | ***-1.14%*** | ***-1.14%*** | | | | ***11.56%*** | ***11.56%*** | | | | ***11.82%*** | ***11.82%*** | | | | | | | | | | | | | |
| ***Domestic - broad*** | ***428,609,757*** | ***27.0%*** | ***27.4%*** | ***-6.08%*** | ***-6.11%*** | ***473,560,497*** | ***28.5%*** | ***27.4%*** | ***-0.64%*** | ***-0.66%*** | ***475,490,776*** | ***28.5%*** | ***27.4%*** | ***13.14%*** | ***13.07%*** | ***493,397,332*** | ***31.6%*** | ***31.0%*** | ***12.67%*** | ***12.57%*** | ***513,585,183*** | ***0.34*** | | | | | | | | | | | |
| ***Benchmark*** | | | | ***-6.25%*** | ***-6.25%*** | | | | ***-0.80%*** | ***-0.80%*** | | | | ***12.80%*** | ***12.80%*** | | | | ***12.65%*** | ***12.65%*** | | | | | | | | | | | | | |
| **Large Cap Domestic** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LA Capital | 100,694,432 | 6.3% | 5.1% | -5.51% | -5.52% | 103,844,197 | 6.2% | 4.6% | 0.36% | 0.35% | 103,464,966 | 6.2% | 4.6% | 14.30% | 14.25% | 88,927,518 | 5.7% | 5.5% | 12.43% | 12.39% | 83,807,698 | 5.6% | 6.4% | -14.96% | -14.99% | 3.63% | 3.48% | 32.87% | 32.66% | 3.87% | 3.64% | 4.99% | 4.75% |
| ***Russell 1000 Growth*** | | | | ***-6.42%*** | ***-6.42%*** | | | | ***-0.15%*** | ***-0.15%*** | | | | ***14.69%*** | ***14.69%*** | | | | ***10.61%*** | ***10.61%*** | | | | ***-13.14%*** | ***-13.14%*** | ***2.96%*** | ***2.96%*** | ***35.01%*** | ***35.01%*** | ***5.02%*** | ***5.02%*** | ***5.33%*** | ***5.33%*** |
| LSV | 96,761,525 | 6.1% | 5.1% | -7.85% | -7.88% | 100,744,922 | 6.1% | 4.6% | -1.25% | -1.28% | 102,016,069 | 6.1% | 4.6% | 13.07% | 12.99% | 86,328,918 | 5.5% | 5.5% | 14.31% | 14.22% | 80,123,499 | 5.4% | 6.4% | -19.59% | -19.66% | -5.42% | -5.70% | 30.94% | 30.53% | 3.91% | 3.47% | 1.62% | 1.20% |
| ***Russell 1000 Value*** | | | | ***-5.86%*** | ***-5.86%*** | | | | ***-1.02%*** | ***-1.02%*** | | | | ***11.12%*** | ***11.12%*** | | | | ***13.11%*** | ***13.11%*** | | | | ***-16.20%*** | ***-16.20%*** | ***-1.87%*** | ***-1.87%*** | ***28.94%*** | ***28.94%*** | ***2.28%*** | ***2.28%*** | ***1.15%*** | ***1.15%*** |
| LA Capital | 67,147,180 | 4.2% | 2.9% | -5.36% | -5.39% | 66,516,415 | 4.0% | 2.6% | -0.18% | -0.21% | 66,639,139 | 4.0% | 2.6% | 12.27% | 12.18% | 50,624,900 | 3.2% | 3.1% | 12.17% | 12.07% | 48,398,643 | 3.2% | 3.7% | -14.41% | -14.49% | 1.82% | 1.50% | 30.52% | 30.08% | 3.78% | 3.48% | 3.84% | 3.57% |
| ***Russell 1000*** | | | | ***-6.15%*** | ***-6.15%*** | | | | ***-0.58%*** | ***-0.58%*** | | | | ***12.90%*** | ***12.90%*** | | | | ***11.84%*** | ***11.84%*** | | | | ***-14.68%*** | ***-14.68%*** | ***0.53%*** | ***0.53%*** | ***31.94%*** | ***31.94%*** | ***3.68%*** | ***3.68%*** | ***3.30%*** | ***3.30%*** |
| Northern Trust | 32,463,766 | 2.0% | 2.0% | -6.53% | -6.53% | 33,780,220 | 2.0% | 2.0% | -1.07% | -1.07% | 34,146,992 | 2.0% | 2.0% | 12.18% | 12.18% | 30,502,184 | 2.0% | 2.0% | 12.96% | 12.96% | 26,600,997 | 1.8% | 1.8% | -13.16% | -13.16% | 1.76% | 1.76% | 30.42% | 30.42% | 3.96% | 3.87% | 2.49% | 2.38% |
| Prudential | 163,563 | 0.0% | 0.0% | 0.47% | 0.46% | 27,739,406 | 1.7% | 1.7% | -0.34% | -0.35% | 27,864,265 | 1.7% | 1.7% | 9.41% | 9.37% | 25,006,671 | 1.6% | 1.6% | 9.74% | 9.71% | 22,473,322 | 1.5% | 1.5% | -11.44% | -11.47% | 6.46% | 6.34% | 32.07% | 31.91% | -8.38% | -9.31% | N/A | N/A |
| Declaration/Clifton | - | 0.0% | 0.0% | N/A | N/A | - | 0.0% | 0.0% | N/A | N/A | - | 0.0% | 0.0% | N/A | N/A | 9 | 0.0% | 0.0% | 14.68% | 14.66% | 14,367,825 | 1.0% | 1.0% | -15.26% | -15.28% | N/A | N/A | 32.76% | 32.68% | N/A | N/A | N/A | N/A |
| Clifton | 32,495,234 | 2.0% | 1.5% | -6.00% | -6.00% | 34,547,610 | 2.1% | 1.3% | -0.53% | -0.53% | 33,728,161 | 2.0% | 1.3% | 12.92% | 12.91% | 26,614,900 | 1.7% | 1.6% | 12.49% | 12.49% | 23,334,658 | 1.6% | 1.8% | -14.27% | -14.27% | 1.82% | 1.81% | N/A | N/A | N/A | N/A | N/A | N/A |
| ***S&P 500*** | | | | ***-6.01%*** | ***-6.01%*** | | | | ***-0.63%*** | ***-0.63%*** | | | | ***12.59%*** | ***12.59%*** | | | | ***11.82%*** | ***11.82%*** | | | | ***-13.87%*** | ***-13.87%*** | ***1.28%*** | ***1.28%*** | ***30.69%*** | ***30.69%*** | ***3.34%*** | ***3.34%*** | ***2.94%*** | ***2.94%*** |
| Epoch | | | | | | | | | | | | | | | | | | | | | *82,317,151* | *5.5%* | 5.5% | *-13.69%* | *-13.91%* | | | | | | | | |
| ***S&P 500*** | | | | | | | | | | | | | | | | | | | | | | | | ***-13.87%*** | ***-13.87%*** | | | | | | | | |
| **Total Large Cap Domestic** | **329,725,699** | **20.8%** | **21.2%** | **-5.81%** | **-5.83%** | **367,172,771** | **22.1%** | **21.2%** | **-0.45%** | **-0.47%** | **367,859,591** | **22.0%** | **21.2%** | **12.88%** | **12.83%** | **381,972,727** | **24.4%** | **24.0%** | **11.63%** | **11.53%** | **381,423,793** | **25.5%** | **28.0%** | **-15.30%** | **-15.38%** | **0.08%** | **-0.19%** | **30.57%** | **30.11%** | **-2.02%** | **-2.55%** | **-0.61%** | **-1.14%** |
| ***Russell 1000 (2)*** | | | | ***-6.15%*** | ***-6.15%*** | | | | ***-0.58%*** | ***-0.58%*** | | | | ***12.90%*** | ***12.90%*** | | | | ***11.82%*** | ***11.82%*** | | | | ***-13.87%*** | ***-13.87%*** | ***1.46%*** | ***1.46%*** | ***30.69%*** | ***30.69%*** | ***3.34%*** | ***3.34%*** | ***2.94%*** | ***2.94%*** |
| **Small Cap Domestic** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SEI | 337,224 | 0.0% | 0.0% | -2.70% | -2.70% | 346,590 | 0.0% | 0.0% | -1.45% | -1.45% | 351,173 | 0.0% | 0.0% | -0.66% | -0.66% | 353,324 | 0.0% | 0.0% | -7.63% | -7.63% | 397,957 | 0.0% | 0.0% | -8.52% | -8.52% | -19.51% | -19.51% | -9.50% | -9.50% | -11.30% | -11.94% | -8.21% | -8.94% |
| Callan | 49,301,963 | 3.1% | 3.1% | -7.68% | -7.72% | 53,437,759 | 3.2% | 3.1% | -1.17% | -1.21% | 54,021,052 | 3.2% | 3.1% | 14.69% | 14.56% | 54,884,942 | 3.5% | 3.5% | 15.23% | 15.10% | 68,357,247 | 4.6% | 4.5% | -23.03% | -23.13% | -7.19% | -7.60% | 40.56% | 39.91% | 8.69% | 8.28% | 5.66% | 5.37% |
| Clifton | 49,244,871 | 3.1% | 3.1% | -6.38% | -6.41% | 52,603,377 | 3.2% | 3.1% | -1.39% | -1.42% | 53,258,961 | 3.2% | 3.1% | 13.02% | 12.93% | 56,186,339 | 3.6% | 3.5% | 16.16% | 16.06% | 63,406,187 | 4.2% | 4.5% | -22.15% | -22.22% | -5.64% | -5.94% | 39.37% | 38.90% | N/A | N/A | N/A | N/A |
| Corsair III | | | | | | | | | | | | | | | | | | | | | 5,638,686 | 0.4% | 0.4% | 0.00% | -1.06% | | | | | | | | |
| Corsair III - ND Investors LLC | | | | | | | | | | | | | | | | | | | | | 4,565,128 | 0.3% | 0.3% | 0.00% | -0.25% | | | | | | | | |
| Corsair IV | | | | | | | | | | | | | | | | | | | | | 3,499,068 | 0.2% | 0.2% | 0.00% | -0.57% | | | | | | | | |
| **Total Small Cap Domestic** | **98,884,058** | **6.2%** | **6.2%** | **-7.02%** | **-7.06%** | **106,387,727** | **6.4%** | **6.2%** | **-1.28%** | **-1.31%** | **107,631,186** | **6.4%** | **6.2%** | **13.82%** | **13.71%** | **111,424,605** | **7.1%** | **7.0%** | **15.58%** | **15.46%** | **145,864,273** | **9.7%** | **10.0%** | **-20.89%** | **-20.97%** | **-4.47%** | **-4.83%** | **36.07%** | **35.56%** | **8.64%** | **7.91%** | **4.20%** | **3.50%** |
| ***Russell 2000*** | | | | ***-6.62%*** | ***-6.62%*** | | | | ***-1.55%*** | ***-1.55%*** | | | | ***12.44%*** | ***12.44%*** | | | | ***15.47%*** | ***15.47%*** | | | | ***-21.87%*** | ***-21.87%*** | ***-6.73%*** | ***-6.73%*** | ***37.41%*** | ***37.41%*** | ***7.77%*** | ***7.77%*** | ***4.08%*** | ***4.08%*** |
| ***International - broad*** | ***265,417,417*** | ***16.7%*** | ***18.6%*** | ***-11.50%*** | ***-11.53%*** | ***307,118,705*** | ***18.5%*** | ***18.6%*** | ***-1.87%*** | ***-1.90%*** | ***320,893,495*** | ***19.2%*** | ***18.6%*** | ***12.13%*** | ***12.03%*** | ***306,358,578*** | ***19.6%*** | ***21.0%*** | ***3.19%*** | ***3.10%*** | ***297,130,739*** | ***19.9%*** | | | | | | | | | | | |
| ***Benchmark*** | | | | ***-11.43%*** | ***-11.43%*** | | | | ***-1.81%*** | ***-1.81%*** | | | | ***11.50%*** | ***11.50%*** | | | | ***3.55%*** | ***3.55%*** | | | | | | | | | | | | | |
| **Developed International** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| State Street | 17,461,618 | 1.1% | 1.7% | -12.60% | -12.65% | 19,782,504 | 1.2% | 1.7% | -2.42% | -2.47% | 20,414,184 | 1.2% | 1.7% | 11.43% | 11.29% | 18,743,051 | 1.2% | 1.9% | 3.86% | 3.72% | 22,781,592 | 1.5% | 2.0% | -22.27% | -22.39% | -23.28% | -23.68% | 32.35% | 31.65% | -2.21% | -2.93% | 1.05% | 0.31% |
| ***MSCI EAFE (3)*** | | | | ***-11.48%*** | ***-11.48%*** | | | | ***-1.96%*** | ***-1.96%*** | | | | ***10.86%*** | ***10.86%*** | | | | ***3.33%*** | ***3.33%*** | | | | ***-19.01%*** | ***-19.01%*** | ***-19.48%*** | ***-19.48%*** | ***30.36%*** | ***30.36%*** | ***-1.77%*** | ***-1.77%*** | ***1.48%*** | ***1.48%*** |
| Capital Guardian | 24,558,314 | 1.5% | 3.8% | -10.70% | -10.74% | 27,286,429 | 1.6% | 3.8% | -0.71% | -0.75% | 27,669,828 | 1.7% | 3.8% | 12.08% | 11.97% | 25,248,907 | 1.6% | 4.3% | 4.02% | 3.91% | 30,621,735 | 2.0% | 4.6% | -18.92% | -19.01% | -16.18% | -16.51% | 24.66% | 24.14% | -1.34% | -1.90% | 1.02% | 0.49% |
| LSV | 46,576,756 | 2.9% | 3.8% | -11.30% | -11.33% | 51,987,953 | 3.1% | 3.8% | -2.91% | -2.94% | 53,900,155 | 3.2% | 3.8% | 10.21% | 10.10% | 50,014,166 | 3.2% | 4.3% | 2.98% | 2.88% | 61,261,192 | 4.1% | 4.6% | -19.09% | -19.17% | -20.92% | -21.21% | 24.26% | 23.78% | -0.36% | -0.88% | -0.24% | -0.77% |
| ***MSCI EAFE (4)*** | | | | ***-11.48%*** | ***-11.48%*** | | | | ***-1.96%*** | ***-1.96%*** | | | | ***10.86%*** | ***10.86%*** | | | | ***3.33%*** | ***3.33%*** | | | | ***-19.01%*** | ***-19.01%*** | ***-19.48%*** | ***-19.48%*** | ***23.58%*** | ***23.58%*** | ***-0.74%*** | ***-0.74%*** | ***1.05%*** | ***1.05%*** |
| Clifton | 77,361,079 | 4.9% | 2.4% | -11.91% | -11.91% | 96,431,540 | 5.8% | 2.4% | -2.52% | -2.52% | 101,133,767 | 6.1% | 2.4% | 9.94% | 9.92% | 105,476,598 | 6.7% | 2.7% | 3.19% | 3.18% | 70,980,712 | 4.7% | 2.9% | -19.19% | -19.21% | -21.28% | -21.32% | 30.63% | 30.56% | N/A | N/A | N/A | N/A |
| ***MSCI EAFE*** | | | | ***-11.48%*** | ***-11.48%*** | | | | ***-1.96%*** | ***-1.96%*** | | | | ***10.86%*** | ***10.86%*** | | | | ***3.33%*** | ***3.33%*** | | | | ***-19.01%*** | ***-19.01%*** | ***-19.48%*** | ***-19.48%*** | ***30.36%*** | ***30.36%*** | | | | |
| DFA | 21,881,251 | 1.4% | 1.7% | -12.72% | -12.76% | 24,824,608 | 1.5% | 1.7% | -2.74% | -2.78% | 25,711,729 | 1.5% | 1.7% | 16.91% | 16.77% | 22,501,135 | 1.4% | 1.9% | 1.53% | 1.40% | 27,967,260 | 1.9% | 2.0% | -21.68% | -21.79% | -21.09% | -21.46% | 36.94% | 36.26% | 3.68% | 3.00% | N/A | N/A |
| Wellington | 25,575,043 | 1.6% | 1.7% | -10.70% | -10.75% | 28,416,005 | 1.7% | 1.7% | 1.60% | 1.55% | 28,160,572 | 1.7% | 1.7% | 15.22% | 15.04% | 25,014,864 | 1.6% | 1.9% | 0.77% | 0.61% | 31,350,337 | 2.1% | 2.0% | -15.63% | -15.78% | -11.13% | -11.66% | 37.82% | 36.96% | 4.38% | 3.45% | 4.48% | 3.52% |
| ***S&P/Citigroup BMI EPAC < $2BN*** | | | | ***-10.97%*** | ***-10.97%*** | | | | ***-1.30%*** | ***-1.30%*** | | | | ***13.92%*** | ***13.92%*** | | | | ***-0.86%*** | ***-0.86%*** | | | | ***-17.73%*** | ***-17.73%*** | ***-18.35%*** | ***-18.35%*** | ***31.96%*** | ***31.96%*** | ***2.03%*** | ***2.03%*** | ***2.01%*** | ***2.01%*** |
| **Total Developed International** | **213,414,060** | **13.4%** | **15.0%** | **-11.65%** | **-11.67%** | **248,729,039** | **14.9%** | **15.0%** | **-1.97%** | **-2.00%** | **256,990,235** | **15.4%** | **15.0%** | **11.46%** | **11.38%** | **246,998,722** | **15.8%** | **17.0%** | **2.83%** | **2.75%** | **244,962,827** | **16.4%** | **18.0%** | **-19.29%** | **-19.36%** | **-19.87%** | **-20.12%** | **31.49%** | **31.02%** | **2.46%** | **1.90%** | **2.46%** | **1.88%** |
| ***MSCI EAFE (4)*** | | | | ***-11.48%*** | ***-11.48%*** | | | | ***-1.96%*** | ***-1.96%*** | | | | ***10.86%*** | ***10.86%*** | | | | ***3.33%*** | ***3.33%*** | | | | ***-19.01%*** | ***-19.01%*** | ***-19.48%*** | ***-19.48%*** | ***23.58%*** | ***23.58%*** | ***-0.74%*** | ***-0.74%*** | ***1.05%*** | ***1.05%*** |
| **Emerging Markets** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JP Morgan | 14,460,777 | 0.9% | 0.6% | -11.12% | -11.17% | 16,306,188 | 1.0% | 0.6% | -1.04% | -1.09% | 16,449,359 | 1.0% | 0.6% | 13.48% | 13.31% | 14,428,644 | 0.9% | 0.7% | 5.77% | 5.61% | 10,734,916 | 0.7% | 0.9% | -21.08% | -21.21% | -16.68% | -17.17% | 25.77% | 25.00% | 5.36% | 4.55% | 12.45% | 11.57% |
| PanAgora | 5,942,507 | 0.4% | 0.6% | -9.93% | -9.98% | 6,597,791 | 0.4% | 0.6% | -0.55% | -0.60% | 6,622,662 | 0.4% | 0.6% | 15.31% | 15.15% | 9,745,224 | 0.6% | 0.7% | 4.14% | 4.00% | 10,620,537 | 0.7% | 0.9% | -24.20% | -24.32% | -18.47% | -18.89% | 25.74% | 25.06% | 1.92% | 1.19% | 10.97% | 10.21% |
| WestLB | 5,562,658 | 0.4% | 0.6% | -12.82% | -12.87% | 6,380,991 | 0.4% | 0.6% | -1.51% | -1.55% | 11,202,167 | 0.7% | 0.6% | 13.97% | 13.83% | 9,771,344 | 0.6% | 0.7% | 4.45% | 4.31% | 10,617,983 | 0.7% | 0.9% | -23.20% | -23.31% | -21.51% | -21.89% | 22.63% | 22.00% | -1.51% | -2.18% | 8.83% | 8.13% |
| UBS | 14,324,207 | 0.9% | 1.1% | -11.63% | -11.69% | 16,209,422 | 1.0% | 1.1% | -1.58% | -1.64% | 16,440,727 | 1.0% | 1.1% | 14.86% | 14.68% | 14,229,503 | 0.9% | 1.2% | 6.39% | 6.22% | 7,843,909 | 0.5% | 0.0% | -23.87% | -24.01% | -19.08% | -19.59% | 30.17% | 29.32% | 4.78% | 3.88% | 11.95% | 11.00% |
| DFA | 11,713,208 | 0.7% | 0.7% | -9.17% | -9.22% | 12,895,275 | 0.8% | 0.7% | -2.34% | -2.39% | 13,188,346 | 0.8% | 0.7% | 17.41% | 17.25% | 11,185,140 | 0.7% | 0.8% | 2.96% | 2.81% | 12,350,567 | 0.8% | 1.0% | -24.72% | -24.84% | -19.28% | -19.73% | 32.35% | 31.59% | 14.44% | 13.74% | 17.32% | 16.54% |
| Capital International | | | | | | | | | | | | | | | | | | | | | 13,060,790 | 0.9% | 0.9% | -0.79% | -0.79% | | | | | | | | |
| JP Morgan | | | | | | | | | | | | | | | | | | | | | 9,132,724 | 0.6% | *0.6%* | -0.41% | -0.41% | | | | | | | | |
| **Total Emerging Markets** | **52,003,357** | **3.3%** | **3.5%** | **-10.88%** | **-10.93%** | **58,389,666** | **3.5%** | **3.5%** | **-1.48%** | **-1.53%** | **63,903,260** | **3.8%** | **3.5%** | **14.92%** | **14.76%** | **59,359,856** | **3.8%** | **4.0%** | **4.85%** | **4.70%** | **74,361,426** | **5.0%** | **5.0%** | **-17.77%** | **-17.86%** | **-13.00%** | **-13.45%** | **27.93%** | **27.33%** | **5.16%** | **4.29%** | **12.48%** | **11.55%** |
| ***MSCI Emerging Markets*** | | | | ***-11.22%*** | ***-11.22%*** | | | | ***-1.20%*** | ***-1.20%*** | | | | ***14.08%*** | ***14.08%*** | | | | ***4.42%*** | ***4.42%*** | | | | ***-22.56%*** | ***-22.56%*** | ***-19.07%*** | ***-19.07%*** | ***28.17%*** | ***28.17%*** | ***4.53%*** | ***4.53%*** | ***11.75%*** | ***11.75%*** |

**ND TEACHERS FUND FOR RETIREMENT**
**INVESTMENT PERFORMANCE REPORT AS OF MAY 31, 2012**

| | May-12 | | | | | April-12 | | | | | March-12 | | | | | December-11 | | | | | September-11 | | | | | Current Fiscal YTD | | Prior FY11 | | 3 Years Ended 6/30/2011 | | 5 Years Ended 6/30/2011 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Allocation | | Month | | | Allocation | | Month | | | Allocation | | Quarter | | | Allocation | | Quarter | | | Allocation | | Quarter | | | | | | | | | |
| | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Gross (7) | Net | Gross (7) | Net | Gross | Net | Gross | Net |
| **Private Equity** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Brinson IVCF III | 40,443 | 0.0% | | 0.00% | 0.00% | 47,691 | 0.0% | | 0.00% | 0.00% | 45,753 | 0.0% | | 0.00% | 0.00% | 45,753 | 0.0% | | 0.00% | 0.00% | 45,753 | | | 5.18% | 5.18% | 5.18% | 5.18% | 45.71% | 45.71% | 8.53% | 8.53% | 31.70% | 31.12% |
| Coral Partners V | 386,067 | 0.0% | | 0.00% | 0.00% | 386,067 | 0.0% | | 0.00% | 0.00% | 1,374,885 | 0.1% | | -10.50% | -10.50% | 1,542,598 | 0.1% | | -10.21% | -10.21% | 1,680,229 | | | 0.00% | 0.00% | -19.63% | -19.63% | 42.92% | 42.92% | 62.32% | 60.80% | 38.02% | 34.83% |
| Coral Partners V - Supplemental | 219,470 | 0.0% | | 0.00% | 0.00% | 219,470 | 0.0% | | 0.00% | 0.00% | 167,686 | 0.0% | | -17.46% | -17.46% | 204,005 | 0.0% | | -60.04% | -60.04% | 499,328 | | | 0.00% | 0.00% | -67.02% | -67.02% | 90.61% | 90.61% | 5.64% | 4.60% | 4.64% | 3.07% |
| Coral Momentum Fund (Formerly Fund VI) | 2,529,813 | 0.2% | | 0.00% | 0.00% | 2,529,813 | 0.2% | | 0.00% | 0.00% | 2,223,900 | 0.1% | | -11.59% | -11.59% | 2,525,995 | 0.2% | | 16.14% | 16.14% | 2,127,281 | | | 0.00% | 0.00% | 2.68% | 2.68% | -27.08% | -27.08% | N/A | -29.50% | -18.46% | -19.67% |
| Brinson 1998 Partnership Fund | 255,961 | 0.0% | | 0.00% | 0.00% | 255,961 | 0.0% | | 0.00% | 0.00% | 255,961 | 0.0% | | 0.50% | 0.50% | 255,768 | 0.0% | | -15.19% | -15.19% | 294,954 | | | 0.00% | 0.00% | -14.77% | -14.77% | 15.96% | 15.96% | -8.65% | -9.04% | 1.95% | 1.06% |
| Brinson 1999 Partnership Fund | 666,661 | 0.0% | | 0.00% | 0.00% | 666,661 | 0.0% | | 0.00% | 0.00% | 666,661 | 0.0% | | 3.06% | 3.06% | 779,764 | 0.0% | | -8.61% | -8.61% | 915,708 | | | 0.00% | 0.00% | -5.82% | -5.82% | 31.40% | 31.40% | -0.47% | -0.88% | 6.69% | 5.77% |
| Brinson 2000 Partnership Fund | 2,172,680 | 0.1% | | 0.00% | 0.00% | 2,172,680 | 0.1% | | 0.00% | 0.00% | 2,172,680 | 0.1% | | -1.70% | -1.70% | 2,580,802 | 0.2% | | 6.11% | 6.11% | 2,650,733 | | | 0.00% | 0.00% | 4.31% | 4.31% | 25.87% | 25.87% | 0.40% | -0.02% | 7.61% | 6.69% |
| Brinson 2001 Partnership Fund | 2,414,808 | 0.2% | | 0.00% | 0.00% | 2,414,808 | 0.1% | | 0.00% | 0.00% | 2,651,019 | 0.2% | | 2.13% | 2.13% | 2,851,594 | 0.2% | | -1.63% | -1.63% | 3,084,489 | | | 0.00% | 0.00% | 0.46% | 0.46% | 26.99% | 26.99% | 2.35% | 1.93% | 5.54% | 4.63% |
| Brinson 2002 Partnership Fund | 1,353,729 | 0.1% | | 0.00% | 0.00% | 1,353,729 | 0.1% | | 0.00% | 0.00% | 1,476,809 | 0.1% | | 6.99% | 6.99% | 1,524,651 | 0.1% | | -1.31% | -1.31% | 1,643,150 | | | 0.00% | 0.00% | 5.59% | 5.59% | 35.32% | 35.32% | 1.69% | 1.25% | 4.46% | 3.54% |
| Brinson 2003 Partnership Fund | 457,007 | 0.0% | | 0.00% | 0.00% | 457,007 | 0.0% | | 0.00% | 0.00% | 457,007 | 0.0% | | -0.73% | -0.73% | 502,989 | 0.0% | | -6.95% | -6.95% | 548,861 | | | 0.00% | 0.00% | -7.63% | -7.63% | 27.79% | 27.79% | 3.68% | 3.26% | 7.66% | 6.73% |
| Total Brinson Partnership Funds | 7,320,844 | 0.5% | | 0.00% | 0.00% | 7,320,844 | 0.4% | | 0.00% | 0.00% | 7,680,137 | 0.5% | | 1.73% | 1.73% | 8,495,568 | 0.5% | | -0.89% | -0.89% | 9,137,896 | | | 0.00% | 0.00% | 0.83% | 0.83% | 28.13% | 28.13% | 1.03% | 0.62% | 6.84% | 6.17% |
| Brinson 1999 Non-US Partnership Fund | 418,726 | 0.0% | | 0.00% | 0.00% | 418,726 | 0.0% | | 0.00% | 0.00% | 418,726 | 0.0% | | 9.23% | 9.23% | 384,977 | 0.0% | | 1.82% | 1.82% | 481,951 | | | 0.00% | 0.00% | 11.22% | 11.22% | 63.17% | 63.17% | 8.91% | 8.47% | 20.36% | 19.46% |
| Brinson 2000 Non-US Partnership Fund | 651,041 | 0.0% | | 0.00% | 0.00% | 651,041 | 0.0% | | 0.00% | 0.00% | 651,041 | 0.0% | | -6.11% | -6.11% | 696,344 | 0.0% | | 5.10% | 5.10% | 759,662 | | | 0.00% | 0.00% | -1.32% | -1.32% | 37.82% | 37.82% | -2.08% | -2.50% | 13.66% | 12.80% |
| Brinson 2001 Non-US Partnership Fund | 384,898 | 0.0% | | 0.00% | 0.00% | 384,898 | 0.0% | | 0.00% | 0.00% | 441,476 | 0.0% | | -6.66% | -6.66% | 474,976 | 0.0% | | -13.31% | -13.31% | 535,869 | | | 0.00% | 0.00% | -19.08% | -19.08% | 19.79% | 19.79% | -10.45% | -10.86% | -2.07% | -2.83% |
| Brinson 2002 Non-US Partnership Fund | 1,544,749 | 0.1% | | 0.00% | 0.00% | 1,590,603 | 0.1% | | 0.00% | 0.00% | 1,590,603 | 0.1% | | -0.30% | -0.30% | 1,849,530 | 0.1% | | 0.46% | 0.46% | 2,265,172 | | | 0.00% | 0.00% | 0.16% | 0.16% | 46.88% | 46.88% | -5.57% | -5.98% | 13.23% | 12.37% |
| Brinson 2003 Non-US Partnership Fund | 967,056 | 0.1% | | 0.00% | 0.00% | 967,056 | 0.1% | | 0.00% | 0.00% | 967,056 | 0.1% | | -0.94% | -0.94% | 1,227,351 | 0.1% | | -13.13% | -13.13% | 1,476,327 | | | 0.00% | 0.00% | -13.94% | -13.94% | 48.84% | 48.84% | 4.91% | 4.46% | 21.17% | 20.25% |
| Brinson 2004 Non-US Partnership Fund | 708,713 | 0.0% | | 0.00% | 0.00% | 708,713 | 0.0% | | 0.00% | 0.00% | 708,713 | 0.0% | | -3.20% | -3.20% | 791,892 | 0.1% | | -1.11% | -1.11% | 816,926 | | | 0.00% | 0.00% | -4.28% | -4.28% | 33.31% | 33.31% | -3.66% | -4.07% | 7.99% | 7.17% |
| Total Brinson Non-US Partnership Fund | 4,675,183 | 0.3% | | 0.00% | 0.00% | 4,721,037 | 0.3% | | 0.00% | 0.00% | 4,777,616 | 0.3% | | -1.50% | -1.50% | 5,425,070 | 0.3% | | -3.58% | -3.58% | 6,335,908 | | | 0.00% | 0.00% | -5.03% | -5.03% | 42.13% | 42.13% | -1.77% | -2.19% | 13.18% | 12.54% |
| Adams Street 2008 Non-US Partnership Fd | 1,688,402 | 0.1% | | 0.00% | 0.00% | 1,688,402 | 0.1% | | 0.00% | 0.00% | 1,688,402 | 0.1% | | -0.01% | -0.01% | 1,567,587 | 0.1% | | -6.11% | -6.11% | 1,488,367 | | | 6.49% | 6.49% | -0.03% | -0.03% | 20.52% | 20.52% | 0.66% | -6.19% | N/A | N/A |
| Brinson BVCF IV | 1,841,602 | 0.1% | | 0.00% | 0.00% | 1,716,214 | 0.1% | | 0.00% | 0.00% | 1,716,214 | 0.1% | | 9.07% | 9.07% | 1,808,104 | 0.1% | | 10.19% | 10.19% | 1,604,889 | | | 10.75% | 10.75% | 33.10% | 33.10% | 183.24% | 183.24% | 57.71% | 57.23% | 30.73% | 29.83% |
| Adams Street Direct Co-investment Fund | 9,146,383 | 0.6% | | 0.00% | 0.00% | 9,146,383 | 0.5% | | 0.00% | 0.00% | 9,133,680 | 0.5% | | -0.84% | -0.84% | 9,250,386 | 0.6% | | -0.53% | -0.53% | 9,095,124 | | | 0.00% | 0.00% | -1.36% | -1.36% | 24.29% | 24.29% | -0.49% | -1.15% | N/A | N/A |
| Adams Street 2010 Direct Fund | 273,186 | 0.0% | | 0.00% | 0.00% | 273,186 | 0.0% | | 0.00% | 0.00% | 273,186 | 0.0% | | 6.37% | 6.37% | 257,916 | 0.0% | | 7.45% | 7.45% | 176,919 | | | 4.88% | 4.88% | 19.88% | 19.88% | -7.56% | -7.56% | N/A | N/A | N/A | N/A |
| Adams Street 2010 Non-US Emerging Mkts | 65,119 | 0.0% | | 0.00% | 0.00% | 58,495 | 0.0% | | 0.00% | 0.00% | 51,870 | 0.0% | | -6.80% | -6.80% | 49,236 | 0.0% | | -5.91% | -5.91% | 33,572 | | | -2.16% | -2.16% | -14.20% | -14.20% | N/A | N/A | N/A | N/A | N/A | N/A |
| Adams Street 2010 Non-US Developed Mkts | 434,269 | 0.0% | | 0.00% | 0.00% | 434,269 | 0.0% | | 0.00% | 0.00% | 418,812 | 0.0% | | 5.73% | 5.73% | 345,678 | 0.0% | | -5.59% | -5.59% | 183,125 | | | 6.70% | 6.70% | 6.50% | 6.50% | -12.11% | -12.11% | N/A | N/A | N/A | N/A |
| Adams Street 2010 Partnership Fund | 888,308 | 0.1% | | 0.00% | 0.00% | 888,308 | 0.1% | | 0.00% | 0.00% | 858,867 | 0.1% | | 4.23% | 4.23% | 796,090 | 0.1% | | 2.40% | 2.40% | 642,200 | | | 0.00% | 0.00% | 6.73% | 6.73% | 28.46% | 28.46% | N/A | N/A | N/A | N/A |
| Total Adams Street 2010 Funds | 1,660,882 | 0.1% | | 0.00% | 0.00% | 1,654,258 | 0.1% | | 0.00% | 0.00% | 1,602,735 | 0.1% | | 4.58% | 4.58% | 1,448,920 | 0.1% | | 1.57% | 1.57% | 1,035,816 | | | 1.78% | 1.78% | 8.11% | 8.11% | 12.70% | 12.70% | N/A | N/A | N/A | N/A |
| Matlin Patterson Global Opportunities | 10,964 | 0.0% | | 0.00% | 0.00% | 10,964 | 0.0% | | 0.00% | 0.00% | 10,964 | 0.0% | | 0.00% | 0.00% | 0 | 0.0% | | 76.48% | 76.48% | 126,315 | | | -1.95% | -1.95% | 73.04% | 73.04% | 4.39% | 4.39% | 21.77% | 20.29% | 7.62% | 6.35% |
| Matlin Patterson Global Opportunities II | 1,145,366 | 0.1% | | 0.00% | 0.00% | 1,145,366 | 0.1% | | 0.00% | 0.00% | 1,145,366 | 0.1% | | -57.34% | -57.34% | 2,696,423 | 0.2% | | -32.14% | -32.14% | 3,886,046 | | | 0.41% | 0.41% | -70.93% | -70.93% | -43.94% | -43.94% | -36.45% | -36.69% | -19.30% | -19.96% |
| Matlin Patterson Global Opportunities III | 10,039,826 | 0.6% | | 0.00% | 0.00% | 8,787,186 | 0.5% | | 0.00% | 0.00% | 8,198,354 | 0.5% | | 86.19% | 86.19% | 11,130,777 | 0.7% | | -10.29% | -10.29% | 12,135,049 | | | 0.30% | 0.30% | 67.53% | 67.53% | 1.29% | 1.29% | -8.38% | -10.21% | N/A | N/A |
| InvestAmerica (Lewis and Clark Fund) | 2,574,116 | 0.2% | | 0.00% | 0.00% | 2,574,116 | 0.2% | | 0.00% | 0.00% | 3,171,754 | 0.2% | | 0.00% | 0.00% | 3,185,191 | 0.2% | | 0.12% | 0.12% | 3,656,996 | | | 0.00% | 0.00% | 0.12% | 0.12% | 8.19% | 8.19% | 4.84% | 2.38% | 12.29% | 9.26% |
| L&C II | 3,288,703 | 0.2% | | 0.00% | 0.00% | 3,288,703 | 0.2% | | 0.00% | 0.00% | 2,535,603 | 0.2% | | 0.00% | 0.00% | 2,546,345 | 0.2% | | 0.00% | 0.00% | 1,926,262 | | | 0.00% | 0.00% | 0.00% | 0.00% | -7.62% | -7.62% | N/A | N/A | N/A | N/A |
| Corsair III (2) | 6,393,757 | 0.4% | | 6.30% | 6.30% | 6,014,644 | 0.4% | | -0.40% | -0.40% | 6,014,644 | 0.4% | | 5.42% | 5.42% | 5,702,726 | 0.4% | | -5.77% | -5.77% | | | | | | 4.06% | 4.06% | 7.74% | 7.74% | -5.26% | -6.81% | N/A | N/A |
| Corsair III - ND Investors LLC (2) | 5,120,715 | 0.3% | | 0.00% | 0.00% | 5,120,715 | 0.3% | | -0.24% | -0.24% | 5,120,715 | 0.3% | | 4.12% | 4.12% | 4,926,875 | 0.3% | | -0.25% | -0.25% | | | | | | 3.61% | 3.61% | -0.49% | -0.49% | -0.50% | -0.82% | N/A | N/A |
| Corsair IV | 4,456,947 | 0.3% | | 15.22% | 15.22% | 3,868,204 | 0.2% | | -1.44% | -1.44% | 3,868,204 | 0.2% | | -9.47% | -9.47% | 3,298,469 | 0.2% | | -13.96% | -13.96% | | | | | | -11.55% | -11.55% | -6.69% | -6.69% | N/A | N/A | N/A | N/A |
| Capital International (CIPEF V) | 11,949,147 | 0.8% | | 5.47% | 5.47% | 11,329,482 | 0.7% | | -0.19% | -0.19% | 11,338,665 | 0.7% | | -2.79% | -2.79% | 11,704,395 | 0.7% | | -4.73% | -4.73% | | | | | | -2.51% | -2.51% | 41.45% | 41.45% | 11.67% | 9.53% | N/A | N/A |
| Capital International (CIPEF VI) | 1,891,890 | 0.1% | | 6.10% | 6.10% | 1,432,999 | 0.1% | | -5.10% | -5.10% | 1,473,873 | 0.1% | | N/A | N/A | 856,020 | 0.1% | | N/A | N/A | - | | | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| EIG (formerly TCW) | 17,486,133 | 1.1% | | 0.35% | 0.35% | 17,597,484 | 1.1% | | -0.87% | -0.87% | 17,751,642 | 1.1% | | 1.40% | 1.40% | 16,306,058 | 1.0% | | 4.31% | 4.31% | | | | | | 5.22% | 5.22% | 12.85% | 12.85% | 16.31% | 14.58% | N/A | N/A |
| Quantum Resources | 5,693,461 | 0.4% | | 0.00% | 0.00% | 6,815,542 | 0.4% | | 0.00% | 0.00% | 5,025,410 | 0.3% | | 0.00% | 0.00% | 5,120,305 | 0.3% | | -5.06% | -5.06% | 5,349,864 | | | -2.12% | -2.12% | -7.07% | -7.07% | 95.45% | 95.45% | -52.46% | -58.77% | N/A | N/A |
| Quantum Energy Partners | 4,285,229 | 0.3% | | 0.00% | 0.00% | 4,306,110 | 0.3% | | 0.00% | 0.00% | 3,448,399 | 0.2% | | 0.00% | 0.00% | 3,463,008 | 0.2% | | 15.40% | 15.40% | 2,652,854 | | | -0.78% | -0.78% | 14.50% | 14.50% | 20.90% | 20.90% | 0.92% | -1.92% | N/A | N/A |
| **Total Private Equity (8)** | **103,852,477** | **6.5%** | **5.0%** | **0.00%** | **0.00%** | **101,728,828** | **6.1%** | **5.0%** | **0.00%** | **0.00%** | **99,521,731** | **6.0%** | **5.0%** | **1.75%** | **1.75%** | **103,291,770** | **6.6%** | **5.0%** | **-3.37%** | **-3.37%** | **62,795,865** | **4.2%** | **5.0%** | **0.35%** | **0.35%** | **-1.33%** | **-1.33%** | **14.99%** | **14.99%** | **-2.81%** | **-3.32%** | **3.61%** | **2.04%** |
| ***GLOBAL FIXED INCOME*** | ***368,354,756*** | ***23.2%*** | ***22.0%*** | ***-0.26%*** | ***-0.27%*** | ***359,064,958*** | ***21.6%*** | ***22.0%*** | ***1.17%*** | ***1.16%*** | ***358,057,591*** | ***21.4%*** | ***22.0%*** | ***3.72%*** | ***3.65%*** | ***343,452,980*** | ***22.0%*** | ***22.0%*** | ***0.82%*** | ***0.75%*** | ***292,117,051*** | ***19.5%*** | | | | | | | | | | | |
| ***Benchmark*** | | | | ***-0.34%*** | ***-0.34%*** | | | | ***1.12%*** | ***1.12%*** | | | | ***1.63%*** | ***1.63%*** | | | | ***2.01%*** | ***2.01%*** | | | | | | | | | | | | | |
| ***Domestic Fixed Income*** | ***285,416,988*** | ***18.0%*** | ***17.0%*** | ***0.34%*** | ***0.33%*** | ***278,686,679*** | ***16.7%*** | ***17.0%*** | ***1.03%*** | ***1.02%*** | ***278,976,482*** | ***16.7%*** | ***17.0%*** | ***4.16%*** | ***4.10%*** | ***265,856,385*** | ***17.0%*** | ***17.0%*** | ***0.95%*** | ***0.88%*** | ***207,741,050*** | ***13.9%*** | | | | | | | | | | | |
| ***Benchmark*** | | | | ***0.25%*** | ***0.25%*** | | | | ***1.09%*** | ***1.09%*** | | | | ***1.77%*** | ***1.77%*** | | | | ***2.71%*** | ***2.71%*** | | | | | | | | | | | | | |
| **Investment Grade Fixed Income** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Western Asset | - | 0.0% | 2.4% | N/A | N/A | - | 0.0% | 2.4% | N/A | N/A | - | 0.0% | 0.0% | 1.07% | 1.02% | 35,552,086 | 2.3% | 2.0% | 1.39% | 1.35% | 23,282,631 | 1.6% | 1.2% | 3.04% | 3.00% | N/A | N/A | 8.05% | 7.87% | 6.82% | 6.62% | 5.48% | 5.27% |
| Prudential | - | 0.0% | 0.0% | N/A | N/A | - | 0.0% | 0.0% | N/A | N/A | 1,129,565 | 0.1% | 0.0% | 0.11% | 0.04% | 26,751,031 | 1.7% | 2.0% | 1.75% | 1.68% | 17,459,352 | 1.2% | 1.2% | 5.14% | 5.06% | N/A | N/A | 6.79% | 6.49% | 10.55% | 10.26% | 8.50% | 8.22% |
| PIMCO (DiSCO I) (8) | - | 0.0% | 0.0% | N/A | N/A | - | 0.0% | 0.0% | N/A | N/A | - | 0.0% | 0.0% | -93.01% | -93.01% | 1,103,797 | 0.1% | 0.1% | -8.53% | -8.53% | 21,708,878 | 1.5% | 1.5% | 0.00% | 0.00% | N/A | N/A | 10.08% | 10.08% | 15.12% | 14.86% | N/A | N/A |
| PIMCO (DiSCO II) (8) | 31,669,288 | 2.0% | 1.9% | 0.70% | 0.70% | 31,273,454 | 1.9% | 1.9% | 0.00% | 0.00% | 31,351,792 | 1.9% | 1.9% | 12.01% | 12.01% | 29,283,349 | 1.9% | 1.9% | N/A | N/A | - | 0.0% | 0.0% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| ***BC Aggregate*** | | | | ***0.91%*** | ***0.91%*** | | | | ***1.11%*** | ***1.11%*** | | | | ***0.30%*** | ***0.30%*** | | | | ***1.12%*** | ***1.12%*** | | | | ***3.82%*** | ***3.82%*** | ***7.43%*** | ***7.43%*** | ***3.90%*** | ***3.90%*** | ***6.46%*** | ***6.46%*** | ***6.52%*** | ***6.52%*** |
| Bank of ND | 20,609,033 | 1.3% | 1.2% | 2.97% | 2.97% | 30,211,053 | 1.8% | 1.2% | 1.76% | 1.76% | 46,297,653 | 2.8% | 1.2% | -0.65% | -0.66% | 48,900,393 | 3.1% | 2.0% | 1.03% | 1.01% | 20,993,948 | 1.4% | 0.2% | 4.81% | 4.79% | 10.22% | 10.17% | 3.77% | 3.72% | 7.23% | 7.17% | 7.04% | 6.98% |
| ***BC Long Treasuries*** | | | | ***7.44%*** | ***7.44%*** | | | | ***4.33%*** | ***4.33%*** | | | | ***-1.07%*** | ***-1.07%*** | | | | ***1.18%*** | ***1.18%*** | | | | ***4.74%*** | ***4.74%*** | ***17.52%*** | ***17.52%*** | ***3.68%*** | ***3.68%*** | ***6.17%*** | ***6.17%*** | ***6.35%*** | ***6.35%*** |
| PIMCO (Unconstrained) | 27,957,990 | 1.8% | 1.4% | 1.56% | 1.56% | 27,375,356 | 1.6% | 1.4% | 1.29% | 1.29% | 27,094,648 | 1.6% | 1.4% | N/A | N/A | - | | | N/A | N/A | - | | | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| ***3m LIBOR*** | | | | ***0.04%*** | ***0.04%*** | | | | ***0.04%*** | ***0.04%*** | | | | ***0.00%*** | ***0.00%*** | | | | | | | | | | | | | | | | | | |
| Declaration (Total Return) | 22,475,322 | 1.4% | 1.4% | 0.13% | 0.13% | 10,392,933 | 0.6% | 1.4% | N/A | N/A | - | 0.0% | 1.4% | N/A | N/A | - | | | N/A | N/A | - | | | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| ***3m LIBOR*** | | | | ***0.04%*** | ***0.04%*** | | | | ***0.04%*** | ***0.04%*** | | | | ***0.00%*** | ***0.00%*** | | | | | | | | | | | | | | | | | | |
| Western Asset | 41,394,157 | 2.6% | 2.4% | 0.36% | 0.35% | 41,035,950 | 2.5% | 2.4% | 0.79% | 0.78% | 40,809,374 | 2.4% | 2.4% | N/A | N/A | - | | | N/A | N/A | - | | | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| PIMCO (MBS) | 60,720,217 | 3.8% | 3.6% | 0.36% | 0.36% | 56,452,347 | 3.4% | 3.6% | 0.46% | 0.46% | 50,136,067 | 3.0% | 3.6% | N/A | N/A | - | | | N/A | N/A | - | | | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| ***BC Mortgage Backed Securities Index*** | | | | ***0.32%*** | ***0.32%*** | | | | ***0.65%*** | ***0.65%*** | | | | ***0.00%*** | ***0.00%*** | | | | | | | | | | | | | | | | | | |
| Calamos | - | 0.0% | 0.0% | N/A | N/A | - | 0.0% | 0.0% | N/A | N/A | 10 | 0.0% | 0.0% | N/A | N/A | 23,246,801 | 1.5% | 2.0% | 4.85% | 4.68% | 14,737,813 | 1.0% | 1.2% | -10.43% | -10.58% | N/A | N/A | 14.20% | 13.47% | 6.08% | 5.35% | 5.71% | 5.04% |
| ***Merrill Lynch All Convertibles (5)*** | | | | | | | | | | | | | | | | | | | ***4.29%*** | ***4.29%*** | | | | ***-12.94%*** | ***-12.94%*** | | | ***22.54%*** | ***22.54%*** | ***6.84%*** | ***6.84%*** | ***5.68%*** | ***5.68%*** |
| Wells Capital | - | 0.0% | 0.0% | N/A | N/A | 4 | 0.0% | 0.0% | N/A | N/A | 146,075 | 0.0% | 0.0% | 2.71% | 2.66% | 26,463,354 | 1.7% | 2.0% | 2.39% | 2.33% | 17,146,348 | 1.1% | 1.2% | 2.36% | 2.31% | N/A | N/A | 8.72% | 8.50% | 11.48% | 11.26% | 9.24% | 9.03% |
| ***BC BBB*** | | | | ***0.00%*** | ***0.00%*** | | | | ***0.00%*** | ***0.00%*** | | | | ***2.42%*** | ***2.42%*** | | | | ***2.71%*** | ***2.71%*** | | | | ***2.42%*** | ***2.42%*** | ***7.74%*** | ***7.74%*** | ***6.07%*** | ***6.07%*** | ***9.71%*** | ***9.71%*** | ***7.82%*** | ***7.82%*** |
| TIR - Teredo | | | | | | | | | | | | | | | | | | | | | 22,769,798 | 1.5% | 1.5% | 0.00% | 0.00% | | | | | | | | |
| TIR - Springbank | | | | | | | | | | | | | | | | | | | | | 37,782,908 | 2.5% | 2.5% | 0.02% | 0.02% | | | | | | | | |
| ***NCREIF Timberland Index*** | | | | | | | | | | | | | | | | | | | | | | | | ***-0.35%*** | ***-0.35%*** | | | | | | | | |
| JP Morgan (Infrastructure) | | | | | | | | | | | | | | | | | | | | | 25,158,446 | 1.7% | 1.7% | 2.03% | 1.67% | | | | | | | | |
| **Total Investment Grade Fixed Income** | **204,826,005** | **12.9%** | **12.0%** | **0.97%** | **0.97%** | **196,741,096** | **11.8%** | **12.0%** | **0.87%** | **0.87%** | **196,965,183** | **11.8%** | **12.0%** | **2.86%** | **2.81%** | **191,300,811** | **12.2%** | **12.0%** | **0.15%** | **0.10%** | **201,040,121** | **13.4%** | **12.0%** | **0.85%** | **0.77%** | **5.81%** | **5.62%** | **6.22%** | **5.90%** | **3.36%** | **2.63%** | **6.46%** | **5.81%** |
| ***BC Aggregate*** | | | | ***0.91%*** | ***0.91%*** | | | | ***1.11%*** | ***1.11%*** | | | | ***0.30%*** | ***0.30%*** | | | | ***1.12%*** | ***1.12%*** | | | | ***3.82%*** | ***3.82%*** | ***7.43%*** | ***7.43%*** | ***3.90%*** | ***3.90%*** | ***6.46%*** | ***6.46%*** | ***6.52%*** | ***6.52%*** |

**ND TEACHERS FUND FOR RETIREMENT**
**INVESTMENT PERFORMANCE REPORT AS OF MAY 31, 2012**

| | May-12 | | | | | April-12 | | | | | March-12 | | | | | December-11 | | | | | September-11 | | | | | Current Fiscal YTD | | Prior FY11 | | 3 Years Ended 6/30/2011 | | 5 Years Ended 6/30/2011 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Allocation | | Month | | | Allocation | | Month | | | Allocation | | Quarter | | | Allocation | | Quarter | | | Allocation | | Quarter | | | | | | | | | |
| | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Market Value | Actual | Policy | Gross (8) | Net | Gross (7) | Net | Gross (7) | Net | Gross | Net | Gross | Net |
| **Below Investment Grade Fixed Income** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loomis Sayles | 67,185,968 | 4.2% | 4.2% | -1.93% | -1.97% | 68,541,403 | 4.1% | 4.2% | 0.30% | 0.26% | 68,619,051 | 4.1% | 4.2% | 10.06% | 9.94% | 59,568,229 | 3.8% | 4.0% | 2.99% | 2.88% | 72,941,922 | 4.9% | 4.6% | -9.81% | -9.91% | 0.55% | 0.16% | 19.59% | 19.08% | 12.14% | 11.63% | 9.74% | 9.23% |
| Goldman Sachs 2006 Fund (8) | 1,848,365 | 0.1% | 0.1% | -1.01% | -1.01% | 1,936,973 | 0.1% | 0.1% | 0.00% | 0.00% | 1,941,281 | 0.1% | 0.1% | -8.80% | -8.80% | 2,123,144 | 0.1% | 0.1% | -10.81% | -10.81% | 3,058,283 | 0.2% | 0.2% | -1.17% | -1.17% | -20.42% | -20.42% | 29.53% | 29.53% | 8.48% | 5.22% | 6.86% | 3.75% |
| Goldman Sachs Fund V (8) | 4,450,165 | 0.3% | 0.3% | 9.77% | 9.77% | 4,054,265 | 0.2% | 0.2% | -1.25% | -1.25% | 4,333,545 | 0.3% | 0.3% | 7.05% | 7.05% | 4,037,731 | 0.3% | 0.3% | -9.85% | -9.85% | 5,498,856 | 0.4% | 0.4% | 0.04% | 0.04% | 4.65% | 4.65% | 24.39% | 24.39% | 15.29% | 14.41% | N/A | N/A |
| EIG (formerly TCW) | | | | | | | | | | | | | | | | | | | | | 16,389,714 | 1.1% | 1.1% | 0.82% | 0.82% | | | | | | | | |
| PIMCO (8) | 7,106,485 | 0.4% | 0.4% | 0.00% | 0.00% | 7,412,941 | 0.4% | 0.4% | 14.07% | 14.07% | 7,117,422 | 0.4% | 0.4% | -5.87% | -5.87% | 8,826,470 | 0.6% | 0.6% | -3.03% | -3.03% | 10,913,021 | 0.7% | 0.7% | 0.00% | 0.00% | 4.12% | 4.12% | 15.18% | 15.18% | 12.89% | 11.84% | N/A | N/A |
| **Total Below Investment Grade Fixed Income** | **80,590,983** | **5.1%** | **5.0%** | **-1.15%** | **-1.18%** | **81,945,583** | **4.9%** | **5.0%** | **1.41%** | **1.38%** | **82,011,299** | **4.9%** | **5.0%** | **7.55%** | **7.46%** | **74,555,574** | **4.8%** | **5.0%** | **1.02%** | **0.93%** | **108,801,795** | **7.3%** | **7.0%** | **-6.72%** | **-6.79%** | **1.59%** | **1.28%** | **18.22%** | **17.88%** | **8.02%** | **7.23%** | **6.45%** | **5.67%** |
| ***LB High Yield 2% Issuer Constrained Index*** | | | | ***-1.33%*** | ***-1.33%*** | | | | ***1.03%*** | ***1.03%*** | | | | ***5.35%*** | ***5.35%*** | | | | ***6.48%*** | ***6.48%*** | | | | ***-6.10%*** | ***-6.10%*** | ***4.99%*** | ***4.99%*** | ***15.53%*** | ***15.53%*** | ***12.80%*** | ***12.80%*** | ***9.42%*** | ***9.42%*** |
| **International Fixed Income** | **82,937,768** | **5.2%** | **5.0%** | **-2.36%** | **-2.38%** | **80,378,279** | **4.8%** | **5.0%** | **1.68%** | **1.66%** | **79,081,108** | **4.7%** | **5.0%** | **2.26%** | **2.18%** | **77,596,596** | **5.0%** | **5.0%** | **0.39%** | **0.31%** | **84,376,001** | **5.6%** | | | | | | | | | | | |
| ***Benchmark*** | | | | ***-2.33%*** | ***-2.33%*** | | | | ***1.24%*** | ***1.24%*** | | | | ***1.16%*** | ***1.16%*** | | | | ***-0.36%*** | ***-0.36%*** | | | | | | | | | | | | | |
| **Developed Investment Grade Int'l FI** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| UBS Global (Brinson) | 41,641,133 | 2.6% | 2.5% | -1.61% | -1.63% | 37,850,428 | 2.3% | 2.5% | 1.53% | 1.51% | 37,278,661 | 2.2% | 2.5% | 0.86% | 0.80% | 37,096,709 | 2.4% | 2.5% | -0.27% | -0.34% | 37,866,434 | 2.5% | 2.5% | -1.52% | -1.59% | -1.05% | -1.29% | 16.30% | 16.01% | 6.41% | 6.10% | 7.31% | 7.01% |
| ***BC Global Aggregate ex-US (6)*** | | | | ***-2.33%*** | ***-2.33%*** | | | | ***1.24%*** | ***1.24%*** | | | | ***1.16%*** | ***1.16%*** | | | | ***-0.36%*** | ***-0.36%*** | | | | ***-1.05%*** | ***-1.05%*** | ***-1.37%*** | ***-1.37%*** | ***15.39%*** | ***15.39%*** | ***6.69%*** | ***6.69%*** | ***8.06%*** | ***8.06%*** |
| Brandywine | 41,296,635 | 2.6% | 2.5% | -3.02% | -3.05% | 42,527,850 | 2.6% | 2.5% | 1.82% | 1.79% | 41,802,447 | 2.5% | 2.5% | 3.54% | 3.45% | 40,499,887 | 2.6% | 2.5% | 0.93% | 0.84% | 46,509,567 | 3.1% | 2.5% | 2.62% | 2.52% | 5.90% | 5.54% | 15.43% | 15.01% | 9.34% | 8.93% | 9.25% | 8.83% |
| ***BC Global Aggregate (ex-US)*** | | | | ***-1.03%*** | ***-1.03%*** | | | | ***1.18%*** | ***1.18%*** | | | | ***0.87%*** | ***0.87%*** | | | | ***0.23%*** | ***0.23%*** | | | | ***0.97%*** | ***0.97%*** | ***2.24%*** | ***2.24%*** | ***10.51%*** | ***10.51%*** | ***5.61%*** | ***5.61%*** | ***7.33%*** | ***7.33%*** |
| **Total Developed Investment Grade Int'l FI** | **82,937,768** | **5.2%** | **5.0%** | **-2.36%** | **-2.38%** | **80,378,279** | **4.8%** | **5.0%** | **1.68%** | **1.66%** | **79,081,108** | **4.7%** | **5.0%** | **2.26%** | **2.18%** | **77,596,596** | **5.0%** | **5.0%** | **0.39%** | **0.31%** | **84,376,001** | **5.6%** | **5.0%** | **0.72%** | **0.64%** | **2.66%** | **2.36%** | **15.78%** | **15.42%** | **8.20%** | **7.84%** | **8.48%** | **8.11%** |
| ***BC Global Aggregate ex-US*** | | | | ***-2.33%*** | ***-2.33%*** | | | | ***1.24%*** | ***1.24%*** | | | | ***1.16%*** | ***1.16%*** | | | | ***-0.36%*** | ***-0.36%*** | | | | ***-1.05%*** | ***-1.05%*** | ***-1.37%*** | ***-1.37%*** | ***15.39%*** | ***15.39%*** | ***6.69%*** | ***6.69%*** | ***8.06%*** | ***8.06%*** |
| ***GLOBAL REAL ASSETS*** | ***311,747,294*** | ***19.6%*** | ***20.0%*** | ***-0.07%*** | ***-0.08%*** | ***304,646,535*** | ***18.3%*** | ***20.0%*** | ***0.18%*** | ***0.16%*** | ***304,299,978*** | ***18.2%*** | ***20.0%*** | ***1.78%*** | ***1.72%*** | ***297,781,946*** | ***19.0%*** | ***20.0%*** | ***2.87%*** | ***2.79%*** | ***278,733,064*** | ***18.6%*** | | | | | | | | | | | |
| ***Benchmark*** | | | | ***0.41%*** | ***0.41%*** | | | | ***0.54%*** | ***0.54%*** | | | | ***1.85%*** | ***1.85%*** | | | | ***1.43%*** | ***1.43%*** | | | | | | | | | | | | | |
| **Global Real Estate** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| INVESCO - Core | 58,485,691 | | | 0.00% | -0.03% | 59,388,276 | | | 0.00% | -0.03% | 59,388,276 | | | 1.77% | 1.67% | 60,278,266 | | | 3.11% | 3.01% | 72,286,030 | | | 2.12% | 2.02% | 7.15% | 6.78% | 25.88% | 25.42% | -6.74% | -7.25% | 0.28% | -0.23% |
| INVESCO - Fund II (8) | 18,093,495 | | | 0.00% | 0.00% | 18,372,724 | | | 0.42% | 0.42% | 18,296,321 | | | 5.90% | 5.90% | 17,828,694 | | | 14.22% | 14.22% | 19,278,169 | | | 0.00% | 0.00% | 21.47% | 21.47% | 56.89% | 56.89% | -35.49% | -36.71% | N/A | N/A |
| INVESCO - Fund III (9) | 9,414,093 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| INVESCO - Asia Real Estate Fund (8) | 8,819,195 | | | -5.54% | -5.54% | 9,480,406 | | | 10.64% | 10.64% | 8,568,381 | | | 0.00% | 0.00% | 4,822,115 | | | -3.28% | -3.28% | 6,157,603 | | | 0.00% | 0.00% | 1.08% | 1.08% | -8.21% | -8.21% | N/A | N/A | N/A | N/A |
| J.P. Morgan Strategic & Special Funds | 52,509,697 | | | 0.64% | 0.57% | 52,981,204 | | | 0.73% | 0.66% | 52,720,926 | | | 2.95% | 2.74% | 52,968,645 | | | 3.86% | 3.65% | 63,118,219 | | | 3.57% | 3.35% | 12.27% | 11.41% | 20.79% | 19.79% | -8.04% | -9.09% | 0.10% | -1.01% |
| J.P. Morgan Alternative Property Fund | 7,535,973 | | | 0.00% | -0.05% | 7,652,272 | | | -1.96% | -2.01% | 7,810,972 | | | 18.90% | 18.74% | 6,995,702 | | | 2.32% | 2.17% | 8,556,491 | | | 0.00% | -0.14% | 19.27% | 18.65% | 5.26% | 4.66% | -21.12% | -22.77% | -10.22% | -12.46% |
| J.P. Morgan Greater Europe Fund (8) | 0 | | | -100.00% | -100.00% | 12,694 | | | -91.71% | -91.71% | 153,190 | | | 2.02% | 2.02% | 1,808,710 | | | 2052.80% | 2052.80% | 122,037 | | | 5.68% | 5.68% | -100.00% | -100.00% | 594.34% | 594.34% | N/A | N/A | N/A | N/A |
| J.P. Morgan Greater China Property Fund (8) | 10,800,319 | | | 0.00% | 0.00% | 10,966,996 | | | -4.58% | -4.58% | 11,500,394 | | | 2.12% | 2.12% | 11,628,273 | | | 0.00% | 0.00% | 14,370,637 | | | 0.00% | 0.00% | -2.56% | -2.56% | 17.03% | 17.03% | 5.66% | 3.59% | N/A | N/A |
| **Total Global Real Estate** | **165,658,463** | **10.4%** | **10.0%** | **-0.13%** | **-0.16%** | **158,854,572** | **9.5%** | **10.0%** | **0.35%** | **0.31%** | **158,438,461** | **9.5%** | **10.0%** | **3.38%** | **3.26%** | **156,330,406** | **10.0%** | **10.0%** | **5.15%** | **5.03%** | **183,889,188** | **12.3%** | **9.0%** | **2.06%** | **1.94%** | **11.19%** | **10.72%** | **24.11%** | **23.49%** | **-9.47%** | **-10.40%** | **-1.49%** | **-2.46%** |
| ***NCREIF TOTAL INDEX*** | | | | ***0.86%*** | ***0.86%*** | | | | ***0.86%*** | ***0.86%*** | | | | ***2.59%*** | ***2.59%*** | | | | ***2.96%*** | ***2.96%*** | | | | ***3.30%*** | ***3.30%*** | ***10.99%*** | ***10.99%*** | ***16.73%*** | ***16.73%*** | ***-2.57%*** | ***-2.57%*** | ***3.44%*** | ***3.44%*** |
| **Timber** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TIR - Teredo (7) | 34,724,317 | 2.2% | | 0.00% | 0.00% | 34,724,317 | 2.1% | | -0.72% | -0.72% | 34,761,374 | 2.1% | | 1.22% | 1.22% | 34,265,741 | 2.2% | | -0.27% | -0.27% | | | | | | 0.22% | 0.22% | 6.66% | 6.66% | 8.06% | 7.85% | 14.63% | 14.21% |
| TIR - Springbank | 54,254,282 | 3.4% | | 0.00% | 0.00% | 54,254,282 | 3.3% | | -0.18% | -0.18% | 54,025,738 | 3.2% | | -4.65% | -4.65% | 56,542,163 | 3.6% | | -0.80% | -0.80% | | | | | | -5.58% | -5.58% | -1.08% | -1.08% | -5.49% | -5.55% | 4.72% | 4.27% |
| **Total Timber** | **88,978,599** | **5.6%** | **5.0%** | **0.00%** | **0.00%** | **88,978,599** | **5.3%** | **5.0%** | **-0.39%** | **-0.39%** | **88,787,111** | **5.3%** | **5.0%** | **-2.43%** | **-2.43%** | **90,807,904** | **5.8%** | **5.0%** | **-0.60%** | **-0.60%** | | | | | | | | | | | | | |
| ***NCREIF Timberland Index(8)*** | | | | ***0.12%*** | ***0.12%*** | | | | ***0.12%*** | ***0.12%*** | | | | ***0.36%*** | ***0.36%*** | | | | ***0.51%*** | ***0.51%*** | | | | | | ***1.11%*** | ***1.11%*** | ***0.51%*** | ***0.51%*** | ***-2.65%*** | ***0.67%*** | ***4.37%*** | ***6.49%*** |
| **Infrastructure** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JP Morgan (Asian) | 7,984,815 | 0.5% | | 3.81% | 3.81% | 7,691,846 | 0.5% | | 4.21% | 4.21% | 7,471,428 | 0.4% | | -3.03% | -3.03% | 9,086,751 | 0.6% | | -2.46% | -2.46% | | | | | | 2.33% | 2.33% | 2.73% | 2.73% | N/A | N/A | N/A | N/A |
| JP Morgan (IIF) | 41,045,326 | 2.6% | | 0.00% | -0.12% | 41,045,326 | 2.5% | | 0.00% | -0.12% | 41,478,832 | 2.5% | | 2.88% | 2.52% | 35,521,601 | 2.3% | | 1.09% | 0.73% | | | | | | 4.01% | 3.02% | 7.19% | 5.67% | -4.92% | -6.51% | N/A | N/A |
| Credit Suisse | 8,080,091 | 0.5% | | -0.01% | -0.01% | 8,076,192 | 0.5% | | -0.43% | -0.43% | 8,124,145 | 0.5% | | 16.27% | 16.27% | 6,035,284 | 0.4% | | N/A | N/A | | | | | | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Total Infrastructure (8)** | **57,110,232** | **3.6%** | **5.0%** | **0.51%** | **0.43%** | **56,813,364** | **3.4%** | **5.0%** | **0.49%** | **0.40%** | **57,074,406** | **3.4%** | **5.0%** | **3.64%** | **3.38%** | **50,643,636** | **3.2%** | **5.0%** | **-0.73%** | **-1.02%** | | | | | | | | | | | | | |
| ***CPI*** | | | | ***-0.18%*** | ***-0.18%*** | | | | ***0.31%*** | ***0.31%*** | | | | ***1.86%*** | ***1.86%*** | | | | ***-0.68%*** | ***-0.68%*** | | | | | | | | | | | | | |
| **Cash Equivalents** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Northern Trust STIF | 19,109,669 | | | 0.02% | 0.02% | 17,990,043 | | | 0.02% | 0.02% | 12,158,490 | | | 0.01% | 0.01% | 19,477,882 | | | 0.04% | 0.04% | 9,035,342 | | | 0.06% | 0.06% | 0.15% | 0.15% | 0.12% | 0.12% | 0.48% | 0.43% | 1.54% | 1.43% |
| **Total Cash Equivalents** | **19,109,669** | **1.2%** | **1.0%** | **0.02%** | **0.02%** | **17,990,043** | **1.1%** | **1.0%** | **0.02%** | **0.02%** | **12,158,490** | **0.7%** | **1.0%** | **0.01%** | **0.01%** | **19,477,882** | **1.2%** | **1.0%** | **0.04%** | **0.04%** | **9,035,342** | **0.6%** | **1.0%** | **0.06%** | **0.06%** | **0.15%** | **0.15%** | **0.16%** | **0.16%** | **0.51%** | **0.49%** | **0.49%** | **0.44%** |
| ***90 Day T-Bill*** | | | | ***0.01%*** | ***0.01%*** | | | | ***0.00%*** | ***0.00%*** | | | | ***0.01%*** | ***0.01%*** | | | | ***0.00%*** | ***0.00%*** | | | | ***0.02%*** | ***0.02%*** | ***0.05%*** | ***0.05%*** | ***0.17%*** | ***0.17%*** | ***0.44%*** | ***0.44%*** | ***2.01%*** | ***2.01%*** |

**NOTE: Monthly returns and market values are preliminary and subject to change.**
**New asset class structure began October 1, 2011. Composite returns for new composites not available prior to that date.**
**Portfolios moved between asset classes will show historical returns in new position.**

(1) Epoch was included in the Large Cap Domestic Equity composite through 12/31/11.
(2) Prior to January 1, 2012, the benchmark was S&P 500.
(3) This benchmark was changed to the MSCI EAFE (unhedged) as of December 1, 2004.
(4) This benchmark was changed to the MSCI EAFE (unhedged) as of April 1, 2011.
(5) Prior to January 1, 2005, the benchmark was the First Boston Convertible Index.
(6) Prior to December 1, 2009, the benchmark was the Citigroup World Gov't Bond Index ex-US
(7) Prior to June 1, 2006, the Teredo properties were under the management of RMK.
(8) All limited partnership-type investments' returns will only be reported net of fees, which is standard practice by the investment consultant.

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Fay Kopp**

**DATE:** **July 11, 2012**

**SUBJ:** **2013 Legislative Update**

Bill 99 (TFFR Board) and Bill 43 (Rep. Louser) are the only two bills that have been submitted to the Legislative Employee Benefits Programs Committee (LEBPC) for interim study. The bills have been sent to Segal for actuarial and technical analysis. The next LEBPC meeting has not yet been scheduled, but would typically occur in September. The 2012 valuation report will be delivered to the TFFR Board and the LEBPC Committee in October.

For informational purposes, I have also included a couple tables from the 2011 valuation report. While this fiscal year's investment return has not been finalized, it appears that the 2012 return will be about 0.0% to -1.0%. Based on that estimate, actuarial projections indicate TFFR's funded level will continue to decline for the next couple years. Funded levels should begin rising in about 2014 after the increased contributions are phased in, and after the remaining 2008-09 investment losses are incorporated into funding calculations, unless returns in the next few years are also less than expected .

Enclosures

# ND Teachers' Fund for Retirement
# Summary of 2013 Legislative Proposals

## Bill No. 99 - TFFR Administrative Changes

**Sponsor – TFFR Board**

- Updates the definition of actuarial equivalent to more clearly describe its use in pension calculations.
- Defines normal retirement age as the age a member becomes eligible for monthly lifetime unreduced retirement benefits as currently described in state statutes.
- Clarifies vesting provisions for compliance with federal statutes or rules.
- Incorporates other federal tax law changes to maintain compliance with federal statutes or rules.
- Adds savings clause which allows TFFR Board to adopt terminology to comply with federal statutes or rules subject to approval of the legislative employee benefits programs committee.

## Bill No. 43 – Expiration of the Increase in TFFR Contribution Rates

**Sponsor – Rep. Louser**

- Maintains the TFFR member and employer contribution rates approved by the 2011 Legislature until the Fund reaches 100% funded ratio (not 90% as provided in current law) at which time contribution rates would be reduced to 7.75% for member and 7.75% for employer.

# Projected Funded Ratios (AVA Basis)

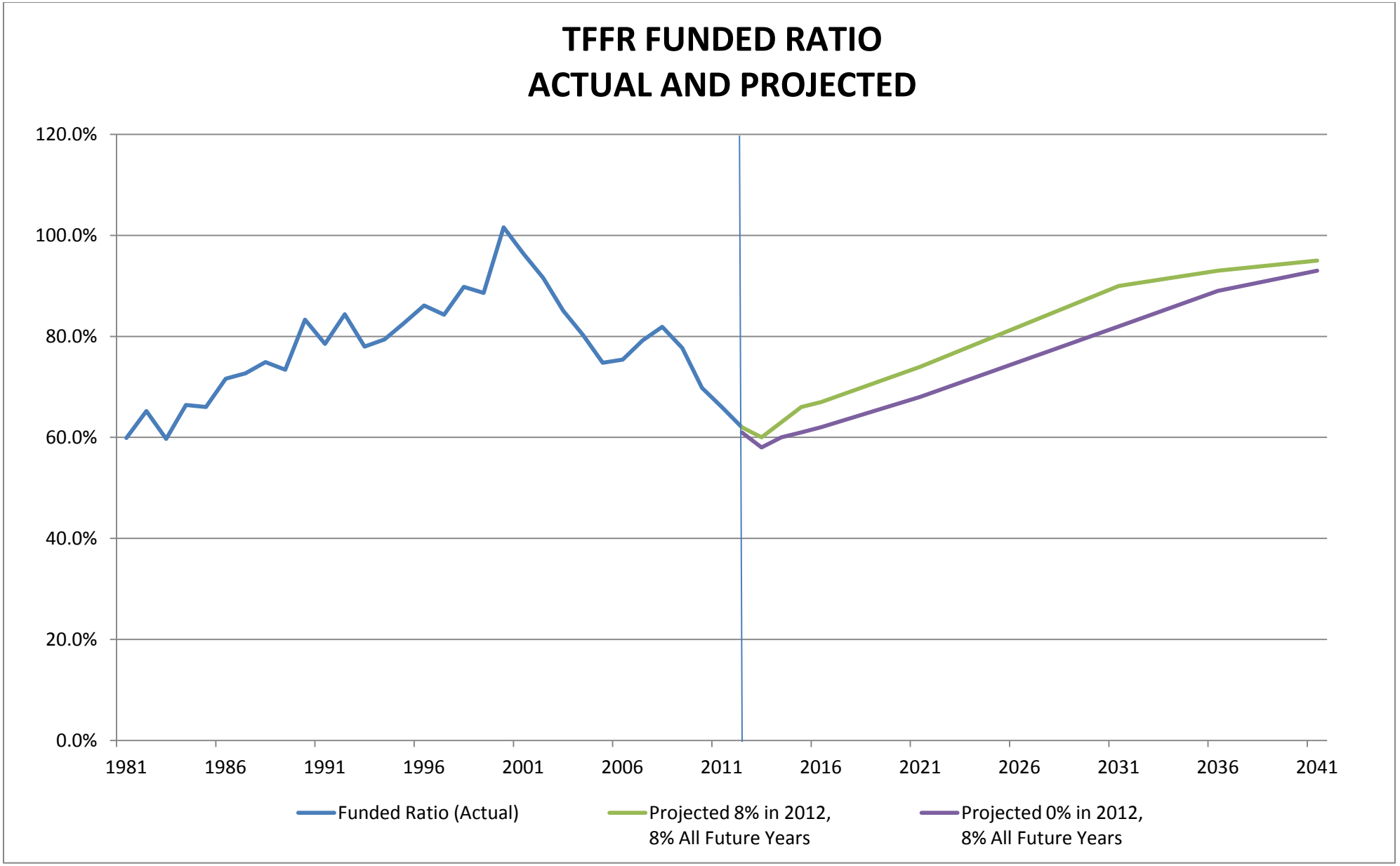
| Valuation Year | 24% for FY2012 | 16% for FY2012 | 8% for FY2012 | 0% for FY2012 | -8% for FY2012 | -16% for FY2012 | -24% for FY2012 |
|---|---|---|---|---|---|---|---|
| 2011 | 66% | 66% | 66% | 66% | 66% | 66% | 66% |
| 2012 | 64% | 63% | 62% | 61% | 60% | 59% | 58% |
| 2013 | 64% | 62% | 60% | 58% | 56% | 54% | 52% |
| 2014 | 70% | 66% | 63% | 60% | 56% | 53% | 50% |
| 2015 | 74% | 70% | 66% | 61% | 57% | 53% | 48% |
| 2016 | 78% | 73% | 67% | 62% | 57% | 51% | 46% |
| 2021 | 87% | 81% | 74% | 68% | 62% | 56% | 49% |
| 2026 | 93% | 90% | 82% | 75% | 67% | 60% | 52% |
| 2031 | 95% | 94% | 90% | 82% | 73% | 64% | 55% |
| 2036 | 99% | 96% | 93% | 89% | 79% | 68% | 58% |
| 2041 | 102% | 100% | 95% | 93% | 85% | 73% | 60% |

# Actuarial Value of Assets ($ in millions)

| | |
|---|---|
| 1. Market Value of Assets as of June 30, 2010 | $1,438 |
| 2. Contributions and Benefits for FYE June 30, 2011 | (45) |
| 3. Expected Return | 113 |
| 4. Expected Market Value of Assets (1) + (2) + (3) | $1,506 |
| 5. Actual Market Value of Assets on June 30, 2011 | **1,726** |
| 6. Excess/(Shortfall) for FYE June 30, 2011 (5) – (4) | 220 |
| **Excess/(Shortfall) Returns**: | |

| Year | Initial Amount | Deferral % | Unrecognized Amount |
|---|---|---|---|
| 2011 | $220 | 80% | $176 |
| 2010 | 74 | 60% | 45 |
| 2009 | (640) | 40% | (256) |
| 2008 | (303) | 20% | (61) |
| 2007 | 210 | 0% | 0 |
| **7. Total** | | | **($96)** |

| | |
|---|---|
| 8. Actuarial Value of Assets as of June 30, 2011 (5) - (7) | **$1,823** |
| 9. Actuarial Value of Assets as a % of Market Value of Assets | 106% |


TFFR FUNDED RATIO
ACTUAL AND PROJECTED
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
1981
1986
1991
1996
2001
2006
2011
2016
2021
2026
2031
2036
2041
Funded Ratio (Actual)
Projected 8% in 2012, 8% All Future Years
Projected 0% in 2012, 8% All Future Years

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Shelly Schumacher**

**DATE:** **July 18, 2012**

**SUBJ:** **2011 Legislative Implementation Update**

Since your last update in March 2012, TFFR staff continues to make progress on implementing the 2011 legislative changes. We are on schedule to complete the implementation prior to the effective dates of the changes noted below.

| | | |
|---|---|---|
| HB 1133 | Administrative changes | 08-01-11 |
| HB 1134 | Contribution increases | 07-01-12 |
| | Benefit changes | 07-01-13 |
| | Contribution increases | 07-01-14 |

**Communications**

- TFFR Newsletters
  Employer Newsletter (quarterly)
  Active Member Newsletter (semi-annual)
  Retired Member Newsletter (semi-annual)

- Annual Statement (non-retired)
  Removed benefit projections from the annual statements and included letter outlining impact of legislation in August 2011, 2012 and 2013. The August 2013 annual statement will show the member's new Tier (Tier 1 Grandfathered, Tier 1 Non-grandfathered, or Tier 2). The August 2014 annual statements will again show benefit projections based on the new Tier.

- RIO – TFFR website
  Post presentations, legislative information, publications, etc.

- Interest Group Conferences
  NDSBMA Spring Workshops
  NDRTA Annual Conference
  NDEA Annual Conference
  NDCEL Annual Conference
  NDSBA Annual Conference
  Other Meetings and Conferences by Request

- TFFR Preretirement Seminars

- TFFR Benefits Counseling Sessions

**Publications and Forms**

Updated Employer Guide, Member Handbook, brochures
Updated all member and employer forms and form letters

**System programming modifications**

HB 1133 – system programming complete

HB 1134 –

- Phase 1 - contribution increases
  Employer reporting / retiree re-employment / employer payment plan model changes / purchase of service

  Build 1: Contribution increases to employer reporting and change to tax methodology for partial employer payment models programmed and tested – in production

  Build 2: Changes to retiree re-employment – in production

  Build 3: Update to purchase of service cost calculation programmed and tested – in production

CPAS cost for Phase 1 of HB1134 - $59,910

- Phase 2 - benefit changes (estimated completion date – April 2013)
  Grandfathering determination / retirement calculation / disability calculation / purchase of service

  Build 1: Grandfathering calculation – CPAS has delivered change and TFFR staff is testing

  Build 2 – Changes to retirement eligibility, early retirement reduction factor, and disability eligibility and benefit calculation

  Build 3 – Changes to Year End calculation used to create valuation files and annual statements

  Build 4 – Update purchase of service cost calculation

  TFFR staff plans to modify all of the reports, statements, and letters that are impacted by the legislative changes.

CPAS estimated cost for Phase 2 of HB1134 - $102,080

*Additional funds not budgeted for implementation, so possible budget issue.

**Administrative rules** – Completed and effective 7/1/12.

**Employer issues** – All employers were notified about the Employer Reporting changes effective 7/1/12. Employer responsibilities are as follows:

1) Employers and members decide through negotiations who is going to pay the increased member contribution.
2) Employers incorporate new member and employer contribution rates into payroll systems.
3) Employers incorporate payment of member contributions on re-employed retirees into payroll systems.
4) Model 2 partial and Model 3 partial employers update payroll software to reflect change in tax status of member contributions.
5) All employers must submit new employer payment plan form indicating how payment of member contributions will be made.

Once TFFR receives the July 2012 employer reports due August 15, staff will be able to determine if the employers are correctly reporting Items 1-4 to TFFR.

Regarding Item 5, 217 of the 219 July 2012 employer payment plan forms have been received by TFFR. The following summarizes the model changes that resulted from the increase in contributions and employer/member negotiations:

| **Models FY2012 222 Employers** | | **Models FY2013 219 Employers** | | **Net Change*** |
|---|---|---|---|---|
| Model 1 | 97 | Model 1 | 91 | - 6 |
| Model 2A | 93 | Model 2A | 83 | - 10 |
| Model 2P | 11 | Model 2P | 25 | +14 |
| Model 3 | 6 | Model 3 | 5 | - 1 |
| Model 4 | 5 | Model 4 | 5 | 0 |
| No Model | 9 | No Model | 7 | - 2 |
| Other | 1 | Other | 1 | 0 |
| | | No Form | 2 | |

*Net change is outcome of 25 employers changing models and/or the pickup amount and the loss of 3 employers for 2012-13. Employers that were picking up the 7.75% and are not picking up the additional 2% totaled 12.

No Model: Member/employee contribution is paid by employee and remitted by employer as taxed dollars.

Model 1: Member/employee contribution is paid by employee through a salary reduction and remitted by employer as tax deferred dollars.

Model 2 All: Member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars.

Model 2 Partial % and Model 3 Partial $: A portion of the member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars. The remaining employee contribution is paid by employee and remitted by employer as tax deferred dollars.

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Fay Kopp**

**DATE:** **July 11, 2012**

**SUBJ:** **Annual TFFR Program Review**

Because the Board is responsible for administering the retirement program, periodic review of the Board's mission, goals, policies, and by-laws is important in order to fulfill your fiduciary responsibilities.

Board responsibilities include:

1. Establish and monitor policies for the administration of the TFFR program.
2. Establish and monitor investment policy, goals, objectives, and asset allocation.
3. Hire and monitor actuarial and medical consultants; establish and monitor actuarial assumptions and methods; and ensure periodic actuarial valuations, experience studies, asset liability modeling studies, and actuarial audits are conducted.
4. Pay benefits and consultant fees.
5. Submit legislation and monitor the statutory responsibilities of the TFFR program.
6. Determine appropriate levels of service to members and employers.
7. Communicate and monitor TFFR program expectations to the SIB which are to be provided through RIO.
8. Promulgate administrative rules as needed.

*Note: Because many Board members are no longer receiving the TFFR Program Manual in hard copy and have chosen instead to access it via the RIO Reference Library link (* **www.nd.gov/rio/rio_ref/** **),** *you may not have a written copy on hand. Therefore, we have included hard copies in Tab 9 for you to use at the meeting. Please update your TFFR Program Manual using these copies, or bring your manual and we will return an updated version to you at the next meeting.*

# TFFR BOARD ACCOMPLISHMENTS 2011-12

- ✓ Established and managed annual board calendar and education plan.
- ✓ Conducted annual election of officers and TFFR program review including mission, goals, policies, and by-laws.
- ✓ Approved annual TFFR member and employer customer satisfaction reports, TFFR ends and statistics report, TFFR internal audit activities report, RIO budget and expense report, RIO technology review, and other program and statistical reports.
- ✓ Analyzed TFFR Retirement Trends and Statistics.
- ✓ Reviewed 2010 Public Fund Survey comparing NDTFFR to other statewide public pension plans.
- ✓ Received annual investment review of asset allocation, fund performance, investment expenses, investment guidelines, and goals and objectives.
- ✓ Completed Asset Liability Study with Callan Associates and CIO. Developed new framework for defining and structuring asset class categories and considering SIB implementation issues.
- ✓ Approved new investment policy statement incorporating revised asset class structure and investment goals.
- ✓ Monitored 2011 legislative implementation activities.
- ✓ Updated service purchase cost calculation to reflect 2011 legislative changes.
- ✓ Promulgated administrative rules to implement 2011 legislative changes.

- ✓ Updated employer payment plan models and amended methodology used for tax treatment of member contributions.

- ✓ Transitioned actuarial consulting services from prior actuary to Segal. Validated and audited actuarial methods and 2010 valuation results.

- ✓ Received results of 2011 actuarial valuation.

- ✓ Studied eligible salary definition. Defined bonuses and other special payments. Established criteria for making eligible salary determinations.

- ✓ Studied whether additional plan changes are needed.

- ✓ Submitted one bill for study by the Legislative Employee Benefits Programs Committee which contains administrative and IRS compliance updates.

- ✓ Monitored, testified, and provided information on all TFFR related bills during 2012 interim.

- ✓ Received favorable IRS determination letter on TFFR plan.

- ✓ Amended board policies relating to investment and funding goals (B-2); investment policy statement (B-5); board meetings (C-3); code of conduct (C-4); employer payment plan models (C-7); Payment of benefits (C-16); bylaws - meetings (D-4). Rescinded policies on actuarial margin (C-1); employer payment plan model for state institutions (C-8); TIAA-CREF offset calculation (C-19).

- ✓ Received periodic updates on national pension issues and federal legislation relating to public pension plans (Segal).

- ✓ Received board education on proposed changes to GASB accounting and financial reporting standards for sponsors of state and local defined benefit pension plans (Segal).

- ✓ Received board education on defined contribution and hybrid plans (Segal).

- ✓ Received 2011 Public Pension Standards Award for Funding and Administration from PPCC.

- ✓ Received 2011 Certificate of Achievement for Excellence in Financial Reporting from GFOA.

- ✓ Approved 8 disability applications; 2 QDRO applications; and made 2 eligible salary determinations.

- ✓ Monitored RIO operations, Executive Director/CIO replacement, and other agency transition and organizational issues.

- ✓ 2011-12 TFFR board and administrator education and conference attendance:

| | | |
|---|---|---|
| Clarence Corneil | -- | |
| Kim Franz | NCTR Trustee Workshop | 08/11 |
| Mike Gessner | Callan Conference | 01/12 |
| Lowell Latimer | -- | |
| Wayne Sanstead | NCTR Conference | 10/11 |
| Kelly Schmidt | -- | |
| Bob Toso | -- | |
| Fay Kopp | -- | |

# TFFR Program Monitoring Summary

**2011-12**

| Ends Policy | Responsibility | Action | Scheduled | Completed |
|---|---|---|---|---|
| | | | | |
| **Mission** | TFFR Board | Annual Review | July | 7-28-11 |
| | | | | |
| **Goals** | TFFR Board | Annual Review | July | 7-28-11 |
| | | | | |
| **Plan Beneficiaries** | TFFR Board | Annual Review | July | 7-28-11 |
| | | | | |
| Membership Data | TFFR Board | Annual Review | July | 7-28-11 |
| | Internal Audit | Annual Report | November | 10-27-11 |
| | External Audit | Eide Bailly/Audit Committee | November | 11-18-11 |
| | Retirement Officer | * Staff Presentations | Ongoing | |
| | | | | |
| Investments | TFFR Board/SIB | Monthly Report | Ongoing | J,S.O,J,M,J |
| | Investment Director | Annual Report | September | 9-22-11 |
| | | | | |
| Retirement Services | TFFR Board | Annual Review | July | 7-28-11 |
| | Internal Audit | Annual Report | November | 10-27-11 |
| | External Audit | Eide Bailly/Audit Committee | November | 11-18-11 |
| | Interest Groups | Annual Report | July | 7-28-11 |
| | Retirement Officer | *Staff Presentations | Ongoing | |
| | | | | |
| Account Claims | TFFR Board | Annual Review | July | 7-28-11 |
| | Internal Audit | Annual Report | November | 10-27-11 |
| | External Audit | Eide Bailly/Audit Committee | November | 11-18-11 |
| | Retirement Officer | *Staff Presentations | Ongoing | |
| | | | | |
| Trust Fund Valuation | TFFR Board | Annual Review | July | 7-28-11 |
| | Segal | Annual Valuation | October | 10-27-11 |
| | Internal Audit | Annual Report | November | 10-27-11 |
| | External Audit | Eide Bailly/Audit Committee | November | 11-18-11 |
| | Retirement Officer | *Staff Presentations | Ongoing | |
| | | | | |
| **Program Policies** | TFFR Board | Annual Review | July | 7-28-11, 9-23-11, |
| | | | | 11-18-11 |
| * Ongoing RIO Staff Presentations include: | | | | |
| | TFFR Accomplishments | Retirement Officer | July | 7-28-11 |
| | Customer Satisfaction | Retirement Officer | July | 7-28-11 |
| | RIO Budget Summary | Fiscal Management | September | 9-22-11 |
| | TFFR Ends & Statistics | Retirement Services | October | 10-27-11 |
| | Retirement Trends | Retirement Services | January | 1-26-12 |
| | Pension Plan Comparisons | Retirement Officer | January | 1-26-12 |
| | Technology Review | Information Tech | March | 3-15-12 |

# Teachers' Fund for Retirement Board

# Program Manual


**North Dakota**
**Retirement and Investment Office**

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C. Program Policies

D. By-Laws

E. Administrative Code

F. Century Code

# A. Introduction

The Retirement and Investment Office (RIO) has been established under the laws of the state of North Dakota. The governing body of the office is the State Investment Board (SIB) which has the authority to establish an office and retain appropriate staff to administer the retirement and investment programs.

As the administrative agency, RIO is charged with providing and coordinating the administrative activities of the SIB and Teachers' Fund for Retirement (TFFR) Board. The Executive Director - Chief Investment Officer, employed by the SIB, is responsible for RIO operations and administering the investment program. The Deputy Executive Director - Retirement Officer is responsible for assisting the Executive Director and administering the retirement program of the TFFR Board.

The policy administration of the retirement program is the responsibility of the TFFR Board. Authority for that responsibility is contained in state law. Members of the TFFR Board serve on the SIB on behalf of the TFFR membership.

This manual contains state statutes, administrative code, and other materials that will be a resource to the TFFR board members in policy administration of the retirement program.

# TFFR Board

## 2011 - 2012 Assignments

**Officers of the board**

- President Mike Gessner
- Vice President Lowell Latimer

**Board members serving on the SIB**

- Mike Gessner
- Robert Toso
- Clarence Corneil
- State Treasurer Schmidt (ex-officio)

**SIB Audit Committee**

- Mike Gessner

**SIB alternate**

- Superintendent Sanstead

# TFFR Board Members
**2012-13**

## Active Members

Robert B Toso
Superintendent
Jamestown Public School
PO Box 269
Jamestown ND 58401-0269
(w) 701-252-1950
Robert.toso@sendit.nodak.edu
Fax: 701-251-2011
(h) 305 20th Ave NE
Jamestown ND 58401-3941
(h) 701-252-5027 (c) 701-320-9363
Term expires: 06/30/2015

Kim Franz
4604 Lewis Rd NW
Mandan ND 58554-1375
(w) 701-663-7514 (h) 701-751-1814
(c) 701-527-1200
Kim.Franz@msd1.org
Term expires: 06/30/2014

Michael Gessner
4871 46th Ave NE
Minot ND 58703-4912
(w) 701-857-4547 (h) 701-838-8533
Michael.Gessner@sendit.nodak.edu
Term expires: 06/30/2016

## Legal Counsel

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Attorney General's Office
600 E Boulevard Ave Dept 125
Bismarck ND 58505-0602
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jmurtha@nd.gov

## Retired Members

Clarence Corneil
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Dickinson ND 58601-2455
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(c) 701-290-4588 or 701-590-1419
(winter)
3710 S Goldfield Rd Lot 776
Apache Junction AZ 85119-6632
Phone: 480-671-2776
Term expires: 06/30/2017

Lowell Latimer
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(c) 701-441-0121
lowell.latimer@minot.k12.nd.us
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Term expires: 06/30/2013

## State Officials

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State Superintendent
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Term expires: 12/31/2012

Kelly Schmidt
State Treasurer
State of North Dakota
600 East Boulevard
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# Interest Groups

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Jon Martinson
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Ken Tupa
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ND Retired Teachers Association
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Gloria Lokken
NDEA-Retired
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Minot ND 58703-8878
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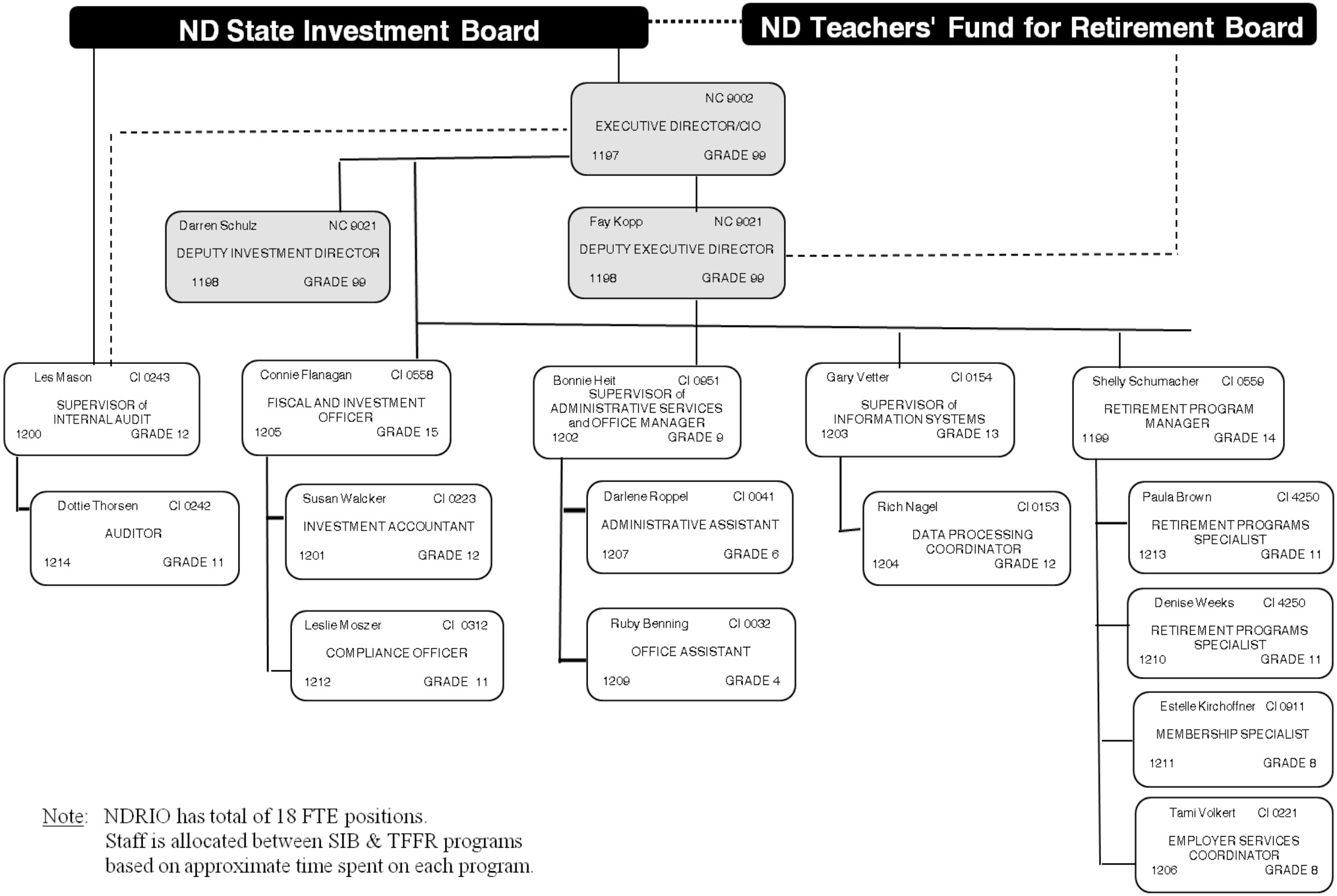
# ND Retirement and Investment Office (RIO)
# Agency Organizational Chart




Note: NDRIO has total of 18 FTE positions.
Staff is allocated between SIB & TFFR programs
based on approximate time spent on each program.

# TFFR Board Calendar and Education Plan 2012-13

**JULY 18, 2012 – 8:30 am**
Election of officers
TFFR Board Accomplishments
Annual TFFR Program Review
Annual Customer Satisfaction Reports
Legislative update
Funding policy – Segal
Board Education:
  Impact of Oil on ND Schools

**SEPTEMBER 27, 2012 – 1 pm**

Annual TFFR investment review
Annual RIO budget and expense report
Legislative update
Board Education

**OCTOBER 25, 2012 – 1 pm**
2012 actuarial valuation report – Segal
Funding Policy - Segal
GASB changes - Segal
Annual TFFR program audit report
Annual TFFR Ends and Statistics
Legislative update

**JANUARY 24, 2013 – 1 pm**
2013 Legislative update
Annual pension plan comparisons
– 2012 Public Pension Survey
Annual Retirement Trends Report
Board Education

**FEBRUARY 21, 2013 – 1 pm**
2013 Legislative update
Board Education

**MARCH 21, 2013 – 1 pm**
2013 Legislative update
Annual Technology Review
Actuarial Contract
Board education

**APRIL 25, 2013 – 1 pm**
2013 Legislative Update
Board Education

**MAY 16, 2013 – 1 pm**
2013 Legislative Update
2013-14 board calendar and work plan
IRS Determination letter
Board education

07/02/12

# ND Retirement and Investment Office

*Teachers' Fund for Retirement*
*State Investment Board*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

## 2012-13 Board Meetings for the Teachers' Fund for Retirement Board State Investment Board

**July- 2012**
18th Teachers' Fund for Retirement Board, State Capitol Peace Garden Room 8:30a.m.
27th State Investment Board, Workforce Safety & Insurance 8:30 a.m.

**August- 2012**
24th State Investment Board, State Capitol Peace Garden Room, 8:30a.m.

**September- 2012**
27th Teachers' Fund for Retirement Board, State Capitol Peace Garden Room, 1:00 p.m.
28th State Investment Board, State Capitol Peace Garden Room, 8:30a.m.
State Investment Board Audit Committee, State Capitol Peace Garden Room, 1:00 p.m.

**October- 2012**
25th Teachers' Fund for Retirement Board, State Capitol Peace Garden Room, 1:00 p.m.
26th State Investment Board, State Capitol Peace Garden Room, 8:30a.m.

**November- 2012**
16th State Investment Board, State Capitol Peace Garden Room, 8:30a.m.
16th State Investment Board Audit Committee, State Capitol Peace Garden Room, 1:00 p.m.

**January- 2013**
24th Teachers' Fund for Retirement Board, Workforce Safety & Insurance, 1:00 p.m.
25th State Investment Board, Workforce Safety & Insurance 8:30 a.m.

**February - 2013**
21st Teachers' Fund for Retirement Board, Workforce Safety & Insurance, 1:00 p.m.
22nd State Investment Board, Workforce Safety & Insurance, 8:30a.m.
22nd State Investment Board Audit Committee, Workforce Safety & Insurance, 1:00 p.m.

**March- 2013**
21st Teachers' Fund for Retirement Board, Workforce Safety & Insurance, 1:00 p.m.
22nd State Investment Board, Workforce Safety & Insurance, 8:30 a.m.

**April- 2013**
25th Teachers' Fund for Retirement Board, Workforce Safety & Insurance, 1:00 p.m.
26th State Investment Board, Workforce Safety & Insurance, 8:30 a.m.

**May- 2013**
16th Teachers' Fund for Retirement Board, State Capitol Peace Garden Room, 1:00 p.m.
17th State Investment Board, State Capitol Peace Garden Room, 8:30a.m.
17th State Investment Board Audit Committee, State Capitol Peace Garden Room, 1:00 p.m.

**June- 2013**
28th State Investment Board, State Capitol Peace Garden Room, 8:30 a.m.

# Fiduciary Standards

# for Pension Plan Trustees

1. Trustees must perform in the interest of plan participants and beneficiaries.

2. Trustees must provide benefits to plan participants and beneficiaries and maintain reasonable administrative expenses.

3. Trustees must act in a prudent manner.

4. Trustees must diversify investments to minimize risk.

If not met, could result in suit and/or loss of tax privilege.

# B. Program Ends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| Mission …….. | B-1 |
| Goals …….. | B-2 |
| Plan Beneficiaries ……. | B-3 |
| Membership Data and Contributions …… | B-4 |
| Investment Policy Statement …….. | B-5 |
| Member Services ……. | B-6 |
| Account Claims …….. | B-7 |
| Trust Fund Evaluation/Monitoring …….. | B-8 |

**Exhibits**

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| Plan Characteristics …… | B-I |
| TFFR Responsibilities …….. | B-II |
| SIB Responsibilities ……. | B-III |

**Policy Type**: TFFR Ends

**Policy Title**: Mission

The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

**TFFR Board Adopted:** May 25, 1995.

**Policy Type**: TFFR Ends

**Policy Title**: Goals

**Investment and Funding Goals:**

1. Improve the Plan's funding status to protect and sustain current and future benefits.

2. Minimize the employee and employer contributions needed to fund the Plan over the long term.

3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.

4. Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefits.

**Service Goals:**

1. Administer accurate, prompt, and efficient pension benefits program.

2. Deliver high quality, friendly service to members and employers.

3. Provide educational outreach programs including pre-retirement seminars and individual benefits counseling sessions.

**TFFR Board Adopted:** May 25, 1995.
**Amended:** August 29, 1996; March 6, 1998; September 23, 1999; January 25, 2001, September 21, 2006, March 15, 2012.

**Policy Type**: TFFR Ends

**Policy Title**: Plan Beneficiaries

TFFR beneficiaries are:

1. **Plan Members:**

   a. Active – all persons who are licensed to teach in North Dakota and who are contractually employed in teaching, supervisory, administrative, or extracurricular services:

      - Classroom teachers
      - Superintendents, assistant superintendents, county superintendents
      - Business managers
      - Principals and assistant principals
      - Special teachers
      - Superintendent of Public Instruction, professional employees of Dept. of Public Instruction and Dept. of Career and Technical Education, unless transferred to North Dakota Public Employees Retirement System (NDPERS)
      - Professional or teaching staff of Center for Distance Education, Youth Correctional Center, School for the Blind and School for the Deaf.
      - Other persons or positions authorized in state statutes

   b. Annuitants – All persons who are collecting a monthly benefit:

      - Retirees
      - Disabilitants
      - Survivors/Beneficiaries

   c. Inactive members:

      - Vested
      - Nonvested

2. **Employers:**

   a. School districts, special education units, vocational centers, County superintendents, Regional Education Associations (REA)

   b. State institutions and agencies defined in state statutes

   c. Other TFFR participating employers

**TFFR Board Adopted:** May 25, 1995.
**Amended:** July 27, 2000; July 24, 2003, September 20, 2007.

**Policy Type**: TFFR Ends

**Policy Title**: Membership Data and Contributions

Ensure the security and accuracy of the members' permanent records and the collection of member and employer contributions from every governmental body employing a teacher.

Accordingly, the administrative means will be to:

1. Retain member documents applicable to the retirement program.

2. Safeguard TFFR database files.

3. Protect the confidential information contained in member files.

4. Collect the member and employer contributions from the employers based on retirement salary earned by the member.

5. Monitor the employer reporting process including the timely filing of information, consistency of month-to-month data, and changes in the employer payment of member assessments.

6. Review the individual member data, salary, and service credit for accuracy.

7. Post and validate the data received from the employer to the individual accounts.

8. Mail annual statements to every member.

9. Summarize the teacher data reported and notify the employers of the year-to-date information.

10. Ensure that individuals employed as "teachers" in North Dakota school districts, political subdivisions, and state institutions are reported to TFFR in compliance with the North Dakota Century Code (NDCC).

11. Provide publications and reporting instructions to employers on TFFR.

12. Transfer member and employer contributions to the investment program in a timely manner.

**Policy Type**: TFFR Ends

**Policy Title**: Membership Data and Contributions

**Monitoring** (Method, Responsibility, Frequency)

1. Internal Report

   a. Disclosure of compliance to the board from RIO's internal auditors. The Internal Audit (IA) program is designed to review the districts on a five-year cycle.

   b. Compliance for individual accounts is monitored through internal audits of staff compliance with state laws, rules, board policy, and procedures.

2. External Report

   a. Disclosure of compliance to the board by RIO's external auditors as a part of the annual audit.

   b. Disclosure of compliance to members through annual statements.

**TFFR Board Adopted:** May 25, 1995.
**Amended:** July 18, 2002, September 20, 2007.

## 1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five active and retired members of the fund appointed by the Governor of North Dakota and two elected officials - the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit public pension plan that provides retirement, disability, and death benefits in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of service X 2.0% X Final Average Salary. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions scheduled to increase as follows:

| | 7/1/11 | 7/1/12 | 7/1/14 |
|---|---|---|---|
| Employee | 7.75% | 9.75% | 11.75% |
| Employer | 8.75% | 10.75% | 12.75% |

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches 90% funded level on an actuarial value basis.

The TFFR Board has an actuarial valuation performed annually and an Experience Study and Asset Liability Study performed every five years. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment office (RIO).

## 2. FUND GOALS

The Plan benefits are financed through both statutory employer and employee contributions and the investment earnings on assets held in the Fund. The TFFR Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term

- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State/School District's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places a greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important state/local projects.

## 3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

## 4. RISK TOLERANCE

The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the State/School Districts ability to continue to provide pension benefits to plan participants. Thus, the Board actively seeks to lower the cost of funding the Plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the Board believes that such an approach, prudently implemented, best serves the long-run interests of the State/School District and, therefore, of plan participants.

## 5. INVESTMENT OBJECTIVES

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB

1) The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2) The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.

3) The risk adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

## 6. POLICY ASSET MIX

Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Fund.

| Asset Class | Policy Target (%) | Rebalancing Range (%) |
|---|---|---|
| Global Equity | 57 | 46-65 |
| Domestic Equity | 31 | 26-36 |
| Large | 24 | 20-28 |
| Small | 7 | 4-10 |
| International Equity | 21 | 16-26 |
| Developed | 17 | 12-22 |
| Emerging | 4 | 2-6 |
| Private Equity | 5 | 4-8 |
| Global Fixed Income | 22 | 16-28 |
| Domestic Fixed | 17 | 13-21 |
| Investment Grade | 12 | 10-18 |
| Non-Investment Grade | 5 | 3-7 |
| International Fixed | 5 | 3-7 |
| Developed | 5 | 3-7 |
| Emerging | | 0-3 |
| Global Real Assets | 20 | 12-28 |
| Global Real Estate | 10 | 5-15 |
| Other | 10 | 0-15 |
| Infrastructure | | 0-10 |
| Timber | | 0-7 |
| Commodities | | 0-5 |
| Inflation Linked-Bonds | | 0-10 |
| Other Inflation Sensitive Strategies | | 0-5 |
| Global Alternatives | | 0-10 |
| Cash | 1 | 0-2 |

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Board does not intend to engage in tactical asset allocation. Allocations to Global Alternatives will result in pro-rata reduction in the policy targets.

## 7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
c. No transaction shall be made which threatens the tax exempt status of the Fund.
d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
e. No unhedged short sales or speculative margin purchases shall be made.

f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

1) The cost does not exceed the fair market value at the time of investment.

2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar task

3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## 8. INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## 9. EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

1) A list of the advisory services managing investments for the board.
2) A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.

3) Earnings, percentage earned, and change in market value of each fund's investments.
4) Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.
5) All material legal or legislative proceedings affecting the SIB.
6) Compliance with this investment policy statement.

**TFFR Board Adopted:** May 25, 1995.
**Amended:** November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006; September 20, 2007; October 27, 2011.

**Approved by SIB:** November 18, 2011

**Policy Type:** TFFR Ends

**Policy Title:** Member Services

Provide direct services and public information to members of TFFR.

Accordingly, the administrative means will be to:

1. Enroll, update, maintain, and certify all member accounts.

2. Respond to member inquiries on the retirement program.

3. Provide statewide benefits counseling services to members through one-on-one sessions.

4. Make group presentations and distribute information at conferences and conventions throughout the state.

5. Coordinate and conduct preretirement and financial planning programs for members on a statewide basis.

6. Certify eligibility for TFFR benefits and purchase of service credit.

7. Calculate and process claims for refund, retirement, disability, survivor, and Qualified Domestic Relations Order (QDRO) benefits, as well as claims for purchasing credit.

8. Permit members to change designated beneficiaries in the event of life occurrences identified in the administrative rules.

9. Close retirement accounts of deceased teachers.

10. Develop and distribute information to the members on the retirement program and related topics through newsletters, annual reports, member handbooks, brochures, and retirement planning guides/workbooks.

11. Maintain a website for TFFR information to provide members with a greater variety of access methods.

**Policy Type:** TFFR Ends

**Policy Title:** Member Services

**Monitoring** (Method, Responsibility, Frequency)

1. Internal Report

    a. Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.

    b. Periodic presentations by staff at board meetings.

2. External Report

    a. Receive annual reports from leadership of groups representing the plan's beneficiaries.

    b. RIO's annual audit by independent auditor.

    c. Written and oral communication with board members from teachers regarding payment and processing of benefit claims.

**TFFR Board Adopted:** May 25, 1995.
**Amended:** July 27, 2000; July 24, 2003, September 20, 2007.

**Policy Type**: TFFR Ends

**Policy Title**: Account Claims

Ensure the payment of claims to members of TFFR.

Accordingly, the administrative means will be to:

1. Pay retirement benefits based on a presumed final salary for members retiring upon completion of their teaching contract and whose final salary has not been reported to TFFR.

2. Allow teachers receiving an annuity from TFFR to have payroll deductions subtracted from their monthly benefit, including, but not limited to: health, life, and other insurance premiums payable to NDPERS, North Dakota Retired Teachers Association (NDRTA) dues, North Dakota Education Association (NDEA) Retired dues, and federal and North Dakota income tax withholdings.

3. Distribute payments for benefit claims (annuities, PLSOs, refunds, and rollovers) once per month. Distributions including payments made by Electronic Funds Transfer (EFT) will be mailed on the last working day of the previous month payable on the first working day of each month.

4. Distribute special payments for benefit claims in the event of unforeseen circumstances (i.e. death, QDRO, Court Order).

5. Send new account notices and account change notices to retired members.

**Monitoring** (Method, Responsibility, Frequency)

- Internal Report
  - Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
  - Periodic presentations by staff at board meetings.
- External Report
  - Disclosure of compliance to the board through annual audit by RIO auditors.

**TFFR Board Adopted:** May 25, 1995.
**Amended:** July 27, 2000; July 24, 2003.

**Policy Type:** TFFR Ends

**Policy Title:** Trust Fund Evaluation/Monitoring

Ensure actuarial consulting and accounting services are provided to the retirement program. The TFFR Board of Trustees will select the independent actuary for consulting and actuarial purposes and direct a contract be executed by the Deputy Executive Director.

Accordingly, the administrative means will be to:

1. Have an annual actuarial valuation (July 1 to June 30) performed on the retirement program. The valuation must be performed by an independent actuary who is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems. The valuation must be prepared in accordance with principles of practice prescribed by the Actuarial Standards Board. The calculations must be performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the system.

2. Have an actuarial review or audit of TFFR's actuarial valuation performed at least every five years by an independent actuary. The review should include an evaluation by an independent actuary, other than the one who performs the plan's actuarial valuation, for the purposes of expressing an opinion on the reasonableness or accuracy of the actuarial assumptions, actuarial cost methods, valuation results, contribution rates and certifications as described above.

3. Have an actuarial experience study performed on TFFR every five years. The experience study should include a review of demographic and economic assumptions and compare to actual experience. The study should analyze plan experience relating to assumed rates of mortality, disability, retirement, employment turnover, investment returns and other cost factors.

4. Have an asset liability study performed on TFFR every five years. The study should identify the optimal distribution of funds among the various asset classes that offers the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk. Projected changes in active and retired membership should also be considered.

5. Prepare financial statements in accordance with generally accepted accounting principles for defined benefit public pension plans.

6. Have a financial audit conducted annually in accordance with generally accepted auditing standards (as established by the AICPA) by an independent auditor.

7. Receive an unqualified opinion by the independent auditor regarding the audited financial statements.

8. Perform internal audits on the retirement program which provide the board with reasonable assurance that TFFR is being administered in compliance with federal and state laws, administrative rules, board policy, and established procedures.

**Monitoring** (Method, Responsibility, Frequency)

1. Internal Report

   - Disclosure of compliance to the Board through periodic presentations by staff at board meetings.

2. External Report

   - Disclosure of compliance to the Board through annual audit and actuarial reports.

**TFFR Board Adopted:** May 25, 1995.
**Amended**: July 27, 2000, September 23, 2010

**Exhibit B-I**

## Plan Characteristics

The Teachers' Fund for Retirement (TFFR) was established in 1913 to provide retirement income to public educators. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code (IRC). The NDCC Chapter 15-39.1 contains the actual language governing the Fund and is supplemented by Title 82 of the North Dakota Administrative Code (NDAC).

The responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members.

The TFFR benefits program is administered through the Retirement and Investment Office (RIO) according to this Statement of Retirement Policy.

TFFR's funds are invested under the direction of the State Investment Board (SIB) following the "Prudent Investor Rule." The investments must be invested exclusively for the benefit of the TFFR members. Four of the TFFR Board members serve as voting members on the 11-member SIB.

**TFFR Board Adopted:** May 25, 1995.
**Amended:** July 1, 1997, September 23, 2010.

**Exhibit B-II**

**Teachers' Fund for Retirement Responsibilities**

1. Establish policies for the administration of the TFFR programs.

2. Submit legislation, monitor the statutory responsibilities of the TFFR programs as outlined in the NDCC, and promulgate Administrative Rules.

3. Establish and monitor actuarial assumptions used to value the retirement plan and to conduct periodic valuations.

4. Establish and monitor retirement benefit and service program goals.

5. Establish and monitor policy for investment goals, objectives, and asset allocation for the fund.

6. Communicate and monitor program expectations with the SIB.

**TFFR Board Adopted:** May 25, 1995.

**Exhibit B-III**

**SIB Responsibilities**

To provide the staff and resources to carry out the **Ends** of the retirement program through RIO.

**TFFR Board Adopted:** May 25, 1995.

# C. Program Policies

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**Policy Type**: TFFR Program

**Policy Title**: Board Agenda

It shall be the policy of the TFFR Board of Trustees that any individual or organization who desires to appear on the agenda of a scheduled meeting should notify the Deputy Executive Director/Retirement Officer in writing at the administrative office ten working days prior to the meeting date. Subject to approval by the Board President, the individual will be placed on a board meeting agenda.

**TFFR Board Adopted:** March 27, 1977.
**Amended:** July 16, 1998; November 18, 1999, September 25, 2008.

**Policy Type**: TFFR Program

**Policy Title**: Board Meetings

It shall be the policy of the TFFR Board of Trustees to conduct a minimum of six board meetings each year. Meetings will be scheduled for the day preceding the SIB meetings beginning in July of each year.

Special board meetings may be called in accordance with NDCC 15-39.1-06.

Eligible TFFR Board members will be paid for a full day for each board or committee meeting attended that lasts for two or more hours at the rate provided in NDCC 15-39.1-08, hereafter referred to as the payroll amount. Meetings lasting less than two hours will be compensated at one half the payroll amount. Mileage and travel expense reimbursement will be paid as provided in NDCC 44-08-04 and 54-06-09 for attending board or committee meetings.

**TFFR Board Adopted:** May 27, 1993.
**Amended:** July 16, 1998, September 22, 2011.

**Policy Type**: TFFR Program

**Policy Title**: Board Members' Code of Conduct

The following shall be the Code of Ethical Responsibility for the TFFR Board of Trustees:

1. Board members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the TFFR members and to strive to avoid not only professional impropriety, but also the appearance of impropriety.

2. Board members shall perform the duties of their offices impartially and diligently. Board members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and to refrain from any form of dishonest or unethical conduct. Board members shall be unswayed by partisan interest, public sentiment, or fear of criticism.

3. Conflicts of interest and the appearance of impropriety shall be avoided by Board members. Board members shall not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members shall refrain from financial and business dealings that tend to reflect adversely on their impartiality or interfere with the proper performance of their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the Board. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction for which the board member has acquired information unavailable to the general public, through participation on the board.

   "Conflict of interest" means a situation in which a board member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

4. The Board shall not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.

5. Board members shall abide by NDCC 21-10-09, which reads: "No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a class A misdemeanor."

6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.

7. Political contributions are regulated under NDCC 16.1-08-03 and are not restricted under this ethics policy.

8. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.

9. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.

10. Violation of these rules shall result in an official reprimand from the TFFR Board. No reprimand shall be issued until the board member has had the opportunity to be heard by the Board.

11. Board members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise.

12. RIO Deputy Executive Director is required to affirm his/her understanding of RIO Administrative Policy – Code of Conduct for RIO Employees – annually, in writing, and must disclose any conflicts of interest that may arise.

**TFFR Board Adopted:** September 15, 2005.
**Amended:** September 22, 2011.

**Policy Type**: TFFR Program

**Policy Title**: Deductions from Annuity Checks

It shall be the policy of the TFFR Board of Trustees to allow retirees and beneficiaries receiving annuity payments to have payroll deductions subtracted from their monthly payments.

To initiate, change, or stop a deduction, the retiree must notify the administrative office in writing at least ten working days prior to the date the monthly benefit is issued. All deductions withheld will be forwarded to the appropriate entity within three working days after the first of the month or as required by federal/North Dakota state law. Authorization forms are to be kept on file at the administrative office.

The following deductions are available to retirees and beneficiaries receiving monthly annuity benefits:

- Health, life, and other insurance premiums payable to the NDPERS.
- Annual dues payable to the NDRTA and the NDEA Retired organization.
- Federal and North Dakota income tax withholdings.
- Court ordered payments including child support orders, Qualified Domestic Relations Orders (QDRO), IRS tax levies, federal garnishments, and other court ordered payments, subject to approval by the Attorney General's office.

Additional deductions may be added upon approval by the board.

**TFFR Board Adopted:** May 27, 1993.
**Amended:** July 16, 1998; March 23, 2000, September 25, 2008.

**Policy Type**: TFFR Program

**Policy Title**: Disclosure to Membership

It shall be the policy of the TFFR Board of Trustees that member handbooks, member statements, and financial reports be prepared and made available for TFFR members.

- Member Handbooks (Summary Plan Descriptions)

A member handbook will be developed and will include information about membership, contribution rates, service credit, benefit provisions for service retirement, disability retirement, and survivor benefits, eligibility for benefits, and how to apply for benefits. The handbook will be updated within 6 months of adoption of any significant legislative changes made to the plan.

Members will be notified in writing that the member handbook is available on the RIO website.

- Member Statements

All active and inactive members will be mailed a statement to their home within six months of fiscal year end reporting the status of their member account as of June 30 of the current year. The information to be reported annually will include: member's name, address, personal identification number, date of birth, beneficiary on file, value of account, retirement salary reported for current year, service credit earned during the current year, accumulated service credit, date of eligibility for unreduced benefits, retirement benefit estimate, and other information pertinent to the teacher's account.

All retired members and beneficiaries receiving monthly benefits will be mailed a statement to their home annually. The information will include: retired member's name, address, personal identification number, beneficiary on file, value of account, accumulated service credit, retirement date, retirement option, benefits received life-to-date, current monthly benefit, and adjustments to benefit (if applicable).

- Annual Financial Report

An annual financial report will be published within six months following every fiscal year end. The report will include financial, actuarial, and investment information about the plan. It will available on the RIO website, and can be provided to any TFFR member, benefit recipient, or the public upon request.

**TFFR Board Adopted:** July 16, 1998.
**Amended:** July 18, 2002, September 20, 2007, September 23, 2010.

**Policy Type**: TFFR Program

**Policy Title**: Employer Payment Plan Models

The TFFR board has developed models relating to employer payment of member contributions. The models are outlined in employer instructions prepared by the fund. Special provisions apply to state agencies and institutions, and employers that have not adopted a model.

Employers must select the employer payment plan model under which they will pay member assessments on a form provided by the administrative office. The model selected by the employer can only be changed once each year at the beginning of the fiscal year.

Effective July 1, 2003, employers may no longer select Model 3. Any employers currently paying member contributions under this model may continue as a closed group, but Model 3 will no longer be available to other employers.

Effective July 1, 2007, the portion of member contributions deducted from the member's salary can be made on a tax deferred basis for state agencies and institutions (Model 4).

Effective July 1, 2012, the portion of member contributions deducted from the member's salary can be made on a tax deferred basis under all models (Model 1, 2, 3, 4).

**TFFR Board Adopted:** July 16, 1998.
**Amended:** March 13, 2003; September 22, 2011.

**Policy Type**: TFFR Program

**Policy Title**: Employer Reporting Errors

It shall be the policy of the TFFR Board of Trustees that when an unintentional error in the reporting of retirement contributions by a school district is discovered during an audit or other review, the following policy shall be in effect:

- The school district will be billed for all material shortages due plus interest or refunded for all material overpayments.
- The interest charged to the school district shall be the actuarial assumption for earnings of the trust.
- The time period shall be from the onset of the error or three years prior to the beginning of the current school year.
- Failure of the school district to pay the required shortages or provide required information will constitute "failure to make required reports and payments" and require application of section 15-39.1-23, NDCC.
- The TFFR board reserves the right to negotiate with a school district in special situations.

If, as the result of an audit or other review, the participating employer is found not to be in compliance with NDCC 15-39.1:

- The employer must respond in writing to the audit finding(s) and/or recommendation(s) within 30 days of the report.
- NDRIO will conduct a follow-up review of the audit finding(s) and/or recommendation(s) one year following the date of the report.

**TFFR Board Adopted:** February 22, 1996.
**Amended:** July 16, 1998; January 24, 2002; April 15, 2004; July 14, 2005; September 20, 2007.

**Policy Type**: TFFR Program

**Policy Title**: Employer Reports

It shall be the policy of the TFFR Board of Trustees to require all employer units to report the collection and payment of member and employer contributions on a monthly basis to the RIO. Both payment and report must be postmarked or sent via the internet by the 15th day of the month following the end of the reporting period. Employer reports must be in a format approved by the TFFR board and may be submitted in one of the following ways: 1) manual – paper reports, 2) electronically – diskettes, 3) internet.

The administrative office will monitor late TFFR reports and payments by employers. Employers that do not meet the established deadlines for filing required reports shall be assessed a civil penalty as required in NDCC 15-39.1-23 unless the Deputy Executive Director/Retirement Officer approves a request for a waiver of the penalty under special circumstances such as:

- Death, surgery, or illness of the individual responsible for TFFR reports or their family.
- "Acts of God" that require an employer to close school such as blizzards, storms, or floods.
- Unforeseen events such as resignation of the individual responsible for TFFR reports, computer malfunction, etc.

The request for a waiver must be in writing and signed by the administrator.

In all late situations, member and employer contributions will be collected from the employer at the earliest date possible. Employers cooperating with TFFR to resolve the late filing of a report shall not have their state apportionment money (foundation payments) withheld, but will be assessed interest as required in NDCC 15-39.1-23.

**TFFR Board Adopted:** August 29, 1996.
**Amended:** July 16, 1998; November 18, 1999; March 22, 2001; September 20, 2007.

**Policy Type**: TFFR Program

**Policy Title**: Head Start Program Employees

It shall be the policy of the TFFR Board of Trustees that employees of a Head Start Program (which is not a U.S. Department of Education Program) who are certified to teach and contracted with a school district or other participating employer, are members of TFFR if the following conditions are met:

- Grantee agency for the Head Start Program is the school district which is governed by the local school board.

- Head Start Program employees are on the school district teaching or administrative faculty in positions such as coordinator, director, teacher, or home visitor.

- Head Start Program employees are on the school district salary schedule and negotiate for salary and benefits like other school district teaching faculty.

**TFFR Board Adopted:** November 20, 1997.

**Policy Type**: TFFR Program

**Policy Title**: Information Dissemination

It is the policy of the TFFR Board of Trustees to allow member and employer interest groups and other approved third parties to send specific information to the TFFR membership using a “blind mailing” method. The information to be mailed and third party organization must be approved by the RIO Deputy Executive Director in advance. Member and employer interest groups include, but are not limited to, North Dakota Council of Educational Leaders (NDCEL), NDEA, NDRTA, and North Dakota School Boards Association (NDSBA).

Under the “blind mailing” method, the third party must submit information or materials they wish to send to TFFR members. The third party must sign an agreement that they will not use the mailing to engage in partisan political activities.

If approved, the third party will forward the materials to an independent mailing company approved by TFFR. The mailing company must sign a “no disclosure” agreement with TFFR.

TFFR will then supply membership mailing information to the mailing company. The mailing company will combine the material from the third party with the mailing list and send to TFFR members. The cost of the mailing will be paid by the third party.

**TFFR Board Adopted:** July 15, 1999.
**Amended:** November 15, 2001.

**Policy Type**: TFFR Program

**Policy Title**: Level Income Option

It shall be the policy of the TFFR Board of Trustees to allow members who select the level income retirement option:

1. To level to age 62 or normal retirement age (including any fractional age from age 65 to 67.

2. To combine the level income option with the service retirement options offered (single life annuity, 100% and 50% joint and survivor, 10 and 20 year term certain and life annuity).

3. To reduce a member's retirement benefit the second month following the month the member reaches age 62 or normal retirement age.

4. To apply postretirement legislative benefit increases to the teacher's non-level income monthly retirement benefit.

**TFFR Board Adopted:** May 29, 1997.
**Amended:** July 16, 1998; July 24, 2003.

**Policy Type**: TFFR Program

**Policy Title**: Military Service Credit

It shall be the policy of the TFFR Board of Trustees that a teacher purchasing military service be credited with a full year of credit if the service was rendered for at least 175 school days or a period of nine months within any fiscal year.

**TFFR Board Adopted:** December 5, 1980.
**Amended:** July 16, 1998.

**Policy Type**: TFFR Program

**Policy Title**: Outreach Program Facilities

It shall be the policy of the TFFR Board of Trustees that school district facilities used for TFFR outreach programs must meet ADA requirements. In addition, authorized school district employees must be present to direct guests to the proper meeting room and lock the building at the close of the program. RIO employees who are conducting outreach programs for TFFR members are not allowed to be in school district buildings without the presence of an administrator, teacher, or other authorized school district employee.

RIO staff will not be able to conduct outreach programs at that site if the above conditions are not met.

**TFFR Board Adopted:** April 22, 1999.

**Policy Type**: TFFR Program

**Policy Title**: Payment of Benefits

It shall be the policy of the TFFR Board of Trustees to distribute payments for benefit claims (annuities, refunds/rollovers) once per month. Distributions will be mailed on the last working day of the previous month payable on the first working day of each month.

In order for a teacher to assure receipt of a benefit payment on the first working day of the month, the required information and forms must be filed with the administrative office at least ten working days prior to the distribution date.

The Deputy Executive Director/Retirement Officer may authorize special payments to pay benefit claims due to unforeseen circumstances that delay the processing of the claim.

Payments to a teacher approved for a refund/rollover will include all contributions and interest paid by a teacher for the purchase and repurchase of service credit. This is in addition to the entitled refund of member contributions plus interest. The Deputy Executive Director/Retirement Officer may waive the 120-day waiting period for refunds/rollovers based on necessary documentation.

**TFFR Board Adopted:** May 27, 1993.
**Amended:** July 6, 1998; November 18, 1999; September 20, 2007; September 22, 2011.

**Policy Type**: TFFR Program

**Policy Title**: PERS Retirement Plan Election (DPI & CTE)

NDCC 15-39.1-09(3) allows new employees of the Department of Public Instruction (DPI), who are eligible for TFFR coverage and hired after January 6, 2001, excluding the State Superintendent of Public Instruction, to elect to become participating members of ND Public Employees Retirement System (PERS).

NDCC 15-39.1-09(4) allows new employees of the Department of Career and Technical Education (CTE) who are eligible for TFFR coverage and hired after July 1, 2007, to elect to become participating members of PERS.

It is the policy of the TFFR Board of Trustees to allow the PERS retirement plan election by eligible new DPI and CTE employees under the following guidelines:

1) Any new employee who is required to participate in TFFR under NDCC 15-39.1-04(11)(b) and who is entered onto the payroll of DPI after January 6, 2001 (except the Superintendent of Public Instruction), or CTE after July 1, 2007, is eligible to make the election to become a participating member of NDPERS.

2) If eligible, the new employee must complete the "NDPERS/TFFR Membership Election" form within ninety days of hire. Until this election is made, the employee will be enrolled in the NDPERS retirement plan. If no election is made, the employee will be transferred to TFFR.

3) If the new employee is a former DPI employee or is retired from DPI and receiving TFFR benefits, the employee must have a one-year break in service to be eligible to elect participation in PERS. If the new employee is a former CTE employee or is retired from CTE and receiving TFFR benefits, the employee must have a one-year break in service to elect participation in PERS.

4) If the new employee is a TFFR retiree (but not a former DPI or CTE employee), the retiree may elect participation in PERS upon date of hire. The retiree is not subject to the one-year waiting period and is not subject to the TFFR retiree annual hours limit.

**TFFR Board Adopted:** January 25, 2001.
**TFFR Board Amended:** September 20, 2007

**Policy Type**: TFFR Program

**Policy Title**: Retirement Benefit Payments

It is the policy of the TFFR Board of Trustees that new retirees will have their initial retirement benefit payment calculated using either estimated or final salary and service credit information:

- Estimated salary and service credit information

  The member's initial retirement benefit is calculated using 90% of the estimated current year salary for final average salary calculation purposes. If the final information reported by the employer is different than the estimated information, the member's monthly retirement benefit will be adjusted retroactive to the member's retirement date. Using estimated information allows a member to begin receiving retirement benefits sooner, but results in correction of benefits at a later date retroactive to the member's retirement date.

- Finalized salary and service credit information

  The member's retirement benefit is calculated using finalized current year salary and service credit information. After salary, service credit, and last date of employment are reported by the employer and verified by TFFR, the member's retirement benefit is calculated and claim is processed. Using finalized information delays a member's first retirement benefit payment, but when payment is made, it is retroactive to the member's retirement date.

Under all circumstances, if any change or error in the records of TFFR or a participating employer or if any calculation results in a member receiving more or less in benefits than the member is entitled to receive, TFFR will correct the error and adjust the benefit (NDCC 15-39.1-31 and 32).

**TFFR Board Adopted:** March 15, 2007

**Policy Type**: TFFR Program

**Policy Title**: Travel

It is the policy of the TFFR Board of Trustees that the Board President is authorized, in consultation with the RIO Deputy Executive Director, to grant approval for travel outside of the continental United States by TFFR board members and to keep the board informed on travel requests.

**TFFR Board Adopted:** September 27, 2001.

**Policy Type**: TFFR Program

**Policy Title**: Voiding Checks

It shall be the policy of the TFFR Board of Trustees to void any uncashed benefit checks for the payment of retirement, disability, survivor, and refund benefits after six months. Should the payee request payment after six months, the RIO will re-issue a check, but without additional interest.

**TFFR Board Adopted:** November 21, 1996.
**Amended:** July 16, 1998.

# D. By-Laws

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**TFFR Board Adopted:** May 25, 1995.
**Amended:** August 21, 1997; November 18, 1999; September 20, 2007; September 25, 2008; September 23, 2010; September 22, 2011.

## Chapter 1 – Authority

Section 1-1. The Board of Trustees, hereafter referred to as "board," has the authority to set policy for the Teachers' Fund for Retirement (TFFR) under North Dakota Century Code (NDCC), sections 15-39.1-05.1, 15-39.1-05.2, 15-39.1-06, 15-39.1-07, and 15-39.1-08.

1-1-1. NDCC, section 15-39.1-05.1 states:

a. "The governor shall appoint, from a list of three nominees submitted to the governor by the North Dakota Education Association, two board members who are actively employed in full-time positions not classified as school administrators. A board member appointed under this subdivision who terminates employment may not continue to serve as a member of the board.

b. The governor shall appoint, from a list of three nominees submitted to the governor by the North Dakota Council of Educational Leaders, one board member who is actively employed as a full-time school administrator. A board member appointed under this subdivision who terminates employment may not continue to serve as a member of the board.

c. The governor will appoint, from a list of three nominees submitted to the governor by the North Dakota Retired Teachers Association, two board members who are the retired members of the fund.

d. The state treasurer and the superintendent of public instruction."

1-1-2. NDCC, section 15-39.1-05.2 states, "The board:

1. Has the powers and privileges of a corporation, including the right to sue and be sued in its own name. The venue of all actions to which the board is a party must be Burleigh County.

2. Shall establish investment policy for the trust fund under section 21-10-02.1. The investment policy must include:

a. Acceptable rates of return, liquidity, and levels of risk; and

b. Long-range asset allocation targets.

3. Shall arrange for actuarial and medical consultants. The board shall cause a qualified, competent actuary to be retained on a consulting basis. The actuary shall:

    a. Make a valuation of the liabilities and reserves of the fund and a determination of the contributions required by the fund to discharge its liabilities and pay administrative costs;

    b. Recommend to the board rates of employer and employee contributions required, based upon the entry age normal cost or other accepted actuarial method, to maintain the fund on an actuarial reserve basis;

    c. Once every five years make a general investigation of the actuarial experience under the fund including mortality, retirement, employment turnover, and other items required by the board;

    d. Recommend actuarial tables for use in valuations and in calculating actuarial equivalent values based on the investigation provided for in subdivision c; and

    e. Perform other duties assigned by the board.

4. May pay benefits and consultant fees as necessary which are hereby appropriated from the fund.

5. Shall submit to the legislative council's employee benefits programs committee any necessary or desirable changes in statutes relating to the administration of the fund.

6. Shall determine appropriate levels of service to be provided to members, including benefits counseling and preretirement programs.

7. Shall, through resolution, inform the state investment board, which is the administrative board of the retirement and investment office, the levels of services, goals, and objectives expected to be provided through the retirement and investment office."

**Chapter 1 – Authority (continued)**

1-1-3. NDCC, section 15-39.1-06 states, “The board may hold meetings as they may be necessary for the transaction of business and a meeting may be called by the president or any two members of the board upon reasonable notice to the other members of the board.”

1-1-4. NDCC, section 15-39.1-07 states, “…the board may adopt such rules as may be necessary to fulfill the responsibilities of the board.”

Section 1-2. The basis for NDCC, Chapter 15-39.1, can be found in State Law 1971 Chapter 1984.

Section 1-3. The board is responsible for carrying out the provisions of the NDCC, Chapters 15-39, 15-39.1, and 15-39.2.

## Chapter 2 – Board of Trustees

Section 2.1. The board will have general charge of the retirement plan of TFFR, subject to law, administrative rules and regulations, and these by-laws. The board will make such policy as necessary to fulfill this obligation. Policy and program services will be communicated to the State Investment Board by resolution.

Section 2-2. Vacancies which may occur among the appointed members of the board will be filled by the Governor of the state, and the appointee will complete the term for which the original member was selected.

Section 2-3. The board will elect its own officers at its first meeting following July 1 of each year.

Section 2-4. The board will promulgate rules and regulations as prescribed in NDCC, section 28-32-03, for the administration of the retirement plan.

Section 2-5. The board will select three of its members to serve on the SIB and one member to serve as alternate on the SIB.

Section 2-6. The board will develop an annual board calendar which will include board education topics.

## Chapter 3 – Officers and Duties

Section 3.1. The officers of the board will be the President, Vice President, Executive Director, and Deputy Executive Director/Retirement Officer. The President and Vice President will be elected by the board immediately following July 1 of each year and will hold office for one year or until their successors are elected and qualified. A vacancy occurring with the President or Vice President will be filled by the board at the first meeting of the board following the vacancy. The Executive Director and Deputy Executive Director/Retirement Officer will not be voting members of the board.

Section 3-2. **President.** The President will preside at all meetings of the board. The President will be an ex officio member of all board committees created from time to time. The President will approve the board meeting agenda, and with the Deputy Executive Director/Retirement Officer and Executive Director execute all instruments required to be executed on behalf of the fund, and will perform such other duties as may be imposed by the board.

Section 3-3. **Vice President.** The Vice President will perform the duties of the President in his/her absence.

Section 3-4. **Executive Director.** The Executive Director will be hired by the SIB, serve in an unclassified position at that board's pleasure, and will be paid such salary as the SIB determines.

3-4-1. The Executive Director oversees planning, supervising, and directing overall RIO programs in accordance with the SIB governance policies and state laws and rules.

3-4-2. The Executive Director administers the investment program of RIO and performs related work as assigned by the SIB.

3-4-3. The Executive Director directs the preparation and execution of the RIO budget and legislative agenda and evaluates and monitors financial and operational programs.

3-4-4. The Executive Director represents RIO, promotes RIO programs, and has the authority and responsibility to carry out the day-to-day administrative duties for RIO.

3-4-5. The Executive Director attends all meetings of the SIB and TFFR Board.

3-4-6. The Executive Director hires the Deputy Executive Director/ Retirement Officer and other staff as necessary to carry out the responsibilities of RIO.

Section 3-5. **Deputy Executive Director – Retirement Officer.** The Deputy Executive Director/Retirement Officer will be hired by the Executive Director, serve in an unclassified position at the Executive Director's pleasure, and will be paid such salary as the Executive Director determines.

3-5-1. The Deputy Executive Director/Retirement Officer assists the Executive Director in planning, supervising, and directing overall RIO programs in accordance with the SIB governance policies and state laws and rules and represents the Executive Director in his/her absence.

3-5-2. The Deputy Executive Director/Retirement Officer administers the retirement program in accordance with governing statutes and board policies established by the TFFR board and performs related work as assigned by that board.

3-5-3. The Deputy Executive Director/Retirement Officer develops annual and long-range plans for the board. He/she interprets state and federal law, which governs the retirement program and develops administrative rules, policies, and procedures necessary to administer the program.

3-5-4. The Deputy Executive Director/Retirement Officer represents the TFFR board on retirement program issues.

3-5-5. The Deputy Executive Director/Retirement Officer works as a team with the TFFR board, interest groups, legislative committees, actuarial consultants, legal counsel, and others to administer the retirement program.

3-5-6. The Deputy Executive Director/Retirement Officer will assist in the formulation of RIO's budget, including staffing needs, program costs, operating costs, and information technology requirements to assure that retirement program obligations are met.

3-5-7. The Deputy Executive Director/Retirement Officer is the custodian of the books, records, and files of TFFR. He/She will attend all meetings of the TFFR board, is responsible for board meeting minutes, required notices, procedures of the board, and applicable rules and regulations of the fund.

3-5-8. The Deputy Executive Director - Retirement Officer will keep a correct roster of the membership of the fund, the salaries paid to each member for service as a teacher, when and what teachers are dropped or withdrawn from the fund, and records of all pensions paid.

3-5-9. The Deputy Executive Director - Retirement Officer will process all applications for claims for payment as allowed under state laws in a timely manner.

**Chapter 4 – Meetings**

Section 4-1. Regular meetings of the board to conduct business are to be held as often as necessary. Notice of all meetings will be made in accordance with NDCC, section 44-04-20.

Section 4-2. Special meetings of the board may be called and held at any time by the President or any two members of the board upon reasonable notice to the other members of the board.

Section 4-3. An annual financial report for the year ending June 30 will be completed by the board. A copy will be filed with the Governor of the state.

Section 4-4. A quorum of four will be necessary to express the will or determination of the board.

Section 4-5. Voting on matters before the board will be by roll call vote. Four votes are required for resolution or action by the board. The minutes will show the recorded vote of each board member.

Section 4-6. All meetings of the board are open to the public.

Section 4-7. A record of proceedings will be kept on all meetings of the board. The record of these proceedings are public documents, and copies will be distributed to the membership or its representatives upon request.

Section 4-8. Public participation during board meetings will be allowed and will be at the discretion of the board President.

Section 4-9. Members of the board, excluding ex-officio members, are entitled to receive compensation and necessary mileage and travel expenses as provided in sections 15-39.1-08, 44-08-04 and 54-06-09 for attending meetings of the board. No member of the board may lose regular salary, vacation pay, vacation or any personal leave, or be denied the right of attendance by the state or political subdivision thereof while serving on official business of the fund.

Section 4-10. Board meetings may be attended in person, or by audio or video conference.

## Chapter 5 – Committees

Section 5-1. The board has no standing committees, but may establish ad hoc committees as needed.

Section 5-2. Committee meetings shall be held as often as necessary. Notice of all meetings will be made in accordance with NDCC, section 44-04-20 and shall be open to the public.

## Chapter 6 – Rules of Order

Section 6-1. All TFFR meetings will be conducted in accordance with Robert's Rules of Order Newly Revised, except as superseded by these by-laws, board policies, and state law.

## Chapter 7 – Administrative Office

Section 7-1. For the purpose of carrying out the day-to-day business of the fund, a central administrative office has been established and will be known as the Retirement and Investment Office (RIO).

Section 7-2. The Executive Director is the administrator of the office.

Section 7-3. The Deputy Executive Director/Retirement Officer will represent the Executive Director in his/her absence.

## Chapter 8 – Amendments

Section 8-1. These by-laws of the board may be amended from time to time by a vote in which a majority of the members concur on the amendment and said amendment is not in conflict with existing law.

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82-02 Definitions

82-03 Participation

82-04 Contributions

82-05 Retirement Benefits

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- 82-07-03 Forms of Disability Benefits
- 82-07-04 Suspension of Disability Benefits

82-08 Qualified Domestic Relations Orders

82-09 Confidentiality of Records (Repealed)

82-10 Right to Formal Hearing and Appeal

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| 82-03 | Participation |
| 82-04 | Contributions |
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# CHAPTER 15-39.1
## TEACHERS' FUND FOR RETIREMENT

**15-39.1-01. Teachers' fund for retirement created.**

There is hereby created the teachers' fund for retirement, which, upon the effective date of this chapter shall consist of the following:

1. All moneys contained in the teachers' insurance and retirement fund accumulated pursuant to chapter 15-39; and
2. All moneys thereafter received by the state treasurer under the provisions of this chapter.

**15-39.1-02. Prior fund terminated.**

The teachers' insurance and retirement fund shall, on July 1, 1971, cease to exist and the board administering said fund shall no longer function. All obligations of the teachers' insurance and retirement fund must be assumed by the newly created fund.

**15-39.1-03. Rights under prior chapter preserved.**

No person may be caused to be deprived of rights vested under the chapter superseded hereby. Any such person may elect to claim the person's retirement benefits according to the provisions of the retirement program for teachers in effect prior to July 1, 1971.

**15-39.1-04. Definitions.**

For purposes of this chapter, unless the context or subject matter otherwise requires:

1. "Actuarial equivalent" means the annual amount determined by calculations based on mortality tables, purchasable with a given amount at a stated age.
2. "Beneficiary" means a person, estate, trust, or organization designated in writing by a participating member to receive benefits provided by this plan, in receipt of benefits, or otherwise provided under section 15-39.1-17.
3. "Board" means the board of trustees of the teachers' fund for retirement.
4. "Contract" means a written agreement with a school board or other governing body of a school district or special education unit of this state or a letter of appointment by a state institution, state agency, or other employer participating in the fund.
5. "Fund" means the teachers' fund for retirement.
6. "Interest" as applied to member assessments is an annual rate of six percent compounded monthly and as applied to the repurchase of credit for withdrawn years is six percent compounded annually.
7. "Retirement" means cessation of covered employment and acceptance of a benefit under former chapter 15-39, or chapter 15-39.1 or 15-39.2.
8. "Retirement annuity" means the payments made by the fund to a member after retirement, these payments beginning on the first or fifteenth day of the month following eligibility for a benefit.
9. "Salary" means a member's earnings in eligible employment under this chapter for teaching, supervisory, administrative, and extracurricular services during a school year reported as salary on the member's federal income tax withholding statements plus any salary reduction or salary deferral amounts under 26 U.S.C. 125, 132(f), 401(k), 403(b), 414(h), or 457 in effect on August 1, 2011. "Salary" includes amounts paid to members for performance of duties, unless amounts are conditioned on or made in anticipation of an individual member's retirement or termination. The annual salary of each member taken into account in determining benefit accruals and contributions may not exceed the annual compensation limits established under 26 U.S.C. 401(a)(17)(B) in effect on August 1, 2011, as adjusted for increases in the cost of living in accordance with 26 U.S.C. 401(a)(17)(B) in effect on August 1, 2011. A salary maximum is not applicable to members whose participation began before July 1, 1996. "Salary" does not include:

a. Fringe benefits or side, nonwage, benefits that accompany or are in addition to a member's employment, including insurance programs, annuities, transportation allowances, housing allowances, meals, lodging, or expense allowances, or other benefits provided by a member's employer.
b. Insurance programs, including medical, dental, vision, disability, life, long-term care, workforce safety and insurance, or other insurance premiums or benefits.
c. Payments for unused sick leave, personal leave, vacation leave, or other unused leave.
d. Early retirement incentive pay, severance pay, or other payments conditioned on or made in anticipation of retirement or termination.
e. Teacher's aide pay, referee pay, busdriver pay, or janitorial pay.
f. Amounts received by a member in lieu of previously employer-provided benefits or payments that are made on an individual selection basis.
g. Signing bonuses as defined under section 15.1-09-33.1.
h. Other benefits or payments not defined in this section which the board determines to be ineligible teachers' fund for retirement salary.

10. "State institution" includes North Dakota vision services - school for the blind, the school for the deaf, and the North Dakota youth correctional center.
11. "Teacher" means:
    a. All persons licensed by the education standards and practices board who are contractually employed in teaching, supervisory, administrative, or extracurricular services by a state institution, multidistrict special education unit, area career and technology center, regional education association, school board, or other governing body of a school district of this state, including superintendents, assistant superintendents, business managers, principals, assistant principals, and special teachers. For purposes of this subdivision, "teacher" includes persons contractually employed by one of the above employers to provide teaching, supervisory, administrative, or extracurricular services to a separate state institution, state agency, multidistrict special education unit, area career and technology center, regional education association, school board, or other governing body of a school district of this state under a third-party contract.
    b. The superintendent of public instruction, assistant superintendents of public instruction, county superintendents, assistant superintendents, supervisors of instruction, the professional staff of the department of career and technical education, the professional staff of the center for distance education, the executive director and professional staff of the North Dakota education association who are members of the fund on July 1, 1995, the professional staff of an interim school district, and the professional staff of the North Dakota high school activities association who are members of the fund on July 1, 1995.
    c. The executive director and professional staff of the North Dakota council of school administrators who are members of the fund on July 1, 1995, and licensed staff of teachers centers, but only if the person was previously a member of and has credits in the fund.
    d. Employees of institutions under the control and administration of the state board of higher education who are members of the fund on July 16, 1989.
12. "Tier one grandfathered member" for purposes of sections 15-39.1-10 and 15-39.1-12 means a tier one member who, as of June 30, 2013, is vested as a tier one member in accordance with section 15-39.1-11; and
    a. Is at least fifty-five years of age; or
    b. Has a combined total of years of service credit in the plan and years of age which equals or exceeds sixty-five.
13. "Tier one member" means a teacher who has credit in the system on July 1, 2008, and has not taken a refund pursuant to section 15-39.1-20 after June 30, 2008.
14. "Tier one nongrandfathered member" for purposes of sections 15-39.1-10 and 15-39.1-12 means a tier one member who does not qualify as a tier one grandfathered member.

15. "Tier two member" means a teacher who is not a tier one member.

**15-39.1-05. Management of fund.**
Repealed by S.L. 1997, ch. 170, § 4.

**15-39.1-05.1. Board composition - Terms - Voting.**

1. The authority to set policy for the fund rests in a board of trustees composed as follows:
   a. The governor shall appoint, from a list of three nominees submitted to the governor by the North Dakota education association, two board members who are actively employed in full-time positions not classified as school administrators. A board member appointed under this subdivision who terminates employment may not continue to serve as a member of the board.
   b. The governor shall appoint, from a list of three nominees submitted to the governor by the North Dakota council of educational leaders, one board member who is actively employed as a full-time school administrator. A board member appointed under this subdivision who terminates employment may not continue to serve as a member of the board.
   c. The governor shall appoint, from a list of three nominees submitted to the governor by the North Dakota retired teachers association, two board members who are the retired members of the fund.
   d. The state treasurer and the superintendent of public instruction.
2. All current appointees of the board shall serve the remainder of their terms as members of the board until their terms expire and their successors are appointed. The first newly appointed board member under subdivision a of subsection 1 must be appointed to serve an initial term of four years. The first newly appointed board member under subdivision c of subsection 1 must be elected to serve an initial term of five years. Newly appointed board members shall serve a term of five years. Each newly appointed term begins on July first.
3. Each board member is entitled to one vote, and four members constitute a quorum. Four votes are required for resolution or action by the board.

**15-39.1-05.2. Board authority - Continuing appropriation.**
The board:

1. Has the powers and privileges of a corporation, including the right to sue and be sued in its own name. The venue of all actions to which the board is a party must be Burleigh County.
2. Shall establish investment policy for the trust fund under section 21-10-02.1. The investment policy must include:
   a. Acceptable rates of return, liquidity, and levels of risk; and
   b. Long-range asset allocation targets.
3. Shall arrange for actuarial and medical consultants. The board shall cause a qualified, competent actuary to be retained on a consulting basis. The actuary shall:
   a. Make a valuation of the liabilities and reserves of the fund and a determination of the contributions required by the fund to discharge its liabilities and pay administrative costs;
   b. Recommend to the board rates of employer and employee contributions required, based upon the entry age normal cost or other accepted actuarial method, to maintain the fund on an actuarial reserve basis;
   c. Once every five years make a general investigation of the actuarial experience under the fund, including mortality, retirement, employment turnover, and other items required by the board;
   d. Recommend actuarial tables for use in valuations and in calculating actuarial equivalent values based on the investigation provided for in subdivision c; and
   e. Perform other duties assigned by the board.

4. May pay benefits and consultant fees as necessary which are hereby appropriated from the fund.
5. Shall submit to the legislative management's employee benefits programs committee any necessary or desirable changes in statutes relating to the administration of the fund.
6. Shall determine appropriate levels of service to be provided to members, including benefits counseling and preretirement programs.
7. Shall, through resolution, inform the state investment board, which is the administrative board of the retirement and investment office, the levels of services, goals, and objectives expected to be provided through the retirement and investment office.

**15-39.1-06. Organization of board.**

The board may hold meetings as necessary for the transaction of business and a meeting may be called by the president or any two members of the board upon reasonable notice to the other members of the board. The president for the ensuing year must be elected at the first meeting following July first of each year.

**15-39.1-07. Vacancies - Rulemaking power.**

Vacancies which may occur among the appointed members of the board must be filled by the governor and the appointee shall complete the term for which the original member was selected. The board may adopt such rules as may be necessary to fulfill the responsibilities of the board.

**15-39.1-08. Compensation of members.**

Members of the board, excluding ex officio members, are entitled to receive one hundred forty-eight dollars as compensation per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the board. No member of the board may lose regular salary, vacation pay, vacation or any personal leave, or be denied right of attendance by the state or political subdivision thereof while serving on official business of the fund.

**15-39.1-09. (Contingent expiration date - See note) Membership in fund and assessments - Employer payment of employee contribution.**

1. Except as otherwise provided by law, every teacher is a member of the fund and must be assessed upon the teacher's salary seven and seventy-five hundredths percent per annum, which must be deducted, certified, and paid monthly to the fund by the disbursing official of the governmental body by which the teacher is employed. Member contributions increase to nine and seventy-five hundredths percent per annum beginning July 1, 2012, and increase thereafter to eleven and seventy-five hundredths percent per annum beginning July 1, 2014. Except as otherwise provided by law, every governmental body employing a teacher shall pay to the fund eight and seventy-five hundredths percent per annum of the salary of each teacher employed by it. Contributions to be paid by a governmental body employing a teacher increase to ten and seventy-five hundredths percent per annum beginning July 1, 2012, and increase thereafter to twelve and seventy-five hundredths percent per annum beginning July 1, 2014. The required amount of member and employer contributions must be reduced to seven and seventy-five hundredths percent per annum effective on the July first that follows the first valuation showing a ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement that is equal to or greater than ninety percent. The disbursing official of the governmental body shall certify the governmental body payments and remit the payments monthly to the fund.
2. Each employer, at its option, may pay the teacher contributions required by subsection 1 for all compensation earned after June 30, 1983. The amount paid must be paid by the employer in lieu of contributions by the employee. If an employer

decides not to pay the contributions, the amount that would have been paid will continue to be deducted from compensation. If contributions are paid by the employer, they must be treated as employer contributions in determining income tax treatment under this code and the federal Internal Revenue Code. If contributions are paid by the employer, they may not be included as gross income of the teacher in determining tax treatment under this code and the Internal Revenue Code until they are distributed or made available. The employer shall pay these teacher contributions from the same source of funds used in paying compensation to the teachers. The employer shall pay these contributions by effecting an equal cash reduction in the gross salary of the employee or by an offset against future salary increases. If teacher contributions are paid by the employer, they must be treated for the purposes of this chapter in the same manner and to the same extent as teacher contributions made prior to the date the contributions were assumed by the employer. The option given employers by this subsection must be exercised in accordance with rules adopted by the board.

3. A person, except the superintendent of public instruction, who is certified to teach in this state by the education standards and practices board and who is first employed and entered upon the payroll of the superintendent of public instruction after January 6, 2001, may elect to become a participating member of the public employees retirement system. An election made by a person to participate in the public employees retirement system under this subsection is irrevocable. Nonteaching employees of the superintendent of public instruction, including the superintendent of public instruction, may elect to transfer to the public employees retirement system pursuant to section 54-52-02.13. Employees of the state board for career and technical education may elect to transfer to the public employees retirement system pursuant to section 54-52-02.14.
4. An individual who is first employed and entered upon the payroll of the state board for career and technical education after July 1, 2007, may elect to become a participating member of the public employees retirement system. An election made by an individual to participate in the public employees retirement system under this subsection is irrevocable.

**15-39.1-09.1. Participation of nonpublic schoolteachers.**

Repealed by S.L. 1993, ch. 191, § 3.

**15-39.1-10. (Effective through June 30, 2013) Eligibility for normal retirement benefits.**

1. The following members are eligible to receive monthly lifetime normal retirement benefits under this section:
   a. All tier one members who have earned three years of teaching service credit and who have attained the age of sixty-five years.
   b. All tier one members who have earned three years of teaching service credit and who have a combined total of years of service credit and years of age which equals or exceeds eighty-five.
   c. All tier two members who have earned five years of teaching service credit and who have attained the age of sixty-five years.
   d. All tier two members who have earned five years of teaching service credit and who have a combined total of years of service credit and years of age which equals or exceeds ninety.
2. The amount of retirement benefits is two percent of the final average monthly salary of the member multiplied by the number of years of credited service. For the purposes of this subsection, final average monthly salary for a tier one member means one thirty-sixth of the total of the member's highest annual salaries earned between July first of a calendar year and June thirtieth of the subsequent calendar year for any three years of service credit under the fund. For purposes of this subsection, final average monthly salary for a tier two member means one sixtieth of the total of the member's highest annual salaries earned between July first of a calendar year and June thirtieth of the subsequent calendar year for any five years of service credit under the fund.

3. Notwithstanding any other provision of this section, no member who retired on July 1, 1993, or after and is eligible to receive benefits under former chapter 15-39, chapter 15-39.1, or section 15-39.2-02, may receive benefits which are less than:
   a. Ten dollars per month per year of teaching to twenty-five years.
   b. Fifteen dollars per month per year of teaching over twenty-five years.
4. Retirement benefits must begin no later than April first of the calendar year following the year the member attains age seventy and one-half or April first of the calendar year following the year the member terminates covered employment, whichever is later. Payments must be made over a period of time which does not exceed the life expectancy of the member or the joint life expectancy of the member and the beneficiary. Payment of minimum distributions must be made in accordance with section 401(a)(9) of the Internal Revenue Code in effect on August 1, 2011, and the regulations issued under that section, as applicable to governmental plans.

**(Effective after June 30, 2013) Eligibility for normal retirement benefits.**

1. The following members who have acquired a vested right to a retirement annuity as set forth in section 15-39.1-11 are eligible to receive monthly lifetime normal unreduced retirement benefits under this section:
   a. All tier one and tier two members who have attained the age of sixty-five years.
   b. All tier one grandfathered members who have a combined total of years of service credit and years of age which equals or exceeds eighty-five.
   c. All tier one nongrandfathered members and tier two members who are at least sixty years of age and who have a combined total of years of service credit and years of age which equals or exceeds ninety.
2. The amount of retirement benefits is two percent of the final average monthly salary of the member multiplied by the number of years of credited service. For the purposes of this subsection, final average monthly salary for a tier one member means one thirty-sixth of the total of the member's highest annual salaries earned between July first of a calendar year and June thirtieth of the subsequent calendar year for any three years of service credit under the fund. For purposes of this subsection, final average monthly salary for a tier two member means one sixtieth of the total of the member's highest annual salaries earned between July first of a calendar year and June thirtieth of the subsequent calendar year for any five years of service credit under the fund.
3. Notwithstanding any other provision of this section, no member who retired on July 1, 1993, or after and is eligible to receive benefits under former chapter 15-39, chapter 15-39.1, or section 15-39.2-02, may receive benefits which are less than:
   a. Ten dollars per month per year of teaching to twenty-five years.
   b. Fifteen dollars per month per year of teaching over twenty-five years.
4. Retirement benefits must begin no later than April first of the calendar year following the year the member attains age seventy and one-half or April first of the calendar year following the year the member terminates covered employment, whichever is later. Payments must be made over a period of time which does not exceed the life expectancy of the member or the joint life expectancy of the member and the beneficiary. Payment of minimum distributions must be made in accordance with section 401(a)(9) of the Internal Revenue Code in effect on August 1, 2011, and the regulations issued under that section, as applicable to governmental plans.

**15-39.1-10.1. Postretirement adjustments.**

Every person receiving monthly benefits from the fund on an account on which benefits were being paid on June 30, 1983, shall receive an increase in benefits beginning July 1, 1983, equal to fifteen percent of the person's present annuity. The percentage must be adjusted, if necessary, so that the maximum increase would be no more than forty-five dollars per month. The fifteen percent increase in benefits must be adjusted in percentage so that no person receives less than one dollar per month per year of teaching credit.

**15-39.1-10.2. Postretirement adjustments.**

Every person receiving monthly benefits from the fund on an account on which benefits were being paid on June 30, 1985, shall receive an increase in benefits beginning July 1, 1985, equal to one percent for each year the person has been retired under the fund. No member may receive more than a ten percent or more than a forty dollar per month increase in benefits under this section.

**15-39.1-10.3. Multiple plan membership - Eligibility for benefits - Amount of benefits.**

1. a. For the purpose of determining vesting of rights and eligibility for benefits under this chapter, a teacher's years of service credit is the total of the years of service credit earned in the fund and the years, with twelve months of compensation equal to a year, of service employment earned in any number of the following alternate plans:
   (1) The public employees retirement system.
   (2) The highway patrolmen's retirement system.

   Service credit may not exceed one year of service in any fiscal year in determining vesting and benefit eligibility.

   b. If a teacher terminates eligible employment under the fund, if that teacher has not received a refund of member contributions, and if that teacher begins eligible employment in a plan described in paragraph 1 or 2 of subdivision a, that teacher may elect to remain an inactive member of the fund without refund of contributions. The board shall terminate the inactive status of a teacher under this subdivision if the teacher gains eligible employment under this chapter or if the teacher terminates eligible employment under a plan described in paragraph 1 or 2 of subdivision a.

   c. Pursuant to rules adopted by the board, a teacher who has service credit in the fund and in any number of the alternate plans described in paragraphs 1 and 2 of subdivision a is entitled to benefits under this chapter.
      (1) A tier one member may elect to have benefits calculated using the benefit formula in subsection 2 of section 15-39.1-10 under either of the following calculation methods:
         (a) Using the three highest certified fiscal year salaries of this plan in the computation of final average salary and all service credit earned in this plan; or
         (b) Using the three highest certified fiscal year salaries of this plan combined with the alternate plan in the computation of final average salary and service credit not to exceed one year in any fiscal year when combined with the service credit earned in the alternate retirement plan.
      (2) A tier two member may elect to have benefits calculated using the benefit formula in subsection 2 of section 15-39.1-10 under either of the following calculation methods:
         (a) Using the five highest certified fiscal year salaries of this plan in the computation of final average salary and all service credit earned in this plan; or
         (b) Using the five highest certified fiscal year salaries of this plan combined with the alternate plan in the computation of final average salary and service credit not to exceed one year in any fiscal year when combined with the service credit earned in the alternate retirement plan.

2. a. If a teacher, who is eligible to participate in this fund, is also eligible to participate in an alternate retirement system, the employee is a member of the teachers' fund for retirement for duties covered under this fund, and the employee is also a member of the public employees retirement system or highway patrolmen's retirement system for duties covered by those alternate retirement systems. The

employers shall pay the member and employer contributions at the rates currently existing for the applicable system.

b. If a teacher described in subdivision a was employed prior to August 1, 2003, and has dual member rights, the teacher may elect to begin participation in the alternate plan pursuant to the plan provisions on August 1, 2003, or may continue participation pursuant to the plan provisions in effect on July 31, 2003. A plan participation election is required by five p.m. on October 31, 2003. If an election is not received by the retirement plan, the participation and benefit calculation requirements of this chapter as of July 31, 2003, continue to be in effect for the teacher.

3. Under rules adopted by the board, an individual whose service credit was canceled when that individual received a refund of assessments at termination of employment under this chapter may, while that individual participates in a plan described in paragraph 1 or 2 of subdivision a of subsection 1, repurchase that service credit that was canceled.

**15-39.1-10.4. Postretirement adjustments.**

An individual who, on June 30, 1987, is receiving benefits from the fund on an account paid under former chapter 15-39 is entitled to a monthly increase in that individual's annuity. The monthly increase is fifteen dollars plus one dollar and fifty cents for every year benefits have been drawn from the fund, but cannot exceed an increase of seventy-five dollars per month. An individual who, on June 30, 1987, is receiving benefits from the fund on an account paid under this chapter is entitled to a monthly increase of one dollar and fifty cents for every year benefits have been drawn from the fund.

**15-39.1-10.5. Postretirement adjustments.**

An individual who on June 30, 1989, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive an increase in benefits equal to five cents times the individual's number of years of service credit under the fund times the number of years the individual has drawn benefits from the fund.

**15-39.1-10.6. Benefit limitations.**

Benefits with respect to a member participating under former chapter 15-39 or chapter 15-39.1 or 15-39.2 may not exceed the maximum benefits specified under section 415 of the Internal Revenue Code [26 U.S.C. 415] in effect on August 1, 2011, for governmental plans. The maximum dollar benefit applicable under section 415(b)(1)(A) of the Internal Revenue Code must reflect any increases in this amount provided under section 415(d) of the Internal Revenue Code subsequent to August 1, 2011. If a member's benefit is limited by these provisions at the time of retirement or in any subsequent year, the benefit paid in any following calendar year may be increased to reflect all cumulative increases in the maximum dollar limit provided under section 415(d) of the Internal Revenue Code for years after the year payments commenced, but not to more than would have been payable in the absence of the limits under section 415 of the Internal Revenue Code. If an annuitant's benefit is increased by a plan amendment, after the commencement of payments, the member's benefit may not exceed the maximum dollar benefit under section 415(b)(1)(A) of the Internal Revenue Code, adjusted for the commencement age and form of payment, increased as provided by section 415(d) of the Internal Revenue Code. If this plan must be aggregated with another plan to determine the effect of section 415 of the Internal Revenue Code on a member's benefit, and if the benefit must be reduced to comply with section 415 of the Internal Revenue Code, then the reduction must be made pro rata between the two plans, in proportion to the member's service in each plan.

**15-39.1-10.7. Postretirement adjustments.**

An individual who on June 30, 1991, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive three dollars per month multiplied by the individual's number of years of credited service for individuals who

retired before 1980, two dollars per month multiplied by the individual's number of years of credited service for individuals who retired after 1979 and before 1984, or one dollar per month multiplied by the individual's number of years of credited service for individuals who retired after 1983 and who retire before July 1, 1991, or an increase of ten percent in the individual's currently payable annuity, whichever is greater. The minimum monthly increase under this section is five dollars and the maximum monthly increase under this section is seventy-five dollars.

**15-39.1-10.8. Postretirement adjustments.**

An individual who on June 30, 1993, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive three dollars per month multiplied by the individual's number of years of credited service for individuals who retired before 1980, two dollars and fifty cents per month multiplied by the individual's number of years of credited service for individuals who retired after 1979 and before 1984, or one dollar per month multiplied by the individual's number of years of credited service for individuals who retired after 1983 and who retire before July 1, 1993, or an increase of ten percent in the individual's currently payable annuity, whichever is greater. The minimum monthly increase under this section is five dollars and the maximum monthly increase under this section is one hundred dollars.

**15-39.1-10.9. Postretirement adjustment.**

An individual who on June 30, 1997, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive an increase of thirty dollars per month.

**15-39.1-10.10. Postretirement adjustment.**

An individual who on June 30, 1999, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive a monthly increase equal to an amount determined by taking two dollars per month multiplied by the member's number of years of service credit plus one dollar per month multiplied by the number of years since the member's retirement.

**15-39.1-10.11. Postretirement adjustments.**

An individual who on June 30, 2001, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive a monthly increase equal to an amount determined by taking two dollars per month multiplied by the member's number of years of service credit plus one dollar per month multiplied by the number of years since the member's retirement. In addition, an individual who is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive a seventy-five hundredths of one percent increase of the individual's current monthly benefit with the increased benefit payable each month thereafter beginning on July 1, 2001. An individual who on June 30, 2002, is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 is entitled to receive a seventy-five hundredths of one percent increase of the individual's current monthly benefit with the increased benefit payable each month thereafter beginning on July 1, 2002. This annual benefit adjustment is conditioned on an actuarial test performed annually by the board's actuarial consultant to determine the actuarial adequacy of the statutory contribution rate. The board shall report the results of the actuarial test annually to the employee benefits programs committee. If the actuarial valuation indicates a shortfall between the actuarially determined benchmark contribution rate and the statutory rate, the board may reduce or suspend the conditional annual benefit adjustment. The actuarial adequacy test fails if one or more of the following are true:

1. The shortfall is greater than six-tenths of one percent in any year; or
2. The shortfall is greater than three-tenths of one percent in any two consecutive years.

**15-39.1-10.12. Supplemental retiree benefit payment.**

An individual who retired before January 1, 2009, and is receiving monthly benefits from the fund on an account paid under this chapter or under former chapter 15-39 on December 1, 2009, is entitled to receive a supplemental payment from the fund. The supplemental payment is equal to an amount determined by taking twenty dollars multiplied by the member's number of years of service credit plus fifteen dollars multiplied by the number of years since the member's retirement as of January 1, 2009. The supplemental payment may not exceed the greater of ten percent of the member's annual annuity or seven hundred fifty dollars. The board shall make the supplemental payment in December 2009.

**15-39.1-11. Vesting of rights.**

When a tier one member has paid assessments and earned three years of service credit in this state, that member has a vested right to a retirement annuity but is not entitled to payments under this chapter until the member meets the requirements set forth in section 15-39.1-10 or 15-39.1-12. When a tier two member has paid assessments and earned five years of service credit in this state, that member has a vested right to a retirement annuity but is not entitled to payments under this chapter until the member meets the requirements set forth in section 15-39.1-10 or 15-39.1-12.

**15-39.1-12. (Effective through June 30, 2013) Early retirement.**

A tier one member who has acquired a vested right to a retirement annuity as set forth in section 15-39.1-11 and who has attained age fifty-five may retire prior to the normal retirement age as set forth in section 15-39.1-10 but the benefits to which the member is then entitled must be reduced to the actuarial equivalent of the benefit credits earned to the date of early retirement from the earlier of age sixty-five or the age at which current service plus age equals eighty-five. A tier two member who has acquired a vested right to a retirement annuity as set forth in section 15-39.1-11 and who has attained age fifty-five may retire prior to the normal retirement age as set forth in section 15-39.1-10 but the benefits to which the member is then entitled must be reduced to the actuarial equivalent of the benefit credits earned to the date of early retirement from the earlier of age sixty-five or the age at which current service plus age equals ninety.

**(Effective after June 30, 2013) Early reduced retirement benefits.**

A member who has acquired a vested right to a retirement annuity as set forth in section 15-39.1-11 and who has attained age fifty-five may retire prior to the normal retirement age as set forth in section 15-39.1-10 but the benefits to which the member is then entitled must be reduced according to the following schedule:

1. All tier one grandfathered member benefits must be reduced by six percent per annum from the earlier of:
   a. Age sixty-five; or
   b. The age at which the sum of the member's current years of service credit and years of age equals eighty-five.
2. All tier one nongrandfathered member and tier two member benefits must be reduced by eight percent per annum from the earlier of:
   a. Age sixty-five; or
   b. The later of:
      (1) Age sixty; or
      (2) The age at which the sum of the member's current years of service credit and years of age equals ninety.

**15-39.1-12.1. Partial service retirement.**

Repealed by S.L. 1999, ch. 175, § 9.

**15-39.1-12.2. Benefit payments to alternate payee under domestic relations order.**

1. The board shall pay retirement benefits in accordance with the applicable requirements of any qualified domestic relations order. The board shall review a domestic relations order submitted to it to determine if the domestic relations order is qualified under this section and under rules established by the board for determining the qualified status of domestic relations orders and administering distributions under the qualified orders. Upon determination that a domestic relations order is qualified, the board shall notify the teacher and the named alternate payee of its receipt of the qualified domestic relations order.
2. A "qualified domestic relations order" for purposes of this section means any judgment, decree, or order, including approval of a property settlement agreement, which relates to the provision of child support, spousal support, or marital property rights to a spouse, former spouse, child, or other dependent of the teacher, which is made pursuant to a North Dakota domestic relations law, and which creates or recognizes the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a part of the benefits payable to the teacher. A qualified domestic relations order may not require the board to provide any type or form of benefit, or any option, not otherwise provided under the fund, or to provide increased benefits as determined on the basis of actuarial value. However, a qualified domestic relations order may require the payment of benefits at the early retirement date notwithstanding that the teacher has not terminated eligible employment. A qualified domestic relations order must specify:
   a. The name and last-known mailing address of the teacher and the name and mailing address of each alternate payee covered by the order;
   b. The amount or percentage of the teacher's benefits to be paid by the board to each alternate payee;
   c. The number of payments or period to which the order applies; and
   d. Each retirement plan to which the order applies.

**15-39.1-13. Exemptions from legal process.**

Repealed by S.L. 1987, ch. 386, § 2.

**15-39.1-14. Retirement not mandatory.**

Nothing in this chapter may be construed as requiring retirement at any specific age. If the teacher elects to teach beyond age sixty-five, the teacher continues to earn credits at the same rate as prior to the age of sixty-five.

**15-39.1-15. Withdrawal from fund - Return to teaching.**

A teacher who has withdrawn from the fund as set forth in this chapter may, by returning to teach in a public school or state institution of this state, regain service credit for prior teaching by making the required payment. The required payment, if made within five years of returning to teach in covered employment, is the amount that was withdrawn with interest. In all other cases, the purchase cost must be on an actuarial equivalent basis. If the teacher returns to teach in covered employment after June 30, 2008, the teacher becomes a tier two member regardless of whether the teacher repurchases service credit earned while the teacher was a tier one member.

**15-39.1-16. Option of teachers eligible to receive annuities.**

The board shall adopt rules providing for the receipt of retirement benefits in the following optional forms:

Option one. Upon the death of the teacher, the reduced retirement allowance must be continued throughout the life of, and paid to, the teacher's designated beneficiary named at the time of retirement. If the person designated to receive the teacher's reduced retirement allowance predeceases the teacher, the reduced retirement allowance must be converted to a single life retirement annuity under which benefit payments, if the person designated died prior

to July 1, 1989, must begin on July 1, 1989, or, if the person designated dies on or after July 1, 1989, must begin on the first day of the month following the death of the person designated.

Option two. Upon the death of the teacher, one-half of the reduced retirement allowance must be continued throughout the life of, and paid to, the teacher's designated beneficiary named at the time of retirement. If the person designated to receive the teacher's reduced retirement allowance predeceases the teacher, the reduced retirement allowance must be converted to a single life retirement annuity under which benefit payments, if the person designated died prior to July 1, 1989, must begin on July 1, 1989, or, if the designated beneficiary dies on or after July 1, 1989, must begin on the first day of the month following the death of the person designated.

Option three. Upon the death of the teacher within twenty years of the commencement of annuity payments, the payments must be continued for the remainder of the twenty-year period to the teacher's designated beneficiary. This payment option is available to teachers who retire after July 31, 2003.

Option four. Upon the death of the teacher within ten years of the commencement of annuity payments, the payments must be continued for the remainder of the ten-year period to the teacher's designated beneficiary.

Option five. Level retirement income with social security option, which is available to teachers retiring before social security is payable.

Option six. Partial lump sum distribution option. A member who is eligible for an unreduced service retirement annuity under section 15-39.1-10 and who retires after July 31, 2003, may make a one-time election to receive a portion of the retirement annuity paid in a lump sum distribution upon retirement, pursuant to rules adopted by the board.

1. The eligible member may select a standard service retirement annuity or an optional service retirement annuity described in this section, together with a partial lump sum distribution. The partial lump sum distribution option is not available to members who have selected option five, the level income retirement option. This option is not available to disabled members or beneficiaries of deceased members. The partial lump sum distribution option may be elected only once by a member and may not be elected by a retiree.
2. The amount of the partial lump sum distribution under this section is twelve months of a standard service retirement annuity computed under section 15-39.1-10 and payable at the same time that the first monthly payment of the annuity is paid.
3. The service retirement annuity selected by the member must be actuarially reduced to reflect the partial lump sum distribution option selected by the member.
4. Before a retiring member selects a partial lump sum distribution under this section, the fund shall provide a written notice to the member of the amount by which the member's annuity will be reduced because of the selection.

The amount of the reduced retirement allowance payable upon the exercise of any of these options must be computed upon an actuarial basis through the use of standard actuarial tables and based upon the ages of the teacher and the teacher's designated beneficiary. A member's spouse, if designated as beneficiary, must consent in writing to the member's choice of benefit payment option for any benefit payments commencing after June 30, 1999. The board may rely on the member's representations about that person's marital status in determining the member's marital status. The spouse's written consent must be witnessed by a notary or a plan representative. If the spouse does not consent, or cannot be located, the member's annuity benefit must be paid using option two, the fifty percent joint and survivor option.

**15-39.1-17. Death of member.**

1. A member may designate a beneficiary to receive death benefits under the plan when the member dies. If the member is not married, the member may designate a person, estate, or organization as primary beneficiary to receive death benefits. If the member is married, the spouse of the member is the member's primary beneficiary unless the spouse consents in writing to the member's alternate primary beneficiary designation. A member also may designate contingent beneficiaries who are entitled to any remaining death benefits if the primary beneficiary dies before receiving all death

benefits provided by this plan. If a member dies without naming a contingent beneficiary, the primary beneficiary may name a contingent beneficiary. If there is no named primary or contingent beneficiary, any death benefits will be paid to the estate.

2. If a member has named more than one primary beneficiary, the board shall pay any death benefits to the primary beneficiaries in the percentages designated by the member or, if the member has not designated a percentage for the beneficiaries, in equal percentages. If one or more of the primary beneficiaries has predeceased the member, the board shall pay the predeceased beneficiary's share to the remaining primary beneficiaries. If no primary beneficiaries remain, any death benefits must be paid to the contingent beneficiaries in the same manner.
   a. If before retiring a nonvested member dies, the plan shall pay the member's account value to the member's beneficiary.
   b. If before retiring a vested member dies, the member's beneficiary may select a form of payment as follows:
      (1) If the member dies and was eligible for unreduced retirement benefits and if the beneficiary is one person, the beneficiary may select:
         (a) A lump sum payment of the member's account value; or
         (b) A lifetime monthly annuity effective on the first of the month following the month of the member's death. The amount of the monthly annuity is equal to an amount that would have been paid to the beneficiary under a one hundred percent joint and survivor annuity. If the beneficiary dies before receiving the guaranteed member account value, any remaining balance must be paid in a lump sum to a named contingent beneficiary, or if none, to the estate of the recipient.
      (2) If the member dies and was not eligible for unreduced retirement benefits and if the beneficiary is one person, the beneficiary may select:
         (a) A lump sum payment of the member's account value; or
         (b) A lifetime monthly annuity effective on the first of the month following the month of the member's death. The amount of the monthly annuity is equal to an amount that would have been paid to the beneficiary under a one hundred percent joint and survivor annuity without reduction for early retirement and using the disability option reduction factor. If the beneficiary dies before receiving the guaranteed member account value, any remaining balance must be paid in a lump sum to a named contingent beneficiary, or if none, to the estate of the recipient.
      (3) If the member dies and multiple beneficiaries are eligible for death benefits, the plan shall pay the member's account value to the member's beneficiaries.
   c. If a member or beneficiary receiving benefits under this plan dies before the total amount of benefits paid to either or both equals the amount of the member's account value, the difference must be paid in a lump sum to a named beneficiary, or if none, to the estate of the recipient.

**15-39.1-18. (Effective through June 30, 2013) Disability retirements.**

1. Any member may also retire and receive a disability annuity if, after a period of at least one year of service as a member in this state, the member suffers from total disability as determined by the board.
2. The amount of the disability annuity is the greater of the amount computed by the retirement formula in section 15-39.1-10 without consideration of age or the amount computed by that formula without consideration of age but assuming the member had twenty years of credited service. A member determined eligible for a disability annuity under this section may elect to receive an annuity under any of the options allowed in section 15-39.1-16, except the level retirement income with social security option or the partial lump sum option.

3. The disability annuity continues until the death or prior recovery of the disabled annuitant. The board shall ascertain by periodic medical examinations the continued disability status of a disabled annuitant.
4. If a disabled annuitant recovers and returns to active teaching, that annuitant is entitled to the retirement benefit credits which the annuitant earned prior to the time of disablement, and the credits which the annuitant earned after returning to active teaching must be added to those earned prior to disablement.

**(Effective after June 30, 2013) Disability retirements.**

1. Any member may also retire and receive a disability annuity if, after a period of at least five years of service as a member in this state, the member qualifies for total disability as determined by the board.
2. The amount of the disability annuity is the amount computed by the retirement formula in section 15-39.1-10 without consideration of age. A member determined eligible for a disability annuity under this section may elect to receive an annuity under any of the options allowed in section 15-39.1-16, except the level retirement income with social security option or the partial lump sum option.
3. The disability annuity continues until the death or prior recovery of the disabled annuitant. The board shall ascertain by periodic medical examinations the continued disability status of a disabled annuitant.
4. If a disabled annuitant recovers and returns to active teaching, that annuitant is entitled to the retirement benefit credits which the annuitant earned prior to the time of disablement, and the credits which the annuitant earned after returning to active teaching must be added to those earned prior to disablement.

**15-39.1-19. Annuities discontinued on resumption of teaching.**

Repealed by S.L. 1979, ch. 236, § 2.

**15-39.1-19.1. Retired teachers return to active service - Annuities discontinued on resumption of teaching over annual hour limit.**

1. a. Except as otherwise provided in section 15-39.1-19.2, a retired teacher who is receiving a retirement annuity under chapter 15-39, 15-39.1, or 15-39.2 may not return to covered employment until thirty calendar days have elapsed from the member's retirement date. A retired member may then return to covered employment under an annual hour limit and continue receiving a monthly retirement benefit. The annual hour limit is based on the length of the reemployed retiree's contract as follows:
   (1) Retiree reemployment of nine months or less, annual limit is seven hundred hours;
   (2) Retiree reemployment of ten months, annual limit is eight hundred hours;
   (3) Retiree reemployment of eleven months, annual limit is nine hundred hours; or
   (4) Retiree reemployment of twelve months, annual limit is one thousand hours.
   b. Employment as a noncontracted substitute teacher does not apply to the annual hour limit. Professional development and extracurricular duties do not apply to the annual hour limit.
   c. The retired member and the retired member's employer must notify the fund office in writing within thirty days of the retired member's return to covered employment.
   d. A retired member who returns to teaching shall pay the member contributions required by section 15-39.1-09 on the salary received by the retired member. The member contributions must be included in the retired member's account value and may not be refunded except as provided under subdivision a of subsection 2 of section 15-39.1-19.1 and section 15-39.1-17.

e. A participating employer who employs a retired member under this section shall pay the employer contributions required by section 15-39.1-09 on the salary of the retired member.

f. A retired teacher who returns to teaching and does not exceed the annual hour limit must be treated as retired for all other purposes under this chapter. A retired teacher may not earn any additional service during the period of reemployment. The retired teacher's benefits may not be adjusted to reflect changes in the retired teacher's age or final average monthly salary at the end of the period of reemployment, any optional form of payment elected under section 15-39.1-16 remains effective during and after the period of reemployment, and additional benefits normally available to an active member, such as disability benefits, are not available to a retired teacher reemployed under this section.

g. A retired teacher who returns to teaching and exceeds the annual hour limit must immediately notify the fund office in writing. Failure to notify the fund office results in the loss of one month's annuity benefit for the member. The retired member's monthly benefit must be discontinued the first of the month following the date the member reaches the annual hour limit.

2. Upon the retired teacher's subsequent retirement, the member's benefit must be resumed as follows:

a. If the teacher subsequently retires with less than two years of additional earned credited service, the teacher's contributions paid to the fund after the member's benefit was suspended must be refunded in accordance with section 15-39.1-20 and the teacher is entitled to receive the discontinued annuity, plus any postretirement benefit adjustments granted during the period of reemployment, the first day of the month following the teacher's re-retirement.

b. If the teacher subsequently retires with two or more but less than five years of additional earned credited service, the retired person's annuity is the greater of the sum of the discontinued annuity, plus an additional annuity computed according to this chapter based upon years of service and average salaries earned during the period of reemployment plus any postretirement benefit adjustments granted during the period of reemployment, or a recalculated annuity computed according to this chapter based on total years of service credit earned during both employment periods offset by the actuarial value of payments already received. The new annuity is payable the first day of the month following the member's re-retirement.

c. If the teacher subsequently retires with five or more years of additional earned credited service, the retired person's annuity is the greater of the sum of the discontinued annuity plus an additional annuity based upon years of service and average salaries earned during the period of reemployment plus any postretirement benefit adjustments granted during the period of reemployment, or a recalculated annuity based on all years of service computed under subsection 2 of section 15-39.1-10. The new annuity is payable the first day of the month following the member's re-retirement.

**15-39.1-19.2. Retired teachers return to active service - Critical shortage areas and disciplines - Rules.**

1. A retired teacher who is receiving a retirement annuity under chapter 15-39, 15-39.1, or 15-39.2 may elect to return to teaching without losing any benefits under the provisions of this section or elect to return to teaching under the provisions of section 15-39.1-19.1. To return to teaching under this section, a retired teacher must:

a. Return to teach in a critical shortage geographical area or subject discipline as determined by the education standards and practices board by rule;

b. If retired after January 1, 2001, have been receiving a retirement annuity for at least one year. A retired teacher may perform noncontracted substitute teaching duties but may not engage in full-time or part-time teaching duties during the one-year separation from service; and

c. Notify the fund office in writing within thirty days of the retired member's return to covered employment. The retired member's employer must also notify the fund office in writing within thirty days of the retired member's return to covered employment.

2. A retired teacher who returns to teaching under this section shall pay the member contributions required by section 15-39.1-09 on the salary of the retired member. The member contributions must be included in the retired member's account value and may not be refunded except as provided under section 15-39.1-17. A retired teacher who returns to teaching under the provisions of this section must be treated as retired for all other purposes under this chapter. A retired teacher may not earn any additional service during the period of reemployment. The retired teacher's benefits may not be adjusted to reflect changes in the retired teacher's age or final average monthly salary at the end of the period of reemployment, any optional form of payment elected under section 15-39.1-16 remains effective during and after the period of reemployment, and additional benefits normally available to an active member, such as disability benefits, are not available to a retired teacher reemployed under this section.

3. A participating employer who employs a retired member under this section shall pay the employer contributions required by section 15-39.1-09 on the salary of the retired member.

**15-39.1-20. Withdrawal from fund.**

When a member of the fund ceases to be eligible under the terms of this chapter to participate in the fund, the member may, after a period of one hundred twenty days, withdraw from the fund and is then entitled to receive a refund of assessments accumulated with interest. The one-hundred-twenty-day requirement may be waived by the board when it has evidence the teacher will not be returning to teach in North Dakota. The refund is in lieu of any other benefits to which the member may be entitled under the terms of this chapter, and by accepting the refund, the member is waiving any right to participate in the fund under the same provisions that existed at the time the refund was accepted regardless of whether the member later repurchases refunded service credit. A member or a beneficiary of a member may elect, at the time and under rules adopted by the board, to have any portion of an eligible rollover distribution paid directly in a direct rollover to an eligible retirement plan specified by the member or the beneficiary to the extent permitted by section 401(a)(31) of the Internal Revenue Code in effect on August 1, 2011.

**15-39.1-21. Effect on existing obligations.**

Nothing herein contained may be construed to affect existing retirement benefits and all obligations of the teachers' insurance and retirement fund existing on July 1, 1971, must be assumed and paid from the teachers' fund for retirement. Amounts which persons retired on July 1, 1971, are receiving must be frozen as of that date and may not be deemed increased by this chapter.

**15-39.1-22. Annual audit.**

The board shall conduct an annual audit of the fund for the fiscal year ending the preceding June thirtieth.

**15-39.1-23. Penalties for failure to make required reports and payments.**

Except for unintentional reporting errors, an employing body failing to file reports required by the board or failing to pay over for credit to the fund the amounts required to be paid by this chapter is subject to a civil penalty of two hundred fifty dollars and, as interest, one percent of the amount due for each month of delay or fraction thereof after the report was required to be filed or the payment became due. The board, if satisfied the delay or underpayment was unintentional and excusable, may waive, or if paid, refund all or part of the two hundred fifty dollar penalty and may reduce the interest rate charge to the investment return rate used in the most recent actuarial valuation, compounded annually, but may not waive the entire amount of

the interest. The penalty must be paid to the fund and deposited in the same manner as other receipts under this chapter.

In addition, a school district, multidistrict special education unit, area career and technology center, and regional education association may not share in the apportionment of any money from the state for any year unless the school district, multidistrict special education unit, area career and technology center, or regional education association has made the reports required by the board as permitted by this chapter, and has paid over for credit to the fund the amounts required to be paid under this chapter.

**15-39.1-24. Purchase of additional credit.**

Prior to retirement a teacher who provides proof of eligibility under rules adopted by the board may purchase additional credit for use toward retirement in the following instances and manner:

1. A teacher may purchase service credit for years of elementary or secondary teaching service at an accredited out-of-state public, private, or parochial school.
2. A teacher not qualified to receive military credit under the Uniformed Services Employment and Reemployment Rights Act of 1994 [Pub. L. 103-353; 108 Stat. 3150; 38 U.S.C. 4301-4307] or Veterans' Reemployment Rights Act of 1991 [Pub. L. 93-508; 88 Stat. 3150] who has received an honorable discharge from military service of the United States of America may purchase military credit for no more than four years of active service, upon filing application and proof with the board.
3. A teacher may purchase service credit for credit lost while on an approved leave of absence from teaching duties.
4. A teacher may purchase service credit for the time during each legislative session spent serving as a member of the legislative assembly while holding eligible employment under this chapter. As an alternative to a teacher purchasing service credit under this subsection, a teacher and the governmental body employing the teacher may enter into an agreement by which payment for service credit for time spent during each legislative session by the teacher serving as a member of the legislative assembly is made pursuant to section 15-39.1-09. The agreement must provide that contributions made pursuant to section 15-39.1-09 are calculated based on the teacher's annual salary without reduction for a leave of absence taken by the teacher during the legislative session.
5. A teacher may purchase credit for years of elementary or secondary teaching service if employed by an agency of the United States government.
6. A teacher who is elected president of a professional educational organization recognized by the board and who serves in a full-time capacity in lieu of teaching may purchase service credit for the time spent serving as president. As an alternative to purchasing service credit under this subsection, a teacher and the governmental body employing the teacher may enter into an agreement under which payment for service credit for the time spent as president of the professional educational organization is made pursuant to section 15-39.1-09. The agreement must provide that contributions made pursuant to section 15-39.1-09 are calculated based on the teacher's annual salary as president.
7. A teacher may purchase service credit for years of elementary or secondary teaching service in an accredited North Dakota private or parochial school.
8. A teacher who has at least five years of teaching service credit in the fund may purchase credit not based on service for use toward retirement eligibility and benefits. The purchase of service credit for such nonqualified service as defined under section 415(n) of the Internal Revenue Code is limited to an aggregate of five years.
9. A teacher who had that person's North Dakota teaching service interrupted by military service in any branch of the United States armed forces and received an honorable discharge may receive credit for military service pursuant to applicable federal veterans' rights acts including the Uniformed Services Employment and Reemployment Rights Act of 1994 [Pub. L. 103-353; 108 Stat. 3150; 38 U.S.C.

4301-4307] or the Veterans' Reemployment Rights Act of 1991 [Pub. L. 93-508; 88 Stat. 3150].

10. With the exception of military service, purchased service credit is not eligible for credit if the years claimed also qualify for retirement benefits from another retirement system.
11. The fund may accept eligible rollovers, direct rollovers, and trustee-to-trustee transfers from eligible retirement plans specified under Internal Revenue Code section 402(c)(8)(B) to purchase refunded service credit under section 15-39.1-15 and to purchase additional service credit under section 15-39.1-24. The board shall adopt rules to ensure that the rollovers and transfers comply with the requirements of the Internal Revenue Code and internal revenue service regulations. The total amount rolled over or transferred into the fund may not exceed the amount due to purchase service credit.
12. The amount of additional service eligible to be purchased under this section must be credited to the teacher when the teacher has made the required payment. Except as provided in subsections 4, 6, and 9, the purchase cost must be on an actuarial equivalent basis.

**15-39.1-25. Certain rights and obligations fixed.**

Except as otherwise provided in chapter 15-39.2, the laws pertaining to the teachers' fund for retirement, as contained in chapter 15-39.1, apply to teachers, superintendents, assistant superintendents, principals, assistant principals, special teachers, supervisors of instruction and other supervisors, presidents, deans, school librarians, and registrars employed by any state institution under the supervision and control of the state board of higher education and the commissioner of higher education, only in the form and substance as chapter 15-39 existed as of July 1, 1967, and all such persons have only such rights, benefits, and privileges as provided in chapter 15-39 as it existed on July 1, 1967. Such persons are responsible or liable for only those costs or assessments provided for in chapter 15-39 as such laws and chapter existed on July 1, 1967. The state board of higher education or any institution under the supervision or control of the state board of higher education is not liable for any costs, assessments, or payments under the provisions of chapter 15-39 in excess of that provided or required under the provisions of chapter 15-39 as such laws and chapter existed on July 1, 1967. It is hereby declared to be the intent of the legislative assembly to freeze the rights, benefits, privileges, assessments, payments, and obligations of the persons, offices, and institutions specified in this section to those rights, benefits, privileges, assessments, payments, and obligations as they existed under the provisions of chapter 15-39 as such laws and chapter existed in form and substance as of July 1, 1967, and that all legislative enactments subsequent to such date do not affect or apply to those persons, offices, and institutions specified in this section or their rights, benefits, privileges, assessments, payments, and obligations as fixed by this section.

**15-39.1-26. Investment of moneys in fund - Interest and earnings attributable to fund.**

Investment of the fund is under the supervision of the state investment board in accordance with chapter 21-10. The moneys must be placed for investment only with a firm or firms whose endeavor is money management, and only after a trust agreement or contract has been executed. Investment costs may be paid directly from the fund, and are hereby appropriated for that purpose, in accordance with section 21-10-06.2. All interest and earnings on funds administered by the board must be credited to the fund.

**15-39.1-27. Computation of years of service.**

In computing the terms of service of a member under this chapter, for a member employed full time, a year is deemed to be one hundred seventy-five days of compensation. Employment less than one hundred seventy-five days of compensation is not deemed to be a full year but only as the proportion of a year as the number of hours employed in each year of service bears to seven hundred hours.

**15-39.1-28. Tax levy for teachers' retirement.**

Any school district by a resolution of its school board may levy a tax pursuant to subdivision b of subsection 1 of section 57-15-14.2, the proceeds to be used for the purposes of meeting the district's contribution to the fund arising under this chapter and to provide the district's share, if any, of contribution to the fund for contracted employees of either a multidistrict special education board or another school district where the contracted employees are also providing services to the taxing school district.

**15-39.1-29. Fraud against fund - Penalty.**

Any person who knowingly makes a false statement, or falsifies or permits to be falsified any record or records of this retirement fund in any attempt to defraud such fund as a result of such act, is guilty of theft, and is punishable therefor under the laws of the state of North Dakota. Should any change or error in records result in any person receiving from the fund more or less than that person would have been entitled to receive had the records been correct, then, on the discovery of any such error, the board shall correct such error, and, as far as practicable, shall adjust the payments in such a manner that the actuarial equivalent of the benefit to which such person was correctly entitled is paid.

**15-39.1-30. Confidentiality of records.**

All records relating to the retirement benefits of a member or a beneficiary under this chapter are confidential and are not public records. The information and records may be disclosed, under rules adopted by the board, only to:

1. A person to whom the teacher has given written consent to have the information disclosed.
2. A person legally representing the teacher, upon proper proof of representation, and unless the teacher specifically withholds consent.
3. A person authorized by a court order.
4. A member's participating employer, limited to information concerning the member's years of service credit, years of age, employer and employee contribution amounts, and salary. The board may share other types of information as needed by the employer to validate the employer's compliance with existing state or federal law. Any information provided to the member's participating employer under this subsection must remain confidential except as provided in subsection 6.
5. The administrative staff of the public employees retirement system for purposes relating to membership and benefits determination.
6. State or federal agencies for the purpose of validating member eligibility or employer compliance with existing state or federal law.
7. Member interest groups approved by the board, limited to information concerning the member's death.
8. A government child support enforcement agency for purposes of establishing paternity or establishing, modifying, or enforcing a child support obligation of the member.
9. The member's spouse or former spouse, that individual's legal representative, and the judge presiding over the member's dissolution proceeding for purposes of aiding the parties in drafting a qualified domestic relations order under section 15-39.1-12.2. The information disclosed under this subsection must be limited to information necessary for drafting the order.
10. Beneficiaries designated by a participating member or a former participating member to receive benefits after the member's death, but only after the member's death. Information relating to beneficiaries may be disclosed to other beneficiaries of the same member.
11. The general public, but only after the board has been unable to locate the member for a period in excess of two years, and limited to the member's name and the fact that the board has been unable to locate the member.
12. Any person if the board determines disclosure is necessary for treatment, operational, or payment purposes, including the completion of necessary documents.

13. A person if the information relates to an employer service purchase, but the information must be limited to the member's name and employer, the retirement program in which the member participates, the amount of service credit purchased by the employer, and the total amount expended by the employer for that service credit purchase. Information identified under this subsection may only be obtained from the member's employer.

**15-39.1-31. Correction of errors - Adjustment to actuarial equivalent.**

If any change or error in the records of the fund or any participating employer or error in any calculation results in any person receiving from the fund more than that person would have been entitled to receive had the records been correct, the board shall correct the error and, as far as practicable, adjust the payment in such a manner that the actuarial equivalent of the benefit to which the person was entitled is paid or the board may offset the amount of the overpayment from the amount of future retirement benefit payments. However, if the person agrees to repay the fund for the cost of the error upon terms acceptable to the board, no actuarial adjustment to the person's retirement benefit need be made.

**15-39.1-32. Correction of errors - Lump sum payment.**

If any change or error in the records of the fund or any participating employer or any error in calculation results in any person receiving less from the fund than that person would have been entitled to receive had the records been correct, the board shall correct the error and adjust the payment in such a manner that the benefit to which the person was correctly entitled is paid. In addition, the board shall remit payment to the person in a lump sum to compensate that person for the difference between what was paid and what should have been paid. No interest may be assessed against the fund for providing payment for the correction of any loss of benefits.

**15-39.1-33. Employer service purchases.**

A participating employer may purchase additional service credit on behalf of a member under the following conditions:

1. The member may not be given the option to choose between an employer service purchase and an equivalent amount paid in cash.
2. The member must meet one of the following conditions at the time the purchase is made:
   a. The tier one member's age plus service credit must be equal to or greater than seventy-seven;
   b. The tier one member's age must be at least fifty-five and the member must have at least three years of service credit;
   c. The tier two member's age plus service credit must be equal to or greater than eighty-two; or
   d. The tier two member's age must be at least fifty-five and the member must have at least five years of service credit.
3. The board must determine the purchase price on an actuarially equivalent basis.
4. The purchase must be completed before the member's retirement.
5. The employer may purchase a maximum of three years of service credit on behalf of the member.
6. The employer must pay the purchase price for the service credit purchased under this section in a lump sum.

**15-39.1-34. Internal Revenue Code compliance.**

The board shall administer the plan in compliance with section 415, section 401(a)(9), section 401(a)(17), and section 401(a)(31) of the Internal Revenue Code and regulations adopted pursuant to those provisions as they apply to governmental plans.

# ND Retirement and Investment Office

*Teachers' Fund for Retirement*
*State Investment Board*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

## Memorandum

**To:** **RIO Interim Executive Director**

**From:** **RIO Compliance Officer**

**Date:** **July 18, 2012**

**RE:** **Annual Affirmation of Conflict of Interest Policy**

Executive Limitations Policy A-9, *Conflict of Interest,* which is attached to this memorandum, details the conflict of interest policy for the executive director. This policy also indicates that the executive director is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

"I have read and understand SIB Executive Limitations Policy A-9, *Conflict of Interest.* I have disclosed any conflicts of interest as required by this policy."

Name (printed) Fay Kopp

Signature Fay Kopp

Date 7-18-12

Detail of any conflicts of interest (if any):

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## Memorandum

**To:** **TFFR Board**

**From:** **Leslie Moszer**
**RIO Compliance Officer**

**Date:** **July 18, 2012**

**RE:** **Annual Affirmation of Code of Conduct Policy**

Governance Process Policy B-8, *Board Members' Code of Conduct,* which is attached to this memorandum, details the Code of Ethical Responsibility for the SIB. Item #12 of this policy indicates that each Board Member is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) Clarence Corneil

Signature Clarence Corneil

Date 7-17-12

Detail of any conflicts of interest (if any):

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## Memorandum

**To:** **TFFR Board**

**From:** **Leslie Moszer**
**RIO Compliance Officer**

**Date:** **July 18, 2012**

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"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct.* I have disclosed any conflicts of interest as required by this policy."

Name (printed) Kim Franz

Signature Kim Franz

Date 07-18-12

Detail of any conflicts of interest (if any):

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## Memorandum

**To:** **TFFR Board**

**From:** **Leslie Moszer**
**RIO Compliance Officer**

**Date:** **July 18, 2012**

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"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) Michael Gessner

Signature Michael M Gessner

Date 7/14/12

Detail of any conflicts of interest (if any):

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## Memorandum

**To:** **TFFR Board**

**From:** **Leslie Moszer**
**RIO Compliance Officer**

**Date:** **July 18, 2012**

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"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct.* I have disclosed any conflicts of interest as required by this policy."

Name (printed) Lowell F. Latimer

Signature Lowell F. Latimer

Date 7-18-2012

Detail of any conflicts of interest (if any):

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## Memorandum

**To:** **TFFR Board**

**From:** **Leslie Moszer**
**RIO Compliance Officer**

**Date:** **July 18, 2012**

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"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) Dr. Wayne G. Sanstead

Signature Wayne G. Sanstead

Date July 31, 2012

Detail of any conflicts of interest (if any):

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## Memorandum

**To:** **TFFR Board**

**From:** **Leslie Moszer**
**RIO Compliance Officer**

**Date:** **July 18, 2012**

**RE:** **Annual Affirmation of Code of Conduct Policy**

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"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) Kelly Schmidt

Signature Kelly J Schmidt

Date 7-31-12

Detail of any conflicts of interest (if any):

# ND Retirement and Investment Office

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## Memorandum

**To:** **TFFR Board**

**From:** **Leslie Moszer**
**RIO Compliance Officer**

**Date:** **July 18, 2012**

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"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct.* I have disclosed any conflicts of interest as required by this policy."

Name (printed) Robert B. Tosu

Signature

Date 7/18/12

Detail of any conflicts of interest (if any):

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Fay Kopp**

**DATE:** **July 11, 2012**

**SUBJ:** **Annual Customer Satisfaction Reports**

To assist the Board in monitoring how well the TFFR program is serving member and employer needs, each year we survey the interest groups, and collect evaluations from members and employer representatives. Here they are!

a) Responses to the TFFR Customer Satisfaction Surveys from NDEA, NDCEL, and NDRTA. I have not received the survey from NDSBA or NDSBMA.

b) Evaluation responses and comments received directly from the members and employers from benefits counseling sessions, preretirement seminars, business manager workshops, and other member and employer communications.

The TFFR Board is also asked to complete an evaluation. As in the past, the State Investment Board wants to know from its customers (TFFR, PERS, Workforce Safety & Insurance, etc.) if the SIB (through the RIO staff) is providing quality service. I have enclosed a copy of the SIB Customer Satisfaction Survey which the TFFR Board as a whole will be asked to complete at the July 18 meeting.

Enclosures

Annual Tabulation 2011-2012
Comment Cards 134 Total

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**
**COMMENT CARD**

Are we providing you with quality service and information on your TFFR benefits?

| | Excellent | Above Average | Average | Poor |
|---|---|---|---|---|
| Staff Courtesy | 126 | 5 | | |
| Promptness | 123 | 10 | | 1 |
| Content/Information | 126 | 5 | 1 | |

- I was totally satisfied with the service I received. Counselor's courtesy was **EXCEPTIONAL**!☺
- Counselor & staff-Thank you all very much for your professionalism during this difficult time in Linda's and my life. This was something that went smoothly.
- Counselor did a great job working with me.
- Thank you for taking the time to explain dual members.
- I believe it was counselor that helped me so much! She was great! Everyone was so helpful and looked out for me. They gave me reminders and guided me through everything.
- The staff was very knowledgeable, courteous, and helpful.
- Very, very professional! Thank you very much! Appreciated moocho.
- Very knowledgeable and helpful!
- Everything went so smooth--absolutely no problems!!
- Counselor is efficient and courteous. Thank you!
- Everyone was very pleasant and helpful!!
- The service was excellent, very polite and efficient staff! Always ready to answer questions to help during process.
- Great job in all areas! Staff are always courteous, helpful & very knowledgeable. Thanks so much!
- Thank you!
- Thanks for all the help counselor!
- Thanks for your help.
- I was very pleased with your organization & promptness. When I called your office & stopped in--everyone was very friendly & helpful! Thank you!
- You are so good at getting the information out and being so knowledgeable--whether it's at a Pre-retirement session or a counseling session or at the actual time of retirement. Thank you!
- Great job!
- Thank you for making a process that was completely foreign to me easy and efficient!
- Thank you for being speedy when I needed speedy!
- Counselor - great job!
- Always a friendly answer to any question.
- Great help.
- You made it so easy to go through all the paperwork and understand what was needed for each step.
- Your office has been very helpful at all times. Thanks.
- I had a good experience with the staff at the retirement office.
- Staff is helpful & knowledgeable about what is best for my future.
- Very good presentation-had up to date information.
- Everyone I spoke with was extremely helpful and polite. Thank you very much.
- Thank you for all your help in processing my paperwork.

- I was very pleased with the service provided.
- Staff were of great help during the process.
- Counselor was great!
- Thanks for your help in making our decision. The information you provided was clear and to the point.
- I was able to complete the entire process without contacting the office. The directions were clear.
- I appreciate counselor. Not only is she knowledgeable but she is willing to help over & over again. Thanks to my counselor!
- Your ladies are extremely courteous and knowledgeable!
- I was very impressed by the prompt professional, and knowledgeable staff.
- Keep up the great work.
- We are very happy and satisfied with all the help we received. That administrative assistant is a valuable employee, also.
- Counselor has been extremely helpful and considerate in dealing with the many questions on forms.
- I missed having an appt in Fargo for benefits. You sent out the info fast. It is appreciated.
- Keep up the great service.
- Thank you for such great service.
- You have the best staff! My counselor **ROCKS**!
- I can't describe how great and cooperative your employees are. Counselor is super! Thanks.
- Thank you for your help.
- Very helpful!
- Please offer some sessions in West Fargo as you have done in prior years. Thanks.
- So helpful!
- I was very impressed at how organized counselor was and could answer any questions.
- Everyone treated me special and answered questions well. Well prepared!
- Thank you so much for making a really difficult situation bearable.
- Staff was able to answer any questions I had in a friendly efficient manner.
- You gals are great!
- At times, when I called for questions, counselor seemed rather abrupt. Ex: "Isn't that in your packet?" "You better not have any documentation of employment for at least 30 days or you could lose your benefits." (Could have been put better.)
- Thank you counselor for your guidance through this process. I very much appreciate it. Love that you are from the west and understandably get it. ☺
- Very happy with your services!!
- I appreciate the help, guidance and friendliness. My counselor was great to work with and helpful.
- Thanks for all your help!
- Thank you.
- Well done - thank you!
- I appreciated the help received in filling out the forms.
- Absolutely the best - and very caring & helpful.
- Thank you! You made this process very easy & "friendly".
- Your service & cooperation is much appreciated. Thanks.
- One call or two was all it took. People who are retiring next year ask me if it's easy. I tell them my experience was excellent!
- Your staff was extremely courteous and helpful with my questions. I appreciated their prompt assistance very much!
- People ask me how hard it was to get info & papers to retire. I tell them I couldn't believe the excellent service and at ease I felt to ask questions. I thank you for all your help on the phone, meeting with me. You explained everything very well to a "Kindergarten Teacher ☺." I know I can always call.
- You are doing a tremendous job! I am very pleased with the way things were handled for me. Keep up the good work, and thank you!
- Thanks for your help and promptness at my request.
- Thanks for all the help!

- I am very satisfied.
- Thanks for all of your help! My counrselor was wonderful.
- Very efficient staff! Thank you!
- Thank you for your excellent service. I'm looking forward to receiving my 1st retirement benefit. Keep up the great work. You are making many happy faces around the state!
- Superior work.
- We were very pleased with everyone. A lot was accomplished in a short amount of time!
- Staff courtesy-no problem. Great when met with them in 2009. I sent my papers 4-27-12 & received no response from you until 6-01-12. Sure had me wondering!!
- Always very helpful.
- Counselor was very knowledgeable and helpful in the process of getting me to retirement. I am grateful for her help.
- The staff is excellent. I worked with counselor and she is knowledgeable and just wonderful to work with. Give her a raise!
- I called the office & received the packet & instructions which were very clear so I was easily able to send the needed documents & information. Thank you!
- This was the best customer service I have received from state government. Counselor was the greatest to deal with both over the phone and in person. I felt welcome, comfortable & respected.
- Super!
- The staff was very helpful & answered all of our questions.
- I expected a difficult process but found it to be an easy, simple procedure with the help of my counselor. Thank you for making the big change in my life a positive experience!
- Thank you for all your help.
- Good job!

# PRE-RETIREMENT SEMINAR FOR TFFR MEMBERS
# ANNUAL EVALUATION FORM
# YEAR 2011-2012

| | Bismarck | Dickinson | Grand Forks |
|---|---|---|---|
| **Members** | 39 | 15 | 45 |
| **Spouses - Others** | 10 | 2 | 9 |
| **Evaluation Forms Returned** | 32 | 15 | 31 |

## 1. TFFR PENSION BENEFITS

| Excellent | Above Average | Average | Poor | No Answer |
|---|---|---|---|---|
| 60 | 15 | 2 | 1 | |

- Very explanatory; answered all questions.
- Great explanation of overall benefits.
- Some new information. Thanks! I also appreciated learning about getting the forms for the retirement process.
- Appreciated the update regarding the new legislation.
- Thank you!
- Informative.
- Great information & lots of freedom to ask questions.
- Good examples.
- Good information.
- Explained very well - understandable/easy to remember.
- Good at alerting me to available resources. Binder is a wonderful resource.
- Very detailed and easy to grasp. Thanks.
- Very clear, concise direction. You can tell you really know your information! You know what people need to hear. Easy to follow you. ☺
- Too long, boring - Speaker beat each topic to death, repeated too much.
- Good overview.
- I would recommend more time given to this topic.
- Very helpful.
- Great overview -- explaining and developing awareness of all areas.
- Presenter is very knowledgeable! She did an awesome job!

## 2. INSURANCES

| Excellent | Above Average | Average | Poor | No Answer |
|---|---|---|---|---|
| 43 | 25 | 8 | | 2 |

- Nice to know options - will probably change before it affects me ! ☺
- Good information expecially on health insurance!
- Good info - understandable!
- Great information!
- Easy to understand.
- Gave a lot of realistic information & helpful in making decision.
- Good new info about ND insurance.
- I got lost between what's available to those not yet eligible for Social Security and those eligible for Social Security.
- Good information.
- Some practical examples would work.
- Good job of explaining things.
- Overview - great.

## 3. FINANCIAL PLANNING

| Excellent | Above Average | Average | Poor | No Answer |
|---|---|---|---|---|
| 41 | 28 | 9 | | |

- He made this understandable. Great job!
- Would be good for younger teachers to receive this information.
- Gave a lot of information to think about. Will definitely begin organizing finances and talk to a financial planner.
- He brought it down to a level that I could understand. He gave good examples.
- Put the info into terms and examples that I could understand. THANKS!
- Concerned about some of his recommendations.
- There were a few items he recommended that was counter to what many financial planners recommend - recommend - i.e. cancelling credit cards.
- Very informative.
- Rule of 72 to deal with inflation was a valuable point.
- So much new information!!! New info. Would have liked to see examples on the PowerPoint to follow along better. Got lost--needed space to play with figures.
- Great information.
- He went over his time.
- Too basic--information presented for younger people. Not on point for retirees.
- Great!
- Great job! Great suggestions!
- Helpful in seeing many avenues to take.

**4. SOCIAL SECURITY BENEFITS**

| Excellent | Above Average | Average | Poor | No Answer |
|---|---|---|---|---|
| 51 | 21 | 4 | | 2 |

- **Very organized** presentation. As a teacher I appreciated how she told us ahead of time what she was going to cover and then methodically covered each item.
- Good info - great presentation.
- Very helpful & answered questions well.
- She did a nice job sharing information with the group!
- Good information that I did not know.
- Finally understand Part A, Part B & D. Thank you!!
- Gave good info about different parts of Medicare.
- Learned more on Parts A-B & D that was a little fuzzy.
- Very helpful to understand all parts.
- Very knowledgeable and helpful! Easy to listen to!
- A bit more time to walk through the calculator/estimator.
- Loved the energy and passion for his topic.
- Excellent ideas regarding online estimators.
- Hope he can continue to present at these workshops.
- His sense of humor was appreciated.

**5. ESTATE PLANNING**

| Excellent | Above Average | Average | Poor | No Answer |
|---|---|---|---|---|
| 53 | 19 | 3 | | 3 |

- Thank you.
- Good general information that is helpful in understanding issues especially related to working with older parents.
- Funny - explained information in simple terms.
- Enjoyed his sense of humor.
- Great presentation, mixed humor with a not so fun topic to talk about. Kept it light and informative.
- Good! Real life situations shared.
- Gets you thinking, time to talk to a financial planner!
- Very interesting and good ideas for us to do.
- Clearly, many participants had NOT been in contact with attorney for estate planning. Good part of program.

- Great info. Very interesting.
- Fantastic job! Very informative!
- She had lots of information. I would have like her to have had more time.

**6. PLEASE RATE THE OVERALL SEMINAR**

| Excellent | Above Average | Average | Poor | No Answer |
|---|---|---|---|---|
| 55 | 19 | 3 | | 1 |

- Learned lots - thanks!
- All areas were covered that were important.
- The seminar was very helpful and informative. I feel like I have some direction now to where I need to go to be better prepared for my retirement years. Thanks!
- All the information was clear and very helpful!
- Great presenters.
- Good varied presentations.
- Good information - lots to start thinking & planning - glad I did this plenty of time in advance of retirement.
- Second time -- learned much more.
- Very informative.
- Plenty of time spent on each topic.
- Lots of information.
- Not boring.
- I appreciated that all participants questions were repeated again by the speakers so the entire group heard the question before answering it.

**7. DO YOU FEEL THAT ATTENDANCE AT THIS SEMINAR WAS TIME WELL SPENT?**

| Yes | No | No answer |
|---|---|---|
| 77 | | 1 |

- Yes, with reservations.

**8. WOULD YOU RECOMMEND THIS SEMINAR TO OTHERS?**

| Yes | No | No answer |
|---|---|---|
| 77 | | 1 |

- Very much so!
- Long, but new info is valuable.
- I already have -- 6 teachers from my school will be attending.

**9. WILL ATTENDANCE TODAY MOTIVATE YOU TO TAKE ACTION RELATIVE TO YOUR RETIREMENT PLANNING?**

| Yes | No | No answer |
|---|---|---|
| 74 | 2 | 2 |

If yes, what action will you take?

- Probably work with a financial planner and get financial information centrally located, also look at adding contingent benefactors.
- Make a will. Line up TFFR benefits.
- Add contingent beneficiaries & develop a 403b plan. We need to also get long term care insurance.
- Plan to meet with a financial advisor to see about a 403b or a Roth IRA plan.
- RETIRE! Actually I will check my contingency beneficiaries and make medicare supplemental insurance plans.
- Visit financial planner; make a will.
- Need to organize papers, etc.
- Already looked at it.
- In the next year.
- Will, estate, contingency

- I will schedule a meeting to discuss retirement possibility after the upcoming school year.
- Talk to a financial planner.
- Update an outdated will & plan on opening a Roth IRA
- Take a 2nd look at my will & make some changes.
- I need to be finding another job which pays health benefits.
- Update my will, check beneficiaries on different things, make a list of assets, get on a budget.
- Let the process begin!!!
- Update beneficiaries, estate planning.
- My purpose was to get information so I can be confident I can retire next year. I now know much of what I need to do.
- Update contingent beneficiaries.
- Look carefully at all options.
- Schedule personal conference.
- Setting up a will. Double checking if children are listed as contigent beneficiaries.
- Get all my financial & estate planning together.
- Beneficiary updates.
- Take action on long term planning accounts and being sure paperwork is double-checked and up-to-date.
- *Must line up a will-#1 plan; *more money in Roths-IRA; ☺plan to come again to the next year seminar!
- Financial planning.
- Life insurance, set aside more money per month for the future.
- Be sure I have my contingent benefactors, power of attorney & a will.
- Add a contingent beneficiary.
- Decide whether to buy service credits.
- I will change my beneficiaries and I will make a will.
- 1. Get counseling session scheduled. 2. Begin paperwork.
- Initiate retirement.
- No really new info that we were not already doing.
- Coordinating SS benefits and discussions on TFFR options.
- Adjust contingent beneficiaries.
- Check out the real estate deeds and write a health care directive.
- Check rates for early retirement/lump sum retirement.
- Start planning process.
- Do the math and see if I should retire--learned so much today--overwhelming!
- Questions about health, dental & vision insurance were answered. I know how to set up my insurance with my husband's work insurance now.
- Will, power of attorney, long term care insurance, work longer.
- Legal issues, listing children as beneficiaries, finding early retirement money, find best insurance for us.
- I am going to review my will, etc. and my parents' as I'm the designated power of attorney.
- Will, medical directive, power of attorney
- Get paperwork in order for TFFR and legal forms for will, power of attorney, etc.
- Update my will.
- 1st of all, I'll go through binder with husband.
- Will, power of attorney and medical directive.
- Legal issues.
- I plan to retire this year & the info was very beneficial.
- Decide if I should retire after this school year (2012) or continue teaching.
- Need to plan for my teacher retirement and my husband's farming occupation. The financial planning aspect is a priority.
- Power of attorney.
- Consider all areas covered and set goals.
- Definitely do up a will & power of attorney & have my husband do these too.

- Talk to my kids about a health directive, check out the websites, update my will.

**10. WAS THE LENGTH OF THE PROGRAM APPROPRIATE?**

| Yes | No | No answer |
|---|---|---|
| 76 | | 2 |

If not, how long should the program be?

- Lots of information to understand - good to have handouts.
- I think it could be shorter -- done by 3:00.
- However, I think it'd be great to have a 2nd 1/2 day for questions/etc with speakers available to help decipher the info.

**11. WAS THE TIME OF THE PROGRAM CONVENIENT (FULL DAY - SUMMER)?**

| Yes | No | No answer |
|---|---|---|
| 76 | | 2 |

If not, what would be a better time?

- Summers are good.
- July was the perfect time for this.
- Thanks for starting on time & keeping on schedule.
- Worse weather! ☺
- Yes but shorter.

**12. DO YOU HAVE ANY SUGGESTIONS FOR FUTURE PROGRAMS?**

- Thank you for providing this service. I appreciated it.
- Good Day!
- This was great!
- A lot of info in a short time frame. Perhaps a check list of "stuff" to do. This seems quite elementary but it helps to remind details of all what was covered and act as a reminder of what to do.
- Good valuable information.
- Excellent presenters. **Very** knowledgeable.
- Name tags for participants.
- A little on the elementary side.
- Actual social security person and estate planning attorney.
- I thought it was just right. ☺
- I really wish this session could be attended at our teacher in-services. Thanks.
- Keep this available.
- Include a closer date to meet one-on-one (the next day?) - questions are fresh in my mind and it would be informative again.
- No. Very well done!
- Thank you for a great seminar!
- Thank you - Excellent presentations.
- Thank you.
- Same fee or increase fee if need $ for presenters.
- No, it did get quite warm in the meeting room. A little more AC please.

# Business Managers
# Annual Evaluation
# 2011-2012

Attendees 126

Evaluations 95

| | Excellent | Above Average | Average | Poor |
|---|---|---|---|---|
| **Was the subject material relevant to your needs and/or interests?** (1 did not answer) | 73 | 19 | 2 | |
| **How knowledgeable, organized, and effective were the speakers?** | 85 | 10 | | |
| **How would you rate the NDRIO/TFFR website?** (12 did not answer) | 46 | 35 | 2 | |

**Comments:**

- Not sure if I have been to it.
- Don't use a lot.
- Unknown.
- Sometimes have a hard time finding items.
- I haven't used it much.
- Never been there.
- Haven't used yet.
- Have not been on yet.
- Haven't used it yet.

| | | | | |
|---|---|---|---|---|
| **How would you rate the service you receive from TFFR staff?** (1 did not answer) | 72 | 21 | 1 | |

**Comments:**

- Always been so helpful! Thank you!
- Always nice & helpful when I need to call.

| | Yes | No |
|---|---|---|
| **Have you ever referenced the TFFR Employer Guide?** (3 did not answer) | 73 | 19 |

**Comments:**

- Not yet.
- Not too often.
- I reference the website and call the TFFR office.
- I print a copy and keep it in a binder!

| | Yes | No |
|---|---|---|
| **Do you read the Briefly newsletter?** (5 did not answer) | 89 | 1 |

**Comments:**

- Sometimes
- Most of the time

- Sometimes!
- Very good!
- Sometimes.
- I keep these with the info I need highlighted.

**How could we serve you better?**

- New to the position so am expecting to need help along the way so patient service providers.
- Doing great!
- Great job!
- You do a great job!
- You are doing great - keep it up!

**Other comments:**

- I'm interested in learning how to file on-line our contributions to TFFR.  I'll call in.  Thanks!
- Good job presenters.
- You do a nice job.  Thank you!
- You do a good job!
- Thank you! ☺
- Thank you for always being patient.
- Good job!
- Thank you!
- All staff knowledgable.  VERY HELPFUL!
- Very informative with the changes.  Thanks!
- Great presentation as always.
- Your staff is **SO** knowledgeable!  **GREAT JOB!**

# Retirement 101
# Evaluation
# Bismarck
# February 7-8, 2012

Members Present 93
Evaluations Returned 65

**Please rate the overall program.**

| Excellent | Above Average | Average | Poor | No Answer |
|---|---|---|---|---|
| 50 | 13 | 1 | | 1 |

- She knew a lot about TFFR. Explained it so I could understand the info.
- Wow - Thanks for printing out all of our information!
- Great info and print-outs.
- Very informative! (4)
- Glad there was a print out to let us know where we currently fall.
- She does a nice job.
- I enjoyed the visual (PowerPoint) and humor. You were quick, understandable, and knowledgeable.
- Very helpful.
- Good refresher on retirement.
- Very good info.
- Great insight to my retirement.
- Thanks for folder!
- Great humor!

**What did you like best about the program?**

- All the info she gave. She addressed everything that I had questions about.
- I would like to hear more about out of state roll over - how do I get this started.
- Great information - information I didn't know. Easy to understand you ☺. Broke down individual printout.
- Very informative. (3)
- The presenter had my account summary for me to see.
- Seeing my account summary.
- Work completed before presentation on each individual.
- My personal benefit plan.
- She had great info and kept it light.
- Seeing my personal numbers and information, hearing about new legislation, percentage increases.
- Overview of TFFR that has never been provided to me. Print outs were very helpful.
- Very interesting information, good to know.
- All new information for me - very informative. ☺
- Very good/useful information.
- To explain how TFFR works, so I can plan. To have my information to look at.
- The retirement benefit estimate.
- Personal information on individual forms, upbeat presentation with many examples.
- The personal form with specific information.
- The printouts and explanatory notes
- Everything/well explained.
- Taking the time to re-explain terms/concepts.
- All the info. (2)

# Retirement 101

- Very clear and concise - great to have folders and print outs.
- Visual (PowerPoint)
- Very beneficial for new teachers.
- **Exact** details about **my** retirement!
- The info.
- The information given about current and changed TFFR benefits.
- Great information.  Up-to-date!
- The printouts! Sooooo helpful.
- Straight talk, clear, concise
- Individual detailed info.
- The individualized sheet.
- Combination of personal information and general information.
- Great info.
- Very understandable.
- Very clear and informative.
- Good info.
- Personal info.
- All of it! Love knowing you can buy years of service.
- The information.
- The information was excellent and it was really nice to also be able to receive credit.
- Current info.
- Information.
- Became aware of when I can retire and its options.
- A very good presenter - very clear and concise.
- I didn't have a lot of knowledge on the subject and now I feel I'm much more educated.
- Broad range of information as well as individualized.
- Break down of projected benefits.
- Insight to retirement.
- It is good to understand retirement at a young age.
- Account copy to apply to the information. Thanks!
- A lot of info
- Having individual statements printed and discussion of recent changes.
- I like how much I got out of this program.  I learned a lot. ☺
- Seeing my retirement numbers.
- Gave specific details and broke everything down, everyone got the material and where they were at and when they would be able to retire.
- She is really funny! Kept the information easy to understand.

# Retirement 101

**What did you like least about the program?**

- Nothing - it was all wonderful to hear! Thanks!
- The news about increase in contribution (not your fault).
- Kind of depressing.
- Hard to hear when in the back of the room.
- Slow down just a bit..it takes a little time to process the info you know so well.
- Small print on screen.
- NA - some things are confusing.
- A lot of info in a short amount of time.
- Just the changes.
- Nothing. (2)
- The fact that we will see a 4% increase in TFFR contributions over the next 4 years.
- That I lost the rule of 85. ☹
- I'm worried about my future!
- Make time for questions.
- Increased input for employees.
- All good.
- Higher interest rates, not being "able" to retire until age 60.
- A little confusing, not a financial person.
- Knowing retirement is so far away.
- Just too much to digest but good to know.

**Was the length of the program appropriate (90 minutes)?**

| Yes | No | No Answer |
|---|---|---|
| 64 | 1 | |

If not, how long should the program be?

- It was OK.
- It would be nice to come back after we had a chance to process all the info. But I do know I can contact you with questions.
- Could have been less rushed.
- Yes for this audience.

**Do you have any suggestions for future programs?**

- Packets were great ~ thanks.
- Thank you!
- Great job!!!
- Great information!
- Walk through an example with us, so we are sure how to calculate.
- Every couple years to revisit with staff this information.
- Nice presentation. I appreciate the TFFR folder and handouts.
- Thank you!
- None! This was great.
- Thank you!
- This was great! Super job! Lots of useful info. Thank you for the pages of my info.
- It was great!
- Presenter seems to know what she's talking about. Thanks!

# Retirement 101

- No - good!
- Yes - we should all be given this info every 3-4 years.
- It was good - nice perk to have this before I retire!
- Thanks for the info!

# TFFR Customer Satisfaction Survey

**Is the TFFR Board, through the RIO staff, providing members and employers with quality service?** Please help the TFFR Board measure their performance and identify areas for improvement by completing this annual survey.

| Rating factors: | Excellent | Above Average | Average | Poor |
|---|---|---|---|---|
| | X | | | |
| Staff courtesy | X | | | |
| Responsiveness | X | | | |
| Efficiency | X | | | |
| Accessibility | X | | | |
| Knowledge of TFFR program | X | | | |
| Clarity and effectiveness of information | X | | | |
| | | | | |
| Outreach services | | | | |
| Member education/presentations | X | | | |
| Member benefit counseling sessions | X | | | |
| Member pre-retirement seminars | X | | | |
| Employer education/presentations | X | | | |
| | | | | |
| Legislative proposals | X | | | |
| Legislative presentations/information | X | | | |
| | | | | |
| Overall quality of service | X | | | |

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers?
Service has been, as always, exceptional. Really can't think of anything to improve upon what you are already doing!

Comments_ TFFR and Rio staff did an outstanding job in addressing issues with regard to funding needs of TFFR and PERS. They provided excellent information to the Employee Benefits Interim Committee during off legislative year and have anticipated and presented bills to this committee in preparation for the 2013 legislative session. Great job!!! Good luck in your search for finding a replacement for John Geissinger.

Signature _____ Date ___July 3, 2012_____

Organization __NDCEL_____

**THANK YOU for helping us improve service to TFFR members and employers.**

***ND Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100***
***Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov***

# TFFR Customer Satisfaction Survey

**Is the TFFR Board, through the RIO staff, providing members and employers with quality service?** Please help the TFFR Board measure their performance and identify areas for improvement by completing this annual survey.

| **Rating factors:** | **Excellent** | **Above Average** | **Average** | **Poor** |
|---|---|---|---|---|
| | | | | |
| Staff courtesy | X | | | |
| Responsiveness | X | | | |
| Efficiency | X | | | |
| Accessibility | X | | | |
| Knowledge of TFFR program | X | | | |
| Clarity and effectiveness of information | X | | | |
| | | | | |
| Outreach services | X | | | |
| Member education/presentations | X | | | |
| Member benefit counseling sessions | X | | | |
| Member pre-retirement seminars | X | | | |
| Employer education/presentations | X | | | |
| | | | | |
| Legislative proposals | X | | | |
| Legislative presentations/information | X | | | |
| | | | | |
| Overall quality of service | X | | | |

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers?

_____

_____

_____

Comments_ In my estimation this is the best state agency in North Dakota. It is very customer-oriented and the staff is knowledgeable and courteous. It is a model for openness and for getting stakeholder input on important decisions.

Signature Greg Brewer Date 7/9/2012

Organization North Dakota Education Association

**THANK YOU for helping us improve service to TFFR members and employers.**

***ND Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100***
***Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov***

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| Rating factors: | Excellent | Above Average | Average | Poor |
|---|---|---|---|---|
| | X | | | |
| Staff courtesy | X | | | |
| Responsiveness | X | | | |
| Efficiency | X | | | |
| Accessibility | X | | | |
| Knowledge of TFFR program | X | | | |
| Clarity and effectiveness of information | X | | | |
| | | | | |
| Outreach services | X | | | |
| Member education/presentations | X | | | |
| Member benefit counseling sessions | X | | | |
| Member pre-retirement seminars | X | | | |
| Employer education/presentations | X | | | |
| | | | | |
| Legislative proposals | X | | | |
| Legislative presentations/information | X | | | |
| | | | | |
| Overall quality of service | X | | | |

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers?

Comments Fay and staff always do an outstanding job. It is a pleasure to work with you. Thank you on behalf of the NDRTA Board and all retired Educators!

Signature Sara Cemall Date 7-10-12

Organization NDRTA

**THANK YOU for helping us improve service to TFFR members and employers.**

***ND Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100***
***Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov***

# TFFR Customer Satisfaction Survey

**Is the TFFR Board, through the RIO staff, providing members and employers with quality service?** Please help the TFFR Board measure their performance and identify areas for improvement by completing this annual survey.

| Rating factors: | Excellent | Above Average | Average | Poor |
|---|---|---|---|---|
| | | | | |
| Staff courtesy | X | | | |
| Responsiveness | X | | | |
| Efficiency | X | | | |
| Accessibility | X | | | |
| Knowledge of TFFR program | X | | | |
| Clarity and effectiveness of information | X | | | |
| | | | | |
| Outreach services | X | | | |
| Member education/presentations | X | | | |
| Member benefit counseling sessions | X | | | |
| Member pre-retirement seminars | X | | | |
| Employer education/presentations | X | | | |
| | | | | |
| Legislative proposals | X | | | |
| Legislative presentations/information | X | | | |
| | | | | |
| Overall quality of service | X | | | |

How can the TFFR Board and/or RIO staff improve their service to TFFR members and employers?

Comments We have always been very satisfied with TFFR. always organized friendly & have great useful presentations for our organization.

Signature Lori Lyons Treas. NDASBM Date 7-12-12

Organization ND Assoc. School Bus. Mgr.

**THANK YOU for helping us improve service to TFFR members and employers.**

***ND Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100***
***Phone: 701-328-9885 or 800-952-2970 - FAX: 701-328-9897 - Email: fkopp@nd.gov***

# ND Retirement and Investment Office

*Teachers' Fund for Retirement*
*State Investment Board*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio


July 10, 2012

Michael Gessner
President
ND Teachers' Fund for Retirement

**RE: CUSTOMER SATISFACTION SURVEY**
**TEACHERS' FUND FOR RETIREMENT**

To ensure that clients receive the highest quality service, the State Investment Board (SIB) is using an annual customer satisfaction survey to determine how well the Board, through the Retirement and Investment Office (RIO) staff, is meeting your expectations and requirements. This survey is part of our ongoing effort to be responsive to our clients' needs and to continually improve the services we deliver.

Your input is very important to us, so we hope you will take a few minutes to provide candid feedback on our services to you during fiscal year 2012. Please return the enclosed questionnaire on or before July 31, 2012. A stamped addressed envelope is enclosed for your convenience.

Responses to and questions about this survey should be addressed to Les Mason, Supervisor, Internal Audit, Retirement and Investment Office, P.O. Box 7100, Bismarck, ND 58507-7100. The telephone number is 328-9885.

Thank you for your time and assistance.

Sincerely,

Les D. Mason

Les Mason
Supervisor of Internal Audit

Enclosures

## NORTH DAKOTA STATE INVESTMENT BOARD
## CUSTOMER SATISFACTION SURVEY

COPY

Is the State Investment Board (SIB), through the Retirement and Investment Office (RIO) staff, providing you with quality service? Please help us measure our performance and identify areas for improvement by rating our service to you during fiscal year 2012. Circle the appropriate response and return the questionnaire in the postage-paid envelope to the RIO office.

| RATING FACTORS | EXCELLENT | ABOVE AVERAGE | AVERAGE | POOR |
|---|---|---|---|---|
| Handling of telephone calls promptly and professionally | XXXX | XXX | XX | X |
| Clarity and effectiveness of letters, reports, and presentations | XXXX | XXX | XX | X |
| Detail provided on reports | XXXX | XXX | XX | X |
| Delivery of high-quality service | XXXX | XXX | XX | X |
| Accessibility | XXXX | XXX | XX | X |
| Responsiveness | XXXX | XXX | XX | X |
| Efficiency | XXXX | XXX | XX | X |
| Knowledge of investments | XXXX | XXX | XX | X |

**HOW CAN THE SIB AND/OR RIO STAFF IMPROVE THEIR SERVICE TO YOU?**

_____

_____

_____

_____

_____

ND Teachers' Fund For Retirement

SIGNATURE _____ DATE _____

**Thank you for helping us serve you better.**

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Fay Kopp**

**DATE:** **July 11, 2012**

**SUBJ:** **Board Education: Impact of Oil Industry on ND Schools**

In order to project future pension liabilities, it is necessary to make a number of actuarial assumptions. Demographic assumptions include turnover, retirement, disability, and death. Economic assumptions include future salary increases, investment return, and inflation. While the Board will not be conducting an Experience Study until 2014, this is a good time to begin considering how changes in ND education could impact TFFR in the future.

Oil activity in western ND has been the subject of many discussions in the past few years. The need for more schools and more teachers; recruitment, retention, and retirement issues; and innovative salary and benefit packages designed to attract and retain teachers also affects TFFR.

To assist the board in assessing potential changes, I have asked three experts to join us at the July meeting to share their views on how the oil industry is impacting schools and teachers in ND.

- Kayla Effertz, Governor's Office
- Larry Klundt, LAK Educational Consulting
- Dakota Draper, NDEA President

# ND oil town's prosperity doesn't reach teachers

Associated Press - 07/06/2012

BISMARCK — Jobs paying $80,000 or more abound in North Dakota's booming oil patch, but when Molly Lippert came home from college, she gladly accepted a $31,500-a-year position teaching first grade.

"I'd really like to stay in the field of study I went to college for," said Lippert, 23. "The happiness that comes with teaching outweighs the price of anything else."

The cost of living has skyrocketed in Williston as job-seekers flock to the hub of western North Dakota's booming oil patch. Officials say the city's population has doubled in the past decade to some 30,000 residents and the average wage has risen from about $32,000 in 2006 to about $80,000. Pay for teachers hasn't kept up, although they are desperately needed.

Williston expects an influx of about 1,200 students this year, bringing enrollment to about 3,800 from about 2,600 last year. School officials are hiring 52 new teachers to add to the 190 they already have. They also are adding dozens of mobile classrooms and reopening an elementary school that closed a dozen years ago when the region's first oil boom went bust and enrollment fell.

North Dakota has risen from the nation's ninth leading oil producer to No. 2 in just six years, with advanced horizontal drilling techniques in the rich Bakken shale and Three Forks formations in the western part of the state. More than half of Williston's residents now work in oil-related jobs, and the city's unemployment rate is just 1 percent. There are some 3,000 unfilled jobs in the city.

There's also an extreme housing shortage. Lippert, who got married last month, will be staying with her in-laws. Her husband, Nick, another recent graduate, was hired as an architect by a construction firm in Williston. The newlyweds hope to eventually buy a townhome in the city.

"These are exciting times," Lippert said.

Others have not been so lucky. About 15 people have turned down teaching jobs due to the lack of housing or because they can't afford to live in Williston, school superintendent Viola LaFontaine said. To help address the problem, the district has leased two buildings with four apartments each for single teachers. Two teachers will share each apartment, LaFontaine said.

Lanny Gabbert, a high school science teacher and president of the Williston Education Association, said the salary for new teachers went up by $1,500 under the present contract. But that sum has been more than offset by the increased cost of living in Williston. Gabbert said rent for one of his fellow teachers jumped from $500 per month to $900 this year for the same apartment.

"Even with the bump in salary, technically he has less money that he did the previous year," Gabbert said, adding that improving pay will be a top issue when bargaining for a new two-year contract starts in September.

"We are a long way from where we should be," Gabbert said.

Dakota Draper, president of the North Dakota Education Association, said teacher salaries and lack of housing are big issues throughout the oil-producing region and have made it difficult to attract and retain teachers. He said more money will be needed for education in the oil patch, although lawmakers are still talking about "how much, where it will come from and who will pay for it."

"People want good schools and teachers for their kids," Draper said. "It costs a lot more in the oil patch."

Yet Williston has been flooded with teaching applications despite the high cost of living, lack of housing and comparatively low salaries for the jobs, LaFontaine said.

"I count my blessings," she said. "Not only have we gotten a lot of applications, we've gotten a lot of good applications. There are people who want to teach in Williston."

School administrators have hired about 40 teachers already this summer. About half have ties to the city and some will be living with family or friends, LaFontaine said.

One of the new hires is Kim Henneberry, 57, of Miles City, Mont. He's taught everywhere from one-room country schoolhouses to large public and Roman Catholic schools. In Williston, he'll teach reading, English and spelling.

Henneberry's wife, Cathie, has been living in Williston for the past 15 months, working at a Veterans Administration clinic. They sold their home in Montana last week and are buying a new house from one of Cathie Henneberry's co-workers.

Their new home costs three times what their old home sold for in Montana, Kim Henneberry said. Still, he and his wife feel lucky to have found a home in Williston.

"I have no idea where beginning teachers are going to live," Henneberry said. "This is an unforgivably difficult place to find a place to live."

Henneberry also is fortunate to be earning more with his experience and a master's degree. Still, he said, it's nothing compared to what others are making. He recently bumped into a former student from Montana who landed a job in the oil patch.

"The guy has zero college and walks out of high school and is making 90-grand," he said. "To me that seems to be an injustice." ___

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# Enrollment & Teacher Needs for Western North Dakota

TFFR Board
July 18, 2012

## Enrollment Projections: Williston

- 2,131 housing unit building permits were issued by the City of Williston in 2011
- 1600 of them will be ready for occupancy by the fall of 2012
- As a result of the application of a formula using the number of housing units and potential students per unit, it appears that there will be approximately 1,200 new students for 2012-13

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13* | 2013-14* | 2014-15* | 2015-16* | 2016-17* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| K | 129 | 153 | 156 | 181 | 175 | 242 | 362 | 462 | 562 | 647 | 700 |
| 1-6 | 870 | 846 | 896 | 940 | 1082 | 1157 | 1877 | 2477 | 3077 | 3587 | 3905 |
| 7-8 | 375 | 349 | 337 | 366 | 404 | 447 | 567 | 717 | 867 | 994 | 1073 |
| 9-12 | 762 | 762 | 795 | 788 | 806 | 797 | 1037 | 1187 | 1337 | 1464 | 1543 |
| **Total** | **2136** | **2110** | **2184** | **2275** | **2467** | **2643** | **3843** | **4843** | **5843** | **6692** | **7221** |

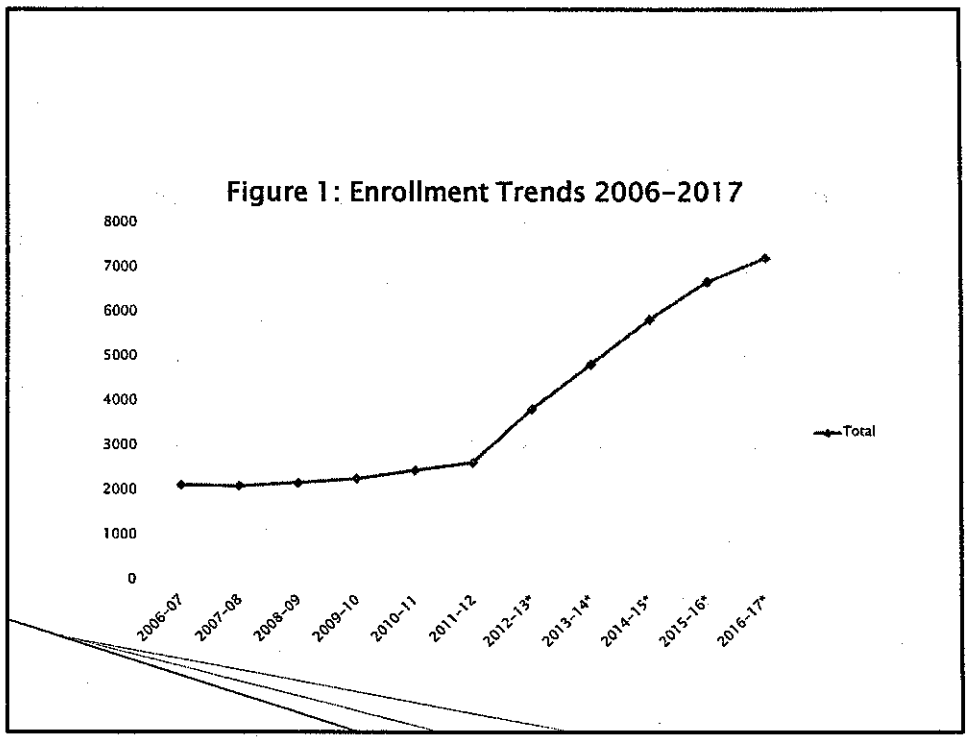
Figure 1: Enrollment Trends 2006-2017
8000
7000
6000
5000
4000
3000
2000
1000
0
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13*
2013-14*
2014-15*
2015-16*
2016-17*
Total

## Williston Personnel Needs: 2012-13

| | |
|---|---|
| ▪ 30 Core Teachers | $1,683,000 |
| ▪ 10 Specialist Teachers | 550,000 |
| ▪ 3 Counselors | 171,000 |
| ▪ 1 Librarian | 68,000 |
| ▪ 4 Spec. Ed. Teachers | 274,000 |
| ▪ 11 Instructional Aides | 283,800 |
| Total: | $ 3,029800 |

## Other Costs Associated with Student Growth

| | |
|---|---|
| ▪ Technology: ($300) | $ 360,000 |
| ▪ Instr. Materials: ($300) | 360,000 |
| ▪ St. Activities: ($225) | 270,000 |
| ▪ Op./Maint.: ($950) | 1,140,000 |
| ▪ Transportation: ($150) | 180,000 |
| ▪ Prof Devel.: ($100) | 120,000 |
| ▪ Admin: ($600) | 720,000 |
| Total: | $3,150,000 |

## Enrollments Other Than Williston

- 54 Western Districts (NDEA Survey) shows approximately 1,437 new students in 2011-12 over 2010-11.
- 29 Oil & Gas Producing Districts (LAK Survey) shows that there could be approximately 1,608 new students in those districts for 2012-13, not counting Williston.

## Potential Instructional Personnel Needs in Other Western ND Districts for 2012-13

- Again, using the Picus Report, the potential is for the following:
  - 40 Core Teachers
  - 12 Specialist Teachers
  - 3 Counselors
  - 2 Librarians
  - 6 Special Education Teachers
  - 13 Instructional Aides

## Enrollment Comparisons 2010-2011 to 2011-2012

| District | Enrollment 2010-2011 | Enrollment 2011-2012 | Diff | % Diff | FTEs 2010-2011 | FTEs 2011-2012 | Diff | % Diff |
|---|---|---|---|---|---|---|---|---|
| Halliday | 22 | 40 | 18 | 82% | 10.7 | 9.8 | -1 | -8% |
| Billings County (Medora) | 39 | 69 | 30 | 77% | 13 | 15.2 | 2 | 17% |
| Little Heart (St. Anthony) | 12 | 17 | 5 | 42% | 1.9 | 1.9 | 0 | 0% |
| Alexander | 69 | 94 | 25 | 36% | 10 | 10.2 | 0 | 2% |
| Naughton (Bismarck) | 6 | 8 | 2 | 33% | 1.4 | 1.4 | 0 | 0% |
| Sterling | 21 | 28 | 7 | 33% | 4.6 | 4.6 | 0 | 0% |
| Emerado | 77 | 102 | 25 | 32% | 11.1 | 11.8 | 1 | 6% |
| Underwood | 168 | 218 | 50 | 30% | 24.4 | 24.1 | 0 | -1% |
| Oberon | 41 | 53 | 12 | 29% | 7 | 7 | 0 | 0% |
| Bakker (Hague) | 7 | 9 | 2 | 29% | 1 | 1 | 0 | 0% |
| Grenora | 88 | 113 | 25 | 28% | 16.1 | 14.7 | -1 | -9% |
| Lone Tree (Golva) | 23 | 29 | 6 | 26% | 4.8 | 4.8 | 0 | 0% |
| Divide County (Crosby) | 226 | 280 | 54 | 24% | 29.2 | 31 | 2 | 6% |
| Manning (Bismarck) | 9 | 11 | 2 | 22% | 1 | 1 | 0 | 0% |
| McKenzie Co (Watford City) | 592 | 707 | 115 | 19% | 47.1 | 54.5 | 7 | 16% |
| Solen | 154 | 183 | 29 | 19% | 31.1 | 30.1 | -1 | -3% |
| Kulm | 108 | 128 | 20 | 19% | 15.9 | 16.9 | 1 | 6% |
| South Prairie | 148 | 174 | 26 | 18% | 16.1 | 17.5 | 1 | 9% |
| South Heart | 205 | 241 | 36 | 18% | 21.9 | 22.8 | 1 | 4% |
| Mapleton | 75 | 88 | 13 | 17% | 9.1 | 10 | 1 | 10% |
| North Star (Cando, B-E) | 246 | 288 | 42 | 17% | 25.2 | 27 | 2 | 7% |
| New Eight (Williston) | 183 | 212 | 29 | 16% | 21.2 | 19.9 | -1 | -6% |
| Roosevelt (Carson) | 102 | 118 | 16 | 16% | 11.4 | 11.2 | 0 | -2% |
| Pingree-Buchanan | 134 | 155 | 21 | 16% | 14.8 | 16.8 | 2 | 14% |
| Munich | 83 | 96 | 13 | 16% | 12.6 | 13.2 | 1 | 5% |
| Midkota | 110 | 127 | 17 | 15% | 17.2 | 18.6 | 1 | 8% |
| Yellowstone (Fairview) | 52 | 60 | 8 | 15% | 6.8 | 8.8 | 2 | 29% |
| Stanley | 480 | 552 | 72 | 15% | 45.1 | 48.7 | 4 | 8% |
| Warwick | 254 | 289 | 35 | 14% | 31.1 | 29.5 | -2 | -5% |
| Minnewaukan | 233 | 264 | 31 | 13% | 25.8 | 26.3 | 1 | 2% |
| Nesson (Ray) | 219 | 247 | 28 | 13% | 19.7 | 21.7 | 2 | 10% |

| District | Enrollment 2010-2011 | Enrollment 2011-2012 | Diff | % Diff | FTEs 2010-2011 | FTEs 2011-2012 | Diff | % Diff |
|---|---|---|---|---|---|---|---|---|
| Powers Lake | 106 | 119 | 13 | 12% | 15.1 | 14.9 | 0 | -1% |
| Leeds | 141 | 158 | 17 | 12% | 17.6 | 18.2 | 1 | 3% |
| Rolette | 141 | 157 | 16 | 11% | 18.8 | 18 | -1 | -4% |
| New England | 175 | 194 | 19 | 11% | 18 | 18.1 | 0 | 1% |
| Bowman County | 402 | 441 | 39 | 10% | 43.5 | 44.5 | 1 | 2% |
| Burke Central (Lignite) | 85 | 93 | 8 | 9% | 17.4 | 20 | 3 | 15% |
| Litchville-Marion | 124 | 135 | 11 | 9% | 17.7 | 17.8 | 0 | 1% |
| Washburn | 247 | 268 | 21 | 9% | 22.4 | 22.7 | 0 | 1% |
| Turtle Lake-Mercer | 155 | 168 | 13 | 8% | 25.6 | 24.2 | -1 | -5% |
| Drake | 76 | 82 | 6 | 8% | 9.6 | 9.6 | 0 | 0% |
| Westhope | 115 | 124 | 9 | 8% | 18.1 | 18.7 | 1 | 3% |
| Williston | 2,467 | 2,659 | 192 | 8% | 169.2 | 186.9 | 18 | 10% |
| Glenburn | 248 | 266 | 18 | 7% | 29 | 27 | -2 | -7% |
| Center-Stanton | 196 | 210 | 14 | 7% | 23.5 | 22.5 | -1 | -4% |
| Starkweather | 70 | 75 | 5 | 7% | 10.6 | 10.5 | 0 | -1% |
| Wing | 103 | 110 | 7 | 7% | 13.9 | 15.7 | 2 | 13% |
| Grafton | 810 | 864 | 54 | 7% | 71.9 | 71.1 | -1 | -1% |
| Manvel | 135 | 144 | 9 | 7% | 13.8 | 13.9 | 0 | 1% |
| Enderlin Area | 302 | 322 | 20 | 7% | 26.4 | 30.4 | 4 | 15% |
| Surrey | 363 | 386 | 23 | 6% | 34.7 | 36 | 1 | 4% |
| Anamoose | 95 | 101 | 6 | 6% | 12.5 | 11.3 | -1 | -10% |
| Richardton-Taylor | 246 | 261 | 15 | 6% | 28.4 | 26.9 | -2 | -5% |
| Medina | 135 | 143 | 8 | 6% | 17.6 | 17.6 | 0 | 0% |
| White Shield (Roseglen) | 120 | 127 | 7 | 6% | 24 | 24 | 0 | 0% |
| Carrington | 518 | 547 | 29 | 6% | 43.4 | 43 | 0 | -1% |
| West Fargo | 7,084 | 7,477 | 393 | 6% | 583.9 | 609 | 25 | 4% |
| Dickinson | 2,597 | 2,737 | 140 | 5% | 219.8 | 223.5 | 4 | 2% |
| Central Cass | 776 | 816 | 40 | 5% | 59.5 | 59.4 | 0 | 0% |
| Towner-Granville-Upham | 313 | 329 | 16 | 5% | 40 | 39.3 | -1 | -2% |
| Belcourt | 1,636 | 1,714 | 78 | 5% | 199.5 | 193.5 | -6 | -3% |
| Wyndmere | 212 | 222 | 10 | 5% | 19.8 | 22.9 | 3 | 16% |
| Lewis & Clark | 361 | 378 | 17 | 5% | 37.5 | 37.3 | 0 | -1% |
| Hankinson | 286 | 299 | 13 | 5% | 23.3 | 25.4 | 2 | 9% |

| District | Enrollment 2010-2011 | Enrollment 2011-2012 | Diff | % Diff | FTEs 2010-2011 | FTEs 2011-2012 | Diff | % Diff |
|---|---|---|---|---|---|---|---|---|
| Lisbon | 587 | 613 | 26 | 4% | 48.6 | 54.6 | 6 | 12% |
| Bismarck | 10,842 | 11,308 | 466 | 4% | 861.1 | 863 | 2 | 0% |
| Wolford | 47 | 49 | 2 | 4% | 9.4 | 10.5 | 1 | 12% |
| Zeeland | 52 | 54 | 2 | 4% | 10.5 | 10.5 | 0 | 0% |
| Mott-Regent | 223 | 231 | 8 | 4% | 25.8 | 27.3 | 2 | 6% |
| Park River | 393 | 407 | 14 | 4% | 32.2 | 32.2 | 0 | 0% |
| Wilton (Montefiore) | 202 | 209 | 7 | 3% | 19.5 | 21 | 2 | 8% |
| Northern Cass (Hunter) | 535 | 553 | 18 | 3% | 41.5 | 42.1 | 1 | 1% |
| United (Des Lacs) | 543 | 561 | 18 | 3% | 48 | 48 | 0 | 0% |
| Northwood | 242 | 250 | 8 | 3% | 22.6 | 22.1 | -1 | -2% |
| Garrison | 337 | 348 | 11 | 3% | 32.8 | 34.8 | 2 | 6% |
| Bottineau | 587 | 606 | 19 | 3% | 58.4 | 57.9 | -1 | -1% |
| Max | 188 | 194 | 6 | 3% | 18.6 | 19.5 | 1 | 5% |
| Napoleon | 253 | 261 | 8 | 3% | 23.3 | 24.3 | 1 | 4% |
| Tioga | 292 | 301 | 9 | 3% | 25.8 | 26.4 | 1 | 2% |
| Montpelier | 107 | 110 | 3 | 3% | 14.5 | 14.5 | 0 | 0% |
| Central Valley (Buxton) | 216 | 222 | 6 | 3% | 19.5 | 19.5 | 0 | 0% |
| Beach | 285 | 292 | 7 | 2% | 35.3 | 36.3 | 1 | 3% |
| Fargo | 10,516 | 10,771 | 255 | 2% | 919.2 | 927.3 | 8 | 1% |
| Killdeer | 372 | 381 | 9 | 2% | 34.6 | 36.1 | 2 | 4% |
| Thompson | 415 | 425 | 10 | 2% | 31.4 | 31.5 | 0 | 0% |
| Wishek | 208 | 213 | 5 | 2% | 19.7 | 18.8 | -1 | -5% |
| Sawyer | 125 | 128 | 3 | 2% | 17.7 | 17.4 | 0 | -2% |
| Gackle-Streeter | 87 | 89 | 2 | 2% | 14 | 13.6 | 0 | -3% |
| Langdon Area | 354 | 362 | 8 | 2% | 34 | 35.4 | 1 | 4% |
| Saint John | 357 | 365 | 8 | 2% | 36 | 36.5 | 1 | 1% |
| Mohall-Lansford-Sherwood | 338 | 345 | 7 | 2% | 35.3 | 32.2 | -3 | -9% |
| Oakes | 485 | 495 | 10 | 2% | 33 | 33 | 0 | 0% |
| Edmore | 62 | 63 | 1 | 2% | 9.4 | 9.4 | 0 | 0% |
| Fessenden-Bowdon | 128 | 130 | 2 | 2% | 18.1 | 17.1 | -1 | -6% |
| Lakota | 192 | 195 | 3 | 2% | 21.5 | 21.8 | 0 | 1% |
| Cavalier | 403 | 409 | 6 | 1% | 37 | 32.9 | -4 | -11% |
| Richland (Colfax) | 276 | 280 | 4 | 1% | 24.7 | 28.7 | 4 | 16% |

| District | Enrollment 2010-2011 | Enrollment 2011-2012 | Diff | % Diff | FTEs 2010-2011 | FTEs 2011-2012 | Diff | % Diff |
|---|---|---|---|---|---|---|---|---|
| Beulah | 688 | 697 | 9 | 1% | 57.5 | 57.5 | 0 | 0% |
| Hope-Page | 93 | 94 | 1 | 1% | 9.3 | 9.3 | 0 | 0% |
| Jamestown | 2,134 | 2,156 | 22 | 1% | 188.5 | 190.6 | 2 | 1% |
| Hillsboro | 395 | 399 | 4 | 1% | 34.2 | 35.2 | 1 | 3% |
| Mandan | 3,283 | 3,311 | 28 | 1% | 268.6 | 265.9 | -3 | -1% |
| Mt. Pleasant (Rolla) | 240 | 242 | 2 | 1% | 24.2 | 24 | 0 | -1% |
| Dakota Prairie (Petersburg) | 254 | 256 | 2 | 1% | 30.3 | 29.3 | -1 | -3% |
| Parshall | 278 | 279 | 1 | 0% | 29.6 | 27.6 | -2 | -7% |
| North Border (Pembina) | 442 | 443 | 1 | 0% | 56.6 | 55.9 | -1 | -1% |
| Grand Forks | 6,891 | 6,899 | 8 | 0% | 682.1 | 672.8 | -9 | -1% |
| Ashley | 131 | 131 | 0 | 0% | 17.3 | 17.1 | 0 | -1% |
| Belfield | 224 | 224 | 0 | 0% | 24 | 23.3 | -1 | -3% |
| Central ES (Amidon) | 3 | 3 | 0 | 0% | 2.5 | 2.5 | 0 | 0% |
| Edgeley | 229 | 229 | 0 | 0% | 23.1 | 22.8 | 0 | -1% |
| Horse Creek (Cartwright) | 4 | 4 | 0 | 0% | 0.9 | 1 | 0 | 11% |
| Kidder County (Steele) | 395 | 395 | 0 | 0% | 43.4 | 41.9 | -2 | -3% |
| Strasburg | 140 | 140 | 0 | 0% | 15.5 | 15.7 | 0 | 1% |
| Kindred | 670 | 669 | -1 | 0% | 49.3 | 50 | 1 | 1% |
| Wahpeton | 1,240 | 1,238 | -2 | 0% | 105.7 | 101.8 | -4 | -4% |
| Linton | 313 | 312 | -1 | 0% | 28.5 | 28.5 | 0 | 0% |
| New Salem-Almont | 312 | 311 | -1 | 0% | 28.9 | 27.8 | -1 | -4% |
| Hettinger | 258 | 257 | -1 | 0% | 29 | 28.4 | -1 | -2% |
| Nedrose (Minot) | 223 | 222 | -1 | 0% | 18.2 | 18.2 | 0 | 0% |
| Sargent Central (Forman) | 218 | 217 | -1 | 0% | 21.8 | 23.8 | 2 | 9% |
| Rugby | 565 | 562 | -3 | -1% | 51.6 | 51.6 | 0 | 0% |
| Devils Lake | 1,659 | 1,649 | -10 | -1% | 147.1 | 140.7 | -6 | -4% |
| Minot | 7,037 | 6,976 | -61 | -1% | 618.9 | 620.3 | 1 | 0% |
| North Sargent (Gwinner) | 224 | 222 | -2 | -1% | 20.2 | 20.4 | 0 | 1% |
| Flasher | 187 | 185 | -2 | -1% | 21 | 20.5 | -1 | -2% |
| Hebron | 182 | 180 | -2 | -1% | 18.6 | 18.9 | 0 | 2% |
| Lidgerwood | 180 | 178 | -2 | -1% | 17.6 | 17.2 | 0 | -2% |
| Page-Hope | 78 | 77 | -1 | -1% | 11.2 | 11.4 | 0 | 2% |
| Kenmare | 298 | 294 | -4 | -1% | 30 | 30 | 0 | 0% |

| District | Enrollment 2010-2011 | Enrollment 2011-2012 | Diff | % Diff | FTEs 2010-2011 | FTEs 2011-2012 | Diff | % Diff |
|---|---|---|---|---|---|---|---|---|
| Barnes County North | 287 | 283 | -4 | -1% | 39.9 | 39 | -1 | -2% |
| Valley City | 1,129 | 1,111 | -18 | -2% | 79.1 | 79.9 | 1 | 1% |
| Hatton | 188 | 185 | -3 | -2% | 18 | 20.1 | 2 | 12% |
| Fordville-Lankin | 62 | 61 | -1 | -2% | 10.7 | 11 | 0 | 3% |
| Milnor | 231 | 227 | -4 | -2% | 23.5 | 26.4 | 3 | 12% |
| New Rockford-Sheyenne | 344 | 338 | -6 | -2% | 31 | 30.6 | 0 | -1% |
| Minto | 221 | 217 | -4 | -2% | 20.1 | 19.1 | -1 | -5% |
| McClusky | 81 | 79 | -2 | -2% | 16.2 | 15.9 | 0 | -2% |
| Selfridge | 75 | 73 | -2 | -3% | 13.6 | 13.9 | 0 | 2% |
| Velva | 379 | 368 | -11 | -3% | 36 | 37 | 1 | 3% |
| Ft. Yates | 168 | 163 | -5 | -3% | 19 | 19 | 0 | 0% |
| Glen Ullin | 159 | 154 | -5 | -3% | 19 | 18.7 | 0 | -2% |
| Larimore | 433 | 419 | -14 | -3% | 40.7 | 39.7 | -1 | -2% |
| LaMoure | 305 | 295 | -10 | -3% | 25.2 | 24 | -1 | -5% |
| New Town | 767 | 741 | -26 | -3% | 60.3 | 66.4 | 6 | 10% |
| Harvey | 431 | 415 | -16 | -4% | 35.1 | 36.7 | 2 | 5% |
| Hazen | 581 | 557 | -24 | -4% | 44.3 | 42.9 | -1 | -3% |
| Drayton | 156 | 149 | -7 | -4% | 20.9 | 21.7 | 1 | 4% |
| Valley-Edinburg | 242 | 231 | -11 | -5% | 27 | 26.8 | 0 | -1% |
| May-Port CG | 512 | 488 | -24 | -5% | 43 | 42 | -1 | -2% |
| Scranton | 123 | 117 | -6 | -5% | 18.3 | 17.2 | -1 | -6% |
| Midway (Inkster) | 222 | 211 | -11 | -5% | 23.6 | 24.5 | 1 | 4% |
| Ellendale | 359 | 338 | -21 | -6% | 32.1 | 32.1 | 0 | 0% |
| Eight Mile (Trenton) | 181 | 170 | -11 | -6% | 16.3 | 18 | 2 | 10% |
| Fairmount | 124 | 116 | -8 | -6% | 14.4 | 16.2 | 2 | 13% |
| Finley-Sharon | 149 | 139 | -10 | -7% | 20 | 19.9 | 0 | -1% |
| Griggs County Central | 265 | 245 | -20 | -8% | 25.1 | 25 | 0 | 0% |
| Bowbells | 62 | 57 | -5 | -8% | 10.3 | 10.5 | 0 | 2% |
| Dunseith | 437 | 401 | -36 | -8% | 50.3 | 50.5 | 0 | 0% |
| Apple Creek (Bismarck) | 72 | 66 | -6 | -8% | 6.1 | 6.1 | 0 | 0% |
| Sweet Briar (Mandan) | 12 | 11 | -1 | -8% | 0.9 | 0.9 | 0 | 0% |
| Maddock | 172 | 157 | -15 | -9% | 18.6 | 18.6 | 0 | 0% |
| Maple Valley | 240 | 219 | -21 | -9% | 24.8 | 24.9 | 0 | 0% |

| District | Enrollment 2010-2011 | Enrollment 2011-2012 | Diff | % Diff | FTEs 2010-2011 | FTEs 2011-2012 | Diff | % Diff |
|---|---|---|---|---|---|---|---|---|
| Kensal | 45 | 40 | -5 | -11% | 8.8 | 9.6 | 1 | 9% |
| Elgin-New Leipzig | 141 | 125 | -16 | -11% | 18.8 | 17.7 | -1 | -6% |
| Goodrich | 25 | 22 | -3 | -12% | 7.1 | 6.2 | -1 | -13% |
| Newburg United | 63 | 55 | -8 | -13% | 13 | 13 | 0 | 0% |
| Fort Totten | 166 | 144 | -22 | -13% | 23.2 | 23.5 | 0 | 1% |
| Robinson | 7 | 6 | -1 | -14% | 2 | 2 | 0 | 0% |
| Saint Thomas | 84 | 71 | -13 | -15% | 12.4 | 12.4 | 0 | 0% |
| Mandaree | 216 | 182 | -34 | -16% | 29.1 | 24 | -5 | -18% |
| Adams | 44 | 37 | -7 | -16% | 9.5 | 9.5 | 0 | 0% |
| Ft. Ransom (Lisbon) | 31 | 26 | -5 | -16% | 4 | 4 | 0 | 0% |
| Twin Buttes (Halliday) | 40 | 33 | -7 | -18% | 10.8 | 9.2 | -2 | -15% |
| Marmath | 16 | 13 | -3 | -19% | 3 | 3 | 0 | 0% |
| Hazelton-Moffit-Braddock | 111 | 90 | -21 | -19% | 16.4 | 15.2 | -1 | -7% |
| Menoken | 38 | 26 | -12 | -32% | 4.9 | 3.9 | -1 | -20% |
| Pleasant Valley (Hurdsfield) | 12 | 7 | -5 | -42% | 2.5 | 1.6 | -1 | -36% |
| | **94,951** | **97,475** | **2,524** | **3%** | **8841.4** | **8913.9** | **72** | **1%** |

## Worksheet 2012-2013 Hiring Schedule Benchmarks (Draft)

| 2011-2012 Enrollment | District | BA Base 2011-2012 | BA Base 2012-2013 | Base Increase | | Schedule Maximum 2012-2013 | Lanes and Credits | Years | Returning Teacher Increment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | $ Inc | % Inc | | | | |
| 592 | McKenzie Co* (Watford City) | $36,100 | $38,600 | $2,500 | 6.93% | $63,580 | MA | 25 | $3,325 |
| 480 | Stanley* | $34,000 | $36,000 | $2,000 | 5.88% | $39,900 | MA | 3 | $3,274 |
| 767 | New Town | $34,000 | $35,500 | $1,500 | 4.41% | $53,400 | MA/8 | 25 | $2,000 |
| 372 | Killdeer | $33,000 | $35,000 | $2,000 | 6.06% | $37,200 | MA | 0 | $500 |
| 254 | Warwick | $33,500 | $35,000 | $1,500 | 4.48% | $50,750 | MA/28 | 25 | $2,250 |
| 688 | Beulah* | $32,800 | $34,034 | $1,234 | 3.76% | $47,829 | MA/30 | 25 | $1,590 |
| 62 | Bowbells | $32,500 | $34,000 | $1,500 | 4.62% | $44,750 | MA | 25 | $1,500 |
| 278 | Parshall* | $33,000 | $34,000 | $1,000 | 3.03% | $45,500 | MA/8 | 15 | $2,250 |
| 254 | Dakota Prairie (Petersburg) | $32,350 | $32,850 | $500 | 1.55% | $40,550 | MA/8 | 15 | $500 |
| 581 | Hazen* | $32,525 | $32,525 | $0 | 0.00% | $43,100 | MA/16 | 15 | $0 |
| 285 | Beach | $31,500 | $32,000 | $500 | 1.59% | $42,600 | MA/24 | 10 | $500 |
| 182 | Hebron | $30,600 | $32,000 | $1,400 | 4.58% | $40,400 | MA | 10 | $525 |
| 231 | Milnor* ** | $31,000 | $32,000 | $1,000 | 3.23% | $36,000 | MA/8 | 0 | $1,000 |
| 338 | Mohall-Lansford-Sherwood | $32,000 | $32,000 | $0 | 0.00% | $50,250 | MA | 15 | $1,500 |
| 175 | New England* | $28,000 | $32,000 | $4,000 | 14.29% | $43,600 | MA/12 | 10 | $3,000 |
| 565 | Rugby* | $31,000 | $32,000 | $1,000 | 3.23% | $48,875 | MA/16 | 25 | $1,660 |
| 159 | Glen Ullin | $29,600 | $31,600 | $2,000 | 6.76% | $37,100 | MA/16 | # | $2,000 |
| 39 | Billings County (Medora) | $30,000 | $31,500 | $1,500 | 5.00% | $41,400 | MA/16 | 10 | $2,500 |
| 166 | Fort Totten | $31,500 | $31,500 | $0 | 0.00% | $50,000 | PHD | 25 | $1,500 |
| 240 | Mt Pleasant (Rolla)* | $31,000 | $31,500 | $500 | 1.61% | $41,750 | MA/8 | 25 | $475 |
| 156 | Drayton | $30,074 | $31,334 | $1,260 | 4.19% | $45,615 | MA/8 | 25 | $1,000 |
| 312 | New Salem-Almont | $29,900 | $31,100 | $1,200 | 4.01% | $37,100 | MA | 10 | $0 |
| 437 | Dunseith | $29,500 | $31,000 | $1,500 | 5.08% | $34,290 | MA | 0 | $1,515 |
| 218 | Sargent Central (Forman) | $30,250 | $31,000 | $750 | 2.48% | $38,500 | MA/16 | 5 | $630 |
| 202 | Wilton (Montefiore) | $31,000 | $31,000 | $0 | 0.00% | $42,700 | MA/8 | 9 | $1,000 |
| 431 | Harvey | $30,400 | $30,750 | $350 | 1.15% | $45,500 | PHD | 25 | $700 |
| 148 | South Prairie | $30,500 | $30,500 | $0 | 0.00% | $36,900 | MA | 10 | $0 |
| 52 | Yellowstone (Fairview) | $28,000 | $30,500 | $2,500 | 8.93% | $43,000 | MA | 15 | $2,500 |
| 403 | Cavalier | $29,250 | $30,000 | $750 | 2.56% | $47,500 | MA | 25 | $1,300 |
| 149 | Finley-Sharon* | $30,000 | $30,000 | $0 | 0.00% | $45,900 | MA/10 | 10 | $922 |
| 258 | Hettinger** | $30,000 | $30,000 | $0 | 0.00% | $34,000 | MA | x | $1,100 |
| 223 | Mott-Regent | $29,350 | $30,000 | $650 | 2.21% | $31,000 | BA | # | $1,000 |
| 224 | North Sargent (Gwinner) | $30,000 | $30,000 | $0 | 0.00% | $49,250 | MA/24 | 25 | $1,150 |

over

| 2011-2012 Enrollment | District | BA Base 2011-2012 | BA Base 2012-2013 | Base Increase | | Schedule Maximum 2012-2013 | Lanes and Credits | Years | Returning Teacher Increment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | $ Inc | % Inc | | | | |
| 1,240 | Wahpeton* ** | $30,000 | $30,000 | $0 | 0.00% | $36,300 | MA/30 | 0 | $1,750 |
| 196 | Center-Stanton | $29,700 | $29,700 | $0 | 0.00% | $41,700 | MA/32 | 10 | $500 |
| 81 | McClusky | $28,500 | $29,500 | $1,000 | 3.51% | $32,000 | MA/10 | 0 | $1,200 |
| 76 | Drake* | $28,500 | $29,000 | $500 | 1.75% | $43,250 | MA/8 | 25 | $500 |
| 52 | Zeeland | $27,340 | $28,640 | $1,300 | 4.75% | $32,290 | MA | 10 | $1,000 |
| | **Column Averages** | **$30,848** | **$31,832** | **$984** | **3.20%** | **$42,509** | | | **$1,306** |

* Returning Teacher Increment based on percentage of previous salary or schedule base or academic preparation

** New Hires paid comparable to current staff

# Experience granted at the discretion of the Board

## Worksheet 2012-2013 Salary Schedules Benchmarks (Draft)

| 2011-2012 Enrollments | District | BA Base 2011-2012 | BA Base 2012-2013 | Base Increase | | Lanes and Credits | Years | MA at 10 Years |
|---|---|---|---|---|---|---|---|---|
| | | | | $ Inc | % Inc | | | |
| 301 | Tioga | $40,383 | $43,183 | $2,800 | 6.93% | MA | 31 | $50,933 |
| 1,714 | Belcourt | $38,750 | $40,000 | $1,250 | 3.23% | MA/30 | 13 | $57,950 |
| 11,308 | Bismarck | $37,000 | $39,000 | $2,000 | 5.41% | MA60/EDD | 25 | $51,490 |
| 280 | Divide County (Crosby) | $38,000 | $39,000 | $1,000 | 2.63% | MA/24 | 22 | $47,250 |
| 299 | Hankinson | $36,052 | $37,604 | $1,552 | 4.30% | MA | 30 | $44,204 |
| 399 | Hillsboro | $36,000 | $37,300 | $1,300 | 3.61% | MA/24 | 34 | $47,300 |
| 247 | Nesson (Ray) | $35,250 | $37,250 | $2,000 | 5.67% | MA | 30 | $44,525 |
| 10,771 | Fargo | $36,795 | $37,245 | $450 | 1.22% | MA/45 | 17 | $50,859 |
| 362 | Langdon Area | $35,000 | $37,000 | $2,000 | 5.71% | MA/32 | 21 | $43,900 |
| 222 | Wyndmere | $35,450 | $36,950 | $1,500 | 4.23% | MA/30 | 27 | $43,200 |
| 6,899 | Grand Forks | $35,250 | $36,550 | $1,300 | 3.69% | MA/45 | 25 | $47,100 |
| 283 | Barnes County North | $35,500 | $36,500 | $1,000 | 2.82% | MA/10 | 38 | $46,775 |
| 6,976 | Minot | $35,703 | $36,403 | $700 | 1.96% | MA/45 | 15 | $53,201 |
| 113 | Grenora | $34,100 | $36,100 | $2,000 | 5.87% | BA/40 | 22 | xx |
| 212 | New 8 (Williston) | $32,500 | $35,750 | $3,250 | 10.00% | BA/48 | 35 | $49,550 |
| 2,737 | Dickinson | $34,281 | $35,100 | $819 | 2.39% | MA/16 | 15 | $50,700 |
| 669 | Kindred | $34,200 | $35,000 | $800 | 2.34% | MA/8 | 34 | $45,800 |
| 365 | Saint John | $35,000 | $35,000 | $0 | 0.00% | MA | 32 | $41,700 |
| 119 | Powers Lake | $33,000 | $35,000 | $2,000 | 6.06% | MA | 26 | $40,325 |
| 116 | Fairmount | $32,500 | $35,000 | $2,500 | 7.69% | MA | 34 | $44,500 |
| 96 | Munich | $33,500 | $35,000 | $1,500 | 4.48% | MA | 40 | $41,050 |
| 2,156 | Jamestown | $33,176 | $34,837 | $1,661 | 5.01% | MA/16 | 18 | $52,255 |
| 864 | Grafton | $33,850 | $34,500 | $650 | 1.92% | MA/32 | 25 | $43,750 |
| 75 | Starkweather | $32,400 | $34,100 | $1,700 | 5.25% | MA/8 | 41 | $39,300 |
| 613 | Lisbon | $34,000 | $34,000 | $0 | 0.00% | MA/16 | 30 | $42,000 |
| 329 | Towner-Granville-Upham | $33,000 | $34,000 | $1,000 | 3.03% | MA/24 | 31 | $43,200 |
| 93 | Burke Central (Lignite) | $34,000 | $34,000 | $0 | 0.00% | MA | 10 | $43,000 |
| 3,311 | Mandan | $32,516 | $33,917 | $1,401 | 4.31% | EDD | 22 | $46,777 |
| 264 | Minnewaukan | $33,300 | $33,850 | $550 | 1.65% | MA | 34 | $41,550 |
| 495 | Oakes | $32,800 | $33,800 | $1,000 | 3.05% | BA/64 | 35 | xx |
| 368 | Velva | $32,344 | $33,674 | $1,330 | 4.11% | MA/32 | 22 | $43,024 |
| 222 | Nedrose (Minot) | $32,600 | $33,200 | $600 | 1.84% | MA/45 | 17 | $51,694 |
| 229 | Edgeley | $31,000 | $33,000 | $2,000 | 6.45% | MA/16 | 28 | $41,100 |

| 2011-2012 Enrollments | District | BA Base 2011-2012 | BA Base 2012-2013 | Base Increase | | Lanes and Credits | Years | MA at 10 Years |
|---|---|---|---|---|---|---|---|---|
| | | | | $ Inc | % Inc | | | |
| 441 | Bowman County | $30,800 | $32,800 | $2,000 | 6.49% | MA | 16 | $41,550 |
| 553 | Northern Cass (Hunter) | $31,425 | $32,775 | $1,350 | 4.30% | MA/10 | 25 | $42,625 |
| 7,477 | West Fargo | $32,234 | $32,766 | $532 | 1.65% | MA/30 | 28 | $45,981 |
| 217 | Minto | $31,700 | $32,600 | $900 | 2.84% | MA | 34 | $39,750 |
| 219 | Maple Valley | $31,500 | $32,500 | $1,000 | 3.17% | MA/40 | 33 | $38,800 |
| 157 | Maddock | $31,900 | $32,400 | $500 | 1.57% | MA/5 | 13 | $40,100 |
| 94 | Alexander | $28,381 | $32,381 | $4,000 | 14.09% | MA | 33 | $46,011 |
| 1,649 | Devils Lake | $31,700 | $32,200 | $500 | 1.58% | PHD | 30 | $42,300 |
| 407 | Park River | $31,500 | $32,200 | $700 | 2.22% | MA | 35 | $40,200 |
| 261 | Napoleon | $30,200 | $32,100 | $1,900 | 6.29% | MA/24 | 32 | $39,850 |
| 606 | Bottineau | $31,350 | $31,850 | $500 | 1.59% | MA/32 | 18 | $41,000 |
| 127 | Midkota | $30,550 | $31,825 | $1,275 | 4.17% | MA/12 | 29 | $39,575 |
| 94 | Hope | $30,700 | $31,700 | $1,000 | 3.26% | MA/8 | 36 | $39,925 |
| 77 | Page-Hope | $30,700 | $31,700 | $1,000 | 3.26% | MA/8 | 36 | $39,925 |
| 2,659 | Williston | $30,000 | $31,500 | $1,500 | 5.00% | MA/24 | 21 | $54,900 |
| 268 | Washburn | $30,000 | $31,500 | $1,500 | 5.00% | MA | 29 | $38,950 |
| 213 | Wishek | $30,500 | $31,500 | $1,000 | 3.28% | MA | 21 | $40,830 |
| 143 | Medina | $30,250 | $31,500 | $1,250 | 4.13% | BA/68 | 32 | xx |
| 241 | South Heart | $30,700 | $31,400 | $700 | 2.28% | BA/50/MA | 35 | $38,300 |
| 71 | Saint Thomas | $30,900 | $31,400 | $500 | 1.62% | MA | 41 | $39,150 |
| 266 | Glenburn | $31,000 | $31,250 | $250 | 0.81% | MA/24 | 24 | $39,175 |
| 295 | LaMoure | $30,100 | $31,100 | $1,000 | 3.32% | BA/140 | 25 | xx |
| 425 | Thompson | $29,400 | $31,000 | $1,600 | 5.44% | MA/30 | 30 | $40,000 |
| 322 | Enderlin Area | $30,400 | $31,000 | $600 | 1.97% | MA/8 | 18 | $39,000 |
| 312 | Linton | $28,500 | $31,000 | $2,500 | 8.77% | MA/8 | 42 | $36,800 |
| 222 | Central Valley (Buxton) | $30,300 | $30,900 | $600 | 1.98% | MA/16 | 35 | $39,700 |
| 547 | Carrington | $30,475 | $30,875 | $400 | 1.31% | MA/30 | 28 | $38,300 |
| 224 | Belfield | $30,000 | $30,875 | $875 | 2.92% | MA/16 | 22 | $38,875 |
| 178 | Lidgerwood | $29,000 | $30,850 | $1,850 | 6.38% | BA/30 | 21 | xx |
| 816 | Central Cass | $30,500 | $30,750 | $250 | 0.82% | MA/20 | 26 | $42,750 |
| 419 | Larimore | $30,250 | $30,750 | $500 | 1.65% | MA/32 | 32 | $39,000 |
| 63 | Edmore | $30,200 | $30,700 | $500 | 1.66% | MA/16 | 33 | $37,100 |
| 37 | Adams | $30,200 | $30,700 | $500 | 1.66% | MA/16 | 33 | $37,100 |
| 168 | Turtle Lake-Mercer | $29,053 | $30,553 | $1,500 | 5.16% | MA/24 | 33 | $38,528 |
| 488 | May-Port CG | $30,000 | $30,500 | $500 | 1.67% | MA/30 | 20 | $43,340 |

| 2011-2012 Enrollments | District | BA Base 2011-2012 | BA Base 2012-2013 | Base Increase | | Lanes and Credits | Years | MA at 10 Years |
|---|---|---|---|---|---|---|---|---|
| | | | | $ Inc | % Inc | | | |
| 195 | Lakota | $29,750 | $30,400 | $650 | 2.18% | MA/16 | 20 | $37,150 |
| 117 | Scranton | $29,300 | $30,400 | $1,100 | 3.75% | MA/40 | 18 | $37,900 |
| 211 | Midway (Inkster) | $29,700 | $30,300 | $600 | 2.02% | MA | 40 | $39,600 |
| 250 | Northwood | $27,900 | $30,150 | $2,250 | 8.06% | MA/20 | 18 | $41,050 |
| 261 | Richardton-Taylor | $28,250 | $30,000 | $1,750 | 6.19% | MA/12 | 36 | $38,600 |
| 245 | Griggs County Central | $29,000 | $30,000 | $1,000 | 3.45% | MA/24 | 35 | $38,600 |
| 163 | Ft. Yates | $29,500 | $30,000 | $500 | 1.69% | MA/30 | 35 | $37,500 |
| 131 | Ashley | $28,500 | $30,000 | $1,500 | 5.26% | MA/12 | 30 | $35,600 |
| 33 | Twin Buttes (Halliday) | $29,000 | $30,000 | $1,000 | 3.45% | MA/32 | 30 | $40,500 |
| 102 | Emerado | $29,248 | $29,686 | $438 | 1.50% | MA | 20 | $37,536 |
| 89 | Gackle-Streeter | $28,410 | $29,550 | $1,140 | 4.01% | BA/37 | 19 | xx |
| 395 | Kidder County (Steele) | $28,500 | $29,500 | $1,000 | 3.51% | MA/10 | 35 | $38,100 |
| 90 | Hazelton-Moffit-Braddock | $28,750 | $29,500 | $750 | 2.61% | MA | 30 | $35,400 |
| 88 | Mapleton | $29,500 | $29,500 | $0 | 0.00% | MA/15 | 20 | $44,840 |
| 110 | Montpelier | $27,500 | $29,000 | $1,500 | 5.45% | MA | 10 | $35,800 |
| 40 | Halliday | $28,500 | $29,000 | $500 | 1.75% | BA | 17 | xx |
| 170 | Eight Mile (Trenton) | $28,700 | $28,700 | $0 | 0.00% | MA | 22 | $40,552 |
| 185 | Hatton | $27,000 | $28,500 | $1,500 | 5.56% | MA/40 | 17 | $39,400 |
| 183 | Solen | $28,100 | $28,100 | $0 | 0.00% | MA/16 | 23 | $36,650 |
| 185 | Flasher | $27,500 | $28,050 | $550 | 2.00% | MA/8 | 21 | $33,800 |
| 128 | Sawyer | $27,250 | $28,000 | $750 | 2.75% | MA/16 | 19 | $34,930 |
| 125 | Elgin-New Leipzig | $27,650 | $28,000 | $350 | 1.27% | MA | 24 | $36,200 |
| 218 | Underwood | $27,130 | $27,630 | $500 | 1.84% | MA/8 | 19 | $34,580 |
| 118 | Roosevelt (Carson) | $26,414 | $26,414 | $0 | 0.00% | MA | 13 | $33,764 |
| 29 | Lone Tree (Golva) | $25,500 | $26,250 | $750 | 2.94% | BA/50 | 29 | xx |
| 110 | Wing | $25,700 | $26,000 | $300 | 1.17% | MA/12 | 28 | $32,500 |
| 280 | Richland | $25,450 | $25,450 | $0 | 0.00% | MA/10 | 30 | $36,270 |
| | **Column Averages** | **$31,192** | **$32,256** | **$1,063** | **3.40%** | | | **$41,680** |

# MEMORANDUM

**TO:** **TFFR Board**

**FROM:** **Fay Kopp**

**DATE:** **July 12, 2012**

**SUBJ:** **Annual NCTR Convention**

Enclosed is the preliminary agenda and registration information on the Annual NCTR Convention in Tucson, Arizona on October 6-10, 2012. Please notify Bonnie Heit or me by August 31 if you plan to attend so we can register early and get airline reservations made.

Thanks!

# NCTR 90th ANNUAL CONVENTION

## *Pathways to Retirement Security*

**Preliminary Agenda**

◆◆◆

Loews Ventana Canyon • Tucson, Arizona • October 2012

## SATURDAY, OCTOBER 6

| | |
|---|---|
| 3:00–6:00 pm | Registration |
| **6:00–7:00 pm** | **Opening Reception** |
| **7:00 pm** | **Dinner on your own** |

## SUNDAY, OCTOBER 7

| | |
|---|---|
| 7:30 am–4:00 pm | Registration |
| **8:00 am** | **Optional Activities (golf, tennis, hiking)** |
| **3:00–4:30 pm** | ***Pre-Convention Workshop:*** |

**Trends in Our Industry**

Moderator: Meredith Williams, Executive Director, Colorado PERA

- Dana Bilyeu, Exec. Officer, Nevada PERS
- Keith Brainard, Research Director, NASRA
- Nancy Williams, Principal, Hewitt EnnisKnupp
- Dana Dillon, Board Chair, CalSTRS

| | |
|---|---|
| **6:00 pm** | **Reception** |
| **7:00 pm** | **Dinner on your own** |

## MONDAY, OCTOBER 8

| | |
|---|---|
| 7:30 am–4:00 pm | Registration |
| **7:30 am** | **Breakfast** |
| **8:00 am** | **Musical presentation** |

### FIRST GENERAL SESSION

**8:15 am** **Formal Opening of Convention**

**8:30 am** ***Monday Keynote:***

**The 2012 Elections**

Mara Liasson, Political Contributor, FOX News Channel;
National Political Correspondent, NPR

**9:30 am** **Taking the Long View Amidst Economic Uncertainty**

George Greig, Chief Global Strategist, William Blair

10:20 am Break

**10:40 am** **Future of Retirement Security**

Moderator: Leigh Snell, NCTR Federal Relations Director

- David John, Sr. Research Fellow in Retirement Security and Financial Institutions, The Heritage Foundation
- Dean Baker, Co-director, Center for Economic and Policy Research
- Michael P. Kreps, Esq., Pensions Counsel, US Senate Committee on Health, Education, Labor & Pensions (HELP) (*Invited*)

# NCTR 90th ANNUAL CONVENTION

***Pathways to Retirement Security***

**Preliminary Agenda**

## MONDAY, OCTOBER 8, continued

| | |
|---|---|
| 11:50 am | Break for Group Luncheon |
| **Noon** | **Group Luncheon** |
| **12:45 pm** | **Luncheon Speaker**<br>Ellen E. Schultz, Investigative Reporter, *The Wall Street Journal*; Author of *Retirement Heist* |

**FIRST GENERAL SESSION resumes**

| | |
|---|---|
| **1:30 pm** | **Equities: US versus Global**<br>Moderator: Roger Rea, Trustee, Omaha SERS<br>• Tedd M. Alexander III, Credo Capital Management<br>• Tim Leask, J.P. Morgan |
| **2:30 pm** | **CIO Panel**<br>Moderator: Kristin R. Finney-Cooke, NEPC, LLC<br>• Paul Matson, Exec. Dir., Arizona SRS<br>• Bob Maynard, CIO, PERSI<br>• Jennifer Paquette, CIO, Colorado PERA |
| 4:00 pm | Session ends |
| **6:00 pm** | **Reception** |
| **7:00 pm** | **NCTR Dinner** |
| **8:00 pm** | **Entertainment** |

## TUESDAY, OCTOBER 9

| | |
|---|---|
| 7:30 am–4:00 pm | Registration |
| **7:30 am** | **Breakfast** |

**SECOND GENERAL SESSION**

| | |
|---|---|
| **8:30 am** | ***Tuesday Keynote:***<br>**The Future of the Healthcare Marketplace: Implications for Retirees**<br>Ian Morrison, PhD, Author, Consultant, Futurist |
| | ***Alternative Investments:*** |
| **9:30 am** | **Panel #1: Private Equity**<br>Moderator: Michael J. Moy, Pension Consulting Alliance<br>• Mark Nunnelly, Bain Capital<br>• Susan Long McAndrews, Pantheon<br>• Michael W. Taylor, HarbourVest Partners, LLC |
| 10:15 am | Break |
| **10:30 am** | **Panel #2: Hedge Funds**<br>Moderator: Janet Becker-Wold, Callan Associates<br>• Christopher G. Kirk, Wellington Hedge Management<br>• Christian Frei, Lazard Asset Management LLC<br>• Josh Levine, BlackRock |

# NCTR 90th ANNUAL CONVENTION
## *Pathways to Retirement Security*
**Preliminary Agenda**

## TUESDAY, OCTOBER 9, continued

**11:15 am** **Panel #3: Real Estate**
Moderator: Martin Rosenberg, The Townsend Group
- Kevin R. Smith, Prudential Real Estate Investors
- Paul Canning, UBS Realty Investors LLC
- Mark Roberts, RREEF

**Noon** **Group Luncheon**

**SECOND GENERAL SESSION resumes**

**1:30 pm** **Risk Management**
- Max Giolitti, Director of Risk Allocation, Wurts Associates
- Zoubair Esseghaier, State Street Risk Services
- Phil Kivarkis, Hewitt EnnisKnupp

2:45 pm Break

**3:00 pm** ***Workshops:***

**Workshop 1: Fixed Income Opportunities**
Moderator: Eileen Neill, Wilshire Associates
- Kevin Kearns, Loomis, Sayles & Company
- Donald Plotsky, Western Asset Management Co.

**Workshop 2: Legal Update**
- Mary Beth Braitman, Partner, Ice Miller LLP
- Wayne Schneider, General Counsel, NYSTRS

4:00 pm Sessions end

**6:00 pm** **Reception**
**7:00 pm** **2012 National Teacher of the Year Dinner, followed by address**
Rebecca Mieliwocki, 7th-Grade English Teacher,
Luther Burbank Middle School, Burbank, California

## WEDNESDAY, OCTOBER 10

**8:00 am** **Continental Breakfast**

**THIRD GENERAL SESSION**

**8:30 am** **Implementing GASB Panel**
Moderator: Pat Robertson, Exec. Dir., Mississippi PERS
- Leslie Thompson, Gabriel Roeder Smith & Company
- David Powell, Groom Law Firm
- Rob Wylie, South Dakota RS

**9:30 am** **Actuarial Issues Panel**
Moderator: Jill Bachus, Director, Tennessee Consolidated RS
- Kim Nichol, The Segal Company
- Todd B. Green, Cavanaugh Macdonald Consulting, LLC
- Janet Cranna, Buck Consultants

## **WEDNESDAY, OCTOBER 10**, continued

| | |
|---|---|
| 10:30 am | Break |
| **10:45 pm** | **Legislative Session**<br>• Dean Kenderdine, NCTR Legislative Committee Chair; and Exec. Dir., Maryland SRPS<br>• Leigh Snell, NCTR Federal Relations Director |
| **Noon** | **Trustee Luncheon** |
| **Noon** | **Directors Luncheon** |
| **2:00 pm** | **NCTR Annual Business Meeting** |
| 3:00 pm | Adjourn |
| 6:00 pm | Casual Final Night Event |

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# TFFR BOARD Reading – July 2012

**The Why—and Fairness—of Public Pensions**

by Ady Dewey

*Why?*

Why are government employees—from office workers to teachers to engineers to first responders—given a pension? To meet public sector needs:

- **Government employers** – Need a tool to retain qualified workers to perform essential public services, limit turnover and training costs, and provide for orderly workforce attrition.
- **Taxpayers –** Need a tool to provide better delivery of public services at a cost that is reasonable, predictable, and stable; and reduce reliance on taxpayer-supported public assistance.
- **Public employees** – Need a competitive total compensation package.

That's the starting point: objectives achieved through benefits policies.

Pensions are not about making someone rich nor about providing a vehicle for political favors. They are a tool used to make sure the public sector workforce is strong so that we have the best teachers for our children and best protectors for our safety.

Today, however, people are asking if it's fair – is it fair that some workers have a pension since most do not.

Read the online comments after media stories covering the topic of pensions, listen to pundits, or read editorial columns, and the clear opinion is that it's not fair: public employees should not have a guaranteed retirement benefit.

*What's Fair?*

In *Psychology Today*, Arthur Dobrin identified the three ways we tend to define fairness:

1. Sameness: There is the fairness where everything is equal…Fairness is finding the average and applying it across the board.

2. Deservedness: In this notion of fairness you get what you deserve: If you work hard, you succeed and keep all that you earn.

3. Need: The third idea of fairness is that those who have more to give should give a greater percentage of what they have to help others who are unable to contribute much, if anything at all.

Those who are advocating "sameness" are pitted against those arguing "deservedness" (and most public employees do pay towards their pensions). It is unlikely to change the mind of someone entrenched in either view.

As with many critical ethical values, one approach can't address all relevant concerns. While mix-and-match may drive some to distraction, it is the right mixture, the constant tinkering, that presents the best chance of arriving at better solutions.

The “constant tinkering” in this arena is actually significant policy changes which we are seeing across the nation as states modify benefit calculations, increase employee contribution rates, raise retirement ages, cut back—or eliminate—cost of living increases, and much more.

While there are some states and cities which face a significant challenge to fund their pension obligations, the vast majority do not. The changes they’ve made to ensure a sustainable, affordable system means pensions are an element of the strategy to best serve the needs of taxpayers receiving services, of government delivering services, and of employees who do the work.

Seems only fair that we all deserve quality services.

**Capturing a Snapshot in Time**

by Ady Dewey

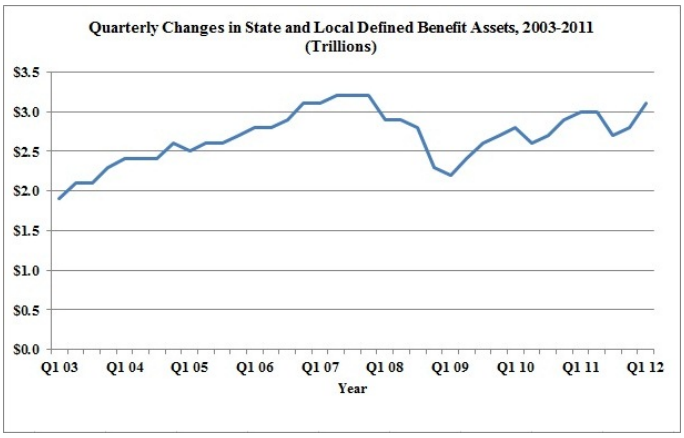
Public pension systems are constantly changing. They are dynamic.So a report about their overall condition can do no more than capture a snapshot in time. Some liken it to a single frame out of a feature film that runs for decades.

The Pew Center on the States’ recent publication, “The Widening Gap Update,” captures fiscal year 2010 – or more specifically, June 30, 2010, as that is when many states’ budgets close. Many systems have actuarial valuation dates that lag their fiscal year-end dates, typically by one year, so the data actually reflects June 30, 2009, which adds to the confusion of reporting on public pensions on the basis of a snapshot.

This is not suggesting the report is faulty (though there may be instances where it is), but it is old information. It is no surprise that public pension funding levels were lower then as this was near the low-point of the market decline.

It’s also no surprise that states had difficulty making their full pension contributions as revenues declined sharply in 2009 and 2010.

Consider another snapshot: According to the Federal Reserve, in the first quarter of 2012, assets rose to $3.1 trillion, which is up from $2.8 trillion in the fourth quarter of 2011. This takes assets above $3 trillion for the first time since 2008.



This gives a different perspective on the condition of public pension holdings – a positive one, to be sure. When the snapshot is re-taken in June 2012 and then in September 2012, it will be different again.

Pension systems are in motion given investment returns, changing number of retirees and contributing employees, and multiple other variables. Over the last three years, states have also made an unprecedented number of changes to public pension benefits and financing arrangements.

The Pew study recognizes this, too, by stating that its "numbers do not reflect the benefit cuts that many state legislatures enacted in 2010 and 2011 to shore up their pension funds in the future; the condition of some states may have improved because of those reforms." States are continually monitoring their condition. They understand. So does Standard & Poor's which wrote in a study of state pension plans last year, "state governments have a long-term track record of making needed adjustments and improving funding ratios."

A report can be helpful as long as it is recognized for what it is: a static moment in time. When it comes to public pensions, a series of multiple snapshots, taken with a long-range lens, is going to provide a more accurate perspective of their condition and sustainability.

**Long-time Frame of Investment Return Assumptions**

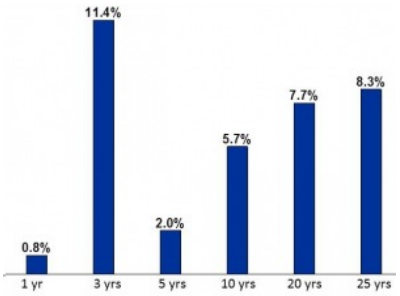
by Ady Dewey

The investment return assumptions of public retirement systems tend to be a bull's eye for critics, drawing charges that the assumptions range from unrealistic to smoke and mirrors.Public pension-fund financing uses nothing less than honest accounting. To say otherwise reflects either a lack of understanding of how these plans work or a separate agenda.

When it comes to investment return assumptions, a critical factor – and often overlooked – is the long time-frame under which plans operate. That long time-frame, combined with other features of the public sector that differ from the private sector, makes comparisons of accounting in the public and private sectors a challenge.

Changes in economic and financial conditions are causing many public plans to reconsider their investment return assumption. For most public pension plans, the process of evaluating actuarial assumptions is conducted regularly, according to state statute or system policy. Various financial, economic, and market factors are taken in consideration in addition to the plan's liabilities and its asset allocation, which reflects the plan's capital market assumptions, risk tolerance, and projected cash flows.

Like other investors, public pension funds have experienced sub-par returns over the past decade. But looking long-term, the median annualized investment return for the 25-year period ended December 31, 2011, is 8.3 percent.

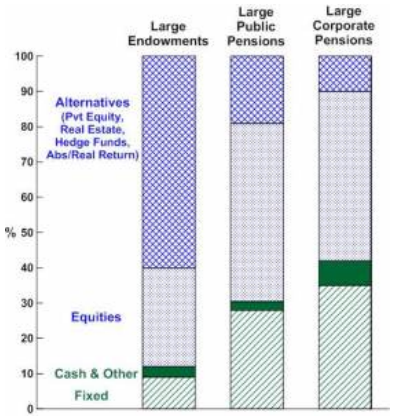


*Source:* Callan Associates, Inc.

"Marketplace—Your Money" recently accused public pension funds of "pouring cash into increasingly risky investments." I'm not sure how "Marketplace" arrived at such a conclusion, but it certainly wasn't by speaking with the public pension fund chief investment officers responsible for overseeing and investing these assets.

Had the radio show reporters spoken with any number of such CIOs, they would have heard about the long-term focus public pension funds use when making investment decisions, and about the rigorous methods and processes used to develop long-term asset allocation strategies. These CIOs probably would have shared a copy of their fund's investment policy, which requires consideration of various financial and economic factors when making investment decisions, and requires that all such decisions be made in a manner that is open to the public and subject to comment.

Moreover, such decisions are made not unilaterally by public pension fund CIOs, but rather in concert with investment policies, approved by boards of trustees, with input and guidance from external investment consultants. The notion that public pension funds are recklessly investing in overly risky assets in order to achieve unrealistic return targets is uninformed.




To put this into better perspective, as the chart of average asset allocations shows, in 2010-2011, the nation's university endowments and foundations have invested a far greater portion of their assets in so-called "increasingly risky" areas. Investment strategies of public pension funds do not, and are not likely, to ever reach such levels.

Looking long-term versus just at today — or even at ten years — is a difficult concept for some to understand.

**States scaling back worker pensions to save money**

**By MELINDA DESLATTE, | The Associated Press**
First Published May 01 2012 11:52 am • Last Updated May 01 2012 11:40 pm

Baton Rouge, La. • Neil Carpenter took a pay cut when he accepted a job as a Louisiana state accountant more than 12 years ago, but he figured he would make up for the loss with a retirement check that would guarantee long-term financial security for him and his family.

Now the 41-year-old finds his life plan teetering as Republican Gov. Bobby Jindal seeks to restructure the pension system for rank-and-file workers, potentially requiring higher employee contributions and delaying the retirement plans of employees like Carpenter.

**State pension changes**

In New York, lawmakers voted to require new public-sector employees to pay more toward their retirement and to wait longer to get benefits. Public employee unions had strongly opposed Democratic Gov. Andrew Cuomo's efforts to cut benefits for future workers.

In Illinois, Democratic Gov. Pat Quinn proposed raising the retirement age for public employees, requiring them to pay more toward their pensions and making school districts and colleges share in the costs. He said employees should not be allowed to retire with full benefits until age 67. Unions rejected the proposal as irresponsible and unconstitutional.

Washington lawmakers reduced benefits for future state workers who take early retirement. Those who retire before age 62 are already penalized with lower pension benefits. Now, workers hired in May 2013 will face a 50 percent reduction if they retire at age 55 — a move expected to save $1.3 billion over 25 years.

Do you really want to breach a contract with the employees who have committed a long part of their lives to the state of Louisiana?" Carpenter asked state lawmakers recently.

For years, state governments lured workers with the promise of lucrative pensions that provide nearly the pay that employees earned on the job. But after years of budget crunches, nearly every state has revamped public retirement benefits in an effort to shrink the long-term obligations that are billions of dollars short of what is needed to cover benefits.

The moves have triggered a legal and political battle over whether states are reneging on their promises to millions of public-sector workers.

The National Conference of State Legislatures reports that since 2009, 43 states have boosted the slice of money workers must pay toward their own retirement, changed the age when a retiree can get benefits or modified their pension plans in other ways.

"In most cases, the changes affect only people hired after the legislation was passed. In a few plans, the changes apply to non-vested members as well," said Ron Snell, a public employee pension expert with the National Conference of State Legislatures.

Governors as ideologically apart as the conservative Jindal and California Democrat Jerry Brown are facing intense opposition from labor groups, workers and even members of their own parties as they try to change pension rules. And some battles have shifted to the courts, because most states have some sort of legal protection for public pensions.

Florida lawmakers last year passed a law requiring state workers to start paying 3 percent of their salary toward their pensions. Unions representing state workers challenged the law and won in a lower court. The lawsuit awaits a state Supreme Court decision.

Arizona legislators also backed a 3-percentage-point increase in retirement contributions for public employees, but they're working on reversing that increase after it was successfully challenged in court.

A New Hampshire judge ruled that recent pension changes in that state illegally raised contribution rates for workers vested in the state retirement system.

Few states have moved to raise the retirement age or change existing service requirements for current workers, as Jindal proposed. But most are grappling with the issue in some way.

One of the biggest battles is being waged in Louisiana, where pension programs are more than $18 billion short of the funding they'll need to pay for promised benefits. The governor says the shortfall threatens funding for critical state services as well as the state's overall ability to provide pensions to workers.

"What we're doing today is not sustainable. Part of the reason we're in this hole is for too many years, politicians made promises without paying for those promises," Jindal said.

Jindal wants to raise the contribution rate for current state workers and public college employees from 8 percent to 11 percent of their pay. He also wants to push the retirement age from as early as 55 for current workers to as late as age 67, depending on how many years they've been in the system and their age. He's seeking to create a cheaper 401(k)-style of pension plan for new hires.

The proposals would affect the retirement plans of 50,000 current state employees, including workers at public colleges.

The ideas have faced resistance so far from lawmakers and constitutional questions about diminishing benefits already promised to employees. Opponents, including leaders of the state employee retirement system, call the proposals illegal, saying they break agreements made with employees when they were hired.

**Alabama lawmakers give final OK to plan to reduce pension benefits for new public employees**

Published: Tuesday, May 08, 2012, 4:01 PM , by David White -- The Birmingham News

MONTGOMERY, Alabama -- The Alabama state House of Representatives today gave final legislative approval to a plan to save state government an estimated $5.05 billion over almost 31 years by reducing pension benefits for teachers and other public employees hired in 2013 and later.

The House voted 69-33 for the plan, Senate Bill 388, which the Senate passed last month.

Gov. Robert Bentley plans to sign the plan into law, said deputy state finance director Clinton Carter.

Supporters said the plan, by trimming the cost of contributions the state makes to support the Retirement Systems of Alabama, would make it more likely that the state would keep paying those costs in coming decades.

"The purpose of this legislation is to protect all of our existing retirees, to protect the retirement system in the future for new hires," said Rep. Jamie Ison, R-Mobile.

Among many changes, public employees under the plan would have to turn 62, or 56 for correctional officers, law enforcement officers and firefighters with at least 10 years' work in those fields, before they could start collecting a pension.

Now, the great majority of the state's public employees can retire and start collecting a pension at any age after working at least 25 years. Also, employees can retire and start getting a pension at age 60 after working at least 10 years. The plan would not affect retirees or employees already covered by the state Teachers' Retirement System or Employees' Retirement System, or employees hired before Jan. 1, 2013.

Without the plan, state government would contribute a total of $63.8 billion to the state Teachers' Retirement System and Employees' Retirement System over 30 years and nine months, estimated the retirement systems' actuary firm, Cavanaugh Macdonald Consulting in Kennesaw, Ga.

With the plan, the firm estimated the state would contribute a total of $58.7 billion to the TRS and ERS over that time, a reduction of $5.05 billion, 7.9 percent.

The plan also would reduce pension benefits for people hired next year and later by the hundreds of cities and other local boards and governments that pay for their employees to participate in the Employees' Retirement System. The plan would save those governments and boards an undetermined amount of money.

**New York Legislature Approves Cuomo-Backed Pension Overhaul**

*By Freeman Klopott - Mar 15, 2012 12:15 PM CT*

The New York (STONY1) Legislature approved much of Governor Andrew Cuomo's pension overhaul by raising the retirement age for most new workers and for the first time offering a 401(k)-type option to some nonunion employees.

The deal was among a package of bills passed yesterday and today during an all-night session in Albany that redraws voting district lines, sets up a teacher-evaluation system, authorizes a constitutional amendment that would legalize casino gambling and expands a criminal DNA database. The governor, a 54-year-old Democrat, is expected to sign the measures, according to legislative leaders and administration officials.

"This bold and transformational pension reform plan is a historic win for New York taxpayers and municipalities," Cuomo, who included the pension overhaul in his $132.5 billion budget proposal in January, said in an e-mailed statement today. "Without this critical reform, New Yorkers would have seen significant tax increases, as well as layoffs to teachers, firefighters and police."

In a radio interview with Talk 1300's Fred Dicker about three hours after passage, Cuomo said lawmakers made a "good start" on the budget, which will be "way less controversial than last year." New York's fiscal year begins April 1.

**Raising Contributions**

New York's retirement fund, the third-largest U.S. public pension, had 101.5 percent of the money to pay its obligations in 2010, better than any other state, according to an annual study by Bloomberg Rankings. To keep it there, the system has raised the contribution rates the state and local governments pay annually.

Cuomo has said pension costs will consume 35 percent of local-government budgets by 2015, up from 3 percent in 2001. Today's deal is expected to save $80 billion over 30 years, Josh Vlasto, a Cuomo spokesman, said in an interview. The pension- change plan is known as Tier VI because it creates a sixth level of benefits.

The deal was reached as Cuomo threatened lawmakers with a veto over voting district lines redrawn to meet population shifts recognized in the 2010 U.S. Census, union officials said.

"Tier VI shoved down the throat of state legislators fixated on their own self-preservation will be devastating to 99 percent of New Yorkers," Danny Donohue, president of the Civil Service Employees Association, the state's biggest public-worker union, said in a statement. "This deal is about politicians standing with the 1 percent -- the

wealthiest New Yorkers -- to give them a better break while telling nurses, bus drivers, teachers, secretaries and laborers to put up and shut up."

**No Relief**

Localities will see no relief in the short term from the new tier and will be hurt by loss of state services, downsizing and consolidation of facilities, the union said.

The pension overhaul affects only new workers, raising the retirement age for most to 63 from 62, and increases the contribution rate for those who earn more than $45,000 to between 3.5 percent and 6 percent from 3 percent. Those with an annual salary of less than $45,000 contribute 3 percent. It also reduces the percentage of the final average salary used to calculate annual retirement payments.

Cuomo originally sought a retirement age of 65 and didn't get the 401(k)-type option he wanted for every worker, though employees who aren't union members and earn at least $75,000 a year will be able to invest in the plan. The governor said he was flexible like a "veritable Gumby" on the 401(k) option.

**Pension Cuts**

A record 43 states from 2009 through 2011 cut public- pension benefits to reduce costs following the longest recession since the 1930s, the National Conference of State Legislatures said in a report released yesterday. Former Governor David Paterson in 2009 reached a deal with unions and lawmakers to raise the retirement age and increase worker contributions that was expected to save $35 billion over 30 years.

Cuomo's pension agreement marks another victory for him over New York's unions. Last year, he won wage freezes and furloughs from the state's two biggest unions after threatening to fire almost 10,000 workers if they didn't agree to the contract terms that saved $450 million.

When Cuomo announced his pension-change plan, he was met with opposition from public unions as well as Comptroller Thomas DiNapoli, a fellow Democrat and the sole trustee of the $140.3 billion pension fund.

**'No Quick Fix'**

In a statement after the vote, DiNapoli said Tier VI "will not significantly lower costs for local governments in the short run." He said he was pleased the plan doesn't include Cuomo's original 401(k) option.

"There is no quick fix to addressing rising pension contribution rates driven by the financial market meltdown in 2008-09," DiNapoli said. "Despite strong investment returns and two new pension tiers in less than three years, these rates will likely continue to increase in the near future."

In television commercials, on billboards and in public appearances, union leaders said today's changes were an attack on the middle class.

Cuomo's backers, including a coalition of local leaders led by New York City Mayor Michael Bloomberg and the business- supported Committee to Save New York, produced advertisements that threatened firings of local employees if changes weren't made to the pension system.

The original proposal would have saved states and cities, including New York, $113 billion over 30 years, Cuomo has said.

**Iowa should be model for a time of changes**

*By Pensions & Investments | April 2, 2012*

Recent data suggest a growing number of public employee retirements taking place across the United States. For example, the Wisconsin Retirement System points out that the number of public employees retiring in Wisconsin increased by 33.6% from 2010 to 2011.

While one of the major catalysts for the recent surge in retirements among public employees has been changes made to post-retirement benefits, it is important to point out that state and local government employment has been in decline for some time. In the face of increasing rates of employee retirement, states have been addressing the effects of pension reform and early retirement through the use of transitional provisions.

According to the National Conference of State Legislators, more than 40 states have made fundamental changes to their employee benefits systems since 2009 in an effort to rein in spending and shore up budgets. The state of Iowa is among those that have passed reforms, as a 2010 report from the Center for State and Local Government Excellence chronicles.

In 2010, the Iowa Legislature passed a package of reforms to the Iowa Public Employees' Retirement System that included raising contribution rates, increasing the vesting period to seven years from four, increasing deductions for employees electing early retirement and increasing the number of years used to calculate an employee's final average salary.

The need for pension reform to preserve retirement security in Iowa was recognized by both IPERS and the Legislature, but so was the need to stave off a mass exodus of public employees. Toward this end, the following transitional provisions were passed along with the reform package:

Employees were allowed to retire before reaching normal retirement age with the old reductions; the increased penalty for early retirement applies to those years worked after the reforms take effect.

Employees are provided a “benefit snapshot” when electing to retire. Employees will choose between the benefit calculated using the pre-reform salary calculation or the post-reform salary calculation, whichever yields the highest benefit.

While many states have made, and continue to make changes to retirement benefits for their employees, they must also take into consideration the potential effects of a sharp increase in employee retirements. In this sense, the state of Iowa has provided an example that can be followed to ensure employees are eased through what can be an anxious process.

**McDonnell OKs changes to Virginia's retirement system**

Michael Martz | Richmond Times-Dispatch , April 10, 2012

Gov. Bob McDonnell has signed into law sweeping changes to Virginia’s retirement system, including reduced pension benefits for employees with less than five years of service and an entirely different type of retirement plan for state and local employees hired after Jan. 1, 2014.

McDonnell announced today that he already has signed one version of the legislation, part of which was introduced on his behalf, while proposing more than two dozen mostly technical amendments to a twin bill.

The move assures that the legislation becomes law, regardless of how the General Assembly acts on proposed amendments in its veto session April 18.

As expected, McDonnell also proposed to give localities the option of phasing in a 5 percent raise required for teachers and local government employees, who will have to contribute 5 percent of their salaries to retirement.

Martin L. Kent, the governor's chief of staff, called the two pieces of legislation "significant needed reforms to our retirement system to assure the long-term solvency of the retirement system."

Kent spoke in a conference call with local government officials from across the state who remain opposed to the state mandate of raises that will increase federal payroll taxes and retirement contributions without reducing the estimate $24 billion in unfunded pension liabilities in the Virginia Retirement System.

"A lot of the local plans are in pretty good shape, much better than the state's unfunded liabilities," said R. Michael Amyx, executive director of the Virginia Municipal League. "To put us in the same bathtub as the state is just wrong."

Changes in retirement benefits and contributions are a top priority of McDonnell, who intervened personally with legislators in the final two days of the regular General Assembly session to assure passage of legislation in its final hour.

The legislation already signed into law has three components:

*Changes in benefits, effective Jan. 1, 2013, for state and local employees hired since July 1, 2010, when the last set of VRS reforms took effect, and current employees with less than five years of service.

The law changes requirements for years of service before retirement, the average final compensation and multiplier used to calculate benefits, and a cap on cost-of-living adjustments at 3 percent a year.

The only change affecting all employees is a delay in the cost-of-living adjustment for employees who retire early with less than 20 years of service.

*Creation of a mandatory hybrid retirement plan for all state and local employees hired on or after Jan. 1, 2014, except for hazardous duty employees such as police, firefighters, and rescue workers.

The hybrid plan will combine reduced pension benefits and a 401(k) style contribution plan. Employees will pay 4 percent of salary toward the pension benefits and 1 percent into the contribution plan. Government employers will pay a mandatory 1 percent to the contribution plan, and up to 3.5 percent for employees who make the maximum allowable contributions of 9 percent.

McDonnell declined to propose changes in those requirements, which are opposed by employee groups and some local officials who say the plan doesn't allow workers, especially in low-paying jobs, to save enough money for their retirement.

Government employers also will have to pay the retirement rates set by VRS and, for state employees and teachers, modified by the General Assembly. The difference between those rates and the hybrid plan's cost will be applied to the unfunded liabilities of the different retirement plans.

*A statutory commitment for the General Assembly and governor to gradually adopt the same method of calculating retirement rates for teachers and state employees as the VRS Board of Trustees. Currently, the state's rates represent about 70 percent of the certified rates; by 2018-2020, the state would have to fully fund the VRS rates.

"It does have a phase-in of contribution rates that hopefully future General Assemblies will honor," said VRS Director Robert P. SchultzeÖ in an interview after the conference call. "I hope we don't have this continuous game played in which the General Assembly uses different assumptions than the VRS actuary."

The proposed budget adopted by Assembly conferees last week includes an option for local governments to use the legislative rates for local employees over the next two years to help offset the cost of the "5 for 5" swap and big increases in contribution rates for teacher pensions in 2012-2014.

Localities also would have the option of paying the same rates for their employees as they do this year or they could pay the higher rates certified by VRS, which represent an average increase of 3 percent. Previously, local governments have had to pay the VRS rates.

Schultze warned local officials in the conference call that "any locality that opts to pay the lower rates the next couple of years will end up paying higher rates down the road. That's just basic math."

Finance Secretary Richard D. "Ric" BrownÖ said the governor had received letters from "probably every city, county, and town" about the two bills, especially the requirement of a raise to offset the requirement that employees contribute to their retirement, as state employees were required to do last year.

If the Assembly accepts McDonnell's proposed amendment, local governments and school boards will have the option of implementing the law by 1 percent a year over five years.

As state contribution rates for teachers and state employees rise over the next six years under the new law, Brown said the question becomes "who pays for the costs and how are they shared?"

"The employees somehow are going to have to get into the game," he said, while , acknowledging political concerns that the contributions must be offset initially by raises.

"Down the road, they're going to be glad the employees are paying the 5 percent," Brown said in an interview, "because they're not going to have it."

**Kansas legislators strike deal on pensions measure**

By JOHN HANNA, TOPEKA, Kan.

Negotiators for the Kansas House and Senate agreed Tuesday on legislation creating a new pension plan for future teachers and government workers and diverting revenues from state-owned casinos to retirement benefits for public employees.

Three senators and three House members resolved the last of their chambers' differences on pension issues. The Senate will vote first on the compromise, possibly as early as Wednesday. Approval in the Republican-controlled Legislature would send the measure to GOP Gov. Sam Brownback, who supports it.

The compromise includes a plan to use casino revenues to bolster the long-term financial health of the Kansas Public Employees Retirement System. It projects an $8.3 billion shortfall between its anticipated revenues and the benefits promised to public employees through 2033.

The legislation also includes a new retirement plan for teachers and government workers hired after 2014, moving away from traditional KPERS plans guaranteeing retirement benefits up front, based on a worker's salary and years of service.

But the new plan would not go as far as 401(k) plans common in private industry by tying benefits solely to a plan's investment earnings. House negotiators dropped a proposal to create a voluntary 401(k)-style plan for new public employees.

The negotiators wanted to start a new retirement plan to limit the state's future financial risk in providing retirement benefits to public employees. But they also said they didn't want to make benefits too stingy.

"We need to be protecting these folks, to make sure that when they retire, they have enough money to live on," said Sen. Laura Kelly, a Topeka Democrat, one of the negotiators.

Last year, to help close the long-term KPERS funding gap, lawmakers boosted the state's annual contributions to the retirement system and required public employees either to contribute more of their salaries or accept less generous benefits. But Brownback and many legislators didn't believe those changes were enough.

Public employee groups worry that further changes will result in less generous benefits.

"They don't need to start a new plan," said Terry Forsyth, a lobbyist for the Kansas-National Education Association teachers' union.

Negotiators agreed that the new retirement plan for future hires would pay 5.25 percent annual interest on the state's and workers' contributions to their retirement benefits. Upon retirement, a worker would receive a lump sum that could be converted into an annuity. The House had set the rate at 5 percent and the Senate, at 6 percent.

If KPERS earns more than 8 percent on its investments in a year, it also could pay a dividend toward workers' retirement benefits. The amount would depend upon how much the long-term funding gap has shrunk.

"It's a good compromise," said Sen. Jeff King, an Independence Republican and one of the negotiators.

When the House approved its version of pensions legislation in March, it included a provision to give new hires the choice of joining such a plan or a 401(k)-style plan. Senators voted 20-20 against starting a 401(k)-style plan before approving a pensions bill earlier this month, and negotiators conceded any 401(k)-style proposal would likely fail there again.

The plan to use casino revenues to help close the long-term KPERS funding shortfall has Brownback's backing and bipartisan support, but senators didn't debate the idea previously. Kansas has licensed developers to operate casinos in Dodge City, in Kansas City and south of Wichita, and the state receives 22 percent of the gambling revenues.

The state has committed $10.5 million a year in casino revenues through 2021 to state universities' engineering programs. The House wanted to dedicate 75 percent of the remaining revenues to KPERS, starting in July 2013,

and the negotiators settled on 50 percent. Supporters have predicted that could add up to several billion dollars over the next 20 years, though no solid estimates exist.

**Q&A With Outgoing Colorado Pension Chief: 'The 401(k) Experiment Is a Failure'**

by Stephen C. Fehr, Staff Writer

Meredith Williams, who is stepping down as Colorado's pension chief in July

Meredith Williams has headed public employee pension systems in both Colorado and Kansas. During his nearly 21 years in those jobs, he has witnessed great changes in the scope and generosity of retirement benefits offered to state workers.

In 2010, as executive director of the Colorado Public Employees' Retirement Association, Williams helped craft a bipartisan plan that aims to protect the long-term stability of that state's pension fund by reducing benefits and increasing employee contributions. Colorado was the first state to cut benefits for current and future retirees by capping the annual cost of living increase at 2 percent instead of 3.5 percent. A group of retired employees sued the state but lost in district court.

Williams, a University of Kansas graduate, will step down from the Colorado post in July to lead the Sacramento-based National Council on Teacher Retirement. He agreed to answer questions from Stateline staff writer Stephen C. Fehr about the future of public pensions:

Q. Historically, public pension systems have relied on defined benefit plans. The state government and employees contribute to the plan at a fixed percentage, the retirement system manages the investments and assumes the risk, and retirees receive guaranteed monthly checks for life. But some states are changing that structure to a 401(k)-style, defined contribution plan or a hybrid that combines features of both systems. What is the future of the traditional defined benefit pension plan?

A. Every jurisdiction is unique with its own retirement plan structure and challenges. We can no longer talk in terms of 'plain vanilla' defined benefit or defined contribution plans. Instead, we see a blending of features to meet the unique needs of particular jurisdictions. However, pooling of investment and longevity risk in a base-defined benefit plan remains the low cost provider of a retirement dollar.

Q. Colorado concluded that all groups—current and future workers, retirees and taxpayers—had to make sacrifices in order to stabilize the system. Do you believe that all public pension systems will have to figure out a way to include current employees and retirees in pension reform in order to keep their systems sustainable?

A. Again, every jurisdiction is unique with its own retirement plan design, funding status and legal environment. In Colorado, given the case law in place, it was clear that using a "new hire" approach alone would not lead to sustainability. As a result, the Colorado General Assembly enacted a solution while leaving the basic benefit formula intact for existing members. The adjustment to the cost of living was a cost saving approach that impacts not only current retirees, but also existing and future members of the system.

Q. In 2010, Colorado lowered its assumed rate of return on investments from 8.5 percent to 8 percent, putting it in line with most other public pension systems. But how realistic is the 8 percent rate of return given the market trends in recent years and future projections?

A. The investment return assumption certainly has become a high-visibility issue. The assumption is traditionally determined by a pension board by starting with actual asset allocation weightings, and then by soliciting the

opinions of experts in the investment and actuarial communities. This exercise encompasses a historical look back, as well as a look forward. The difficulty in setting the investment return assumption is that pension funds look out three decades when the crystal ball isn't so clear. Meanwhile, critics are focused on near-term recent and projected results, as well as their own personal investment experience. Ultimately, investment returns are determined by the market. It's imperative that boards periodically conduct a rigorous review of their investment return assumption.

Q. What would you say to people who might be dissuaded from working for the state because of reduced retirement benefits, frozen salaries, layoffs and furloughs?

A. While public service and public servants certainly are targets in the current political environment, public service remains an outlet for bright and passionate people to make a difference in the quality of life that we all enjoy. Not all satisfaction can be measured in dollars.

Q. What is the biggest untold story in public pensions today?

A. Public pensions are not the story. The real story is that Americans in general are unprepared for retirement. They typically have no resources to support them if they should become unable to work, let alone sustain them in retirement. The 401(k) experiment is a failure. The social service cost implication of this situation is not being acknowledged and will become a huge burden in the future.

**Cash balance plans gain favor as option among public pension funds**

*By Kevin Olsen | May 28, 2012*

Public pension fund boards and state legislators are showing increased interest in cash balance and other hybrid plans as the unfunded liabilities of traditional defined benefit plans continue to grow.

More than 15 cities, counties and states have cash balance and other types of hybrid plans, the majority approved or implemented in the last two years, according to *Pensions & Investments* data and reports from the National Conference of State Legislatures. Meanwhile, pension board and state officials in Texas, California and Mississippi have made proposals or commissioned studies on adding a hybrid plan option.

The Kansas Legislature on May 17 passed a bill creating a cash balance tier for new employees hired after Jan. 1, 2015, within the $13 billion Kansas Public Employees Retirement System, Topeka. Gov. Sam Brownback is expected to sign the bill.

Louisiana could be next, as the Legislature there continues to debate a bill to create a cash balance plan for new state employees in the $13.7 billion Teachers' Retirement System, $9.3 billion State Employees' Retirement System and $1.4 billion School Employees' Retirement System to help lower the state's $18.5 billion in unfunded liabilities.

Kansas elected to take the cash balance route as both a cheaper alternative and more efficient way of reducing unfunded liabilities, said state Sen. Laura Kelly, who was a member of a committee that reconciled the state House and Senate bills.

Only four public funds in *P&I*'s database of the largest 1,000 retirement plans reported having hybrid plans.

The $19.5 billion Texas Municipal Retirement System, Austin, and the $17.5 billion Texas County & District Retirement System, Austin, are the largest cash balance plans. The $152.9 billion California State Teachers' Retirement System, West Sacramento, has $7.3 billion in cash balance plan assets.

In Nebraska, the $702 million State Employees' Retirement System and $221 million County Employees' Retirement System — part of the $9.6 billion Nebraska Public Employees Retirement Systems — moved to cash balance plans from a defined contribution plan in 2003 as a more cost-efficient way to provide benefits more equal with employees in defined benefit plans under the Nebraska PERS umbrella, said David Slishinsky, Denver-based principal and consulting actuary for Buck Consultants LLC. Mr. Slishinsky is an actuary for Nebraska PERS, based in Lincoln.

Kansas fund executives contacted Nebraska plan officials when designing its cash balance plan, said Phyllis Chambers, director of NPERS. Ms. Chambers said the cash balance plan is less expensive than a traditional DB plan and is more advantageous for employees than DC plans, which costs participants more through investment fees.

“The least expensive (option) is probably going to be the cash balance,” she said.

But if one goal is to reduce liabilities, “cash balance plans still have a very real possibility of additional unfunded liabilities,” said Rich Hiller, senior managing director, government markets, at TIAA-CREF in Denver.

To Mr. Hiller, hybrid plans are the way to go. Under Mr. Hiller's definition of a hybrid plan, a public retirement system has both its legacy defined benefit plan and a new defined contribution plan. Although the plans are separate, they work together — along with Social Security — to typically replace 75% of a participant's income.

The key, Mr. Hiller said, is to design a proper defined contribution plan that does not resemble a 401(k) plan. The plan should include limited high-quality, low-cost options, target-date funds and guaranteed annuity options.

### Hybrid creators

Several states have implemented or approved creating hybrid plans:

- The $53.6 billion Virginia Retirement Systems, Richmond, will launch a hybrid DB/DC plan for new employees hired after Jan. 1, 2014.
- Last year, the $21.9 billion Utah State Retirement Systems, Salt Lake City, created a hybrid DB/DC plan that allows new employees a one-time option to join the hybrid plan or a standalone DC plan.
- The $10.7 billion Hawaii Employees' Retirement System, Honolulu, created a hybrid plan for general employees hired after July 1, 2006.
- The $9.4 billion Orange County Employees Retirement System, Santa Ana, Calif., gave employees hired after May 7, 2010, a choice to join the DB plan or a newly created DB/DC hybrid.
- Last fall, the Rhode Island General Assembly approved creating a DB/DC hybrid plan that will take effect July 1 for new employees as well as the future service of current employees of the $7.2 billion Rhode Island Employees' Retirement System, Providence.
- The $2.5 billion University of Missouri, Columbia, will switch to a DB/DC hybrid for employees hired after Oct. 1.
- Also last year, the Atlanta City Council approved a hybrid plan for all new employees for the $954 million General Employees' Pension Fund and $562 million Police Officers' Pension Fund.
- New Castle (Del.) Retirement Pension Plan, with $350 million in assets, closed its two DB plans to new employees hired after Nov. 1, 2011, and created a hybrid plan.

Cash balance plans are a viable option for state employees, but member groups like unions prefer traditional defined benefit plans, Mr. Slishinsky said.

“I think the issue is compromise,” he said. If employees and state officials are willing to compromise, it is more likely that more public defined benefit plans will move to cash balance, he said.

Nebraska cash balance plan participants receive a 5% guaranteed interest credit and a dividend determined by excess returns and funded status, Ms Chambers said. Since the cash balance plan began in 2003, county and state participants have received an annualized credit of 8.6% and 8.3%, respectively, higher than the implied 8% return of the state's traditional DB plans, Mr. Slishinsky said. Both are more than 90% funded.

“During that entire period, the state hasn't had to contribute ... more than the statutory rate,” Mr. Slishinsky said.

Mr. Slishinsky believes more public funds will move toward cash balance plans. And Mr. Hiller expects many public fund executives to monitor the success of Rhode Island's new plan. He also said “there's a lot of interest in Illinois” as Rhode Island Treasurer Gina Raimondo recently spoke at a Chicago event about her state's hybrid plan.

KPERS' cash balance plan shares many similarities to Nebraska's. The assets will be managed alongside the three DB plans in the KPERS trust, which includes the $1.7 billion Kansas Police & Fire Retirement System and $132 million Kansas Retirement System for Judges, which are not part of the new cash balance tier. Employees receive a 5.25% guaranteed interest credit as well as a guaranteed dividend when investment returns exceed 10% for the year and the funded status is at least 80%. The current funded status is 62%.

The Kansas House in March passed a bill that would have allowed new employees to choose to enter either the cash balance or a new defined contribution plan. The Senate killed that proposal. Ms. Kelly, the state senator, said the defined contribution option was too costly, left retirees to the “whim of the markets” and did nothing to pay down KPERS' unfunded liabilities.

Andrew Biggs, resident scholar at the American Enterprise Institute, Washington, sees the advantages of a cash balance plan, but believes defined contribution is the best route for pension reform. “The idea that it is more expensive because of transition costs (is) really just a BS excuse to not reform your pension.”

Mr. Biggs said a big issue is that DC plans can't match “the generosity in contributions to DB plans. ... DB plans are scary generous.”

“The irony is that states most likely to pass DC plans are the ones that run their system the best,” he added.

**Legislature approves retirement plan**

By Marsha Shuler
Capitol news bureau

June 01, 2012

The Louisiana Legislature on Wednesday passed Gov. Bobby Jindal’s proposed 401(k)-type pension plan for future state employees.

The plan, called cash balance, would replace the existing retirement, which is defined benefit, for new government hires.

Opponents complained that the cash balance plan would not provide financial security for government employees and end up costing state taxpayers.

“We are telling a generation we are going to set up something for you where you are going to be worse off than the generation who proceeded you,” said state Rep. Sam Jones, D-Franklin.

Proponents, such as House Speaker Chuck Kleckley, countered that the state pension system is broken and putting too much of a financial drain on the state budget. “This bill helps correct some of those challenges,” said Kleckley, R-Lake Charles.

The measure, House Bill 61, is the first of Jindal’s pension system revamp package to go to the governor’s desk.

Jindal issued a prepared statement late Wednesday thanking his supporters in the Legislature.

Final legislative approval came as the state Senate, then the House agreed to a conference committee report to resolve differences between the two chambers.

The state Senate gave quick approval on a 26-8 vote.

Then, the Louisiana House voted 67-37 for the measure after opponents failed to scuttle the bill for the current legislative session.

The measure would move state employees, including those in higher education, hired beginning July 1, 2013, into a cash balance retirement plan. Contributions from employees and from employers — state government agencies — would be invested by state retirement systems, with individual accounts credited with investment earnings each year.

The cash balance plan would differ from traditional private-sector 401(k)-type plans in that state government employee accounts would be protected and not lose the money they contributed if investments sour.

State employees today have a “defined benefit” plan that guarantees lifetime benefits at a certain level based on years of service and compensation. Jindal contends that is too expensive for the state.

Speaker Kleckley took the microphone before the vote to urge the measure’s passage. “Our retirement system is broken,” he said.

Kleckley said the long-term liabilities of Louisiana’s four statewide pension systems is $18.5 billion. The cash balance plan for future employees would help the state address those pension liabilities by moving away from a retirement benefits system that’s too costly, he said.

Most of the pension systems’ long-term liabilities stem from past administration’s granting benefits but not funding them. Investment losses as a result of the economic downturn that began in 2007 also contributed.

State Rep. Jeff Thompson, R-Bossier City, said the cash balance plan provides an opportunity for the state to get away from a “defined benefits system, which is flawed and is costing our state and you can insert ... taxpayers and neighbors anytime you see state.”

**Pension Reform: Some Myth-Busters To Follow The Stalemate**

*June 5, 2012 | 7:33 AM , By Emily Corwin*

Last week, a State Senate bill that initially sought to replace New Hampshire's defined benefit (DB for short — think pension) plan with a defined contribution plan (DC for short — think 401(k)) dissolved into a stalemate. The Senate and House were not even able to form a commission to make recommendations addressing the state's $4.2 billion in unfunded liability. There seems to be an inability to agree on the facts. We mined a few sources, especially a report from the National Institute On Retirement Security (NIRS), to try to find some clarity.

The Author's Cheat Sheet:

**DC = Defined Contribution = Newfangled 401(k)**

The employee makes a *contribution* into an individual plan.

**DB = Defined Benefit = Old-fashioned pension fund**

The employee receives a *benefit* provided by the employer.

People assume DC plans are cheaper than DB plans for employers, and therefore for taxpayers — when it comes to public pensions. But that's not actually true. Economists agree that defined benefit plans are more efficient than defined contribution plans. There are three reasons.

- When an employer pools all of their employees' investments and risks in a single pension fund, they can spread risk over the long term, saving in the good years and spending that in the bad years.
- The pooled investments also prevent over– and under-saving, which is what happens with DC plans because individuals can't predict when they will die.
- DB plans have lower management fees because of what economists call "economies of scale." Like buying anything in bulk, it's cheaper to manage all of the money at once, rather than managing hundreds or thousands of individual investments.

Because of all of these factors, DB plans provide the same benefit for 46% less than the DC plan provides. Check out NIRS's Figure 1.

Figure 1:
**Cost of DB and DC Plan as % of Payroll**

So why have so many employers switched to defined contribution plans?

1. Smoke and mirrors. According to research by economists Theresa Ghilarducci and Wei Sun, when employers switch out of DB and into DC plans, they almost always cut the average employee benefit in the process. So while the same benefit will be cheaper in a DB than in a DC plan for both the employer and the employee, employers are using the transition as an opportunity to cut overall benefits. That makes things cheaper for the employer, but not for the employee.
2. Risk Divestment. Defined contribution plans, while less efficient, put all of the risk in the employee's hands. While this may be good for savvy investors, it is not so good for your average employee. So while employers could get more bang for their buck with a DB plan, with a DC plan they move financial risk from the company to the employee.

Another perk to DC plans is that they are very mobile, something useful in an era of high employee turnover. But that's actually a detractor for businesses: employee turnover is expensive, and the old-fashioned DB pension plans encouraged employee loyalty.

If traditional DB plans are so great, why are state DB pension plans — like New Hampshire's — in so much trouble?

That seems to have less to do with the kind of pension fund, and more to do with the ways that states have been investing them. One problem is that states like New Hampshire haven't been saving during the good times to prepare for the bad times. Instead they've provided bigger and better benefits in the good times, only to find they can't sustain them during a recession.

Another reason was recently laid out by Mary Williams Walsh and Danny Hakim in the New York Times. They explained that while most public pension funds are assuming an unrealistic 7 to 8 percent (New Hampshire assumes a 7.75 percent) rate of return on investment, today the realistic expectation would be more like 3 or 4 percent — individuals are only seeing 1 percent on their 401(k)s, afterall. But lowering the anticipated rate of return even three-quarters of a percentage point sends unions, taxpayers and voters into a tizzy. As the Times reported, "when Rhode Island's state treasurer, Gina M. Raimondo, persuaded her state's pension board to lower its rate to 7.5 percent last year, from 8.25 percent, the president of a firemen's union accused her of 'cooking the books.'"

As the Executive Director of the New Hampshire Retirement System George P. Lagos explained in a letter to Senate Majority Leader Jeb Bradley, the New Hampshire Retirement System Trustees have more than once supported a study commission and endorsed adequate funding for it, to better understand the issues surrounding a transition to a defined contribution plan, before committing the state to such a potentially expensive change.

An editorial by the Concord Monitor recently suggested that alternatives should be discussed, including hybrid plans that combine both DB and DC plans — a system supported by the National Institute On Retirement Security, the organization responsible for much of the information in this article.

**Strapped state pension funds take scalpel to COLAs for relief**

**Reductions, freezes offer quicker boost than other changes**

*By Hazel Bradford | June 11, 2012*

State pension plan executives and state legislatures increasingly are turning their attention to cost-of-living adjustments to pensions for current and future retirees as a way to get immediate and dramatic results in retirement program reforms.

Modifying COLAs is an immediate fix that keeps more money in the systems. Other changes, which include reduced benefits, increased employee contributions and switching to defined contribution or hybrid plans, might take years to show savings.

Just since 2009, 11 states changed COLAs for the pensions of current retirees, five changed them for current employees and five changed them for future hires, according to a new brief from the National Association of State Retirement Administrators.

COLA changes for current retiree benefits were made by the Arizona State Retirement System, Public Employees' Retirement Association of Colorado, Kansas Public Employees Retirement System, Maine Public Employees Retirement System, Massachusetts State Employees Retirement System, Public Employees Retirement Association of Minnesota, Public School Retirement System of Missouri, New Jersey Division of Investment, Oklahoma Public Employees Retirement System, Employees' Retirement System of Rhode Island and South Dakota Retirement System.

COLA changes affecting the retirement benefits for current employees were made by the Florida Retirement System, Kansas public employees' plan, Maryland State Retirement & Pension System, Virginia Retirement System and Washington Public Employees' Retirement System.

Future hires' benefits were changed by the Employees' Retirement System of the State of Hawaii, State Employees' Retirement System of Illinois, Kansas public employees' plan, State of Michigan Retirement Systems and Utah State Retirement Systems.

### Billions in relief

For some states that have curbed their COLAs, including Colorado and South Dakota, it has brought billions of dollars in much-needed relief to their state retirement systems and avoided more painful choices on the investment side. “It can put the plan in a more positive cash flow near term, and with less money flowing out, there is more money to be invested,” said Ron Snell, senior fellow at the National Conference of State Legislatures in Denver.

The saving that comes from changing COLAs depends on how dramatic the changes are, and how long the cuts will last. The $10.6 billion Augusta-based Maine retirement system canceled its COLA for three years so far, while the $58.8 billion Olympia-based Washington state fund eliminated it for some employees' retirement benefits and limited it for others. Virginia will cap COLA increases in retirement benefits at 3% for non-vested participants and 5% for vested participants in the $53.6 billion Richmond-based fund.

Several pension funds, including the $6.5 billion Oklahoma City-based Oklahoma Public Employees and $72.1 billion Trenton-based New Jersey Division of Investment, tie any resumption of COLAs to specific levels of prefunding or investment returns. Some funds, like the $6.9 billion Providence-based Rhode Island Employees, tie it to both.

“It's very tempting,” said Alicia H. Munnell, director of the Center for Retirement Research at Boston College, in an interview. “You get a big reduction in your liability immediately. There are very few (other) things you can do. I think that COLAs are vulnerable.”

The concept of a COLA is straightforward, but the design is another matter. “We were impressed with the wide variety of them,” said Keith Brainard, research director for NASRA in Georgetown, Texas, in an interview. NASRA identified a dozen basic COLA configurations, including adjustments that are automatic or provided ad

hoc by a governing board. Some state and local governments base COLAs on a fixed rate, typically 3%, or the consumer price index, while others tie it all or in part to the investment performance or funding level of the plan.

And plan administrators are getting ever more creative, Mr. Brainard noted, with some applying COLAs to a limited portion of a retiree's annual benefit — for example, the first $35,000 — or making retirees wait longer for it. One variation pegged to investment returns involves the creation of a separate reserve account that is funded and distributed only when the main fund has excess earnings.

One of the richest COLAs, offered by 10 states, is an automatic 3% boost compounded on the accrued benefit. That can add 26% to a plan's benefits cost, according to an analysis by Gabriel Roeder Smith & Co., an actuarial and pension consulting firm. Even a modest 1% COLA can add 7% to total costs, according to the analysis.

That makes COLAs ripe for cost-cutting. That was the case in South Dakota, where a previously automatic 3.1% COLA that had to be prefunded accounted for 25% of present benefit costs. “That's $2 billion that we knew were out there,” said Robert A. Wylie, executive director/administrator of the $8 billion South Dakota Retirement System, Pierre, in an interview. “It is a huge leverage on the overall cost of the plan, and people don't recognize that.”

It helped that state statute required retirement system officials to make changes when the funding threshold fell below 80%. When that happened in 2010, they calculated that getting back to 80% would take $400 million. They got three-fourths of the way by simply changing the COLA to 2.8% from 3.1%. “You can't get that kind of savings with other benefits,” Mr. Wylie said. The fiscally conservative state didn't want to lower anyone's benefit, “but we wanted to slow the growth,” he said.

So far, the change “has worked out amazingly well,” Mr. Wylie said. The plan went to 103% funded in the fiscal year ended June 30, 2011, from 88% in fiscal 2010 and 76% in fiscal 2009. He attributes 8% of that growth to investment performance, and 4% from the COLA change, which also saved on opportunity costs by having more money to invest, he noted. “It's a compounding effect.”

### $9 billion difference

Changing the COLA made a $9 billion difference in Colorado, where the $38 billion Denver-based retirement system made a lot of changes to benefits in recent years but not enough to forestall running out of money before the changes kicked in, said Meredith Williams, executive director of Colorado PERA. “We costed out every element of our benefits — work longer, pay more, receive less — and did a lot of "what if' analysis. It became clear that it was essential to do something with the COLA. You cannot survive without adjusting the COLA.”

Facing a drop below 40% funding would have also forced a more conservative investment approach, Mr. Williams noted. “If we had continued down the same path, we would have had to change the asset allocation.”

The Colorado pension fund's COLA solution, which included replacing an automatic 3.5% increase with an initial one-year freeze and a subsequent 2% cap tied to investment returns for current retirees and employees' future retirement benefits, plus a 1% COLA for new employees, kept $3 billion a year more in the fund since the change was made in 2010.

Spreading the pain around instead of singling out one group helps, noted South Dakota's Mr. Wylie. “COLA was an ideal place to do the change because it impacts everybody. That was very palatable.”

COLA changes also are succeeding where other benefits changes have not — in court.

“I haven't seen any courts reject them,” CRR's Ms. Munnell said. “You see the courts distinguish between core benefits and COLA. But you have to have a reason for doing it.”

“We could demonstrate that we were unsustainable,” Mr. Wylie said. ”We had to do something within legal parameters, and we couldn't change basic benefits. The COLA was a different animal, because it had been changed up and down.”

Just to be sure, system officials conducted a listening tour around the state to convince stakeholders and politicians that it was necessary. That didn't prevent a legal challenge, but like courts in other states, the COLA changes have been consistently upheld as necessary steps that don't violate benefit promises.

**COLUMN-Five things to consider before cutting pension benefits**

By Mark Miller

(Reuters) - The message from voters about public pension plans is clear: They're ready to cut the retirement benefits of police, firefighters, teachers and other state and municipal workers.

The latest indicators include the failed recall of Gov. Scott Walker in Wisconsin - which started with his efforts to cut pensions - and referendums in San Jose and San Diego, where voters overwhelmingly backed pension reform measures.

A recent study by the U.S. Government Accountability Office found that 35 states have reduced pension benefits since the 2008 financial crisis, mostly for future employees. Eighteen states have reduced or eliminated cost-of-living adjustments (COLA) - and some states have even applied these changes retroactively to current retirees.

This week, the Pew Center on the States reported that states are continuing to lose ground in their efforts to cover long-term retiree obligations. In fiscal year 2010, the gap between states' assets and their obligations for retirement benefits was $1.38 trillion, up nearly 9 percent from fiscal 2009. Of that figure, $757 billion was for pensions, and $627 billion was for retiree health care (see link.reuters.com/xyh88s).

Pensions are, no doubt, consuming a larger share of some state and local budgets. The bill has come due for years when plan sponsors did not make their full plan contributions; in the years leading up to the 2008 financial crisis, many papered that over by relying on strong stock market returns. Many plans also took major hits in the 2008 crash, and returns have since been hurt by low interest rates.

But - before we continue swinging the axe - here are five things to keep in mind about public sector pensions:

1. Pensions aren't simply a gift from taxpayers.

They're an integral part of total compensation, along with salary, health benefits and vacation. Unlike private sector defined benefit pension plans, most state and municipal workers contribute hefty amounts from their salaries. For those who aren't participating in Social Security, the median contribution is 8.5 percent of pay; for those who do contribute to Social Security, the median contribution is 5 percent and rising, according to the National Association of State Retirement Administrators.

Investment earnings account for 60 percent of all public pension revenue, NASRA reports; employer contributions cover 28 percent and employee contributions account for 12 percent.

2. Many workers don't get Social Security.

Thirty percent of state and municipal workers work for states that have not opted into Social Security. That means pensions are their only source of guaranteed lifetime income in retirement. Social Security comes with automatic cost-of-living adjustments to protect retirees from inflation - a feature that is on the chopping block under many public sector reform plans.

3. Pension underfunding isn't as bad as you think.

It's true that funding in some states has dropped to frightening levels. Illinois, for example, which failed to make the necessary plan contributions for years, has a funded ratio of 43.4 percent. But nationally, the story is more positive. Aggregate asset/liability ratios have been rising. The funding level for all state plans combined was 77 percent last year, up from 69 percent in 2010, according to Wilshire Consulting.

Most public sector pension plans have a target funding ratio of 100 percent. However, ratings agencies consider a ratio of 80 percent to be adequate. By comparison, private sector pension plans are considered at risk of default if their funded ratios fall below 80 percent.

However, it's worth noting that public sector funding ratios rely on long-term rate of return assumptions around 8 percent. Actuaries support that projection, since it is upheld by actual long-term investment history. But economists argue that a more conservative assumption should be used, reflecting only what a fund could earn on Treasuries or corporate bonds - closer to 4 percent. If public plans adopted lower projections, their funded ratios would be sharply lower than reported.

4. Pensions are more efficient than 401(k)s.

Despite the under-funding of some plans, defined benefit pensions provide retirement benefits more efficiently than defined contribution plans. The efficiencies stem from pooling of longevity risk, maintenance of portfolio diversification and professional investment by pension fund managers.

"With a 401(k), we ask people to be their own investment advisers, which takes about 200 basis points off the return," says Diane Oakley, executive director of the National Institute on Retirement Security, a not-for-profit research and education organization. "Then we ask them to be their own actuaries and decide how long they will need to draw their own money out - and most people can't do that."

That means when workers are shifted from pensions to defined contribution, the value of benefits fall - or taxpayers are on the hook to keep benefits level. For example, a study last year by the comptroller's office in New York City found that it would cost the city's taxpayers 57 percent to 61 percent more to provide workers in the city's five defined benefit plans with equivalent benefits via a defined contribution plan.

5. The retirement crisis is real.

The Federal Reserve's recently issued Survey of Consumer Finances contains these stunning figures: the median American family's net worth fell nearly 40 percent in the three years ending in 2010, and the asset accumulation of most was set back almost two decades. Real income fell 7.7 percent.

Americans' confidence in their ability to retire is at a historical low point. Just 14 percent report they expect to have enough money to live comfortably in retirement, according to the Employee Benefit Research Institute.

Sixty percent of households tell EBRI that the total value of their savings and investments -excluding their homes - is less than $25,000.

Against that backdrop, pensions are the only safety net available to public sector workers, especially in states where they are not enrolled in Social Security. That means there's a real risk that pension reforms could push public sector retirees into poverty.

Consider the actuarial assessment of pension reform in one such state - Louisiana, where Gov. Bobby Jindal this month signed a bill that would put new hires into a 401(k)-style cash-balance pension plan starting in 2013. A report by actuaries for the Louisiana legislature concluded that ". . . because there is no Social Security coverage, such a member may very well become a ward of the state because he or she has no other available resources." (Editing by Beth Pinsker Gladstone; Editing by Dan Grebler)

## SC Legislature

**Retirement system changes OK'd**

By ADAM BEAM

State workers will have to pay more for their retirement benefits and work more years before claiming them, according to changes to the state's retirement plan that the General Assembly approved Thursday.

Working longer means state workers would withdraw less money from the state's $25 billion retirement fund – a taxpayer-supported fund that accountants estimate will run out of money sometime over the next 30 years if no changes are made. Having state workers pay more – an extra $567 a year from the average public employee's paycheck – means taxpayers will pay less.

The changes plug the retirement systems' projected $15 billion shortfall by making it nearly impossible for state workers to get a retirement check and a paycheck at the same time – a practice critics refer to as "double dipping."

State lawmakers approved changes to the S.C. Retirement Systems on Thursday. They include:

Changes for current workers

Pay 1.5 percent more of your paycheck into the system, phased in over three years

Pay more to buy time to retire early, effective Jan. 2, 2013

Eliminates TERI program by June 30, 2018

Requires retired employees still working to forfeit their retirement checks once they earn $10,000 in salary in any one year. Exempted? Anyone 62 or older on the S.C. Retirement Systems or 57 and older on the Police Officers Retirement System

Changes for retirees

Guaranteed annual 1 percent cost-of-living raise but not more than $500

Changes for lawmakers

Pay 1 percent more of paycheck into the system

Closes the General Assembly Retirement System for newly elected lawmakers

Other changes

Creates an 11-member Public Employee Benefit Authority to run the day-to-day operations of the Retirement Systems and the employee health insurance program. The governor appoints three members. The speaker of the House, chairman of the House Ways and Means Committee, president pro tempore of the Senate and chairman of the Senate Finance Committee appoint two members each. Four of those appointed either must be retirees or state workers.

**Walker plans no changes to state retirement system**

By Patrick Marley and Jason Stein of the Journal Sentinel , July 2, 2012

A report Monday gave Gov. Scott Walker and lawmakers this advice for keeping Wisconsin's $77 billion pension fund strong: Leave it alone.

Immediately, Walker said he was taking that advice, which partly came from within his own administration. The report, approved by Walker's administration secretary, recommended against allowing a 401(k)-style retirement option to compete against the existing pension system serving hundreds of thousands of public employees and retirees.

That offers relief to state, municipal and county workers who feared the Republican governor would try to modify the Wisconsin Retirement System by making changes in the state budget he will introduce early next year.

"The report released today confirms that both taxpayers and pensioners are getting a great deal with the WRS," Walker said in a statement. "Compared to other states, Wisconsin consistently rates among the best-performing public pension systems in the country.

"I want to be very clear: I am currently not planning to make any substantial changes to the WRS. However, I will continue to work to ensure that the WRS is fiscally sustainable for both taxpayers and retirees."

The report comes as some states facing financial challenges have moved away from traditional pensions, which guarantee a certain retirement level to employees, to models more like the 401(k) plans offered by private businesses, in which employers contribute to an investment plan for employees but don't guarantee results. But those other state pension systems face greater funding challenges than Wisconsin's, which is the best funded in the country.

The report was put together by Walker's Department of Administration, his Office of State Employment Relations and the independent Department of Employee Trust Funds. The retirement system's actuary, Gabriel, Roeder and Smith, also analyzed the fund.

The report, dated Saturday and released Monday, was required by Walker and GOP lawmakers in the budget they approved last year. It was required to review whether it should allow employees to opt into a defined contribution plan instead of participating in the existing defined benefit plan. It was also required to look at whether employees should be allowed to opt out of paying their share toward the pension and rely only on the amount taxpayers put into it on their behalf.

The report recommended against both ideas, saying doing either would weaken the overall fund.

The study was praised by Jim Palmer, who serves as both the chairman of the Wisconsin Coalition of Annuitants, a group representing retirees and workers in the state pension system, and as the executive director of the Wisconsin Professional Police Association.

"The study confirms what more people already knew - that the Wisconsin pension system is the best in the nation," Palmer said. "We welcome the results."

The GOP co-chairs of the Legislature's powerful budget committee, Rep. Robin Vos of Rochester and Sen. Alberta Darling of River Hills, also praised the report and repeated Walker's assurance that they didn't intend to make major changes to the state pension system in the next state budget.

In spite of these assurances from top Republican leaders, one state labor leader was concerned that changes opposed by unions might still be made.

"We have to constantly be vigilant here," said Marty Beil, executive director of the Wisconsin State Employees Union.

Defined benefit plans such as the Wisconsin Retirement System guarantee workers a set amount of money when they retire, no matter how the stock market performs during their working career. Defined contribution plans - common in the private sector through 401(k)s - allow employees and employers to put a set amount of money from each paycheck into the employees' retirement accounts, and the employees then choose an investment option and receive however much money builds up by the time they tap into it in retirement.

### Less of a risk

Defined benefit plans are widely viewed as a better deal for employees because they offer a set benefit that cannot be lost because of risks such as collapse in the financial markets.

A key feature of the Wisconsin retirement system - unique compared with the rest of the country - is that when investments in the fund do well, payments to retirees can go up. But when investments suffer losses, payments to retirees can decline.

Since 2008, Wisconsin has reduced its pension payments to retirees by $3.2 billion through this system, according to the state Department of Employee Trust Funds.

Moving to an optional defined contribution plan would have the advantage for workers of being portable if they moved to jobs in the private sector and would give them more say over how their money is invested. But the report noted that defined benefit plans are better for the great majority of workers because assets in retirement funds are pooled and professionally managed.

The study found that a defined contribution plan would require higher contributions from either employees, employers or both to achieve the same benefit levels as the existing system. It also would likely cost more to administer, the report said.

Also, as workers opted into the defined contribution plan, participation would necessarily wane in the defined benefit plan. That would hurt the defined benefit fund's overall performance by making it smaller with fewer economies of scale, the report says.

For years, the state and local governments in Wisconsin almost entirely paid for the pension of their workers, requiring them to contribute little, if anything, into it. That changed last year, when Walker and lawmakers required employees to pay half that cost, which now amounts to about 5.9% of pay. The government contributes the other half.

The Pew Center on the States last month found that only Wisconsin out of the 50 states has enough money set aside to meet its existing obligations to pay the pensions that have been promised to public employees.

Wisconsin got those high marks for its pension funding for fiscal year 2010 - before Walker and Republican lawmakers required public employees to contribute more for their pension and work longer hours and more years to qualify for one.

### Smaller payments

That doesn't mean that Wisconsin is problem-free - the continued effects of investment losses during the recent recession could leave many retirees in the main state system with significantly smaller payments next year.

Many local governments in Wisconsin also have significant underfunding of their smaller but still significant health care promises to retirees. And Milwaukee County faces daunting challenges with pensions and health care obligations in its separate retirement system.

Wisconsin's pension system includes 169,000 retirees receiving payments, 261,000 workers in state and local government, and 148,000 people who are no longer working for a government employer but who are not yet receiving benefits - well over a half-million people in all.

Pensioners in the system retire on average at just under 61 years of age and receive median payments of $20,900 a year.

## Pension Reform: Stop Billing the Grandkids

***Intergenerational equity in retirement plans is long overdue.***
BY: Girard Miller | March 8, 2012

Most pension reform discussions begin with two issues: the huge unfunded liabilities of public sector retirement plans (pension debt) and the abuses in the system such as pension spiking and enviable early retirements. The abuses are the easiest to fix, at least on a prospective basis. Unfunded liabilities are a "sunk cost." Changing the system for new hires won't eliminate the actuarial deficiencies of pension and retiree medical benefits (OPEB) plans. And in many states, the burden for those deficits falls entirely on governmental employers, because most public employees only pay for part of the normal cost of the plan. The question now is which generation(s) of taxpayers and employees should pay for the mop-up.

In its ongoing pension accounting project, the Governmental Accounting Standards Board (GASB) has squarely addressed the issue of intergenerational equity. Accountants call it "inter-period equity" because they focus on fiscal years more than generations, but the concepts are twin sisters. For those unfamiliar with the concept, it was first articulated in the academic literature 40 years ago by Richard and Peggy Musgrave in their classic collegiate textbook Public Finance in Theory and Practice. Intergenerational equity is the maxim that today's taxpayers should pay for today's services, so (1) we don't pay for current operations with long-term bonds, (2) debt repayments such as school building bonds and highway bonds are aligned chronologically with the benefits derived from the users, and (3) pension funds and other deferred benefits (such as OPEB) are actuarially funded

rather than pay-as-you-go. In short, one generation should not burden the next generation for the public services it receives today.

Intergenerational equity is readily addressed by actuaries when they calculate the "normal cost" of pension and OPEB benefits. That's the amount of money that must be put aside each year to assure sufficient accumulated benefits for the employees when they retire. To make this calculation, actuaries study the plan design to see what is the normal or expected retirement age, then calculate the likelihood that employees will work a full career, and then use the expected return on investment assets to calculate the normal cost. The normal cost of a pension plan is typically shared between the employer and the employee. Most employers pay 5 to 10 percent of payroll for the normal cost of general employees, and between 10 and 15 percent of payroll for costlier public safety workers who retire at earlier ages because of the hazards of their work. That's just the normal cost, not the total cost. The plans with lower pension multipliers and higher retirement ages tend toward the low end of those ranges, and plans with earlier retirement ages and richer benefits formulas tend toward the higher end. And of course there are plans that fall outside those general boundaries for various reasons.

What the GASB has undertaken to evaluate is how to handle the situation employers presently face when the actuarial assumptions, especially those pertaining to investment returns, don't work out. When investments underperform, as they have in the past decade, the plan becomes underfunded. Now we have a pension debt, an unfunded liability. The question then becomes: how do we pay for it?

**Historically**, the philosophy of many pension plan officials and public finance professionals was that pension debt (and I include here OPEB debt which is a similar animal) could be paid off over very long periods of time. The old-school idea was that the government employer exists in perpetuity, and therefore we could amortize these unfunded liabilities over any period we chose. Likewise, the investment horizon of the pension plan was infinite, because the plan's life is assumed to be perpetual. So we could use very long-term investment strategies and investment return expectations, and we could amortize unfunded liabilities over very long periods. When the GASB's predecessor (the National Council on Governmental Accounting) wrote the rules before 1984, the accounting standards then permitted pension funds to amortize their unfunded liabilities for 40 years, and some states actually built that naïve presumption into their pension funding laws in what has proved to be a disastrous legacy of kicking the can. Show me a 40-year amortization plan and I'll show you a distressed pension system.

As GASB took over the job of promulgating accounting standards, it tightened up the amortization period to 30 years. But it left open a back door for some can-kickers to amortize over 30-year "open" actuarial periods — which means that the plan essentially resets the mortgage clock every year. I call this the "credit card amortization method" because the debt is never repaid. If you pay off 3 or 4 percent of an outstanding obligation every year but constantly "refinance," you never eliminate the debt. And herein lies the problem facing many public pension plans: they failed to match the amortization periods with the lives of either the employees working toward retirement, or the retirees who have already earned their benefits. And when the amortization period exceeds both the average remaining life expectancy of retirees as well as the average remaining service lives of the current workers, you've got yourself an intergenerational equity problem.

**"Extended Smoothing."** Some public pension plans presently take great liberties to smooth out the budgetary impact of stock market fluctuations. Bear in mind that the average stock market and business cycle in the U.S. since 1926 is 6 years: There have been 14 recessionary bear markets in 86 years. So any smoothing process that extends beyond 6 or 7 years is statistically suspect. Yet some plans have used smoothing periods as long as 15 years, and others employ so-called "double-smoothing" processes that punt the investment losses even further into the future. An even more dubious practice is now used in New York State, where legislation permits local governments to borrow from the pension fund to make their contributions.

Imagine that: a bank that will loan you money to make your minimum credit card payment. It doesn't take a genius to figure out why that is unsustainable public policy. Besides the obvious intergenerational inequities this creates, these deferral tactics are even more senseless from an investment standpoint: The pension fund thereby receives less new money to make up for losses while the markets are down, and then receives more money to re-invest when stock prices have recovered. "Let's buy more at higher prices" is a doomed investment strategy that betrays the dollar-cost-averaging concept that history has rewarded. In fact, it undermines the presumed long-term investment rates of return that many of these plans use today. You won't achieve 8 percent annual investment returns when you systematically invest new money at the high end of stock market cycles.

**Coming soon: New GASB rules**. GASB's latest exposure draft seeks to address the amortization problem by (1) accounting for investment gains and losses as "expenses" of the employer over five-year periods and (2) amortizing other actuarial changes over the average remaining service lives of employees. The latter standard aligns closely with how private corporations amortize pension debt under corporate rules of the Financial Accounting Standards Board (FASB). Their project timetable anticipates a new pension accounting standard this summer. The GASB standards will apply to future changes in financial condition, and they haven't really addressed what they will do with the $700 billion of outstanding pension debt and $1.5 trillion of unfunded OPEB liabilities. The industry will await guidance from the GASB on how this will be handled.

**Funding vs Accounting**. As I've reported previously the accounting and the funding for governmental retirement plans will probably be "divorced" as GASB sets accounting standards that will be virtually impossible for many employers to match in terms of their actuarial funding practices. Funding policies will have to be crafted by the pension community in consultation with the government finance community (i.e., the CFOs of the states and localities). And that's where we need a much more thoughtful discussion about intergenerational equity.

I've spoken with numerous public-sector actuaries and plan administrators whose unshakable mindset has been that their plans are perpetuities and therefore it's reasonable to defray accumulated pension deficits (unfunded liabilities) over extended periods that have no relationship to the lives of the retirees and current workers. As you might expect, there are very few public budget officers and even fewer elected officials who want to bite the bullet and pay off the investment losses of the past decade any sooner than they are required. But here's the problem with that thinking: Today's elongated amortization periods virtually guarantee that most retirees will die before their employers have paid for their benefits, and today's workers will already be collecting pension checks before the taxpayers finish funding their pensions and retiree medical benefits. In both cases, that is a blatant violation of intergenerational equity.

States and localities really need to establish shorter amortization periods for their unfunded retirement obligations, and begin working toward those in an orderly, feasible migration. In my written comments to the GASB, I suggested a transitional provision that would immediately shorten the amortization period for currently outstanding obligations to 20 years and then begin working downward toward the average remaining service lives (ARSLs) of current employees. (Explanation: If pension plans permit retirement upon 30 years of service, then today's average worker will retire in about 15 years. For aging public safety workers in 25 year careers, the average will be closer to 12 years. And after five years of government hiring freezes, the ARSLs are probably even lower.)

**Investment horizons have similar implications**. There's one more conventional assumption that pension professionals need to rethink: their investment horizons. For decades, we have assumed that the proper investment horizon for determining the discount rate used in actuarial projections should be perpetual, because the plan is perpetual. But that is flawed thinking, especially in times like this when bond yields are very low and when most investment professionals agree that stock-market returns in the shorter term are likely to be impaired by global debt problems and the deleveraging of the American economy after its debt binge of past decades. A bond portfolio starting today with Treasurys yielding 3 percent is not very likely to produce the same returns in the next

15 years that it will over the next 30 years after rates normalize at higher levels. And stock returns in the coming decade could well be lower than those which result in the much longer term. Thus, it is appropriate to use a somewhat lower discount rate for that portion of the liabilities which must be funded sooner than the traditional 30-year amortization assumptions and lifespan assumptions used by actuaries in many pension and OPEB plans. Otherwise, these plans are highly likely to experience continuing investment shortfalls which will only create new unfunded liabilities and even further burden the future taxpayer.

Unfortunately, this is not news that anybody working with public pension and OPEB plans wants to hear. Most policymakers want to believe that investment returns in the coming decade will match historical norms, but that's not what my research from the comparable "reconstruction" period following the 1930s shows. History suggests that equity (stock market) returns will likely meet or beat their historical averages over the next 30 years, but the next decade is far more risky and less assured. And it's mathematically almost impossible to produce bond returns of 5 percent in the next decade given today's low rates, which will result in capital losses for bondholders whenever rates do increase. It's hard to contrive a scenario in which bonds earn more than their current coupons before 2020 unless it's accompanied by runaway inflation that causes even worse problems for pension funds. I have no quarrel with discounting the liabilities of new hires over 30 years using long-term rates of expected investment returns, but I can't understand the logic of assuming improbable (higher) rates of return over the shorter periods when today's unfunded liabilities must actually be repaid. That just increases the odds that the next generation will pay higher costs because their elders kicked the can.

In fact, there is a growing risk that pension trustees clinging to ambitious investment return expectations in their actuarial assumptions will burden their children and grandchildren with more unfunded liabilities. What I fear now is that an improving economy will lull pension policymakers into believing that a few years of above-average stock market returns "in the teens" will continue indefinitely so they don't need to change their actuarial assumptions. After watching stock market indexes double since the last cycle-bottom, some folks are already engaged in a "willing suspension of disbelief" by assuming that investment returns in the next ten years will not include a recession down-cycle, despite 85 years of stock market history showing an average loss of 30 percent in equity prices when that happens. Unlike Lake Wobegon, every year cannot be above average.

It's a fair bet that there is another recession coming before the end of this decade, and investment expectations need to take that into account.

**Wake-up call for policymakers**. As I've written before, this suggests that pension and OPEB plan trustees should now be using discount rates closer to 7 percent, rather than their current levels between 7.5 and 8 percent. A naturally lower rate aligns with the likely outcome of what the GASB's proposed "blended" discount rate for underfunded pension plans may produce anyway. Thus, I would hope to see a "directional convergence" of policies, assumptions and methodologies in 2013, especially if GASB follows through on its previous intentions to invoke a lower discount rate when there are substantial unfunded liabilities. Every pension board, governor, budget office, county commission, school board and city council should be discussing the implications of these issues, and confronting their own demons by plotting a strategy to resolve their unfunded liabilities in a prudent way that does not burden future generations. Even as budgetary revenues begin to creep upward as our stagnant economy gathers steam, higher pension and OPEB costs will crowd out other spending requests — one way or another, sooner or later. Let's not turn a problem in our hands into a crisis for our grandchildren.

**Retirement Reform II: Beyond the Easy Stuff**

***Essential and practical steps to take in 2012***
BY: Girard Miller | April 5, 2012

If you were to believe recent legislative reports chronicling "action" on pension reform, you would think America's states and cities had the problem almost whipped. According to the latest tally by the National Conference of State Legislatures, 43 states have now adopted some kind of pension reform since 2009. With all that activity in the state capitols, the average Joe must wonder why there is so much noise from reformers about a "public pension apocalypse."

Without becoming the Grinch, I'd like to dispel illusions — while also painting a less gloomy picture than we faced in 2009. Retirement reform efforts are best grounded in stronger probabilities, instead of false hopes or hysteria. I've also detailed the necessary steps to put pensions and OPEB in a more stable condition — before the next cyclical recession strikes sometime later in this decade. Many of these steps have yet to be taken.

**Making progress**. Good work has been done in some states where major changes have been enacted. Rhode Island comes to mind as a state that has tackled head-on the massive funding problems facing its state pension plans. (Of course, they still haven't fixed their municipal plans, and the receiver for tiny Central Falls has suggested that more communities there will still need to seriously consider the "nuclear" bankruptcy option to achieve pension reform.)

In several other states, the plan features now provided for new employees appear to be more affordable, sustainable and sensible. "New tier" pension multipliers for new hires have been whittled down to realistic levels in a few states. Hybrid plans are popping up. The Utah hybrid choice model has attracted a lot of attention in some circles, as did the Michigan teachers plan. Recent proposals that cleared one house in Kansas — to give new employees a choice between a cash-balance plan and a pure defined contribution option — are noteworthy. Retirement ages for new employees have been aligned with Social Security in several states, and that's clearly a step in the right direction of long-term cost control.

Several legislatures have also raised the employees' contributions where permitted by constitution, to help their employers dig out of a very deep financial hole by sharing the burden for mounting pension costs. NCSL noted that in ten states, the employee contributions have helped offset employer costs.

I also want to applaud efforts by a dozen or more major unions in several states and localities that have collectively bargained what I would call substantive reforms and notable increases in employee contributions. A few have even begun to address the OPEB (retiree medical plan) problem with employees. They are sharing in part of that cost in order to retain this benefit, a benefit that is becoming increasingly scarce in the private sector. But public support has clearly withered for those who retire early with lifetime medical benefits that most taxpayers will never see.

I am hopeful that we'll see some serious reform proposals take root in other states. The California governor's 12-point pension reform legislation is a worthy effort. Right now it is being roadblocked by unions that dominate both houses, but the Democrats there may yet cough up a pension-reform measure in order to persuade voters this November that a tax increase proposal is not just throwing good money after bad. In Tennessee, the state treasurer has proposed some thoughtful measures to offer local governments a full menu of flexible and affordable retirement plan options for new employees. All of those efforts are worthwhile and should be encouraged.

Also on the positive side, the U.S. economy has apparently turned the corner on its economic recovery, so the investment outlook has improved. Stocks are up, returning to 2006 levels (back when pension and OPEB liabilities supported by those assets were 25 to 30 percent lower than today). Barring the multitude of global risks that could blow up our stock market (Iran-Israel-Hormuz, Portugal-Spain-Greece II, or China-China-China), the historical odds now favor American equities gaining 10 to 15 percent annually until the next cyclical recession spoils the party sometime later in this decade. Pension funds can reasonably expect to beat their actuarial assumptions until the next downturn, and thus I expect to see funding ratios improve for a few years, as unfunded

liabilities decline on a market-value basis. It's reasonable to expect that public pension funding ratios (at market value) could improve by 2 to 3 percent each year if and as the economy expands, and less than that if economic growth is impaired by overhanging global, governmental and household debt. But don't kid yourself into thinking we can get to full funding in this decade by market action alone.

My highest-probability scenario thus suggests a less gloomy outlook for employer pension contributions for plans that have been upfront with the public about their investment assumptions, funding policies and the depth of their problems. In fact, the policy risk now is complacency — that pension professionals, their lobbyists, elected officials and the public will be lulled to believe that the problem will be fixed by Mr. Market's normal cyclical benevolence and the irresistible illusion that trees will once again grow to the moon. The last two bubbles have hopefully taught us all the fallacy of such thinking.

It's also very important that policy-makers and the public understand that all the reforms enacted for new employees won't move the dial on accumulated unfunded liabilities. Pension debt and OPEB debt just sits there, waiting to be paid off before today's employees all retire and leave future taxpayers holding the bag while they simultaneously pay for the services of the next generation of public workers. The retrenchment and reductions in work force required to pay the mounting retirement bills will minimize any immediate positive effect of "new benefits tiers." Saving 20 percent of normal costs for new hires means nothing when there are few or no new hires. And so far in this New Normal economic recovery, state and local government employment has been shrinking, not growing.

**Let's get serious**. Despite the good intentions, hard work, and pragmatic progress that these various efforts represent, the retirement plan reforms mentioned above are but a drop in the bucket when it comes to fixing the massive unfunded liabilities that states and municipalities still face. It's especially noteworthy that the NCSL data show very little progress on retiree medical benefits (OPEB) reforms because those plans are typically employer-specific and not statewide. We still have a funding deficit that exceeds $2 trillion using conventional mainstream calculations. The deficiencies exceed $4 trillion if you value the pension and OPEB liabilities using standards required by the federal government for major corporate pension plans.* I have yet to see a serious proposal by anybody in the public pension community or the union bloc that honestly addresses the magnitude of these numbers — which seriously undermines the inference that legislative reforms to date have addressed the problem.

Time will soon run out in this cycle, even though the economy is just now getting on its feet in most states and localities. To understand my hard-headed views, one must understand the basic nature of business cycles and market cycles. Sadly, the traditional experts in the pension world don't pay much attention to the business cycle. They overlook the obvious because they have been trained to ignore the elephant on the table and how it moves.

Once a graduate-level economics major, I understand the problem here. Professors can't use statistical math to explain business cycles — those irregular waves of expansion and contraction defy the elegance that PhDs can display by using what are called stochastic (or parametric) tools. There is no way for the math wizards who practice traditional actuarial science, econometrics or capital markets investment analysis to explain what happens in the real world — which is the business cycle. They were trained to assume that investment returns are randomly distributed around a linear long-term trend line.

For those lacking an understanding of the business cycle, you can read Chapter 8 of my GFOA textbook *Investing Public Funds* for a concise summary and references, or just search the Internet for classic works by Schumpeter and others who followed him.

My second, unofficial "graduate degree in economics" came not from a college but from eight learned Wall Street economists and real-world investors I polled monthly when editing a public-sector professional association investment newsletter I founded in 1983. What they taught me is that market cycles follow the business cycle and

it's not entirely a random walk. Recessions bring stock prices down an average of 30 percent if you measure the last 14 cycles since 1926. That's the down cycle that is rarely discussed in pension circles until it's too late. On the other side of the cycle, stocks have increased in value by about 10 percent annually over the past 86 years, but they grow far faster in the recovery and expansion phase of the business cycle — only to be knocked back down again in the next recession. Thus, the average annual return used for actuarial discounting is actually the rare exception, not the rule. So the odds of pension funds and OPEB plans hitting their annual expected returns in a given year are quite low: they overshoot or undershoot — and often by 10 percent or more in a given year. As the legendary Peter Lynch of Fidelity Investments (where I also worked in a prior life) would say: stocks will either gain 15-20 percent or lose 10-20 percent in a given year, but seldom will they return their historical average of 10 percent. If stock market returns were normally distributed on an annual basis, 10 percent would be the central tendency and this game would be really easy to play. But they are not. In fact, their distribution pattern is much flatter than a normal "bell curve" that statisticians hypothesize. And more importantly, they are not random in the way the stochastic statisticians who provide models to actuaries and investment consultants would lead us to believe. Nobody has ever devised a predictive or even a prescriptive model that's worth its salt, using traditional statistical techniques.

**So now what?** Obviously I can't predict the future and definitely won't hold myself out as clairvoyant. My underlying point in this column is that the business cycle has likely turned favorable but it won't last forever. So now is the time to prepare ahead for the next winter to take proper advantage of summer as it arrives, while melting away the ice-dam formed in the severe winter freeze of 2008. This means that pension trustees, budget officers and OPEB plan administrators must look ahead to the next inevitable recession and develop risk-management strategies to mitigate its consequences. Otherwise, today's baby-step pension reforms will simply result in a re-run of the Bill Murray movie "Groundhog Day," when the next recession again plunges funding levels to distressed levels that will be even harder to manage because half of the baby boomers employed in government will then be retired and the demographics become really ugly.

Prudent public policy now requires three key strategies: (1) Pension funds must amortize their unfunded liabilities far more aggressively than their current schedules now require, (2) public employers must begin funding their OPEB plans actuarially and stop their head-in-the-sand practice of paying only the cost of the retirees' benefits while putting away zero for the cost of rapidly accruing benefits and (3) unsustainable benefits plans must be changed for current employees, whether it requires benefits changes going forward or an increase in employee contributions. Public-sector managers must take the lead in advancing and implementing these concepts because nobody else can do that job — and policy-makers will first need to be educated on the issues.

**Pension amortization and cost-sharing**. Step 1 for the pension funds is to begin amortizing their unfunded liabilities over the remaining lives of current workers. I addressed this issue last month in my column on intergenerational equity.

For most retirement plans, today's elongated amortization schedules won't restore the funding ratios fast enough to prevent a dismal Groundhog Day scene in the next recession, so employer and employee contributions must be increased even higher than most plans now require. At the same time that employers step up to full actuarial and intergenerational funding, they have every right to ask employees to step up to the plate with increased contributions to share in the cost of paying down the unfunded liabilities for their benefits. This won't be an easy break from tradition, because there is often a strong sense of entitlement to receive risk-free benefits without paying for them, but the enlightened unions will recognize that without higher contributions from employees, the alternative outcome is hiring and pay freezes for the rest of the decade — and a risk of taxpayer backlash in the next off-year election.

**OPEB reform at last**. Step 2: As the economy recovers, the time has finally come for public employers to gradually begin funding their OPEB (retiree medical benefits) plans actuarially and bargain much harder for

employee contributions to share the burden. This requires establishing an OPEB trust fund to protect the employee contributions, and an employer contribution for the rest of the actuarial cost. Savvy employers will drive harder bargains with the unions to seek lower total benefits costs through reforms of their OPEB plan structure while they also demand an employee contribution that increases each year during the life of the next labor agreement. Retiree medical benefits often enjoy fewer constitutional and contractual-law protections than pensions, so this is now the low-hanging fruit in the labor arena in 2012.

Failure to address unfunded and unsustainable OPEB plans while the economy is expanding is a "pathway to hell," as the liabilities continue to mount and the cost of fixing the mess after the next recession will be double the cost of biting the bullet now. The math is compelling: Just ask your actuary to run the numbers on what your costs will be if you start funding now versus a delayed start in 2020.

Retirees and baby boomer workers read the newspapers and the internet. Many are becoming increasingly worried that their public employers really might not have sufficient money in the future to pay for their promised retiree medical benefits. As they see the increasing success of pension-poor cities playing the bankruptcy card in a few states, more of them will begin to recognize that OPEB plans must be properly funded. The smart ones will conclude there is more value in having (a) certainty of a reduced benefit than (b) uncertainty of an unsustainably generous benefit. But that requires strategic thinking to overcome inertia. Public leaders should read the brilliant behavioral economics work of Nobel laureate Daniel Kahneman in *Thinking, Fast and Slow* to understand how "prospect theory" can enlighten the bargaining in this arena.

Finally, there is a secondary budget-balancing benefit to start-up OPEB trust funds. They can serve as "closet rainy-day funds" by providing a place for employers to rightfully park budget surpluses with the understanding by policymakers that if another recession squeezes the budget, the OPEB trust can be used to pay for retirees' benefits without further budget contributions. That will increases budget flexibility dramatically in recession periods. A smart budgeter can make this work in the best interests of taxpayer groups that oppose building reserves that the unions will try to raid in their next arbitration hearing as "idle money" to pay for increased salaries and benefits. The unions can't touch an OPEB trust fund in arbitration. Smart funding of OPEB at this time in the cycle can accomplish multiple budgetary and financial planning objectives, and helps retain or restore good bond ratings. My advice for those who now pay-as-they-go is to "double up" the OPEB budget item and set aside the equivalent of a year's pay-go payments into a new OPEB trust, with the understanding it can be drawn down in a financial emergency if that is what it takes to get policy approval. After two years of repeating this strategy, the employer can then transition to full actuarial funding if and when budgetary conditions permit a longer-term policy commitment.

**Address incumbents now**. Step 3 is to study your state's laws concerning the vested rights of incumbent employees for both pensions and OPEB, and find the strategic path that yields maximum budgetary and actuarial benefits for the least pain and legal hassle. In some states, public employers enjoy the same rights as private companies to change benefits prospectively, but in others employees enjoy vested rights to maintain current benefits formulas and sometimes even the contribution rate. Contributions are often the most important budget-balancers for CFOs and chief administrators to address, where legally permitted — especially when they offset the employer's cost directly. In places like California where labor agreements went berserk with the concept of "employer paid member contributions" and in other states where the plan was established as "non-contributory," the employees have enjoyed a free ride or a nearly free ride. These arrangements have almost always led to inflated benefits. As I noted years ago in a prior column, Economics 101 informed us long ago that when the price of anything of value is zero, the demand is infinite. So an increase in employee contributions may be the most rightful solution to burden-sharing by incumbent employees. This approach also reconciles with lower benefits tiers for younger workers, who should pay a lower contribution than their older counterparts in order to maintain workforce equity. And in states where prospective benefits reductions (such as lower pension multipliers for incumbents' future service) are lawful and appropriate, those should be pursued as part of the reform agenda.

**Fix it now, for good**. None of these prescriptions for prudent funding are easy. The "low hanging fruit" for retirement reform has been picked off. So now it's up to public officials to chart a course to full recovery from the distressed levels of plan funding we have experienced. This requires difficult choices that won't be popular in many circles. But failure to act now will buy public officials a ticket to the "Public Pension Groundhog Day Movie" that will be coming to local theaters at end of this decade.

**On Pension Reform, Trying to Fit a Square Peg in a Round Hole**

***Politicians can't fix pension abuses with voting rules alone.***
BY: Girard Miller | April 19, 2012

The venerable and astute leader of the Illinois state house of representatives, Michael Madigan, is trying to fix the Illinois pension problem with the wrong tool. With all due respect, his proposal to amend the state constitution to raise the majority-vote requirements for pension benefits increases is well intended, but it's the wrong fix. Rather than address the root of the problem, he has narrowly focused on "inside baseball" rules that only matter to politicians and lobbyists. It's no wonder that the unions immediately renounced the idea: They are the consummate insiders in this game.

One of the big, big problems in Illinois (and in several other states, including California, New York, Pennsylvania and Tennessee) is that a pension-benefit increase in that state is legally asymmetrical: Once granted, it can't be taken away, even for future service. And worse, it can be granted retroactively, which accomplishes nothing for the employer or the taxpayers, as I first explained in a 2008 column. These two important problems need to be addressed by constitutional action in some states, and by statutory amendments in others where the legal scholars agree that's a sufficient remedy.

Nobody needs to take away vested benefits of employees and retirees for service already performed, unless the employer and the benefits plan are in such dire financial straits that federal bankruptcy or an equivalent state-level receivership remediation process becomes the only way to save the system. Federal courts have made it pretty clear that such an extraordinary measure must be proved to be necessary, the adjusted (reduced) retirement benefit must be reasonable, and the modification should be the least necessary to make the plan sustainable. But the entire country would benefit if the handful of states with these upward-ratcheting, asymmetrical retirement benefits laws would change the legal ground rules for benefits increases, so we don't keep repeating the same mistaken boom-bust funding cycle of the past 20 years.

First, it should be illegal by statute or constitution — whatever is necessary — to award retroactive pension and retiree medical benefits or benefits increases. "Retro rewards" do not attract or retain employees, as is often posited, because the retroactive benefits do nothing for new hires. They actually make it easier for senior employees to head for the exits with their sweeter retirement package. Professionals at the Government Finance Officers Association recommend they be avoided.

Second, the state laws must be changed to provide that henceforth, any increase in a retirement plan benefit can be subsequently rescinded or modified downward with respect to future service. Thus an employer that grants an increase in the pension multiplier from 1.6 percent times years of service to 1.8 percent could later revert the multiplier back to 1.6 percent for service in the remainder of the employee's career. In this example, the employee would be vested at the 1.8 percent rate for the intervening period. What may or may not be legal in this scenario would be a reduction of the same employee's future multiplier to 1.4 percent, depending on what a state's laws say about making changes prospectively. In any event, these prospective adjustments would be completely consistent with the federal Employee Retirement Income Security Act (ERISA) which governs private-sector pensions but lacks jurisdiction over states and localities.

If these two essential reforms are not included in the legislative package, it doesn't matter whether the voting rule requires a majority or a supermajority in states like Illinois. In many instances, a powerful union can push through a benefits increase with supermajority votes, so the voting rule is really just shuffling the deck chairs on the Titanic. Taxpayers are far better protected by the structural reforms described above.

For a checklist of pension and retirement plan reforms that state legislatures would be better advised to enact, and a brief rationale for each, see my 2011 article published by the Council of State Governments for legislators to consider.

**Cash-Balance Pension Plans: A Wolf in Sheep's Clothing?**

***Defined-benefit fans tout this hybrid, but taxpayers need protections.***
BY: Girard Miller | May 3, 2012

Across the country, the pension reform debates have spurred a lot of talk about how to fix the mess created by runaway defined benefits plans that promised more than they could deliver. So it's no wonder that pension skeptics are suspicious about the latest scheme to emerge from traditional pension advocates, notably the labor groups and many in the actuarial community, who have proposed "cash balance" plans as the new panacea.

Rumor has it that a long-awaited back-room pension reform deal is expected to emerge next month from the Democrat-dominated California legislature and that it will include a cash-balance plan. So now seems a good time to explain the issues that should be aired before the legislators approve a bill — apparently without public hearing — in a last-minute *fait accompli* to beat the November ballot deadline.

**How they work**. For those unfamiliar with cash balance plans, they are sometimes known as "defined-benefit plans in drag." Cash balance plans offer some of the features of both defined-contribution (DC) and defined-benefit (DB) plans. Participants are still guaranteed a minimum benefit and can collect a life annuity upon retirement — which provides more security from investment risks and longevity risks than a private-sector 401(k)-type individual DC account. In some plans, including public sector plans, there's market upside for participants if investments perform better than the guaranteed floor rate. Each participant is credited annually with interest (accretion) on the employer and employee contributions, but instead of controlling an individual account and making their own investment decisions, that's all done by the pension board. Small wonder that plan administrators, investment managers, consultants, actuaries and everybody who's making a living from pension funds like this idea: They all enjoy job security with this plan.

The cash-balance account of each employee is then credited each year with a minimum return, often set at something close to the government bond yield. So, their money grows at a rate that typically runs a little ahead of inflation and is fully guaranteed by the plan. But the system also tracks the fluctuating returns on its investment portfolio and can distribute a "special dividend" or a phantom value to the employee if markets outperform a stated threshold. Some cynics would call this having your cake and eating it too. Upon retirement, the employee converts the value of the account into an annuity-pension based on the better of the base rate or the phantom values if the markets have been friendly. The actual mechanics are more complicated than that, but those are the key concepts.

Note that the employer still bears actuarial risks under this arrangement, not the employees or the retirees. If the actuaries price the life annuity incorrectly, the plan will suffer a loss. If investments fail to produce the guaranteed floor rate, as some of them did in the past decade, the employer is likely to be left on the hook one way or another unless the plan accumulates a loss reserve from excess earnings in the fat years. Taxpayers still underwrite this system in most cases. The big difference, therefore, is that the minimum crediting-rate guarantee of the cash balance plan is far lower than the discount rate typically used for traditional defined benefit pension plans that

presently assume a 7.5 to 7.75 percent rate of return on average. And there are fewer opportunities for employees to game the system with enhanced benefits, because the employee's account balance "is what it is." The contributions are defined at the payroll site and everything else is left to the pension plan, not to legislative meddling or collective-bargaining abuses.

**Pros and cons**. Proponents of the cash-balance structure like its institutional features: (1) lower investment costs through pooled institutional investments that are clearly less costly than the individual mutual fund accounts typically used in 401(k)-like defined contribution plans, and (2) pooled longevity risk so that nobody can outlive their money. Both of these are strong positives. Opponents of the cash-balance plan include taxpayer groups who still distrust the employer's underwriting risks, and the U.S. Chamber of Commerce which resents the political intervention and meddling of the large pension plans in corporate governance when some of the same plans have failed notoriously to clean their own doorsteps first. Needless to say, the Investment Company Institute and the mutual fund industry would prefer individual accounts, but that is industry self-interest at work.

There is a good case to include a cash-balance feature in the retirement options provided to public employees. To meet the taxpayers' litmus test, three important controls that should be incorporated in the plan design are (1) a conservative guaranteed floor rate that does not exceed 10-year government bond yields, and unless a substantial reserve is first accumulated, (2) a portfolio mix that invests no more than 50 percent in equities in order to minimize investment risks borne by taxpayers during "lost decades" such as 1970-79 and 2000-09 and (3) the crediting rate for any phantom accounts must discount the plan's investment portfolio returns by the implicit annual premium cost of the "put option" that the employees all enjoy by virtue of the guaranteed floor rate. The latter provisions are needed to prevent "shoot for the moon" gamesmanship by pension trustees who want to play the spread between bond yields and historical stock market returns at the taxpayers' risk. Finally, the actuarial tables used to price the life annuities upon conversion must be sufficiently conservative so that the plan offers a better deal than a profit-making private insurance company, but not the giveaway pricing that many public pension plans have offered previously with their "air time" and "DROP" accounts. Otherwise the plan will still retain at least half of the risks now borne by taxpayers in pension funds — and the virtues of the cash balance plan will be wasted away at the back end. Experience has shown that self-interested employees will spend countless hours finagling to game the system, and these potential abuses need to be boxed out completely in the plan design.

**Paired plans**. Finally, it makes sense to offer the cash-balance option along with a traditional defined contribution plan, as the primary options for new employees. This allows employees who want more aggressive investment options to control their own investments through individual accounts and enjoy the portability of qualified defined contribution plans. The two plans will have very distinctive risk-return characteristics. Those who want guarantees would elect the cash-balance plan and must accept lower potential returns on the upside. (My hunch is that over 70 percent of public employees are risk-averse and will select the cash balance plan if it offers some reasonable upside.) Kansas legislators proposed exactly that combination in a recent bill that has cleared its house of representatives, and I expect we'll see more pairing along that line. The employees who elect into the individual accounts can also be given a cross-walk option to buy a retirement annuity from the cash-balance plan once they retire. Such a combination should satisfy partisans on both sides of the legislative aisles. Although it adds complexity, I would even support a benefits menu that also includes a reformed pension option for new hires if its design features follow the outlines I have suggested in previous articles. Such a DB option should include sustainable longevity-adjusted, higher retirement ages, 50-50 cost sharing, and the pension multiplier must be funded actuarially at a discount rate that does not exceed the coupon yield on the Barclay's Aggregate Bond index. This menu would properly present risks, guarantees and appreciation potential to the entrants who will see that guaranteed lifetime income has a price, and higher retirement income potential comes with risks that they must accept and share.

The cash balance concept has also been promoted in some states as a solution for private-sector employees. I've already voiced my opinion on that idea in a previous column and won't repeat it here. Let's refine the cash balance

model in the public sector as a way to reduce taxpayer costs and risks, and once that job is done and the results validated, we can talk someday about whether it's even possible to make such plans risk-free to taxpayers and not the start of another special-interest entitlement program that will invite legislative mischief and intergenerational warfare.

**Plan conversions for incumbents**. Cash balance plans have been used in the past to convert private sector pensions into a DC structure and get the employer out of the retirement-risk business. That alone would be a worthwhile provision in the public sector — for states to enable public employers to make conversions, where courts haven't elevated vesting to the heights of absurdity. Just think of where the world would be today if public pension plans had been converted to cash balance structures in 1999-2000, instead of awarding employees massive retroactive benefits increases and pension contribution holidays for politicians. (Answer: Taxpayers would now be better off by a half-trillion dollars.)

**A bankruptcy alternative or option?** In the wake of last week's bombshell pension-plan bankruptcy filing in the U.S. commonwealth of Northern Marianas, a cash-balance conversion could be a solution for distressed pension plans. This would allow current employees an option to convert their underwater traditional defined benefit pension plan's benefit into a cash-balance account, at the actuarial present value of their current plan — but adjusted for its actual funding ratio to reflect the plan's fiscal distress. For example, if the plan is 78 percent funded on a market-value basis, the employee could convert to the cash balance plan at 78 percent of the actuarial present value of accrued benefits. Those who wish to take their chances with the traditional pension plan can stay put if they think the sinking ship will right itself and the employer will not take them through bankruptcy to freeze or cut their pension. If state-supervised double-barreled* pension bonds could be used prudently to finish the job and permanently reduce overall risks to taxpayers, I'd even accept a bonus POB infusion to sweeten the deal halfway between market and par value for the participants.

This remedial structure would probably require state-level statutory authorizations and possibly a federal fix of some arcane federal tax laws or regulations that senselessly make certain DC plan conversions taxable (as "constructive receipt") under the current administration's interpretation. When I look at the problems of desperately underfunded pension plans of distressed employers, a cash-balance conversion option would sure beat bankruptcy as the way to fix the pension mess facing localities whose unsustainable benefits plans are crowding out essential public services and impoverishing their communities. And a mandatory cash-balance conversion could be a viable tool for bankruptcy receivers if nothing else works better.

A similar solution has worked before in the private sector, in somewhat analogous situations. The recent Ford Motor proposal heads in this direction but reportedly offers cash rather than a replacement benefit plan; most public employers and plan professionals would likely prefer the latter for the reasons I've explained above. If public pension advocates would be willing to also work toward that end-game remedy, as well as a two-plan option for new hires along the lines from Kansas and the taxpayer protections described above, I'd warmly embrace the cash balance option.

**Last NewsClips 7/5/12**

Second Quarter 2012

# Meredith Williams of Colorado PERA Named as NCTR Executive Director

By David A. Stella, NCTR President

On behalf of the NCTR Executive Committee, I am extremely pleased to announce the appointment of Meredith Williams as the new Executive Director of the National Council on Teacher Retirement (NCTR). Meredith replaces Jim Mosman, who is retiring as Executive Director after leading NCTR for the past ten years.

Meredith is a nationally recognized leader in the public pension industry and has been an active NCTR member for many years. He served as NCTR President in 2006–2007. He is currently the Executive Director of the Colorado Public Employees' Retirement Association (PERA) and has served in that position for the past 12 years. He also served as Executive Secretary of the Kansas Public Employees Retirement System (KPERS) for nine years prior to moving to Colorado PERA. Meredith began his public service career in the Kansas Legislative Division of Post Audit starting as an entry-level auditor in 1973. In 1983, he was appointed as the State's 3rd Legislative Post Auditor and headed that agency until 1991, when he moved to KPERS.

Meredith's appointment was the result of a national recruitment process by the NCTR Executive Committee. The Committee considered a number of highly qualified candidates prior to reaching its decision to appoint Meredith. The Executive Committee was focused on appointing an Executive Director with a national reputation and the skills and experience to move NCTR forward. Replacing Jim Mosman, whose extraordinary leadership of NCTR has been instrumental in the success of the organization, was a difficult task. We strongly believe that Meredith will meet the high standards that Jim set over his tenure.

Transition planning is already underway. Meredith is expected to begin his role as NCTR Director on July 1, 2012. Until that time, Jim Mosman will continue to manage NCTR activities, including finalizing plans and agendas for several spring and summer workshops and meetings. Planning and develop-

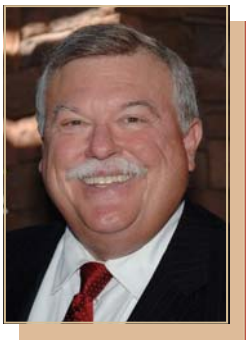
*Continued on page 4*

***MEREDITH WILLIAMS**, above, was selected as NCTR Executive Director by the NCTR Executive Committee after a nationwide search. Williams will assume his new duties July 1, upon the retirement of current Executive Director Jim Mosman. Williams will be based in Colorado, while NCTR headquarters will continue to operate from Sacramento, California.*

CAPITOL COMMENTARY

# The Times They Are A-Changing

By Leigh Snell, NCTR Federal Relations Director



I first met Jim Mosman 20 years ago. At the time, he was the Chief Executive Officer of the California State Teachers' Retirement System (CalSTRS) and I was working on Federal issues for the California Public Employees' Retirement System (CalPERS).

Both plans were wrestling with a very serious challenge created by the lowering of Federal dollar limits on the amount a DB plan could pay to its participants and still remain tax-qualified. The issue was often referred to as the "Section 415" problem, and it presented many public plans with the untenable choice of either breaking Federal law by paying promised benefits, or reducing those benefits, thereby violating many States' legal guarantees.

The solution, so-called "qualified excess benefit arrangements," literally took years to resolve. Initial impediments included House Democratic staff's unfamiliarity with public pension benefit structures and unions' distrust of plan motives. However, with the Republican takeover of the House of Representatives in 1994, things began to change, and the 415 "fix" finally became law as part of the Small Business Job Protection Act of 1996.

In fact, when it comes to public pension issues, the 1990's was somewhat of a "golden age." For example, the 1996 law also eliminated the 100 percent of average compensation limit for public plans under Sec. 415 (b) and protected 457 plan assets by placing them in trust. Then, the Taxpayer Relief Act of 1997 enhanced treatment of the purchase of permissive service credits and, more importantly, granted a permanent moratorium on the application of onerous IRC nondiscrimination testing to governmental plans.

> ***"...the 1990's was somewhat of a 'golden age.'"***

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) enhanced public pension portability by permitting use of 403(b) and 457 plan assets to purchase service credits through direct trustee-to-trustee exchanges. EGTRRA also increased and indexed annual elective deferral dollar limits; increased the 415(b) dollar limits; and allowed catch-up contributions to 401(k), 403(b), and governmental 457 plans for participants who are age 50 or older, among other things.

But times have certainly changed! Public pension issues are no longer limited to tax code problems. Old opponents are now supporters, and vice versa. The 21st Century has brought us Congressional second-guessing with regard to public plan investments in alternatives; divestment legislation; the Nunes PEPTA bill and five Congressional hearings on public plan "problems"; MVL and the discount rate controversy; new GASB rules delinking funding from accounting; new Treasury regulations dealing with "normal retirement age" and the definition of a governmental plan; the IRS governmental plans "compliance initiative"; the SEC's New Jersey settlement, its "pay-to-play" rules and new proposal treating some public trustees as municipal advisors. And the list goes on.

Fortunately, beginning in 2002, NCTR had Jim Mosman to help navigate these increasingly perilous waters. His support for the NCTR legislative program has been unwavering, and it has benefitted from his wise counsel and keen political analysis. More Federal challenges lie ahead, but thanks to Jim, NCTR is well-prepared to deal with them. We will miss Jim, but Meredith Williams is a worthy successor. Onward and upward! ❖

*Catch Leigh Snell's*
*FEDERAL NEWS WEBINAR*
*Thursday, April 19, 3:00 pm (ET)*
*Register at www.nctr.org*

# 2012 NCTR PROGRAMS

## Join public fund colleagues this May and June at Colorado PERA in Denver, Colorado...

### COMMUNICATIONS SPECIALIST WORKSHOP: May 14–16

Gather advice and insight on communicating with members, legislators, and the media (both traditional and social). Get up-to-speed on GASB's latest pension standards and how to explain them. Learn techniques for surviving media interviews. Take advantage of roundtables where attendees are encouraged to share recent problematic and successful projects.

### ADMINISTRATIVE ASSISTANT WORKSHOP: May 16–18

Join administrative and executive assistants from public funds throughout the nation for discussion and networking on pension related topics, ranging from interacting with your board using new technology to what individual systems are doing in social media. In addition, there'll be presentations on GASB, the trustee perspective, and responding to delicate media issues.

### SYSTEM DIRECTORS' MEETING: June 10–12

For a quarter of a century, public retirement system administrators have gathered for this popular NCTR meeting. Format and faces have changed through the years, but the focus remains the same—to provide system directors a one-stop opportunity to keep in step with actuarial, federal, and administrative issues, and to build a network among colleagues.

**View agendas, register, and reserve hotel room at www.nctr.org**

## Join public fund trustees this July at Stanford University and Menlo Park, California...

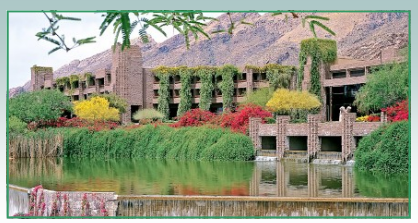
### 12TH ANNUAL TRUSTEE WORKSHOP

#### July 23: Trustee Institute on Investments (optional)

This introductory program is recommended for new trustees who'd like to gear up for the full program, but is also open to experienced trustees who'd like a refresher course.

#### July 24 & 25: Trustee Workshop

For more than a decade, this NCTR workshop has helped public fund trustees better understand their roles and goals as fiduciaries, keep current on Federal developments that affect their systems, and gain insight on issues confronting boards in other states. This year, NCTR expands program content by joining forces with Stanford Law School's Fiduciary College held on the university campus.



## And then in October...

The **NCTR 90TH ANNUAL CONVENTION** is taking shape. Among the guest speakers who'll join us in Tucson, Arizona: political correspondent Mara Liasson from FOX News and NPR, who'll speak on the 2012 elections; futurist Ian Morrison, PhD, who'll shed light on what's ahead in health care; and *The Wall Street Journal* investigative reporter Ellen Schultz, author of the provocative 2011 book *Retirement Heist*.

# On the move
## Shifts in System Directors

**ALAN CONROY** has assumed the role of Executive Director at the **Kansas Public Employees Retirement System**, replacing Glenn Deck who retired September 2011. Conroy has more than 30 years' experience in state government and fiscal analysis, and served most recently as Director of the Kansas Legislative Research Department, where he had worked in positions of increasing responsibility since 1983.

**GEORGE P. LAGOS** has filled the Executive Director position at **New Hampshire Retirement System** after the board's six-month national search. Lagos, an attorney admitted to the New Hampshire and Massachusetts bars, has more than 30 years' experience in the financial services industry, most recently as a principal at the privately held consulting firm, GL Insurance Partners, LLC.

*Continued from page 1*

## New NCTR Executive Director

ment of the agenda and arrangements for the annual conference in October have been underway for several months and are expected to be nearing completion at the time the transition to the new Executive Director occurs. The NCTR staff, Jim, and Meredith will be coordinating their efforts during the next three months to ensure a seamless process.

Please join me in congratulating Meredith as he takes on his new challenge as the NCTR Executive Director. ❖

## Welcome
### NEW NCTR MEMBERS
#### Commercial Associates

- American Century Investments
- Bain Capital, LLC
- Greenspring Associates Inc.
- Oppenheimer Funds/ OFI Institutional Asset Management
- Pantheon
- RS Investments
- Westwood Management

## Job Opportunities

*Looking toward the next step in your career path?* Visit the NCTR "Pension Fund Job Opportunities" page for openings at various state, city and county systems.

Jobs are posted as a community service—no fee is charged. Submit your entries to rgonzales@nctr.org.

## 2012 NCTR Events

**Communications Specialist Workshop**
May 14–16
Warwick Denver Hotel
Denver, Colorado
REGISTRATION NOW OPEN

•

**Administrative Assistant Workshop**
May 16–18
Warwick Denver Hotel
Denver, Colorado
REGISTRATION NOW OPEN

•

**25th Annual System Directors' Meeting**
June 10–12
Warwick Denver Hotel
Denver, Colorado
REGISTRATION NOW OPEN

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**12th Annual Trustee Workshop**
OPTIONAL INSTITUTE: July 23
WORKSHOP: July 24–25
Stanford Park Hotel
& Stanford University
Menlo Park, California
REGISTRATION OPENS IN MAY

•

**90th Annual Convention**
October 7–10
Loews Ventana Canyon
Tucson, Arizona
REGISTRATION OPENS IN JUNE

•

For more current information, visit www.nctr.org

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Visit us at: www.nctr.org

# NASRA Issue Brief:
# Public Pension Plan Investment Return Assumptions

**Updated July 2012**

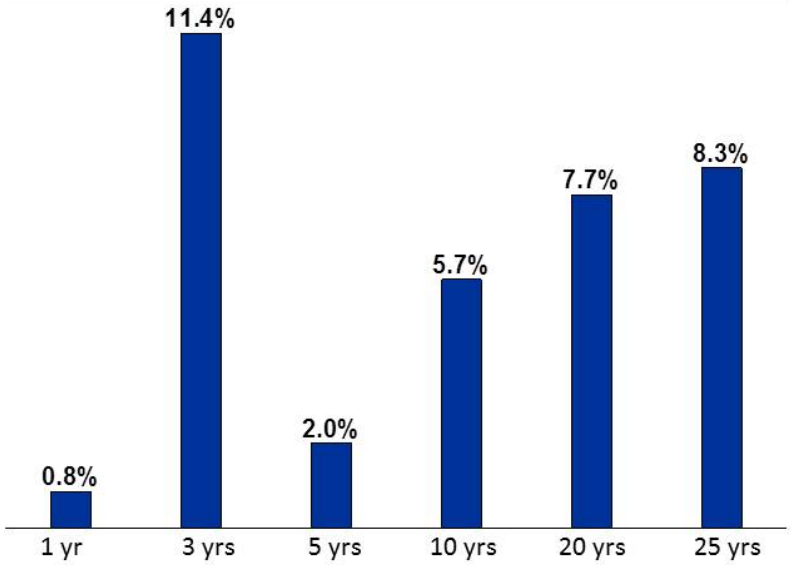
**As of the first quarter of 2012, state and local government retirement systems held assets of approximately $3 trillion.[1] These assets are invested to defray the cost of benefits within an acceptable level of risk. The investment return on these assets matters because over time, investment earnings account for a majority of public pension fund revenues. A shortfall in expected investment earnings must be made up by higher contributions or reduced benefits.**

**Funding a pension benefit requires the use of projections, known as actuarial assumptions, about future events. Actuarial assumptions fall into one of two broad categories: demographic and economic. Demographic assumptions are those pertaining to a pension plan's membership, such as changes in the number of working and retired plan participants; when participants will retire, and how long they'll live after they retire. Economic assumptions pertain to such factors as the rate of wage growth and the investment return on the fund's assets.**

**As with other actuarial assumptions, projecting public pension fund investment returns requires a focus on the long-term. This brief discusses how investment return assumptions are established and evaluated and compares these assumptions with public funds' actual investment experience.**

Public pension fund investment return assumptions have been the focus of growing attention in recent years. With current low current interest rates and volatile investment returns, some believe these assumptions are unrealistically high. Because investment earnings account for a majority of revenue for a typical public pension fund, the accuracy of the assumption has a major effect on the plan's finances and actuarial funding level.

Figure 1: Median public pension annualized investment returns for period ended 12/31/2011




*Source:* Callan Associates, Inc.

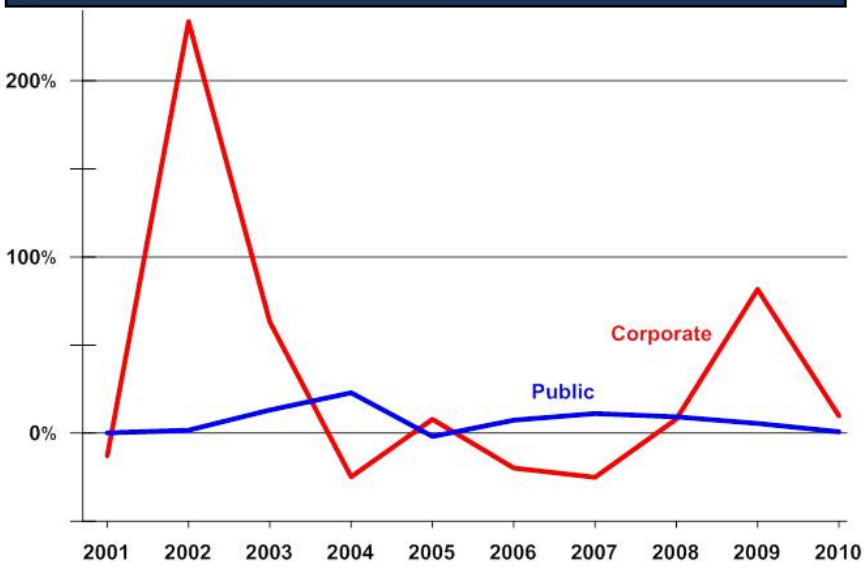
An investment return assumption that is set too low will overstate liabilities and costs, causing current taxpayers to be overcharged and future taxpayers to be undercharged. A rate set too high will understate liabilities, undercharging current taxpayers, at the expense of future taxpayers. An assumption that is significantly wrong in either direction will cause a misallocation of resources and unfairly distribute costs among generations of taxpayers.

Although public pension funds, like other investors, have experienced sub-par returns over the past decade, median public pension fund returns over longer periods meet or exceed the assumed rates used by most plans. As shown in Figure 1, at 8.3 percent, the median annualized investment return for the 25-year period ended December 31, 2011, exceeds the most-used investment return assumption of 8.0 percent.

[1] Federal Reserve, *Flow of Funds Accounts of the United States: Flows and Outstandings, First Quarter 2012*, Table L.117

Public retirement systems employ a process for setting and reviewing their actuarial assumptions, including the expected rate of investment return. Most systems review these assumptions regularly, pursuant to statute or system policy. The process for establishing and reviewing the investment return assumption involves consideration of various financial, economic, and market factors, and is based on a very long-term view, typically 30 to 50 years. A primary objective for using a long-term approach in setting the return assumption is to promote stability and predictability of cost.

Figure 2: Comparison of change from prior year in corporate and public pension contributions, 2001 to 2010




*Source:* Milliman and U.S. Census Bureau

Unlike public pension plans, corporate plans are required by federal regulations to make contributions on the basis of current interest rates. As Figure 2 shows, this method results in plan costs that are volatile and uncertain, often changing dramatically from one year to the next. This volatility is due in part to fluctuations in interest rates. This volatility has been identified as a leading factor in the decision among corporations to abandon their pension plans. By focusing on the long-term and relying on a stable investment return assumption, public plans experience less volatility of costs.

As Figure 3 shows, since 1982, public pension funds have accrued an estimated $4.8 trillion in revenue, of which $2.9 trillion, or 61 percent, is estimated to have come from investment earnings. Employer (taxpayer) contributions account for $1.3 trillion, or 26 percent of the total, and employee contributions total $623 billion, or 13 percent.

Public pension plans operate over long timeframes and manage assets for participants whose involvement with the plan can last more than half a century. Consider the case of a newly-hired public school teacher who is 25 years old. If this pension plan participant elects to make a career out of teaching school, he or she may work for 35 years, to age 60, and live another 25 years, to age 85. This teacher's pension plan will receive contributions for the first 35 years and then pay out benefits for another 25 years. During the entire 60-year period, the plan is investing assets on behalf of this participant. To emphasize the long-term nature of the investment return assumption, for a typical career employee, more than one-half of the investment income earned on assets accumulated to pay benefits is received *after* the employee retires.

Figure 3: Public Pensions Sources of Revenue, 1982-2010

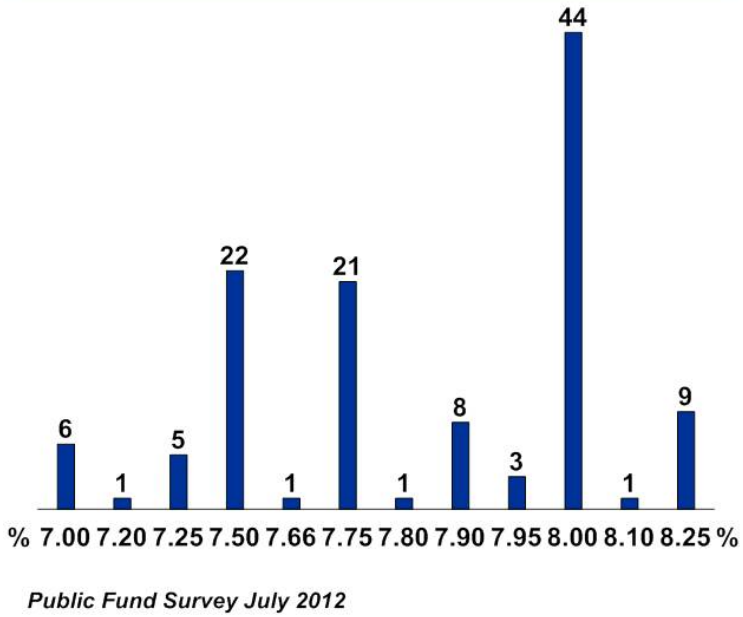
*Source:* U.S. Census Bureau

The investment return assumption is established through a process that considers factors such as economic and financial criteria; the plan's liabilities; and the plan's asset allocation, which reflects the plan's capital market assumptions, risk tolerance, and projected cash flows.

Standards for setting an investment return assumption, established and maintained by professional actuaries, recommend that actuaries consider a range of specified factors, including current and projected interest rates and rates of inflation; historic and projected returns for individual asset classes; and historic returns of the fund itself. The investment return assumption reflects a value within the projected range.

Many public pension funds have reduced their return assumption in recent years. Among the 126 plans measured in the Public Fund Survey (see Figure 4), 45 have reduced their investment return assumption since fiscal year 2008. While 8.0 percent remains the predominant rate assumption, the weighted average (considering asset size) is 7.68 percent. Appendix A details the assumptions in use or adopted by the 126 plans in the Public Fund Survey.

Figure 4: Distribution of investment return assumptions




## Conclusion

Since 1985, a period that has included three economic recessions and four years when median public pension fund investment returns were negative (including the 2008 decline), public pension funds have exceeded their assumed rates of investment return. Changes in economic and financial conditions are causing many public plans to reconsider their investment return assumption. Such a consideration must remain consistent with the long timeframe under which plans operate.

### See Also:

Actuarial Standards of Practice No. 27, Actuarial Standards Board,
http://www.actuarialstandardsboard.org/pdf/asops/asop027_109.pdf

The Liability Side of the Equation Revisited, Missouri SERS, September 2006,
http://www.mosers.org/~/media/Files/Adobe_PDF/About_MOSERS/Board-Newsletters/Operations-Outlook/operations_outlook_September06.ashx

The Public Fund Survey is sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement, http://www.publicfundsurvey.org (registration required)

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National Association of State Retirement Administrators
www.nasra.org

## Appendix A: Investment Return Assumption by Plan

(Figures reflect the nominal assumption in use or announced for use as of June 2012)

| | |
|---|---|
| Alabama ERS | 8.00% |
| Alabama Teachers | 8.00% |
| Alaska PERS | 8.25% |
| Alaska Teachers | 8.25% |
| Arizona Public Safety Personnel | 8.25% |
| Arizona SRS | 8.00% |
| Arkansas PERS | 8.00% |
| Arkansas Teachers | 8.00% |
| California PERS | 7.50% |
| California Teachers | 7.75% |
| Chicago Teachers | 8.00% |
| City of Austin ERS | 7.75% |
| Colorado Affiliated Local | 7.75% |
| Colorado Fire & Police Statewide | 7.75% |
| Colorado Municipal | 8.00% |
| Colorado School | 8.00% |
| Colorado State | 8.00% |
| Connecticut SERS | 8.25% |
| Connecticut Teachers | 8.50% |
| Contra Costa County | 7.80% |
| DC Police & Fire | 7.00% |
| DC Teachers | 7.00% |
| Delaware State Employees | 7.50% |
| Denver Employees | 8.00% |
| Denver Public Schools | 8.00% |
| Duluth Teachers [1] | 8.00% |
| Fairfax County Schools | 7.50% |
| Florida RS | 7.75% |
| Georgia ERS | 7.50% |
| Georgia Teachers | 7.50% |
| Hawaii ERS | 7.75% |
| Houston Firefighters | 8.50% |
| Idaho PERS | 7.75% |
| Illinois Municipal | 7.50% |
| Illinois SERS | 7.75% |
| Illinois Teachers | 8.50% |
| Illinois Universities | 7.75% |
| Indiana PERF | 7.00% |
| Indiana Teachers | 7.00% |
| Iowa PERS | 7.50% |
| Kansas PERS | 8.00% |
| Kentucky County | 7.75% |
| Kentucky ERS | 7.75% |

| | |
|---|---|
| Kentucky Teachers | 7.50% |
| LA County ERS | 7.75% |
| Louisiana SERS | 8.00% |
| Louisiana Teachers | 8.25% |
| Maine Local | 7.25% |
| Maine State and Teacher | 7.25% |
| Maryland PERS | 7.75% |
| Maryland Teachers | 7.75% |
| Massachusetts SERS | 8.25% |
| Massachusetts Teachers | 8.25% |
| Michigan Municipal | 8.00% |
| Michigan Public Schools | 8.00% |
| Michigan SERS | 8.00% |
| Minnesota PERF [1] | 8.00% |
| Minnesota State Employees [1] | 8.00% |
| Minnesota Teachers [1] | 8.00% |
| Mississippi PERS | 8.00% |
| Missouri DOT and Highway Patrol | 8.25% |
| Missouri Local | 7.25% |
| Missouri PEERS | 8.00% |
| Missouri State Employees | 8.50% |
| Missouri Teachers | 8.00% |
| Montana PERS | 7.75% |
| Montana Teachers | 7.75% |
| Nebraska Schools | 8.00% |
| Nevada Police Officer and Firefighter | 8.00% |
| Nevada Regular Employees | 8.00% |
| New Hampshire Retirement System | 7.75% |
| New Jersey PERS | 7.95% |
| New Jersey Police & Fire | 7.95% |
| New Jersey Teachers | 7.95% |
| New Mexico PERF | 7.75% |
| New Mexico Teachers | 8.00% |
| New York City ERS | 8.00% |
| New York City Teachers | 8.00% |
| New York State Teachers | 8.00% |
| North Carolina Local Government | 7.25% |
| North Carolina Teachers and State Employees | 7.25% |
| North Dakota PERS | 8.00% |
| North Dakota Teachers | 8.00% |
| NY State & Local ERS | 7.50% |

| | |
|---|---|
| NY State & Local Police & Fire | 7.50% |
| Ohio PERS | 8.00% |
| Ohio Police & Fire | 8.25% |
| Ohio School Employees | 7.75% |
| Ohio Teachers | 7.75% |
| Oklahoma PERS | 7.50% |
| Oklahoma Teachers | 8.00% |
| Oregon PERS | 8.00% |
| Pennsylvania School Employees | 7.50% |
| Pennsylvania State ERS | 7.50% |
| Phoenix ERS | 8.00% |
| Rhode Island ERS | 7.50% |
| Rhode Island Municipal | 7.50% |
| San Diego County | 8.00% |
| San Francisco City & County | 7.66% |
| South Carolina Police | 7.50% |
| South Carolina RS | 7.50% |
| South Dakota PERS | 7.75% |
| St. Louis School Employees | 8.00% |
| St. Paul Teachers [1] | 8.00% |
| Texas County & District | 8.00% |

| | |
|---|---|
| Texas ERS | 8.00% |
| Texas LECOS | 8.00% |
| Texas Municipal | 7.00% |
| Texas Teachers | 8.00% |
| TN Political Subdivisions | 7.50% |
| TN State and Teachers | 7.50% |
| Utah Noncontributory | 7.75% |
| Vermont State Employees [2] | 8.10% |
| Vermont Teachers [2] | 7.90% |
| Virginia Retirement System | 7.00% |
| Washington LEOFF Plan 1 | 7.90% |
| Washington LEOFF Plan 2 | 7.90% |
| Washington PERS 1 | 7.90% |
| Washington PERS 2/3 | 7.90% |
| Washington School Employees 2/3 | 7.90% |
| Washington Teachers Plan 1 | 7.90% |
| Washington Teachers Plan 2/3 | 7.90% |
| West Virginia PERS | 7.50% |
| West Virginia Teachers | 7.50% |
| Wisconsin Retirement System | 7.20% |
| Wyoming Public Employees | 8.00% |

1. The Minnesota Legislature, which sets in statute investment return assumptions used by public plans in the state, established the use of "select-and-ultimate" rates for investment return assumptions. These plans will use an assumed rate of 8.0 percent for five years, through FY 16, then return to 8.5 percent. For more information on select-and-ultimate rates, please see Actuarial Standards of Practice No. 27: http://www.actuarialstandardsboard.org/pdf/asops/asop027_145.pdf.

2. The Vermont retirement systems adopted "select-and-ultimate" rates in 2011; the rates shown reflect the single rates most closely associated with the funding results for the respective plans, based on their projected cash flows.

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# STATE PENSION REFORM, 2009-2011

*Ron Snell*
*March 2012*

## Introduction

From 2009 through 2011, 43 states enacted major changes in state retirement plans for broad categories of public employees and teachers to address long-term funding issues. Their changes were designed to reduce pension fund obligations by increasing employee contributions or age and service requirements for retirement, or both, and adjusting benefit provisions in various other ways that reduce costs. Such legislation was rare before 2005, but became national in scope from 2009 on. Ten states made such changes in 2009; 21 did so in 2010 and 32 did so in 2011. Several states acted more than once, for a total of 43 states over the three years.

By the end of the first decade of this century, state retirement plans had suffered an enormous reversal from their financial status in 1999, when the average funding ratio for 126 statewide plans (including the District of Columbia) reached a record high of 103 percent of accrued liabilities. Since then, two recessions have battered their assets. The slow recovery from the last recession has made it impossible for states to rebuild pension system assets. Some systems have also suffered from inadequate state contributions over a long period and from unfunded increases in benefits.[1] The Boston College Center for Retirement Research recently estimated the average funding ratio for the same 126 plans to be 77 percent in 2010.[2] Other analysts report similar numbers.[3]

Those ratios, however, depend on accepting state retirement plans' assumptions about the value of their assets and the future investment return on them. Skeptics view the plans' assumptions as unduly optimistic and have contended that some retirement funds are so poorly funded, when

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[1] A recent survey of the interplay of declining asset values and inadequate contributions is Jagadeesh Gokhale,State and Local Pension Plans: Funding Status, Asset Management, and a Look Ahead," (Cato Institute, Washington, D.C.:2012).
[2] Alicia Munnell, Jean-Pierre Aubry, Josh Hurwitz and Laura Quinby, *How Would GASB Proposals Affect State and Local Pension Funding?* Center for Retirement Research at Boston College, (Brief No. 23, November 2011), p. 3.
[3] See, Wilshire Consulting, *2010 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation* (Wilshire, Santa Monica, Cal., March, 2010, and the comparable 2011 report.

valued as the skeptics recommend, that they may run out of assets within a decade.[4] The Boston College report does not make that claim, but does estimate that at market value, assets in 2010 covered only 67 percent of liabilities, and that under new accounting rules recommended by the Governmental Accounting Standards Board, assets would be measured as about 53 percent of liabilities for the same selection of plans.[5]

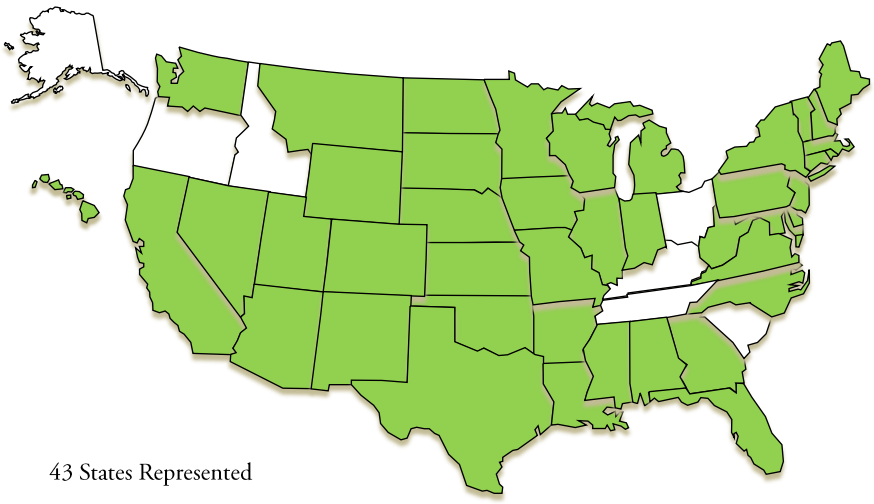
Additional concerns are the aging of the state workforce and its increased propensity to retire, the inability of state budgets to accommodate higher employer contributions for years to come, questions about the different retirement policies provided by the private and public sectors, and a climate of opinion that questions public employee compensation compared to the grim outlook for employment, retirement benefits and health insurance in the country overall.

## Legislation in 2009-2011

These issues have resulted in a record amount of legislation in the past three years to restructure the contribution and benefits provisions of state retirement plans.

Figure 1 shows the 43 states that enacted significant pension reform legislation for at least one statewide retirement plan for state employees or teachers from the beginning of 2009 through the end of 2011.

Major Pensions Legislation in 2009-2011




[4] Alicia Munnell, Jean-Pierre Aub, Josh Hurwitz and Laura Quinby, *Can State and Local Pensions Muddle Thorough?* (Center for Retirement Research at Boston College, March 2011, 2-3, and references.
[5] Munnell and others, *How Would GASB Proposals Affect,*11-14.

Of the states not highlighted in the map, several acted on pension reform earlier in the decade, including Alaska, Kentucky and Oregon. Alaska and Kentucky continue to review the funding status and design of their retirement plans, and at the beginning of 2012, Ohio and South Carolina are considering major policy changes. Idaho and Tennessee have remained relatively immune from the storms that have battered the other states.

The following discussion of the kinds of changes states enacted generally does not identify the states making the changes for the sake of brevity. Individual state changes are reported for each year in NCSL's annual summaries of retirement legislation.[6] The changes made from 2009 through 2011 include:

*Employee Contributions*

- In 2009, six states increased mandatory employee contributions, in most cases only for new employees, but also for current employees in New Mexico and Rhode Island.
- In 2010, 12 states increased employee contributions. In seven states, the increase affected current employees and in five only new hires. Three of the latter group (Missouri, Utah and Virginia) previously had not required contributions for employees or had provided that employers would pay what was nominally an employee contribution. In Utah, the contribution requirement will come into effect only under certain actuarial conditions. Wyoming required that current and future employees make contributions that previously had been paid by employers.
- In 2011, 17 states enacted increases in employee contributions, including those required from at least some current employees in 14 of the 17 states. Since some states increased contribution requirements for different plans in different years within the period reviewed in this paper, 30 states in all have increased employees' contributions from 2009 through 2011.
- A important trend in 2011was to offset increases in employee contributions with reductions in employer contributions, which occurred in 10 states. In some instances the shift was described as temporary. Such a reapportionment of the total contribution to a plan is not neutral for a retirement fund, even if the percentage changes are equal. That is because members who leave a system can withdraw their contributions. The change can mean such members can withdraw a higher share of the total contribution to the plan. Employee contribution increases that are coupled with employer decreases can reduce the growth of the employer's obligation, but do not strengthen the funding of the retirement plan.

[6] NCSL's annual reports on retirement legislation are available on the NCSL website at http://www.ncsl.org/issues-research/labor/pension-and-retirement-legislative-summaries-and-r.aspx

*Higher Age and Service Requirements for Retirement*

- In 2009, five states enacted higher age and service requirements for pension benefits, generally only for new hires.
- In 2010, 11 states did so. However, in Vermont, the higher requirements will affect teachers who are more than five years away from retirement eligibility, and in Colorado members of the Public Employee Retirement Association who have less than five years' membership.
- In 2011, 17 states enacted higher age and service requirements for benefits, again generally for new hires.

*Reduced Commitment to Post-Retirement Benefit Increases (COLAs)*

- In 2009, three states reduced the amount of post-retirement benefit increases they will pay retired people in the future.
- In 2010 eight states did so. In four of those eight, the reduction will affect only new hires when they eventually retire. In Rhode Island, the policy affected current members with less than 10 years of membership, and in Colorado, Minnesota and South Dakota, the reduction affected people already retired as well as those who retire in the future. The legislation faced legal challenges in each of those last three states as an unwarranted breach of contract.
- In 2011, 10 states reduced their commitments for future post-retirement benefit increases. In six of those states (Arizona, Florida, Maine, Maryland, New Jersey and Rhode Island), the changes affect current employees. In Maine, New Jersey and Rhode Island, the change will affect people who have already retired as well. Changes in Washington eliminated or limited future benefit increases for members of two closed plans.

*Changes in the Formula for Calculating Benefits*

All state defined benefit plans use a formula to calculate benefits based on a person's final average salary and years of service credit. Final average salary usually is the average of between three and eight years' compensation. The formula then provides a percentage of the average for each year of service credit. Increasing the number of months or years used to calculate final average salary usually means a lower benefit. A number of states have provided for longer periods for calculating average salary. A smaller number of states have reduced the percentage multiplier for calculating the actual benefit.

- In 2009, one state adopted a longer period for average salary and one other state reduced the percentage multiplier.
- In 2010, eight states provided for longer periods for calculating final average salary and four states reduced the percentage multiplier for some employees.
- In 2011, eight states provided for longer periods for calculating final average salary and seven, mostly the same states, reduced the percentage multiplier for some employees.

*Other Changes*

- In 2009, three states reduced benefits available to those who take early retirement. In 2010, nine states did so, and 10 did so in 2011.
- In 2010, nine states imposed greater restrictions on retirees who return to employment that is covered by the retirement plan from which they are receiving a benefit. Six states did so in 2011.

Almost all the legislation enacted in 2009, 2010 and 2011 was within the framework of traditional defined benefit retirement (DB) plans, the standard retirement design in the public sector. In 2010, two states broke with tradition to adopt fundamentally restructured plan designs—Michigan for the School Employees Retirement System, which includes teachers and other school employees, and Utah for all state and local government employees. Rhode Island did so in 2011 for teachers, almost all state employees except some public safety members and judges, and for the state-sponsored plan for municipal employees.

The Michigan plan includes these provisions:

- The new plan replaces a defined benefit (DB) plan for employees hired after July 1, 2010 with a hybrid plan that includes a defined benefit component with higher age and service requirements and a lower benefit than the former DB plan.
- The second component of the hybrid plan, applicable to all members, is an opt-out defined contribution (DC) plan, with an employer match for employee contributions. Within limits, school districts may negotiate levels of employee contributions and employer match. "Opt-out" means that all new members are enrolled in the DC component, but may withdraw from it if they wish to do so.
- There will be no post-retirement benefit increases for the DB portion of the plan.

The Utah plan will offer new employees a pair of choices.

- One is a straightforward DC plan, like those in the private sector, to which the employer will contribute 10 percent of compensation for general employees and teachers, and 12 percent for public safety employees. Employees are not required to contribute to the plan but may do so if they wish. There will be no employer match for any contributions employees make.
- The second possible choice, and the default plan for those who fail to make a choice, is a hybrid plan with a DB and a DC component. Employers will contribute 10 percent of compensation (more for public safety employees) to the DB element. Employees are not required to contribute unless the employer contribution is inadequate to maintain the actuarial soundness of the plan's trust fund. In that situation, employees will be required to make up the shortfall. In the event that the employer contribution is more than is needed to

maintain the actuarial soundness of the plan, the unneeded share of the employer contribution will be deposited in an individual account for each employee. Employees may contribute to their individual account, but are not required to do so.

The 2011 Rhode Island plan is also a hybrid plan somewhat similar to those in Michigan and Utah.

- It will continue a reduced defined benefit plan for all employees, and also enroll all employees in individual accounts.
- The Rhode Island plan makes the individual accounts a more important part of eventual benefits than in Michigan and Utah. In Rhode Island, all employees will be required to contribute to them—5 percent of salary for employees covered by Social Security, and up to 9 percent of salary for employees who are not covered by Social Security. Employers will also contribute to the accounts, in amounts ranging from 1 percent of salary to 3 percent of salary, depending on the category of employee and whether the employee is covered by Social Security.
- The Rhode Island plan is unique for including all current employees in the restructuring, though all current employees will retain all benefits earned through July 1, 2012, when the transition goes into effect.

As the legislative record shows, few states have moved toward defined contribution plans on the private sector model. Utah became the first state to adopt a defined contribution plan for public employees, even as an optional plan, since Alaska did so in 2005. Indiana provided one as an option for new employees in 2011. A number of other states considered the adoption of defined contribution plans as basic coverage in 2011, although none of them adopted one. The issue remains under consideration; for example Arizona and Kansas study commissions will make recommendations on the issue to their legislatures in early 2012. The Massachusetts legislature has commissioned a study of defined contribution and hybrid plans.

In part, the reluctance to move away from traditional defined benefit plans grew out of concerns about transitional costs. Adopting a new plan which may in itself be less expensive for employers does not directly address any existing unfunded liability for a closed defined benefit plan. Legacy costs could mean an increased burden of employer contributions for closed plans as their membership falls over time. Support for such changes remains strong (as does opposition to such changes) and the issue will remain alive in 2012, as will the need to enact less fundamental plan revisions to address the ongoing pension funding problem.

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# Changes in Age and Service Requirements for Normal Retirement in State Retirement Plans, 2009–2011

Ronald K. Snell
National Conference of State Legislatures
March 2012

This report discusses increases in age and service requirements for normal retirement that state governments enacted from 2009 through 2011. It includes changes in 30 plans for general state employees and teachers in 25 states, and 16 plans for public safety employees in 13 states. In most cases, the changes affect only people hired after the legislation was passed. In a few plans, the changes apply to non-vested members as well.

Some of the same states also increased retirement eligibility requirements for municipal government employees, the judiciary and elected officials. This report focuses on general state employees, teachers and public safety plan members because they have been those most frequently affected by state legislation in period discussed here. Tables in the appendices identify the plans and classes of employees the changes affect.

Normal retirement refers to benefits available when an applicant has satisfied specific age and service requirements. The applicant's pension is determined by a formula that considers the applicant's credited service and final compensation. Most state plans offer alternative combinations of the minimum age and years of credited service that entitle a person to normal retirement benefits.

Most states also allow a person to apply for early retirement at an lower age than required for normal retirement. Early retirement involves reducing an applicant's pension by an actuarial or percentage calculation from the normal benefit to account for the longer period over which the person will receive benefits. Thus, in a plan where a member would be eligible for normal retirement at 65 with 10 years of service, a 55-year-old member might be eligible for a reduced benefit under early retirement provisions. Early retirement rules are usually revised at the same time as normal eligibility requirements. For the sake of simplicity, changes in early retirement have been omitted from this report.

Part 1 reports changes in age and service eligibility requirements for general state employees and teachers. Part 2 reports similar changes in public safety plans.

# PART 1. CHANGES IN AGE AND SERVICE REQUIREMENTS FOR STATE EMPLOYEES AND TEACHERS

**Table 1. Normal Retirement Based on Age Alone**

Only a few state plans provide for normal retirement benefits when a person reaches a specified age without an accompanying service requirement. Of the plans included in this report, those that do so have increased the minimum age for retirement in the past three years.

| | *Before the changes reported here: Number of plans* | *After the changes reported here: Number of plans* |
|---|---|---|
| Age 60 | 2 | 0 |
| Age 62 | 2 | 0 |
| Age 65 | 1 | 4<br>One plan added a service requirement to its 65-and-out provision |
| Total | 5 | 4 |

| Table 2. Specified Age and Service Requirements for Normal Retirement | | |
|---|---|---|
| *Age requirements* | *Before the changes reported here* | *After the changes reported here* |
| Ages 50 through 59 | Seven plans allowed normal retirement within these ages. Six of them required at least 30 years of service for normal retirement. | Only two of the plans continue to allow normal retirement within these ages. Both now require a minimum age of 57 and at least 30 years of service. For most plans the minimum age requirement increased to the range of age 60 to age 62. |
| Age 60 | Fifteen plans set a normal retirement age of 60. Service requirements varied greatly. Six plans required 5 years or less. Eight plans required 10 years or more. | Only five plans provide for normal retirement at 60. Service requirements range from 8 to 30 years. Age requirements generally moved to the range of age 60 to age 62and two plans increased the minimum age of eligibility to 67. |
| Ages 62 through 66 | Twenty-one plans allowed normal retirement within this age group, most frequently at age 62 (12 plans).<br>Seventeen of these plans required service of 5 years or less for normal retirement. Three required 10 years of service for normal retirement. | Twenty plans allow normal retirement with longer service requirements than earlier and generally increased age requirements to 65 or 67.<br>Nine plans require 10 years of service and one requires 25 years of service. Four plans, however, allow retirement when a member reaches 65 regardless of length of service. |
| Higher than 66 | No plan in this study reported an age of eligibility for normal retirement higher than 66. | Five state plans have set a normal retirement age of 67 with service requirements of 5 years in two of them and 10 years in three of them. Two additional plans will provide normal retirement at the member's Social Security age for full benefits and 5 years of service. |

**Table 3. X years and out**

Many state plans permit normal retirement when a member reaches a specified number of years of service regardless of the person's age. Thirteen of the 30 plans for general state employees and teachers in this report previously had such provisions. Only eight of the 13 plans continue to have comparable provisions after the amendments of the past three years.

| *Years of service that qualify for normal retirement* | *Before the changes reported here: number of plans* | *After the changes reported here: number of plans* |
|---|---|---|
| 20 | 1 | 1 |
| 25 | 4 | 1 |
| 29 | 1 | |
| 30 | 5 | 4 |
| 33 | | 1 |
| 35 | 2 | 1 |
| Total | 13 plans | 8 plans |

**Table 4. Rules of Y**

Some state plans have additional provisions that provide for normal retirement when the sum of a member's age and years of service is a specified number. For example, a person who is 55 years old and has 25 years of service credit complies with the requirements of the Rule of 80. Some plans specify an additional minimum age or service requirement.

As the chart below suggests, Rules of Y have become a little more common, and have tended to require higher age and service totals.

| Rule of Y | *Before the changes reported here: number of plans* | *After the changes reported here: number of plans* |
|---|---|---|
| 75 (minimum age of 60) | 1 | |
| 80 (minimum age of 48) | 1 | |
| 80 (minimum age of 60) | | 1 |
| 80 (with at least 5 years of service) | 1 | 1 |
| 85 | 1 | |
| 90 | 3 | 3 |
| 90 (minimum age of 55) | | 1 |
| 90 (minimum age of 60) | | 3 |
| 92 (with at least 35 years of service) | | 2 |
| Total | 7 plans | 11 plans |

## PART 2. CHANGES IN AGE AND SERVICE REQUIREMENTS FOR PUBLIC SAFETY MEMBERS

Public safety plans, in this report, include a variety of plans for state highway patrol or state police, correctional employees, staff of bureaus of investigation and local governments' police and firefighters. The report includes changes in 16 plans in 13 states in the period from 2009 through 2011. Nearly half of the states that made significant changes in age and service requirements for general employees or teachers chose not to change plan provisions for public safety members.

Plans for public safety members are designed to provide normal benefits at younger ages and fewer years of service than plans for general state employees and teachers because of the physically and psychologically demanding nature of the occupations covered. Some plans include mandatory retirement ages. Like the plans for teachers and general employees, public safety plans often provide alternative criteria for normal retirement. The alternatives are listed state by state in the tables in the appendices.

Before the changes reported here, 14 of the 16 plans provided for normal retirement by the time a member was 57 years of age, and all allowed for or required retirement by the time a member was 62. One plan allowed for normal retirement at age 45 with 10 years of earned service, and eight of the 16 provided for normal retirement when members had 20 or 25 years of earned service, regardless of age.

The changes enacted from 2009 to 2011 have tended to keep normal retirement below the age of 62 and required service lengths below 25 years.

**Table 5. Public Safety Plans That Allowed Normal Retirement at Age 55 or Less With 10 Years of Service or Less**

| *Former provision* | *New provision* |
|---|---|
| Age 55 with 6 years of service | Age 60 with 8 years of service |
| Age 45 with 10 years of service | Age 50 with 10 years of service |
| Age 55 with 3 years of service | Age 55 with 5 years of service |
| Age 55 with 3 years of service | Age 55 with 10 years of service |
| Age 55 with 10 years of service | Age 60 with 10 years of service |

**Table 6. Public Safety Plans That Allowed Normal Retirement at Ages 50 to 55 With 20 or more Years of Service**

| *Former provision* | *New provision* |
|---|---|
| Age 52 with 25 years of service | Age 57 with 25 years of service |
| Age 50 with 25 years of service, or<br>Age 55 with 20 years of service | Age 60 with 10 years of service |
| Age 50 with 25 years of service | Age 52.5 with 25 years of service |
| Age 50 with 20 years of service | Age 55 with 20 years of service |

| Table 7. Public Safety Plans That Allow Normal Retirement After a Stated Number of Years of Service | |
|---|---|
| *Former provision* | *New provision* |
| 20 years of service | Age 52.5 with 25 years of service |
| 20 years of service | 25 years of service, or<br>Age 50 with 20 years of service |
| 25 years of service | 30 years of service |
| 22 years of service, or<br>Age 50 | 25 years of service, or<br>Age 50 |
| 35 years of credited service (including service purchases) | Rule of 92 with 35 years of credited service (including service purchases) |

# Appendix 1. Changes in Age and Service Requirements for Normal Retirement State Plans for General Employees and Teachers, 2009-2011

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| Colorado Public Employee Retirement Association (state employees and teachers) 2010 | • Minimum age of 50 with 30 years of service<br>• Minimum age of 60 with 20 years of service<br>• Age 65 with any service | • Any age with 35 years of service<br>• Minimum age of 58 with 30 years of service<br>• Minimum age of 65 with 5 years of service |
| Connecticut State Employees' Retirement System (state employees and teachers) 2011 | • Minimum age of 60 with 25 years of service<br>• Minimum age of 62 with 10 years of service | • Minimum age of 63 with 25 years of service<br>• Minimum age of 65 with 10 years of service |
| Delaware State Employees' and Teachers Retirement System 2011 | • Minimum age of 60 with 15 years of service<br>• Minimum age of 62 with 5 years of service<br>• Any age with 30 years of service | • Minimum age of 60 with 20 years of service<br>• Minimum age of 65 with 10 years of service<br>• Any age with 30 years of service |
| Florida Retirement System (state employees and teachers) 2011 | • Minimum age of 62 with 6 years of service<br>• Any age with 30 years of service | • Minimum age of 65 with 8 years of service<br>• Any age with 33 years of service |
| Hawaii Retirement System (state employees and teachers) 2011 | • Minimum age of 62 with 5 years of service<br>• Minimum age of 55 with 30 years of service | • Minimum age of 65 with 10 years of service<br>• Minimum age of 60 with 30 years of service |
| Illinois State Employees' Retirement System 2010 | • Minimum age of 60 with 8 years of service<br>• Rule of 85 | • Minimum age of 67 with 10 years of service |

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| Illinois Teachers' Retirement System<br>2010 | • Minimum age of 55 with 35 years of service<br>• Minimum age of 60 with 10 years of service<br>• Minimum age of 62 with 5 years of service | • Minimum age of 67 with 10 years of service |
| Maine Public Employees' Retirement System (state employees and teachers)<br>2011 | • Tier 1: Minimum age of 60 with 10 years of service credit<br>• Tier 2: Minimum age of 62 with 10 years of service credit<br>• Either tier: 25 years of service | • Tier 3: Minimum age of 65 with 10 years of service credit<br>• 25 years of service |
| Maryland Retirement Systems (state employees and teachers)<br>2011 | • Minimum age of 62 with 5 years of service | • Minimum age of 65 with 10 years of service<br>• Rule of 90 |
| Michigan School Employees' Retirement System<br>2010 (see note) | • Minimum age of 60 with 5 years of service<br>• Any age with 30 years of service | • Minimum age of 60 with 10 years of service |
| Massachusetts (state employees and teachers )<br>2011 (see note) | • Minimum age of 55 with 10 years of service<br>• Any age with 20 years of service | • Minimum age of 60 with 10 years of service<br>• Any age with 20 years of service |
| Minnesota Retirement System general plan (state employees)<br>2010 | • Minimum age of 66 with 3 years of service | • Minimum age of 66 with 5 years of service |

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| Mississippi Public Employees' Retirement System (state employees and teachers)<br>2007 and 2011 | • Minimum age of 60 with 4 years of service<br>• Any age with 25 years of service | • Minimum age of 60 with 8 years of service<br>• Any age with 30 years of service |
| Missouri State Employees' Retirement System<br>2010 | • Minimum age of 62 with 5 years of service<br>• Rule of 80 with a minimum age of 48 | • Minimum age of 67 with 10 years of service<br>• Rule of 90 with a minimum age of 55 |
| Nevada Retirement System<br>2009 | • Minimum age of 60 with 10 years of service<br>• Minimum age of 65 with 5 years of service<br>• Any age with 30 years of service | • Minimum age of 62 with 10 years of service<br>• Minimum age of 65 with 5 years of service<br>• Any age with 30 years of service |
| New Mexico Public Employees' Retirement Association (state and local employees)<br>2009 | • Minimum age of 60 with 20 years of service<br>• Minimum age of 65 with 5 years of service<br>• Any age with 25 years of service | • Minimum age of 67 with 5 years of service<br>• Rule of 80, no minimum age<br>• Any age with 30 years of service |
| New Mexico Educational Retirement Board (teachers and other school employees)<br>2009 | • Minimum age of 60 with 20 years of service<br>• Any age with 25 years of service<br>• Rule of 75 with minimum age of 60 | • Any age with 30 years of service<br>• Minimum age of 67 with 5 years of service<br>• Rule of 80 with minimum age of 60 |
| New Hampshire Retirement System (state employees and teachers)<br>2011 | • Minimum age of 60 with any years of service | • Minimum age of 65 with any years of service |

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| New Jersey Public Employees' Retirement System (state employees' plan)<br>2011 | • *Members enrolled before 11/1/08:* Minimum age of 60 with any years of service<br>• *Members enrolled between 11/1/08 and 7/1/11:* Minimum age of 62 with any years of service | • Minimum age of 65 with any years of service |
| New York State and Local Retirement System<br>2009 | • Minimum age of 55 with 30 years of service<br>• Minimum age of 62 with 5 years of service<br>• Higher multipliers apply for longer service periods | • Minimum age of 62 with 10 years of service<br>• Higher multipliers apply for longer service periods |
| New York State Teachers Retirement System<br>2009 | • Minimum age of 55 with 30 years of service<br>• Minimum age of 62 with 5 years of service | • Minimum age of 57with 30 years of service<br>• Minimum age of 62 with 10 years of service |
| North Dakota Teachers' Retirement System<br>2011 | • Tier 1: Rule of 85<br>• Tier 2: Rule of 90 | • Rule of 90 with a minimum age of 60<br>• Minimum age of 65 with any years of service |
| Oklahoma Public Employees' Retirement System<br>2011 | • Minimum age of 62 with 5 years of service<br>• Rule of 90, no minimum age | • Minimum age of 65 with 5 years of service<br>Rule of 90 with a minimum age of 60 |
| Oklahoma Teachers' Retirement System<br>2011 | • Minimum age of 62 with 5 years of service<br>• Rule of 90, no minimum age | • Minimum age of 65 with 5 years of service<br>• Rule of 90 with a minimum age of 60 |
| Pennsylvania State Employees' Retirement System<br>2010 | • Minimum age of 60 with 3 years of service<br>• Any age with 35 years of service | • Minimum age of 65 with 3 years of service<br>• Rule of 92 with at least 35 years of service |

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| Pennsylvania Public School Employees' Retirement System<br>2010 | • Minimum age of 60 with 30 years of service<br>• Minimum age of 62 with 1 year of service<br>• Any age with 35 years of service | • Minimum age of 65 with 3 years of service<br>• Rule of 92 with at least 35 years of service |
| Rhode Island Employee' Retirement System (state employees, teachers and some local government employees)<br>2011 | • *Members enrolled before 2009:* Minimum age of 60 with 10 years of service or any age with 28 years of service<br>▪ *Members enrolled 2009 to July 1, 2012:* Minimum age of 65 with 10 years of service or any age with 29 years of service | • Normal Social Security retirement age with 5 years of service |
| Texas Employees' Retirement System (state employees)<br>2009 | • Minimum age of 60 with 5 years of service<br>• Rule of 80 with 5 years of service | • Minimum age of 65 with 10 years of service<br>• Rule of 80 with 5 years of service |
| Vermont Teachers' Retirement System<br>2010 | • 62 years of age with any amount of service<br>• Any age with 30 years of service | • 65 years of age with any amount of service<br>• Rule of 90 |
| Virginia Retirement System (state employees and teachers)<br>2010 | • Minimum age 50 with 30 years of service<br>• Age 65 with at least 5 years of service | • Normal Social Security retirement age with at least 5 years of service credit<br>• Rule of 90 |

## Notes:

**Colorado.** Items labeled as "Previous Provisions" governed employees whose membership began before June 30, 2005 and who had five years of service credit by January 1, 2011.
**Massachusetts**. The Massachusetts plans provide higher multipliers (the percentage of final average salary replaced by a pension benefit) for people with longer terms of service when they retire. The 2011 legislation shifted the scale to provide an inducement for longer service before retirement.
**Michigan.** The 2010 Michigan legislation closed a defined benefit plan for school employees and replaced It with a hybrid plan. The information in the chart reflects the provisions of the closed DB plan and the DB portion of the hybrid plan.

## Sources for Appendix 1:

This report is based upon NCSL's annual summaries of state pension legislation, which are available at http://www.ncsl.org/issues-research/labor/pension-and-retirement-legislative-summaries-and-r.aspx

Fifty-state information on age and service requirements for normal retirement in state pension plans is available in Daniel Schmidt, *2010 Comparative Study of Major Public Employee Retirement Systems* (Wisconsin Legislative Council, Madison, Wisconsin: December, 2011), available at http://legis.wisconsin.gov/lc/publications/crs/2010_retirement.pdf

# Appendix 2. Changes in Age and Service Requirements for Normal Retirement State Public Safety Retirement Plans, 2009-2011

| Retirement Plan | Provisions According to Previous Law | Provisions for New Members |
|---|---|---|
| Arizona Public Safety Personnel Retirement Plan<br>Effective 1/1/12 | • 20 years of service | • Minimum age of 52.5 with 25 years of service |
| Arizona Correctional Officers' Retirement Plan<br>Effective 1/1/12 | • 20 years of service<br>• For dispatchers, 25 years of service<br>• Minimum age of 62 with 10 years of service<br>• Rule of 80 | • Minimum age of 62 with 10 years of service<br>• Minimum age of 52.5 with 25 years of service |
| Colorado Public Employee Retirement Association: State Trooper and Colorado Board of Investigation Plan<br>Effective 1/1/11 | The plan changes did not affect age and service requirements for normal retirement. However, the legislation reduced benefit provisions for those retiring after the effective date<br><br>Under the previous plan, a member retiring at age 50 with 20 years of service would receive a benefit of 42.5 percent of final average compensation. Under the new provisions, a member with the same age and service record would receive 31.2 percent of final average compensation. The changes disproportionately affect members with lower age and service records, and appear to be designed to encourage longer service before retirement. | |
| Connecticut State Employees' Hazardous Duty Employees' Plan<br>Effective 7/1/11 | • 20 years of service | Earlier of<br>• 25 years of service<br>• Minimum age of 50 with 20 years of service |

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| Florida Retirement System Special Risk Class<br>Effective 7/1/11 | • Minimum age of 55 with 6 years of Special Risk Class Service<br>• Any age with 25 years of Special Risk Class service<br>• Minimum age of 52 with 25 years of combined Special Risk Class service and military service | • Minimum age of 60 with 8 years of Special Risk Class Service<br>• Any age with 30 years of Special Risk Class service<br>• Minimum age of 57 with 30 years of combined Special Risk Class service and military service |
| Hawaii Employees' Retirement System (police and firefighters' plans)<br>Effective 7/1/12 | • 25 years of service<br>• Minimum age of 55 with 5 years of service | • Minimum age of 55 with 25 years of service<br>• Minimum age of 60 with 10 years of service |
| Illinois State Employees Alternative Retirement Formula (state police, firefighters, certain security institution personnel)<br>Effective 1/1/11 | • Minimum age of 50 with 25 years of service in class<br>• Minimum age of 55 with 20 years of service in class | • Minimum age of 60 with 20 years of service in class |
| Maryland Retirement Systems Plan for State Police<br>Effective 7/1/11 | • Age 50<br>• 22 years of eligibility service | • Age 50<br>• 25 years of eligibility service |
| Massachusetts State Employees' Retirement System: Group 4 (public safety officers, officials, and certain correction officers)<br>Effective April 2, 2012 | • Minimum age of 45 with 10 years of service credit | • Minimum age of 50 with 10 years of service credit.<br>• The 2011 legislation also changed benefit provisions in a way that encourages longer service before retirement. |

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| Minnesota State Retirement System State Patrol Plan<br>Effective 7/1/10 | • Minimum age of 55 with 3 years of service in class | • Minimum age of 55 with 5 years of service in class |
| Minnesota State Retirement System Correctional Plan<br>Effective 7/1/10 | • Minimum age of 55 with 3 years of service in class | • Vesting will be gradual, beginning at 50% after 5 years of service and reaching full vesting after 10 years of service. Unreduced retirement benefits would thus be available at<br>• Minimum age of 55 with 10 years of service |
| Missouri Highway Patrol Employees' Retirement System: Uniformed Patrol Plan<br>Effective 1/1/11 | • Age of 60 with 5 years of service (mandatory retirement age)<br>• Rule of 80 with a minimum age of 48 | • Age 60 (mandatory retirement age; no service requirement)<br>• Minimum age of 55 with 10 years of credited service |
| Nevada Retirement System Plan for Police and Firefighters<br>Effective 1/1/10 | • Minimum age of 55 with 10 years of service<br>• Any age with 25 years of service | • Minimum age of 60 with 10 years of service |
| New Hampshire Retirement System Group II (state and some local police and firefighters)<br>Effective 7/1/12 | • Minimum age of 50 with 25 years of service | • Minimum age of 52.5 with 25 years of service |

| Retirement Plan | Provisions According to Previous Law | New Legislation |
|---|---|---|
| New Jersey Police and Firefighters' Retirement System Tier 3 (state plan for local government employees) Effective June 28, 2011 | • Tier 1 (member before 1/1/2000): Minimum age of 55, any amount of service Any age with 20 years of service<br>• Tier 2: Minimum age of 55, any amount of service | • 2011 legislation increased contribution requirements and reduced benefit provisions for new members, but did not alter age and service requirements from Tier 2. |
| New Jersey State Police Retirement System Tier 2 Effective May 21, 2010 | • 20 years of service; mandatory at age 55 | • 2010 legislation changed contribution requirements and reduced benefit provisions for new members, but did not alter age and service requirements fromTier 1. |
| Pennsylvania State Employees' Retirement System State Police Officers' Plan Enacted 2010; effective on expiration of current bargaining agreement | • Minimum age of 50 with a minimum of 20 years of service in the classification<br>• Any age with 35 years of credited service | • Minimum age of 55 with a minimum of 20 years of service in the classification<br>• Rule of 92 with a minimum of 35 years of credited service |

## Sources for Appendix 2:

This report is based upon NCSL's annual summaries of state pension legislation, which are available at http://www.ncsl.org/issues-research/labor/pension-and-retirement-legislative-summaries-and-r.aspx

Additional information has been taken from state retirement system plan descriptions at the following sources:

**Arizona:**
http://www.psprs.com/sys_psprs/Forms/PS%202011-12/2011-PSPRS-SummaryOfBenefits-Final.pdf
http://www.psprs.com/sys_corp/Forms/CORP%202011-12/2011-CORP-SummaryOfBenefits-Final.pdf

**Colorado:**
https://www.copera.org/PDF/5/5-16.pdf